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**THMEDO001**

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**RESEARCH TOPIC: THE EFFECTS OF AGENCIFICATION ON THE CAPACITY OF THE FEDERAL INLAND REVENUE SERVICE IN NIGERIA**

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## **COMPULSORY DECLARATION**

This work has not been previously submitted in whole or in part for the award of any degree. It is my own work. Each significant contribution to and quotation in this dissertation from the work or works of other people has been attributed and has been cited and referenced.

Signature: \_\_\_\_\_ 

Signed by candidate
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 Date: \_\_\_\_\_

## **ACKNOWLEDGEMENT**

I want to first acknowledge God for life and favor to have the opportunity to engage in this academic journey. So far, I have always drawn strength from knowing there is a Higher Being that I can talk to in my prayers and supplications.

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## **DEDICATION**

I hereby dedicate this work to my Wife who has been my partner of life for all her care and support, my daughters for always giving me a reason to finish this research journey so they can be encouraged to be the best in their academic pursuit and my parents for believing and investing in my educational growth from the very beginning.

## **ABSTRACT**

The wave of Autonomous Revenue Agencies (ARA) became popular in most Sub Saharan Africa (SSA) states in the early 90s. It has been adopted as a public sector reform instrument to improve the revenue collection capacity of its various host nations. Many countries believe that the adoption of autonomy which is reducing the political control of specialized public institutions will solve corporate and administrative problems and the same time drive efficiency and effectiveness in service delivery to the public. Autonomy of revenue agencies have been at the forefront of this movement since it is the source of revenue for the whole government. Agencification which is the theoretical tool of explaining autonomy can be define as the “transfer of government activities to agency-type organization vertically specialized outside ministerial departments” (Nchukwe & Adejuwon, 2014). Agencification is closely related to the NPM movement and governments across different nationalities and continents have established agencies at arm’s length from ministries to handle certain regulatory and administrative functions. The Nigerian state joined the league of nations that reformed the institutional framework of its revenue authority in 2007 by making the Federal Inland Revenue Authority (FIRS) autonomous from the Ministry of Finance.

Countries such as Kenya, Ghana, Tanzania, South Africa, Uganda etc. are among some of the countries in Africa that have adopted this institutional revenue model, and each has had its own implementation experience. This research intends to study the experience of Nigeria’s Federal Inland Revenue Service (FIRS) which is the nation’s revenue authority after it went through its reform and to examine the effects of agencification on the operational capacity of FIRS. The idea is to find out if the autonomy of FIRS has led to improved performance and service delivery.

The research mainly used qualitative method through carrying out interviews with officials of the FIRS, who were actively part of the reform implementation. Their experiences can be valuable to test the variables of agencification in FIRS. The research will also adopt other publications on the subject area, government briefs, white papers and policy documents etc.

The key findings of the research was despite the whole rationale behind agencification which is to reduce the political control of executive agencies in order to function efficiently and effectively is not an area that FIRS have been able to successfully managed despite the provision of the Establishment Act. The agency responsibility to report to the National Assembly especially on areas of its budget approval and oversight function have been a challenge in the meddling of its autonomy by politicians to meet their personal or group interests.

Also managing the internal stakeholders especially, the top management team of the agency will require a lot of managerial dexterity when you consider the occasional resistance to reforms that happens. There is the usual tendency for people to want to maintain how things used to be. This resistance to change is a major challenge to driving reform.

Quality of leadership is also very important in driving reforms within an agency. Appointment of the Chief Executive and Board members should not be used as a tool of political patronage or settlement but rather selection of persons who are well trained and positioned to drive change within an organization.

## **GLOSSARY**

ARA	Autonomous Revenue Agency
BPSR	Bureau of Public Service Reforms
FBIR	Federal Board of Internal Revenue
FIRS	Federal Inland Revenue Service
FCSC	Federal Civil Service Commission
IMF	International Monetary Fund
KRA	Kenyan Revenue Authority
MDA	Ministry Department and Agency
PEM	Public Expenditure Management
OEDC	Organization for Economic and Development Commission
SOEs	State Owned Enterprises
MOF	Ministry of Finance
NEEDS	National Economic Empowerment Development Strategy
NPM	New Public Management
RBM	Results Based Management
SAP	Structural Adjustment Program
SAP	Systems Application Product
SARS	South African Revenue Service
SSA	Sub Saharan Africa
TRA	Tanzanian Revenue Authority
URA	Ugandan Revenue Authority

WDR	World Development Report
NNPC	Nigerian National Petroleum Corporation
CBN	Central Bank of Nigeria
EFCC	Economic and Financial Crimes Commission
NBS	National Bureau of Statistics
CAC	Corporate Affairs Commission

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## **CHAPTER ONE: BACKGROUND TO THE STUDY**

### **1.1 INTRODUCTION**

Nigeria, in its more than 50 years of existence, has experimented with various types of government systems from the parliamentary system of government immediately after its independence and later military intervention, and presidential system of government after its return to civil rule in 1979, then military intervention in 1983 and has reverted to civil rule under a presidential democratic system. The return to democracy has seen the Nigerian state struggling to consolidate on its principles and the gains that come along with it. It is within this context of consolidation that the country launched its public service reform under the Olusegun Obasanjo civilian administration.

The public sector reform in Nigeria, which was part of the policy thrust of the new administration in 1999, was part of the comprehensive plan for a national rebirth after a devastating military rule experience [ CITATION Ola11 \l 1033 ]. In year 2004, the administration came up with a policy tool called the National Economic Empowerment and Development Strategy (NEEDS). NEEDS was based on 3 critical areas:

- 1) Empowering people and improving social service delivery
- 2) Fostering economic growth, in the non-oil private sector; and,
- 3) Enhancing the effectiveness and efficiency of government, while improving governance

[ CITATION NEE04 \l 1033 ]

The 3rd critical area of NEEDS saw the implementation of various public service reforms with the intention to reduce wastages of the overhead costs of running the public service through monetization of fringe benefits, right-sizing, professionalization policies for a leaner, more efficient and modernized public service, budget reform, public procurement reforms, privatization policy, policy and programmes monitoring, local government reforms and university autonomy policy, among others [ CITATION Ola11 \l 1033 ]. The Obasanjo administration recognized taxation as part of the critical areas of its reform agenda which led to his appointment of The Study Group in 2002 on the Nigerian Tax System which came up with the recommendation of the National Tax Policy.

It should be noted that the aim of the reform was to make the Federal Inland Revenue Service (FIRS) a modern performance driven agency in line with its mandate and collection target set through its supervisory body, the Ministry of Finance.

## 1.2 STATEMENT OF PROBLEM

Taxation plays a critical role of the fiscal policy of any serious government when proposing its short term, medium term or long-term development goals. As [CITATION Ste93 \p 1 \t \l 1033 ] argues in his book “Modern governments need lots of money. How they get this money and whom they take it from are two of the most difficult political issues faced in any modern political economy”. Most developing countries are mainly confronted with development challenges to reduce poverty, unemployment, illiteracy etc. Both the former Millennium Development Goals and present Sustainable Development Goals are primarily targeted at developing countries in meeting each of the goals according to a define timeline. By implication, most donor countries were expected to increase their official development assistance (ODA) to 0.7% of their GNP[ CITATION Mba17 \l 7177 ]. No country can indeed experience real growth and development by depending solely on foreign aid and assistance. It becomes necessary for developing countries to focus on what the Monterrey Consensus in 2002 referred to as Domestic Revenue Mobilization (DRM) in meeting its developmental needs[ CITATION Mba17 \l 7177 ].

The 2008(9) financial crisis that hit the globe made it clear how overly dependent developing economies, especially African economies, are on foreign aid and assistance. The argument for this reality is that foreign aid and assistance were among the first line items that were removed from developed countries budget to manage the effects of the financial crisis[ CITATION Gup \l 7177 ]. Within this backdrop, it becomes evidently clear that domestic revenue mobilization, which is mostly taxation becomes the critical and sustainable means for achieving economic independence, growth and development by African countries. Taxation does not only reduce dependence on foreign aid but also fosters more direct accountability between the state and its citizens[ CITATION Mba17 \l 7177 ].

The Nigerian tax authority, then called the Federal Board of Internal Revenue (FBIR), was an extra-ministerial department under the ministry of finance and was run and operated according to the same rules, policies, and structures of the civil service machinery. The implication of this was that recruitment and career development of its staff was centrally processed by the Federal Civil Service Commission and same time its operations were under the direction of both the Permanent Secretary and the Minister of Finance. The revenue that was generated from tax, especially from the non-oil sector like value added tax, capital gains tax and pay as you earn was highly negligible mainly because of the high level of dependence on the oil and gas sector which is primarily coordinated by the nation’s Nigerian National Petroleum Corporation (NNPC). It is within this context that the need to reform the tax administration regime in Nigeria occurred by revisiting and amending the existing tax legislations, modernizing the tax administration machinery in order for it to be more

efficient in its service delivery and increase the revenue collections for national development. As is the case of public service reforms in most developing countries especially in Africa, it is crucial to test to what extent the tax administration reforms have impacted the revenue agencies in its ability to collect taxes.

### **1.3 BACKGROUND**

Jeffrey Herbst in his book "State and Power" postulated that in actual sense "it is institutions - the way societies are organized - that are the fundamental cause of countries' development or underdevelopment"[ CITATION Her00 \l 1033 ]. Herbst gave a synopsis of the historiography of the development of state institutions in Europe as a basis of explaining the nature and character of similar institutions in Africa. His argument is that the lack of development of African public institutions is an indicator that explains many aspects of modern Africa. Africa is different because the structural conditions that led to the path of state formation and institution building in Europe were absent in Africa. Prior to the independence of most developing states, the colonial governments never had much impetus to invest and develop the institutions within i.e. bureaucracies, censuses of its population, tax collectors and permanent militaries. Therefore, they have no tax bases and instead must engage in highly distortionary methods of raising taxes[ CITATION Her00 \l 1033 ]. Moreover, the situation has been further encouraged in the last fifty years by foreign aid and development assistance. These transfers give states valuable resources that allow them to stay in power without having to develop indigenous state institutions to raise taxes. Herbst also argues that revenue from the sale of natural resources most of the time accounts for the large share of developing countries government revenue which by implication makes the allocation of revenue a critical political question. In Nigeria for example, the revenue sharing formula to the 36 states of the federation including the federal capital has been a critical political question since the return to democracy in 1999. The 9 oil producing states of Abia, Bayelsa, Rivers, Delta, Akwa Ibom, Calabar, Imo, Ondo and Edo have been demanding for the restructuring of the revenue formula to resource control of revenue within the various states of the federation with a certain percentage remitted to the federal government. The argument is that this will make all states to pay more attention on how to creatively look for ways to generate revenue than solely depending on the monthly allocation from the federal government.

In the same vein, donors and scholars have argued that African states can improve their administrative capacity by enhancing tax collection, particularly the assessment and collection of more administratively demanding taxes (value added tax and personal income tax which can occasionally be challenging especially in an economy with a high informal sector) (Brautigam & Knack, 2004). Tax collection is among the most administratively and technically demanding functions of the state and it relies heavily on information gathering,

sharing and cooperation across government institutions. As such, improvements in tax collection may both necessitate and facilitate broader improvements in public administration (Prichard & Leonard, 2010).

