



**An Assessment of Tax Policy Reform and Revenue
Growth in Liberia: 2005 – 2015**

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List of Acronyms

ASYCUDA	Automated System Customs Data
BTLL	Baker Tilly Liberia Limited
CEO	Chief Executive Officer
DFID	Department For International Development
DOR	Department of Revenue
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
HS	Harmonized System
IMF	International Monetary Fund
LCC	Liberia Chambers of Commerce
LETTI	Liberia Extractive Industries Transparency Initiative
LIBA	Liberia Business Association
LIBR	Liberia Business Registry
LIMA	Liberia Maritime Authority
LIMUA	Liberia Manufacturing Association
LMA	Liberia Marketing Association
LRA	Liberia Revenue Authority
LISGIS	Liberia Institute of Statistics and Geo – information Services
MFD	Ministry of Finance and Development Planning
MOC	Ministry of Commerce
MOF	Ministry of Finance
NACUBAL	National Customs Brokers Association of Liberia
NICOL	National Investment Commission of Liberia
OECD	Organization for Economic Co-operation and Development
PFM	Public Financial Management
SIGTAS	Standard Integrated Government Tax Administration System
UN	United Nations
WTO	World Trade Organization
VAT	Value Added Tax

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Abstract

The aftermath of the Liberia civil war witnessed massive reconstruction of damaged infrastructure, this includes significant tax policy reforms as an effort to mobilise resource for infrastructure development. In 2013, the government created the Liberia Revenue Authority as an autonomous agency for assessing, enforcing, and collecting the taxes on behalf of the government as well as the establishment of Ministry of Finance and Development Planning to formulate fiscal and tax policies to enhance revenue growth. Regardless of all these efforts, there remain serious challenges for the smooth operation of the Revenue Authority. It is against this backdrop that this study assesses the effects of the tax reforms instituted by the government and its impact on revenue growth in Liberia in detail. In particular, to understand the challenges that are hindering the smooth operation of the Liberia Revenue Authority from collecting legitimate revenue for the state. In order to achieve this, a qualitative methodological approach was adopted to collect data through interviews with the key informants, which includes but not limited to stakeholders from Ministry of Finance and development Planning, Ministry of Commerce, Liberia Revenue Authority, Liberia Maritime Authority, Liberia Institute of Geo – Information Services and National Investment Commission of Liberia. The private sector led by the Liberia Chambers of Commerce amongst others. The findings of the study revealed that the tax policy still has a significant level of weaknesses and compromises. For a successful fiscal policy reform, there should be an interactive forum between the government and the private sector, especially business people as a means of finding common ground on issues of primary concern. Besides, the revenue code needs to be precise and definite in its definition of what is obtainable and what is not. It was gathered that if the ambiguity in the revenue code is removed, it will assist in generate sustainable revenue for the country.

Keywords

Tax policy, reform, Revenue, Liberia Government,

Chapter 1 . Introduction

1.1 Introduction

The Government of Liberia like any developing country has prioritised tax policy as a means of mobilising needed resources for national development. In 2003, the aftermath of the Liberia civil war witnessed massive reconstruction of damaged infrastructure. Because of the enormous challenge for infrastructure development, the government has instituted significant tax policy reforms as an effort to mobilise resource for infrastructure development (Sheriff, 2012; Everest-Phillips, 2010). In 2013, the government created the Liberia Revenue Authority as an autonomous agency for assessing, enforcing, and collecting the taxes on behalf of the government. The Ministry of Finance and Development Planning was also created in 2013 to formulate fiscal and tax policies to enhance revenue growth. Before its creation, the Ministry of Finance and development Planning was called the Ministry of Finance. It was responsible for formulating tax policy as well as revenue collection. Its new mandate is to formulate tax and fiscal policies and promote economic development (MFDP Act 2013). The tax reform measure instituted by the government included cancellation of debts on real estate tax to encourage tax compliance and reorganisation of the revenue department, which enables the creation of three tax categories (small tax, medium tax, large tax). Other reform programs included Automated System for Customs Data (ASYCUDA) for customs revenue collection and Standard Integrated Government Tax Administration System (SIGTAS) for domestic revenue collection (MOF 2013). The reform also includes efforts to involve human resources and staff capacity development, reduction in bureaucratic procedure for obtaining tax collection, transition to value-added tax, (not yet implemented), creation of natural resources unit, adoption of the Customs HS2012 (Harmonized System, adopted by WTO in the definition of product every four to six years), creation and renovation of offices.

The reforms strategy adopted by the Ministry of Finance was based on reorganisation of the structure of the revenue department, automation, policy and legislation, training and creation of new units (MOF 2013). Regardless of all these efforts, there remain serious challenges for the smooth operation of the Revenue Authority. At present, little has been done to address the tax policy regime in relations with the investment menace the country faces because of tax evasion, smuggling, corruption, kickbacks and political interference from political leaders and top government officials. There is no consensus on which determinants is essential in the implementation of the policy. During the last three years, the Liberian government has experienced budget shortfalls due to the inadequacy of tax revenue thus causing government not to meet up with most of its development agenda. This also put the government into borrowings from international financial institutions like the World Bank, International Monetary Fund, African Development, Kuwaiti Fund, and Saudi Fund among others. Bilateral support to Liberia's poverty reduction strategy is predicated upon the rebuilding of core functions and institutions, rehabilitating infrastructure and facilitating growth. Despite support from international partners such as the World Bank, International

Monetary Fund, and Government of the United States, European Union, African Development Bank, Swedish International Development Agency and ECOWAS Commission to enhance the reforms efforts in post-war tax regime in Liberia, it has not yielded the expected result. The government over the last four years has started putting in place policies to harness development and accelerated growth and reduce poverty but has lagged behind in implementation due to failure to collect needed revenue due to the state. It is against this backdrop that this study intends to assess the effects of the tax reforms instituted by the government and its impact on revenue growth in Liberia in detail.

This study aims to investigate further the challenges that are hindering the smooth operation of the Liberia Revenue Authority from collecting legitimate revenue for the state. In order to achieve this, a qualitative methodological approach was adopted to collect data through interviews with the key informants, which includes but not limited to stakeholders from Ministry of Finance and development Planning, Ministry of Commerce, Liberia Revenue Authority, Liberia Maritime Authority, Liberia Institute of Geo – Information Services and National Investment Commission of Liberia. The private sector led by the Liberia Chambers of Commerce amongst others. The findings of the study as I will discuss in details later in chapter three and four of this thesis revealed that the tax policy still has a significant level of weaknesses and compromises. For a successful fiscal policy reform, there should be an interactive forum between the government and the private sector, especially business people as a means of finding common ground on issues of primary concern. Besides, the revenue code needs to be precise and definite in its definition of what is obtainable and what is not. It was gathered that if the ambiguity in the revenue code is removed, it will assist in generate sustainable revenue for the country.

1.2 Statement of the Research Problem

Several studies (Sheriff, 2014; Olabisi, 2013; Talery, 2013) have suggested that appropriate tax policy can improve revenue collection and ensure that the needed resources are collected for the development agenda of the country. (Sheriff 2014) indicated in his study that the tax gap in Liberia could be attributed to non-tax compliance. He asserts that non-tax compliance, evasion and avoidance have widened the tax gap because it accounts for unpaid revenue. While Sheriff's study deals with the issue of tax enforcement, (Olabisi 2013) accentuates on the subject of revenue performance and economic growth. He highlights that property tax has not been assessed because of inadequate tax assessment mechanism and the issue of tax administration. From a different perspective, (Talery 2013) argued that Liberia is losing huge revenue because of lack of legislation, therefore suggested the solution of creating robust legal instruments to address the revenue loss because of transfer pricing. Talery study was on tax evasion and transfer pricing; Olabisi looked at inadequate tax assessment mechanism while Sheriff focused more on non-compliance.

All the studies mentioned above were mainly focusing on ascertaining on loopholes in the taxing system but from different angles. While the studies have helped in understanding how to address tax compliance, evasion and

avoidance, which are in the category of tax enforcement, tax administration and transfer pricing. To this body of knowledge, none of the researchers dealt with issues of tax policy's reform influence on revenue growth. These studies focused mainly on the mechanism of the tax system without an emphasis on the policy that affects the mechanism and how it is inadequate to address the problem of taxation in Liberia. Good tax policy may result in a tax system that avoids some of the problems, which had been studied previously by scholars. Based on the above studies, one can argue that there is a gap of knowledge on how tax policy can influence revenue collection and accelerate economic growth in Liberia. Therefore, this study assesses the tax policy reform in Liberia to determine whether it is adequate or not to enhance revenue collection and accelerate economic growth.

1.3 Contextual Background

The civil war deteriorated Liberia's financial condition. This was because many individuals who were employed migrated to other countries while others lost their jobs as foreign companies shifted their resources to politically stable countries. Income taxes contributions to GDP and total taxes remained at 30%. On the other hand, excises tax fell disproportionately. Therefore, Liberia relied more on the natural resources sector of the economy. The government spent most of the revenues it generated through taxation and other means in military operations. This, in turn, reduced the country's ability to implement incentives to stimulate economic growth. (Wodon 2012: 13) argues that the policy makers focused more on the security matters and neglected the most important issues such as ensuring the citizen's well-being. As a result, the government revenue plummeted, and the Gross Domestic Product fell to lower levels than it was before the wars. For example, Liberia total revenues decreased from US\$197 million in 1987 to US\$12 million in the last four months of 1997 (IMF 2012: 4). Overall, Liberia's real GDP fell by more than 30% during the period. Economists believe that the weak taxation policies contributed significantly to the decline. (Wodon 2012: 17) asserts that the steadfast revenue from maritime operation offset the decrease in the tax income. Nevertheless, the misplaced priorities threatened the country's progress. That is, the policy makers were reluctant to address the financial distress that the low-income families faced.

The country commissioned a task force that studied the existing tax structures and provided comprehensive recommendations that paved the way for some progress. The new initiatives that expanded Liberia's economy steadily over the past decade were found to be inefficient because the taxes expected from taxpayers was based on a one-to-one exchange rate of Liberian Dollar to the U.S. Dollar which in turn overburdened the low-income households (Adamolekun and Olowu 2015: 101). Adamolekun and Olowu maintained that the country economy declined and the value of its currency depreciated against the dollar. However, the authorities made households and business entities to pay taxes in Liberian dollars and required them to remit payments in United States dollars (Adamolekun and Olowu 2015: 103). As a result, the households spent significant resources that they would have been used in acquiring the basic needs in meeting the high tax obligations. Similarly, the high taxation costs reduced the businesses' profitability thereby hindering

them to expand their operations and create more employment opportunities. The new government launched several programs that included tax reforms and other poverty reduction strategies beginning from 2003. The incentives helped the nation to expand its economy by over 9% in 2007. However, the growth rate declined from 7.1% in 2008 to 4.6% in 2009 because of the international economic crisis. Liberia implemented reforms that increased its GDP growth to 5.6% and 7% in 2010 and 2011 respectively ((IMF, 2012: 15). Overall, Liberia GDP averaged \$ 1.13 billion, from \$ 0.6 billion in 2006 to \$ 1.73 billion in 2012. From 2013 to present, the country is experiencing budget shortfall.

The political-economic of taxation in Liberia is based on “market-based economic open to foreign direct investment.” It is mainly based on three pillars, “natural resources, foreign direct investment and foreign aid.” Agriculture and mining are the two key activities that contribute to substantial revenue for the government. Rubber dominates the agriculture sector, while the mining sector is mostly based on iron ore. These two sectors account for 82 percent of total exports earning of the country (Department of State 2014:1). Liberia is endowed with minerals, tropical forests, arable land, and abundant water resources. The exploitation of these resources allowed the country to enjoy a rapid rate of growth during the 1960s and 1970s.

