

## STATES &amp; LOCAL FINANCE



## The IGR Initiative

MARTIN IKE-MUONSO

*Martin Ike-Muonso, a professor of economics with interest in subnational government IGR growth strategies, is managing director/CEO, ValueFrontiera Ltd. He can be reached via email at martinoluba@gmail.com*

**T**HE TWO MOST SIGNIFICANT errors in the design and implementation of domestic revenue mobilisation reforms at the subnational government level are focusing narrowly on the Internal Revenue Service (IRS) and tax policies. One primary underlying assumption is that strengthening the IRS would put them in a better position to collect revenue from other revenue-generating agencies more efficiently. A complementary belief is that taxes are easier to collect and, as a result, should be prioritised. The inevitable outcomes of such reasoning are the palpable sidelining of non-IRS revenue-generating agencies (RAs) in the reform efforts alongside non-tax revenue opportunities they mobilise. It is a no-brainer to find the source of such orientations, mainly from the suggestions of development partners. Development partners have championed and funded several reforms to our institutions, particularly at the subnational level. Because they provide funding, these development partners often implement templates from their home countries with significantly different institutional peculiarities. Revenue-generating agencies in most developed countries operate at high levels of efficiency, with strong internal business processes supporting continuous improvement and robust governance standards. Most of our revenue agencies lack these credentials and act as if they do not understand the purpose of their existence in the first instance. Therefore, non-IRS RAs must receive all support necessary for high performance, particularly in contributing to the IGR expansion.

Non-IRS RAs are at the heart of non-tax revenue growth. Most IRS primarily focus on collecting tax revenue, which is often more straightforward to garner. But non-tax revenues, in some sense, proxy the degree of service excellence and entrepreneurship-mindedness of the leadership. Through the provision of services to the citizens, it collects fees. In the same way, by implementing an appropriate structure ensuring compliance with the rules, the subnational government earns income from fines and penalties. Again, states earn investment income as part of their independent revenue by prudently investing their residual income in financial assets. The various sources from which the second and third tiers of government generate additional non-tax revenue are plenty, depending on the leadership's business innovativeness. Sadly, despite the strategic importance of non-tax revenue in subnational governments' IGR expansion efforts, approximately 80 percent of

states in Nigeria do not earn up to 50 percent share of their IGR from this source. The average for all the states put together was approximately 36 percent over five years between 2017 and 2021. But the opportunities for subnational IGR expansion lie more within non-tax revenue sources than taxes when leadership reasonably commits to growing the bases and their exploitation. Non-IRS revenue-generating agencies make up a substantial share of these bases. It is also indispensable that reform efforts support them specifically for their IGR expansion.

A good starting point in that is the readiness assessment for IGR expansion. This assessment is well developed for the Internal Revenue Service using the Tax Administration Diagnostic Assessment Tool (TADAT). The underlying supposition is that an effective tax administration may be able to perform creditably in "tax" mobilisation. Of course, tax is only one flank of the constituents of internally generated revenue. There is more within the non-tax revenue portfolio. Although the tool's designers primarily target country-level revenue services, subnational governments can certainly adapt it to their level. Its capacity to score tax administrations across nine performance outcome areas provides the IRS with critical inputs to strengthen or update its reform strategies, track performance and determine its readiness for IGR expansion. Although high scores in TADAT do not automatically translate to high IGR performance, it nevertheless sets the requisite foundations for that by improving tax-focused administrative efficiency. TADAT's nine performance outcome areas comprise the following: the integrity of the registered taxpayer database, effective risk management, supporting voluntary compliance, timely filing of tax declarations, timely payment of taxes, accurate reporting in declarations, effective tax dispute resolution, efficient revenue management and accountability and transparency. Unfortunately, there is no comparative standard gauge for tracking the performance of non-IRS RAs. This article attempts to set out the parameters that should constitute the IGR expansion readiness criteria for non-IRS revenue-generating agencies at the subnational level.

TADAT provides readiness indicators (performance outcome areas) that are adjustable and adaptable without reinventing the wheel. Thus, for non-IRS RAs, six performance outcome areas or IGR expansion readiness indicators are borrowable from TADAT. These include the integrity of the customer database, effective risk management, support for volun-

# IGR expansion-readiness assessment for non-IRS revenue agencies

tary compliance, timely payment of fees, fines and penalties where necessary, effective customer dispute resolution, efficient revenue management, accountability, and transparency. For instance, rather than the taxpayer database, we have modified that to be the customer database. Those who pay fees or patronise other services provided by subnational governments are considered customers rather than taxpayers. However, revenue generation agencies must also consider including customer satisfaction, attraction and retention as part of this performance outcome area. Other performance-outcome areas, such as dispute resolution, efficient revenue management accountability and transparency, are crosscutting readiness indices. We can then identify and include other critical success factors for the non-tax revenue growth to the indicators already extracted. These include entrepreneurially minded leadership, a well-trained workforce, collection efficiency, marketing and cross-selling capacity, idle capacity conversion, strong internal business processes and a robust performance management system.