The combination of a decline in economic growth and a stifled macroeconomic environment in sub-Saharan Africa is driving governments across the continent to look for other options and means of increasing their revenue stream. Countries like Nigeria, Angola, Ghana, Gabon, Algeria, Congo etc. that before now had focused exclusively on revenues from natural resources are now strengthening their tax laws and tax administration institutions to improve collections and compliance. They recognize the importance of taxation to economic growth and development, and that it will provide the needed funds to build infrastructure and other social intervention programmes[ CITATION Her17 \l 1033 ].

The untapped tax revenues in Sub-Saharan Africa are considerably high and among the reasons for the World Bank/IMF recommendation for the implementation of the Structural Adjustment Programme in developing countries especially in Africa during the 80s and 90s (Zmarak & Lyn, 1988). The rate of tax compliance is so low when compared to the rate of economic activities that takes place within such economies. Heritage Foundation reports that “tax revenue as a percentage of Nigeria’s GDP is 3.1%; this is quite low for a country seen to be a major hub of commercial activities in sub-Saharan Africa and the largest economy on the continent. Compare this with the US (25.4%), the UK (32.9%) and Canada (30.6%), and it becomes evident that there is a huge gap of untapped tax collectible areas that can be harnessed” (Heritage Foundation, 2017).

The story is the same in many countries in sub-Saharan Africa, except for a few, such as South Africa (24.7%) and Botswana (31.3%) (Heritage Foundation, 2017). Despite this, an Organization for Economic Co-operation and Development (OECD) report on tax and development states that half the countries in sub-Saharan Africa raise less than 17% of their GDP in tax revenues. This severely hinders their ability to fight poverty, build infrastructure and raise the standard of living (OECD/ATAF/AUC (2016).

The Heritage Foundation research data referring to the OECD Report on tax revenue which was based on their 2014 tax to GDP ratios, divided African performing tax regimes into two groups. It stipulated that “one group has tax to GDP ratios ranging from 28% to 31% of GDP (Morocco, South Africa and Tunisia) and the other group has ratios ranging between 16% and 20% (Cameroon, Côte d’Ivoire, Mauritius, Rwanda and Senegal) (Heritage Foundation, 2017)”. All these countries have ratios below the OECD average of 34.4% but are among those with the greatest improvement when it comes to tax collection and compliance in Sub-Saharan Africa. One of the major explanations for the performance of this 2 group of African countries Tax to

GDP ratios is that they have undertaken reforms and modernized their tax systems and administrations.

Efforts to reform Nigeria's tax administration system can be divided up into four critical phases:

1. The appointment of the Dotun Philips Study Group
2. Organizational Restructuring
3. FIRS Establishment Act (Autonomy) 2007
4. Modernization
5. Performance Management Framework for all staff

The reorganization of FIRS to ensure efficient and effective service delivery started after the in-house reviews of the recommendations of the Study Group under the management of Omoigui Okauru the then Executive Chairman of FIRS. A new organizational structure was announced by the Chairman of the FIRS in September 2004 and as a first step, collection and assessment was integrated as a function of the Information Communication and Technology Division and Planning Reporting and Statistics Division. Furthermore, both the VAT and Area Tax Offices nationwide were collapsed into one-stop tax offices under the name Integrated Tax Offices (ITOs). After the operations and structure of the field tax offices were reorganized, the FIRS Management after due consultations with internal stakeholders identified seven strategic flanks upon which to drive the reform agenda. The seven strategic flanks are identified in the diagram below.

## **FIGURE 1: Seven Strategic Flanks**



[ CITATION Fed12 \l 1033 ]

The granting of financial and administrative autonomy to the Federal Inland Revenue Service through the passage of the Federal Inland Revenue Service (Establishment) Act 2007 defined the legal and legislative framework to the reform. The FIRS, with its new status, now has a Board of Directors and a Management Team that defines both the corporate goals and supervises its implementation across the different groups and departments. The FIRS Act also empowers the Board to employ professionals into the service according to its needs and determine the conditions of service of its staff according to what it can afford.

The underlying assumption of agencification or the establishment of semi-autonomous agencies is that efficiency could be improved under conditions of managerial autonomy, incentive systems and market control which are primarily among the variants of New Public Management (Caulfield, 2006). Nigeria, through the FIRS, joined the league of African countries that have created semi-autonomous agencies. The FIRS Establishment Act which was signed into law in 2007 granted autonomy in the areas of recruitment, funding and remuneration.

It is instructive to understand to what extent the dominant political settlement culture in most African countries support the features of agencified agencies which place emphasis on accountability, merit, managerial autonomy, technical discretion and performance management. This probably explains why in SSA, revenue authorities have been plagued by problems not dissimilar to those faced by executive agencies which among other things are underfunded mandates and related deficiencies in staffing. Earmarked funding, typically written into the statutes governing these authorities, is not guaranteed in practice. Furthermore, the benefits of reform for politicians are often outweighed by the costs, resulting in a lack of political support for the new agencies (Caulfield, 2006). So, within this context it is important to understand

to what extent the FIRS has been supported politically in its reform drive by the political class represented in this case by the Ministry of Finance.

One of the major components of NPM is performance management. If an organization is to be given autonomy, it needs to be held accountable through the establishment of some performance standards. In the case of FIRS such performance standards are measured using performance indicators and setting targets. Hughes[CITATION Hug03 \p 54-55 \n \t \l 1033 ] posits that NPM entails moving from inputs to outputs. So, it is within this context that there is the need to have a system of performance appraisal to measure both individual and organizational performance (Cameron, 2015)

In today's contemporary world, taxation is very central to any state or government in meeting its mandate to her citizens. This is partly due to the unforeseen circumstances that occasionally affects the global oil price of crude oil. No serious state economy can really plan under such uncertain circumstance, hence the need to stimulate economic activities by paying attention to tax collection through new legislation that will close noncompliance gaps which create room for tax avoidance and reforming the structural and operations of the federal tax agency. The significance of the study is to situate FIRS within Nigeria's public service reforms through NEEDS 2004 and confirm to what extent the reform that granted FIRS autonomy has increased its performances and service delivery.

#### **1.4 RESEARCH QUESTION**

What effects has agencification in Nigeria had on the state's capacity to collect revenue: a case study of the Federal Inland Revenue Service?

In the bid to unpack the research questions, the research intends to find out:

1. To what extent has the agencification reform enhanced the autonomy of FIRS
2. Improved its organizational culture, operating capacity and financial sustainability.

These aims mainly reflect the guiding assumptions behind the reform of public sector institutions using the agencification model of New Public Management

#### **1.5 THEORETICAL FRAMEWORK: AGENCIFICATION IN SUB SAHARAN AFRICA**

Since the early 90s, Autonomous Revenue Agencies (ARA) have become a popular institutional reform in developing countries especially in sub Saharan Africa in improving revenue collection. The ARA model involves the creation of

a separate institution sometimes referred to as Executive agency having autonomy over administrative, financial and personnel affairs[ CITATION Jos09 \l 1033 ].

According to Hadler the arguments for the adoption of the Executive Agency is primarily because of efficiency and effectiveness which in principle connotes that an autonomous organization can effectively manage its affairs free from political interference in its daily operations and the constraints of the civil service[CITATION Had00 \l 1033 ]. The agencification theory best explains both the legislative and institutional reforms that took place in few African states tax institutions. Agencification can be regarded as the transfer of government activities to agency-type organization, vertically specialized outside ministerial departments[ CITATION Bou01 \l 1033 ]. It is a component of the New Public Management (NPM) movement, which has seen governments across continents establish agencies with some form of autonomy from ministerial departments in order to take care of certain regulatory and administrative tasks[ CITATION Bou01 \l 1033 ]. Revenue agencies can be traced to the Executive Agency model for operations that can be established into autonomous agencies. The Nigeria Federal Tax agency adopted the Executive Agency framework through the FIRS Autonomy Act 2007 that made the revenue agency semi-autonomous from the civil service bureaucracy, mainly in the areas of funding and human resource management. With reference to the variables by Hadler on the features of agencification, the research intends to look at the effects of agencification on the capacity of FIRS. According to Hadler there are a few variables or operational features associated with Autonomous Revenue agencies and these include:

1. Committed, dynamic and honest leadership. The Chief Executive Office should be an outstanding Manager that possesses strong administrative skills to operationalize reforms and utilize all the available resources effectively towards meeting its objectives. Having tax knowledge and background is expected but not necessarily a Tax Expert.
2. Board. Which reflects corporate governance and the legal framework of its operation
3. Relationship with the Ministry of Finance. This relationship is usually a frequent source of tension so should be well defined in the law setting up the agency
4. Funding. To establish financial autonomy for the ARA take strategic decision towards meeting its mandate without undue political interferences.
5. Appointment of Staff. They need to have competitive remuneration in order to attract the right professionals to the service
6. Regulatory Framework and Accountability. Powers and functions of the Revenue body should be defined by the law mostly through an Act of Parliament to make it a legal entity[CITATION Had00 \l 1033 ]

The establishment of autonomous revenue agencies in Sub-Saharan Africa in recent years has become attractive and popular as a perceived avenue to sustained revenue generation and improvement. It was first established in Ghana in 1985, followed by Uganda in 1991. Five more autonomous agencies have been established to date in Sub-Saharan Africa and several more are in the process of being established[CITATION OEC16 \l 1033 ]. Their contribution to revenue generation and improvement, however, has been varied and there has been no systematic assessment of their impact. The Ghana Revenue Authority was reorganized along functional lines; given autonomy to hire professional staff and improve the conditions of service. These reforms proved successful in that revenue collection increased from 5.5 per cent of GDP in 1983 to 17 per cent of GDP in 1993[ CITATION Jos09 \l 1033 ]. Between 2002 and 2003, Ghana IRS revenues again increased substantially; the Revenue Board is reportedly now in disarray due to serious cases of political capture[ CITATION Jos09 \l 1033 ].

In Zambia, annual revenue performance of the Zambia Revenue Authority (ZRA) has fluctuated but recently the trend in collections has been markedly downward, while costs as a percentage of revenue have doubled. In Uganda, revenues increased dramatically in the first several years of the Uganda Revenue Authority establishment, but subsequent performance has been less encouraging. In Tanzania, monthly revenues doubled in the first two years of the establishment of the Tanzania Revenue Authority (TRA) but subsequent years have been less encouraging[CITATION Had00 \l 1033 ]. Approximately in 2005, 25 countries in Africa had functioning Autonomous Revenue Agencies (ARA)[ CITATION Jos09 \l 1033 ].

The general view is that the creation of autonomous Revenue Agencies is part of a project to remodel the public sector in sub-Saharan Africa along New Public Management lines (Odd- Helge & Moore, 2009). There are also such views that the operational cost of sustaining executive tax agencies might be costly when compared to the revenue generation to the state. In Kenya, where the revenue/GDP ratio averages 25%, the rationale for establishing an autonomous revenue agency was to make tax administration more efficient and effective. If, however, costs increase and tax revenues are not intended to increase, then efficiency falls (unless non-agency compliance costs fall or there is improved equity). In Lesotho, the case appears to be based on the need for greater independence in hiring and firing, which may arguably be better realized through general civil service reform (Hadler, 2000). With the above argument it becomes imperative to investigate to what extent have the enabling laws that granted FIRS autonomy been able to make it maintain its autonomy from state or political capture and at the same time meet its official mandate.

