

Measuring Public-sector Productivity in Selected Asian Countries



ASIAN PRODUCTIVITY ORGANIZATION

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FOREWORD

The discourse on governance recognizes the importance of effective, efficient institutions in conducting public affairs and managing shared resources. This is not simply because the public sector is directly involved in national development and competitiveness initiatives, but also because it is responsible for ensuring high-quality services to satisfy societal expectations. Demands for greater efficiency and transparency and recognition of room for improvement in the public sector are serious concerns to many.

Determining the productivity of a specific public service has proved to be challenging as this is not only limited to the principles covering the measurement of outputs, inputs, and productivity. An additional significant point is that output growth should take into account the quality of change. This point is confirmed in almost all the country reports included in this volume when correlating productivity and the overall quality improvement and impact of public services.

The Asian Productivity Organization (APO) has focused on public-sector productivity growth and its measurement in recent years. Various initiatives have been undertaken to help improve the motivation and skill level of public officials, strengthen management systems, and enhance performance given the changing environment and current commitment to public-service renewal in many countries. This volume examines efforts to enhance the productivity of governments in selected APO member economies. Specifically, the research on which it is based investigated the productivity levels of collecting taxes and issuing passports in Bangladesh, Indonesia, IR Iran, Pakistan, the Philippines, Sri Lanka, Thailand, and Vietnam. The research methodology was inspired by recent developments in measuring public-service productivity in advanced economies outside the region. The contributors to this book agreed that policy and government quality would continue to play important roles in raising public-sector productivity.

The APO thanks all authors from member countries for their commitment to the research and publication, especially Professor Hiroaki Inatsugu, who oversaw the entire process. I hope that the contents of this volume will contribute to the ongoing discussion on governance, public management, and public-sector productivity in member economies and elsewhere.

Mari Amano
Secretary-General
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INTEGRATED SUMMARY

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INTRODUCTION

This book grew out of a 2013–14 report of the Asian Productivity Organization’s (APO) [1] project, *Research on Performance Management for Public-sector Organizations*, which was a year-long undertaking advanced by national experts from eight countries. Project participants were motivated by the conviction that “this current period of transformation puts more emphasis on measuring the productivity of the public sector within the framework of organizational performance management.” Indeed, for years public sector productivity remained a neglected area of inquiry (due mostly to ‘flat productivity’ assumptions based on the supposed immeasurability of government output). Recently however, performance management research of public sector institutions has become more robust and sophisticated, now focusing not only on individual employees, but also teams, programs, processes, and organizations in their entirety. In light of such transformation, this book aims to investigate specific new systems and approaches introduced by several Asian governments, and thereby gauge efficiency and efficacy levels of selected government services.

And while I believe the current work makes an important contribution to our understanding in this area, some of the issues raised are thorny and not without potential pitfalls. For example, politicians and reformers continue to make wide references to the notion of “productivity,” often inflating the concept by linking it too broadly with the notion of effectiveness (in some instances the term has even been rendered too broad and complex, as when it’s loosely used to refer to everything good within an institution). But, in sum, the APO’s investigation into the productivity of Asian countries’ administrations is overdue. And while it is certainly hoped present study fills some key gaps within the available literature, continued research into this field is certainly to be welcomed and encouraged.

The present book consists of nine chapters. In this first chapter I define the concept of public sector productivity and also review the recent literature which relates most directly to our concerns and objectives. I also set the target of this research and overview the empirical analyses of chapter 2–9. Following this introductory, chapter national experts from eight Asian countries review and analyze nation-specific initiatives and productivity trends in the areas of tax collection and passport issuance (Chapters 2–9) (the reason for this particular focus I explain below).

NATIONAL GOVERNMENTS AND THE APO

The government or the public sector creates the policy, infrastructure, and service delivery environment so that the private sector, civil society, other nongovernmental organizations and individual citizens can be more effective partners as engines of growth in the socio-economic development of a country. APO nations, of course, are no exception; the public sector plays a vital role in all member countries by facilitating direct and indirect contributions to GDP through economic and business development (which in turn often leads to other positive effects, such as employment generation). We must also not overlook the public sector's key role in providing for health, education and welfare (including social security and safety net services) in general (universally), and by extension, in each country analyzed in this study.

We are now in an era of marked change and reform; in particular, numerous governments continue to be influenced and guided by the movement of New Public Management (NPM). The NPM paradigm has spurred ministries and agencies to significantly re-envision their roles, strategies and goals in order to transform themselves so that they might become more cost-efficient and accountable as institutions. Some key elements in this process include: the introduction of various forms of decentralized management; increased reliance on markets for the provision of public services; and the placing of greater emphasis on performance, output and customer orientation in the management of public-sector organizations. While reforms recently implemented by APO members vary in depth, scope and level of success, administrations are often united by the similarity of issues faced and goals pursued, as reflected in the specific policies, institutional reforms, and technologies implemented in order to promote greater governmental accountability.

The implications of this change mean new approaches and new systems within the government and public service delivery. It has been one of the aims of this research to look into this changing phenomenon and see how effective and efficient the public sector has become in recent years.

The APO itself was established in 1961 as a regional intergovernmental organization with the mission to contribute to the sustainable socioeconomic development of Asia and the Pacific through enhancing productivity. Fortunately, the APO has never lagged in its calling, steadily coordinating projects that have helped member nations adapt to rapid change through improvements to both private and public-sector efficiency. For example, the APO has long conducted research into, and advised member countries on, improving productivity in both the agricultural and industrial sectors, as well as for small and medium enterprises (SMEs). More specifically, the APO may currently be seen as guided by the following three strategic lines of thought:

1. Strengthen NPOs (National Productivity Organizations) and promote the development of small and medium enterprises (SMEs) and communities. NPOs are the backbone of the APO and thus need to be strengthened to lead national productivity initiatives. SMEs play a crucial role in the economies of members. The APO aims to improve the productivity of targeted segments of SMEs and communities.
2. Catalyze innovation-led productivity growth. Productivity improvement is not limited only to increase efficiency. It also includes innovation-led gains that increase the quality and performance of products and services.
3. Promoting Green Productivity. The APO will work with member countries to promote green technologies and create demand for green products and services. In addition, special effort will be directed to promoting sustainable practices in the agriculture sector [2].

For our purposes it's crucial to remember that the APO long emphasized private-sector productivity; in contrast, a keen focus on public-sector productivity has just begun. The APO has increasingly recognized the important role of the public sector to deliver services more productive and produce results of higher value to the society. Further, throughout Asia the calls for more effective governance and better quality of public services (both from the general public and the private sector) have never been louder. This is surely due to a series of ongoing and emerging challenges to the region: fiscal (budgetary) constraints, economic globalization, widening income disparities, climate change and nations' increased vulnerability to natural disasters, dramatic technological change and rapidly aging populations in particular countries, etc. Consequently, governments are more aware, than ever before, of the need to squarely face such challenges by (in part) instituting public sector reform. Thus, numerous National Productivity Organizations (NPOs) have been mandated by their respective governments to undertake various initiatives to enhance the productivity of this sector. The APO and several NPOs now see immense value in introducing time-tested private-sector productivity and quality concepts, approaches, tools, and techniques into public-sector administration.

In short, for years the APO has been concerned, justifiably, about industry, labor, agriculture, and private service-sector productivity; but it is high time that the organization also takes a leadership role with regard to the public sector.

THE APO AND THE PUBLIC-SECTOR PRODUCTIVITY

Over the past several years, the APO has launched a series of public sector-related projects designed to address the needs of member countries. In 2009, for example, a Study Meeting on Public-sector Productivity was held in Seoul; participants discussed the status of the public sector, visions for public-sector modernization, and proposals for a public-sector development agenda. However, while generally appreciative of APO efforts, delegates to the Workshop Meeting of Heads of NPOs (in Manila) nonetheless suggested that the APO identify the scope of issues to address, as well as priority areas to focus on, so that countries might realize optimum results. This led to a smaller group meeting, comprised of specialists, organized at the APO Secretariat (Tokyo) in February 2010. There, experts discussed the framework and methods of APO projects related to public-sector productivity.

Of special note is the Study Meeting on Innovation in Public-sector Service Delivery, held in Jakarta in November 2010. Recognizing the importance of providing services to the general public in a more efficient manner, participants identified improvement in public-service delivery systems as one of the key areas the APO should emphasize, along with ‘lean management’ and knowledge management. As a follow-up to the Jakarta meeting, a Study Meeting on the Lean Management System in the Public Sector was held in Bangkok in August 2011.

Throughout this process many began to sense the need to develop a public-sector productivity framework that could guide the APO and NPOs in member countries, enabling them to streamline activities and adopt a coordinated approach which would also promote public sector innovation and productivity in the short, medium, and long terms.

In July 2012 (again in Jakarta) a workshop on public-sector productivity was held in order to discuss public-sector productivity and innovation (including relevant national and local government policies) and to examine and confirm the direction of APO initiatives for public sector productivity as well as possible frameworks to employ. In September of the same year a study meeting on performance management in the public sector was held in Bali to discuss and share information about such frameworks, processes, and practices, as well as the strengths of, and challenges still faced by, performance management systems in member countries.

Although the APO has continued these efforts to improve public-sector productivity, a single definition and benchmark for governmental productivity has never been agreed upon, making it difficult to collect broadly practicable, robust evidence of productivity increases. Researches so far have focused on new methodologies adopted in the private sector—knowledge management, lean management, quality award schemes, total quality management, performance management and benchmarking but has not squarely addressed the problem of measuring public sector productivity. Thus, because most member countries have been unable to accurately measure productivity in their respective public sectors, it has been difficult for them to gauge the overall impact of implementing the above-mentioned initiatives.

And so I wholeheartedly welcome the APO beginning a systematic measure of productivity in the public sector. As I mentioned earlier, although “productivity” is a definite notion in the private sector, it is not an easy task to define it in the public sector. Let us look at a previous study on public-sector productivity.

WHAT IS PUBLIC-SECTOR PRODUCTIVITY?

3.1. Productivity in the private sector and in the public sector

According to the OECD [3], “productivity is commonly defined as a ratio of a volume measure of output to a volume measure of input use,” that is, outputs divided by inputs. Very few have questioned this basic formula because it appears, at first glance, clear, even obvious. And measurement of private-sector productivity can indeed be conducted by relying on such a straightforward framework. As Dunleavy and Carrera write in their critically important book, *Growing the Productivity of Government Services* (which I reference extensively below):

The total volume valuation of outputs for a firm or an industry can be derived by multiplying the numbers of the outputs (units of goods and services produced and successfully marketed to customers) by the prices for which each has been sold. Price here automatically controls for the variations in the value of different products within and across firms. This allows us to derive a price weighted measure of overall output that is then divided by a measure of total inputs to obtain a productivity ratio [4].

Within the public sector, however, measuring productivity is a far more challenging task. The underlying problem, as Dunleavy and Carrera put it, is:

...that we do not have anything equivalent to a price for (most of) the many different services and goods that government departments and agencies produce. Public service outputs are generally supplied to citizens, firms or other stakeholders for free, or at highly subsidized prices. In many cases...the consumption of public sector outputs is often made mandatory or imposed on citizens [4].

Until quite recently public-sector productivity was thought to be constant, based on the assumption that values of public sector outputs are in equilibrium with the costs of producing them—that is, with ‘inputs.’ It was also assumed that placing concrete values on the diverse range of public sector outputs governments generate was not feasible; thus, no effective measure of the volume of outputs (at the national level) could be achieved. In short, this approach provided a simple, straightforward solution to the challenge that non-market outputs—the kind typically produced by the public sector—do not have intrinsic, quantifiable prices (values) in the manner private sector (market) outputs do. Thus, measuring outputs in the public sector was done “by valuing the inputs that went into producing them—that is, by simply entering the costs of the government staff employed, and the materials and procurements and capital used up in their production [4].”

More specifically, because productivity was consistently defined as the ratio of outputs divided by inputs, conventional wisdom held that calculating public-sector productivity should always yield a value of ‘one’: $\text{outputs/inputs} = \text{inputs/inputs} = 1$. It is this ‘output=input’ approach (based on the assumption that output is equivalent to the input) which gave rise to the notion that there have been no meaningful productivity increases in the public sector, even over the long term.

To be sure, there has existed a group of reformers—comprised of both politicians and government officials—who have advocated reforming public administration through the introduction of private sector methods, thereby enhancing efficiency. As Michael Barzelay [5] asked rhetorically two decades ago: “What did these reformers know about factory administration? They knew that an efficient factory system succeeded in producing ever-increasing quantities of goods while reducing the cost of production.” Thus, reformers’ understanding of the components of “efficient government” was “rooted in their knowledge about industry.” And indeed, some reformers have helped prod governments to introduce specific private-sector processes and techniques. Crucially, though, as Barzelay put it, “one key concept—the product—did not make the journey from industry to government.” As a result, these same reformers have tended to point to perceived successes without presenting factual evidence for their claims (for example, by referring solely to certain reductions in cost).

In short, there still exists a crucial disparity: on the one hand, the ‘output=input’ approach leads logically to the conclusion that there have been zero increases in productivity in the public sector; on the other, reformers’ exaggeration of their achievements in enhancing public-sector productivity needs to be amended through a reliance on firm statistical data.

However, the efforts of researchers and officials to better define and measure productivity in the public sector has helped spur (and to an extent coincided with) the increased introduction, across continents, of policies designed to raise productivity at both national and local administrative levels. Let us next review a few significant cases.

3.2. The Case of Finland

By the early 1990s Finland found itself confronting numerous challenges, including contraction in the country’s labor supply, a rapidly aging population, and increased international competition. Due in part to these factors, in 1995 Finland’s national statistical institution, Statistics Finland, commenced a project to measure public-sector productivity. According to Mervi Niemi, writing for the OECD in the late 1990s, “The aim of the project is to develop a measurement and monitoring system for government sector production and productivity by using an output indicator method to measure the volume of output [6].” Under the terms of the project, for all central government services under review, final output and output indicators are to be specified by the directing agencies themselves. For example, at the National Board of Patents and Registration, indicators were defined and recorded within the following categories:

1. Number of patents
2. Number of utility models
3. Number of trademarks
4. Number of pattern rights
5. Company register cases
6. Association register cases
7. Enterprise mortgage cases

Niemi also notes that the agencies (or ‘units’) for which input/output data are being gathered manage roughly 70–80% of central government employee compensation.

The early results indicated that growth rates of output and productivity vary markedly among government agencies. Niemi writes: “The quantities of final products may also fluctuate widely from year to year and so the results of the project cannot be generalised

to cover the non-measured part of service provision until the coverage of the measurement has been considerably expanded [6].”

Since 1995 Statistics Finland has continued to collect significant amounts of data, quantifying input, aggregate output, and productivity growth rates through careful measurement. “The measurement of productivity growth is carried out by comparing two consecutive time periods (years)...The aggregate growth rates are compiled by weighting the growth rates of input and output of each unit by the unit’s proportion of the compensation of employees compiled in the national accounts [6].”

As can be seen in Statistics Finland’s latest report (which measures productivity of central government agencies and institutions) year-on-year changes in ‘Total productivity’ as well as ‘Labour productivity’ have been inconsistent, often fluctuating strongly. For example, most recently (between 2011 and 2012) ‘Labour productivity’ rose by 1.1% while ‘Total productivity’ fell by 2.5%, which was the sharpest decline yet recorded for this index. (Figure 1).

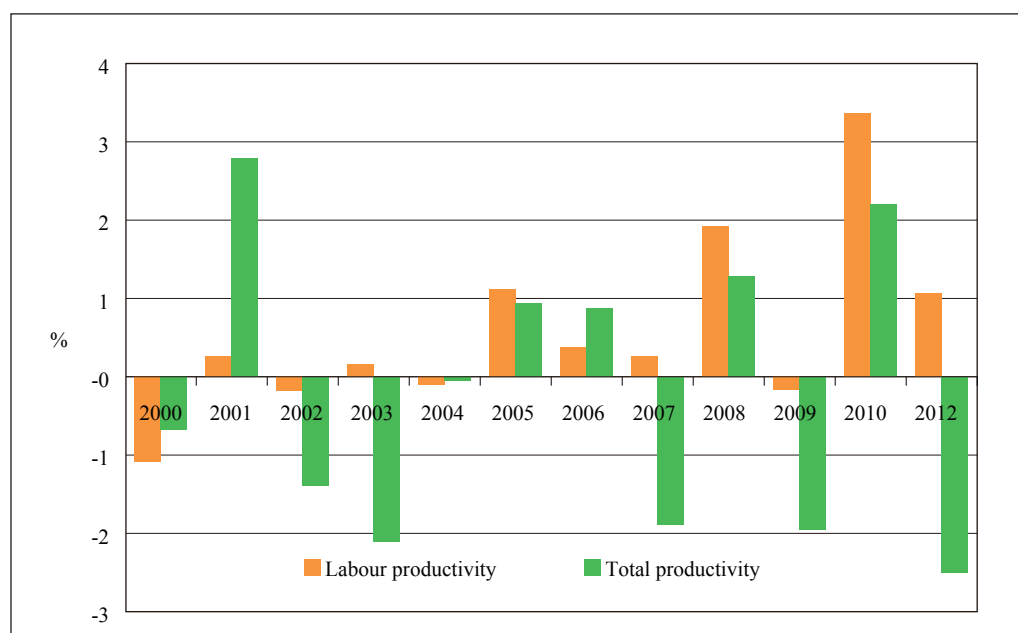


Figure 1. Development in the productivity of central government agencies and institutions from previous year, %

Source: Statistics Finland, *Statistics on central government productivity 2012*.
http://www.stat.fi/til/vatt/2012/vatt_2012_2013-10-11_tie_001_en.html [7]

Statistics Finland also breaks down productivity growth figures by individual ministry. For example, the following table shows changes occurring between 2009 and 2010.

Table 1. Change from previous year in output, inputs, and productivity by administrative sector 2010

Administrative sector	Change % from previous year ¹⁾				
	Output	Labour input	Total input	Labour productivity	Total productivity
Ministry of Justice	3.6	-0.8	1.0	4.4	2.5
Ministry of the Interior	-4.3	-1.6	0.4	-2.7	-4.6
Ministry of Defence	-1.8	-5.2	6.1	3.5	-7.5
Ministry of Finance	-0.2	-0.5	0.1	0.2	-0.4
Ministry of Agriculture and Forestry	1.1	-2.5	-1.7	3.6	2.8
Ministry of Transport and Communications	0.4	2.2	-2.2	-1.8	2.6
Ministry of Education and Culture	4.2	-4.0	-0.9	8.6	5.1
Ministry of Social Affairs and Health	-1.8	-1.5	2.2	-0.4	-3.9
Ministry of Employment and the Economy	—	—	—	—	—
Ministry of the Environment	—	—	—	—	—
Other administrative sectors	—	—	—	—	—
State administration total	-1.0	-2.1	1.5	1.1	-2.5

¹⁾ Exhaustive data unavailable by administrative sector

Source: Statistics on central government productivity 2012. Statistics Finland [7].

3.3. The Case of Australia

According to the Australian government's own website, "The Review of Government Service Provision was established in 1993 by Heads of Government (now the Council of Australian Governments or COAG) to provide information on the effectiveness and efficiency of government services in Australia." This information is then provided publicly through publication of the annual *Report on Government Services (RoGS)*.

A Steering Committee comprised of senior representatives from the central agencies of Australia's state and territorial governments, and chaired by the Chairman of the Productivity Commission, manages the Review with assistance of a Secretariat provided by the Productivity Commission [8].

Performance information is provided for 16 service areas, for example education policy, police services, as well as housing and related services for the homeless.

Services included in the 2014 RoGS
Child care, education and training
Early childhood education and care (chapter 3)
School education (chapter 4)
Vocational education and training (chapter 5)
Justice
Police services (chapter 6)
Courts (chapter 7)
Corrective services (chapter 8)
Emergency management
Fire and ambulance services (chapter 9)
Health
Public hospitals (chapter 10)
Primary and community health (chapter 11)
Mental health management (chapter 12)
Community services
Aged care services (chapter 13)
Services for people with disability (chapter 14)
Child protection services (chapter 15)
Youth justice services (chapter 16)
Housing and homelessness
Housing (chapter 17)
Homelessness services (chapter 18)

Figure 2. Services included in the 2014 RoGS

The report includes performance comparisons across jurisdictions for these services using a common framework: RoGS' 'general performance indicator framework' (as set out in Figure 3).

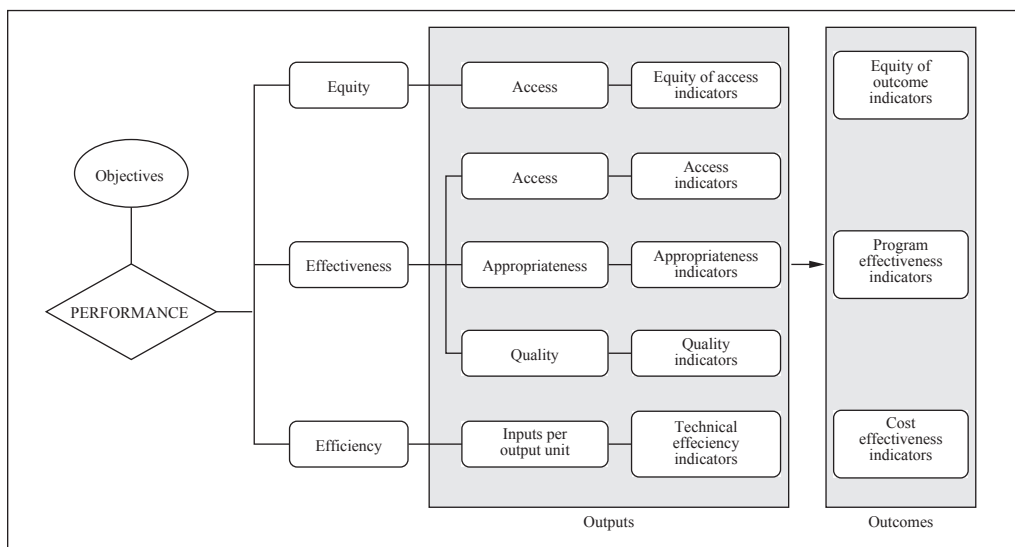


Figure 3. A general framework and examples of performance indicators

As can be seen in Figure 3, both outputs and outcomes are measured, as well as “efficiency,” “effectiveness,” and “equity.” With regard to efficiency, the report’s focus is on technical efficiency, as explained below.

According to the 2014 RoGS, this “general framework reflects the service process through which service providers transform inputs into outputs and outcomes in order to achieve desired policy and program objectives... To achieve these objectives, governments provide services and/or fund service providers. Service providers transform resources (inputs) into services (outputs) [8].” Within this framework, the rate at which resources are used to effect transformation is referred to as “technical efficiency.”

The Report contends that “the impact of these outputs on individuals, groups and the community are the outcomes of the service. In the RoGS, the rate at which inputs are used to generate outcomes is referred to as ‘cost effectiveness.’ Often, outcomes (and to a lesser extent, outputs) are influenced by factors external to the service [8].” Figure 4 illustrates clearly the difference between technical efficiency (the ratio of inputs to outputs) and cost-effectiveness (the ratio of inputs to outcomes), the Report “acknowledg[ing] that outcomes may be influenced by factors outside the control of governments or agencies delivering services.” The Report further accepts that “while the aim of the Review is to focus on outcomes, they are often difficult to measure.” In other words, with this approach or framework, ‘technical efficiency’ is more measurable than ‘cost-effectiveness.’ It should be noted that this usage of ‘technical efficiency’ is similar to the definition of ‘productivity’ used in the present study.

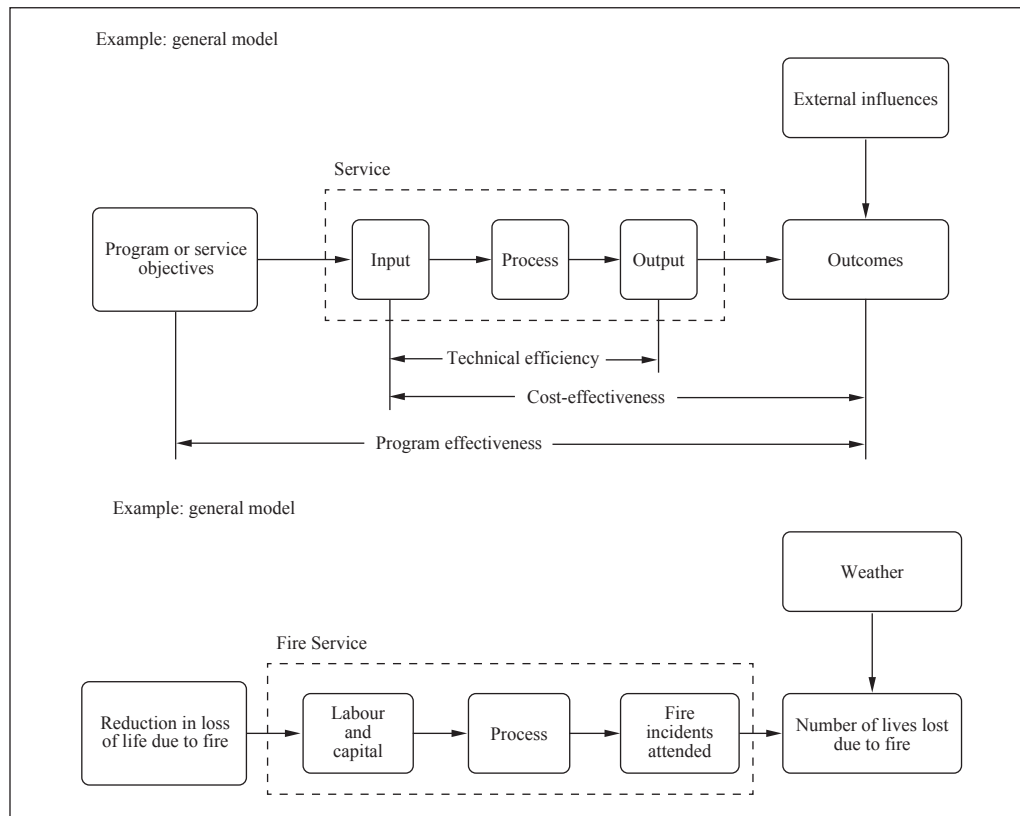


Figure 4. Service process

More specifically, the RoGS focuses on technical (or productive) efficiency [8]. As the report puts it:

Technical efficiency indicators measure how well services use their resources (inputs) to produce outputs for the purpose of achieving desired outcomes. Government funding per unit of output delivered is a typical indicator of technical efficiency, for example, cost per annual curriculum hour for vocational education and training.

Comparisons of the unit cost of a service should reflect the full cost to government. Problems can occur when some costs are not included or are treated inconsistently across jurisdictions (for example, superannuation, overheads or the user cost of capital).

Where there are shortcomings in the data, other indicators of efficiency are used (including partial productivity measures such as staff levels per student

in government schools, and administrative costs as a proportion of total expenditure in disability services) [8].

In short, the Australian Productivity Organization report is measured and insightful; most importantly, it provides a useful resource that we can draw upon in the present study.

3.4. The Case of New Zealand

The New Zealand Government has been particularly keen to address public-sector productivity issues. Its Fiscal Statement [9] sets forth one particular area of concern, the low rate of productivity growth, in the following manner:

Public-sector productivity is poorly measured in New Zealand and around the world. Better information on public sector productivity would make it easier to identify less effective policies. Nevertheless, based on the information we do have, our baseline assumption is that annual productivity growth in the public sector (0.3%) is about one-fifth of economy-wide labour productivity growth (1.5%). This relatively low rate of public sector productivity growth is due to both the nature of the services (which tend to be labour intensive with less scope for technological advances) and the operating environment (one without competitive market pressures) [9].

As is by now well known, New Zealand enacted radical public sector reforms, based on NPM principles, leading to a jump in privatization and deregulation since the 1980s. The following passage from the Statement expresses well the government's underlying thinking:

If public-service productivity is lower than economy-wide productivity, then public services will become more expensive relative to other goods and services in the economy...

A lift in public-sector productivity would have a positive impact on the notional basket of services that could be delivered to the average New Zealander for a given level of spending. A 0.5 percentage point increase in our baseline assumption for annual public sector productivity growth, if sustained, would result in around 20% more public services per person after 40 years [9].

In short, due to historical and current political factors, New Zealanders are particularly interested in comparing the efficiency of the public sphere with that of the private sector.

Of particular note is the Statement that a modest 0.5% annual productivity increase should result in roughly 20% more public services after 40 years. The Statement makes clear that, to meet such goals, New Zealand's government cannot shy away from tackling the most significant areas of the national budget (the "core public sector"), such as health, education, and justice. This would involve taking a hard look at government departments "which account for around 18% of core government spending and employment [9]."

To buttress its arguments, the Statement directly references international management consultancy McKinsey, which has suggested "there is potential for public-sector productivity improvements in various countries of 15% in the next 10 years" and also that "benefits can be realised without major system changes through operational and business process improvement and shared services, such as streamlining finance, payroll and administration functions across government [9]."

The Statement does acknowledge, however, that these are not easy goals to attain, requiring a sustained effort by government. For example, New Zealand currently affords its public sector chief executives considerable latitude in the directing and managing of departments. Significantly increasing productivity may require moving away from this arrangement and instituting greater centralized control, which is a course that could engender strong administrative resistance.

Moving to a second approach to consider, the Statement notes "Another major way the government can lower the cost of public services is to focus on what is delivered and to test policies and programmes more rigorously for their effectiveness – and to stop those programmes that are not shown to be cost-effective [9]." A specific example given is that of telecommunications, a service formerly provided by government which is now comprised of several private entities (indeed, many nations have moved from public control to privatization within this particular sector). In summary, the Statement presents a resolute attitude: "We have choices about such things. In the end, what services are delivered, and how, are the result of policy decisions [9]."

On the whole, the positions set forth in the Statement reflect proactive, yet sound, planning, consistent with the New Zealand government's approach over the past two decades. And yet questions remain. For example, I wonder where the "core public sector" lies in regard to certain forms of direct administrative authority, such as passport issuance and tax collection? The Statement has little to say about these matters, referring only to justice sector spending (that is, 'input' only).

In March 2010, Statistics New Zealand published a report, *Measuring government sector productivity in New Zealand: a feasibility study* [10]. The title appeared promising, seeming to offer a comprehensive review of public sector productivity as it relates to various sectors (through reference to inputs, outputs, and outcomes). However, the report tended to focus on healthcare and education exclusively, which is perhaps too narrow a focus.

Significantly, the Statistics New Zealand report makes direct reference to research conducted in the UK: “In 2008, we were able to second Mr. Phillip Lee from the UK Office for National Statistics. Mr. Lee has extensive expertise in the area of measuring health care output and worked with Sir Tony Atkinson producing the Atkinson Report [10].” The description points to the importance of the Atkinson Report. Let’s next turn specifically to this study.

3.5. The Case of the UK and LSE’s study

Since the 1990s, the UK government has been increasingly concerned over how to accurately assess and understand public-sector productivity rates. This led the Office of National Statistics (ONS) to move progressively away from the “output=input” approach and, beginning in the early 2000s, to propose a new methodology for determining public-sector productivity in which outputs are directly measured using cost-weighted activity indexes.

Sir Tony Atkinson was asked by the ONS in 2003 to conduct an independent review of the measurement of government output in the National Accounts. The Final Report of the Atkinson Review well summarizes the fundamental problem that had hampered not just the UK but numerous other countries, as well as the response decided upon in the UK:

In many countries, and in the United Kingdom from the early 1960s to 1998, the output of the government sector has been measured by convention as of value equal to the total value of the inputs; by extension the volume of output has been measured by the volume of inputs. This convention regarding the volume of government output is referred to...as the (output=input) convention, and is contrasted with direct measures of government output. The inputs taken into account in recent years in the United Kingdom are the compensation of employees, the procurement cost of goods and services, and a charge for the consumption of fixed capital. In earlier years, and in other countries, including the United States, the inputs were limited to employment [11].

This new consideration of factors such as employee compensation and the procurement cost represents a step in the right direction.

At the heart of the Review lies the approach of defining a cost-weighted index of outputs based on the actual number of specific activities performed by any given public sector department; this measure of output is then divided by an index of the total costs involved in producing the outputs.

The review outlines a number of principles covering the measurement of outputs, inputs and productivity, stating with conviction, “we are firmly of the view that measures of output growth should *in principle* take account of quality change [11].” Here, it is worth referencing in full the thinking underlying this approach:

Output divided by inputs provides a measure of productivity change. However, the move from the (output=input) convention to direct measurement of government output should be carefully interpreted. It is a definite advance in the sense that government output is no longer simply assumed to equal measured inputs, but the move should not be seen as solving at a stroke the complex problem of measuring government productivity. The statistic obtained by dividing outputs by inputs may no longer be equal to one by definition, but no single number, however carefully constructed, can fully capture the performance of complex public services with multiple objectives. Productivity change should be interpreted in the light of a range of other information – the triangulation principle [11].

The UK government accepted the findings and recommendations of the Review, and the ONS has taken the lead role in fostering the implementation of these recommendations.

As a top official of Finance Canada would praise it, “Anthony Atkinson has done an invaluable service in bringing the arcane world of measuring government output to the attention of a wider audience and in undertaking detailed analysis of the issue [12].” Indeed, increased information on government output would most assuredly help in forming more complete pictures of different economies, giving us a deeper understanding of how public and private interact. In the same vein, to the extent that countries, as a group, move in the direction of comprehensively conducting such direct measurements, cross-national research into economic activity and performance should only grow more robust and insightful.

The London School of Economics (LSE) Public Policy Group has continued work in this same field, with the aim of understanding and measuring outputs and productivity as closely as possible [13]. The more specific goal has been “to explore the factors that drive productivity change in this area and also to put such changes within the broader context of the implications of the switch from NPM to DEG [Digital Era Governance] approaches [13].” According to Dunleavy et al. [14], key themes of the DEG are “the re-integration of formerly scattered agencies belonging to a same public service area, the re-designing of structures and processes around the needs of users or clients to tackle the excessive duplication and complication of processes produced by NPM practices, and the digitalisation of administrative processes moving most of them online to simplify client contact with a given public service organization [14].”

The “main working hypothesis” of the LSE-PPG, as set forth in a 2009 working paper, is “that the change from NPM to DEG had an immediate negative effect on productivity as the re-centralization of activities and heavy investment in ICTs may have not paid off immediately and a certain ‘adaptation’ time must have been necessary to fully profit from organisational and ICT changes [13].” This may suggest that when new ICTs are introduced in certain public sectors, for example passport issuance or tax collection, productivity will initially decrease for several years before rebounding and beginning to rise.

The LSE-PPG study also included “a qualitative assessment of the key management changes in this area during the last twenty years; which illustrates the underlying change of public management approaches [13].”

This research (basically in the form of working papers) eventually gave rise to Dunleavy and Carrera’s publishing of a landmark book in 2013, *Growing the Productivity of Government Services* [4]. This book had a strong impact on both academics and practitioners [14][15]. In it, the authors summarize the Atkinson Review’s suggested methodology for measuring government productivity, as illustrated in Figure 5.

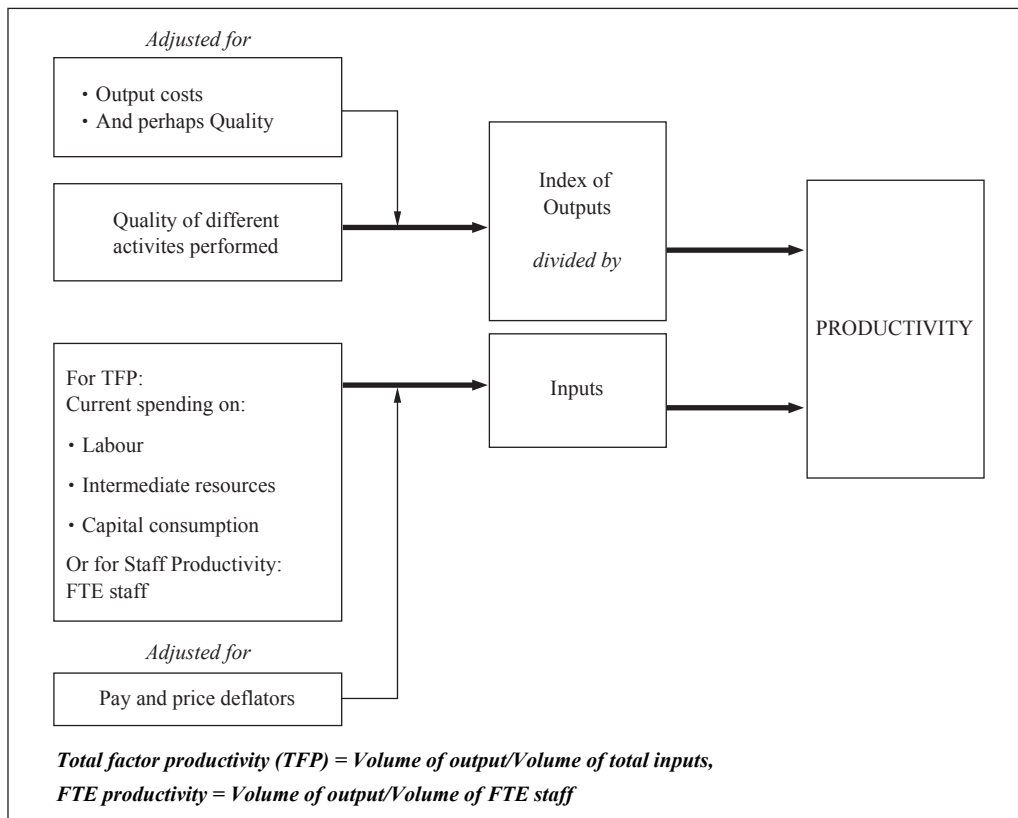


Figure 5. The Atkinson Review’s Suggested Methodology for Measuring Government Productivity

Total factor productivity (TFP) = Volume of output/Volume of total inputs,
 FTE productivity = Volume of output/Volume of FTE staff

And most importantly, they are unambiguous in their praise, the Atkinson Review having “made a major step forward by recommending that to measure outputs we should take into account the total number of each of the activities performed by a given organization—a suggestion later taken up internationally [4].”

OUR APPROACH AND FINDINGS

4.1. Our project

Although Dunleavy and Carrera’s study is limited to the UK, they stretched the scope of their research to include social security, tax collection, customs policy, passport issuance, driving and vehicle licensing, as well as the decentralized government services such as hospitals and

police. I would like to add that their work should prove very helpful to other countries—in large part because the definitions and explanations set forth are clear and accessible.

For these reasons it was felt the APO project could help put itself on sound footing by employing Dunleavy and Carrera as a major reference point. However, as this is the first time for the APO to employ such a framework, it was thought prudent to restrict the scope of the present inquiry by focusing on two specific areas: tax collection and passport issuance. It will maintain focus as well as consistency across different regions. In this project, we reached an agreement to follow the framework set forth in the LSE's findings. Chapters 2-9 review relevant data and analysis from eight member countries.

4.2. Research overview

I asked eight national experts to investigate the data of tax collection and passport issuance. However, it should be noted that, while all contributors tried to obtain the relevant data on tax collection and passport issuance, some were met with considerable difficulty in the latter area. Available passport data, in general, tends to be limited, and is often further restricted due to security concerns. For these reasons, several of the chapters (the Islamic Republic of Iran, the Philippines, and Vietnam) below do not present analysis of this particular government function. Moreover, even the report which could obtain the data of passport issuance, some are only output data, which is total passport issuing, and couldn't collect the data of input.

Most of the reports show the organizational chart of tax collection and passport issuance agency, which help us to understand the procedure easier.

Several reports contributed to calculate productivity trends. For example, if we look at the concluding remarks by the Philippines' report, *Total Factor Productivity (TFP)* and the labor productivity index from 2000 to 2012 are in a positive upward trend. This resulted from increasing automation of its frontline and backroom operations. However, the trend was interrupted in the late 2000s for five years. During this period, despite growth in the value of output, the TFP series dropped in due to sharp increases in cost and salary. Although experiencing a productivity decrease for five years, it started to increase again from 2010 due to significant growth in the value of outputs while the volume of inputs was contained.

The report concludes as follows:

... the Philippine tax collection service especially under the Bureau of Internal Revenue has achieved higher tax collection efficiency and productivity through structural reforms, DEG (Digital Era Governance) type management approaches

and legal measures. Both its traditional measure, the tax effort, and the productivity measures, TFP index and labor (staff) productivity index, showed highly positive results. On one hand, we can conclude that the structural reforms such as the passage of new tax measures that widened the tax base and the legal approaches to heighten voluntary compliance such as the RATE contributed to the growth of the BIR's volume of outputs. On the other, we can conclude that the DEG management approaches such as the computerized Integrated Tax System and e-services coupled with process reengineering allowed the BIR to contain the volume of inputs despite the mandated increases in salaries, thus maintaining high productivity (See page 174).

Readers might feel the lack of critical analysis with some chapters, but it resulted from the data availability of the respective country.

I have to add that due to the political situation in 2013 in Thailand, all government agencies were not able to perform their duty as usual and it was very difficult to obtain official data because the agencies were closed. Thailand national experts tried to finish the report in full length.

In this brief introduction I hope to have done the following: summarize recent trends in public sector productivity analysis (by taking up the examples of Finland, Australia, New Zealand, and the UK); explain the significance of Dunleavy and Carrera's work, which the APO would do well to continue referencing going forward; review the general aims of, and challenges faced by, the APO in the area of public-sector productivity; and, lastly, explain the particular focus of, and approach adopted throughout, the present study.

Long felt unsuitable for, or perhaps even unworthy of, or cutting-edge productivity analysis, public administration is now the focus of officials and academics who are applying to it the latest management techniques and analytical frameworks (adopted largely from the private sector). As discussed above, in just the last 20 years this has led to new and better insights into how the government works and can be made more efficient; most importantly, this deeper understanding is being put into practice to considerable effect. The APO has indeed lagged in these areas but, as a group, is determined to proactively move forward.

This study, I believe, represents one such step in the right direction, and should assist member countries as they continue to try to better understand (and hopefully enhance) productivity within their respective public sectors.

Lastly, I would like to express my deep appreciation to Dr. Jose Elvinia, the APO staff, and all the national experts who contributed to this project.

Research Addendum: Review of the key concepts

It is necessary to delineate the working definitions presented in the LSE study here.

Firstly, Dunleavy and Carrera rightly reject both the tendency of some to inflate the scope and usefulness of productivity (a tendency which often renders the concept vacuous) as well as the equally unsound position that productivity is largely irrelevant to government sectors. As the two succinctly put it: “Public-sector productivity is (and must remain) a single, deliberately limited measure, focusing solely on how many outputs are produced for a given level of inputs” (as shown in Figure 6) [4].

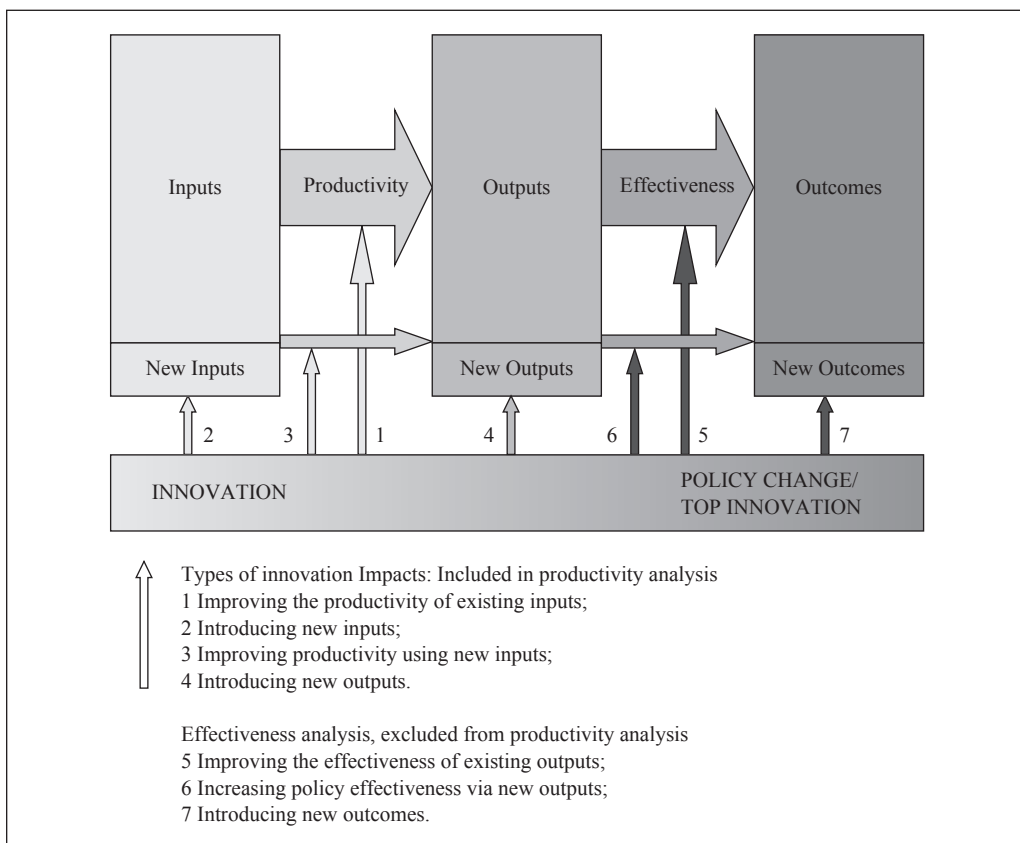


Figure 6. How Innovation influences productivity improvement via the introduction of new inputs, outputs, outcomes in government organizations, and why the analysis of productivity improvements needs to be clearly separated from the analysis for productivity

Dunleavy and Carrera further highlight the importance of separating “productivity” from “policy effectiveness” or “efficiency.” Effectiveness, they contend, is more “concerned with how the outputs produced translate (or not) into desired policy outcomes” while efficiency is a “distinct [concept] unlinked to the systematic accumulation of data on organizational performance that is our focus here [4].” Indeed, the title of Figure 5 is revealing: “How innovation influences productivity improvement via the introduction of new inputs, outputs and outcomes in government organizations, and why the analysis of productivity improvements need to be clearly separated from the analysis of effectiveness [4].” (As we can see by referring back to Figure 3, the definition of productivity presented resembles the Australian Productivity Commission’s definition of “technical efficiency [8].”

Dunleavy and Carrera stress that this figure “brings out one of the most important and distinctive aspects of a focus on organizational productivity in the government sector, namely the close connection between it and the adoption of innovations inside government organizations [4].”

Thus, “In order to correctly estimate a measure of total output volume it is important to choose activity data covering the full range of activities performed by an agency, or the analysis may underestimate its productivity figures [4].” At the same time, if we were to address the full range of measures officials are apt to request (with regard to the overseeing of their own organizations) the resulting analysis would likely become overly complex. Dunleavy and Carrera therefore suggest that “relatively parsimonious coverage of key organization outputs should remain the goal [4].”

In this vein, they said that “broad gauge measures focusing on a small number of outputs are also generally preferable. A key question to ask about a government organization is what its broad mission is, and what few main outputs capture that mission and can be cost-weighted in a reasonably accurate manner [4].” They contend that main outputs tend to imply other secondary activities.

For instance, running a schools system might be measured in terms of the number of lessons delivered and the numbers of school students taught, with these main outputs also tending to denote a whole range of lesser activities (such as teachers marking children’s homework, talking to parents or liaising with other public agencies about students in difficulties) [4].

Dunleavy and Carrera also present a table showing “the main elements of activities that could be covered for the seven largest central government service delivery agencies in

UK central government”: social security, tax collection, customs, prison service, passport issuance, border protection, and driving and vehicle licensing [4]. (Again, our nascent project does well by maintaining a more narrow focus.)

Dunleavy and Carrera use, as the key data series for outputs, numbers of tax returns for the major tax categories addressed [4]. Although we would like to refer to similar figures in our analysis, several member countries would have had difficulty obtaining such data. However, the authors describe a possible alternative method for measuring outputs in the area of tax collection: “using an appropriately deflated measure of the amount of tax collected as the output measure [4].” One of these two outputs is taken up in each of the following chapters. More specifically, I have asked the national experts to use the following formulas in their analysis:

When using ‘number of tax returns processed’ as output, input for Total Factor Productivity (TFP) shall be ‘deflated total labor cost, administration cost and, if available, capital consumption for tax’ while input for Full-Time Equivalent Productivity (FTE productivity) shall be ‘number of full-time equivalent (FTE) staff for tax processing/collecting.’

$$TFP = \frac{\text{Number of tax returns processed}}{\text{Deflated (labor cost+ administration cost+capital consumption)}} \dots\dots\dots \text{(Formula 1.1)}$$

$$FTE \text{ productivity} = \frac{\text{Number of tax returns processed}}{\text{Number of full-time equivalent staff}} \dots\dots\dots \text{(Formula 1.2)}$$

When using alternative indicators ‘the amount of tax collected’ as output, the formula will be as follows:

$$TFP = \frac{\text{The Amount of Tax Collected}}{(\text{labor cost+ administration cost+capital consumption})} \dots\dots\dots \text{(Formula 2.1)}$$

$$FTE \text{ productivity} = \frac{\text{Deflated (The Amount of Tax Collected)}}{\text{Number of full-time equivalent staff}} \dots\dots\dots \text{(Formula 2.2)}$$

For over-time analyses of FTE productivity, the output ‘amount of tax collected’ should be deflated by using specific price or GDP deflators. If, with Formula 2.2, an author used ‘gross labor cost’ (that is: ‘number of FTE’ X ‘average labor cost’) as the denominator, he or she need not to deflate because both the denominator and numerator include price inflation.

Dunleavy and Carrera use ‘total number of passports issued’ as the key data series for outputs [3]. (P. 172 ff.) I thus asked our group of specialists to use this same output within the following formula:

$$TFP = \frac{\text{Number of Passports Issued}}{\text{Deflated (labor cost+ administration cost+capital consumption)}} \dots\dots\dots (\text{Formula 3.1})$$

$$FTE \text{ productivity} = \frac{\text{Number of Passports Issued}}{\text{Number of fulltime equivalent staff}} \dots\dots\dots (\text{Formula 3.2})$$

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BANGLADESH

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INTRODUCTION

The importance of productivity for a higher standard of living doesn't need to be over-emphasized. The history of human civilization is synonymous with the struggle for attaining higher productivity. Its importance has become more vital for the survival of nations, industry, enterprises, society and individuals. Productivity is often conceived in a narrow sense, but a broader interpretation is called for in its proper analysis. Since the productivity of a given technology is defined as the ratio of outputs to inputs, it can be increased by minimizing inputs and maximizing outputs. Viewed from this angle, the analysis of productivity should represent all major components of inputs and outputs including environmental concerns. From the side of inputs, industrial productivity can increase from tangible improvement in any one of its components such as manpower (labour/human productivity), machinery (system reliability) and raw materials (inventory). Hence, the analysis of industrial productivity should be extended beyond conventional material efficiency to cover both human productivity and system reliability. Similarly, from the side of outputs, productivity increases are not only due to higher production but also due to improved quality, lower costs, timely delivery, improved safety, higher morale and better social acceptability. Productivity, therefore, increases due to improvements in hardware technology and development of software technology such as know-how, management, marketing, technical, and other skills. Finally, productivity has an environmental dimension as well; it involves environmental costs, benefits, and risks, which are technology specific.

It is to be noted that quality and productivity are not an accidental phenomena. It is always a result of intelligent effort and a will to produce a superior service. Quality encompasses safety performance, reliability, maintainability, durability and acceptability by the consumers. Today the world has become more competitive based on quality of output and quality of services within the shortest possible time as per demand and utility of stakeholders. Quality and productivity never come without creativity. This highly depends on continuous and systematic research for developing baseline findings on quality, competitiveness, and productivity [1].

The role of the public sector

To develop and keep up with the times for a country, it is necessary that it creates a working infrastructure. It is the country's public services sector that is concerned with this. Public services in Bangladesh are services provided by the government to the community. They include police departments, military, public roads, public transit, primary education, healthcare for the poor, fire departments, water supply, electricity, education, tax departments, passport departments, waste disposal, and many more. The public sector might provide services that a non-payer cannot be excluded from (such as street lighting) which benefit all of society rather than just the individual who uses the services, (such as public education) and services that encourage equal opportunity.

The Bangladesh Public Service Commission plays a vital role in recruitment, promotion, discipline, posting, and transfer of government servants. This constitutional body ensures that decisions relating to the public services sector are made in line with equity and merit.

The Police Force in Bangladesh provides the people with internal security as well as acting to guard the nation's assets from terrorists and criminal elements.

Water is a vital commodity for life on the planet. In Bangladesh, people know the importance of water and how to access it. Many villages and small towns make use of wells and rivers as a water source. The water services sector is still developing at quite a slow rate and there are battles due to inadequate budgets.

Although Bangladesh's road network has been greatly expanded, many roads are in poor condition. City streets are often congested and roadways are quite narrow. Several bridges have also been built, providing easy access to various regions in the country.

The public sector, sometimes referred to as the state sector or the government sector, is a part of the state that deals with either the production, ownership, sale, provision, delivery, or allocation of goods and services by and for the government or its citizens, whether national, regional, or local/municipal.

Examples of public sector activity range from delivering social security or administering urban planning to organizing national defense.

According to Barlow and Wright [2], the organization of the public sector (public ownership) can take several forms, including:

- Direct administration funded through taxation; the delivering organization generally has no specific requirement to meet commercial success criteria, and production decisions are determined by government;
- Publicly owned corporations (in some contexts, especially manufacturing, “state-owned enterprises”); which differ from direct administration in that they have greater commercial freedoms and are expected to operate according to commercial criteria, and production decisions are not generally taken by government (although goals may be set for them by government);
- Partial outsourcing (of the scale many businesses do, e.g., for IT services), is considered a public sector model.

TAX COLLECTION SERVICE

2.1. Introduction about the Agency

The name of the tax collection service authority is the department of the National Board of Revenue (NBR). The NBR is the central authority for tax administration in Bangladesh. It was established by President’s Order No. 76 of 1972. Administratively, it is under the Internal Resources Division (IRD) of the Ministry of Finance (MOF). The MOF has 4 divisions, headed by 4 permanent secretaries to the government, namely, the Finance Division, the IRD, the Banking Division, and the Economic Relations Division (ERD). The secretary of the IRD is the ex-officio chairman of NBR. The NBR is responsible for the formulation and continuous re-appraisal of tax-policies and tax-laws, negotiating tax treaties with foreign governments, and participating in inter-ministerial deliberations on economic issues having a bearing on fiscal policies and tax administration.

The main responsibility of the NBR is to collect domestic revenue (primarily, import duties and taxes, VAT, and income tax) for the government. Other responsibilities include administration of all matters related to taxes, duties, and other tax producing fees.

In Table 1 it is observed that the administrative structure of the tax circle and other offices are increasing yearly from the entry period under study. It indicates that the number of taxpayers is also increasing.

Table 1. Tax Administrative Structure in Bangladesh

Serial No.	Name of the Office	2008–09	2009–10	2010–11	2011–12	2012–13
1	Circle	240	250	280	303	649
2	Supervisory Office Addl./Joint Tax Commissioner	45	50	55	63	127
3	Tax Commissioner Administrative Office (Regional)	15	15	16	18	31
4	Tax Appellate Division	5	5	5	5	7
5	Divisional Representative (appealed Tribunal)	5	5	5	6	7
6	Tax Inspection office	1	1	1	1	1
7	BCS Tax Academy	1	1	1	1	1
8	Central Tax Survey Region	1	1	1	1	1
9	Large Tax Payer Unit	1	1	1	1	1
Total		314	329	365	399	825

Source: National Board of Revenue Report, 2014 [3].

In Table 2 we can see that the manpower of the tax department is increasing yearly throughout the entry period under study. We can assume that the collected taxes are also increasing throughout the year under study.

Table 2. Manpower Structure in Tax Department in Bangladesh

Serial No.	Name of Post	2008–09	2008–09	2009–10	2010–11	2011–12	2012–13
1	Tax Commissioner/ Equivalent (Cadre)	15	18	20	22	25	40
2	Addl./Joint Commissioner/ Equivalent (Cadre)	32	35	38	40	46	62

(continued on next page)

(continued from previous page)

Serial No.	Name of Post	2008–09	2008–09	2009–10	2010–11	2011–12	2012–13
3	Addl./Joint Commissioner/ Equivalent (Non Cadre)	0	0	0	0	0	1
4	Joint Commissioner (Cadre)	35	45	48	50	54	106
5	Joint Commissioner (Non Cadre)	0	0	0	0	0	1
6	Deputy Commissioner of Taxes (Cadre)	120	125	135	140	149	264
7	Deputy Commissioner of Taxes (Non Cadre)	0	0	0	0	0	3
8	Assistant Commissioner of Taxes (Cadre)	150	160	170	180	216	369
9	Assistant Commissioner of Taxes (Non Cadre)	15	15	18	25	30	41
10	Medical Officer (Non Cadre)	0	0	0	0	0	1
11	2nd class staff	480	515	525	612	717	1,272
12	3rd class staff	1,500	1,750	1,800	2,012	2,209	3,908
13	4th class staff	1,480	1,500	1,650	1,700	1,908	2,837
14	Total	3,827	4,163	4,404	4,781	5,354	8,932

Source: National Board of Revenue Report, 2014 [3].

Value-added Tax

- (i) VAT is imposed on goods and services at the import, manufacturing, wholesale, and retail levels.
- (ii) A uniform VAT rate of 15% is applicable for both goods and services.
- (iii) 15% VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above.
- (iv) Turnover tax at the rate of 4% is livable where annual turnover is less than Taka 2 million.
- (v) VAT is applicable to all domestic products and services with some exemptions;
- (vi) VAT is payable at the time of supply of goods and services.
- (vii) Tax paid on inputs is creditable/adjustable against output tax.

- (viii) Export is exempt.
- (ix) Cottage industries (defined as a unit with an annual turnover of less than Taka 2 million and with capital machinery valued up to more than Taka 2 million) are exempt from VAT.
- (x) Tax returns are to be submitted on monthly, quarterly, or half yearly basis as notified by the government.
- (xi) Supplementary Duty (SD) is imposed at the local and import stage under the VAT Act, 1991. Existing statutory SD rates are as follows: (a) On goods: 20%, 35%, 65%, 100%, 250%, and 350%; and (b) On services: 10%, 15%, and 35%.

Tax Base for VAT

Import Stage: Customs Assessable Value + Customs duty + Supplementary Duty

Domestic/Local Stage

- a) Goods (manufacturing): [Production cost + Profit and Commission
(if any) + Supplementary duty (if any)]
- b) Services: [total receipts excluding VAT but including supplementary duty (if any)]

Truncated Base/Fixed Value Addition: In some of the cases of goods and services, producers and sellers face difficulties in availing VAT credit/adjustment facilities due to non-availability of invoices from the sellers of input. In order to remove this operational difficulty, fixed bases such as 10%, 25%, 30%, and 60% value addition is taken into account for calculation of VAT for a number of goods and services. In such circumstances, the net VAT rate for different rates of value addition comes to 1.5%, 2.25%, 4.5%, and 9%.

VAT at the wholesale and retail stage: In the case of wholesalers and retailers, there is a special provision for a 1.5% VAT known as trade VAT on the total sale, provided that the wholesaler/retailer does not avail the facility of input credit/adjustment. Such a tax is also collected at the import stage from importers of finished goods as an advanced trade VAT.

Tariff value for imposition of VAT: Under the VAT law, the government is empowered to fix the tariff value for some items for the collection of VAT. For example, tariff value for mild-steel products produced from imported/locally procured re-rollable scraps is Tk. 4,000.00 per MT. Normal VAT input credit is also not available under this system.

Deduction of VAT at source: As deduction at source is also practiced in the case of VAT on certain services, government, semi-government, autonomous bodies, NGOs, banks,

insurance companies and limited companies are authorized by the government to deduct applicable VAT on the services at source.

Customs: The customs wing is primarily responsible for the collection of all duties and taxes at the import stage. Apart from the collection of government revenue, it is also responsible for trade facilitation, enforcement of government regulations, protection of society, environmental protection, preparation of foreign trade statistics, trade compliance, and protection of cultural heritage.

Customs collects 42% of the NBR's total revenue. The revenue target for the year 2007-2008 was Tk. 17,812 Cr. and actual revenue collection so far (July 2007 to May 2008) has been Tk. 16, 987.06 Cr. that is 19.04% higher than the previous year. The target has been revised to Tk. 19,385 Cr. for 2007-2008 and with an increase of 16.25%, it has been set to Tk. 22,536 Cr. for the year 2008-2009.

In the present financial year (2007-2008) there have been three duty slabs of customs duties, i.e., 10% for basic raw materials, 15% for intermediate raw materials or semi-finished products, and 25% for finished products. In the proposed 2008-2009 budget, the duty structure has been restructured and a four tier duty structure has been proposed, i.e., 3% for capital machinery, 7% for basic raw materials, 12% for intermediate raw-materials or semi-finished products, and 25% for finished products.

Since customs functions as the gateway for the import and export of goods, it plays a critical role in the import-export trade chain. In order to make customs procedures more transparent and to achieve more trade facilitation, a number of measures have been taken in the past few years. With the introduction of ASYCUDA++ and Direct Trader Input (DTI), automation in customs clearance has begun. Recently, a full automation scheme is on the way to implementation in collaboration with the Chittagong Chamber and the Task Force. Once the full automation is completed, the importers and exporters will be able to access customs servers from their offices or homes and will be able to submit their customs declaration online.

Exemptions from Customs Duty

- (i) Capital machinery.
- (ii) Raw materials of medicine.
- (iii) Poultry medicine, feed, and machinery.
- (iv) Defense stores.
- (v) Chemicals of leather and leather goods.

- (vi) Private power generation unit.
- (vii) Textile raw materials and machinery.
- (viii) Solar power equipment.
- (ix) Relief goods.
- (x) Goods for blind and physically disabled people.
- (xi) Import by the Embassy and UN.

Table 3. Key Taxes in Bangladesh

1	Tax on Income and Profit	Income generated from employment and the business income of the residents of Bangladesh are at progressive rates.
2	Value Added Tax (VAT)	VAT is imposed on goods and services at the import, manufacturing, wholesale, and retail levels.
3	Import Duty	The customs wing is primarily responsible for the collection of all duties and taxes at the import stage. Apart from the collection of government revenue, it is also responsible for trade facilitation, enforcement of government regulations, protection of society, environmental protection, preparation of foreign trade statistics, trade compliance, and protection of cultural heritage.
4	Export Duty	Since customs functions as the gateway for the import and export of goods, it plays a critical role in the import-export trade chain. In order to make customs procedures more transparent and to achieve more trade facilitation, a number of measures have been taken in the past few years.
5	Excise Duty	At present, excise duties apply to only two items; bank deposits and domestic air tickets (Tk. 250 per journey).
6	Supplementary Duty	The Supplementary Duty (SD) is imposed at local and import stages under the VAT Act, 1991. Existing statutory SD rates are as follows: (a) On goods: 20%, 35%, 65%, 100%, 250%, and 350% (b) On services: 10%, 15%, and 35%
8	Other Taxes and Duty	Sales tax, etc.

Source: National Board of Revenue Report, 2014 [3].

The approach used for this study is based on the Atkinson Review's suggested methodology. For measuring government productivity mentioned in P. Dunleavy's and L. Carrera's book [4], where the total factor productivity (TFP) is measured by the volume of output divided by the volume of total inputs and the full time equivalent (FTE) employee productivity is measured by the volume of output divided by the volume of FTP staff. The methodology is illustrated in Figure 1.

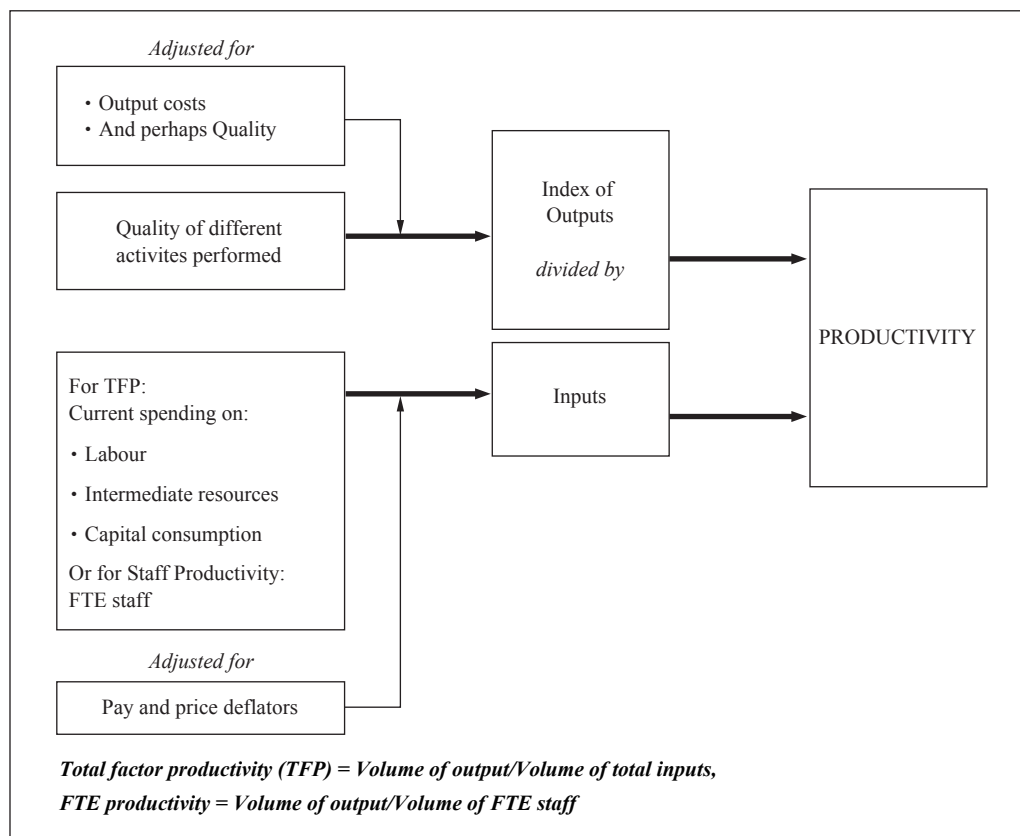


Figure 1. The Atkinson Review's Suggested Methodology for Measuring Government Productivity

Total factor productivity (TFP) = Volume of output/Volume of total inputs,
 FTE productivity = Volume of output/Volume of FTE staff

Some significant practical problems commonly occur in measuring outputs within government sector organizations, in cost-weighting outputs so as to arrive at the overall index of an organization's performance, and in measuring inputs, which we discuss in turn.

2.2. Input and Output Data and Analysis

Table 4 shows that the growth of collected tax fluctuated the entire period from 1994 to 2013 under study.

Table 4. Statement of Tax Collection

(10.00000 = 1 million)

Financial Year	Collection (in taka)	Growth (%)
1993–1994	466,500.00	
1994–1995	500,000.00	7.18
1995–1996	552,000.00	10.40
1996–1997	640,800.00	16.09
1997–1998	703,100.00	9.72
1998–1999	734,000.00	4.39
1999–2000	855,800.00	16.59
2000–2001	989,200.00	15.59
2001–2002	1,123,000.00	13.53
2002–2003	1,317,400.00	17.31
2003–2004	1,415,000.00	7.41
2004–2005	1,675,000.00	18.37
2005–2006	1,966,400.00	17.40
2006–2007	2,292,000.00	16.56
2007–2008	2,848,700.00	24.29
2008–2009	3,407,200.00	19.61
2009–2010	3,982,400.00	16.88
2010–2011	5,085,600.00	27.70

Source: National Board of Revenue Report, 2014 [3].

