

# TAXATION AND LEGITIMACY

## Namibia in focus

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Tiivistelmä – Referat – Abstract

Taxation has been trending in the financing for development agenda once again since the Monterrey Consensus in 2002. It has been widely stated amongst developing countries, donors and international institutions, that there is a growing importance for enhancing developing countries' capacity to collect taxes in order to secure financing of SDG's and reduce dependence on development assistance. Furthermore, it is believed that taxation plays a central role in building democratic and accountable states. Many donor countries, including Finland, have committed to double their support by the year 2020 to improve tax systems in developing countries. Namibia is one of the signatories of the Addis Tax Initiative (ATI), and has committed to step up its revenue collection in accordance with the principles aligned in the ATI.

Although it is a popular idea that direct taxing of the citizens can lead to more responsive and accountable governments in developing countries, little research has been conducted that shed light on the complexity of this relationship in practice. The aim of this thesis is to provide insight on how legitimate do Namibian citizens consider the fact that they are being taxed, and which factors influence emergence or lack of this legitimacy. In order to gain understanding on this topic, qualitative thematic interviews have been conducted with Namibians and various tax experts. Three theoretical concepts – fiscal contract proposition, legitimacy and economic citizenship – are applied to the analysis of the interview material to illuminate different aspects that affect the perceived legitimacy of taxation.

Although Namibia has a particularly high ratio of tax revenue to GDP in comparison to other sub-Saharan countries and collects a remarkable share of its revenues from direct taxes, it seems that the fiscal contract is unfounded in Namibia. None of the respondents thought that they are directly benefitting from paying taxes and saw very few benefits in paying taxes in general. Particularly the government's irresponsible spending and corruption were major factors undermining the legitimacy of taxation in Namibia. Taxpayer education and possibilities to influence on the government's decision-making were considered as very limited. Political culture matters; due to the dominant party system and weak civil society, there seems to prevail an attitude within the Namibian government that they do not need to be accountable toward the taxpaying citizens, as there is no alternative to vote for.

The limitations of the fiscal contract proposition in the Namibian context are also discussed considering the demographic, geographic and economic structure, as well as the structure of political decision-making in Namibia. This thesis intends to draw attention to the context-specificity of taxation and its role in shaping state-society relations.

Avainsanat – Nyckelord – Keywords

Taxation, legitimacy, fiscal contract, economic citizenship, Namibia



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Tiivistelmä – Referat – Abstract

Verotus on ollut suosittu aihe kehitysrahoituskeskusteluissa Monterreyn vuoden 2002 konsensuksesta lähtien. Kehitysmaat, avunantajat ja kansainväliset kehitysintituutiot ovat laajasti sitä mieltä, että kehitysmaiden veronkantokyvyn parantaminen on tärkeää kestävän kehityksen tavoitteiden rahoituksen turvaamiseksi ja apuriippuvuuden vähentämiseksi. Lisäksi uskotaan, että verotuksella on keskeinen rooli demokraattisten valtioiden rakentumisessa. Monet avunantajamaat, mukaan lukien Suomi, ovat sitoutuneet kaksinkertaistamaan tukensa kehitysmaiden verojärjestelmien parantamiseksi vuoteen 2020 mennessä. Namibia on yksi Addiksen veroaloitteen (ATI) allekirjoittajista, ja on sitoutunut tehostamaan veronkeruutaan ATI:n linjausten mukaisesti.

Vaikka verojärjestelmien kehittämistä kehitysryhteistyöllä perustellaan usein sillä, että kansalaisten suora verotus johtaa demokraattisempaan hallintoon kehitysmaissa, vain vähän tutkimusta on tehty, joka valottaisi tätä monimutkaista suhdetta käytännössä. Tässä opinnäytetyössä tutkitaan, kuinka legitimiinä Namibian kansalaiset pitävät verotusta, ja mitkä tekijät vaikuttavat tämän legitimizeetin muodostumiseen tai sen puuttumiseen. Ymmärryksen lisäämiseksi aiheesta, namibialaisia ja verotuksen asiantuntijoita on haastateltu temaattisesti laadullisin menetelmin. Haastattelumateriaalin analysointiin sovelletaan kolmea teoreettista käsitettä – sosiaalista sopimusta, legitimizeettiä ja talouskansalaisuutta – jotka tuovat esiin eri aspekteja, jotka vaikuttavat verotuksen legitimizeetin muodostumiseen.

Vaikka verotuksesta saatujen tulojen osuus suhteutettuna BKT:hen on Namibian tapauksessa poikkeuksellisen suuri muihin Saharan eteläpuolisiin maihin verrattuna, ja Namibian valtio saa huomattavan osuuden tuloistaan suorista veroista, näyttäisi siltä, että verotuksen kautta rakentuva sosiaalinen sopimus valtion ja kansalaisten välillä ei toteudu Namibiassa. Yksikään haastateltava ei kokenut saavansa suoraa hyötyä verojen maksamisesta, ja yleisesti haastateltavat näkivät hyvin vähän hyötyä verojen maksamisessa. Erityisesti hallituksen vastuun varojen käyttö ja korruptio olivat merkittäviä tekijöitä, jotka heikensivät verotuksen legitimizeettiä. Veronmaksajille jaettava informaatio ja mahdollisuudet vaikuttaa hallituksen päätöksentekoon koettiin hyvin rajallisiksi. Poliittisen kulttuurin, hallitsevan yksipuoluejärjestelmän ja heikon kansalaisyhteiskunnan vuoksi Namibian hallituksessa näyttää vallitsevan asenne, että heidän ei tarvitse olla vastuussa veronmaksajille, koska poliittiset haastajat puuttuvat.

Verotuksen roolia demokratian rakentumisessa ja sen rajoituksia Namibian tapauksessa käsitellään myös maan väestö-, maantieteellisen ja taloudellisen rakenteen sekä Namibian poliittisen päätöksenteon rakenteen näkökulmasta. Opinnäytetyö pyrkii korostamaan kontekstin merkitystä siinä, mikä rooli verotuksella voi olla valtion ja kansalaisten välisen suhteen rakentumisessa.

Avainsanat – Nyckelord – Keywords

Verotus, legitimizeetti, sosiaalinen sopimus, talouskansalaisuus, Namibia

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## Abbreviations

ATI	Addis Tax Initiative
GDP	Gross Domestic Product
IPPR	Institute for Public Policy Research
NDP	National Development Plan
NGO	Non-governmental organization
NHIES	Namibia Household and Income Expenditure Survey
NSA	Namibia Statistics Agency
N\$	Namibia Dollar
PAYE	Pay-as-you-earn tax
SACU	Southern African Customs Union
SWAPO	South West Africa People's Organization
VAT	Value Added Tax

## 1. INTRODUCTION

This thesis focuses on how legitimate do Namibian citizens consider the fact that they are being taxed, and which factors influence emergence or lack of this legitimacy. In order to shed light on this broad topic in practice, different aspects affecting taxpayer-state relations are examined. Questions such as the following are asked: What benefits do Namibian citizens think that there are in paying taxes? Do they feel that they can express their opinions and have an influence on how tax revenues are being used? How legitimate they consider the current government to be, and how does this perceived legitimacy – or the lack of it – affect their willingness to pay taxes? The data consists of interviews conducted in the capital of Namibia, Windhoek, in April and May in 2017.

It has been widely stated amongst developing countries, donors and international institutions, that there is a growing importance for enhancing developing countries' capacity to mobilize domestic resources and collect taxes. In the context of the recent global economic crisis, it has been strongly indicated that Africa's dependence on external financial flows is increasingly becoming a burden for its future development. The recent reduction in foreign aid flows, decrease in the prices of natural resources and thus in export revenues have affected many African economies and their ability to reduce poverty. One of the key solutions offered has been to improve African countries' ability to raise tax revenue (e.g. Tax Justice Network Africa 2011). Many donor countries, including Finland, have committed to double their support by the year 2020 to improve tax systems in developing countries.

Enhancing tax systems in developing countries can bring multiple benefits; in addition for countries to be no longer dependent on foreign assistance, it has been argued that taxation promotes accountability and good governance between state and its citizens. This so-called "fiscal contract" argument (Moore 2007) goes as follows: when a state has to finance its existence by collecting revenue from its citizens, it is under pressure to justify how it uses the taxes it receives. In return for paying taxes, citizens will demand services, accountability and representation from the government. According to the fiscal contract proposition, the greater the extent the government finances itself by collecting taxes from its citizens, the greater the likelihood that decision-making takes place according to

democratic principles. In other words, the legitimacy of the state should be considered the higher, the more the state taxes its citizens.

Different aspects of taxation and development have been discussed in the UN organizations and the OECD since early 1970's. However, institutional memory tends to fall short; as a consequence, the contemporary development agenda does not always benefit from the lessons learnt in the past. (Ylönen 2016.) Taxation has been trending in the financing for development agenda once again since the Monterrey Consensus, which is the outcome of the first International Conference on Financing for Development, held in 2002. A follow-up to review the implementation of the Monterrey Consensus was held in Doha in 2008, followed by the third Financing for Development Conference in Addis Ababa in 2015. As a result of the third Financing for Development Conference, Addis Tax Initiative Declaration was drafted, which stresses stepping up domestic resource mobilization efforts to be the core in ensuring solid financing of the Post-2015 Development Agenda and Sustainable Development Goals.

Stepping up tax collection in developing countries is justified in the Addis Tax Initiative Declaration with i.a. the following words: "domestic public resources are a more stable and sustainable source of income, and they also strengthen a legitimate relationship between citizens and the state and foster good governance" (Addis Tax Initiative 2015). Namibia is a signatory of the Addis Tax Initiative (ATI), which is defined in short to be "a multi-stakeholder partnership of development partners and partner countries that aims to catalyze significant increases in domestic revenue and to improve the transparency, fairness, effectiveness and efficiency of tax systems in partner countries. The ATI provides a new and dynamic framework for action to enable partner countries to increasingly rely on domestic revenues to fund their development agenda and meet the Sustainable Development Goals by 2030." (Addis Tax Initiative 2015.)

As can be read from the ATI Declaration, the principles outlined in it have been based on the fiscal contract proposition presented above. All partners involved in the ATI have committed to ten key principles, which include i.a. the following: "We embrace policies and practices that foster fair, efficient and transparent tax systems, and effectively allocate the equitable distribution of tax burdens and benefits. Taxpayer morale and confidence being essential to effective domestic resource mobilization, promoting effective and equitable delivery of services and fair, consistent, and impartial treatment of taxpayers in

the application of the law is paramount” and ”We will encourage broad-based dialogue that includes the private sector, civil society, and other stakeholders to build coalitions for reform and ensure better ownership, implementation and accountability.” (Addis Tax Initiative 2015).

Taxation is thus a growing trend in development cooperation, including Finland’s development cooperation policy. In August 2016, the Ministry for Foreign Affairs of Finland launched a new ”Tax and Development” Action Programme for 2016-2019 where it outlines its goals and principles in relation to enhancing tax systems in developing countries. In the Addis Ababa Financing for Development Conference, Finland amongst other donor countries committed to double their financing by 2020 for improving the tax systems in developing countries, by signing the ATI Declaration.

The reference to the fiscal-contract proposition in Finland’s Tax and Development Action Programme is yet stronger than in the ATI, as it is outlined in the objective number three that ”In developing countries, civil societies’ awareness and knowledge on the link between taxation and public services has increased, and the ability to hold governments accountable for increasing tax revenues and using them for public services has improved.” The objective number three is justified by stating that legitimacy of taxation “is based on understanding the link between taxation and public services, and in this Finland has much to offer on the basis of the Nordic model.” (Tax and Development Action Programme 2016.)

Namibia is one of the partner countries in Finland’s on-going Tax and Development cooperation. Finnish tax experts have given technical advice to Namibian tax authorities in the field of corporate taxation. According to the former Foreign Minister of Finland, Kai Mykkänen, the results have been promising. (Kepa 2016.) Mykkänen has stated that if the cooperation continues to be successful in Namibia, it will be scaled to other partner countries within the Tax and Development Action Programme (Mykkänen 2016).

### 1.1. Problem formulation

Although it is a popular idea that bargaining between citizens and governments over tax collection can lead to the development of responsive and accountable governance in developing countries, surprisingly little research has been conducted that shed light on

the complexity of this relationship in practice (Prichard 2015, Moore 2004, Ross 2004). This thesis intends to in part fill this research gap through a case study of Namibia. It is essential to note, that taxation is a great deal more than just economics and fiscal policy; it is a complex socio-economic phenomenon, toward which attitudes vary depending on its historical and political context (Langham and Paulsen 2015). Development programs focused on promoting good governance are often technical in nature, and do not take sufficiently into account what is needed for a state to be legitimate in a certain context in order to extract resources like taxes (Di John 2006). As Di John (2006) suggests, the goal in this thesis is to gain insight on what is needed in the Namibian context for a state to be legitimate in order to tax its citizens.

Generally, government's ability to collect taxes depends on citizens' willingness to pay them (Bräutigam et al. 2008). Tax compliance is a multidimensional behavioral issue several researchers have tried to explain for decades. Models and theories on taxpayer behavior emphasize different aspects that have influence on tax compliance. (Yesegat and Fjeldstad 2016.) According to Fjeldstad et al. (2012), theories of taxpayer behavior tend to follow five interconnected schools of thought: economic deterrence, social influences, comparative treatment, fiscal exchange and political legitimacy. In this thesis, focus is particularly on the latter two: fiscal exchange and political legitimacy. To avoid limiting the research to testing previous theory, the concept of economic citizenship is applied for the purpose of examining how legitimate is taxation considered as an institutional and cultural practice in the Namibian context. The concepts used in this thesis are defined in section 2.3.

I chose Namibia as the site of my research, as it is an extreme example of unequal distribution of wealth, and is thus also interesting from the point of view of taxation. Namibian government has long been devoted to tackle poverty in the country, but severe inequalities persist. What is interesting in Namibia, is the fact that the country has a particularly high ratio of tax revenue to GDP. At 33 %, it is well above the average of other sub-Saharan countries as well as above world-average (World Bank 2015). Although Namibia is classified as a middle-income country and is one of the wealthiest in the continent, it is also continuously rated as one of the most unequal countries in the world. According to the Human Development Report of 2015, Namibia has the worst income inequality in the world with a Gini coefficient of 0.597. By the international

poverty line, 16.9 % of the population lived on less than \$1.90 a day in 2015, where as 39.0 % of the population lived below the \$3.10 per day poverty line (World Bank 2017). There has been relatively little previous research on taxation in Namibia. My intention with this study is to increase understanding of taxation in the Namibian context, and provide insight on which factors influence Namibian citizens' willingness to pay taxes. More broadly, I hope that this thesis draws attention to the context-specificity of taxation and its role in shaping state-society relations. The Namibian Revenue Authority; Inland Revenue, and the Ministry of Finance, will hopefully benefit from this work by gaining more updated knowledge on the perceptions of Namibian taxpayers of legitimacy of taxation.

## 1.2. Purpose of the study

As stated above, the purpose of this study is to provide insights on how legitimate do Namibian citizens consider the fact that they are being taxed, and which factors influence emergence or lack of this legitimacy. In order to shed light on this topic, I interviewed 21 Namibian citizens and 11 experts (see a detailed table of respondents: appendix 1 and 2). The aim has been to capture as comprehensive a representation as possible of respondents with different financial and educational backgrounds. In addition, revenue authority personnel, researchers and other experts have been interviewed to increase understanding of the subject.

Although this research is based on a small sample of qualitative interviews and thus country-wide generalizations cannot be drawn, it can give an indication of to what extent the fiscal contract proposition is realized in the Namibian context. As the Namibian government has declared to step up revenue mobilization efforts and improve tax collection in the country, this thesis also provides insight on what should be done to enhance the relationship between taxpayers and the Namibian state in order to extract those resources. The limitations of the fiscal contract proposition in the Namibian context are also discussed.

### 1.3. Research questions

The aim of this research is to gain understanding on how legitimate do the Namibian citizens consider the fact that they are being taxed. This aim is operationalized through three main research questions, which emphasize different aspects that affect legitimacy of taxation. There are two sub-questions under the second research question and one sub-question under the third research question. The research questions are:

RQ1: What are the main factors affecting Namibian citizens' willingness to pay taxes?

RQ2: To what extent is the fiscal contract proposition realized in the Namibian context?

2.1. Do Namibians feel that they can influence on the government's decision-making?

2.2. Who can influence on the decision-making of tax policies?

RQ3: Is the economic citizenship of Namibians concentrated around paying taxes?

3.1. What is considered to be the government's role in people's lives?

It is worth noting that the research questions are not the same as the interview questions asked from the respondents (see appendix 3 for interview questions). While trying to gain insight on the perceptions of Namibian citizens about legitimacy of taxation, three key concepts are applied to the analysis of the interview material: legitimacy, fiscal contract proposition and economic citizenship. The concepts are defined in section two.

### 1.4. Structure

This thesis is divided into seven parts. After the introduction, a literature review of relevant theories of taxation and the fiscal contract proposition, as well as definition of concepts used in this thesis, are provided in section two. Section three presents the methodology applied to the analysis of the interview material. In section four, an overview of the Namibian society and history is provided, which is followed by a brief introduction to taxation in Namibia in section five. In section six, the interview material is analyzed and research questions answered. To conclude, the main findings of this study are summarised in section seven.

## 2. THEORY OF TAXATION AND THE FISCAL CONTRACT

The reason why enhancing developing countries' own domestic resource mobilization and revenue collection is so eagerly promoted in developing policy and cooperation, is the fact that it is believed that taxation can have positive effects on state-building and promoting representative democracy. Indeed, it has been claimed that taxation may play a central role in building democratic and accountable states. Firstly, taxation can contribute to the rise of social contract between citizens and the state based on bargaining around taxes. (Bräutigam, Fjeldstad and Moore 2008.) In order to maintain state revenues and make citizens comply with their tax obligations, governments are under pressure to respond to citizens' demands for better services, accountability and representation. In such "tax bargain" citizens comply voluntarily with taxes in exchange for public services and accountable government. (Moore 2007.) Moore (2007) calls this "the fiscal contract proposition." Secondly, taxation promotes institution-building since viable institutions and competent staff are needed for efficient collection of tax revenue. The needs of tax administration for a literate and numerate workforce can in turn bolster the establishment of systems of formal education. Finally, improved reciprocity between the state and the citizens and enhanced functioning of state institutions, together lead to increased legitimacy and accountability of the state. (Bräutigam, Fjeldstad and Moore 2008.)

However, the claim that the need for governments to raise tax revenue strengthens taxpayers' demands for greater political responsiveness and accountability originates mainly from experiences in Europe and Northern America (e.g. Tilly 1990). The idea that taxation leads to enhanced responsiveness of the government dates back to the 18th century American Revolution, which gave rise to the famous saying "no taxation without representation." Indeed, according to many researchers (see e.g. Ross 2004, Moore 2004, Prichard 2015), the notion that taxing citizens produces more accountable and representative governments is based on a common interpretation of states' development in early modern Europe and colonial America in the 17th and 18th centuries. Tax systems in Europe were originally established to finance wars, and only afterwards these institutions became essential supports for European economic development. According to Ross (2004), the interpretation of states' development in early modern Europe has

broadly influenced theories on state-building, taxation and representative government, and how the non-Western states are seen.

However, the context in the contemporary third-world countries is radically different to that of 17th century Western Europe. In most developing countries, tax systems were developed under the colonial rule and were rather based on coercion than consent. (Bräutigam et al. 2008.) In addition, even after the colonial rule ended, developing countries have been under a constant influence of external forces such as international financial and development institutions (Rakner 2001). The ideas that shape tax reforms in developing countries today are heavily influenced by international financial institutions such as the International Monetary Fund (Bräutigam et al. 2008).

Furthermore, it is also contested whether taxation's role in state-building has been as central as is claimed even in Europe. Tilly (1985) points out that coercion has in fact played a large part in the creation of the European tax collector states and have thus been central in the state-making process. The demand to maintain armies in the competition over territories in Europe led to the need to generate resources from the population first by means of coercion, which in turn and over time led to more stable and reciprocal relationships between the rulers and the ruled. (Tilly 1985.)

England is often used as an example of taxation having promoted the creation of a social contract between the state and its citizens, but a closer look shows that England's case was particular. Indeed, according to Moore (2004), the fiscal contract proposition can be said to apply best only to 17th century Britain, where the relationship between economic elites and the state to a large degree influenced the emergence of a representative government. Essential in that situation was the context of war and the need to defend the country, which forced the British government to be dependent on tax revenues which it collected from the merchant class. Both sides benefitted from the protection of the seas surrounding the country and warding off the intruders, so they established a mutually beneficial relationship. In exchange for the tax revenues, the British government had to be accountable and represent the interests of those taxpayers. Moreover, it is important to note that the British government was responsive primarily to those who financed it; that is the economic elites, but not necessarily to the whole population on equal terms. (Moore 2004.)

Tilly (1985) describes the same phenomenon as Moore (2004) when he writes about the similar histories of the modern states. Systematically, there seem to have been a symbiotic relationship between the state, military and the private economy: “Behind every successful dynasty stood an array of opulent banking families. Access to such bourgeois resources proved crucial to the princes' state-building and centralizing policies.” (Tilly 1985.) Before making prompt assumptions about tax bargaining and its positive effects on the development of representative democracies, it is important to note who has the most bargaining power in that context and society altogether. The governance enhancing mechanism of taxation should not be overestimated especially in the contexts, where there are deep inequalities among the population. In those cases a small business elite is likely to have good bargaining positions, while the rest of the population is forced to comply without representation. (Moore 2004.)

Furthermore, there are accounts that the role of taxation for state-building may sometimes be over-estimated in research literature. Eriksen (2011) provides an example from Botswana, where strong and viable a state has been built without a simultaneous development of a national tax system. His argument is that too much emphasis has been put on the role of security-incentives and fiscal systems in theories on state-formation. Instead, the creation of a strong state ultimately depends on the interests of ruling regimes and on the underlying social forces on which state power is based. (Eriksen 2011.)

According to Moore (1998), the more states depend on the so-called “unearned income”, such as development aid or revenues generated from selling raw materials like oil or minerals, the less accountable they tend to be towards their citizens. Unlike what has been the historical experience in most OECD countries, the governments in many contemporary developing countries are not dependent on their domestic taxpayers for revenue. Instead, it is more common that they depend on alternative sources of income, such as rents from natural resource wealth and foreign aid, which were not available to governments when the OECD countries were comparably poor. Hence, the observation that public authorities in developing countries are often relatively illegitimate, ineffective and unaccountable, has been explained by the fact that these countries finance their government from unearned revenues instead of earned revenues. (Moore 2008.)

Moore (2004) states that we can best understand the patterns of state formation and governance in the South by exploring the differences between the international or global

environments in which those countries have been formed. State-building is a social process that unfolds over long periods of time; case studies from different countries emphasize context and influence of history when it comes to factors that have an impact on the design and effectiveness of tax systems, the willingness of citizens to pay taxes and the role played by taxation in state-society relations (Bräutigam et al. 2008).

## 2.1. Earlier research on the fiscal contract proposition in developing countries

Although the fiscal contract proposition has received a lot of attention in academic research, there is little empirical evidence about it, and even less from developing countries. (D'arcy 2011, Moore 2015). While one should be cautious when drawing generalizations from particular cases (D'arcy 2011), some results have been gained from previous research which provide empirical evidence for the fiscal contract theory. I will present some of these findings below.

Ross (2004) has tested statistically the "taxation leads to representation" argument by using pooled time-series cross-national data from 113 countries between 1971 and 1997. He found that taxes per se do not appear to lead to democratization, and a larger tax burden does not seem to be tied to greater democracy. Instead, people will rebel against taxation without adequate government services, and therefore higher taxes relative to government services do tend to make states more democratic. (Ross 2004.) Thus, the research undertaken by Ross would seem to support the fiscal contract proposition in part.

D'arcy (2011) has tested the fiscal contract proposition alongside with national political community and comparative treatment approach. She conducted a quantitative research by using data from Afrobarometer surveys<sup>1</sup>, where Namibia was included. D'arcy's results support some aspects of the fiscal contract theory. However, what seemed to matter more than efficiency of service delivery for taxation to be legitimate, was responsiveness of the state. Furthermore, healthcare seemed to matter more than education in the pooled results. (D'arcy 2011.)

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<sup>1</sup> The countries included in the data were: Benin, Botswana, Cape Verde, Ghana, Kenya, Lesotho, Mali, Malawi, Mozambique, Madagascar, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda and Zambia.

Timmons (2005) has found evidence for the fiscal contract proposition as well, however, according to him, the contract is not the same for everyone. Timmons' central finding was that governments tend to favour the ones who are strategically most important. These strategic taxpayers receive tax exemptions and other special deals, which are inaccessible for less important taxpayers. (Timmons 2005.)

Kangave and Katusiimeh (2015) have conducted research on tax bargains in Uganda. Their findings were in line with the previous research (e.g. Timmons 2005, Moore 2015) what comes to the observations that more organized and economically influential actors have more power in having an influence on tax legislation. According to Kangave and Katusiimeh (2015), the general public has had very limited influence on taxation, and therefore fiscal issues have more or less been imposed on citizens in Uganda, as used to happen under the colonial government. Furthermore, the absence of taxpayers' political organizations has limited the extent to which this group of actors can bargain around taxes and services. (Kangave and Katusiimeh 2015.) However, the authors also found encouraging evidence that civil society organizations are increasingly gaining a foothold in tax debates in Uganda, although their participation is recent and visible results cannot yet be seen (Kangave and Katusiimeh 2015).

Drawing on cross-country econometric evidence and case studies from Ghana, Kenya and Ethiopia, Prichard (2015) has found detailed evidence on bargaining over taxation having resulted in more responsiveness and accountability. However, Prichard stresses that the links between tax bargains and increased accountability of the states have often been indirect and long-term. Other than resulting in immediate concessions from the government, increased accountability and responsiveness have been reached through undermining the fiscal base of these governments and strengthening political participation amongst taxpayers over long periods of time. (Prichard 2015.)

Baskaran and Bigsten (2011) have found that higher fiscal capacity – in terms of share of income taxes in total tax revenue and tax to GDP ratio – leads to more accountability in African states. Particularly important seemed to be the share of income taxes in the total tax revenue. The results were obtained by using data from 23 sub-Saharan African countries covering the period from 1960 to 2008. Based on the results, Baskaran and Bigsten (2011) conclude by suggesting that expanding direct taxation and increasing tax collection may lead to more accountable governments in developing countries.

In his ICTD summary brief "What have we learned about tax compliance in Africa?" Fjeldstad (2016) states that voluntary tax compliance is positively correlated with provision of public services in Kenya, Tanzania, Uganda and South Africa. However, it depends on the country what type of public services matter the most; in Tanzania and Uganda it is provision of services related to health and education, where as in South Africa priority has been policing (Fjeldstad 2016). Fjeldstad (2016) concludes that governments in Africa could increase tax compliance by providing services that their citizens consider as essential. In his earlier research, Fjeldstad (2004) has also found that citizens comply more voluntary with taxes when they feel that they have a voice in the way their taxes are spent. Another aspect which affects tax compliance is the level of popular support for the government. (Fjeldstad 2004.)

However, according to Moore's (2015) recent brief on tax and the governance dividend, we should be very cautious in drawing any straightforward conclusions regarding taxation's governance benefits. Moore (2015) underlines that political interactions between states and citizens over tax revenues are considerably more complicated than the fiscal contract proposition suggests. He states that the governance benefits of taxation are smaller and less reliable than he has previously estimated, and that those benefits will emerge only over long periods of time; "the possible political outcomes of interactions between governments and citizens over revenue collection are more diverse and open-ended than I used to believe." (Moore 2015, 7.) What is worth noting from previous research, is the observation that governments can use their power by dividing citizens into different, competing groups, and by doing so, increase governments' own bargaining power in comparison to taxpayers (Moore 2015).

Before introducing the key concepts in this research, I present briefly some earlier research on taxation during colonialism, as it gives a glimpse of how tax systems have been established in colonized states, and in what kind of a context taxpayer culture has – or has not – emerged in many African states.

## 2.2. Taxation in the colony

The colonial regimes established different types of tax systems in Sub-Saharan Africa in the 19th and 20th centuries. However, this is not to say that tax systems were inexistent

in the continent before colonization; on the contrary, Africans had been taxed long before they became colonized (Bush and Maltby 2001). Taxation during colonialism was based on other principles than the aforementioned example of England, where a mutually beneficial relationship was established in order to defend the country and its trade. In research literature, there are accounts of taxation having been used as a mean to govern the colonized population by forcing people to give part of their wealth to the colonial government in the form of taxes (Roitman 2007).

In her research on fiscal disobedience in West Africa, Roitman (2007) describes how the creation of tax system and introduction of the concepts of “tax” and “price” (in French currency) were mechanisms which the French used in order to establish their colonial power in Cameroon and to govern the Cameroonians, who had previously arranged their economic life according to different terms and measures. The manner by which the “tax-price” complex was institutionalized in the colony and the ways in which people were categorized as targets of regulation, has had effects on what has been considered as legitimate modes of extraction of wealth, as well as what has been seen as something to resist. In practical terms, the French colonial power was materialized in taxing the colonized people. (Roitman 2005.)

However, it depends highly on the country and the strategy of the colonial administration, what kind of a role taxation played in each context and how strong and widespread the tax system was. In many colonies, tax system reached only a small part of the population. Frankema (2010) has written about the colonial taxation in British Africa, his argument being that the British colonial administration's strategy in many countries was rather minimalistic, with no effort having been made on developing administrative infrastructure or establishing strong institutions such as country-wide tax systems. Instead, the intention was to govern the colony with minimal effort and resources. (Frankema 2010.)

According to Bayart (2000), there is a general misconception that during colonialism, exploitation was one-sided and occurred only on behalf of the colonial administration. It has been forgotten that there were also people among the colonized population who benefitted from the situation, usually the local economic elites who governed the trade of natural resources. Without the support of the local elite, colonizing those countries would not have been possible. Bayart (2000, 220) writes: “Moreover, new research underlines,

[...] just how much Africans have participated in the processes which have led to the insertion of their societies as a dependent partner in the world economy and, in the last resort, in the process of colonization. We must accept that African participation in the slave trade was voluntary and under the control of African decision makers”.<sup>2</sup> After the colonized countries gained independence, the status achieved by managing the trade of natural resources with the former colonial administration continued when the international community recognized the elite as the party representing the population. After independence, the elites took the place of the former colonialists and continued managing the unequal relationship with the international economic system, while being able to derive from it the necessary resources for maintaining their domestic leadership. According to Bayart, these ”trajectories of extraversion have produced a serious problem of political representation and legitimacy in contemporary states, or at least in some of them.” (Bayart 2000, 235.)

Hence, the starting point for the development of a legitimate and mutually beneficial tax system in African countries is very different from that of Europe. As Bayart (2000) demonstrated, in Africa, the elite sought to strengthen its position by looking for support from external forces, whereas in Europe the leaders were more dependent on resources and reinforcement from within the country. In Namibia, many of the state’s administrative and economic institutions have been created during the colonial times (Metsola 2015). According to Metsola (2015, 4), “the history of colonial violence still influences the construction of political and economic authority in Namibia today”. Furthermore, the independence of Namibia as well as the legislation drafted during the process was largely influenced by the intervention of the international community and not written by Namibians themselves (Melber 2005). Factors such as these affect on how legitimate the citizens consider the state and its structures such as the taxing authorities.

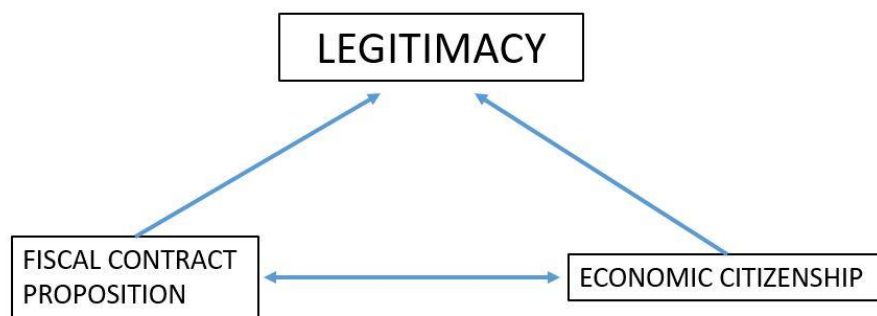
### 2.3. Key concepts in this research

While trying to gain insight on the perceptions of Namibian taxpayers about legitimacy of taxation, three key concepts are applied in the analysis in this paper: legitimacy, fiscal

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<sup>2</sup> On the relationship of local elites and colonial administration in Namibia, see Wallace 2011, 136-147

contract proposition and economic citizenship. The main concept is legitimacy, as the primary objective of this thesis is to shed light on how legitimate do Namibians consider the fact that they are being taxed. Moreover, legitimacy of the state has been said to affect the legitimacy of taxation (e.g. D’arcy 2011). While looking for answers to the question of legitimacy, I try to give an indication of the extent to which the fiscal contract proposition is realized in the Namibian context. To avoid limiting the research to testing previous theory, the concept of economic citizenship is applied in purpose of examining the fiscal relations of Namibian citizens and the state in a context-sensitive manner.



*Figure 1. Three intertwined key concepts in this research*

The concept of fiscal contract and economic citizenship are subordinate to the concept of legitimacy in this thesis in the sense, that fiscal contract is one of the components affecting legitimacy of the state and taxation, whereas economic citizenship is used for the purpose of examining how legitimate a practice taxation is considered itself (which also has an influence on the fiscal contract). In other words, if citizens receive services in return for their taxpayments and feel that they are represented by the government (=fiscal contract is realized), they also perceive the state to be more legitimate. The concept of economic citizenship is instead used to examine whether citizens regard taxation as a legitimate practice in principle, i.e whether they accept the idea that people pay taxes to the state and as a consequence of that, the state, by reallocating these funds, offers services to citizens. Or, is the citizens' logic of redistribution based primarily on e.g. the principle that wealth is shared among relatives and people take care of each other based on kinship; and hence this responsibility does not lie within the state. Thus, when looking at the components that affect the emergence of a fiscal contract, it is essential to investigate whether citizens even expect services from the state, and whether fiscal contract is something they regard as a desirable situation.