After the end of the civil crisis in 2003 and the election of a new government in 2006, the new government instituted several reforms measures for mobilizing resources for the huge challenge of infrastructure development. The official tax policy instrument that is the revenue code was amended in 2011 to regulate petroleum and mining operations in Liberia. The revenue code of Liberia governs all matter of taxation in Liberia. The tax structure in Liberia is based on five main pillars: personal income tax, corporate income, Goods and service, excise, customs and real estate property taxes. The Public Financial Management Act of 2009 was adopted to regulate public finances in Liberia. This includes taxes collected by the state, and the expenditure of resource mobilized locally and externally. The Public Financial Management Act states that all revenue collected and donated should be put into a consolidated account for transparency and accountability. The PFM Act set the parameter in which the day-to-day financial transactions are carried out. It spells out in basic terms what is acceptable and what is not acceptable in government accountant. It set the basic requirement on how taxes and resources are to be spent in the public sectors. The Public Financial Management Act was enacted to support the revenue code in the areas of fiscal regime.

1.4 Objective of the Research

The objectives of this study are to assess how the tax reform impacted on revenue growth and ascertain on factors which led to its failure to achieve positive revenue growth in Liberia. The research objectives include:

- a. To determine how tax policy has enhanced revenue growth.
- b. To critically analyze the strengths and shortcomings of revenue collection.

c. To examine how the revenue code has assisted in stimulating revenue collection.

d. To determine what policy reform the Liberian government needs to undertake to enhance revenue collection.

1.5 Research Questions:

1.5.1 Main research question

Which factors can explain the limited effect of the Tax Reform in revenue collection in Liberia from 2006-2015?

1.5.2 Sub Research Questions:

1. What was the primary focus of the tax reform?
2. What are the organizational and capacity constraints which impede revenue collection in Liberia, and to what extent did the reform try to address them?
3. What was/is the role of donors in supporting the implementation of tax reform?
4. What needs to be undertaken to make tax policy reform more conducive to revenue growth?

1.6 Methodology

The first step of data collection for this study is through secondary data source, which includes but not limited to literature review from textbooks, internet research, and government documents such as the Revenue Code of Liberia Act of 2000, and the Public Financial Management Act of 2009. However, the crux of data collection for this study relies much on the qualitative approach that was used to gather the necessary data for the study. A semi-structured interview approach was adopted during the interview session with the respondents. The study makes use of a purposive sampling technique to access participants or respondents to the research and to highlight the realities and practices in the formulation and implementation of tax policy and revenue collection in Liberia. The study was conducted in Monrovia, the capital city of Liberia. The rationale for doing the research in the capital is that all ministries, agencies and organizations are located in the capital.

The target populations for the study consist of knowledgeable individuals from the various public and private organizations who are familiar with the issue of tax policy or revenue collection in Liberia. The Data collection started with the distribution of letter from my supervisor to the targeted organizations. I was mandated by these organizations to write a personal letter of request in addition to the letter from my supervisor. The letter was written to the heads of these organizations, and I was able to conduct 24 interviews with

representatives of thirteen organizations. I made follow-up visitations to the various agencies but was informed that the heads of these organizations had not approved the Letters. Some organizations told me that their bosses were out of the country, and upon arrival, I would be notified.

Statements such as “come back tomorrow” and “we don’t know when he will be available” were common responses I got in the process collecting relevant data for this study. In most cases, I went several times to some organizations before I was allowed to conduct the interview, it took me about three weeks and in some cases, months before the letters were approved. Liberia Institute for Statistics and Geo- Information was the only organization that called me back for interviews. For the remaining organizations, I had to continue calling and going there physically until permission to conduct interview was finally approved. In some instances, I was asked to send my proposed interview questions to the organization human resources in advance before they made their decision on whom, I could interview.

Some organizations selected only an individual for the interview while some selected multiple respondents based on the position they occupied and the relevance to the research topic. One organization called Bright and Associates, representing tax practitioner’s category did not approve my request to conduct the interview. I was told that the boss had not agreed to the application for the interview. When I asked why I was informed that nobody could do anything except the boss asked them to do so. Some of the respondents participated in the research after office hour. Sometimes respondents had to leave the interview because they had to attend other official functions. At times, I conducted an Interview with one respondent over two days. Virtually all the respondents did not allow recording during the interview. They did not want their names to be mentioned as well. However, the table below shows the details of the selected respondents, for the study.

Appendix: 1

Matrix of organizations, Respondents and date of Interview

Number of Respondent	Organization	Position	Date of Interview	Code
1	Liberia Marketing Association	superintendent	July 20, 2016	LMA12
2	Liberia Marketing Association	Comptroller	July 29, 2016	LMA13
3	Liberia Business Association	Vice President for Administration	August 3, 2016	LIBA14
4)	Liberia Business Association	Comptroller	August 3, 2016	LIBA15
5	Liberia Institute of Geo- Information Services	Assistant Director for External Trade	August 4, 20 16	LISGIS23
6	National Customs Brokers Association of Liberia	Financial Secretary	August 8, 2016	NACUBAL17
7	National Customs Brokers Association of Liberia	Assistant Secretary General	August 8, 2016	NACUBAL18

8	Ministry of Commerce	Acting Deputy Director For Statistics	August 10, 2016	MOC21
9	National Investment Commission of Liberia	Senior Economist and Policy Advisor	August 12, 2016	NICOL22
10	Ministry of Commerce	Director Access to Market	August 15, 2016	MOC24
11	Liberia Maritime Authority	Director of Finance	August 22, 2016	LIMA10
12	Liberia Business Registry	Verifier/ Information Desk Officer	August 23, 2016	LIBR11
15	Ministry of Finance and Development Planning	Assistant Director for Direct Taxation	August 23, 2016	MFDP1
14	Ministry of Finance and Development Planning	Director for Non Taxation	August 23, 2016	MFDP2
15	Ministry of Finance and Development Planning	Director for Revenue Forecasting and Modelling	August 26, 2016	MFDP3
16	Ministry of Finance and Development Planning	Director for Indirect Taxation	August 26, 2016	MFDP4
17	Liberia Revenue Authority	Commissioner of Customs	August 29, 2016	LRA5
18	Liberia Revenue Authority	Assistant Commissioner for Real Estate	August 30, 2016	LRA6
19	Liberia Revenue Authority	Assistant Commissioner Micro and Medium Tax Division	August 30, 2016	LRA7
20	Liberia Revenue Authority	Manager Statistics and Revenue Forecasting	August 30, 2016	LRA8
21	Liberia Revenue Authority	Manager Policy Planning and External Relations	September 1, 2016	LRA9
22)	Liberia Manufacturing Association	Acting President	September 3, 2016	LIMUA16
23	Baker Tilly Liberia Limited	Consultant1	September 6, 2016	BTLLT19
24	Liberia Chambers of Commerce	President	September 9, 2016	LCC20

1.7 Organization of The Thesis

This study is organised into five chapters; the first chapter has laid the foundation for the thesis. In chapter one, I already discussed the problem, objectives and the method of data collection. Chapter 2, I present and discuss the role of taxation in state building most especially for the post-war states. In the chapter, the theoretical explanation of institution analysis and organisation theory is also discussed as they help us to assess the tax policy reform impact on revenue growth in Liberia. Chapter three and four focus on data presentation and analysis. While chapter three dealt with research question one

and two, chapter four, addresses research question three and four. Chapter 5 gives the conclusion and policy recommendation based on the findings of the study.

Chapter 2 Background, Literature Review and Theoretical framework

2.1 Introduction

The focus of this chapter is the discussion of the theoretical framework adopted for this study and the importance of taxation on state building. While a brief, overview of the existing taxes in Liberia was discussed. I draw on the example of Rwanda as a success story of tax policy reform for a post-conflict state and the role that the tax reforms plays in improving Liberia's economy. The last section of this chapter engages in the relevancy of institution analysis and organisation theory to the study.

2.2 Overview of Liberia's Tax System

Liberia has five types of taxes, personal and business income, goods and services, excise, customs duties and real property taxes.

Personal Income Tax: - It refers to taxes on all the employed people's salaries, wages, and allowances. Liberia uses a progressive tax system that ranges from 3% to 25% (Sheriff, 2012: 13). The personal incomes account for about 18% of the total tax revenues. Therefore, this tax presented a readily available tool for reducing poverty.

Corporation Income Tax: - the Liberia laws require all companies to remit 25% of their income as taxes plus additional 2% - 4% of the revenues greater than US \$ 6, 667 annually (Sheriff, 2012: 13). The country raises 10% of its tax revenues from the corporation income tax. Therefore, the changes in the business taxes influenced the GDP growth as well as Liberians living standards (ibid).

Taxes on Mining Projects: - all the mining firms operating in Liberia must pay at least 30% of their income as taxes. The state also charges surtax at the rate of 20% on revenue from High-Yield Mining Projects. Petroleum exploration firms must pay 10% royalty whereas iron ore, gold, and other base metals and diamond mining companies pay 4.5%, 3% and 5.5% respectively. In addition to supplementing the incomes from other sources, mining companies employ more than 48% of the Liberian Labour Force (Sovacool, and Andrews, 2015: 189). As such, the slight changes in the tax policies had enormous consequences on essential factors influencing the poverty rates such as employment levels and necessary provision for the basic standard of living.

Goods and Services Tax: - previously every person conducting a business involving the supply of goods and services that exceed US\$40,000 must remit 7% of the gross charge. However, the 2011 Revenue Code will replace the GST with the value added tax (VAT). The Value Added Tax (VAT) transitional plan, when adopted, will reduce the tariff rate from 35% to 25% that is to be implemented in stages.

Excise/ Tax: - Liberia levied between 5% and 35% excise taxes on import goods. For example, cosmetics products attract 10% tax while expensive

products such as alcohol beverages and tobacco importers pay at a rate of 35%. Such excise duties enable governments to achieve horizontal equity. For example, Liberian authorities relied on the revenues from the expensive products to offset the costs involved in importing essential products like food and factors of production (IMF, 2012: 12). However, it is important to look at countries with similar post-war history as Liberia to see how the tax reform policy is done in the next section

2.3 The importance of Tax reforms in State-Building

Taxation is a fundamental tool for state building; it is the means through which money is raised to finance government operations. Tax is important because it enables a state to provide the essential services for its citizens and accelerate economic development (Mascagni, et al., 2014; Prichard 2010). Taxation plays a central role in how a state can mobilise resources for its developmental agenda (Moore 2008; Prichard 2010; Fjelstad, 2013). Tax policy in developing countries is a major policy focus of government because it is through tax policy that the various governments in developing countries can achieve their objectives. Tax policy is a necessary instrument for accelerating revenue growth in both developed and developing countries. The success of any country is determined by the amount of revenue it can mobilise domestically. Taxation is mainly focused on two issues, social contract based on bargaining around tax, and the institutional stimulus provided by the revenue imperatives. The social contract relies on the relationship between the government and its citizens. It entails how the benefit of taxation is “representative” or inclusive for the people of a country. On the other hand, “the institution” provided by the revenue imperative is based on the capacity of the state to raise revenue (Barutigam 2008: 1-2).

Concisely, taxation is a matter of relations between states and societies. The success of tax policy depends primarily on “negotiation” between governments and its citizens. Often, the issue of national expenditure has been the focus of many studies without taking into consideration how “revenue is generated over the years.” The Washington Consensus believes that a good tax regime for raising revenue is based on an efficient “administrative model,” one in which it has a particular function as an “independent, autonomous” regulatory status. In this situation, an ideal tax regime would be the establishment of a revenue authority. This is necessary as through efficient “administrative structure, fiscal policy and institutional capacity,” states are in better position to engage citizens to accomplish its developmental agenda (Symoniak, 2010; Williamson, 2005).

The success of tax policy primarily relies on “bargaining” between the government and citizens (Moore, 2008). The success of tax policy in developing countries in some cases is based on establishing structures by “capacity and consent.” The tax system in developing countries that depends on regressive and distortionary structures is not supported by “legitimacy” (Barutigam 2008: 1). Organisations responsible for administering revenue generation are usually “weak and are unable to deter tax evasion, corruption and coercion.” Because of this, the state is unable to collect legitimate taxes. Also, the informal sector cannot be monitor because the government do not have the capacity to expand the tax base and net in this sector (Joshi et al.,

2014; de Mel et al., 2013; Keen, 2012). For the government to collect or enhance revenue collection, it is necessary to focus on “reform, accountability and good governance” (Barutigam 2008:2). Unfortunately, majority of countries in Sub-Sahara Africa still struggle with issue of accountability and good governance, most especially those that are not a democracy.

