A sound policy management framework has been regarded as very essential to development. This point has been re-echoed by Toulmin and Chandradhat (1967:133) who noted that

if other prerequisites are present to a sufficient degree, and if policy management is generally good, then there will be developmental progress. If, however, other prerequisites are present but policy management is poor, there will be less progress and perhaps none at all.

Also as argued by Grindle (1980:1-12) the poor performance of most public policies, programmes and projects in developing countries is due to their poor management. Indeed, poor policy management is not only an endemic source of trouble for, but a major serious obstacle to, effective and social development.

It is thus clear that no matter how good a policy may be on paper, it is of little use unless it is adequately implemented. This is where Ghana has largely failed. In Ghana, policies and programmes have a very poor implementation record. Despite this, successive Ghanaian governments have not lost their faith in the policy formulation process. This paper discusses the factors that contributed to the poor management or implementation of a policy, the Value-Added Tax (VAT). First, the paper examines the reasons behind the introduction of VAT. Second, it discusses the administration of VAT, with reference to the role of VAT Services and Board. Third, the paper analyses the factors that contributed to the poor management of VAT, culminating in its withdrawal by the government. Fourth, it offers lessons on the prerequisites for, and constraints on, effective policy management.

VAT: Rationale for introduction

One of the simplest ways of imposing a tax is to levy it on expenditure, that is, to impose it on things which people buy. The most important way of dealing with expenditure across the board is a general turnover tax on total sales. The turnover tax that is levied in Europe and some African countries is the Value-Added Tax (VAT), whose introduction has been credited with bringing about the most important change in taxation in the twentieth century. VAT solves a number of administrative and policy
problems that bedeviled sales tax and excise duty, both, like VAT, direct taxes. It does this by replacing a whole family of taxes on products with one uniform tax. Poland, for example, replaced more than 2,000 different sales taxes with one, when, after the fall of the communist government, it adopted a western-style VAT (Bahl and Linn, 1992:12-39). VAT has the following advantages:

(i) it avoids cascading taxes, and therefore avoids distortions and over-taxation. It also does so because it taxes only the value added by the person being taxed. The typical sales tax imposed on manufacturers, wholesalers, and retailers frequently causes distortions, partly because it cascades, that is, it represents a tax on another tax;

(ii) it is transparent, since one can see what tax is being applied;

(iii) it introduces an innovative self-policing feature when documentation is simple and understood by the taxpayer; and

(iv) it increases the effectiveness of tax collection and reduces revenue losses by minimizing the incidence of tax avoidance, evasion and plain fraud.

The greatest disadvantage of VAT is that as an indirect tax it is regressive. It may lead to increases in prices of consumer goods and services. In other words, VAT is an indirect tax on the domestic consumer of goods and services - whether these are produced locally or imported into the country. It is collected at all levels of production and distribution. Ability to pay is not taken into consideration. Both the rich and the poor will pay the same VAT if they were to purchase the same quantity of an item. Exemptions are said to cushion off the harsh effects of VAT. But how does exemption work? If an item is exempt from VAT, it means that whoever is selling it must not levy VAT on it. However, VAT on any input of the exempt item sticks, for example, VAT on vehicle spare parts will stick as cost and reflect in transport charges even though transportation might have been exempt from the tax. In addition, those supplies (goods and services that are outside the scope of VAT because of the threshold also attract VAT. VAT sticks on such supplies also as cost. All things being equal, those below the threshold should sell their goods at cheaper prices, but this is not always the case. The supplier sometimes takes advantage of the exemptions in the VAT system to charge VAT-inclusive prices and thus reap additional profit. It is clear then that in widening the tax base VAT extracts more money from the consuming public than would otherwise have been possible (Goode, 1984: 19-30; and Musgrave and Musgrave, 1980:14-17).

It is against this background that the introduction of Ghana's VAT system should be viewed. Since 1965 Ghana had operated basically five forms of taxes, namely, Sales Tax, Hotels and Restaurants Customers Tax, Advertisement Tax, Betting Tax and Entertainment Tax. Of these, Sales Tax is the most important
because of its coverage and use. Sales Tax is charged on all locally manufactured or produced goods, as well as goods imported into the country unless the goods are exempt. The Tax is, however, limited in scope, in that it does not cover wholesale and retail trade as well as services. Apart from this, all the taxes are unable to meet the projected revenue targets of successive governments. All governments in Ghana had recorded massive shortfalls in revenue. The introduction of the Value Added Tax (VAT) in Ghana in March 1995 therefore, was meant to: (a) replace the existing taxes, namely, Sales Tax, Hotels and Restaurants Customers Tax, Advertisement Tax, Betting Tax and Entertainment Tax, with one common tax; (b) widen the scope of the tax net; and (c) broaden the tax base and the and, by so doing, increase government revenue.