### 2.3.1. Legitimacy

In this thesis, legitimacy is the main concept in analyzing the research data. The focus is both on the legitimacy of taxation as well as on the legitimacy of the state, as those two are essentially intertwined. Several researchers (see e.g. Levi 1988, D'arcy 2011, and Fjeldstad 2012) have stated that perceived legitimacy of the state affects tax compliance, and thus the legitimacy of taxation. Both –the legitimacy of the state and the legitimacy of taxation – are a result of several, inter-connected components, which this study intends to illuminate. Hence, the objective of my study is twofold: I intend to research on how legitimate do Namibians perceive their state, and how legitimate they consider taxation.

First, I want to clarify that I study primarily political legitimacy – as i.a. Englebert (2000) and Fjeldstad (2012) refer to it – instead of state legitimacy. Political legitimacy is commonly defined as a belief that the government or a leader has the right to govern, whereas state legitimacy refers to a situation where state's structures have evolved endogenously to its own society and there is historical continuity to its institutions (Englebert 2000). In case of taxation, it would be indeed fruitful to research on how endogenous the national tax system is in the context in question. I have tried to shed some light on this in the section where I discuss the history of taxation in Namibia. There is rather little information available about the topic in Namibia, particularly from the time before independence. However, it is known that the current tax system was developed during colonialism. Today, VAT is widespread as Namibia is an import-intensive economy, although not everyone recognizes that they are paying VAT (Hansohm et al. 2002). To date, income taxes on individuals affect just under one fifth of the population, even though they contribute considerably to the total tax revenue. By reflecting the findings from the interviews against these facts, this research intends to in part illustrate how endogenous the tax system is and how strong a taxpayer culture there prevails in Namibia. However, as the primary purpose of this research is to investigate how people *perceive* the legitimacy of taxation, the concept of political legitimacy suits best for this purpose.

According to the political legitimacy theory, if the citizens perceive their government as legitimate, their voluntary compliance to pay taxes increases. Particularly important are perceptions about the government's, specifically the taxing authority's, trustworthiness.

(Fjeldstad et al. 2012.) Also Langham and Paulsen (2015) state that citizens' willingness to pay taxes is directly influenced by how they perceive the revenue authority and tax officials. Moreover, the more accountable the government is with taxpayers' funds, the more legitimate its actions become (Fjeldstad et al. 2012). Prichard (2010) stresses that governments must draw clear connections between taxation and public spending to obtain the support of taxpayers. In order to attain the positive governance effects of taxation, citizens must be aware of the taxes they are paying and education has to be offered about how the tax system works, while government must be transparent about tax collection and public spending. Awareness and transparency are a basic requirement for building public engagement and trust between citizens and the state; without some degree of both, taxation is likely to remain characterized by conflict. (Prichard 2010.)

Legitimacy is always context-related and has to be studied as such. Not all states and regimes are equally legitimate. (Metsola 2015.) According to Moore (2004), a more coercive strategy to govern and tax citizens is often feasible when governments enjoy high levels of popular legitimacy, especially in cases when their legitimacy originates from movements that have achieved independence from colonial or external rule through an armed struggle. The Namibian ruling party SWAPO has to a large extent built its legitimacy on its historical merits as the liberation movement which led Namibia to independence. However, deep inequalities in the Namibian society and persisting widespread poverty increasingly undermine that legitimacy. (Metsola 2015.)

In addition to being context-related, legitimacy is always in a process of transformation, construction and deconstruction (Weigand 2015). Often the technical nature of the good governance agenda limits an understanding of what is needed for a state to be legitimate in a certain context in order to extract resources like taxes (Di John 2006). Legitimacy of taxation can only be addressed if economy is understood as a political terrain (Roitman 2005). According to Levi (1988), low levels of legitimacy of the government often lead to weakened tax compliance among citizens.

Legitimacy can be defined as the common ground between the rules and the ruled on which the government builds its power. In order for political authorities to maintain their position without confronting widespread resistance, they need to share a certain value base and concepts of justice with the ruled. When state authorities are seen as legitimate in the eyes of the citizens, the latter comply with the regulations because they consider

them as just, not because they are coerced to do so. (Claessen 1988.) Compliance based on legitimacy is likely to be more sustainable than compliance based on coercion. The broader the base of the governments legitimacy amongst different segments of the population, the more secured is the continued existence of the state. (Metsola 2015.)

Metsola (2015) has recognized a number of different functions which, when fulfilled, contribute to the legitimacy of the state: provision of security and limiting who can use organized violence; provision of social services and responding to the social and economic needs of the population; maintaining shared value base and rules with state bureaucracy; generating compliance and conformity through repeated practices of subjectivation in institutions such as family, school and workplace. The importance of these linkages between authorities and citizens lie in the fact that "they feed back into social cohesion, the legitimacy of the prevailing political order, administrative efficiency, collection of revenue, and control over territory." (Metsola 2015, 49.)

Levi, Sacks and Tyler (2009, 345) define legitimacy as "a sense of obligation or willingness to obey authorities"; or in other words "to the popular acceptance of government official's right to govern." They complement the definition of value-based legitimacy by adding another level to it; behavioral legitimacy. Their model of legitimacy consists of two parts; "the sense of obligation or willingness to obey authorities (value-based legitimacy) that then translates into actual compliance with governmental regulations and laws (behavioral legitimacy)." When citizens consider the government to be legitimate, they are more likely to comply with government laws and regulations, such as paying taxes. (Levi et al. 2009, 354.)

Levi et al.'s (2009) model determines two factors that need to be in place in order for value-based legitimacy to occur; trustworthiness of government and procedural justice. According to their model, government trustworthiness consists of three elements: leadership motivations, administrative competence and government performance. Leadership motivations refer to the extent to which leaders are credible in their commitments to serve the best interest of the citizens that they represent. The second factor, government administration, determines that government is competent when it is perceived as honest and capable to implement laws and regulations. High levels of corruption can undermine citizens' willingness to pay taxes, as it is a sign of a dishonest and incompetent government. The third factor that influences the extent to which

government is considered as trustworthy is the perceived quality of its performance; does it provide public goods that ensure at least a minimal level of social welfare to the population. Voluntary compliance should increase among those citizens who consider that the government is maintaining the fiscal contract with them; providing services in return for paying taxes. Citizens' perceptions of these three aspects that contribute to government trustworthiness influence the extent to which citizens have trust and confidence in the government. This in turn has a direct effect on value-based legitimacy. The extent to which citizens can influence on the decision-making, affect how fair the government procedures are perceived. (Levi et al. 2009.)

As legitimacy is always context-specific and changes over time, it depends on the local historical trajectories and societal conditions which factors and features form political legitimacy of a certain state. In this thesis, I attempt to gain understanding on what those features are in case of Namibia, and which factors undermine this legitimacy.

### 2.3.2. Fiscal contract proposition

As stated above in Metsola's (2015) and Levi et al.'s (2009) definitions of legitimacy, provision of public services is one of state's functions that contribute to its legitimacy, when fulfilled. Taxation and the provision of public goods and services can be seen as a contractual relationship between taxpayers and the government, also known as "social contract" or "fiscal contract". It requires that citizens receive something from the government in return for their tax contributions. (e.g. Moore 2007, Fjeldstad et al. 2012.) This social or fiscal contract will be reached by bargaining around taxes and services (Bräutigam, Fjeldstad and Moore 2008). In order to maintain state revenues and make citizens comply with their tax obligations, governments are under pressure to respond to citizens' demands for better public services, accountability and representation. In such tax bargain, citizens comply with taxes in exchange for public services and accountable government. (Moore 2007.) Indeed, at the heart of the fiscal contract proposition is improved voluntary tax compliance: taxpayers are more willing to pay taxes voluntarily if they get public services in return for their tax payments (Fjeldstad, Herzenberg and Sjursen 2012). This means that compliance towards paying taxes varies as governments vary in their performance (Fjeldstad et al. 2012).

In addition to the provision of public services, another aspect in the fiscal contract theory is that taxpayers also begin to believe that their payment of taxes gives them the right to representation. As part of the contract, the government commits to represent the interests of taxpayers, as taxpayers maintain the government's fiscal base by paying taxes. If the government is not responsive to taxpayers' needs, they can undermine the government's fiscal base by evading taxes. (Bräutigam et al. 2008.) However, the potential to do this varies, as the capacity to monitor taxpayers depends on the effectiveness and skills within the country's tax administration.

### 2.3.3. Economic citizenship

Universally, taxation is the most prevalent practice for states to legitimately extract wealth from their citizens. However, the validity of a state's right to a part of people's wealth varies; in some moments it is considered more justified than others. (Roitman 2005.)

In order to understand taxation and its legitimacy in the Namibian context, it is essential to look at the relationship between citizens and the state from a wider angle than limit it to the fiscal contract proposition alone. In addition, it is worth researching on whether taxation is considered as a legitimate institutional practice in the first place, and whether citizens are familiar with its purpose. Some light can be shed on this by examining how the tax system has evolved in the given context; how large part of the population it touches upon and whether there is taxpayer education available. To gain deeper insight on these issues, I take Janet Roitman's concept of economic citizenship as one of my theoretical starting points for researching on how the citizens in Namibia view their relationship to taxation.

The concept of economic citizenship was first introduced by Alice Kessler-Harris, who brought gender-perspective into the discussion on citizenship by emphasizing equal economic opportunities for both sexes. With the concept of economic citizenship, Kessler-Harris wanted to supplement T.H. Marshall's traditional definition which divides citizenship into three parts: civil, political and social (T.H. Marshall 2009 [1950]). For Kessler-Harris (2003), economic citizenship has been achieved and fulfilled when necessary privileges and opportunities are in place for both men and women to attain

economic and social autonomy which enable them to participate fully in democratic decision-making.

Roitman (2007, 189) defines economic citizenship as “economic relationships instituted between individuals or communities and the state.” Those relationships entail certain rights and responsibilities for both parties; state has a right to extract resources from citizens and citizen has a right to make claims towards the state; whereas citizen is responsible for complying with economic regulations such as paying taxes and state has the responsibility to ensure the realization of citizens’ economic rights such as right to labor (Roitman 2007).

However, economic citizenship can be understood to contain other fiscal relations as well that are external to the state; for instance, informal payments from merchants to gatekeepers of the local market (Roitman 2007) or communal financial assistance from the wealthier to the poor. Economic relationships can be understood to cover all fiscal transactions between an individual and the state; resource flows like taxes and user fees from a citizen to the state, and vice versa; social security payments, grants and other financial assistance from the state to a citizen. However, in this thesis, I concentrate on a certain aspect of economic relations between individuals and the state; taxation.

According to Roitman (2007), most literature on citizenship emphasizes its constitutional nature, which accords certain rights and obligations to a citizen who is expected to comply with regulations and entitled to make claims within the scope of state legislation. However, it is not exceptional that many African states do not offer much more to a large part of their citizens than a birth certificate or a national identity card. As a consequence, it has been argued that participation in the fiscal relationship is unfounded in these states because the state is not the basis of either security or wealth. In order to gain deeper understanding on the countless modes of citizenship in the contemporary world, there is a need to pay closer attention to citizenship as a cultural and historical construct. (Roitman 2007.)

How is it then that those subjected to fiscal interventions become caught up in a power situation of which they themselves are the bearers? How people in a certain place and at a certain time have become targets of taxation and to what extent they adapt to their role as taxpayers? In the heart of building a state which is at least partly financed from

revenues collected from its citizens, is the institutionalization of a citizen as a “taxpayer” and circumscribing her / his wealth as a target of regulation, of which the state has a right to extract a part by means of issuing different taxes. In other words, the question is how, in the course of history, human beings become subjects of particular kinds of economic knowledge, which lead them to comply with certain economic regulations such as giving over tax to the government on a regular basis. (Roitman 2005.)

The point of interest in economic citizenship is two-fold; on the one hand, how citizens are being governed as economic subjects by the state; and on the other hand, how they perceive their economic rights and responsibilities in relation to the state, and how they accommodate to or resist the regulations of the fiscal authorities. Instead of taking the definition of “taxation” by the book and simply analyzing resistance or compliance toward it, it is necessary to first study how perspectives about legitimate modes of financial extraction have emerged and transformed historically in a given context. Literature concerning history of taxation in Namibia is limited, however, the section discussing taxation in Namibia intends to illuminate some of the major aspects of it. In this thesis, analytical focus is on the citizens’ perceptions; how they reflect on their relationship to the economic regulatory authority, which in this case is broadly the government, Ministry of Finance; and its subdivision, the Inland Revenue Department.

### 3. METHODOLOGY

#### 3.1. Research philosophy

This study adopts a constructionist view as a research philosophy. Essential in this view is that the world is seen as socially constructed, which according to Patton (2015, 122) requires that "diverse understandings and multiple realities about people's definitions and experiences of the situation" are sought to be captured. Furthermore, in a constructionist approach, it is important that the researcher places equal emphasis on each respondent's view, and in this way strives to describe the phenomenon in all its diversity and complexity as thoroughly as possible. Thus, although common patterns are sought while analyzing the interview data, also the views that differ from the responses of the majority are taken into account. If carefully conducted, a constructionist research can enable a deep understanding of a specific phenomenon. (Patton 2015.)

This is a qualitative research intending to understand Namibian taxpayers perceptions about the legitimacy of taxation; in other words, how justified they consider the fact that they are being taxed. The research is based on interview data which consists of the views of 32 respondents. The intention behind formulating the interview questions was as thoroughly as possible to shed light on different aspects which affect the acceptability of taxation in the view of Namibian citizens, or as Roitman (2007) puts it, how have "those who are the bearers of the situation have come to accept it", if they have.

#### 3.2. Interview guide

The interview guide consisted of standardized open-ended interview questions which were designed and presented to the interviewees as suggested by Patton (2015, 439–440); "the standardized open-ended interview consists of a set of questions carefully worded and arranged with the intention of taking each respondent through the same sequence and asking each respondent the same questions with essentially the same words." This is done in order to minimize variation in the questions and to maximize comparability of the responses. Hence, the specific interview questions can be the unit of interest for data collection and analysis. Consequently, the researcher can focus on analyzing patterns

across responses to certain interview questions. (Patton 2015.) The interview guide was designed in a way that answers from different respondents could be grouped together by topics. This made analyzing different perspectives on central issues possible. However, the relevant data could not always be found in the same place in each interview. (Patton 2015.)

According to Williams (2003), “open questions and invitations to free-flowing narrative allow respondents to discuss ideas and topics that are most relevant to them [...] from one-sentence answers through to comprehensive commentaries, that illuminate tax paying and compliance practices as they operate in people’s lives and experiences.” Hence, open-ended questions and the responses that follow them enable the discovery of new meanings and world-views, instead of merely verifying a specific existing theory (Rawlings 2004). As suggested by Williams (2003), I intended to keep the interviews as free-flowing conversations, in order for the respondents to feel comfortable and confident to openly express and narrate what they think and how they feel deep down.

According to Rawlings (2004), the way citizens see taxation and the role of the revenue authority can be interpreted as conversations between citizens and state. These conversations can be expressed in qualitative form, such as in responses to open-ended interviews. Then, the voices that emerge in the interviews, can provide “crucial insights into the tax system that can be reframed as a cultural field of struggle, embodying both cooperation and contestation over the meaning of fairness, citizenship and the state.” (Rawlings 2004, 5.)

### 3.3. Data collection

The data of this research consist of interviews collected during a one-month long field period in Namibia in April-May in 2017. The interviews were conducted in the capital region in Windhoek. In total 32 persons were interviewed, of which 11 interviewees were experts (consultants, civil servants, directors) and 21 interviewees belonged to the actual group of focus of this research; taxpaying citizens<sup>3</sup>. Two of the interviews were pair-interviews, the other one being an expert interview of two tax officials. In addition, one

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<sup>3</sup> See detailed tables of respondents; appendix 1 and 2

interview was carried out as a group interview with five participants. To increase the reliability of the answers, two of the respondents who participated in the group interview were interviewed individually later.

The interviews were conducted using standardized open-ended questions<sup>4</sup>. Experts, researchers and civil servants were interviewed in order to gain deeper understanding on taxation in Namibia and were asked different questions than other respondents. The questions posed at them depended on the position and the area of expertise of the person. Except in two cases, all the interviews were recorded and transcribed. One interview was conducted by email with a tax administration official. All the respondents were promised anonymity.

When conducting the interviews, the goal was to interview people diversely from each income bracket so that in the analysis section, the answers could be compared by respondents' income and the amount of income tax they pay. Therefore, different strategies of purposeful sampling were used to collect the data. Maximum variation regarding the background of respondents was intended at to document diversity and to identify common patterns across that diversity on areas of interest (Patton 2015). Snowball method was used to find interviewees from different income groups; e.g. after getting an interview with one business owner, I asked whether she/he knew any other business owners I could interview. With regard to the expert interviews, I had organized five of them in advance by email, and obtained the rest by asking whether the experts I already had gotten an interview with, knew anyone else relevant to my topic I could talk to.

In addition to the income group the respondent belonged to, also mother tongue and education level of the respondents were noted and taken into account in the analysis. When choosing the interviewees, an equal representation of both sexes was intended at. Unfortunately this was not entirely achieved, as the primary criteria for choosing the respondents was to get as diverse a presentation of the existing income groups as possible, meaning that other factors, such as gender, were secondary. In total, 9 women and 12 men were interviewed as taxpaying citizens. The expert interviews consisted of 3 women and 8 male interviewees.

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<sup>4</sup> See appendix 3 for interview questions

Finally, the strategy of saturation was used to determine the point when enough data had been collected in order to present as representative a picture as possible of each income group's perceptions, within the limited time frame of the field research. According to Patton (2015), a saturation point has been reached in the data collection when similar patterns keep emerging and nothing new is being learned.

### 3.4. Analysis

This research is based on interview data which is analyzed using a combination of inductive and theory-bound an approach. According to Patton (2015), qualitative analysis is typically inductive in the early stages, when context sensitivity and reflexivity are required from the researcher in order for her/him to discover patterns, themes and interrelationships in one's data. As a result of the researcher's immersion and interaction with the data, findings emerge and categories and themes are detected to gain understanding on what is essential in the phenomenon. This process of interpretation requires critical thinking and carefully considered judgments in order to distinguish "signal from noise"; in other words, to find out what is meaningful and significant in the data. (Patton 2015, 552–572.)

However, in order to have certain structure in the process of data collection and analysis, also a theory-bound method is used to some extent in this research. In a theory-bound approach, according to Tuomi and Sarajärvi (2009), the researcher applies pre-determined theoretical concepts to her/his analysis of the data. Therefore she/he adopts concepts based on "what is already known" of the phenomenon, instead of formulating the key concepts of the research building solely on the interpretation of the data (Tuomi and Sarajärvi 2009, 117). Based on the previous research about tax compliance, certain themes were included in the interview guide that have been previously reported to affect people's willingness to pay taxes. However, the interview questions were designed in a way that this research was not limited to test the accuracy of the previous theory, but the intention was also to shed light on how taxation is perceived in the Namibian context specifically, leaving room for context-specific concepts and patterns to emerge from the data. In order to achieve this, the theory of economic citizenship guided the design of some of the interview questions.

After conducting few interviews in the field, I already noticed that certain patterns emerged repeatedly in the interviewees responses regarding some questions particularly. After transcribing the interviews and reading through the data, some patterns that seemed to be related to and affect the legitimacy of taxation were confirmed and labelled.

### 3.5. Validity and limitations of the research

The interviews took place at the respondents' homes and workplaces. I always strived to make sure that there were no one else present in the situation, and that the interviews were carried out in privacy of a separate room. However, in one case a colleague of the respondent walked into the room in the middle of the interview, and I noticed that the presence of the colleague affected some responses of the interviewee, in particular regarding the questions considering views about the government. By the same token, with regard to the pair and the group interview, I noticed that the respondents were not as willing to speak about their views about the government as they were during the individual interviews. I took this into account when analyzing the responses to some of the questions concerning the government, and put more emphasis on the responses that had been given in one-on-one situations.

Furthermore, it is worth noting that country-wide conclusions cannot be drawn from this research, as the size of the sample is relatively small, and the interviewees were all from the capital region Windhoek, where people are generally more exposed to information. In addition, almost all my interviewees were relatively well educated in the sense that they all spoke English, as that was the language in my interviews. Therefore the data is unlikely to represent the whole population's attitudes and awareness about the topic. Moreover, it is important to bear in mind that the responses of my interviewees might have been influenced by the fact that they knew I was interested in taxation.

#### 4. NAMIBIAN SOCIETY IN A NUTSHELL

With the population of approximately 2.5 million and a large territory covering some 824,000 sq km<sup>2</sup>, Namibia is one of the least densely populated countries in the world. The population in the capital Windhoek was estimated at 368,000 in 2015 (CIA World Fact Book 2015). Namibian geographic landscape is characterized by large deserts – Namib along the west coast and Kalahari along the border with Botswana – which presents challenges for inhabitation and economic activities. Most of the population lives in the rural areas; according to estimations, 53 % of people are rural dwellers, where as 47 % live in the urban areas (Namibia Household Income and Expenditure Survey, NHIES 2015/2016).

The population of Namibia is culturally and ethnically diverse. Approximately half of the population are Ovambos, which is the largest ethnic group in Namibia. Other indigenous ethnic groups include Kavango 9 %, Herero 7 %, Damara 7 %, Nama 5 %, Caprivian 4 %, San 3 %, Baster 2 % and Tswana 0.5 %. Approximately 87.5 % of the population are black, 6 % are white and 6.5 % are mixed. (CIA World Fact Book 2018.) About 100,000 Namibians are of European descent (World Bank report 2011). Namibia has 13 recognized national languages, including 10 indigenous African languages and three Indo-European languages, which are German, Afrikaans –spoken by 60 % of the white population – and English (CIA World Fact Book 2011). According to the 2011 census, the main indigenous languages are: Oshiwambo (spoken by 49 % of households), Nama/Damara spoken (11 %), Afrikaans (10 %), Kavango (9 %) and Otjiherero (9 %) (The Government of Namibia). English is the official language in Namibia, spoken as a primary language in 3.4 % of households (CIA World Fact Book 2018).

Namibia's natural mineral riches have made it an upper-middle-income country with a GDP of 10.948 US \$ billion (World Bank 2017). Although Namibia's average per capita income (5620 US\$ in 2017 according to IMF) is high in comparison to other African countries, it hides extreme inequalities in the distribution of this welfare (Hansohm 2004). Relatively strong economic growth has not been accompanied by job creation, and extreme socio-economic inequalities inherited from apartheid system persist with high levels of poverty, inequality, and unemployment. By the international poverty line, 16.9 % of the population lived on less than \$1.90 a day in 2015, compared to 21.3 % in 2010,

where as 39.0 % of the population lived below the \$3.10 per day poverty line in 2015, compared to 44.3 % in 2010. (World Bank 2017.) Namibia's Human Development Index (HDI) rank in 2015 was 125 out of 188 countries and territories (UNDP 2016).

According to the Human Development Report of 2015, Namibia has one of the highest income inequalities in the world with a Gini coefficient of 0.597. When looking at the trend of the Gini index over the period 2009/10 to 2015/16, inequality shows a mild downward trend with a reduction of 2.5 percent points from the previous survey of 2009/2010 to the survey of 2015/2016. (NHIES 2015/2016). The Namibia Occupational Wages Survey of 2009 conducted by the Ministry of Labour and Social Welfare shows a much skewed income distribution among employees: a total of 32,096 employees were found to be earning between 1001 and 5000 N\$, while a small proportion (118) earns between 29,000 and 33,000 N\$ per month.

#### 4.1. Overview of the Namibian economy

Namibian economy is characterised by strong primary and tertiary sectors, largely composed of mining, fishing, tourism, agriculture and services (Hansohm et al. 2002). Although Namibia has succeeded in generating positive economic growth since independence, this growth has relied heavily on a limited range of exports, and remains largely dependent on the minerals sector (Sherbourne 2017). Namibia is one of the world's largest producers of uranium; it also produces large quantities of zinc, and is a smaller producer of gold and copper. As a consequence, Namibia's economy remains vulnerable to fluctuations of world commodity prices. (CIA World Fact Book 2018.) Structural change of the economy has been rather limited since the early years of independence; Namibia has not succeeded in engineering a more fundamental economic transformation (Hansohm 2004, Sherbourne 2017). Instead, high levels of poverty and unemployment persist (Sherbourne 2017).

According to Namibia Statistics Agency, households main source of income in 2016 were wages and salaries (52 %), followed by farming (15 %), old age pension (10 %), non-farming businesses (7 %) and cash remittances (5 %) (NSA 2017). Roughly two-thirds of people living in the rural areas rely on subsistence agriculture (CIA World Fact Book 2013). The Namibian economy is closely linked to South Africa; South Africa is by far Namibia's most important trading partner, 57 % of all Namibia's imports being of South

African origin, followed by Botswana (7 %) and Zambia (4 %). Namibia normally imports about 50 % of its cereal requirements; in drought years, food shortages are problematic in rural areas (CIA World Fact Book 2016.) Three out of four commercial banks are subsidiaries of South African banks, and the fourth, Bank Windhoek, has a South African bank (ABSA) as its largest shareholder (36 percent). (World Bank Report 2011.)

Cash has still an important role in the lives of many in Namibia, particularly in the rural areas. Poverty, low financial education (“people are afraid of banks”), large informal sector, limited presence of banks in remote areas, and high costs of having a bank account partly explain the widespread “culture of cash” in Namibia. Particularly in the north of Namibia most business is done in cash, while the economy in Windhoek is more bank based. (World Bank Report 2011.)

Unemployment has become one of the most burning social issues in Namibia (Melber 2006). The investor-friendly policies aimed at encouraging investment in the agriculture, manufacturing, and mineral sectors have not created jobs for the majority of the Namibians. Unemployment is particularly high among young Namibians and people residing in rural areas. (World Bank report 2011.) In 2013, youth unemployment (ages 15–24) was estimated at 56 %, being the 4th highest in the world (CIA World Fact Book 2013). According to the Labour Force Survey, unemployment of the whole population was estimated at 34 % in 2016 with 676,885 people employed and 349,383 unemployed (Namibia Statistics Agency).

#### 4.1.1. Southern African Customs Union

Since independence, revenues from SACU have formed a remarkable part in the Namibian government’s total revenues. Namibia has been a member of the Southern African Customs Union (SACU) since independence in 1990 along with Botswana, Lesotho, Swaziland and South Africa (Sherbourne 2017). The revenue share of each SACU member-state is calculated from three components: a share of the customs pool; a share of the development component and a share of the excise pool. The components are calculated as follows: *customs revenue* is distributed on the basis of intra-SACU imports, the *Development Fund* has been created from 15 % of the total excise collections and is

largely distributed equally amongst member-states, and the remaining *excise revenue* is distributed in proportion to member-countries' GDPs. (Ministry of Finance 2017.)

SACU came into existence in 1910 as a free trade area with a common external tariff determined by South Africa. Prior to independence, Namibia was regarded as a de-facto part of South Africa. (Hansohm et al. 2002.) Consequently, Namibia was strongly integrated into the South African economy and as such, part of SACU as well. Apart from being a member of SACU, Namibia is part of the Southern African Development Community (SADC). (Schade 2005.) Revenue in SACU is collected at all entry points into the SACU customs union based on the common external tariff, and then shared between members according to an agreed formula which was renegotiated in 2002. The government of Namibia has remained worryingly dependent on this source of income (Sherbourne 2017). Revenues from SACU have been declining and are expected to further decline in the coming years, reflecting the slowdown in the South African economy (IMF 2015).

#### 4.1.2. Economic development in Namibia during the colonial rule

Before its independence in 1990 which was preceded by a long struggle, Namibia was known as Africa's last colony. The colonial regime created extreme distortions in Namibia's economy, developing it as such that it produced what it did not use and used what it did not produce (Allison and Green 1986). Much of those structures have remained in Namibia until today; Namibia is still an import-intensive and export-led economy. To understand the structures of political economy in Namibia today, it is essential to have a look into the colonial past.

Germans were the first to colonize Namibia in the late 19th century. They seized the Namibian land, natural resources and labour during the conquest war in 1904-7 in order to create a capitalist economy run by a colonial state. The German regime expropriated all Namibian land and transformed it into a "Police Zone", while they banned Namibians from owning livestock and enslaved them to work for the white settlers' farms. (Simon and Moorsom 1987.) The events of the conquest war – also known as the Herero and Nama genocide – were crucial in creating the structure of unequal and racially determined land ownership that Namibia obtained until independence, and has proved remarkably

robust thereafter (Wallace 2011). However, the colonial economy was not profitable before the start of large-scale mining in 1906-8 which was run by migrant labour transferred from Ovamboland (Simon and Moorsom 1987).

Nevertheless, it is essential to note that Namibia is geographically vast a country, which undermined the capacity of the colonial power to effectively administer it. According to Wallace (2011, 5), “the settler-power has come to be understood as frequently fractured, partial, and limited by circumstances and resources, rather than all powerful machinery.” Internal boundaries – such as the division of Namibia into the northern areas and the “Police zone” – must be understood as much less sharp and more complex, than has been assumed in previous literature. In reality, these divisions were rather partial, porous and constructed in stages. (Wallace 2011.) Furthermore, when looking at the historical formation of the colonial power in Namibia, the importance of the cooperation of African elites for the maintenance of colonial power should not be neglected (see Wallace 2011, 136-147).

When South Africa took over Namibia from Germans in 1915, it inherited a ready-built colonial economic framework of which it took advantage. By the late 1950’s, nearly all farmland south of the Etosha Pan was colonized by South African farmers, who were Afrikaners for the most part. The South African regime started actively seeking partners for exploiting Namibia’s natural resources and invited international mining companies to the territory. The colonial regime made profit from the cooperation with international mining companies by gaining foreign exchange from their exports and from the taxes it collected on their profits, and also from employment the economic activities offered for white South Africans. As a result, transnational companies took over the Namibian economy and the biggest of it all controlled all production of diamonds, most of minerals, and much of construction, industrial supplies and services. (Simon and Moorsom 1987.)

South Africa’s colonial economic strategy developed Namibia’s national economy in a way, that there was nearly a total lack of integration between what was produced, and what were the needs of the people. Almost all consumer products were imported, including basic food commodities, while most goods outside peasant farming were produced for export (most of all minerals and fish products). The manufacturing sector was virtually absent, as the settlers and transnational companies had little interest in investing locally and developing the national economy to be anything more than a

producer of primary goods. A remarkable share of the wealth produced was sent out of the country and extreme inequalities between the white settlers and the unskilled black workers were created. The basis for colonial prosperity remained in labour exploitation which was supported by racial discrimination. (Simon and Moorsom 1987.) However, between the South African regime and mining companies fostered the creation of a black middle class, whose members occupied critical middle level positions (Allison and Green 1986).

The structures of economy in colonial Namibia were created in a way that it was – and to date still is – highly dependent on the regionally dominant South African economy. Most of the imported food and consumer products were originated from South Africa, where several of Namibia’s raw materials were in turn exported. (Simon and Moorsom 1987.) The situation still prevails today (Rakner 2001). In Namibia’s economy, South African and transnational companies dominated mining and fishing industries, meat production, petroleum, banking and financial service sectors. The widespread over mining and transfer pricing<sup>5</sup> in the diamond industry exhausted mineral reserves and deprived the country of tens of millions of rand in tax revenue. (Simon and Moorsom 1987.) Still today, South Africa has a dominant position in the Namibian economy, although exact figures of foreign ownership are not available<sup>6</sup>.

#### 4.2. SWAPO and the way to Independence

Before gaining its independence in 1990, Namibia was first colonized by Germany and then ruled by South Africa. Namibia’s colonial history was a long one. (Wallace 2011.) Most parts of the territory of the Republic of Namibia were declared a Protectorate of Germany in 1884 and named as ”German South West Africa”. During the 30 year period of German colonialism, the country was transformed into a settler-dominated society, characterised by strict racial segregation. The societal structures imposed by the colonial regime have had lasting effects far beyond the period of German rule. (Melber 2015.) In 1915, the country was conquered by South Africa as a Mandated Territory of the League

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<sup>5</sup> Transfer pricing happens whenever two companies that are part of the same multinational group trade with each other (Source: Tax Justice Network).

<sup>6</sup> Interview with a Taxation Officer, 12th April 2017

of Nations and after the Second World War, effectively ruled as part of South Africa (Wallace 2011).

On 21 March 1990, Namibia gained its independence after decades-long struggle against South African rule. The South West Africa People's Organization, SWAPO's armed liberation struggle was first launched in the mid 1960's through military encounters between guerillas of the People's Liberation Army of Namibia (PLAN) and the South African army in the Northern Namibia. SWAPO's liberation efforts had a major impact on the course of decolonization. However, Namibian independence was also the achievement of an international community. Namibia's decolonization was internationally negotiated between United Nations and South Africa. The agenda being primarily to establish a formally legitimate and sovereign state, democratic principles were compromised in the process. (Melber 2015.) Martti Ahtisaari, who had a key role in the peace negotiations, has commented "I don't think it was the most democratic way of going about it but I think the justification for that was to concentrate the efforts vis-a-vis the occupying power." As a result, Ahtisaari has argued, the political forces not affiliated to SWAPO "were eliminated from that political opportunity and that of course diminished plurality and complicated matters." (Melber 2015, 12–13.)

SWAPO has been Namibia's only governing party since independence in 1990. After 25 years as a ruling party in the government, SWAPO won yet again the presidential election in 2014 with Prime Minister Hage Geingob taking 87 percent of all declared votes. At the same time, SWAPO also consolidated its power in the parliament, retaining a two-third majority with 80 percent of the national assembly ballot (Reuters 2014). This was achieved while Namibia is consistently ranked highly even by international standards for media freedom (Sherbourne 2017). Observers declared the election free and fair (Reuters 2014).

SWAPO has to a large extent built its legitimacy on its historical merits as the liberation movement which led Namibia to independence (Metsola 2015). However, it has been argued that SWAPO's dominance in Namibian politics undermines the development of participatory democracy, and that SWAPO has neglected "the moral and ethical dimensions of legitimacy" (Melber, 2003). The opposition in Namibia is small, and cannot effectively challenge the vast majority of the ruling party (Hansohm 2004). Namibian citizens' trust in the governance has been undermined for years by wide-spread

corruption<sup>7</sup>. Transparency International (TI) (2017) ranks Namibia as 53rd out of 180 countries<sup>8</sup>. With regard to public sector corruption, TI gives Namibia a score 51/100<sup>9</sup>.