Nevertheless, Rwanda like Liberia is a country in post-war recovery efforts. During the civil crisis that lasted from 1990 to 1994, most of the country infrastructures were destroyed. The tax structure in Rwanda is comprised of four pillars, domestic tax consisting of VAT and Excise), Direct tax includes, Corporate and personal income taxes and Impute taxes on turnover), property and International taxes. In 2005, the country initiated tax reform that has enabled it to achieved high revenue growth. Today, Rwanda is regarded as one of the faster-growing economies in sub-Saharan Africa (OECD, 2015:23-26). The 2005 tax changes mainly focus on revising the country fiscal policy instrument known as the tax code. Reforms focused on widening the tax base to increase fiscal revenue through the informal sector, removing the bureaucratic bottleneck, providing tax incentives and exemption to encourage foreign direct and domestic investment (ibid). The incentives and exemption that is given to foreign and local businesses amount to “quarter of the revenue collected and 14 percent of the total yearly budget.” The objective of the reform was to encourage private sector development (Institute of Policy Analysis 2011: 18).

In Liberia, the pre-war tax systems were bureaucratic since it required the Department of Revenue (DOR) must first obtain clearance and authorization from the Ministry of Finance regardless of whether the issue is urgent and straightforward that requires quick decision-making. (Wodon 2012: 25) cites that the dependency hindered a smooth and efficient operation by the DOR. The department lacked the authority to handle administrative issues such as internal audits and other critical transactions involved in collecting taxes and other income. This continued until Liberia signed the Public Management Act and the Revised Revenue Code into law. In a renewed thrust for economic growth and development, the government of Liberia through the Ministry of Finance put into place fiscal and monetary policies. This policy mechanism was adopted to enhance revenue administration efforts to broaden the tax base, strengthen the collection and increase the capacity of the government to move forward in its developmental objectives as delineated in the developmental agenda. Thus, the recovery process that began immediately after the war in 2003 enabled the new government to launch several tax reforms measure that enabled the country to experience some growth. (Hales, and Steenkamp, 2012: 14). These tax reforms measures assisted the country to collect some revenue for the reconditioning of infrastructures such as roads, electricity, communication networks. Nevertheless, the reforms undertaken have done little in improving the collection of revenue, although it would have been worse if there were no reform. This can be seen in (Mills 2014: 38) argument that the reforms eliminated several dysfunctions that prevented the low-income families from benefiting from the public resources. It is worthy to note that, Liberia can learn one or two things from Rwanda through a comprehensive tax code which is the foundation of any successful taxation of businesses

2.4 Theoretical Framework

The adopted theories for this study are the institutional framework and organisational theory. This section shall delve into these theories and explain their use about this study.

2.4.1 Institutional Framework

Institutional framework is relevant in political economy. It is a relevant tool for evaluating the effectiveness and efficiency of public Policy and influence policy decisions. The institution is fundamental in guiding behaviour in society. It is composed of “rule, norm, strategy, procedures, and standard of operating practices” that influence behaviour in society. On the other hand, an institution is the rules or procedures that enable an organisation to function. When applied to public policy issues, the institutional framework can assist in improving policy environment. It is useful in determining the behaviour of actor’s activities. It is helpful in preventing policy failures (Polski & Ostrom, 1999: 3-5). In this context, institution and organisation are interlinking. The relationship between the study and the institutional framework indicates that institutional framework is considered as tax policy instrument. Therefore, the institutional framework is relevant to this study because it relates to tax policy. Tax reform and the associated component of revenue growth in Liberia are intertwined as public policy. The study has adopted the institutional framework, and since tax policy and revenue growth are not in isolation of the national financial system, the study finds the institutional framework suitable for this purpose. It is specifically designed as a useful instrument in the assessment process of this initiative. Through the use of the institutional framework, findings gathered from the study will be of paramount importance to the cause, which the research endeavours to advance.

Polski and Ostrom (1999: 15-17) identified the different types of rules of the Institutional Analysis and Policy Design: Position Rules emphasised the kind of functions and activities of participants in a policy environment. At the Liberia Revenue Authority, duties and activities are spelt out in the act of 2013 that established the revenue authority. Section 17 of the Act specifies officers, staff and administrative matters of the authority. This includes Board of Directors, commissioner general, deputy commissioners’ generals and other employees. In this case, the study reveals that at the Liberian Revenue Authority, there is a low level of coordination between various actors.

Boundary Rules is based on qualification and selection of participants in a policy environment. At the Liberia Revenue Authority, selection procedure rests on the human resources manual and labour laws of Liberia. It defines the process for employment and retirement and qualification for employment and retirement. At the Liberia Revenue Authority, there is need to strengthen technical and human capacity at the operating level. Authority Rules defines actions perform by employees in a policy environment and rules that governs the activities of employees. In this case, the revenue code and term of reference for each employee are the essential tools for operation. In this case, at the Liberia Revenue Authority, there is a limitation to enforcement power and there is a need to revise the revenue code for clarity.

Aggregation Rules defines the mechanism of decision making in a policy environment. Who does what, when and how? At the Liberia Revenue Authority, roles of each department and unit are specified. Responsibilities are given to employees according to the function of departments and units. Scope Rules defines the mandate dedicated to each participant in a policy environment that can influence outcomes in the short and long terms according to a particular standard of operating procedures. At the Liberia Revenue Authority, it indicates the level of outcome produced by various departments and unit regarding tax compliance. In the Liberia context, the study reveals that there is little tax morale. Information Rules defines the kinds of information that are available to participants in a policy environment that make policy achievable. In this case, it refers to tax awareness and education that lead to tax compliance. The finding reveals that at the Liberia Revenue Authority tax compliance is low because of poor tax knowledge. Payoff Rules defines the consequences and benefits of compliance of participants in a policy environment.

However, for this study, only Institutional Analysis and Policy Design step 4 of Analysing different rules propounded by (Polski and Ostrom 1999) was adopted out of the seven steps suggested in the understanding of the Liberia tax policy. Although, all the others steps are also necessary from a wider perspective. “The framework as a diagnostic tool and working backwards through the flow diagram to reaffirm or revise policy objectives, evaluate policy outcomes, understand the information and incentive structure of policy, or develop reform initiatives” (Polski & Ostrom, 1999:7). However, I believe that in the context of the tax policy reform making use of step 4 of Polski and Ostrom institutional analysis model will help to making sense of the data collected from the field.

2.4.2 Organizational Theory

Organizational Theory is based on the core structure of an organisation that enables its goals to be achieved. (Egeberg 2003: 117) described the organisation as comprising of “rules and roles.” He argued that, in achieving these “roles and rules,” individuals are given particular responsibility to perform. He concludes by emphasising, that the effectiveness and efficiency of an organisation are based on its size. (Mintzberg 1979: 2-3) notes that there are three main tasks of an organisation namely management, bureaucracy and administration. Organisational theory is fundamental in informing this study in how organisations “achieve results, goals, monitoring, performance, structuring activities and designing organisational processes” (March and Simon 1958: 4). (Daft 2008: 6) emphasises that organisation theory is fundamental in analysing the managerial setting and activities in a policy environment. He asserts that it enable decision makers to understand how the past and future phenomenon can influence an organisation from achieving its objectives. The theory is relevant to the study because it helps in understanding formulation and implementation of policy mechanism. This concept will influence this study by examining the organisation responsible for tax collection in light of the components of this concept. The concept unpacks the issue of efficiency in line with management, bureaucracy and administration issues, which affects performance, and efficiency of an organisation.

2.5 Conclusion

The chapter highlights two theoretical frameworks adopted for the study and its significance of taxation on state building. These theories unpack the issues of evaluation, effectiveness, rules, roles, structures, managerial setting, bureaucracy and administrative matters, which affects the performance of an organisation. The theories emphasised how policies are formulated and implemented, it examines the organisation and rules that are responsible for collecting taxes in Liberia. The five pillars of tax structures in Liberia were highlighted in the chapter. The Rwanda success story is also presented as an example to emulate. The last section of the chapter explains the seven different types of rules in institutional analysis and policy design.

Chapter 3 Tax Reform in Liberia: Its Focus and Impediments

3.1 Introduction

The focus of this chapter is on the findings that address the first and second research questions of this study. It highlights the tax reform in Liberia and the impediments to revenue collection regarding organisational and capacity constraints. This section is divided into three main parts. The first section addresses the first research question that seeks to understand the primary focus of the tax policy reform in Liberia and the expected result. In this section, I will discuss the focus of the reform and the section that follows will look into the impediments that hindered the reform. The last section will focus on the overall summary and conclusion of the chapter.

3.2 The Focus of Liberia Tax Reform

3.2.1 Improve efficiency in Revenue Collection

Various studies have suggested the importance of tax reform in making the level of revenue more sustainable, detachment from foreign aid which is crucial for state-building, most especially in the developing countries and those that are recovering from major disaster such as conflict (Fjeldstad, & Moore, 2008; Prichard, 2010; Mascagni et al., 2014; Fjeldstad, 2014). Liberia is one of such developing countries recovering from a brutal civil war; the country had to engage in tax reform to expand the tax base, which in turn gives room for the increase in the collection of revenue according to the findings. Although the Liberia's economy depreciated from 0,7% GDP growth in 2014 to 0.3% in 2015 as a result of twin shock of the sharp decline in commodity price and the Ebola crisis which led to job losses and business closure (World Bank, 2016; IMF, 2016). The respondents from the Ministry of Finance and Development maintained that the country had witnessed a drastic increase in the annual revenue generated when one compared what was generated after two years' peace deal that ended the war to what was generated in 2015. One of the respondents emphasised that;

“the tax policy reform assisted in increasing revenue collection to a larger extent, the effect of the reform was positive. It helped in increasing revenue growth from 82.6 million from 2005 to 570.9million in 2015.”¹

¹ MFDP1

Figure 1: Liberia's Tax Revenue as % of GDP trends from 2005- 2015

Year	Tax Revenue	Non-Tax fees	Budget Aid	GDP	Tax as share of GDP	Revenue as share of GDP	Revenue
2005	82.4	3.0	1.0	671.88	12.26%	12.86%	86.4
2006	140.9	6.0	1.5	795.30	17.72%	18.66%	148.4
2007	175.9	26.1	5.7	864.97	20.34%	24.01%	207.7
2008	193.2	18.1	23.5	925.32	20.88%	25.38%	234.8
2009	219.2	59.3	13.0	1,037.97	21.12%	28.08%	291.5
2010	291.6	57.3	47.1	1,115.50	26.14%	35.50%	396.0
2011	384.8	56.9	35.7	1,718.40	22.39%	27.78%	477.3
2012	439.8	68.6	50.6	1,826.80	24.07%	30.60%	559.0
2013	395.9	74.5	46.6	1,987.30	19.92%	26.02%	517.0
2014	392.6	49.8	201.2	2,142.00	18.33%	30.05%	643.6
2015	424.0	50.9	96.1	2,250.00	18.84%	25.38%	571.0

Source: Liberia Ministry of Finance and Development Planning, August 2016

This table indicates that revenue increased from 85.4 million in 2005 to the following: in 2006 it increased to 148.4 million, 2007 it increased to 207.7 million, 2008 to 234.8 million, 2009 to 291.5 million, 2010 to 396.0 million, in 2011 to 477.3 million, while in 2012 to 559.0, 2013 to 517.0, 2014 to 643.6 million and in 2015 it decreased to 571.0 million. It can be concluded that there were fluctuation in revenue growth. Revenue declined in 2013 and 2015.

