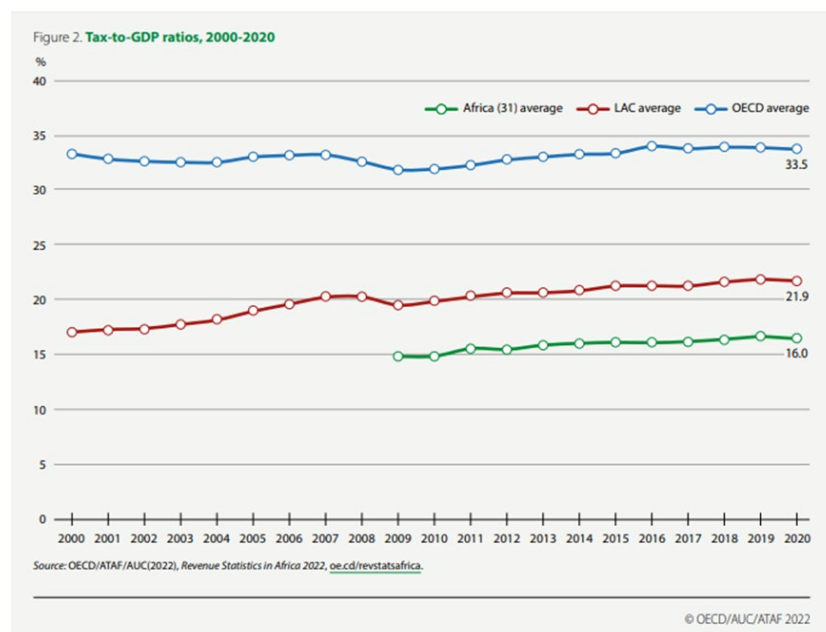


Transforming Internal Revenue Agencies in Developing Countries: Lessons from Nigeria

Afam Offor Nwaeze

In the area of fiscal governance, a stark contrast emerges between the governments of developing countries, particularly those in Africa, and their counterparts in OECD nations. This disparity is most evident when examining the proportion of tax revenue collected as a percentage of their respective Gross Domestic Products (GDPs). While OECD countries boast an average tax revenue collection of 33% of GDP, their developing counterparts lag significantly behind, averaging a mere 16%. This striking divergence raises fundamental questions about the underlying factors and implications of this discrepancy, shedding light on the intricate dynamics of tax collection systems in the global landscape.

How inland tax revenue agencies perform matters a great deal in realizing tax revenue potential. Many developing countries' tax revenue agencies face challenges of corruption/inefficiencies. Multiple explanations exist: the absence of vision and goal setting; the lack of innovation, transparency, and accountability; low citizens' trust; the absence of professionals; poor staff empowerment; unethical behaviour or misconduct by leaders and employees; poor welfare and staff development; and poor communication of goals and objectives.

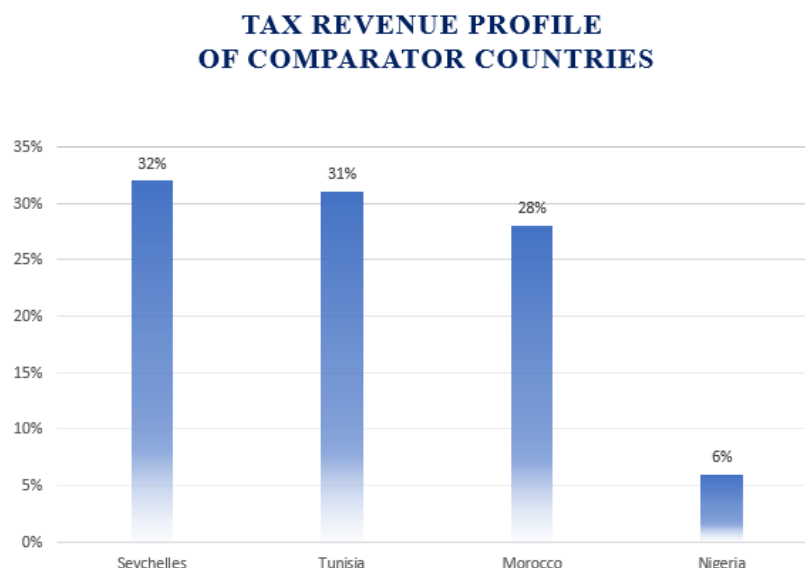


Transformation of internal revenue services is possible. This blog focuses on a transformational leader, Mrs. Ifueko Omogui, who took over as Head of Nigeria's Federal Inland Revenue Service (FIRS) in 2004 and implemented a successful reform