#### 4.4. Tackling inequality

The extremely unequal income distribution in Namibia is a legacy of the apartheid system before 1990, which created a highly divided society. Apartheid was based on a discriminatory system where belonging to a certain ethnic group determined legal rights and entitlements to promotion and education. (Hansohm 2004.) Still today, distribution of income is very closely related to ethnic group resulting in e.g. regional differences in wealth distribution. As a result of settler colonialism, the Afrikaans, English and German speaking citizens are the most privileged. There is insufficient data about the development of inequalities and poverty over time. However, it is clear that the language groups existing among the white population are generally far better off in terms of education, health and income. (Hansohm 2004, Melber 2006.)

Although the Namibian government has tried to redistribute wealth by investing heavily in education and health, deep poverty and sharp differences in income levels persist. The legacy of the apartheid has resulted in lack of social capital and trust in the Namibian society, which compromises most of the institutions that are supposed to represent different interest groups, for instance the Namibian Chamber of Commerce and Industry (NCCI), the Namibian Employer Federation (NEF), and the Indigenous Peoples Business Council (IPBC). (Hansohm 2004.) There has been criticism toward SWAPO for not sufficiently striving to transform the deep inequalities in the Namibian society created in the past. Independence was guided by a policy known as "national reconciliation", also called as "a pact between the old and new elites" by some, which led to maintaining the status quo in terms of ownership and property rights. (Melber 2006.)

However, since independence, reducing poverty has been consistently stated to be an important goal of the government of Namibia (Sherbourne 2017). The country's long-term poverty eradication and development strategy is outlined in "Vision 2030", launched

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<sup>7</sup> See e.g. Tackling Corruption – Opinions on the Way Forward in Namibia, edited by Graham Hopwood (2007)

<sup>8</sup> A country's rank indicates its position relative to the other countries in the index

<sup>9</sup> A country's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean).

in 2004. According to the objectives of Vision 2030, Namibia is intended at being a developed nation by the year 2030; "Vision 2030 is a comprehensive framework for fundamentally transforming the Namibian political and economic landscape in areas such as land reform, housing, environment, health, and education. It is aimed at building an economy that provides equal opportunity for all" (The Government of Namibia). National Development Plans (NDPs) are five-year development strategies operationalizing the objectives outlined in Vision 2030. NDP's have been published since 1994. Currently the fifth NDP is being implemented, running from 2017/18 until 2021/22. In addition, as a complement to the NDP's, a Harambee Prosperity Plan was launched in 2016 with the aim of accelerating the achievement of certain poverty reduction goals.

To redistribute wealth and eliminate inequalities created during the apartheid, SWAPO has implemented a land resettlement program through the Communal Land Reform Act (2002). However, Namibia's land-reform process has been hampered by local resistance on two fronts. Individuals who lived in indirectly ruled areas during colonialism have sought to protect ethnically based land privileges and evict ethnic outsiders, where as traditional leaders have mobilized their communities to prevent implementation of the act and protect "ancestral" land rights. (McNamee 2016.) Furthermore, the government has implemented a Black Economic Empowerment (BEE) policy intending at generating a shift in ownership in private sector in favor of historically disadvantaged Namibians. (World Bank report 2011.) Following BEE, in 2015, a new bill was introduced, called "the New Equitable Economic Empowerment Framework", NEEEF. According to the Government of Namibia, "the aim of the NEEEF is to provide a clear overarching policy framework into which all other policies will slot. The NEEEF will supersede all other transformation and empowerment policies of the Government as well as provide the framework within which all private sector initiatives, past and future will be expected to conform to." Despite the various efforts on paper, the Namibian government's development documents have been criticised of being unrealistic, considering the slow process in reducing inequalities by concrete means (Melber 2006).

#### 4.4.1. Government's spending and service delivery

Namibia is characterised by high levels of public spending on education and health. An analysis of expenditure trends over the past ten years show that education has consistently

accounted for more than 20 % of overall spending, whereas health has consistently received around ten percent of total budgeted spending. (Sherbourne 2017.) Spending priorities in social sectors and rural areas that were previously without adequate social infrastructure can be seen as redistribution of wealth and pro-poor. However, quality of services remain weak, as is shown by the high dropout and repetition rates of students and limited access to health services for many poor people. (Hansohm and Harris 2002.) It has been widely agreed that the high expenditures on e.g. education and health contrast with limited outcomes in terms of health and education indicators (Hansohm 2004).

Namibian government's main policy on welfare is outlined in the National Poverty Reduction Strategy<sup>10</sup> and the accompanying National Poverty Reduction Action Programme 2001–2005<sup>11</sup> (Sherbourne 2017). Namibia has several spending programs that can be classified as social spending, including old age pension, veterans' grant, children's grant, foster parents' grant, and disability grant for adults and children (World Bank Report 2017). Namibia has a non-contributory pension scheme. At independence, Namibia inherited a system of state pensions through which every Namibian resident over 60 receives a monthly cash transfer funded from the government's tax revenues. Before independence, the amount depended on racial classification of the recipient: N\$382 for whites, N\$192 for coloured and between N\$55 and N\$150 for blacks. The discriminatory system was abolished in 1992, and eventually replaced with a uniform pension. In 2013/14, the pension was raised to 600N\$ per month. However, in real terms, the pension has fallen far behind average incomes. Reaching all the residents entitled to it remains a challenge. (Sherbourne 2017.) Nevertheless, pension remains a major source of income for a considerable amount of households especially in rural areas (Schade 2005).

Another characteristic in Namibia's public spending is an extremely large public sector in international comparison; it is almost double the world's average. A large public sector is a legacy of the apartheid regime. While the initial increase in public employment at independence was justifiable by the political compromise, the growth of the public sector later on is the result of insufficient employment growth, rising unemployment and pressures for employment. (Hansohm 2004.) The size of the public sector has been yet increasing in the course of the years; in 2004, the public sector was estimated to employ

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<sup>10</sup> See National Poverty Reduction Strategy for Namibia, NPC, 2002

<sup>11</sup> See National Poverty Reduction Action Programme 2001–2005

80,000 people (Hansohm 2004), whereas the number today is estimated at 120,000<sup>12</sup>. At present, expenditure on wages of public sector amounts to almost 40 %. Although independent Namibia has not been under external threat, another big chunk of public money goes from year to year to defence; it has consistently received between eight and ten percent of total budgeted spending. (Sherbourne 2017.)

Namibia has a three-tier system of governance which consists of the central government, regional councils and local authorities. When it comes to service delivery, local authorities are responsible for the provision and maintenance of roads, drainage, water supply, sewerage, electricity distribution, street lightning, solid waste management, and access to land and housing. The responsibilities of local authorities are outlined in the Local Government Act of 1993 and the Local Authorities Amendment Act of 2002. (Fjeldstad et al. 2005.) The local governments collect most of their funds from citizens in the form of user fees on services (electricity, water and sanitation), and property rates in urban areas. According to Fjeldstad and Rakner (2003), there seems to be little coordination between the Ministry of Finance and the ministry responsible for regions and local governments with respect to taxation in Namibia. Unlike most of the countries in sub-Saharan Africa, local authorities in Namibia receive limited funding from the central government and are mostly forced to operate on a cost recovery basis for the services that they deliver. The prevailing revenue sources are inherited from the former apartheid tax regimes for local governments. (Fjeldstad and Rakner 2003.) Fjeldstad et al. (2005) argue that there are considerable shortages in service provision in terms of electricity, water supply and access to housing. Moreover, urban service delivery, such as sewage and waste disposal, represent severe problems. The authors state that in order to enhance citizens' compliance to pay user fees and taxes, stronger links between charges and service delivery are required. (Fjeldstad et al. 2005).

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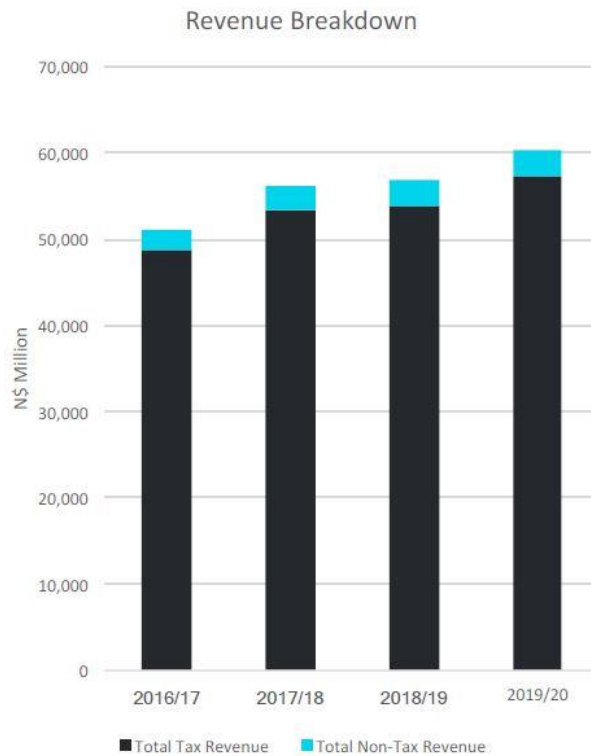
<sup>12</sup> Interview with an international expert, 26<sup>th</sup> April 2017

## 5. TAXATION IN NAMIBIA

Tax system has normally four main purposes: funding of public expenditure, stabilization of the economy, redistribution of income and influencing the allocation of resources (Namibian Tax Consortium Report 2002). All income that is sourced in Namibia is taxable in Namibia. The two basic categories of taxpayers are individuals (including trusts and estates) and companies. (Hansohm et al. 2002.) Overall, tax revenue is significant to Namibian government's fiscal base; it accounts for over 90 % of the total revenue (Ministry of Finance 2017). In general, tax revenues in Namibia total between 30 and 35 percent of GDP (Sherbourne 2017). According to World Bank (2015) statistics, the share of tax revenue of GDP stood relatively high at 33.4 % in 2015, compared to other Sub-Saharan countries as well as the world average. In average, the tax-to-GDP ratio in sub-Saharan Africa is around 16 %, compared to the OECD average of about 32 % (Fjeldstad and Therkildsen 2004). Thus, Namibia is withdrawing a lot of tax from the economy as a percentage, and can be said to do overall well in collecting taxes<sup>13</sup>. Therefore, the government of Namibia has a rather solid fiscal base for financing public services and infrastructure (Sherbourne 2017).

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<sup>13</sup> Interview with a manager of a multinational audit firm, 25<sup>th</sup> April 2017



*Figure 2 Revenue breakdown (Total tax revenue)  
Source: IPPR (2017)*

There is no separation between functions of tax administration and drafting tax policies within the Ministry of Finance in Namibia. Tax collection is based on a system where the Ministry of Finance is both in charge of drafting tax legislation and collecting tax revenue, as the receiver of revenue, Inland Revenue, is a subdivision of Ministry of Finance. (Rakner 2001.) Taxpayers’ rights and obligations are defined on the Ministry of Finance’s website<sup>14</sup>. In addition, a Taxpayer Charter which “sets the standards of service a taxpayer can expect from the Directorate of Inland Revenue” can be found on the website<sup>15</sup>.

In 2016, 49.2 % of the population in Namibia were aged between 20 and 64, which makes roughly 1.2 million people that are in working age<sup>16</sup>. According to expert estimations, there are 700,000 registered employees in Namibia<sup>17</sup> and approximately 300,000 to

<sup>14</sup> See <http://www.mof.gov.na/web/mof/taxpayer-obligations-and-rights>

<sup>15</sup> See [http://www.mof.gov.na/documents/27827/170995/Taxpayer\\_Charter/beb743ce-7c48-4411-ace9-a56034233221](http://www.mof.gov.na/documents/27827/170995/Taxpayer_Charter/beb743ce-7c48-4411-ace9-a56034233221)

<sup>16</sup> See <https://www.populationpyramid.net/namibia/2016/>

<sup>17</sup> Interview with a local economist, 27<sup>th</sup> April 2017

500,000 income taxpayers<sup>18</sup>, which means that in average 200,000 to 400,000 of the employees are below the tax threshold. On top of that, there are approximately 30,000 registered businesses that pay tax.<sup>19</sup> As can be concluded from the figures, the amount of informal economic activities in Namibia is presumably large, although exact figures are not available. According to estimations, the informal sector corresponds to approximately 40 % of all the economic activities in Namibia<sup>20</sup>.

The economy of Namibia is highly import-intensive, which makes Value Added Tax (VAT) applicable to the majority of the population, as it is added on most of the goods. VAT is an indirect tax which is levied when goods or services, or both, are supplied. The standard VAT rate is 15 %. (Ministry of Finance 2017.) Some basic goods such as bread, milk, sugar, cooking oil and maize flour are exempted from VAT, and are thus 0 rated. The government raised the amount of VAT zero-rated goods from 10 to 14 in 2008 in order to lift the tax burden off the poor. (Odhiambo and Odada 2010.)

In general, the poorest in Namibia do not pay a lot of taxes because firstly, they are often subsistence farmers who do not have cash income, and secondly, when they buy food items, many of these items are exempted from VAT<sup>21</sup>. However, according to a study by Odhiambo and Odada (2010), rich households are more likely to benefit from VAT zero-rating than poor, because the commodities that the poor consume the most, were not adequately targeted in the reform. Also, it has been estimated according to some researchers, that because Namibia has a highly integrated and import intensive economy, taxes are also paid to a high degree by the poor, although it does not seem like it, and the poor are not very much aware of it (Hansohm, Schade and Nepembe 2002).

In addition to income tax and VAT, there is a wide range of other taxes in Namibia, including transfer duty, stamp duty, petroleum tax and customs duties. There is no taxation of capital, such as estate duty, donations tax or inheritance tax. (Hayes 2017.) It can be said that to date, the government of Namibia has attempted to reduce inequality more by the expenditure side of the budget, than on the revenue side (Rakner 2001). An obstacle for wealth distribution through taxation in Namibia is according to Rakner

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<sup>18</sup> Estimations given by the revenue authority (26<sup>th</sup> April), a local economist (27<sup>th</sup> April) and an international expert (26<sup>th</sup> April)

<sup>19</sup> The figure is from 2015, estimation given by an Inland Revenue official (26<sup>th</sup> April)

<sup>20</sup> Estimation given i.a. by a director of a local NGO

<sup>21</sup> Interview with a local economist 24<sup>th</sup> April 2017

(2001) the economic integration in the region, which has constrained the Namibian government's revenue policies, since too progressive a tax system could have resulted in the removal of capital from Namibia to South Africa or Botswana. However, there have been discussions considering imposing wealth-based taxation on certain categories of capital assets<sup>22</sup>. A new wealth tax called "Solidarity tax" has been discussed during the recent years, although it has confronted broad public resistance, mainly because of the Namibian government's irresponsible spending of tax revenue in general. The topic is further discussed in the analysis section (6.2.2.1.).

However, due to the limited capacity of the national taxing authority in Namibia, introducing new taxes is challenging. According to a local economist<sup>23</sup>, it can be a veritable challenge to implement e.g. a capital gains tax in Namibia, as it demands a lot of expertise and skilled professionals who can detect schemes and tax appropriately. He stresses the importance of keeping a balance in introducing new taxes; what is the cost of their introduction, the cost of their implementation, and the cost of their enforcement, vis-à-vis the benefits that can be reaped. Furthermore, another expert<sup>24</sup> noted that fairly small amount of taxpayers would be subjected to capital gains tax, and doubted whether implementing it would be worth it in terms of the cost and the administrative burden. As can be seen in the analysis section of this paper (6), these experts' concerns about the lack of capacity in the national tax administration regarding introducing new taxes is justified.

However, experts still believe that there is room to collect a little more taxes in Namibia, as high income inequality prevails. For instance, an inheritance tax could be easier to establish.<sup>25</sup> Nevertheless, some experts also warn not to "milk the same cow" infinitely, as there is limited number of wealthy people in Namibia. According to a Taxation Officer, the challenge comes at how to collect more from those earning 800,000N\$ or more per year, as "if you try to tax them more, they start re-structuring their income, where to put it to pay less tax and so on."<sup>26</sup> This is in line with Rakner's (2001) concern presented in the previous paragraph regarding the removal of capital to South Africa or Botswana. At the moment, a relatively large tax burden falls on the working population (World Bank

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<sup>22</sup> E-mail interview with a Senior Taxation Officer, 6th June 2017

<sup>23</sup> Interview in 27th of April in 2017

<sup>24</sup> Interview with a manager in a multinational audit firm 25<sup>th</sup> April 2017

<sup>25</sup> Interview with a local economist, April 2017

<sup>26</sup> Interview with a Taxation Officer, April 2017

Report 2017). According to a World Bank Report (2017), direct taxes, being progressive, slightly reduce inequality. On the contrary, indirect taxes and subsidies have almost no effect on inequality, but instead, they increase poverty slightly. (World Bank Report 2017.)

### 5.1. Revenue composition of the Namibian government

Direct taxation has gained importance over the years; its share of total revenue increased from 26 % in 1997/98 to 39 % in 2003/04 (Schade 2005). Since 2009/10, the majority of Namibia's tax revenue has been collected from direct taxes<sup>27</sup>. Broadly, direct taxes include taxes on individuals' income and companies' profits as well as property taxes. Direct taxes in Namibia are larger than in most regional or income-level comparators. (World Bank Report 2017.)

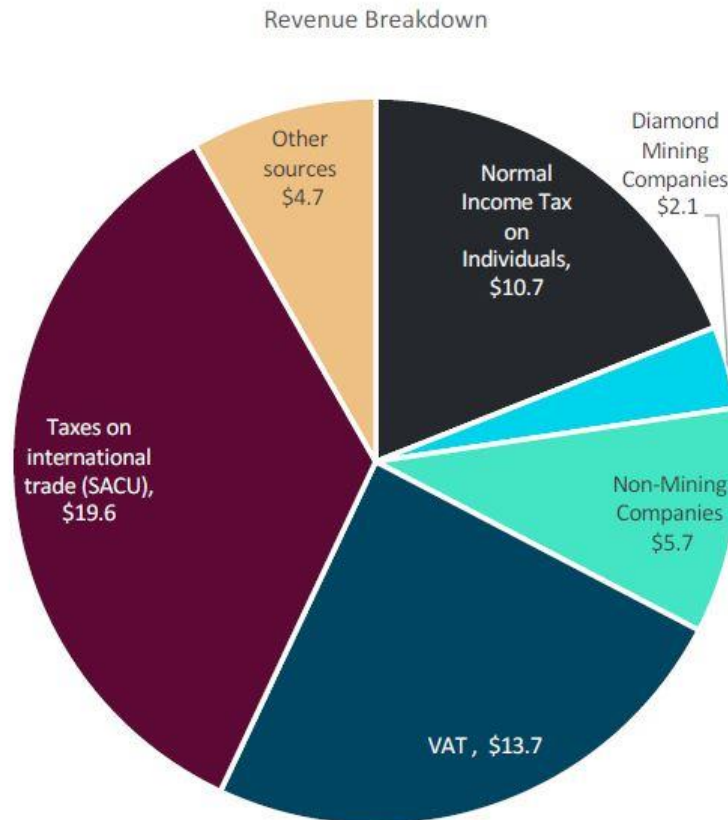
Revenues from SACU have traditionally formed a remarkable single source of revenue for the government of Namibia. Generally, income from the SACU pool is estimated to contribute approximately 25 to 30 % to Namibia's total revenue. The former General Sales Tax, VAT, used to be the second most important source of tax revenue after revenues from SACU since independence (Rakner 2001) but income tax from individuals has taken over the position of the second biggest source of revenue at least during the last ten years, VAT being nowadays the third (Ministry of Finance, revenue estimates). However, even during the recent years, the situation has sometimes been the other way around; VAT has been the second biggest contributor, leaving income tax on individuals on the third place. Company taxes have been the fourth biggest contributor to the state coffers. For example, in the budget year 2012-2013<sup>28</sup>, SACU contributed 13.8 billion N\$, income taxes from individuals contributed 8.87 billion N\$, VAT contributed 6.2 billion

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<sup>27</sup> Revenue estimates are available on the Ministry of Finance's website from the budget year 2008–2009 onwards

<sup>28</sup> This is the last budget year from which actual figures are available on Ministry of Finance's website, after that only revenue estimates are offered

N\$ and company taxes contributed 5.05 billion N\$; total tax revenue being 35.3 billion N\$.



*Figure 3. Revenue Breakdown (Sources of tax revenue)*  
*Source: IPPR (2017)*

However, during the recent years, revenues from SACU have been steadily declining due to the global economic crisis, the state of the African economy and South Africa's agreement with the EU. As a consequence, the government of Namibia is facing increasing pressure to enhance domestic tax collection and widen the revenue base. Moreover, according to an international expert<sup>29</sup>, the figures have been over-estimated regarding the revenues expected from SACU during 2017-2018. On a positive note, tax revenue from domestic sources (other than SACU) have been steadily growing over time (Ministry of Finance 2018). The budget year 2016-2017 has so far been the only exception, when income taxes on individuals were estimated to contribute the most to the total tax revenue, and revenues from SACU were only at the third place after VAT.

<sup>29</sup> Interview 26<sup>th</sup> April, 2017

However, the financial year 2016/17 was an exception to the rule, as the decline of economic activity and lower revenues – mostly from mining and SACU – led to temporary problems in terms of financing the budget in the first half of 2016/17 (World Bank Report 2017). Nevertheless, regarding the declining and increasingly uncertain revenues from SACU, income tax on individuals and companies are expected to increasingly contribute to the total revenue in the future.

## 5.2. Income tax on individuals

Income tax is a direct tax applicable on individual employees and is called "Pay as you earn". It is levied on the income of persons in terms of the Income Tax Act. The Income Tax Act was established in 1981 during the South African colonial rule and has since been amended 23 times, the latest amendment having taken place in 2013 (Legal Assistance Center 2010). Originally, Australian tax law served as a model for these statutes (Wolf 2012). Revenue from income tax on individuals has increased over the years from 15 % in 1997/98 (Schade 2005) to an expected 20 % in 2017/18. The estimates for tax collected from individuals' income have been at best at 29 % in 2016/17, but the estimates have come down for 2017/18 and 2018/19 (Ministry of Finance).

The tax administration in Namibia is still manually maintained for the most part, although the aim of the on-going tax administration reform is to computerize the system and make electronic filing of tax returns feasible to taxpayers. Individuals who are employed, have to register as taxpayers at Inland Revenue and submit their tax card to their employer. The employer then deducts the tax from their salary according to the Ministry of Finance's tax table, and submits it to Inland Revenue within 20 days after the end of a month (Wolf 2012). At the end of each financial year in March, an employee has to go to an Inland Revenue office and hand over her/his tax return for manual processing, and keep a copy of the tax return for her/himself with Inland Revenue's stamp on it. If there are issues to be cleared out later on, it is the responsibility of the taxpayer to re-submit her/his tax returns to Inland Revenue from as many years as the tax official requests.

The tax table is divided into seven income brackets and marginal tax rates. The tax system is progressive, thus, the marginal tax rates increase progressively in relation to the increase of taxable income. An individual will be exempt from tax if his/her taxable

income for the year of assessment does not exceed 50,000 Namibian dollars. All persons other than companies are regarded as individuals, and their year of assessment runs from the 1st of March to the 28th of February. (Hayes 2017.)

Taxable amount	Rates of Tax
0 - 50 000	No Tax Payable
50 0001 - 100 000	18% of amount above 50 000
100 001 - 300 000	9000 plus 25% of amount above 100 000
300 001 - 500 000	59 000 plus 28% of amount above 300 000
500 001 - 800 000	115 000 plus 30% of amount above 500 000
800 001 - 1500 000	205 000 plus 32% of amount above 800 000
Above 1500 000	429 000 plus 37% of amount above 1500 000

Figure 4: Tax rates for individual income taxpayers  
Source: Ministry of Finance of Namibia 2017

Exact figures available on the amount of individual income tax payers who contribute regularly to tax revenue are not available. According to an Inland Revenue official,<sup>30</sup> in 2015, there were 500,000 registered individual income tax payers. However, experts estimate the figure of 500,000 individuals to be unrealistically high. According to a local economist,<sup>31</sup> the tax data base might contain 500,000 names, but some of them are probably not alive anymore, are retired, and so forth. According to an international expert, more realistic figure would be somewhere closer to 300,000 income taxpayers<sup>32</sup>. As has been stated above, with the population of 2.5 million, the figure indicates that under one fifth of the population pays income taxes. Roughly, the number has doubled since 2001, when the number of registered individual taxpayers stood at 172,360, half of whom were estimated to be public servants. A decade earlier, in 1992, the number of income taxpayers was around 95,000. (Hansohm et al. 2002.)

### 5.3. Company taxation

Namibia's corporate tax regime has changed little since 1990 (Sherbourne 2017). Companies and Close Corporations (other than mining operations, including oil and gas

<sup>30</sup> Interview with a Taxation Officer, 26th of April 2017

<sup>31</sup> Interview with a local economist 27th of April 2017

<sup>32</sup> Interview with an international expert on 26th of April 2017

extraction) are taxed at a flat rate of 32 %. Oil and gas extraction companies are taxed at a flat rate of 35 %, and are also subject to additional profits tax that is calculated in terms of a formula contained in the Petroleum Taxation Act. Mining companies or companies that derive income from mining services, other than diamond companies, are taxed at a flat rate of 37.5 %. The highest tax rate applies to diamond companies, which are taxed at a flat rate of 50 % plus a surcharge equal to 10 % of that amount, resulting in an effective rate of 55 %. (Hayes 2017.) There are also a remarkable amount of informal business activities in Namibia – estimated to account for up to 40 % of total economic activities – which operate beyond the tax net.

Taxpayers are divided into small, medium and large taxpayers. In order to qualify as a large taxpayer, the annual income of a taxpayer needs to exceed 75 million Namibian dollars (which roughly equals to 4.43 million euros). Most of the large taxpayers are multinational enterprises. Roughly estimated, large taxpayers contribute more than 80 % of revenue out of all the companies<sup>33</sup>. The single most important contributor of company tax revenue is the diamond industry, which is estimated to generate 2.06 billion N\$ of tax revenue during the current budget year 2017-2018.

#### 5.4. Regional differences in taxation and in contribution to tax revenue

From a regional perspective, a considerable amount of tax revenue comes from Windhoek, as most of the headquarters of large taxpayers are situated in the capital. Furthermore, Walvis Bay is a big contributor, as all the fishing companies can be found there, and fishing is one of the main industries in Namibia.<sup>34</sup> Another factor that contributes to regional differences in the collection of tax revenue, is concentration of poverty in the rural areas and particularly in northern parts of the country. Most people in the rural areas are subsistence farmers. Thus, their contribution to VAT revenue is relatively low because they produce only for their own consumption. Furthermore, as the income tax system is progressive, the poor do not pay income tax.<sup>35</sup> Rakner (2001) has argued that tax evasion is prevalent especially in the northern parts of the country, as the

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<sup>33</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

<sup>34</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

<sup>35</sup> Interview with a local economist 27<sup>th</sup> April 2017

government's political base traditionally lies there. Although Rakner's article is more than 15 years old, my interviews support this view. According to experts<sup>36</sup>, this would also partly explain why the North seems to contribute rather little to the total tax revenue, compared to the economic activities and the size of population in the region. I will come back to this issue in the analysis section (6), where tax evasion will be discussed in more detail.

The taxing authority in Namibia remains centralized, although decentralization of political power has been discussed since independence. The central government collects nearly all the revenues, except municipalities collect property taxes and user fees. (Rakner 2001.) Some authors (see e.g. Fjeldstad and Rakner 2003) have claimed that local authorities in Namibia receive limited funding from the central government, and are mostly forced to operate on a cost recovery basis for all services that they deliver. It has been argued that prevailing revenue sources are to a large extent consistent with the former apartheid tax regimes for local governments that generate most of their funds from user fees on services (electricity, water and sanitation) and property rates in urban areas. Thus, they are forced to survive financially on their own without much financial support from the central government. (Fjeldstad and Rakner 2003.) However, according to an interview with a local expert, local authorities in Namibia are in fact being subsidized by the government for the delivery of basic services. The only area which does not get support is Windhoek, as Windhoek has a lot of ratepayers and can thus raise more revenues itself.<sup>37</sup>

## 5.5. History of taxation in Namibia

Namibia inherited its tax system from the previous South African regime. The tax system was amended after independence and later outlined with the first National Development Plan (NDP1), whose primary goals were i.a. to increase revenue and to redistribute income to balance inequalities created in the past. (Hansohm et al. 2002.) The Income Tax Act was first implemented during the South African rule in 1981. However, it is difficult to estimate the number of income taxpayers in the era before independence, as

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<sup>36</sup> Interview with a local expert 11th April 2 and international expert 26th April 2017

<sup>37</sup> Interview with a local expert 11<sup>th</sup> April 2017

there is no data available on how strongly the apartheid regime enforced tax collection<sup>38</sup>. Namibian government's total tax revenue has increased steadily over the years, from less than 25 % of GDP at independence in 1990/91, to 30.5 % as an average for the last three years. It has also considerably increased its share of total government revenue – from around 80 percent in the early 1990's to more than 90 percent in the late 90's. (Namibian Tax Consortium Report 2002.)

Although Namibia no longer receives considerable amounts of development assistance (in 2016, received net official development assistance in US\$ millions stood at 170, according to World Bank), it has been a large recipient of external assistance in the past, and one of the darlings of international aid donors. Its per capita development assistance used to be among the world's highest (Hansohm 2004). Although at present the government of Namibia gets most of its revenues from direct taxes, the most important sources of its finance used to be import tariffs and indirect taxes on goods and services (amounting to 55 % in 1998) (Hansohm et al. 2002). According to Hansohm (2004), limited dependence of the state on direct taxes diminishes internal accountability. Thus, the Namibian state has previously funded itself by what Moore (2004) calls "unearned" revenues. Moreover, a large part of the country's revenues are still to date generated through the mining and fishing industry, which are comparable to unearned income. In a CMI study on the revenue systems in Namibia, Tanzania and Uganda undertaken in 2000–2003, the authors found that taxation is often characterized by coercion and conflicts, rather than politically negotiated contracts about services in exchange for taxes between citizens and the rulers (Fjeldstad and Therkildsen 2003).

Most of the tax revenue during colonial times seem to have been collected from mining activities. Particularly taxes generated from diamonds have at times played a remarkable role. According to Philips (1983), taxes from diamonds were the only significant input during a ten year period from the beginning of 1970s until the beginning of 1980s, given the decline in fishing, low productivity in agriculture and low base-metal prices.

Although there are no data available on how strongly the colonial regime enforced tax collection<sup>39</sup>, there are historical accounts of taxation having been used as an attempt to govern and control the colonized population in Namibia as well. However, there were

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<sup>38</sup> Interview with a local economist 27<sup>th</sup> April 2017

<sup>39</sup> Interview with a local economist 27<sup>th</sup> April 2017

limits to what extent the South African colonial administration could achieve in terms of implementing taxation. In many instances, the Ovambo were considered too well-armed and the colonial authority too weak in order to impose taxes. The taxation efforts of the colonial administration were frequently met with resistance. Nevertheless, the central administration in Windhoek was continuously looking for the right time to enforce taxation. (Hayes, Silvester, Wallace and Hartmann 1998.)

In the 1920s and 1930s, colonial attempts to introduce closer bureaucratic control in Namibia in the form of taxation was met with widespread African resentment. In 1921, the colonial administrators in Windhoek attempted to introduce the payment of hut tax, but these measures sparked a series of protests. By the beginning of the 1930s, the authorities turned to taxation in their efforts to establish control of the spreading of venereal diseases. The majority of black African urban women were classified as unmarried, and they were all supposed to be on the tax register. The colonial authorities' plan was that the women would be required to show that they had undergone examination for venereal disease at the same time as paying their taxes. Compulsory examinations of unmarried black women in every six months were made law in October 1938. The law was eventually repealed in 1949, following a protest by 250 women in Omaruru. (Hayes et al. 1998.)

Furthermore, towards the end of 1939, yet new legislation was introduced which was directed at controlling unmarried African women by imposing taxes on them. Unmarried black women were required to register that they had taken paid work. Once again, the tax register was used as a way of monitoring; the women had to produce a certificate of employment at the same time as paying their tax. (Hayes et al. 1998.)

Furthermore, also during the South African rule, a tax was imposed on Namas in order to drive them to bankruptcy, so that they would need to seek a low-paid work from the South African owned farms (Philip 1983). Known as the Dog Tax, it has been held to be one of the main causes of the Bondelzwarts Rebellion (Hayes et al. 1998). The colonial authorities' strategy worked; although the Namas – from whom the colonizers had previously seized their land – sold all their property, they could not support themselves and their families once the South African colonizers started collecting taxes from them. As a consequence, they had to seek poorly paid labour at the South African owned farms, which could not have been sustained without the cheap Namibian labor. (Philip 1983.)

Apparently, during the anti-apartheid struggle in Namibia, people were encouraged not to pay taxes or user-charges, and this tendency has continued into the era after independence (Rakner 2001).

With regard to tax laws, the tax regime in Namibia has not remarkably changed from that established under the colonial rule (Rakner 2001). For instance, as noted above, there is still no tax on capital gains. According to Rakner (2001), the limited amount of change in the system of taxation since independence must partly be understood as a consequence of "institutional continuity". At independence, Namibia chose an investor-friendly economic policy and low taxes for international trade. It has been argued that the country has at least partly failed to make use of its potential to redistribute its wealth. (Melber 2005.) Melber (2005) and Rakner (2002) state that the reason behind the institutional continuation is the national reconciliation at the independence, which meant that the post-colonial Namibia translated to a large extent into a pact among old and new elites, where the latter ones were co-opted as the beneficiaries into the existing structures. Furthermore, it has been stated that the institutional constraints created by post-independence policies of reconciliation have ensured continuity within the colonial administration in terms of personnel, as well as guarantees of private ownership. (Rakner 2001.)

## 5.6. Tax administration reform

During the recent years, Namibian government has showed increasing interest and efforts toward enhancing the country's ability to collect tax revenues. Currently the government is assessing the viability of a presumptive tax on informal sector<sup>40</sup>. It has been said that the government of Namibia is currently in the biggest financial crisis since the country gained its independence, and thus the government is now trying to expand the tax net and improve tax administration<sup>41</sup>. In 2015, the Namibian government signed the Addis Tax Initiative and as a consequence, committed also internationally to enhance the country's domestic revenue mobilization in accordance with the principles aligned in the Addis Tax Initiative.