Figure: 2

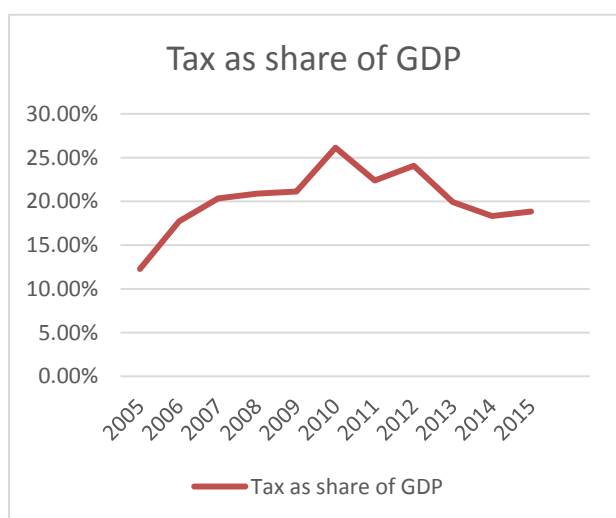
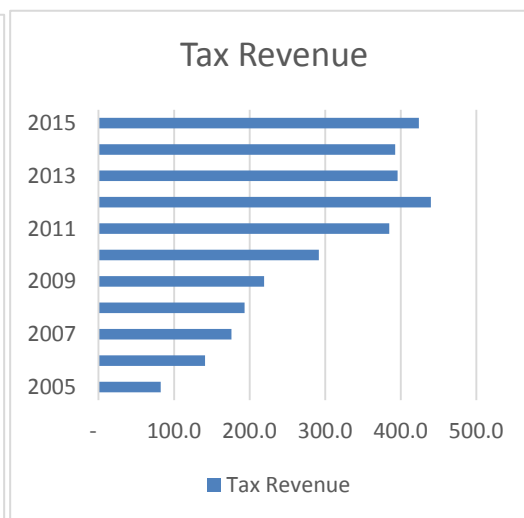


Figure: 3



Source: Liberia Ministry of Finance and Development Planning, August 2016

The table below shows that the GDP per capita income of Liberia is 2.028 billion United States Dollars. In terms of ranking, GDP per capita income, Liberia is rank as 45 in Africa and 163 in the world. Liberia has minerals, abundant tropical forests fertile land and water resources. During the 1960s and 1970s, the country enjoyed a rapid growth rate that compared to Japan. During the same period under review, Liberia had the largest shipping registry in the world. Today, Liberia has the second maritime registry in the world. The World Bank considered the country as a poor country (Global Security 2016).

Figures:4

Countries by GDP Per Capita				
Country	Year	GDP Per Capita In billions\$	Ranking In Africa	Ranking In The World
Nigeria	2014	573.652	1	21
South Africa	2014	350.08	2	33
Egypt	2014	286.435	3	39
Ghana	2014	38.648	13	91
Coted'Ivoire	2014	33.956	15	95
Mali	2014	11.915	31	130
Burkina Faso	2014	12.503	30	128
Rwanda	2014	8.012	35	142
Guinea	2014	6.529	36	146
Sierra Leone	2014	5.033	38	149
Lesotho	2014	2.159	44	161
Liberia	2014	2.028	45	163
Cape Verde	2014	1.899	46	164
Guinea Bissau	2014	1.024	50	173
Gambia	2014	0.825	51	177

Source: International Monetary Fund World Economic Outlook (April- 2015).

Although, the tremendous revenue collection of LRA has demonstrated in the figures above attracted commendation from the IMF chief, Christine Lagarde by saying: “I welcome the performance of the Liberia Revenue Authority, whose revenue collection has been strong and steady in this difficult year. I can only encourage you to build upon this experience to bring revenues up to levels that are prevailing in other countries in the West African community” (Lagarde, Monrovia, Liberia, September 11, 2015). I was curious to understand how the reform process has led to such gargantuan differences in the space of 10 years. The findings revealed that the automation system

introduced by the reform reduces human errors and collusion². The Manual system used before the automation system allows human errors and corruption, and the introduction of automation put into place an efficient, effective and transparent revenue administration³. One of the respondents elucidates further;

“Technology allows multi users to obtain information in real time. Automotive help to reduce processing time at the border of entry. Stakeholders were able to process tax document in a centralized system. It helps to protect revenue collection by picking up leakages and significantly contributed to revenue growth by reducing clearing time through a centralizing tax system, wherein all agencies of government have been put in one facility. This has a substantial impact on internal trade⁴”.

There was unison in the position of the respondents from Ministry of Finance and Liberia Revenue Authority; base on the available data for this study, record keeping through automation was the focus of the reform. The automation system made record relatively available upon request, and it improved the effectiveness and efficiency of tax administration because the old regime of record keeping was done manually. The implication of this is that tax reform if properly conducted, can reduce to a large extent tax avoidance and evasion, and allow for a well-organized and just tax collection that can be used in financing public goods and services. Since the major focus of the reform is towards an effective and efficient tax administration in the country, it is important to emphasize that efficiency and effectiveness are popular buzzwords frequently used by CEOs and policy makers in the course of charting a new direction in their organizations (Goh 2013). Unfortunately, these two words are often misinterpreted and misused not just about the lexicon of business as similar terms for describing performance, but also in the day-to-day usage. From the dictionary definition of the two terms, effectiveness can be understood as doing the right thing to achieve a purpose and producing the expected or intended outcome while efficiency can be understood as functioning or performing in the most prudent manner to save effort, time, and money. Figuratively, the distinction between effectiveness and efficacy can be succinctly summed up to mean – “Being effective is about doing the right things while being efficient is about doing things right” (Goh, 2013). As the definition of efficiency and effectiveness is a contested term so is the measurement, according to Tones et al. (2013) the analysis of efficiency and effectiveness depend on how success is defined which is mostly based on the philosophy and ideology.

3.2.2 Increasing Revenue

Tax reform can simply be understood as the process of changing the approach or used in the collection and management of taxes by the government and is typically undertaken to either advance tax administration or to provide social and economic benefits (Rao, 2014:1). One of the major factors that restrain the state ability to collect direct taxes and revenue, in

² MDDP2, MFDP3, LRA6, LRA7,LRA8

³ MFDP4, LRA4,LRA9

⁴ LRA5

general, has always been the weak tax administration (Fjeldstad and Semboja 2001). According to (Hadler 2000:10), countries in the Sub-Sahara Africa stand the chance of increasing their revenues by more than 30% with a better administration of existing tax legislation. The findings reveal that the revenue reform was intended to bring efficiency in tax Administration and the tax system in Liberia. A respondent from the Ministry of Finance posits that prior to the reforms there were lapses, malpractices within the tax regime in Liberia, therefore, it becomes necessary for the reform to take place⁵. During the conversation with one of the respondents from the Liberia Revenue Authority, he corroborated the Ministry of Finance position that the tax reform was administered to bring effectiveness, efficiency to the tax legislation and implement the revenue code in a transparent manner. He maintained that

“The objective of the reform was to revise the existing tax code to address some constraints. The reform was meant to transform the revenue administration through the utilisation of effective Information communication technology to enhance revenue collection”⁶.

While the tax reform was able to establish a semi – autonomous revenue authority, it is of cardinal importance to “raise employees morale” by increasing salary to deter corruption (van Donge 2002: 320). Van Donge maintained that increasing employees’ salary can assist in enhancing revenue collection. According to him, this can be achieved by given the revenue authority a percentage of total revenue collected. However, over the two decades, the dominant approach that has been widely accepted in developing countries was the initiative of establishing of semi-autonomous revenue authorities (Fjeldstad, 2013:7). In Liberia, Revenue Administration used to be under the control of the Ministry of Finance, with the Deputy Minister of Finance of Revenue in charge, units in the revenue department mainly; Bureau of Internal Revenue, Shared Services, and the Bureau of Customs (Sherif, 2012:9). The respondents from the Revenue Authority maintained that the focus of the reform allows some degree of autonomy to the LRA. This autonomy enables LRA to hire and fire employees, and people that are more competent were employed in the revenue system through a competitive vetting process, which was tied to political influence before autonomy⁷. One of the LRA respondents emphasised that;

“As a result of the reform a division was established called the internal affairs division which is responsible for handling employees’ ethical issues and each employee has to abide by a code of conduct. Punishments are given for unethical behaviour, whereas reward is awarded to impressive ethical conduct through recognition, certification and promotion. Also, whistleblowers are compensated with 5% or 10% of what is reported on tax evasion or corruption”⁸.

It is apparent that the primary focus of the tax reform was to modernise the tax administration system. While the reform enables the collection of domestic revenue in Liberia to increase, the reform also gives autonomy to the

⁵ MFDP3

⁶ LRA6

⁷ LRA1, LRA3, LRA4

⁸ LRA4

Liberian Revenue Authority thereby removing political administration or detaching political influence from the Ministry of Finance and Development Planning. The reform was able to establish a semi-autonomous authority; it enables the Liberia Revenue Authority to employ workers on merit. That is why it important to make sure that the tax administration is effective and strengthened to allow the government to generate more taxes

3.2.3 Integrity

To have an efficient modern economy that is functioning and capable of fostering social well-being, transparency and accountability are two critical needed ingredients. “Without transparency and accountability, trust will be lacking between a government and those whom it governs. The result would be social instability and an environment that is less than conducive to economic growth” (Carsten, 2005). If the tax collection apparatus is inefficient, incompetent and corrupt, this is a strong disincentive for potential taxpayers (Gloppen & Rakner, 2002:6). However, the findings of this study discovered that the focus of the reform was also meant to bring integrity to the tax authority. The respondents that participated in the interview sessions from both Ministry of Finance and Liberia Revenue Authority revealed that through the reform, malpractices such as corruption and non-compliance were deterred⁹. According to one of the respondents;

“Every line ministries and agencies responsible for collecting taxes were mandated to deposit revenue into a consolidated account as compared to the pre-reform period. This make the diversion of funds difficult because monies that used be to be deposited in various bank accounts now goes into one account making it easier to be monitored and accounted for”¹⁰.

In practice, it is often difficult to differentiate between policy and administration (IMF 2011: 19). But it is no doubt that feeble and often dishonest revenue administration did not only serve as the primary obstacle to effective and fair taxation, it also hindered the establishment of confidence and trust between citizens and government in many countries (Fjeldstad and Tungodden 2003; Fjeldstad 2009). Another respondent from the Liberia Revenue Authority support the argument of integrity, he maintained that;

“The tax reform brought about some level of integrity to data management, unlike the previous manual system. It brought about the increase in revenue collection especially by closing the leakages and loopholes in revenue collection. The automation system introduced such as Automated System for Customs Data (ASYCUDA), and Standard Integrated Government Tax Administration System (SIGTAS) increased revenue collection. It gives more information on revenue forecasting”¹¹.

Undeniably, the aim of the tax reform in Liberia is in concomitant with Gloppen and Rakner (2002) argument of tax reform objectives, which is to increase the efficiency and internal accountability of the tax system. The reinforcement of the mechanism that will strengthen internal accountability as

⁹ MFDP2, MFDP4, LRA 6, LRA 8

¹⁰ LRA7

¹¹ LRA6

discussed above will go a long way in making taxpayers willing to pay their taxes. From Gloppen and Rakner point of view, “unless potential taxpayers know that the tax system is reasonably efficient and trustworthy - that their neighbours are also likely to pay, and that the money will reach the relevant authorities - they are unlikely to pay up voluntarily” (Gloppen, & Rakner, 2002:5)

3.2.4 Capacity Building

The main component of tax structure is embedded in the ability to collect taxes; the inability to enforce the tax provisions is a disaster recipe for low tax revenue collection (Wallace, 2015:215). This position is in line with the focus of the tax policy reform in Liberia base on the revelation of the finding of this study. One of the Revenue Authority respondents who is in charge of capacity building training activity in the period of research/the tax reform explained in details why capacity building is central to the tax reform. He maintained that the focus of the reform is the capacity building of both the revenue authority and staffs in revenue collection. In his words;

“the reform focused on reorganisation of the tax structure through the creation of three tax units: Small Tax, Medium tax and Large Tax while capacity building included: computer training, training in revenue administration, technical training in automation and revenue audit”¹².