program during her tenure from 2004 to 2012. When she took leadership of FIRS, Nigeria's tax revenue profile was one of the lowest in the world, with only 6% of GDP, and the FIRS faced serious challenges, such as fraud, outdated employee skills, lack of training and evaluations, poor treatment of taxpayers, lack of data on tax administration, and insufficient resources for technology improvement and personnel development. Under her leadership, Nigeria's FIRS was transformed and Nigeria's tax revenue increased from less than USD\$7.9 billion in 2004 to over \$30 billion in 2011. However, by the close of the year 2022, the fiscal authorities successfully amassed a substantial sum exceeding USD\$23.7 billion through the accrual of tax revenue, owing to the devaluation of the domestic currency (Naira) by an extraordinary 277% against the United States dollar since 2011. Remarkably, the Nigerian Revenue Service achieved an unprecedented feat in local currency collection, amassing a staggering N10.1 trillion in 2022, signifying an unparalleled milestone in the nation's fiscal history.

Specific Challenges Nigeria's Federal Inland Revenue Service (FIRS) Encountered Prior to the Year 2004

When Mrs. Omogui took over as Head of FIRS, Nigeria's tax revenue profile was one of the lowest in the world at 6% GDP, behind regional leaders like Seychelles, 32%; Tunisia, 31%; and Morocco, 28%. (Oyedele, 2019).



Nigeria was losing at least 12 billion naira (US\$92 million in 2004) per year in collection-related fraud, employee skills were out of date because the FIRS had not provided training courses for more than a decade. Without regular training courses and evaluations, directors did not have comprehensive, accurate data on staff

qualifications and background, and therefore lacked the basic information upon which to base reform plans. There were allegations that staff always steal from the Service and negotiated with taxpayers, but the department responsible for disciplinary action in the revenue service does not bring any cases to management's attention.

Taxpayers were, frequently, not treated with courtesy while relevant information to aid voluntary compliance was seldom provided (Matter, 2020). There was no stipulated average time to resolve tax audits and important data on tax administration were not available. In addition, the cash budget system did not provide resources for technology improvement, personnel training, and development, as well as the improvement of the dilapidated working environment/offices.

According to the FIRS, tax revenue fluctuated over the period 2000-2003. For example, from US\$4.06 billion in 2000, tax revenue decreased to US\$3.77 billion in 2002. Similarly, the share of tax revenue to GDP fluctuated during the same period. Besides, there were more than 440,000 companies in Nigeria then, but only about 120,000 were paying taxes (Ogunbesan, 2015).

Over time, it appeared that the tax body did not effectively meet the objectives of its setup because of the inefficiencies that characterized its operations. The challenges they faced included improper documentation, corruption, obsolete work tools and technology, poor attitude to work, administrative recklessness, data manipulation, unskilled workforce, and loss of public confidence, among others. As of March 2003, FIRS had 7,643 staff nationwide; however, only 964 were professionals and they did not have regular training. A study by the Nigerian Economic Summit Group (NESG) found that citizens and business organizations expressed dissatisfaction with the activities of FIRS (Sanni, 2019).

Transforming Nigeria's FIRS and Improving Revenue Performance

As part of Nigeria's economic reforms during 2003-2007, spearheaded by Dr. Ngozi Okonjo Iweala, the then Minister of Finance and Head of the Economic Management Team, a few individuals were identified to head some very critical public institutions. Mrs. Ifueko Omoigiu was appointed Chairperson of the FIRS in May 2004.