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<sup>40</sup> E-mail interview with a Senior Taxation Officer 6th June 2017

<sup>41</sup> Interview with a local expert 11<sup>th</sup> April 2017

In 2014, a process for a tax administration reform was commenced in Namibia. The reforms on the tax system concern mostly enhancing the collection and administration of tax revenues. A new integrated tax system is being currently established in phases and is anticipated to be in full deployment in April 2018.<sup>42</sup> The aim is to modernize the tax administration and improve revenue collection through computerizing the tax system and establishing specialized offices to serve the different needs of large, medium and small taxpayers. These offices have already been established within the current Inland Revenue Department in 2014. Before the establishment of separate offices, taxpayer data was not segregated and revenue from all taxpayers was going to one pot. After the reform, Inland Revenue has been able to monitor taxpayers more closely, and according to Taxation Officers, will increasingly be able to give special attention to where it is needed and observe trends in taxpayer behavior.<sup>43</sup>

At the moment, a lot of resources at Inland Revenue are used for manual assessing and filing of taxpayer data. As mentioned above, the new revenue agency will be computerized, which will enable submitting tax returns electronically. The aim of the new system is that once it is operational, the taxpayer does not need to go to the Inland Revenue office and fill in the tax form by hand, but instead they can do it online and the tax return will be assessed automatically as well. The new system is called Integrated Tax System, as the taxpayer will need to give all the information about her/his assets to the revenue authority, including her/his social security number in order for the tax officials to see where that person has worked before.<sup>44</sup> As a consequence, it will become possible to do cross-checking of taxpayer information with third parties such as banks, police and employers. Hence, the tax officials can also check for example whether the information the taxpayer has given about her/his assets is truthful. After introducing the electronic filing of tax returns, more resources and staff can be freed to other operational functions such as taxpayer services and auditing.<sup>45</sup>

Furthermore, as part of the reform, an establishment of a semi-autonomous Revenue Agency is under process with an aim to make the operational functions such as staff appointments more effective. Thus, in terms of operational decision-making, the new

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<sup>42</sup> E-mail interview with a Senior Taxation Officer 6th June 2017

<sup>43</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

<sup>44</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>45</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

revenue authority will have more power without needing to go through the approval systems in the government. However, the legislative decision-making will remain with the Ministry of Finance. This means that tax policies, such as determining taxes and tax rates, will still be in the hands of the Ministry.<sup>46</sup>

Challenges that remain are with finding skilled officials to work for the new revenue agency, who are able to do extensive audits and more critical analysis of taxpayers<sup>47</sup>. According to a Taxation Officer<sup>48</sup>, it is not possible to attract highly skilled individuals with the current institutional structures; wages compared to private sector are not competitive, and in terms of staff management, firing misconducting officials and hiring new staff is a long process.

Furthermore, a local expert reminds that as Namibia has a dominant one party political system and people on the top of the society are politically connected, reforms to enhance the governance and administration in the country seem to take a long time. "They are very sensitive about their political reputation and reluctant to take certain type of investigations, and the problem that will come up again, is that will they really go after these big business men who supposedly are not paying tax properly because of their political connections".<sup>49</sup>

#### 5.7. Previous studies on citizens' perceptions of taxation in Namibia

Namibia has been involved in Afrobarometer<sup>50</sup> surveys since 1999. The purpose of the surveys is to measure popular perspectives on the social, political, and economic environments across Africa (IPPR 2017). The results from the latest round from 2014 (round 6, 1200 respondents) are available online, and they contain some questions about taxation as well. The answers regarding taxation were rather positive in terms of attitudes toward paying taxes. The majority of the respondents (43 %) agreed with the statement that "Citizens must pay taxes" versus no need to tax the people. Most respondents (29

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<sup>46</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>47</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

<sup>48</sup> Interview 26<sup>th</sup> April 2017

<sup>49</sup> Interview with a local expert 11<sup>th</sup> April 2017

<sup>50</sup> Afrobarometer is a comparative series of public opinion surveys that measure public attitudes toward democracy, governance, the economy, leadership, identity, and other related issues.

strongly agreed that they would pay more taxes to increase health spending, whereas 26 percent somewhat supported the statement and 21 % somewhat opposed. When it comes to determining if it is right or wrong not to pay taxes, 57 % thought that it is wrong and punishable, 36 % stated that it is wrong but understandable, whereas only 5 % thought that it is not wrong at all. Tax avoidance was perceived to be difficult; 32 % thought that it is very difficult to avoid paying taxes, whereas only 18 % thought that it is easy to avoid paying. When it comes to finding out what taxes one is supposed to be paying, 35 % thought that it is easy to find it out, whereas 25 % considered it to be very difficult. (Afrobarometer 2014.)

## 6. ANALYSIS: NAMIBIAN CITIZENS' PERCEPTIONS OF LEGITIMACY OF TAXATION

In total 21 citizens and 11 experts were interviewed about their perceptions of legitimacy of taxation in Namibia. The expert interviews consisted of national as well as international experts, who work with tax related issues; researchers, tax officials and the like. The following section presents the main findings from the interviews. After each quote, the respondent's occupation, primary mother-tongue and gender are mentioned. In some cases, also the level of education of the respondent is mentioned to differentiate the responses, as there are respondents with similar profiles. As appendices (1 and 2) in the end of this thesis, a reader can find more detailed tables of respondents.

While conducting the interviews in the field, certain patterns emerged repeatedly in the interviewees responses regarding some questions particularly. After transcribing the interviews and reading through the data, some patterns that seemed to be related to and affect legitimacy of taxation were confirmed and labelled. While analyzing the data and looking for patterns in it, I noticed that the responses were in line with some previous theories related to legitimacy of taxation and the fiscal contract.

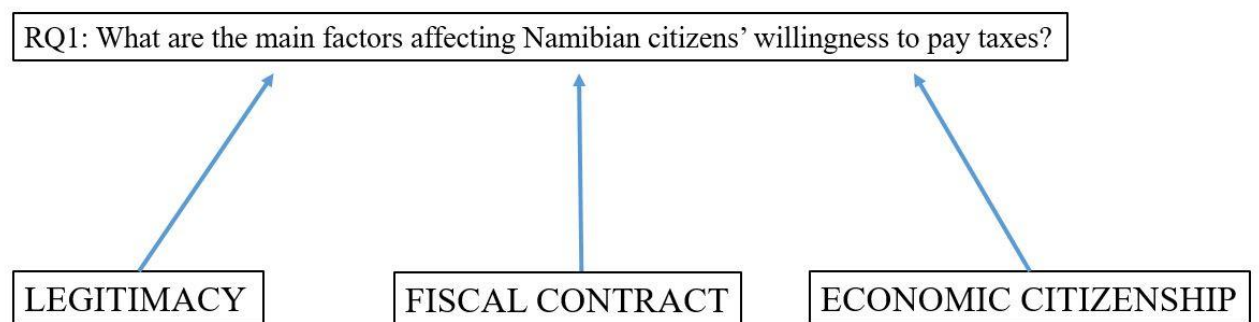
The analysis proceeds as follows. The first research question is divided into six sub-sections, which together shed light on the main factors that influence Namibian citizens' willingness to pay taxes. In each sub-section, one of the three key concepts is applied in analyzing the responses. In the first two sub-sections, the realization of the fiscal contract is being examined. Next, in the third sub-section, respondents' views of the use of tax revenues are being investigated through the concept of legitimacy. In the fourth sub-section, the analysis focuses on whether citizens are educated about taxation, which is a precondition for the emergence of a fiscal contract; if citizens do not know what taxation is for, they can not demand services and transparency in return for tax revenues. In the fifth sub-section, citizens' views of the revenue authority are analyzed through the concept of legitimacy. In the last sub-section of the first research question, citizens' views of taxation as a legitimate institutional practise are examined through the concept of economic citizenship. The purpose of the sixth sub-section is to find out, whether taxation is accepted in principle as a mode of redistribution of wealth.

Following the analysis considering the first research question, research questions two and three are discussed. The second research question digs deeper in investigating whether the boundary conditions for the realization of the fiscal contract are in place in Namibia, and what are the future prospects for its emergence considering e.g. the demographic structure and structure of political decision-making in the country. Hence, the concept of fiscal contract and legitimacy are applied in the analysis regarding the second research question.

The third research question investigates whether Namibians consider taxation as central in their relationship with the state. The concept of economic citizenship is applied in examining whether Namibian citizens make claims toward the government primarily as taxpayers, and to what extent the state is expected to take care of its citizens.

The analysis as a whole intends to offer insight on to what extent the fiscal contract proposition can be seen as applicable to the Namibian context and how legitimate do the Namibian taxpayers consider the fact that they are being taxed. In the beginning of each section, a reader can find a table demonstrating which key concepts are applied to analyse the responses to that research question.

#### 6.1. RESEARCH QUESTION 1: What are the main factors affecting Namibian citizens' willingness to pay taxes?



*Figure 5: Concepts applied in the analysis of the research question 1*

In this section 6.1. the first research question is discussed. I present the main factors that seemed to influence Namibian citizens' willingness to pay taxes: views of the benefits in paying taxes; government's responsiveness; use of tax revenues; trustworthiness of the tax administration; taxpayer education; and taxation as a legitimate institutional practise.

### 6.1.1. BENEFITS IN PAYING TAXES

In the first sub-section, 6.1.1., the realization of the fiscal contract is examined by asking the respondents whether they see any benefits in paying taxes. According to the fiscal contract proposition, taxpayers are more willing to pay taxes if they benefit from it in the form of public services. Taxation and the provision of public goods and services can be seen as a contractual relationship between taxpayers and the government. It requires that citizens receive something from the government in return for their tax contributions. (Fjeldstad, Herzenberg and Sjurson 2012.)

In general, the respondents recognized very few benefits in paying taxes. None of the respondents thought that they themselves are directly benefitting from paying taxes. Instead, most respondents recognized indirect benefits for paying taxes, although those benefits were few and to some extent unclear. The following response of an NGO-worker sums up the general feeling of many respondents towards taxation.

Yea... somehow there are benefits, yea, for infrastructures and so on. And even our tax money is used for payment of government employees and so forth, that's the only benefit maybe. But for us, the taxpayers, I don't see any benefit. Or maybe we are getting somehow but I don't know how! (NGO project coordinator, Damara, F)

An initial reaction of the majority was that there are no benefits in paying taxes.

There are no benefits. The government deducts too much taxes. People don't benefit. (Security guard, Oshiwambo, F, 1981)

No benefits. Nothing. (Security guard, Oshiwambo, F, 1990)

I really don't feel there are any benefits! No. [laughter] (Postal worker, English/Oshiwambo, F)

Indeed, most interviewees (10) responded first that there are no benefits in paying taxes, but after a while many of them continued by mentioning indirect benefits – such as roads, free primary education or rural food aid – or the old age pension that they might get in the future.

No benefit. No! [laughter] From our government? Nothing. Not until now. Perhaps when I'm sixty I'll get my pension. Yea but you know how much it is? 1200 [Namibian dollars], and it has been that only now for the last two years. Before that it was only 600. (Business owner, German, F)

Hmmm... what am I getting... [thinking] ahh. But ok, if my family is getting then it is also me, like from the rural area where I'm from, the government used to give

food to people like let me say the past 5 years, we have received food for poor in Namibia. So, the ... each house has to receive 10K of maize meal, and one bottle of cooking oil, two cans of fish. Yeah, so that's some benefits I'm getting although it's not me, but my mother, my father. (Postal worker, Oshiwambo, M)

Indeed, in many cases the old age pension grant was the first thing that came to the respondent's mind. It seemed to be well-known and considered to be provided from the tax money. Therefore it was again someone else who would benefit from taxation but not the respondent directly, at least not before the respondent reaches 60 years.

The tax is normally for... to help those, the older people. Who are...for pension. For pensions. Those who are getting pension from the government. But myself...mmm...taxes...myself...I think the benefit, after, or after your retirement you reach the limit of years... or when you come older and you leave your job. Then you start getting it back. (Security guard, Oshiwambo, M)

Uhhh...mmmm...[thinking for a long time] I could say, if there is a benefit, then it's the childrens' grant that they give; child allowance, and then the old age pension...if I could say, it's a benefit for them who get it. But ahh...I don't know, only two. (Domestic worker, Nama/Damara, F)

For me? There is a benefit... for my family, for the people in the country. Yea because when you pay tax, they make money for the people, those who get pensions...for those old people, they used to get money. (Security guard, Rukwangali, M)

In most cases, the more educated the respondent was, the more she/he would mention indirect benefits. The question that remained was whether the tax money was used efficiently and should there be more benefits.

To myself, obviously like any other civil citizen, we see the benefits, I mean we have ...it's for roads, a little bit of public transport we get, some hospitals though they are not the best, to a certain extent, we have a national airline. So I think there's a benefit in paying tax, but whether the tax that I'm paying is being fruitfully used, that's a different question. (Young professional, Nama/Damara, F)

For me, I'd say there are very few benefits, uhm, roads for me are good, infrastructure, yeah. In terms of schooling I don't have benefits because my children go to private school, I don't believe in our formal schooling system. I don't have any benefits therefore... hospital, it's private also, so I don't have any benefits. (Business owner, German, University degree, M)

[...] at least it gives money for the government to develop some of the things that people need or use, even like roads you know, education, primary education is for free, secondary costs something but it's not expensive. So I think those are the benefits. (Researcher, English, F)

In general, people educated further than the secondary level saw indirect benefits in paying taxes (10), whereas people with primary or secondary education background would more often see no benefits at all (5). However, the responses did not always follow this logic; also the respondents who were educated at maximum to secondary school level would sometimes recognize indirect benefits, and vice versa, the respondents educated further than the secondary school level would not always mention indirect benefits in their answers.

All in all, based on the interviews, it can be concluded that the interviewees saw that they benefitted very little from paying taxes. None of the respondents was satisfied with the public service delivery, and it was generally considered to be of poor quality. The fact that the taxpayer gets very little or nothing in return for paying taxes, seemed to be a remarkable factor undermining legitimacy of taxation.

They even cut the water one month ago. There is nothing in return for paying taxes. You know when I go to the hospital if I don't have a card they don't even give me medicine. I have to go home with empty hands. Poor people don't get anything at the hospital even though they are sick. (Security guard, Oshiwambo, F)

Public hospitals are open to everyone, but then the service is surely different. Because it's just generic, low quality, yeah, it's not really like you are treated nicely and you'll be given attention, you'll find a doctor, probably you'll be just left there, you will not see a doctor if it's not really serious, you will just see a nurse and then that's it. (NGO Project coordinator, English/Oshiwambo, M)

Yea we get hospital... but it's not reliable. There's public service but it's not too much. Only few. [...] hospital, and school also. But people are many. (Security guard, Ruakwangali, M)

Hmmmm... We have hospitals but we are paying it. There are public hospitals but even the clinics they are charging something. Actually there's no free benefit. If you go to a hospital you have to pay. Actually we don't have free health care, not at all. Everything has to be paid for. If you flush a toilet, you have to pay! (NGO Project coordinator, Damara, F)

There's not enough electricity, water, toilet as well, that is all. There is no toilet, people have to go into the bush. (Fuel attendant, Oshiwambo, M)

Many experts shared the view about the poor public service delivery. It was also noted among the experts that the yet expanding civil service does not result in enhanced public service delivery. "At the moment when you speak to the people, they don't get services, they don't get quality services on time. [...] The civil service has tripled in size in the last 15 years. And if you ask taxpayers what has this done to the service delivery you get?

Nothing”<sup>51</sup>. The interviews revealed that people who can afford it send their children to private education. It was noted by an international expert that the Namibian government has a policy to improve public health care through prioritizing spending to it, but at the same time, the policy encourages civil servants who are employed by the public to use private health care, which according to this informant is very contradictory<sup>52</sup>.

However, a local economist pointed out that basic services are to some extent available in Namibia, although the quality of them is not necessarily satisfying: ”Overall I would say, the population has access to health services – even if they are sometimes not sufficient, even if it’s not always the best facilities – public has access to education; pre-primary, primary and secondary education are free, but you still have to pay school uniforms and sometimes transport costs so it’s not really free but you can’t have it all. But still the government does provide access to health and education, at the health facility you must pay a minimal fee, but if you can prove that you are poor, you don’t need to pay these fees. But in general, the population has access to basic services.”<sup>53</sup> However, as there was a considerable dissatisfaction regarding public services within the respondents, it can still be questioned whether the current service delivery is at an acceptable and sufficient level.

Nonetheless, there was also a notion among the respondents that ”things could be worse”, indicating that paying taxes ensured at least some level of security, which can be said to be a minimal return for paying taxes. As one respondent put it, the Namibian government is ”steering their boat at a certain pace”; meaning that they are doing just about enough to prevent civil unrest from rising, but they could provide much more with the revenues they receive.

There’s corruption involved, so things are not spent on purposes that they are meant to be. But the situation could be worse. I think they have managed to keep things stable, like stability does not mean there’s no problem, it just means that you are operating at a certain pace, you see, where people still don’t have access to that or access to that but dissatisfaction is not escalating too fast... so I think that they are steering their boat at a certain pace to keep everybody calm, because you don’t find a lot of civil unrest in Namibia. [...] I think they have managed to keep things a bit stable but they could do better. (Researcher, English; F)

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<sup>51</sup> Interview with an international expert 26<sup>th</sup> April 2017

<sup>52</sup> Interview with an international expert 26<sup>th</sup> April 2017

<sup>53</sup> Interview with a local economist 27<sup>th</sup> April 2017

[silence, thinking] If I didn't pay those taxes, there would be even more people on the streets not receiving any money or ... they would be even more criminals than there's now. The money is not being spent very efficiently but at least it serves one purpose. At least keeping people off the street basically. But they could do much better, much more efficiently. (Business-owner, German, M)

From a point of view of perceived legitimacy of the Namibian state, it can be questioned whether the government enjoys unconditional popularity in the eyes of the citizens. According to Metsola (2015), one of the functions which contribute to the legitimacy of the state, is provision of social services and responding to the social and economic needs of the population. By the same token, Levi et al. (2009) suggest that in order for the government to be trustworthy and thus legitimate, it needs to provide public goods that ensure at least a minimal level of social welfare to the population. As a consequence, voluntary compliance increases among those citizens who consider that they get services in return for paying taxes (Levi et al. 2009). Based on the interviews, there seemed to prevail considerable dissatisfaction regarding the level of the current service delivery, and this seemed to affect the willingness to pay taxes as well. However, it was also recognized that the state is doing just enough to prevent civil unrest from rising. As Metsola (2015) suggests, one of state's functions is to provide security and limit who can use organized violence. If this function is fulfilled, it contributes to the legitimacy of the state (Metsola 2015). Based on the interviews, it can be concluded that this function is fulfilled in the case of Namibian state, and it seemed to generate approval to some extent toward paying taxes, as can be read particularly from the last two quotations of the business-owner and the researcher.

#### 6.1.1.1. "It used to be better in the old days"

What is worth noting in the perceptions about benefits in paying taxes, is the notion that for some ethnic groups the level of satisfaction has changed over time. The answer of a German speaking business man summed up some of the general feelings there were toward paying taxes especially among few of the German and Afrikaans speaking respondents. In these responses, there were indications that it had been worth paying taxes before independence but not after it, as in the opinion of these respondents, public service delivery had deteriorated remarkably after independence. The stark difference before and after independence seemed to make the current poor service delivery appear even worse for them than for other respondents, who had not perhaps ever gotten quality public services.

When African country wants to have everything that they want in the first world, then they have to accept the rules of the first world. [...] You don't even have to go as far as Africa, you just need to go to Europe, in Greece. If Greece hasn't paid their taxes like Germany, you can't expect the wealth like in Germany. Full-stop. So now we just transfer that to Africa, it's the same thing. If there are ministers saying you gotta pay your taxes and da da daa, and your gonna be fine and you get all these things, sure, you can do that. But then we expect the same back [articulating exaggeratedly]. Meaning, you cannot expect the citizen to pay his taxes but then you don't have any schools, you don't have any medical aid, you don't have any security – those are the three main pillars, which have changed completely prior and after – independence. (Business owner, German, Diploma, M)

The question that arises, the question that you should put out there when talking to individuals and to business people; are you happy to pay your taxes? If you would have a good hospital, a good security system, a good education, everybody will answer with yes. If it's not satisfying, everybody will answer with no. It's as easy as that. [...] Because in the past it never was like that. People didn't worry about taxes, they paid it because they got good roads, they got good hospitals, they had fantastic education! Please, we were tops in the world! Because I'm old enough to judge that – we were way ahead of Europe! (Business owner, German, Diploma, M)

[...] If you look at the hospitals now [...] there's rats, it's a disaster, there's water smelling – we've been there a lot of times. They cannot even do that. And remember, those hospitals were the best before 90's. And you didn't have to pay, you just go in. They don't do that anymore. But you can see, Africa is going on a side wreck now. (Business owner, Afrikaans, M)

Indeed, as these respondents used to be satisfied with public service delivery before independence and they made tax payments to the prior-to-independence government (as well as they do to the current one), it can be said that the fiscal contract has perhaps been best fulfilled in the case of these German and Afrikaans speaking respondents before independence. On the contrary, respondents belonging to other ethnic groups have in most cases never been satisfied with public service delivery. It is important to note that white Namibians used to be privileged in service delivery before independence, as the government prior to independence represented the same ethnic background. Therefore there have been other factors – such as ethnicity – affecting the contractual relationship of those citizens and the government, and thus their expressed satisfaction with the previous service provision cannot be reduced solely to a functioning fiscal contract.

### 6.1.2. REPRESENTATION

In addition to the provision of public services, another aspect in the fiscal contract theory is that taxpayers start to demand representation from the government in return for their tax payments (Bräutigam et al. 2008). As part of the contract, the government commits to represent the interests of taxpayers, as taxpayers maintain the government's fiscal base by paying taxes.

In order to shed light on whether the respondent felt that the government represented her/him, I asked the question "Do you think that the ruling party represents your interests?"<sup>54</sup> The answers were striking in a sense, that almost none of the interviewees felt that the government was there to represent them. There were no differences between different income and ethnic groups in how responsive they considered the current government to be. Many interviewees expressed their disappointment with the fact that the party had made a lot of promises at independence, but had not fulfilled them since.

Not really. Why I'm saying that is because of... they have friends in many many ways. The promises they have made [...] I did not benefit. People feel betrayed. There have been promises a. b. c. and d. and they have never been materialized. So even though they have accomplished something, why the majority still feels like that? (Business owner, Oshikwanyama, M)

They represent maybe their family! I don't get anything from them. (Security guard, Oshiwambo, 1981, F)

The answer of an NGO project coordinator sums up the feelings that were very possibly behind the disappointment of most respondents. SWAPO had promised a lot at independence, but after gaining power, had mostly used the situation for their own benefit.

The current one, no. Potentially, yes. The thing is that the ideology of SWAPO itself, it represents the people's idea, they believe on revolutions and changes and pro-poor development and pro-control of the means of production because if you see the formation of SWAPO where it's coming from, it's actually coming from workers, and the ones that stood up and said "No, we are actually being mistreated, oh, actually the whole country is being mistreated, so we need to stand up!" You see, but where we are at the moment, no. I think it's now used by people who wants to gain. Because if you ask yourself how many companies that are under SWAPO at the moment, many! And how many of those profits that are coming from those

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<sup>54</sup> In Namibia the ruling party has such dominant position that I decided to pose the question in this format. The same question was also asked in the Afrobarometer survey which was conducted in Namibia in 2014.

companies are used actually to help people? None. [...] I think currently the ideology is this: "How can we become rich? How can we build an empire?" (NGO Project coordinator, English/Oshiwambo, M)

Here Weigand's (2015) notion about legitimacy always being in a process of transformation, construction and deconstruction seems particularly relevant (Weigand 2015). SWAPO has traditionally enjoyed high popularity, building its legitimacy on its achievements as being the liberation movement which led Namibia to independence (Metsola 2015). This previous legitimacy can be read from the quotation above of an NGO project coordinator as well. A local expert was of the opinion that SWAPO still enjoys popular legitimacy dating back to the independence. "Many people are still loyal to the ruling party because of historical factors. SWAPO is the party that brought independence to this country, and this still seems to be a dominant factor in the way people vote. Even young people who weren't born at the time of independence, it's still a factor in the way they vote. Many people think 'my parents vote in this way because they know what happened, so I'm going to vote in this way as well.'"<sup>55</sup>

However, based on the interview material, and as Metsola (2015) notes, this legitimacy seems to be increasingly undermined. Levi et al. (2009) mention leadership motivations as one of the components which can either build or undermine state's legitimacy. They define leadership motivations as the extent to which leaders are credible in their commitments to serve the best interest of the citizens (Levi et al. 2009). It was clear in the majority of the respondents' comments, that those motivations are increasingly being questioned, as can be read from the quotations.

The biggest single source for disappointment with the state materialized, again, in wasteful spending, corruption, and not using state revenues for the citizens' benefit.

Not really [answer to the question "Do you think the ruling party represents your interests?"]. They are spending money on useless things. We are a 2,1 million nation, do we really need a new government house? You keep hearing these things how they keep wasting money. (Young professional, Nama/Damara, F)

Ruling party...like how? Yea... not really. The problem is corruption...that's why I don't like them. (Security guard, Ruakwangali, M)

I don't even know what they represent. In Africa, we don't care about - if you want the ruling party to be in your interest, most of the time it's because you want contracts from the government. When you're in the private sector you must walk

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<sup>55</sup> Interview with a local expert 11<sup>th</sup> April 2017

in between to see what you can do, to do business. But like I said earlier, it cannot be my interest, when there's four people in one office and only one is doing the job. A lot of money is falling in the ground. (Business owner, Afrikaans, M)

Indeed, it was surprising how openly the interviewees criticised the ruling party SWAPO, as my initial assumption was that criticizing the party might be a sensitive issue. Also, I had assumed that people belonging to the same ethnic group as SWAPO would identify themselves more with them. However, the interviews did not support this assumption; all the ethnic groups were similarly critical towards the ruling party. The results might have been partly like this because many of my interviewees were relatively young and they all lived in the capital city Windhoek. The young generation can be more prone to criticize the government, thus, the glory of the past and SWAPO enjoying support as the liberation movement of the country may no longer work for them. The interviews could have been different e.g. in the north of the country, where the political base of the party has been traditionally based. Also, people living in the capital area can be generally more educated and more exposed to critical news coverage. Based on the interviews, it seems that people have been waiting for things to get better for so long, that they no longer bother to hide their disappointment with the party.

Ahh, not these years. They are failing, this year they are really failing as big times. For example, even if you want a land, you are not able to get land, it's either too expensive and only the rich get to buy. And to be honest these rich people don't even vote, they don't really mind about voting. So, it's us that vote but yet we are disadvantaged. So, mm-m. The ruling party this year, it's a "no" for me. (Postal worker, English/Oshiwambo, F)

The government? They do not. I never trusted the government. How could they make it, I don't know. I never trust in the government. I don't get anything from government. (Security guard, Oshiwambo, 1991, F)

Ahh (laughter), I don't think so, not at all. They are representing their interests, not ours! (laughter) Their interests, yes. (NGO Project coordinator, Damara, F)

However, I noted that the respondents were not as willing to openly criticize the government when there were other people present. During the interviews, I always intended to make sure that we had privacy during the whole interview, however, one time a colleague of the respondent walked into the room just after I had asked a question about the ruling party. The respondent was clearly intimidated by the situation and had difficulties to answer the question. He grinned, twisted his hands and was eyeing his colleague while responding:

Eeeee yeah...because...[long silence] I used to get some benefit from them... They provide us water in the rural area, aha, yeah...and...ok they build us some schools, although it's not really that high standard...hospital...yeah...hmmm...that's how they are working...it's the ruling party that's introducing the system, of, what, donating for the drought food... if there are not enough rain fall, they are going to give to the nation there some food to eat, yeah that's under the ruling party. (Postal worker, Oshiwambo, M)

Also, if it was a pair interview or a group interview, the respondents were not either willing at all to respond to the question " Do you think that the ruling party represents your interests?" or they answered more neutrally, than respondents who were alone in the situation. I consider the answers gotten in one-on-one situations to be more reliable than the answers given in group situations, because the same pattern emerged every time (3 times altogether) when there were other people present.

You could answer to that...! [saying to the other woman in a pair interview]

(Pair interview with two researcher women)

When I asked the question in a group interview from four fuel attendants and one security guard, the situation evolved as follows:

Me asking the question.

[everybody silent, looking at each other]

Fuel attendant 1 ja Fuel attendant 2: Yes [after a long silence]

[silence again, then a man in the back:]

Security guard: for me no. They haven't been doing anything for years. [silence again, nobody adds anything]

Although there were no differences between the respondents regarding the level of disappointment with the ruling party, some of the German and Afrikaans speaking respondents compared the current situation to the one before independence, indicating that the regime before independence had been more legitimate. When it comes to defining state's legitimacy as a shared value-base between citizens and the government as Claessen (1988) suggests, it seemed like for some of these respondents values with the regime before independence had been shared, unlike with the new party, whereas for the rest of the respondents the values might have been shared with the new party at the beginning of the era after independence, but due to poor performance and unfulfilled promises, the current party's legitimacy had been declining since.

They all look after themselves, I must say. This year there was some minister that were quite good trying to do their job, but... the thing is with our country, it's still very, um, traditional. African tradition... Money-wise they look after each other. Um, how should I say it... it's very, you know, the government or our prime minister can do something totally which we never agree to, especially the previous two. But because, the black people know, it's, they, the president, it's not their hero but they – a lot have things like that. Which we don't say, listen, if he's useless, he must go. But for those, it's the tradition, the African tradition is still very very much involved. And if he's still the main of that family or whatever - he can have it, he can have a car and he can have everything, although everybody else is dying of hunger, he can have it, he must have it, because he is, you know, the president. (Business owner, German, F)

Back in the old days, a long time ago, there was a Russian guy walking around with a suitcase where he had cash. He was supporting the SWAPO soldiers, because Russians were here back then. I asked him once what is the biggest difference he thinks there is before and after independence. He said that in -89 I never locked my car. After that I must lock everything. And it's not because of this country, it's about – how can you just give something? Why did the people not say, the country was fine for so long [...] The new ruling party, they put people into positions they didn't know anything about, didn't have education for it - but why didn't they just put the new person working next to the old one, take the new guy that must go to the police force and wherever, and let them work two years together? (Business owner, Afrikaans, M)

Claessen (1988) refers with legitimacy to a common ground between the rules and the ruled. In order for political authorities to maintain their legitimacy, they need to share a certain value base and concepts of justice with the ruled (Claessen 1988). The comments from the respondents above indicate that they do not share the same concepts of justice with the new (ethnically different) government, as they did with the previous one. This seemed to affect their willingness to pay taxes as well, which is in line with Claessen's (1988) argument about citizens complying voluntarily with regulations when they perceive the state authorities as legitimate (Claessen 1988). Furthermore, an Afrikaans and a German speaking business owners referred to cultural incompatibility when they talked about paying taxes. Their answers indicated that the logic of taxation would not work in the African context, nor with the current governance in the country, although before independence they were assumably satisfied with paying taxes (judging by their answers presented in the previous section, considering service delivery before and after independence).

Yea, corruption! You see, you must look at the culture. [...] the European people don't understand culture, which is bad because they know their culture, but they

don't know Africa. [...] Most people think that the Americans arrived in their ships, jumped out of their ships right into the country, were catching them like animals and put them in the ship again and off they go! They forgot that the people in Nigeria knew that country ten times better than any American guy knows the country, so there's no way that an American guy could catch any Nigerians. So what happened is, the strongest leaders bought or caught their own people and they sold them to the American people. And that tradition never stopped in Africa. You always get in the communities very very rich people. And next to these people, very very poor people. So the tradition never stops. They will always try to see what can I get for myself – so that is the problem about the taxes as well. There will be few picked. And that people will be like in the old days, look after themselves, and take a lot for themselves. You can see it in businesses and politics as well, it's always their nephew or their mother or their father... And you will see now in Angola, the next president, it's going to be a nephew or a niece or something inside the family. [...] So that is the problem about the taxes for us. (Business owner, Afrikaans, M)

Interestingly, the response of the business-owner above is in line with Bayart's (2000) theory about colonization. According to Bayart (2000), there is a general misconception that during colonialism, exploitation was one-sided and occurred only on behalf of the colonial administration. Bayart argues that it has been forgotten, that there were also people among the colonized population who benefitted from the situation, usually the local economic elites, who governed the trade of natural resources and slave labor. Without the support of the local elite, colonizing those countries would not have been possible. (Bayart 2000.)

On one hand, it's Africa, with African rules, ethnical rules and groups, traditions that come in – very difficult to implement a western world, because in the western world you don't have all these things. You don't. You've got a few different issues but if you are American, you are American. You don't have our 11 ethnical groups that we have, if you are American you are American, finished. [...] but here, whatever your headman says, whatever your chiefs says – that's the law, not the country's law. (Business owner, German, Diploma, M)

Based on the response above, it can be concluded that ethnicity can also be a factor in the formation of political legitimacy, and thus it can undermine citizens' willingness to pay taxes. As Claessen (1988) suggests, in order for a state to be legitimate, there needs to be shared concepts of justice between the rulers and the ruled. The business-owner's choice of words to express his dissatisfaction indicates that those concepts of justice are profoundly different between the respondent and the rulers, as he put it; "but here, whatever your headman says, whatever your chiefs says – that's the law, not the country's law."

On the other hand, the respondents who referred to ethnicity when they problematized taxation, did so often while complaining about the state of service delivery. This would indicate that if the service provision improved, their level of satisfaction with the government would increase as well, which is in line with the fiscal contract proposition. However, in the view of these respondents, the logic of taxation does not and will not work in the African context, because of the concepts of justice – as Claessen (1988) puts it – are different to them.

It was also brought up by one respondent that the tax laws in Namibia have been created by Europeans, and thus they would not work in the African context. The respondent comments that the European standards have been imposed on Africa, while their compability with the African mentality has been forgotten.

[...] Us as a developing nation would first need to join our hands to make it better. Our tax laws have been created by Europeans, not by Namibians. In African countries and in other countries they try the tax laws and rules, close the loopholes and then implement it in Namibia..uhm.. which is kind of a fool-proof thing, but it's not, you cannot impose your standards in Africa, it doesn't work. Because the whole African mentality doesn't work that way. And just to go and do it by the book – it doesn't work. (Business owner, German, Diploma, M)

The respondent above refers to state legitimacy, which Englebert (2000) uses to describe a situation where state's structures have evolved endogenously to its own society and there is historical continuity to its institutions (Englebert 2000). In case of taxation in Namibia, the national tax system was established during colonialism, and to date international institutions have had an influence on the design of tax policies (this topic will be further discussed in the next section where research question 2 is answered). Based on the argumentation in the comment above, it can be questioned whether taxation is always considered as a legitimate practice in the context of Namibia.