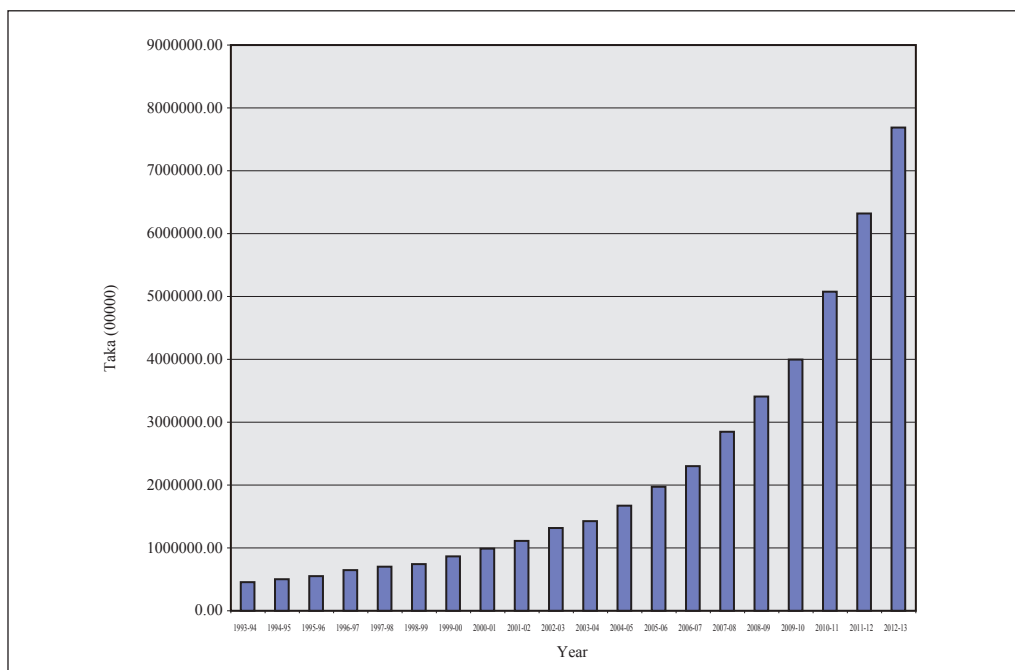


Figure 2. Statement of Tax Collection

Source: National Board of Revenue Report, 2014 [3].

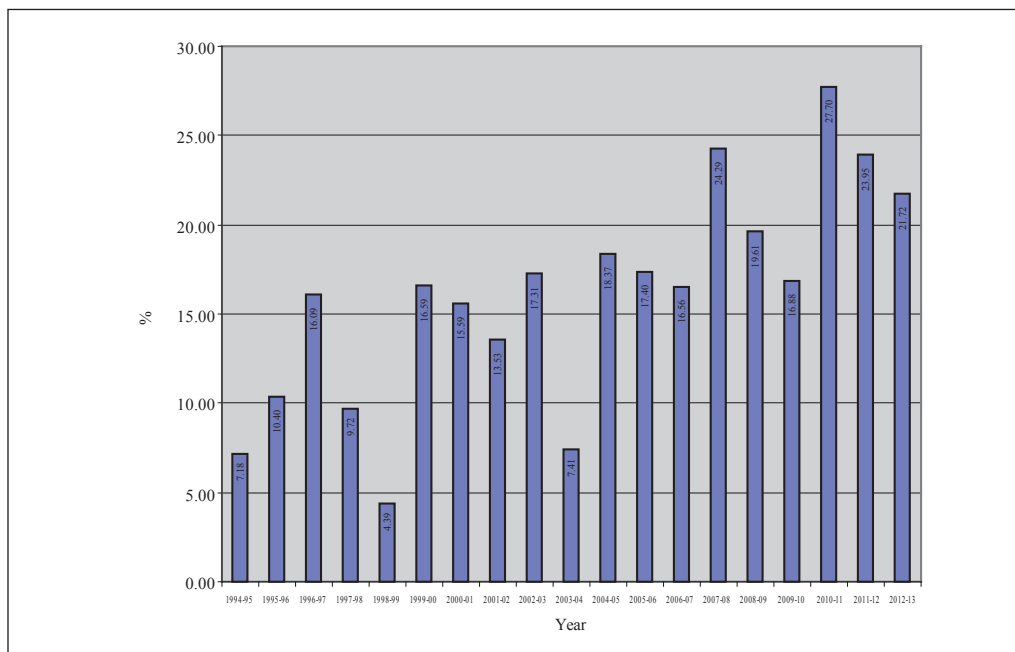


Figure 3. Statement of Tax Collection Growth Rate

Source: National Board of Revenue Report, 2014 [3].

In Table 5 it is observed that the direct tax is increasing with the decreasing trend in indirect taxes throughout the whole period under study.

Table 5. Statement of Direct & Indirect Taxes (%)

Financial Year	Direct Tax	Indirect Tax
1972–1973	10%	90%
1975–1976	13%	87%
1985–1986	16%	84%
2000–2001	19%	81%
2005–2006	22%	78%
2010–2011	29%	71%
2013–2014	36%	64%

Source: National Board of Revenue Report, 2014 [3].

In Table 6 the value productivity of taxes has been calculated. It is observed on the above table that the productivity of taxes from the year 1993 to 2000 shows an upward trend, and from the year 2001 onwards, it fluctuated. The productivity index in 2003–2004 significantly dropped due to the introduction of the New National Pay Scale for employed persons. It again fluctuated in 2005–2006, and since 2006 it has shown an increasing upward trend until 2013. This is because the government organized a tax fair every year to create awareness among taxpayers on paying taxes and also due to increasing the rate of taxes.

Table 6. Value Productivity of Taxes

(10.00000 = 1 million)

Year	Output (in taka)	Input (Salaries) in taka	Productivity Index (2000 = 100)	Productivity
1993–1994	466,500.00	16,700	62	27.93
1994–1995	500,000.00	17,200	65	29.07
1995–1996	552,000.00	17,800	69	31.01
1996–1997	640,800.00	18,300	78	35.02
1997–1998	703,100.00	18,800	83	37.40
1998–1999	734,000.00	19,400	84	37.84
1999–2000	855,800.00	20,300	94	42.16

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Year	Output (in taka)	Input (Salaries) in taka	Productivity Index (2000 = 100)	Productivity
2000–2001	989,200.00	22,000	100	44.96
2001–2002	1,123,000.00	23,100	108	48.61
2002–2003	1,317,400.00	26,000	113	50.67
2003–2004	1,415,000.00	37,400	84	37.83
2004–2005	1,675,000.00	37,600	99	44.55
2005–2006	1,966,400.00	49,600	88	39.65
2006–2007	2,292,000.00	56,700	90	40.42
2007–2008	2,848,700.00	57,600	110	49.46
2008–2009	3,407,200.00	73,000	104	46.67
2009–2010	3,982,400.00	75,400	117	52.82
2010–2011	5,085,600.00	93,800	121	54.22
2011–2012	6,303,600.00	99,000	142	63.67
2012–2013	7,672,500.00	101,000	169	75.97

Source: National Board of Revenue Report, 2014 [3].

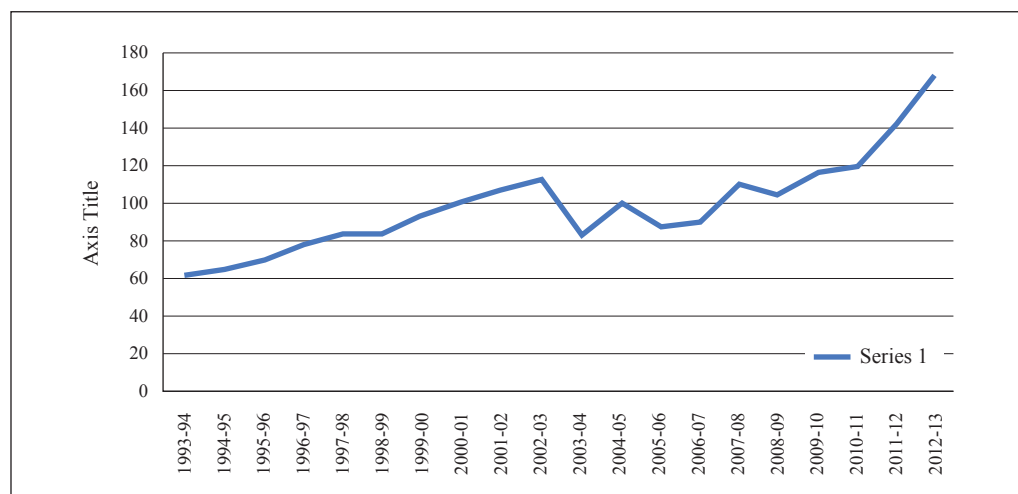


Figure 4. Productivity of Tax Collection

Source: National Board of Revenue Report, 2014 [3], computed by the author.

From Figure 4 it is observed that the productivity of taxes from the year 1993 to 2000 shows an upward trend, and from the year 2001 onwards, it fluctuated. The index of productivity in 2003–2004 significantly dropped due to the introduction of the New National Pay Scale for employed persons. It again fluctuated in 2005–2006, and from 2006 it shows an increasing upwards trend until 2013. This is because the government created awareness through organizing tax fairs every year for taxpayers and also increased the rate of taxes.

In Table 7 the percentage of direct tax to total tax collection has been determined. In the table we can observe that the direct tax is increasing annually to total tax.

Table 7. Role of Direct Tax to Total Tax

Year	% of Direct Tax to Total Tax
1972–1973	9.7
1980–1981	13.8
1990–1991	20.0
2000–2001	19.4
2010–2011	29.2

Source: National Board of Revenue Report, 2014 [3].

It is revealed from Table 8 that the growth percentage of GDP irrespective of taxes for the first six years fluctuated, but the rest of the entire period under study increased. On the other hand, the GDP growth rate fluctuated almost the entire period under study.

Table 8. Ratio of Tax of GDP

(10.00000 = 1 million)

Tax Year	Tax collection in Lakh Taka	GDP in Lakh Taka	% of GDP	GDP Growth Rate (%)
1993–1994	466,500	10,303,600	4.53	8.01
1994–1995	500,000	11,702,600	4.27	12.63
1995–1996	552,000	13,016,000	4.24	9.05
1996–1997	640,800	14,030,500	4.57	8.64
1997–1998	703,100	15,483,300	4.54	10.78
1998–1999	734,000	21,969,700	3.34	9.75

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Tax Year	Tax collection in Lakh Taka	GDP in Lakh Taka	% of GDP	GDP Growth Rate (%)
1999–2000	855,800	23,708,600	3.61	7.91
2000–2001	989,200	25,354,600	3.90	6.94
2001–2002	1,123,000	27,320,100	4.11	7.75
2002–2003	1,317,400	30,058,000	4.38	10.02
2003–2004	1,415,000	33,297,300	4.25	10.78
2004–2005	1,675,000	37,070,700	4.52	11.33
2005–2006	1,966,400	41,572,800	4.73	12.14
2006–2007	2,292,000	47,247,700	4.85	13.65
2007–2008	2,848,700	54,582,200	5.22	15.52
2008–2009	3,407,200	61,479,500	5.54	12.64
2009–2010	3,982,400	69,432,400	5.74	12.94
2010–2011	5,085,600	79,670,400	6.38	14.75
2011–2012	6,303,600	91,814,100	6.87	15.24
2012–2013	7,672,500	103,798,700	7.39	13.05

Source: National Board of Revenue Report, 2014 [3], and Bangladesh Bureau of Statistics Statistical Yearbook of Bangladesh 2004/2006/2009/2013 [5].

2.3. Initiatives Undertaken

For the purpose of increasing tax income as well as the number of taxpayers, the National Board of Revenue (NBR) of Bangladesh has undertaken significant actions and initiatives. As a result of the program, both the revenue income and number of taxpayers have been increasing rapidly. The following initiatives are the major areas where a positive action has been taken to improve overall performance:

1. To increase the number of new taxpayers;
2. To implement the submission of income tax statements online;
3. To get TIN numbers online;
4. To create awareness through tax fairs;
5. Introduce Self Assessments;
6. Reform tax principles;
7. Reform tax administration;
8. Tax service and tax education;
9. Reform the system of tax audits, prepare audit principles and system;

10. Automation;
11. Strong enforcement, intelligent and checking systems;
12. Development of a data collection system;
13. Introduce international tax systems;
14. Logistic arrangement of transport and own office premises in all places;
15. Provide incentives and training for the workforce from home and abroad;
16. Upgrade of the positions of members and tax commissioners; and
17. Ensure accountable corruption free administration.

2.4. Best Practices and Lessons Learned

Best practices of NBR Bangladesh are as follows:

- a) Better communication between taxpayers and the NBR;
- b) More cooperation from taxpayers;
- c) A more positive attitude and environment has been created; and
- d) Reward, recognition, and incentive schemes for encouraging taxpayers.

2.5. Future Plan

1. Tax level expansion.
2. Increase tax awareness, motivate taxpayers.
3. Increase tax services.
4. Introduce modern and digital tax system.
5. Tax audit, investigation and strengthening tax intelligence activities.
6. Revenue friendly change in tax law.

PASSPORT SERVICE

3.1. Introduction about the Agency

The name of the authority issuing passports is the Department of Immigration and Passports. The Government of Bangladesh issues passports to its citizen for traveling abroad. The Department of Immigration and Passports issues passports on demand. The Ministry of Home Affairs administers the passport issuing. In general, the duration of validity of passports is ten years. However the validity of the passport for minor citizens (less than five years) is five years. Passport issues and related activities are governed by the Bangladesh Passport Order, 1973, and the Bangladesh Passport Rules, 1974.

There are three types of passports in Bangladesh issued by the authority. These are: a) International Passport for traveling to any foreign country, b) Special Passport for travel to India only, and c) Diplomatic Passport. One person can apply for the passport with a properly filled up passport application form, two copies of passport sized photos, and one stamp sized photo with the usual fee. People have to fill out the application form properly and an authorized person must bear witness to the signing. The issuing period depends on the applicant's urgency. The applicant may apply for very urgent (requires 72 hours), urgent (requires 11 to 21 days), general (requires 21 to 30 days), or special passports depending on his/her needs.

The passport form is available free of cost in all regional passport offices and some of the deputy commissioners' offices in Bangladesh and foreign missions abroad. It can also be downloaded from the website of the Ministry of Home Affairs and the Department of Immigration and Passports. The passport offices have one-stop desks to handle passport modifications or corrections. One can update any information in the passport within a day as well.

In the meantime, GOB has introduced the Machine Readable Passport (MRP) as per guideline of the International Civil Aviation Organization (ICAO). It will take the nation a step forward on the way to a digital Bangladesh.

Functions

1. Issue of international passports to Bangladeshi nationals.
2. Issue of travel permits to Bangladeshi nationals falling destitute abroad as per instructions of the government.
3. Issue of Certificate of Identity to aliens.
4. Issue of diplomatic passports (though this function is performed by the Ministry of Foreign Affairs).
5. Blacklisting of Bangladeshi nationals at passport facilities.
6. Impounding/revocation/cancellation of passports as per rules.
7. Grant of visas to foreign national visiting Bangladesh.
8. Grant of Road Permits (RP) to foreign nationals.
9. Grant of Landing Permits to foreign national arriving without visas.
10. Blacklisting of foreign nationals at visa facilities.
11. Printing, procurement, supply and distribution of blank passports, booklets, and forms.
12. Supply of blank passport booklets to all Bangladesh Missions abroad.
13. Replies/communication for government decisions in all policy and procedural matters relating to issuance of passports and visas in reference to Bangladesh Missions abroad.

14. Supervision, control, and coordination of the work among the whole consular wing of Bangladesh Missions abroad.
15. Any other duty assigned by the Government of Bangladesh.

The Bangladesh Passport Order 1973

The President's Order No. 9 of 1973 states the following:

Whereas it is expedient to provide for the Issue of passports and travel documents to regulate, in the public interest, the departure from Bangladesh of citizens of Bangladesh and other persons and for matters incidental or ancillary thereto;

Now, therefore, in pursuance of paragraph 3 of the Fourth Schedule to the Constitution of the People's Republic of Bangladesh, and in exercise of all powers enabling him in that behalf, the President is pleased to make the following Order:

1. (1) This Order may be called the Bangladesh Passport Order, 1973;
(2) It extends to the whole of Bangladesh and applies to all citizens of Bangladesh; and
(3) It shall come into force at once.
2. In this Order, unless there is anything repugnant in the subject or context:
 - (a) "Departure," with its grammatical variations and cognate expressions, means departure from Bangladesh by water, land, or air;
 - (b) "Government" means the Government of the People's Republic of Bangladesh;
 - (c) "Passport" means a passport issued or deemed to have been issued under this Order;
 - (d) "Passport authority" means an officer or authority empowered under rules made under this Order to issue passports or travel documents;
 - (e) "Prescribed" means prescribed by rules made under this Order; and
 - (f) "Travel document" means a travel document issued or deemed to have been issued under this Order.
3. No person shall depart or attempt to depart from Bangladesh unless he holds a valid passport or travel document.
4. (1) The classes of passports and travel documents, the conditions subject to which and the forms in which a passport or a travel document shall be issued or renewed and the period for which a passport or travel document shall be issued or renewed shall be as may be prescribed.
(2) A passport or a travel document issued under this Order shall at all times remain the property of the Government.

5. (1) An application for the issue of a passport or travel document, for visiting such foreign country or countries as may be specified in the application, shall be made to the passport authority in such form, containing such particulars and accompanied by such fee, if any, as may be prescribed.
- (2) On receipt of an application, the passport authority, after making such inquiry, if any, as it may consider necessary, shall, subject to the provisions of this Order, by order in writing issue passport or travel document, as the case may be or refuse to issue passport or travel document or restrict the number of countries to be endorsed upon such passport or travel document.
6. Subject to the provisions of this Order, the passport authority:
 - (1) May refuse to issue a passport or travel document on any one or more of the following grounds:
 - (a) That the applicant is not a citizen of Bangladesh;
 - (b) That the applicant was convicted under the Bangladesh Collaborators (Special Tribunal) Order, 1972 (P.O. No. 8 of 1972);
 - (c) That the applicant has, at any time during the period of five years immediately preceding the date of his application, been convicted by a court in Bangladesh for any offence involving moral turpitude, and sentenced in respect thereof to imprisonment for not less than two years;
 - (d) That the applicant was convicted or is reasonably suspected of smuggling of currency, drugs, arms, trafficking in women and slaves, foreign currency, passports or of indulging in illegal dealings involving foreign exchange, trade or commerce;
 - (e) That the applicant is evading or likely to evade appearance in any pending proceedings against him in a criminal court in Bangladesh or that an order prohibiting the departure from Bangladesh of the applicant has been made by any such court;
 - (f) That the applicant was previously deported from abroad on account of his undesirable activity;
 - (g) That the applicant has been repatriated and has not reimbursed the expenditure incurred in connection with such repatriation;
 - (h) That the applicant is likely to become destitute and his repatriation would be a charge on public funds;
 - (i) That the application has been made for a minor, suspected of being taken out of Bangladesh against an order of the court or against the wishes of the legal guardian; and
 - (j) That the applicant is suffering from such mental or physical deficiency which renders him incapable of taking care of himself unless accompanied by legal guardian or an authorized person.
 - (2) Shall refuse to issue a passport or travel document on any one or more of the following grounds:

- (a) That the applicant, in the opinion of the Government, is likely to engage outside Bangladesh in activities prejudicial to the sovereignty, integrity or security of Bangladesh;
 - (b) That the applicant, in the opinion of the Government, is reasonably suspected of evading or attempting to evade the duty to render any service which, under any law, he is required to render in the public interest; and
 - (c) That the issue of a passport or travel document to the applicant, in the opinion of the Government, will not be in the public interest.
7. (1) The passport authority may vary or cancel the endorsement on a passport or travel document or the conditions, other than the prescribed conditions, subject to which a passport or travel document is issued and may, for that purpose, require the holder of a passport or travel document, by notice in writing, to deliver up such passport or travel document to it within such time as may be specified in such notice.
- (2) The passport authority may impound or cause to be impounded or revoke a passport or travel document:
- (a) If the passport authority is satisfied that the holder of the passport or travel document is in wrongful possession thereof;
 - (b) If the passport or travel document was obtained by suppression of material facts;
 - (c) If the passport authority deems it necessary to do so in the interest of sovereignty, integrity or security of Bangladesh, or in the public interest;
 - (d) If the holder of the passport or travel document has, at any time after the issue of the passport or travel document, been convicted by a court in Bangladesh for any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than two years or if the holder of the passport or travel document has been convicted under the Bangladesh Collaborators (Special Tribunal) Order, 1972 (P.O. No. 8 of 1972);
 - (e) If an order has been passed by any court in Bangladesh prohibiting the departure of the holder of the passport or travel document from Bangladesh and requiring the passport authority to impound or cause to be impounded or revoke such passport or travel document;
 - (f) If any of the conditions of the passport or travel document has been contravened; and
 - (g) If the holder of the passport or travel document has failed to comply with a notice under clause (1) requiring him to deliver up the same.
- (3) The passport authority may also revoke a passport or travel document on the application of the holder thereof.
- (4) Where the passport authority makes an order under clause (2) of Article 5 refusing to issue passport or travel document or restricting the number of

- countries to be endorsed upon such passport or travel document, or makes an order varying or canceling the endorsements on, or varying the conditions of, a passport or travel document under clause (1) or makes an order impounding or revoking a passport or travel document under clause (2), of this Article, it shall record in writing a brief statement of the reasons for making such order and furnish to the person concerned on demand a copy of the same, provided that the passport authority may refuse in the interest of the sovereignty, integrity or security of Bangladesh or in the public interest to furnish such a copy.
8. (1) A court convicting the holder of a passport or travel document of any offence under this Order or the rules made thereunder may also revoke the passport or travel document, provided that if the conviction is set aside on appeal or otherwise the revocation shall become void.
(2) An order of revocation under clause (1) may also be made by the Supreme Court when exercising its powers of appeal or revision.
 9. On the revocation of a passport or travel document of a passport or travel document under this Order the holder thereof shall, without delay, surrender the passport or travel document, if the same has not already been impounded, to the authority by whom it has been revoked or to such other authority as may be specified in the order of revocation.
 10. Any person aggrieved by an order of the passport authority under clause (2) of Article 5 or clauses (1) and (2) of Article 7 may prefer an appeal against that order to such authority, hereinafter referred to as the appellate authority, and within such period and in such manner as may be prescribed, provided that no appeal shall lie against any order made by the Government.
 11. (1) Whoever:
 - (a) Contravenes provisions of Article 3;
 - (b) Knowingly furnishes any false information or suppresses any material fact with a view to obtaining a passport or travel document under this Order or without lawful authority alter or attempts to alter or causes to alter the entries made in a passport or travel document;
 - (c) Fails to produce for inspection his passport or travel document (whether issued under this Order or not) when called upon to do so by the prescribed authority;
 - (d) Knowingly uses a passport or travel document issued to another person;
 - (e) Knowingly allows another person to use a passport or travel document issued to him shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to Taka two thousand or with both.
 - (2) Whoever abets any offence punishable under clause (1) shall be liable to punishment provided in that clause for that offence.
 - (3) Whoever contravenes any condition of a passport or travel document or any

provision of this Order or any rule made thereunder for which no punishment is provided elsewhere in this Order shall be punishable with imprisonment for a term which may extend to three months, or with fine which may extend to Taka 500, or with both.

12. (1) Any officer of customs empowered in this behalf by a general or special order of the Government 1[or any officer of the Bangladesh Bureau of Anti-Corruption not below the rank of an Assistant Inspector or any officer of police] not below the rank of a Sub-Inspector may search any place and seize any passport or travel document from any person or arrest such person without warrant if a reasonable suspicion exists that he has committed any offence punishable under Article 11.
- (2) The provisions of the Code of Criminal Procedure, 1898 (Act V of 1898), relating to search and seizure and arrest shall, so far as may be, apply to search and seizure and arrest under this Article.
13. No suit, prosecution or other legal proceedings shall lie against the Government or any officer or authority for anything which is in good faith done or intended to be done under this Order.
14. Upon the issue of a notification by the Government that a foreign country is –
 - (a) A country which is committing external aggression against Bangladesh;
 - (b) A country assisting the country committing external aggression against Bangladesh;
 - (c) A country where armed hostilities are in progress; and
 - (d) A country to which travel must be restricted in the public interest because such travel would seriously impair the conduct of foreign affairs of the Government, a passport or travel document for travel through or visiting such country shall cease to be valid for such travel or visit unless in any case a special endorsement in that behalf is made by the prescribed authority.
15. Notwithstanding anything contained in the foregoing provisions relating to issue of a passport or travel document, the Government may issue, or cause to be issued, a passport or travel document to a person who is not a citizen of Bangladesh if the Government is of the opinion that it is necessary so to do in the public interest.
16. The Government may, by notification in the official Gazette, direct that any power or function which may be exercised or performed by it under this Order, in relation to such matters and subject to such conditions, if any, as it may specify in the notification, be exercised or performed:
 - (a) By such officer or authority subordinate to the Government; and
 - (b) In any foreign country in which there is no diplomatic mission of Bangladesh, by such foreign Consular Officer, as may be specified in the notification.
17. (1) The Government may, by notification in the official Gazette, make rules for carrying out the purposes of this Order.
- (2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:

- (a) The appointment; jurisdiction, control and functions of passport authorities;
 - (b) The form and particulars of application for the issue or renewal of a passport or travel document or for endorsement on a passport or travel document and where the application is for the renewal, the time which it shall be made;
 - (c) The period for which passports and travel documents shall continue in force;
 - (d) The form in which and the conditions subject to which the different classes of passports and travel documents may be issued, renewed or varied;
 - (e) The fees payable in respect of any application for the issue or renewal of a passport or travel document or for varying any endorsement or making a fresh endorsement on passport or a travel document and the fees payable in respect of any appeal under this Order;
 - (f) The appointment of appellate authorities under Article 10, the jurisdiction of, and the procedure which may be followed by, such appellate authorities;
 - (g) The services (including the issue of a duplicate passport or travel document lost, damaged or destroyed) which may be rendered in relation to a passport or travel document and the fees therefore; and
 - (h) Any other matter which is to be or may be prescribed or in respect of which this Order makes no provision or makes insufficient provision and provision is, in the opinion of the Government, necessary for the proper implementation of the Order.
18. (1) Every passport and every travel document issued by or under the authority of the Government before the commencement of this Order and in force immediately before such commencement shall be deemed to have been issued under this Order and shall, subject to the provisions of this Order, continue in force:
- (a) For the unexpired portion of the period for which such passport or travel document had been issued; and
 - (b) For a period of five years from such commencement, whichever is less.

Input and Output Data and Analysis

In Table 9 the different types of passports issued by the Passport and Immigration Authority in Bangladesh during the period from 1993 to 2013 are shown. In the below table, it is stated that different types of passports issued by the Passport and Immigration Authority in Bangladesh during the period from 1993 to 2013. It is observed from the above study that international passports issued by the Authority had increased sharply. The demand for laborers from Bangladesh has increased all over the world. It is also observed that the issue of diplomatic passports also increased by the year. The Authority also introduced the MRP from the year 2009. The issue of MRPs also rapidly increased.

This is because more people are moving outside the country to seek employment, treatment, education, or for sight-seeing.

Table 9. Statement of Different Types of Passports

Financial year	No. of Issued Passport		
	International	Machine Readable	Diplomatic/ Government
1993–1994	649,566		250
1994–1995	676,632		259
1995–1996	704,826		269
1996–1997	741,923		283
1997–1998	772,837		297
1998–1999	813,513		312
1999–2000	903,904		328
2000–2001	1,004,338		345
2001–2002	1,115,932		363
2002–2003	1,239,925		383
2003–2004	1,377,695		403
2004–2005	1,530,773		424
2005–2006	1,700,859		446
2006–2007	1,889,844		469
2007–2008	2,099,827		493
2008–2009	2,333,142		518
2009–2010	2,592,381	2,206,151	545
2010–2011	2,880,424	2,451,279	573
2011–2012	3,200,472	2,723,644	603
2012–2013	3,556,080	3,404,556	635

Source: Department of Passport and Immigration Report, 2014. (Unpublished) [6].

In Table 10, the physical productivity of passports has been calculated. Regarding the calculation of the input and output of the total number of passports issued and the total number of employed persons has been considered.

Table 10. Statement of Physical Productivity of Passports

Year	Output (Qty)	Input (No.)	Physical Productivity	Output Index (1993 = 100)	Input Index (1993 = 100)	Productivity Index (1993 = 100)
1993–1994	649,566	460	1,412.1	100	100	100
1994–1995	676,632	490	1,380.88	104	107	98
1995–1996	704,826	485	1,453.25	109	105	103
1996–1997	741,923	490	1,514.13	114	107	107
1997–1998	772,837	500	1,545.67	119	109	109
1998–1999	813,513	920	884.25	125	200	63
1999–2000	903,904	920	982.50	139	200	70
2000–2001	1,004,338	985	1,019.63	155	214	72
2001–2002	1,115,932	972	1,148.08	172	211	81
2002–2003	1,239,925	970	1,278.27	191	211	91
2003–2004	1,377,695	940	1,465.63	212	204	104
2004–2005	1,530,773	955	1,602.90	236	208	114
2005–2006	1,700,859	960	1,771.73	262	209	125
2006–2007	1,889,844	955	1,978.89	291	208	140
2007–2008	2,099,827	960	2,187.32	323	209	155
2008–2009	2,333,142	1080	2,160.32	359	235	153

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Year	Output (Qty)	Input (No.)	Physical Productivity	Output Index (1993 = 100)	Input Index (1993 = 100)	Productivity Index (1993 = 100)
2009–2010	2,592,381	950	2,728.82	399	207	193
2010–2011	2,880,424	980	2,939.21	443	213	208
2011–2012	3,200,472	1050	3,048.07	493	228	216
2012–2013	3,556,080	985	3,610.23	547	214	256

Source: Department of Passport and Immigration Report, 2014 [3].

From Table 10, it is observed that productivity in the passport department of Bangladesh was showing an upward trend up until 1998, but from 1998 to 2000 it had dramatically declined because the authority recruited new employees at that time. Again it shows an upward trend during the entire period under study from 2000 to 2013. From this observation we can assume that the use of passports has increased rapidly. It means more people are going abroad to seek employment, treatment, higher education, as well as for sight-seeing, etc.

In Figure 5 we can observe that the output index and the productivity index of passports is increasing with a decreasing trend in input from the year 1997 to 1998. Though both the output and productivity index maintained their upward trends, the input index fluctuated from the year 2008 to 2009. It is also observed from the above figure that in the year 1998 to 1999, the labor force of the department became almost double in comparison to the previous year. That is why the productivity of this year fell sharply from 1,545.67 to 884.25.

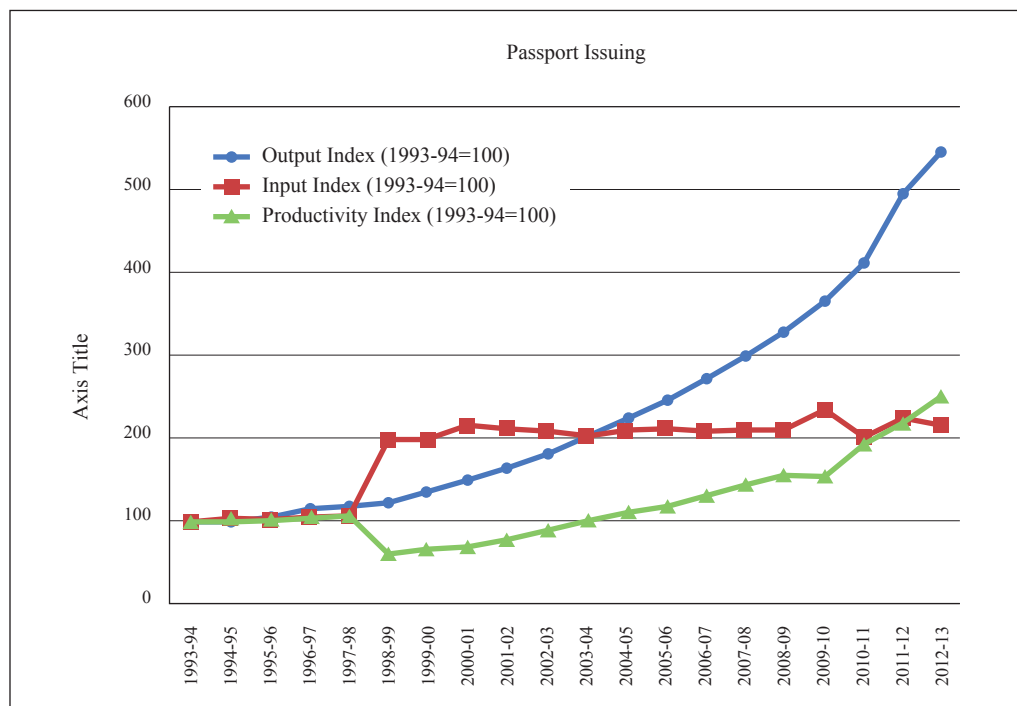


Figure 5. Statement of Physical Productivity of Passports

Source: Department of Passport and Immigration Report, 2014 (Unpublished) [6], computed by the author.

3.2. Initiatives Undertaken

For the purpose of issuing passports smoothly to the applicant, the Passport and Immigration Authority has taken some significant actions and initiatives. As a result, the volume of passports issued has increased rapidly. The following initiatives are the major areas where a positive action has been taken to improve the overall performance of the Passport and Immigration Department.

1. Introduce online applications;
2. Delivery messages to mobile phones;
3. Machine Readable Passports; and
4. Timely delivery.

3.3. Best Practices and Lessons Learned

1. Better communication between department and applicant;
2. More cooperation from the authority;
3. A more positive attitude and environment has been created; and
4. Timely delivery without hazards.

SUMMARY/CONCLUSION/RECOMMENDATIONS

This is a unique report on productivity in the service industry in the public sector of Bangladesh. For the first time, it uses the methodology recommended by Patrick Dunleavy and Leandro Carrera [4]. The main limitation of the data collected from both primary and secondary sources was to get the proper data from the Tax Department and the Department of Passport and Immigration. It revealed that the Tax Department of Bangladesh had not only reformed its activities but also introduced many new policies to increase the number of new taxpayers as well as taxes and government revenues. They have also undertaken other activities such as providing education on taxes through the use of tax fairs, tax audits, automation, data collection systems, online TIN number, self-assessment, etc. For the last few years, the Income Tax Department organized the tax fairs to create awareness among much of the people to increase the number of taxpayers. Print and electronic media are also helping to create awareness through publicity. The government also introduced incentives or awards to the highest taxpayers.

The Government of Bangladesh has the agenda to transform a Digital Bangladesh by 2021. So the application of ICT and improved infrastructure in the service sector both in the Tax Department as well as the Passport and Immigration Department make it efficient and effective to render services.

The Passport and Immigration Department also introduced online applications and MRPs which have created a revolution in the department. There are three types of passports: (i) international passports, (ii) Machine Readable Passports and (iii) Diplomatic/Government passports. The government also introduced MRPs in 2009. A large number of people are obtaining passports every day without visiting the office.

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INDONESIA

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OVERVIEW OF INDONESIAN PUBLIC-SECTOR REFORM

Bureaucratic reform in Indonesia initially started with political reform that successfully brought the President Soeharto regime to step down from his presidential position (that had ruled Indonesia for 32 years). This political reform promoted a theme for the establishment of political and economic democratization, manifestation of good governance in the management of government, and minimizing various practices of corruption, collusion, and nepotism (KKN) that were considered as the cause of the downfall of economic and development achievements that had been achieved by President Soeharto.

Public sector reform was, at first, conducted by setting a direction towards the achievement of good governance through the enactment of the People's Consultative Assembly (MPR) Decree Number XI/MPR/1998 concerning state functionaries that were clean and free from the KKN. The Decree served as a fundamental key in implementing the reform in Indonesia. Through this Decree, the People's Consultative Assembly mandated that the state functionaries of executive, legislative, and judicial branches were obliged to perform their roles and functions well and were accountable to the people, nation, and state. The terms of reform, good governance, and bureaucracy reforms became buzzwords that were hotly discussed by all people in the nation. People were concerned after a long period under an authoritarian regime and looked forward to the new and better government to perform at a higher level of accountability, transparency, effectiveness, efficiency, as well as to be participative. Basically reforms can be classified into two types, namely administrative system reforms and political system reforms.

A part of administrative reforms are the reforms on government relations between central and local authorities. For the sake of responding to the threat of disintegration as the implication of an extremely massive centralized power during the President Soeharto regime, the government enacted Law Number 22 Year 1999, which was later revoked by Law

Number 32 Year 2004, and the latest Law Number 23 Year 2014 concerning the regional government. The enactment of this law was considered a historical milestone that revolutionarily changed the order of relations between the central and regional governments towards a very large decentralization of administration in the regions. Many experts stated that Indonesia underwent a big bang of decentralization [1] for a country with the biggest archipelago consisting of 34 provinces, five of which have a different status (Aceh, Special Province of Yogyakarta, West Papua, Papua, and DKI Jakarta). The provinces are divided into 403 regencies and 98 cities that were re-divided into districts and village administrative units [2].

For Indonesia's context, decentralization was the right answer in the middle of the disintegration threat that was a nightmare for Indonesia's political situation. The emergence of local conflicts had triggered the disintegration threat as a reflection of dissatisfaction towards the central government that had implemented unfair policies. Several provinces like Aceh, Riau, East Kalimantan, and Papua openly voiced to disintegrate themselves from the Unitary State of the Republic of Indonesia. Decentralization makes sense for a country as diverse as Indonesia. Spread out over 5,000 kilometers and over 13,000 islands, the country has more than 300 identified languages and about [20] distinct cultural groups [1].

Decentralization in Indonesia had changed the power spectrum from centralization to decentralization. According to Law Number 32 Year 2004 about local government law, the central government only governs six governmental affairs that include: foreign affairs, defense, security, law, and religion, as well as fiscal and monetary policy. Besides those affairs, management was decentralized at the regional level by upholding a subsidiarity principle; the central government can reclaim the affairs that had been decentralized on the condition that the regional government is unable to implement the affairs that will subsequently impact the performance of public services. As stipulated in Law Number 32 Year 2004, the governmental affairs are divided based on sub-criteria that are externality, accountability, and efficiency by considering the harmonious relationship among the governmental hierarchy. To regulate this division of authorities, the government enacted Government Regulation Number 38 Year 2007 concerning the divisions of authority between the central government, provincial government, and city government. In addition to the six mandatory authorities, the central government is only authorized to provide advocacy in the form of determining norms, standards, procedures, and criteria (NSPK) to ensure the effectiveness of public services in the region.

The management of tax and immigration are the two authorities that remain to be the domain of the central government. The management of income tax today is institutionally conducted by the Directorate General of Taxes under the Ministry of Finance. Whereas for other authorities related with the issuance of passports are under the authority of the Directorate General of Immigration, The Ministry of Law and Human Rights.

In addition, since 2007, Indonesia has conducted bureaucratic reforms as an effort to improve public service, to enhance professionalism in bureaucracy, and to build public trust towards government bureaucracy that is perceived as a source of Corruption, Collusion, and Nepotism. The bureaucratic reform was first conducted in the Department of Finance, the term formerly used before the Ministry of Finance today. As the pilot project of the bureaucratic reform in Indonesia, the Directorate General of Taxes (DGT) certainly received meticulous attention from society that observed the performance of the DGT compared with the remuneration that they have received. So when there were cases of corruption committed by several staff and management of DGT, many questioned the effectiveness of the reform that had spent considerable amount of government budget. As for the Directorate General of Immigration, Ministry of Law and Human Rights, they implemented their bureaucratic reform program since 2011.

This paper aims to analyze the performance of the two institutions, particularly from productivity using an input-output approach. This approach was adopted from the Dunleavy model (2013) when describing public sector productivity in the UK [4]. This analysis will also be useful to see the extent to which effectiveness and efficiency of various policies that had been enacted.

TAX COLLECTION SERVICE

2.1. Introduction to the Agency

Functionally the management of taxes in Indonesia is conducted by the Directorate General of Taxes (DGT), Ministry of Finance. The DGT serves as an institution that secures state income through taxes. In the fiscal year of 2014 of the National Budget (APBN), the target of income tax was approximately 1,310.2 trillion IDR (or approximately 78% of the total state revenues). Considering the significance of the tax sector in supporting the national budget, the government must pay serious attention towards the improvement of the tax administration system. Simultaneously along with the development of business activities both nationally and globally, it is deemed necessary to have a tax institution reform that is reliable and able to foster and sustain national competitiveness, economic growth stability, and at the same time is able to guarantee the manifestation of good governance in Indonesia.

In general, Indonesia adopts a tax self-assessment system where the taxpayers are entrusted to self-register, calculate, pay, and report their own tax obligations. This system requires a sufficient service and control mechanism, including the availability of optimum support in a tax database.

The Directorate General of Taxes manages some central government taxes such as income tax, value-added tax, and mining and forestry tax. Generally, the functions of tax administration conducted by the DGT cover three areas as follows [5]:

- Service, aiming at facilitating the taxpayers in meeting their obligations quickly, easily, and reliably;
- Control, aiming at ensuring the taxpayers to meet their obligations in accordance with the prevailing rules and regulations; and
- Law enforcement, aiming at ensuring fairness towards the rule-compliance taxpayers, and enforcing law towards those that are non-compliance.

In terms of organization structure, the DGT is considered to be the largest organization with the largest number of employees within the Ministry of Finance. In terms of organizational structure, according to Ministerial Decree No. 131/PMK.01/2006, currently the DGT's headquarter office consists of 1 (one) Directorate General, 1 (one) Secretary of DGT, 12 (twelve) Directorate units and 4 (four) tax researchers. To support the service and control functions in vertical and operational units, the DGT is supported by 31 (thirty one) regional offices, 331 (three hundred and thirty one) operational offices (KKP), 207 (two hundred and seven) units for tax service, dissemination and consultation (KP2KP), 1 (one) center for Tax Data Processing and Documents, and 3 (three) offices for External Data Processing. The organizational structure of the DGT is very dynamic, particularly since 2002. The organizational structure of the DGT currently adopts two types, namely a functional basis in central and regional offices, and a segmentation basis in operational offices. As depicted in Figure 1, the organization structure of the DGT reflects the function of the institution that covers finding the potential taxpayer to tax objection and appeal. The DGT also supports some divisions to improve the DGT's capacity, such as data processing, documents, and IT Taxation.

The following is a brief explanation of the functions and tasks of each organizational position on the DGT based on the Ministry of Finance Decree.

- a. Directorate of Taxation Regulations I
To formulate and to implement policies and technical standardization in General Provisions and Tax Procedures, Tax Collection with Coerce Warrant, Value Added Tax and Sales Tax on Luxury Goods, Other Indirect Taxes, Land and Building Tax, and Acquisition Duty of Right on Land and Building.
- b. Directorate of Taxation Regulations II
To formulate and to implement policies and technical standardization in Income Tax regulations, tax treaty and international cooperation, legal assistance, and harmonization of tax regulation.
- c. Directorate of Audit and Collection
To formulate and to implement policies and technical standardization in tax audits and collection.
- d. Directorate of Intelligence and Investigation
To formulate and to implement policies and technical standardization in intelligence and investigation.
- e. Directorate of Extensification and Appraisal
To formulate and to implement policies and technical standardization in tax extensification and appraisal.
- f. Directorate of Objection and Appeal
To formulate and to implement policies and technical standardization in objection and appeal.
- g. Directorate of Potency, Compliance, and Revenue
To formulate and to implement policies and technical standardization in potency, compliance, and revenue.
- h. Directorate of Counseling, Service, and Public Relations
To formulate and to implement policies and technical standardization in counseling, service, and public relations.
- i. Directorate of Tax Information Technology
To formulate and to implement policies and technical standardization in tax information technology.
- j. Directorate of Internal Compliance and Apparatus Transformation
To formulate and to implement policies and technical standardization in internal compliance and apparatus transformation.

- k. Directorate of Information and Communication Technology Transformation
To formulate and to implement policies and technical standardization in information and communication technology transformation.
- l. Directorate of Business Process Transformation
To formulate and to implement policies and technical standardization in business process transformation.

Source: Directorate General Tax, Ministry of Finance, 2006 [6].

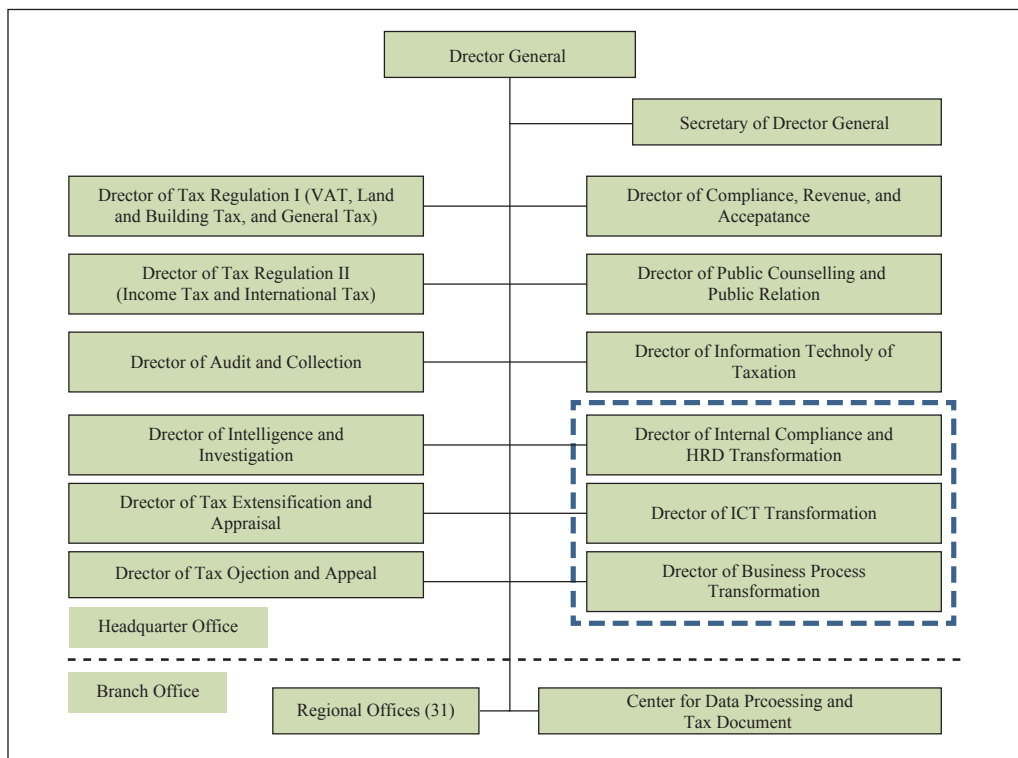


Figure 1. Organization Chart Directorat General Tax

Source: PMK 131/PMK.01/2006 [6].

Based on the 2013 data, the DGT is supported by 32,273 personnel. This is the largest number within the Ministry of Finance. It reaches half of the total number of civil servants within the Ministry of Finance. The following are the criteria of personnel within the DGT: account representative, functional auditor, executive, and other staff. The number of personnel in the DGT has not significantly increased since 2006 even though the targets of tax revenues increased significantly.

As explained above, tax revenue plays a very important role on national revenues. To support this target, professional human resources proportional to the work load are needed. However, currently the number of tax personnel are balanced to the tax revenue growth targets as mandated by the government. As revealed by Basalamah (2013) [7], the former head of the Personnel Bureau, Misitry of Finance, the tax revenue target of Rp 1,110.2 trillion in 2014 was not adequate to the number of tax employees. The regression analysis finds that the ideal number of employees is 40,946, but the actual numbers were only 31,422 permanent employees in an average decline in 2012 and 2013 [8]. As described in Table 1, employee growth in 2012 decreased by 417 persons compared to 2011. This is due to national policies related to the moratorium on acceptance of civil servants (PNS). Table 1 describes the postures of DGT personnel within a seven year period until 2012.

Table 1. Number of DGT Personnel

Employee Criteria	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Account Representatives	1,051	2,476	5,081	5,190	5,203	6,218	5,269	6,710
Auditors	2,658	2,599	3,384	3,458	4,924	4,803	4,323	4,324
Executives and staffs	26,487	25,959	22,686	23,177	21,463	20,712	21,724	21,329
Total	30,196	31,034	31,151	31,825	31,590	31,733	31,316	32,273

Source: Directorate General Tax, MOF, 2013 [9].

The number of DGT personnel as of 31 December 2013 was 32,273 spreading all over Indonesia where the majority works for vertical institutions, namely approximately 28,000 personnel (86.76%), whereas in the headquarter office it amounts to 3,910 personnel (12.12%) and in the Technical Operational Units it amounts to 363 personnel (1.12%).

Figure 2 describes the condition of the DGT by educational background and age percentage. Along with many employees who hindered a period of retirement, as well as the need for some employees for certain positions and posts in several work units of the DGT. Since 2008, there were additional personnel (about 2,312 employees) allocated to the DGT. Most of the new personnel were fresh graduates from universities, 1,266 were undergraduates (S1 bachelor) from good universities, while 1,046 were graduates from the School of State Accounting (STAN) of the Ministry of Finance, the higher education owns and operates by the Ministry of Finance. It can be shown from the data in Figure 4

where the number of undergraduates (S1) have the largest percentage composition, namely 36.95% and with the largest average percentage of employees aged between 26-30 years old, namely 24.74%.

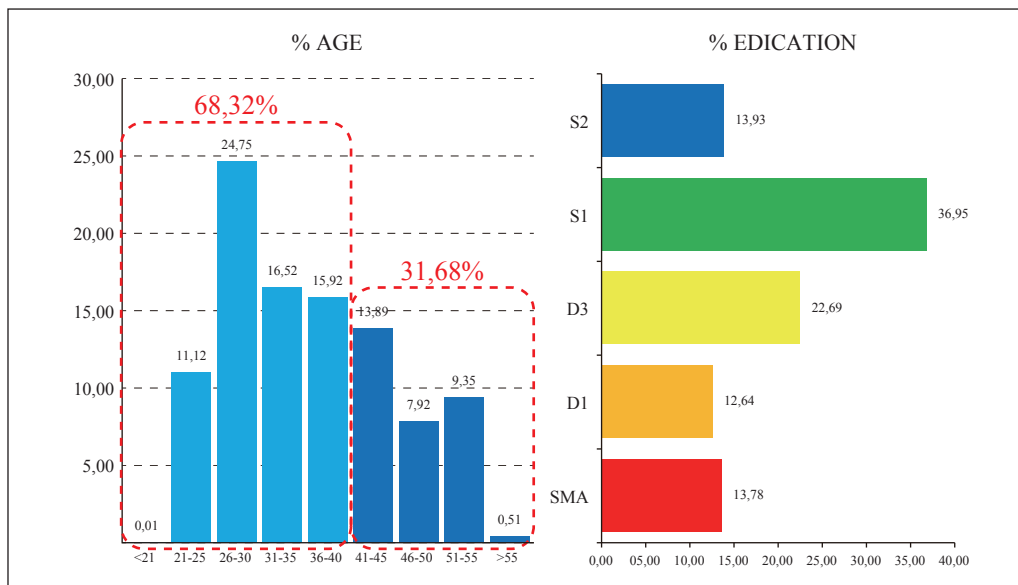


Figure 2. The Education Level and Age Percentage

Source: Directorate General Tax, MOF, 2013 [9].

However, in terms of employee distribution, most of them are employed in the Java Islands. As indicated in Figure 3, about 64% of the DGT's employees are stationed on Java Island, followed by Sumatera Island with 5,089 employees or 16%, and the smallest number of employees are on Papua and Maluku. The number of employees indicates the number of taxpayers that reflect economic activity. Java Island is still considered the most vibrant in economic activity in Indonesia, as well as the most populated island.

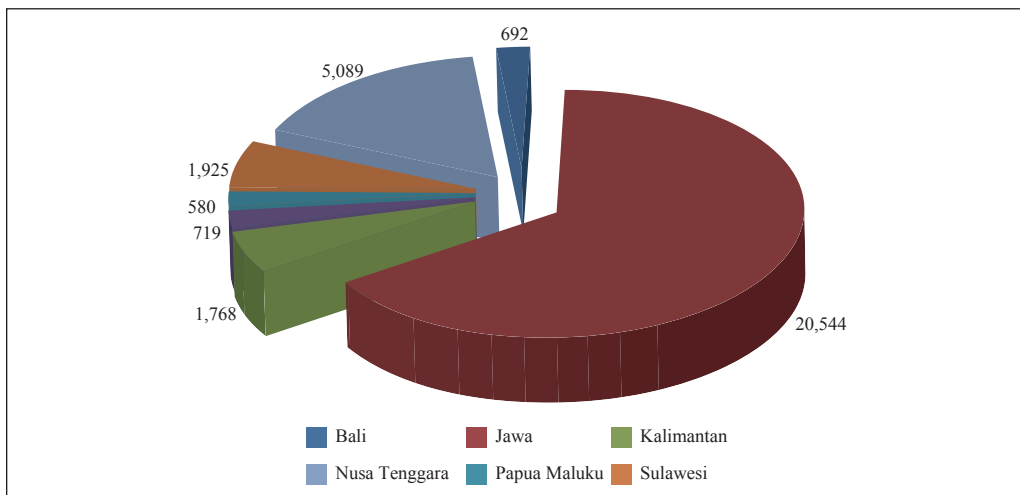


Figure 3. DGT's Employee Distribution

Source: Directorate General Tax, MOF, 2013 [9].

As can be seen from Figure 4, this personnel data, if compared with that of the number of taxpayers from time to time, is definitely imbalanced. The ratio of the taxpayers per employee from year to year is steadily increasing. This shows that the load of tax administration management is getting heavier and as such it lowers down the quality performance of tax administration (service, control, and law enforcement). This reflects the organizational limitation in providing the required human resources to improve the performance of tax administration management.

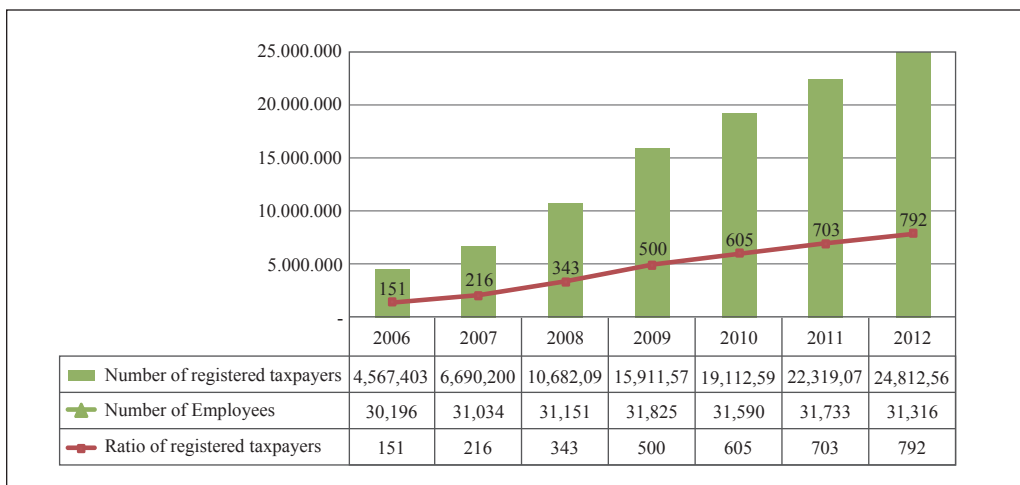


Figure 4. Ratio of Taxpayers Compared with Number of Personnel

Source: Directorate General Tax, MOF, 2013 [9].

2.2. Data Input and Output, and Data Analysis

As indicated in Figure 5, the realization of tax revenues in 1985 increased drastically compared with that of 1980 due to the simultaneous occurrence of tax reforms in 1984. Apart from that, the government was pushing its revenues from fossil oil and natural gas sectors so that they were more dominating compared with that of tax revenues. The realization of tax revenues in 2012 compared with that of 1980 increased almost 100 times from 9.91 trillion IDR to 983.17 trillion IDR. In other words, tax revenue plays a very important role to support national development and public services, especially on the era Indonesia when the revenues from fossil oil and natural gas was no longer as the main sources.

Government revenue from tax sources is divided into two categories, excluding oil and gas tax, and including oil and gas tax. By excluding oil and gas, the revenue has grown by an average of 14%, while the tax revenues including oil and gas on average grew by 16%. The spectacular growth of tax revenue either including or excluding oil and gas occurred in 2008 when the tax revenue growth rate reached 28%. However, a year later there was a dramatic decrease in tax revenues including oil and gas. The decrease in tax revenue in this category was mainly influenced by the global economic crisis which initially weakened the economies of some European countries and subsequently created the global economic crisis. The other factor was the decline in oil and gas production and the strengthening of Indonesia as a net importer country. However, categories of tax revenue excluding oil and gas have experienced a remarkable improvement over about 40% in 2009 onward.

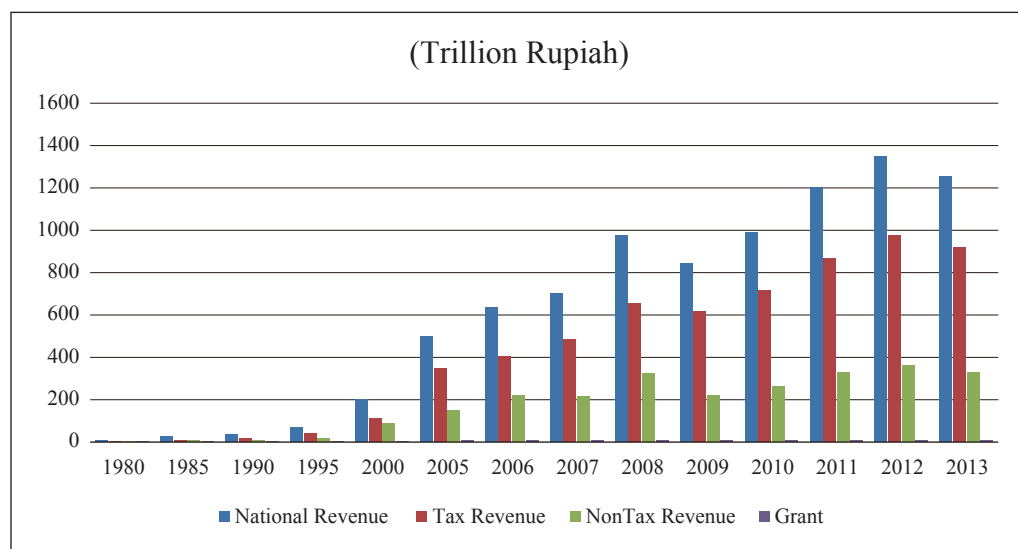


Figure 5. National Revenue from 1980 to 2013

Source: Directorate General Tax, MOF, 2013 [9].

The ratio of tax towards Gross Domestic Product (GDP) is the comparison between the realization of tax revenues and national revenues. The ratio referred to basically shows the amount of tax revenues collected from each IDR of the national revenues. This ratio is usually used as one of the indicators to assess the performance of tax revenues considering the fact that the national revenues showing the national outputs is the indicator of public welfare. This increased ratio indicated the success of the tax collection process because it showed the increasing IDR value that was collected as tax revenue from each IDR of the national outputs considering that the tax revenues were not fully managed by the DGT. Some of the taxes are now under the authority of the regions such as property tax, restaurant tax, entertainment tax, and others.

By employing the productivity model developed by Dunleavy and Carrera (2011), we can determine the productivity level of public sector activities. [4] This model is widely used for measuring the productivity of the public sector in the UK. There are several models developed to measure productivity. With the availability of data on the DGT, the model used is quite appropriate:

$$\text{FTE productivity} = \frac{\text{Deflated (The Amount of Tax Collected)}}{\text{Number of full-time equivalent staff}} \dots \text{ (formula 2.1)}$$

Here, the input is the number of full time employment (FTE), and the output is the amount of collected taxes (either including or excluding oil and mining tax). Apart from that, by considering the inflation aspect as a deflator, the real amount of collected taxes can also be seen. By using the data presented in Table 2, it can describe the level of productivity from 2005 to 2013. This data was presented by Dr. A Fuad Rahmany (Director General of Tax, MOF) on the National Conference “Strengthening Political Taxation for Supporting National Competitiveness” (*Penguatan Politik Perpajakan Untuk Mendukung Daya Saing Nasional*), Jakarta, 21 November 2013 [10].

Table 2. Income Tax, DGT Budget, and Number of Employees

Year	Tax Revenue (million IDR)	DGT Budget allocation*) (million IDR)	Income/ Expenditure	Number of Employees (person)	FTE Productivity
2004**	238,980	1,080	221,28	NA	NA
2005**	298,340	1,310	227,74	28,858	10.34
2006**	358,200	3,100	115,55	30,196	11.86
2007**	425,370	3,970	107,15	31,034	13.71
2008**	571,110	4,110	138,96	31,151	18.33

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2009*	544,528	3,905	139,44	31,825	17.11
2010*	627,888	3,701	169,65	31,590	19.88
2011*	742,719	4,148	179,05	31,733	23.41
2012*	835,250	4,606	181,34	31,316	26.67
2013*	995,200	5,400	184,30	30,762	32.35

Source: *) Data of Expenditure DG Tax from 2002 to 2008 comes from the Study of Effectiveness of Administrative Taxation (*Kajian Organisasi Administrasi Perpajakan Yang Efektif*), page 38 [9].

By using Dunleavy's model 2.1, the DGT level of productivity from 2005 to 2013 can be explained. Table 2 shows that the DGT level of productivity did not experience a significant increase from time to time. The average of FTE Productivity was 19.34. Subsequently since 2005 to 2009, the DGT level of productivity was below the annual average rate. In 2009 with the increase in the workforce, in fact it did not experience any increase. Instead, it experienced a decrease so that the level of productivity was descended to 1.22. However, in 2010 it began to recover. In fact, it exceeded the achievement of 2008. Since 2011, the DGT's FTE productivity had experienced a significant increase, and it reached its peak in 2013, i.e., 32.35. The peak was reflected in the amount of collected taxes, that is, 995,200, with a decreasing workforce down to 554 due to retirement and other reasons. It is true that this increase in productivity is supported by the adoption of an e-taxation program as well as simplifying procedures that were initially started to effectively improve the performance of tax services.

If seen from the trend of productivity, it is true that there is a tendency of an increase, but if compared with that of tax achievement targets, it can be said that it is not yet optimal. Referring to available human resources (2013), in fact, there are many potentially important taxes that have not yet optimally been explored. The main handicap is the number of tax officers that are not yet balanced with the targets of explored taxes. In fact, in their perspective, the ratio between tax targets and currently available tax officers has reached a maximum level. With this condition, whatever strategy that is used will not be able to increase the amount of tax revenues anymore. Therefore, this leaves no alternative for the recommendation but to increase the number of personnel. However, this alternative is impeded by the position of the DGT institution as one of the work units within the Ministry of Finance so that all matters related with the human resource policy, budget, and programs must first be approved by the Ministry of Finance.

From the research findings conducted by DGT research team (2013) [9], they recommended to conduct DGT organizational restructuring through several options. One of them was building a more autonomous organization with particular reference to human

resources, budget and programs. Institutional wise it remains within The Ministry of Finance, but not under the Ministry of Finance verse instead it is under the Minister of Finance. This means that the Director General is accountably responsible directly to the Minister of Finance not to the Secretary General. With this new position, the Directorate General will have greater level of discretion.

Through using other data that separate oil tax revenues and also considering GDP deflator, it can be determined that deflated tax revenue baseline in this case is in 2006. GDP deflator can also be used to determine employee index. In the end, it can be determined the FTE productivity that consider the GDP deflator aspect as shown in Table 3.

Table 3. Tax Revenue (Excluding Oil and Gas) and Employees Index

	Tax Revenue (exlude oil and Gas)	GDP deflator *	Deflated Tax Revenue Baseline in 2006	Index (2006 = 100)	Employees	Employees Index (2006 = 100)	FTE
2001	135.472	114.3	199.073	634.157			
2002	159.168	121	210.742	66.932			
2003	185.373	127.7	222.411	70.638			
2004	216.037	138.6	241.395	76.668			
2005	263.353	158.5	276.055	87.676	28,858	95.569	91.741
2006	314.859	180.78	314.859	100.000	30,196	100.000	100.000
2007	382.221	201.13	350.302	111.257	31,034	102.775	108.253
2008	494.085	237.64	413.890	131.453	31,151	103.163	127.423
2009	515.727	257.3	448.132	142.328	31,825	105.395	135.042
2010		278.5	485.055	154.055	31,590	104.617	147.257
2011		301.2	524.591	166.611	31,733	105.090	158.541
2012	753.729	314.8	548.278	174.134	31,316	103.709	167.906

* Source: <http://data.worldbank.org/indicator/NY.GDP.DEFL.ZS?page=1> [11]

FTE since 2006 as the baseline until 2012 experienced a significant growth trend. The significant increase took place in 2008, i.e., 19. This increase of productivity was caused by an increasing amount of tax revenues that was greater than that of the increase in the number of personnel. In average the annual increase was eight–nine points.

The Projection of Tax Revenue

Brondolo et. al. (2008) formulated that the increase in tax revenue and tax ratio resulted from a combination of an increase in tax revenues on the basis of the voluntary payments and an increase in enforced collections [12]. In the short term, enforced collection can generate growth of tax revenue. However, for the medium and long term, a certain strategy will be required to increase revenues on the basis of voluntary payment. In practice in Indonesia, the growth of tax revenues is the combination between the growth of tax revenues that is in line with the progress of economic growth (buoyancy) and growth revenue based on an increase in enforced collections both in a form of extensification and intensification. Many of the latest literature have not explained the analysis of tax revenues in detail based on the two approaches above, therefore this study attempted to describe the phenomena of non-buoyancy and buoyancy of tax revenues. This is necessary to emphasize the need for maximum effort to boost the increase in tax growth of non-buoyancy by allocating resources in control and law enforcement. This process requires special support in terms of organizational flexibility, procedures, and human resources in achieving the objectives of increasing the effectiveness of the tax administration authorities.

Table 4. Growth of Tax Revenues from 2009–2012

Revenue	2009	2010	2011	2012	Growth (%)		
					2009-2010	2010-2011	2011-2012
Income Tax Revenues - non buoyancy*)	177,800	370,270	443,888	249,764	11	16	9
Revenues - buoyancy**)	306,937	285,221	339,955	503,204	18	21	14
Total Revenues ***) (without Oil and Gas Revenues)	484,865	667,604	787,841	753,729	15	20.6	12.1

Note: Data for 2010 and 2011 come from the Ministry of Finance, Reporting of Financial Report by the DG Tax (Audited).

Source: Directorate General Tax, MOF, 2013 [9].

Note:

1. Non-buoyancy revenues consists of: Income Tax articles 21, 22 besides import, 25, and 29.
2. Buoyancy revenues consist of: PPN, Income Tax revenues article 22 Import, articles 23, 26, Final, Property tax, and PTLL.
 - *) Tax buoyancy (2009–2012) is 0.836;
 - **) Tax buoyancy (2009–2012) is 1.327;
 - ***) Tax buoyancy (2009–2012) is 1.146.

In general, natural growth remains to rely on buoyancy tax than non-buoyancy. In fact the expected growth of revenues (based on the previous analysis) is clearly predicted to increase sharply. In the current condition where the national growth of control and law enforcement is still low, it tends to decline. These impacts are on the decrease in the growth of non-buoyancy revenues within the last four year period. For that reason, this study underlines that there is no other choice (including to merely reach natural growth), but to make extra effort particularly in control and law enforcement, which can be done through the support of granting wider autonomy to tax administration authorities.

The tax ratio gradually increased. However, the current development is now relatively stagnant at levels of 11–13%. This figure is relatively low compared with that of other countries, particularly the US, UK, and other OECD countries. This low tax ratio that is generated by the formula that is used to calculate the tax ratio is not the same with that used by other countries. Almost all countries in the world use the formula of tax revenues divided by the national revenues. The tax revenues include local tax, royalties from natural resource revenues, whereas in Indonesia they excluded them.

From historical data, we further propose a hypothesis of an estimated tax ratio for 2015–2018 and an estimated gap of tax ratio with other countries to determine future projection levels in an effort of improving the performance of tax administration authorities to enable them to compete and to be in line with other countries in the world.