Agencification is part of the New Public Management ideology that started in Western Europe and later adopted by other developed and developing African countries. It should be noted that NPM comprises of various reforms which various countries have been implementing since the 1980s. The NPM logic is that “structural disaggregation of units will improve public sector performance because interference by politicians is reduced. The adoption of new management techniques will make agencies more customer aware, leading to higher efficiency and quality”[ CITATION Chr03 \l 1033 ]. The ARA model involves the removal of revenue administration from the control of the Ministry of Finance, through the creation of a separate "arm’s length" agency with autonomous (often legal) status, including autonomy over administrative, financial and personnel affairs[ CITATION Jos09 \l 1033 ]. It is suggested that ARA reforms are, at least in their initial years, associated with increased revenues, reduced corruption and improved taxpayer compliance. The justification for this reform has tended to focus on "autonomy" which is that independence from the Ministry of Finance prevents political interference in recruitment and operations; improved control over budgets and financing (often through revenue retention mechanisms to incentivize performance) will enable better planning; and freedom from civil service rules improves the ability to attract and retain professional staff[ CITATION Jos09 \l 1033 ]. However, the focus on autonomy overlooks the fact that it can in practice be very difficult to achieve and sustain if the right political support is absent in supporting and sustaining the reform.

In the case of the Nigeria Revenue Authority, emerging in 2004 from a background of professional and infrastructural weaknesses due to prolonged neglect, these core areas were identified as the strategic flanks to drive the FIRS Autonomy reform Program:

1. Financial Autonomy
2. Flexibility in Human Resource Management
3. Automate Collection/Tax Administration
4. Tax Policy
5. Organizational Restructuring

These 5 strategic flanks clearly were the critical reform areas of the FIRS autonomy and the enacted autonomy act gives the FIRS Board powers to determine all areas on staff recruitment, promotion, conditions of service, dismissal and termination; and also provides for a certain percentage as cost of collection for the running of the agency to guarantee some financial independence. The use of technology to ease the collection process and the general administration of FIRS as an institution was also a major focus of the reform.

## **1.6 METHODOLOGY**

The proposed study will make use of primary and secondary sources: primary sources will comprise key informant interviews with officials of FIRS, who possess firsthand knowledge of the agencification reforms. The outcome is expected to give credibility to the research. I will also make use of FIRS official reports, project implementation briefs and circulars to test aspects of the implementation of agencification so far.

## **1.7 CHAPTER OUTLINE**

The research will comprise of seven main chapters and the rest will include:

### **1.8 CHAPTER TWO**

Chapter two will discuss the literature about agencification and the reform experiences of few SSA states.

### **1.9 CHAPTER THREE**

Chapter three will discuss agencification as a theoretical model which is a component of NPM with emphasis on revenue authorities of African states. It will study the civil service reforms that led to the adoption of NPM as a reform model of the public institutions.

### **1.10 CHAPTER FOUR**

Chapter four will discuss the research methodology and the process of gathering data to arrive at the conclusion of the research.

### **1.11 CHAPTER FIVE**

Chapter five will give an overview of the background to the reform initiative of FIRS. It will give details of the activities that took place that led to the passage of the FIRS Establishment (Autonomy) Act 2007

### **1.12 CHAPTER SIX**

Chapter six will explore the findings of the research data from the key informants interviewed by testing the effects of the agencification variables on the capacity of FIRS

### **1.13 CONCLUSION**

This chapter will explain the conclusion from the findings of the research

## **CHAPTER TWO: NEW PUBLIC MANAGEMENT AND ORGANIZATIONAL REFORM IN THE PUBLIC SECTOR: THE AGENCIFICATION MODEL**

### **2.1` INTRODUCTION**

The state as a social construct requires quite a number of capacities to meet its objectives which includes social regulation, geographical penetration, resource mobilization, efficient and credible resource allocation [ CITATION Mid88 \l 1033 ]. It becomes imperative to have an efficient and effective civil service which serves as the instrument of the state to achieve its mandates and objectives. Civil service reform, mainly within the context of the New Public Management, is the process of evolving a model away from the traditional Weberian model to meet the contemporary needs of the state. The Weberian model was popular in the early twentieth century and was a civil service reform with the main intent of professionalizing public institutions. One of the ideas behind the Weberian Model is to separate politics from administration by defining the structure, rules and command of administration. A clear example is the case of the United States of America where the Weberian Model replaced the spoils system which was a system of patronage.

However, towards the end of the twentieth century the traditional Weberian model started looking unresponsive and less efficient to meet the governance needs of the state. The huge role of planning and big government is no longer looking feasible to meet the needs of the citizenry but rather the appeal and recommendation for lean and effective public institutions that can favorably compete with the private sector in terms of efficient service delivery. The conversation on the rolling back of the state or the developmental state became expedient which set the ground for the adoption of NPM.

NPM is a global reform initiative or model that became popular in the 1980s and has extended to states like New Zealand, Sweden, United States, Norway [CITATION Ola08 \p 57 \l 1033 ]. NPM is a collection of models with different features whose implementation is conditioned by its compatibility to the political system adopting it [CITATION Vin15 \p 26 \l 1033 ]. its operational principle involves the application of market principles to public governance and management with the objective of achieving efficiency and effectiveness in the provision of public goods and service delivery [CITATION Jid13 \p 53 \l 1033 ]. The NPM basically upholds the principles of managerialism, entrepreneurial government, market-based public administration and post bureaucratic model in order to implement economy, efficiency and effectiveness in the public sector. This arose from the notion that public bureaucracy had become unnecessarily bloated in size, unproductive and ineffective as an instrument of national development. The implementation of the NPM model started in Europe but overtime has been increasingly adopted by states in Africa to reform their

institutions. The drive for public service efficiency basically explains the essence of the Civil Service reforms that most countries have initiated and implemented.

The argument or divergence of public administration and business administration is that the output of public service cannot be measured or quantified. This is supported by the fact that public service provides social services which include security both internal and external, foreign service, power, water, coinage and currency, immigration and citizenship etc. Such activities can be immeasurable as opposed to that of business administration where all institutional choices and objectives are towards a measurable outcome to accumulate value and efficiency. This speaks to the core argument of NPM which is that public administration can be run with the values and principles of business administration.

Institutional/ organizational effectiveness can be seen as “the extent to which an organization realizes its goals or objectives”[CITATION Eko80 \p 20 \l 1033 ]. By implication understanding how effective an organization is means basically looking at to what extent its objectives and end goals are met. What are the objectives and goals of public institutions? They are varied and diverse in nature as stated in the earlier paragraph as well as creating the right and enabling environment for development actions.

Some of the variables of measuring organizational effectiveness include “productivity, stability, morale, integration of formal and informal aspects of the organization, maximization of employees’ potentials and values contributed to the society”[CITATION Jid13 \p 57-58 \l 1033 ]. So, it will appear that to measure effectiveness, the public sector should approximate societal values and work towards satisfying such which basically is what makes it effective or seen as one. This explains all the civil service reform initiatives in most SSA states like in Nigeria from the Hunts Committee of 1934 to the recent Oronsaye Panel. Making reference to some of the output of the Oronsaye Panel, it posited that some public institutions which the Presidency had decided should either be scrapped, commercialized, privatized or self-funding, are still receiving appropriation, which runs into billions of Naira. So thereby recommended a reduction to 161 from the current figure of 263 federal government agencies which according to the report the average cost of governance in Nigeria is believed to rank among the highest in the world[ CITATION Ste11 \l 1033 ].

The recommendations of the Oronsaye Panel report which was submitted in 2011 are yet to be implemented. This speaks volume to the relationship between administration and politics and one can make the underlining assumption that administrative effectiveness can only thrive with the right political support. In the case of the implementation of the Oronsaye Panel report, the assumption is that implementing the recommendations, which is

the scrapping of agencies with duplicated functions, will lead to retrenchment of civil servants. That might not be politically expedient to win votes for election to maintain political power and office.

## **2.2 REDEFINING THE ROLE OF THE POST-COLONIAL STATE IN SSA**

The post-independence Africa period of the early 50s through the 60s constitutes the first major phase of reforms efforts in Sub Saharan Africa. It is understandable considering the institutions of governance were inherited from colonial government and designed to meet the objectives of colonial legacies. Besides that, government activities and responsibilities have increased in number, scope and size after independence inevitably having some implication for the budding public administration in Africa (Olaopa T., 2011). Repositioning the civil service becomes imperative to help with the increased task confronting the newly independent states of Africa and importantly to change the perception of the inherited public institutions which hitherto were oppressive instruments of the colonial state. This set the backdrop for the various reform initiatives of African states to reposition their civil service.

In Kenya during the period between 1963 and 1991, employment in the civil service grew annually at 5.5 percent reaching 274,000 employees in 1991 (Otenya, 2006). This inadvertently created hardship among the civil servants because after a while the wage bill or recurrent expenditure became too much of a burden making it unsustainable. Civil service reforms had to be done in line with the NPM model to drive performance.

Since the late 1990s there has been a considerable increase in the opening of the democratic space in Africa with several governments expanding individual and political freedoms[CITATION Olo02 \p 139 \l 1033 ]. Democracy within this context will mean specifically the departure from an authoritarian political order where powers are concentrated at the center to a polycentric political system which is a system of government that underscores the plural nature of politics thereby recognizing the diversity of forces within the political space[ CITATION Olo02 \l 1033 ].

Besides the expansion of the political space, several African countries were confronted with economic challenges affecting their gross domestic products in addition to weak domestic revenue generation capacities. Most had to approach the World Bank and other International Financial Institutions for loans. The conditions for these loans approval was that African countries are to change their strategies for economic management from state controlled to encouraging private sector participation.

These 2 major developments had a significant impact on the civil service of most African states affected on the premise that the role of the state needs to be redefined. The World Bank Development Report (WDR) 1997 define the role of the state within the context of “matching the role to capability”[ CITATION

Wor97 \l 1033 ]. According to the WDR, there are some basic government tasks that state should provide irrespective of their development status and these are “a foundation of law, a benign policy environment, including macro-economic stability, investing in people and infrastructure, protection of the vulnerable, and protection of the natural environment”[CITATION Wor97 \p 41 \l 1033 ]. These are responsibilities only government can perform.

Referring to the standards set by the WDR on the role of the state, only few SSA countries possess the institutional capacity to perform such basic tasks satisfactorily i.e. Botswana and Mauritius were the only 2 African countries mentioned in the WDR[ CITATION Wor97 \l 1033 ].

The public institutions in SSA experienced great change in the early 1990s due to the outbreak of challenges of huge debt trap, hunger and poverty, widespread disease and instability. Following the debt recession hitting most African states, it becomes imperative to look for creative and innovative solutions to provide public service delivery and in this case NPM is regarded as the way out[ CITATION Rub14 \l 1033 ].

Redefining the role of the state will involve two fronts which are improvement or developing its capacity to perform basic government functions and relieving itself of some functions to the private sector for efficiency and effectiveness. The focus is the former which is strengthening the public sector of the state for improved performance and this involves commercialization, deregulation, decentralization. The few reform initiatives of SSA states with developed institutional capacity (South Africa, Botswana, Mauritius) have been mainly incremental. Same also applies to Ghana, Namibia and Uganda that have recorded modest progress in improving their institutional capacity[CITATION Lad02 \p 163 \l 1033 ].