### **6.1.3. TRANSPARENCY IN THE USE OF TAX REVENUES**

According to previous research concerning taxation and concepts of legitimacy, the more accountable the government is with taxpayers' funds, the more legitimate its actions become (Fjeldstad et al. 2012). In order to obtain the support of taxpayers, governments must be transparent with their finances, and draw clear connections between taxation and public spending (Prichard 2010).

The large majority of the respondents (16) considered that there is not at all or very little information available about spending of tax revenues.

Hmmm not really, not that I know of. I'm honest, I've never heard of them telling, all that they say it's just telling people that they have to pay tax. And then I hear when they read the national budget in the national parliament, how much is the money and then – they never talk about the tax revenue collection or all that. We don't really get briefed about that. They don't talk about how they have spent it, how much revenue they have collected, so... (Business-owner, Oshikwanyama, M)

Ahhh... I don't think I've heard of the tax revenue, how do they use it... Mm-m, I really don't know about it. (Postal worker, Oshiwambo, M)

The statement about the lack of information regarding taxes was shared by many experts as well. As a local economist explained: "There's not much about taxes in the media. During the time the budget is tabled and discussed in the parliament we have more reports of these issues around national budget, [...] but it's not a regular topic and I'm not sure to what extent the population follows these discussions."<sup>56</sup> In addition, the discussions are not necessarily apprehensible to an ordinary citizen. A Taxation Officer at Inland Revenue called for more engagement from academics to participate in the budget talk and highlighted that currently the only truly influential party is the private sector; "especially after the Minister has tabled the budget, then you see that the big audit firms have discussions around these. It's driven by the private sector and it's more kept on the high level, an ordinary citizen won't have much input or will not hear much of the outcome of those discussions. Then obviously these big firms, their clients are also big taxpayers, so the discussion doesn't go down to the ordinary citizens."<sup>57</sup>

Although the citizens are not generally very aware of how tax revenues are used, the positive thing is that the annual national budgets of the government are in fact open for the public and available online. The information is there, if only one knows where to look for it. In general, the higher the respondent was educated, the better they would know whether there is information available about government spending and where it is distributed.

Whenever there's a budget speech they will publish it. It gives us the budget and then it shows, it tells us how much have been allocated to which ministry, but we

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<sup>56</sup> Interview with a local economist 27th April 2017

<sup>57</sup> Interview with a Taxation Officer 26th April 2017

never see how the various ministries use that money. (Young professional, Nama, F)

It does [communicate], the budget always gets tabled, it is discussed, it is really open yeah. It's very transparent. (Business-owner, German, University degree, M)

The budget is on the internet, it's always in the newspapers, so there's normally in the newspaper a whole...ah, what you call it, some extra section on taxes every year. Everybody can read it, everybody should know. [...] The public doesn't have any influence on that, it gets decided by government what happens so we don't participate in that. (Business-owner, German, University degree, M)

As a local expert explained to me, the section the respondent above is talking about is called "Citizen's budget". It has been published for approximately four years now and it presents to citizens in a clear format where the government gets its money from and how they spend it. The Citizen's budget is published in eight languages and distributed between the newspapers as a printed document, so it reaches at least the newspaper reading population. A local expert commented: "Technically it is a very good idea but I don't know if it's being really read or discussed over. [...]. So that's like the first attempt to explain to the public 'Look, we are using the tax money responsibly', and they make strong emphasis in budget speeches that they spend a lot of money on education and health. But there have been vast amounts spent on salaries and not so much service delivery, and it is slightly controversial that they are spending a huge amount of money on defence, it doesn't really make sense in this context."<sup>58</sup>

The fact that the budget is relatively transparent was also brought up in the expert interviews. "On a positive side I would say that the Ministry of Finance is fairly transparent when it comes to publishing budgets, when it comes to showing the numbers." In addition, instead of just publishing the annual budget, the Ministry of Finance introduced 18 months ago the so-called mid-term budget review, which purpose is to enable readjustments to the budget already in half-way of the financial year, in October, so that action could be undertaken to reprioritize spending.<sup>59</sup>

Although the budget is transparent, there is no information available afterwards how the revenues were actually spent. Bare numbers do not say a lot to an ordinary citizen and the budget remains unclear, as stated one domestic worker.

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<sup>58</sup> Interview with a local expert 11<sup>th</sup> April 2017

<sup>59</sup> Interview with an international expert 26<sup>th</sup> April 2017

We only hear [...] this was budgeted for that, this is education budget... [...] and from that they cut the cake into these pieces, they only show us these bits but what was generated, what they collected should be the one we should know. Is it two hundred billion, we don't know. (Domestic worker, Nama/Damara, F)

In addition, although the budget is transparent, few can interpret it and there is no one to challenge the government about its spending due to low levels of knowledge and absence of critical civil society, as commented by an international expert: "The problem is that there's not enough taxpayer education. And although the Ministry of Finance is fairly transparent and publishing budgets in a way that everything's available, there's not enough people who actually have the ability to look at these and critically analyse and question how the budget has been constructed. But what comes to publishing e.g. the defence budget [25 % of the previous budget was directed to defence, although Namibia is not under threat], I've seen nothing published about it in the media, I've seen nothing coming from the NGO's or nothing coming from the universities. No critique, no challenging them."<sup>60</sup>

Overall, the more educated the respondent was, the more they would know where to look for various types of information and draw conclusions based on it. The issue of whether you are educated or not was also raised up by some respondents.

I would say it is an issue also whether you are educated. The question is do we make an effort do we reach out to people who can't understand English or read English. Cause if I'm going to ask my aunt in the rural areas that "do you know how much money the government is going to use for this and that this year"... (Project worker, English, M)

However, also one respondent with a university background did not know whether the information of state revenues and spending are available or not.

Not at all! I don't know. Uhh... like I, I never got any information from anywhere, and I don't know where to get that information. And I'm not sure if it's shared freely or it's confidential. No, they don't provide information about where they use the tax money. (Postal worker, English/Oshiwambo, F)

There was also a doubt whether even the state departments themselves are aware of their finances and able to manage them accordingly.

No, no. You just see in the news there's a new tender for that building and for that building and that building, but where the money goes to – I don't know whether

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<sup>60</sup> Interview with an international expert 26<sup>th</sup> April 2017

the government departments know themselves because most of them, they don't even have an auditor. I mean they are way out over years of audits. [...] No there's being lots of money wasted. And we could do much much more. (Business-owner, German, F)

Nonetheless, although the information is available for everyone, the respondents did not feel like they would have any influence on the decision-making considering e.g. how the state revenues are being spent.

I think we get that information once in a year from the budget, when we all look at the television or when we listen to the budget. That's all we know. And then it gets written in the newspaper and then everybody lifts up their eyebrows. (Business-owner, German, Diploma, M)

Should one want to disagree with how the budget is drawn, there is no platform for the citizens to express their discontent. The comment of a researcher sums up the deficiencies in state accountability regarding spending of tax revenues.

They just break it down, say in 2015 this was received, this was spent, so the final details you actually don't know. And I think also that the budget speech is for certain group of people. Not everyone can understand it. Because the thing is this, if you have a budget speech, we are researchers so we might understand what they are talking about, but the finance people, the business people, people will be engaged to what it is, but your every day clerk staying in Katutura [...] you know, like does he or she understand what they are saying? And it's shown on tv and then they put the budget online, but not everyone has access to it online, and not everyone has a tv or an internet, and when they stream the budget online and if you miss it the day they are doing it then that's it for you. You only hear from other people that "Oh we are broke, we are in a crisis" but they don't really know what does that mean. You know, if I'm taxed every year and they are getting tons of money from people then how are they actually broke? And even if you have access and you read it [the budget] and you disagree with what they say, there's no platform for you to express yourself. 'Cause even if you go to the Ministry of Finance they'll just tell you "write something addressed to the minister" and then you submit it and then basically that's it. It might not even get there. So we don't even have a platform to express, you know. (Researcher, English, F)

#### 6.1.3.1. Corruption

Levi et al.'s (2009) model for government's legitimacy determines two factors that need to be in place in order for value-based legitimacy to occur; trustworthiness of government and procedural justice. According to their model, administrative competence is one of the three components contributing to the perceived trustworthiness of the government.

Government is regarded as competent when it is perceived as honest and capable to implement laws and regulations. Instead, high levels of corruption can undermine citizens' willingness to pay taxes, as it is a sign of a dishonest and incompetent government. (Levi et al. 2009.)

In general, it was widely expressed in the interviews that the government uses its revenues for wrong purposes. A project worker in a local NGO explained how in his view the public in Namibia is being robbed because of wasteful spending, corruption, and inefficiency of state authorities.

When I say that the public's kind of like robbed, yeah, because how can you plan like so and so, for millions of dollars, and then at the end you cannot actually account for some of the millions of dollars? Yeah and they talk but then what's gonna happen now? Is there anything that will happen to these officers that they actually can't account for 1,2 million? I think even this year there was quite a lot of money in the defense that just disappeared and was not accounted for. Us the public we are robbed, because we have the right to know what happened to that 8 million dollars, where it went to, and if we cannot find it, can we actually know how it was released, all that, and what were the actions taken to govern the money and all that. We understand that it disappeared, and then what, oh, let's start a new year! There are so and so many millions coming, you know, every year it's just the same.

So sometimes it's the ineffectiveness of the performance of the people or the leadership in the governing positions because we had like last year, a lot of money going back to the national treasury from the education department. They didn't use their funds so they had to return it back. Until now, they don't have shelters, they don't have chairs and all that, and the question is why the money has to go back?

So there are two things: firstly, because the public is robbed, because they are robbed of the explanation of the disappearance of some millions that are actually unaccounted for, secondly, the public is robbed because of the ineffectiveness of people that are actually in the positions, why don't they finance classes, build new class rooms, buy books and all that. So that's the two aspects I think. (Project worker, English/Oshiwambo, M)

Most respondents mentioned corruption and irresponsible use of tax revenues, when asked whether they saw any disadvantages in paying taxes. It is worth noting that principally, in these cases paying the tax per se was not the problem, but the problem occurred when the tax revenues were not spent for the right purposes.

There are no disadvantages [in paying taxes], it's just how you use the money at the end of the day. (Business owner, German, Diploma, M)

There are no disadvantages [in paying taxes], paying the tax is fine, but the disadvantages are when you have a corrupt government. So when the funds are not used accordingly. When the funds are used to benefit, I don't know, state officials or so, then it becomes an issue, but I think inherently, there should be no problem, there is no problem in paying taxes, it's just a duty of a civil citizen. But what happens is that we have a lot of mismanagement of funds. (Young professional, Nama/Damara, F)

Actually disadvantages are that when we are paying tax, it's not used for the correct purposes, for the purpose that we are paying tax for. Because nowadays there's a lot of corruption and so on, and our tax money is now ending up in wrong hands. It's not used as we actually feel. (NGO Project coordinator, Damara, F)

Almost all the respondents mentioned corruption to be a remarkable problem in the Namibian state. According to Levi et al. (2009), high levels of corruption can undermine citizens' willingness to pay taxes, as it is a sign of a dishonest and incompetent government. It can be concluded that perceptions of corruption is a major factor undermining the legitimacy of taxation in Namibia, as can be read from a NGO project coordinator's comment. He reminds that the size of the population stays relatively the same from one year to another, only the budgets statements change.

I think sometimes it's... [...] the national budget may actually not be true. [...] So, we have the national budget tabled every year, all that, but what we actually need to know is how much it really costs to run a country like Namibia with 2 million people. Do you really need that much for certain things? [...] So I think the disadvantage then is that us as citizens of the country we actually are robbed of what we worked hard for. Because unless if we actually find out how much it really realistically costs to govern 2,8 million people, if we do not have that, then we are actually robbed. [...] Because if you see, we have about three governments that have come and gone, but if you look at their yearly financial statements, they are completely different, it's not the same. It does not make sense. But if you look at the population, it's relatively the same. Nothing changes in the real world, only the budget statements change! (NGO project coordinator, English/Oshiwambo, M)

Many experts mentioned the government's irresponsible spending as one of their main concerns. As stated by an international expert; "Just increasing tax revenue is irrelevant if you don't spend it on the right things."<sup>61</sup> A lot of concern was expressed about Namibia not having its spending priorities right. "This country spends almost 25 % of its income on defence and police. If Namibia was under threat you could say it's ok. If there was civil disorder or whatever, you could say it is ok. But it isn't. Every Namibian dollar you

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<sup>61</sup> Interview with an international expert 26th April 2017

spend on defence and security is away from education and social security. This is public's money, they only lend it to politicians. For me I don't see a sense in this."<sup>62</sup>

In addition to the inflated defence budget, over 50 % of the total budget is being spent on salaries for civil servants which makes the so-called wage bill unsustainably large. Furthermore, according to experts, the wage bill for public servants is increasing as a proportion, because while state revenue has dropped, the salary bill is yet increasing. At the moment Namibia has at least 120,000 public servants, which makes it the 4th highest in the world in terms of portion of the GDP that is going toward salaries of public servants. A local expert explained that the abnormally large public service can be seen as a way for the government to buy political support for itself. "Politically it [the large public service] is a very useful thing for them but now they have reached a point where they can't really afford it anymore." Problems have started to arise as the civil service is much too big for the size of the society, and as a consequence, the government will have to reduce it in the future. "It just doesn't know how to do it because just firing people could lead to controversies and possibly reduced political support."<sup>63</sup>

Although there was a lot of critique toward the government, there were also a few positive notes among the respondents considering efforts to increase accountability.

We have quite a strong institution and what you call it...the...it's the institution that kind of looks back and looks at the budget and says what have been used and what have been overused...Auditor General, yes! Which is quite nice, it gives us like last week, there were headlines of couple of regional offices that actually cannot account for about...like one of my home region cannot account like for 1,2 million – what did they use it for, where did it go, you know, those are the issues. (Project worker, English, M)

[...] the tender procedure, it's very corrupted, but at least our government got a new tender board, and they've just, they legislated the procurement act, so that's great. (Young professional, Nama, F)

Based on the interviews, the government's irresponsible spending and corruption can be seen to have weakened the perceived legitimacy of the state, and undermined citizens' willingness to pay taxes. These results contradicted what D'arcy (2011) found in her research regarding citizens' assent to tax in 23 African states. According to D'arcy's research, "it is interesting to note that, across all the regressions there is no statistically

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<sup>62</sup> Interview with an international expert 26<sup>th</sup> April 2017

<sup>63</sup> Interview with a local expert 11<sup>th</sup> April 2017

significant relationship between corruption and the assent to tax. The majority of people feel that some tax officials are corrupt but this does not affect their judgment on the state's right to collect tax." (D'arcy 2011, 14.) On the contrary, in Namibia, corruption seemed to be a major source of frustration when it comes to paying taxes and feeling that the revenues are not spent efficiently and responsibly for citizens' benefit.

#### **6.1.4. TAXPAYER EDUCATION**

In this sub-section, the analysis focuses on whether citizens are educated about the purpose of taxation, which is a precondition for the emergence of a fiscal contract; if citizens do not know what taxation is for, they cannot demand services and transparency in return for tax revenues. In other words, in order to attain the positive governance effects of taxation, citizens must be aware of the taxes they are paying. Taxpayer education has to be offered about how the tax system works. Awareness and transparency are a basic requirement for building public engagement and trust between citizens and the state; without some degree of both, taxation is likely to remain characterised by conflict. (Prichard 2010).

In addition to not knowing how tax revenues are spent, it is not uncommon that citizens in Namibia do not understand the tax system and they do not know what they are supposed to be paying. As one expert stated; "People don't know, they don't know the system. I don't think there's enough information, they [Inland Revenue] are not doing enough from their side to tell people how things work. And they leave it to consultancy to administer the tax for companies. [...] But if you cannot afford it and you don't understand it, you've got a problem."<sup>64</sup> Especially the less educated people do not know what tax regimes exist, how they work and who they target. "It's quite common [that people don't understand the system] because if you listen to the radio during the time of submitting the returns, you listen to the questions people are asking, you get an idea that ok... so I think that good relations need to be put in place [between citizens and the tax administration], so that people understand very well."<sup>65</sup>

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<sup>64</sup> Interview with a Head of Department at the University of Namibia 13<sup>th</sup> April 2017

<sup>65</sup> Interview with a Director of a local NGO 11<sup>th</sup> April 2017

Especially some of the respondents from lower income and education levels were not sure what taxation stands for. This was investigated by presenting a question whether the respondent received any public services, after asking her/him if there were any benefits in paying taxes. The purpose of this was partly to clarify whether the respondent linked the public services she/he got with paying taxes; in other words, whether the respondent understood what taxation is for and how the government finances its expenditures. For some respondents who belonged to the lowest income (under 50,000N\$ a year) and education level (educated at maximum to the secondary school level), the link did not seem to be clear. When asked whether they received anything from the government, they mentioned having gotten free food for their families or not having had to pay at the state hospital. However, the same respondents had replied that there were no benefits in paying taxes. This was the case with some of the fuel attendants and security guards.

I really don't know what taxes, what it's for. I didn't get explanation for it. I don't understand about it. (Security guard, Oshiwambo, F)

If I bought a thing... I just saw it on the receipt. But I cannot give you ... I don't understand the meaning of it. (Security guard, Oshiwambo, some secondary school, F)

The tax money... it is just for elderly people. Maybe... they use that tax money or invoice or whatever for the pension. For older people. (Fuel attendant, Oshidonga, secondary school completed, M)

When I asked about taxpayer's education from an Inland Revenue official<sup>66</sup>, he told me that they had introduced "A one day Taxpayer Education Day" in June 2016, and they are planning on doing it in June 2017 again. On that specific day, they disseminate information about different taxes they have, about different tax categories and different requirements. There is a number of vouchers that are distributed in different municipalities, in places such as shopping complexes and other public places, where there are a lot of people.

Thus, there are some efforts that have been undertaken in order to raise awareness of the tax system and purpose of taxation, but instead of having one day out of the year when information is out there, it should be available in a more consistent and customer friendly manner all year around as the evidence from interviews suggest.

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<sup>66</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

All in all, it was widely expressed among the experts that the government does not educate people enough about the tax system. When it comes to businesses, it is common that auditing firms take care of book-keeping and taxes for the companies that can afford it. The Ministry of Finance co-operates with the audit firms as well and sometimes there is tax education to employers and employees which is organised by e.g. one of the biggest auditing companies like Price Waterhouse Coopers.

It's not really like we have the formal education like somebody has to come from the Ministry and have to teach people about tax, so that's...that really doesn't happen. Sometimes you get companies like PWC, so they always have seminars where they teach about tax and... yeah. But you know in most cases they just call their managers or human resources and then they take care of it. (Business-owner, Oshikwanyama, M)

According to Roitman (2005), in the heart of building a state which is at least partly financed by revenues collected from citizens, is the institutionalization of a citizen as a "taxpayer". Therefore the manner and the extent to which citizens are being governed as taxpayers by the state, has an impact on how citizens perceive their economic rights and responsibilities – such as paying tax – in relation to the state. It can be concluded from the interview material, that the Namibian state does not practice a very responsive way to govern the citizens as taxpayers, as citizens are not being educated to any significant extent about the purpose of taxation and taxpayers' rights. Tax laws are implemented and taxes are imposed on citizens, but no discussion is initiated from the state's side regarding taxation and its purpose in state-citizen relations.

#### **6.1.5. VIEWS ABOUT TAX ADMINISTRATION**

In this sub-section, citizens' views of the revenue authority are examined through the concept of legitimacy, as according to previous theory, citizens' willingness to pay taxes is directly influenced by how they perceive the revenue authority and tax officials (Langham and Paulsen 2015). For citizens to voluntarily comply with their tax obligations, particularly important are perceptions of the taxing authority's trustworthiness (Fjeldstad et al. 2012).

The large majority (19) of the respondents did not consider the Namibian tax administration reliable or efficient. The respondents were also given an opportunity to rate on a scale 1 to 5 how much they trust the tax administration.

I think it's 2. So quite poor. I've had quite a lot bad experiences. [...] sometimes you have to fill in your tax return and we don't get any feedback. Ok, you have submitted it, but you don't know how far they are with your papers. It will take ages. (Business owner, Oshikwanyama, M)

There are a lot of people who used to quarrel with them, people do not trust them. (Security guard, Oshiwambo, 1981)

When it comes to staying up to date with one's taxes, it seemed that almost everyone from all income and education levels are struggling, as either the keeping of records from the tax administration's side nor their customer service is reliable. As a manager of a multinational audit firm stated: "It is incredibly difficult to find out how much you owe and what your tax status is, you have to go to their office to get it printed out and sometimes you can't get it printed and you just hang in the long queue<sup>67</sup>." Based on the interviews, it is not uncommon that the revenue authority claims that there are outstanding taxes, although the taxpayer would have cleared her/his taxes accurately and submitted her/his return on time. In order to clear the issue, the revenue authority might demand taxpayers to submit all their tax returns from years back.

Many respondents mentioned having gotten notifications and bills from the revenue authority claiming that they had outstanding taxes, although they had submitted their returns and paid their taxes on time.

It's absolutely chaotic! Absolutely chaotic! How can you ask someone to prove that he has paid his taxes in 1981? And 2000? Or 2001? Excuse me, what have you been doing for the last 20 years if you tell me that I know have to prove that I've paid it, of course I've paid it! And I can prove it as well. But why do you even ask me that? I don't think there's any Namibian company that's up to date with their taxes. Not from the company's side – the Ministry of Finance's side. Maybe guys have been collecting the money and at the back no one has been allocating it. Now you must go back again and again and prove it to them! (Business-owner, German, M, Diploma)

I would say 2,5. Yeah because the things is that the system is manual at Inland Revenue, so it's not like what it is in Finland for example, it's computerized but everything has to still be put in manually, so there are people who might make mistakes but the nice thing with Inland Revenue is that if you go there and say "hey, this is not right, here is my proof" – if you have evidence from yourself, if you can show that you actually submitted it and there's a stamp on it, they will fix it. Usually. In most cases. But the problem is that it shouldn't have to get to that point. They should do their job effectively. (Young professional, Nama, F)

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<sup>67</sup> Interview with a manager of a multinational audit firm 25<sup>th</sup> April 2017

I don't know if I had paid too much or not, but I received a letter that says I owe them for the year 2012. But I don't exactly know what happened there, I know I gave my return, but I don't know what happened actually. Was I taxed less or what happened, I don't know. (Project worker, Damara, F)

Wolf (2012) has studied taxation in Namibia in the light of just administrative procedure. According to her research, administrative acts are often not properly communicated to taxpayers. The practice of computers charging interest on outstanding taxes without a taxpayer being properly informed about it is, according to Wolf (2012), a case in point. My interviews supported the findings of Wolf's (2012) research; the actions undertaken by the revenue authority were often perceived as unjustified.

Some respondents had sympathy towards the revenue authority, thinking that they are doing their best, but are not just very good at it.

At least they are doing their best... somehow it's not reliable. I give 1, I'm not really happy. (Security guard, Rukwangali, M)

In general, there seemed to be unclarity of how much taxes one is supposed to pay and how the revenues are used. All in all there was little information available from the revenue authority.

[long silence] I don't know, 'cause what Inland Revenue, usually only around the month of January to March, that's a time when they would talk about tax because we have to hand in our tax returns. That's the only time that they will say something about paying tax, or they will send you reminders of paying tax, but they are not reliable like they don't inform people what the tax is all about, how the tax is used, all that. We don't even know what to hand in if we hand in our returns. We just fill it in and hand it in – (Project worker, Damara, F)

However, according to an expert, there have been work done in terms of improving the tax administration during the past couple of years, and with the new Integrated Tax Administration System, citizens will hopefully soon have access to their tax information online (those who have internet connection, which are few). There have also been pamphlets printed and distributed to different tax offices about the basics of taxation which have not previously been available. "So there has been some attempt, but I think a lot more needs to be done."<sup>68</sup>

What comes to fair and equal treatment of taxpayers, there seemed to be a phenomenon where the revenue authority gives discount on outstanding taxes to some businesses,

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<sup>68</sup> Interview with a manager of a multinational audit firm 25<sup>th</sup> April 2017

which results in unequal treatment of taxpayers. The practise is not only unfair to those businesses who have paid their taxes on time, but actually discourages businesses to stay up to date with their tax payments. Three respondents brought up this inconsistency.

Well in terms of if I do my payments and they receive the money and I get my receipt, it all works fine. But I don't think they are doing enough, collecting all the revenue there should be. At the moment there's a thing going on that you get 80 % off the interest that you didn't pay and all that, I don't like them. There's a deadline, if you don't pay on time, you should get punished. (Business-owner, German, University degree, M)

They have this system, I don't know what the name of it but if you haven't been paying taxes, for let's say for the year until June, July, [...] what they do is they weigh about 80 % of the tax that you are supposed to pay, and then you pay only 20 % of the penalties, or something like that. [...] It's mainly businesses, [...], so if you haven't been paying and it has been accumulating, [...] they'll tell you ok 80 percent of it is off, just pay 20 percent of the remaining amount. [...] But I actually heard about it and I won't mention any names where I was the other day in the meeting to see where things were going, and then they were talking about "no let's just wait until" hmm, they said, June, and just pay 20 % of what we owe in terms of... so, it can be actually now a strategy for some to avoid paying tax. (Researcher, English, F)

Moreover, when it comes to businesses, a manager of a multinational audit brought up an issue which causes a lot of frustration with Inland Revenue. He told that because the revenue authority does not submit the VAT refunds to companies on time, the companies are forced to lie about their taxes or they go into bankruptcy. On the contrary, when Inland Revenue refunds the money late, no interest is involved. As a consequence, companies lose money and have to sometimes even freeze their operations for some time. "There's companies who have waited more than a year for their VAT refunds from Inland Revenue. [...] we have big companies who are sitting with millions of refunds, and people are forced into a point where they are manipulating their VAT returns so that they are not in a VAT refund position because the government doesn't pay them back. [...] They charge interest if you pay late, but if they pay late, there's no interest. They should pay it within 3 months of the assesment (of the VAT return) [...] So generally there is massive frustration with Inland Revenue."<sup>69</sup>

It varied whether the respondents thought that the tax administration, Inland Revenue, is corrupted, or whether they only considered them unprofessional and inefficient. Overall, there was considerable dissatisfaction with the performance of Inland Revenue. It differed

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<sup>69</sup> Interview with a manager of a multinational audit firm 25<sup>th</sup> April 2017

to some extent how widely spread the respondents considered corruption to be in the government and in the tax administration. I asked the question about corruption in an indirect form, so that it would be less intimidating to answer to it; in order for people not feel that they themselves would be suspected of being involved in corrupted practices. None of the respondents had direct experiences of corruption, however, the large majority of respondents thought that there is corruption of some sort involved in the government and / or in tax administration. The following statement of a young professional demonstrates the common conception among many respondents about corruption in the tax administration.

Uhm, it depends what you're looking for. You understand, I wouldn't find – [...] people working at the Inland Revenue, it's not obvious that they are corrupt, maybe lazy, but it's not their fault. I don't know, it's just the system that's difficult. So I would say there's some corruption but I cannot put percentage on it. With regards to corruption, I don't have my own experiences of it. I just have my own experiences of bad administration. (Young professional, Nama, F)

Being that the majority of respondents considered that there is very limited information available on government spending, it led to suspicion of misuse of funds as well. The following comment by a domestic worker demonstrates this feeling among the respondents.

Somehow. It's always where money is Satan is there. Everyone needs money. So there is somehow corruption because, uhm, what I mean is that we don't know how much they gain from the taxpayers so we the public don't know. They them know. So how much they get, how much they have, it's...we don't know. (Domestic worker, Nama/Damara, F)

As noted above in the section discussing views about the use of revenues, there was a strong perception about the corruptedness of the high level government officials among the majority of respondents. As a result, a NGO project worker reasoned that the lower level officials and tax administration staff must be corrupted as well.

"We do [think that tax officials are corrupted]. If the politicians are corrupt so that makes us think that why the tax revenue people wouldn't be corrupt? If they are lead by a corrupt gang, why wouldn't they be [...] The whole system is corrupt". (Project worker, Oshiwambo, M)

Similarly, as noted above, several respondents had gotten reminders from Inland Revenue claiming that the person in question owed taxes to the revenue authority, although the

respondent him or herself would be convinced that they had paid their taxes and submitted their returns on time. This led to suspicions of corruption as well.

Yeah, it's obvious. Wherever you go, you get corrupt officials. it's a must. [...] Because you know, you clear everything and still a month later you owe them so much money. How is it possible? They tell you you owe them 10 dollar. You pay that 10 dollar. Then a month later they tell you you still owe that 10 dollar. It's quite strange. (Business-owner, Oshikwanyama, M)

However, some respondents were more cautious in drawing conclusions about corruption in the Ministry of Finance and in tax administration, as they did not have personal experiences about such practises. Rather, they thought that problems in tax collection are caused by inefficiency and incompetency in the tax administration. When asked about corruption in the afore-mentioned institutions, a home office keeper stated the following:

"I couldn't say that, I haven't got a prove, not at all. Corrupt, nothing, I cannot say anything, I've never had that problem, um, I would just say that most of them are useless doing their job. That's it". (Business-owner, German, F)

It was believed by some respondents, that there are certainly corrupted individuals involved, but there remained still a certain level of trust towards the Ministry of Finance.

I don't think the Ministry of Finance is corrupted. Might be corruptable because you read in the newspaper about china men, Chinese and the one guy from England [...] Uhm, but there will be individuals that can be corrupted though, they are corruptable yes, but not the whole Ministry as such, you know, and if the majority would stick to their work, we will have a better nation. (Business-owner, Diploma, German, M)

A questionable practise in Inland Revenue was brought up by a young professional, who told me that some tax officials sell "good standing certificates" which show that a business is up to date with its taxes. A good standing certificate is a prerequisite for obtaining a contract from the government for e.g. infrastructure projects.

Obviously there are always rumours about people who get to buy good standing certificates, it just says that your tax account is upto date. Because if you wanna apply for a tender in Namibia, you have to show that your tax accounts are upto date. And a good standing certificate shows that. It doesn't say you are fully compliant, it just says that you are in a good standing so far. But there are people who sell those apparently at Inland Revenue. (Young professional, Nama, F)

Tyler (2006) has noted that when state authorities exercise their power through procedures that citizens perceive as fair, those authorities and procedures are more likely

to be seen as legitimate. Based on the interview material, there seemed to be practises within the tax administration – such as giving tax exemptions to some companies and selling of good standing certificates – which place taxpayers in unequal positions. This raised suspicion among the interviewees, and weakened trustworthiness and thus legitimacy of the tax administration.

#### 6.1.5.1. Tax evasion

One example of economic citizenship at work is at times when people refuse to pay taxes and instead seek means to evade them. By doing so, they can deprive the state of its fiscal base and force it to better respond to demands of the citizens. (Roitman 2007.)

Due to the low capacity of Inland Revenue to monitor taxpayers, there prevailed a common assumption that tax avoidance is common. Almost all the respondents (19) thought that there are some individuals or enterprises who do not pay taxes although they should.

I think the tax agencies, the officials, I think they are not really doing their job. I know it takes time but the government should do that everybody should pay tax. All these small businesses and the staff they have... but I think it just if you have to look at the remoteness of Namibia so some people they really live in areas that are very far. It's not really possible for them to reach everybody. And then even the farmers [...] some of them don't pay tax. (Business owner, Oshikwanyama, M)

I think it may be happening more than we think. Yea I think it will happen much more than we think but we won't always know about it. Because one thing no one will talk about is, say, I try to not to pay taxes. No one will say that because the moment he says that he's in trouble. So everyone will keep quiet. (Business owner, Afrikaans, M)

Several experts shared the same view as respondents about tax evasion due to low capacity of Inland Revenue to monitor taxpayers. One expert summed this up by saying "They [Inland Revenue] can't really follow up because they are not really out there giving the information, so they are also not out there making sure that people are paying." She continued that in terms of relationship between a taxpayer and the tax administration, there is a lot to improve. "In the end of the day you don't even know if you have been helped or not."<sup>70</sup> An international expert stated that the biggest problem with taxation in

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<sup>70</sup> Interview with a Head of Department at the University of Namibia 13th April 2017

Namibia is that Inland Revenue is a very inefficient department. "It doesn't have proper education and outreach to the taxpayer. So there's no taxpayer education as such, which would basically be saying 'in return for the public giving us this money, this is what we give to you.'" <sup>71</sup> The fact that the tax system is still manual was seen as a major challenge: "I think one of our biggest challenges in the tax system is – when it's not that complicated, it doesn't change all the time which gives some certainty – it's a manual process, they can't do things, they make mistakes, you have to go in to get your tax status, often they refuse to print reports of the status of taxpayers because they don't have ink or whatever. So things like that, the amount of time people spend to resubmit their returns that were lost, dealing with a manual system is a very big cost <sup>72</sup>."

The perceived tax evasion was very varied; it was thought to occur both in national and multinational businesses and in individual as well as in company level.

There probably are [tax evasion], or it's not that they don't pay taxes but they account for it in an incorrect manner. Most companies they do try, but I can't speak for all of them... I think it probably exists out there, I think most of the times people get away with the unregulated parts of our tax law. So, because our tax administration is very weak. (Young professional, Nama, F)

Also experts shared the view that tax evasion occurs on both levels; on individual and company level. "There's a lot of tax avoidance and tax evasion in Namibia as far as we can tell, the number of taxpayers still seems to be quite low <sup>73</sup>." There have been a number of cases that even state-owned enterprises have not been paying their taxes, or have been deducting PAYE from their employees but not handing it over to the revenue authority. Furthermore, because they are state-owned businesses, they have usually not been punished. "Ministry of Finance must be aware of this. It should be relatively easy to notice at the Large taxpayer's office which state-owned enterprises are not remitting their employees' income taxes. There are many state-owned enterprises that have not published their audited financial statements for many years, e.g. Air Namibia hasn't published audited financial statements for 10 years. State-owned enterprises are not transparent at all." <sup>74</sup>

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<sup>71</sup> Interview with an international expert 26th April 2017

<sup>72</sup> Interview with a Manager in a multinational audit firm 25th April 2017

<sup>73</sup> Interview with a local expert 11th April 2017

<sup>74</sup> Interview with an international expert 26th April 2017

However, it was believed that the government is starting to get more serious with tackling tax evasion. Nevertheless, wide spread tax evasion in North of the country still remains a challenge. There is no regional data available on tax evasion, but the amount of tax the northern region is paying and the amount of taxpayers that have registered there still seems to be rather low, compared to the economic activities and the amount of people residing in that region. During the recent years, there have been attempts to tackle tax evasion and bribery cases in the North, but it has proved to be difficult due to intertwined political and economic connections.