VAT, as noted earlier, is a tax on the final consumption of goods and services in the domestic market but it is collected at all stages of production and distribution. It is also an indirect tax, like the other five forms of taxes that it was meant to replace. The key aspect of VAT is that a registered person making sales of taxable goods or services must account for tax on all his/her sales, and get credit for the tax paid on his/her purchases of business inputs.

The first official hint of the introduction of VAT in Ghana was dropped on the floor of the Ghanaian parliament by the Minister of Finance in July 1993. A VAT Technical Committee, an Oversight Committee, and a VAT implementation agency were established. The Minister's statement gave an assurance that the VAT system would not be rushed. This must be so because even though VAT promised to be a simple and neutral tax system, its implementation needed very careful planning, particularly in an environment such as Ghana where the level of general literacy, tax literacy, taxpayer identification and record-keeping are quite low.

Debate on the VAT Bill started in Parliament on November 11, 1994 with very interesting but somewhat disturbing views being expressed by Members of Parliament (MPs) who supported the introduction of the VAT as well as those who opposed it. Opening the debate the Minority Leader, who opposed the introduction of VAT, derisively termed VAT "Very Augmented Trouble" and cautioned that the government would be inviting big trouble if VAT was introduced. The MP for Mfantseman West, who supported the Bill, noted that VAT would reduce the craze for foreign goods and thus lead to capital formation towards education, housing and health sectors. In contrast, the MP for Klowor called for alternative solutions to the country's tax problems rather than the introduction of VAT. He cautioned that:

If some of us do not return to Parliament in 1996, then you must know that the electorate have shown concern for betraying them by introducing this system.1

Despite the criticisms of the VAT Bill, the National Democratic Congress-dominated Parliament (the NDC had 189 MPs out of a total of 200) passed the VAT Act, 1994 (Act 486) on December 1, 1994, after the original bill had been amended on November 23 by Parliament for the system to start on March 1, instead of 1 January.
The Act was supported by Value Added Tax Regulations, Legislative Instrument (LI) 1598 of 1995.

Features of the VAT Act, 1994

The main features of the VAT Act are as follows:

(i) The minister for Finance was given the power to publish in the Gazette the percentage or rate of the taxable supply or import. After the passage of the Bill, the Minister fixed the percentage at 17.5 per cent. The Memorandum to the Bill was silent on the policy objective of this provision and ignored it significance, thus leading the unwary into assuming very erroneously that Parliament, by passing the Act, had given the Minister of Finance the authority from time to time to prescribe the amount of VAT payable. This is without a doubt an unconstitutional view. For the Minister to impose tax under the VAT system, his authority must be derived from Article 174(1) of the 1992 Ghanaian Constitution which stipulates that "No taxation shall be imposed otherwise than by or under the authority of an act of Parliament". Parliament, therefore, should have fixed the VAT rate and not the Minister by a circuitous interpretative process founded on Article 174(2) which states that "where an Act, enacted in accordance with clause (1) of this article, confers power on any person or authority to waive or vary a tax imposed by that Act, the exercise of the power of waiver or variation, in favour of any person or authority, shall be subject to the prior approval of Parliament by resolution".

(ii) Any business or trade with an annual turnover of 25 million cedis (10,000 pounds sterling) is required to register with, and operate within the system. Again, others, with turnovers less than the stipulated amount but willing to register could do so by applying to the Commissioner of the VAT Service. Such registered businesses and traders shall supply taxable goods and/or services charging VAT at the specified rate of 17.5 per cent.

(iii) Persons or businesses that qualify to register but fail to do so commit an offence which according to Section 6 of Legislative Instrument (LI) 1398 makes them liable on conviction to a fine not exceeding 2 million cedis (800 pounds) or imprisonment for a term not exceeding one year or both.
(iv) Operators of the VAT are required by law to file monthly returns at the VAT office. This means that they are to account for the VAT they have paid and what they have collected from their customers on behalf of the government. After the returns are filed, refunds will be made either by the operator to government or vice versa.

(v) The accounting period is one month and the returns are supposed to be made, at the VAT office nearest the operator, not later than the last day of the following month. Those who violate this regulation shall pay an interest of 10 per cent above the prevailing lending bank rate. The same applies to the refund of tax to any operator by the VAT Service.