Table 5. Projection of Tax Ratio and Gap Tax Ratio (Based on Trend Figure)

No	Country	Indicator	2015	2016	2017	2018
			In percentage (%)			
A	Benchmarking Countries					
1	OECD	Estimated tax Ratio	19.87	19.76	19.65	19.54
2	ASEAN	Estimated tax Ratio	13.83	13.81	13.79	13.77
3	Emerging Market	Estimated tax Ratio	16.06	16.29	16.51	16.74
4	Latin America	Estimated tax Ratio	15.65	15.91	16.18	16.45
5	All Countries	Estimated tax Ratio	15.99	16.04	16.09	16.13
6	Indonesia	Estimated tax Ratio	11.98	12.03	12.07	12.12
B	Contrasting Gap of Tax Ratio					

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1	Indonesia vs OECD	Est. Gap of Tax Ratio	7.88	7.73	7.58	7.43
2	Indonesia vs ASEAN	Est. Gap of Tax Ratio	1.85	1.78	1.72	1.66
3	Indonesia vs Emerging Market	Est. Gap of Tax Ratio	4.08	4.26	4.44	4.62
4	Indonesia vs Latin America	Est. Gap of Tax Ratio	3.67	3.89	4.11	4.34
5	Indonesia vs All Countries	Est. Gap of Tax Ratio	4.01	4.01	4.01	4.02

Source: Directorate General Tax, MOF, 2013 [9].

Based on the above data to project several years ahead of the trend of a gap of tax ratio with other countries in the world, generally the average is 4% (except for the gap with OECD and ASEAN countries). This becomes the assumption for the next part to determine the extraordinary effort for tax income growth that is supported by a large delegation of authorities to the tax administration authorities.

2.3. Initiatives Undertaken

The tax reform according to Bird [13] is a program that not only changes the policy but it also includes a comprehensive program as to how tax administration conducts business processes to collect state revenues from the tax sector and administer it effectively and efficiently and yet maintain fairness for taxpayers. This view is further strengthened by Silvani and Baer [14] and Jenkins [15] that state it is necessary to have radical changes in tax administration in a country whose level of tax gap exceeds 40% from its potential tax. Common conditions that are in existence in such countries are as follows:

1. The pattern of bureaucratic civil servants and the level of take home pay are not competitive for the tax officers;
2. High level of perception of corruption towards the taxpayers; and
3. The low level of tax compliance as a result of the low level of fairness perception over tax law enforcement.

Tax administration reform during the period from 2002 to 2009 resulted in structural changes in the directorate general of taxes (DGT), and cultural value and remuneration has not been able to significantly change the performance achievement of the DGT. It is therefore necessary for the next step of tax administration reform to rely on the changes in the level of independence of the DGT. The independency of the DGT becomes the key leverage to tax reform that will be able to uncover the root of bureaucracy attached to its structure, to get rid of the complicated business process in the DGT (debottlenecking), and to strengthen the main function informing effective and efficient administration.

Tax administration authorities as part of the organization within the government structure also required revolutionary changes to respond to the fast changing public demands and challenges in delivering better and more cost effective services to society. For comparison, the tax administration authorities in developed countries, therefore, have made some innovative developments in delivering better services. In fact, some tax administration authorities have transformed themselves to be an agency outside the Ministry of Finance with wider authorities to collect revenues from tax sectors, delivering better services to the taxpayers, and having more flexible human resources management. Better tax administration authorities in certain developing countries also share the same objectives, however they have extra complications over the presence of such matters as limited human resources over the need to conduct massive administration reform, and at the same time they are confronted with corrupt bureaucratic problems that result in un-optimum performances of organization.

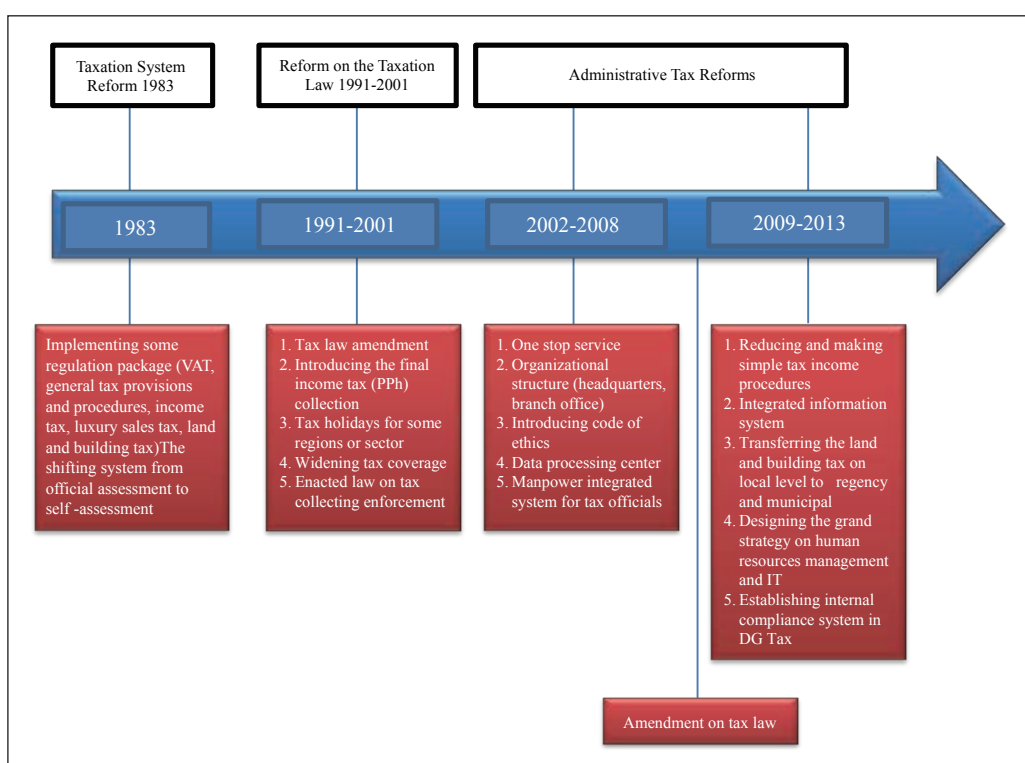


Figure 6. The Milestones of Tax Reform in Indonesia

Source: Policy paper for Tax Reforms, DG Tax 2013 [9].

Figure 6 describes the milestones of tax reforms in Indonesia that have been initiated since the early 1980s. On the reform in 1983, the government succeeded to enforce a new tax law package that was previously still based on the ordinance of the Dutch colonization

era. This had resulted from a transformation in the tax system from an official assessment system (Calculating Individual Tax/MPO) into a self-assessment system (Calculating Self Tax/MPS).

Tax reform in 1991–2001. The government amended that package of tax laws with the following purposes:

1. Building sufficient basic principal of taxes;
2. Simplifying previous types of taxes that are not included in that of law tax reform in 1983;
3. Encouraging economic development in remote areas including the eastern part of Indonesia and certain strategic sectors;
4. Increasing international capital investment in return will increase job vacancies;
5. Extending tax aspects on forms and practices of business activities that previously were not yet regulated; and
6. Supporting state and development expenditures whose main sources originated from tax revenues.

Tax administration reform in 2002–2008 was intended to improve the tax administration system towards the direction of effectiveness and efficiency as well as good governance practices for tax administration authorities. In this era, modern initiatives have been introduced in tax offices by establishing two pilot projects in large taxpayer offices proceeded by improving other administration.

This modernization was continued with a pilot project for the medium taxpayer office and small taxpayer office in 2004 and 2006. This modernization for all tax offices had been successfully implemented in 2008. At the central level offices, structural organizational changes had been conducted from a tax type basis into a functional basis. Other initiatives were the establishment of Data Processing Center and civil service information system integration (SIKKA).

Tax administration reform from 2009–2014 was intended to create a conducive environment for the economy by anticipating the trend of global changes concerned with tax tariffs. To increase quality for taxpayers, information technology-based services were provided, for instance: e-filing, e-SPT, e-registration and empowering call center function. A blueprint of human resources and information technology communication was returned as guidance for the DGT in formulating future strategic policies. Apart from that in the framework of strengthening control over tax administration management, internal control systems (internal compliance function) and external control systems (commission of tax inspection under the Ministry of Finance) were established.

2.4. Best Practices and Lessons Learned

Learning from the experience of the DG Tax, there are some items that could possibly be applied for improving productivity of the public sector. As we discussed in the previous section, tax reform starting from the administrative reform that began in 2002 included institutional restructuring, business process improvement, and improvement of human resources management systems. After that, in 2006 through policy reforms, it included amendments to tax laws and fiscal stimulation to increase investment. Development number and qualification of tax personnel improved with the use of information technology qualifications and tax administration. Public trust of the directorate general of taxation is getting better, which is indicated by the number of taxpayers, and increasing tax compliance is also getting better. In consequent, this reform and improvement of public trust has improved the amount of tax revenue as a major source of state revenue today and in the future.

ISSUING PASSPORT SERVICE

3.1. Introduction to the Agency

The passport service is one of the immigration services that regulates the issuance of licenses for a citizen that will travel overseas. As stipulated in Law Number 6 Year 2011 regarding Immigration Matters Article 1 paragraph (1) it states that: Immigration is a matter concerned with traveling people to enter and leave Indonesian territory and controlling them in the framework of upholding state sovereignty [16]. This article defines immigration as a series of activities in providing services and law enforcement as well as securing the entering and leaving of traveling people from and within the territory of the Republic of Indonesia as well as controlling them in the framework of upholding the state sovereignty.

Next, in Article 1 paragraph (3), Law Number 6 Year 2011 it states that the immigration function is part of the state government elements in providing immigration services, law enforcement, state security and by being a of people's prosperity development. With these four roles, immigration can be considered as the guardians to the last portal to enter and leave Indonesia. The implementation of this function is along the border areas of the Indonesian territory and is conducted by the immigration officers that cover: immigration checkpoints and cross-border posts. As for conducting immigration functions, immigration offices can be established in regencies, cities, and even districts.

Institutionally, directorate generals of immigration headed by a director general and supported by a secretariat-general and several directors as follows:

1. Director of Travel Documents, Visa, and Immigration Facilities;
2. Director of Residency and Facilities;
3. Director of Intelligence Immigration;
4. Director of Investigation and Prosecution Immigration;
5. Director of Cross-Border and Foreign Cooperation; and
6. Director of Information Systems Immigration.

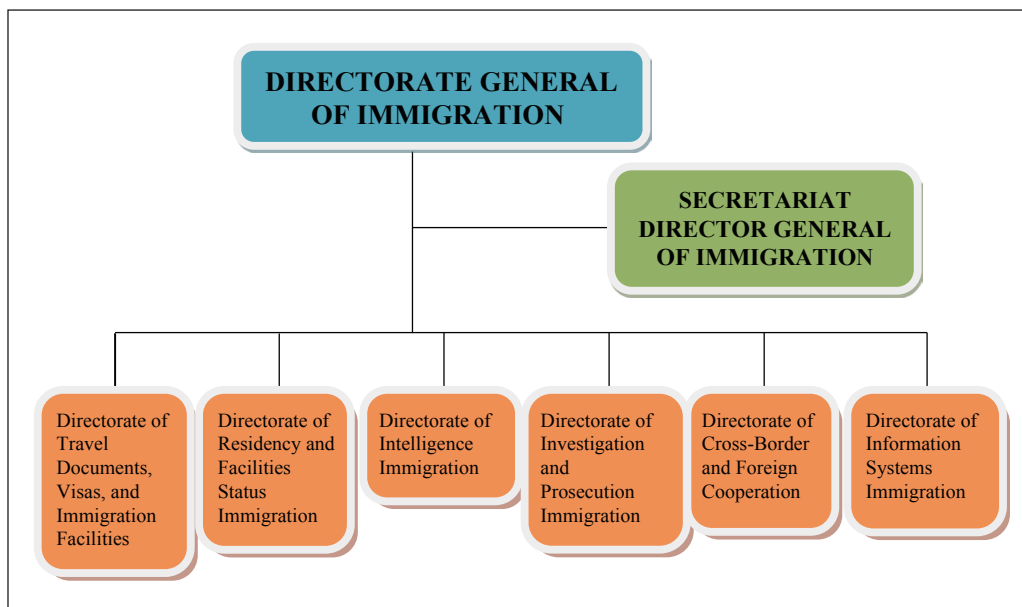


Figure 7. Organizational Structure Direktorat General of Immigration

Source: <http://www.imigrasi.go.id/index.php/profil/struktur-organisasi> [16]

Referring to Presidential Decree No. 24 of the year 2010 about the position, duties, and functions of the state ministry and the organizational structure, duties, and functions of state ministries [17], the Directorate General of Immigration is the executive element that is under and responsible to the Minister of Justice and Human Rights. The Directorate General of Immigration is led by a Director General. Then, Article 529 stated that the Directorate General of Immigration has the task to formulate and implement policies and technical standardization in the field of immigration. The detailed functions of the Directorate of Immigration are mentioned in Article 530, as follows:

1. Formulation of policies on immigration;
2. Implementation of policies in the field of immigration;
3. Preparation of norms, standards, procedures, and criteria in the field of immigration;
4. Providing technical guidance and evaluation in the field of immigration; and
5. The administration of the Directorate General of Immigration.

In addition, in 2014, the number of employees in the Directorate General of Immigration amounted to 7,288 which consisted of 1,769 officers and 5,519 structural staff. The number of employees are distributed on some unit or division in the Directorate General of Immigration.

Table 8. The Employee Distribution in the DG of Immigration

No	Organizational Unit	Officials	Functional Positio and Staff	Total
1	Directorat General of Immigration	181	324	505
2	Immigration Division Provincial offices	196	227	423
3	Detention House at Immigration Headquarter in Tanjung Pinang	11	35	46
4	Immigration Detention House	106	169	275
5	Immigration Office Class Kelas I Special	116	1,530	1,646
6	Immigration office Class I	533	1,740	2,273
7	Immigration office Class II	577	1,341	1,918
8	Immigration office Class III	43	145	188
9	Immigration Academy	6	8	14
TOTAL		1,769	5,519	7,288

Source: Directorate General of Immigration, 2014 [18].

3.2. Input and Output Data and Analysis

In order to improve services in issuing passports, the Directorate General of Immigration expanded their services by establishing more branch offices that scattered throughout the territory of the Republic of Indonesia. In 2014, there were 120 immigration offices in all of Indonesia. It increased by four offices since 2012, when it had 116 offices. In the future,

this number will be more in line with the development of new growth areas as well as the increasing number of population.

Table 9 shows that there is an increasing trend on issuing passports from year to year, and the biggest increase occurred in 2013 with the establishment of four new offices. Until May 2014, there were 925,083 passports issued, almost equal in productivity in the first quarter of 2013.

Table 9. Number of Immigration Offices and Number of Passports Issued

Year	Immigration office	Number of Passport Issued	Number of Employees	FTE Productivity (%)
August 2008		684,622	7,288	93.94
2009		1,995,424	7,288	273.80
2010		2,441,338	7,288	334.98
2011	112	2,603,911	7,288	357.29
2012	116	2,650,258	7,288	363.65
2013	120	2,794,254	7,288	383.40
May 2014	120	925,083	7,288	282.07

Source: Directorate General of Immigration, 2014 [18].

Due to the shortage of data regarding the input data on immigration, especially the series data of the employees, data is available on 2013 and 2014, so we assume that there is no significant change in terms of the number of employees. This assumption was confirmed by the members tasked with this research. According to him, the number of employees had not changed significantly since employment conditions always adapted to “fixed formation policy.” That is, if there are employees who quit for various reasons, they will soon be replaced by new recruitments.

By using Dunleavy’s model, it can describe the productivity level of the Directorate General of Immigration, which has the authority to issue passports. In general, the level of productivity of the issuing passport authority experienced significant growth in the last five years. Increased productivity is about 12%. The most significant increase occurred in 2010, when the bureaucratic reform program had begun to be implemented. One of the bureaucratic reform policies was to implement governance reform passports to introduce an e-passport system that allowed people to go to a better and faster facility when they applied to get a passport.

3.3. Initiatives Undertaken

The Government of Indonesia has amended Law Number 9 Year 1992 regarding immigration. This is based on several developments that need to be anticipated, namely: (1) geographic location of Indonesian territory (complexity of issues among the states), (2) international conventions and agreements that impact the implementation of the immigration functions, (3) increase in international and transnational crimes, (4) regulation concerning detention and duration of detention are not yet done comprehensively, (5) systematic approach to specific and universal functions of immigration through the use of information technology and modern communication, (6) placement of immigration office structure and immigration detention house as a technical unit under Directorate General of Immigration, (7) changes of citizenship system based on Law Number 12 Year 2006 concerning Citizenship of The Republic of Indonesia, (8) right of state sovereignty in line with reciprocal principle concerning visa for foreigners, (9) agreement in the framework of harmonization and system standardization, and types of international travel document security, (10) ineffective law enforcement of immigration so that it is necessary to include minimum penalties for human trafficking crimes, (11) extending the subject of criminals of immigration, which include not only individuals but also corporate as well as the guarantor for the entrance of foreigners to the Indonesian territory that violate the provisions of immigration, (12) application of heavier penalties toward foreigners that violate the regulations of immigration because there have not been any restraining effects.

The proposal for amending Law Number 9 Year 1992 regarding immigration was included in the National Legislative Program (Prolegnas) to be discussed by a legislative institution (House of Representatives). After a relatively long discussion with Commission III of The House of Representatives, the new draft law of immigration was finally approved and proposed to be ratified as Law in the Plenary Session of The House of Representatives on 7 April 2011. Next, on 5 May 2011, the President of the Republic of Indonesia ratified Law Number 6 Year 2011 concerning immigration that was enacted in the State Gazette of the Republic of Indonesia Year 2011 Number 52, Additional State Gazette of the Republic of Indonesia Number 5,126.

Institutional

The impacts of the implementation of regional autonomy and the progress of development in several countries, tasks of immigration in provinces, regencies/cities, and in the concerned state that continuously progresses in line with the characteristics of the dynamics of society life. To anticipate this phenomena, the Directorate General of Immigration has made the following policies: (1) establishment of immigration offices

in the regions, (2) increasing the status of several immigration offices, (3) establishment of directorate general of intelligence, (4) establishment of immigration detention house, (5) adding a number of immigration checkpoints, and (6) establishment of immigration *attaché*/consulate in the embassy of the Republic of Indonesia in Guangzhou, PRC.

Business Process

The achievements that had been made in the business process until 2001 were: (1) data processing of arrival and departure of Indonesian and foreign citizens in the Directorate General of Immigration were recorded from the immigration checkpoints using the system of intelligent character recognition (ICR), (2) data recording and data storing of immigration were conducted through an electronic filing system, (3) drafting general pattern of criteria classification of immigration offices, and (4) planning of the Information Immigration System (SIMKIM), standardization of immigration services.

Human Resources

In the globalization era, it is estimated that immigration violations will continue to increase and become even more sophisticated as the number and frequency of cross country traffic increases. In the meantime, the presence and activities of foreigners in Indonesia are increasing. Because of that, the Directorate General of Immigration need more qualified human resources who are professional, have a good work ethos, are highly dedicated, and have good morale. The implementation of human resource development policy that is synergized with the institutional restructuring system and business processes, amongst others, are conducted with the organization of: (1) Re-Opening of Immigration Academy Year 2000, (2) Immigration Technical Education, and (3) Career Education and Training. Apart from that overseas academic training for immigration officers/staff for master's degree and doctorate degree programs, and short courses, in countries like Australia, Taiwan, Japan, and South Korea. For domestic education, scholarship programs in collaboration with state universities like the University of Indonesia and University of Padjadjaran. This excludes personal capacity development that is self-funded to undertake bachelor's degrees (Strata S-1) or postgraduate degrees in several well-known universities like the University of Diponegoro (Undip), University of North Sumatra (USU), University of Udayana (UNUD), University of Sebelas Maret (UNS), and others.

3.4. Best Practices and Lessons Learned

Since 2013, the immigration office released new products of issuing passports, namely electronic passports (e-passport) or biometric passports. e-Passports are passports that have a type of biometric data as one element of passport security. The biometric data is stored in the form of a chip embedded in the passport. Biometric data stored on the chip varies between countries, but based on standardization issued by the International Civil Aviation Organization (ICAO), the biometric data used is the biometric data of the passport holder's face. This system provides more benefits for passport holders such as efficiency in time and process and certainty on cost beared. Until 2014, there were some immigration offices that could provide e-passport applications. For improving the quality of services, they also provide online applications that makes the process much faster and easier. For some e-passport holders, some Indonesian airports are already supported by auto gate. According to Bambang, Chief Immigration Office Class I West Jakarta (Kompas, 14/8/2014) [19].

“E-Passports are easier for people in the service of departure, a sort of e-toll pass. In the country of destination that has been using auto gate, people do not need to go through an immigration officer. Several airports, including Soekarno-Hatta International Airport, have been using the auto gate system. Therefore, the owner of an electronic passport can go directly through the auto gate for verification without having to queue in the examination conducted by the passport immigration officer.”

The reforms that have been taken by the DG Immigration, Ministry of Law and Regulation, have made some achievements. One of them, the Special Immigration Office Class I South Jakarta, was chosen as one of 18 public service units registered in the United Nations Public Services Award (UNPSA) at the end of 2013 (Bisnis, Indonesia, 20 May 2014) [20]. The Immigration Office expanded their services by introducing the electronic passport, i.e., applicants can apply through the Internet and get the passport electronically. This system is considered a better system that provides more convenience and security to citizens traveling abroad. This type of service is also to include other immigration services such as the issuance of passports to citizens, immigration services for foreign citizens in the form of granting residence permits, and determining the immigration status of foreign nationals.

In conclusion, some key important aspects that contribute to improving the productivity in immigration offices are improving business processes by installing IT, improving competence of human resources by providing more chances to study further and participate in training, and foster innovation by creating activities for all employees.

Summary/Conclusion/Recommendation

The bureaucratic reform policy that has been implemented in these two institutions has given relatively significant results for the performance improvement of the DGT as well as the immigration office. This can be seen from the significant increase in productivity from time to time. This reform was driven by both internal and external factors. Internally, it was driven by the design of the organizational structure of the Indonesian tax administration authority that shall reflect all functions of tax administration, amongst others: service, assurance, law enforcement, and supporting roles that are developed in line with organizational needs and the flexibility of authority. The other external factors are increasing demand from the people to get a better service and from government to increase the tax revenue.

In the case of the DGT, human resources becomes a very important issue. Despite a significant increase in productivity over time, in the last few years we experienced an imbalance between tax revenue targets that should be collected and the availability of existing personnel. Actually, there were numerous attempts to propose the addition of a number of personnel to the DGT, but due to a very long and bureaucratic system, the authority to propose an increase in the number of employees did not exist and we were at a stalemate. Therefore, one of the recommendations that can be asked is to give greater authority to the DGT to manage personnel, especially in terms of recruitment and personnel development.

Information technology plays a very important role in improving productivity, both in the DGT and in the immigration office. Various innovations that have been implemented through the e-tax and e-passport systems have shown an increase in the number of passports issued and tax collection targets. As technology is evolving dynamically, the development of IT should be an important part of that and always taken into account in order to maintain good performance or to improve for better performance.

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ISLAMIC REPUBLIC OF IRAN

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INTRODUCTION

Today, the organization can develop and hope to survive, thinking to improve their performance. Technological changes involve high speeds that anticipate that human knowledge will double per 70 days in 2020. In such an environment, how can we build a better future? There are questions such as these.

The necessity of encountering environmental challenges, globalization, and responding to these questions, force governments to modify the public management section.

During the 20th century, traditional patterns of conducting a regime had predominated. We observed reformation in the public sector in advanced societies. Precise, hierarchical, and bureaucratic features of conducting public services (works) has predominated the 20th century and converted flexible public management.

In Iran, great effort has been made in the case of administrative reform (AR). There were studies about AR in two stages, one has been done by the Administration and Employment Organization (AEO) and the second by the Management and Planning Organization (MPO, 2002). After the integration of the two organizations, a study was done by using strategic planning models and factor analysis, weaknesses, opportunities, and threats had all been diagnosed. In addition, a survey from an expert and instructors in the center of administrative management teaching as well as more than 137 experts in management were some of the brightest points of the studies.

The result reached 12 programs during the integration of the two organizations. These programs prepared a cultural background for using managerial studies to replace administrative and employment studies.

After the creation of the MPO with new studies all issued in seven programs, we explain these programs as follows:

- Understanding the role and size of government: in the studies we take this point that before any action, government theory in Iran is declared and the vision, mission, and its authorities should be checked. Find which theory of government could be selected. Another question about government was is its size small, big, or suitable?
- Review governmental bodies' organizational structure: there was inefficiency in governmental bodies because of some reworks and outdated missions, and we made serious reforms in the structures of organizations in response.
- Implementing modern systems of management: during the last year, managerial systems with acceptable elements had not cleared a place in government (it did not answer our needs) or public administration. Therefore, everybody depended on his/her own perspective and preferences. Because of the importance of these systems, one of the key programs allocated is to use such a system.
- Improving employment system: the relation between the government and governmental employees does not respond to current needs because of old regulations and the revolution that occurred in the country. One critical program is presented to address this.
- Review human resource management: old and inefficient regulation created some problems about human capital in the governmental body. It's clear that solving government problems without using great human resources cannot be done. Valuable employees in the government should be optimized and human resources should be studied, with operational techniques and legal software used to accomplish this.
- Using modern processes and technologies in the administration system: the result of the studies was that regulations and job/work standards should be divided into two parts by institutions: first, during 50 years, ineffective processes were created. Therefore, the government could not have useful services using traditional management techniques. The second part refers to not using modern technologies such as special IT in service managements, and establishing an e-government. Fortunately, this program and other programs such as TAKFA achieved positive results.
- Reviewing government and citizen's communication: the administrative and management system in Iran refers to bureaucratic and traditional systems in the King's hand, which citizens cannot change. In this hierarchical system, employees are responsible just to his/her superior. System creativity in terms of giving services to people had no place. Therefore, by reviewing the relationship between the government and citizens, it was considered to be one of the key programs in the administrative reform.

By glancing at the above seven programs, we know that in past years, services presented in an internal method means that the government provides any services they find useful, in any manner they like, and people accepted these behaviors.

Regarding the topic of performance management in Iran, every organization of any function or size or structure needs to exemplify a certain level of successfulness to reach predetermined missions, organizational objectives, and plans. Administration reform aims and programs are not the exceptions to the rule, and will require evaluation and control.

In Iran for the first time, in 1971, public organizations were evaluated in terms of their management and administrative affairs. For this purpose, a governmental organization evaluation center was established by the Prime Minister. In 1974, a Program and Budget Organization took this role, and in 1976, it took over the arrangement of public administration and integrating tasks. The State Organization for Administrative and Employment (SOAE) affairs was responsible for evaluating governmental organizations. Recently in 2000, with the merging of the SOAE and Plan and Budget Organization, and the establishment of the Management and Planning Organization, they were made responsible for evaluating governmental organizations. For designing performance management systems, some alternative models are used, for example:

- Malcolm Baldrige Model;
- Data Envelopment Analysis (DEA);
- Benchmarking model;
- Balanced scorecard (BSC) model; and
- European foundation for quality management (EFQM).

Research and actions for formulation of decree of evaluation:

- Research of designing a system of performance management with the help of scholars and experts;
- A survey for recognizing obstacles and problems of implementing a performance management system; and
- Comparative studies in some countries in their performance management systems.

Main characteristics of performance management system:

- Using new management approaches;
- Emphasis on self-assessment; and
- Emphasis on citizenship.

IRANIAN NATIONAL TAX ADMINISTRATION

2.1. Introduction

Since the Achaemenid era, the Iranian people have had a system to levy taxes and record financial affairs of the country. During the Sassanian dynasty, the taxation system developed further with three types of taxes: the land tax, the capitation tax, and the head tax.

The Safavid dynasty (1501–1736) brought additional levels of revenue with the taxation of foreign trade and customs tax. This continued to develop during the Afsharid dynasty (1736–1796). During the Qajar era (1794–1925) the financial conditions of the country deteriorated due to the wars and royal excursions as well as the corruption of the courts. However, Amir Kabir's hard work (1832) to adopt modern procedures for collecting, maintaining, and creating a budget for the treasury succeeded in stabilizing the economy. Prior to the Constitutional Revolution, all the incomes and revenues were within the King's jurisdiction and all expenses were within his authority.

A series of changes took place in the Ministry of Finance after the Constitutional Revolution in 1906. The first legal counsel was formed with the King's approval and at his command. In those days, there was no Majlis or Parliament. The king would appoint a chancellor of exchange to regulate the budget for the entire country. Under his supervision, each province had a state accountant or "Mostofi olmamalek," with his assistants or "Mirza-Ghulam-Dans" who would, together, determine the direction the office would take.

In 1910, seven departments were formed within the Ministry of Finance, of which the most important were titled as the Treasury General, the Customs House, and the Income Collection. According to a law of the year 1915, the Ministry of Finance was divided into nine departments as follows: Ministerial Section; Discretion of Revenues, Land States and Hard Cashes; Treasury General; Public Debts and Duties; Customs; Financial Trails; Bills Adjustment Commission; Personnel and Supplies; and High Council for Official Trails.

Since 1921, many changes have occurred in the Ministry of Finance. About 40 governmental companies were established or dissolved, and the whole Ministry was again divided into two divisions; the financial, and the economic. The financial and economic divisions were governed by two assistants and seven directors.

In 1950, the Ministry of Finance received approval from the National Consultative Assembly. The last change took place in 1974 with the approval of the Formation Law

of the Ministry of Economic Affairs and Finance (MEFA) by the National Consultative Assembly [1].

In order to enforce Article #59 of the Third Economic, Social and Cultural Development Plan, aiming at increasing the efficiency of taxation system and removing the existing organizational obstacles, as well as concentrating all affairs regarding collecting taxes in one single organization, the Iranian National Tax Administration (INTA), as a government institution being under the supervision of the minister of MEFA, was established in 2001.

Upon being established, all previous authorities, duties, human resources, facilities and equipment's of MEFA's Deputy for Taxation and those of tax units were transferred to this new administration.

INTA is intended to provide all requirements needed for administering tax plans and for doing legal duties concerning tax collection as efficiently as possible. It will also be engaged in monitoring the enforcement of tax laws and regulations, and the creation of a proper basis to achieve tax objectives, to increase the efficiency of the taxation system, and to integrate all affairs regarding tax collection in one single organization [2].

2.2. Input and Output Data and Analysis

2.2.1. The Structure of INTA

INTA, as the only tax administrative body in the country, is one of the most important sub-divisions of MEFA, whose administrative procedures the law determines. INTA is in charge of assessing, estimating, and collecting taxes including direct and indirect taxes. It includes 38 tax general offices throughout the country (including eight tax general offices in Tehran) which perform their duties under the supervision of the central headquarters. The headquarters administration, located in Tehran, includes five deputies and 24 offices/head departments. It is worth mentioning that the tax general offices consisting of tax affairs offices are, in their own turns, divided into several tax units as their smallest branches. Tax general offices (TGOs) have been classified as first and second grade provincial offices. TGOs located in Tehran, however, typically have different organizational structures in accordance with special functions. For instance, some TGOs located in Tehran are liable to assess and collect certain tax categories.

Large taxpayers TGO, corporate TGOs, and VAT deputy are in charge of collecting tax liabilities of large legal entities and of collecting VAT taxes respectively. They have

different organizational structures. INTA currently has about 16,500 employees. However, according to the ratified law, number H23913T/27133 dated 1 September 2001 and issued by the council of ministers; the total number of INTA's ratified positions would be 23,700 at most.

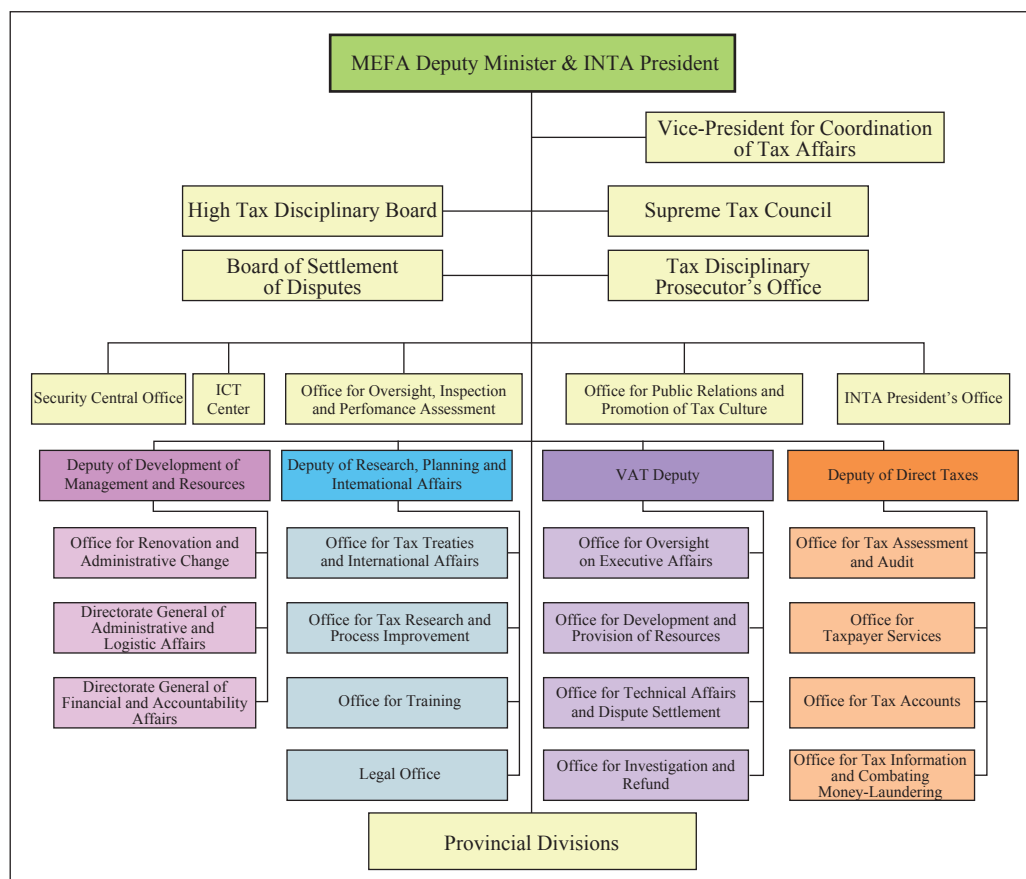


Figure 1. INTA Organizational Chart

Source: INTA 2010 [3].

2.2.2. Human Resources

INTA started its activity with 16,405 employees in 2002. In 2004, the administration managed to get the required license for employing 1,450 employees more. During the years when the Third Economic, Social, and Cultural Development Plan was implemented, the proportion of INTA's educated employees increased. In the year 2000, this ratio was raised to 41% and in 2004 to an average of 53%, and during the Third Plan years, it increased up to an average of 12%.

Table 1. INTA's Staff in Terms of Levels of Education

Total	PhD holders	Master's degree holders	Bachelor's degree holders	Associate degree holders	High-school diploma holders	Under high-school
16,405	6	468	6,680	1,742	6,253	1,256
100%	0.03%	2.85%	40.71%	10.60%	38.11%	7.65%

Source: A Shortcut to the Iranian Tax System 2010 [3].

Table 2. INTA's Staff in Terms of Levels of Education (Recent Labor Statistics)

Total	PhD holders	Master's degree holders	Bachelor's degree holders	Associate degree holders	High-school diploma holders	Under high-school
22,594	11	1412	12,164	2,983	4,782	1,242
100%	0.04%	6.24%	53.83%	13.20%	21.16%	5.49%

Source: A Shortcut to the Iranian Tax System 2010 [3].

Table 3. INTA's Staff 2000 to 2012

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
16,405	16,603	16,712	17,342	17,360	17,334	17,556	17,995	17,920	18,018	18,616	19,783	22,594

Source: INTA 2012 [4].

2.2.3. Training

- Establishment of the On the Job Training Center for Employees in the INTA Headquarters;
- Design and implementation of the specialized training for the main positions of the INTA;
- Holding of training workshops of case studies at the level of directorate general of taxation affairs;
- Holding of annual 60 and 40 hours of training, for managers and other employees, respectively; and
- Establishment of the databank of the INTA professors.

2.2.4. Tax policies

Tax laws are centrally enacted and executed by the central government all over the country. According to the Iranian Constitution, the Supreme Leader of the Islamic Republic of Iran is the authority in charge of specifying general policies of the country, which are generally manifested in the I.R.I. Perspective Document, documents of development plans, and other general policy documents. In addition, according to Act 110 of the Constitution, taxes, and tax exemptions/concessions are defined by virtue of the law. Hence, tax policies seem to be feasible through creating appropriate legal frameworks. In the cases related to tax management, some regulations are approved in the articles of the related laws, and others are presented to the Council of Ministers, Ministry of Economic Affairs and Finance, or INTA. Plans and strategies adopted by the Iranian tax system are defined in different levels as follows:

- 1) The I.R.I. Vision Plan for 2025
The overall perspective of tax policies have been defined in the form of general economic plans by the Supreme Leader of the Islamic Republic of Iran and the Expediency Assembly, and have been included in the I.R.I. Vision Plan.
- 2) General Five-Year Development Plan Policies
General taxation plans are to be defined by the Supreme Leader of the Islamic Republic of Iran and the Expediency Assembly in order to be included in five-year development plans of the country.
- 3) Laws Related to Five-Year Development Plans
Tax policies stipulated in the five-year development plans are then rendered into administrative laws, which are going to be quantitative. In some cases, the intended strategies are also specified in the articles of laws or in the documents thereof.
- 4) Other regulations such as “the annual budget of the country” which defines short-term financial policies as well as absolutely quantitative plans, and “the laws related to direct and indirect taxes” which specify tax policy management procedures, are considered as another source of tax plans and strategies.
- 5) Approvals, regulations, instructions, circular letters, and executive regulations that are within the responsibility of the Council of Ministers and the Ministry of Economic Affairs and Finance are assumed to define some of the taxation strategies.

2.2.5. Taxes on Iran

The Iranian tax regime is divided into two general categories of direct and indirect taxes. There are two major types of direct taxes including income taxes and property taxes. Each category of direct taxes, in turn, is divided into sub-parts. Table 4 briefly shows various types of taxes in the Iranian taxation system. Indirect taxes include taxes on imports as well as Value Added Tax (VAT). Taxes on imports are currently collected by Iranian Customs and are not within INTA's authority.

Table 4. The Iranian Tax Regime

Direct Taxes	Income Taxes	Real Estate Income Tax
		Employment Income Tax
		Business & Professional Income Tax
		Corporate Income Tax
		Tax on Incidental Income
	Property Taxes	Tax on Transfer of Real Properties
		Inheritance Tax
		Stamp Duties
Indirect Taxes	Value-added Tax	
	Tax on Imports	

Source: Tax System of the Islamic Republic of Iran 2010 [4].

2.2.6. Main Activities Directed at the Tax System Modification

- Carrying out of research programs aimed at the familiarization with concerned experiences and models in the selected countries;
- Using the recommendations of the international organizations (IMF, WB, and OECD, etc.);
- Using the consultative services analysis of the existing situation (AS IS) design of the desirable status (TO-BE), and drawing of the roadmap by the Canadian Deloitte Company, with the cooperation of the experts and managers of the (ITNA);
- Drafting the strategic plan;
- Drafting the annual INTA operational plan.

2.2.7. Combination of Tax Revenues (1989–2012)

- The trends of changes in the combination of the Iranian tax revenues during the period 1989-2012 indicates that the share of direct taxes in the total tax revenues has increased from 55.5% in 1989 to 62.9% in 2012;
- The share of “tax on properties” in the total direct taxes collected has decreased from 15% in 1989 to 6.4% in 2012;
- The share of “individual income tax” in the total direct taxes collected has also decreased from 34% in 1989 to 24.8% in 2012;
- In contrast, the share of “corporate income tax” in the total direct taxes collected has increased from 52% in 1989 to 68.7% in 2012;
- The share of GST (Goods & Services Tax) in the indirect taxes collected has decreased from 34% in 1989 to 22% in 2008. However, this trend has changed upon the introduction of the VAT system in 2008 with the above-mentioned share being increased to 48.6% in 2012; and
- Moreover, the share of “tax on imports” in the indirect taxes collected has had fluctuations over time until 2008 with an increase from 66% in 1989 to 78% in 2008. From 2008 up to the present time, however, the above-mentioned share has experienced a descending trend being decreased down to 51.4% in 2012.

Table 5. Trend of Tax Revenues (1989–2012)

Year	Tax Revenues	Tax on Imports	Total Tax Revenues	Year	Tax Revenues	Tax on Imports	Total Tax Revenues	Year	Tax Revenues	Tax on Imports	Total Tax Revenues
1989	838	350	1,188	1997	13055	4,289	17,345	2005	98620	35,954	134,574
1990	1193	502	1,695	1998	14255	4,432	18,687	2006	111815	39,806	151,621
1991	1813	952	2,765	1999	20026	5,805	25,831	2007	142996	48,819	191,815
1992	2530	1,245	3,776	2000	24894	7,948	32,842	2008	183052	56,689	239,741
1993	2938	1,123	4,061	2001	27161	11,635	38,797	2009	237481	62,554	300,035
1994	4207	1,284	5,491	2002	34178	16,409	50,587	2010	206642	77,884	284,526
1995	6063	1,250	7,313	2003	42698	22,401	65,099	2011	280522	78,930	359,452
1996	9626	2,934	12,560	2004	51334	33,087	84,421	2012	321874	76,000	397,874

Source: INTA 2012 [2].

A review of T/GDP ratios during 2005-2012 shows that it has all the time fluctuated between 6–8%.

During this period, Iran has had an average T/GDP ratio of 6.8%.

Table 6. Tax/GDP Ratio

Year	2005	2006	2007	2008	2009	2010	2011	2012
T/GDP (Including Tax on Imports)	7.3	6.7	6.7	7.1	7.8	6.6	6.7	6.1
T/GDP (Excluding Tax on Imports)	5.3	4.9	5	5.4	6.1	4.8	5.2	4.9

Source: INTA 2012 [5].

2.2.8. Tax to Government's Current Expenditure Ratio (2005–2012)

The increase rate of government's current expenditure during the period 2005–2012 has mostly been bigger than the rate of tax revenue increase;

Tax to Government's Current Expenditure Ratio has increased from 40.7% in 2005 to 43.7% in 2012.

Table 7. Tax to Government's Current Expenditure Ratio (2005–2012)

Year	2005	2006	2007	2008	2009	2010	2011	2012
Tax to Current Expenditures Ratio	40.7	36.5	45.5	42.5	47.1	43.2	43.6	43.7
Growth of Current Government Expenditures	42.7	25.7	1.3	33.8	5.4	11.0	25.0	9.2
Growth of Tax Revenues	59.4	12.7	26.5	25.0	16.6	1.8	26.3	10.7

Source: INTA 2012 [5].

Table 8. Calculation

	Total Tax Revenue	GDP deflator	Deflated Tax revenue Baseline is 2006	Index (2006=100)	Staff number	Employees Index (2000=100)	FTE productivity Index (2000=100)
							E/G
2000	32,842	180.12	32,842	100.0	16,405	100.0	100
2001	38,797	201.06	34,756	105.8	16,603	101.2	104
2002	50,587	257.92	35,328	107.6	16,712	101.9	106
2003	65,099	288.36	40,663	123.8	17,342	105.7	121
2004	84,421	347.74	43,728	133.1	17,360	105.8	125
2005	134,574	406.83	59,581	181.4	17,334	105.7	171
2006	151,621	456.3	59,851	182.2	17,556	107.0	170
2007	191,815	549.66	62,857	191.4	17,995	109.7	174
2008	239,741	645.31	66,917	203.8	17,920	109.2	186
2009	300,035	639.31	84,532	257.4	18,018	109.8	234
2010	284,526	731.27	70,081	213.4	18,616	113.5	188
2011	359,452	918.86	70,461	214.5	19,783	120.6	178
2012	397,874	1123.39	63,793	194.2	22,594	137.7	141

Source: INTA 2012 [5].

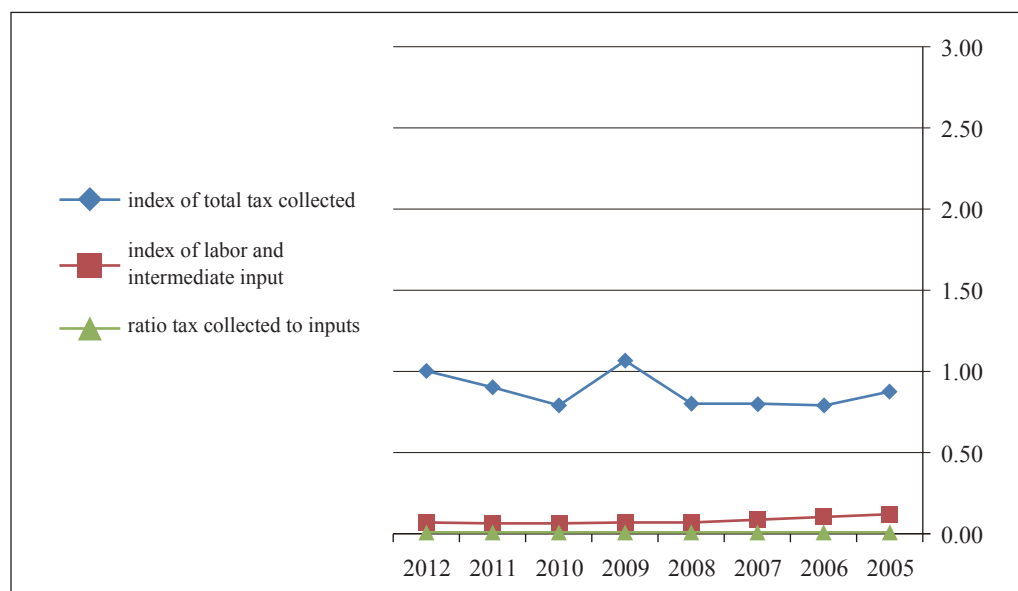


Figure 2. Ratio of Amount of Tax Collected to Labor and Intermediate Input

Source: INTA 2012 [5].

2.2.9. Ratio of “Tax Revenues” to the “Total Resources of the Government’s General Budget” (2005–2012)

The share of tax revenues in the resources of the government’s annual budget has increased from 28.6% in 2005 to about 37% in 2012.

Table 9. Ratio of “Tax Revenues” to the “Total Resources of the Government’s General Budget” (2005–2012)

Year	2005	2006	2007	2008	2009	2010	2011	2012
General Budget Resources	470,990	574,989	629,609	814,235	845,273	971,175	1,185,486	1,077,000
Tax Revenues	134,574	151,622	191,816	239,742	279,481	284,528	359,460	397,874
Tax Revenues to General Budget Resources	29	26	31	29	33	29	30	37

Source: INTA 2012 [5].

2.3. Initiatives Undertaken

2.3.1. Application of the Tax Administration Reform and Automation (TARA)

In the way of exploitation of the IT and automation in the tax system, designing and establishment of the Integrated Tax System, the TARA Initiative is being implemented as the main priority of the INTA, with the following objectives:

- Increasing the Stakeholders Satisfaction;
- Increasing Tax Revenues;
- Decreasing the Tax Administration Expenses; and
- Promotion of Productivity.

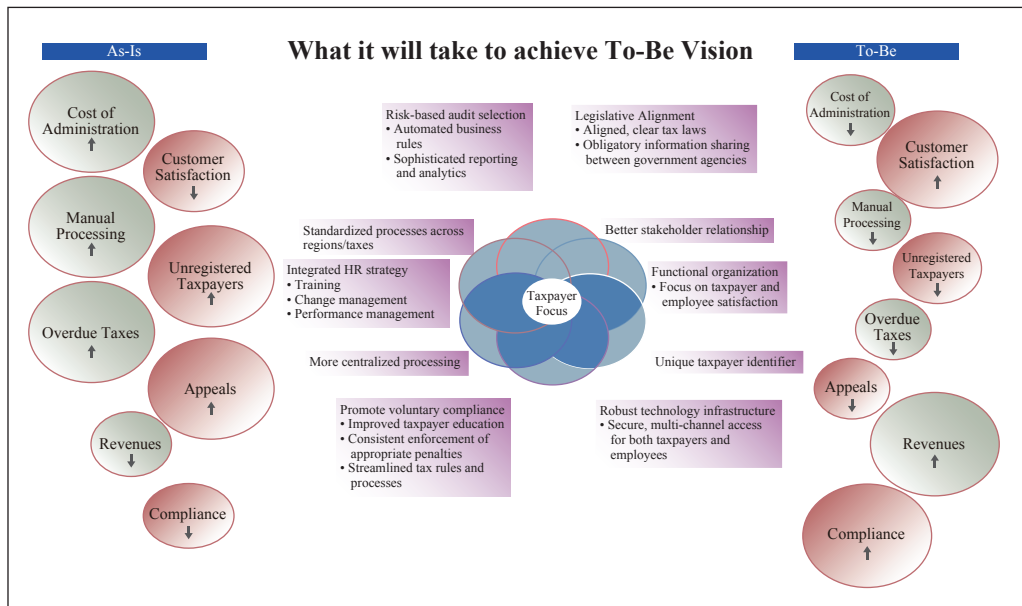


Figure 3. Gap Analysis: Overview of To-Be Vision and Recommendations

Source: INTA 2012 [5].

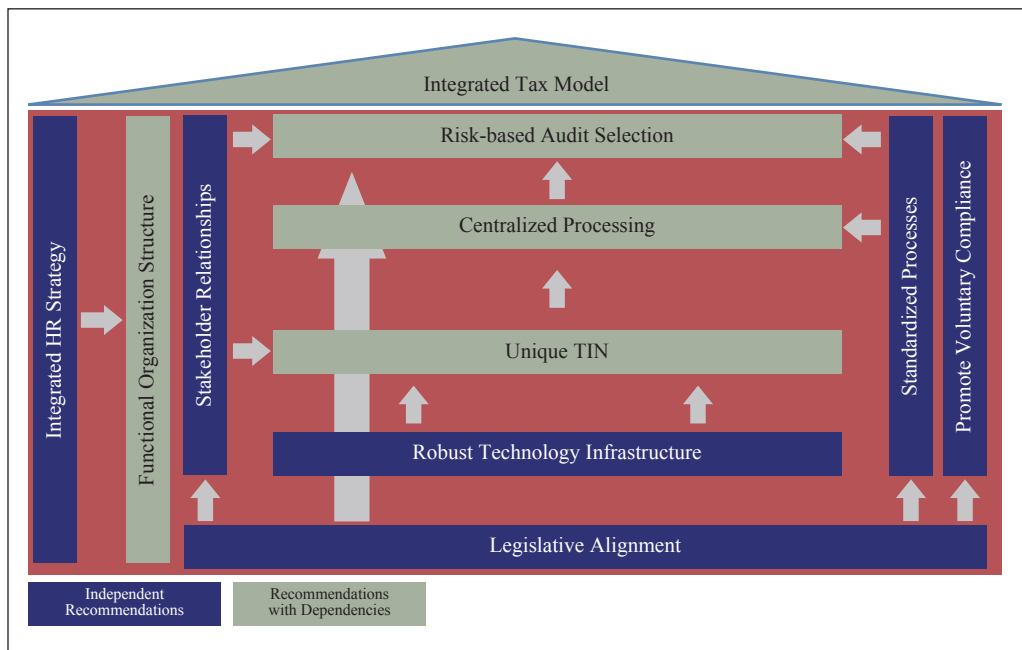


Figure 4. Building Blocks of Modern Tax Administration (To-Be Vision)

Source: INTA 2012 [6].

Point: As can be seen in the above tables of statistics, from 2010, there was the feeling of a need to reform the tax system in Iran. Thus, the action plan to exact a change in the tax system should be developed. In addition to these figures, there were other factors, which necessitated the change, which included:

1. Providing a basis for paying taxes electronically by taxpayers and tax administrations to reduce visits to the taxpayers;
2. To comfort and encourage people to pay their taxes in this way; and
3. Create transparency in the tax system.

A point to be noted is that; these reform programs have not yet been fully implemented. Moving is a great start, but we are still half way, and we hope to see the results of these efforts in the near future.

TARA Implementation Plan: In view of its plan, 32 projects of the TARA Initiative are divided into 3 categories.

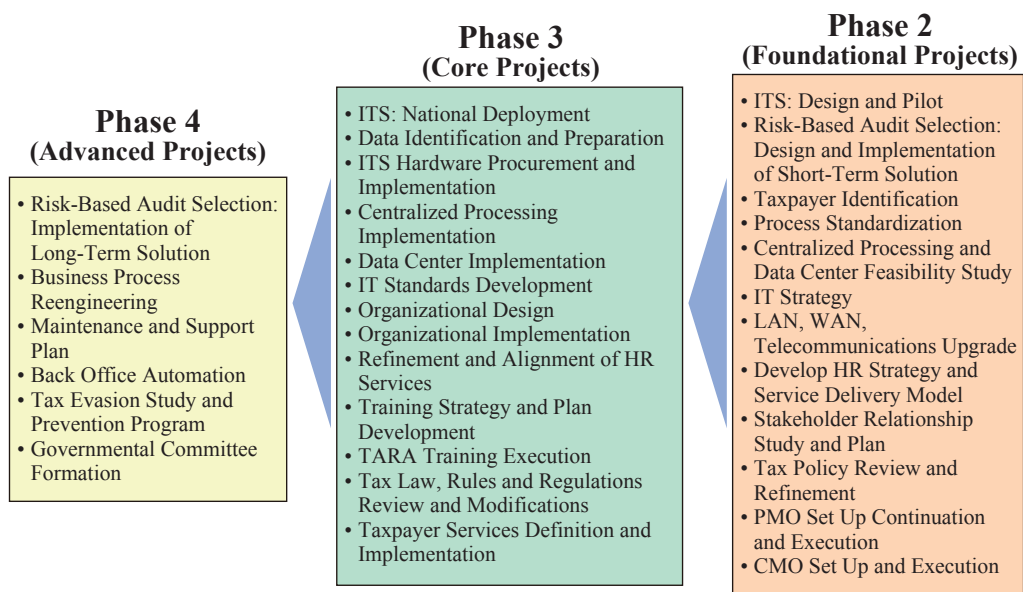


Figure 5. Three Categories of TARA

Source: A Typology of Regional Technical Assistance Activities in the Area of Taxation 2012 [6].

2.3.2. Implementation of the VAT

Aimed at the “development of the tax base, ‘increase of transparency in commercial exchanges’” and “promoting income resources of the State,” VAT Law was legislated on 21 May 2008 and its application for the subjects of VAT was planned and implemented in a phase by phase manner, as detailed hereunder:

- Registration for and implementation of VAT (seven phases of recall);
- Legislation and notification of all circulars and executive bylaws, subject of Law (26 items);
- Provision of required infrastructures (software and hardware);
- Designing of forms and operational processes, including identification and registration, non-taxability, submission of tax returns, notification, forced collection, objections, and accounting;
- Electronic registration of all the VAT subjects;
- Establishment of the software of integrated system of examination, special claims, and collection of tax personnel;
- Correspondence and information distribution to more than 367,000 business persons and stakeholders;
- Publication and free distribution of more than 1,450,000 brochures, guidebooks, etc.;
- Direct and free of charge training for more than 252,355 potential VAT subjects (taxpayer, business persons);
- Direct and free of charge training for more than 1,200 employees;
- Establishment of more than 250 units of specialized taxpayer services; and
- Introduction of VAT at the society level.

2.3.3. Tax Collections from the Starting Phase of Application of the VAT Law

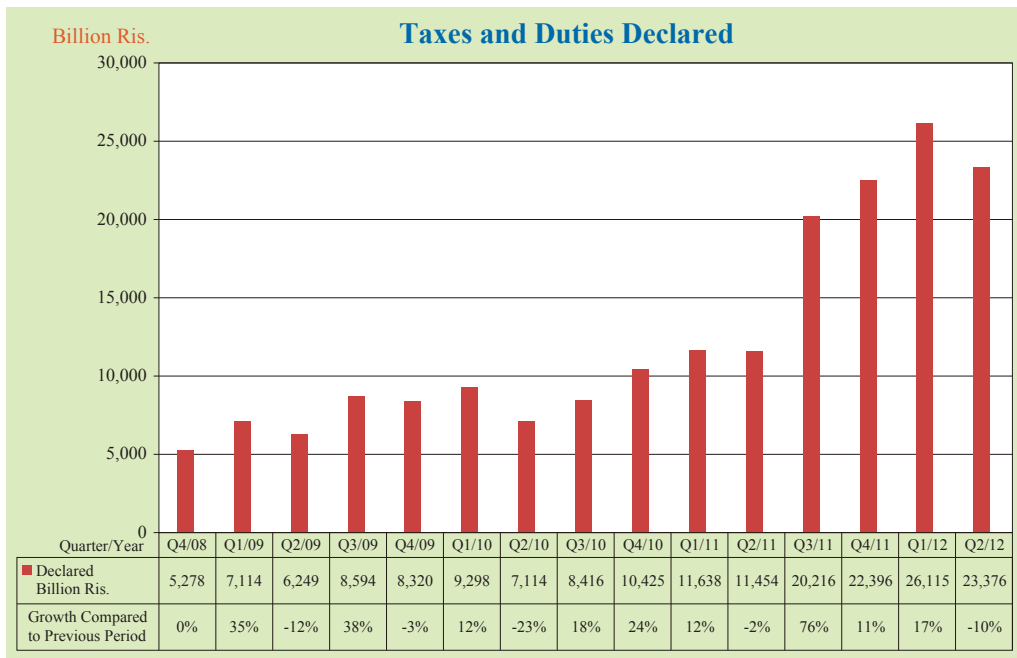


Figure 6. A Comparison of the Implementation of VAT Law in 15 VAT Periods

Source: INTA 2012 [5].

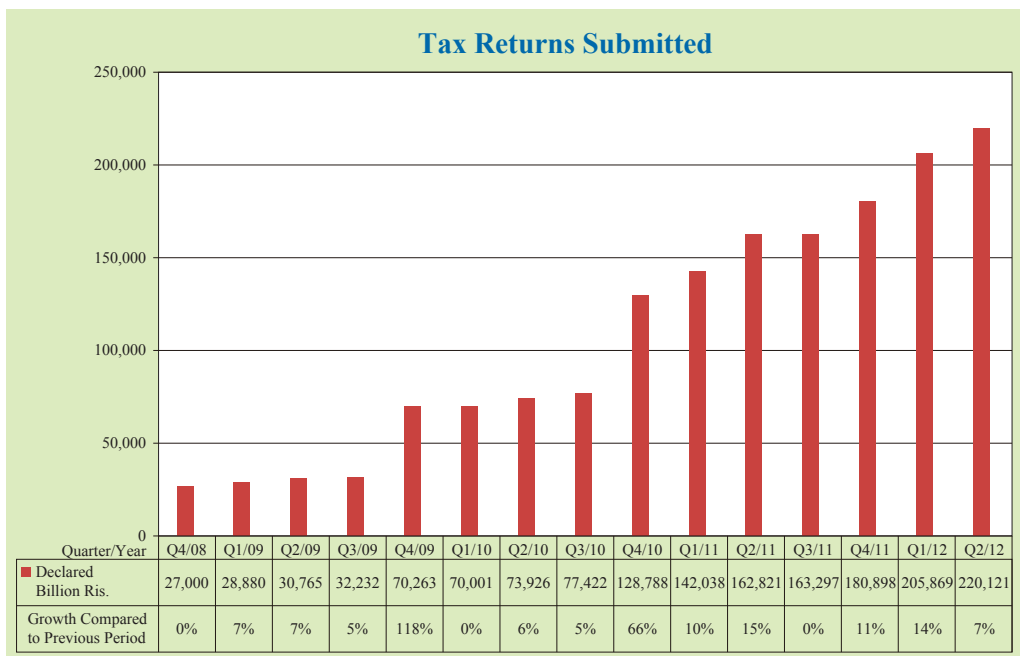


Figure 7. A Comparison of the Implementation of VAT Law in 15 VAT Periods

Source: INTA 2012 [5].

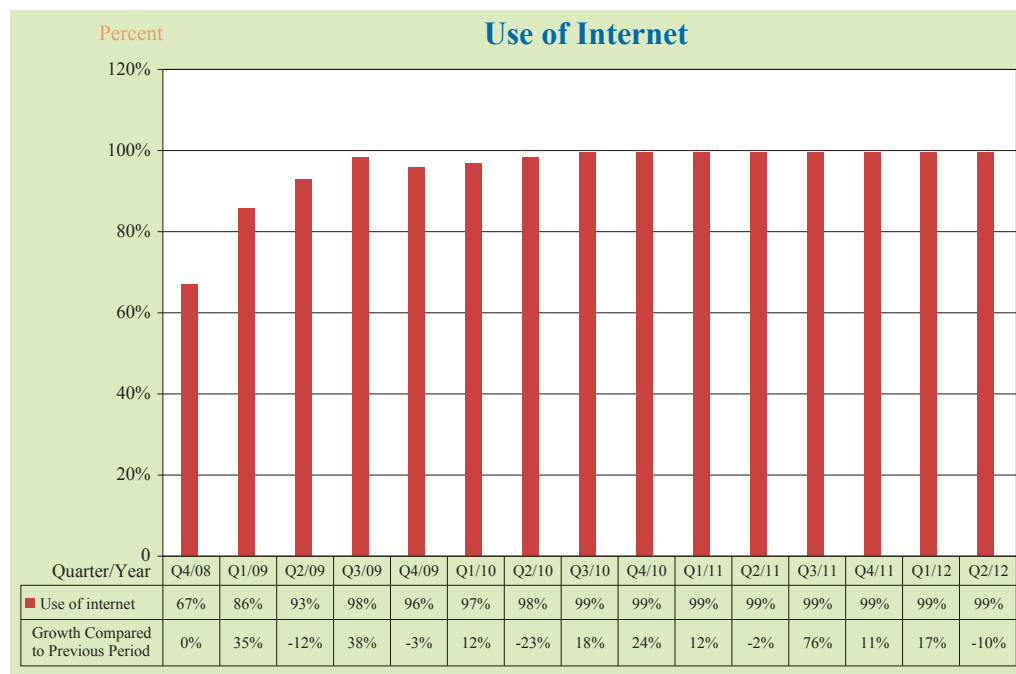


Figure 8. A Comparison of the Implementation of VAT Law in 15 VAT Periods

Source: INTA 2012 [5].

2.3.4. Amending the Direct Taxes Aimed at the Tax Base Development

Direct Taxes Act (DTA) was amended and aimed at the development of the tax bases, in view of the following cores, and currently the drafting of the DTA Bill in the INTA is being completed:

- Amending Cores;
- Expansion of the tax bases (establishment of new tax bases);
- Adjusting of rates and removal of tax differentiation;
- Modification of the tax incentive structures (depreciations and exemptions);
- Tax penalties and legal sanctions;
- Automation of the tax processes and electronic tax; and
- Simplification and clarification of regulations and processes.

2.3.4.1. Expansion of Tax Bases (Establishment of New Tax Bases)

- Taxation of repetitive transactions of housing properties (definite transfer of properties and right of transfer of properties exceeding two units per year, (establishment of new tax sources and fighting against mercantilist activities in the property sector);
- Tax on Aggregate Income;
- Establishment of Green Taxes.

2.3.4.2. Adjustment of Rates and Removal of Discriminatory Exemptions

- Amendment of the Structure of Inheritance Tax Rates;
- Amendment of structure and unification of tax on salaries of all salary receivers;
- Removal of special discriminatory tax exemptions;
- Adjustment of withholding taxes on contract-based activities;
- Adjustment of structure and reduction of tax layers of tax rates on real persons' income.

2.3.4.3. Tax Incentives and Exemptions

- Change of tax exemption structure to the exemptions based on tax credits in the form of Collection-Refund;
- Amendment of the tax exemption structure on exportation;
- Amendment of the tax depreciation structure in the way of promotion of production and investment;
- Amendment of exemptions in tax bases, including salary, inheritance, unincorporated businesses, and properties.

2.3.4.4. Sanctions and Tax Fines in the Law

- Modification of the tax fines structure;
- Modification of the structure of other tax trial authorities (Supreme Tax Council and the Supreme Tax Disciplinary Board);
- Modification of the structure of the manner of using tax accounting services of auditing individuals and institutes;
- Tax frauds and application of criminal punishment of imprisonment for committing different types of crimes.

2.3.4.5. Automation of Tax Processes (Electronic Tax)

- Establishment of an electronic method for maintenance of accounts by taxpayers;
- Creation and establishment of the family economic information system;
- Establishment of tax data base and its sanctions;
- Establishment of electronic methods for filing tax returns and other tax sheets;
- Provision of necessary regulations in regard to the TARA requirements;
- Revising the regulations of law in the way of the TARA application.

2.3.4.6. Simplification and Creation of Transparency in Regulations and Processes

- Modification of the structure of classification of the real persons and their legal obligations;
- Removal of redundant and fruitless regulations;
- Removal of regulations related to the TIN and its substitution by the TARA regulations. Simplification of the provisions of law aimed at the removal of ambiguities and application of new regulations;
- Substitution of the “Supreme Disciplinary Board with the ‘Board for the Trial of Administrative Violations.’”

Table 10. Tax Criteria Figures during 2005–2011 (Billion RIs)

Year	Tax Revenue	Tax Revenue Growth (%)	Current Expenses	Ratio of Tax to Current Expenses	Ratio of Tax to GDP
2005	134,574.4	59.4	330,884.1	40.7	7.3
2006	151,620.9	12.7	415,793	36.5	6.7
2007	191,815.3	26.5	421,285	45.5	6.7
2008	239,741	25	582,723	42.5	7.1
2009	279,481	16.6	593,784	47.1	7.8
2010	284,528	1.8 ¹	659,342	43.2	6.6
2011	359,452	26.3	824,030	43.6	6.7

Source: A Report on the Status & Reforms of the Iranian Tax System 2012 [2].

1) Tax Revenues Growth is estimated without consideration of Oil Tax and tax on the exchange of hard currencies by the Central Bank of IR Iran.

Table 11. Revenue Amounts and Their Share in the Public Budget during 2005–2011
(Billion RIs)

Year	Direct Tax	Indirect Tax	Total of Direct and Indirect Taxes	State Public Budget	Tax Revenue Share in the State Public Budget
2005	84,030	50,549	134,579	737,866	18.2%
2006	97,692	53,930	151,622	574,989	26.4%
2007	126,334	65,482	191,816	629,609	30.5%
2008	167,153	72,589	239,742	814,201	29.4%
2009	209,030	91,005	279,481	845,273	33.1%
2010	168,749	115,777	284,528 ²	971,175	29.3%
2011	220,418	139,034	359,460	1,185,486	30.3%

Source: A Report on the Status & Reforms of the Iranian Tax System 2012 [2].

2) Tax Revenues Growth is estimated without consideration of Oil Tax and Tax on the exchange of hard currencies by the Central Bank of IR Iran.

2.4. Best Practices and Lessons Learned

2.4.1. An Analysis of the Status Quo of the Tax System in Iran

The Iranian tax system can be taken as consisting of three main components, each of which implies challenges ahead of the way towards a desirable tax system:

- 1) National production (and the way it is distributed);
 - 2) Tax laws and regulations; and
 - 3) The tax collection authority.
- 1) Challenges of the Iranian Tax System from the Perspective of “National Production and the Way It Is Distributed”
 - Inappropriate combination of national production and income distribution in the country;
 - The existence of a traditional distribution system and traditional business processes;
 - A high proportion of tax exempt sectors (limitation of tax bases);
 - A relatively high volume of underground economy; and
 - The existence of public institutions with high turnovers.

- 2) Challenges of the Iranian Tax System from the Perspective of “Tax Laws and Regulations”
 - Complexities of tax laws and regulations;
 - Low enforcement guarantees for tax laws;
 - Limitation of tax bases;
 - Broadness of tax exemptions and the low effectiveness of certain tax incentives; and
 - Inappropriate structure of tax rates.
- 3) Challenges of the Iranian Tax System from the Perspective of “the Tax Collection Authority”
 - Shortage of expert human resources;
 - Shortage of financial and budget resources;
 - Lack of an integrated economic and financial database;
 - Inefficient tax processes;
 - Lack of an integrated approach to taxpayers; and
 - Inefficiency of the tax assessment structure (dominance of a comprehensive tax audit system based on the audit of all cases).