Other respondents also confirmed that one of the key aspects of the reform is for all the revenue authority staff to participate in evaluation training, leadership management training, and compliance risk management training, and training on customs orientation. This shows that the tax administration capacity building requires the improvement of the strategic planning and results-monitoring process (DFID, 2007:6). However, the tax administration capacity building is not expected to be smooth without challenges, therefore the next section look at the impediments to revenue collection

3.3 Impediment to Revenue Collection

3.3.1 Lack of Proper Organizational Structure/Infrastructure

The first problem that was identified by this study is that there is a lack of proper revenue structures in the various political subdivisions of the country. In other words, the revenue structure is not decentralised in the entire country. All the respondents that participated in this study attest to the fact that there is a problem with the chain of command as it relates to who report to whom. The bureaucratic bottleneck to tax procedures and lack of revenue collection infrastructures in the rural areas and the borders of Liberia discouraged the vast majority of people residing in the rural areas. One of the respondents from the revenue authority explains further;

“There were no proper administrative revenue structures for revenue collection. The Ministry of Finance revenue department was responsible for

¹² LRA9

revenue collection, and it was subject of political influence or manipulations. The issue of decentralisation is a serious impediment in revenue collection in Liberia. Fiscal decentralisation is necessary for the enforcement of revenue collection”

The implication of the centralization of tax collection centres is that taxpayers living in the political subdivisions of the country have to come to Monrovia, the capital city of Liberia to get tax return documents, business registration and vehicles license. The findings reveal further that taxpayers are willing to pay taxes, but there are limited facilities for tax payment. The respondents from the Liberia Business Association reveal how frustrating and discouraging it is to travel hundreds of kilometres for four hours because one can collect tax return document which is not even a guarantee that you will get the documents. According to the respondent

“The main challenges we face in paying our taxes is, we spent several hours in paying our taxes. The employee at the various payment centres are very slow it takes the whole day in paying taxes. At the same time, we are told that the system is down. The computer system at the bank or payment centre is down, due to technical problem. Spending the whole day paying taxes is affecting our business; we are experiencing losses in our businesses.”¹³

There is a need to link the two automation system: 1) Automated System for Customs Data (ASYCUDA) and 2) Standard Integrated Government Tax Administration System (SIGTAS). For example, import payment and declaration of commonalities needs to be linked through automation system¹⁴. Another respondent from the Liberia Manufacturing Association backed the Liberia Business Association Respondent position on the lack of enough taxpaying centres closer to where they conduct their businesses. He argued that inadequate payment centres and tax awareness are constraints that are facing the revenue system in Liberia.

“There is a need to improve the payment process at the various payment centres and creation of more centres that are closer to people not residing in the city. The automation facility needs to be upgraded. The government should buy modern equipment to facilitate tax payment. The working environment at the various payment centres needs to be improved so that there will be efficiency and effectiveness in tax payment”.

According to the findings, Taxpayers face difficulty in paying taxes such as preferential treatment to certain individuals that knows people in the tax office, and inadequate payment centres which require taxpayers have to travel long distance for example. The obstacles for tax payment ought to be addressed urgently as tax systems improvements cannot succeed without the necessary capacity to implement the tax policy framework. One of the main elements of supporting tax administration reform is the reorganisation of tax administration along functional lines with special administrative units responsible for the various operational areas, such as tax audit, arrears management, and taxpayer services. This is often combined with the introduction of taxpayer segmentation and the creation of special tax offices for large, medium and small taxpayers (DFID, 2007:6).

¹³ LRA 8

¹⁴ LRA5

3.3.2 Low Tax Morale and Culture of Tax Avoidance

Regardless of the effort of government to implement tax reform to increase revenue growth in Liberia, without the willingness of Liberians to pay taxes, the reform is unlikely to be effective and fruitful as suggested by (Brautigam 2008:6). This is what Daude described as Tax moral, which is the eagerness of citizens to pay taxes, besides the legal obligations to do so (Daude et al., 2012:9). Although this is not limited to low-income countries, the moral of paying tax is considerably interrelated with tax effort and tax compliance both in the developing and developed countries (Daude et al., 2012; OECD, 2013). In the findings of this research, it was discovered that the Tax moral of the Liberians is very low as majority of the population with the exception of those that work in the formal establishment are not used to paying taxes. For those working in the formal sector such as government creation and register enterprises, taxes of the employees are deducted from the salaries before payment unlike the informal sector with unregistered businesses that there is no way to collect taxes from them directly. It was gathered that:

“Changing minds of people from tax avoidance to tax compliance is a serious problem facing the revenue authority because people are not used to paying taxes. When you ask them to pay tax, they will question you and sometimes become angry; tax collectors don’t have a choice than to leave them alone.”¹⁵

The trust in government by the public that the taxes paid by them will be well utilized and how they view the fairness of the tax system is central to the boost in tax morale and compliance of paying taxes (Brautigam, 2008; Fjeldstad & Heggstad, 2012; Ali et al., 2013; OECD, 2013). Nonetheless, this position varies from country to country, while public satisfaction with the service provided the government tend to play a prominent role in tax morale and compliance in some countries, such as Kenya and Uganda (Ali et al., 2013). On the other hand, there are countries (Mozambique and Zambia) that compliance is done through strict enforcement to non-compliance, the severity of deterrent measures played key roles in (Fjeldstad & Heggstad, 2012). Tax evasion is a complex phenomenon reflecting a low fear of punishment; limited enforcement; and a lack of awareness of, or "confidence that the state collects taxes in a fair and efficient manner or uses the revenue to benefit most citizens"(OECD, 2013:14). Many of the factors linked to compliance are closely interrelated in Liberia. The trust in government is low due to a high level of corruption in various sectors of the country, and people do question the state resources management. A respondent from the Liberia Business Association opined that, citizens whether in developed or developing nations, would resist paying tax if they are not sure how the money they are requested pay is going to be spend. He emphasised that;

“Government should also use tax resources to provide essential services such as hospitals, schools, good road network, electricity and pipe borne water facilities for the citizen. Tax policy should be translated into the local languages of Liberia and ought to have a direct impact on people lives through service delivery”¹⁶

¹⁵ MFD2

¹⁶ LIBA14

Noncompliance undermines revenue, distorts competition (putting the noncompliant at an advantage), and compromises equity (IMF, 2015:6). “Low tax morale not only weakens citizens’ commitment to the joint social project, it also reinforces a vicious cycle: people justify not paying their taxes on the grounds that the state is not keeping its side of the social bargain; this leads to insufficient revenue for improving services, services decline and so the cycle is perpetuated” (OECD, 2013:13). Also, there is a need to implement or enforce the tax law; many people are not sent to jail for non-tax compliance and evasion according to one of the respondents from the Liberia Revenue Authority that participated in this study.

3.3.3 Inadequate Capacity Building of Staff

One of the impediments to tax reform that was identified by all the respondents I interacted with during the data collection is the lack of qualified staff. They considered it as a serious problem for revenue growth in Liberia because most of the staff does not have practical knowledge to handle tax administration. Another issue had to do with inadequate staff for deployment in the various political subdivisions of the country and required human resources development and skills are lacking¹⁷.

“Lack of essential staff and technical know-how in tax administration are impediments to the revenue system in Liberia. Most tax workers do not have the require knowledge on tax matters. There is a shortage of capable staff to maintain the information technology equipment at our payment centres and handle the number of taxpayers on a daily basis”.

In principle, developing countries, in particular, those emerging from crisis are expected to ensure that taxpayers are audited to mobilised revenue. However, in practice, the majority of these countries lack in required number of staff capacity and skills to execute such plans (UN, 2000:4). While it is important for the Liberia government to engage in developing individual talent, including leadership and specialist technical skills as suggested by IMF (2016b:10). The findings show that, although, some supervisors and managers do have some level of competency, many of the older workers resisted voluntary early retirement. Others resisted new ways of coping and adapting to technology environment.

“The revenue authority has tried within its capacity to organised training for some staff, but it appears that either they find it difficult to cope with the training or it is just an act of sabotage because some of them are used to the old ways that supported corruption and kickbacks. Honestly, I can explain why most of them still find it difficult to adjust to the new system. We have made up our mind that we might be forced to sack or retire those that cannot keep up with the pace because we need everybody to be on the same page”¹⁸.

Nevertheless, the resistance of staff to training and changes in the system are not the only impediments when it comes to the capacity building of staffs. The findings also revealed that the training offered to all the staffs that are relevant to tax revenue is not uniform as well as the salaries and take home

¹⁷ MFD2, LRA7, LRA9

¹⁸ LRA6

pay. There is a huge discrepancy from the training received by the LRA staffs and those of Tax units of the Ministry of Finance as well as the monthly salaries; the LRA staff are well trained, and they are paid better wages. According to (Moore et al. 2015) for the tax capacity of the developing countries to increase positively, the tax policy units at the Ministry of Finance should not be neglected for the tax revenue agencies like the central bodies that deserved the attention in capacity building efforts. Moore and colleagues maintained that “tax policy units within ministries of finance are equally deserving of attention. Staffs in these units are paid less than employees in semi-autonomous revenue authorities, and their responsibilities are significant: evaluating the impacts of tax policies on the economy and proposing reforms, making revenue projections and setting collection targets” (Moore et al., 2015:). The view of Moore et al. was widely expressed by the respondents from the Ministry of Finance; they insisted that effective revenue collection could only be achieved when the relevant staffs that have something to do with the tax related issue are subjected to same training and remuneration enjoyed by those in the Liberia Revenue Authority¹⁹.

3.3.4 Funding

The primary constraint of the Liberia Revenue Authority is the issue of insufficient budget support from the government. The findings revealed that expenditure is still tied to political decision budgetary allotment from the Ministry of finance and development planning before spending. Moreover, in most instances, the budgetary allocation to the LRA is reduced drastically. The allotment can only cover the payment of the LRA employee basic salaries and not more. It would have been appropriate if the budget of the LRA be through a percentage of total revenue collected similar to those of other neighbouring countries such as Ghana, Rwanda, Uganda and Nigeria²⁰. Governments have to approve budgetary allotment through political influence. It is through default that budgetary allocation for the revenue authority is approved. This limits the autonomy of the revenue authority²¹.

3.3.5 Multiple Interpretation of the 2009 Revenue Code

One of the main impediments to successful mobilisation of revenue through taxation according to the findings of this study in Liberia is the complexity and vagueness of the tax revenue code. The lack of clarity in the revenue code of 2009 has made various people claim ignorance of their responsibilities of paying taxes because of multiple interpretations of the tax code.

“Certain part of the revenue code is open to multiple interpretations. There is a need to explain or define those sections of the code there are general. Examples what should be the penalty for those taxpayers who do not keep tax record”?²²

¹⁹ MFDP1, MFDP3

²⁰ MFDP3, LRA7

²¹ LRA8

²² LIMUA16

Another respondent was of the opinion that certain aspects of the law require administrative regulation. He explained further that the

“If these tax laws remain the same, it will be difficult to improved revenue growth. The laws should be rewritten for clarity and practicability. Moreover, the revenue code is not accessible; it takes 100 USD to 200 USD to obtain a copy of the revenue code, and many taxpayers cannot afford this amount”²³.

Some respondents believe that the weakness of the revenue code lies in the fact that it seems to be more of a theoretical blueprint to appease international donors than serving as a mechanism to address the problem that emanates within the sector. This kind of scenario is what (Vance 2013) described as federal tax code becoming unconstitutionally vague; “law is unconstitutionally vague when a person of ordinary intelligence cannot determine what is required of him or her” (Vance, 2013: 47). Many of the respondents complained about the vagueness of the revenue tax code of 2009, and one cannot blame them if they are not tax compliance because; they don’t know what they are paying for, how much they are to pay, and when not to pay. Apart from the fact that the tax code that supposed to be available to all businesses is expensive to purchase rather than giving it out free. The structure of tax is not clear, and it gives room for both harassment of taxpayers by the revenue collectors and evading taxes by those that understand the loopholes in the tax code.