Richard Crook in his work [ CITATION Cro10 \l 1033 ] made these 2 observations about the public sector in SSA and there are:

1. The issue of African public service is not overstaffing or it being overly expensive but rather lacking the adequate amount of staff complement to do a good job particularly at the local and regional levels
2. “The best way to improve performance will be to identify work with the existing competent Middle Managers and frontline officers within particular departments. These are pockets of “islands of effectiveness” that should be motivated with incentives and resources thereby developing localized centers of positive and effective organizational cultures”  
[ CITATION Cro10 \l 1033 ]

He therefore recommended that for the civil service reform to be effective in SSA there must be restructuring of pay scales. Cook’s argument is that the pay

and wages of most of the civil service in SSA do not keep pace with the inflation within their various economies with the exception of Botswana whose public wage bill remains proportionately the largest in Africa at 10 per cent of GDP[ CITATION Cro10 \l 1033 ].

Cook also recommended that performance and service delivery scorecard should be adopted by the civil service as a means of measuring its effectiveness. To get this done more critical attention should be paid to budget and financial management. A situation where most SSA state should increase domestic revenue generation capacity to meet financial obligations formerly dependent on foreign aid and assistance and the utilization of such resources towards development of infrastructure and provision of fundamental social services.

### **2.3 THE IMPACT OF NPM IN SSA**

New public management seeks to apply market principles to public management and governance with the aim of achieving efficiency and effectiveness in the provision of public goods and service delivery[CITATION Ola08 \l 1033 ]. Institutional reforms of the public service Were amongst the features that international financial institutions prescribed to African states in order to access loans and aid during the period of the structural adjustments in the 80s and 90s. This arose from the notion that public bureaucracy had become unnecessarily bloated in size, unproductive and ineffective as an instrument of national development[ CITATION Jid13 \l 1033 ].

The probable explanation behind this is that the prerequisite to successfully implement the NPM model is to first have an efficient Weberian bureaucracy with strong political and public institutions which is obtainable in New Zealand and other European countries that have successfully implemented the NPM model. In contrast, in SSA countries with mostly strong political leaders but weak institutions, it becomes problematic to drive reforms using NPM model. There have been few exceptions of states with effective institutional capacity in SSA. This includes Botswana, Mauritius and South Africa and their reform initiatives have been mainly incremental[ CITATION Lad02 \l 1033 ]. Other countries with modest progress in building their institutions are Ghana, Namibia and Uganda and these are also incremental in nature.

It is instructive at this point to situate the adoption and implementation of the NPM model into context. Having stated this earlier having an effective, efficient functional existing Weberian institutional system is a sine qua non to implement the NPM within a political system or state[CITATION Pol11 \t \l 1033 ]. The Weberian system is one with strong political and bureaucratic institutions, well established traditions of transparency and accountability, rule bound, appointment based on merit, chain of command etc. So, the first argument is to what extent has the Weberian institutional framework been

efficiently and effectively managed within the political system of the African states especially when you consider the general perception of the level of underdevelopment and weaknesses of its state institutions. The inability of most African states to meet their economic needs due to high level of corruption and rent seeking by state officials led to the institutional weaknesses of the public sector and its inability to provide the needed services to the citizenry which has thus led to loan seeking and Aids from the World Bank, IMF, Paris Club, DFID, USAID etc. Towards the latter part of the twentieth century, most developing countries especially in Africa started switching to market driven economies which are among the conditions for the approval and release of loans, Aids by the IMF, World Bank, Paris Club etc. Adopting a market economy expectedly has huge implications on the public institution and role of the state, which goes from playing a dominant and monopolistic role in the economy to that of playing a regulatory role and creating the right environment for the private sector to thrive.

The structural adjustment created a pathway for NPM in Africa [ CITATION Rub14 \l 1033 ]. The structural adjustment primary focus is to create and support free trade, competition, privatization and limited state intervention. To achieve this, the public sector institutions needed to be reformed in order to meet a market driven economy. According to Crook the neo-liberal economic policies influenced by SAP were mainly achieved by:

1. Downsizing - retrenchments, mergers and recruitment freezes, eliminating ghost workers, and
2. Decompressing wage scales, trying to use savings on recruitment to pay higher salaries to higher level managers with scarce skills.  
[ CITATION Cro10 \l 1033 ]

While it is a fact that there is the urgent need for most African states to improve institutional capacity, but the challenge is that “the Africa states and public services are still trapped in what we can call the paradox of reform dynamism” [CITATION OIa08 \l 1033 ] which is the drive to implement reform initiatives but without adequate ideas, attitudes, enthusiasm and institutions to execute the intended reform to provide better service and good governance. This argument is interesting in the sense that having reform initiatives within an institution might not necessarily mean reform is taking place. Several African countries have carried out different types of reform initiatives but still fall at the bottom ladder of international rating agencies when it comes to development and service delivery by their public institutions.

On the aspects of revamping or restructuring state owned enterprises (SOE), the performance of some SSA states have indicated some significant results. One of the main achievements is that it helped to define a sense of national direction for the African postcolonial states who were just departing from the colonial narrow mindedness, and also built the confidence of the African

political and bureaucratic leadership on their ability to control their own destiny. The SOEs were used by several SSA states to drive their development plans to stimulate the economic sectors i.e. mining, manufacturing services, agriculture etc. For example, under President Kenyatta of Kenya, the state initiated a programme of state managed corporate capitalism in which the state partnered with both domestic and foreign labor in the pursuit of capital formation and industrialization through agriculture, trade and production between 1963 - 1978. Kenya succeeded by building a strong agricultural and industrial sector in the late 1970s[CITATION Ola08 \p 179 \l 1033 ].

Despite recorded successes by several postcolonial African states in driving their development plans using the vehicle of SOEs, there have been serious challenges posed by an over-centralized and expensive bureaucracy. While some countries (South Africa, Tanzania) are dealing with the debates of market versus state controlled policies and institutions, some others are struggling with the political and bureaucratic control of the rents and patronage offered by SOEs which has led to slow progress, or discontinuity of policies (e.g. Kenya, Cote d'voire, Cameroon and Nigeria)[CITATION Lad02 \p 163 \l 1033 ].

Some of the reforms that took place include downsizing, for example in Uganda and Tanzania in the 1990s, the civil service was downsized by 55% and 22% respectively (Hope, 2001). By December 1997 in Tanzania civil service was reduced at 30 percent (Otenya, 2006). Likewise, in Zambia the public service was retrenched causing the size of nonmilitary public service excluding police, nurses and teachers to drop from 137,000 in 1997 to 112,000 by the end of 1999 (Hope, 2001). In Kenya thousands of public service employees were retrenched at the first phase of 1997-8 and the second phase which was introduced in 2004. This phase was under voluntary basis yet about 20,000 civil servants were retrenched (Otenya, 2006). The idea behind the civil service downsizing initiatives was beyond achieving the rolling back of the state principle which basically is the reduction of the state control of the economy but also to make the civil service leaner and cost effective in order to provide services in a more efficient and effective way. The reality however is that one cannot say the outcome of these downsizing initiatives has been quite successful in most SSA countries civil service reforms judging by their current state of institutional capacity.

In the case of Nigeria, the country has experienced series of public service reforms. From the Adebo Wages and Salaries Review Commission 1970, Udoji Commission 1972, 1988 Civil Service Reforms to the Obasanjo Public Service Reforms that took place 1999 - 2007. The country's public service has been enmeshed in series of problems: redundancy and over-bloated staff structure, weak institutional structure and accountability, waste and corruption, red-tapism, poor productivity, low professional standards and lack of control ever since the country's independence from Britain in 1960. To have a functional

and modern public service, successive governments in Nigeria have introduced reforms initiative with the objective of improving the efficiency and effectiveness of the public service. Still the reality is the same, for the public service remains over bloated, inherent problem of neo-patrimonialism and lack of enthusiasm in carrying out government policies. The argument is that these reforms failed because there is lack of democratic practices in the administration of civil service, and the government reform exercise did nothing to address it[CITATION Ogu12 \p 1-2 \l 1033 ]

Improving performance can be regarded as among the fundamental objective of NPM but it is still a challenge for most African governments. To drive performance according to NPM, public servants' promotion ought to be tied to meeting performance expectations and targets but that has not been the case for most African states. Institutionalizing results-based management (RBM) in the key performance indicators of each public servant has been a challenge when it comes to implementation. In Zimbabwe for example "it is feared that the delegation of staffing powers to the senior official could easily be abused to create personal empires, regional cliques and even ethnic enclaves which could be used as effective weapons for the self-preservation of the senior public servants"[CITATION Pol99 \p 12-13 \l 1033 ]. RBM was also introduced in Tanzania after the creation of executive agencies for various objectives. These agencies were all expected to be managed based on results and performance not inputs - outputs Weberian model but this has not been the case. These agencies have continued to be managed on traditional Weberian model not NPM, totally disrupting any tendency of performance-based accountability[ CITATION Pol99 \l 1033 ]. This tendency is something familiar in most of the institutional system and culture in most African states making it difficult to implement RBM. In Tanzania again, it would have been expected for parent ministries of the newly created executive agencies to set performance targets and also perform evaluation of deliverables; but the reality is that such is actually done by the executive agencies themselves which is in total contradiction of the principle of NPM[ CITATION Sul11 \l 1033 ].

The lack of political will has been explained as among the chief reasons for the failure of NPM implementation in Africa[ CITATION Rub14 \l 1033 ]. Politicians occasionally tried to wave the reform card to strengthen their legitimacy and global acceptance but were not willing to relinquish control or decentralized powers to the public institutions or agencies. In most African states, the failure for the central governments to decentralize both human and financial resources management to the lower levels is also a failure of NPM in Africa[ CITATION Sul11 \l 1033 ].

There is also the argument on the appropriateness or inappropriateness of NPM in the developing nations of Africa. Basically, the conclusion is that "NPM cannot be implemented in Africa because it does not reflect Africa

development structure”[CITATION Rub14 \p 93 \l 1033 ]. Most of the African countries possess weak political/administrative systems so might not be matured to adopt NPM the way it is in developed nations. Hence the suggestion of an alternative administrative model that seems appropriate to the public management of Africa called public value management (PVM).

## 2.4 THE AGENCIFICATION MODEL

Most post-independent SSA states since the 1960s have been battling with making their civil service more efficient and effective through various reforms. Since the civil service is the engine room of government, it becomes expedient for any serious government to pay close attention to enhancing its capacity. There has been implementation of different civil service reforms across the continents, but attention is on using the agencification model as a tool of reform. During the last couple of decades there has been a rise of bureaucratic autonomy and integration which are outcomes of agencification in the public administration of most states. The expectation is that creating or establishing autonomous institutions will bring about the needed efficiency and effectiveness in service delivery to the public.