2.4.2. Long-Term Plan for the Improvement of the Iranian Tax System

Resolving the challenges of the tax system requires long-term national planning. Some measures to be taken may be as follows:

- 1) From the perspective of “national production”:
 - Organizing and reinforcing the system of monitoring on money flows in the country;
 - Organizing and reinforcing the system of monitoring on commodity flows in the country;
 - Revising, reforming, and improving business environment indices;
 - Increasing the costs of smuggling and informal activities;
 - Removing the tax discriminations already applicable to certain institutions and foundations and their subsidiary companies, and creating economic competitiveness; and
 - Requiring the economic agents to use electronic money.
- 2) From the perspective of “national production”:
 - Broadening tax bases (introducing new tax categories);
 - Adjusting tax rates and removing tax discriminations;
 - Removing tax discriminations in respect of certain tax exemptions;

- Reforming the structure of tax incentives (depreciations, amortizations, and exemptions);
- Reforming and improving tax laws guarantees; and
- Simplifying tax laws and processes and making them transparent.

3) From the perspective of “tax collection authority”:

- Changing the structure of tax assessment from the current approach (comprehensive audit of all cases) into a modern approach (risk-based audit);
- Mechanizing the assessment system and promoting taxpayer services;
- Promoting the self-declaration system in order to decrease tax collection costs and to increase mutual trust and respect between the tax authority and the taxpayers;
- Enhancing taxpayers’ tax knowledge through trainings and improving tax information flows;
- Promoting human resources development through comprehensive training programs;
- Re-engineering the organizational structure and the institutional arrangements as well as improving the operational procedures in order to improve the efficiency of the Iranian National Tax Administration;
- Equipping the Iranian National Tax Administration with modern IT technologies and mechanizing the operational processes in order to improve efficiency and satisfaction through the implementation of the TARA Project;
- Creating transparency in the performance of the Iranian National Tax Administration through the establishment of an integrated tax audit system; and
- Enhancing the Iranian National Tax Administration’s financial resources and granting a budgetary independence to it.

CONCLUSION

Iran has taken appropriate action in the matter of administrative reform, especially performance management. INTA is a pioneer agency among the leading organizations on issues of administrative reform and performance management. In this report, we have efforts that present the perspective situation of administrative reform and performance management in the taxes agency of Iran as an important agency in the Department of Home Affairs. In the beginning, we referred to general information about this agency, and then description input and output of INTA, and then finally we mentioned experiences and future plans with regard to taxes.

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INTRODUCTION

The activities of the public sector account for considerable shares of overall economic activity and therefore production activities of the government sector determine the competitiveness of a nation and its overall economic welfare [1]. Like other developing countries, the role of the public sector in the provision of basic infrastructure and primary utilities is inevitable in Pakistan also. The volume of the public sector is still large enough in Pakistan despite following the policies of deregulation and liberalization since the early 1990s. The public sector is still a major provider of basic utilities like gas and electricity in the country and the inefficiency of the public sector is evident from the prevailing energy crises in the country. The energy crises coupled with the adverse law and order situation in turn, has forced a massive capital flight from the country during recent years [2].

According to national account statistics released by the Pakistan Bureau of Statistics (PBS) [3], general government final consumption expenditure at current market prices accounts for about 11% of the Gross Domestic Product (GDP) during the financial year 2012–2013. The current or non-development expenditures incurred by the Government of Pakistan including and excluding the defense expenditure for the period of 1990–2010 is presented in Figure 1.

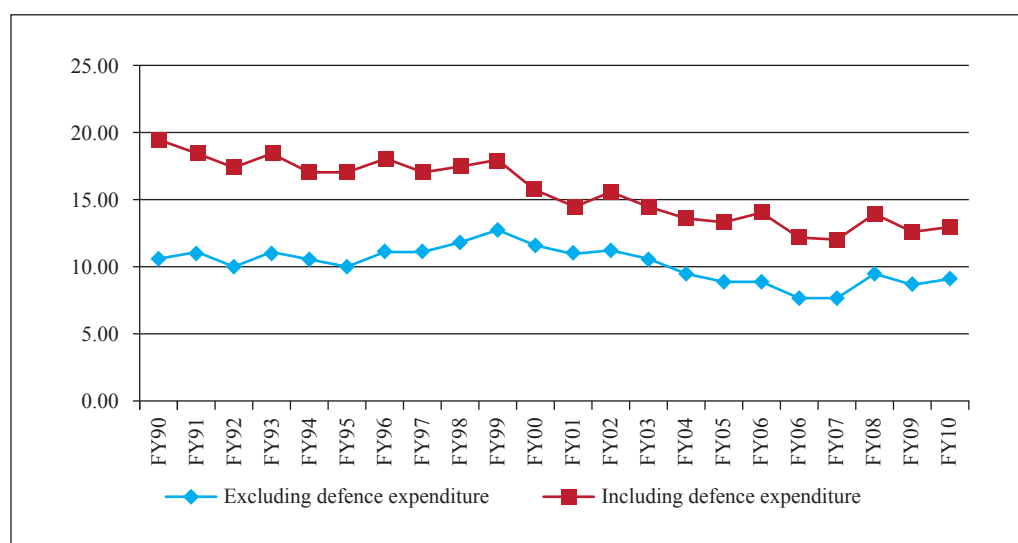


Figure 1. Government Current Expenditure as Percentage of GDP in Pakistan

Source: State Bank of Pakistan 2010 [4] and author's calculation.

The working of Public Sector Enterprises (PSEs) like Pakistan International Airlines (PIA), Pakistan Railway (PR), and Pakistan Steel Mills (PSM) is deteriorating and is the main cause of further supplementing the burden on the budget of the country [5]. In order to curtail the growing fiscal deficit which stood at 6.8% of GDP during 2011–2012 [6], the Government of Pakistan has initiated a restructuring program of PSEs focusing on PIA, PR, and PSM which include (i) restructuring of Board of Directors (BOD) of PSEs, (ii) inducting professional management, i.e., Chief Executive Officers (CEOs), managers, (iii) developing viable turnaround plans, and (iv) ensuring implementation of plans in an independent manner with the support of the government under the mandate of the Cabinet Committee on Restructuring (CCOR) [7]. The appointment of a new CEO, development of a five year business plan, introduction of fuel efficient aircrafts, and route rationalization have been the main steps taken by the government to enhance the performance of PIA [7]. The Government of Pakistan has also taken a number of measures including the reconstitution of the BOD, enhancement of credit lines with Pakistan State Oil (PSO), establishment of an asset management company, and introduction of private public partnerships in order to improve the performance of PR [7]. Further, the BOD of PSM have also been reconstituted along with the appointment of a new CEO. A bailout package of Rs. 14.6 billion has been approved by the government to meet the immediate financial needs of PSM. A new business plan focusing on the full utilization of its capacity has also been developed for PSM while ensuring the smooth availability of raw materials [7].

According to Pakistan Economic Survey 2013–2014 [8], the Government of Pakistan has a plan of privatization/disinvestment of 31 PSEs representing the most viable transactions. The indicative model of related disinvestment has been finalized. The Cabinet Committee on Privatization (CCOP) has identified 11 companies in the oil & gas, banking & insurance, and power sectors for block sales and primary and secondary public offerings from the list of 31 PSEs [8]. The government has a plan to offer minority shares of United Bank Limited and Pakistan Petroleum Limited to domestic and international investors by the end of June 2014, subject to investors' interest and global market conditions [8].

In Pakistan, a tax collection service is provided by the Federal Board of Revenue (FBR). The FBR, having its head office located in the capital city of Islamabad, has three Large Taxpayer Units (LTUs), one each in Islamabad, Lahore, and Karachi, 18 Regional Tax Offices (RTOs), and 15 Model Custom Collectorates (MCCs) spread all over Pakistan. All domestic taxes like income and corporate taxes, sales tax, federal excise, and import duties are collected by the FBR [9]. Data of tax collection has been covered for the period of 1949–2013.

Passport services are provided by the Directorate General of Immigration and Passports (DGI&P) in Pakistan with its head office in the capital of Islamabad and Regional Passport Offices across the country. It works under the Ministry of Interior.

TAX COLLECTION SERVICE

2.1. Introduction about the Agency

The present FBR was created as the Central Board of Revenue (CBR) on 1 April 1924 through enactment of the CBR Act, 1924. In 1944, a full-fledged Revenue Division was created under the Ministry of Finance. After independence in 1947 from British Rule, this arrangement continued up to 31 August 1960. On the recommendation of the administrative re-organization committee, the CBR was made an attached department of the Ministry of Finance. In 1974, further changes were made to streamline its functions. Consequently, the post of Chairman of the CBR was created with the status of ex-officio Additional Secretary and Secretary Finance was relieved of his duties as ex-officio Chairman of the CBR [9].

To remove further impediments in the exercise of administrative powers of a Secretary to the government and effective formulation and implementation of fiscal policy measures, the status of the Revenue Division was restored under the Ministry of Finance on 22 October 1991. It was abolished in January 1995 and the CBR was reverted back to the

pre-1991 position. However, it was again re-established on 1 December 1998. The Revenue Division has continued to exist since then. In the wake of the restructuring of its function, the CBR has adopted a new Act under which it has been renamed the Federal Board of Revenue (FBR) since July 2007 [9].

The FBR is headed by a Chairman, who is assisted by 13 members. There are four operational members, i.e., IR Policy, Customs, IR Operation (North), and IR Operation (South); four support members, namely Strategic Planning, Legal, Human Resource Management (HRM), and Administration. The functional members are Taxpayers, Audit, Facilitation and Taxpayers Education (FATE), Accounting, and Training [9]. Five functional members are responsible for Inland Revenue policy, taxpayer audits, legal issues, facilitation, and taxpayer education and enforcement, respectively. The support functions fall under members for administration, human resource management, strategic planning and statistics, and accounting and training. Withholding tax agents include employers, government departments/ministries, banks, telecommunication companies, electricity and gas distribution companies, airlines, and provincial taxation departments [10].

2.2. Input and Output Data and Analysis

According to Pasha and Ghaus-Pasha [10], the major taxes that can be levied at the federal level are given in Part I of the Federal Legislative List (FLL) in the Constitution of Pakistan. Taxes included in FLL are excise duties, customs duties, capital value tax, sales tax, taxes on income and corporations, capacity taxes, taxes on natural resources, and terminal taxes on goods and passengers carried by different modes of transport [10]. All these taxes are being used for revenue generation in Pakistan excluding capacity taxes.

In addition to federal government, provincial governments in the provinces of Punjab, Sindh, Khyber Pakhtun Khawa (KPK), and Baluchistan in Pakistan also have fiscal powers to impose taxes which include agricultural income tax and property-related taxes. Following the 18th Amendment, in the Constitution of Pakistan, provincial governments have been given the exclusive right to levy sales tax on services. Moreover, imposition of taxes such as stamp duty, motor vehicle tax, and entertainment tax and tax on persons engaged in professions, trades, and callings is also the right of provincial governments [10]. However, the share of provincial taxes is small in Pakistan and counts for only 5% of total taxes, which is low in relation to countries like India where the share of state taxes is over 35%. The sales tax on services has been emerging as the largest provincial tax, followed by stamp duties [10].

However, due to data constraints, the analysis in this report has been confined to the federal level only. The detail of federal level taxes is given as under:

- (i) Income tax is levied in Pakistan following the powers given in the Income Tax Ordinance 2001. The legislation indicates the types of income liable to taxation, tax rates, and types of tax exemptions, credits, deductions, and allowances [10].
- (ii) The sales tax, a type of value-added tax (VAT) and covers only goods. It is levied under the Sales Tax Act 1990 [10].
- (iii) The customs duties are collected following the Customs Act 1969 enables the collection of customs duties [10].
- (iv) Federal Excise Duty (FED) is levied under the Federal Excise Act 2005. However, due to the expanding role of sales tax, the coverage of excise duties has been curtailed considerably [10].

Due to non-availability of data inputs, most of the analysis of productivity of federal tax collection authority is based on output data only. The trends in federal tax collection including direct taxes, indirect taxes, and total federal taxes are presented in Figure 1. Soon after gaining independence in 1947 from British Rule, Pakistan's total tax collection during 1948–1949 was Rs.311 million which mainly comprised of customs duties (Rs.216 million) followed by direct taxes (Rs.50 million) and FED (Rs.45 million) [11]. Total tax collection during 1949–1950 was Rs.448 million which increased to Rs.1,178 million during 1959–1960 showing an increase of 163% during this period. Total revenue generated during 1969–1970 was Rs.4,610 million which showed increase of 291% over the previous decade. Tax collection in Pakistan gained momentum in monetary terms during the 1970s and reached Rs.30,016 million by the end of 1979–1980 registering an overwhelming increase of 551% during a period of 10 years. The steady growth in tax collection was also observed during the 1980s and reached Rs.104,233 million in 1989–1990. During this decade, tax collection was increased by 247% [11]. The increase in total tax revenue during 1991–1992, 1994–1995, and 1995–1996 was 26.5%, 31.3%, and 18.3% respectively whereas growth in tax collection was below 10% in the remaining years of the 1990s. During the 1990s, the lowest growth in tax collection was observed during 1997–1998 when it was recorded at 4% with indirect taxes showing a decline of 3.3%. The major reason of this turnaround in tax collection was imposition of economic sanction by major trading partners of Pakistan and a consequent capital flight due to country decision to conduct nuclear tests during May 1998. However, tax collection gained its momentum again during the 2000s and double digit growth has been observed throughout the decade except during 2001–2002 when the growth was recorded at just 3%. The highest growth rate in tax collection was recorded at 21% during 2005–2006, followed by 19% during 2006–2007 and 2007–2008 respectively [11]. The growth rate in tax collection during 2010–2011 and 2011–2012 stood at 17.4% and 20.8% respectively.

However, total tax collection during 2012–2013 was Rs.1,946.4 billion as compared to Rs.1,882.7 billion during 2011–2012 showing an increase of only 3.4%. The increase in direct and indirect taxes during 2012–2013 was 0.7% and 5.1% as compared to 22.6% and 19.7% of the proceeding year [11]. Total estimated tax revenue of the FBR stands at Rs.2,475 billion for the year 2013–2014 with an expected growth rate of 27%. However, this target is unlikely to be achieved considering the FBR's revenue target achievement in the recent past. In general, an increasing trend in the FBR's tax collection is observed which is also visible from Figure 2.

The proportions of direct and indirect taxes in the total tax collection in Pakistan are presented in the Figure 3. Historically, direct tax collection in Pakistan has been low as compared to indirect tax collection. For example, total direct taxes were 20% of total tax collection during 1949–1950 as compared to indirect taxes which were 80%. Direct tax collection was moved up to 26% of total taxes during 1959–1960 but came down to 21%, 18%, and 15% during 1969–1970, 1979–1980, and 1989–1990 respectively. However, an increasing trend in direct tax collection is observed during the 1990s and it reached 33% during 1999–2000 which further increased to 39% during 2006–2007. Recently, direct taxes have been contributing about 40% towards total tax revenue in Pakistan. The percentage contribution of direct and indirect taxes in total tax collection during 2012–2013 was 38 and 62 respectively.

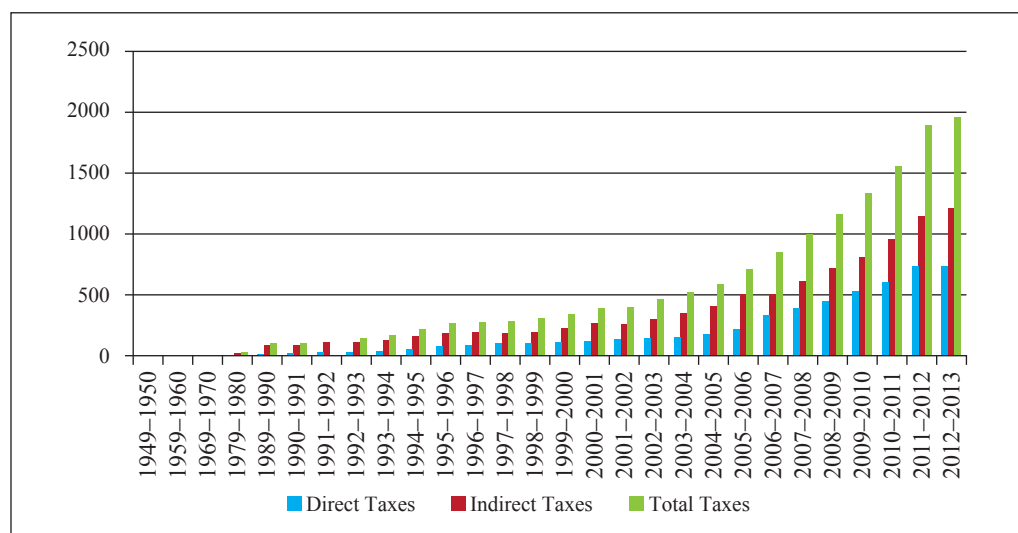


Figure 2. Trends in Federal Tax Collection in Pakistan (Rs. in Billion)

Source: Authors' elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April–June 2012–2013.

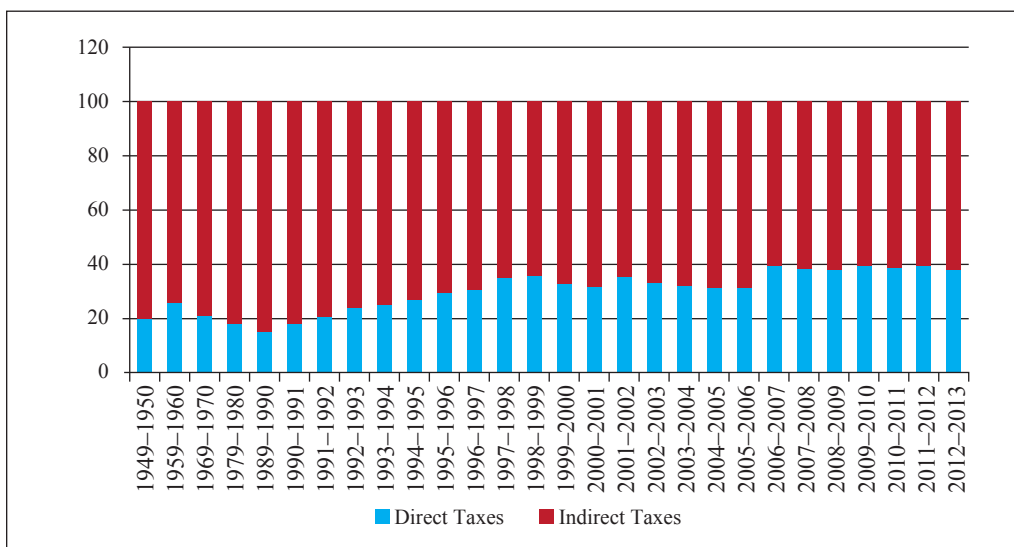


Figure 3. Proportion of Direct and Indirect Taxes in Total Federal Tax Collection in Pakistan (%)

Source: Authors' elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April-June 2012-2013.

As mentioned in the previous paragraph, most of the revenue in Pakistan is generated through indirect taxes. Therefore, it is more relevant to look into the details of indirect taxes by individual components. The indirect taxes currently levied at the federal level in Pakistan include sales tax on both imported and domestic goods, federal excise duty (FED), and customs duty. The detail of indirect tax collection by major components for the period of 1949-2013 is presented in Figure 4. Indirect taxes were comprised of only FED and customs duty during the early years in the history of Pakistan and customs duties were the major source of revenue of indirect taxes. The share of customs duties in indirect taxes during 1949-1950 was 89% and declined to 41% and 34% during 1959-1960 and 1969-1970 respectively but rose again to 51% during 1979-1980. During the early 1990s customs duties contribution toward indirect taxes was around 55%. However, it declined to 26% during 1999-2000 and has been staggering around 20 during the most recent years and stands at 20% for the year 2012-2013. The second component of indirect taxes, i.e., the FED, has been a moderate contributor throughout the history of Pakistan except during 1969-1970 and 1979-1980 when its contribution was as high as 52% and 39% respectively. The FED was the second largest contributor towards indirect taxes during the early 1990s falling behind customs duties. The contribution of the FED was estimated as 10% of total indirect taxes during 2012-2013. The third component of indirect taxes, i.e., sales tax, was first levied in Pakistan during 1951-1952 and its contribution in total indirect tax revenue was 31%, 14%, 10%, and 21% during 1959-1960, 1969-1970, 1979-1980, and 1989-1990 respectively. The contribution of sales tax in indirect tax collection was 20% to 28% during the financial years 1992-1993 and 1997-1998. However, it became

the prominent contributor in indirect taxes during 1998–1999 when its contribution stood at 36% and reached 50% during 1999–2000. The contribution of sales in indirect tax collection during the 2000s was around 60%. Sales tax has now become the major contributor not only in indirect taxes but in overall tax collection of the FBR as well. For example its contribution towards indirect taxes during 2012–2013 was 70% and 43% in overall tax collection.

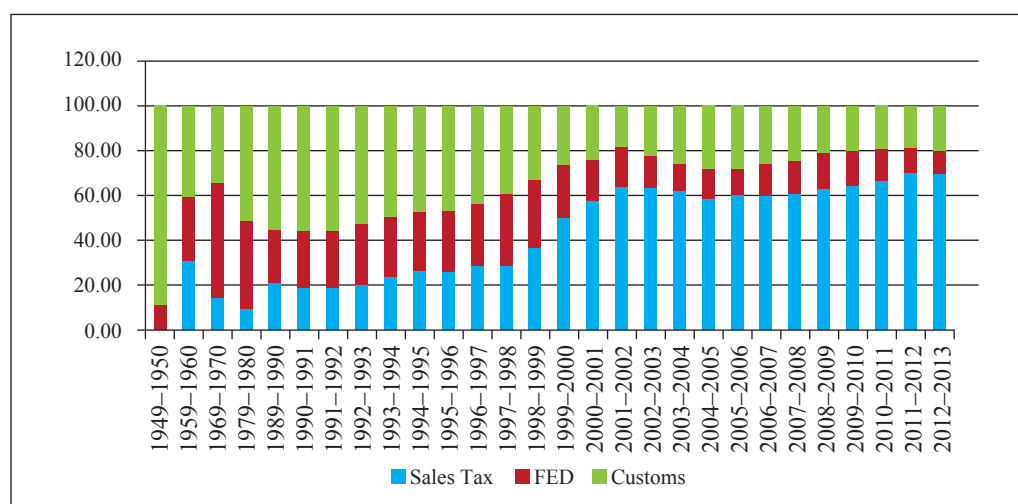


Figure 4. Share in Indirect Tax Collection by Major Components

Source: Author’s elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April–June 2012–2013.

Due to the importance of sales in the overall generation of revenue for the country, it seems relevant to discuss it in more detail by focusing on its individual components. As mentioned previously, sales tax was first collected in Pakistan during financial year 1951–1952 and that was on imports only. During that year, total sales tax collection was Rs. 116 million out of a total tax collection of Rs. 951 million. The sales tax was used to be collected from only imported goods until 1980–1981 and it was levied on domestic sales for the first time during financial year 1981–1982. During 1981–1982, the total sale tax collection comprising of both imports and domestic was Rs. 3,251 million out of Rs. 38,551 million of total tax collection and stood at 8.4% of total tax collection. Total sales tax collection surpassed the revenue generated from total direct taxes during the financial year 1988–1989, when total sales tax collection of Rs. 14,700 million was greater than total direct taxes of Rs. 13,920 million. Sales tax collection on imported goods continued to be higher than domestic sales until 1989–1990 when collection from domestic sales, i.e., Rs. 9,935 million was higher than collection from imported goods, i.e., Rs. 8639 million. During 1989–1990, the percentage collection from sales tax on imported and domestic goods was 47 and 53 and reversed to 58 and 42 during 1999–2000 respectively. However, the share of sales tax from imported and domestic goods has been almost 50% of each

during recent years and stands at 51% and 49% for the year 2012–2013. Further, major contributions in domestic sales tax collection has come from POL products, telecom, natural gas, services, fertilizer, sugar, and cigarettes, etc. On the other hand, POL products, edible oil, plastic, vehicles, iron and steel, and machinery have made major contributions in the collection of sales tax from imports [11].

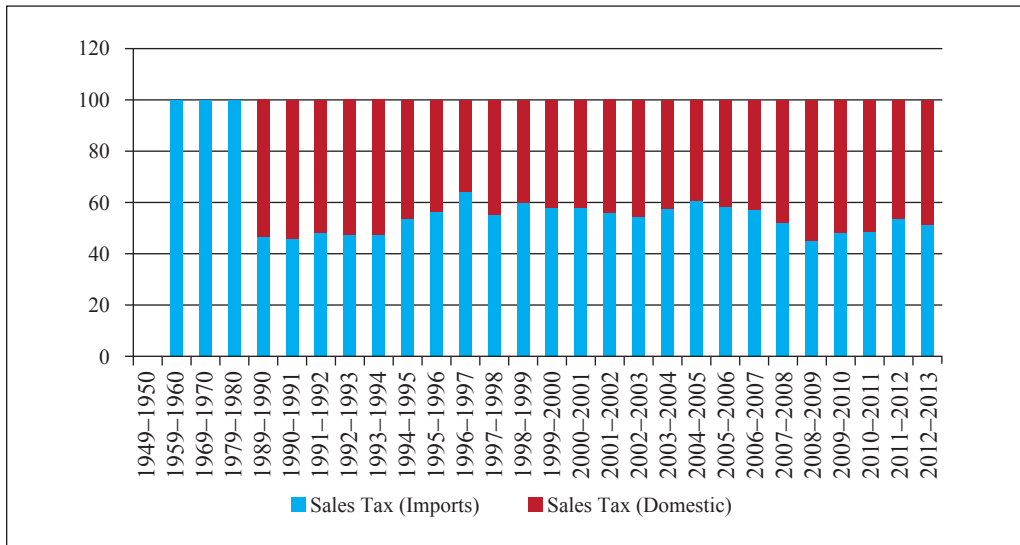


Figure 5. Trends in Sales Tax Collection by Major Components in Pakistan (%)

Source: Author's elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April–June 2012–2013.

The Government of Pakistan is currently relying heavily on sale tax in order to increase its revenue and has increased the rate of General Sales Tax (GST). According to Overseas Investors Chamber of Commerce and Industry (OICCI) [12], the GST or Value Added Tax (VAT) rate in Pakistan is highest among regional countries and stands at 16% as compared to 5.5%, 12%, 7%, 10%, 7%, and 12% in India, Sri Lanka, Thailand, Indonesia, Singapore, and the Philippines respectively. According to the FBR, sales tax is a leading tax, having share of 43% in overall taxes followed by 38%, 13%, and 6% share of each of direct taxes, customs duties, and the FED during 2012–2013 respectively (Figure 6).

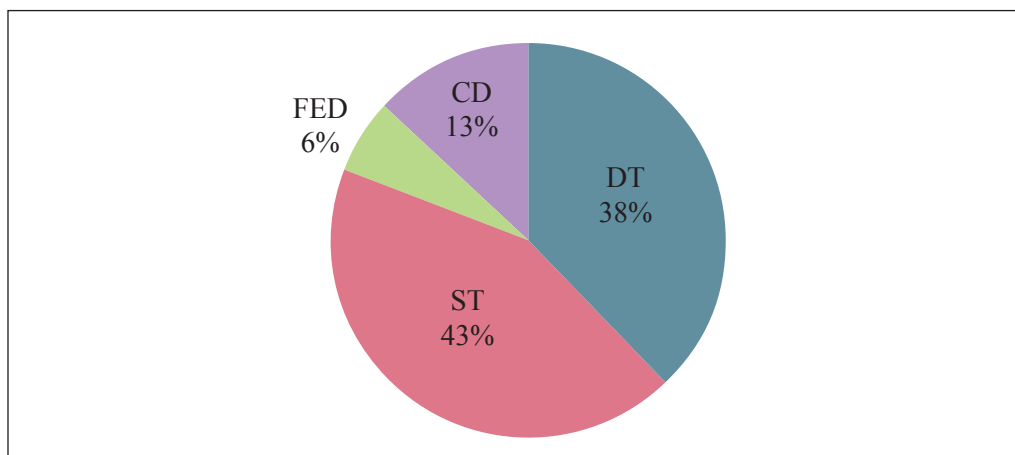


Figure 6. Tax-wise Share (%) in Collection 2012–2013

Source: Author's elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April–June 2012–2013.

FED: Federal Excise Duty, CD: Customs Duty, DT: Direct Taxes, ST: Sales Tax

The percentage achievement of targets of different kinds of taxes by the FBR for the period 1997–1998 to 2012–2013 is presented in Figure 7. The FBR's tax collection has been lagging behind targets for most of the periods between 1997–1998 and 2012–2013. For example total tax collection of the FBR was 98.13%, 96.45%, and 96.98% during the financial years 2010–2011, 2011–2012, and 2012–2013 respectively (Figure 7).

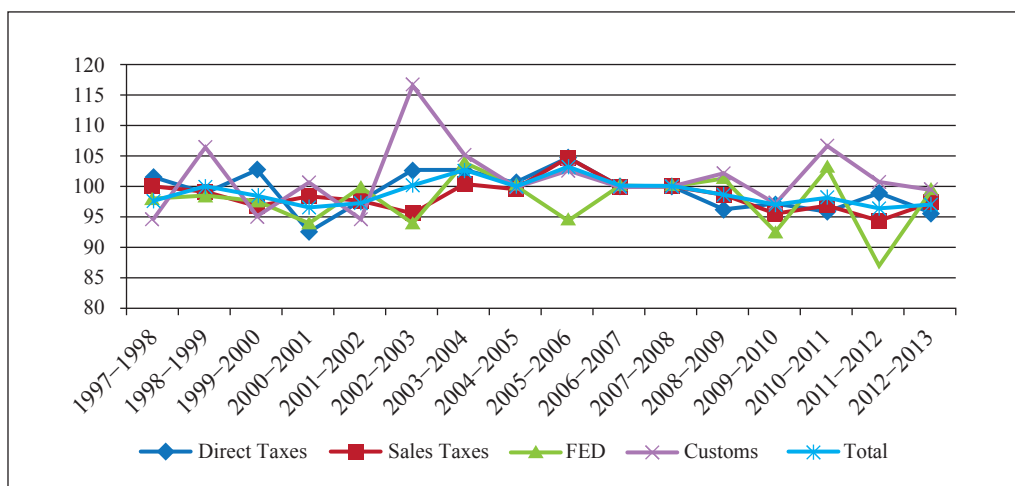


Figure 7. Percentage Achievement of Targets of Various Types of Taxes in Pakistan (%)

Source: Author's elaboration upon data from FBR Quarterly Review, Vol.12, No.4, April–June 2012–2013.

FED: Federal Excise Duty

Historically, Pakistan's tax system was undermined due to structural weaknesses like a narrow tax base, tax evasion, and administrative weaknesses, etc. These structural weaknesses have taken a toll on overall tax collection as the country has witnessed a lowest tax to GDP ratio as compared to developing countries as well as in the region [11]. Tax-to-GDP is generally considered an important and effective yardstick to measure the performance of tax collection authorities in any country. The tax-to-GDP ratio of Pakistan for the period 1997–2013 is presented in Figure 8.

The tax-to-GDP ratio in Pakistan was 11% during 1997–1998 and declined to 10.5% during 1998–1999. During the 2000s, it has been around 9% and stands at 9.4% and 8.5% for the years 2011–2012 and 2012–2013 respectively (Figure 8). Low tax-to-GDP ratio in Pakistan is mainly due to structural weaknesses stemming from under taxed and out of taxed sectors of the economy, resulting in a narrow tax base. For example, the share of agriculture and services sectors, which contribute 21.4% and 57.7% in GDP respectively, in tax revenues, is not proportional to their potential [11]. Further, according to the World Bank's report on Pakistan Tax Administration Reforms Project [12], the low tax to GDP ratio in Pakistan is primarily due to inherent weaknesses in the tax system including: (i) inefficient tax administration; (ii) a narrow tax base; (iii) skewed tax structure; (iv) a complex and non-transparent tax system; and (v) corruption and tax evasion.

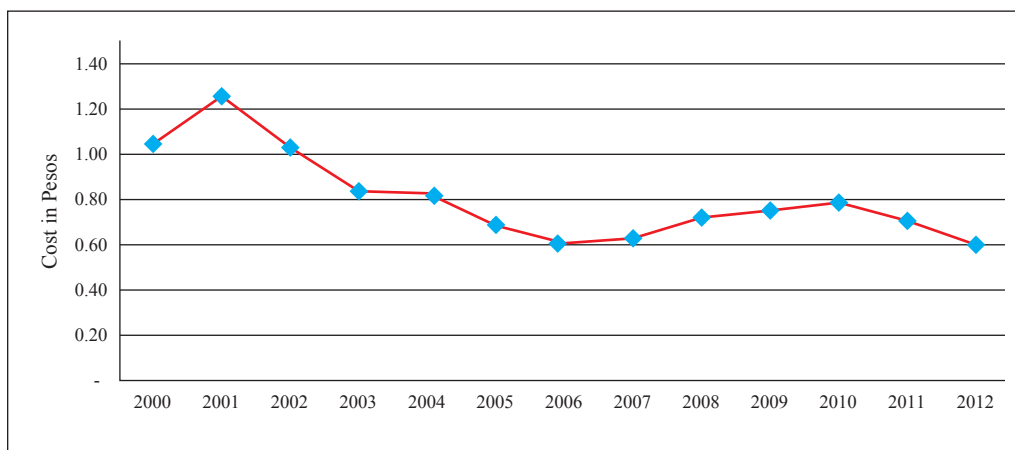


Figure 8. Tax Revenue as Percentage of GDP

Source: Author's elaboration upon data from FBR Year Book, 2011–2012 and FBR Quarterly Review, April–June, 2012–2013.

According to Pasha and Ghaus-Pasha [10], the tax-to-GDP ratio of Pakistan is not as low if compared with other countries of the world. For example, tax-to-GDP ratios in Bangladesh (2011), Brazil (2010), China (2009), India (2010), Indonesia (2010), Malaysia (2010),

the Philippines (2011), South Africa (2010), Sri Lanka (2011), Thailand (2011), Turkey (2010), and Egypt (2010) were 10%, 15.3%, 10.5%, 9.7%, 10.9%, 13.8%, 12.3%, 26%, 12.4%, 17.6%, 20.6%, and 14.1% respectively.

Tax Expenditure in Pakistan

Tax expenditure is the estimated loss of revenue due to various exemptions and concessions given under Special Regulation Orders (SROs) [8]. As given by Pasha and Ghaus-Pasha [10], the official estimates of tax expenditure incurred under federal taxes and reported in the Pakistan economic survey for 2010–2011 were Rs. 186 billion, which is equivalent to 0.9% of GDP. The largest share in tax expenditure was from customs duties (49%) followed by income tax (38%). This compares with an estimate of 5.1% of GDP as India's total tax expenditure, with the largest share (54%) accounted for by customs duties [10]. The corresponding estimates by Mortaza and Begum (2006) for Bangladesh are 2.5% of GDP, with 90% accounted for by indirect taxes [10]. According to estimates of Pasha and Ghaus-Pasha [10], the estimates of tax expenditure were almost three times of the official estimates and stood at Rs. 550 billion in 2010–2011, which was equivalent to 3% of GDP. The major contributors in the tax expenditure were direct taxes Rs. 164 billion (30%) followed by customs duties Rs. 136 billion (25%), GST on goods Rs. 91 billion (16%), and GST on services Rs. 64 billion (12%) [10].

In the recently published Pakistan Economic Survey 2013–2014 by the Ministry of Finance, the Government of Pakistan did not only estimate tax expenditures but have also provided them separately in Annexure-II (pp. 259–260). According to the estimates total loss of taxes due to tax exemptions and concessions during the financial year 2013–2014 stands at Rs. 477.1 billion while shares of income tax (Rs. 96.6 billion), sales tax (Rs. 249.0 billion), and customs duty (Rs. 131.5 billion) comes to 20.2%, 52.2%, and 27.6% respectively.

FBR's Productivity Assessment

According to the World Bank report on the Pakistan Tax Administration Reform Project [13], the GST productivity ratio represents a useful diagnostic tool to assess revenue efficiency and is defined as the ratio of GST revenues to GDP divided by the statutory rate. For a given policy and enforcement environment, the GST productivity ratio measures the ability of the tax system in a country to raise additional revenues by each percentage point of standard rate. Although the GST/VAT productivity ratio is typically used in cross sectional analysis to assess GST/VAT revenue performance worldwide, the construction of a time series for a given country also serves as a diagnostic tool to gauge tax

administration performance through time, when controlled for tax policy changes. In the case of Pakistan, the construction of a time series for the GST productivity ratio provides a useful tool to measure the performance of tax collection authority. VAT/GST productivity depends on structural features of tax design including the number of tax rates, exemption threshold and the scope of the base as well as on the level of observance imposed by the efforts of the tax administration agency. The GST productivity ratio gauges the extent of the FBR's overall performance, because the GST structure in Pakistan has not suffered major changes recently other than the general statutory rate, which is inherently controlled by the computation of the productivity ratio. Therefore, the absence of major policy shifts allows the GST productivity index to isolate the pure FBR performance effort [13].

In the World Bank report, a time series was constructed using GDP, nominal GST collection, and GST rate to assess the GST performance of Pakistan and GST productivity was computed as 23%, which is low if compared with an average ratio of 34% worldwide [13]. The GST productivity index and the FBR tax ratio for the period 2004–2005 to 2010–2011, as computed in the World Bank report is presented in Figure 9. In terms of the GST productivity index, the performance of the FBR has been declining since 2005–2006.

Similar declining trends can be observed in both the GST productivity index and the FBR's tax-GDP ratio for the period 2005–2011 (Figure 8). This declining trend in the productivity index is an indicator of the FBR's poor performance amidst relatively favorable overall economic conditions when the GDP growth rate was over 6%. The world-wide economic crises during 2008–2011 and major floods in Pakistan during 2010–2011 can be considered as the factors responsible for such a dismal performance of the FBR.

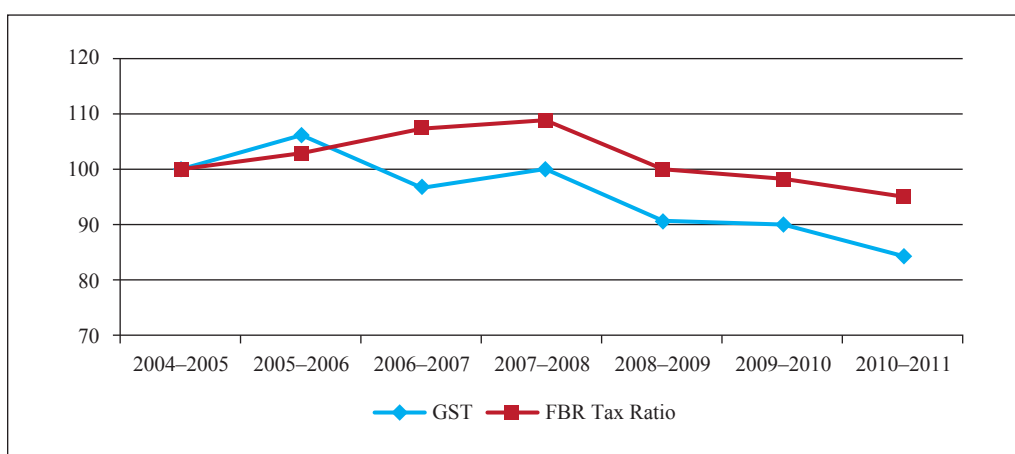


Figure 9. GST Productivity Index (2004–2005 = 100)

Source: World Bank Report on Pakistan Tax Administration Reform Project. [13]

The productivity analysis in this report is seriously limited due to non-availability of data on inputs. However, an attempt has been made to estimate the administrative cost indirectly using information available in the World Bank report where annual administrative costs of collection as a percentage of the total revenue were given for the years 2004, 2009, and 2011 as on 31 December of each year and stands at 0.60%, 0.77%, and 0.87%. As the financial year in Pakistan starts on July 1 and ends on June 30, the information given in the World Bank report was attributed to the year concerned and administrative costs relating to tax collection were estimated for the financial years 2004–2005, 2009–2010, and 2011–2012. Further, backward extrapolation for the period from 1999–2004 and forward extrapolation of total administrative costs for 2005–2009 was made by applying the annual average compound growth rate of 5.12% between 2004–2005 and 2009–2010. The administrative costs for the year 2010–2011 were estimated by applying the growth rate of 6.30% between 2009–2010 and 2011–2012. The estimated administrative costs thus obtained were divided by total taxes, direct taxes, indirect taxes, and sales tax to obtain the measures of productivity for respective categories. In the last step, productivity indices for separate categories of taxes were compiled by taking 1999–2000 = 100 which are presented in Figure 10.

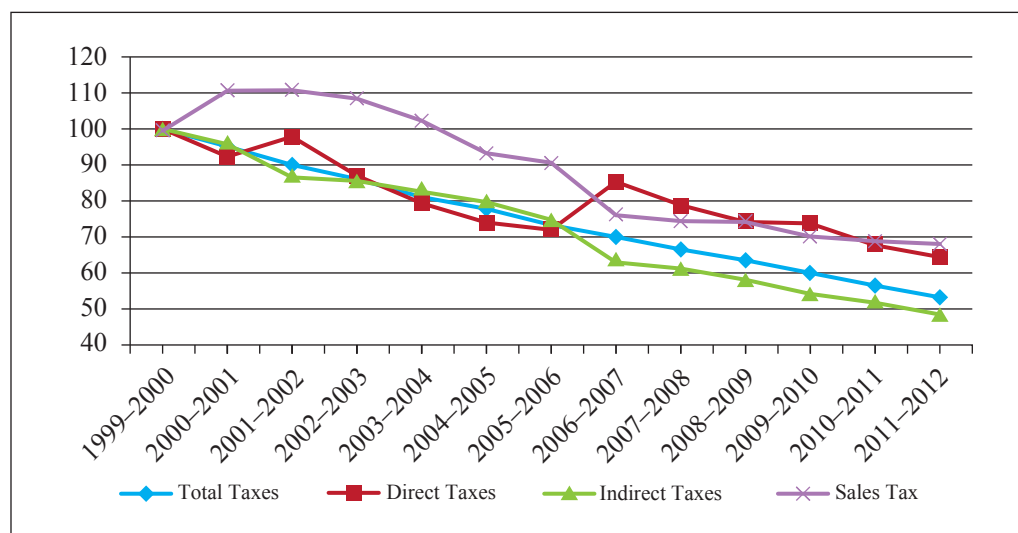


Figure 10. Productivity Index (1999–2000 = 100)

Source: Author's calculation.

All the productivity indices have a declining trend between 1999–2006, while sales tax was higher among various types of taxes in terms of the productivity index. Increases in productivity in direct taxes can also be observed during 2006–2007 but decline thereafter. In recent years, indirect taxes were on the bottom line of the productivity index, having a declining trend as compared to sales tax which showed signs of recovery after 2010–2011. However, total taxes have a consistent decreasing trend throughout the period.

The reader may be careful in drawing conclusions regarding productivity trends in Pakistan based on results reported in Figure 10 due to several points. First, the input measure used to derive the productivity was the administrative cost of collection as a percentage of the total revenue, taken from the World Bank report on the Pakistan Tax Administration Reform Project [13]. Obviously, this indirect estimation of administrative costs is not the true alternative of actual administrative costs for each year. Second, the administrative costs for the years other than 2004–2005, 2009–2010, and 2011–2012 were estimated assuming a constant growth rate which is a serious limitation of this study due to non-availability of any relevant indicator or data for these years. Third, per worker measure of productivity or preferably Total Factor Productivity (TFP) may have reflected different trends but a calculation of these measures of productivity could not be possible due to data limitation, particularly those of inputs.

However, the decreasing trend in productivity in Figure 9 can be attributed to various factors. First, although total tax collection of the FBR registered an average nominal growth of 15% between 1999–2000 and 2011–2012, the real tax collection in that period would have been much smaller if it accounted for the increase in price indices or GDP deflator. For example, Consumer Price Index (CPI) increased from 100 in 2000–2001 to 244.26 in 2010–2011 whereas the Wholesale Price Index (WPI) rose to 279.30 in 2010–2011 from 100 in 2000–2001 [8]. Similarly, the GDP deflator, measured as a ratio of nominal GDP at current factor cost to real GDP at constant factor cost, increased from 100 in 1999–2000 to 322.41 in 2011–2012 [14]. Second, a low GDP growth rate between 2007–2012 can also be considered as the other reason for declining tax productivity. Third, high oil and commodity prices, a global downturn and the financial crises in the international arena, and devastating floods during 2010 and the unexpected heavy monsoon rains in 2011 on the domestic front may also have had an adverse impact on productivity in Pakistan.

2.3. Initiatives Undertaken

The Government of Pakistan has taken various measures to enhance the performance of the FBR mainly including but not limited to the following:

- The Sales Tax Act of 1990 embodied elements of a value added tax. The tax base was broadened initially to cover more goods like petroleum products, electricity, and gas. Subsequently, a number of large and rapidly growing services like telecommunications were brought into the tax net. The standard tax rate has also been enhanced from 12.5–15% and then to 16%. The result is that over the last two decades, the sales tax-to-GDP ratio has increased by two percentage points [15].

- The maximum import tariff was brought down from 45–25% by 2002/03 [10].
- The maximum income tax rate on individuals and associations of persons was scaled down from 35–25% in the Finance Bill of 2006/07. Tax rates were reduced substantially for small companies (from 45–25%) and for banking companies (from 50–35%) [10].
- The government introduced the concept of the ‘carbon tax’ in 2008–2009. Fixed specific taxes per liter have been levied for each petroleum product [15].
- From 1998–1999 onwards, under the IMF program, emphasis was placed on the development of Agricultural Income Tax to extend the income base to the agricultural sector and thereby reduce horizontal inequity. The tax reform has been a victim of lack of political will to tax the big landowners in the country.
- In 2004, the World Bank assisted the FBR in the preparation of the Tax Administration Reform Project (TARP) to achieve significant progress in the Government of Pakistan’s reform program. TARP was prepared to: (i) restructure FBR along functional lines and have an integrated tax administration over the long term; (ii) strengthen the FBR through organizational and management reforms, and provide it with necessary autonomy; (iii) improve the level of existing human resource capacity through stream-lined training; (iv) reengineer its operational processes and systems, and introduce modern and automated risk based tax systems that would reduce contact between taxpayers and tax officials, foster voluntary compliance, and strengthen the institutional framework for tax enforcement; and (v) improve the FBR’s physical infrastructure.
- Establishment of Facilitation and Taxpayers Education (FATE) Wing in the FBR in order to facilitate and educate the taxpayers.
- The Afghan Pakistan Transit Trade Agreement (APTTA) 2010 has replaced the 1965 agreement, as it offers better control and enhanced facilitation.
- A minimum income tax was introduced, while the maximum tariff on imports was raised once again to 35% and brought down to 30% in the Finance Bill of 2012–2013.
- An across-the-board special excise duty of 2% was introduced on imports and domestic manufacturing, but withdrawn in 2012–2013 in the lead-up to the elections.
- Establishment of more than 200 Tax Facilitation Kiosks for taxpayers’ facilitation. In order to facilitate the taxpayers for filing the returns of income for the tax year 2013, the FBR has established more than two hundred (200) Tax Facilitation Kiosks (KIOSKs)/ Tax Facilitation Centres (TFCs) throughout the country on places like important business centres, shopping malls, offices of Traders’ Associations and important markets where the maximum number of taxpayers can avail the facility. Knowledgeable and competent officers/officials have been deputed in these KIOSKs/TFCs to guide and assist the taxpayers in the filing of tax returns. These KIOSKs/TFCs remain operational from Monday through Saturday, from 9:00 am to 8:00 pm daily. The KIOSKs/TFCs provide education and guidance to the taxpayers, and help the taxpayers to properly fill in the tax declarations. The taxpayers are encouraged to contact the nearest Tax Facilitation Kiosk/Tax Facilitation Centre in case of any difficulty or problem in filing their returns.

- In order to broaden the tax base, the FBR has an objective to incorporate 300,000 new taxpayers and has issued more than 80,000 notices during the year 2013–2014 [8].
- An e-filing process accessible to all tax payers at the e-FBR portal has been introduced. Automation of the system has helped in minimizing the contact between taxpayers and tax officers, considerably reducing the element of harassment [8].

In addition to the measures taken by the FBR on its own, international agencies like the World Bank also provide both financial and technical assistance and guidance in order to improve the tax collection system in Pakistan. The one example was the “Tax Administration Reform Project” equivalent to USD73.9 million jointly financed by the International Development Association (IDA) (USD50.78 million), Department for International Development (UK) (DFID) (USD23.00 million), and World Bank (USD0.12 million). The project was approved on 12 July 2004 and closed on 31 December 2011 [13]. The major objectives of the project were to (i) improve the effectiveness, responsiveness, efficiency, integrity, and fairness of tax administration; (ii) promote compliance with tax laws and broaden the tax base; and (iii) promote trade facilitation. However, after the restructuring of the project on 19 August 2010, the objective of the project was “To improve the effectiveness of Pakistan’s revenue administration [13].”

2.4. Best Practices and Lessons Learned

Reduction of sales tax from 17% to 16%, establishment of more than 200 tax facilitation centers, and the introduction of an e-filing system can be seen as best practices for the enhancement of tax collection in the country. However, in spite of various measures taken by the FBR aimed at facilitating the tax payers in the country, the taxpaying system is still not easy or user friendly. According to the World Bank’s Doing Business Report 2014 [16], Pakistan currently stands at 166 in the ranking of 189 economies on the ease of paying taxes (Figure 11). The score measures the administrative burden of complying with taxes in Pakistan and how much firms pay in taxes. Pakistan ranks lowest in terms of ease of paying taxes among all the regional countries such as Bangladesh, Bhutan, China, India, Egypt, and Iran.

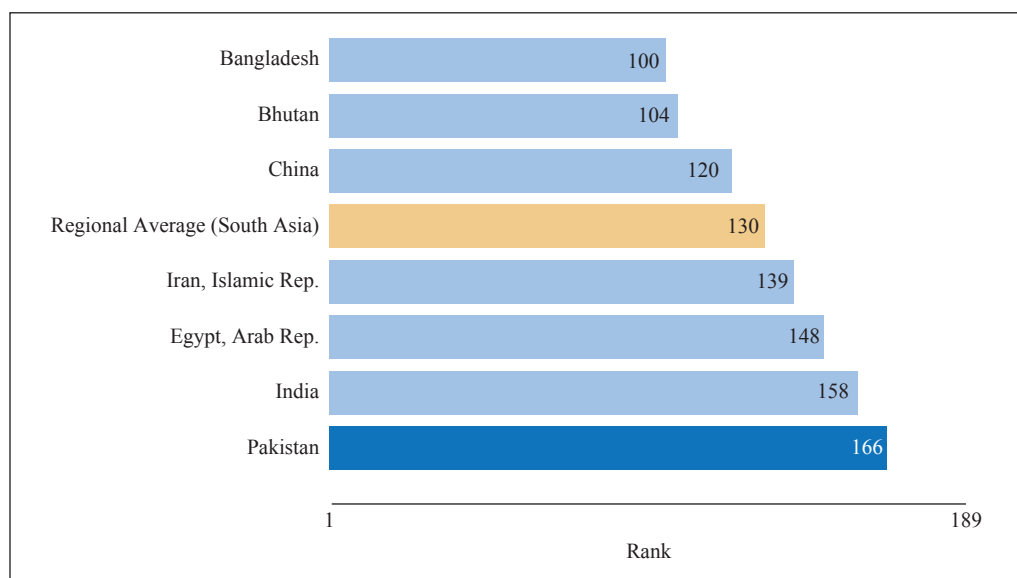


Figure 11. How Pakistan and Comparator Economies Rank on the Ease of Paying Taxes

Source: Author's elaboration upon data from World Bank's Doing Business 2014 [16].

Another indicator to measure the performance of a tax collection agency is the number of payments made per year. The average number of tax payments made in Pakistan, South Asia vis-à-vis global best performance as reported in the *World Bank's Doing Business 2014* is presented in Figure 12. According to the report, the average number of tax payments per year in Pakistan were 47 as compared to 33 in South Asia and 12 in OECD countries.

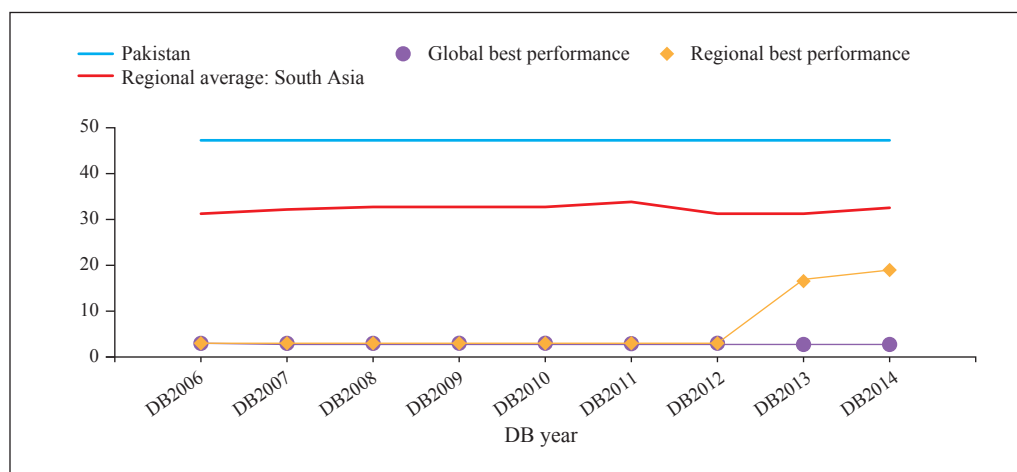


Figure 12. Tax Payments (Number per Year)

Source: World Bank. Doing Business 2014–Pakistan [16].

Another indicator to be considered is time (hours in a year) spent by taxpayers to file and pay tax. This indicator includes time for collecting information and computing the tax payable, completing tax return forms, filing with proper agencies, arranging payment or withholding, and preparing separate tax accounting books. Figure 13 has been taken from the *Doing Business 2014* report data for Pakistan.

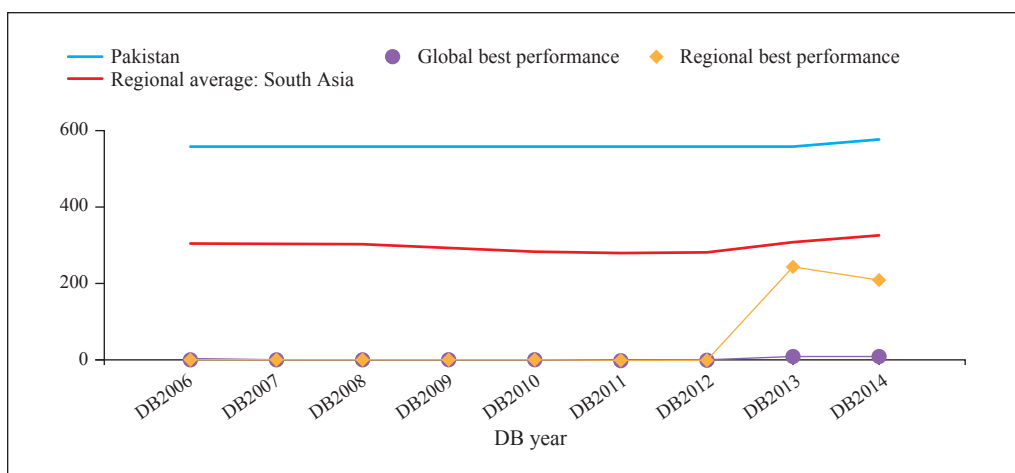


Figure 13. Yearly Hours Required to Prepare and File Taxes (2006–2014)

Source: World Bank. *Doing Business 2014*–Pakistan. [16]

Pakistan lags far behind from both regional as well as global best performance in terms of yearly hours required to prepare and file taxes. According to the *Doing Business 2014* report, 577 hours per year are required to prepare and file taxes as compared to the average of 328 hours in South Asia and 175 hours in OECD countries. A serious consideration for tax authorities is that there is no sign of improvement in Pakistan as there was no improvement even in 2014, which reflects wastage of time on the parts of both taxpayers and tax collectors.

The total taxes as a percentage of profit that firms pay, is also another benchmark to gauge the performance of a tax collection agency in any country. The total tax rate as a percentage of profit along with regional as well as global best performances is presented in Figure 13, which has been taken from the *Doing Business 2014* report.

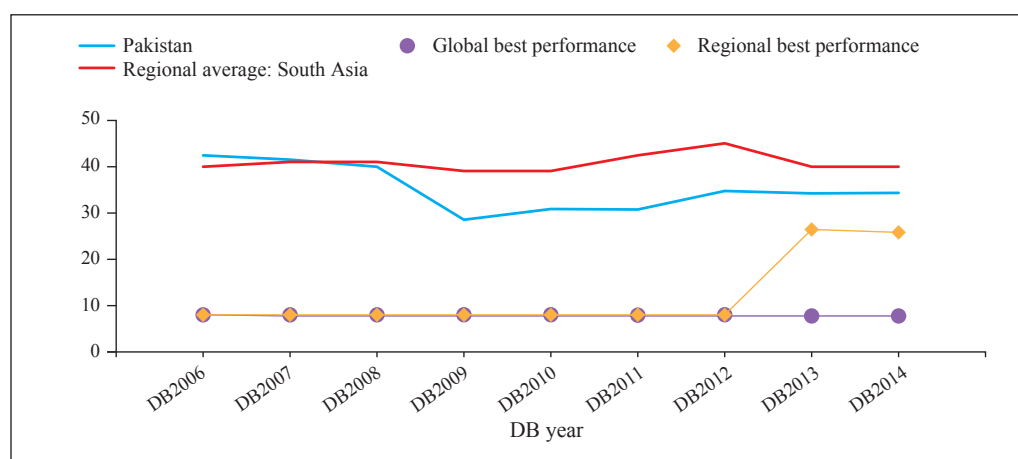


Figure 14. Total Tax Rate (% of Profit)

Source: World Bank. Doing Business 2014–Pakistan. [16]

According to Figure 14, firms have to pay 34.7% of their profit as taxes as compared to 40.6% in South Asia and 41.3% in OECD countries. The total tax rate as a percentage of profit in Pakistan is low, which is the main reason for the low tax-to-GDP ratio. The total tax rate was over 40% in Pakistan during 2006 which declined to below 30% during 2009 then rose again to over 30% during 2013 and 2014.

It is evident from the above discussion that the performance of the FBR is not in accordance with international standards and lags far behind even from the regional best performances. The performance of the FBR was also declared unsatisfactory by the World Bank after the completion of the Pakistan Tax Administration Reform Project in 2011. Further, a survey conducted by the World Bank in 2011 noted improvements in the overall level of transparency and LTU operations, but deterioration in tax filing procedures and disposal of appeals. The World Bank also observed moderate to significant shortcomings in achieving a fully functional FBR organization [13].

The operational management and efficiency of the FBR also needs improvement. The administrative costs of collection as a percentage of annual total revenue were 0.60% on 31 December 2004 and rose to 0.77% on 31 December 2009 and further increased to 0.87% on 31 December 2011 [13], depicting the increasing trend in costs of tax collection in Pakistan. This trend needs to be reversed in order to improve the operational efficiency as well as productivity of the FBR.

However, an encouraging sign of improvement in the performance of the FBR was noted in the World Bank report that 100% of sales tax and corporate income tax returns were filed electronically but 32% of the rest of the taxpayers file their returns through an online

system of the FBR. A substantial improvement was also observed in terms of registered taxpayers which increased from 1.683 million in 2004 to 3.766 million in 2011. [13]

PASSPORT SERVICE

3.1. Introduction about the Agency

The passport service is provided by the Directorate General (DG) of Immigration & Passports (I&P). The Office of DG (I&P) is an attached department of the Ministry of Interior, responsible to deal with the matters concerning issuance of Passports, Visas, Pakistan Citizenship and Renunciation of Pakistan Citizenship Certificates [17]. A passport service is provided under seven zones and 78 Regional Passport Offices (RPOs) across Pakistan in addition to 21 foreign missions located around the world (Table 1).

The issuance of passports is regulated by the Passport Act, 1974 and Passport & Visa Manual 2006 in Pakistan. Three types of passports are issued by the DG (I&P) which includes Ordinary, Diplomatic, and Official.

Table 1. Detail of Zone-Wise Regional Passport Offices (RPOs)

S.No.	Name of Zone	Number of RPOs
1	Islamabad	1
2	FATA ¹	2
3	Sindh	8
4	Punjab	36
5	Khyber Pakhtunkhwa	16
6	Balouchistan	6
7	Azad Jammu Kashmir	6
8	Gilgit-Baltistan	3
9	Foreign Missions	21
Total		99

RPOs: Regional Passport Offices

FATA: Federally Administered Tribal Areas

Source: DG (I&P) Pakistan. [17]

1) Federally Administered Tribal Areas (FATA) are a semi-autonomous tribal area situated in northwestern Pakistan bordering with Afghanistan. FATA are comprised of seven tribal agencies and six frontier regions. Tribal Areas are Bajaur, Mohmand, Khyber, Orakzai, Kurram, North Waziristan, and South Waziristan. The frontier regions are Peshawar, Kohat, Bannu, Lakki Marwat, Tank, and Dera Ismail Khan [18].

3.2. Initiatives Undertaken

A number of measures have been taken in order to improve the service and processing time of the issuance of passports in Pakistan [17] as per the following:

- Machine Readable Passport (MRP) System is replacing the existing manual system. Under the MRP system, every Citizen of Pakistan will have the relevant passport for traveling abroad. An applicant have to go through the following stages at Regional Passport Office (RPO) foreign missions abroad for obtaining MRP:
 - Arrival of Applicant at Customer Service Counter;
 - Token Counter + Photograph Capturing;
 - Biometric Data Capturing (i.e., Finger Print);
 - Data Entry;
 - Verification as per Office Record;
 - Interview and Decision by Assistant Director; and
 - Passport Delivery Counter.
- A passport tracking system via Short Message Service (SMS) has been started across Pakistan in order to make the passport service in the country faster.
- Establishment of a call center in the facility with a help line, having the number 0800-34477, has been provided to actual and potential customers of the passport service in Pakistan.
- A complaint management system has been introduced in order to address the complaints of the customers and resolve their problems at the earliest.
- An online tracking system of passports has been introduced keeping in view the requirement of the users of the passport service in Pakistan.
- Machine Readable Visa (MRV) facility at Islamabad, Lahore, Karachi, Quetta & Peshawar.
- Reducing the time period for delivery of Urgent & Normal Passports.
- Launching of Home Delivery Service.
- In order to provide people with a friendly and corruption free passport service and

environment, the following administrative steps have been taken:

- Surprise Visits by Director General of Immigration & Passports (DG. I&P);
- Crackdown against agents of the mafia with the help of District Administration;
- Disciplinary proceedings against corruption and inefficiency;
- Review & rationalization of staff posted at Regional Passport Offices (RPOs) and the Head Office;
- Enhanced public accessibility, i.e., Facilitation Desk at Head Office and Information Counters at RPOs;
- Transfers of officers/officials who have completed tenure of their posting; and
- Display of guidelines regarding procedure of issuance of passports & fee structure at RPOs.

- In addition to administrative steps mentioned above, a number of Information Technology (IT) based steps have also been taken for the improvement of passport service with the following detail:
 - Computerized Report Generation of each and every step involved in the issuance of passports:
 - Starting from Data Entry at RPOs;
 - Printing of Passports at Head Office;
 - Shipment of Passports to RPOs; and
 - Delivery to the Applicants.
 - MRP Audit System: Comparison of National Database and Registration Authority (NADRA) data with that entered at the RPOs, to detect:
 - Suspect Cases;
 - Out District Cases; and
 - Prioritization.

3.3. Best Practices and Lessons Learned

The public has responded very well to the initiatives taken by the Directorate General of Immigration & Passports [19] and can also be considered best practices in the provision of passport services in the country.

- A total number of 1,455 emails received containing complaints/queries in January 2014 which have been attended to or resolved;
- 27,543 calls have been received or responded to through Helpline 0800-34477 since its commencement;
- 402,549 SMSs received for checking the status of passports since the launch of this service on 12 October 2013;

- 24,409 online passport tracking system hits are received for checking passport status since the launch of this service on 18 December 2013; and
- 536 complaints have been logged through the online complaint system on the web since its launch on 26 October 2013. 422 responded/resolved and the rest are under process.

SUMMARY/CONCLUSION/RECOMMENDATION

The objective of this report was to measure and analyze the performance of public-sector organizations involved in the collection of taxes, i.e., Federal Board of Revenue (FBR) and provision of passport services, i.e., Directorate General of Immigration and Passports in Pakistan. The authors have faced serious problems in the availability of data relating to inputs and outputs of both agencies in Pakistan. Only the output data of the FBR could be managed, which restricted the scope of analysis of the study. The total federal tax collection in Pakistan has increased at an average growth rate of 15.02% during 1999–2012 whereas direct and indirect tax collection registered an increase of 16.2% and 14.6% respectively. However, a sharp decline in total collection has been observed during 2012–2013 where growth stands at only 3.4% where direct and indirect taxes registered a growth rate of 0.7% and 5.1% respectively. Indirect taxes contribute 61.8% towards overall federal tax collection against direct taxes whose contribution was 38.2% during 2012–2014. The total federal tax collection was only 8.5% of the GDP which is the major cause of the long-standing fiscal deficit in Pakistan. The World Bank GST productivity index, tax-to-GDP ratio, and separate indices for total, direct, indirect, and sales tax all registered a declining trend in Pakistan. The Doing Business report also hints at stagnant and declining performance of the FBR.

The tax authorities in Pakistan need to focus on taking measures to increase the share of direct taxes and broaden the tax base by including agriculture and service activities into the tax net. Imposition of reformed GST or VAT can also result in increased revenue for the country. Further, tax losses accruing from the tax exemptions and concessions through SROs need to be reconsidered on an urgent basis. Moreover, the operational efficiency of the FBR also needs to be improved in order to curtail and reduce the administrative expenditure being incurred on the collection of taxes in Pakistan.

Non-availability of data on both input and output of the immigration and passport department is the limitation of the study. Launching of a home delivery service, introduction of a help line, complaint management system, initiation of Machine Readable Passports, and a computerized report generation system are important measures, which can improve the standard of performance of passport issuance services in Pakistan. However, there is a need to increase the number of regional passport offices in Sindh and Baluchistan provinces, keeping in view the requirement of the population of these provinces.