The Revenue Code should be implemented in its totality; it needs to be revisited from time to time as a means of filling the gap as world prices on essential revenue sources decline. The consensus was that; the Revenue Code needs to be revised for clarity because certain parts of the revenue code are open to many interpretations. There is a need to explain further or define some sections of the revenue code especially penalty and interest is complicated, cumbersome and unfair which make enforceability within the legal framework difficult. There is a limitation to enforcement power, for example, the chapter 10, section 806 and 905, regarding good and service tax. Legal reform will ensure that enforcement powers are given to tax authority example: lack of enforcement power for prosecuting tax avoidance and tax evasion.

3.4 Conclusion

In this chapter, the focus of the tax reform was identified; this includes detaching the revenue authority from the ministry of finance and development planning, and the issue of integrity, which encourage transparency and accountability. The independence of the revenue administration from political influence is a significant aspect of the tax reform. The automation system is not operating to its fullest; there is a gap in the technical capacity as far as tax administration is concerned. There is still inadequate record keeping of taxpayers, and the total number of working taxpayers is unknown.

²³ LMA13

Chapter 4 : The Role of Donor and Transforming Tax Policy Reform into Revenue Growth

4.1 Introduction

This chapter presents analyses and findings of research question three and four of this study. I present and analyses the data relevant to answering research question three and four that seek to understand the role of donors in tax policy reforms in Liberia and how tax reform can be transformed into economic growth. This chapter is organised into three parts; the first part talk about the role of donors, the second part talk about how tax reform can be transformed into economic growth and the third part give a general reflection and conclusion of the chapter.

4.2 Role of donors in supporting the implementation of tax policy reform

The main finding as regards to donor roles in the implementation of the tax policy reform was gear toward technical assistance for capacity building, funding for the purchase of automation system and sponsorship of consultants. According to the OECD, the tax reform in Liberia was estimated at USD\$ 35 – 40 million. The Integrated Tax Administration System was estimated to cost USD\$ 11 million. The World Bank contributed USD\$ 2 million of this amount. (OECD 2012: 94). The OECD emphasised that cost of the reform in Liberia was mostly donors driven. Donor assistance for the reform came from African Development Bank (AFDB), ECOWAS, European Union, French, United State Treasury Department, World Bank and International Finance Corporation. It was a consensus among all the respondents that capacity building can be an added advantage to revenue growth in Liberia. According to one of the interviewees;

“If capacity building is supported it can enhance revenue growth. Those new units that were created because of the reforms must be supported with capacity building both domestic, external training and logistics compliments. Investment in human resources development through capacity building and training is essential to revenue. Provision of logistics especially vehicle, computer, internet facilities and technology are necessary for revenue expansion”²⁴.

This suggests that the Liberian Government should train tax workers, if the capacity of tax employees is built with appropriate training in modern tax administration it will assist revenue generation. In developing countries tax capacity building, involves different forms of supports offered by international organisations and donors. The most prominent ones are

²⁴ MFDP4

supported by OECD, IMF, USA, UK, Norway, and Germany. However, the plethora of new entrant of donors in recent years has led to competitive or overlapping and uncoordinated activities in regards to donor contribution to tax administration capacity building. It is important to build strategies based on specific country institutional context because tax administrations in developing countries vary (Moore et al., 2008:1). In the context of Liberia, there are plethoras of donors (USA, IMF, World Bank e. t. c), offering capacity-building support for increasing tax revenue mobilisation. The findings show that they are active and offer a broad range of supports. One of the respondents emphasised that:

“Donors have prioritised capacity building and provision of information technology or information communication technology to tax reforms as a meant of mobilising domestic revenue and not to keep asking for assistance. They have support tax reform as a means of revenue sustainability to generate more revenue domestically. Most of the funding for automation and capacity building have come from donors’ assistance”.²⁵

Another respondent corroborated the above argument and further explained that donors championed approximately 3/4 of the whole reform

“Donors have immensely supported the implementation of the tax reform efforts through Funding that was used to acquire automation for the tax system. Donors play a pivotal role in the capacity building especially in the areas of external and domestic training. Between 70- 75 percent of the reform was supported by donors and funding for most of our reform programs”²⁶.

It is apparent from the findings that donors have supported the reforms process. They assisted the government in the areas of capacity development, budgetary support and provision of logistics. They have provided local and foreign trainings, technical assistance, financial assistance and provision of automation. Moore et al. (2015) suggested ways that donors can be more effective in their roles in supporting the implementation of tax reforms. The first is institutional twinning or mentoring; they argued is much more reliable than training. Mentoring involves the situation wherein donor countries national revenue agencies staffs will travel down to the host countries based on the agreement of institutional cooperation, which will allow them to work together and help them to learn. Example of such corporation can be seen in the collaboration between the Norwegian National Tax Administration and Zambian Revenue Authority. Although, mentoring did not negate the need for training, however, training only serves a short-term purpose. Nonetheless, mentoring relationships has demonstrated to be immeasurably productive, in particularly in establishing a long-term relationship (Moore et al., 2015:2). “While collaboration has been successful, the willingness of donor tax administrations to commit skilled staff to what might be seen as a low priority activity” (Moore et al., 2015:2). Unfortunately, in Liberia, there is no evidence from the findings that suggests that the capacity building support was based on mentoring. All evidence demonstrated the training mode mentality.

²⁵ LRA7

²⁶ LRA9

The second point that was raised by Moore et al. followed the argument that had been propounded by many scholars on the need to facilitate a South-South Cooperation towards tax reform capacity building of developing countries. The idea was that encouraging cooperation between developing countries that have gone through successful tax policy reforms and those that are in the process of reforms is more advantageous than having Western donors or expert coming to give advice. This is because advisors from developing countries that have gone through the process possess similar and relevant experience in similar contexts. The facilitation can be through making funds available for developing countries that have more expertise in taxation to help in capacity building of developing countries that are still lagging behind. Regardless of the limitation of South-South cooperation implementation, it is, however, considered high-value channel and cost effective (OECD, 2013: 15). In fact, the South-South exchange helps in dealing with taxation, tax training, illicit financial flows, and transfer pricing. Although, available data for this study suggest that there exist cooperation through the West African Tax Forum and some regional organisations, the cooperation is nothing concrete as compared to the effect that the South-South cooperation will have on the tax policy reform. Nevertheless, it was a right step in the right direction.

4.3 What needs to be undertaken to make tax policy reform more responsive to revenue growth?

This section is a response to the research question two on the impediments to tax policy reform that I discussed in the last chapter.

4.3.1 Decentralization/ Deconcentration

Decentralization embraces range of ideas, the viability of which ought to be cautiously analysed by any country before embarking on such venture of policies that promote decentralisation (Rondinelli et al., 1989:59). Decentralisation can be understood in many ways, in the context of Liberia Tax revenue collection, it is important to figure out the one that might be appropriate. There are three types of decentralisation, political, administrative, and fiscal (Jütting et al., 2005; von Braun and Grote, 2000). Political decentralisation involves the process where local citizens and their representatives are given more power when it comes to decision-making as well as setting legal framework and standards (von Braun and Grote, 2000:3). From the administrative standpoint, "decentralization can be defined as the transfer of responsibility for planning, management from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or nongovernmental private or voluntary organizations" (Rondinelli and Nellis, 1986: 5). While the Fiscal decentralisation (FD) is a process that entails transferring fiscal responsibilities and power to local governments from the central government (Akin et al., 2015:1).

"Time spent by taxpayers in paying taxes is a burden to the taxpayers. Therefore, collection centres need to be decentralised to local branches in the counties of Liberia. Examples, taxpayers have to come to Monrovia, the

capital city of Liberia to get tax return documents, business registration and vehicles license, taxpayers are willing to pay taxes, but there are limited facilities for tax payment”²⁷.

To complete tax reform in Liberia, most of the respondents argued that it required decentralisation of fiscal policy. If fiscal policy is decentralised, it will involve the local people in the tax process. Involving the local people who constitute majority of the country population will be an added advantage for tax awareness. They are of the opinion that the government through the Liberia Revenue Authority should ensure that more tax payments centre is established and reduce the bureaucratic bottleneck for tax payment. However, it is important to note that for a successful implementation of decentralisation policies, the policies must be carefully designed (Rondinelli et al., 1989:59-60). This is because the process of decentralising entails the delegation of various important responsibilities and power to make decisions (Rondinelli et al., 1989; Von Braun and Grote, 2000).

“When we go to pay our taxes, tax payment takes many hours, sometimes the whole day”.

Regardless of the type of decentralisation one want to promote for the Liberian government to adopt, the organisation arrangement matters when thinking of decentralisation. Rondinelli and others argued that the policy makers and analysts must put into consideration five primary forms of organisational decentralisation arrangement. These are deregulation of private service provision, deconcentration of central government bureaucracy, privatisation, delegation of public enterprise, and devolution to the local administration. Various forms of institutional alternative may be viable for each of the organisational arrangement of decentralisation (Rondinelli et al., 1989:72). However, “the least extensive form of decentralisation, but an important step in highly centralised countries, is to deconcentrate central government institutions. In its weakest form, deconcentration merely involves the shifting of workload from central government ministry headquarters to staff located in offices outside of the “national capital” (Rondinelli et al., 1989:76).

The argument of Rondinelli et al. was in agreement with the findings of this study that suggest that the tax collection centre should not be concentrated in Monrovia where taxpayers will have to travel from other cities and towns for hours to pay their taxes or register their business. However, political factors play a significant role in the successful implementation of the decentralisation policies. Rondinelli et al. (1989: 77) argued that it would take a strong political commitment with support from the national leaders before decision-making, planning, managerial authority to be transferred to the lower level of administration and in some cases the private sectors. This implies that Policymakers need to exercise political resolve in the reform process and ensure that adequate financial support is given to the reform process. All the respondents that interacted with during the data collection believed that without the political commitment from the government, nothing could be

²⁷ NACUBAL17

done about tax reform, most especially when it comes to the issue of decentralisation of tax revenue collection.

4.3.2 Building of Tax Compliance Culture

For many developing countries that are struggling towards the path of sustainable development, reduce inequalities, build infrastructure for inclusive growth while striving to alleviate poverty among their citizens, their focus has been tailored towards mobilisation of greater tax revenue domestically. “To do so, they are increasingly reaching out to inform and engage today’s – and future – taxpayers” (OCED, 2013:13). The findings of this research revealed that the best way to foster an overall “culture of tax compliance” is through tax education, which will serve as the linking bridge between the citizens and tax administration. Without the citizens understanding their roles in pay tax or did not even know the importance of doing so, there is no way they will want to pay no matter how small the amount required of them. One of the respondents from LRA maintained that;

“Tax education and awareness should be conducted throughout Liberia. When taxpayers are educated on the tax procedure of tax payment, it will deter tax non-compliance. Sensitization programs should be carried out in every community in the county”²⁸.

Another respondent corroborated the argument above; he was of the opinion that many people doing business are not educated enough to have knowledge of tax related issues. He said that people should not be blamed for not complying; it is the fault of the government because nobody ever told them what they needed to know about tax payment and the consequences of not paying for the society. He maintained that;

“Tax education or awareness can significantly contribute to revenue growth. There should be a regular partnership with the various communities. During businesses registration, the tax authority should provide the necessary education to the taxpayers on the different tax processes. There is also need to simplify the revenue code through the various vernacular or local languages.”

The views above are not just been shared by a few, all the respondent that participated in the study agreed to the fact that massive tax awareness campaign should be implemented nationwide in the various local vernacular. While a few also suggest that tax return can be used to encourage taxpayers, the consensus was that there should be massive tax education and publicity on tax matters.

“The government should intensify tax awareness and educational programs for the purpose of explaining the tax policy to business people who cannot read or write. In other words, the revenue code should be produced in a simple version for everyone to understand”²⁹.