Agencification can be defined as the “transfer of government activities to agency-type organization vertically specialized outside ministerial departments”[ CITATION Nch14 \l 1033 ]. Agencification is closely related to the NPM movement and governments across different nationalities and continents have established agencies at arm’s length from ministries to handle certain regulatory and administrative functions. When discussing agencification, such words like corporatization, commercialization etc are familiar. Though they might help to distinguish the different types, changes or institutional framework they do not totally capture the nuances and intricacies of agencification. Agencification might be a universal concept, but its dynamics varies according to different countries specific institutional setting[CITATION Nch14 \p 109 \l 1033 ]. It is the setting up of semi-autonomous public institutions which can loosely be term executive agencies to perform specific functions for government. It is part of the NPM model which is mainly a paradigm shift from the conventional public administration thoughts and processes which is to reduce its distinguishing features from private institutions. Agencification can also be seen as the “delegation of managerial and institutional autonomy in a variety of decentralized forms”[CITATION Min02 \p 649-666 \t \l 1033 ].

Despite its autonomous nature it is usually linked to a ministry for the purpose of supervision and monitoring. The reasons for its adoption are enumerated below:

1. Depoliticization of aspects of the public institution thereby allowing managers to fully utilize their technical skills motivated by rationality and target objectives rather than political interference
2. To make public service closer to the users or citizenry with closer focus on service delivery or customer service
3. To enhance expertise by allowing specialization of skills which is a departure of generalist bureaucracies

4. To encourage flexibility of ideas and processes to support initiatives and “thinking out of the box” than been limited to rules and regulations
  5. To build inter-agency coordination and interaction for knowledge sharing and information exchange especially using technology
  6. To establish islands of excellence
- [CITATION Pol04 \l 1033 ]

## **2.5 AGENCIFICATION AND AUTONOMOUS REVENUE AGENCIES (ARA) IN AFRICA**

The establishment of ARA in recent years have become popular in sub Saharan countries which was first introduced in Ghana in 1985, followed by Uganda 1991. Over the years more African countries have adopted or reformed their revenue generation agencies into autonomous or semi-autonomous institutions (Hadler, 2000). To what extent has this model increased the revenue performances is another argument entirely and varies. Ghana for example, the first country in Africa that created an autonomous revenue agency shows there was improvement in its revenue performance at the early stage of its establishment, but the result of recent years is not so favorable.

The trends from literature shows potentials and real growth in revenue collection at the initial stage of African countries agencifying their tax institutions as can be seen in Ghana, Uganda, Tanzania, Zambia etc. (Joshi & Joseph, 2009). While it is certain that the potential of autonomous revenue agencies are promising and so much can be done to increase performance, most of it will be determined by the level of political commitment and continuity, quality of board management and consistent support from development/ donor agencies (Hadler, 2000).

The few African countries that do not have semi-autonomous Revenue Agencies are Republic of Benin, Cameroon and Senegal where there are departments within the finance ministries. The major challenges of such environment include top-heavy bureaucracy, narrow tax bases, undue political interferences (Talienco, 2004). Tax departments attached to ministries of finance have to contend with political interference, which particularly affects the auditing of large taxpayers, often closely associated with the ruling political party. Senior tax officials are likely to be political appointees, while tax offices have little scope for establishing competitive salary scales to attract and retain skilled staff (ATAF, 2012)

## **2.6 LEGAL FOUNDATION OF ARA**

National governments possess different legal forms they can adopt to create ARA in line with their legal traditions and constitution. 3 dimensions mainly define the legal foundation of ARA and they are:

1. Its corporate nature
2. Ability to own assets
3. The nature of its legal underpinnings

The corporate character and status of ARA to a large extent determine the nature of its legal character in the sense that those with no corporate status have less autonomy and subject to the public administrative rules. Though this might not be seen to be problematic in the day to day management of the agency, when issues and ambiguities arise it might have a great importance on the autonomy of the agency on the area of its scope and independence. Ultimately ARAs without their own corporate status are usually more readily under control of external entities. Autonomy is reflected in the ARAs ability to own its assets of both physical and IT infrastructure, supplies etc. This guarantees managerial autonomy, flexibility and predictability in managing its resources effectively other than depending on the assets of the MOF.

The legal framework also defines the place of the ARAs hierarchy in the public administrative law of the state. The Kenya Revenue Agency (KRA) for example is exempted from the State Corporation Acts because of the autonomy it enjoys over most of the administrative areas of the Act. The objective is to reduce the administrative burden that can affect the efficiency of the ARA in order to achieve its mandate. While in the case of Uganda Revenue Agency (URA), it is not exempted from the state government-wide regulations. Its authority as specified in the URA Act is under the general supervision of the Minister of Finance. This has been problematic in the URA implementing some of the reform's initiatives due to political pressures and control. In the case of South Africa, SARS can be defined as "an organ of state within the public administration, but as an institution outside the public service." [CITATION Tal04 \p 48 \l 1033 ]. The clarification on this is that SARS is legally classified as a public entity which functions autonomously but reports directly to the Treasury. In the case of FIRS, the legislative Act provides that when there is a conflict of the rules of FIRS and that of the public service, that of the public service supersedes (FIRS HRPP, 2014). So, in as much as the Act provides some degree of autonomy some aspects are until under the supervision of the civil service.

To safeguard the autonomy of ARA its establishment should be based on Legislative Act than Executive decision to guarantee its stability and buffer against change of political government.

The role and design of the Board of ARAs is another fundamental aspect of its organizational features. Boards of agencies are primarily to give direction and make the corporate plan. They are not to engage in the day to day administration of the agency. So, it's crucial to note the nature of the board and the quality of people who are appointed to constitute its membership.

Agencification consists of 3 critical elements. These according to [CITATION Pol04 \l 1033 ] include:

1. Structural Separation and/or the creation of task specific organizations.
2. Managerial Autonomy in making decisions concerning personnel and financial management through target setting, monitoring and reporting.
3. Managerial Accountability over personnel, finance and other management matters.

To put these 3 critical elements into context, it is important to analyze them within a conceptual framework and its implementation in the various states that adopted it. Structural separation is the unbundling of the traditional bureaucracy in order to create a more performance driven, efficient and effective public institution[ CITATION Hop01 \l 1033 ]. Within this context, it is the breaking of monolithic bureaucracies into agencies which in another sense can be referred to as decentralization of administration, powers, responsibilities etc. This is the case of most African countries Revenue Authorities from Tanzania, Zambia, Ghana [ CITATION Hop01 \l 1033 ].

Another critical element of this model is the managerial autonomy such institutions enjoy which is the independence to make decisions in areas like finance and human resources. High level of managerial discretionary powers is allowed in such institutions to encourage innovation and creativity. For instance, the Tanzania agencification Act 1997 requires the CEO of the Revenue agency to be accountable for any malfunction that might be proven in his agency as a condition of exercising managerial autonomy. Similarly the permanent secretary of a ministry under which the executive agency is established shall be responsible for strategic policy making and supervision, but shall not direct or participate in the day-to-day management of the agency affairs[ CITATION GOT97 \l 1033 ].

Another fundamental element of ARA reform is the provision for financial autonomy and stability. Unlike the case of the public expenditure management (PEM) which relies on the revenue allocation from the national treasury, the ARA needs to have a consistent and predictable funding allocation that is independent from the control of the ministry of finance for it to enjoy exercising its discretionary powers without undue pressure and meeting its running cost needs. To guarantee that this funding regime or structure is in place, a special mechanism needs to be set up, in this case a fixed percentage of tax collections. In some instances, the funds are directly retained by the ARA thereby reducing its dependence on the state treasury or ministry of finance. As aptly explained by Talierco[CITATION Tal04 \p 7-8 \n \t \l 1033 ] “Thus, a percentage-based funding mechanism coupled with automatic retention of funds would not only insulate the ARA from the pernicious effects of a weak PEM system but could also provide hard incentives to increase collections”. This statement is instructive because beyond providing for a consistent and

predictable funding arrangement it also incentivize the performance base culture of the agency.

For example, the Tanzania Revenue Authority (TRA) was created in 1996 as an autonomous revenue agency to reduce the level of political and administrative control of the ministry of finance and to free tax administration from the constraints of the civil service. One of the critical aspects of the reform was for the agency to have autonomy over personnel matters, which is its ability to recruit the right talents and make sure they are retained by putting in place competitive conditions of service different from what is obtainable at the civil service. In order to challenge the culture of corruption, all the staff of the revenue agency were directed to resign and re-apply for a position to the newly reformed revenue agency. The implication of this was that “Almost 1200 previous staff members, of whom 500 were former Customs officers, were not re-employed. All new employees were given a one-year probation period before being accepted on a permanent basis” [CITATION Odd02 \p 7-10 \l 1033 ]. Each staff had to declare their assets at the point of hiring and this is regularly assessed to confirm that they are not living beyond their means.

The reform appeared to be a success in the first year of its establishment as it was reported “revenue increased sharply – from 11% of GDP in 1995/96 to more than 12% in 1996/97. Corruption seemed to be declining too” (Odd-Helge, 2002). This mainly was due to the professionalism and efforts of the tax collectors and the measures put in place to reduce possibility of corruption. The new salary package saw the outcome of a highly motivated staff interested in delivering on their mandates and schedule of responsibilities. Tax officials considered their jobs more important than the risk of losing it when caught collecting bribes. Though this initial success did not last long, for the performance started declining eventually with accounts of corrupt practices and tax evasion gradually increasing. The emphasis made on strengthening the accounting and internal monitoring system to prevent any potential opportunity of tax officials to use their discretionary power to engage in corruption was only successful initially and started waning after a while[ CITATION Oso99 \l 1033 ]. The importance of these to the ARA model especially within the context of the TRA is that often there is so much emphasis on improving the economic conditions of service without recourse to driving change in the organizational culture especially in the area of strong ethical culture and compliance management.

In the case of Uganda, the Uganda Revenue Authority (URA) was created in 1991 as an autonomous revenue authority to collect taxes for government. The expectation of the reform was that enhanced autonomy of the agency, competitive remuneration and recruitment of skilled staff and effective use of technology would lead to improvement of tax collection. One of the major aspects of the reform was the restructuring of its operations using technology

to automate its processes through the generation of Tax Identification Number (TIN), and Taxpayer Service Sensitization etc.[ CITATION Mil05 \l 1033 ]. This reduced the turnaround time to provide services to taxpayers bringing efficiency to their service delivery. The ability of the URA to attract the right talent through the exercise of its autonomy on personnel matters can best possibly explain this major success.

The URA tax collection improved significantly as a percentage of GDP from 1992 by 1.7%, soon after the agency became autonomous and carried out several operational reforms (Milton, Marios, & Moses, 2005). Considering the budget constraints confronting the Uganda state which is due to poor internally generated revenue and its reliance on aids and funding from donor agencies, it becomes imperative to seek innovative ways to increase domestic revenue generation to meet its development needs. In addition to the earlier argument, the performance of the URA within the context of revenue generation revealed that the agency generated Uganda shillings (Ugshs) 4.3 trillion which is lower than the estimated target by shs.159 billion. This collection difference is very high on the negative when compared to other East African Community and Sub-Saharan African countries which are at 20% of GDP on average (Milton, Marios, & Moses, 2005).

Despite the reforms and the early improvement of its tax collections, the URA has been confronted with several challenges due to these factors which includes public resistance to tax compliance, wide ignorance of taxation, large informal sector and corruption etc. The institutional capacity of the URA to resolve these challenges might seem limited reflecting in the eventual low collection of taxes. This affected its ability to pay staff salaries and fund the computerize services since the URA financing comes from a % of the cost of collection (Milton, Marios, & Moses, 2005). The URA experience is very instructive in understanding to what extent can newly established autonomous agencies withstand stress from its operating environment There are so many intervening variables that can constitute stress which can be political interference, economic manipulations, resistance to voluntary compliance by the citizenry etc.