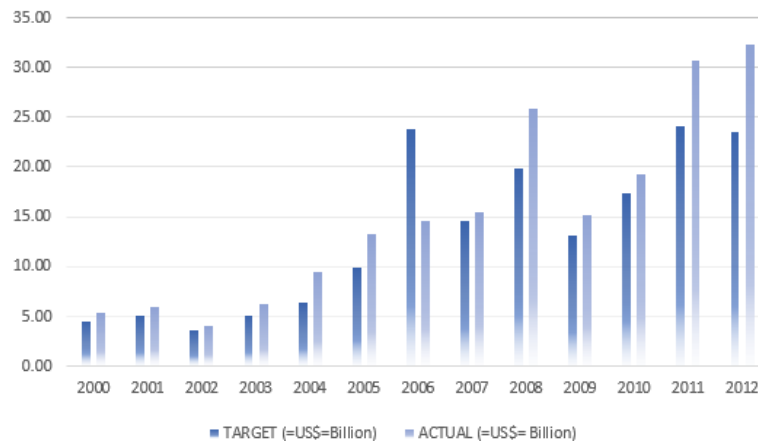
Under her leadership, Nigeria's FIRS underwent a transformation. The results were impressive. Under the leadership of Mrs. Omoigiu, Nigeria FIRS collected over \$ 30 billion in 2011 as against less than USD\$7.9billion collected in 2004 (Premium Times, 2012). The issues around underreporting of tax collections and the human interface were reduced significantly.

Other achievements recorded include:

i. As can be seen from the chart and table below, within the period, FIRS rapidly surpassed the revenue targets set for the Service by the Federal Government. apart from the year 2006 when ambitious targets were set but were affected by the global economic meltdown.

FIRS NIGERIA REVENUE TARGETS AND COLLECTION (2000-2012)

SOURCE: FIRS, NIGERIA



Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
TARGET (=US\$=Billion)	6.3	9.88	23.9	14.6	19.8	13.2	17.3	24.1	23.5
Actual Collection (=US\$=Billion)	9.41	13.2	14.6	15.4	25.9	15.2	19.2	30.7	32.3

Source: FIRS, Nigeria

ii. Accountability in tax administration and collection improved following the automated tax system that reduced human interaction in the tax collection process. This made it difficult for tax officials to embezzle or divert tax funds;

iii. There was increased tax compliance. More taxes were paid by citizens and businesses. For instance, the FIRS collected UD\$ 32.32 billion in 2012, compared to UD\$ 13.2 billion in 2005, an increase of 242%. In addition, the number of registered taxpayers also increased during Omoigui's tenure, from 10 million in 2005 to 17 million in 2012 (FIRS 2016); and

iv. In January 2009, the FIRS was named Government Agency of the Year for exemplary service to Nigeria.

How She Did It

Analysis from her testimony in a paper titled “Transforming the Public Sector in Nigeria: Lessons from my leadership of the FIRS”, presented at an Africa Initiative for Governance event in 2020 (Premium Times, 2020), indicates she demonstrated certain leadership skills during her stewardship at the Service. These skills include:

i. Goal Setting: As soon as she resumed, she and her team set the goal to triple non-oil revenues in Nigeria by 2007, and grow overall revenues by 25% year-on-year. A three (3)-year rolling strategic plan was developed, which set out clearly, their vision, mission, values, and goals. The plan was cascaded to every department and individual and it formed the basis of performance bonuses that were paid to deserving departments and individuals and the service tracked the implementation levels and successes or otherwise of the goals at every management meeting.

ii. Empowering Staff: Most positions at the FIRS were filled by persons who did not fit the roles. However, from the onset, she encouraged staff to develop themselves and acquire professional certifications. Various capacity-building programs, including tech-related ones, were organized for employees while other professionals were recruited. Consequently, within eight (8) years, the (FIRS) had about 80% of the 7,000 staff as professionals in various fields, which transformed the FIRS into being self-sustaining and able to align staff to their areas of best fit.

iii. Innovation: A major weakness that was identified in the operations of the FIRS was the tax collection system. It was old, error-prone, and susceptible to corrupt practices. Mrs. Ifueko Omoigiu ensured that the organization structure was designed deliberately to build tax administration capacity across all the typical functions. She automated and modernized the operations of the Service thus:

a. Modernization of the human resource system was undertaken by introducing the use of SAP HR and Financial Software to improve the two functions; and

b. Automated collection solution known by the acronym Project-FACT (Friendly, Accurate, Complete, and Timely) was deployed. This system made it possible to track online real time, what tax was collected, who made the payment, where it was paid, when it was paid, who received the payment, how much was paid, and where the funds were at any given time.