When it comes to Tax education in building tax payment culture, Liberia has a wide range of examples that can be amalgamated together for the benefit of the country. The OECD 2013 research in 28 developing countries revealed

²⁸ LRA1

²⁹ MOC21

several practical and attractive methods in engaging the taxpayers from a different context. These includes the adoption of a weekly Tax chat on the radio that allows taxpayers to call into the program (Zambia), Televised soap opera, “Binding Duty” (Nigeria), focus on children and school Outreach (Morocco and Kenya). Some engaged in campaigns or celebration of Tax like any other festival: Campaign tagged “Together We Make Mozambique” (Mozambique), through National Information day (Senegal), Taxpayers day, Tax Advisory Council, and Tax friends clubs (Rwanda) just to mention a few among many examples that Liberia can learn from. (OECD, 2013: 15-17). However, some scholarships have revealed that apart from tax education, the best way to build tax culture is for the government to justify the reason they are demanding for tax from citizen, this is expected to be done through public expenditure that benefits the masses. Although, the vast majority of the respondents that participated in this study shared the views above. However, one, in particular, emphasized that;

“Tax reforms in Liberia can be translated into possible change by having a link between tax collected and public expenditure. Taxpayers’ needs to see values in taxes they pay. When taxes we collect are reflected in the quality of service delivery, health care facilities, education, access to safe drinking water, and electricity. When people feel the impact of their lives on the provision of services, taxes paid translated into infrastructure like road, dam, school, hospitals, people see the government take the various ministries and agencies out of rental houses of private home and when people see the benefit of their taxes at work, it will encourage them to be committed to paying their taxes”³⁰.

The argument above suggests that the main driver of positive tax compliance culture is to encourage people to pay their taxes through sensitization and the delivery of services that will be of benefits to the citizens, thereby, boosting their confidence in the government. Nevertheless, there is a clear difference between the effort to improve on tax compliance and that of discouraging non-compliance. According to (Birds 2004:137), those that comply did not just comply because they do not have ways to evade tax, they comply because they believed that others are also complying and it is the right thing to do. "Some always pay; some always cheat, and some cheat when they think they can get away with it. An important task of tax administration is to prevent the mix from tipping in the direction of pervasive non-compliance" (Bird, 2004:137).

4.3.3 Involvement of Taxpayers in Decision-making

Next to building of tax compliance culture is the inclusiveness of citizens in the process of decision making when it comes to taxation. The findings of this study suggest that one of the ways in which the tax reform policy of Liberia can be transformed into economic growth is the adoption of a contractual taxation rather than the coercive taxation, which is obtainable in the country at present. According to (Moore 2008:37), coercive taxation is a taxing process that did not involve any representative of the taxpayers at the platform when making tax policy decisions. It is characterised by range of

³⁰ LCC20

arbitrariness in assessing tax burden. The contractual taxation process involves the idea of tax for service exchange, which is done through institutionalised negotiable methods. In this case, the voice of taxpayers is heard in the process of setting tax policies, which contribute to taxpayers' voluntary compliance (Moore, 2008:37). The respondent from the Liberia Marketing Association position corroborated the argument of Moore (2008). He opined that,

“Our organisation can play a meaningful role in strengthening or enhancing revenue growth if it is allowed to collaborate with government to educate our members about the essence of tax payment. Nevertheless, before we can be involved in the campaign process, we need to be carried along and involved in the policy decision. This is because our members will ask us questions and we will only look stupid if we don't have the answers ready for them”³¹.

The Liberia Marketing Association has the oversight responsibility to regulate marketing activities throughout Liberia. It is composed of survival entrepreneurs and growth enterprises in the informal sector, traders, farmers and peddlers. The association has a membership of about 35, 000 who are mostly women (All Africa Com. 2008).

Arguing from the perspective shared above, the reform should take into account the importance of engaging the representatives of taxpayers since they represent a substantial number of taxpayers.

“Without people, there is no taxpayer. The government does not have the ability to do everything; they need the support of others to achieve the set objectives. Regular stakeholder consultation can assist in finding a solution to the problem of tax compliance, and this can be accomplished through the organisation of town hall meetings through the taxpayers' representatives”³².

Going by the views of the respondents above, it is evident that the tax policy should be flexible in responding to the economic environment of the country. Such policy should be formulated based on the impact it will have on the economy of the country especially those that will bring about economic growth. Policy makers or implementers should understand the system environment; this will enable them to formulate appropriate policies and interpret them actually³³. It is without doubt that, practical liberalised tax policy is paramount for revenue growth. The Liberia government should consider the policy that will take into consideration stakeholders' perspective in policy formulation and implementation. The summary of the dominant argument of all the respondents that participated in this study follow the line of regular stakeholders' consultation between tax administrators, policymakers and taxpayers. Although they do identify that engagement with taxpayers is not enough, the government will also need to establish a partnership to achieve other objectives, in particular through expertise, technical and financial support from donors and the private sector. In spite of the strong support for contractual taxation process from the findings, it is important to note that the successful implementation of such process depends on; if “the leaders and representatives of the primary prospective taxpayers could mutually come to

³¹ LMA13

³² LMA12

³³ LIBA14

agreement on both the taxation regime and set of policies that should be adopted for the use of revenues” (Moore, 2008:46).

4.3.4 Taxing the Informal Sector

Informal sector remains one of the sectors that have the potential for revenue mobilisation in Liberia. With a large number of the country working force employed in the informal sector, it is rather unfortunate that the sector remains untapped by the revenue agencies despite the fact that if taxed, it could go a long way to the internally generated revenue of the government. Most of the government officials that are responsible for tax revenue collections shared this opinion; they were of the view that the government underestimated the capacity of informal sectors to generate needed revenue that can boost the government budgetary planning.

“I can tell you with facts that there are people that operate computer business centres or those that sell petty things on the street that make more money than those that are in formal employment. However, because they do not dress formally, you will think that they are poor people trying to make ends meet, but it is not always true. I have two nephews that I know are in informal sector doing their own business and they make \$400 per months which is more than many government workers that pay taxes”³⁴.

The strategy of “collective action” through partnership in the informal sector is a needed tool for revenue collection (Brautigam et al., 2008: 192). While some respondents put the argument of underestimation of informal sector potentials, others believed that the government is aware of the potentials of informal sectors contribution to increase revenue mobilisation but deliberately ignored it for political reasons. One respondent explained further

“Those that are saying the government should tax the informal sectors are not realistic because no government want to hurt the voting base. The majority of voters are employed in the informal sector and do you think the government will want to upset them by asking them to pay tax. If I am a politician, I will not do that.”³⁵

Although, the idea of taxing informal sector has come under criticism that taxing informal sector run the risk of exposing small scale enterprise to harassment coupled with the fact of high administrative cost and moreover, the potential of yielding high revenue are low (Bruhn & McKenzie, 2014; Joshi et al., 2014; Keen, 2012; de Mel, McKenzie & Woodruff, 2013). On the other hand, the taxing of the informal sector can also be the vital factor for tax compliance and tax morale among taxpayers (Joshi, et al., 2014:1329). For those that believe that taxing the informal sector will hinder growth and the disadvantages may outweigh the advantages by a wide margin. "The implications of expanded taxation for the growth of small firms are as important as immediate revenue implications. The concern for many tax experts is that increased taxation of small enterprises may ultimately hinder growth and that this cost may far outweigh the benefit of income" (Joshi, et al., 2014:1329). Studies have shown that it is not certain that small firms will move

³⁴ LRA4

³⁵ BTLLT19

towards formalisation even with lowering the cost or making business registration much easier (McKenzie & Sakho, 2010; Bruhn & McKenzie, 2014). There are two viable ways to push the informal sector into the tax net. The first is by taxing of goods and services through a value-added tax, by this way, the informal sector will be paying taxes indirectly since they rely on goods and services they are buying for their businesses (Joshi et al., 2014:1332). The second is through the delegation of power to the trade unions, business associations and other representative bodies to assume the role of collecting taxes (Joshi & Ayee, 2008). However, for this to become a reality it will require the reorganisation of tax administrations because large bureaucracies may hinder expansion of the tax net to the informal sector (Joshi & Ayee, 2008)

The different type of rules uses in institutional analysis, and policy was applied to analysis rules in use at the Liberia Revenue Authority. The below table represents the gap analysis for different rules at the LRA:

Table: 2

Institutional Analysis and Policy Design/ Analyzing Different Rules

.	Different Rules	Description	Rules in Liberia	Description	Gap Analysis
1	Position Rule	Occupation, employment, profession and Roles of participants in Policy environment	The organizational structure and standard operating procedure	Boards of Directors, tax administrators. Tax Collectors, Taxpayers and staff	Low coordination between tax administrators and stakeholders
2	Boundary Rule	Qualification and selection of participant	Human Resources Manual, employment procedure and Labour Laws of Liberia	Criteria for employment, dismissal and retirement	Need to strengthen technical capacity and human capacity at the operating level
3	Authority Rule	Enforcement Rules or Governing rules	Revenue Code	Enforceability within the legal framework	There is limitation to enforcement power and need to revise the revenue code for clarity
4	Aggregation Rule	Level of control and interactions between participants	Standard of Operating procedure	Level of interaction between various departments and unit of Liberia revenue Authority	Low level of coordination among various Functionaries

.5	Scope Rule	outcomes	Implementation of revenue code	Requirement for tax compliance	Low tax morale
.6	Information Rule	Information available to participants	Means and channel of information dissemination	Inadequate tax awareness	Inadequate tax compliance
.7	Payoff Rule	Cost and benefits available to Participants	Incentives for compliance	Tax return	.People should see their taxes at work.

Sources: By the Author, November 2016 (adapted from Polski and Ostrom, 1999: 15-17)

The above table highlights the different type of rules of the institutional analysis and policy design. These rules as reflected in the table is analyse in the context of the Liberia Revenue Authority. The study reveals that there are gaps in applying these rules at the LRA. These includes low level of coordination between various actors and functionaries, strengthening of technical and human capacity, limitation to enforcement the tax code, revising the revenue code for clarity, low tax morale and on- compliance. It emphases, that there is need for people to see their taxes at work

4.4 Conclusion

This chapter brings to fore the need for political commitment and a firm decision from the government to enforce non-compliance while they must also be transparent in the management of the income generated from the tax revenue. The enforcement mechanism of the tax policy is weak. The revenue authority needs more enforcement powers to enforce tax policy in Liberia. Citizens need to be a conscious about their obligations to pay taxes for the provision of better services. The revenue code needs to be revised in a simplify version to deal with the ambiguity in some of its chapters and sections. The chapter discusses how vital the completion of the automation process of Liberia tax system will enable majority of the Liberian people to access information about the tax regime and it will assist in deterring corruption and improve effectiveness and efficiency in tax administration. The findings revealed that the there is a need for government and donors to continue their support to the reform process. A comprehensive tax reform will require adequate funding for capacity building, automation and logistical support. Tax reform, will required decentralisation of tax policy because if the tax policy is decentralised, it will involve the local people in the tax process. Involving the local people who constitute the majority of the population of the country will be an added advantage for tax awareness.

Chapter 5 Conclusion

5.1 Findings Summary

Taxation is the means through which government raise money to finance its operation. The Government of Liberia like any developing country has prioritised tax policy reform as a means of mobilising needed resources for national development after a protracted civil war. The success of tax policy depends on an efficient tax administration. Tax reform can be analysed as changing the process or the approach used in collecting and management of taxes by government. The objectives of this study are to assess how the tax reform impacted on revenue growth and ascertain on factors that impede on a full implementation of the reform.

The study adopts two theoretical frameworks and its significance of taxation on state building. These theories unpack the issues of evaluation, effectiveness, rules, roles, structures, managerial setting, bureaucracy and administrative matters, which affects the performance of an organisation. It examines the organisation and rules that are responsible for collecting taxes in Liberia. The five pillars of tax structures in Liberia are highlighted. The study revealed the gap analysis for the different type of rules in used at the Liberia Revenue Authority.