It is interesting to note that tax administration historically has been known to be an area characterized by high levels of political intervention. Only few agencies are as powerful and influential as the Tax administration agency which monitors and measures the economics activities of the citizenry and organizations. Tax agencies also have information on the financial activities and transactions of these actors in the sense that all citizens and organizations file their tax returns at least once a year to the agency. This can be a powerful political instrument of the ruling class or state to grant favors such as tax exemptions to those business interests that have supported the political establishment of the government and at the same time can be used to harass

political opponents through audit. This has been the case in several developing countries thereby eroding the public confidence in the tax agency as an unbiased umpire in the economic activities of the state thereby undermining voluntary compliance. Institutional capacity and efficiency to handle such interactions in the society importantly with political support from the principal is one of the critical objectives of establishing autonomous tax agencies as argued “an important aspect of the ARA reform is thus to give the tax agency’s management autonomy from undue political influence” (Talienco, 2004)

The South Africa Revenue Service (SARS) was established by the South Africa Revenue Service Act of 1997 which distinguishes it from the erstwhile Inland Revenue; Customs and Duty department that reports to the Finance Minister. The legal status of SARS gives the agency powers to act individually without the constraints and limitations of the public service rules [ CITATION SAR97 \l 1033 ]. This explains its independence when it comes to day to day operation activities; but on the aspect of funding it is from the annual appropriation from the South Africa Parliament which is normally base on the estimates and expenditures provided by the Commissioner of SARS subject to approval by the Minister of Finance (SARS ACT, 1997). The Act empowers the Commissioner to determine the operational area to allocate the appropriation even while it is still expected to adhere to the Public Finance Management Act. That explains why it is referred to as a Semi-Autonomous Agency.

By placing SARS outside the public service, it now possesses the autonomy to hire and fire, set competitive remuneration according to its affordability to pay, deployment, procurement of services for the running of the office, opening of bank accounts and insurance policies etc. Despite the human resources autonomy exercise by SARS, any review of staff conditions of service is expected to be determined through collective bargaining between SARS and the labor Union with the approval of the Minister (SARS ACT, 1997). Another interesting aspect of SARS is the influence and powers that the Minister of Finance (Treasury) exercise in SARS. Firstly, the SARS Commissioner is appointed by the Minister of Finance with a requirement of consulting the Cabinet and Advisory Board before the appointment is made. Also, the Commissioner of SARS cannot commence the review of the conditions of service of staff without first having the approval of the Minister of Finance (SARS ACT, 1997).

Two of the highlights of SARS Autonomy that are instructive are:

1. Integrated tax administration which basically was the restructuring of its operations by unifying the internal revenues of the state customs duties, income tax, VAT, corporate taxes etc.
2. Alternative Governance arrangements which basically is the adoption of private sector inspired governance method through the setup of Board and performance contracts

There have been arguments against ARA as both a model and reform strategy. Some have argued that it's an "enclave" approach to reform which is the predominant focus on an area without recourse to other areas which are also important[CITATION Tal04 \p 8 \l 1033 ]. The reservation for ARA is tied to the argument of its lack of comprehensiveness in the sense that if at all you must reform, you must reform the whole government. In practice this cannot be feasible considering the possibility of reforming all of government can be utopian especially in SSA. So, making a case or exceptions for ARA reforms might be seen to be logical especially when one considers the whole of government relies in no small part on tax administration.

There is also the argument that giving tax administration "special treatment" might affect its external relationship with agencies[CITATION Tal04 \p 9 \l 1033 ]. This might cause disdain by other civil servants with less remuneration and conditions of service and affect inter-agency cooperation thus affecting the overall results of public administration. While there is no doubt that this is highly possible but whether it will have high impact on the performance of ARA is debatable if the right political climate and support is in place.

There is also the fundamental argument and fear that the autonomization of the tax agency will reduce its accountability and undermine the authority of the ministry of finance (MOF) given the powerful position of the tax agency among the echelon of the state bureaucracy[ CITATION Tal04 \l 1033 ]. This might be a legitimate fear. Building an accountability mechanism to create checks and balances is paramount to guide the rules of engagement between the tax agency and MOF.

Another argument against ARA is that given its comprehensiveness there could be the diversion of attention on the reform of the basic tax functions of filling and registration, audits, assessment. The expectation is that structural reform strategy should be the first step, then subsequent reforms should "focus on good management, a sound tax administration strategy, appropriate operational procedures, and the entire program would have to be sequenced according to capacity constraints"[CITATION Tal04 \p 10 \l 1033 ].

In sum after considering such arguments above, whether autonomy is desirable or not should be as result of its expected costs and benefits.

## **2.7 CONCLUSION**

The importance of reform for the improvement of the socio-economic life of the state can never be over emphasized. Considering that reform simply implies innovation and in some sense creativity, then the assumption is that it creates new system or rejigs an existing system to make it more efficient and effective. There might be several debates on the potency of NPM especially in Africa, but the fact is it is still taking the lead in reforming the public sector in Africa and the world generally.

This chapter has also underlined the experience of various ARAs in SSA and tried to understand if the model improved the capacity of the revenue agencies to collect taxes. The next chapter will briefly describe the research methodology process and techniques.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 INTRODUCTION**

The research has outlined an overview and various literature on the subject matter, the theoretical framework adopted to investigate the research problem. This chapter intends to build on the preceding chapters by detailing the process and methodology of gathering data and the types of data that will be adopted for the research. The research is intending to explore the effects of agencification on the capacity of FIRS, so will adopt the use of primary and secondary sources. Primary sources will comprise key informant interviews with officials of FIRS, who possess firsthand knowledge of the effects of agencification reform, while the secondary data will be referring to existing literatures on the subject matter.

### **3.2 RESEARCH DESIGN**

The research will adopt a case study approach which allows the researcher to conduct a close examination data within a specific context[CITATION Zai07 \p 1 \l 1033 ]. This approach can be considered when a holistic and in-depth investigation is required. Among the reasons of the recognition of the case study approach is the concern by researchers of the quantitative approach limitations in providing in-depth and holistic explanations of the social behavior problems of study. This explains its definition as “a research method that enables a researcher to investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships”[CITATION Yin84 \p 23 \l 1033 ]. This way researchers can make conjectures, forecast, propositions and hypothesis by studying patterns of observed behavior. Unlike quantitative method which observe patterns of data at the macro level, the case study approach studies pattern of data at the micro level.

A researcher can adopt either a single case or multiple design case study approach. In cases where there is no replication of the object of study or where an event is limited to a single occurrence, a single case design can be adopted. On the other hand, a multiple case study design can be adopted where there are numerous sources of evidences or events through replication. Either ways generalizations of results from case studies through single case or multiple design stems from theory than on population[CITATION Yin94 \t \l 1033 ].

One of the major advantages of the case study approach is that the examination of data is mostly conducted within its context. Which is basically situating the research data within her environment [CITATION Yin84 \t \l 1033 ].

Another advantage of the approach is that it allows for the use of both quantitative and qualitative method in analysis of data. It creates room to adopt numerical responses of individual subjects.

Despite its advantages the case study has been regarded as an approach that lack rigor. The fear is that it can allow bias and personal views to influence the direction and conclusion of research.

It also provides limited basis for scientific generalizations since little subjects are study and, in some cases, just a subject matter. Like the common question usually raise “How can you generalize from a single case”[CITATION Yin84 \p 21 \t \l 1033 ].

The choice of a case study approach is driven by the nature of the research which basically focuses on an institution (in this case FIRS). Case study method seeks to understand those observable variables, detailed analysis of individual cases and experiences and how all these affects the research focus. The focus of the research is a study of the effects of agencification on FIRS, thereby explaining the adoption of case study. A single case study will be adopted in the research.

The two recognized method of gathering data are qualitative and quantitative approach. The quantitative method adopts the use of statistical model to gather and explain research data while the qualitative approach adopts an interpretative analysis of research data[ CITATION Kel04 \l 1033 ]. The adoption of the case study approach will require mainly an interpretive analysis of data which will be collected through interviews and secondary data on the subject matter. This explains the research using the qualitative approach to the collection and interpretation of research data.

### 3.3 DATA COLLECTION

The research used the key informant interview method. Key informant interview “involves interviewing a select group of individuals who are likely to provide needed information, ideas, and insights on a particular subject” (Krishna, 1989, p. 1). Key Informant interview, though popularly used in development setting, will better help in synthesizing the accounts and experience of the FIRS Autonomy reform by specific staff of the service.

A letter of request was sent to FIRS to seek approval to conduct interview of its officials which was approved. The original plan was to interview ten officials of FIRS but only 6 were available for the interview. The officials interviewed were actively involved in the FIRS reform implementation, so experiences are expected to be critical to test the effects of agencification.

Their rank and roles include:

S/ N	DESCRIPTIO N	RANK	ROLE	INTERVIEW DATE
1	FIRS Official I	Deputy Manager	Project Manager, ITAS	17 <sup>th</sup> April 2019

		ICT		
2	FIRS Official II	Manager Tax	Member Tax Policy Reform Project	19 <sup>th</sup> April 2019
3	FIRS Official III	Manager Tax	Member FIRS Transitional Committee	24 <sup>th</sup> April 2019
4	FIRS Official IV	Deputy Manager HR	Member HR Re-engineering Project	26 <sup>th</sup> April 2019
5	FIRS Official V	Assistant Director	Head of Internal Audit, Finance and Account Business Process Re-engineering Project	30 <sup>th</sup> April 2019
6	FIRS Official VI	Assistant Director	Board Secretariat	1 <sup>st</sup> May 2019

This research used a semi-structured interview approach where the interview questions were sent to each of the participants in addition to the request for them to participate through email.

My case study field research trip to FIRS, Nigeria was approved by the Department of Political Studies Ethics Committee. The ethical clearance form was attached to the invitation email spelling out the rules and guidelines of the interview which is confidentiality and anonymity of the interviewees.

There was a field trip to Nigeria where an interview session took place with staff of FIRS who were active participants in the reform implementation. This method is instructive because it gives an informed opinion on the practicality and effectiveness of agencification on the operations of FIRS. The respondents were contacted to solicit their participation in the research. A questionnaire was submitted to the respondents which contained the following:

1. Please provide details of the role you played in the implementation of the FIRS Autonomy Act reforms
2. What was the experience with regards to external stakeholder (MOF, National Assembly, Presidency, Federal Civil Service Commission) support to the implementation process of the reform?
3. How would you describe the effect of the FIRS Autonomy Act on the following areas?
  - a) operational efficiencies,
  - b) political accountability,
  - c) staffing and budgeting autonomy,
4. To what extent did the implementation of the FIRS Autonomy Act allow the service to attract qualified professionals?
5. To what extent has the implementation of the FIRS Autonomy Act impacted on the relationship between the Ministry of Finance, and Federal Civil Service Commission?

6. What has been the effect of the implementation of the FIRS Autonomy Act on staff morale?

Also, beyond the interview of staff of FIRS, official documents from both the Bureau of Public Service Reforms (BPSR) which is an institution of the Presidency, FIRS official documents on the autonomy reform implementation and the Ministry of Finance will formed part of my secondary data of analysis.