As has been noted above, there seemed to prevail an assumption among some respondents that people residing in the North of the country – where the ruling party’s political base has traditionally been – get away with not paying taxes.

Yeah, I think there are many people who do not pay taxes, if I look at especially the north, there are many buildings somewhere that have cost billions, and you can’t get a bank loan for it, it’s been built by cash. What I think that happens often... I’m sure that they are not registered for their taxes. In the north, there are very many poor people and rich people that I think do not pay taxes. (Business owner, German, University degree M)

I’m sure that there is lots and lots and lots [tax evasion], and I have to talk but the skin color, the black people, especially in the north, cause they deal all with cash. And you can’t control cash. You know, this is what I mean. And I’m sure that in this country, there are lots and lots and lots of businesses that are not updated with their income tax payment. Like us, we pay, and if I’m – we get sms’s saying you’re tax is not up to date or whatever. I’m always up to date but they (Inland Revenue) are not. And I hate it, I hate it, you know, actually we shouldn’t be bothered! Actually you know, and this is what other people do. And they don’t pay taxes, the company is closed down because they’re bankrupted, and next month they’ll open a new one under a different name. The control from the government, from the Ministry of Finance – there should be more, but you need capable people! (Business owner, German, F)

Also the Inland Revenue officials admitted that the tax administration is facing a lot of challenges in collecting taxes. “We don’t have enough people to follow up and audit taxpayers, whether the information they have given is correct or not.” Also a shortage of skilled staff was mentioned as a problem. However, with the upcoming integrated tax system, there was optimistic expectancy for efficiency to increase from the current situation.<sup>75</sup>

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<sup>75</sup> Interview with Taxation Officers 12th April 2017

Informal sector in Namibia is wide-spread; it has been estimated to account up to 40 percent of the country's total economy. Unsurprisingly, it was noted by several respondents, that businesses operating in the informal sector do not pay taxes.

Yes, there is [tax evasion], there is some of them who didn't register their businesses, they only operate with the business and not paying tax. If they register, then they know there is a must that they should pay tax also with their income. (Domestic worker, Nama/Damara, F)

Yea, there are some companies who do not pay taxes cause some of them are operating without registering. Only if they register then government can monitor whether you are paying tax or not. Now most of them in the informal sector operate without registering, it means you are not on system and they will not come back to you. But there are also companies that are registered but they don't pay tax. It means maybe Inland Revenue can follow up on them. (Project worker, Damara, F)

So far the informal sector has been thriving in Namibia, as it could lead to reduced political support if the government would start to take serious measures to tackle tax evasion in the informal sector, as suggested by an expert: "Yeah I think there's guys in the informal industry and especially if you look at some of the rural areas where people just don't get into the tax net, they operate on cash, they can make big money, they just never get into the formal system. Taxi-businesses are one example, there's people that have ten taxis [...] Also the government doesn't have political will to go after the businesses like tax companies that are not registered."<sup>76</sup>

The fact that the informal sector does not pay taxes was sometimes seen understandable and acceptable, because it gives those people employment of whom the government is not taking care of anyway.

When it comes to the informal sector not paying tax, I think it is fine because firstly, the governing authority is actually the one who need to incorporate the informal sector into the day to day whatever sector that we are using, so and as long as they haven't done that, let the informal sector thrive because it's helping a lot of people in terms of employment. And as long as the government can't help, the informal sector is actually helping. Yeah and therefore I can easily say that it's ok if they don't pay tax. Someone will sell some meat by the side of the road and they are not paying tax, it's fine! (Project worker, English, M)

The past decade has seen an influx of Chinese businesses in Africa. Often these Chinese businesspersons do not enjoy very high popularity among the original population.

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<sup>76</sup> Interview with a manager of a multinational audit firm 25th April 2017

Namibia does not seem to be an exception. Chinese businesspersons were also mentioned during discussions about tax avoidance.

Yea, there is, there is [tax evasion]... some companies, because some of them they generate the money, they don't want to go and bank it, they keep it at home, so that's why I could say, some...if I could call the names [laughter] so I know some of the Chinese, it's not all of them, but some of them are not paying taxes. And they don't want to rent also. If they rent, they rent like one rents a house and it's the only one who pays the rent, but there are lot of them living in the house. So, that is the one thing also. (Domestic worker, Nama/Damara, F)

The political connections of the Chinese businesspersons and their subsequent "tax reductions" were recognized by some experts as well, although as mentioned earlier, the government has started to get more serious in tackling tax evasion because of deteriorating state funds. "The Chinese have been recently arrested for evading taxes and a business partner of the president has been arrested for tax fraud. Before they haven't had the political will to go after for example these international business partners, but that have seemed to change slightly and it is causing tension in the party, because some of the leading business people and leading politicians are partners with Chinese business people. But because of the worsening state of the government's finances at the moment, the Ministry of Finance is in a good position to push this forward and start tackling tax evasion more seriously."<sup>77</sup>

However, partly due to tax administration's lack of capacity to monitor companies' audit reports, tax evasion is still most likely to occur especially in foreign-owned enterprises. In addition, some companies have been known to have individual agreements with the tax administration. "Some companies might have individual agreements that they don't pay company tax on profits for some years, so the mining companies would say for example 'We didn't make any profit this year so we are not gonna pay tax'. They might as well do transfer pricing but the Ministry of finance doesn't really have capacity to monitor this. So it is possible that the big transnational companies are ripping us off but we can't prove it."<sup>78</sup> Since 10 years ago, Inland Revenue has taken measures to tackle tax evasion by sub-contracting audit companies to do follow up on enterprises who are tax liable, in order to check that they have paid their taxes as they should have. Although this practise has certainly built in-house capacity in the tax administration, more capacity

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<sup>77</sup> Interview with a local expert 11th April 2017

<sup>78</sup> Interview with a local expert 11th April 2017

building remains to be done. In addition, when the government sub-contracts private audit companies to audit other private companies, there could be a risk of conflicts of interests, as the two companies might have prior or existing business relations between them. In a small economy and small business society like the one in Namibia, it is very difficult to avoid situations like this.<sup>79</sup>

In both expert interviews and other interviews, tax avoidance was seen as a problem mainly on a company-level. However, one of the respondents considered tax evasion to be possible and relatively easy on an individual level as well, because the tax administration cannot really do anything although one would have outstanding taxes.

Yeah, I think it is easy to evade. Cause for me, I don't have issues since 2012. They send text messages and letters and all that... only this year when I decided that I need to clear out everything and all that, I asked my wife can you please sort it out because she's better with numbers than me. She sorted it out and now it is clear. [...] That's the one reason I think that, you know, I was able to kind of evade that, to owe to the National treasury, it went on, and I think I could have been able to owe even longer. (Project worker, English, M)

However, despite the respondent above, many others said that for individual wage earners tax avoidance is very difficult once you have registered as a taxpayer.

No, it's a must! [to pay] As soon as you are employed you have to register as a taxpayer. And they are deducting directly from your salary. The employer is deducting and giving the rest to you. (Project worker, Damara, F)

I pay my share. It gets deducted because I'm an employee, your employer deducts it and pays it over to the Inland Revenue. So it does not work on average, it works on how much you earn. So the employee has the register for employees tax and the employer deducts it from your salary. For most individuals in Namibia who are employed it is very difficult to escape the payment of taxes. (Young professional, Nama, F)

A Head of Department at the University of Namibia confirmed this by stating that once an individual is registered as a taxpayer, she/he is always registered. "As an individual it is hard not to pay tax, because once you are registered, they are following you up. If you are not employed for one year for example, you have to get a statement from the police stating that. Once you are employed, you are always employed." She added that sometimes the employer withholds the tax from the employee's salary, but does not remit it to the revenue authority because of e.g. shortage of cash. This will create problems to

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<sup>79</sup> Interview with a local economist 27th April 2017

the employee, because she/he is the one who is registered as a taxpayer, and thus owes to the revenue authority.<sup>80</sup>

Inland Revenue officials were well aware of the problem of tax evasion and the current lack in the capacity to monitor it, partly because the system is still manual. "It is common, tax evasion the way you can see it, is only a matter of proper auditing mechanism. If we increase our capacity to audit, most of these entities, obviously we will be able to pick up these evaders, but we have limited capacity in that regard. Because like I said, most of our talent is used going through submitted returns, and confirming the services with the taxpayer. So if we are free of that, that resource will be free to provide us to get to the evaders."<sup>81</sup> The issue of companies withholding tax from their employees but not remitting it to the revenue authority was also recognized by Inland Revenue officials. "It's [tax evasion] a mixture of both; the individuals and companies, there are some companies not withholding Pay-as-you-earn from their employees, or withholding but not paying it over<sup>82</sup>." In addition, it is common for the businesses to inflate their expenses when tax returns are submitted, so that less taxes would need to be paid. There are also loopholes in the current tax legislation that some companies are using for their benefit when they plan their taxes. The same officers regretted that at the moment there is not in-house capacity to monitor taxpayers in terms of comparing the number of submitted returns and the number of taxpayers, so the magnitude of tax evasion is difficult to know. This is certainly a major drawback in increasing the collection efforts of the tax administration. The low capacity of Inland Revenue to monitor taxpayers has already been noted e.g. in the Namibian Tax Consortium's report (2002) and Schade's (2005) research. What is concerning, is that the situation seems to prevail, and whether progress is taking place, it happens very slowly.

#### **6.1.6. VIEWS ABOUT TAXATION AS AN INSTITUTIONAL PRACTISE**

Universally, taxation is the most prevalent practice for states to legitimately extract wealth from their citizens. However, the validity of a state's right to tax citizens varies; in some moments and contexts it is considered more legitimate than others (Roitman

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<sup>80</sup> Interview with a Head of Department of the University of Namibia 13th April 2017

<sup>81</sup> Interview with Taxation Officers 12th April 2017

<sup>82</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

2005). It is also worth researching on whether taxation is accepted as an economic practice in principle, or is the basic idea of it resisted or unknown.

In principle, taxation seemed to be considered as a legitimate practise amongst all respondents, irrespective of the respondent's income, education level or ethnic background. As noted above, taxation per se was not considered a problem amongst the respondents, but the irresponsible use of revenues. Levi, Sacks and Tyler (2009, 345) define legitimacy as "a sense of obligation or willingness to obey authorities" that then translates into actual compliance with governmental regulations and laws. In general it seemed as taxation was accepted to some extent as an unquestionable norm; it is the necessary evil that everyone has to abide to, in order to finance the government.

I don't really see any disadvantages [in paying taxes]. Why? Because it's a law. You have to abide by the rules. (Business owner, Oshikwanyama, M)

It's not always nice to pay anything, but it doesn't matter if you want it or not, the government needs the money. We have to pay that the government exists. (Business owner, German, F)

In general, taxation was seen as something inevitable for maintaining common good and social order. Several (5) respondents brought up the importance of taxation regarding the well-being of other people. Respondents from all income and education levels recognized the role played by taxation in this regard.

If you are into the taxbrackets and you have to pay so much, why not you just pay it? Sustain the non-working class. The senior citizens. [...] If people are not paying tax, where do you get development from? [...] When paying taxes, it's not only one person who benefits from that, but as a country, we all benefit from that. Because whatever is done by the government is not for an individual person but it's for the country. Everybody does benefit from that. [...] Somebody has to collect this money on behalf of all the state projects, and then this money is invested elsewhere, into the country, [...], or otherwise utilized where it's needed; by building roads, schools, everything. Even money to the pensioners, it's also part of it. (Business owner, Oshikwanyama, M)

There are very few benefits, but in general for the well-being of everybody else, you have to pay it. I see my money going to other people [...] which helps them. So that's the benefit I've got basically. If I didn't pay taxes, they would be stealing from me, or something else [laughter, joking]. (Business owner, German, University degree, M)

Yea you can pay taxes if the government needs something, it can help, they can take those taxes to even help somebody. (Fuel attendant, Oshiwambo, M)

[...] it's very important, something that you must do [...] when you fight for this world, you don't fight for yourself but you must look after the people that can't look after themselves. (Business owner, Afrikaans, F)

As in most other countries, income taxation in Namibia is progressive; everybody pays according to their income. As a consequence, the tax system was seen as fair by most respondents.

I think it's fair for me to pay tax based on how much I earn because if there was a flat rate like VAT for example, the poor people have to pay the same, so rather do it according to the progressive rate. Then I know that I do my part in the best way that I can. (Young professional, Nama/Damara, F)

Yes, they treat us with low income in a fair way because we are not paying tax. (Domestic worker, Nama/Damara, F)

The more you are getting salary, the more you are paying taxes. The less you are getting salary, the less you are paying taxes. Yeah, it's fair. (Postal worker, Oshiwambo, M)

However, a few respondents thought that the current system is not fair and that some taxpayers are treated unfairly in comparison to others. There was a view that government employees pay less than other wage earners, although officially the tax rates should be same for all the employees.

It's not fair because us working for the NGO's and for the private sector we are taxed more. Government employees that earn more than me is taxed less than I am taxed currently. They tax more the private sector and the mining ones. Mining is actually taxed more than us. (NGO Project coordinator, Damara, F)

One German-speaking and one Afrikaans-speaking respondent stated that the tax system was normal to them, as it originated from the same cultural background.

Yeah I think [it's fair]... cause it's a very western, European taxation system that we've got. For me it's normal. So I don't mind it, it's just like paying for something else. (Business owner, German, University degree, M)

We are used to the percentage, it's almost the same as in South Africa. So we are used to that. This was the old South Africa and we were born like that. The value and all that, it's more or less the same. (Business owner, Afrikaans, M)

In Namibia, many of the state's economic and administrative institutions, such as the tax system, have been created during the colonial times (Metsola 2015). According to Bräutigam et al. (2008), context and influence of history play an important role when it comes to factors that have an impact on the willingness of citizens to pay taxes. Namibia does not seem to be an exception in this regard, although other ethnic groups regarded

taxation as legitimate as well, meaning that “the cultural acceptability” of taxation was not limited to those individuals whose ethnic background originated from the colonial ancestors.

A couple of respondents considered the current tax brackets to be too wide.

‘Cause I think that the amount of tax that I pay is different from hers. Because we earn different salaries. So if I think of it, if you’ve seen the tax brackets like it’s very wide, if I’m in 100 000-300 000 and she falls in the same category, but we get different salaries, so we are both in the same bracket, but we have different salaries, so the tax burden is bigger for one of us. So the income equality keeps growing and it’s very... so in a way it is not a fair system. (Researcher, English, F)

A few experts, including a local economist, were of the opinion that there would be room for increases in the last two tax brackets, and thus the wealthier in Namibia could pay more taxes than they currently do. Also, the tax brackets have not been adjusted to inflation for many years, which results in a relatively heavier tax burden for the poor and lighter burden for the rich. As a local economist stated: ”You need to have a system of regular adjustments of tax brackets if you want to address inequality and poverty, in particular when it comes to the lower tax brackets. In order for the rich to pay the same amount as they have before, the highest tax brackets should be increased to e.g. 39 % of tax, because otherwise they [the rich] pay less than before, if the tax rates are not adjusted to inflation.”<sup>83</sup> By the same token, the poor end up paying more taxes, as stated a manager in a multinational audit firm: ”The problem is that we need to increase that [the lowest tax bracket] with inflation, because it has been stacked at 50 000N\$ for I don’t know how many years, so there’s no inflation adjustment to the brackets, which means people don’t get richer but all of a sudden they come into a tax bracket.” He continued that one option to make the current tax system more equal could be adding another tax bracket on the top<sup>84</sup>. On the other hand, a Taxation Officer noted that taxing the rich more might prove to be difficult as the rich will start to transfer their funds elsewhere: ”The challenge comes at 800 000N\$, how to collect more tax from them. If you try to tax them more, they start restructuring their income, where to put it to pay less tax, to plan<sup>85</sup>.”

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<sup>83</sup> Interview with a local economist 27th April 2017

<sup>84</sup> Interview with a manager of a multinational audit firm 25th April 2017

<sup>85</sup> Interview with a Taxation Officer 26th April 2017

However, many respondents complained about the tax rates; there is less money left after taxes are deducted from the salary. Almost all the respondents considered the current tax rates too high.

Your salary is less, way less, than what you expected to get, so now if you end up being taxed [...] does change the prices at the shops. So now you find that even a salary increment does not really work to benefit you because if you are getting paid a certain amount that they don't tax, if they add just even a hundred dollars on top and then you end up in a different tax bracket, then you end up with less money than without the increment. [...] So I think that's the one major disadvantage of tax, and also misuse of funds by the government, when you can clearly see that the taxpayers' money is being used to fund people's personal trips and them going around in government cars. (Researcher, English, F)

It's just that, the disadvantages, it's increasing. Sometimes the tax is just too high and at the end of the day you are just remained with less salary. In the contract it says you are being paid this much but after the salary, I mean, after the deduction it's just too much. The deduction of the tax is too high. (Postal worker, English/Oshiwambo, F)

Yeah there is [disadvantages], cause, I might be paying taxes, but ... let me say in future I will not reach 60 years old, so, there's nothing I have been paying taxes for. And also... the price is very high for the taxes. It's too high [taxes]. Like for me now, if you check my salary and the amount they are deducting me, it's too much. (Postal worker, Oshiwambo, M)

However, a local economist was of the opinion that the current tax rates are in fact not that high in comparison to other countries in the region. Nevertheless, he added that whether the respondent feels like the current rates are too high, surely depends on what the respondent gets in return for her/his tax money: "Of course it also depends where you live, whether you live in an area where there are tarred roads or not, water, toilets etc., if you depend on public health services or public education, and so on<sup>86</sup>." As noted above, the large majority of the respondents are not satisfied with the state of the current service delivery. This can be a considerable factor contributing to their experience of unreasonably high taxes.

Furthermore, the striking fact that presidents do not pay taxes in Namibia was noted among some of the respondents. I had the following discussion about the subject with two researcher women.

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<sup>86</sup> Interview with a local economist 27<sup>th</sup> April 2017

Researcher 1: [...] 'Cause the former president or whatever, the president himself, cause their salary's are not taxed. Because he's getting about 1,3 million per year. All of them don't pay tax, the presidents dont pay.

Researcher 2: It's weird isn't it! They have a salary, they have benefits that... I think they have houses, cars, everything, so I don't even know what they use their money for!

Researcher 1: I read a newspaper article that actually published their salaries, so if a person is getting 1,3 million per year, none taxable, you see, and I'm sure they give the first lady a salary as well.

Researcher 2. Also none taxable!

Researcher 1: But everything is paid for; air travel local travel, transport, telephone, clothes, everything is for free, and you don't even pay tax of it. [...] So for us I think the rich ones are them, you know, the president, presiden'ts wife, the prime minister, the formal president... Those are to me what you call rich because if I'm getting 1,3 million as a pension, each year, for sitting at home because I was a president, fine, you had a very wonderful job or a tough job, and the state wants to give you something, but does he really need 1,3 million a year, that you do not tax?

Also a couple of experts brought up this issue as something very questionable and exceptional compared to other countries. Before retiring, the former president of Namibia enforced a "president's benefits law" which exempts presidents from paying tax. "It is an odd thing that the president doesn't pay tax at all. [...]. I haven't found many examples of it in other countries. We have said that look, now you have called everybody to pay their proper tax, you can't have a situation when the president is not required to pay tax. And now he has said that ok, I will give my portion that I would pay tax to charity, but then his own wife, the first lady, has her own charity, and he's giving it to that. So the whole thing is a bit weird. They should just reverse the law and the president should pay his fair share of tax. Because he's supposed to be the role model for the country." The former presidents are supposed to pay tax according to the law, but there prevails still an assumption that the top people should have extra priviledges which they expect other Namibians to pay for."<sup>87</sup> Also an international expert pointed out that enormous amounts of money are being spent on the presidency and the ex-presidents. On top of that, they don't pay tax. "You can't stand up with a Harambee Plan sayig that 'No Namibian should

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<sup>87</sup> Interview with a local expert 11th April 2017

be left behind’, and that every Namibian should contribute to this, and then the same person pays no tax. Where’s the moral?”<sup>88</sup>

In conclusion, to recap the findings considering the first research question, below is a table summarizing the components that affected the interviewees willingness to pay taxes; perceived benefits in paying taxes; government’s responsiveness; transparency in the use of tax revenues; taxpayer education; trustworthiness of the tax administration; and taxation as a legitimate institutional practice. The arrows demonstrate the connections between the key concepts and the components affecting citizens’ willingness to pay taxes. Together, all the components contribute to the perceived legitimacy of taxation, which in turn results in voluntary tax compliance.

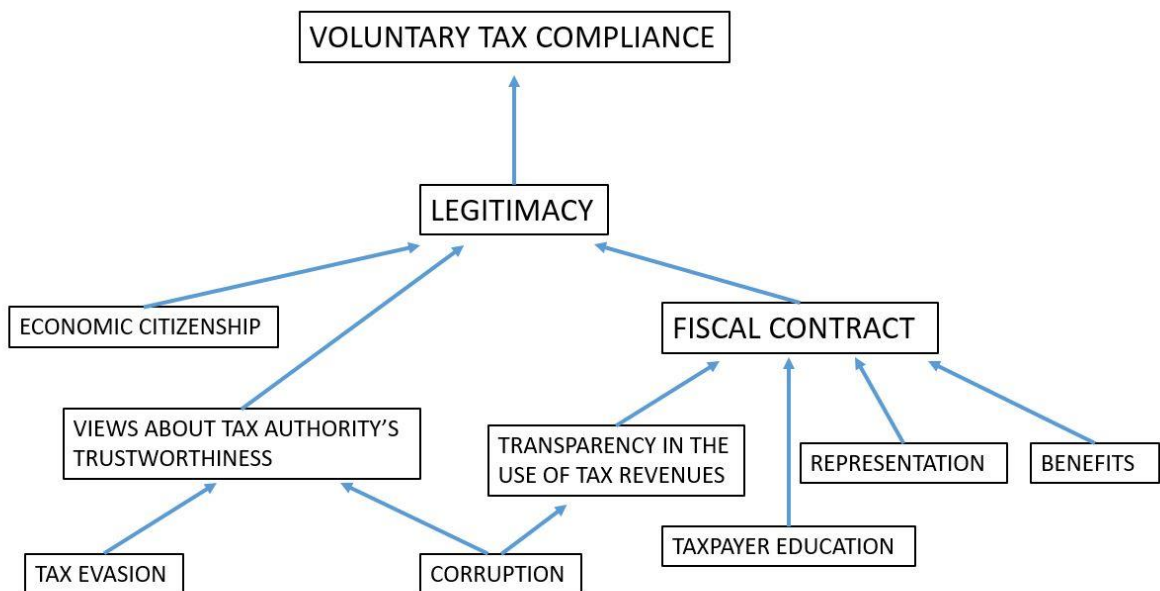


Figure 6: Summary of the components that affected the interviewees’ voluntary tax compliance.

<sup>88</sup> Interview with an international expert 26th April 2017

6.2. RESEARCH QUESTION 2: To what extent is the fiscal contract proposition realized in the Namibian context?

6.2.1. *Do Namibians feel that they can influence on the government's decision-making?*

6.2.2. *Who can influence on the decision-making of tax policies?*

6.2. To what extent is the fiscal contract proposition realized in the Namibian context?

I will discuss the realization of the fiscal contract in Namibia in more detail in this section, as the fiscal contract argument is prominent in taxation and development discussions, and is often used to justify development programs related to improving developing countries' tax administrations. Based on the respondents views analyzed in the previous section, the following components can be seen as relevant in the emergence of a fiscal contract – or its absence – in Namibia; taxpayer education, transparency in the use of revenues; service provision and representation (see figure below). In addition, government's responsiveness is discussed in the sub-sections 6.2.1. and 6.2.2., as it can be said to have an influence on the fiscal contract; the fact that people feel like they can or cannot influence on the decision-making, affects their perceptions of whether the government listens to the citizens when it makes decisions on the spending of tax revenues and implementing tax laws.

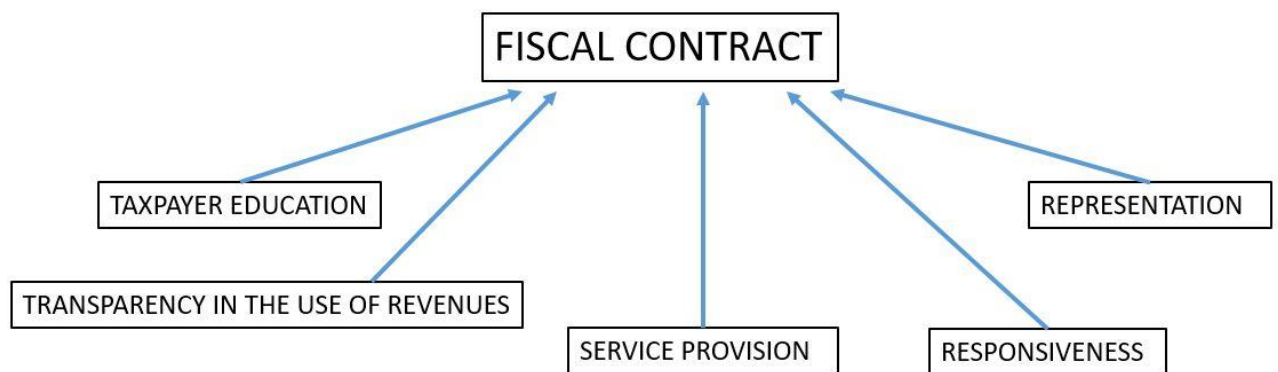


Figure 7: Components affecting the formation of the fiscal contract

So far, it has been concluded that Namibian citizens interviewed in this research seem to get very little in return for their tax payments; they are not satisfied with the current state of service delivery, and they do not consider that the government represents their interests. This finding is also in line with Roitman's research (2007), who has stated that it is not exceptional that African states do not offer much to their citizens, and therefore some citizens have argued that participation in the fiscal relationship is unfounded as the state is not the basis of either security or wealth. Moreover, it can also be questioned whether all the boundary conditions for the emergence of a fiscal contract are in place, as there is very little taxpayer education available and citizens do not know how tax revenues are being used. Thus, it can be questioned whether there is a functioning and mutual fiscal contract between the Namibian taxpayers and the state.

This section intends to offer further insight on the realization of the fiscal contract and its future prospects considering e.g. the demographic structure and the structure of political decision-making in Namibia. At the same time, the intention is to illustrate the contextual background behind the respondents' comments that were discussed under the first research question. Hence, the concept of fiscal contract and legitimacy are applied in the analysis in this section.

To recap some of the key findings from the previous section, it seems that the fiscal contract proposition can perhaps be said to have best applied in the case of the German and Afrikaans speaking interviewees before independence. These respondents brought up clearly how their satisfaction with the government's performance has changed over time. Their responses indicate that before independence paying taxes was justified because of quality service delivery, but after deterioration in public service provision after independence, there has been nothing in return for paying taxes, and thus collecting taxes from citizens is no longer legitimate. However, it is worth noting that before independence Namibia was governed by people originating from the same ethnic backgrounds as these Afrikaans and German speaking respondents, whereas at independence, the power was shifted to Namibians belonging to those ethnic groups that inhabited the country before its colonization. As a consequence, the German and Afrikaans speaking Namibians assumably feel that their interests are no longer represented to the same extent by the current government, as they were before independence. It is worth noting that other respondents than German and Afrikaans

speaking interviewees did not differentiate the time before and after independence in their responses, when defining the level of their satisfaction with government performance.

According to the fiscal contract proposition, the more the state finances itself by collecting revenues from its citizens, the more accountable and responsive it will become. Particularly important for the state-citizen relations are direct taxes, such as income taxes (D'arcy 2011). What is interesting in the case of Namibia, is the fact that income taxes from individuals form a remarkable share in the total tax revenue. In the budget estimates of last year, taxes collected from individual taxpayers were estimated to be the biggest source of revenue for the Namibian state,<sup>89</sup> and in the latest budget estimates for 2017-18, they were estimated to be the third biggest source of income<sup>90</sup> after VAT and revenues from SACU. Although direct taxation brings a lot of revenues to the state coffers, it cannot be said that the Namibian government is considered very accountable nor representative, as can be seen from the interview material under the first research question. On the other hand, it is worth noting that those revenues are collected from a relatively small number of taxpayers. According to official records, the number of income taxpayers stands somewhere between 300,000 and 500,000, although according to expert estimations,<sup>91</sup> the number is likely to be closer to 300,000. Moreover, due to the demographic structure in Namibia, there are doubts whether the number can even be that much increased in the future. An international expert<sup>92</sup> illuminates the challenges related to increasing the number of income taxpayers in Namibia:

“It’s very very difficult because Namibia is a very small country population wise. The idea in increasing the tax base in Namibia is in my view an illusion, it can’t happen. And there’s a reason for that. There’s 2,5 million people more or less, a third of the population live in poverty so they won’t pay tax because they don’t have income, that’s 700 000 people, you’ve got a whole bunch of other people who fall below 50 000 [N\$, the lowest tax bracket], that will probably contribute some other 300 000, that’s a million so you are left with 1,2 million. You’ve got pensioners, probably accounts for another 600 000, you are left with a core potential tax base of 4 to 5 hundred thousand individuals. So the actual option of broadening the tax base just doesn’t exist. There are a lot of people working on the informal sector, so they don’t pay tax either. Unemployment is at 25 %. So you are left with maybe 300 000 people who pay income tax.”

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<sup>89</sup> Estimate for 2016–17 according to the Ministry of Finance was 15,481,224,277 N\$

<sup>90</sup> Estimate for 2017–18 according to the Ministry of Finance is 10,715,425,264 N\$

<sup>91</sup> Interview with a local economist (27th April), international expert (26th April) and local expert (11th April)

<sup>92</sup> Interview on 26<sup>th</sup> April 2017

Furthermore, as the amount of income taxpayers in Namibia is relatively small, there is a risk that the government is more favourable and accountable to those taxpayers that are strategically important, but does not engage in bargaining with the rest of the taxpayers. Timmons (2005) and Moore (2015) have written about the topic of different taxpayer interest groups before, and it seems to be a relevant notion in contemporary developing countries.

Moore (2004) has argued that governments whose legitimacy originate from movements that have achieved independence from colonial rule, can often rely on a more coercive strategy to tax their citizens. The Namibian ruling party SWAPO has to a large extent build its legitimacy on its historical merits as the liberation movement (Metsola 2015) and as a consequence has traditionally enjoyed high popular legitimacy. Moreover, the more states depend on the so-called unearned income, such as development aid or revenues generated from selling raw materials like oil or minerals, the less accountable they tend to be towards their citizens. The phenomenon is known as the “resource curse”. It refers to a situation, where the state does not depend on revenues collected from its citizens to maintain its fiscal base, and therefore the state does not have the pressure to be accountable toward the citizens either. (Moore 1998.) Although Namibia no longer receives considerable amounts of development assistance, it has been a large recipient of external assistance in the past. Moreover, a large part of the country’s revenues are still to date generated through the customs revenue pool SACU, the mining and fishing industry. The central role of these unearned revenues in Namibia’s state budget has had an effect on the government’s need to raise revenues from its citizens in the past, and thus the government has not assumably been pressured to be accountable about the use of its revenues.

Perhaps the government of Namibia has not had such high pressure to be open about its spending of tax revenues previously, but based on the interview material, it seems that that pressure is rapidly increasing. One reason for the increasing pressure is certainly the fact that people are tired of waiting for SWAPO to fulfill the promises it has been making since independence regarding redistribution of the wealth in the country. Another reason might be that the government of Namibia has been enforcing tax collection and monitoring of taxpayers during the recent years, and with the on-going tax administration reform, evading taxes will be increasingly difficult in the future. However, SWAPO still

enjoys the status of a dominant one party; a situation where credible opposition does not (and is not allowed to) exist. Therefore, the party does not really need to listen to the people as its continued dominance is assured. As an international expert<sup>93</sup> stated: “I think a lot of people acknowledge that SWAPO could have done better but there’s no alternative. That’s the problem. I think there’s actually very few people in Namibia who believe that SWAPO is perfect and viable but you don’t have a credible opposition that could give you a vision of something that could be different.”

Furthermore, the administrative structure of the political decision making also affects the formation of the fiscal contract. In Namibia, members of parliament are not elected by constituencies, as a local expert explained, but instead “it’s a party list system, so they are only loyal to the party, they don’t have to go back to the community and say ‘I delivered this and that’<sup>94</sup>.” An international expert brought up the same topic. “If you have nobody else to vote for, the members of the parliament have no interest in keeping the elector happy. Their motivation is to keep the central committee of SWAPO happy, because they choose who gets to stand as a candidate. They are not accountable to the people, you ask people how often they see a member of the parliament in the community? Never. They don’t have credible opposition as a ruling party. Becoming a member of the parliament is the easy part because SWAPO is still dominant, so the hardest part is actually to be selected. Most of them [the public servants] don’t understand that the relationship is between a public servant and the public.”

