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Autonomy or Organization? Reforms in the Ghanaian Internal Revenue Service
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Introduction

Autonomous Revenue Authorities (ARAs) have become a popular organisational reform to improve revenue collection in developing countries. This paper however argues that the strong performance of the Ghanaian ARA -- the Internal Revenue Service -- is the result not primarily of autonomy, but of more nuts and bolts reforms that could well be adopted under traditional tax administrations.

Autonomous Revenue Authorities

In 2005 approximately 25 countries had functioning ARAs. Introduced as part of the New Public Management ideology, the ARA model involves the removal of revenue administration from the control of the Ministry of Finance, through the creation of a separate "arms length" agency with independent (often legal) status, including autonomy over administrative, financial and personnel affairs. Evidence suggests that ARA reforms are, at least in their initial years, associated with increased revenues, reduced corruption and improved taxpayer compliance. The explanation for this success has tended to focus on "autonomy": independence from the Ministry of Finance prevents political interference in recruitment and operations; improved control over budgets and financing (often through revenue retention mechanisms to incentivise performance) enables better planning; and freedom from civil service rules improves the ability to attract and retain professional staff. However, the focus on autonomy overlooks the fact that it can in practice be very difficult to achieve and sustain.

The Ghanaian Internal Revenue Service

Attempts by the Rawlings regime in 1985 to increase revenue (in response to a fiscal crisis) through harsh enforcement had limited success. In 1986 two ARAs were created: the Internal Revenue Service (IRS) and the Customs Excise and Preventive Service (CEPS) (a third ARA covering VAT was set up in 1998). The IRS was reorganised along functional lines; given autonomy to hire professional staff (some 28 per cent of the original staff were made redundant and redeployed, and conditions of service improved significantly); and allowed to retain revenue to cover administrative costs. The tax code was reformed, unproductive laws repealed, tax procedures simplified and made more transparent. The requirement for Tax Clearance Certificates was institutionalised. These reforms proved successful: revenue collection increased from 5.5 per cent of GDP in 1983 to 17 per cent of GDP in 1993. Between 2002 and 2003, IRS revenues again increased substantially.

Autonomy in practice?

Despite the ARAs structure, political and financial autonomy for the Ghanaian IRS has proved elusive. The IRS Commissioners are political appointees. Early arrangements for independent oversight were weakened, and the Ministry of Finance retains influence through

its representatives on the Governing Board. There is evidence of politicians intervening to reduce tax liabilities of groups of supporters. In practice, the financial autonomy of the IRS is limited, with little flexibility for independent long-term planning. Low morale of tax officials reflects limited ability of managers to improve incentives, conditions of service or the working environment (staff turnover is high). Weak enforcement of sanctions against corrupt officials and tax evaders further lowers morale.

An alternative explanation of good performance

The paper argues that two key factors contributed to improved revenue collection: a) an explicit strategy to target different taxpayer segments, including large taxpayers through a special unit, and the informal sector; and b) significant efforts to bring tax administration and the taxpayer closer together through decentralisation and improved taxpayer services.

Innovative schemes were introduced to use informal sector associations to collect tax from members, starting with the Ghana Passenger Road Transport Union in 1985 (and later extending to 13 other associations). The new tax was better targeted and more affordable (because more frequently levied) than the presumptive flat tax it replaced, and was quite successful in increasing revenues and creating a culture of taxpaying. It was replaced in 2003 by a quarterly income tax paid through a vehicle sticker system (this overcame the problem of the union retaining an excessive share of revenues), followed by a tax stamp for the self-employed in 2003. Taxing the informal sector contributes only a small proportion of total revenue, but is important because it has the potential to improve tax compliance in other sectors. Involving associations of informal sector workers represented a step towards more formalised conventional taxation, and (assisted by massive taxpayer education campaigns) encouraged a culture of taxpaying, and constructive re-engagement with the state.

Centralisation of IRS offices to regional, district and sub-district level starting from 1985 also contributed to good performance. The aims of decentralisation were to facilitate taxpayer identification, increase the tax base by widening the tax net, facilitate easy assessment of taxpayers and tax collection, and improve understanding of taxpayers' assessment problems. Interviews with senior IRS officials suggest this strategy has worked. Simultaneously, the IRS sought to improve its public image by making tax offices friendly and accessible, with dedicated customer service staff in each local office. In line with the decentralisation strategy, and with other reforms seeking to reduce the overall tax burden for small businesses and simplify procedures, a small taxpayer bureau opened in 2006 with 'desks' in each IRS district office.

Implications for policymakers

There are two main implications:

- i) Too much attention has been paid to autonomy in analysing the performance of ARAs, at the expense of examining the organisational design reforms that have been often simultaneously undertaken. In the Ghanaian case autonomy explains little of the trajectory of the IRS's performance. It may be better to examine in particular contexts whether such reforms can be carried out in the ordinary setting of tax departments, at lower cost.
- ii) Taxing the informal sector remains challenging, but its importance is undeniable. Successfully targeting the informal sector is essential for sustaining revenue growth and can help improve state legitimacy. Ghana's experience suggests that involving informal sector associations in tax collection can offer a way forward.