(vi) Schedule One of Act 486 lists 18 items and services which are exempt under VAT. These include all live animals produced in Ghana and those imported for breeding purposes, animal products, including edible meat; local agricultural and aquatic food products in their raw state; and agricultural inputs including chemicals (fertilizers included) and fishing equipment. Other exempt items and services are domestic water and electricity, medical supplies (pharmaceutical products), education, transportation, including the transportation of goods, crude oil, diesel, kerosene, liquefied petroleum gas and residual fuel oil.2
Institutional Framework for VAT Implementation

For the administration and management of the value-added tax, a separate institution known as the Value Added Tax Service (VATS) was established in 1994. The VATS was also responsible for the collection of and accounting for all taxes, penalties and interest payable. The VATS was independent of existing revenue collecting agencies, like the Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS). The head of the VATS is the Commissioner who was to be appointed by the President on the advice of the VATS Board and in consultation with the Public Services Commission. He was to be assisted by Deputy Commissioners, also appointed like the Commissioner.

Policy direction was to be provided by the VATS Board, whose members were to be appointed by the President acting in consultation with the Council of State. The Board comprised nine members, including a representative of the Minister of Finance. The Board generally was to control the management of the VATS on matters of policy and also ensure the effective, efficient and optimum collection of all taxes, penalties and interest due to the State. The responsibilities of the Board were restricted to VAT administration. The Board was therefore in a better position to make regulations for the administration of VAT. This system of insulating the Minister of Finance from actual administration would seem to be modelled on the United Kingdom VAT system. Lessons of experience certainly informed the enactment of constitutional provisions (particularly, Chapter 14 of the Constitution) concerning the insulation of the governing bodies of statutory agencies from direct Executive (or ministerial) control, while ensuring that these agencies remain subject to law and public accountability.

The establishment of the VATS seemed not to be economical. This is because the arrangement for the administration of VAT was such that the Customs Service was to collect VAT on imports at the entry points while the VATS was to collect VAT internally. Cost of collection of VAT became very high, about 26 pence per pound as against United Kingdom's one penny per pound. A lot of money would have been saved if a specialized department of VAT was attached to one of the existing revenue agencies. Specialization is not achieved solely through the creation of entirely new organizations.

Implementation of VAT

VAT became operational in Ghana on 1 March 1995. Barely a month after its introduction, prices of goods and services shot up. The Ghana Private Road and Transport Union (GPRTU) also increased lorry fares by 10 per cent because according to the Union VAT had increased the prices of spare parts. Calls for the abolition of VAT began to mount. Importers, manufacturers, wholesalers, retailers and consumers all cried for its abolition. Organized labour joined the chorus, with the Civil Servants Association and the Trades Union Congress (TUC) taking their members to the streets to register their protest against the introduction of VAT. On
April 6, 1995, the President expressed concern about the implementation of VAT. The Vice President in his May Day address on 1 May 1995 called for a withdrawal of VAT. Prompted by the President's concern and the increasing public outcry, cabinet decided to review certain portions of the system to enable corrective measures to be adopted.

While the expected corrective measures were awaited, the Alliance for Change (AFC), an opposition pressure group formed to counteract VAT, organized a massive demonstration on May 11, 1995. The demonstration was christened 'Kume Preko' which literally means "kill me instantly". Given the government's pledge to review the VAT policy, one would have expected public outrage to subside until the promised changes materialised and were found wanting in any specific respects. However, things did not work out as expected. The escalation of the protests could be attributed to a number of factors. One major explanation is the then Minister of Finance's nationwide Radio and TV broadcast of May, 7, and the other is the mutual distrust between the government and the opposition. The Minister's broadcast did not, according to observers, achieve any positive results apart from stirring a volatile public satisfied with nothing short of a categorical and "positive" response to their demand for the abrogation of the VAT act. Regrettably, the minister "angered the public" with his rhetoric, creating the impression that the government was, at best, stalling, at worst, insensitive. Considering the existing mistrust between the government and the opposition, it was not surprising that the AFC organized a mammoth demonstration that led to the death of four people, who were allegedly shot by the Association of Committees for the Defence of the Revolution (ACDRs), a pro-government body.

In the wake of mounting public dissatisfaction and discontent, the Minister of Finance presented a VAT (Amendment (No. 2) Bill to Parliament on May 19. According to the Memorandum to the Bill, the government undertook to review the VAT Act "in the light of public concern and perceptions about the working of the Value added Tax". Accordingly, the 17.5 per cent of tax chargeable was amended to a new rate of 15 per cent. Other provisions of the Act were also amended "for ease of implementation, in particular, the exemption of retail trade". According to the Minister, the downward revision of the rate of tax will have consequential effect on the expenditures for which appropriation has already been made by Parliament. It will therefore be necessary, and the government proposes, to revert to the House either to effect corresponding changes in the Appropriation Act passed by Parliament by subsequent amendment of the Act, or propose new revenue measures.