iv. Accountability: In order to build internal and external credibility, she identified and understood her responsibility on the need to collect more taxes from taxpayers

and to assure those that were paying taxes, that their returns were properly accounted for. Accordingly, a direct payment system linked to all the commercial banks in Nigeria to address payment leakages was introduced. Also, the Taxpayer Identification Numbering (TIN) system unique to each taxpayer was introduced.

v. Leadership by Example: She demonstrated that the rules applied to her also even at the risk of personal discomfort; she never indulged in any suspicious activity that undermined the rules. She disregarded herself and focused on the results expected and her conducts were guided by adherence to the ethics of her job.

vi. Welfare and Team Development: On resumption of duty, she realized that FIRS staff were poorly remunerated. Accordingly, she initiated enhanced compensation packages and ensured personnel enjoyed domestic and international training.

viii. Communication: To communicate effectively to both internal and external stakeholders, a communications firm was engaged leading to the:

a. Design and launch of a new logo aimed to re-orientate the populace on the importance of paying taxes. The Service used the new logo to highlight its repositioning of being a more efficient professional organization; and

b. Creation of a Tax Payer Education (TPE) Division that was introduced, in every tax office. a Taxpayer Services Unit/Front Desk, which relates to taxpayers and provided needed education and services to help build a culture of voluntary compliance.

Lessons to be Emulated by Other Tax Authorities

Ifueko Omoigui's tenure at the Federal Inland Revenue Service (FIRS) is a model for other tax authorities in Nigeria and beyond. Some of the strategies that could be emulated include:

i. Focus on Taxpayer Education: Taxpayer education is an essential strategy for improving voluntary tax compliance. Omoigui's approach to taxpayer education was effective, and other tax authorities can adopt similar strategies to raise awareness about tax laws and encourage voluntary compliance.

ii. Embracing Technology: Automation of tax processes is a critical strategy for reducing human interaction in tax collection and reducing opportunities for corruption. Omoigui's introduction of an automated tax system increased efficiency and reduced the burden on taxpayers.

iii. Building Stakeholder Coalitions: Omoigui's approach to stakeholder engagement was inclusive and transparent. She actively engaged with taxpayers, other government

agencies, and civil society organizations, which increased transparency and accountability in tax administration and collection. Other tax authorities can adopt similar strategies to build coalitions and foster cooperation among stakeholders.

iv. Combating Corruption: Tackling corruption in the tax system is crucial for improving voluntary tax compliance. Her approach to combating corruption was multi-faceted and included measures such as conducting regular audits of tax officials, introducing a whistle-blower policy, and prosecuting her corrupt officials and tax evaders. Other tax authorities can adopt similar measures to improve transparency and accountability in the tax system.

In implementing her reform strategies, Omoigui faced significant challenges, including resistance from corrupt officials, political interference, and even personal threats to her safety. However, she was able to navigate these challenges by obtaining the support of the President building coalitions with other stakeholders, including the media and civil society organizations and security agencies, and managing the politics of reform effectively especially as it concerns the legislative arm of government.

Sustainability of the Reform

To ensure that most of the reform initiatives outlived her tenure and are institutionalized, in the year 2005 the FIRS obtained approval from the Federal Executive Council (FEC) for eight (8) tax bills and subsequently sent them to the National Assembly for passage. Accordingly, in 2007, after two (2) years of determined effort by the FIRS team, the President signed into law the FIRS Establishment Act 2007, which laid out the new powers and authority of the revenue service including granting the Service legal, and financial autonomy upon which the sustainability of the reform was anchored. The Act also granted the Service the powers to determine their remuneration and recruit the category and caliber of individuals they require. The President also signed accompanying legislation that amended and updated aspects of the Value-Added Tax (VAT) and Corporate Income Tax (CIT).

Conclusion

Several developing nations encounter comparable hurdles when it comes to generating adequate tax revenue to support their national development objectives. Internal revenue agencies within these countries frequently grapple with inefficiency and corruption. However, the transformative journey undertaken by Nigeria's FIRS offers valuable lessons in navigating these challenges. The comprehensive approach, by the Service, which encompasses taxpayer education, technological integration, stakeholder engagement, and anti-corruption measures, serves as an inspiring model

for other tax authorities seeking to effect positive change and overcome similar obstacles.

References

Araghi, Farnaz & Ahmad, Seyyed & Al-Hamdi, Shibat & Amalia, Sara. (2018). Investigating the Relationship between Empowerment of Employees and Organizational Performance in the Organization of Tax Affairs. *International Journal of Business Quantitative Economics and Applied Management Research*, Vol. 4. 11, ISSN No. 2349-5677.

