



INNOVATIONS FOR SUCCESSFUL SOCIETIES

PROFESSIONALIZATION, DECENTRALIZATION AND A ONE-STOP SHOP: TAX-COLLECTION REFORM IN GHANA, 1986-2008

SYNOPSIS

Between 1986 and 2008, direct tax revenue collected by Ghana's Internal Revenue Service nearly doubled as a proportion of the country's gross domestic product. This case study offers an account of organizational change within the IRS during that period. When the agency became autonomous from the rest of the Ghanaian civil service in 1986, its leaders recruited a large number of accountants and lawyers, raised salaries by 50%-100% and instituted a collective bonus system tied to annual revenue targets. In order to make taxes easier to pay, they delegated functions, people and equipment to local branch offices, monitoring those offices through monthly revenue reports and regular internal audits. Finally, the agency focused attention on customer service for the largest taxpayers by founding a Large Taxpayers Office. That office formed the basis for a cross-agency one-stop shop, the Large Taxpayers Unit, which allowed the 360 firms and individuals that accounted for 50%-60% of the country's revenue to pay customs taxes, value-added taxes and income taxes in one place.

David Hausman wrote this case study on the basis of interviews conducted in Accra, Ghana, in January 2010. Case published July 2011.

INTRODUCTION

When John Sotenga began work as an assistant inspector of taxes for Ghana's Internal Revenue Service in 1977, his branch office in the Upper West region did not have a proper office or a vehicle for tax collection. "We rented an office. Part of it was a store and part of it was residential, yet we were also using part of it as the revenue office," Sotenga said. When they left the makeshift office to collect taxes, he and his colleagues hitched rides in trucks. "We had to enter market trucks, and when I say truck, a

wooden vehicle that is meant to carry cargo," he said.

By the late 1980s, Sotenga's office had a vehicle and proper office space—and was collecting significantly more revenue. Sotenga's experience was a common one. Between 1986 and 2008, direct tax revenue collected by Ghana's IRS nearly doubled as a proportion of the country's gross domestic product.

In 1986, the IRS, formerly the Central Revenue Department, gained autonomy from Ghana's civil service rules and was given access

to a portion of the revenues it collected. The agency used the money to launch a major program of institutional transformation. At the time the IRS gained autonomy, it hired a large cohort of new employees with professional degrees—mostly accountants and lawyers. These professionals made up approximately 30% of the agency's staff, and the organization made an effort to spread them throughout the operation, facilitating an exchange of experience between the new workers and veterans. Because the agency now had access to a proportion of tax revenue, it was able to increase salaries dramatically, often by 50%-100%, both for new hires and for staff who stayed on. In an effort to increase local compliance, the organization brought tax collection closer to taxpayers, increasing the authority of local offices and investing in logistics. Finally, in 1996, the IRS helped found the Large Taxpayers Unit, a one-stop shop where large taxpayers could fulfill their income, value-added tax and customs obligations.

Tax reform in Ghana was often described as one of the greatest institutional reform successes of the last two decades of the 20th century in sub-Saharan Africa.¹ According to budget figures, total tax revenue increased from under 5% of GDP in the early 1980s to well over 20% of GDP after 2004.² To be sure, the organizational changes within the IRS were not the only factor that caused the sharp increase in tax revenue during this period. The government set up a new, autonomous Customs, Excise and Preventive Service that improved customs-revenue collection, and in the 1990s the government replaced the sales tax with a value-added tax administered by an autonomous tax service. Tax-policy decisions to target large taxpayers and the informal sector also played a role in revenue gains, and the depreciation of the exchange rate in the early 1980s increased export revenues.

Still, overall, direct tax revenue collected by the IRS increased from about 3% of gross

domestic product in 1986 to nearly 6% in 2008. Along with concrete changes to organizational structure and human-resources policy, Sotenga said he saw a gradual but significant change in the attitudes of IRS workers toward taxpayers during the period.

In the mid-1980s, "you considered the taxpayer somebody you had to shout at, you had to push around," Sotenga said. "But when we started changing the words, calling the people customer, then that relationship and duty found that you had to treat the taxpayer as a customer and improve services." While the organization was changing, Sotenga moved up through the ranks, and by early 2010 he was the agency's deputy commissioner for operations.