The amendments were cosmetic as they failed to address the issue of the rising prices of consumer items. Faced with mounting and growing public discontent, the government decided to withdraw the VAT in June 1995, after only three months of its implementation. Why was VAT withdrawn? The next section attempts to answer this question.
Factors that Contributed to the Withdrawal of VAT

The factors that contributed to the withdrawal of VAT in Ghana can be traced to the policy management domain. First, the launching of the VAT programme was wrongly timed. It was introduced barely two months after the reading of the 1995 budget, which had already increased prices of every item, ranging from transport to food. The budget for that year increased the prices of petroleum products by 20 per cent. And as it is usually the case in Ghana, any hike in petroleum prices has a corresponding devastating effect on the prices of every item. Ghanaians had not recovered from the shock of the January budget when VAT was inaugurated. The new tax further threatened to erode what was already one of the lowest pay levels in Africa.

A second factor that contributed to the withdrawal of VAT is the inadequate public education programme mounted by the VAT Service. The VAT Service gave assurance to the public that VAT would not increase the prices of goods and services. It did not therefore prepare the minds of the public for such increases. Even the Deputy Minister of Finance while briefing the press on the introduction of the VAT in Ghana (on 2 August 1994) was emphatic about the fact that VAT was not going to lead to price escalation. To him:

"the level of anticipated price increases under VAT is often exaggerated ... the single positive rate of VAT is not expected to exceed the standard rate of the sales tax (i.e., 15 per cent). It is even expected that a lot of multiple taxation could be avoided under VAT as a result of businesses taking credit ... to say that the VAT is regressive just because it is an indirect tax is to stretch absurdity".5

Contrary to this assurance, however, the introduction of VAT on March 1, 1995 brought with it sharp increases in the prices of goods and services. This situation caused a lot of public anxiety. What was more disturbing is the fact that goods which were supposed to be exempt under the VAT Act, particularly, food items, had their prices increased. This unfortunate situation stemmed from the fact that public education of the VAT was inadequate when one considers the period between the 'education' and the implementation of the programme. The issue of price increases was certainly not well explained by the VAT officials during their campaigns. Again for the VAT Service to convey an impression that consumer prices would remain stable under VAT, was highly regrettable.

Depending on the circumstances and peculiarities of each country, basic planning for the VAT system may take not less than 18 months. It was difficult to follow the logic and sequence of the VAT pre-launching activities in Ghana. For one thing, the passage of the Bill should have come after public education. Besides, the involvement of the public should have ideally begun with an "issues" paper which should have been widely publicized with a view to inviting comments and reactions. This was not done. The next stage of public involvement would be when the Draft Bill was ready. A publication dealing with the scope and coverage of the tax should have
been widely disseminated to enable the public digest the implications of the new tax regime, and debate its role in the economy. This did not take place. Consultative meetings with trade associations and professional groups should have been organized nation-wide. In addition, posters, radio and television discussions, advertisements, catchy jingles, public lectures and symposia might have proved useful as public education and enlightenment tools i.e., before the Bill was laid before Parliament. Even the little public education programme mounted was ineffective because it was dominated by an excessive use of technical terms, such as input tax, output tax, cascading tax, etc. - terms which confused rather than "educate" the taxpayer. In short, the public was not psychologically prepared to accept the VAT and the consequent price hike.

Thirdly, VAT was withdrawn because of institutional problems, namely:

(a) Goods which were exempt under sales tax were subject to VAT: people complained that some items which were exempt from tax under sales tax were being taxed under VAT. For instance, "gari" a locally processed staple food from cassava, was exempt under sales tax but was not under VAT;

(b) Goods which enjoy exemption under the Ghana Investment Promotion Act, 1994 (Act 478) were subject to VAT under the VAT Act (Act 486) and;

(c) Situations arose where imported goods were exempt from VAT while some inputs of similar goods manufactured in Ghana were subject to VAT. For example, imported drugs which were considered essential were exempted from VAT while drugs manufactured locally were not. Meanwhile, the list of "essential" drugs were not supplied by the Ministry of Health. What therefore happened was that the public was at the mercy of pharmacists, who increased the prices of drugs, whether essential or not.