On the other hand, it can be questioned whether the boundary conditions for the fiscal contract are currently put in place from the side of the Namibian government, as there is little taxpayer education and information available on the spending of tax revenues. As can be concluded from the answers to the first research question, it is common that people do not know what taxes they are supposed to be paying, how tax revenues are used, and in some cases even what taxation is for. Without proper communication from the government and fiscal authorities, there cannot be a functioning relationship and fiscal contract between citizens and the state. Based on the interviews, taxpayer education should have a central role in building the foundations for a fiscal contract between a state

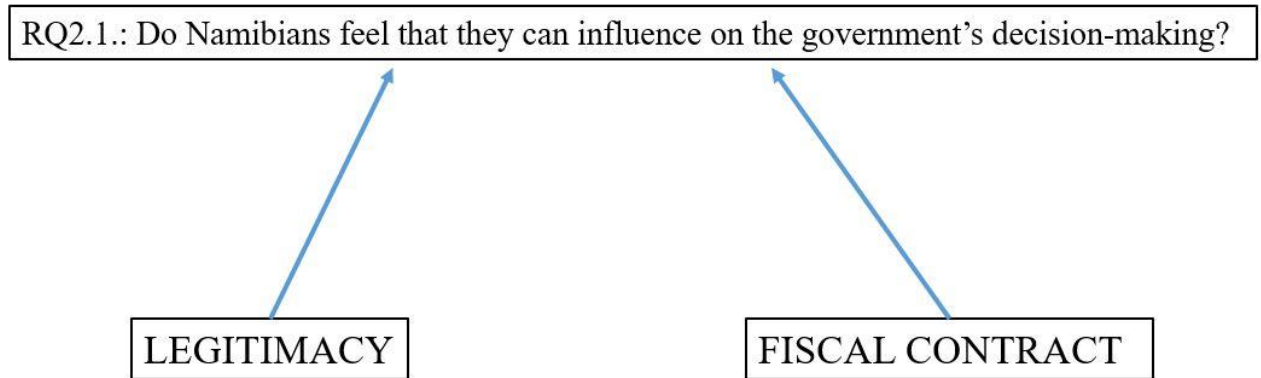
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<sup>93</sup> Interview on 26th April 2017

<sup>94</sup> Interview with a local expert 11<sup>th</sup> April 2017

and its citizens, and it should be sufficiently taken into account when planning on improving tax systems in developing countries.

*6.2.1. Do Namibians feel that they can influence on the government's decision-making?*



*Figure 8: Concepts used in the analysis of the research question 2.1.*

As the answers in the previous section indicated, the interviewees do not consider that the government represents their interests. However, I wanted to further investigate on whether the interviewees think that there are still some opportunities to influence on the government's decision-making – or not at all. As outlined in the fiscal contract proposition, when the fiscal contract between the state and the citizens is functioning, citizens have a feeling that they can influence on the government's decision-making. By having a separate research question to clarify this aspect, I wanted to shed light on whether there are any future prospects for the realization of the fiscal contract in Namibia. Furthermore, in order for the government to be seen as legitimate in the eyes of the citizens, it is necessary that its actions are perceived as fair. An essential factor which determines whether citizens consider the government procedures as fair, is the extent to which they can influence on the decision-making. (Levi et al. 2009.) Thus, the concepts of fiscal contract and legitimacy are applied in this section in order to investigate, whether citizens feel like they can influence on the decision-making, and moreover, how these perceived opportunities – or, their absence – to have a say on the government's decision-making affect their perceptions of legitimacy of the state.

All in all, it seemed that there are some ways to express one's opinion, however, it is often not considered to lead anywhere. Some respondents felt confident that it is possible to change something and that there are ways to have an influence, while others were even afraid to express their opinion and thought that they would get into trouble if they did.

Half of the respondents felt like there are no possibilities to influence on the government. Even though there would be a way to express one's opinion in the public, it would not lead anywhere. Newspapers were mentioned by few respondents as possible channels to raise an issue, however, they were not usually seen as very effective a way to do it.

No. I could write an article to the newspaper but then what? Maybe some citizen would read it but I don't think the government would take note of it. So no I don't think that expressing my opinion would lead anywhere. I should join organisations but I haven't had time for that. (Young professional, Nama, F)

On the other hand, according to a local expert, the SMS page on the national newspaper "The Namibian" is quite popular and the government seems to take notice on the trends on it. Also the opinion pages in newspapers are noted. Newspapers tend to be the main vehicle for discussion of policy, but also for criticism of the government, because the opposition in Namibia is rather weak and the civil society is small. "They will pick up tendencies and trends on those platforms but as I said, in terms of actual organization, there's no bodies, there's no organizations set up to represent taxpayers<sup>95</sup>."

Although in theory there are ways to express one's opinion, there prevailed skepticism amongst many interviewees whether these messages ever reach the government, and whether the government even cares. As a business-owner states in the comment below; "And the government, they just decide what they want to, everybody's looking after themselves."

Where? No one will listen to us. We should actually, what we should do more is go on the street. But nobody does. [...] Nobody's listening, I mean where? You can, even if you put an article on a newspaper or letter or whatever [...] other people read it and they all agree with you. You know, but not government. [...] I'm so unimportant – nobody would listen to me. And the government, they just decide what they want to, everybody's looking after themselves. (Business-owner, German, F)

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<sup>95</sup> Interview with a local expert 11th of April 2017

Trade unions were mentioned as channels of influence by a couple of respondents, but they were not considered as strong and able to represent their members' interests in the government.

Actually we don't have direct influence. Like maybe...only influence that we have is voting time, if we vote. [...] 'Cause mostly us workers, we are supposed to influence through trade union, cause we have to go to our respective unions, to give our views, then they can take it up to the government. But currently even our unions are not so strong. I don't know what the problem is because even if they campaign, as we say, they can campaign, but if they get that position they... cause from the union, from the leaders of the union, one is even after five years one is always going to the parliament. And the person who was there who's supposed to influence the government but once he goes there he's quiet. (Project worker, Damara, F)

Also a director of a local NGO expressed his concern about the current state of trade unions in Namibia. According to him, the trade union movement used to be very active and involved in political decision-making, however, during the past decade leadership problems have led to instability in the movement. He states that stability of leadership in trade unions has to be regained first in order for the unions to start to make inputs to policy interventions and lobby for their members' interests<sup>96</sup>.

The radio show, "People's parliament", was raised by a couple of respondents, but they were sceptic whether the issues raised in the show would reach the decision-making level.

Now, as me, I'm at a low level to reach someone who is in our government. It can happen...I...I can talk through the radio, they are having this program talk of the nation where people can write to [...] say there are a problem, if you feel bad about something, the government is not treating you well, so you have to call to that program and say out your problem. Yeah but the problem is that you don't know now who is going to listen to that cassette. If there are anyone to hear that opinion and say like "this person is having a bad feeling, let me do this or this". Or if he's just going to put it away. (Postal worker, Oshiwambo, M)

Yea I can influence but ah, there's no... You can call even to radio and tell your problem, but they will not understand... You can give your ideas; you must do like this, not like that, but they don't take it. You just answer their question but they will not hear anything. Like you can ask the government people please do something...like the elephants, they are destroying the food for the people in the fields...some people they don't have food now. So if you call in the radio and you complain that, they must make a fence or something, so that the elephants don't

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<sup>96</sup> Interview with a director of a local NGO 11th April in 2017

destroy the food. But they'll just hear, like I said, they don't find anything.  
(Security guard, Rukwangali, M)

The respondents who thought that there are ways to influence on the government's decision-making, often stressed that the power is in masses. One domestic worker, who had been active in the domestic worker's union, described how they had lobbied domestic workers' interests and as a consequence, she felt like one can influence on the decision-making.

Yes yes we can, we can, as unions we can. Domestic workers' union, yea, we can, because sometimes they ask advice from us, and then we go in, and now we are waiting for them to some... time building because they should give us a date to have a meeting with them, and there we have the power to say what we want because we are the ones who represent the domestic workers and their needs. [...] Yea, there will be, there will be a change, because I believe they get a lot of, you know, inputs from us, from the public itself. So they see into it, because last time they said they are making ready some pipes, some electricity, whatever, make it ready. So afterwards we will see what is the result coming to us. (Domestic worker, Nama/Damara, F)

An NGO-worker remembered a successful case where he together with other people had managed to have an influence and raised an issue considering lost public money.

I think we can actually on the decision making because there are issues that are actually in public discourses that concerns the taxpayers' money. For example we have the SME bank, the small marketing enterprise bank [...] there were 200 millions stolen and gone. It disappeared, [...] it is public's money and it was supposed to remain in the country and invest in the ideas of the people, but it went out. And what happened is that the national bank of Namibia stepped in, and they confiscated the whole governing of the bank. Some of us supported the idea about the bank to come in and actually it will take over the running of this bank, yeah, so what happened is that actually in the time of two weeks they actually paid back some of this money that disappeared. When the public was discussing it and demanding, I myself wrote a letter to the government of the bank. (Project worker, English/Oshiwambo, M)

The same respondent gave an example of another incident as well when he had been part of a youth group, which through a demonstration stopped the government from building a new parliament house.

There are many ways. You can protest, like when the government decided that we want to build a new parliament. [...] so then we discovered that the new building is gonna cost 6 billion Namibian dollars [...] And then we came together as young people and we said "no, this is not ok, this is a wrong priority. We cannot earmark such an amount of money just to do that. We have to use the money wisely". So we went, we demonstrated, we walked from here from Katutura all the way until

the city center, [...] we handed out a petition, we demanded an answer from them within 90 days, [...] We were many. So and then, you know, they put it aside. And then, two months after the demonstration in June last year they declared "We don't have money". And we were like "yeah, we told you"! Where are you going to get the money to build the parliament! You see, so if you are many enough or if the public is showing interest, you can actually make change. And they said "no we are going to put the parliament building plans on ice" [...] So it was encouraging, we still speak about the 16th of June. (Project worker, English/Oshiwambo, M)

Also a security guard stated that it is possible to have an influence on the government if there is a lot of people behind the same cause. On the contrary, if one is alone with the issue she/he would like to change, it is unlikely that she/he will go far with it. He felt optimistic about having an influence if the cause is good.

Yeah I'm having (influence) Because they are saying two hands is better than one. We are also government. I am also government. [...] So, if I'm having good ideas, I can say so, the government must be ... must provide transport to those people who are footing. Then they'll say oh, that's a good idea, constructive ideas. [...] So, to me I think it is these small steps. You have to... like me, now, if I'm having such an idea, a good one, I have to go to councillors... there's councillors, there's governors, there is ministers. Councillors, go to governance, then ministers, like that. So to me it is steps to lead to the state top. [...] Yes, it is possible! Only that we must be in number, not one person. So that they will do something. If there's one person, the idea will be thrown away. (Security guard, Oshiwambo, M)

Again, a business-owner brought up the radio-show "People's parliament" where one can call and raise an issue that she/he would like to change. The respondent believed that issues discussed in the show can be heard, and eventually lead to action by the government, although it will take a long time.

Even though I can say "yes" but it will take ages. Because what we have, we have an open line called "People's parliament", everybody can call there, and then you can air your comments and your feelings about something. It's a radio show where everybody can participate. And then sometimes what the presenter does, he will analyse the good points and then he will forward all these queries to relevant ministries, and then people who are responsible for those particular departments they have to give feedback through the radio program and people will listen and hear what has been responded. [...] It is a good show, it is a good idea, at least you get feedback, and sometimes they go out deep in the villages and try to find out what an ordinary person from the street, how does he feel about this new function that they want to implement. (Business-owner, Oshikwanyama, M)

A local expert brought up the particularities in the Namibian political culture, and offered an explanation why the citizens might feel like they are not listened. "Political culture matters, you understand that Namibia has this one dominant party system, the party had

80 % in the last election and the president had 87 %, so there's kind of an attitude within the government, it's not always there but it comes out every now and then, that 'we don't really need to listen to anyone else, cause we have mass support'. So there's not really need to consult the public or ask the citizens what they want. So as a result they kind of make the policies as they go along, and the same applies to what comes to tax policies<sup>97</sup>." According to the same expert, sometimes German foundations organize meetings where public consultations of some particular topic can take place, for example a public meeting was organized with the Minister of Finance to discuss the national budget and the NEEEF bill. However, public consultations are not systematic. If there's public resistance towards a certain policy, the government's strategy is often to delay it but not abandon the policy.<sup>98</sup>

Furthermore, several experts reminded that Namibia is a small country where the civil society is not very strong. Civil society organizations are mainly sustained by foreign funding, often provided by Germans. This is not an ideal situation as there are often political strings attached to the funding.<sup>99</sup>

The issue of different culture was brought up again in this context as well; in the view of one Afrikaans -speaking business owner, there would be "no point" to try influence because of the culture of decision-making.

We don't care about it. We don't care if there's channels. Why? Because you waste your time saying something. You must be sitting in the government, go through years try to get there – the way the people, the practical way the people are handling any problem and a new situation, and even anything that they must do, it's not the way, the way we grow up. It's a different culture, you understand. (Business-owner, German, high-school, M)

Four respondents were afraid to express their opinion, indicating that they would get into trouble if they did. It was surprising to some extent that this feeling was not limited to certain income groups and education levels; there were respondents from very different backgrounds addressing this concern.

It is very difficult to say anything, if you say something you will suffer. It is better to keep your mouth shut. (Security guard, Secondary school completed, F)

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<sup>97</sup> Interview with a local expert 11<sup>th</sup> April 2017

<sup>98</sup> Interview with a local expert 11<sup>th</sup> April 2017

<sup>99</sup> Interview with an international expert 26<sup>th</sup> April in 2017

Not at all. No. You are scared, you are not free. You don't know how to go about it. And you know, you are also scared of mentioning big names and you are scared that it will put you into trouble so we just look, that's all! (Postal worker, English/Oshiwambo, F)

Yea, I'm afraid! Because if you talk truth, people they don't like truth. Something will happen. Better to shut, otherwise you'll die! (Security guard, Rukwangali, M)

Aaahmm... I think you would be able to [express your opinion], but you're going to take a very big risk.

Me: Are you afraid that you will get into trouble if you express your opinion?

Yea. Yea. Unfortunately. (Business-owner, German, Diploma, M)

A conversation with an international expert supported this observation. "There are opportunities here to challenge the authority I think, but there just seems to be apathy. Namibia, in terms of free speech, is rated as the most free speech country in Africa, even above South Africa. But there is still reluctance to mobilize and speak out really, because somehow they think something bad is gonna happen to them. On one-to-one situations they are quite happy to express themselves but put them together collectively, it's extremely difficult."<sup>100</sup> This comment is also in line with my own experiences during the interviews, as when I asked a rather straight-forward question of whether the respondent felt like the ruling party represented their interests, on one-on-one situations the respondents criticized SWAPO very openly, but as soon as there was another person present, they were not willing to discuss the topic.

### *6.2.2. Who can influence on the decision-making of tax policies?*

The core idea in the fiscal contract proposition is that bargaining between citizens and governments over tax collection can lead to more responsive and accountable governance. Citizens are likely to complain about tax policies and resist tax collection, if they consider taxation unfair, as in a situation where they get very little or nothing in return for their tax payments. (Prichard 2015.) Therefore, in order to find out whether there is a functioning fiscal contract between a state and its citizens, it is worth investigating whether bargaining over tax policies takes place.

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<sup>100</sup> Interview with an international expert 26<sup>th</sup> April 2017

With regard to having an influence on determining tax policies in Namibia, according to experts, it is mainly businesses and audit firms who can lobby their interests successfully in the government. Ordinary citizens have little possibilities to influence on policy issues related to taxation and there are no institutions to represent them when new legislation is being drafted. "The biggest success I've seen is the Chamber of Mines and the Banker's Association, so it's generally industry bodies, if there are consultations, the Ministry would normally call the NCCI [Namibia Chamber of Commerce and Industry]<sup>101</sup>." When I interviewed Taxation Officers who work in the Tax Policy Department at Inland Revenue, they commented that it is the large taxpayers, mostly companies, who advocate their interests through the Chamber of Commerce, and then audit firms, who have the most influence and inputs in the making of policies. When it comes to individuals, they are more "in the receiving end" when the Ministry is introducing new taxes or adjusting the existing ones.<sup>102</sup> "Within the Ministry of Finance, we have our stakeholders, in other words we have people that represent the taxpayers, usually it's the accounting firms. Most of them represent companies [...] we ask their comments by saying that we are in the process of looking at this, what are your views on this, and then we say please provide us information on that particular tax, then the plan will be implemented and then they give us their views."<sup>103</sup> A Head of Department at the University of Namibia underlined the role of audit companies in this regard as well. "I don't know whether you can influence on tax policies as an individual, but the big consultancy companies do have a say, they can raise issues and say 'We don't like this', for example if audit firms raised an issue together the government would certainly listen to that. They've got a lot of influence, their opinion counts. They are regarded as people who know, who have the expertise, they know what they are talking about."<sup>104</sup> The finding is in line with what Fjeldstad et al. (2003) found in their research on taxation and democracy in Namibia, Uganda and Tanzania. According to their research, the politics of taxation in the three case countries are limited, involve a few specialised interest groups, and usually take place in non-public arenas. Typically, small lobby groups pressure for exemptions, for rate reductions on

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<sup>101</sup> Interview with a manager of a multinational audit firm

<sup>102</sup> Interview with a Taxation Officer 26th April 2017

<sup>103</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>104</sup> Interview with a Head of department at the University of Namibia 13<sup>th</sup> April 2017

imports, or bargain with officials or ministers about tax liabilities. (Fjeldstad and Therkildsen 2003.)

A local expert remembered a case a few years ago, when mining companies had lobbied against an export levy of their raw materials, and as a consequence, the levy was considerably reduced. On the contrary, he did not recall that there would have been any formal consultations of the broad public regarding the tax system.<sup>105</sup> A Taxation Officer gave an example of how pressure groups can appeal to Ministry of Finance if they are not satisfied with the current legislation. "Usually the companies like our mid-producers they will come and if there's a tax issue they are not happy with, they will request a meeting with a Commissioner or the Minister of Finance, [...] because they will be in a group and depending on the matter, it can be the Bankers Association, the Mid-Producers Association, etc. that will come as a one group. For example with VAT, they say like 'No, we want our particular something to be zero-rated, because of x, y, z', and we'll consider that."<sup>106</sup> Again, this finding is in line with Fjeldstad et al.'s (2003) findings and what Timmons (2005) has stated about governments tending to favour those taxpayers who are strategically most important. These strategic taxpayers have more influence on tax collection than less important taxpayers (Timmons 2005). Also Melber (2005) and Rakner (2002) have found, that tax exemptions in Namibia are to date granted to selected sectors in the economy, which are governed by the elites.

Although businesses and audit firms have strongest foothold in tax policy making, they are not consulted systematically either and the process is very informal. A manager in a multinational audit firm<sup>107</sup> described the challenges there are in influencing the making of tax policies: "Currently there's no formal process for consultation. So the industry bodies would go and consult on their own, but [...] it's not open to the public and there might be other people that are affected as well. So not everybody have the chance to comment and properly publicize, say 'this is what we're planning, we want to introduce this, this is the process, here's the first draft, commentary by this date, give feedback by this date.'" He added that other thing which causes major frustration with the government, is that there is no feedback once different stakeholders have submitted their commentary.

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<sup>105</sup> Interview with a local expert 11th April in 2017

<sup>106</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>107</sup> Interview with a manager of a multinational audit firm 25<sup>th</sup> April 2017

”You submit written commentary but there’s no feedback saying ’yes, we heard you’ or ’this is the feedback we’ve got and this is the decision we took about it’. So it becomes increasingly frustrating to spend time on that process to try and consult about it.” Also, according to the same respondent, if there is a call for stakeholders to come together and discuss a law proposition with the Ministry of Finance, the invitation comes on the last minute, and thus there is not enough time to prepare properly. Therefore, it seems that the consultative process of any stakeholders is rather unsystematic and unpredictable, which does not make decision-making very transparent.

In addition, there is lack of technical knowledge in the Ministry as well as amongst some of the stakeholders. ”The times I was there, it was on short notice, you’re not well prepared, and generally the people that went with are not technocrats, not technically strong, so they don’t really have enough experience [...] if you look at the people around the table [...] if I look at the way they deal with tax legislation, when you look at something and you have a view and then you start reading, then you start thinking practical complications and then you come up with these potential issues and then our clients start implementing and then you see so many more issues, so you need a much more thorough process in assessing, and in terms of lobbying as well.”<sup>108</sup>

All in all, according to an expert<sup>109</sup>, the National planning commission is struggling in terms of capacity to develop new tax legislation because lack of skills. Therefore, they get a lot of help from international institutions such as the International Monetary Fund. ”Mostly what they are doing around tax, they would say ’the IMF recommended this or IMF looked at this’. So the IMF plays quite a big role.” According to the same respondent, the current Finance Minister might use their resources more than the previous minister did, so IMF’s role in determining tax laws in Namibia could have increased during the recent years. Indeed, according to Taxation Officers, IMF was consulted also regarding the on-going tax administration reform in Namibia. ”We have invited them at certain stages to provide us with technical support and advice on how to improve the efficiency of the revenue office, and the large taxpayers office was one of the recommendations that we implemented<sup>110</sup>.” However, IMF’s role is still to some extent limited and they have

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<sup>108</sup> Interview with a manager of a multination audit firm 25<sup>th</sup> April 2017

<sup>109</sup> Interview with a manager of a multination audit firm 25<sup>th</sup> April 2017

<sup>110</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

not been strongly involved in detail in all tax policy development<sup>111</sup>. According to Fjeldstad et al.'s (2003) research project on taxation in Namibia, Uganda and Tanzania, major debates in Parliament about tax issues or about tax reforms are rare. Furthermore, political parties rarely include tax issues in their statements. Central government taxation is therefore mostly shaped by technical staff rather than by Parliament. (Fjeldstad and Therkildsen 2003.)

Other challenges regarding determining tax policies include the fact that there are not enough prior study on the impact of tax policies before new policies are implemented, and often the process is wrong way around; first implementation and then consultation of stakeholders, after receiving negative reaction from them. A manager in a multinational audit firm described this problem: "The focus is really often 'ok, this is the tax that we're going to introduce, and the revenue goes into the budget immediately' and the economic impact of it is not necessarily studied and understood; what does it do to the economy? One thing that bothers me, is that you need more economic studies and you need economists to look at post tax legislation and, say, what is their impact on the economy as a whole, as opposed to Inland Revenue people only focused on collecting tax revenue. I think there needs to be more economic input in the process and review of tax legislation. I think there have been few examples when they have come up with a legislation without really understanding the industry."<sup>112</sup>

Furthermore, as was noted earlier, the trade union movement in Namibia has been struggling during several years due to instability in leadership and as a consequence, the unions have not been making inputs in the making of tax policies either. The trade union movement needs to regain its stability and power in order to take a stand in the decision-making considering the taxation of Namibian work.<sup>113</sup>

#### *6.2.2.1. A case of the solidarity tax*

Although citizen engagement in decision-making considering tax policies has been traditionally weak in Namibia, a few of years ago there was a rather wide citizen protest

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<sup>111</sup> Interview with a manager of a multination audit firm 25<sup>th</sup> April 2017

<sup>112</sup> Interview with a manager of a multinational audit firm 25<sup>th</sup> April 2017

<sup>113</sup> Interview with a Director of a local NGO 11<sup>th</sup> April 2017

against introduction of a tax called “solidarity tax”. Before that, there had not assumably ever been public resistance against taxes. ”Suddenly everyone felt that they will be affected, saying ’why should I put my dollar into that<sup>114</sup>.” A solidarity tax was first introduced by the Namibian government in 2015. The idea was to establish a temporary additional 5 % tax intended to all those who would earn more than 79,000 N\$ per month. The planned purpose of the solidarity tax was to finance poverty reduction. The reaction by the public was strongly negative. Citizens expressed their reactions toward solidarity tax on SMS pages in newspapers and in the form of news pieces on opinion pages. In addition, a webpage was established as a citizen initiative in order to collect names for a petition which was called ”Stop the introduction of Solidarity Tax in Namibia.”<sup>115</sup> Reasons offered for wide public resistance was that the tax would have increased tax burden particularly for the middle-class, who already bear the heaviest burden. Also, citizens feel that taxes in Namibia are already high, and that adding new taxes would not help, particularly because the government is not using even the current tax revenues responsibly. Most interviewees were of the opinion that the government could find other means to finance poverty reduction than taxing people more, for example by simply spending better the tax revenue they already have.

Eventually, the government backed down and declared that the solidarity tax would come only on ”the top earners”. However, it has not still been decided who would be classified as belonging to that top-earning category, and the initiative has been on hold since. ”There was quite an active response of citizens to the solidarity tax, and because of that the government sort of backed down. They still say in a budget speech that we are still consulting and formulating the solidarity tax, but it seems that they realized they can’t make it as such a broad tax because they would loose political support potentially.”<sup>116</sup> In addition to public resistance, there were multiple unresolved issues considering the design of the solidarity tax. According to an Inland Revenue official, citizen resistance was not the only reason for the implementation of the tax to be delayed. ”At the moment it didn’t gather very much public support. It is a dormant document basically right now but we might come back to it later. There were lot of issues why that agreement wasn’t reached

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<sup>114</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>115</sup> Webpage for the petition: <https://www.change.org/p/president-of-the-republic-of-namibia-stop-the-introduction-of-solidarity-tax-in-namibia>

<sup>116</sup> Interview with a local expert 11<sup>th</sup> April 2017

on. That [public resistance] might have been one of the factors, and also to determine who pays and what amount [...] So it's not only one factor that lead to its delay, it's several factors."<sup>117</sup>

According to an Inland Revenue Official<sup>118</sup>, public consultation about solidarity tax was not organized because it never reached a status of a bill. However, it can still be said that citizen opposition to the solidarity tax mainly on newspapers and social media certainly had an influence in at least delaying the implementation of the tax. As was mentioned earlier by a local expert, the Namibian government's strategy is often to delay a policy if there is public resistance toward it, but not to abandon it. "Introducing new tax laws is very slow here. For example with land tax, they talked about it for many many years before implementing it<sup>119</sup>." Looking at historical patterns, it is possible that solidarity tax will still be implemented in some form in the future, but certainly not in its initial form, where it would have affected in particular the middle-class. According to a Senior Taxation Officer at Inland Revenue, a task team is still working on developing a proposal to introduce the solidarity tax "during the course of the coming years". According to him, "The solidarity tax is expected to be a progressive, redistributive tax which will contribute to the reduction of income inequalities and take into consideration the income levels and the ability to pay. Further it should be noted that solidarity tax is not intended to broaden the tax base, but rather to be a redistributive tax with a relatively high tax threshold."<sup>120</sup> It remains to be seen, who will be the targeted high-earners, and how they will respond to the proposition considering the current climate toward raising taxes and the low levels of trust with tax administration. However, as some of the experts noted, the wealthier in Namibia could pay more taxes than they currently do.

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<sup>117</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>118</sup> Interview with Taxation Officers 12<sup>th</sup> April 2017

<sup>119</sup> Interview with a local expert 11<sup>th</sup> April 2017

<sup>120</sup> Interview by email with a Senior Taxation Officer 6<sup>th</sup> June 2017

6.3. RESEARCH QUESTION 3: Is the economic citizenship of Namibians concentrated around paying taxes?

6.3.1. What is considered to be the government's role in people's lives?

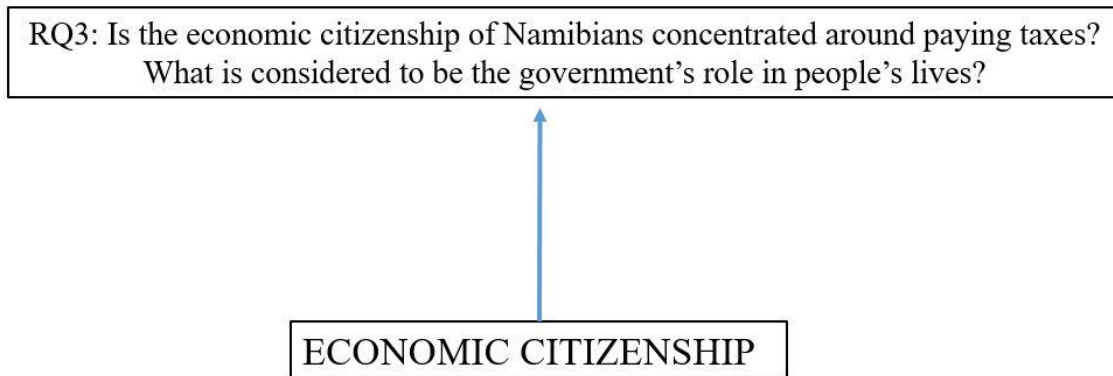


Figure 9: The concept of economic citizenship is applied in the analysis of research question 3 and 3.1.

So far in this research, the following points have been discussed. The first section of the analysis shed light on the main factors that influence the Namibian citizens' willingness to pay taxes. Furthermore, the second section discussed to what extent there seems to be a functioning fiscal contract between Namibians and their state. The core idea in the fiscal contract proposition is that citizens demand services and responsiveness from the government primarily because they pay taxes, and as a consequence, the government has to be accountable toward the citizens in order to maintain its fiscal base. However, I do not want to limit this research to testing the fiscal contract proposition alone by assuming that Namibian citizens would make claims toward the government necessarily as taxpayers. Rather, I leave the possibility open that they might make claims toward the state based on other factors.

Thus, in this section, I am investigating on where the interviewees based their claims toward the state; are they making claims primarily as taxpayers; as citizens; as members of a certain ethnic group; or something else. While reflecting on the answers to this question, I intend to shed light on to what extent the interviewees adapt to their role as taxpayers. Furthermore, in order to gain understanding on what is seen as state's role in peoples' lives, I included a question considering government's role in helping a person in need (6.3.1.).

Therefore, the concept of economic citizenship is applied to shed light on the relationship between Namibian citizens and the state in a context-sensitive manner; to what extent the fiscal relations between the citizens and the state are centered on paying taxes in Namibia?

A little over half (11) of the respondents stated that they expected services from the government primarily because they pay taxes. Roughly speaking, the education level of the respondent seemed to influence on how the respondent saw the relationship between him/herself and the government; the more educated respondents would more often demand services as taxpayers, whereas the less educated respondents considered more often that citizenship entitled them to a part of state's wealth. However, the answers did not always follow this logic; the respondents educated at maximum to a secondary school level would also demand services primarily as taxpayers, and vice versa, respondents educated to a post-secondary school level would in some cases consider citizenship more important than a taxpayer status.

There was a strong recognition amongst several respondents that people are entitled to services because they maintain the government financially. Arguments such as "We the taxpayers sustain the government so they should be there to serve us" and "It's us paying their salary" came up various times in the interviews.

Because we pay the tax. We *are* the government actually. You know, if we all stopped paying taxes, all those ministries, everybody up there, they would drop as well. They should actually listen to *us*. The citizens of the country. Because it's us paying their salary. (Business-owner, German, F)

Because I pay taxes! We the taxpayers sustain the government so they should be there to serve us. (Young professional, Nama, F)

Because I pay taxes. I think I should have more opinion of what is being done. It's not because I'm a citizen, it's because I pay taxes. (Business-owner, German, University degree, M)

Actually as a taxpayer. Because I pay them but there's nothing in return. We need something in return. At least basic services. (Project coordinator, Damara, F)

As a taxpayer, nothing else. Not because I'm a Namibian or because I'm what, specifically because I pay tax. (Post office worker, University degree, English, F)

Uhm, actually, because I'm paying taxes. Yeah. Which I don't know if I'm going to get any benefit from it in future or... if I'm just being taxed for nothing. So, since I'm paying taxes why they cannot just give me free education at a higher institution? Yeah, and because I'm working, they are deducting me taxes. Yeah, I

feel mistreated, they must help us in higher institutions also for the free education or at least they must cut the price to half. (Post office worker, Oshiwambo, M)

Some respondents mentioned first taxpayer status and secondarily citizenship; the status of a taxpayer being the primary base for making claims, citizenship was considered to be the second most important justification for being entitled to services from the government.

I think most people base it on being a taxpayer. Cause you always hear someone saying "but I pay tax to government, I deserve this" and I think when they make their claims it's more being a taxpayer and then they add on that "I'm a Namibian and I should benefit from the government somehow" so I think that two most popular ways people would do that is being a taxpayer and a citizen. Because sometimes being a taxpayer but a foreigner you kinda take a step back. (Researcher, English, F)

I pay taxes that's why I have to be helped. Citizens have to be helped also. Cause if I'm paying taxes, it means that all government services or whatever, I'm also included. If I happen to get into accident, the government should run to check how am I and it should be free because I'm paying taxes. What will happen if I die or I resign? I'm paying taxes because of that job I'm having. Are they going to take taxes again from my salary if I'm dead? Nothing will happen. the tax will be stopped because I'm dead. Should help me! (Security guard, Oshiwambo, M)

However, although more than half of the respondents seemed to base their claims strongly on the fact that they pay taxes, in terms of political organization, a body that would represent taxpayers' interests does not exist in Namibia. According to a local expert<sup>121</sup>, there have at times been rate payer's organizations on a local level but they haven't been long standing. "Sometimes you see in a newspaper that we as taxpayers demand this or that but [...] there's not really much sign of serious organizations or succesful organizations, or people identifying as taxpayers or rate payers." Therefore, according to the same expert, it cannot be said that there would be a strong taxpayer identity among the Namibian wage earners, as there have not been any serious attempts to establish an organization to represent taxpayers. "If you identify yourself strongly as a taxpayer there should be a tax payers' alliance or organization which would be able to lobby the government." He adds that tax issues are not generally those that people are most concerned about. Instead, topics such as corruption and lack of productivity in the government tend to give rise to discussions.

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<sup>121</sup> Interview with a local expert 11th April in 2017

The issue of taxpayers' alliance was raised in a couple of interviews with experts and it was seen as something that would be useful and needed in Namibia. An international expert called for more proactiveness on behalf of the local NGO's to step up in order to create an atmosphere where a taxpayers' alliance could be formed. "I would form something like a taxpayers' alliance. I think taxpayers' alliance would be useful here, it's needed. A group of concerned individuals, I don't mean experts, but people who can cause a lobby towards Ministry of Finance and say "What are you doing with my money? Why is Inland Revenue so inefficient?"<sup>122</sup>

Seven (7) of the respondents considered to be entitled to services primarily because they are citizens of Namibia.

Maybe because I'm Namibian. My mother's died, my father died. The government want to help. (Fuel attendant, Oshidonga, primary school completed, M)

Just because of being a citizen of Namibia. Just to protect its people. (Researcher, Oshiwambo, F)

Ahm... that's a common duty, that's government's responsibility. I'm being a citizen and being a taxpayer, and being a high contributor towards the economy, I deserve better. Top primary reason is being a citizen of this country. It's undebatable – I'm a citizen so I deserve better, I deserve the best. (Business-owner, Oshikwanyama, M)

When I talked about this topic with researchers and experts, their first assumption was indeed that Namibians would demand services primarily as citizens, not as taxpayers. According to a Head of Department at the University of Namibia, "the more educated might bring in that argument that we are entitled to services because we pay tax, but the less educated are thinking that they are entitled as citizens. [...] I think the majority of people demand things and accountability as citizens, not because they pay tax. Because there are a lot of people in this country who don't pay tax but they still make claims."<sup>123</sup>

When asked whether people in Namibia demand services primarily as citizens or as taxpayers, an Inland Revenue official<sup>124</sup> was along the same lines as the previous interviewee when commenting "As citizens, not as taxpayers." "There are differences in terms of education, the more educated start questioning how the government is spending money. You don't get too see these discussions in the public domain about taxpayer

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<sup>122</sup> Interview with an international expert 26th April 2017

<sup>123</sup> Interview with a Head of Department at the University of Namibia 13th April 2017

<sup>124</sup> Interview with a Taxation Officer 26<sup>th</sup> April 2017

money and government services.” He was of the opinion that the majority of Namibians would not link tax revenue to service provision. ”They don’t link the two together. They don’t understand that the tax revenue that is being deducted translates to services.” He explained that the voting behaviour of Namibians can be explained by the historical background of the ruling party and lack of education and economic status among most citizens. ”It is coming from the historical background and the education level of the people, the majority who are most likely to be below the [income tax] threshold, and they are the voters, they are not voting in terms of how the government is spending the budget and all that, but more on loyalty and the historical background.” The same respondent reminded that the current voter generation was there before the tax system. Although the tax system comes a long way, it was rolled out to larger population only after independence, which was achieved in 1990.