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Appendix-I

Table 1. Federal Tax Receipts (Net) 1948–1949 to 2012–2013

(Rs. Million)

Years	Direct Taxes	ST (total)	ST (Imports)	ST (Domestic)	FED	Customs	Total
1948–1949	50	0	-	-	45	216	311
1949–1950	90	0	-	-	39	319	448
1950–1951	100	0	-	-	54	631	785
1951–1952	133	116	116	-	71	631	951
1952–1953	162	141	141	-	92	487	882
1953–1954	166	110	110	-	147	278	701
1954–1955	185	141	141	-	141	308	775
1955–1956	208	167	167	-	144	446	965
1956–1957	197	191	191	-	149	347	884
1957–1958	229	220	220	-	174	355	978
1958–1959	413	263	263	-	236	369	1,281
1959–1960	303	270	270	-	248	357	1,178
1960–1961	322	362	362	-	288	428	1,400
1961–1962	383	378	378	-	297	507	1,565
1962–1963	428	423	423	-	386	523	1,760
1963–1964	472	512	512	-	559	540	2,083
1964–1965	555	588	588	-	636	719	2,498
1965–1966	583	613	613	-	787	703	2,686
1966–1967	615	684	684	-	1,187	813	3,299
1967–1968	643	401	401	-	1,385	784	3,213
1968–1969	742	485	485	-	1,522	1,153	3,902
1969–1970	958	522	522	-	1,890	1,240	4,610
1970–1971	949	608	608	-	2,020	1,407	4,984
1971–1972	1,257	482	482	-	2,111	1,312	5,162
1972–1973	1,195	461	461	-	2,211	2,641	6,508

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Measuring Public-sector Productivity in Selected Asian Countries

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Years	Direct Taxes	ST (total)	ST (Imports)	ST (Domestic)	FED	Customs	Total
1973–1974	1,257	692	692	-	2,895	4,175	9,019
1974–1975	1,447	1,074	1,074	-	3,670	4,746	10,937
1975–1976	2,244	1,200	1,200	-	4,585	5,164	13,193
1976–1977	2,734	1,363	1,363	-	5,429	6,138	15,664
1977–1978	2,909	1,590	1,590	-	6,299	8,390	19,188
1978–1979	3,424	1,935	1,935	-	6,916	10,124	22,399
1979–1980	5,333	2,410	2,410	-	9,701	12,572	30,016
1980–1981	7,182	2,893	2,893	-	10,413	14,276	34,764
1981–1982	8,486	3,251	2,651	600	11,740	15,074	38,551
1982–1983	8,634	3,489	2,774	715	12,675	18,510	43,308
1983–184	8,788	4,624	3,651	973	15,387	21,532	50,331
1984–1985	9,312	4,674	3,541	1,133	15,053	23,371	52,410
1985–1986	9,782	4,928	3,567	1,361	15,149	29,343	59,202
1986–1987	10,568	6,409	4,574	1,835	14,960	33,364	65,301
1987–1988	11,841	8,743	5,172	3,571	16,840	38,001	75,425
1988–1989	13,920	14,700	7,514	7,186	19,399	42,362	90,381
1989–1990	15,642	18,574	8,639	9,935	21,433	48,584	104,233
1990–1991	19,870	17,008	7,788	9,220	23,087	50,528	110,493
1991–1992	28,851	20,799	9,969	10,830	28,305	61,821	139,776
1992–1993	36,771	23,521	11,057	12,464	31,546	61,400	153,238
1993–1994	43,452	30,379	14,304	16,075	34,520	64,240	172,591
1994–1995	61,660	43,574	23,260	20,314	43,691	77,653	226,578
1995–1996	78,165	49,841	28,090	21,751	51,115	88,916	268,037
1996–1997	85,060	55,668	35,889	19,779	55,265	86,094	282,087
1997–1998	103,182	53,942	29,705	24,237	62,011	74,496	293,631
1998–1999	110,207	72,105	43,010	29,095	60,905	65,292	308,509
1999–2000	112,950	116,711	67,261	49,450	55,784	61,659	347,104

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Years	Direct Taxes	ST (total)	ST (Imports)	ST (Domestic)	FED	Customs	Total
2000–2001	124,585	153,565	88,554	65,011	49,080	65,047	392,277
2001–2002	142,505	166,561	92,779	73,782	47,186	47,818	404,070
2002–2003	151,898	195,139	105,605	89,534	44,754	68,836	460,627
2003–2004	165,079	219,167	125,875	93,292	45,552	91,045	520,843
2004–2005	183,372	238,537	144,845	93,692	53,104	115,374	590,387
2005–2006	224,988	294,798	171,445	123,353	55,272	138,384	713,442
2006–2007	333,737	309,396	175,909	133,487	71,804	132,299	847,236
2007–2008	387,861	377,430	196,034	181,396	92,137	150,663	1,008,091
2008–2009	443,548	451,744	203,715	248,029	117,455	148,403	1,161,150
2009–2010	525,977	516,348	247,246	269,102	124,784	160,273	1,327,382
2010–2011	602,451	633,357	308,648	324,709	137,353	184,853	1,558,014
2011–2012	738,424	804,899	430,399	374,500	122,464	216,906	1,882,693
2012–2013	743,409	842,528	429,831	412,697	120,964	239,459	1,946,360

ST: Sales Tax

FED: Federal Excise Duty

Source: FBR Quarterly Review, Vol.12, No.4, April-June 2012–2013 [11].

Table 2. Direct Tax Collection By Major Components

(Rs. in Billion)

Years	Income Tax				Other Direct Tax			
	Collection	Share in total direct taxes (%)	Share in Federal Tax Receipts (%)	Annual Growth (%)	Collection	Share in total direct taxes (%)	Share in Federal Tax Receipts (%)	Annual Growth (%)
1	2	3	4	5	6	7	8	9
1997–1998	97.135	94.1	33.1		6.047	5.9	2.1	
1998–1999	103.189	93.6	33.4	6.2	7.018	6.4	2.3	16.1
1999–2000	105.337	93.3	30.3	2.1	9.613	8.5	2.8	37
2000–2001	117.462	94.3	29.9	11.5	7.123	5.7	1.8	-25.9
2001–2002	136.542	95.8	33.8	16.2	5.963	4.2	1.5	-16.3
2002–2003	145.368	95.7	31.6	6.5	6.532	4.3	1.4	9.5
2003–2004	157.448	95.4	30.2	8.3	7.631	4.6	1.5	16.8
2004–2005	173.768	94.8	29.4	10.4	9.604	5.2	1.6	25.9
2005–2006	209.735	93.2	29.4	20.7	15.253	6.8	2.1	58.8
2006–2007	315.152	94.4	37.2	50.3	18.585	5.6	2.2	21.8
2007–2008	367.959	94.9	36.5	16.8	19.902	5.1	2	7.1
2008–2009	422.441	95.2	36.4	14.8	21.107	4.8	1.8	6.1
2009–2010	496.632	94.4	37.4	17.6	29.345	5.6	2.2	39
2010–2011	571.986	94.9	36.7	15.2	30.465	5.1	2	3.8
2011–2012	711.018	96.3	37.8	24.3	27.407	3.7	1.5	-10

Source: FBR Year Book, 2011–2012 [9].

Table 3. Indirect Tax Collection By Major Components

(Rs. in Million)

Years	Customs	Federal Excise			Sales Tax				
	Collection	Share in direct taxes (%)	Share in Federal Tax Receipts (%)	Collection	Share in direct taxes (%)	Share in Federal Tax Receipts (%)	Collection	Share in direct taxes (%)	Share in Federal Tax Receipts (%)
1	2	3	4	5	6	7	8	9	10
1997–1998	74,496	39.1	25.4	62,011	32.6	21.1	53,942	28.3	18.4
1998–1999	65,292	32.9	21.2	60,905	30.7	19.7	72,105	36.4	23.4
1999–2000	61,659	26.3	17.8	55,784	23.8	16.1	116,711	49.8	33.6
2000–2001	65,047	24.3	16.6	49,080	18.3	12.5	153,565	57.4	39.1
2001–2002	47,818	18.3	11.8	47,186	18.0	11.7	166,561	63.7	41.2
2002–2003	68,836	22.3	14.9	44,754	14.5	9.7	195,139	63.2	42.4
2003–2004	91,045	25.6	17.5	45,552	12.8	8.7	219,167	61.6	42.1
2004–2005	115,374	28.3	19.5	53,104	13.0	9.0	238,537	58.6	40.4
2005–2006	138,384	28.3	19.4	55,272	11.3	7.7	294,798	60.4	41.3
2006–2007	132,299	25.8	15.6	71,804	14.0	8.5	309,396	60.3	36.5
2007–2008	150,663	24.3	14.9	92,137	14.9	9.1	377,430	60.9	37.4
2008–2009	148,403	20.7	12.8	117,456	16.4	10.1	451,744	63.0	38.9
2009–2010	160,237	20.0	12.1	124,784	15.6	9.4	516,348	64.4	38.9
2010–2011	184,853	19.3	11.9	137,353	14.4	8.8	633,357	66.3	40.7
2011–2012	216,906	19.0	11.5	122,464	10.7	6.5	804,899	70.3	42.8

Source: FBR Year Book, 2011–2012 [9].

Table 4. Sales Tax Collection By Major Components

(Rs. in Million)

YEARS	Sales Tax					
	Imports		Domestic		Total	
	Collection	Annual Growth (%)	Collection	Annual Growth (%)	Collection	Annual Growth (%)
1	2	3	4	5	6	7
1997–1998	29,705		24,237		53,942	
1998–1999	43,010	44.8	29,095	20.0	72,105	33.7
1999–2000	67,261	56.4	49,450	70.0	116,711	61.9
2000–2001	88,554	31.7	65,011	31.5	153,565	31.6
2001–2002	92,779	4.8	73,782	13.5	166,561	8.5
2002–2003	105,605	13.8	89,534	21.3	195,139	17.2
2003–2004	125,875	19.2	93,292	4.2	219,167	12.3
2004–2005	144,845	15.1	93,692	0.4	238,537	8.8
2005–2006	171,445	18.4	123,353	31.7	294,798	23.6
2006–2007	175,909	2.6	133,487	8.2	309,396	5.0
2007–2008	196,034	11.4	181,396	35.9	377,430	22.0
2008–2009	203,715	3.9	248,029	36.7	451,744	19.7
2009–2010	247,246	21.4	269,102	8.5	516,348	14.3
2010–2011	308,648	24.8	324,709	20.7	633,357	22.7
2011–2012	430,399	39.4	374,500	15.3	804,899	27.1

Source: FBR Year Book, 2011–2012 [9].

Table 5. Tax - GDP Ratio

Years	GDP (mp)	Direct Taxes		Indirect Taxes		Total Taxes	
		Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)	Collection (Net)	Tax/GDP Ratio (%)
1	2	3	4	5	6	7	8
1997–1998	2,677,656	103,182	3.9	190,449	7.1	293,631	11.0
1998–1999	2,938,379	110,207	3.8	198,302	6.7	308,509	10.5
1999–2000	3,826,111	112,950	3.0	234,154	6.1	347,104	9.1
2000–2001	4,209,873	124,585	3.0	267,692	6.4	392,277	9.3
2001–2002	4,452,654	142,505	3.2	261,565	5.9	404,070	9.1
2002–2003	4,875,648	151,898	3.1	308,729	6.3	460,627	9.4
2003–2004	5,640,580	165,079	2.9	355,764	6.3	520,843	9.2
2004–2005	6,499,782	183,372	2.8	407,015	6.3	590,387	9.1
2005–2006	7,623,205	224,988	3.0	488,454	6.4	713,442	9.4
2006–2007	8,673,007	333,737	3.8	513,499	5.9	847,236	9.8
2007–2008	10,242,799	387,861	3.8	620,230	6.1	1,008,091	9.8
2008–2009	12,723,987	443,548	3.5	717,602	5.6	1,161,150	9.1
2009–2010	14,803,650	525,977	3.6	801,405	5.4	1,327,382	9.0
2010–2011	18,032,871	602,450	3.3	955,564	5.3	1,558,014	8.6
2011–2012	20,653,868	738,424	3.6	1,144,269	5.5	1,882,693	9.1

Source: FBR Year Book, 2011–2012 [9].

Table 6. Tax - GDP Ratio Indirect Taxes

(Rs. in Million)

Years	GDP (mp)	Customs		Federal Excise		Sales Tax		Total Indirect Tax	
		Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)	Collection	Tax/GDP Ratio (%)
1	2	3	4	5	6	7	8	9	10
1997–1998	2,677,656	74,496	2.8	62,011	2.3	53,942	2.0	190,449	7.1
1998–1999	2,938,379	65,292	2.2	60,905	2.1	72,105	2.5	198,302	6.7
1999–2000	3,826,111	61,659	1.6	55,784	1.5	116,711	3.1	234,154	6.1
2000–2001	4,209,873	65,047	1.5	49,080	1.2	153,565	3.6	267,692	6.4
2001–2002	4,452,654	47,818	1.1	47,186	1.1	166,561	3.7	261,565	5.9
2002–2003	4,875,648	68,836	1.4	44,754	0.9	195,139	4.0	308,729	6.3
2003–2004	5,640,580	91,045	1.6	45,552	0.8	219,167	3.9	355,764	6.3
2004–2005	6,499,782	115,374	1.8	53,104	0.8	238,537	3.7	407,015	6.3
2005–2006	7,623,205	138,384	1.8	55,272	0.7	294,798	3.9	488,454	6.4
2006–2007	8,673,007	132,299	1.5	71,804	0.8	309,396	3.6	513,499	5.9
2007–2008	10,242,799	150,663	1.5	92,137	0.9	377,430	3.7	620,230	6.1
2008–2009	12,723,987	148,403	1.2	117,455	0.9	451,744	3.6	717,602	5.6
2009–2010	14,803,650	160,273	1.1	124,784	0.8	516,348	3.5	801,405	5.4
2010–2011	14,803,650	184,853	1.2	137,354	0.9	633,357	4.3	955,564	6.5
2011–2012	20,653,868	216,906	1.1	122,464	0.6	804,899	3.9	1,144,269	5.5

Source: FBR Year Book, 2011–2012 [9].

Table 7. Comparison of Tax Rates in Selected Countries (%)

Country	Corporate tax rate (large companies)	Individual income tax (maximum rate)	VAT/GST rate
Bangladesh	45	25	15
Brazil	34	27.5	17–25
China	25	45	17
India	13	33	5.5–14.5
Indonesia	25	30	10
Malaysia	25	26	-
Pakistan	35	25	16
Philippines	30	32	7–12
South Africa	28	40	14
Sri Lanka	35	35	12
Thailand	20	37	7
Turkey	20	35	18
Egypt	20	20	10–25
Average	27	32	12–16

Source: Pasha and Pasha 2013 [10].

Table 8. The City-wise Detail of Tax Facilitations Centers

S. No.	Name of RTO	No. of TFCs
1	RTO, Sialkot	15
2	RTO Sukkur	11
3	RTO, Quetta	03
4	RTO, Karachi	08
5	RTO-II, Karachi	07
6	RTO-III, Karachi	09
7	RTO, Bahawalpur	09
8	RTO, Islamabad	08
9	RTO Peshawar	10
10	RTO, Gujranwala	12
11	RTO, Faisalabad	11
12	RTO, Lahore	13
13	RTO-II, Lahore	18
14	RTO, Multan	13
15	RTO, Abbottabad	09
16	RTO, Rawalpindi	14
17	RTO, Sargodha	16
18	RTO, Hyderabad	20
	Total	206

TFC: Tax Facilitation Center

RTO: Regional Tax Office

Source: FBR Year Book, 2011–2012 [9].

PHILIPPINES

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INTRODUCTION

1.1. Background and Objective of the Study

Since the 1980s, the Philippine public sector has been on the path of reforms to raise productivity. The Philippine government recognizes that “to achieve its objectives while living up to its public expectations, the government must increasingly maximize scarce resources, eliminate waste and bureaucratic inefficiency, hone its responsiveness to the real needs of the public, and operate on the basis of a genuine work ethic and keener sense of public accountability” [1]. Starting with an agency-based and client-specific adaptation of productivity and quality concepts found useful in the industry sector, public sector productivity became part of the national productivity agenda.

Throughout the movement, the measurement of public sector productivity remained a challenge. To push productivity in the Philippine public sector, the recent study commissioned by the Development Academy of the Philippines underscored the need to *construct* productivity performance indicators and to have empirical data initiatives to complement the existing performance indicators of public sector organizations [2]. Without established and accepted metrics of public sector productivity, it is difficult to set clear productivity goals and ascertain the effectiveness of productivity programs.

The APO Research on Performance Management for Public Sector Organization addresses the gap by introducing an approach developed by the London School of Economics and Political Science’s Center for Performance based on the Atkinson Review’s suggested methodology for measuring government productivity. This groundbreaking research is carried out in selected Asian countries covering three critical government services: tax collection, issuance of driver’s licenses, and passport processing. The Philippine case focuses on tax collection service which is largely performed by the Bureau of Internal Revenue. Among others, a productive tax collection service underpins the performance of the Philippine public sector and the Philippine economy. The Atkinson methodology proved useful and applicable in estimating the productivity ratios of BIR tax collection

service and in analyzing the different factors that are systematically related to its productivity performance. The research benefited from many publicly available data about the tax collection service.

1.2. Profile of the Philippine Public Sector

As set out in the 1987 Philippine Constitution, the Philippine public sector exists and functions within the context of a “democratic and republic State.” The Government of the Philippines has three branches: executive, legislative and judiciary. The Constitution vests executive power to the President of the Philippines, who functions as the Head of State, Head of Government, and Commander-in-Chief of the Armed Forces. The legislative power is vested in the Congress of the Philippines, which consists of the Senate and the House of Representatives.¹ The judicial power rests with the Supreme Court and the lower courts [3].

As Chief Executive, the President of the Philippines² exercises control over all executive departments, bureaus, and offices. At the national level, there are 22 major departments,³ 37 other executive offices and about 124 government-owned and controlled corporations. At the subnational level, there is the regional government for the Autonomous Region in Muslim Mindanao and the local government units, numbering to about 1,630 provincial, city, and municipal governments. At the local level, officials consist of those elected—the local chief executives and members of the legislative council—and appointed officers.

Productivity improvement is important in the Philippine public sector for three reasons. First, the Philippine public sector is one of the major employers in the country. Second, it is a key provider of basic social services and public infrastructure to support the economy. Third, despite being a moderate spender, it is the main consumer of tax resources.

According to the Bureau of Labor and Employment Statistics, from around 2.3 million in 2000, nearly 3 million civil servants⁴ worked in the public sector by the end of fiscal year 2012. The total figure includes all those working in the public sector such as national and local governments, public schools, public hospitals, and government-owned and controlled corporations. As can be gleaned from Figure 1, public sector employment accounts for about 8% of the total domestic employment, a figure which is well within the range or even lower than the level of public sector employment in neighboring Asian countries.⁵

Of the total public sector employment though, data from the Department of Budget and Management shows that less than half or only about 1.2 million are working for the

national government (refer to Annex Table 1).

In terms of expenditure, the Philippine government may be considered a moderate spender. As can be seen in Figure 2, the national government expenditure stays close to about 17.0% of the gross domestic product. This expenditure level is generally below the average government spending of some of its counterparts in Asia.⁶ Out of total government expenditure, as can be gleaned from multi-year DBM data, the proportion that goes to personal services averages to 5.5% of the Gross Domestic Product (GDP).

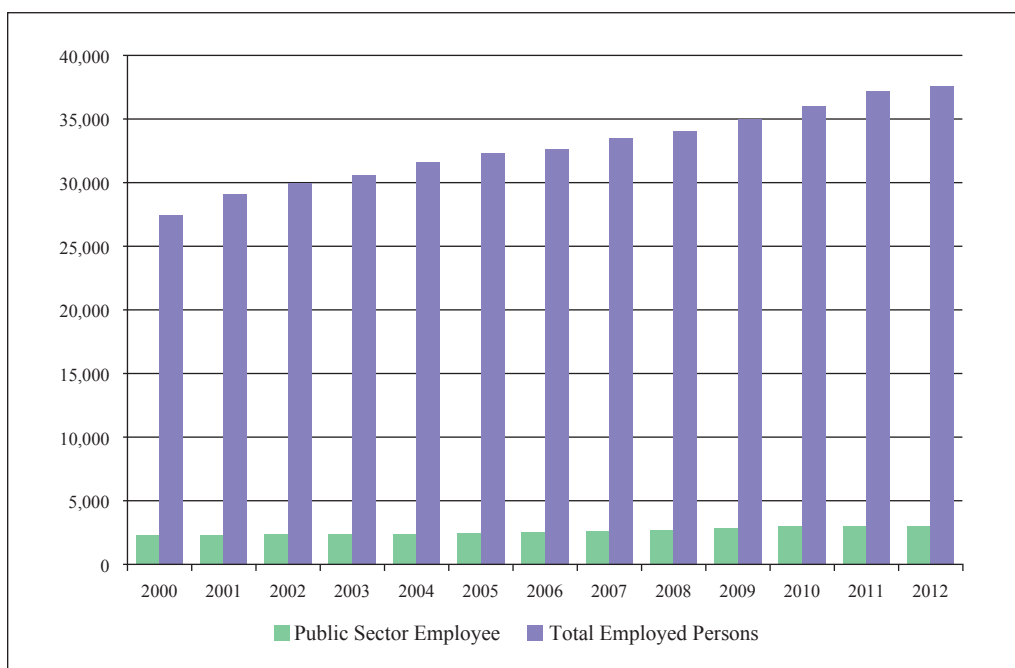


Figure 1. Public Sector Employment to Total Employment

Source: Bureau of Labor and Employment Statistics

The rest of the expenditures are for maintenance and other operating expenses and capital outlay (refer to Annex Table 2).

In recent years, the bigger fiscal space owing to robust economic growth⁷ and vigorous tax collection afforded the Philippine government with the means to expand and sustain greater spending in social services, such as basic education, universal health care, and social protection via conditional cash transfers and in the construction of vital physical infrastructure [4]. The strong performance of the Philippine economy, amidst record slow growth in Asia and the rest of the world, is considered remarkable [5].⁸ The National Economic Development Authority asserts that, “the conditions favoring a departure from the country’s perennial situation of poverty, inequity, and lagging development have continued to hold, if not gotten better,” in recent past is due to renewed business confidence and heightened public trust in the Philippine government, among others. As enunciated in its Social Contract with the Filipino People and the Philippine Development Plan 2011–2016, the Philippine government is steadfast in levelling up the performance and effectiveness of the public sector in order to “sustain growth momentum and reduce poverty in multiple dimensions.” No less than the President of the Philippines chairs the Good Governance and Anti-Corruption Cluster of the Cabinet which sets policies to improve the delivery of public services and public sector performance, enhance the policy environment, and strengthen transparency, accountability, and citizen participation.

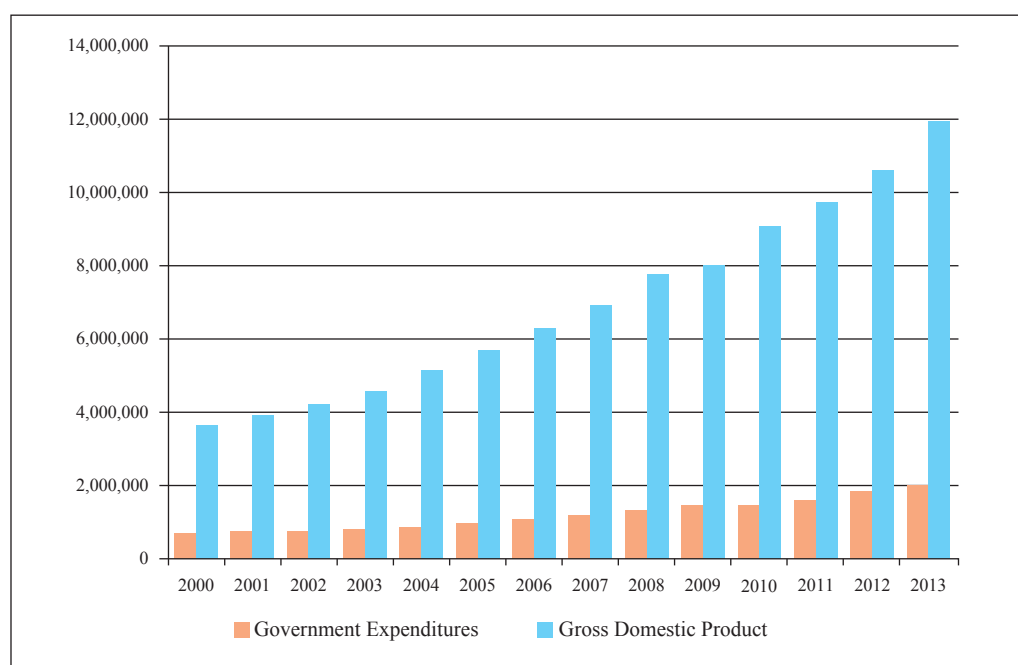


Figure 2. GDP vs Government Expenditures (in million pesos)

Source: Department of Budget and Management

1.3. Initiatives to Promote Public Sector Productivity

The beginnings of the productivity movement in the Philippine public sector can be traced since the 1980s with the adaptation of the Japanese quality control circles concept into work improvement teams (WIT). Premised on the notion that agency productivity can be improved through enhanced employee work ethic and an organizational value system, the WIT program was an attempt to raise quality consciousness in the delivery of public services. The programmatic and institutional approaches came in afterwards.

On 30 September 1987, President Corazon C. Aquino issued Administrative Order No. 38 establishing the Government Productivity Improvement Program as a comprehensive strategy for enhancing and sustaining government performance in the delivery of essential and quality services. Specifically, the GPIIP aimed to (a) promote national productivity consciousness, (b) institutionalize productivity improvement activities in various government agencies, and (c) provide a support mechanism that can sustain productivity efforts in government. In response, the national government's frontline services assumed the showcasing of productivity improvement such as the five-year Tax Computerization Project of the Bureau of Internal Revenue, Computerization Project for the operations of the Bureau of Customs, the Department of Foreign Affairs working on standards for machine readable passports and visas, One-Stop Action Center of the Board of Investments, Fast Lane at the Land Transportation Office, etc [6]. A cabinet-level Government Productivity Improvement Council was also created as the primary policy-making and coordinating body of the program.⁹ One of the enduring policies adopted by the Philippine government at that time was the declaration of November as productivity month for the public sector and the grant of productivity incentive benefits to public sector employees on the basis of their personal contribution to the efficiency, economy, and other improvements of government operations.¹⁰

In subsequent years, the public sector productivity movement has leveled up to become part of the national agenda. The National Action Agenda for Productivity (NAAP) 1996–1998, which was adopted by the administration of President Fidel V. Ramos as the blueprint for the country's bid for global competitiveness emphasized that “both government and the private sector must work as full partners in setting productivity goals, policies, and action programs.” Cognizant of the important role of the public sector in providing the direction, environment, and support to increase overall societal productivity, the NAAP set out an action agenda toward the public sector's key result areas, namely (a) strategic governance, (b) productive government organizations, (c) productive human resources; and (d) responsive public sector delivery systems. Among others, NAAP mandated the conduct of productivity policy studies, private-public sector partnerships, preparation of agency productivity plans, acceleration of the computerization of essential

government services and other office productivity improvement programs, client-oriented service such as One-Stop-Shop and the *Mamamayan Muna, Hindi Mamaya Na*, which institutionalizes courtesy and quick service to the public, productivity culture-building programs such as 5S¹¹ and institutionalization of quality awards [6]. The successor, Medium-Term National Action Agenda for Productivity 2000–2004, formulated during the administration of President Joseph E. Estrada carried forward the public sector productivity thrusts in the form of the Governance Action Agenda. Priorities were eyed on streamlining and reengineering the bureaucracy, computerization of frontline services of revenue generating and regulatory government agencies, implementing the government information systems plan, review of remuneration system and employment qualification standards, instituting performance monitoring systems to promote integrity and productivity, adopting total quality management in government offices, and advocacy campaigns on productivity [7]. This action agenda may well be considered as the building blocks of subsequent public sector productivity-related policies and programs, a selection of which is presented below.

Government that costs less

Pending the passage of the Reengineering Bill, the administration of President Gloria-Macapagal-Arroyo kicked-off the strategic review of the operations and organizations of the Executive Branch in 2004 through Executive Order No. 366.¹² The Rationalization Program sought to focus government efforts on its vital functions, improve the quality and efficiency of government services by eliminating overlaps and duplication of functions, and improve agency performance through the rationalization of service delivery and support systems. However, due to its controversial nature, the program implementation was protracted. The review and approval of the agency proposals for rationalization was substantially completed in 2013. Based on the DBM report, annual savings of about PhP4.51 billion¹³ from personal services were realized with the abolition of about 28,096 redundant positions. Nonetheless, critical agencies like the Department of Education, the Philippine National Police, and the Bureau of Internal Revenue were allocated additional personnel to strengthen their delivery units. Continuing implementation of major public expenditure management reforms warrant that public sector organizations become more accountable in the use of public money and sustain focus on their core mandates. For instance, the Department of Public Works and Highways has been designated as the principal agency to ensure that infrastructure outlays are focused on “the right projects with the right costs and the right quality” [4].

The rationalization in the public sector is part of a bigger and continuing Public Expenditure Management reform initiated in 1998 by the Department of Budget and Management to institute fiscal discipline, enhance allocative efficiency and heighten

operational efficiency [8]. Other programs to reduce unproductive government spending include the Government Procurement Reform since 2003, which has been hailed by the World Bank as an “island of good governance” and the Government Energy Management Program¹⁴ launched in 2004.

Quality government

In 2001, the NAAP-proposed Philippine Quality Award (PQA) for Performance Excellence was legislated through Republic Act No. 9013. Conferred by no less than the President of the Philippines, the PQA is the highest level of national recognition for exemplary organizational performance of private and public organizations in the country. A complementary measure, the Government Quality Management Program, was introduced by the Arroyo administration to amplify customer focus in the public sector. Executive Order No. 605 s. 2007 directed all government agencies, especially those with frontline services, to align their quality management systems with international standards. To date, over 196 public sector organizations¹⁵ have obtained ISO 9001:2008 certification for their priority services, with no less than the QMS for the Completed Staff Work in the Office of the President of the Philippines certified to ISO standards. This number is expected to dramatically increase after the Aquino administration required ISO alignment and/or certification as one of the performance targets of agencies to be eligible to performance-based incentives beginning in 2014. However, the adoption of the global performance excellence framework as embedded in the Philippine Quality Award is more gradual. To date, only a few government agencies have been conferred the PQA recognition. To invigorate the campaign, the Government Quality Management Committee is engineering a Government Quality Class scheme to recognize milestone achievements in governance quality, process management, human resource management, and customer focus.

Digital government

The Philippine government sought to take advantage of the advances in information and communication technology to raise efficiency and transparency of government-to-business (G2B), government-to-citizens (G2C), and government-to-government (G2G) transactions. The pioneering efforts focused on computerization of frontline services such as tax administration, customs operations, license applications, passport processing, tax administration, civil registration, etc., as well as backroom processes to make them more efficient, transparent, and corruption-resistant. The passage of the Electronic Commerce Act in 2000 mandated the Philippine government to install an electronic online network to facilitate the open, speedy, and efficient electronic online transmission, conveyance and use of electronic data messages or electronic documents among all government departments and offices down to the regional, provincial, and local government units. To widen

information and communications technology applications, the Philippine government established the e-Government Fund to finance the acquisition of hardware, software, and techno-ware to support the development and installation of e-government systems. To start with, the Philippine government has established the *eServices on gov.ph* as ready source of government information and common services for citizens, business, and non-residents which are accessible via the Internet such as registrations, doing business, paying taxes, health insurance, education, housing, travel, and tourism. Other client-centered e-services have also been established such as the K-Agrinet to assist farmers and fisher folks,¹⁶ *Phil-JobNet* for job matching, *Philippine Government Electronic Procurement System* portal, *National Single Window* that allows single entry points to fulfill all import, export, and transit-related regulatory requirements, *Electronic to Mobile or e2m customs system*, *Philippine Business Registry*, *e-census*, *e-taxes*, *e-passport*, and other e-government transactions. The information infrastructure to support networked government such as the Government Integrated Financial Information System and the National Payroll System is nearing completion. The Integrated Government Philippines Project better known as *iGovPhil* works to seamlessly connect government processes to service both citizens and business, thus boosting productivity. As part of the e-Government Masterplan 2013-2016, it is envisioned to bring the Philippines in the top 50 e-government global ranking by 2016, as against the middle position of 88th in the 2012 E-Government Survey of the United Nations [9].

Smart government

Since the 1990s, the Philippine government liberalized and deregulated the economy to *level the playing field* and to make regulation more efficient. But the bureaucratic and compartmentalized set-up constrained the agencies of government to provide seamless processes for the transacting public. Administrative measures such as limited document requirements, signature reduction, and posting of workflow and service guides, and anti-red tape programs proved useful but not as wide-reaching in reducing the cost of transacting with the government.¹⁷ In 2007, the Philippine Congress passed Republic Act No. 9485, otherwise known as the Anti-Red Tape Act (ARTA) to improve transactions flows in government. ARTA aimed to promote efficiency and transparency in government with regard to the manner of transacting with the public by requiring each agency to simplify frontline service procedures, formulate service standards to observe in every transaction, and make known these standards to the public through the Citizen's Charter.¹⁸ In 2012, when the Citizen's Charters became a good governance condition of the performance-based bonus, the compliance rate reached 94%.¹⁹ The Civil Service Commission awards the Citizen Satisfaction Center Seal of Excellence to agencies with excellent public performance based on the result of the ARTA report card survey. The country's National Competitiveness Council, however, is unrelenting in its pursuit to ease transactions

with government. One-stop-shops are upgraded to “networked government” such as the web-based Philippine Business Registry that interlinks the computerized registration systems of several agencies regulating business to simplify government-to-business transactions and thus improve transaction flows and productivity. Further streamlining of business applications is happening at the local level. The concerted effort of the business sector and public agencies in the Ease of Doing Business Game Plan gained encouraging results: In Global Competitiveness, the Philippines improved its rank from 75 in 2011 to 59 in 2013.²⁰ On Ease of Doing Business, the Philippines leaped from 136th place in 2011 to 108th in 2013 [5].

Honest, transparent, and professional government

What sets apart the Philippine government from its counterparts is the belief that productivity and honest governance are inextricably linked. The consequence of corruption is low productivity of the public sector. (It would be recalled that the early 19th century productivity movement in the public sector in the United States according to author Nicolas Henry, “evolved from a simple, moral concern to improve government by eradicating corruption” [10].)

The Philippine government is on the same track. Its earnest bout against corruption is evinced by its numerous anti-corruption laws, policies, and bodies. In the 2000s, more programmatic approaches to prevent corruption were introduced, such as the Ten-point Jumpstart Anti-corruption Program²¹ and the 22 Doables.²² Heeding President Benigno S. Aquino’s rally call on *daang matuwid* (straight path), the prosecution and prevention of corruption grew more intense in recent years.²³ As co-founder of the Open Government Partnership, the Philippine government committed itself to 19 measures to enhance transparency, raise accountability, deepen citizen participation, and harness technology and innovation. Results are highly positive. Accountability in the use of public money is heightened. For instance, almost all public sector organizations now bear the Agency Transparency Seal. The invigorated Run After Tax Evaders (RATE) and Run After the Smugglers (RATS) coupled with Revenue Integrity Protection Service result in a higher collection of major revenue agencies [11].

On the matter of accountability for results, a quiet reform is taking place with the harmonization and unification of government performance systems into Results-Based Performance Management System.²⁴ Guided by President Aquino’s governance principle on *tao ang boss* (the ordinary people as the boss), the RBPMS uses a common set of performance indicators that cut across societal and sectoral down to organizational and individual performance with reference to government priorities. Anchored on the Five Key Result Areas²⁵ of the President’s Social Contract, the Results Matrix of the Philippine Development Plan and the

Organizational Performance Indicators Framework, the new platform puts the spotlight on the citizens, and performance of public sector organizations are evaluated on the basis of the most important bottom line: *ramdam ni Juan* (results that are felt by the ordinary man on the street). The new performance-based incentives and allowances for government employees from 2012 and onwards is tied to the results-based system.

The Joint Resolution No. 4 issued by the Philippine Congress on Salary Standardization III provided for the grant of incentives “as rewards for exceeding agency financial and operational performance targets, and to motivate employee efforts toward higher productivity.” Among others, these incentives include the Collective Negotiation Agreement incentive and the Productivity Enhancement Incentive. However, while the intention of the incentives was to improve overall productivity and reward exemplary performance, these additional benefits particularly the PEI, have often been given across-the-board regardless of the level of performance. The new Performance-Based Incentive System changed this and introduced a tiered performance-based bonus which the employees can get after their agencies satisfy the physical targets and good governance conditions set by an Inter-Agency Task Force.²⁶ In 2012, 96.0% of national agencies joined the scheme and of these, about 79.0% qualified for the PBB. The overall compliance rate on the good governance conditions was very high at 88.0%²⁷ [12]. The recently concluded impact study by the World Bank affirmed that the PBB was a good idea overall, “having a positive effect on government performance” and is worth scaling up [13]. The results-based regime is complemented with the performance-informed budget, the strategic performance management system for individuals and on-going compensation studies. Meanwhile, the Philippine government invigorated investments in its human capital to professionalize and raise the quality of the bureaucracy. The Public Management Development Program²⁸ was revived in 2012 to build a cadre of high performing public managers and future career executives.

The various initiatives to improve public sector productivity in the Philippines is summarized in Figure 3.

To be sure, the collective action of Philippine government translated to marked improvement in the country’s percentile ranking in the Worldwide Governance Indicators from 2010 to 2012 in areas such as control of corruption, political stability, regulatory quality, rule of law, and government effectiveness. At the domestic front, the Philippine government sustained the trust and confidence of the Filipino people as shown by the high public satisfaction rating from surveys of the Social Weather Station and Pulse Asia [4].

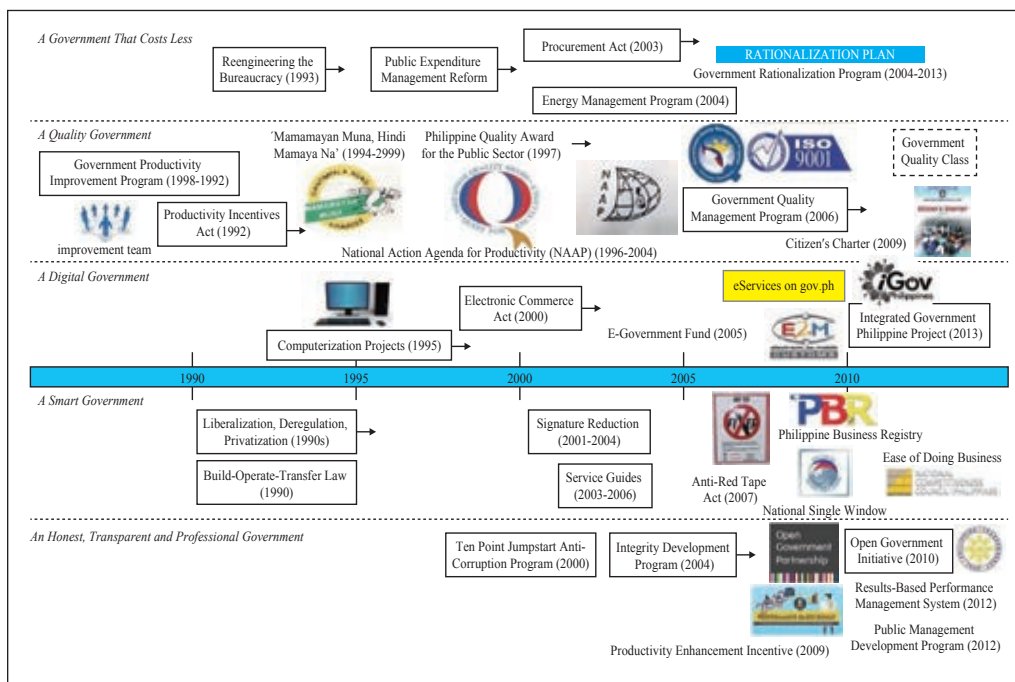


Figure 3. Initiatives to Improve Public Sector Productivity: Philippines, 1990s to Present
Authors' mapping and illustration

The way forward is to institutionalize the various productivity undertakings and encourage more innovation as in the case of the Bureau of Internal Revenue's tax collection service which is elaborated in the next section.

TAX COLLECTION SERVICE

The Philippine government has two main revenue collection arms: (a) Bureau of Internal Revenue and (b) Bureau of Customs, both are under the auspices of the Department of Finance. According to the 1997 National Internal Revenue Code, the BIR is mandated "to assess and collect all national internal revenue taxes, fees and charges, and to enforce all forfeitures, penalties and fines connected therewith, including the execution of judgments in all cases decided in its favor by the Court of Tax Appeals and the ordinary courts."

The BOC, based on the Tariff and Customs Code of the Philippines, is mandated to "assess and collect lawful revenues, prevent smuggling and other frauds, control vessels/aircrafts doing foreign trade, enforce tariff and customs laws, control the handling of foreign mails for revenues and prevention purposes, control import and export cargoes, and jurisdiction over forfeiture and seizure cases."

This study focuses on the tax collection service of the BIR. Historically, the BIR contributes the lion's share in the national government tax revenue as shown in Table 1.

Table 1. BIR Share in National Government Tax Revenue

Year	National Government Tax Revenues (in Million Pesos)	BIR Collections (in Million Pesos)	BIR Share in Government Tax Revenues (%)	Other Agencies' Share in Government Tax Revenues (%)
2012	1,361,081	1,057,916	77.73	22.27
2011	1,202,066	924,146	76.88	23.12
2010	1,093,643	822,624	75.22	24.78
2009	981,631	750,288	76.43	23.57
2008	1,049,179	778,581	74.21	25.79
2007	932,937	713,596	76.49	23.51
2006	859,857	652,733	75.91	24.09
2005	692,779	542,697	78.34	21.66
2004	598,014	468,177	78.29	21.71
2003	538,019	426,010	79.18	20.82
2002	496,372	394,549	79.49	20.51
2001	489,859	388,679	79.35	20.65
2000	460,034	360,802	78.43	21.57

Source: Bureau of the Treasury.

2.1. About the Bureau of Internal Revenue

An indispensable arm of the Philippine government, the BIR traces its existence as far back as the 17th century. During the Spanish era, the *Contador de' Resultas* served as the Chief Royal Accountant who is like the Commissioner of Internal Revenue¹. The BIR was formally created on 1 August 1904 during the American period through the Reorganization Act No. 1189 s. 1904 [14].

¹ Unless otherwise stated, most of the discussions about the BIR are based on publicly available information and data from its website and annual reports.

As stipulated in the Administrative Code of 1987, the BIR is headed by and subject to the supervision and control of the Commissioner of Internal Revenue [29] whose functions are to (a) assess and collect all taxes, fees, and charges and account for all revenues collected, (b) exercise duly delegated police powers for the proper performance of its functions and duties, (c) prevent and prosecute tax evasions and all other illegal economic activities, (d) exercise supervision and control over its constituent and subordinate units, and (e) perform such other functions as may be provided by law. The Commissioner is assisted by four deputies responsible for the Operations Group, Legal and Inspection Group, Resource Management Group, and Information Systems Group.

The internal revenue taxes collected by the BIR consist of capital gains tax, documentary stamp tax, donor's tax, estate tax, income tax, percentage tax, value added tax, and withholding tax. Capital gains tax is a tax imposed on the gains presumed to have been realized by the seller from the sale, exchange, or other disposition of capital assets located in the Philippines. Documentary stamp tax is a tax on documents, instruments, loan agreements and papers evidencing the acceptance, assignment, sale or transfer of an obligation, rights, or property. Donor's tax is a tax on a donation or gift and is imposed on the gratuitous transfer of property between two or more persons who are living at the time of the transfer. Estate tax is a tax on the right of the deceased person to transmit estate to lawful heirs and beneficiaries at the time of death. Income tax is a tax on all yearly profits arising from property, profession, trades or offices, or as a tax on a person's income and emoluments. Percentage tax is a business tax imposed on persons or entities who sell or lease goods, properties, or services in the course of trade or business whose gross annual sales or receipts do not exceed PhP550,000. Value added tax is a business tax imposed and collected from the seller in the course of trade or business. Withholding tax on compensation is the tax withheld from individuals receiving purely compensation income. The other types of tax withheld are expanded withholding tax, final withholding tax, and withholding tax on government money payments [15]. As of 2012, the BIR has in its record about 20.8 million registered taxpayers, which is almost five times its 4.5 million registered taxpayers in 2000 (See Figure 4.).

To serve these taxpayers, the BIR organized its offices by function. Like other tax administrations, the BIR has a Large Taxpayers Service which is dedicated to taxpayer services, audits, and investigations of big corporations. It has a three-tiered office network consisting of 19 revenue regions and 124 revenue districts spread geographically (refer to Annex Figure 1 showing the BIR Organizational Chart).

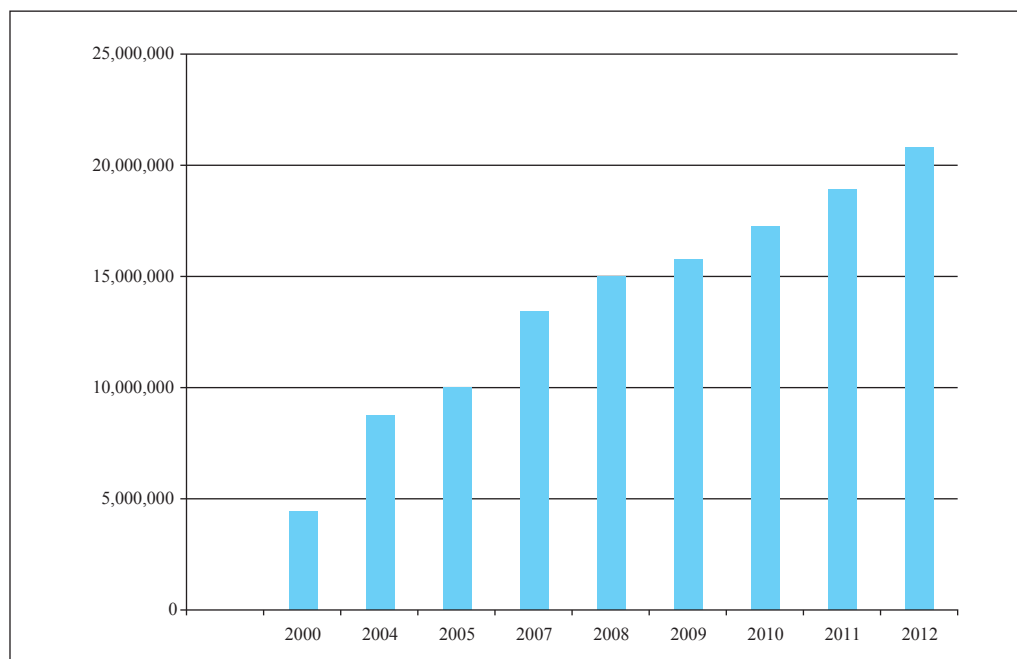


Figure 4. Registered Taxpayers, 2000 to 2012

Source: BIR Annual Reports

Performance

BIR is one of the most progressive and hardworking agencies of the Philippine government. In its charter statement, the BIR commits itself “to collect taxes for nation-building through excellent, efficient, and transparent service, just and fair enforcement of tax laws, uplifting the life of every Filipino.” It envisions being “an institution of service excellence, a partner in nation-building, manned by globally competitive professionals with integrity and patriotism.” The Strategy Road Map in Figure 5 illustrates the strategic objectives in achieving the BIR mission and vision. The strategies capture the balanced score card perspectives of revenue, taxpayers, process, organization and people, and their effects and linkages.



Figure 5. Strategy Road Map

The results of BIR's strategic initiatives in recent years are impressive as can be gleaned from historical tax revenue collection in Figure 6. In particular, 2012 is a milestone for the BIR with revenue collection exceeding for the first time in history the PhP1 trillion mark, which is attributed to the vigorous effort to encourage voluntary compliance among taxpayers and relentless pursuit to go after tax evaders. The 14.5% increase is notable considering that the country's nominal GDP also grew from 7.8% in 2011 to 8.8% in 2012.

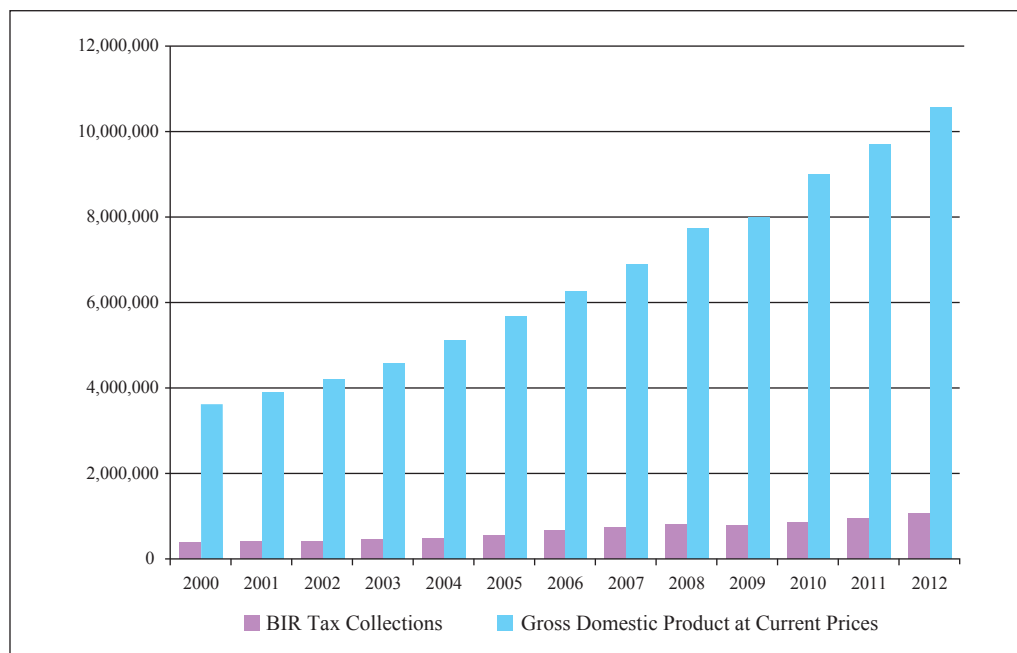


Figure 6. GDP vs Tax Revenue Collections (in Million Pesos)

Source: Bureau of Internal Revenue

By type of tax, the main source of revenue collection was taxes on net income and profit, as can be seen in Figure 7. In particular, in 2012, taxes on net income accounted for 60.7%, value added tax came second with a share of 21.7%, excise tax was 6.8%, percentage tax amounted to 5.0%, and the remaining 5.8% from other taxes. Voluntary payments of taxpayers comprise the lion's share or 97.6% of collection. The Large Taxpayers Service generated the highest amount of revenues registering 63.8% share. The Revenue Regions accounted for the remaining 36.2% [15].

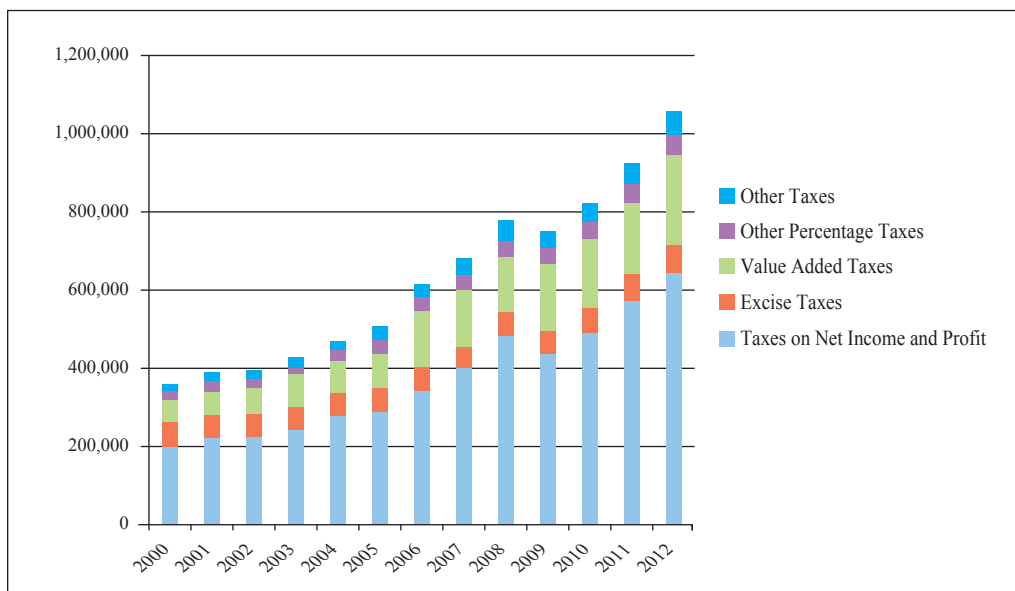


Figure 7. Revenue Collection by Major Source of Tax

Source: BIR Annual Reports

Administrative costs

The remarkable performance of the BIR over the years was achieved at generally lower administrative costs. Looking at the tax effort, computed as cost per Php100 of collected revenue, the performance is noteworthy: from Php1.25 for every Php100 tax collected in 2001, this was cut to Php0.60 per Php100 in 2012 [30]. Refer to Figure 8.

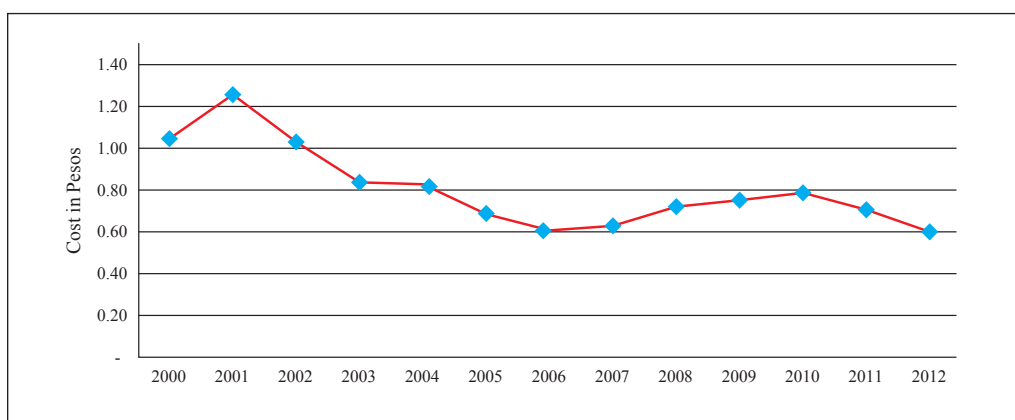


Figure 8. Cost for Every Php100

Source: BIR Annual Reports

The main costs of tax administration are categorized into three parts: personal services, maintenance and other operating expenses, and capital outlay. Personal services (PS) refer to provisions for the payment of salaries, wages, and other compensation for government employees or cost of staff. Maintenance and other operating expenses (MOOE) refer to expenditures to support the operations of government agencies such as expenses for supplies and materials, transportation and travel utilities (water, power, etc.), and necessary repairs. Capital outlay (CO) refers to appropriations for the purchase of goods and services including land and land improvements outlay, buildings and structures outlay, office equipment, furniture and fixtures, machineries, and equipment, the benefits of which extend beyond the fiscal year and which add to the assets of the government [16]. Figure 9 shows the historical administrative costs of the BIR.

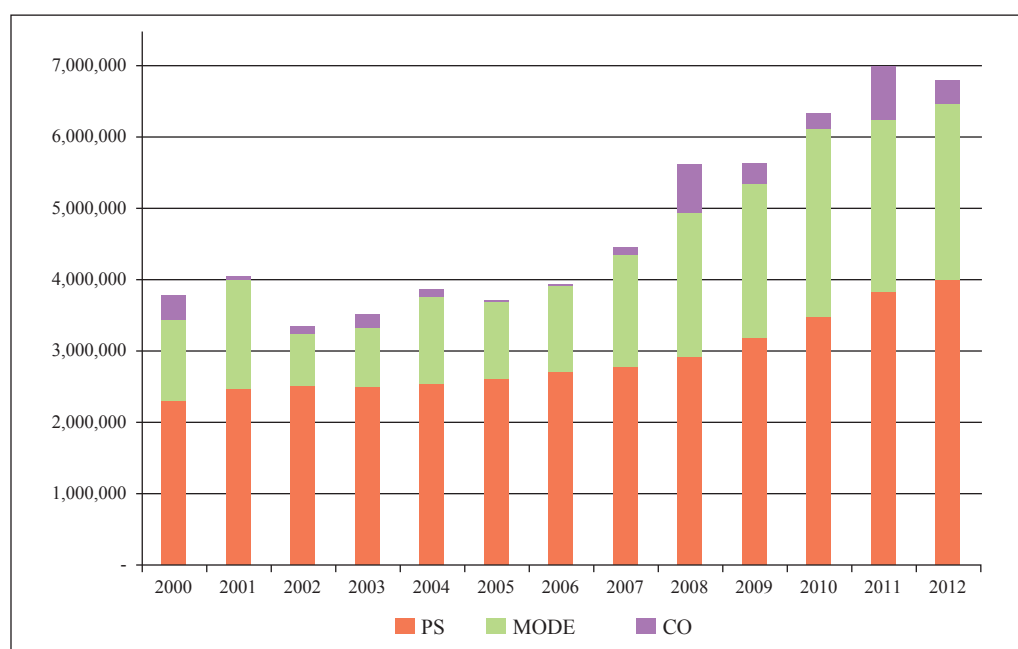


Figure 9. Total Cost of Operations (in thousand pesos)

Source: BIR Annual Reports

It is noted that the bulk of the administrative costs is for personal services, about 61% in 2012, for instance. The rest are for maintenance and other operating expenses, and some capital outlay for facilities' improvement and construction of buildings especially for regional offices. As of 2012, BIR has a total of 10,187 personnel. Of these, about 5,254 personnel are directly involved in tax collection service. As can be seen in Figure 10, although the total manpower of the BIR has been decreasing over the years, the number of direct personnel for tax collection service (assessment, collection, regulatory, and legal) has been almost constant. Further, while the warm bodies remained the same, the cost of

personal services increased due to four-phase salary adjustments from 2009 to 2012 under Salary Standardization III.

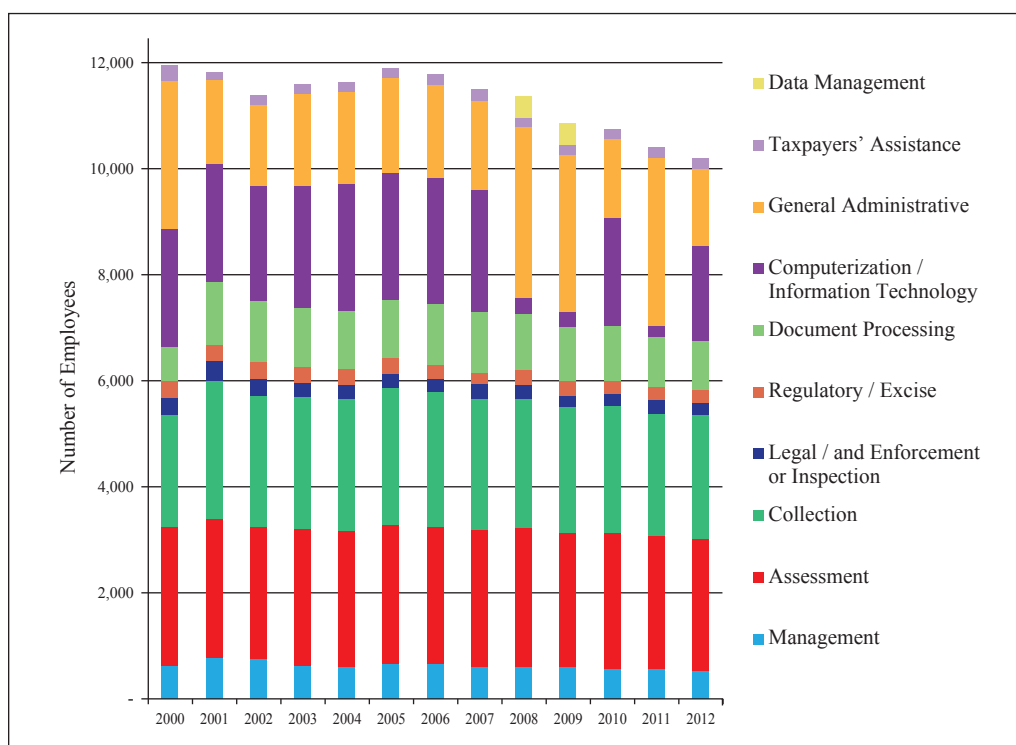


Figure 10. Total Number and Categories of Employees

Source: BIR Annual Reports

The increasing number of taxpayers and collection targets year after year is exerting considerable pressure on BIR's productivity [31]. In the next section, we dig deeper on productivity performance of tax collection service, specifically by measuring total factor productivity (TFP) and labor or staff productivity.

2.2. Input and Output Data and Analysis

Using the Atkinson Review's methodology to estimate government productivity, productivity is defined as the ratio of outputs to inputs. To estimate tax collection productivity, we start by identifying the input and output data for the analysis with reference to Dunleavy and Carrera [17]. For the tax collection service, we treat the revenue collected as the output. For inputs, we consider three factors: personnel, maintenance and other operating expenses, and capital.

For the output series, we relied on the tax collection data from 2000 to 2012 as reported in the BIR Annual Reports. The data covers the total amount of taxes collected for the different types of taxes; taxes on net income and profit; value added tax; excise taxes; percentage taxes and other taxes. Since the administrative cost to process each type of tax collected cannot be disaggregated, we did not apply the cost-weighting. Moreover, we assumed uniform quality of output since there were no data that could provide useful quality-weighting of outputs [32]. Besides, the BIR uses a standardized procedure to process tax returns hence variation in quality could be negligible. An index of the total output was computed using 2000 as the base year.

Table 2. Data and Adjustments Used for the Measurement of Tax Collection Service of the BIR (Adopted from LSE CPE approach based on Atkinson methodology)

Variable	Data used, adjustments made
Outputs of tax collection	Deflated total revenue collection (total amount of taxes collected for the different types of taxes: taxes on net income and profit, value added tax, excise taxes, percentage taxes and other taxes)
Costs-weighting of outputs	Not done due to difficulty in segregation of personnel costs for type of tax collected
Inputs, total factor productivity	Deflated administrative costs (total cost of operations including personal services, maintenance and other operating expenses, capital outlay) obtained from annual reports
Inputs, for staff productivity (total)	Deflated cost of personal services obtained from annual reports
Inputs, for staff productivity (collection)	Full-time equivalent of allocated staff (personnel) to assess and collect taxes based on annual reports

For the input series, the total cost of operations was used as the administrative cost data. The administrative costs data was composed of personal services, maintenance and other expenses and capital outlay. These data were deflated using the GDP deflator. An index of the total inputs was then calculated using 2000 as the base year. The ratio of the index of output to the index of total input is the TFP index, which is an aggregate measure.

To analyze further, the authors computed for the partial productivity of labor: (a) staff productivity of the entire BIR; and (b) collection staff productivity. To compute the total staff productivity, the volume of inputs was limited to the cost of personal services. This personnel input series was deflated then indexed using 2000 as the base year. The ratio of the index of output to the index of personnel input is the labor productivity index (value).

To calculate the productivity of collection staff, it was necessary to develop an index based on the number of full-time equivalent (FTE) staff directly involved in the tax collection service. These data were obtained from the BIR Annual Reports on the number and categories of personnel; the number of employees directly involved in assessment and collection were isolated. An index of FTE staff was then developed, with the base year of 2000. The FTE staff productivity index is computed from the ratio of the index of output to the index of FTE personnel.

Total factor productivity (TFP) in tax collection service

Figure 11 shows the levels of outputs (the red line) and inputs (the green line) over a period of 13 years, from 2000 to 2012.

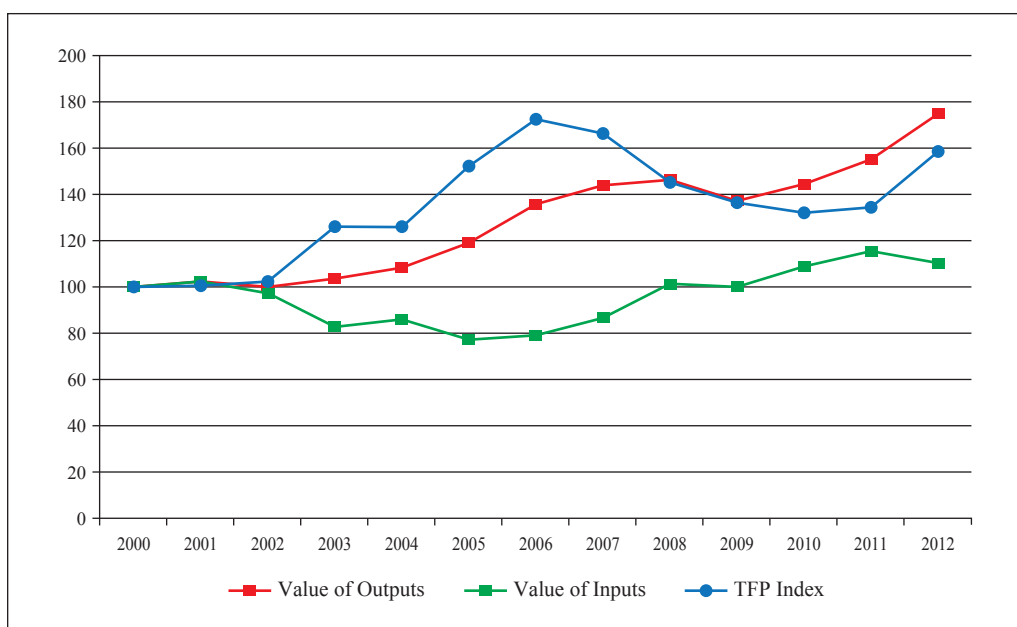


Figure 11. Total Factor Productivity Index

Author's Calculation based on BIR Annual Reports, 2000 as Base Year

The total factor productivity series is indicated by the blue line. Overall, the total factor productivity of the BIR is highly positive—TFP index ranging from 100 to 172—with slight fluctuations but generally in an upward trend. TFP index registered growth from 2002 to 2006, which is attributed to increasing value of output during the period, which may be attributed to new revenue measures and intensified collection efforts. During the same period, the value of input remained at low levels, though BIR is able to catch up due to increasing automation of its frontline and backroom operations. The trend was interrupted

in the late 2000s. Despite growth in the value of output, the TFP series dropped in 2007 and further down in 2008 due to sharp increases in the value of input (specifically MOOE and capital outlay). Further decrease in the value of output (due to slowing down of tax collection in the aftermath of Typhoon *Ondoy* [33] in 2009) coupled with continued increases in value of inputs (due to the first-tranche salary adjustment and increase in operating expenses of two major BIR projects, e.g., the National Program Support for Tax Administration Reform and the Tax Computerization Project) kept the downward trend until 2010. The TFP series recouped the high positive trend in 2011 due to faster growth in value of outputs brought about by vigorous tax collection efforts, notwithstanding the increase in volume of inputs (again because of the third tranche of salary adjustments). The TFP index further yielded upwards in 2012 due to significant growth in value of outputs while the volume of inputs is contained. With the more aggressive pace of tax collection and containment of administrative costs in sight, this upward trajectory of TFP is expected to hold in the subsequent years.

Staff productivity

The labor productivity index (value) is similar with very high positive values – ranging from 93 to 159 as can be gleaned from Figure 12.

While negative in 2001, the labor productivity index demonstrated a general upward trend until 2006. While remaining positive, the labor productivity index decelerated beginning in 2007 as the value of outputs decreased side by side with increases in value of inputs. The tapering off persisted up to 2010 due to further escalation in the value of inputs. The reversal of the labor productivity trend occurred in 2011, with the trend sustained as the value of outputs significantly expanded in 2013. The Salary Standardization Law III which was implemented in four tranches between 2009 and 2012 caused the input series to move up.

Regarding FTE labor productivity, the level and trend look remarkable. Productivity performance of the tax collection staff, as can be seen from Figure 13, is at a much higher level, with the index value ranging from 93 to 179.