The interviews with most of the FIRS officials were audio recorded and transcribed into word documents which were then analyzed and presented in the next chapter.

### **3.4 DATA ANALYSIS**

The data analysis mainly adopted the thematic approach by examining the themes that emerge from the literatures reviewed and interviews conducted. The thematic approach can be described as “a qualitative research method that can be widely used across a range of epistemologies and research questions. It is a method for identifying, analyzing, organizing, describing, and reporting themes found within a data set”[CITATION Bra06 \p 77 \t \l 1033 ]. The expectation is that rigorous thematic analysis of data will produce insightful and trustworthy findings.

The research point of reference is to understand the effect of agencification reforms in FIRS. So on this premise, the agencification model will be used as a lens to analyze data which will not necessarily be used as an explanatory tool but rather a framework to understand the structural setting of the subject matter and to find out to what extent it has met the expected variables of the reform. The main assumptions of agencification is that autonomization of critical aspects of a public institution like Human Resources, Funding and governance (through establishment of Board of Directors) can enhance the efficiency and effectiveness in service delivery of an agency. It can also encourage managerial efficiency to take initiatives and exercise discretion towards the general operations of the agency.

The following themes were used to analyze the interview data on the effects of agencification:

1. HR Autonomy: recruitment, conditions of service, perceived organizational culture etc.
2. Financial Autonomy; consistency and predictability of funding, the federal revenue allocation formula to FIRS
3. Managerial Autonomy and the Quality of the corporate governance structure
4. Effectiveness and efficiency of the operations of post implementation of the FIRS autonomy reform
5. FIRS relationship with the Ministry of Finance

### **3.5 SCOPE AND LIMITATION**

I was unable to obtain an interview with officials at the Ministry of Finance. The Ministry of Finance is a major stakeholder of FIRS for it is the supervisory Ministry that it reports to. However, I was able to learn about the relationship the Ministry has with FIRS from one of my interviewees who is in Tax Policy department which is charged with the responsibility of interfacing operationally with the Ministry of Finance. The official of the Tax Policy department also provided me with a document that revealed an exchange of information procedure on tax matters by the Ministry of Finance that showed a critical aspect of the operational relationship between the FIRS and Ministry of Finance. The document revealed all request or enquiries, inputs, outputs on tax matters have been delegated to FIRS by the Ministry of Finance[CITATION Mic18 \l 1033 ].

Another challenge is that due to the oaths of secrecy sworn by officials of the public service, there was a limit to what could be revealed on investigation of corrupt cases by the HR. Such data could have helped to measure the level of progress in reducing corrupt behavior by tax officials. I was able to manage this through the information received from my interviewees who confirmed that the use of technology by automation of some critical operational aspects of tax collection, and other audit checks have reduced avenues for corruption by tax officials.

### **3.6 CONCLUSION**

This chapter illustrates the research methodology employed for the thesis and the design it will take. It is a combination of both primary data through the physical interview of FIRS officials and collection of secondary data which are mainly publications of researchers and scholars of the field of agencification and public sector reforms in SSA, Official Briefs and memos of FIRS about implementation of the reform and publications from BPSR of the Presidency etc.

## **CHAPTER FOUR: CASE PROFILE OF FBIR TO FIRS TRANSITION**

### **4.1 INTRODUCTION**

An understanding of the background of the reforms of FIRS will be looked at by first having an overview of how the institution functioned when it was called Federal Board of Inland Revenue as an Extra-ministerial department of the Ministry of Finance. This will be followed by giving details of the activities and recommendations of the Dotun Study Group that led to the reform and finally the reform itself. An analysis of the findings from the data on the reform will be tested and thereafter my conclusions.

### **4.2 BACKGROUND TO THE REFORMS OF THE ERSTWHILE FEDERAL BOARD OF INTERNAL REVENUE (FBIR)**

The return to civil rule by the Nigerian government in 1999 through election ushered in the 4th Republic of the administration of Olusegun Obasanjo to salvage a situation of the near collapse of the nation's public institutions with the issues of corruption and ineffectiveness in its service delivery. The administration came up with a policy tool called NEEDS (NEEDS, 2004). NEEDS is based on 3 critical areas which are:

- 1) Empowering people and improving social service delivery
  - 2) Fostering economic growth, in the non-oil private sector; and,
  - 3) Enhancing the effectiveness and efficiency of government, while improving governance
- (NEEDS, 2004)

The 3rd critical area of NEEDS saw the implementation of various reforms in the Public Service which includes reform measures to reduce corruption by creating institutions to investigate and put measures to mitigate or limit it, review of the archaic public service rules and financial regulations, modernization and professionalization of the public service through right sizing and making it leaner in other to be more efficient and effective, budget and procurement reforms, privatization, local government reforms and university autonomy (Olaopa, 2011). All these reform initiatives led to the creation of new public agencies with critical performance expectation. From all indications from the assessment of the rules, structure and governance model of this new agencies one can see traces of the New Public Management model.

An aspect that the administration of Obasanjo identified as critical to its reform initiatives is increasing its domestic revenue generation to meet its developmental needs. FIRS before the autonomous reform, was an extra-ministerial department at the Ministry of Finance called the Federal Board of Internal Revenue. The FBIR being an extra-ministerial department at the Ministry of Finance had several challenges to its operations which were:

1. By implication its human resources, just like the wider civil service bureaucracy, were employed by the Civil Service Commission which was a critical challenge because of the high level of nepotism that is usually the case in its operations. The implication is the recruitment of so many unskilled staff into the Revenue Board thereby affecting its operational efficiency. The wages and allowances, which were not different from the larger civil service bureaucracy, lacked the needed incentives and motivation to attract the right professionals of Chartered Accountants, Actuaries, Economist, Human Resources, Project Management Experts, Engineers etc.
2. Lack of operational independence and managerial autonomy to take initiatives and discretion in its operations due to adherence to the rigid rules of the MOF
3. Another challenge is lack of financial autonomy of the Revenue Board which also meant limited infrastructure for its operations like a befitting office and working tools like computers, furniture, vehicles and importantly the use of technology etc.  
[ CITATION Ben11 \l 1033 ]

Efforts to reform Nigeria's tax administration system can be divided into four critical phases:

1. The appointment of the Dotun Philips Study Group
  2. Organizational Restructuring
  3. FIRS Establishment Act (Autonomy) 2007
  4. Modernization
- [ CITATION Fed12 \l 1033 ]

#### **4.2.1 The Dotun Philips Study Group**

The study group on the Nigerian Tax System, under the chairmanship of Professor Dotun Phillips, was inaugurated by the then Finance Minister Mallam Adamu Ciroma, on 6 August 2002 with an eleven-item terms of reference that were all tailored at repositioning the tax system for better efficiency. The Study Group submitted its report in July 2003. A Working Group chaired by KPMG's Seyi Bickersteth was inaugurated on 12 January 2004 by Finance Minister Dr. Ngozi Okonjo-Iweala.

The terms of reference of the Working Group were to evaluate the recommendations of the Study Group, prioritize the set of strategies required to reform the tax system and segment the strategies to be implemented into: Short term Reforms to the Tax System (six months), Medium term (two years), and Long term (five years)[ CITATION Fed12 \l 1033 ]. The Working Group submitted its report to the Federal Government in March 2004. While there were some areas of divergence between the report of the Working Group and that of the Study Group, both reports agreed on the objective of the reform

which was, and still is, to diversify the revenue base of the government beyond oil and oil related sources. Furthermore, both reports agreed on most of the fundamentals required to achieve that objective. Under the auspices of the Open Society Initiative, the reports of the two Groups were further exposed to a wide range of stakeholders including but not limited to tax consultants, the IMF Mission on Tax Administration, the Federal Ministry of Finance, the Economic Management Team, and the Management of the Federal Inland Revenue Service. Stakeholder input, where appropriate, was incorporated into the tax reform document and by August 2004, the Federal Inland Revenue Service had distilled a roadmap for the implementation of the reforms[ CITATION Fed12 \l 1033 ]

In order to meet the objectives of the recommendations, it becomes imperative to have a structure that facilitates functional workflow and organogram. The existing structure at that time was not adequate to meet such objective. Not only did it breed inefficiency, but also fraud and indiscipline to the extent that it greatly affected negatively the revenue generation from taxation from all over the country (Handbook, 2012).

#### **4.2.2 Organizational Restructuring**

The reorganization of FIRS to ensure efficient and effective service delivery started after the in-house reviews of the harmonized reports of the Study Group led by Omoigui Okauru, the then Executive Chairman of FIRS. The outcome led to the creation of a new organizational structure by the Chairman of the FIRS in September 2004 and the first action was collection and assessment as a function was merged with ICT and PRS Division. Furthermore, the VAT and Area Tax Offices nationwide were collapsed into one-stop shop tax offices with nationwide spread under the name Integrated Tax Offices (ITOs) though presently named Medium and Small Tax Office (MSTO). That way, all types of taxes can be assessed and collected from any of the offices nationwide and it did also help in expanding the skills of the Tax Officials by making them more versatile on all tax areas than having limited knowledge to an area of operations. It also helped in making it easier for Taxpayers to do their tax assessment and obtaining tax services from any of the tax offices close to them.

#### **4.2.3 FIRS Establishment Act (Autonomy) 2007**

At the Extraordinary Session of the Federal Executive Council Meeting held on 18 October 2004, the Executive Chairman of the Federal Inland Revenue Service outlined the reform agenda to the Federal Executive Council. The Council identified three broad, critical strategies required to implement the harmonized tax reform agenda. These were autonomy for the Federal Inland Revenue Service, increased funding to FIRS and amendment to the various tax

laws. The Council, therefore, approved that the Service should be granted autonomy in the areas of recruitment, funding and remuneration. A four percent cost of collection of non-oil taxes (which was subsequently codified in the FIRS Establishment Act 2007) was also approved and provided for in the 2005 Appropriation Bill. Finally, the Council constituted a Presidential Technical Committee (PTC) under the chairmanship of the Attorney General of the Federation to draft:

1. Executive bills that would give effect to the legislative changes required to actualize the reform objectives.
2. Enactment/Amendment of Tax Laws because some aspects of the reform agenda could not be implemented without tax legislative reforms.

While the original concept at the time of inaugurating the Presidential Technical Committee (PTC) was to come up with a bill that would address all the legal changes required, the Legal Sub-committee of the PTC in the course of its work determined that issues pertaining to tax administration should be addressed in a Bill establishing the Federal Inland Revenue Service while other issues should be addressed by amendments to existing legislation. Altogether, the Committee presented nine tax bills to the Federal Government. All the reports are in the custody of the Federal Ministry of Finance [CITATION Pub15 \p "289-291" \l 1033 ]

#### **4.2.4 Modernization**

Modernization plays a critical role in the theory of social change (Irwin, 1975, pp. 595 - 613). In order to drive change within the service, the FIRS Management identified seven (7) strategic core areas upon which to drive its operational reform. The seven areas are:

1. Funding/Autonomy.
2. Capacity building (improved structure and staffing).
3. Process re-engineering (human resources, finance and procurement processes).
4. Audit oil and gas/large taxpayers.
5. Taxpayer education.
6. Strengthen investigation and enforcement.
7. Automate tax collection.