Overall, the readiness for the subnational IGR expansion index will consist of thirteen indicators. We shall briefly explain each of them in the following three paragraphs. The integrity of the customer database requires RAs to maintain a comprehensive customer database with sufficient information to enable effective customer relationship management and feed into other databases that can enrich governments' policy and programme design and implementation. The risk management factor is cross-cutting. Ideally, every good business operation should have a robust risk management system consisting of a correctly set up effective unit with a team of qualified staff, solid information technology infrastructure to support the activities, robust business processes adequately aligned with the broader organisation, and relevant leadership support. Support for voluntary compliance complements risk management efforts. In addition, it ensures that the RAs prioritise customer service and gain their trust through high levels of accountability and transparency. These critical factors are central to boosting voluntary compliance. Of course, some enforcement measures may still be necessary for those innately non-compliant. The same structure for enforcement should also support maximum capturing of value regarding defaults in timely payment of fees, fines and penalties where they apply.

An effective dispute resolution mechanism that provides customers and other stakeholders opportunities to remedy wrongs is critical. The trust and confidence of customers and other citizens in the Revenue Agencies are



firmer when they can challenge wrongs done to them and receive a fair hearing and fair judgement. Again, this is even stronger with an efficient revenue management, accountability, and transparency system. But these critical success factors are only successfully implementable with excellent albeit entrepreneurially minded leadership. Leadership is everything in organisational management, mainly when solid performance is the goal. Much better results become more achievable when entrepreneurial philosophy governs the leadership's decisions and actions. The propulsion of entrepreneurial-mindedness is by a "go-getter" and high-performance spirit relentlessly pushing to achieve set targets at the minimum. The consequence, therefore, is that such leadership activates and pushes for success in all the critical success factors. To effectively optimise the potential of such leadership, there must be a complementing capable workforce. This performance indicator is usually the Achilles' heel for most subnational governments' RAs, who mainly never send their workforce for training. Yet, without well-trained manpower, possessing a tremendous sense of ownership and discipline enough to take responsibility would be difficult for the person at the helm to achieve the best IGR expansion outcomes.

Collection efficiency is another critical success indicator. RAs must implement appropriate support technology and reasonably digitalise their revenue collections, payments and auditing systems. Such processes must also adequately cover revenue leakage control mechanisms. Non-IRS revenue agencies must have a strong marketing arm. Maintaining functional marketing units is rarely the norm for subnational RAs. But most service providers desirous of improving their income earning potential always do. Such marketing capabilities must include a solid institutional knack for cross-selling. For this reason, many universities complain of poor revenue receipts. For instance, cross-selling for them would consist of selling consultancy services in addition to the school fees they collect. Another readiness indicator is the capacity to turn idle assets into revenue-yielding opportunities.

For instance, many government offices are in the heart of choice real estate, where they only occupy no more than 10 percent of the land area and consequently leave about 90 percent of the property idle. Universities also have such sprawling and unutilized land assets. Therefore, such revenue agencies must demonstrate the capacity to minimise losses due to their inability to convert idle assets into income.

The last two readiness indicators are the internal business processes and the performance management system. Without an efficient internal process, less-than-desired performance will prevail. The efficiency level of internal processes determines the quality of interaction among units, the workforce and supporting systems. On the other hand, effectively driving the personnel and the system's expected results will depend a lot on the robustness of the revenue-agencies performance management system. A sound performance management system constantly monitors and tracks the quality and adequacy of the organisation's input, system processes, and eventual output. Inputs, for instance, include all human, financial and other critical factor resources.

In conclusion, we have set out thirteen indicators for gauging the readiness of non-IRS RAs for IGR expansion. Each indicator has a few critical sub-indicators for clarity, emphasis and required granularity. The assignment of weights and scores will be at this sub-indicator level. Factor weights are essential because the indicators do not rank equally in determining an agency's success in independent revenue generation and expansion. At the end of the assessment, RAs with less than 60 percent score are not ready, implying that more efforts need to be put in place to strengthen the performance in areas where they are weak. Those with a score of 80 percent or more should, all things being equal, be doing well on IGR expansion. RAs with 61 percent and 79 percent scores also require some handholding and support to jump onto the high-performing brackets.