Fourthly, VAT was withdrawn because of the following basic problems:

(a) difficulties in the calculation of the amount of VAT, even using electronic calculators;

(b) sundry record-keeping and accounting weaknesses, particularly in small-scale enterprises;

(c) difficulties in understanding how the VAT system works, resulting in wrong implementation, such as charging VAT on VAT;
(d) constraints which deferment of tax refunds place on the taxpayer's working capital. This was severe on the taxpayers who paid tax on factor inputs but had to wait for about three months to get their goods processed and sold before charging tax to offset the tax paid on their purchases; and

(e) The mode of displaying prices of goods and services was a problem. Traders and businessmen were confused as to whether or not the prices should include the basic cost plus VAT.

**Conclusion**

This paper on the poor management of the introduction of VAT in Ghana reinforces the view by Grindle and Thomas (1991:135) that the 'outcome of reforms is largely determined by societal reaction to efforts to change existing conditions among groups and interests that are most affected by the reforms'. The introduction of VAT resulted in changes that have a direct impact on broad sectors of the society or on politically important groups in the Ghanaian society. Moreover, the impact of the change was directly and immediately felt by a significant number of people. Consequently, public reaction was strong. Moreover, the stakes involved in pursuing VAT was very high and threatened the stability of the regime. The government was thus forced to withdraw the enactment. The introduction of VAT also brought sharp divisions within the government of Rawlings' National Democratic Congress. This largely accounted for the resignation of the Minister of Finance five months later.

The study conveys four lessons. First, the introduction of VAT is a dispersion of costs. Since the cost or burden of the VAT has a direct impact on the public or on politically important groups in the Ghanaian society, opposition emerged during implementation. VAT reversed a previous policy on taxation (sales tax) and resulted in price increases. The costs were borne by a large segment of the population and were generally met with considerable protest and demonstrations. Thus, a policy or programme, like VAT that has elements of dispersion of costs, is likely to produce reactions from the public that are overtly political (Hogwood and Gunn 1984:67-84).

Second, while VAT had some benefits, knowledge of these benefits remained with the government rather than being shared with the general public. Although it imposed broadly dispersed costs directly on the population, VAT also generated direct benefits that were not widely understood or valued by the same Ghanaian population. Thus, the benefits of VAT include broadening the tax base, and generation of increased revenue. This goes to prove the assertion that "concentrated benefits generally do not create a countervailing force to offset the public opposition the dispersed costs have generated" (Grindle and Thomas, 1991:136).

Thirdly, the successful implementation of the VAT depends on extensive public participation and education. However, it was difficult to mobilize large numbers
of people to collaborate in VAT, especially when the proposed change did not offer them clear benefits. Policy changes that do not involve the public or a wide range of participants may be easier to implement, but they do not have the advantage of generating broad acceptance in society and providing a check on governmental actions. The VAT, on the other hand, needed the acquiescence of the public, which the government ignored or underestimated.

Fourthly, the life-span of VAT’s implementation in Ghana was short. Grindle and Thomas (1991:14-22) postulate that the length of time needed to implement a reform also has an important influence on the reaction generated to it. If the full impact of the change is immediately visible - as the introduction of VAT led to increases in prices of goods and services - the reaction is likely to be stronger and more public. Thus, the effect of the introduction of the VAT was easily apparent to most Ghanaians. Within days, the results were very clear in market places, that is, in terms of rising prices.

A tax reform such as the VAT created strong public reactions that were played out primarily in the public arena. It brought about the mobilization of existing pressure groups, such as the Trades Union Congress, the Civil Servants Association and encouraged the formation of new ones, like the Alliance For Change AFC, to oppose VAT. These groups exerted pressure on the NDC government and other public officials to withdraw VAT. More important perhaps than these dramatic reactions is that the VAT gave impetus to longer-term organized opposition to the government in Ghana. The AFC, drawing its strength from unemployed youth and other opposition forces, for instance, has since become a strong critic of the government. Indeed, the shooting of demonstrators during the protests organized by the AFC created legitimacy problems for the government and, for once, the government panicked. It was forced in the face of mounting discontent to withdraw the VAT. As grindle and Thomas (1991; Pressman and Wildavsky, 1984) pointed out, the sustainability of a reform like the VAT, is called into question if strong public reactions emerge during its implementation.

In short, the major lesson that this paper tries to put across is that however difficult and politically risky it is to decide to introduce a reform initiative, like the VAT, the process of managing or implementing and sustaining that decision is likely to be fraught with even greater difficulty and risk.
REFERENCES


4. ibid.


Additional Bibliography