THE CHALLENGE

In 1986, when David Adom returned to Ghana from a career as an accountant in Nigeria to become deputy commissioner for research and planning at the newly autonomous Internal Revenue Service, the agency collected direct tax revenue approximately equal to 3% of Ghana's gross domestic product. The IRS, formerly the Central Revenue Department, lacked qualified professional staff. Salaries were low, and local offices lacked the people and resources to collect taxes effectively. Taxpayers were treated as adversaries rather than clients.

Inflexible recruitment rules made it difficult to find staff with the specific professional qualifications necessary for tax collection—for example, a degree in accounting. "You needed to go through the Public Service Commission, where those who do the recruitment are basically not tax personnel," Adom said. "So a person could be transferred from an institution that had little to do with taxation to the tax office."

Low pay added to the problems created by the inflexible recruitment policy. Employees recalled that salaries were difficult to live on in the 1980s and insufficient to attract and retain professional staff. According to Edward Larbi-

Siaw, who served as chief director in the National Revenue Secretariat from 1986 to 1991, salaries in the private sector were anywhere from 50% to 100% higher.

Underpaid staff grappled with a highly centralized administrative system that denied district offices the resources and flexibility needed to collect taxes. Districts not only lacked vehicles and office space but also faced cumbersome procedures to accomplish basic administrative tasks. For example, “If you were in charge of a claim,” Sotenga said, “you had to prepare a voucher, and the voucher went to the district office of the comptroller and accountant general,” then to the regional office and finally to the capital, Accra, before payment. This system made scarce resources even scarcer. Emmanuel Nyamordey, who worked his way up the ranks in the IRS from clerical officer to assistant commissioner between 1963 and 2003, said that before the reforms of 1986, it was sometimes difficult even to find pens and paper. The combination of these administrative hurdles and the lack of resources weakened the district offices, so taxpayers had nowhere to turn for help with compliance issues—and, of course, faced correspondingly little threat of enforcement action.

Finally, a small number of taxpayers accounted for a disproportionately large share of Ghana’s revenue, but the department had no way to target those taxpayers with better service to encourage compliance—or to audit them and punish noncompliance.

FRAMING A RESPONSE

Organizational reforms within the IRS took place as part of a larger program of tax reform in Ghana. After Jerry Rawlings seized power in a December 1981 coup, the government faced a deep recession and a dramatic shortage of revenue, a problem that it initially dealt with by forming so-called Citizen Vetting Committee to enforce the tax obligations of large taxpayers. A decree banned any court from challenging the

findings or orders the committee made. The eleven members, led by an army officer, equated wealth with corruption and focused on people whose lifestyles implied high incomes.³ It enforced tax law through what Sotenga called “very strong punitive measures on people who defaulted. ... It was around three times the tax that you were supposed to pay if you were caught. If you could not pay it, some of your assets were seized.”

After citizens vetting committees made initial revenue gains, the government sought formal institutional solutions to the problem of low revenue, and created three new, autonomous institutions: the Internal Revenue Service; the Customs, Excise and Preventive Service (CEPS); and the National Revenue Secretariat, an oversight agency that was given ministerial status. Sotenga said the citizens vetting committees helped pave the way for later formal organizational change by altering public attitudes toward taxation. “The taxpayers would have seen it as an ongoing issue from vetting committees into a more formal institution,” Sotenga said.

After the establishment of the new agencies, reform planning began within the IRS. Adom, the deputy commissioner for research and planning, who later became IRS commissioner, described an initial study stage that revealed the basic problems: inflexible recruitment, low pay and over-centralization. “After the initial diagnostic studies of the existing system, a team was put together to plan the transformation,” Adom said. “That began with looking at the law, because every activity should be governed by the law. So the law was reformed, then the law was enacted. That gave the authority for the new creation, the new institution ... then the implementation process, where recruitments were initially made with the appropriate complement of staff.”

As part of the reforms, leaders mounted a public relations campaign to overcome public resistance. Larbi-Siaw, the chief director of the

National Revenue Secretariat at the time, said he helped organize a tax awareness week. “We went to the regions ourselves and got feedback,” he said.

GETTING DOWN TO WORK

In 1986, Adom and his colleagues at the IRS began by liberalizing recruitment procedures and hiring a large number of accountants and lawyers. Taking advantage of the new system under which the IRS could keep a portion of the tax revenue it collected, Adom and his colleagues raised wages sharply and suddenly, and put in place a collective bonus system. Functional reorganization and decentralization followed, with more people and resources assigned to local branch offices. Finally, in the mid-1990s, after these reforms were well established, the IRS founded a Large Taxpayers Office that became the basis for the Large Taxpayers Unit, a one-stop shop established in 2001.