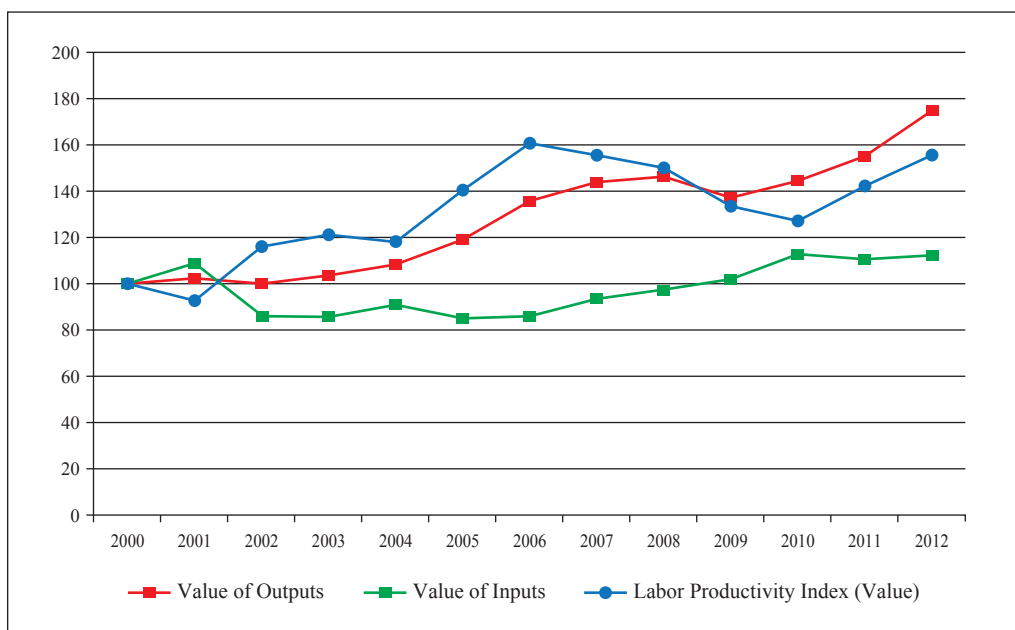


Figure 12. Labor Productivity Index (Value)

Authors' Calculation based on BIR Annual Reports, 2000 as Base Year

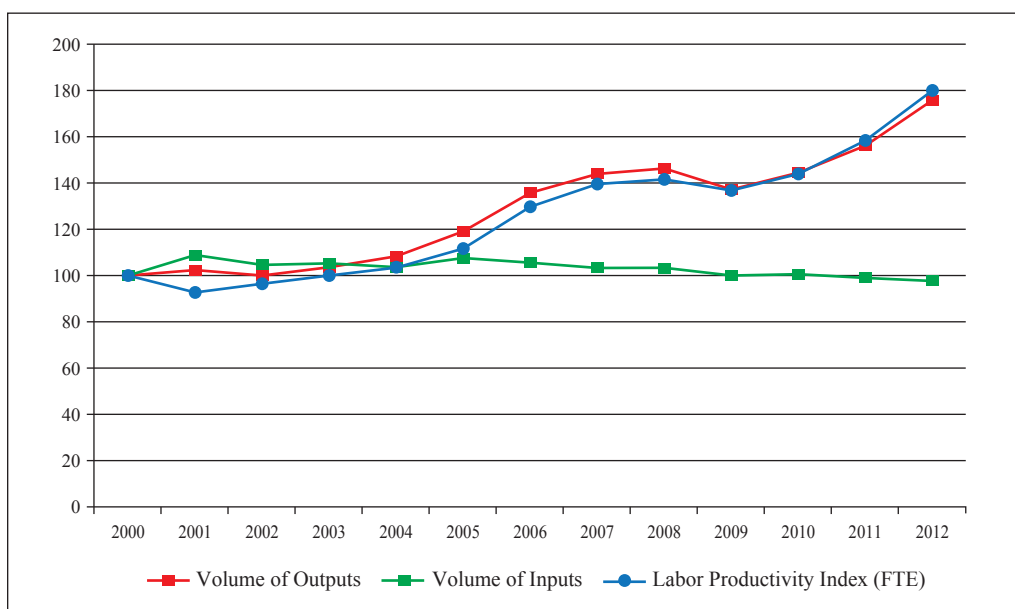


Figure 13. Labor Productivity Index (FTE)

Author's Calculation based on BIR Annual Reports, 2000 as Base Year

The FTE labor productivity index and the output series noticeably move in the same direction. This is attributed to the fact that throughout the period under study, the volume of input (FTE staff) remained almost constant. Without a doubt, the efficiency measures employed by the BIR in processing tax returns must have enabled these frontliners to cope with the increasing number of tax filers. In the following section, we examine the initiatives that could have affected this productivity performance.

2.3. Changes in the Tax Collection Service

Over the years, the BIR has implemented incessant measures to enhance voluntary compliance of taxpayers, plug loopholes and improve tax collection service. It would be recalled that a major structural reform in tax administration transpired in 1986 with the adoption of the Value Added Tax System. In 1997, the Philippine Congress legislated the National Internal Revenue Code. Among others, the 1997 Comprehensive Tax Reform Program introduced exemptions from VAT coverage, adjusted down the corporate income tax, and lowered effective taxes for alcohol, cigarettes, and petroleum products. On the heels of these structural reforms, the BIR kicked-off a major project, the establishment of a modern and computerized Integrated Tax System and Internal Administration System. This was supported by an executive order to streamline the BIR organization. Several other programs were subsequently launched.

1999–2000

Priority reform measures were undertaken to enhance voluntary compliance and improve the bureau's productivity. One of the most significant reform measures was the implementation of the Economic Recovery Assistance Payment Program, which granted immunity from audit and investigation to taxpayers who have paid 20% more than the tax paid in 1997 for income tax, VAT, and percentage taxes. To educate consumers to demand sales invoices and receipts, the raffle promo *Humingi ng Resibo, Manalo ng Libo-Libo* was instituted. The Large Taxpayers Monitoring System was established to closely monitor the tax compliance of the country's big taxpayers. Other significant measures include expansion of the use of the electronic Documentary Stamp Tax metering machine; tie-up with government agencies for the prompt remittance of withholding taxes; and Compromise Settlement Program for taxpayers with outstanding accounts receivable and disputed assessments. In line with the Electronic Commerce Act of 2000, the BIR accelerated the rollout of the Integrated Tax System to fully computerize its operations.

2001–2010

During this period, several measures that would affect the tax revenue generation were put into law. In 2003, Republic Act 9224 rationalized the excise taxes on automobiles. In 2004, the sin tax law was amended by Republic Act 9334 providing discrete increases in the tax rate on cigarettes and alcoholic products every other year thereafter until 2011. In 2005, the Philippine Congress passed Republic Act 9337 or the Reformed VAT Law which expanded the coverage of *ad valorem* taxes to electricity and petroleum products. The law effectively raised VAT rate from 10.0% to 12.0% in 2006. A parallel measure, Republic Act 9335 or the Lateral Attrition Law, was passed to create incentives for the BIR and the BOC relative to the “excess” collection of at least 15.0% difference between actual and target collections. This law also provides that officials and employees may be removed from the service if their revenue collection performance falls short of the target by at least 7.5%.

On the part of the BIR, the thrust was to reform the tax system to make it simpler and suit the Philippine culture; reengineer the tax processes to make them simpler, more efficient, and transparent; restructure the BIR to give it financial and administrative flexibility; and redesign the human resource policies, systems, and procedures to transform the workforce to be more responsive to taxpayers’ needs. The expanded coverage of the creditable withholding tax system, voluntary assessment, and abatement and compromise settlement programs enhanced the BIR’s revenue-generating capability.

The Reconciliation of Listings for Enforcement or RELIEF System to detect under-declarations of taxable income by taxpayers and the Electronic Broadcasting system enhanced the security of tax payments. A technology-based system that promotes the paperless filing of tax returns and payment of taxes was also adopted through the Electronic Filing and Payment System (eFPS). BIR also expanded its electronic services to include the web-based application for tax identification numbers, e-substituted filing of tax returns, and electronic submission of sales reports. Special operation on high profile tax evaders was executed under a new program dubbed Run After Tax Evaders. This was complemented by Tax Compliance Verification Drives and accreditation and registration of cash register machines and point-of-sale machines. To improve taxpayer service, the BIR set up Contact Centers and eLounges. The e-Complaint System allowed taxpayers to log their complaints against erring revenueurs through the BIR website. New payment gateways such as the Efficient Service Machines, G-Cash and SMART Money were added up to its electronic facilities. The National Program Support for Tax Administration Reform (NPSTAR) was launched to improve the BIR efficiency in various areas of tax administration. The BIR also intensified the use of business intelligence through data matching of income payments of withholding agents against the reported income of the concerned recipients and strengthened its audit capabilities via the Computer-Assisted Audit Tools and Techniques.

Nationwide closure of erring business establishments under the *Oplan Kandado* took place. BIR resorted to a high visibility and public awareness campaign on the enforcement and taxpayers' service and introduced additional programs such as Project R.I.P. (Rest in Peace) and conduct of Taxpayers Lifestyle Check. The *Handang Maglingkod* Project where the best frontline offices were recognized for rendering effective taxpayer service was also revived. Alongside them were programs to strengthen competence and integrity of personnel through Integrity Reviews and implementation of the Integrity Development Action Plan.

July 2010–present

Under the current administration, the BIR energized its mission. Foremost in its strategy is the Invigorated Run After Tax Evaders which aims to generate the maximum deterrent effect by impressing upon the public that tax evasion is a crime and violators will be caught and punished. (Its counterpart, the Revenue Integrity Protection Service implemented by the Department of Finance, does the lifestyle check for revenue agents.) The BIR revved up its *Oplan Kandado* by suspending business operations, and temporarily closing business establishments for non-compliance with essential requirements such as taxpayer's VAT registration, the issuance of sales invoices/receipts, filing of VAT returns, declaration of taxable transactions and paying the correct amount of taxes by persons engaged in transactions subject to VAT. Likewise, the BIR Contact Center is upscaled to be able to offer accurate and consistent tax information at a single point of contact. To provide electronic submission channels to its non-electronic filers, the Offline eBIR Forms which allows automatic computations and validation of taxpayers' information was introduced.

The e-Lounge has been extended to regional and revenue district offices, where taxpayers can make use of the BIR's eServices such as the one-stop shop on-line Electronic Authority to Release Imported Goods (eATRIG), Electronic Certificate Authorizing Registration (eCAR), On-line System for Transfer Tax Transaction (eOSTTT), and Electronic Official Registry Book (eORB) for Excise Products. For taxpayers registering their business online, the application is already simplified through the Philippine Business Registry. The quality management system for the business registration process is certified to ISO 9001:2008. Pending the implementation of the Lateral Attrition Law, the new performance-based incentives system of the national government was initiated in the BIR in 2012. Another landmark legislation, Republic Act No. 10351 or the Sin Tax Reform Law, was passed by the Philippine Congress in 2012. The law restructured the excise tax on alcohol and tobacco products and will take effect beginning in 2013.

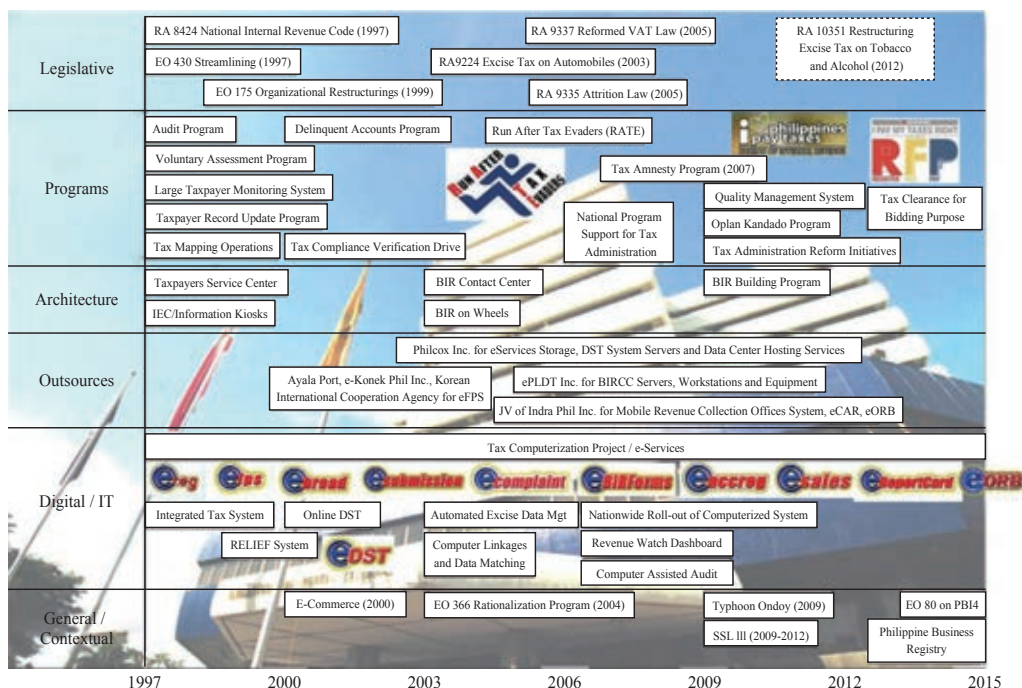


Figure 14. Changes in Tax Collection Service: Philippines, 1997–2012

Source: BIR Annual Reports and authors' own research

2.4. Best Practices and Lessons Learned

Of the many reforms and strategic initiatives, three programs are notable best practices: (a) Tax Computerization Program, (b) e-Services, and (c) Run After Tax Evaders Program.

Tax Computerization Program

The Tax Computerization Program started way back in 1994. The tax computerization initially targeted revenue collection and later expanded to non-revenue processes (administrative functions). The core of the program is the Integrated Tax System which according to BIR provides “maximum automation and minimal manual intervention” in its operations. At present, 14 applications are already in place, classified into: (a) tax systems for Revenue District Offices to support taxpayer transactions, tax collection accounting, tax compliance and management, and decision support; (b) tax systems for the National Office to facilitate decision making and enhance the flow of vital information needed by management in tax planning, policy analysis, and projections; and (c) tax system for authorized agent banks (i.e., Limited Bank Data Entry) to record and electronically

transmit payment data from taxpayers. The roll-out intends to accelerate the implementation of back-end systems such as the accounts receivable capability, tax payer profiling, issuance of tax credit certificate and tax debit memoranda, withholding tax income verification, issuance of tax refunds, and executive information system. Among others, the Integrated Tax System resulted in; (a) increased revenue collection; (b) improved taxpayer service through time efficient taxpayer transaction processing; (c) better tax compliance with automated audit selection case management, income verification and withholding tax reconciliation; (d) improved transparency and operational efficiency such as reduction of turnaround times to complete activities; and (e) established information linkages with other government agencies as well as banks and insurance companies. What is notable in the tax computerization effort is its gradual build-up of systems but sustained operation and development, with BIR doing most of the automated components in-house [14].

BIR e-Services

As pointed out by Carrera, Dunleavy, and Bastow [18], “significant gains in productivity may be expected from DEG type [Digital Era Governance] management changes; especially those related to the filing of taxes online.” Electronic filing “reduces taxpayers’ time and labor to visit a tax office,” “reduces the tax administration’s time and labor to receive and process paper-based tax returns,” and “improves quality of tax returns and data accuracy” [19]. Luckily, the BIR is at the forefront in offering electronic services. Pioneering systems developed in partnership with the private sector include the eFPS, eRELIEF, eSubmission, eRegistration, eBroadcasting, etc. The eFPS, which consists of electronic filing (e-Filing) and payment (e-Payment), provides taxpayers with a convenient, paperless, and secure processing and transmission of tax returns and payments via the Internet. The e-Filing uses BIR-supplied validation and computation rules to check the completeness and accuracy of taxpayer inputs. The system enabled the BIR to process voluminous tax returns and eliminate suspense record processing, not to mention the savings generated from reduced printing of tax forms. The eBroadcasting System supports the eFPS through automatic acknowledgement, confirmation, and notification of taxpayers’ payments made to BIR accredited agent banks within 48 hours via electronic media such as Short Messaging Service (SMS), e-mail, and posting in the BIR website. The eRELIEF enables corporate taxpayers to electronically send their quarterly sales and purchases data for the purpose of determining the VAT payments for purchases and VAT receipts for sales, and VAT payments due to the BIR. With this system of reconciliation, the BIR is able to estimate with a high level of confidence the amount of sales and VAT liabilities of corporations thus preventing possible leakage. The eSubmission consists of the eAlphalist, or the list of employees earning purely compensation income with the corresponding amount of tax withheld, and the ePayee for those who have income other than compensation income. Through the substituted filing program of the BIR, employees with no tax liabilities within

the taxable year are no longer required to file their annual income tax returns, thus sparing time and effort. The eRegistration provides convenient services to taxpayers such as applications for tax identification numbers or eTIN via the Internet. Launched in 2003, the eTIN system initially was a limited application for professionals. Horizontal links with the Philippine Business Registry expanded the coverage to business applicants. The system also enables internal users to view the registration information of registered applicants online. Additional e-Services introduced recently are the Electronic Authority to Release Imported Goods, Online System for Transfer Tax Transactions, the Electronic Certificate Authorizing Registration of real and personal properties, Electronic Official Registry Book for excise taxes and interactive forms (eBIR Forms). All these eServices are available at the public e-Lounges set up by the BIR in various offices [14].

Run After Tax Evaders

Administrative measures are necessary but not a sufficient condition to raise tax administration efficiency and productivity. The record high collection performance of the BIR is by no means possible without the Invigorated Run After Tax Evaders Program. A legal measure initiated by the Department of Finance and the BIR in 2005, RATE aims to investigate and prosecute individuals and entities for tax evasion and other criminal violations of the National Internal Revenue Code of 1997. In its initial years of implementation, RATE targeted prominent personalities and corporations to send a strong signal upon the public that tax evasion is a crime and violators, no matter what their social status is, will be prosecuted. Between 2005 and 2006, the RATE has filed 47 (44 from 2005 and 3 in early 2006) criminal charges against certain companies and prominent individuals with the Department of Justice. But in those days, very few of the RATE cases were resolved right away, with BIR losing a number due to reversals by the Department of Justice [20]. Considered as pillar of the tax administration reforms, the RATE program was invigorated in 2010 with concerted effort of government agencies. The high profile chase on tax delinquents has heightened voluntary compliance among taxpayers and promoted confidence in the tax system. In 2012, a total of 57 RATE cases were filed with the Department of Justice. Cumulatively, 176 cases with a total estimated liability of Php43.58 billion, had been filed since 2010 [15].

A most significant lesson is finding this adage true in the present BIR: *Reform efforts, riding on high credibility of leaders, are successful.*

CONCLUSION AND RECOMMENDATIONS

All in all, we can say that the Philippine tax collection service especially under the Bureau of Internal Revenue has achieved higher tax collection efficiency and productivity through structural reforms, DEG type management approaches, and legal measures. Both its traditional measure, the tax effort, and the productivity measures, the TFP index and labor (staff) productivity index – showed highly positive results. On one hand, we can conclude that the structural reforms such as the passage of new tax measures that widened the tax base and the legal approaches to heighten voluntary compliance such as the RATE contributed to the growth of the BIR's volume of outputs. On the other, we can conclude that the DEG management approaches such as the computerized Integrated Tax System and e-services coupled with process reengineering allowed the BIR to contain the volume of inputs despite the mandated increases in salaries, thus maintaining high productivity. The LSE approach based on Atkinson Review's methodology to estimate productivity of government services proved useful and applicable in doing the productivity performance analysis of BIR. By matching the analysis with the changes in tax collection service, the factors that affected the productivity performance of the BIR were assessed systematically. With this, the BIR management would be able to track productivity performance over time and benchmark achievements with similar agencies.

Most of the data used in the study are publicly available and BIR must be affirmed for its transparency and open data policy. The study was limited though by the level of disaggregation of data that is publicly available. To deepen the assessment, future studies can be done by infusing the analysis with cost-weighting and quality-weighting of outputs to account for variations corresponding to the different types of taxes collected. Using the same methodology, deeper productivity analysis at the regional and revenue district level could also be done. The comparative productivity performance data could inform management of the variation across offices, and attendant causes, and encourage yardstick competition. The BIR would do well with productivity database initiatives that it can connect with measures of major final outputs and outcomes. The benchmark information on tax administration policies and processes would enable the BIR to catch up with its Asian counterparts on the ease of paying taxes. Finally, while it is possible to attribute programs to productivity results via a heuristic approach, it would be more instructive to BIR management if a separate study can be undertaken to assess the "public value" and the impact of the strategic initiatives on revenue collection, operational efficiency, quality of taxpayer service, and public trust on the BIR.

ACKNOWLEDGMENTS

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APPENDICES

Annex Table 1. Public Sector Employment: Philippines, 2000 to 2012

Year	Total Employed Persons (in Thousands)	Persons Working in the Public Sector (in Thousands)	Persons Working in the National Government	Persons Working in the Public Sector to Total Employment (%)
2012	37,600	3,000	1,189,935	7.98
2011	37,192	3,044	1,159,940	8.18
2010	36,035	3,025	1,145,941	8.39
2009	35,061	2,866	1,139,113	8.17
2008	34,089	2,722	1,130,749	7.98
2007	33,560	2,623	1,118,664	7.82
2006	32,636	2,539	1,108,513	7.78
2005	32,313	2,454	1,117,853	7.59
2004	31,613	2,420	1,118,073	7.65
2003	30,635	2,367	1,100,732	7.73
2002	30,062	2,378	1,087,842	7.91
2001	29,156	2,337	1,061,632	8.02
2000	27,453	2,268	1,071,521	8.26

Source: Bureau of Labor and Employment Statistics.

Source of basic data: National Statistics Office, Labor Force Survey.

Source of data for those working in the national government (with permanent position) is the Department of Budget and Management.

Note: The persons working in the public sector includes those working in the government as well as government corporations, public schools and public hospitals.

Annex Table 2. National Government Expenditure: Philippines, 2000-2013

Year	Nominal Gross Domestic Product (in Million Pesos)	National Government Expenditures (in Million Pesos)	Total Government Expenditure to GDP (%)	Personal Services to GDP (%)
2013	11,914,477	2,005,909	16.8	5.4
2012	10,564,886	1,828,982	17.3	5.3
2011	9,706,268	1,580,017	16.3	5.2
2010	9,003,480	1,472,977	16.4	5.1
2009	8,026,143	1,434,146	17.9	4.9
2008	7,720,902	1,314,614	17.0	4.8
2007	6,892,721	1,155,509	16.8	5.0
2006	6,271,157	1,044,833	16.7	5.2
2005	5,677,750	947,554	16.7	5.2
2004	5,120,435	867,010	16.9	5.6
2003	4,548,102	825,113	18.1	6.1
2002	4,198,345	724,022	17.7	6.4
2001	3,888,801	707,093	18.2	6.4
2000	3,580,714	682,460	19.1	6.6
Average			17.3	5.5

Source: Department of Budget and Management.

Note: Data series is based on 2000 prices.

The Personal Services expenditure covers only the national government personnel.



ENDNOTES

- [1] The Senate consists of 24 elected Senators and the House is composed of 250 district/party-list representatives.

- [2] Since the First Republic in 1899, the Philippines has already had 15 Presidents. His Excellency Benigno S. Aquino III is the 15th President of the Republic of the Philippines. He was inaugurated on 30 June 2010, with a six-year term of office.

- [3] Department of Agrarian Reform, Department of Agriculture, Department of Budget and Management, Department of Education, Department of Energy, Department of Environment and Natural Resources, Department of Finance, Department of Foreign Affairs, Department of Health, Department of the Interior and Local Government, Department of Justice, Department of Labor and Employment, Department of National Defense, Department of Public Works and Highways, Department of Science and Technology, Department of Social Welfare and Development, Department of Tourism, Department of Trade and Industry, Department of Transportation and Communications, National Economic Development Authority, Office of the President, and the Presidential Communications and Operations Office.

- [4] According to BLES, the figure covers all those working in the public sector: national and local governments, public schools, public hospitals and government-owned and controlled corporations.

- [5] Public sector employment in Indonesia is 11.14% of total employment while that of Malaysia is 10.54% and Thailand, 7.3%. These figures based on the IMD World Competitiveness Yearbook 2007.

- [6] This spending level is below the average government spending of some of its counterparts such as Malaysia, Thailand and Vietnam and much less that the nearly 40% of GDP spending of governments in most European countries, based on reported figures in the ADB Key Indicators for Asia and Pacific 2012.

- [7] The Philippine GDP grew 7.2% in 2013, up from 6.8% in 2012 and 3.6% in 2011, and back on track with 7.6% in 2010 which took off from a mere 1.1% in 2009 [SONA, 2013; DFA, 2013].

- [8] Because of this remarkable performance, Moody's branded the Philippines as "Asia's Rising Star," the World Bank referred to the country as "Asia's Rising Tiger" and the Institute of Chartered Accounts in England and Wales labelled it the "brightest spark" [SONA, 2013].

- [9] The GPIIP Council was chaired by the Department of Budget and Management, as the primary policymaking and coordinating body of the Program, with members including the Department of Trade and Industry, Department of Agriculture, Department of Public Works and Highways, Department of Local Government, Department of Education, Civil Service Commission, National Economic Development Authority, Presidential Management Staff, Philippine Information Agency and the Development Academy of the Philippines.

- [10] Under Administrative Order No. 268 s. 1992 "Rationalizing the Grant of Productivity Incentive Benefits to All Personnel of Government Agencies," the Philippine government allowed the giving out of Productivity Incentive Bonus to employees of government who by their suggestions, superior accomplishments, and other personal efforts contribute to the efficiency, economy, or other improvement of government operations.

- [11] 5S is an acronym for five Japanese words – seiri (sort), seiton (systematize), seiso (sweep), seiketsu (sanitize), and shitsuke (self-discipline).

- [12] Executive Order No. 366 issued on 4 October 2004 "Directing a Strategic Review of the Operations and Organizations of the Executive Branch and Providing Options and Incentives for Government Employees who may be Affected by the Rationalization of the Functions and Agencies of the Executive Branch."

- [13] The savings were computed based on FY 2005 personal services levels. About 8,300 personnel opted to retire whose benefits amounted to PhP5.35 billion. The number of affected personnel who opted to be placed in other agencies was 183. (Based on DBM data as of August 2013).

- [14] Executive Order No. 126, s. 2004 directed all departments and agencies to reduce their monthly consumption of electricity and petroleum products by at least 10%. This energy conservation program is being monitored through energy audit by the Department of Energy.

- [15] This figure is based on the database of the Development Academy of the Philippines as of March 2014.
- [16] Short for Knowledge Networking towards Enterprising Agricultural Communities to assist farmers and fisher folks.
- [17] For instance, in 2003, the Office of the President issued Memorandum Circular No.23 directing all offices and instrumentalities of government to publish Service Guides and post Workflow Charts. According to the Civil Service Commission, compliance with the MC was low. As of June 2008, only 24.7% have fully complied with the directive in the publication of Service Guides and the posting of Workflow Charts and Service Pledges. The national government has the highest level of compliance (53.9%), followed by local government units (20.6%), government corporations (12.7%), and local water districts (6.18%).
- [18] As of March 2011, about 79.8% of agencies with frontline services are already fully compliant, based on report of the Civil Service Commission as of March 2011.
- [19] This is computed based on 100% compliance rate of national government agencies, 92% for other executive offices, 77% for government corporations covered by DBM, and 95% for SUCs.
- [20] The Global Competitiveness Ranking is done by the World Economic Forum.
- [21] The National Anti-Corruption Plan adopted by the Philippine government in 2000 featured a Ten-Point Jumpstart Anti-Corruption Program that includes 1) key appointments watch, 2) random lifestyle check, 3) fast-tracking of high profile cases, 4) open public documents, 5) mandatory citizen charters, 6) transactions reengineering, 7) report card surveys, 8) civil society watchdogs, 9) integrity pacts, and 10) corruption vulnerability assessment (DAP, 2000).
- [22] Also dubbed as the Integrity Development Action Plan (IDAP).
- [23] In 2011, the sitting Ombudsman was compelled to resign on account of impeachment complaint for failure to act on several high profile corruption cases. In the same year, the Chief Justice of the Supreme Court was impeached for failure to disclose assets. Of late, three Senators are facing plunder charges before the Sandiganbayan, the Philippines' anti-graft court.

- [24] Per Administrative Order No. 25 s. 2011.

- [25] Under Executive Order No. 43 s. 2010, the five KRAs are Good Governance and Anti-corruption, 2) Human Development and Poverty Reduction, 3) Economic Development, 4) Security, Justice and Peace, and 5) Climate Change Adaptation.

- [26] The Inter-Agency Task Force per Administrative Order No. 25 is chaired by the Department of Budget and Management and the Office of the President.

- [27] In 2012, the good governance conditions include: Transparency Seal, PhilGEPS posting, liquidation of cash advances, establishment of Citizen's Charter or its equivalent.

- [28] The PMDP was revitalized in 2012, from the Career Executive Service Development Program implemented in the 1970s to early 1990s. The program consists of nearly eight months of training for senior executives and middle managers.

- [29] Following the inauguration of President Aquino in 2010, a new Commissioner in the person of lawyer Kim Jacinto-Henares, was appointed.

- [30] $\text{Cost to collect} = \frac{\text{budget (actual obligations)}}{\text{collection target (actual collection)}} \times 100$.

- [31] With the approval of its Rationalization Plan, the BIR has been authorized to recruit additional personnel beginning 2013.

- [32] For tax collection service, a number of errors found in each type of tax return processed is an example of quality measures. However, there is no available data on this.

- [33] International code name is Typhoon Ketsana, which struck Metro Manila and major parts of Luzon.

SRI LANKA

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INTRODUCTION

1.1. Background of the Study

The public sector in Sri Lanka is spread over a wider range of sectors and plays a significant role in the economy, and Sri Lanka is a country which comparatively has a larger public sector than the rest of Asia. Other than this direct contribution to the national economy, the public sector contributes indirectly to the economy by providing employment, raising capital for investment and controlling inflation through their subsidized services. However, the public sector organizations of Sri Lanka also face unprecedented pressure to improve the quality of public service while adhering to accountability, transparency, and productivity like most other countries in the world. Therefore, Sri Lanka is stepping towards a more demanding public sector by introducing and implementing new public management initiatives and policy changes. In this scenario of transformation, Sri Lanka puts more emphasis on the performance management of the public sector in the country. But several features that make performance management more difficult in the public sector, including the lack of a predominant profit motive, politics, as well as complicated delivery chains, multiple stakeholders, unclear cause and effect relationships, and attitudes toward accountability and transparency. Strategic performance management (SPM) is also a process rather than an isolated event, and requires continuous development of people, processes, and services. In this context, the effort taken by the Asian Productivity Organization (APO) is very much appreciated to meet the most important objectives such as reviewing the different models of performance management systems in public sector organizations, studying existing performance management systems, identifying the critical elements in performance management systems, and recommending ways of improving current systems.

1.2. Administrative Structure of Sri Lanka

The British colonial period of Sri Lanka was known internationally as Ceylon, and it is of special significance since it saw the establishment of a strong, centralized administrative system as well as the beginnings of modern local government. The development of

constitutional government in Sri Lanka began in 1802 when the British made Ceylon a Crown Colony in 1796. Sri Lanka became an independent state in 1948 after four and a half centuries of colonial domination (from 1505 to 1948) by the Portuguese, the Dutch, and the British, but it was a form of independence known as Dominion Status. The Second Constitution was adopted in 1972. It was first prepared by Sri Lankans and adopted by the Parliament elected in 1970. This Parliament made itself a Constituent Assembly to prepare a new Constitution that would make Ceylon a Republic.

Today, Sri Lanka is governed by the Socialist Democratic Republican Constitution of Sri Lanka of 1978, under which, a nationally elected executive president, a Parliament consisting of 225 members, elected for a six year term, 196 members elected in multi-seat constituencies and 29 by proportional representation, and a cabinet of ministers from within parliament functions at the national level. The executive president entertains the executive powers and is directly elected for a six-year term, is the head of state, head of government, and the commander in chief of the armed forces under the Constitution of 1978. Legislative power is vested to the Parliament and judicial power is exercised by the Parliament through courts and other tribunals. Although for sovereignty purposes the Parliament is exercising judicial power, the Supreme Court, the Court of Appeal, and other courts are free from outside intervention and maintain judicial independence.

The Thirteenth Amendment to the Constitution of 1987 and the Provincial Councils Act No. 42 of 1987 has special relevance to power sharing between the central government and other levels of government within the system of republican governance and made constitutional and legal provision for the establishment of provincial councils at the level of the province, within Sri Lanka's unitary constitution. Executive power is vested in a provincial governor appointed by the executive president at the centre, and holds office, under Article 154 B (2) of the 13th Amendment to the Constitution "at the pleasure of the President." A board of ministers headed by a chief minister and four other ministers is appointed to aid and advise him in the performance of his functions. Under normal circumstances, the governor seems to be in the position of a constitutional head. However, his role assumes significance in relation to his discretionary powers, which are tied up with central control and direction. These powers include appointment of the chief minister, dissolution of the PC, assent to bills, and action in emergency situations such as breakdown of administrative machinery and financial instability.

Administratively, attention has to be drawn to the centralized administrative system which still persists, especially in relation to the status and functioning of local authorities. Sri Lanka consists of nine provinces, which are divided into 25 districts, with each province consisting of two or three districts. While elected provincial councils operate at provincial level, but there is no elected institution at the level of the district. Thus in each district, a district

secretary functions, at the divisional level, a divisional secretary has been appointed, and at village level, a *Grama Niladhari* holds office for a group of villages. It has to be noted that district secretaries, divisional secretaries, and *Grama Niladharis* are administrative officials, responsible to the centre, and not elected by the people of each area.

Another important innovation in relation to local government was the *Pradeshiya Sabhas* Act No. 15 of 1987, which brought in a system of elected *Pradeshiya Sabhas*, (in addition to municipal and urban councils in urban areas). Each *Pradeshiya Sabha* area consists of a number of villages, and these bodies are vested with legislative and executive authority in relation to their functions specified under the Act. Presently, therefore, Sri Lanka's institutions of local governance consist of 18 municipal councils, 42 urban councils, and 270 *Pradeshiya Sabhas*.

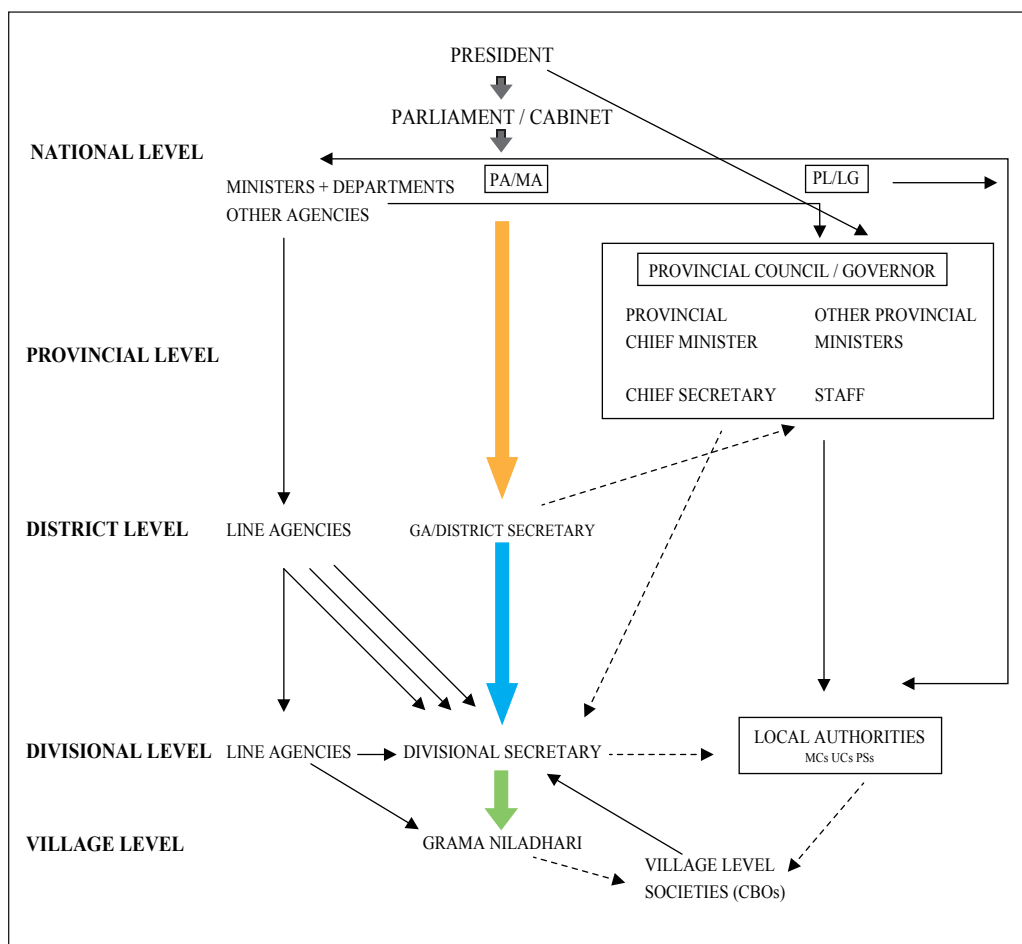


Figure 1. Administrative Structure of Sri Lanka

Source: Ministry of Public Administration, Sri Lanka [1].

1.3. Management Performance Initiatives in Sri Lanka

In the context of Sri Lanka being a rapidly developing middle income country, adopting continuous changes through policy reforms is essential to improve efficiency and productivity, explore new potentials and sustain a high growth in the economy, in a highly competitive global economic environment. Such reforms not only involve having to balance the National Budget within affordable resources, but involve having to carry out necessary changes to reduce gaps in trade through export promotion and import replacement activities, and also to narrower gaps in savings and investments through the promotion of savings and reorienting consumption. These changes hence would inevitably involve the government taxation policy, the management of the exchange rates and interest rates and trade and tariff policy, through which the real economy could be influenced to be guided in the desired direction of development.

The public service taking the forefront in providing universal access to education, health, social security and welfare, also being the service provider to the primary sectors of the economy as well as to the general public, in particular to the needy segments in the society, requires to be re-oriented to be able to meet emerging challenges of a middle income economy, in particular the government's commitment to go beyond the Millennium Development Goals and (MDGs) and reach a poverty free country situation.

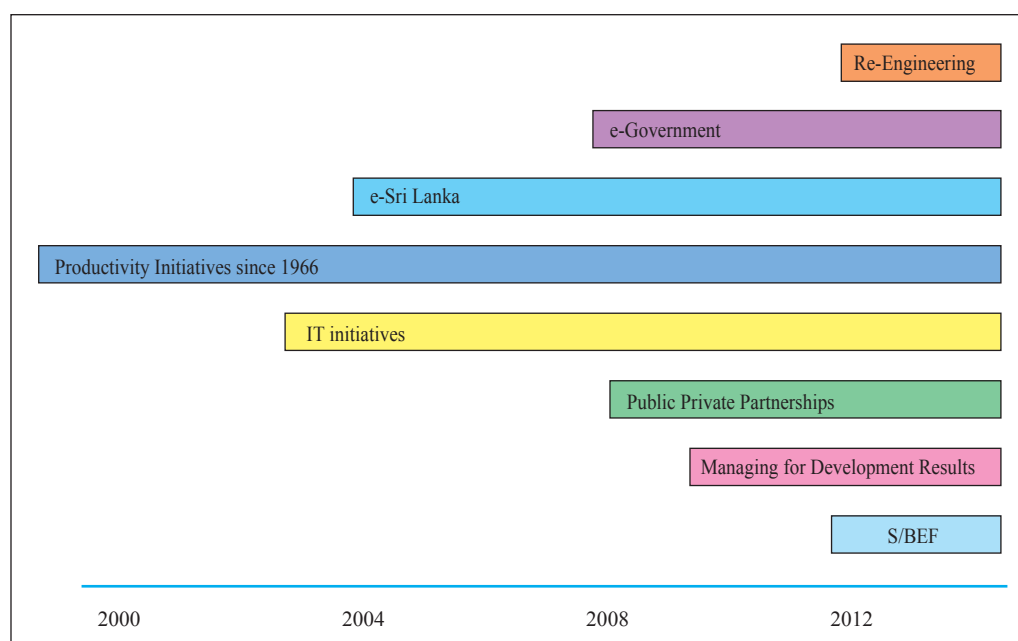


Figure 2. Government Initiatives to Improve Public Service Delivery in Sri Lanka

Source: Annual Reports of Information & Communication Technology Agency, Sri Lanka [2] [3] [4].

1.3.1. Productivity Initiatives

Productivity promotion in Sri Lanka was emphasized in 1966, after Sri Lanka got the Membership of Asian Productivity Organization. Hon. Dudley Senanayake, Prime Minister of Sri Lanka, signed the agreement on behalf of the Sri Lanka government at that time.

“Mahinda Chintana – Vision for the Future” envisages the creation of an excellent public service favorable to the general public as a national priority. With a view to achieve this target, various programs have been introduced by the National Productivity Secretariat (NPS), the apex body of enhancing national productivity for public sector institutions to enhance their productivity for better public service delivery.

1.3.1.1. Objectives of the NPS:

- Call for repeated development the development and improvement of the nation’s labour resources to improve international competitiveness;
- Contribute to increased individual productivity through innovative approaches to labour management relations at enterprise level and within the public sector;
- Initiate reforms of those aspects of the nation’s legal framework including public service rules and regulations that impede productivity growth;
- Coordinate the nation’s productivity enhancement efforts to avoid duplication of effort and provide focus to productivity programmes;
- Contribute to improved resources management in both public and private sectors; and
- Establish national productivity standards and targets taking due account of the different circumstances in various sectors and industries.

1.3.1.2. Functions of the NPS:

- Strengthen the pool of local expertise, trainers, consultants, certifiers, and auditors in the field of productivity;
- Initiate to design and develop a set of key programmes with detailed content for the propagation of productivity techniques via different means such as different media, awareness, etc.;
- Initiate reforms of those aspects of the nation’s legal framework including public service rules and regulations that impede productivity growth;
- Conduct productivity training programmes, workshops and seminars for creating awareness among the public, private, schools, and community sectors;
- Conduct studies on productivity issues, maintain liaison with similar productivity associations and centers internationally; and
- Create and Enhance knowledge and dissemination of sector wise productivity data, information, and news among the society.

1.3.2. IT Initiatives

Many service delivery improvements have been achieved in Sri Lanka especially with the aid of information technology. Supporting such advancements achieved, the ICT (Information and Communication Technology) literacy rate in Sri Lanka has surpassed 35% in 2012 from 8% in 2005. On e-Network Readiness, and in the backdrop of ICT advancements made through initiatives led by the ICT Agency (ICTA) and all its stakeholders, Sri Lanka made significant advancements in the Networked Readiness Index (NRI) while Sri Lanka was ranked 71st out of 142 countries in 2011, and improved to the 69th position out of 144 countries in 2012.

The Information and Communication Technology Agency (ICTA) of Sri Lanka, the apex ICT institution of the government established under the Act No. 27 of 2003, functions under the Ministry of Information and Communication Technology. ICTA has been mandated to take all necessary measures to implement the policy and action plan of the government in relation to ICT. In October 2004, the Cabinet of Ministers granted approval for the e-Sri Lanka Development Project which comprised with the following six independent program:

- ICT Policy, Leadership, and Institutional Development;
- Information Infrastructure;
- Re-Engineering Government;
- ICT Human Resource Capacity Building;
- ICT Investment and Private Sector Development; and
- e-Society.

The e-Service Platform, Sri Lanka's first transactional e-services platform as approved by the Cabinet of Ministers, stated that all electronic services (e-Services) provided by the government were required to be delivered via 'Lanka Gate' (accessible via <http://www.srilanka.lk>). Key transactional e-services launched under this initiative include the Issuance of Motor Vehicle Revenue Licenses in the Western Province (which is being replicated in Southern and Sabaragamuwa provinces). On Digital Certificates, other e-services launched in 2012 include the Issuance of Exam Certificates, obtaining copies and online submissions of corrected applications, which are offered in collaboration with the Department of Examination.

Over 730 Nenasala and e-teaching establishments have been set up at the grassroots level throughout the country, exceeding the original target of 200, to promote an all-inclusive IT strategy that will benefit a massive amount of people, including those at the village level and in remote areas.

The “Lanka Government Cloud” (LGC), which offers “Infrastructure as a Service” (IaaS), enabling government organizations to deploy IT systems and servers on a 24/7 basis for a nominal service fee, was also launched in September 2012.

The Government SMS (GovSMS) and Mobile portal also provide multiple eService delivery options for government organizations offering e-services. Land Titling and e-Slim initiative, to carry out the title registration process, which is treated as superior to the traditional document registration process, was introduced with the enactment of the Title Registration Act No. 21 of 1998. Popularly known as the ‘Bim Saviya’ program, this is designed to issue state guaranteed title certificates in place of deeds registered with the Registrar General in Land Registries and Grants issued under the Land Grant (Special Provisions) Law.

The e-population Register system reflects another key improvement made in the government service delivery mechanism. This system was launched in June 2012, the objective of which is to have a National Database of Citizen Information, including the full name, date of birth, marital status, gender, address, and place of birth, to be able to verify the identities of citizens when providing government centric facilities, while protecting the privacy rights of each citizen.

1.3.3. e-Sri Lanka

The vision expressed at the launch of the project in 2004 was that “e-Sri Lanka aspires to the ideal of making Sri Lanka the most connected government to its people, and raising the quality of life of all its citizens with access to better public services, learning opportunities, and information.” Sri Lanka is now on course to realizing this vision.

1.3.4. e-Government

From birth to death, and practically everything in between, sums up all the services available through a clear A-Z index at the online Government Information Centre. For example, it shows the steps needed to get the birth of a child registered, even if the birth happened in a remote village in Sri Lanka.

The e-Government program is aimed at making access to government services much more efficient through streamlined ICT-enabled processes. When the Indian Ocean tsunami hit Sri Lanka in 2004, hundreds of thousands of lives and homes were washed away along with their birth, marriage, death certificates, and identity cards. Rebuilding lives necessitated speedy access to getting replacement for the valuable documents lost.

1.3.5. Public Private Partnership (PPP)

The government's interest in PPPs to finance selected large scale infrastructure projects has been rekindled, as set out in the Mahinda Chintana, the ten year strategy of the current government. This policy clearly outlines the government's intention to involve the private sector in the infrastructure development as well as to improve the performance of state owned enterprises.

1.3.6. Managing for Development Results

Managing for Development Results (MfDR) is a development planning and management approach or strategy which emphasizes *outcomes* or *results* to ensure development effectiveness. It is also known as Results Based Management (RBM). Traditionally, development planning and management focused more on *inputs*, *activities*, and *outputs*. There was very little focus on *outcomes* and *results*. The MfDR approach uses information regarding performance to make better decisions that contribute to steer development efforts towards clearly identified goals.

An MfDR Plan of Action has been developed by the Core group. Each of the five Phase I Ministries (i.e., Ministry of Education, Ministry of Healthcare and Nutrition, Ministry of Highways and Road Development, Ministry of Agricultural Development & Agrarian Services, and the Ministry of Plan Implementation) had, by December 2007, developed an Agency Results Framework (ART) and a Score Card for the Ministry. MPI will continue to work with these Ministries to assist in introducing MfDR principles to institutions at its next level, i.e., departments as well as major development projects.

1.3.7. Re-engineering Sri Lanka Public Service as Public Service Accomplishing Aspirations of the People

A circular has been issued to all secretaries of ministries and chief secretaries of provincial councils by the Ministry of Productivity Promotion in collaboration with the Ministry of Public Financial Reforms with regard to the 're-engineering Sri Lanka Public Service as public service accomplishing aspirations of the people' on 19 June 2012.

As per the instructions and directives issued by the Secretary to the President and the Ministry of Public Administration, the circular issued with the focus on transforming "Management Reform Cells" which have already been established in all ministries/entities in to "Re-engineering Units" as an effort to re-engineer public services creating enabling environment which fulfils the aspirations of the Sri Lankan people living in the rapidly developing country.

This programme pursues major and sustainable improvements in the Government of Sri Lanka's (GOSL) efficiency, transparency, effectiveness, and quality of services. For this purpose, it will reinforce and expand fundamental governance and public management reforms as a complement and enabler of required solutions.

1.3.8. Implementation of a Service/Business Excellence Framework (S/BEF) for Increasing Performance of Government and Semi Government Institutions (Cabinet Memorandum No. 12/2011)

Cabinet approval has been received in 2011 to implement the Service/Business Excellency Framework for increasing performance of government and nongovernmental institutions. Within the scope of productivity promotion, a Business Excellence Framework that has the structure and content conforming to the international best practices adopted by institutions for achieving excellence is practiced by both public and private institutions. It comprises seven categories namely Leadership, Planning, Information, People, Processes, Customers and Results. During 2012, consultative committee and operational committee have been formed to implement the Business Excellency Framework. Three Consultative Committee meetings and one operational committee meeting have been conducted during the year 2012.

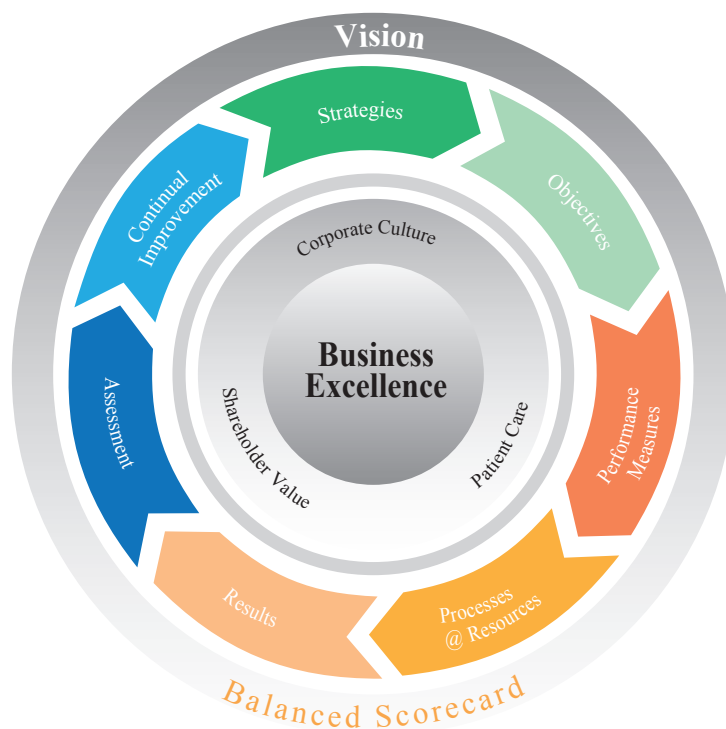


Figure 3. Business Excellency Framework

Source: Cabinet Office, Sri Lanka [5].

1.4. Objectives of the Study

The overall objective of the study is to analyze the productivity of the service sector with regard to issuing of passports, collection of tax revenue, and its changing phenomenon from 2000 to 2012. The specific objectives are as follows.

- (1) To measure the productivity of the collection of tax revenue and to identify the initiatives that have been implemented to improve the efficiency and effectiveness;
- (2) To determine productivity of issuing passports and examine the productivity initiatives have been initiated by the government; and
- (3) To examine the kind of contemporary approaches and systems which have been introduced by the government to improve the productivity in the public sector.

1.5. Selected Organizations for the Research

The Department of Inland Revenue and the Department of Immigration Emigration are selected for the purpose of research on performance management for public sector organizations. These two institutions are national government agencies and period of data covered from the year 2000 to 2012.

TAX COLLECTION SERVICES

2.1. Introduction

2.1.1. Department of Inland Revenue

Tax collection services in Sri Lanka comes under the purview of the Department of Inland Revenue. Income tax was first introduced in Sri Lanka in 1932. The Income Tax Department was established in the same year to administer this tax. Estate Duty and Stamps Offices were amalgamated with the Income Tax Department in 1933 and named the “Department of Income Tax, Estate Duty, and Stamps.” In 1958 it was named as the Department of Inland Revenue with the development of the tax system.

2.1.2. Policy Changes over the Years

Year 2000	Inland Revenue Act No. 38 of 2000
Year 2002	Introduction of Value Added Tax (by abolishing Goods and Services Tax and National Securities Levy)
-	Abolished Stamp Duty and introduced Debit Tax

Year 2004	Economic Service Charge was introduced
Year 2005	Introduction of Share Transaction Levy and Social Responsibilities Levy
Year 2006	Inland Revenue Act No. 10 of 2006
	- Economic Service Charge Act No. 13 of 2006
Year 2009	Introduction of Nation Building Tax (NBT)
Year 2011	Abolition of Debits Tax (01.04.2011)
	- Abolition of Withholding Tax on Specified Fees, and Commercial Rents (01.04.2011)
	- Abolition of VAT Advance Payments (1 January 2011)
	- Abolition of Social Responsibility Levy (SRL) (1 April 2011 in relation to income tax)
	- Abolition of Regional Infrastructures Development Levy (RIDL) (1 January 2011)
	- Abolition of Turnover Tax (TT) collected by the Provincial Councils (1 January 2011)
Year 2012	Threshold on Value added Tax and Nation Building Tax was increased to Rs. 12 million
	- Chargeability on ESC is restricted to persons or partnerships who do not have taxable income and tax losses
	- Betting and gaming levy were increased and 5% levy on gross collection was introduced with a requirement of registration

2.1.3. Powers

The Commissioner General of the Department of Inland Revenue and other officers are empowered by the Inland Revenue Act No. 10 of 1 April 2006 for the collection of taxes imposed by the government. The department is under the Ministry of Finance and the Commissioner General is responsible for the Minister of Finance.

2.1.4. Functions

Collecting taxes in terms of relevant tax and other related laws, by encouraging voluntary compliance while deterring tax evasion and tax avoidance, and enhance public confidence in the tax system administered by the Department of Inland Revenue by administering relevant tax and other related laws in a fair, friendly, and expeditious manner and thereby facilitate a beneficial tax culture. In order to make administration easy, tax collection activities are carried out by the head office situated in Colombo with about 24 regional units all over the country.

2.1.5. Tax Administration in Sri Lanka

There are two main categories of total tax revenue; direct taxes and indirect taxes. The total tax revenue consists of various types of taxes such as Income Tax, Value Added Tax, Debits Tax, Turnover Tax, Betting and Gaming Levy, Turnover Tax, Stamp Duty, Estate Duty, National Security Levy, etc.

The total revenue generated from all direct and indirect taxes for year 2000 to 2012 are illustrated in Figure 4.

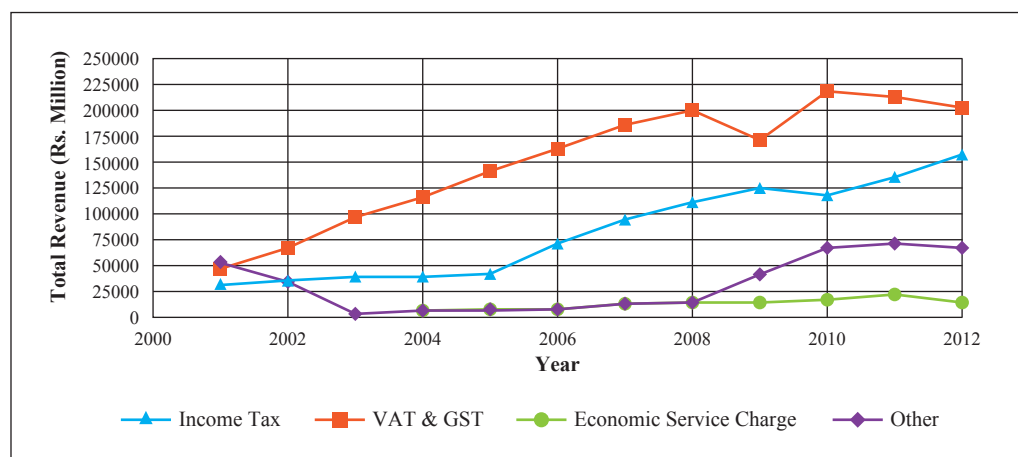


Figure 4. Tax Revenue from 2001 to 2012

Source: Progress Report from 2000 to 2012 from the Department of Inland Revenue [6] [7] [8] [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

According to the above graph, the value added tax and income tax have represented significant segments of the total tax revenue consequently.

2.2. Input and Output Data and Analysis

This section has basically focused on the assessment of the productivity on taxation in Sri Lanka, by analyzing total factor productivity, tax revenue to expenditure ratio, number of full time equivalent staff working on taxation, and labour productivity on taxation.

The primary data which is the key input for this analysis was gathered through formal discussions held with the senior officials of the Department of Inland Revenue.

The other category, which is the collection of secondary data was collected by using the Administrative Reports from year 2000 to 2012 of the Department of Inland Revenue and

Progress Reports from year 2000 to 2012 of the Department of Inland Revenue. The attention focused on tax revenue generation and expenditure incurred on collection of all tax revenue and enrolment of number of employees for the whole process.

2.2.1. Total Factor Productivity on Taxation

Table 1 has depicted the key data series used for calculation of the total factor productivity of taxation for the past 10 years. The outputs are determined as the numbers of tax returns for the above mentioned major tax categories. Also the output data was weighted based on the unit cost of each tax revenue category.

Table 1. Total Factor Productivity on Taxation

Year	Number of returns	Number of returns index (2003 = 100)	Labour & Ad Cost	GDP deflator	Deflated Volume of Input	Volume of Return Index (2003 = 100)	Total Factor Productivity
2003	365,980	100	45	100	100	100	100
2004	396,708	108	49	105	47	103	105
2005	362,640	99	79	126	63	82	120
2006	432,556	118	108	141	77	106	111
2007	583,365	159	121	160	75	140	114
2008	671,946	184	140	197	71	149	123
2009	822,553	225	161	212	76	209	107
2010	864,873	236	160	229	70	219	108
2011	897,813	245	156	249	63	225	109
2012	918,859	251	160	266	60	235	107

Source: Progress Reports from 2003 to 2012 from Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

The total factor productivity on taxation was calculated having considered the key data series as follows.

Variable	Evidence Used and Adjustments Made
Outputs for processing	Number of tax returns processed for: income tax; corporation tax; capital gains tax; inheritance tax; VAT; excise duties; other indirect taxes. Internal data were provided by Department of Inland Revenue covering 2000-2012 onwards.
Cost-weighting of Outputs	Unit costs for each tax above, estimated Department of Inland Revenue performance reports.
Inputs, for total factor productivity	Deflated total labour and other administration costs obtained from the Annual Performance Reports of the Department of Inland Revenue.
Inputs for staff productivity	Number of full time equivalent (FTE) staff allocated to tax processing, obtained from annual performance reports of the Inland Revenue Department.

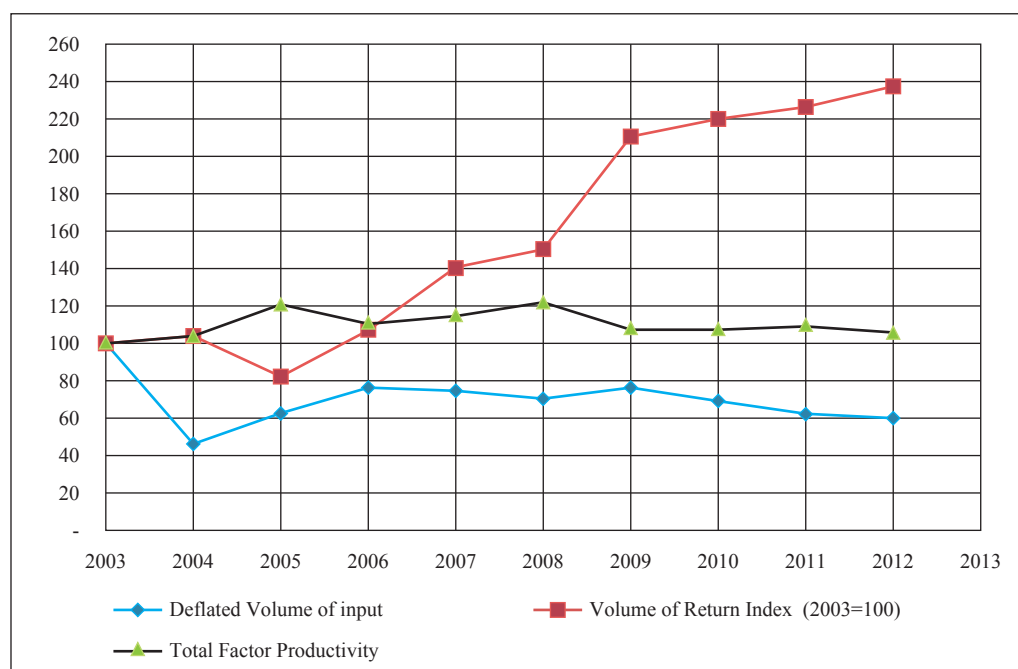


Figure 5. Total Factor Productivity on Taxation

Source: Progress Reports from 2000 to 2012 from the Department of Inland Revenue [6] [7] [8] [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

According to the above graph, the number of tax returns has increased up to volume 500 in the year 2009. There is a gradual decline in the year 2010 and then after that there is no considerable change of the volume of output in 2011 and 2012.

2.2.3. Tax Revenue to Expenditure Ratio

The tax expenditure ratio explains the expenditure incurred for collection of tax revenue of each Rs. 100. As an example, the total expenditure of the Inland Revenue Department in the year 2006 was Rs. 1,084 million and total revenue collected was Rs. 253,319 million. Therefore the tax expenditure ratio $(1,084/253,319 \times 100)$ is 0.43. Tax expenditure ratio calculated from year 2003 to 2012 as illustrated in Table 2.

Table 2. Tax Revenue to Expenditure Ratio

Year	Tax Revenue	Tax Expenditure	%	Revenue to Expenditure Ratio
2003	139,044	451	100	0.32
2004	164,804	493	100	0.30
2005	198,301	789	100	0.40
2006	253,320	1084	100	0.43
2007	308,206	1207	100	0.39
2008	344,571	1396	100	0.41
2009	353,016	1608	100	0.40
2010	422,512	1597	100	0.38
2011	443,830	1560	100	0.35
2012	443,456	1597	100	0.36

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

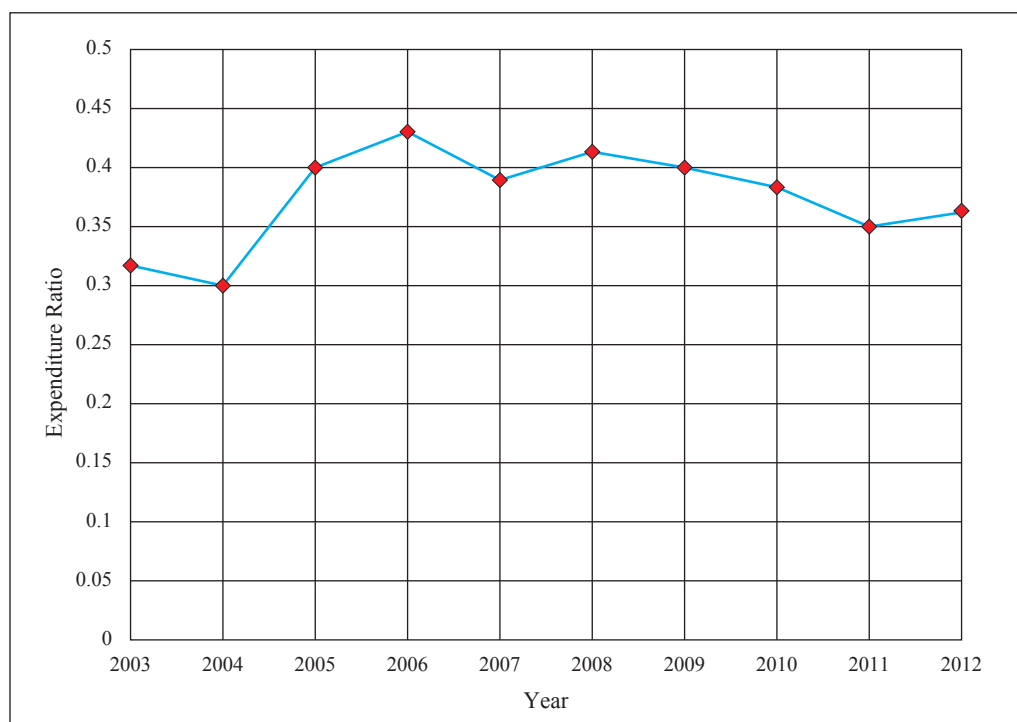


Figure 6. Tax Revenue to Expenditure Ratio from 2003 to 2012

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

According to the above graph, the expenditure incurred for the earning of Rs. 100, tax revenue is less than Rs. 1 in Sri Lanka. Although the expenditure ratio has increased in the year 2009, it has been gradually declined for the past few years.

2.2.4. Number of Full Time Equivalent Staff Working on Taxation

Table 3 illustrated the total number of staff employed for the tax related activities over the last 10 years.

Table 3. The Number of Full Time Equivalent Staff Working on Taxation

Year	No. of Employees
2003	1,585
2004	1,551
2005	1,510
2006	1,459
2007	2,212
2008	2,137
2009	2,033
2010	2,013
2011	2,219
2012	2,203

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

According to Figure 7, the cadre has increased in 2007 and thereafter no considerable variation until 2012.

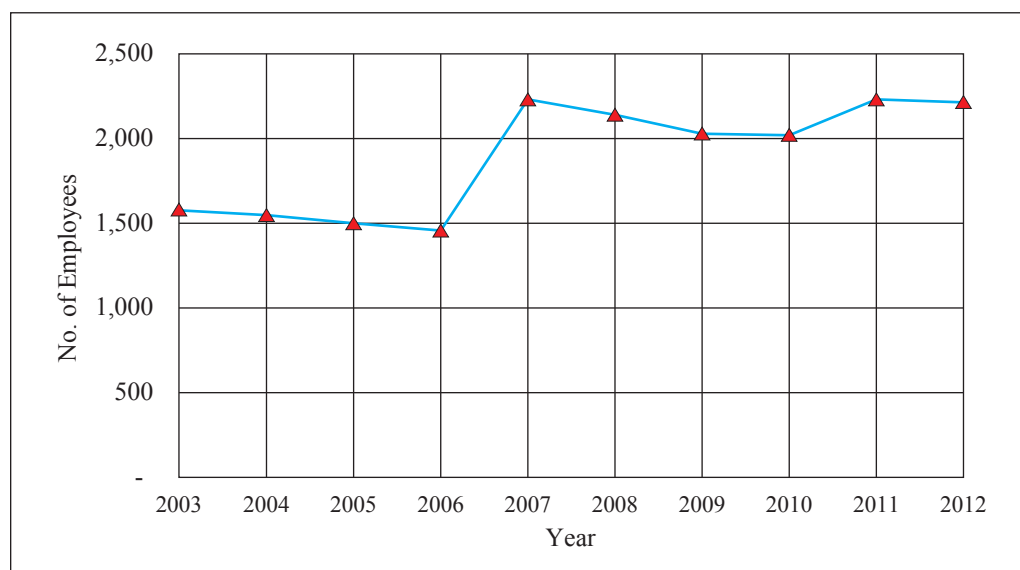


Figure 7. Full Time Equivalent Staff Working on Taxation

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

2.2.5. Labor Productivity on Taxation

Table 4 shows the methodology used for the calculation of the labor productivity on taxation for the last 10 years. The cadre represented the total number of full time equivalent staff allocated to tax processing in the head office and the island wide regional offices.

Table 4. Labor Productivity on Taxation

Year	Number of returns	No. of returns index	No. of Employees	No. of Employees Index	Labor Productivity
2003	365,980	100	1,585	100	100
2004	396,708	108	1,551	98	111
2005	362,640	99	1,510	95	104
2006	432,556	118	1,459	92	128
2007	583,365	159	2,212	140	114
2008	671,946	184	2,137	135	136
2009	822,553	225	2,033	128	175
2010	864,873	236	2,013	127	186
2011	897,813	245	2,219	140	175
2012	918,859	251	2,203	139	181

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

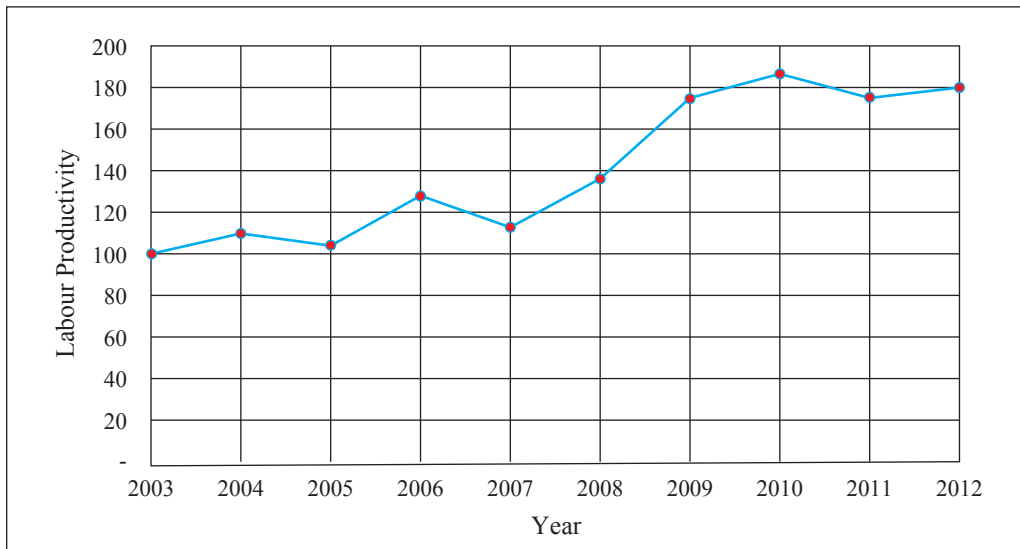
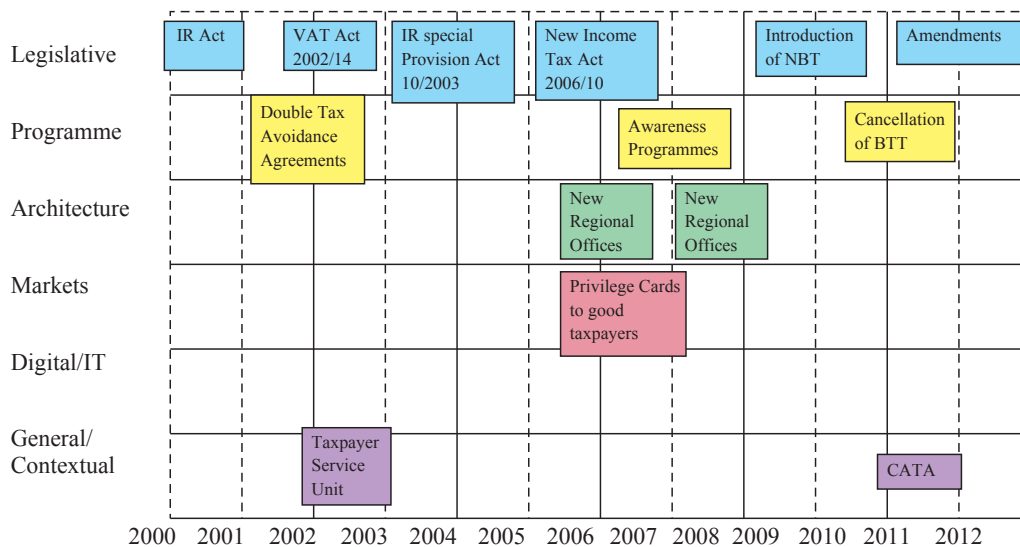


Figure 8. Labor Productivity on Taxation

Source: Progress Reports from 2003 to 2012 from the Department of Inland Revenue [9] [10] [11] [12] [13] [14] [15] [16] [17] [18].