The focus of the tax reform was identified; this includes detaching the revenue authority from the ministry of finance and development planning, and the issue of integrity, which encourage transparency and accountability. The independence of the revenue administration from political influence is a significant aspect of the tax reform. The study brings to fore the need for political commitment and a firm decision from the government to enforce non-compliance while they must also be transparent in the management of the income generated from the tax revenue. The enforcement mechanism of the tax policy is weak. The revenue authority needs more enforcement powers to fully enforce tax policy in Liberia. To achieve this, the citizens need to be conscious about their obligations to pay taxes for the provision of better services. The revenue code needs to be revised in a simplify version to deal with the ambiguity in some of its chapters and sections. The findings revealed how vital the completion of the automation process of Liberia tax system will enable the majority of the Liberian people to access information about the tax system and it will assist in deterring corruption, improve effectiveness and efficiency in tax administration. The study discovered that there is a need for government and donors to continue their support to the reform process. A comprehensive tax reform will require adequate funding for capacity building, automation and logistical support. Lack of funding has retarded the implementation of the reform and the more that is invested in the reform through funding; the more revenue will be collected. Moreover, to complete tax reform, it required the decentralisation of tax policy because if the tax policy is decentralised, it will involve the local people in the tax process. Involving the local people who constitute the majority of the population of the country will be an added advantage for tax awareness.

Did the reform that was undertaken in Liberia bring the anticipated positive changes? The study indicates that because of the tax reform revenue increased but there remain impediments to steady revenue growth and barrier towards its successful implementation.

In the process of assessing the focus of tax reform in Liberia, which is the first research question, the findings of this study show that the focus of the tax reform can be described in four (4) folds. These are mainly; to improve the efficiency of tax administration, to enhance transparency and accountability, Tax Compliance, and Increased revenue base. The results of the study as analysed clearly revealed that the tax policy reform initiated in Liberia was meant to transform the revenue administration through the utilisation of effective Information communication technology to enhance revenue collection. The reform was aimed at improving and strengthens tax regime in Liberia to increase revenue generation. It was discovered that lack of proper organisational structure/infrastructure, low tax morale, funding, and lack of capacity building for the tax collectors, and the vagueness of the Revenue code of 2009 as the major impediment to the tax revenue collection.

Research question 2, dealt with the impediment to revenue collection and challenges. These challenges include lack of proper organisational structure/infrastructure, low tax morale, funding, and lack of capacity building for the tax collectors, and the vagueness of the Revenue code of 2009 as the major impediment to revenue collection.

Question 3, highlighted the role of donor in supporting the implementation of the tax reform, it indicated that donor immensely supported the tax reform through capacity building, and funding that was used to acquire the automation system. The findings revealed that between 70- 75 percent of funding for the reform came from donor support.

The last question 4, which was based on how can tax reform in Liberia, be translated into a positive change in tax policy of the country? The study revealed that decentralization, the building of tax compliance culture, the involvement of taxpayers in decision-making and revision of the revenue code can be responsive to revenue growth.

The following challenges remain unresolved: a. Automation e-payment system, b. inadequate payment centres and c. Capacity gap. If these difficulties are addressed, tax collection or revenue growth can be enhanced.

Some intervention strategies were identified in the findings that will help transform the tax policy reform into economy growth in Liberia. The first is the taxation of the informal sector. The informal sector in the majority of developing countries including Liberia is not monitored because of lack of capacity. If the tax base and net are expanded in the informal sector, it will increase revenue generation. The government in developing countries needs resources from the informal sector to accelerate its developmental agenda. The best mechanism for increasing the tax base and net are to extend in the informal sector is to ensure a “negotiated” settlement is reached between the state and “association” of the informal sector. It will enable the state to collect substantial revenue. Organisations in the informal sector will assist the government to reduce “high cost of tax collection.” These associations should be legalised and empowered as agents for collecting revenue. Another way is

the building of tax compliance culture. The findings show that the government should intensify tax awareness and educational programs for explaining the tax policy to business people who cannot read or write. Tax payment procedure should be made simple. Tax education should be a primary concern and comprehensive tax awareness programs should be held in the country along with stakeholders. The revenue code should be produced in a simple version for everyone to understand.

The unresolved challenges as indicated are summarized as follow:

a. Automation e-payment was meant to transform the revenue administration through the utilization of effective information communication technology: the automation system is not operating to its fullest; there is a gap in a technical capacity as far as tax administration is a concern. There is inadequate record keeping of taxpayers. The completion of the automation system will enable the majority of the Liberian people especially taxpayers to be information about the tax regime and will no doubt assist in tackling corruption and improve tax compliance. This cannot be achieved because of lack of financial support from government and donor community. Provision of payment centers for smooth payment of taxes: the study reveals that taxpayers face difficulty in paying taxes because of lack of adequate payment centers. The finding shows that taxpayers spent about one to two days in paying taxes.

b. Lack of adequate payment centre posed a serious challenge to revenue collection. Most taxpayers emphasised that due to the lack of adequate payment centres is making them to incurred extra cost to their businesses. If the reform was completed, the e-payment component could have taken care of challenges to tax payment. The cardinal objective of the reform was to increase revenue collection. If more payment centres are provided, it will assist in revenue collection. The cost of providing payment centers could be underwritten by the government in the absent of donor support. In the absent of e- payment automation system, the government should facilitate tax payment with ease. The provision of adequate payment centres will reduce the huge crowd usually found at the existing payment centres.

c. Capacity gap needs to be close up, especially for revenue agents and tax employees: there exist huge capacity gaps because of lack of knowledge in taxation. Capacity gap has been and still is a challenge to revenue growth. Most staff has little or no knowledge of the function of revenue administration. They do not have practical knowledge to handle tax matters. There is low capacity in revenue administration; this poses a serious challenge to revenue growth in Liberia. Capacity building can be an added advantage to revenue growth. There is a need for capacity building in the areas of policy analysis, tax enforcement, monitoring and evaluation, revenue forecasting, tax administration among others. If the capacity building is supported, it can be an added advantage to revenue growth in Liberia.

The research shows that revenue growth can be achieved if infrastructure and capacity gaps can be supported through financial commitment. The government of Liberia should allocate more resources to infrastructure and capacity gaps. After thoroughly examining the various policy options and

taking into account the research finding, options b and c will be more feasible to enhance revenue growth. If the government chose option a., automation e-payment, it would require commitment from the donor community. This will require time and much effort. In the short term, if option b. Inadequate payments centers and c. Capacity gap is adopted it will accelerate revenue growth.

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Appendices:

Appendix A

List of Respondents and Organizations

No of Respondent	Organization	Position	Date of Interview	Place of Interview	Sex	Code
1	Liberia Marketing Association	Superintendent	July 26, 2016	Monrovia	Male	LMA 12
2	Liberia Marketing Association	Comptroller	July 29, 2016	Monrovia	Male	LMA 13
3	Liberia Business Association	Vice president for Administration	August 3, 2016	Monrovia	Male	LIBA 14
4	Liberia Business Association	Comptroller	August 3, 2016	Monrovia	Male	LIBA 15
5	Liberia Institute of Geo-Information Services	Assistance Director for External Trade	August 4, 2016	Monrovia	Female	LISGIS 23
6.	National Customs Brokers Association of Liberia	Financial Secretary	August 8, 2016	Monrovia	Male	NACUB AL 17
7	National Customs Brokers Association of Liberia	Assistance Secretary General	August 8, 2016	Monrovia	Male	NACUB AL 18
8	Ministry of Commerce	Acting Deputy Direction for Statistics	August 10, 2016	Monrovia	Male	MOC 21
9	National Investment Commission	Senior Economist and Policy Advisor	August 12, 2016	Monrovia	Male	NICOL 22
10	Ministry of Commerce	Director Access to Market	August 15, 2016	Monrovia	Male	MOC 24
11	Liberia Maritime Authority	Director of Finance	August 22, 2016	Monrovia	Male	LIMA 10
12	Liberia Business	Verifier/Information	August 23,	Monrovia	Male	LIBR 11

	Registry	Desk Officer	2016			
13	Ministry of Finance and Development Planning	Assistant Director for Direct Taxation	August 23, 2016	Monrovia	Male	MFDP 1
14	Ministry of Finance and Development	Director for Non Taxation	August 23, 2016	Monrovia	Male	MFDP 2
15	Ministry of Finance and Development Planning	Director for Revenue Forecasting	August 26, 2016	Monrovia	Male	MFDP 3
16	Ministry of finance and Development Planning	Director for Indirect Taxation	August 26, 2016	Monrovia	Male	MFDP 4
17	Liberia Revenue Authority	Commissioner for Customs	August 29, 2016	Monrovia	Male	LRA 5
18	Liberia Revenue Authority	Assistant Commissioner for Real Estate	August 30, 2016	Monrovia	Male	LRA 6
19	Liberia Revenue Authority	Assistant Commissioner Micro and Medium Tax Division	August 30, 2016	Monrovia	Male	LRA 7
20	Liberia Revenue Authority	Manager Statistics and Forecasting	August 30, 2016	Monrovia	Male	LRA 8
21	Liberia Revenue Authority	Manager Policy, Planning and External Relations	September 1, 2016	Monrovia	Male	LRA 9
22	Liberia Manufacturing Association	Acting President	September 3, 2016	Monrovia	Female	LIMUA 16
23	Baker Tilly Liberia	Consultant	September 6,	Monrovia	Male	BTLLT

	Limited	1	2016			19
24	Liberia Chambers of Commerce	President	September 9, 2016	Monrovia	Male	LCC 20

Appendix B

Interview guide/ MFDP, LRA and others

1. What effect did the Tax Reform have on revenue collection in Liberia from 2005-2015?
2. What was the main focus of the tax reform?
3. What are the impediments in revenue collection in terms of organizational and capacity constraints in Liberia?
4. What needs to be undertaken to make tax policy more responsive to revenue growth?
5. How can tax reforms in Liberia be translated into positive change for the country?
6. What is the role of donors in supporting the implementation of tax reform?
7. What are the missing links in order to have a complete tax reform?
8. What was the most important aspect of the tax reform, in your view?
9. What do you know about the Revenue Code (and Public Financial Management Act, if relevant)?
10. What are its new aspects?
11. What do you think about them in terms of whether they will help to increase revenues sustainably (and to avoid variations)?
12. How did the implementation work?
13. What was your role in it?
14. What were the challenges you encounter during the process and how were they addressed?
15. What challenges remain unresolved?
16. Did you participate in a training or other capacity building activity in the period of research/the tax reform that you were involved in?

17. If yes, was it useful? If not, why not?
18. Was it paid for by donors?
19. What would be your main recommendation for policy makers with regard to reforming the tax system to increase tax income sustainably?
20. What is needed to implement this recommendation?
21. What are the main sources of tax revenue?
What are the percentages of these sources?
22. What is the weakness/ strength of the revenue code / tax policy?
23. How can your organization assist in increasing revenue growth in Liberia?
24. What needs to be done by your organization to strengthen the enhancement of revenue growth in Liberia?

Appendix C

Interview guide/ Taxpayers and Tax Practionners

1. What are the challenges you encountered in paying your taxes?
2. What needs to be undertaken to make tax policy in Liberia more responsive for tax payment?
3. What could be your main recommendation for policy makers with regard to reforming the tax system to increase tax income sustainably?
4. What is needed to implement this recommendation?
5. What is the weakness/ strength of the revenue code / tax policy of Liberia?
6. What do you know about the revenue code and Public Financial Management Act of Liberia?
7. What are its new aspects?
8. What do you think about them in terms of whether they will help to increase revenues sustainably (and to avoid variations)?
9. What are the missing links in order to have a complete tax reforms in Liberia?
10. What assistance do you need from government to facilitate the payment of taxes?
11. How can your organization assist to increase revenue growth in Liberia?
12. What needs to be done by your organization to strengthen the enhancement of revenue growth in Liberia?
13. What needs to be undertaken to accelerate economic growth in Liberia?
14. What factors do you see as responsible for the failure of the tax system of Liberia and the growth of revenue in Liberia?
15. What are the impediments in revenue collection in terms of organizational and capacity constraints in Liberia?