Recruitment was the first item on the agenda. As an autonomous agency, the IRS could pursue graduates and professionals without worries about civil service recruitment and pay requirements. Larbi-Siaw said the agency pursued qualified staff both through a formal competitive procedure and through head-hunting. In the competitive process, posts were advertised, and shortlisted applicants were interviewed by panels that included both government officials and people from the private sector. Other hires came about less formally. “You would have heard of a certain accountant,” Larbi-Siaw said, “and you called them and were able to decide the salary.”

The emphasis was on professional qualifications. Seth Terkper, who advised the National Revenue Secretariat at the time and later became deputy minister of finance, said that the focus was on finding university graduates. “They might not know tax, but they were trainable.” Adom, the IRS deputy commissioner for research and planning who

later became commissioner, agreed. “At that time [there was] a lot of recruitment of graduates,” he said. “It was easy for the recruitment to be done because there had been an exodus of Ghanaians to Nigeria, and that was the time Nigeria was getting bad and Ghanaians were returning home, so it was easier actually to get the right complement of staff.”

According to Adom’s estimate, the new recruits made up approximately 30% of the IRS staff, and an immediate challenge was integrating them with the staff that remained. “That mix of old attitudes and new ones created a lot of problems,” Adom said. Emmanuel Nyamordey, who had worked for the agency since 1963, said the new recruits tended to underestimate the abilities of those with more experience but fewer professional qualifications. “It was a challenge,” he said. “You had to prove yourself.”

Adom and his colleagues took several steps to reduce resistance and prevent conflict. First, they tried to make their intentions clear. “Though difficult, there was constantly the assurance that we’ve come to partner with you, to grow revenue collection for the improvement of this country,” Adom said. Second, new and old recruits were placed together as much as possible. “Basically what was done was not to pack a particular department with new staff. So it was a mixture of old and new in various departments,” Adom said. “Even tax auditors, field auditors had both old and new, but there were more of the new officers because of the specialized nature of the assignment.” As the two groups worked together, Nyamordey said, veteran staffers generally convinced their newly hired counterparts that experience was a useful qualification.

The new professionals were hired at higher salaries, and veteran staffers received large raises to match. (The new funding system, in which the IRS kept a proportion of tax revenue, made the raises possible.) Precise salary data were not available, but interviewees agreed that the raises

ranged from 50% to 100%. The moment was memorable. “We weren’t expecting it, and we shot up,” Nyamordey said. Adom added that the higher salaries made recruitment easier and gave the IRS a strong advantage over government agencies that remained part of the civil service.

Along with higher salaries came a new collective bonus system based on revenue targets. When the agency as a whole exceeded its revenue target for the year, all employees received a 15% bonus. The collective target produced social pressure for performance. “I think staff were very much aware of the reward and therefore improved performance,” Adom said. Sotenga agreed that the bonus system motivated staff. “So target, target, target. Achievement was the order of the day,” he said. “Even those who were not directly involved in operations, they meet you and they ask you, ‘Are we meeting our target?’ You go for a meeting, everybody is talking about meeting our target.”

Sotenga had some doubts about the bonuses, however. “It had a very positive effect in mobilizing revenue but the negative thing was there was too much placed emphasis on collection ... without still trying to follow the strict procedures of the law,” he said. In other words, by adopting a revenue target without rewarding other types of performance, such as good customer service or fairness in the treatment of taxpayers, the collective bonus system produced distorted incentives. Nonetheless, interviewees consistently gave the bonus system part of the credit for revenue gains.

The IRS’s ability to meet its revenue targets depended not only on motivated, well-paid professional staff but also on changes in the structure of the organization. In 1986, the service was reorganized into three functional groups: operations; research, planning and monitoring; and finance and administration. Within the new structure, the agency created specialized “core departments like tax audits,

whereby you moved out to the taxpayers premises and carried out an audit,” Adom said. “That brought in substantial sums of money because of evasion practices by taxpayers.”

Crucially, the structural reforms also included delegation of tasks to district offices. District offices were made collection points, and they became self-accounting, able to spend money without first seeking approval centrally. At the same time, the head office in Accra ceased to be a collection point and started to concentrate on policy and monitoring.

Decentralization brought collection closer to the taxpayer. Samson Hammond, director of the Revenue Agencies Governing Board and a former customs and Ministry of Finance official, said that district tax offices were able to provide more logistical support to taxpayers, partly by adapting to the specific cultures of their regions. For example, Hammond said, local officials learned which days were market days and which times they were most likely to find farmers free to pay taxes.