2.3. Main Changes in Tax Collection Administration in the Last 12 Years



2.3.1. Introduction of Value Added Tax (VAT)

Value Added Tax (VAT) was introduced by Act No. 14 of 2002 and has been in force from 1 August 2002. VAT replaced the Goods and Services Tax (GST) which was almost similar tax on the consumption of goods and services.

The goods imported into Sri Lanka and goods and services supplied within the territorial limits of Sri Lanka are the subject matter of this tax. It is a multi-stage tax levied on the incremental value at every stage in the production and distribution chain of goods and services. The tax is borne by the final or the ultimate consumer of goods or services. It is an indirect tax and the government will receive at the end, through all the intermediary suppliers in the chain of production and distribution, an amount equal to the amount paid by the final consumer. The purpose of replacing the GST in place of the VAT was to simplify the tax system and the major difference was that the VAT was not applied on certain imports and on retail and wholesale supply of goods. Although there were some implications at the introduction of the VAT, when considering the end result of these changes there was no such adverse effect on total tax revenue due to this new application.

2.3.2. Decentralization

In order to avoid congestion in the head office and to provide better service to taxpayers there around, arrangements have been made to shift metro branches and some service units currently located in the head office to two new premises taken over by the department. These new locations had more space and with other facilities like banks as well as post offices it would be much more convenient to taxpayers.

With a view to monitoring closely and comprehensively, a separate unit 'The Banking and Insurance Services Unit' was established. Further a Special Information Branch to strengthen the process of an expanding tax base, a research unit to study several sectors and a stamp duty branch was also established. Two new two regional offices were opened to concentrate closely on existing and potential taxpayers in those areas and also to facilitate the taxpayers in the respective areas in discharging their obligations. All these new initiatives were instrumental in smoothening the procedures and it obviously helped to increase the efficiency of the operational process and the collection of taxes which led to enhance the total factor productivity.

2.3.3. Business Promotion

Awareness programmes were conducted to convince and motivate the taxpayers with the aim of increasing the tax revenue. The programs were named the ‘Inland Revenue Walk’, ‘Payment of tax is your Responsibility’, and ‘Rata Venuwen Api’. In addition some programmes were introduced under this scheme like issuing privilege cards and tax concessions on the import of vehicles on encouraging business people to be taxpayers. It is noted that impacts on these programmes positively affected the revenue collection of the country.

The process of issuing privilege cards to good (individual) taxpayers to recognize their contribution to the government revenue and to make them entitled to certain moral benefits such as preferential treatments at government agencies, continued with added modes. From the entrepreneurs’ point of view, these kinds of preferences were much more convenient for them to expedite their day to day activities and therefore it positively affected changing the mindset on the payment of taxes.

2.3.4. Taxpayer Service Unit

Introduction of the Taxpayer Service Unit facilitated the taxpayers and the public to access its services conveniently. The unit is equipped with offices to assist every person seeking help or information. Relevant enactments, departmental publications, paying slips, forms, etc., were available in this unit. To avoid possible delays and inconveniences, arrangements were made to issue Taxpayer Identification Numbers (TINs) and temporary VAT numbers. These people-friendly approaches were helping the attitude change in taxpayers and it was also helpful to develop a mutual understanding between taxpayers and the bureaucracy.

2.3.5. New Branch Network

Due to opening up of new branches and organizing the audit functions methodically, the Department of Inland Revenue was able to detect undisclosed income and undisclosed turnover. This program has also assisted to increase the total factor productivity on taxation.

2.3.6. Introduction of Nation Building Tax (NBT)

The Nation Building Tax (NBT) Bill, giving legal effect to the 2009 Budget Proposals relating to the imposition of NBT, was passed by Parliament on 7 January 2009. NBT Tax Act No. 9 came into operation on 1 February 2009. The objective was social contribution towards welfare of security forces and to rebuild communities and infrastructure facilities affected by terrorism. This tax will be levied on the turnover of importers, manufacturers, and service providers at a rate of 1%.

The Nation Building Tax (Amendment) Act No. 32 of 2009 increased NBT from 1-3%. Specify the date for the submission of tax returns to the Department of Inland Revenue. Exempt the receipts to an exporter, goods used for projects approved by the Minister of Finance, and services of sales agents registered under the Civil Aviation Act.

The collection of NBT for the year exceeded the target by 1.182 billion and contributed 12.05% to the total revenue collection. The total number of taxpayers registered for NBT as of 31 December 2011 was 60,370. Out of the persons registered for NBT, 18,102 are companies and the rest are individuals and partnerships. The scope of the Nation Building Tax was widened by adding wholesale and retail trade sectors, which were earlier under provincial councils Turnover Tax regime. One third of the total NBT revenue was transferred to provincial councils. These figure clearly reflect that this was one of the most successful initiatives in increasing the tax revenue of the country.

2.3.7. Major Amendments

Taking forward the reform initiatives proposed in the 2011 budget, as recommended by the Presidential Tax Commission, the government introduced appropriate amendments to bring the country's taxation in line with other fast growing emerging economies. Amendments were made to the Nation Building Tax Act No. 9 of 2009, Inland Revenue Act No. 10 of 2006, Economic Service Charge Act No. 13 of 2006, and Value Added Tax Act No. 14 of 2002. Further, Finance Act No. 12 of 2012 was introduced.

Nation Building Tax and Provincial Turnover Tax were combined. Debit Tax, Social Responsibility Levy and Regional Infrastructure Levy, were removed, to simplify taxation. Corporate and personal tax rates were further rationalized and simplified.

Though it is too early to comment on the total impact of these new initiatives, policy makers are of the view that this kind of simplification will be beneficial on increasing positive impacts in the tax system.

2.3.8. Double Tax Avoidance Agreements

Countries enter into double tax treaties to eliminate or mitigate the incidence of juridical double taxation and fiscal evasions in international trade (or transactions). These treaties are particularly important for developing countries as they play a great role in attracting foreign investments, expertise, and modern technology, etc. Sri Lanka has entered with 38 countries and the multilateral treaty into double tax avoidance treaties as of 31 December 2012.

Another five agreements have been signed with Luxemburg, Seychelles, Belarus, Palestine, and Bahrain which are to be entered into force in the near future. Further, four agreements have been signed at official levels with Ukraine, Oman, Germany, and Singapore. A double taxation avoidance agreement secured the position that a taxpayer is not required to pay tax twice in respect to the same income for the same period although they are generally subject to tax their home country as well as in the country in which they make investments. The main objective of entering into the agreements for the avoidance of double taxation is to encourage the inflow of capital, technology, and expertise into the country and thereby accelerate the economic development and remove the double taxation of the same income and obstacles incidental thereto. It is expected that these provisions will encourage investments and help to expand the trade and economic ties between all these countries, which will have positive results on improving economic growth in the long run.

2.3.9. Commonwealth Association of Tax Administrators (CATA)

CATA which was established in 1977 is the largest organization of the Tax Administrations in the world. The 32nd Annual Technical Conference of CATA was held in Colombo, Sri Lanka, during the period of 18–23 September 2011. Its current membership is 49 Commonwealth Countries. This Association was set up mainly for fostering improved effectiveness and efficiency of tax administrations within the commonwealth countries. Sri Lanka has been a member of CATA since 1978. Since there was an exposure of sharing experience with other countries, the efficiency and the effectiveness of the taxation has been enhanced and productivity has also increased concurrently.

2.4. Initiatives Undertaken

2.4.1. Simplification of Tax Structure

Key reforms done in 2011–2012 were on the thrust that a simplified tax structure, with a broader base and lower rates, would be conducive to position Sri Lanka as a country with a competitive edge in the region. Debit Tax, Business Turnover Tax, Regional Infrastructure Development Levy, and Social Responsibility levies were done that way in 2011, which helped reduce the operation of multiple taxes and thereby improve the quality of tax administration within a simplified tax system to the benefit of the people. VAT rates were unified, taking forward the VAT simplification process. The amalgamation of provincial Turnover Tax and the national level Nation Building Tax (NBT) together with revenue sharing arrangements between the government and provincial councils, further simplified the tax system. The threshold of the annual turnover for VAT and NBT was increased to Rs. 12 million to facilitate SME sector functions, while also easing the administrative burden through the reduction of a large number of small taxpayer files managed by the Inland Revenue Department to improve its productivity. Targeted tax incentives were introduced to boost identified activities such as IT-BPO, telecommunications, import replacement activities, and capital market transactions.

In keeping with the reform thrust and direction towards broadening the tax base, as announced in the 2013 budget, the coverage of VAT was extended to wholesale/retail levels where the quarterly turnover was over Rs. 500 million, which enabled the applicability of VAT throughout the value chain consisting of production, distribution, and consumption. An all-inclusive 5% levy was imposed on the gross collection of the activities of betting and gaming on a monthly basis in lieu of multiple taxes which were applicable. Registration with the Inland Revenue Department was made mandatory to carry out such activities. This was to ensure tax compliance with regard to such activities and them within an effective regulatory regime that was so far lacking, while confining to those who are already in operation.

After the introduction of a simplified tax processing system, the non-taxpayers were also motivated to pay the taxes and this caused an increase in the tax revenue of the country. Due to the increase in the number of tax files handled, the total factor productivity had also increased accordingly.

2.4.2. Tax Interpretation Committee

One of the key administrative reform initiatives was the establishment of the Tax Interpretation Committee, in the Inland Revenue Department set up in April 2011, in terms of the Inland Revenue Act No. 10 of 2006, to ensure consistency, credibility, and transparency in the administration, while taking away the discretionary powers until then held by individual officers of the Inland Revenue Department, on interpretations. This committee is headed by a Senior Deputy Commissioner General of the Inland Revenue Department. As announced in the 2013 budget, a timeframe of six months was introduced within which an interpretation has to be given. The committee had given 54 interpretations out of 135 requests until the end of 2012. What is notable is that most of the interpretations were sought in relation to income tax, primarily on whether a particular income falls within the definition of employment income, or trade or business income.

2.4.3. Default Tax Recovery Unit

The Default Taxes (Special Provisions) Act No. 16 of 2010 introduced a streamlined and speedier process for the recovery of taxes in default in a time bound manner and to write off taxes in default pending for a long period of time, in certain circumstances. The Act also requires that future tax in arrears should be maintained at a reasonable limit and makes the officials entrusted with this task more accountable towards the collection of taxes.

The Commissioner General of Inland Revenue is made duty bound to ensure that the aggregate of any taxes not including any penalty component or any part held over or deferred, which is in default under any law set out in the schedule as at the end of any calendar year from January 2010 over the aggregate of taxes in default as at the end of the preceding year, should not exceed 3% of the total tax collected. A concerted effort is being made by the Inland Revenue Department towards achieving this target, by requiring senior management to issue assessment notices having given careful consideration to all relevant facts. An expeditious and an efficient process was also introduced pertaining to the collection of taxes. A register is being maintained with details on all taxes in default, charge numbers in relation to taxes, the tax imposed, the penalty proposed, any tax held over or deferred, and the total tax collectable, adopting a format provided in that regard. The Default Tax Recovery Unit was operationalized in 2012.

2.5. Best Practices and Lessons Learned

With many years of experience, the Inland Revenue Department has undergone several initiatives on both tax collection and service delivery. In this regard, the government introduced many changes to the Inland Revenue Act smoothening process. Decentralization of service delivery was also one of the major techniques used. In addition, as we discussed in detail, many processes were successfully introduced on the promotion of business activities. Impacts from all these exercises were positively reflected throughout the last decade.

According to the facts and figures explained in this study, it is evident that tax revenue has increased gradually for the last 10 years. Meanwhile, the number of tax returns processed have also been increasing steadily. Therefore, it is proved that the above described initiatives have positively affected the increase of the efficiency and effectiveness of the tax system of Sri Lanka.

PASSPORT SERVICES

3.1. Introduction

3.1.1. Department of Immigration and Emigration

During the period when Ceylon was a British colony, entry into and exit from Sri Lanka (then Ceylon) was controlled by the eight different ordinances which were imposed by the British government. After gaining independence from the British, the then Parliament promulgated the Immigrants and Emigrants Act No. 20 of 1948. The Department of Immigration and Emigration has been established under the provisions of Act No. 20 of 1948 and came into operation from 1 November 1949. This department is a centralized national body and responsible for issuing Sri Lankan passports.

3.1.2. Powers

The controller and other officers appointed under the provisions of section 4 of the act are empowered to exercise, perform, or discharge the powers, duties, or functions, conferred, imposed, or assigned by or under the Immigrants and Emigrants Act. Powers conferred by section 2, section 31, or section 52 should be exercised by the minister himself. At present, this department performs duties with the authority of the Ministry of Defense.

3.1.3. Duties

- Granting required entry endorsements in travel documents of persons other than citizens of Sri Lanka at approved entry points;
- Keeping and maintaining a register of persons who are non-citizens of Sri Lanka at entry points;
- Stamping the travel documents of persons leaving Sri Lanka at departure points and maintaining records therein; and
- Identification of persons entering and leaving Sri Lanka at approved ports.

3.1.4. Functions

- Exercising the powers vested by or under the Immigration and Emigration Act;
- Performing the duties assigned by or under the Immigration and Emigration Act;
- Issuing visas to persons other than citizens of Sri Lanka to enter and stay in Sri Lanka and border control;
- Issuing travel documents to the citizens of Sri Lanka;
- Maintaining detention places approved by the minister;
- Conducting investigations on violations of provisions made by or under the act; and
- Keeping and maintaining the information and records connected to the functions mentioned above.

3.2. Input and output data and analysis

This analysis mainly focused on the assessment of the productivity of issuing passports in Sri Lanka for the study period, from 2003 to 2013, and two types of data/information were used for the analysis. The primary data, which is the key input for this analysis was gathered through formal discussions held with the senior officials of the Department of Immigration and Emigration. The other category, which is the collection of secondary data, was done by using the progress reports, activities, review reports, and administrative reports. The attention focused on revenue generation and expenditure incurred on all passport-related activities and enrolment of employees for the whole process.

Table 5 shows the evidence used to determine the passport service's productivity and the key output activity of the supply of passports to Sri Lankan citizens for the study period.

Table 5. Productivity on Issuing Passports

Productivity on Issuing Passports				
Year	Volume of Output Index	No. of employees	Volume of Input Index	Productivity
2000	100	550	100	100
2001	107	611	111	96
2002	117	653	119	99
2003	116	660	120	96
2004	101	710	129	78
2005	119	753	137	87
2006	121	801	146	83
2007	151	748	136	111
2008	159	751	137	116
2009	167	758	138	121
2010	178	802	146	122
2011	181	807	147	123
2012	184	810	147	125

Source: Administrative Reports from 2000 to 2012 from the Department of Immigration and Emigration [19] [20] [21] [22] [23] [24] [25] [26] [27] [28] [29] [30] [31].

Variable	Evidence Used and Adjustments Made
Outputs for processing of import and export declarations	Total number of passports issued, obtained from annual reports of the Department of Immigration and Emigration and its predecessor
Cost-weighting of outputs	Unit costs for different types of passports obtained from Administrative Reports of the Department of Immigration and Emigration
Inputs, for total factor productivity	Deflated staffing, outsourcing, procurement, and capital costs published in Administrative Reports of the Department of Immigration and Emigration
Inputs for staff productivity	Number of full time equivalent (FTE) staff allocated to passport sales and to general administration, obtained from annual reports and the administrative reports

According to Figure 9 the volume of output has increased from 2007 onwards. Accordingly, the productivity of the issuing of passports has also increased.

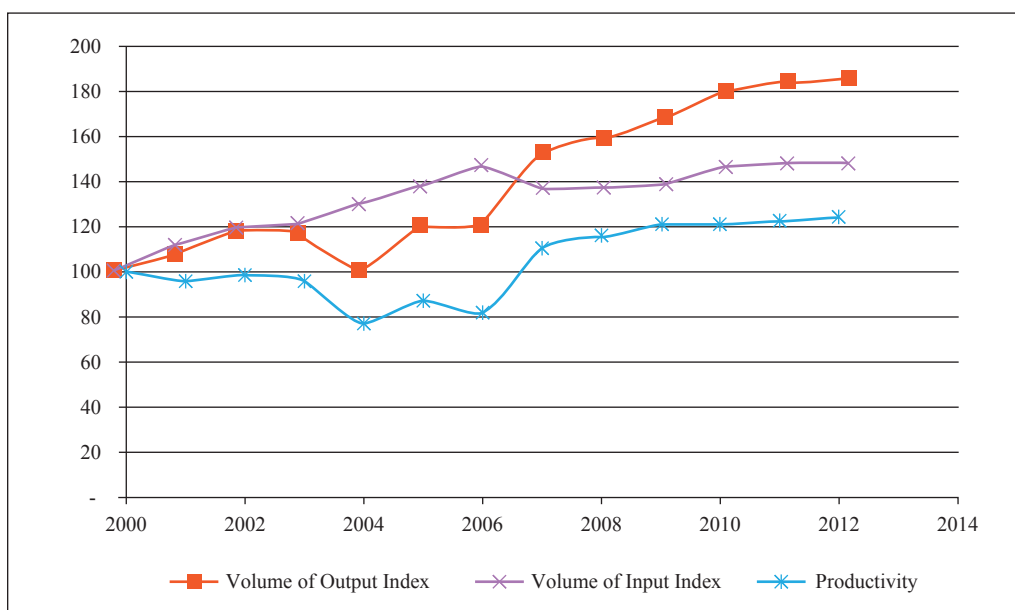
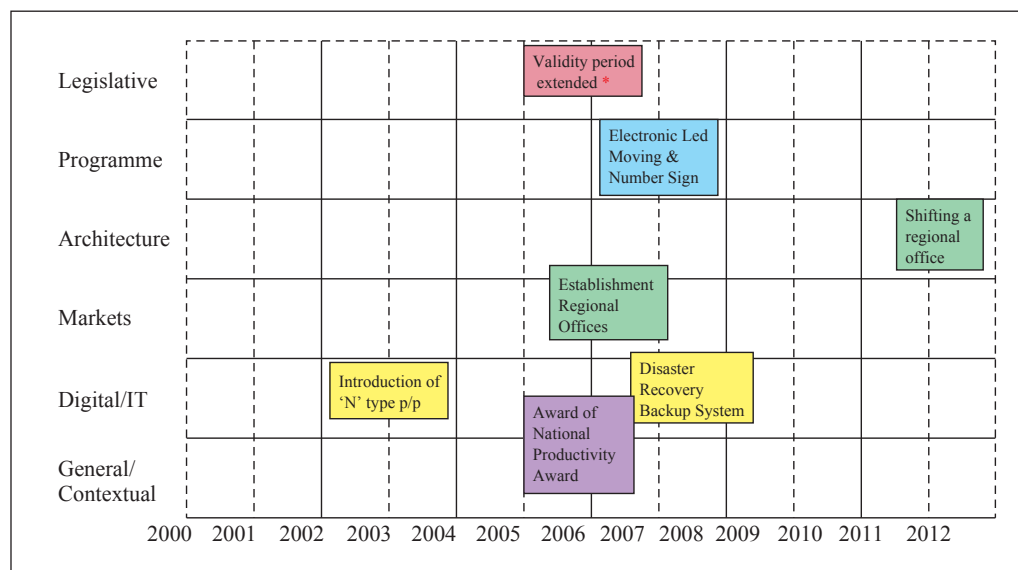


Figure 9. Productivity on Issuing Passports

Source: Administrative Reports from 2000 to 2012 from the Department of Immigration and Emigration [19] [20] [21] [22] [23] [24] [25] [26] [27] [28] [29] [30] [31].

3.3. Main Changes in the Passport Issuing Administration in the Last 12 Years

The Online Visa Application Processing Service (Electronic Travel Authority – ETA) is activated by the Department of Immigration and Emigration. The “Lanka Government Payment Service” (LGPS) connected to the ETA has facilitated the use of electronic payments, ensuring over 2,700 daily visa applications being processed smoothly for tourists and others entering the country, enabling easier and faster online revenue collection amounting to approximately USD12.27 million in 2012. The issuing authority of the ETA is the Department of Immigration and Emigration, Colombo, Sri Lanka.



Source: Administrative Reports from 2000 to 2012 from the Department of Immigration and Emigration [19] [20] [21] [22] [23] [24] [25] [26] [27] [28] [29] [30] [31].

3.3.1. Introduction of Technologically Developed Passports

The Department has initiated the 'N' type of passports instead of 'M' type passports which were being used in mid-2003. Since the new 'N' type passports were being developed based on new technology, it helped avoid some mistakes.

3.3.2. Extension of the Validity Period of Passports

The validity period of the passport was five years in the past and therefore the passport holders have to update their passports every five years. Due to the validity period of passports being extended from five years to ten years in 2006, passport renewal activities have been reduced and concurrently the productivity of the issuing of passports has been increased.

3.3.3. Decentralization of the Duties

Three regional offices were established at Kandy, Matara, and Anuradhapura with the aim of decentralization of the duties of the Passport Department. Due to the establishment of these regional offices, the department is able facilitate the people that live in the suburb areas more efficiently. This has been affected to increase the productivity of the department and the passport holders as well.

3.3.4. Recognition of Service Delivery

The Department of Immigration and Emigration was awarded the National Productivity Award in 2007 by the National Productivity Agency in Sri Lanka due to enormous duties performed efficiently and effectively during the last few years.

3.3.5. Decentralization

The service of the passport division of the Department of Immigration and Emigration is very important for the public who are living throughout the country. Therefore, three regional offices have been established in addition to the head office for the issue, renewal, and various revisions of passports. The regional office which had been established in Anuradhapura was shifted to Northern Province in 2012 in order to provide an effective service especially to the people of the war affected areas.

3.4. Initiatives Undertaken

The Online Visa Application Processing Service (Electronic Travel Authority - ETA) is activated by the Department of Immigration and Emigration. The ‘Lanka Government Payment Service’ (LGPS) connected to the ETA has facilitated the use of electronic payments, ensuring over 2,700 daily visa applications being processed smoothly for tourists and others entering the country.

3.5. Best Practices and Lessons Learned

The Department of Immigration and Emigration being one of the key institutions in the country throughout the last few decades has taken several initiatives on efficient service delivery to its clients. This was clearly reflected through new measures taken within the last decade. The establishment of regional centers, instruction of new technology on reducing faults and malpractices, and the incorporation of new managerial concepts introduced by the National Productivity Agency and other professional bodies were some of those best practices.

CONCLUSION AND RECOMMENDATIONS

4.1. Conclusion

Studies reveal that many initiatives have been taken on improving overall productivity in the public sector in Sri Lanka within the last few decades. In particular, departments like Inland Revenue and Immigration and Emigration are the leading public sector partners for the development of the country and have taken every possible effort for efficient service delivery for their clients. While incorporating new technologies, all other best managerial practices were introduced to improve efficiency, giving real ‘value for money.’ The successes of all these efforts were proved through the increase of revenue collection and other services, which was rewarded through productivity awards and other ways.

4.2. Recommendations

It has been proved that the application of new technology was instrumental in improving effective service delivery. Hence, the authorities will have to draw their special attention on the adaptation of best practices like automation of services in the future. Further, technology transfers from the developed world would be immensely beneficial in this endeavor, while making more efforts on people friendly service delivery through the application of best managerial practices.

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THAILAND

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INTRODUCTION

Thailand, a country with 64.9 million people in 2014 according to the Institute for Population and Social Research [1], has long history for government services, since the Sukhothai Dynasty until the present Chakri Dynasty, for approximately more than 1,000 years.

The public sector in Thailand has evolved upon environment changes over time. In 1448, there were four ministries of the ancient government: Interior, Royal Household, Finance, and Agriculture. Another major change was in 1888, in the reign of King Rama V, as adopted from western concepts, six new departments had been established: Department of Finance, Department of Justice, Department of Education, Department of Public Works, Department of Defense, and Department of Royal Irrigation. In 1932, as Thailand turned into a democracy, the cabinet had restructured the public sector overall. Many ministries and departments were established according to the western public sector. Since then the number of civil servants has drastically increased in accordance with the National Economic and Social Development Plan. Thailand focused on developing the country to achieve economic based industrialization [2].

In accordance with the 4th National Economic and Social Development Plan (1977–1980), decentralized government services are considered key factors for enhancing the competitiveness of Thailand. Local government agencies were considered key mechanisms to implement government plans to be more flexible, localized, and to have ease of access and the ability to communicate with the local people more so than the central governments. There are more than 7,000 local agencies, their main responsibilities being for road construction, and household registration services including local tax collection. This led to central government services being more focused on services at the national level and to plan on transferring their services to the local government and private sector.

A significant step of government services reform was in 2002 from the enactment of the State Administration Act (Volume 5) of B.E. 2545 and the Government Organization Restructuring Act of B.E. 2545. These laws have primarily introduced many changes,

including organizational structures and work processes, as well as shifts in the perspective and work culture of government officials.

Since 2003, the Thailand Public Sector has continuously developed under the royal decree on criteria and procedures for good governance, B.E. 2546, with guidance and evaluation by The Office of the Public Sector Development Commission (OPDC). The four key aspects include 1) Rightsizing, 2) Better Service Quality, 3) High Performance, and 4) Open Bureaucracy. To encourage public agencies to improve government services to be more effective and efficient, from 2003 to 2010, the OPDC promoted many implementations. For instance, working time and process reduction are the compulsory goals for public agencies' implementation, in accordance with their performance agreements. This encourages public agencies to provide better service quality in major work processes in response to customers' needs following the standard duration specified by each public agency. The OPDC organized a public hearing to collect benchmarking data that supports the improvement of public services.

The results showed that, overall, public agencies are able to reduce work process and time durations by 30–35% and extend this improvement to all work processes in accordance with the resolution of the Cabinet in 2007. After that, the OPDC set up a key performance indicator (KPI), 'success level of weighed average percentage of work processes and cycle time reduction,' to stimulate public agencies to pay more attention to service improvement. For eight years, from 2003 to 2010, it showed that public agencies underpinned service improvement continuously and many of them received service quality awards from the OPDC.

It was determined that the public sector organizations were oversized and overstaffed after large scale expansion of the civil workforce. That led to balancing off government officers and abolishing some government agencies. Public services have transferred to private organizations and outsourcing. When compared to the total population, the civil workforce in 2012 (excluding the military) [3] was 3.44%, and the workforce in the private sector were shown to be 56.47% (Figure 1). These changes brought about the freezing of the civil workforce for years and increments of other types of employment, such as permanent and temporary employees, instead were hired more for the civil workforce (Figure 2).

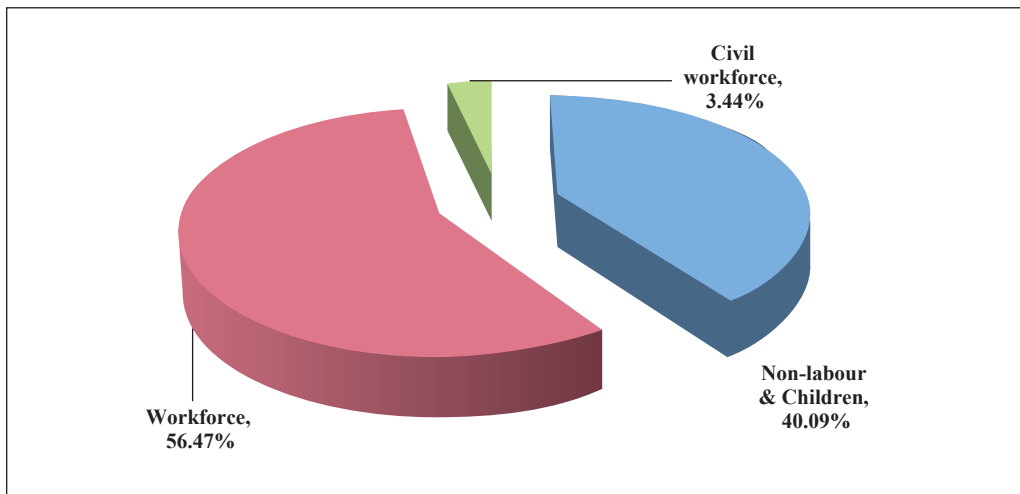


Figure 1. Population, Workforce, and Civil Workforce

Source: Civil Workforce Report 2012 [3].

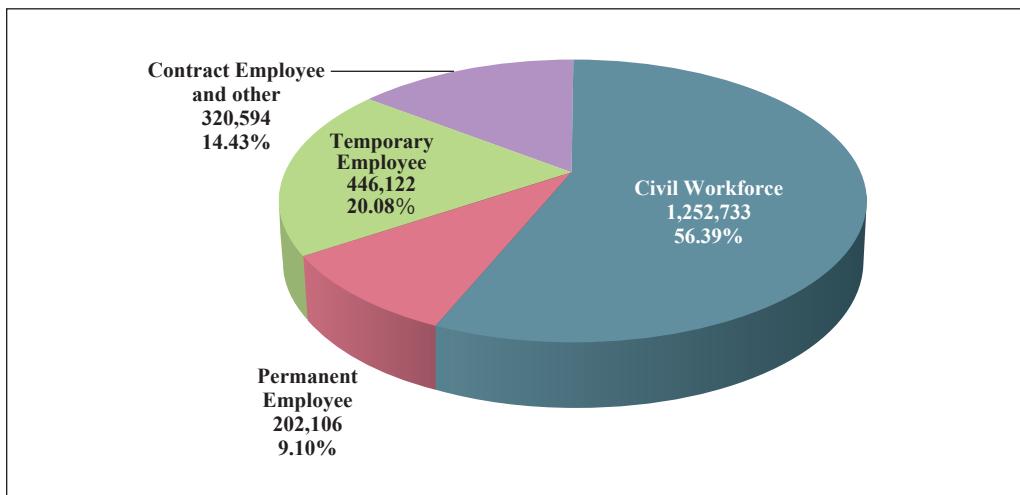


Figure 2. Types of Civil Workforce

Source: Civil Workforce Report 2012 [3].

Before the public sector reform and implementation, the overall competitiveness of Thailand was in rank 31 while the Public Institution Index showed a lower rank at 39. This information represented Thailand as a non-leading country in Asia. Besides, many IT indexes showed the disadvantages to improve national competitiveness (Figure 3).

Table 1. Comparison of Competitiveness Rankings among Countries in Asia as Determined by the World Economic Forum

	Singapore	Malaysia	The Philippines	Thailand	South Korea	Indonesia
Technology Index	17	26	52	41	18	65
Innovations	20	52	45	40	11	63
Advances in IT	5	32	63	52	19	73
Technology Transfer	14*	1**	9**	5**	12*	15**
Public Institution Index	7	33	70	39	32	77
Resolution of legal conflicts	9	34	63	38	28	68
Level of Corruption	5	34	76	43	38	77
Macro-Economic Index	1	20	32	11	10	53
Economic stability	1	7	50	8	10	45
National credibility	18	37	53	45	29	74
Government expenditure: GDP	11	37	17	10	23	19
Overall	4	27	61	31	21	67

Source: OPDC (2003) Annual Report adapted from World Economic Forum (WEF) Global Competitiveness Report 2002 [4].

Notes: * Ranking among 24 countries grouped as “core innovators”

** Ranking among 56 countries grouped as “non-core innovators”

To encourage public agencies’ government services to be more effective and efficient, the OPDC has promoted many improvement programs from 2003 to 2010. For instance, reengineering work processes, restructuring public organizations, reforming financial and budget systems, creation of modern Human Resource Management and compensation systems, implementing change management (paradigm, cultural norms, and values), modernizing the Public Sector (e-Government), promoting public participation in the Public Sector.

According to the Public Sector Development plan, all departments in 20 ministries have been enforced to implement key initiatives related to four key strategies; improved quality of public services, a “right-sized” government bureaucracy, increased competencies of public sector employees, and responsiveness to democratic governance. The OPDC

has introduced a variety of tools and techniques, for example, work process reduction, result-based management, good governance, performance evaluation with cascading KPIs from organizational levels, and also being regarded highly among stakeholder satisfaction surveys (Figure 3).

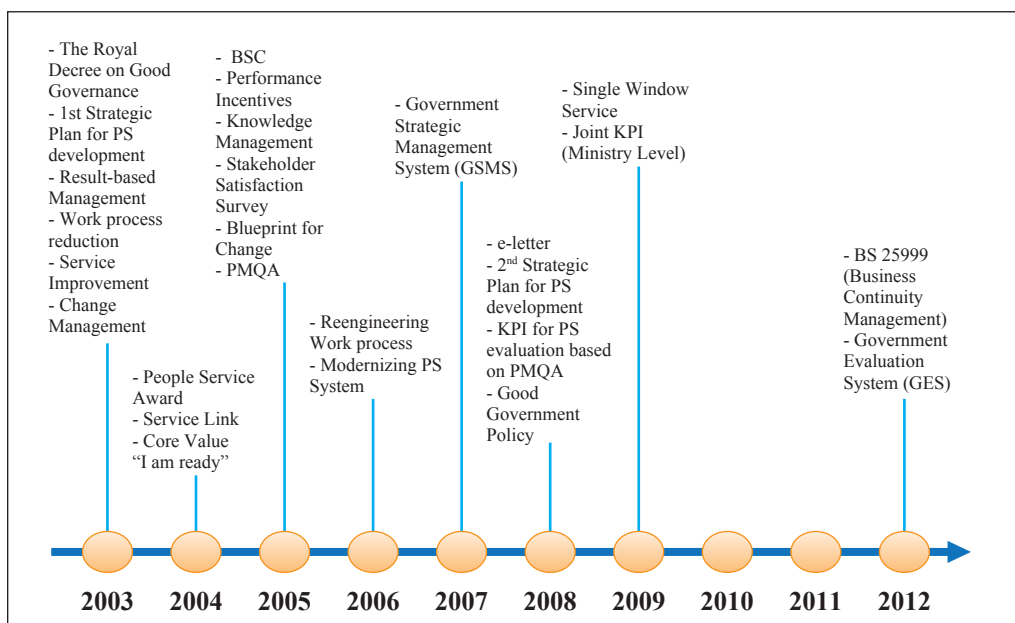


Figure 3. Initiatives for Public-Sector Productivity Improvement

Source; Adapted from OPDC Annual Report 2003-2012 [4] [5] [6] [7] [8] [9] [10] [11] [12] [13].

Results from public sector reform and development

Public-sector reform and development in accordance with the Strategies for Thai Public Sector Development has achieved its goals with the demonstrated outcome of an 82.65% satisfaction rate among people in government services. Moreover, evaluation of the Public Sector Management Quality Award reported that 89.50% of government agencies have improved their work system or work process, for instance, work process reductions, improvement of standards of service, and even leading to a new era of government services, such as one-stop service, 24 hours of service, and mobile services for remote areas.

The results of public participation in the Public Sector level increases to 86.00%, while capabilities of workforce competency are higher than target at 92.09%. Level of confidence and trust of Thai people to Thai Government System are 81.03%.

Another result on Efficiency of Thai Public Sector is from Political & Economic Risk Consultancy, Ltd. (PERC), a consulting firm in Hong Kong specializing in strategic business information and analysis for companies doing business in the 12 countries in East and Southeast Asia.

The Risk Report on the countries of Asia pays special attention to critical socio-political variables like corruption, intellectual property rights risks, labor quality, and other systemic strengths and weaknesses of individual Asian countries. With a score range from 1-10, a higher score (close to 10) means that the government of that country creates problems and confusion for the citizens, as well as barriers for foreign investment. In 2012, from 12 countries, Thailand was ranked no. 3 (score 5.25) after Singapore (score 2.25) and Hong Kong (score 3.53).

The next phase of Thai public sector development during 2013–2018 are focusing on these four aspects; service quality for Thai people, core competency of government agencies, integration and collaboration between government agencies and other sectors, and transparency. The OPDC has set up three ultimate goals; high performance organization, sustainable development, and being internationalized to support in achieving key targets and to be deployed through seven strategies as follows;

1. Service Excellence:
 - Designing services and processes with people-centered concepts;
 - Adopting appropriate IT for ease and variety of services; and
 - Providing proactive service, such as one-stop service, effective complaint management, building a service excellence culture.
2. Creativity, Simplicity, and Agility to Become a High Performance Organization:
 - Managing and organizing stylish, compact, simple organizations with agile systems;
 - Promoting paradigm shift focusing on creativity;
 - Building workforce capabilities; and
 - Enforcing efficient and value-added work with societal responsibilities and environmental conservation.
3. Public Value (Productivity and Efficiency):
 - Enforcing efficient assets management with consideration of ownership cost;
 - Reducing loss and wastes, and minimizing overall costs; and
 - Focusing on return on investment.

4. Integration:
 - Promoting collaboration between government agencies; and
 - Promoting collaboration between central and local government agencies for policy/strategy deployment and efficient use of resources.
5. Collaboration:
 - Encouraging government agencies to review the role and mission of their organization;
 - Focusing on public participation in the public sector;
 - Encouraging government agencies to transfer unimportant jobs to other parties; and
 - Promoting partnerships between government agencies and other sectors.
6. Integrity:
 - Enforcing government agencies for disclosure and transparency in operation;
 - Promoting public participation in the public sector; and
 - Promoting anti-corruption and bribery.
7. Readiness for ASEAN 2015:
 - Ensuring government agency preparedness for ASEAN in 2015; and
 - Networking in promoting and enhancing corporate governance in the public sector in ASEAN (OPDC, 2013).

Public Sector Service Award

In 2003, the OPDC announced the Public Sector Service Award in order to motivate and encourage government agencies to improve their service quality. This award is to honor the outstanding government agencies in service delivery.

Additionally, to recognize best practices in public services, the OPDC has promoted public service awards to reward outstanding service improvements since 2003, and more than 250 public organizations from central government agencies, provinces, local governments, and education institutes gained this award. There were five types of public service awards in 2010, as follows:

- 1) Outstanding Service Award: For outstanding government agencies in three categories, service standard, service integration, and service innovation;
- 2) Overall Standard of Service Excellence Award: For government agencies expanding its service quality standard across all service branches;

- 3) Integration of Service Excellence Award: For government agencies improving their service quality through networks and collaborators;
- 4) Excellence Service Innovation Award: For government agencies innovating new services, new processes, or adopting new technology for service delivery; and
- 5) Sustainable Development Award: For awarded government agencies maintaining their service quality and standard for three consecutive years (to be launched in 2015).

Moreover, the OPDC has encouraged Thai government agencies to apply awards at the international level, i.e., United Nations Public Service Awards (UNPSA) established by the Economic and Social Council. It rewards the creative achievements and contributions of public service institutions that lead to a more effective and responsive public administration in countries worldwide. From 2008–present, there have been six Thai government agencies that have won the UNPSA (Table 2). Names of award winners for the Thai public sector are;

- 1) Yashodhan Hospital, finalist for improving the delivery of public services;
- 2) Nakorn Chiangmai Hospital, the winner for improving the delivery of public services;
- 3) The Revenue Department, Revenue Region 7, 1st place winner for advancing knowledge management in government;
- 4) Royal Irrigation Department, 2nd place award for fostering participation in policy-making decisions through innovative mechanisms;
- 5) Royal Irrigation Department, the winner for fostering participation in policy-making decisions through innovative mechanisms; and
- 6) Rajavithi Hospital, 2nd place winner for advancing knowledge management in government.

Table 2. Number of United Nations Public Service Award Winners (Thai Government)

Year	1st Round	2nd Round	3rd Round	Award Winner
2007	7	3	-	-
2008	15	6	4	1
2009	21	9	6	1
2010	15	6	-	-
2011	21	18	11	2
2012	19	10	3	2

Source: United Nations Public Service Award. Available at http://www.opdc.go.th/special.php?spc_id=1&content_id=2127 [14].

The next step of public sector development

The OPDC will push forward public sector development in accordance with the Public Sector Development Strategic Plan (2013–2018). The Thai Public Sector Development Strategy (2013–2018) proposed by the OPDC focuses on three pillars with seven strategies. The first pillar, organization excellence comprises four strategies, service excellence, high performance organization, public value, and integration. The second pillar is sustainable development. Public organizations have to enhance more opportunity in collaboration among public organizations and the private sector within the country and region, as well as promote integrity in public service systems. The last pillar, moving internationally with readiness for the ASEAN 2015 strategy will encourage public organizations in preparation, especially for both public service development and officers' competencies.

TAX COLLECTION SERVICE

2.1. Introduction about the Agency

With King Rama VI's vision for establishing a countrywide infrastructure for revenue collection platform as the main source of the government's revenue, The Revenue Department (RD) of Thailand was founded on 2 September 1915.

85-90% of the government's revenue comes from three main tax collection agencies under the Ministry of Finance, the Revenue Department, Excise Department, and Customs Department. More than half of the total tax collection is collected by the RD, the highest tax collection agency in Thailand. The RD is responsible for income tax from personal and corporate, petroleum tax, value added tax, and duty stamp. The Excise Department is for collecting tax from goods and services considered rational to bear the tax at a higher rate such as disadvantages to health and morale or extravagant goods and services, as well as ones with public concern. The Customs Department has the main responsibility for international tax collection.

Besides income tax collection, the RD also has the main objectives to collect all taxes efficiently at an appropriate level, at the lowest compliance cost to the RD and to taxpayers, assist in the development of the economy through tax initiatives, which will enable Thailand to remain competitive among economic counterparts, instill an ethics of voluntary tax compliance, to pursue effective measures of reprimanding tax evaders, and administer the tax system with the principles of honesty, efficiency, and fairness.

Apart from collecting taxes, the RD is also responsible for ensuring that tax collection is carried out with the government's policies. In addition, in order to achieve the vision of "The leader in tax administration and service quality with innovation and good governance," the RD conducted studies to improve the national tax system and collection schemes. Recommendations from studies are submitted to the Ministry of Finance and the Government for approval. Recently, with a developed RD information technology platform, more efficient collection methods have been launched.

2.2. Input and Output Data and Analysis

The growth of tax collection depends significantly on economic growth as well as government policies. Since 2002, tax collection amounts have continually increased, as a result of economic growth (Figure 4). In 2009, tax amounts collected in Thai currency by the RD were lower than the previous year [15] due to economic downturns. This situation affected the unemployment rate and impacted the income tax from personal and business withholding tax. Except petroleum tax has an increasing trend as a result of the increasing prices of global crude oil prices and growth in the oil industry in Thailand. The tax collection rate showed a fluctuated trend. The Tax Collection Rate (Figure 5) showed tax collection in a capacity perspective. During 2003-2013, the average rate for tax collection was 12.92%, with the highest rate in 2005 while the lowest was 10.79 below zero in 2009. Expenditure (Figure 6) decreased in 2010 and 2013 because of budget cuts from government policies. Average expense spending for the RD's tax collection was 6.75%.

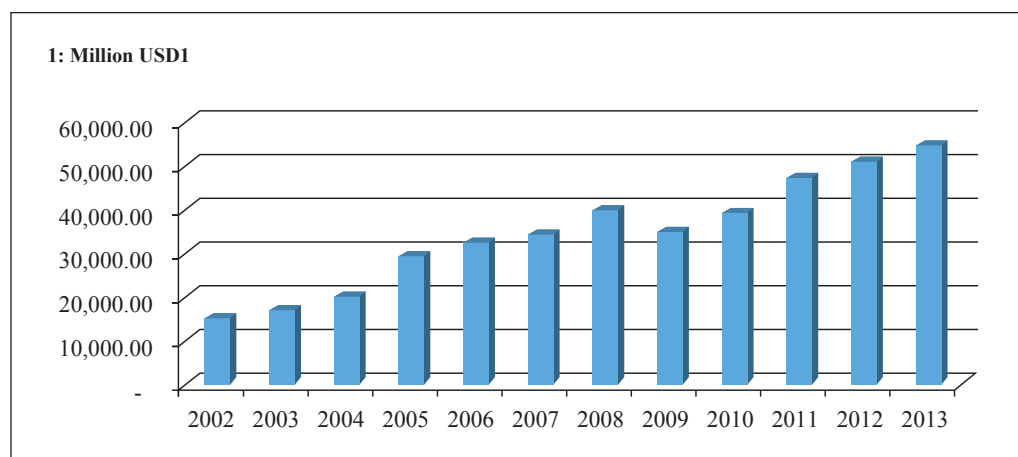


Figure 4. Total Tax Collection 2002–2013

Source: Revenue Department Annual Report 2007-2012 [15] [16] [17] [18] [19] [20].

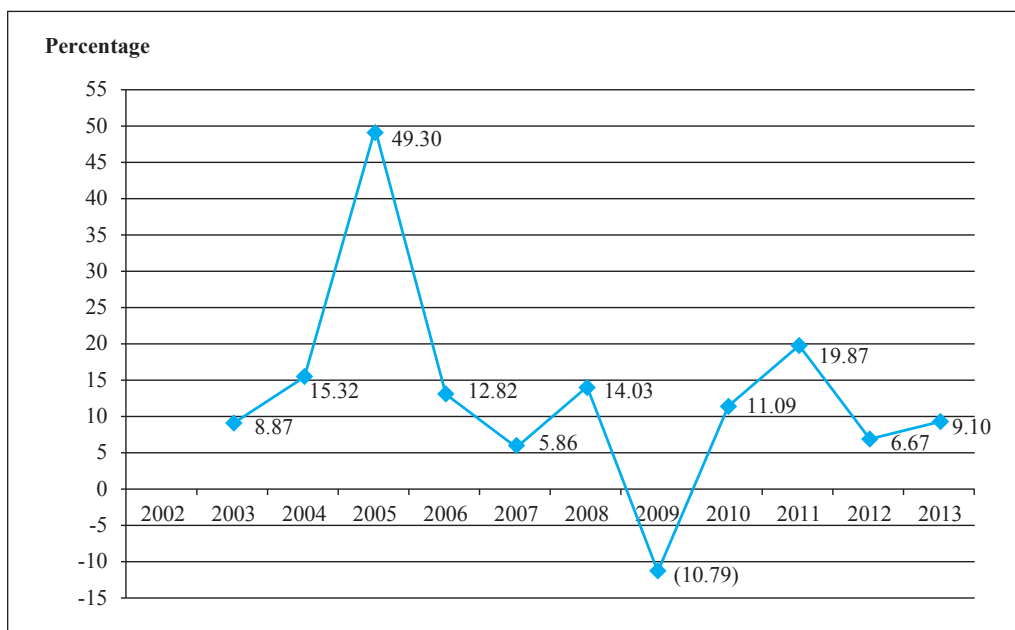


Figure 5. Tax Collection Rate (%)

Source: Revenue Department Annual Report 2007–2012 [15] [16] [17] [18] [19] [20].

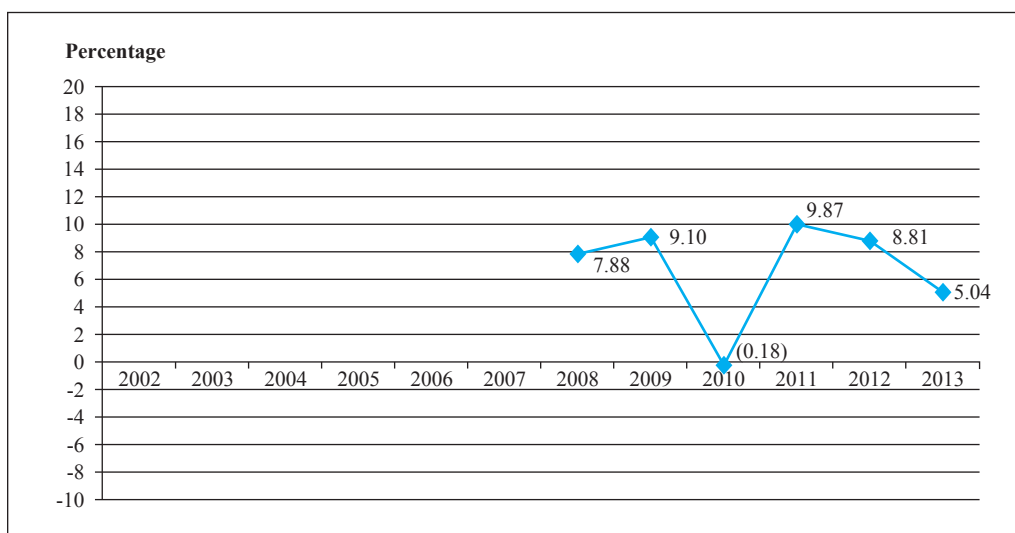


Figure 6. Expense Increment Rate

Source: Revenue Department Annual Report 2007–2012 [15] [16] [17] [18] [19] [20].

Productivity measurements for the RD were calculated from output (tax amount collected) compared with input (operation costs during 2008–2013). Productivity decreased in 2009

(Figure 7) from the decreasing tax amounts collected, and productivity increased in 2010 from budget cuts.

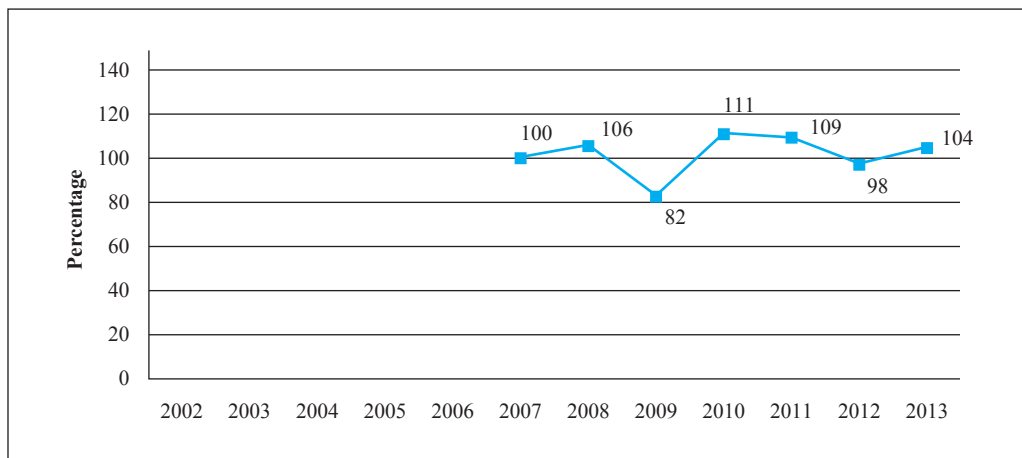


Figure 7. Productivity for Tax Collection

Source: Adapted from Revenue Department Annual Report 2007–2012 [15] [16] [17] [18] [19] [20].

The rate of productivity changed depending on the tax amount collected, since the rate of the budget increase was lower than the tax amount collected each year (Figure 8).

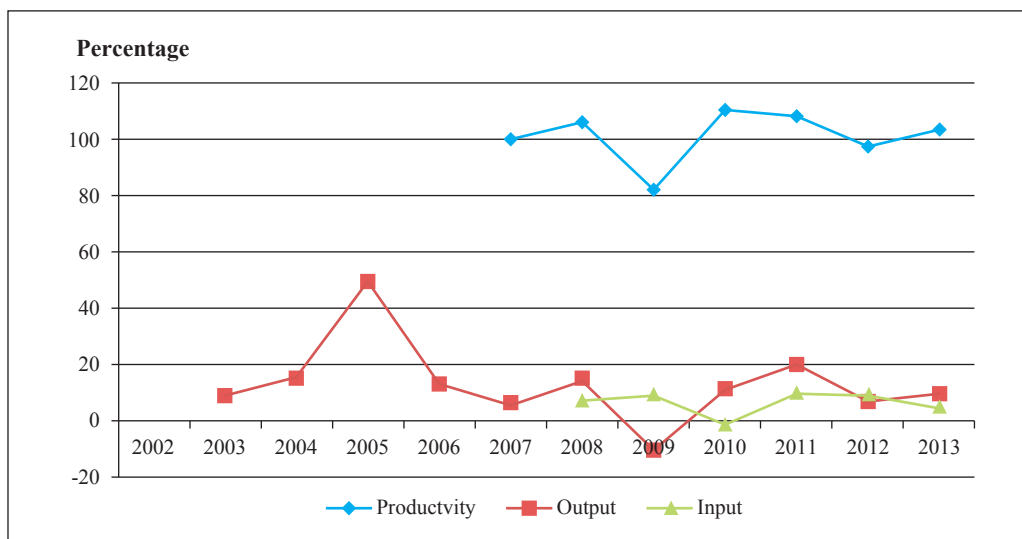


Figure 8. Productivity Increment Rate compares with Input and Output Increment Rate

Source: Adapted from Revenue Department Annual Report 2007–2012 [15] [16] [17] [18] [19] [20].

2.3. Initiatives Undertaken

The RD announced the focus on services improvement for taxpayers, especially for more convenience in tax payments and tax refunds. The development of electronics and technology has impacted most services provided not only from the RD headquarter but also all regional and area branches. The key services improved the RD as follows.

2001

The RD launched new services to apply tax calculation forms and payments through the Internet in April. Corporate taxpayers can access www.rd.go.th. At the beginning, this service provided for VAT and corporate tax payments.

2002

Tax payment services through the Internet have provided cover for all types of tax payments including personal taxpayers.

2003

Expanded tax returns through the Internet for all types of tax. The RD focused on service development and upgrading through self-service concepts. Taxpayers could access it through the RD website for cost and time saving.

2004

The RD has restructured its organization according to Ministerial regulations to cope with changing environments and more efficient responsibilities. The information technology unit has expanded its responsibilities for better services and accessibility as well as the establishment of a call center as a channel for information and tax payment access.

2007

Developed web accessibility for everyone. The RD adopted guidelines of the World Wide Web Consortium for web design for the disabled to access their website with special devices such as a voice browser or screen reader. The RD added web accessibility for information searching about the RD, tax knowledge, and The Revenue Code. The

Geographic Information System (GIS) has been implemented in order to improve analysis of tax compared with geographic data.

2011

According to government policies requiring the public sector to develop law and regulations for AEC preparedness for 2015. The RD has initiatives to adopt up-to-date technology to improve the efficiency of internal work processes. This e-government policy created the RD's capability in the administration system by "easy fill in, filling and refund" project, interactive call center project, and cloud computing for tax collection. The RD also planned to implement the RD smart card, prefilling meeting projects using robot technology and International Tax Administration for the AEC project.

2012

To upgrade internal services, the RD expanded IT capabilities by connecting the database using an Intranet, controlling lists and transactions that led to a minimization of mistakes. Further, the accounting records can quickly and easily be reviewed for accuracy by the Area Revenue Branch offices. This enhanced the efficiency in tax audits.

The RD has applied a framework for implementation of modern compliance risk management (CRM) principles for tax administrations. The concept of CRM in tax administration has been selected to administer compliance risk management that is suitable to the risk level possessed by individual taxpayers. The utilization of the CRM framework will help tackle avoidance and evasion more appropriately including the tax base from both those already in the system and outside the tax system. The RD expected the results in setting new standards for tax officers as it eliminates personal judgment, urging them more willingly to perform their duty. At the same time, CRM would also reduce taxpayer expenses, creating a positive impression in paying taxes making them more willing to voluntarily comply.

2013

In 2013, the RD had changed its homepage as part of its preparation in joining the AEC, making it more customized so taxpayers and staff have different homepages, providing English and Thai websites, improving the taxpayer database such as improving the tracking system that helps retrieve property transactions from the Land Department when there is a transaction, improving the administration of VAT and SBT using the Customs

Department database to retrieve imported gemstones for domestic sales as well as tax receipts from the Customs Department which the RD will receive monthly by the 25th of the next month. These systems greatly enhance the RD's ability to cross-check data as well as to assess tax most accurately. On the accounting side, the accounting system of Area Revenue Branch offices have been upgraded to record cash transfers, store all office transaction data, and to monitor tax payments by checks and taxpayer cards.

Besides IT development, for more than a decade, the RD has reviewed tax laws and regulations to expand the tax system. That brought a larger amount of taxpayers and new income types for tax calculation. However, due to the exemption income for disasters that affected taxpayers and new regulations in the lower tax amount to corporate taxpayers that help the handicap to obtain the benefits and utilize public facilities. This may have a slight impact to the tax amount.

The RD received the eASIA award in 2003 from the Asia Pacific Council for Trade Facilitation and Electronic Business (AFACT) under the jurisdiction of United Nations Center of Trade Facilitation and Electronic Business (UN/CEFACT). The success from being an award winner came from "Collaborative e-Revenue" that reflected the potential of information technology development and communication within the organization, improved faster and more convenient e-services for taxpayers, and a security system accessible with cooperation between public and private sectors.

Furthermore, the success of the strategy is the awards received such as The Service Quality Award from the OPDC and the Thailand ICT Excellence Awards from the Thailand Management Association. Further, the RD also received many other reputable and creative awards from various other organizations at the national level.

The RD proposed its next plan to accomplish its mission with three strategies: 1) Building a sustainable tax base and keeping up with changes; 2) Creating and using innovative technology to manage and render services proactively; and 3) Management of the organization through good governance.

2.4. Best Practices and Lessons Learned

The RD has been announced as one of the best practices for its excellent services for many years. The OPDC presented the Thailand Public Sector Award to the RD in 2012 as its excellent performance in process improvement had a great impact to the Thai economy. This award considered the RD as an innovative public sector organization using

information technology and the integration of information with concerned departments. The Cloud Computing project at the Bureau of Information Technology is designed to enhance the efficiency of the tax return process for tourists. After the project launched, the tourist satisfaction index significantly increased.

Before this improvement, the tourism industry in Thailand had drastically expanded with a number of more than 19 million tourist in 2011. The tax refund from tourists was 586,166 applications or an average of 1,606 applications per day. The value of good spending from tourists increased at 66.08% which reflected the higher quantity of paperwork and work load for staff.

The previous tax refund process consisted of four steps; 1) tourists bought products from shops that had a remark of “VAT Refund for Tourists;” 2) prepare tax refund applications; 3) Customs officers check and stamp departure date; and 4) RD officers check and return taxes to tourists. The problems usually found from the previous processes were the time consumed for a lot of the information to put in a tax refund application, wrong information, more space for document storage, and the waiting time for tax returns by the RD.

After problem analysis, the PD set the project objectives to reduce waste such as waiting time, writing application time, and report preparation. The meeting for problem solutions among internal and external departments was appointed to analyze information and suggestions. The latest information technology was also considered to meet the objectives. The RD developed the Cloud-VRT system for tourist tax refunds with its online, real-time characteristics to serve for 24 hours. Computing systems designed to interface with shops and department stores as well as information transferred to and from the Customs Department. All information will be gathered into the RD database and internal units can access it via smart card.

The outcome from this project shortened times in each step by using smart cards when tourists buy goods. All information will be put in a smart card for customs investigations and tax refunds without paper preparation and no incorrect data [13].

The latest award which represented the integration of tax collection performance, the RD has recently won the Public Sector Management Quality Award in 2014 for its efficient database system. The RD utilized its database system for strategic planning, process improvement, and tax collection management in an online, real time basis. The information system also received ISO/IEC 270001 to ensure safety and security [21].

PASSPORT SERVICE

3.1. Introduction about the Agency

The Passport Division (PD) is a government agency under the Department of Consular Affairs, the Ministry of Foreign Affairs. Its function is to provide services and accommodate Thai citizens in issuing valid passports and travel documents; passports, visas, and travel documents. Thai citizens can apply for passports in the PD and its branches in big cities, overseas offices, and mobile units.

Thai passports changed from their purpose in protecting its citizens traveling to foreign states to immigration control in the world of transportation between countries. Passports therefore become property of the state and it is now required for those wishing to travel to foreign countries. Its shape and purpose changed according to social developments between Thailand and other countries. Today, objectives of passports seem to be more than permission for traveling abroad. It is also a tool for national security and business support at the international level. During the reign of King Rama V, Thai passports began to take shape and developed for Thai citizens. Passports were issued as official hand-written letters, stamped with an official seal, and were valid for one year. Official seals found during that period are Kochasrinoi (a small mythical creature with a mix of a lion body and an elephant head), Rajasrinoi (a small lion), or Sukreeb (the Ramayana monkey warrior born from the Sun). Around 1977, the languages used in Thai passports were changed from Thai and French to Thai and English.

Thai passports continued to evolve with the world's technological advances especially in the areas of passport production. The PD improved its passport production process to facilitate the service process and to develop new characteristics that will reduce passport falsifications. In 1993, the PD introduced a new passport system called the Digital Passport System (DPS) which used a digital system to record the applicant's picture onto their passport.

It was no longer necessary to append an applicant's photo to the passport as before. The new passports are machine readable passports. From 1995 onwards, the passport production process evolved so that all the information could be recorded in one single page to comply with the standards of ICAO.

The PD has focused in improvement aligned with the changing world and technological advances. The main objectives for process improvement are to link passport information

systems and information with other government agencies such as the Ministry of Foreign Affairs, Immigration Bureau, Customs Department, Ministry of Interior, and Thai embassies and consulate-generals abroad.

As a results of service development, Thai people can spend less than one hour to apply for a passport at the PD or its branches and two days after applying to get their passport. The PD got the public sector service award for e-passport processing and newly offered Thai people to reserve in an online que in order to reduce waiting times.

3.2. Input and Output Data and Analysis

Productivity measurement for the PD is restricted on the disclosure of official information, such as the total number of passports issued from every branch before 2005 (before e-passports), operation costs of the PD, which lead to the limitation of this study.

Output

The total number of electronic passports or e-passports from 2005–2011 had a beneficial trend, from 425,475 to 1,390,830 passports to an average of 1,117,795 passports per year (Figure 11). The rate of issuance of the electronic passport increased 161.59% from 2005 to 2006. However, e-passports had been launched in August 2005. The number of e-passports slightly decreased in 2008–2009 as shown in Figure 11. The average increment of e-passports issued during 2005–2011 are 30.89%.

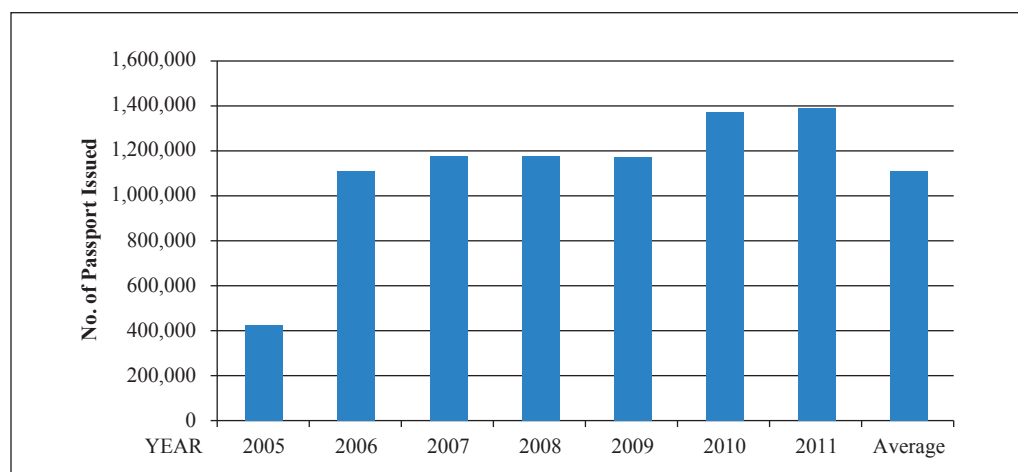


Figure 11. Number of Electronic Passport Issued for 2005–2011

Source: Best Practices in Public Service Development 2012, the office of the Public Sector Development Commission, available at http://www.opdc.go.th/uploads/files/2557/bestpractices57/best_55.pdf [22].

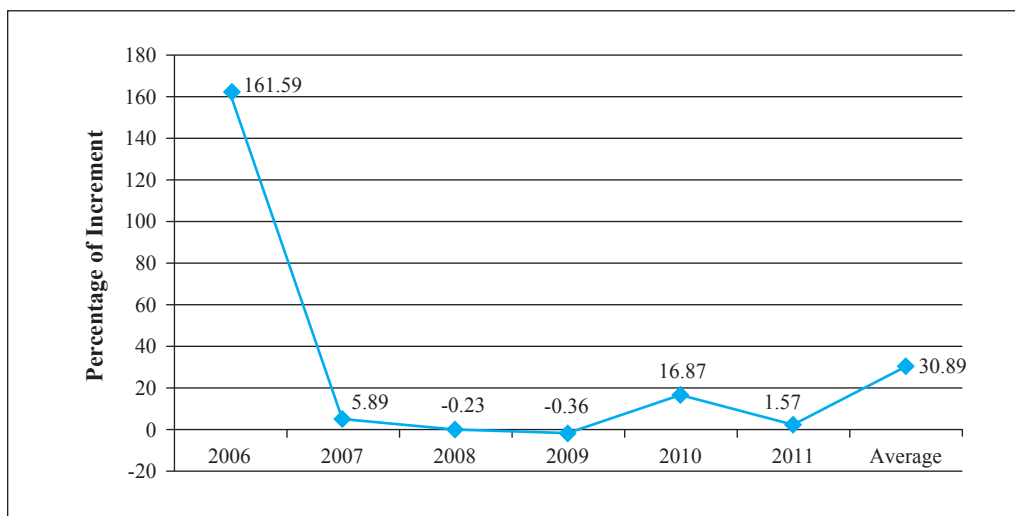


Figure 12. Increment Percentage of Electronic Passport Issued for 2006–2011

Source: Adapted from Best Practices in Public Service Development 2012, the office of the Public Sector Development Commission, available at http://www.opdc.go.th/uploads/files/2557/bestpractices57/best_55.pdf [22].

Input

The budget of the PD is a part of the budget of the Department of Consular Affairs, Ministry of Foreign Affairs. No operation cost and manpower of passport production is reported separately, while most staff on duty are outsourced employees. This hinders productivity analysis in terms of input.

3.3. Initiatives Undertaken

The PD complies with standards for passport processes, ICAO and ISO. However, there is no evidence when it has been ISO certified [23].

2000

In 2000, the PD introduced new technology to capture the applicant's picture, personal information, and to store all information onto the passports. This technology allows information linked between the PD and the Ministry of Interior's Residential Registration System. The authorized issuing officials can verify an applicant's information by identification number, which speeds up the application process dramatically and reduces the passport production period down to three working days.

2002

The PD changed the appearance of Thai passports. It is now a contained security feature and utilizes similar high-level technology with bank notes. This enhances the standards of Thai passports as in other leading countries. Some security features cannot be seen with bare eyes; therefore, specific tools are needed for the verification process. Some features are for protecting forgery. This makes Thai passports safe and difficult to falsify.

2005

The PD improved its passport issuing service to ensure security in compliance with standards of the International Civil Aviation Organization (ICAO). Currently, the PD is in phase II of e-passport production with upgraded security features. Consular services from the MOFA are also available in passport offices in 14 provinces throughout Thailand. In addition, the PD offers mobile consular services in some remote areas and overseas.

3.4. Best Practices and Lessons Learned

The revolution of passport to e-passport is a significant improvement of the PD. This helps information collection and service delivery time reduction. In addition, it responds to e-government policy in adopting technology and communication to improve work processes. Such success has allowed the PD to win the Public Sector Service Award in 2012.

The e-passport is an electronic passport containing technical specifications, and it complies with international standards by the International Civil Aviation Organization (ICAO).