When looking at the outcome of my interviews, it is also important to note that firstly, I interviewed people only in the capital where citizens are more exposed to information provided by the media and the government, and secondly, all my interviewees – also the ones with lower positions – were relatively well educated, already in the sense that they all spoke English as that was the language in my interviews. Indeed, a local economist was of the opinion that the majority of the citizens would not identify themselves as taxpayers vis-à-vis the government, since large part of the population pays hardly any kind of taxes. There are exemptions of VAT on approximately ten basic food products to minimize the tax burden for the poor. ”When people buy food and other goods, I don’t think they recognize that they pay taxes as well, at least when it comes to the poor and the rural population. They often buy even from informal traders anyhow, and those don’t pay tax [as all the trade is handled in cash and no records are kept].”<sup>125</sup>

A manager in a multinational audit firm commented that it is not common to hear individuals demanding services from the government because they are taxpayers, but rather because of other reasons. ”Yea I must say I don’t often see that people make demands because they are taxpayers, it’s often more political, from ethnic group or political group. [...] It’s not often that people say ’as a taxpayer I have the right’, you would often have the economists or the journalists saying this is taxpayers’ money, but

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<sup>125</sup> Interview with a local economist 27th April 2017

you don't often even see individuals saying 'as a taxpayer, we have these and these and these rights.'"<sup>126</sup>

Indeed, it is important to bear in mind that the responses of my interviewees might have been influenced by the fact that they knew that I was interested in taxation. The majority stated that they demand services from the government primarily as taxpayers, however, the results could have been different should I have conducted research on e.g. citizenship.

Finally, three respondents considered that both aspects – paying taxes and being a citizen – are equally important, where as one respondent did not know how to answer.

I could say both. Because you can't put bread on the table and not eat from it. Giving my tax, paying my tax, I need to be treated. But also as a human being, to live in a house. A proper house. (Domestic worker, Nama/Damara, F)

It works both ways.[...] I am doing something for the country. I'm creating workforce. I'm creating revenue. And I'm paying my taxes. Now it's the time to say what can the country do for me? Because I have done my side. The country has drawn the line, those are the taxes to be paid. I have paid the taxes. Now it's my turn to – after the action comes the reaction. My reaction is: what is the country doing for me now? (Business-owner, German, Diploma, M)

I think for me, as a Namibian, I think it's important. We are entitled as Namibian citizens because if we do not pay tax, it means that the system will crumble, and everyone in the world want look at someone else and point a finger and say you are actually wrong, they'll point it at us the Namibians, like why didn't you pay tax? (Project worker, English/Oshiwambo, M)

Pride about one's own country was mentioned by one security guard as a reason to be treated well by the government.

Provide for us... the reason why government should provide for us ... let me say, for everybody in the country should be happy with their government. So the more government provides us with the services, the more we are proud of the government. [...] Say, just to put the name of our country up. Even if I happen to meet with someone whom I don't know, like strangers, people from other countries, I will explain to them that no "in Namibia, we are proud. We have public toilets there, education is cheap, hospitals is cheap, everything's fine". That is to put our government or our country's name up. (Security guard, Oshiwambo, M)

According to Fjeldstad (2012), identifying oneself with the state in the sense of national pride is related to political legitimacy and can foster willingness to pay taxes. When asked whether he would be willing to pay more taxes to support his nation, the respondent above agreed by stating "Yeah, I should! Because I understand that money will help our

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<sup>126</sup> Interview with a manager in a multinational audit firm 25<sup>th</sup> April 2017

peoples.” This can be said to be in line with the theory regarding interconnectedness of national pride and voluntary tax compliance.

### *6.3.1. What is considered to be the government’s role in people’s lives?*

Roitman (2007) has stated, that most literature on citizenship is constitutional in nature, leaving little room for investigating on historical and local practices of citizenship. It is not exceptional that African states do not offer more to a large part of their citizens than a birth certificate or a national identity card. As a consequence, citizens do not necessarily rely on the state as a basis of security or wealth. (Roitman 2007.) Hence, Roitman (2007) has suggested that there should be more research that pays closer attention to citizenship as a cultural and historical construct.

In this section, I intend to shed light on how the respondents see the government’s responsibilities and role in peoples’ lives in general, by applying the concept of economic citizenship. Therefore, I asked a question whether it should be the government or the relatives to help primarily, if the respondent’s relative was in a need of financial assistance in order to meet his/her basic needs. The purpose of this question was to find out what kind of lines of thinking the respondent followed in terms of logics of redistribution; does the respondent think that wealth should be distributed between relatives and based on kinship, or does she/he prefer to submit part of her/his wealth to the state in the form of taxes in order for the state to redistribute that wealth to the citizens. The intention was also to compare the answers between this question and the answers gotten to the question 6.3. in this section and to determine, whether the same respondents who consider that they deserve services primarily as taxpayers think that the government should be primarily the one to help a relative in need of financial assistance.

The majority of the respondents thought that it should be primarily the government to assist a relative in need of financial assistance to meet her/his basic needs, e.g. to buy food or to get treated in case of sickness. Paying tax over to the government was mentioned as a primary reason why the government should be responsible. The more educated the respondent was, the more often they thought the government should be there to help. The less educated the respondent, the more emphasis they would put on the role of the relatives. However, the answers did not always follow this logic. Furthermore,

again, it is worth noting that the responses might have been influenced by the fact that the respondents knew that I was interested in taxation.

First of all, I would say it's the government. Why I say it should be the government? We are paying tax. Where does all that money go to? This money was supposed to cover the sick. Because of the tax we are paying, so they have to utilize that money for that, to direct that money to the funds. And then ... that I will only do, that would be my task if the government can't do nothing, and I'm having a sick person so I would be forced to do that. But I still feel like that's not my obligation to do it. (Business-owner, Oshikwanyama, M)

However, in many cases the respondent pointed out that although it should be the government to help primarily, currently the government is not taking responsibility and does not fulfill its tasks like it should.

In an ideal world it would be the task of the government but that is not the reality we are living in. (Young professional, Nama/Damara, F)

Yea, currently it's just the relatives because I did not see government giving, maybe something for students, for food, or what. It's usually parents that gave out of their pocket. But for our tax money there should be something like like, some system. 'Cause most kids that came here for study from rural areas they end up in streets because they can't afford accomodation, they can't afford basic food. At least if the government can maybe for the time they are studying, provide them with food assistance monthly, from our tax money it would work. Then they can repay if they start working. (Project worker, Damara, F)

To some extent it was also considered that the government is assisting people in need, as the poorest do not have to pay at state health facilities, if they cannot afford it.

Well, it should be government. If it's a country where you pay tax, then it should be government. They should be used to that. But uhm ... and it works also in this country for the poor, that they treat everybody, if you can't pay you don't pay, if you can then you pay, that's how it goes. So I think there is – the government does provide for it. (Business-owner, German, University degree, M)

One third of the respondents considered that it should be the relatives to help primarily.

This was the case e.g. with the fuel attendants:

It should be you [somebody close to the respondent] to help. The government put already the price. The other one can give me maybe the 4 dollar to go to the hospital. Not the government. (Fuel attendant, Rukwangali, some secondary school, M)

It's my family. If I get into an accident, I have to call my relative or my friend and say "I got into an accident". Then they run to me. They pick up me and take me to the hospital. If I ... yeah sometime the government can help. Like when there's an

accident, they'll run, they pick up. Only if I got into an accident, if I'm at my house sick, the government won't help me. Only my friend and family. (Security guard, Oshiwambo, M)

Four respondents considered the both, the relative and the government, to be equally responsible. A NGO-worker illustrates this in the quotation below with an example of how the roles should be divided; the government has to create an environment where people can use their potential and fulfil their dreams, and in order for them to be able to do that, citizens have to support each other as well.

All in all I think it is both. At the moment at my house we are taking care of three kids; two of them are orphans and one of them is without father, and they are my relatives, so for example this month we have to send them 1000 dollars so that they can buy school uniforms and all that. And what is the role of the government, it is to make sure that there's a school. So that they teach us, the teachers are paid correctly, so I think it's the role of both the people and the government. The government creates an environment where the potential and the dreams can happen, and then the people support one another and make sure that for example that 1000 can contribute to the life of that one person. The government has to create an environment where people can become employers and employees, and so on. But if you look at it predominantly, if you look at it really carefully, the people are doing so much but the government is doing almost nothing. The people are paying tax, the government is supposed to create an environment where potential can grow, people's dreams can be realized, but the government is actually not helping out in that. So the people pay tax and on top of that people have their families they have to help out. Double burden is what we have as workers in this country at the moment. (Project worker, English/Oshiwambo, M)

Both of us. If the family cannot manage, ok, the family should first help if they can, and if the family is required more which they don't have, then the government should help. (Postal worker, English/Oshiwambo, F)

Two German-speaking respondents brought up the question of context, implying that in the Namibian context the question has to be answered differently than in some other context. A business-owner referred to this by saying "You are asking a first world country question" at the beginning of his answer.

Hmh... you know you are asking a first world country question, let's answer to it in two ways. If you are in the first world country, or if you are in a third world country. You're gonna have a bit of a difference in your way of seeing things. You as a human being, you are always obliged to help no matter what the situation is. Unfortunately it doesn't always happen. That's also a human nature. But it will always become a sensitive subject as soon as you say it's your family, yea, because, you have to see what the family earns. Is the family paying taxes, are they successful business people paying lot of taxes, then the government, because you

are paying a lot of taxes, to get back to it, if that person can't go to the government hospital, we are paying the so called solidarity tax, we are paying social security, we are paying a lot pay as you earn taxes, so the hospital should function! Why cannot the person – I'm saying a person, not a family member – afford the private hospital – why cannot he go to the state hospital? As a Namibian you can! We are one of the lucky countries – you can! But the standard is up to shit. It's upto nonsense man. [...] In my opinion it's well thought off but it's not well directed. The finances, it's not well directed. (Business-owner, German, Diploma, M)

A home office keeper pointed out that in the African tradition the family looks after e.g. old people, unlike in Europe, where the state maintains old people's homes. She concludes by saying that "in this country you just have to look after yourself", implying that one cannot count on the state.

Here, you can't compare it with Europe, the African tradition is that the family have to look after, that's why they've all got millions of children, so that they can look after each other when they are old. You know, and this is also not right. But when are you gonna stop – see Africa, it's not changing, they want to be a third world country and still it doesn't work. The tradition is still there, the way of living, is just ... there's hardly being anything done, all these old age homes, they are all private.

[...] in this country you just have to look after yourself. You know, there's no ideas that you can say "ah" when I'm old or whatever, like in Germany for instance, the social, what you call it, like social security, and this is different, we are not used to it, it's not normal for us. (Business-owner, German, F)

The answers of these respondents were along the same lines as their answers when the benefits and disadvantages in paying taxes were discussed. In the first section of the analysis where different components affecting voluntary tax compliance were analyzed, cultural reasons and ethnicity were recognized to have an impact on the legitimacy of taxation and the state amongst the same respondents.

In conclusion, it can be said that taxation plays a clear role in the economic citizenship of the interviewees. Services are demanded based on the taxpayer status, and actions of responsibility are demanded from the government in return for paying taxes. Roughly, it can be concluded from the interview material, that the respondents who demanded services primarily as taxpayers put more importance on the role of the government, whereas the respondents who considered citizenship to be the primary reason to entitle them to services, put more importance on the role of relatives. Again, this was not always the case; some of the respondents who put more emphasis on the citizenship in the previous question of this section, thought that the government should be primarily

responsible to help people in need. Moreover, firm conclusions cannot be drawn the sample being rather small in this research.

## 7. CONCLUSION: HOW LEGITIMATE DO NAMIBIAN CITIZENS CONSIDER THE FACT THAT THEY ARE BEING TAXED?

This thesis has intended to shed light on how legitimate do Namibian citizens consider the fact that they are being taxed, and which factors influence emergence or lack of this legitimacy. Three research questions were formulated for the purpose of enlightening different aspects which affect citizens' perceptions of legitimacy of taxation. Furthermore, three theoretical concepts – fiscal contract proposition, legitimacy and economic citizenship – were applied to the analysis of the interview material in order to answer these research questions.

While looking for answers to the question of legitimacy of taxation, the intention was also to give an indication of the extent to which the fiscal contract proposition is realized in the Namibian context. Moreover, to avoid limiting the research to testing previous theory, the concept of economic citizenship was applied in purpose of examining the taxpayer culture and fiscal relations of Namibian citizens and the state. To recap the findings of this research, the three research questions will be briefly discussed below. In conclusion, future prospects for taxation in Namibia and its legitimacy are reflected.

### 7.1. What are the main factors affecting Namibian citizens' willingness to pay taxes?

The purpose of the first research question was to shed light on the main components affecting Namibian citizens' voluntary tax compliance. Based on the interviews, those components were: perceptions of received benefits in return for paying taxes; views about whether the government represents the respondents' interests and how it uses the tax revenues it receives; received information about taxation, views about the trustworthiness of the tax administration; and conceptions of taxation as an acceptable institutional practice. The government's spending was seen as irresponsible and corrupted in general, and it was widely considered that the existing state revenues could be used better. Almost all the respondents mentioned corruption to be a remarkable problem in the Namibian state. According to Levi et al. (2009), high levels of corruption can undermine citizens' willingness to pay taxes, as it is a sign of a dishonest and incompetent government. Based on the interviews, it can be concluded that corruption is a major factor undermining the legitimacy of the state, and thus the legitimacy of taxation in Namibia.

In order to attain the positive governance effects of taxation, taxpayer education should be offered about how the tax system works. (Prichard 2010). Based on the interview material, it seems that it is not uncommon that particularly the less educated citizens in Namibia do not understand the tax system; they do not know what tax regimes exist, how they work and who they target. Based on these observations, taxpayer education should have a central role in building the foundations for a fiscal contract between a state and its citizens, and it should be sufficiently taken into account when planning on improving tax systems in developing countries.

Moreover, the findings were in line with previous research regarding the notion that low levels of trust in the tax administration and perceptions of unfair treatment – such as giving tax exemptions to some companies – have an influence on voluntary tax compliance. For citizens to voluntarily comply with their tax obligations, particularly important are perceptions of the taxing authority's trustworthiness. (Fjeldstad et al. 2012.) The large majority (19) of the respondents did not consider the Namibian tax administration reliable or efficient, and it seemed to affect strongly their willingness to pay taxes.

Due to the low capacity of Inland Revenue to monitor taxpayers, there prevailed a general assumption that tax avoidance is common. Almost all the respondents (19) thought that there are some individuals or enterprises who do not pay taxes although they should. The perceived tax evasion was very varied; it was considered to occur both in national and multinational enterprises, as well as at individual level. However, many respondents – experts included – commented that for individual wage earners tax avoidance is difficult once you have registered as a taxpayer. Based on the interviews, it indeed seemed that tax avoidance would be complicated once a company or an individual has registered as a taxpayer at the revenue authority, as after the registration the tax liable will be followed-up since; if not consistently, sooner or later.

According to previous research concerning taxation and willingness to pay taxes, the more accountable the government is with taxpayers' funds, the more legitimate its actions become (Fjeldstad et al. 2012). In order to obtain the support of taxpayers, governments must be transparent with their finances and draw clear connections between taxation and public spending (Prichard 2010). The large majority of the respondents (16) considered that there is not at all or very little information available about spending of tax revenues.

Although the budget is transparent, few can interpret it and challenge the government about its spending, due to low levels of knowledge and absence of critical civil society. Should one want to disagree with how the budget is drawn, there are very few platforms for the citizens to express their discontent. In order for the government to be seen as legitimate in the eyes of the citizens, it is necessary that citizens consider that they can influence on the decision-making (Levi et al. 2009). All in all, it seemed that there are some ways to express one's opinion, however, it is often not considered to lead anywhere. Some respondents felt confident that it is possible to change something and that there are ways to have an influence, while others were even afraid to express their opinion and thought that they would get into trouble if they did. Half of the respondents felt like there are no possibilities to influence on the government. However, even the respondents who thought that there are some channels to express one's voice, were of the opinion that the government could do much better in responding the citizens' needs, than it currently does. In principle, taxation seemed to be considered as a legitimate practice amongst all respondents, irrespective of the respondent's income, education level or ethnic background. As noted above, taxation per se was not considered a problem amongst the respondents, but corruption and irresponsible use of revenues. As a consequence, it seemed that compliance was not unquestionably voluntary, as there prevailed a considerable dissatisfaction with the government and revenue authority performance.

## 7.2. To what extent is the fiscal contract proposition realized in the Namibian context?

Although it is a popular idea that bargaining over tax collection between citizens and governments can lead to more accountable governments, little research has been conducted that shed light on the complexity of this relationship in practice (Prichard 2015, Moore 2004, Ross 2004). This thesis has intended to in part fill this research gap in case of Namibia. Although country-wide generalizations cannot be drawn from a research which is based on a small sample, it can give an indication of to what extent the fiscal contract proposition is realized in the Namibian context. This thesis has also offered insight on what should be done in order to enhance the relationship between taxpayers and the Namibian state in the future. The limitations of the fiscal contract proposition in the Namibian context have also been discussed.

In the light of the responses to the first research question, it seems that both above-mentioned arguments of the fiscal contract proposition – taxpayers are more willing to pay taxes if they get public services, and in return for their tax payments, they demand representation – are applicable to the Namibian context. None of the respondents were content with the provision of public services, and based on the interviews, this can be said to affect their willingness to pay taxes. The primary reason offered by the interviewees for the question why they are entitled to services, was the fact that they pay taxes. In general, the respondents recognized very few benefits in paying taxes. None of the respondents thought that they themselves are directly benefitting from paying taxes. Instead, most respondents recognized indirect benefits for paying taxes, although those benefits were few and to some extent unclear. In most cases, the more educated the respondent was, the more she/he would mention indirect benefits.

Secondly, the fiscal contract proposition stresses particularly the effect of direct taxes – that is, taxes imposed on individuals and companies' income – on state-building and strengthening state-citizen relationships. According to the fiscal exchange theory, people who pay income taxes from their salary are more likely to make claims toward the government and demand representation, than people who do not pay direct taxes (D'arcy 2011). What is interesting in the case of Namibia, is the fact taxes collected from individuals and companies' income together form a remarkable share in the total tax revenue. Although direct taxation brings a lot of revenues to the state coffers, based on the interviews, it cannot be said that the Namibian government is considered to be very accountable nor representative. On the other hand, it is worth noting that revenues resulting from direct taxation are collected from a relatively small number of taxpayers. In Namibia, the number of income taxpayers stands somewhere between 300,000 and 500,000 according to expert estimations<sup>127</sup>, which represents under one fifth of the total population. In cases where taxes are collected from a small number of taxpayers, there is a risk that the government is more favourable and accountable to those taxpayers that are strategically important, but does not engage in bargaining with the rest of the taxpayers, as Timmons (2005) and Moore (2015) suggest. Furthermore, in the contexts where there are deep inequalities among the population, the governance enhancing mechanism of

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<sup>127</sup> Interview with a Taxation Officer (26<sup>th</sup> April), international expert (26<sup>th</sup> April) and a local economist (27<sup>th</sup> April)

taxation should not be overestimated (Moore 2004). As Moore (2004) has suggested, in those cases a small business elite is likely to have good bargaining positions, while the rest of the population is forced to comply without representation. In Namibia this argument seems valid at least when it comes to having influence on the decision-making of tax policies.

When looking at decision-making regarding tax policies in Namibia, based on the interviews, it seems to be mainly businesses and audit firms who can lobby their interests successfully in the government. Ordinary citizens have very few possibilities to influence on policy issues related to taxation, and there are no institutional bodies to represent them when new tax legislation is being drafted. However, although citizen engagement in decision-making considering tax policies has traditionally been weak in Namibia, there has been a rather noticeable citizen protest against introduction of a new tax called “solidarity tax” a few years ago. Based on the interviews, it can be said that citizen opposition to solidarity tax has had an influence on at least delaying the implementation of the tax. As a consequence, it can be concluded that there has recently been tax bargaining to some extent in Namibia, as the citizen protests forced the government to rethink its plan to implement the tax.

With regard to citizen influence on political decision-making in general, the particularities of the Namibian political culture were brought up in expert interviews. Due to the dominant party system and weak civil society, there seems to prevail an attitude within the government that they do not always need to be accountable toward the citizens, as there is no alternative to vote for.<sup>128</sup> Furthermore, there seems to prevail reluctance amongst the citizens to collectively mobilize and speak out, as they are afraid that it will lead to negative consequences for themselves. During the interviews, I noticed that the interviewees were willing to criticize the ruling party in one-on-one situations, but were hesitant to criticize the government when there were other people present.

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<sup>128</sup> Interviews with a local expert (11<sup>th</sup> April) and an international expert (26<sup>th</sup> April)

### 7.3. Is the economic citizenship of Namibians concentrated around paying taxes?

The idea in the fiscal contract proposition is that people in a tax state would make claims toward the government primarily as taxpayers. However, I did not assume in this research that citizens in Namibia would demand services necessarily as taxpayers. Rather, I left the possibility open that they might make claims toward the state based on other factors, such as citizenship or ethnicity. While reflecting on where the interviewees base their entitlement to services, I intended to shed light on to what extent the interviewees adapt to their role as taxpayers. Furthermore, in order to gain understanding on what is seen as state's role in peoples' lives in general, I included a question considering government's role in helping a relative in need. The concept of economic citizenship was applied to the analysis of the interview material in order to gain deeper insight on the aforementioned issues.

A little over half (11) of the respondents stated that they expected services from the government primarily because they pay taxes. Roughly speaking, the education level of the respondent seemed to influence on how the respondent saw the relationship between him/herself and the government; the more educated respondents would more often demand services as taxpayers, whereas the less educated respondents considered more often that citizenship entitled them to a part of state's wealth. This result is logical in the sense, that the less educated would also more often not understand what taxation is for, and usually they do not pay direct taxes such as income taxes from their salary.

There was a strong recognition amongst several respondents that people are entitled to services because they maintain the government financially. Arguments such as "We the taxpayers sustain the government so they should be there to serve us" and "It's us paying their salary" came up various times in the interviews. However, it is worth noting that the responses might have been influenced by the fact that the respondents knew that I was interested in taxation. Furthermore, taking into account that this research was conducted in the capital where people are presumably most educated and exposed to information, as well as noting regional differences in tax evasion (the North is still considered to enjoy less monitoring), the responses could have been essentially different should this research have been conducted in another area or city.

Moreover, although more than half of the respondents seemed to base their claims strongly on the fact that they pay taxes, in terms of political organization, a body that would represent taxpayers' interests does not exist in Namibia. In addition, taxation does not seem to be a prominent topic in media and in public discussion in Namibia. This finding is in line with Therkildsen's (2001) notion about tax issues not taking centre stage in political or economic debates in most African countries. If there prevailed a strong taxpayer culture, one would assume that there would be more public discussion and forms of political organization around paying taxes.

Indeed, there is a need to consider investigating other reasons behind making claims toward the government, than assuming that claims are made based solely on paying taxes. The government – particularly its questionable spending priorities and corruption – is constantly and openly criticized in Namibian newspapers and at least in one-on-one conversations, if not in public arenas in fear of consequences. Some people seem to make claims towards the government as much as others, although they would not pay income taxes and would not recognize themselves as taxpayers. Therefore, it can be concluded that demands toward the government and claims for representation are based on other aspects as well, than solely on paying taxes. There seemed to prevail a general disappointment with the ruling party as not having fulfilled their promises since independence. In these cases it can be concluded that some people were making claims toward the government based on other factors than paying taxes, “claiming what the party had promised to its people”.

The interview material shed some light on what other aspects there might be in making claims toward the government – right to the country's wealth as a citizen, right to representation as a member of a certain ethnic group – but in the scope of this research, more comprehensive a picture cannot be drawn. Instead, this is an area where there would be a need for further research. In other words; what are the limits of the fiscal contract proposition determining the fiscal relations between a state and citizens in a certain context?

#### 7.4. Future prospects for taxation and its legitimacy in Namibia

Previous research has found that legitimacy of the state and legitimacy of taxation are intertwined (see i.e. Levi 1988, D'arcy 2011 and Fjeldstad 2012). The results of this study were no exception to the rule. Indeed, the degree to which the state is considered as legitimate, seemed to have a strong influence on respondents' willingness to pay taxes.

In the analysis as a whole, particularly relevant proved to be Weigand's (2015) notion about legitimacy always being in a process of transformation, construction and deconstruction, as in many cases the respondent's view of the government had changed over time. SWAPO has traditionally enjoyed high popularity, building its legitimacy on its achievements as being the liberation movement which led Namibia to independence (Metsola 2015). However, based on the interview material, and as noted by Metsola (2015), this legitimacy seems to be increasingly undermined. Levi et al. (2009) mention leadership motivations as one of the components which can either build or undermine state's legitimacy. It was clear in the majority of the respondents' comments that those motivations are increasingly being questioned. All the ethnic groups were similarly critical towards the ruling party.

Due to declining SACU revenues and persisting inequalities in wealth distribution which are causing increasing frustration among Namibians, the government is joining efforts to enforce tax collection to finance social spending in the future. However, taking into account the demographic structure in Namibia, the number for increasing income taxpayers is limited, as was discussed in relation to research question two. In addition, geography matters; large territories with low population densities coupled with large informal sectors lead to a situation, where getting people registered with the tax authority is a real challenge, as D'arcy (2011) suggests. Furthermore, interconnectedness of the world economy has led to a situation, where high rates of unemployment are structural and thus permanent (see e.g. Ferguson 2015). Considering the prevailing structural unemployment in Namibia, it can be questioned to what extent financing for development will be founded on widening the tax base of direct taxation of the Namibian citizens in the future.

Regarding the demographic, geographic and economic structure in Namibia, it can be questioned to what extent the fiscal relations between the Namibian citizens and the state

will be founded on direct taxing of the citizens in the future, and to what extent there will be a need for increasing other forms of fiscal transactions, especially those from the government to the citizens – for example in the form of social payments – in order to generate development and alleviate poverty, as e.g. Ferguson (2015) suggests.

Nevertheless, the pressure for the Namibian state to enhance revenue collection is in rapid increase, if it wants to maintain the current civil service, as the wage bill of the public sector is becoming increasingly difficult to sustain. The government has been planning for years on including the informal sector in the tax net, and a presumptive tax is being planned to be introduced in the near future. As a result of the tax administration reform and the electronic filing that it will eventually enable, monitoring of payments will be intensified in the future and tax revenues from citizens and corporations will assumably increase, alongside with introducing new taxes. However, if there will be almost nothing in return for these taxpayers as there does not seem to be at the moment, the Namibian government will face growing public resistance toward taxation and declining political legitimacy.

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## APPENDICES

Appendix 1: Table of Respondents

<b>TABLE OF RESPONDENTS</b>					
<b>INCOME UNDER 50 000 N\$ (No income tax)</b>					
<b>Gender</b>	<b>Occupation</b>	<b>Year of birth</b>	<b>Education</b>	<b>Mother tongue</b>	<b>Date of the interview</b>
F	Security guard	1981	Secondary school completed	Oshiwambo	10 <sup>th</sup> April
F	Domestic worker	1959	Secondary school completed	Nama/Damara	12 <sup>th</sup> April
M	Security guard	1990	Secondary school completed	Oshiwambo	18 <sup>th</sup> April
F	Security guard	1989	Some secondary school	Oshiwambo	21 <sup>st</sup> April
<b>GROUP INTERVIEW</b>					
M	Fuel attendant (1)	1966	Primary school completed	Oshidonga	24 <sup>th</sup> April
M	Fuel attendant (2)	1981	Some secondary school	Rukwangali	24 <sup>th</sup> April
M	Fuel attendant (3)	1990	Secondary school completed	Oshidonga	24 <sup>th</sup> April
M	Fuel attendant (4)	1990	Secondary school completed	Oshiwambo	24 <sup>th</sup> April 5 <sup>th</sup> May
M	Security guard	1993	Secondary school completed	Rukwangali	24 <sup>th</sup> April 27 <sup>th</sup> April
<b>INCOME 50 001-100 000 (Income tax 18%)</b>					
F	Post office worker	1991	University degree	English/Oshiwambo	19 <sup>th</sup> April
M	Post office worker	1991	Secondary school completed	Oshiwambo	19 <sup>th</sup> April
<b>INCOME 100 001-300 000 (Income tax 25%)</b>					
M	Project coordinator	1986	University degree	English/Oshiwambo	11 <sup>th</sup> April
F	Researcher	1987	University degree	English	11 <sup>th</sup> April
F	Researcher	1991	Honours	Oshiwambo/English	11 <sup>th</sup> April
F	Project coordinator	1982	Honours	Damara	12 <sup>th</sup> April
M	Business owner (home office)	1973	High school completed	Afrikaans	28 <sup>th</sup> April
F	Business owner (home office)	1960	High school completed	German	2 <sup>nd</sup> May

F	Young professional	1993	Enrolled in a post-graduate programme	Nama/Damara	4 <sup>th</sup> May
<b>INCOME 500 001-800 000 (Income tax 30%)</b>					
M	Business owner	1975	Polytechnic	Oshikwanyama	25 <sup>th</sup> April
<b>INCOME 800 001-1500 000 (Income tax 32%)</b>					
M	Business owner	1973	University degree	German	22 <sup>nd</sup> April
M	Business owner	1969	Diploma	German	26 <sup>th</sup> April

Appendix 2: Table of Expert interviews

<b>EXPERT INTERVIEWS</b>			
<b>Gender</b>	<b>Occupation</b>	<b>Institution</b>	<b>Date of the interview</b>
M	Expert	Local NGO	11th April
M	Director	Local NGO	11 <sup>th</sup> April
F	Taxation Officer	Inland Revenue, Department of Legislation and Tax Policy	12 <sup>th</sup> April
M	Taxation Officer	Inland Revenue, Department of Legislation and Tax Policy	12 <sup>th</sup> April
F	Head of Department	University of Namibia	13 <sup>th</sup> April
F	Deputy Head of Mission	MOF	18 <sup>th</sup> April
M	Manager	Multinational Accounting Firm	25 <sup>th</sup> April
M	Taxation Officer	Inland Revenue, Large Taxpayers' Office	26 <sup>th</sup> April
M	International expert	Independent	26 <sup>th</sup> April
M	Economist	Local NGO	27 <sup>th</sup> April
M	Senior Taxation Officer	Inland Revenue	interview by email in 6 <sup>th</sup> June

**Basic information**

1. Year of birth
2. Gender
3. Language at home: Which Namibian language is your home language?  
English / Otjiherero / French / Rukwangali / Portuguese /  
Rugririku/Rumanyo / Afrikaans / Thimbukushu / German / Silozi  
/Nama/Damara / Setswana / Oshiwambo (Oshindonga/Oshikwanyama) /  
Masubia / Other
4. Highest level of education?  
Primary school completed  
Some secondary school / high school  
Secondary school / high school completed  
Post-secondary qualifications, other than university e.g. a diploma or  
degree from a polytechnic or college  
Some university  
University completed  
Post graduate
5. What is your main occupation?
  4. a. Do you work for yourself, for someone else in the private sector or  
the non-governmental sector, or for the government?
6. How many members there are in your household? (List the members of your  
household)
7. Do you get any grants or allowances from the government?  
What about the members of your household?

**Taxation**

1. What benefits, if any, there are in paying taxes in your opinion?
2. What kind of public services, if any, do you get from the government? (specify what  
they could be)
  - a. How satisfied are you with the provision of public services? (Can be  
specified on a scale 1=not at all to 5=very)

3. What do you expect the government to provide for you? What would you like to get more than what you are getting now?
  - a. Why the government should provide these things for you – where do you base your claim? (Do you make claims as a taxpayer, as a citizen, as a member of certain group, something else?)
4. What disadvantages, if any, there are in paying taxes in your opinion?
5. In general, do you think that the government makes people pay too much taxes?
6. Compared to others, how much do you think you pay taxes: More than an average taxpayer / Same as an average taxpayer/ less than an average taxpayer
7. Do you think that there are some people or enterprises who do not pay taxes although they should?
  - b. How common do you think that this is?
  - c. Does this affect your willingness to pay taxes?
8. Do you believe that by collecting taxes from the citizens the government can reduce inequality in Namibia?
9. Do you know what your family members and friends think about taxation?
10. Do you know how tax revenues are used?
  - a. Where do you get information on government spending and tax issues?
  - b. In your opinion, does the government communicate sufficiently about how it spends tax revenues?

### **Solidarity Tax**

11. Are you familiar with the introduction of the solidarity wealth tax?
12. What do you think of the solidarity tax?
  - a. Who should pay it?
13. In your opinion, how should the revenues collected from the solidarity tax be spent?
  - a. Do you believe that they will be spent that way?

### **Government performance and responsibilities**

14. How reliable do you consider the Inland Revenue to be? (Can be specified on a scale 1=poor to 5=very)
15. Do you believe that people in general think that tax Officials, like Ministry of Finance officials or Inland Revenue officials, are involved in corruption?

16. Do you think that people who pay taxes should have more rights in terms of making claims to the government than people who do not pay?
17. In your opinion, is helping those in need primarily the task of the government or the relatives?

**Possibilities to advocate for ones rights and interests**

18. Do you feel like you can influence on the governments decision-making?
19. What do you do when you want to express your opinion?
- a. Where does it lead?
  - b. Are you afraid that you will get into trouble if you express your opinion?
20. Do you think that the ruling party SWAPO represents your interests?
21. Something you would like to add?