Decentralization of functions typically involves a trade-off: Services are easier to deliver locally, but local branches of government are harder to supervise. The IRS put in place several monitoring systems to head off this potential problem. Emmanuel Nyamordey, who supervised five district offices as the chief inspector for Ghana’s Central Region for eight years, said he worked closely with district heads, keeping tabs on their work. A regional statistician and accountant kept track of data submitted by the districts, and every year Nyamordey visited each district for a week.

The regional heads were accountable, in turn, to the central office in Accra. Sotenga, who headed several regional offices during his career, said he thought the monitoring system was effective. “All the districts reported to the regional director, and the regional director had to report to the central office,” he said. “So every month you have to submit on that, on this prescribed management information system,

report your expenses, revenues and bottlenecks and what have you. So because of this organized reporting system, it was easy to supervise. We had an internal audit that would go around and constantly check to make sure. Government still had external auditors, external audit service. That also came around to audit.”

Monitoring was feasible partly because results were more quantifiable than in many other areas of the government. Revenue, while hardly a flawless indicator of performance, was easy to measure. In addition, the agency took advantage of its own technical capacity for monitoring: The accountants hired in 1986 were useful for auditing not only taxpayers but also tax collectors. The IRS set monthly targets for district offices. “So the actuals compared with targets,” Adom said. “If you are doing well, we will call you and say, ‘Oh, thank you.’ If you’re not doing well you’ll be reprimanded. So that alone—and it affects your stay at that position. If we believe you’re not doing well, we’ll move you.”

Throughout the process of decentralization, the leaders of the tax agency tried to cultivate a customer-service ethos. A public-relations and tax-education department was established, and managers attended seminars. Mostly, though, the service imperative filtered down from the leadership. Taxpayers began to be called customers, and the attitude of staff gradually shifted. The service role was made clear in details of interaction with the taxpayer. “You assist in giving him forms, explaining things to him, explaining matters,” Sotenga said. “You go, even on enforcement activities, you have to put in a very nice way and explain things to the customer for his understanding. So when you bring out any enforcement activity, he says, ‘Well, that’s OK, you come to do your work.’ You need to explain that.”

OVERCOMING OBSTACLES

Five years after these initial changes, the National Revenue Secretariat—the ministry-

level agency created to oversee the IRS and CEPS—was dissolved, largely as a result of a power struggle between the secretariat and the Ministry of Finance. The IRS began once again to receive allocations from the Ministry of Finance rather than a proportion of tax revenue. Despite these setbacks, however, the human resources and organizational reforms within the IRS remained largely in place.

When Adom moved up from his position as deputy commissioner to become commissioner of the IRS in 1996, he explored various ways to continue improving revenue collection. Noticing that a small number of taxpayers accounted for more than half of the IRS’s revenue, Adom pulled together two dozen or so staffers to form a Large Taxpayers Office at the central IRS office in Accra. “Many of these big cases are multinationals, sophisticated and so on,” Adom said. “So we needed to give the Large Taxpayers Office some of the best staff to be able to handle the cases of using ingenious accounting system to cheat the system. This is the idea.”

Adom said the Large Taxpayers Office was successful at improving revenue collection, and he subsequently led the effort to open three more such offices at the regional level. Sotenga was put in charge of the Large Taxpayers Office in the Western Region, and he described the steps he took to open the new office. “In the first case you have to identify the tax files which you think should be large taxpayers,” he said. “Essentially it was these multinationals, then these mining companies. Those with big time, big employees, that can pay large amount of payroll, withholding tax.” He chose employees based on his past experience with his staff. “As the regional director you just have to do your own appraisals of the staff and hand pick those you think are good and then establish your office,” Sotenga said. He offered no financial incentives to join the office. “They were proud that we identified them,” he said. “That’s a pat on their back that yes, you are good; that’s why

you've been asked."

The success of these offices, as well as a similar office created by the value-added tax service, created momentum for a larger initiative: a pilot one-stop shop at which large taxpayers could file their IRS, CEPS and value-added tax returns together. "These concepts [were] already improving taxes," Sotenga said. "Why not cut down costs and business processes and enhance the situation by bringing them together?" He was chosen to head the new office, which was called the Large Taxpayers Unit.

