



STATES & LOCAL FINANCE

The IGR Initiative

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WHILE MOST STATE AND local governments demand urgent improvements in revenue collection from their tax administrations, taxpayers equally demand more convenience, procedural equity and fairness for better compliance. This interdependent flow of expectations invariably challenges progressive tax administrations to use creative administrative efficiency to meet them. Consistent with the laws of target outcomes, they would always want the enhanced delivery of their traditional responsibilities to improve compliance and the size of their collectable revenues. Without any debate, the route to actualizing these expectations is to innovate consistently. The innovation-effect should manifest in the quality of tax administrations interpretation, communication, and enforcement of tax laws, resulting in corresponding taxpayer compliance levels. Beyond the innovations regarding tax laws are the expectations of improvements in the procedures for tax collection, returns filing, audits, investigations, and tax dispute settlements. Excellent tax administration will always provide high-quality citizen services and continuously deliver operational excellence that results in more revenue collections.

Only about five subnational governments can meaningfully fund their recurrent operations without reliance on the federation account's statutory allocation, providing approximately four-multiples of complementary revenue. This threatening revenue position accentuates the incentives for IRS innovation. But beyond that, taxpayers are already demanding service-oriented reforms for more convenience in fulfilling their tax obligations within an environment of fairness. Automation, which reduces the taxpayers' cost of filing and the scaling down of filing requirements, makes it more convenient and shortens the tax reporting time. Procedural fairness, particularly discouraging mercenary task forces and the use of touts for tax collection and the broader dissemination of tax-related information, reduce feelings of marginalisation. The public also supports the pursuit of enhanced innovation within the tax administration as such efforts always correlate positively with the provision of public goods and services, ultimately benefiting them. Again, the government also believes that innovation in tax administration would provide a better understanding of taxpayers' needs, expectations and the behavioural patterns necessary for improved policy design and implementation. Insights and predictions

based on taxpayer data integrated with other databases will unquestionably provide brilliant insights for developing and implementing helpful policies based on patterns of taxpayer behaviour. These developments also dynamically reinforce compliance levels.

We can aggregate areas requiring innovation emergencies in subnational tax administrations into people, processes and ecosystem knowledge. In many subnational tax administrations, the workforce quality is quite deficient and suffers from ageing personnel, poorly trained and unqualified professionals, low levels of alignment with target outcomes, and bureaucratic red tape. Most subnational IRS need to overhaul their recruitment and performance management process, driven by cronyism. People innovation in tax administrations would require robust implementation of workforce analytics. Workforce analytics is a global trend. It permits better hiring decisions and more accurate prediction of candidate success, optimization of employee experience, more proper alignment of human resource actions to outcome expectations and robust performance management systems.

Second, automating the entire operational processes within tax administrations suffused with data-driven performance management culture should satisfy the process innovation requirement. On the latter, tax administrations can easily quadruple their performance on an ongoing basis when they learn from data-driven insights. But such insights and predictions are only possible when they efficiently leverage a substantially integrated network of databases, providing more insights into the taxpayer. The result is a firmer understanding of taxpayer behaviour, forecasts of taxpayer expectations, and more prosperous policy design and implementation. Large-scale automation of internal processes within tax administrations will always lead to greater operational efficiency and a high-performance culture. But such automation needs to connect to the taxpaying public. Tax administrations also need to automate all processes affecting tax compliance and taxpayer management tools. The Lagos State Government IRS takes the lead among tax administrations in Nigeria in terms of the e-processes in tax administration. More than 90 per cent of other subnational governments are far behind the bar already set by the Lagos IRS. Some of these processes have succeeded in simplifying the tax forms, including such details as reducing the number of lines to complete, simplifying the language used, improving the instructions, etc.

The ecosystem knowledge base

enhancement covers at least three stakeholder groups in tax administration: the subnational IRS, the state and local governments and the taxpayers. Often, the focus of tax education narrowly concentrates on informing taxpayers. But most of the poorly performing tax administrations are due to low levels of information and adaptation to best practices, regardless of their knowledge base on tax laws, their interpretation and implementation. Progressive subnational tax administrations must consistently seek global best practices in various operational areas that define how they most efficiently serve the taxpaying public. Benchmarking their operations against the global bests and predefined target outcomes will always show them as learning organisations. Therefore, tax administrations must consciously and regularly tutor themselves on the "how-to" of attaining excellence in their various functional areas.

The government must also learn how to complement the efforts of the tax administration by being prudent in the management of collected taxes. Higher quality fiscal spending, particularly in projects directly benefiting faithful taxpayers and taxpaying communities, will always enhance compliance. But the tax education for the government and its officials should be on understanding how fiscal spending dispositions either mar or improve revenue collections. They should also know how to design fiscal policies and programmes based on the insights from solidly integrated taxpayer databases. Again, tax education execution should be collaborative with traditional institutions and religious and business membership organisations beyond conventional and social media. Without a firmly redirected focus of tax education using these constituencies as partners, we will continue to face more challenges weaning the lowly educated classes in the informal sector generally to comply as desired.