Congressional Research Service (CRS) (2020). *IRS Modernization: Key Issues for Congressional Oversight*. Congressional Research Manual.

Harmelink, P.J., Porcano, T.M. & VanDenburgh, W.M. (2003), "Tax Administration Problems: GAO-Identified Shortcomings and Implications", Porcano, T.M. (Ed.) *Advances in Taxation* (Advances in Taxation, Vol. 15), Emerald Group Publishing Limited, Bingley, pp. 43-91.

Jimenez, P. and Iyer, G. S. (2016). *Tax Compliance in a Social Setting: The Influence of Social Norms, Trust in Government, and Perceived Fairness on Taxpayer Compliance*. *Advances in Accounting*, Elsevier Ltd, 34, 17–26.

Lawless, M., & Anderson, D. (2013). *The Impact of Goal Setting on Organizational Performance: Evidence from the Public Sector*. *International Journal of Public Sector Management*, 26(5), 377-391.

Mascagni, G., Moore, M. and McCluskey, R. (2014). *Tax Revenue Mobilisation in Developing Countries: Issues and Challenges*. Directorate-General for External Policies of the Union, Policy Department. Brussels: European Parliament.

Matter G. (2020). "Proper Exercise of the Powers of the FIRS To Freeze Defaulting Taxpayers' Accounts and Appoint Banks as Tax Collecting Agents", published in Banwo-Ighodalo.

Ogunbesan, S. (2015). "Tax Evasion: FIRS moves to clampdown on 320,000 companies", available on www.nigeriancurrent.com/2015/08/10/tax-evasion-firs-moves-toclampdown-on-320-000-companies/03:26pm 03/10/2015.

Ola, C. S. (2001). *"Income Tax Law and Practice in Nigeria"*, Ibadan: Heinemann Educational Books (Nigeria) Limited.

Oyelade, O. A. (2014). “Global Issues on Rural and Urban Conflict Violence in the 21st Century”, Science and Education Development Institute, Nigeria. ISBN 978-978-52231-9-4.

Premium Times (2012): FIRS Boss, Ifueko Omogui Okauru, Bows Out Untainted <https://www.premiumtimesng.com>, 7 Apr 2012.

Premium Times (2020): How We Reformed FIRS, Grew Nigeria’s Revenues – Former Chairman, Ifueko Okauru
<https://www.premiumtimesng.com/business/428493-how-we-reformed-firs-grew-nigerias-revenues-former-chairman-ifueko-okauru.html?tztc=1> Accessed 9th February, 2023.

Rainey, H. G., & Thompson, J. (2006). Leadership and the Transformation of a Major Institution: Charles Rossotti and the Internal Revenue Service. *Public Administration Review*, 66(4), 596–604. <http://www.jstor.org/stable/3843944> Accessed 7th February, 2023.

Richard Bennet (2012). A Change Agent in the Tax Office: Nigeria’s Federal Inland Revenue Service, 2004 – 2009. *Innovations for Successful Societies*, Princeton University, accessed at <http://www.princeton.edu/successfulsocieties> on 9th February, 2023.

Serah Sanni. (2019). “Basic Principles of Taxation in Nigeria”, published in at Mondaq.

The United States Government Accountability Office (2019). Strategic Human Capital Management is Needed to Address Serious Risks to IRS’s Mission, Report to Congressional Requesters.

The United States Treasury Inspector General for Tax Administration (TIGTA) (2022). Semiannual Report to Congress (April – September, 2022).

Vijay A. D'Souza (2020). IRS Needs to Address Long-standing Challenges to Improve Tax Administration" United States of America Government Accountability Office (GAO).

Wahl, I., Kastlunger, B. and Kirchler, E. (2010). Trust in Authorities and Power to Enforce Tax Compliance: An Empirical Analysis of the “Slippery Slope Framework”, *Law and Policy*, 32(4), 383–406.

Wayne Thirsk (1997). Tax Reform in Developing Countries: The World Bank Regional and Sectoral Studies, The World Bank Washington, D.C.

William Crandall (2010). Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model. Technical Notes Authorised for Circulation by the International Monitoring Fund (IMF).