Tax files and staff were moved to the new central office. Samuel Brew, a senior task officer at the IRS from 2000 to 2007, described physically collecting the files for the 360 largest taxpayers in the country and gathering them at the new premises of the Large Taxpayers Unit in Osu. The unit recruited approximately 100 staff, all of whom were seconded on the recommendation of the commissioners of the IRS, the customs agency and the value-added tax agency. Despite reporting for work at the unit, employees continued to draw their salaries from their respective institutions, at the same level of pay that they had received in their previous positions.

The unit's toughest challenge was to train the staff in the tax-collection methods of the other agencies. "It wasn't easy to bring in a customs officer and within a year think that you could ask him to go out and be able to handle a case of IRS or directive issues," Sotenga said. "It was difficult to get somebody, work somebody through these three distinct ways and let him be one man for across the board."

Sotenga settled on a strategy of long-term cross-pollination. "It was to first and foremost understand and accommodate that this is a reality," he said, "and gradually, without rush, try as much as possible to see how you can be bringing these different human resources to acquaint themselves in a very gradual way with the system. So in setting up any activity, you

would bring the three distinct offices together. If it is audit, if it is collection, if it is assessment, let them sit together, exchange views, question each other and try to learn on the job. Because it was extremely difficult to send them quickly to a classroom give them attitudinal training, give them knowledge training, academic or professional training and say come back and work. It wouldn't work. Even if they learned it, it wouldn't work."

ASSESSING RESULTS

Revenue gains were the most visible indicator of improvement in organizational performance at the IRS. The two decades following the reforms of 1986 showed steady revenue improvement, from approximately 3% of GDP in 1986 to nearly 6% in 2008.

The respective contributions to increased revenue of new hiring, pay raises, collective bonuses and decentralization are difficult to disentangle, though IRS employees asserted that each played a significant role. The newly hired professionals, who could be attracted only at higher salaries, provided the technical skills to audit taxpayers as well as district offices. The accompanying organization-wide pay raises helped maintain morale among the remaining employees. The collective bonuses provided a clear goal and a socially enforced motivation for work. Resources and flexibility allowed district offices to offer more convenient service to taxpayers, and monthly reports and internal audits gave the central and regional offices the ability to supervise them. Finally, the Large Taxpayers Office and, later, the Large Taxpayers Unit effectively concentrated attention on Ghana's major taxpayers, offering them better service while placing them under more scrutiny.

IRS leaders pointed to less concrete gains, too. In the years after the shake-up of 1986, the experienced civil servants and the newly hired professionals gradually learned from each other to form what Adom, Sotenga and others

described as a cohesive and qualified staff. “The initial apprehension evaporated because of the goodwill of both parties,” Adom said. “Once reward is fair, once allocation of assignment is fair, it is natural that people will get to work in a more congenial atmosphere.”

Some interviewees offered criticisms of the IRS reforms. The most common complaint was that the moves did not go far enough. Samuel Brew, the senior task officer who helped gather files for the Large Taxpayers Unit, said that salaries remained too low at the IRS and the unit. The unit originally offered a 20% bonus, but discontinued it because of opposition from the IRS, CEPS and the value-added tax agency, Brew said. As a result, some workers left for the private sector. “If the LTU had belonged to me, I would have raised their salaries enough to keep them,” Brew said. “You need to be trained for taxation. It pays to maintain people.” Brew added that, despite decentralization, district offices continued to lack facilities, so staff

preferred to work in Accra, and large companies also preferred to pay their taxes in the capital.

REFLECTIONS

In comparison with many other revenue services as well as with other government agencies in Ghana, the Internal Revenue Service was an institutional-reform success story. What allowed the IRS to make and sustain progress? The agency benefited, of course, from the initial infusion of resources that made the pay raises possible.

Resources do not tell the whole story, though. Interviewees stressed the informal, social aspects of the reforms, especially the effort to integrate new employees, the social pressure created by the collective bonus system, and the on-the-job training that employees provided for one another at the Large Taxpayers Unit. And although they implemented the reforms quickly, the leaders of the IRS understood that changes in habits and norms would be gradual.

¹ See, for example, Prichard, Wilson. “The Politics of Taxation and Implications for Accountability in Ghana 1981-2008.” Institute for Development Studies Working Paper 330. July 2009.

² Ibid, p. 38 (Note: figures supplied by Ghana IRS research division, January 22, 2010).

³ Darko K. Opoku, “Political Dilemmas of Indigenous Capitalist Development in Africa: Ghana under the Provisional Defence Council,” *Africa Today* 55 (2), p. 33.

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