Regardless of the role of adequately optimised hunches and intuition in innovation, it rarely occurs by chance. The majority of the organisations with tremendous innovative success stories readied themselves for the eventual outcomes. Tax administrations must also consciously prepare to innovate and take advantage of the numerous attendant benefits. Subnational IRS can gauge their preparedness for innovation against three critical parameters: strategic alignment, knowledge economy, ideation, and strategic drive. The strategic alignment of subnational tax administration will require that various functional units and staff members recognise their collective and individual roles within the organisation and how those roles individually and collectively contribute to achieving predefined innovation targets. The implication of this is that the leadership of tax administrations must understand and define their current and future innovation tar-

gets.

The expected milestone changes that can trigger the actualization of the tax administration's vision constitute reasonable innovation targets. Yet a clearly defined systematic approach must lead individual members' and functional units' efforts to realise those targets. The tax administration's pervasive culture should enhance employee engagement and ownership, critical for much-needed alignment. Innovation thrives on insights and knowledge not available to everyone. Whereas such insights and expertise are obtainable through hunches, intuitions and luck, they are more often products of the systematic processing of ideas. This means that tax administrations must have a system for knowing, disseminating knowledge within their system, and identifying opportunities. While regular training programmes and knowledge sharing are necessary, tax administrations must have a mechanism for comprehensive strategic benchmarking, ideation, and other critical opportunity scavenging approaches across its stakeholder formations. Expert facilitation of such ideation and opportunity scavenging forums must include diverse stakeholder groups such as taxpayers, governments, researchers, consultants and other relevant experts. However, the ideation process and the strategic alignment can only create the desired outcomes with the right measure of drive from the workforce. Drive requires the effective mobilisation of all critical resources, including human, financial, technical, etc., to successfully achieve the defined innovation targets and the overall organisational vision. As a desideratum, it always subsumes a rigorous performance management system as a complement.

Several seemingly well-trenched factors always militate against successful tax administration innovation. The first is funding. While some subnational IRS have statutory entitlements to a certain fraction of collected revenue, many others do not have such privileges and therefore may not be able to execute innovation readiness programmes. For some states, such funding access exists mainly on paper, as some level of legislative and policy blockades prevent them from fully tapping into them. Many state governments are cash-strapped and will not readily allow tax administrations to go an entire course in readying for innovation. Second, many subnational level tax administrations only have statutory independence on paper. More than 80 per cent of them still need to receive periodic clearance from the state governor before proceeding with critical operational initiatives. The absence of authentic independence by many subnational IRS hampers their ability to auto-design and implement proposals that lead to expected transformational innovations. Third, the ageing workforce dominates the personnel portfolio in most subnational government IRS. While age presupposes 'experi-

ence benefits', it is rarely the case when most transformations rely on information technology and data analytics to succeed. Successful activation of these transformation drivers lies more within younger people's domain.

Furthermore, the dominance of the ageing population seems to correlate more directly with the stagnating bureaucracy that is the bane of the Nigerian public sector. The fourth is the dominant mindset in most public sector tax administrations. Responding to innovation emergencies also requires the reprogramming of mindsets for progress. A substantial fraction of the workforce in most tax administrations is not keen to progress their capacity to deliver on assignments. On the contrary, they seem to be more responsible for mainstreaming the corruption and laziness that are the dominant culture in most of Nigeria's public sector. Innovation emergency requires an agile mindset that is enamoured with efficiency and accountability.

Fifth, almost all the tax administrations in Nigeria, apart from approximately seven, do not have an appropriately crafted IGR strategy. A non-existent strategy document also presupposes the absence of clearly articulated and communicated vision and innovation targets. Tax administration leadership generally becomes more rudderless in their operations where these do not exist. A confusing and confused governance system is less likely to deliver significant innovations. Of course, there is no need to emphasise that the lack of a properly designed and implemented strategy also means that tax administrations lack a meaningful performance management system to drive their ideas.

With the saddening imprudent management of public finances across all tiers of government, there is no doubt that most sub-nationals, like their federal counterparts, are speedily approaching a financial crisis point. The long-running inability of most sub-nationals to generate enough independent revenue to cover their recurrent spending and their mounting unsustainable debts attest to the criticality of the situation. Forward-looking state and local governments are already repositioning their tax administrations to generate enough revenue to significantly counter these emerging threats over the next decade or less. The effectiveness of these repositioning efforts depends very much on the attendant high-quality innovations in tax administrations. Yet, while many sub-national IRS desire to make these revenue leaps, their innovation readiness assessment shows substantial unpreparedness to embark on the requisite innovation trip. Several stumbling blocks pose along the way, with the most critical being the political will of their governors.

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