The advantages of e-passports when compared with non-electronic passports are;

- 1) e-passports contain security features to prevent forgery which contribute to international efforts to counter transnational terrorist activities, illegal entry into the Kingdom, etc.
- 2) e-passports improve the verification process at Thai immigration checkpoints which facilitates traveling, entry into the Kingdom, and promotes tourism, and
- 3) e-passports give the international community more confidence in Thai passports which boost the Kingdom's image and economy by attracting more investors and tourists.

Process improvement of passport production reduces processing time from three workdays to two workdays (excluding the application day). The reduction is a result

from information linked between the MFA and Department of Provincial Administration, Department of Special Investigation, and Department of Immigration verified through information technology. Thai citizens only provide their 13 digit personal identification number to apply for an e-passport.

The three steps for the e-passport application process that have been considered public service award winners are;

Step 1 Take a queue number

- Present a valid Thai Citizenship I.D. Card with the 13-digit Personal Number to the Office's receptionist. If there is no 13-digit Personal Number, bring the House Registration together with other official documents.
- Take a queue number and fill in the applicant's first name and last name in English together with the date, place of birth, and personal contact information.

Step 2 Capture the applicant's biodata

- An office's authorized personnel measures the applicant's height and captures the applicant's biometric data via taking the applicant's picture and fingerprints (print right and left index fingers separately twice using a scanner).
- Verify and sign to certify the applicant's information.
- Apply for postage service (see e-passport pick-up).

Step 3 Applicant fee payments

- Pay application fee and postage service fee.
- Obtain receipt and notification of the e-passport pick-up date or notification of postage service [23].
- Cycle time for step 2–3 is approximately 12 minutes.

In order to provide services to all Thai nationals across the country especially in rural areas, the PD has set up a Passport Mobile Unit in a Roving Passport Service format. By bringing service to the people, the PD works closely with the city officials and related government agencies to set up the date, time, and place for the mobile service.

Therefore, people wishing to apply for an e-passport will not have to travel to the capital or to a city as in the past. The PD provides passport branches and outlets in big cities such as in Chiang Mai, Khon Kaen, Songkhla, Ubon Ratchathani, Surat Thani, Nakhon Ratchasima, and Yala. That makes it more convenient for Thai people applying for a passport.

CONCLUSION AND RECOMMENDATIONS

Productivity measurements in the public sector remains a major challenge for both government agencies and Thai people as a service recipient. The enforcement of the State Administration Act and the Government Organization Restructuring Act by the OPDC is the key success driver for service improvement. The OPDC promoted working efficiency by pushing government agencies for service delivery time reduction, and encouraging them to apply for service excellence awards at both local and international levels for motivation and recognition.

Each year the RD and PD provide services for many people in Thailand. The number of their services is more than a million offered. In order to provide services at that level and keep people satisfied, both agencies implement continual improvement, focusing on applying information technology to reduce errors, and offer faster and more convenient services including online service channels.

In this study, there are several limitations in collecting and analyzing data on productivity. Due to the political situation in 2013 and cabinet change in 2014, all government agencies were not able to perform their duty as usual. Secondary data were then gathered from several sources, for example, annual reports, performance reports, and other information available on the website, in which there is some discrepancy. In addition, information for productivity analysis is limited, such as for the performance and cost of the operation figures not being clearly defined separately for analysis, and no unit cost information is available.

In order to analyze the productivity of government agencies in Thailand to be accurate and useful for improvements, the Government of Thailand should consider selecting and collecting data that reflects the results of operations. Information of unit cost, service time, service opportunity loss caused from inadequate resources, and cost of service (value for money) will allow government agencies to analyze the success of efficiency improvements and performance measurement.

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VIETNAM

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INTRODUCTION

The productivity concept was introduced in Vietnam in the late 1990s but primarily for the private sector. Even for business, productivity is not considered a key performance measure. People tend to use other indicators such as profitability, market share, sales growth, etc., instead of measuring how efficiently inputs are being used to produce outputs. Just until 2010, the government [1] approved a national program on improving productivity of national enterprises and quality of “Made in Vietnam” goods/products. The Asian Productivity Organization (APO), directly or indirectly through its National Productivity Organization (in Vietnam, the NPO is the Directorate for Standards and Quality (STAMEQ) under the Ministry of Science and Technology) plays a very important role in promoting the concept at the national level.

Measuring productivity in the public sector is a new thrust area for APO and certainly new for Vietnam. This is because the public sector productivity, according to P. Dunleavy and L. Carrera [2], has been “assumed to be constant as public sector outputs were given the same price as the cost of producing them.” In their recent book, “Growing the Productivity of Government Services,” P. Dunleavy and L. Carrera have addressed this problem by proposing a methodology to measure the productivity of the public sector. This approach aims to elaborate a cost-weighted index of outputs and divide this output measure by an index of the total costs involved in producing such outputs. The book illustrates very clear and comprehensive productivity studies on British national agencies such as customs, taxation, and health care. This can be done in the UK as there is transparency in the public sector with data availability. However, the data for the public sector in Vietnam is very limited. This APO research aims to target two sectors, (1) tax collection service and (2) passport issuing service, but there is no published data for passport issuing matters. For the taxation area, general output data can be found on the websites of the Ministry of Finance (MOF), General Statistics Office (GSO), and General Department of Taxation (GDT) but it still lacks details to get a clear picture on productivity measures. Therefore, this paper tries to elaborate on a very basic analysis of productivity in a single public sector, i.e., tax collection, following the methodology suggested by P. Dunleavy and L. Carrera [2] as closely as possible.

To have a general picture on public productivity, it is necessary to have a look at the overview of the public sector in Vietnam and improvement initiatives in the last 10 to 15 years. As a communist country, the public sector (also referred to as “state sector”) is inevitably large and represents a large part of total employment. According to a survey conducted in 2011, total public organizations are 146,881 units, divided into four main groups:

- State administration, government agencies from central to local level;
- Public service providers such as healthcare, education, and public utilities;
- Public institutions and associations (many of them are business associations);
- Other special public service organizations (e.g., communal cultural posts).

Among these four groups, public administrative agencies represent one fourth of the total. Public service providers account for nearly half of the total, as illustrated in Figure 1.

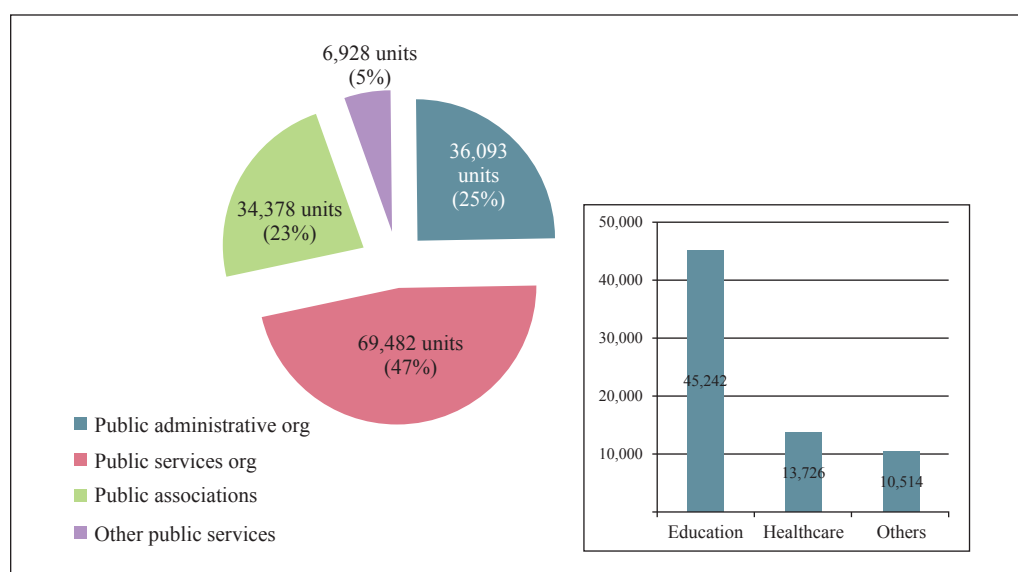


Figure 1. Structure of Public Organizations in Vietnam

Source: Vietnam Labor Force Survey 2011 (GSO) [18].

Education is the biggest sector within public service providers. The number of educational institutions is 45,242 units, accounting for 30.8% of the total of public organizations. The second largest is public administrative organizations, with 25% of the total of public institutions in the country. With high pressures to improve the performance of the public sector, the government has taken different measures to reform the administrative system with understanding that if the administrative reform process is delayed, there would be constraints and difficulties for the progress of economic reform. However, the results

remain quite modest. Total public employees account for 16% of employment in all organizations and for 6.9% of the total labor force of the country (in 2012, the total labor force in Vietnam was around 53 million).

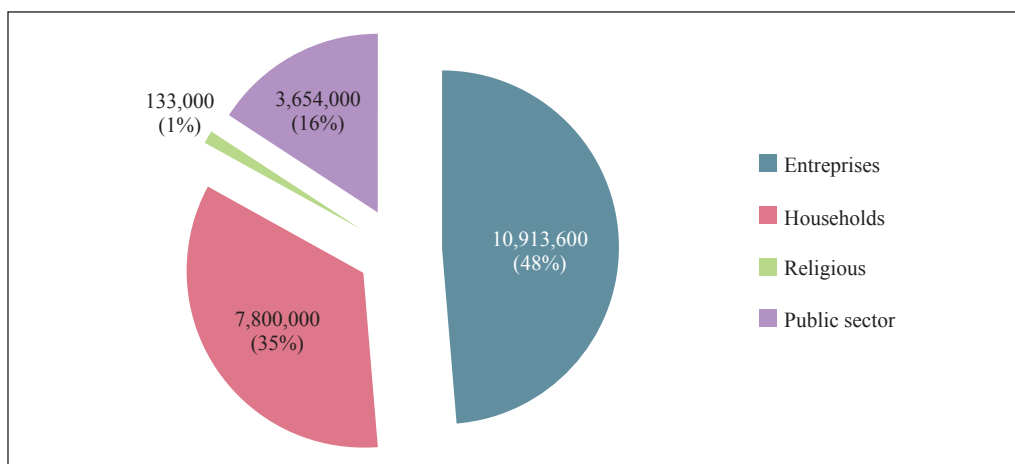


Figure 2. Proportion of Employment in Organizations in Vietnam

Source: Vietnam Labor Force Survey 2011 [18].

Civil servant is defined as a Vietnamese citizen who is recruited, appointed to have a permanent job in a state agency, and gets a salary from the state budget. Subsequently, this was developed further to be covered in a more formal legal sense (by statute):

- Elected officials;
- Judges;
- People working in central administrative agencies;
- Military and security employees; and
- Executive level officials.

It represents a large number, but the labor productivity of the public sector is still a big concern. Though there has not been any measurement of this indicator being made and officially published, a recent assessment made by the Vietnamese Deputy Prime Minister Nguyen Xuan Phuc [3] indicated that “about one third of total current public employment can be cut without influencing the overall performance of the sector.” Realizing the challenges of a low-productive public sector, the Government has been undertaking a number of initiatives to improve the quality and performance of administrative organizations in the last decade. Figure 3 summarizes such major changes.

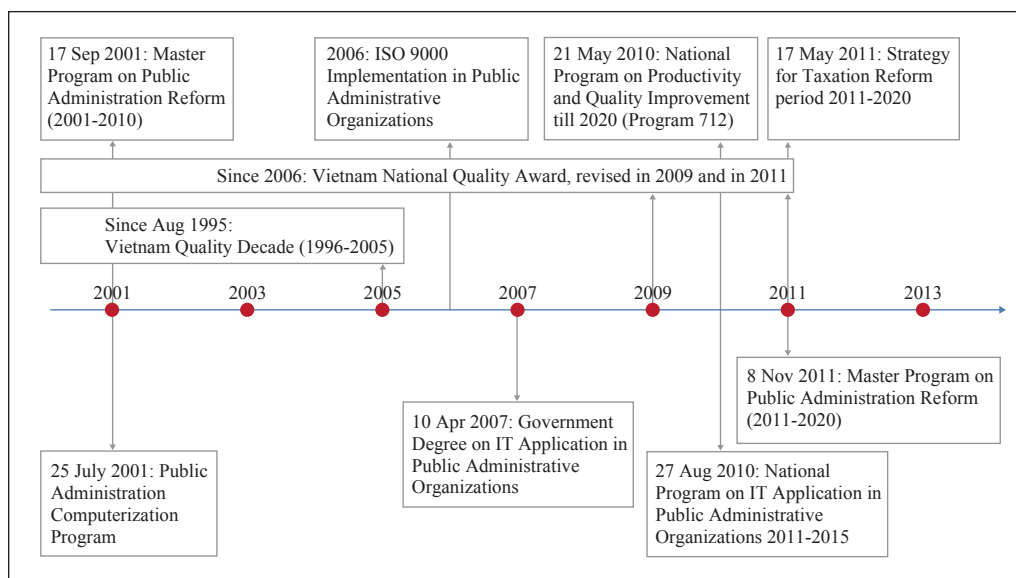


Figure 3. Initiatives in Public Sector Improvement

Source: Author's elaboration upon data from different Ministries and other official media agencies.

Since the 1990s, public administration reform (PAR) in Vietnam has been embarked to improve the country's public sector. This was a need by that time as the country moved from a demand economy to a "socialist-oriented market" economy. A ten-year Master's program, according to UNDP in Vietnam [4], public administration reform was adopted in 2001 with the objective to build "a system that is democratic, clean, strong, professional, modernized, effective, and efficient; a socialist rule - by - law state of the people, by the people, and for the people; a force of civil servants capable and qualified to fulfill assigned tasks, contribute to develop a healthy and well-oriented society, proactively serve the people in their daily life, and promote the lifestyle of obeying the law in work and life."

Public sector reform addresses different aspects of administration such as institutional/ governmental structure reform, administrative procedures reform, improving quality of public servants, and innovating public financial management systems. These efforts have resulted in improvements in the public sector for the past few years but the reform process has been slow. The main shortcomings of the reform process include unsystematic institutional structures, unclear functions between agencies, and highly bureaucratic structures in the public administration system, etc.

Before the PAR program, the Vietnam Quality Decade (1996-2005) was initiated since 1995 together with the launch of the Vietnam Quality Award (VQA) by the Ministry of Science, Technology and Environment [5]. The VQA is annually presented to

organizations with outstanding quality achievements, positive impacts on society, and good business performance. Even the VQA primarily targets the private sector by encouraging them to improve the quality of their activities/products/services for higher competitiveness on the domestic and overseas markets, the mindset of the public sector toward “quality,” and “organizational performance” has started to change positively. In 2010, the government adopted another nation-wide program on productivity and quality improvement (Program 712). Again the Program aims to improve business performance but with quite ambitious objectives to implement in the country, and the program requires all provincial authorities to catch up with the private sector’s needs in improving quality and performance.

In the same year of the ten-year PAR adoption, “Program 112” (also called the “State Public Administration Management Computerization Project”) on computerization in the public sector was approved by the government on 25 July 2001. But the program failed because of corruption, according to Toshio Obi and Nguyen Thi Thanh Hai [6], but it laid out a very good foundation for ICT applications in the public sector. Many improvements have been made leading to changing the interaction between public organizations with the citizens and businesses via e-government initiatives. Furthermore, the development of IT and the Internet also contributed to improve the performance of the public sector. The number of Internet users as a percentage of the population in Vietnam for the last few years has been higher than many other regional countries. Figure 4 provides a picture of this.

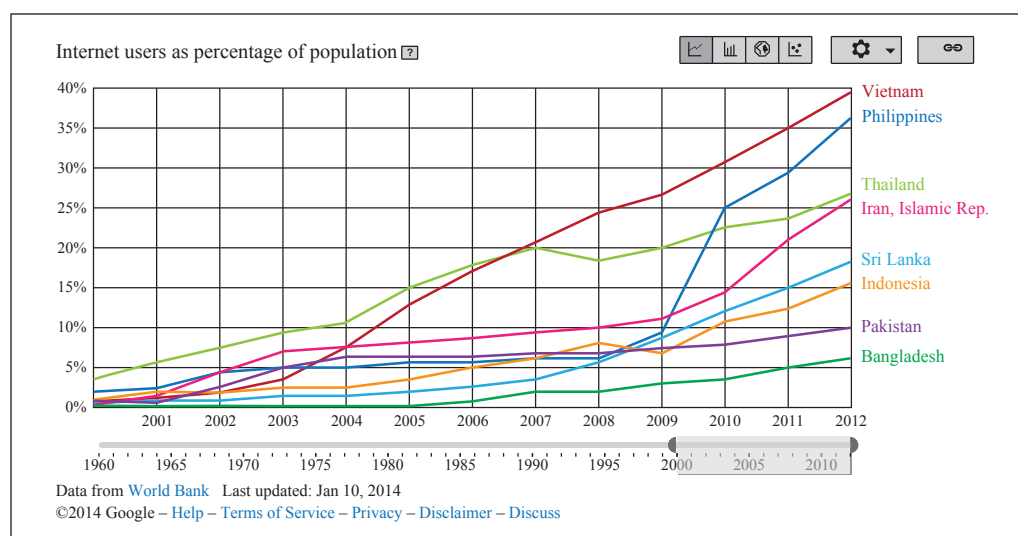


Figure 4. Internet Users in the Region as of 2012

Source: www.Google.com (on basis of World Bank data).

Along with this trend, in 2007, the government [7] issued a Degree on IT Application in Public Administrative Organizations, which pushed a number of public services being offered via the Internet, such as customs, tax, business registration, and so on. Companies and individuals can benefit from such reforms to avoid bribery and corruption. In 2010, the Prime Minister [8] approved the National Program on IT Application in Public Administrative Organizations during the period from 2011-2015 which was adopted by the government, expressing the commitment to reform the public sector through e-government. Besides the efforts of the government, a number of supporting projects have been initiated and funded by international donors such as the United Nations Industrial Development Organization (UNIDO) for the “online business registration project,” which has allowed business owners to submit and register their business via “one portal”; Japan International Cooperation Agency (JICA) for “e-customs” project, also named “Vietnam’s Automated Cargo and Consolidated Port System/Vietnam Customs Information System” (VNACCS/VCIS); the World Bank (WB) for Financial Sector Modernization and Information Management System (FSMIMS); and many others.

In 2006, the government started an initiative to implement ISO 9000 in the public sector with Decision 144/2006/QĐ-TTg. The aim was to implement it in all public administrative organizations at three levels: ministry, provincial government, and district-level governmental agencies. The results of the implementation as of April 2013 are that 3,654 organizations have been certified to ISO 9001, which are:

- 768 organizations belonging to central government agencies or ministries; and
- 2,886 local public organizations.

Tran Van Vinh [9] indicates that the implementation of ISO 9000 has some positive impacts as well as contributes to the public administrative reform process. The government has implemented a number of measures to reform administrative procedures with a “one stop shop” concept, where companies and citizens have to deal with only one agency for all related items.

Catching up with the initial achievements in the reform process, the government [10] kept continuing its effort by issuing a resolution on the master plan on PAR for the next period from 2011-2020, laying out key strategies and action plans to make the public sector much more effective in the future.

Public-Sector Productivity in Vietnam

With the above general picture, measuring the productivity of the public sector becomes really important for the Government of Vietnam. The statement of the Deputy Prime Minister mentioned above on “one third of spare people in the public sector” caught a lot of controversy in the country as there was no supporting evidence for such a number. This is because the question of performance or productivity in the public sector had not yet caught the attention of either the government or scholars. The other reason is that the methodology for public-sector productivity measurement is quite new in Vietnam, and there is no literature in this area. The shift of the APO, in which Vietnam is a member, is an opportunity for the country to adopt a public performance approach so that the public administrative reform process results can be measured.

The aim of this APO research project is to analyze two public sectors, (1) tax collection services and (2) passport issuing services, in each participating country. However, in the case of Vietnam, productivity analysis for passport issuing services cannot be undertaken due to data unavailability. There is no published statistic on this sector and there is no way to access such data as they are told it is “sensitive” for public security reasons. In Vietnam, passports are issued centrally by the Vietnam National Immigration Department (VNID), under the Ministry of Public Security. However, the application procedure is taken at the provincial level. Under the Provincial Department of Public Security, there is one section taking care of handling applications, screening applicant profiles, and then requesting the VNID to issue passports. Figure 5 shows the structure of the passport issuing organization.

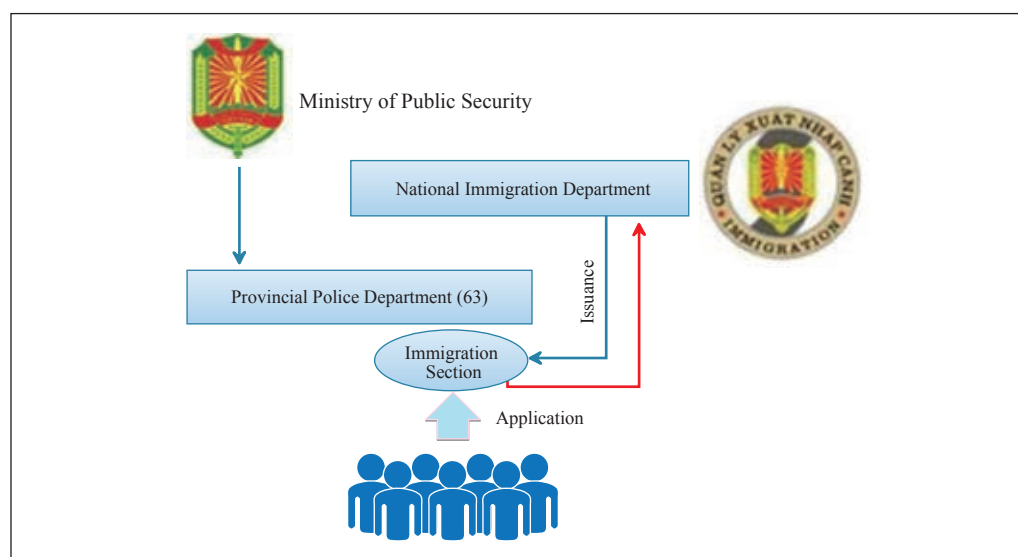


Figure 5. Structure of Passport Issuing Organization

Source: Author's elaboration.

Even when centrally issued by the VNID, the data of issuance is managed by local immigration sections. Along with the modernization of the administrative system, the data sharing system is improved but, as it relates to public security in Vietnam, data and information in this area are kept out of public knowledge. Therefore, this study only examines the productivity of tax collection services. Even for the tax sector, there are a lot of data limitations, which will be further mentioned in section 2.2 of this report. In addition to that, the tax collection service in Vietnam is done by two separate agencies but both under the Ministry of Finance: the General Department of Tax (GDT) and the General Department of Customs (GDC). Under the GDC, one division named the Import-Export Tax Department (IETD) will take care of collecting tax for imports and exports. Even this tax category represents about 20% of the total collected tax in the country. IETD and its provincial agencies are in charge of tax collection activities in the provinces that have trade borders with neighboring countries or main import-export ports of the country. Meanwhile, the tax collection system run by the General Department of Tax is spreading nationwide and takes care of almost all kinds of taxes in the country. Thus, this paper examines the productivity of the GDT and its system only.

The approach used for this study is based on the Atkinson Review's suggested methodology for measuring government productivity mentioned in P. Dunleavy's and L. Carrera's book (2013), in which the total factor productivity (TFP) is measured by volume of output divided by the volume of total inputs and the full time equivalent (FTE) of employee productivity is measured by the volume of output divided by the volume of FTE staff. The methodology is illustrated in Figure 6.

For tax collection services in Vietnam, it is impossible to get data on costs, or assessment of quality and quantities of activities performed due to the unavailability of such public statistics. Thus, the output measure cannot be adjusted as suggested in the model. Similarly, there is no available data for TFP calculation: costs, intermediate resources, and capital consumption. The only available data is the number of FTE staff in the sector but it is also not adjusted for pay or price deflators. Therefore, the study tries to use available data to draw a simple picture of the tax collection administration performance by following the mentioned methodology as closely as possible.

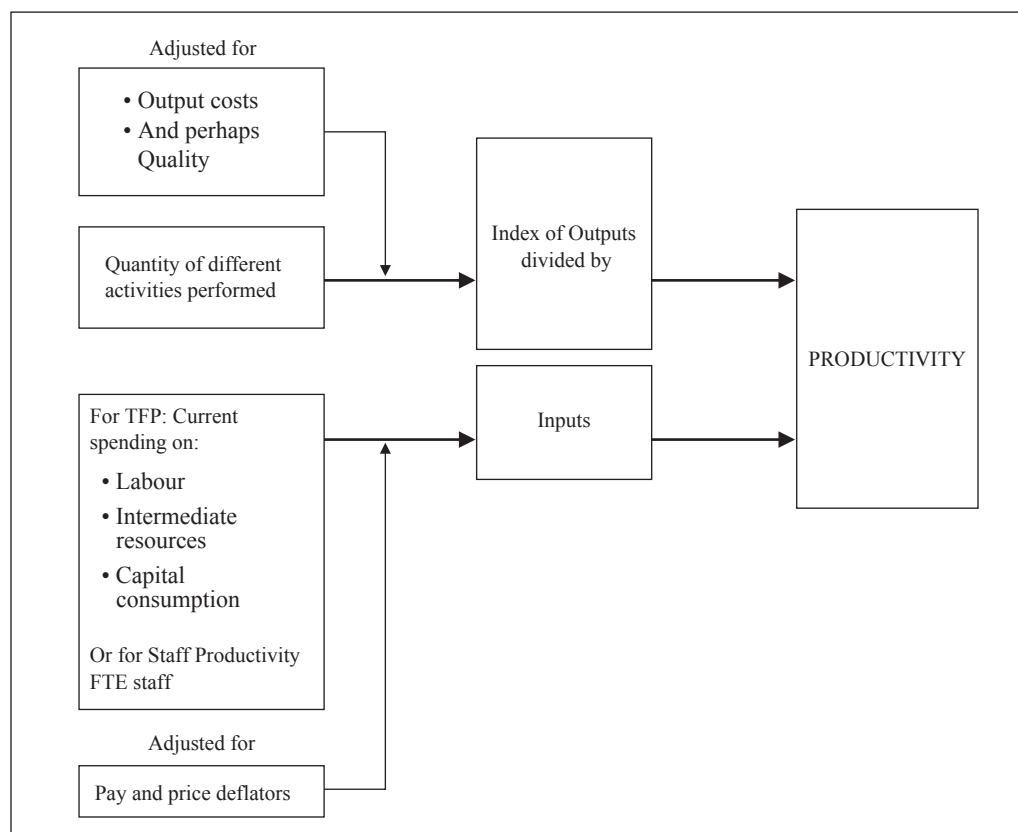


Figure 6. The Atkinson Review's Methodology for Measuring Government Productivity

Source: P. Dunleavy's and L. Carrera's Book (2013), p. 35 [2].

TAX COLLECTION SERVICE

2.1. Introduction about the Agency

The National Assembly [11] has promulgated the Law on Tax Administration in 2006 and updated the Law in 2012 [12], regulating the administration of taxes and other revenues of the State budget managed and collected by the tax authorities. The highest administrative body of the sector is the Ministry of Finance (MOF). Under this ministry, the General Department of Taxation (GDT) plays a key role in administering the sector overall in the country. However, this agency is just a central administrator in charge of regulating the policies. Local agencies (provincial and district levels) are responsible for the collection of tax, and they are entitled to collect a percentage of taxes within the provinces. Table 1 illustrates the structure of the tax sector in the country.

Table 1. Tax Administration Structure in Vietnam (as of 31 December 2013)

National level	<p style="text-align: center;">Ministry of Finance</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">General Department of Taxation 19 Divisions with 822 officers</p> <p style="text-align: center;">↓</p>
Provincial level	<p style="text-align: center;">Provincial Tax Department 63 Departments with 9,349 officers in total</p> <p style="text-align: center;">↓</p>
District level	<p style="text-align: center;">Tax Agency 701 Agencies/5,650 Collecting Teams with 34,818 officers in total</p>

Source: Author elaboration on basis of data from MOF, GDT.

The development of the tax system in Vietnam can be summarized in four main phases:

- **Before 1990:** Tax administration was divided into three main sectors, responsible for collecting taxes from three core groups of taxpayers: (1) state owned entities; (2) agricultural cooperatives/individuals; and (3) industrial and commercial entities.
- **From 1990–2003:** This period was the first reform of the tax sector by introducing a unified tax system, including nine important taxes to replace the previous three different types of taxes as mentioned earlier. Three out of nine taxes including (1) turnover tax, (2) profit tax, and (3) export-import tax could be considered as key sources for the country during this stage.
- **From 2003–2007:** This phase was marked with the international integration of the country (e.g., signing AFTA, joining WTO) with the introduction of some important taxes such as value-added tax, corporate income tax, personal income tax, environment tax, and property tax. More importantly, many reform initiatives were implemented during this phase to make the sector more effective and efficient such as by removing unnecessary processes, pushing IT and computerization, and so on.
- **From 2007–now:** This phase involves the modernization of tax administration in terms of management approaches, administrative procedures, organizing apparatus, staff, and broadly applying information technology to strengthen the validity and effectiveness of tax administration. The new Law on Tax Administration encourages a self-assessment

system where taxpayers are expected to compute their own tax liability. However, the law also provides for tax assessments where tax administration agencies can determine the amount of tax payable.

One of main characteristics of the tax sector in Vietnam is that it is centrally administered by the GDT. Even the tax collectors are in local levels, and the outputs go to the central budget. Table 2 lists the key taxes in Vietnam.

Table 2. Key Taxes in Vietnam

Corporate Income Tax (CIT)	Levied on taxable income of foreign entities as foreign-invested companies and foreign parties to business cooperation contracts (BCCs) and all domestic entities which invest in Vietnam.
Value Added Tax (VAT)	Effective from 1 January 2009 with the VAT system which applies to goods and services used for production, business, and consumption in Vietnam.
Personal Income Tax (PIT)	Income generating from employment and business income for residents of Vietnam with progressive rates ranging from 5% to 35% per month while non-residents of Vietnam will be applied to a tax rate of 20% from Vietnam-sourced income for employment income.
Foreign Contractor Tax (FCT)	Foreign organizations (whether they have a PE in Vietnam or not) or individuals (whether they are residents of Vietnam or not) doing business or having income derived in Vietnam are subject to FCT.
Special Sales Tax (SST)	Imposed on the production or import of certain goods and the provision of certain services (10% to 70% depending on the category of products and services); export products are exempted from SST.
Environmental Tax (ET)	Collected on products and goods when used to cause negative environmental impacts and imposed on the production or import of certain goods based on the absolute tax rate.
Import and Export Duties	Are subject to type of goods imported and the special tariff status of importing countries. There are three categories of import duty rates: ordinary rates, preferential rates and special preferential rates.

Source: Author elaboration on basis of data from MOF, GDT.

The trend in tax rates in the last 10 years clearly indicates that there is a conscious effort by the Vietnamese government to reduce taxes. Table 3 shows a decreasing trend of both CIT and PIT.

Table 3. Tax Rate Trend in Vietnam 2001–2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CIT	32%*	32%*	32%*	28%	28%	28%	28%	28%	25%	25%	25%	25%
PIT	0-50%	0-50%	0-50%	0-50%	0-40%	0-40%	0-40%	0-40%	5-35%	5-35%	5-35%	5-35%

*25% for foreign-invested companies and foreign parties to business cooperation contracts (BCCs).

Source: Author elaboration on basis of data from MOF, GDT.

The trend seems to be further downward as some revised regulations have been drafted with a proposal to reduce CIT to 20–23% and apply a max rate for PIT at 30%. These revisions are expected to come into force from 2016.

Despite this declining trend, thanks to the growth of the economy of the country over the last 20 years, the collected taxes grew quite stably along with GDP growth. Total collected taxes represent 24–30% of GDP, as illustrated in Figure 7.

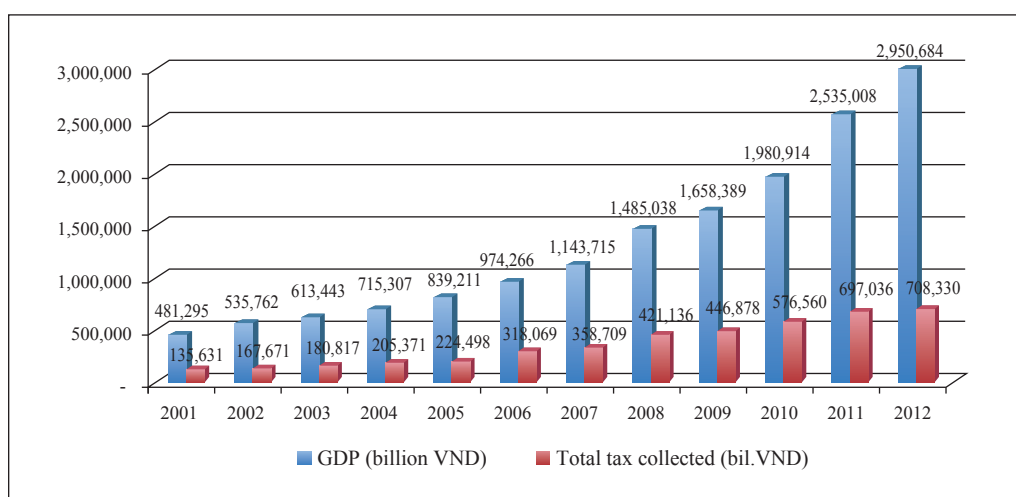


Figure 7. Total Taxes Collected vs. GDP in Vietnam (2001–2012)

Source: Author elaboration on basis of data from MOF, GDT.

Taxes collected in Vietnam can be grouped into three categories:

1. Taxes collected from all domestic economic activities but excluding oil tax: this category is accounted for more than 60% of the total collected taxes and under taxation administration (GDT) responsibility;

2. Import-export duties, about 20% of the total, are collected by another administrative agency - the Import-Export Tax Department (IETD) of the General Department of Customs (GDC) - also under the MOF; and
3. Revenue from oil in Vietnam represents an average of 20% of total collected tax and this source comes from a state giant conglomerate, Petro Vietnam. This corporation keeps 25% of annual profit for reinvestment and the rest (75%) goes to the state budget.

Figure 8 depicts the collected taxes volume (in VND billions) for each category for the period of 2001–2012.

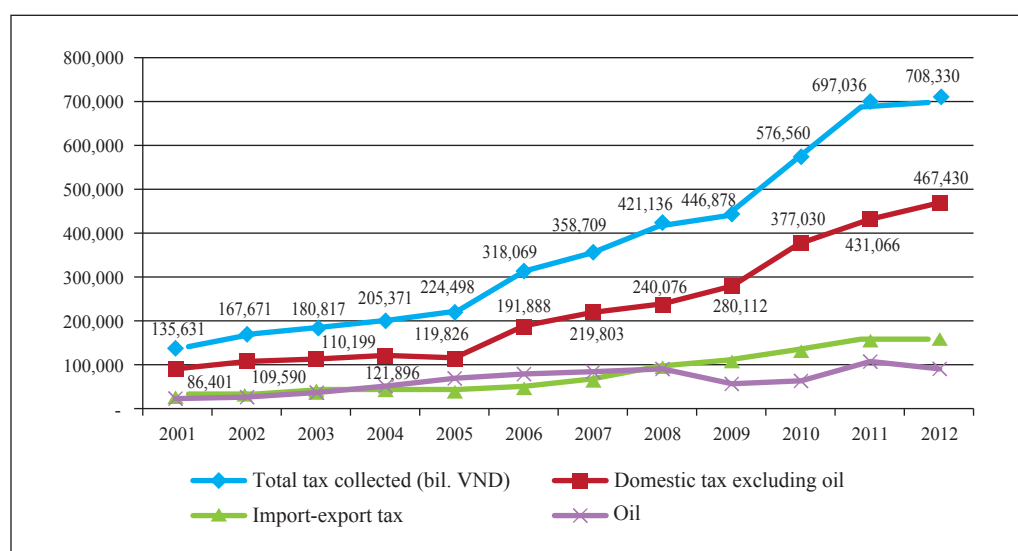


Figure 8. Three Main Sources of Taxes in Vietnam (2001–2012)

Source: Author's elaboration on basis of data from MOF, GSO, and GDT.

As this study examines the performance of the Vietnam tax collection service, which mostly involves the responsibility of the GDT in the whole country while import-export duties are collected by the IETD/GDC but only in certain ports in the country; and oil revenue collection involves the one and only state owned company, Petro Vietnam. Thus, domestic tax excluding oil would be used as an output indicator in this report. Data from Figure 8 shows that there was a slight decline of domestic (excluding oil) tax collected in 2005, from VND 121,896 billion to VND 119,826 billion (a 1.7% decrease).

2.2. Input and Output Data and Analysis

The biggest problem for measuring public sector productivity in Vietnam is the unavailability of data. Tax collection services are not an exception. The limitation of data includes the following:

- Time coverage: it is expected to have a 20-year period but data is available for only 12 years, from 2001 to 2012;
- No data on administration costs as input measures for total factor productivity (TFP) measurements. No unit cost data leads to the unavailability of the cost-weighting of outputs;
- Impossible to use direct output measures upon core activities performed such as tax returns processed, customer satisfaction levels, or number of complaints processed, as there is no data regarding these issues; and
- The only input measure available is full-time equivalent (FTE) staff of the sector but also in an inconsistent manner. Therefore, the author has to cross-check with other personnel data from the whole public sector to estimate FTE data for the tax sector. It is worth to note that becoming a public servant in Vietnam is not easy as each year a small “recruitment quota” is allowed while too many people want to get in the “state sector.”

As for outputs in the tax collection area, this paper uses the amount of tax collected. However, data for tax output volumes for different kinds of taxes are not available so the total “domestic taxes collected excluding oil” becomes the only measure of output. This figure is deflated using a GDP deflator for the calculation of productivity. There is no data on administrative costs associated with the collection of each type of tax, and no output weight is analyzed.

As mentioned earlier, total factor productivity (TFP) cannot be done in this report as there is no data on “total factors” such as administration costs, procurement, and capital consumption. Therefore, labor productivity will be analyzed in this paper using the amount of tax collected as an output measure and the number of FTE personnel as a denominator. Although this cannot help provide a good picture of the productivity analysis, it is the only way to get an overview of the performance of the tax collection service in Vietnam. Figure 9 shows the FTE personnel of the taxation and total administrative FTE (excluding military and police servants) of the country.

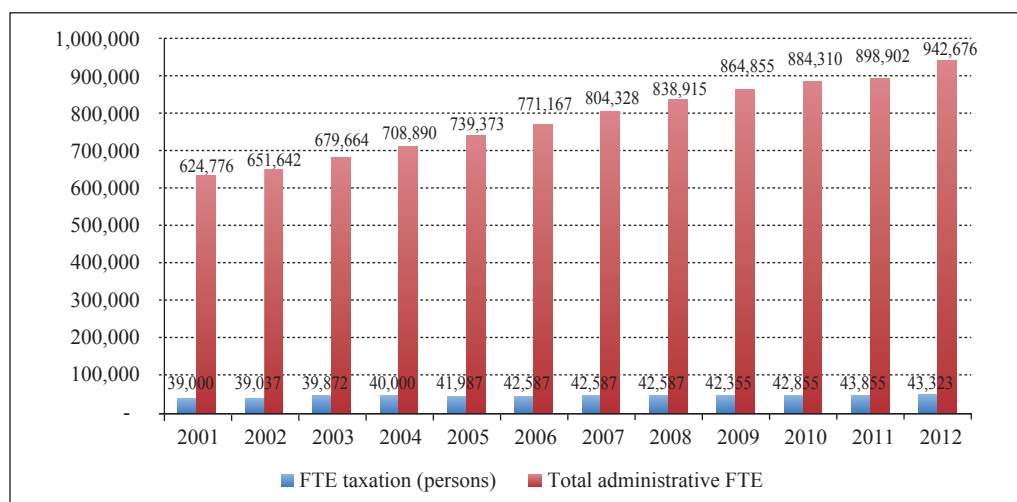


Figure 9. FTE Personnel in Taxation and in Administration in Vietnam (2001–2012)

Source: Author's elaboration upon data from MOF, GSO, and GDT.

The number of FTE personnel in the public sector of Vietnam is fixed by a “quota” and the allocation of this volume depends on many factors. Thus, the total number of people in the public sector grew annually but the growth is not necessarily happening in all administrative organizations. This is very clear for the tax administration as indicated in the graph presented above. There was no change in the number of taxation staff for three consecutive years from 2006–2008 (42,587 people). The figure for 2012 even shows a downtrend of staff and it explains that more than 530 staff nation-wide retired in a single year and no recruitment was made for that year.

Labor productivity is then calculated as the ratio of the volume of tax output (deflated) to the volume of FTE personnel by using the year 2006 as a base year for both indexes, as illustrated in the following graph.

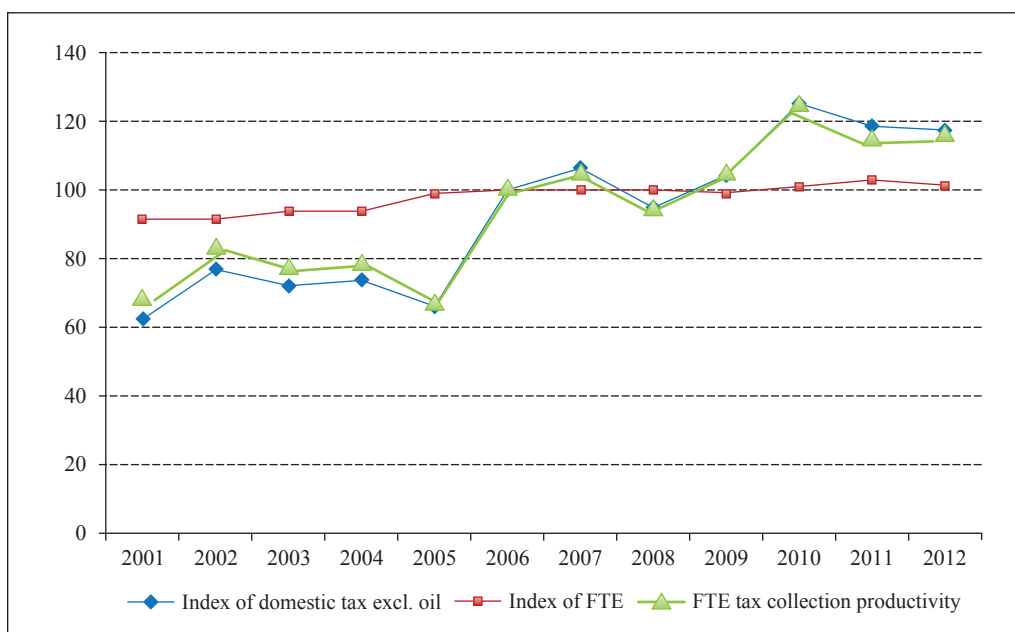


Figure 10. FTE Tax Collection Productivity

Volume (2006 = 100)

Source: Authors' elaboration upon data from GSO and GDT.

The trend of FTE tax collection productivity varies in the studied period, with a significant downtrend from 2002–2005, and two other slight downtrends in 2007–2008 and 2010–2011. For the last 20 years, Vietnam has had an impressive economic development with an average 7% annual GDP growth, which leads to a significant augmentation of the nominal amount of collected tax (see the Figure 7.). However, the inflation rate during these years also varied, which led to a decreasing trend of the real amount of tax collection. For the period of 2003–2005, the economy witnessed declining GDP growth while the number of FTE staff in the tax section were growing (from 40,000 to 41,987 persons or 2.1% increase). This leads to a downward trend of the productivity for the period. The explanation for the declining productivity trend in 2007–2008 is that the global financial crisis (subprime mortgage) requires the Government of Vietnam to launch an economic stimulus package, which also strongly influences inflation. For the decline in the financial year of 2010–2011, Vietnam fell into another economic crisis in 2011, bringing stagnation in many economic sectors and a high inflation rate. For the other upward trends, a considerable productivity increase takes place in the financial year of 2005–2006, which is due to a booming year just before the country's accession to the WTO, when the economy sees a big increase in growth in many sectors.

The limitation of this study is unable to examine the TFP due to the unavailability of data. Looking at the above labor productivity indicator, it might be biased to draw a conclusion on the performance of the sector. However, taking into account some other qualitative assessments on initiatives undertaken in the next section, it might help to understand more about the contributions of major changes in the tax sector to the trend. Also, the next section will provide some additional assessments of the administrative burden in paying tax in Vietnam in comparison with regional countries to see a broad picture of the sector.

2.3. Initiatives Undertaken

For the tax area, there have been a lot of changes in Vietnam for the last 20 years. Not only efforts from the government but also with external interventions such as from the World Bank, ADB, IMF, JICA, and some other international donors, the tax reform process in the country has changed to a better way. The reason why taxation has had more focus is because this sector deals not only with individual citizens but also with businesses, the main driver for economic development of the country. The international donors have been helping the Government of Vietnam in an effort to radically reform the tax system. The implementation is still ongoing but there have been a lot of changes such as allowing online transactions, centrally organized databases, and so on.

The Vietnam Tax Administration Modernization Project (TAMP) was launched in 2008 with an approved investment of USD97.5 million including preferential loans of USD80 million from the World Bank, a USD12.5 million loan from Japan, and Vietnam's counterpart capital of USD5 million. The objectives of TAMP are to improve tax management capacity at all levels, reduce corruption, and support taxpayers through improved e-tax services. It aims to assist the General Department of Taxation (GDT) in strengthening governance in tax administration and to increase the level of voluntary compliance with the tax system by improving the effectiveness, efficiency, transparency, and accountability of the tax administration. The project comprises a total of four components covering: (1) institutional development for the tax administration; (2) operational modernization of the tax administration functions and processes; (3) IT development; and (4) project management. The institutional development component aims to support the implementation of the key requirements and instruments for good governance in the tax administration. The operational modernization component enables the GDT to ensure a high level of voluntary compliance with the tax system. The component dealing with IT development primarily supports the procurement and implementation of a proven Integrated Tax Administration Information System-ITAIS. The project management component supports advisory services and the necessary office infrastructure to assist the Project Management Unit (PMU) in implementing all aspects of the project.

However, even before the TAMP, in 2006 the first tax filing software named “HTKK” was launched for free by the GDT. In the first few years, this application was very simple with a lot of errors that created troubles for both taxpayers and collectors. Since 2009, the program was continually upgraded with much improved functions and became more stable. Together with TAMP, the tax processing activities using “HTKK” software have seen improvements, at least in terms of processing time by using the bar coded forms that are synced with the taxpayer database in the taxation department. According to the World Bank’s Doing Business database, yearly hours spent by firms for filing, preparing, and paying taxes in Vietnam reduced from more than 1,000 hours in 2009 to 872 hours in 2014 (to be further elaborated in section 2.4).

Another improvement in tax filing and paying is allowing taxpayers to file on the Internet from the end of 2009 with the “iHTKK” program made by the Ministry of Finance [13]. This solution is just for filing and from 2014, e-taxpaying is piloted in three provinces (Ha Noi, Bac Ninh, and Vinh Phuc) that allows taxpayers to pay taxes directly from their bank account. Taxpayers do this through the T-VAN service (value-added service providers on electronic transactions during tax declarations that are granted with Taxation Authorities’ certificates), where T-VAN service providers take responsibility to submit taxation documents to the web portal of Taxation Departments every two hours at the latest after receiving documents from taxpayers. The e-tax solutions led to changes in the administrative architecture of the tax agencies, requiring staff capabilities to adapt to new working environments and processes and to create opportunities for third parties, the T-VAN service, and certificate authentication (CA) service providers (at least eight T-VAN and eight CA companies were officially listed on the GDT website) [14].

All the projects and efforts made by international donors and the Taxation Administration in Vietnam contributed considerably to the effectiveness and efficiency of all-level tax administration in the country. This is revealed by the fact that this administration can effectively handle great amounts of work in the years with high growth of tax collection, which leads to a significant increase of productivity (financial years 2005–2006 and 2008–2010, see Figure 10.). The number of administrative FTE staff in Vietnam in general and in the taxation sector in particular rarely decreases even if the numerators of the FTE productivity ratio decrease or remain unchanged.

The major initiatives in different aspects of the taxation service in Vietnam can be summarized in Figure 11.

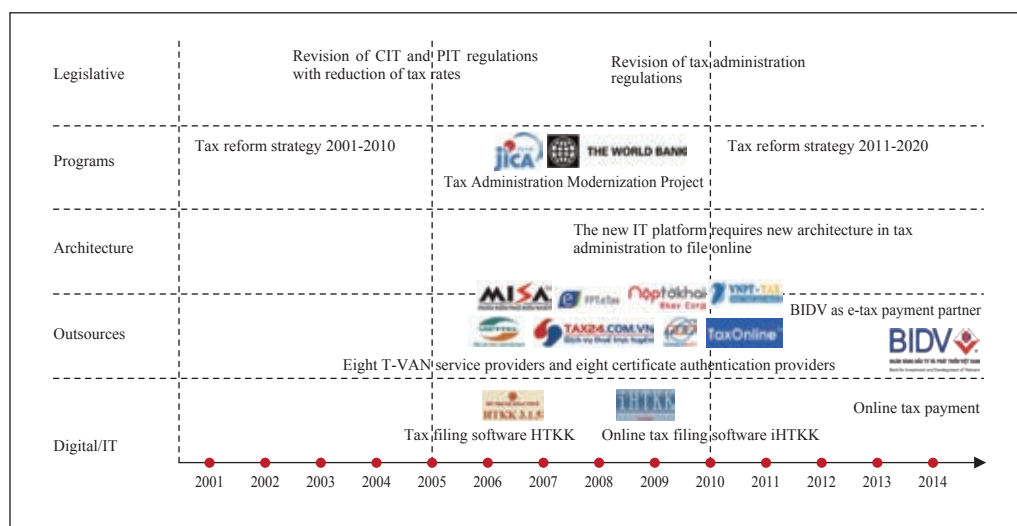


Figure 11. Major Initiatives/Changes in Tax Collection Administration in Vietnam 2001–2013

Source: Author's elaboration.

The development and application of ICT in taxation services leads to a number of changes in the administration. Let's have a look at the Internet-based tax filing model in the Figure 12 to understand how this change has an impact on the tax administration's architecture, outsourcing, and application of digital automation.

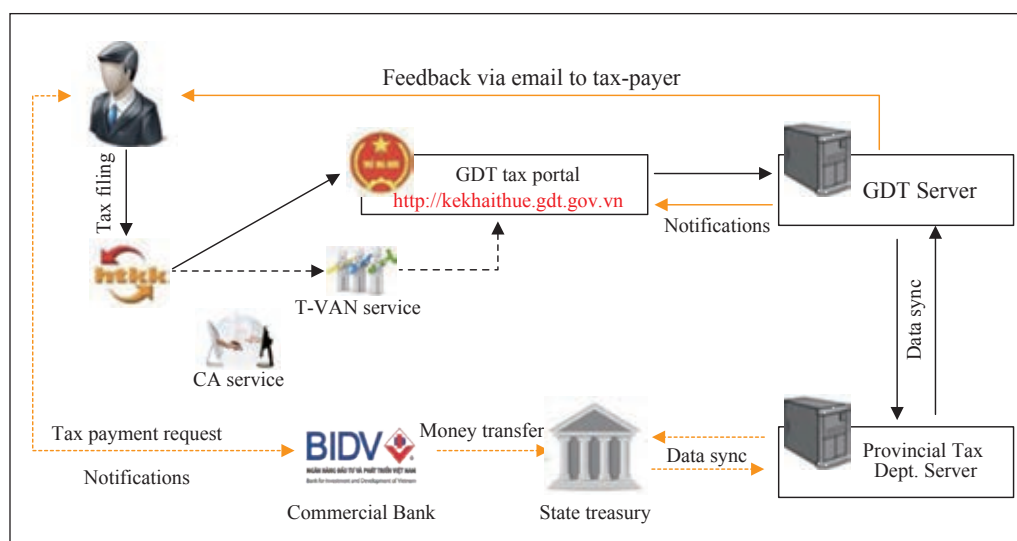


Figure 12. Internet-based Tax Filing Model in Vietnam

Source: Author's elaboration.

The e-filing has been implemented for the last few years but the e-payment system has just launched in early 2014 for a pilot stage in three provinces. In order to expand nation-wide, the tax administration is now preparing for such changes, including institutional reengineering, process modification, upgrading infrastructure, outsourcing plans, and the like.

Besides the efforts made for the past few years, the Government of Vietnam [15] and GDT keep reforming the tax administration by adopting a Strategy for Tax Reform in 2011 for the period of 2011-2020 with quite specific performance indicators:

Table 4. Some Key Performance Indicators of Tax Reform Strategy 2011–2020

Key Performance Indicators	Objectives	
	<i>by 2015</i>	<i>by 2020</i>
Ease of paying tax among ASEAN countries*	Top five	Top four
Percentage of enterprises using e-tax services	60%	90%
Percentage enterprises filing tax via the Internet	50%	65%
Tax-payers satisfaction rate	70%	80%

* Following the World Bank's Doing Business score (www.doingbusiness.org)

Source: Authors' elaboration upon the Strategy for Tax Reform.

These objectives will be further analyzed in the next section but one important thing to note here is a mindset change of the tax administration to put the “taxpayer satisfaction” objective in the strategy. According to Transparency International [16], bureaucracy and corruption in the public sector in general, and tax sector in particular, is still a big issue in the country that the government is now looking for effective measures to fight against. So this objective can be considered as a paradigm shift.

2.4. Best Practices and Lessons Learned

According to the World Bank's Doing Business Report 2014, Vietnam currently stands at 149 in the ranking of 189 economies on the ease of paying taxes (Figure 13.). The score measures the administrative burden of complying with taxes in Vietnam and how much firms pay in taxes. The World Bank [17] study shows that firms make 32 tax payments a year, spend 872 hours a year filing, preparing, and paying taxes, and pay total taxes amounting to 35.2% of profit. Figure 14 illustrates the rankings for ASEAN comparator economies and the regional average ranking to provide a picture for assessing the tax compliance burden for businesses in Vietnam.

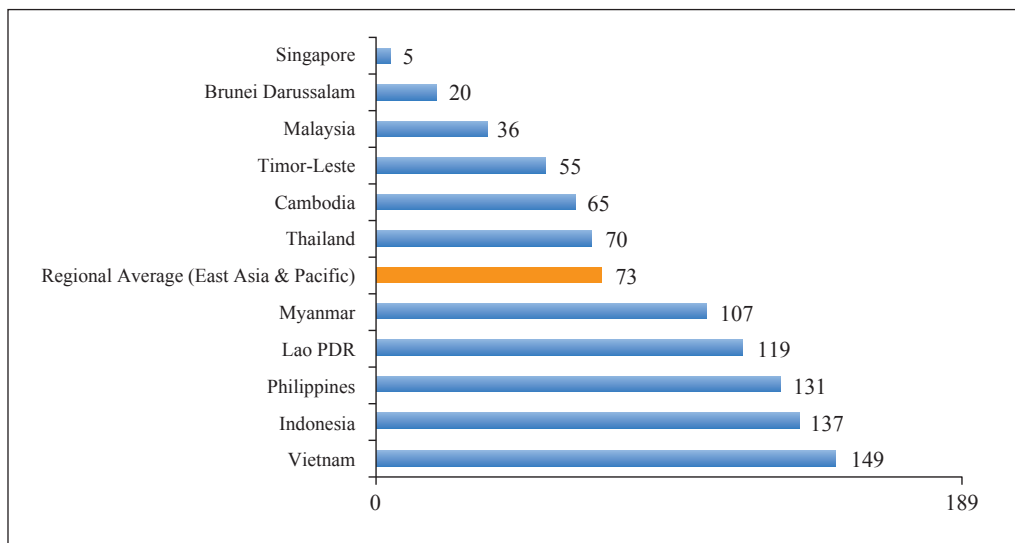


Figure 13. Vietnam and ASEAN Comparator Economies Rank on the Ease of Paying Taxes

Source: Author's elaboration upon data from World Bank's Doing Business 2014.

Among 11 ASEAN countries, Vietnam stands at the bottom of the list and it is almost impossible for the country to meet the objective set for the next year of 2015 to be in the top five of the list.

Another benchmark to look at is time (hours in a year) spent by taxpayers to file and pay tax. This measure includes time for (1) collecting information and computing the tax payable; (2) completing tax return forms, filing with proper agencies; (3) arranging payment or withholding; and (4) preparing separate tax accounting books (if required). Figure 15 is excerpted from the Doing Business Report 2014-Vietnam.

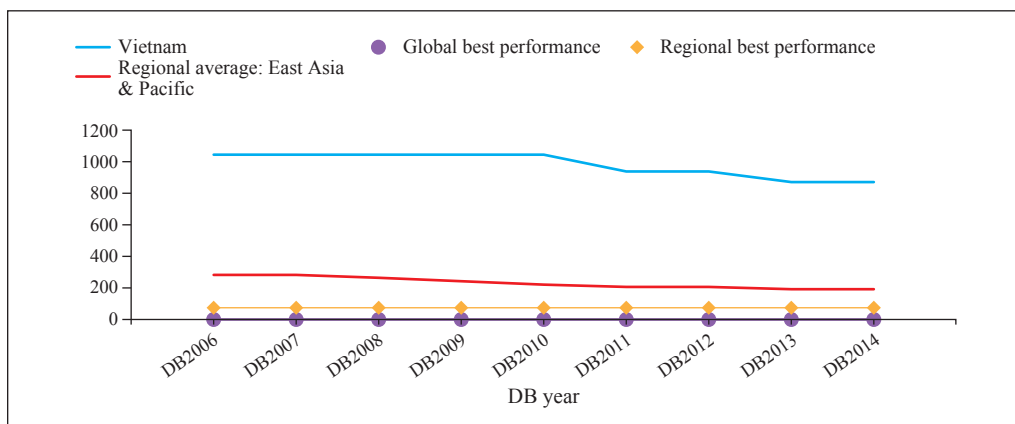


Figure 14. Yearly Hours Required to Prepare and File Taxes (2006–2014)

Source: World Bank, Doing Business 2014-Vietnam [17].

Compared to the regional average and best practices, Vietnam still lags far behind other countries in regard to time spent. This certainly reflects a waste of time, a very precious resource, for both taxpayers and the collection administration, which ultimately influences performance indicators. The graph shows a decreasing trend after 2010, and the time required decreased gradually from more than 1,000 hours to 872 hours in 2014. To have a clearer benchmarking picture, the following chart describes the comparison for the year 2014 between ASEAN countries with benchmarks with a regional average (East Asia and Pacific) and OECD countries.

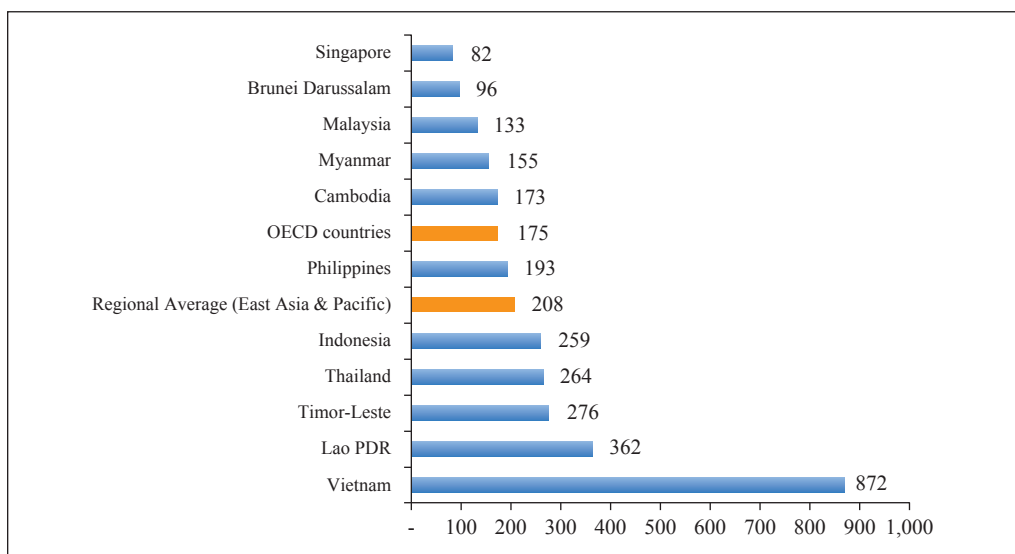


Figure 15. Yearly Hours Required to Prepare and File Taxes in ASEAN Countries (2014)

Source: Author's elaboration upon data from World Bank's Doing Business 2014.

Taxpayers in Vietnam have to spend more than four times than the regional average. There is no detailed data for the duration taxpayers spend on their own versus the processing time that they deal with the collection administration, but clearly the complication in filing and paying procedures in the country must be improved a lot to catch up with regional practices.

Another indicator to benchmark is the number of tax payments per year. Some ASEAN countries like Indonesia, Cambodia, the Philippines, or Lao PDR have a higher number of payments than Vietnam (Figure 16.) but the country still has a higher number on a regional average or as an OECD number. Figure 16 shows this picture.

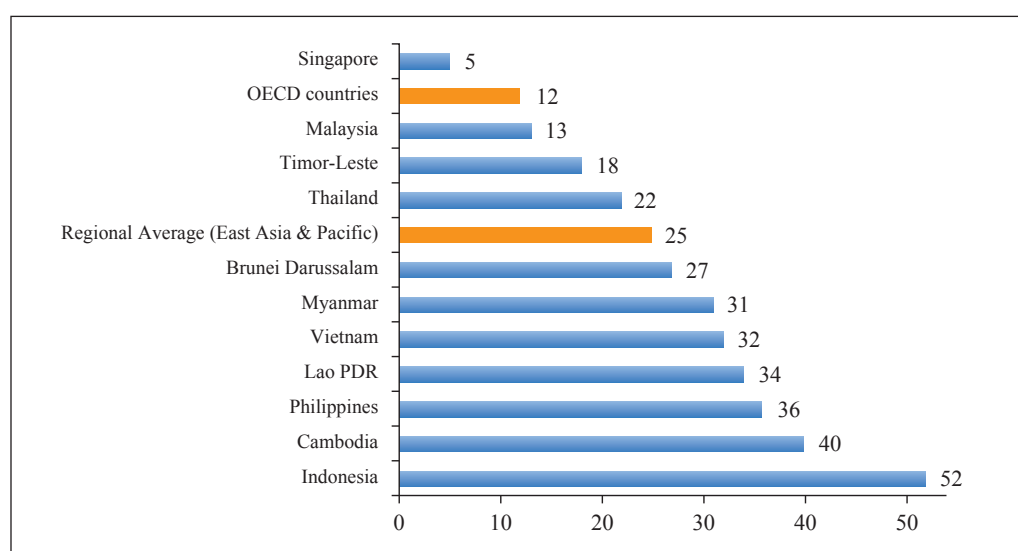


Figure 16. Number of Tax Payment in a Year in ASEAN Countries (2014)

Source: Author's elaboration upon data from World Bank's Doing Business 2014.

This number in Vietnam has been unchanged for the last eight years, according to Doing Business data, showing no improvement in this regard. Figure 17 illustrates a benchmark of the country and the economies that over time have had the best performance regionally or globally on the number of tax payments for the period 2006–2014.

Figure 17 aims to show what is possible in easing the administrative burden of tax compliance. And changes in regional averages can show where Vietnam is keeping up - and where it is falling behind. Economies around the world have made paying taxes faster and easier for taxpayers in general and for businesses in particular such as by consolidating filings, reducing the frequency of payments, or offering electronic filing and payment. Vietnam has made a lot of improvements in taxation for the last 20 years

as mentioned in previous sections but such changes revealed a self-improvement, not in a greater context - regional or global. The country is now integrating into a regional and global economy with the most challenging event being joining the ASEAN community in 2015. Therefore, persistent tax reform must be further followed according to the Tax Reform Strategy 2011–2020. Many objectives set for 2015 (e.g., top five in ASEAN for ease of paying tax) seem impossible to achieve as only one year ahead but Vietnam lags quite far behind most other s (Figure 13.). Some targets such as satisfaction rates cannot be tracked from a public source so it is difficult to see if the figure of 70% satisfied taxpayers is met in 2015.

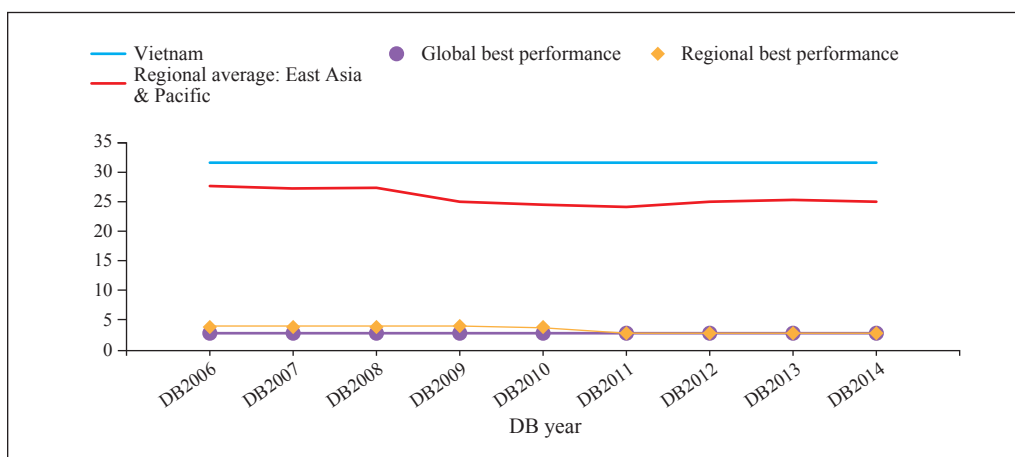


Figure 17. Benchmark on Number of Tax Payment per Year (2006–2014)

Source: World Bank, Doing Business 2014 [17].

From the above observations, some lessons can be learned for tax collection services in Vietnam:

- It is necessary to elaborate the overall strategy and objectives into very specific yearly targets. They must be set, implemented, and then reviewed, and conduct monitoring and evaluation (M&E) on yearly basis.
- Make all performance indicators/objectives on each level of collection service (from provincial to district-level) transparent and available to the public.
- Further consolidating filings with more aggressive administrative procedure reform, reducing the frequency of tax payments, and quickly expanding electronic payment capabilities in the whole country. This requires the GDT to work with different commercial banks (currently only one bank – the Bank for Investment and Development of Vietnam (BIDV) – is authorized to make online tax payments) on an open and competitive basis so that more banks are able to serve taxpayers.

SUMMARY/CONCLUSION/RECOMMENDATION

This report can be considered as one of the first studies for the measurement of productivity in the tax collection administration in Vietnam by using the methodology recommended in Patrick Dunleavy and Leandro Carrera's book [2]. The analysis was relying on data from different sources such as the MOF, GDT, and GSO. However, data availability and the consistency of data are big problems for this study. The author had to fine tune the collected data by cross-checking with different sources to get it as logical and as accurate as possible. Even though, it cannot accommodate the unavailability of details on specific activities, costs associated with such activities and other necessary input measures have to have a better picture of performance/productivity of the sector.

To further support quantitative analysis, some qualitative assessments were made by exploring initiatives undertaken in the sector. The Vietnam taxation administration has implemented many reform initiatives, including reforming administrative procedures, application of ICT, process reengineering, and improving infrastructure, etc., to make the sector more effective and efficient. Regarding service quality levels, the Vietnam tax sector also aims to improve "customer" (taxpayers) satisfaction. This is a very important change to shift the mindset of public sector organization as the level of bureaucracy in the country is still very high. Levels of online tax filing have grown significantly only in the last four to five years. If more taxpayers are able to submit their taxes online, this may help to improve their levels of satisfaction with this service as the local agencies will be able to process the returns and refunds faster.

Overall, from a self-improvement perspective, productivity levels of the tax administration in Vietnam have had quite a positive trend, supported both by quantitative and qualitative data. However, taking into account the benchmarking perspective, there is a need for much greater improvement of the sector to catch up regional and global levels of performance. Unfortunately, this report could not cover the productivity analysis of the passport issuing sector, that there could have been an "internal benchmark" between the two public administrations in the country. Therefore, it is necessary to expand this approach to research to other areas in the country to be able to gain even more theoretical insight and contextual application of the theory. In order to do this, the author provides recommendations to the Government of Vietnam to seriously consider the importance of measuring public sector productivity, encouraging further research on this subject, and adopting a methodology to fit with the local context; and especially to standardize output and input data of the public sector and to make it accessible to the public.

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