(Handbook, 2012)

### **4.3 AN ACCOUNT OF FIRS REFORM EXPERIENCES 2004 - 2012**

One critical variable of agencification as expounded by Hadler is the quality of leadership of the Chief Executive (Hadler, 2000). The Chief Executive is expected to be the embodiment of the vision and chief implementor of the

reform articulations. As stated earlier in this research, the CEO of a Revenue Authority beyond understanding the technicalities of the tax administration regime need to also importantly be a good administrator that understands policies and has the ability to attract and utilize the requisite talents and resources to meet institutional objectives.

Such cannot happen outside the political dynamics of the state, considering the Head of tax offices are political appointees by either the President or in some cases the Minister of Finance. In the case of Nigeria, it is a presidential appointment which must be confirmed by the National Assembly. The principal agent relationship framework best explains this symbiotic relationship which basically is an agency relation which defines the contract under which one or more principals engage another person, in this case the agent, to perform some service on their behalf which involves delegating some decision-making authority to the agent (Appold & Dinh, 2001). The nature of relationship between the principal and agent is very crucial in determining the extent of the success of the reform. 4 different contexts have been argued and, in some instances, they can overlap each other:

1. The degree to which the interest of the principal coincides with each other
2. The agent's ability to strategically control the flow of relevant information to the principal
3. The ability of the principal to control the behavior of the agent
4. The capacity of agents to engage in collective action

In summary the assertion above shows the competition for control by both the patron and agent over the rent's allocation of the agency. Occasionally such can be asymmetric information which mostly sees Enterprise Managers having more control due to their managerial and technical skills over the agency. In some other occasions there can be the case of asymmetric dependency which gives the senior bureaucrats and ministry officials more powers through their control of resources and might be able to compel enterprise managers to compete for those resource (Appold & Dinh, 2001).

In the case of FIRS, Ifueko Omoigui Okauru (the former Chairman of FIRS that drove the reform) recounting her experience during an interview how she was appointed stated "A phone message greeted her after she returned from a vacation to Ghana in 2004. The call from the minister of finance informed her that President Olusegun Obasanjo wanted to appoint her to the position of Executive Chairman at Nigeria's Federal Inland Revenue Service (FIRS)". In less than 24hours same day she spoke with the president and according to her "He gave me 24 hours to make a decision because my predecessor was leaving office on Monday. So, I said, okay, I will take the job.'" [CITATION Ben11 \p 1-2 \l

1033 ]. According to Okauru she believed the then President Obasanjo appointed her because she was an outsider to government so will lack any political ties or partisanship. The nature of elite or agent recruitment is crucial in determining the outcome of an institution, especially if the intension is to drive reform.

Just before her appointment, in 2003 FIRS had been confronted with significant problems about staffing and capacity. The ratio of recognized and chartered tax professionals to support the business and operations was low, as only 12.6% of the 7,600 total staff held certification from an accredited and recognized tax institution[ CITATION Ben11 \l 1033 ]. As the Civil Service Commission made all personnel decisions, the FIRS had little control over hiring, training and discipline. When Okauru took over in 2004, she discovered that the FIRS had made little or no effort to investigate corruption complaints, much less press the civil service commission to take disciplinary action. The first step taken was to restructure the human resource management by aligning it and the hiring process to the requirement and direction of the reform. That was the first major challenge, considering this was before the passage of the FIRS Establishment Act 2007 that granted autonomy to the Service. By implication, such was under the purview of the Federal Civil Service Commission which is responsible for the recruitment, promotion and dismissal of civil servants. In as much as the civil service commission is responsible for human resource management of FIRS, it will be difficult to hire the right talents and skills to implement the reform initiatives.

Another of the challenges was that FIRS also lacked the financial ability to employ and train staff to meet same objectives. The revenue service needed to fill 1,900 vacancies in order to improve the ratio of professionals to administrative staff and meet the needs of the Chairman's plans for improved tax administration [ CITATION Ben11 \l 1033 ]. To get this done would require a significant amount of political savvy and collaboration. Okauru was able to arrange a meeting with the members of the Governing council of the civil service commission and successfully negotiated an approval to allow her shop for talented staff among the pool of civil service to be seconded to FIRS pending when the Parliament approved the autonomy act. That way, the FIRS management was able to attract reasonable amount of skills from the National Treasury, Planning Commission, Accountant General of the federation department, Federal Office of Statistics, Head of Service of the Federation etc. These seconded staff and 50 internal senior managers constituted a team that drew up an action plan for the development of an integrated human resources payroll and pension management system[ CITATION Ben11 \l 1033 ].

One of the major challenges of most ARAs, especially in SSA, is the nature of collaboration with its supervisory ministry of finance. Using the principal -

agent relationship framework where there is usually that unspoken contest of control by both the principal, who sees themselves as gatekeepers or caretakers, and the agents who possess managerial and technical control of the agency, it can lead to contestation of control of the agency. As Samuel Ogungbesan, a FIRS Director of Tax said the President backing is crucial to the success of the reform. “Once government is on your side, the job is more easily done,” he said[CITATION Ben11 \p 6 \l 1033 ].

The passage of the FIRS Autonomy Act 2007 enabled the establishment to officially recruit 1900 professionals of both experienced and new hires. Most of the experienced hires were able to leverage on their contacts and networks in the industry to improve the image and reputation of FIRS and same time increase its performance in tax collection. Records show the government collected nearly 700 billion naira (US\$4.5 billion) in 2003, but there are still hundreds of unregistered businesses who are yet to be part of the tax net thereby evading taxes. The then Executive Chairman Okauru estimated that the FIRS was losing approximately 12 billion naira (US\$92 million in 2004) per year in collection-related fraud[ CITATION Ben11 \l 1033 ]. She argued that part of the means to plug the loopholes was investment in technology and modernization of tax administration, which will help to reduce corruption, especially touting and conversion of cheques in the system. An Intelligence, Surveillance and Anti-corruption Division was set up at the office of the Executive Chairman in order to expand the efforts to detect tax evasion, bribery and fraud, fake tax clearance certificate and staff misconduct. The Division visits offices without notice to check operations. The banking sector calls it mystery shopper. In 2009, its first case of tax fraud was investigated and convicted[ CITATION Ben11 \l 1033 ].

In 2007, the FIRS launched a massive media campaign on its image by coming up with a new logo to create a new brand of tax administration. Tax clubs were supported at High Schools and Universities to start instituting the awareness of tax as a culture to teenagers and youth. This support was through sponsor of debates and cultural programmes. Another important reform it carried out was the creation of the Tax Identification Number (TIN) for all taxpayers. Through inter-institutional collective activity between FIRS and CBN, it became a prerequisite for corporate enterprise to have a TIN for their company before they can open a bank account. This increased the number of taxpayers into the tax net by 25% [ CITATION Ben11 \l 1033 ].

#### **4.4 CONCLUSION**

This chapter gives an overview of the reform experience of the revenue authority of Nigeria, FIRS which serves as a background to the primary data/

interviewed carried out with its officials to test to what extent the agencification reform have increased the capacity of FIRS to collect taxes.

## **CHAPTER FIVE: RESEARCH FINDINGS**

### **5.1 INTRODUCTION**

This chapter will be discussing the findings of the research by analyzing both the primary and secondary data to test the defined variables of agencification in FIRS. It will be instructive to test the experience of its implementation in Nigeria and how much of it have been sustained overtime.

### **5.2 WHAT EFFECTS HAVE AGENCIFICATION HAD ON THE OPERATIONAL CAPACITY OF FIRS**

The research at this stage will be testing those agencification variables or operational features associated with Autonomous Revenue agencies as espoused by Hadler on FIRS and these include:

1. Committed, dynamic and honest leadership. The Chief Executive Office should be an outstanding Manager that possess strong administrative skills to operationalize reforms and utilize all the available resources effectively towards meeting its objectives. Having tax knowledge and background is expected but not necessarily a Tax Expert.
2. Operational efficiency. This is concerned with investigating if the reform improved the service delivery of FIRS. Most NPM institutional and business process reforms make use of technology to support its operations.
3. Relationship with the Ministry of Finance. This relationship is usually a frequent source of tension so should be well defined in the law setting up the agency
4. Funding. To establish financial autonomy in other for the ARA take strategic decision towards meeting its mandate without undue political interferences.
5. Appointment of Staff. They need to have a competitive remuneration in other to attract the right professionals to the service  
(Hadler, 2000)

#### **5.2.1 Committed Leadership**

Leadership of any organization is very crucial because it plays a major role in driving the operational objective and creating the right organizational culture for the employees to thrive. This is a critical need especially for any organization that went through a reform process. Driving change within an institution is mostly greeted with resistance from those who are comfortable or used to the status quo. It becomes more challenging if such institution is a public organization which mostly cannot be separated from the politics of the state. Its institutional capacity will be mostly tested on how it can drive reforms

both internally within the organization and same time withstand the stress from the external environment.

In an interview, one of the FIRS Officials who was part of the Transition Committee of FBIR to FIRS said:

*When the then newly appointed Executive Chairman resumed duty 2004 in her maiden address to staff at a townhall meeting which she introduced said her briefing from the Presidency is to increase revenue generation and this will be achieved by making the revenue authority a knowledge driven institution, that will attract the best talents in Nigeria to build careers in the public sector. So henceforth she will raise the minimum qualification to work in FIRS to a degree so all staff who do not have such qualification are encouraged to enroll in an educational institution. There will be given a timeline to earn their degree and same time supported through financial grants by management to pay their fees. It was really encouraging from the chief executive at that time. Her style really helped improve the development of staff[ CITATION FIR194 \l 1033 ]*

Critical to driving reform in an agency, beyond institutional restructuring, is having an organizational objective. Staff of an organization are at the core of driving organizational objective. During another interview with an official in the Program Management Department who was part of the HR Re-engineering Project he mentioned:

*To show the then Executive Chairman seriousness in the development of staff as part of her organizational objective she removed the Training division from HR department and made it a department which primary focus is on the capacity building of staff according to their various career paths. Each staff are expected to attend at least 3 trainings in a year and monthly technical sessions on the business of the various departments. The department is expected to drive this process[ CITATION FIR195 \l 1033 ]*

Hadler's first variable of agencification, which is leadership, speaks about commitment and importantly the ability to operationalize reforms by the CEO. Engagement is crucial which can be seen from the introduction of townhall meetings which can serve as a direct feedback mechanism to management on policy direction. The ability of a Chief Executive to sell the vision of reform to staff to key will require a strategy which in this case was through staff development. The organizational culture of an institution is very critical to achieve organizational objective.

Another official [ CITATION FIR195 \l 1033 ] believes transformational leadership is basically what can drive change within an institution. There are

two types of leadership namely transactional and transformational leadership. Transactional leaders are those who lead through social exchange e.g. politicians provides job for votes, while transformational leaders on the other hand are “those who stimulate and inspire followers to both achieve extraordinary outcomes and in the process develop their own leadership capacity”[CITATION Ber06 \p 11 \l 1033 ].

The [CITATION FIR197 \y \t \l 1033 ] confirmed the above paragraph for she believe that the FIRS management team that is responsible for driving the reforms displayed transformational leadership judging by the outcome of their action. For her that played a critical pre-condition for the FIRS autonomy to yield benefits. In addition to the leadership of the Executive Chairman, the quality of the Board membership was also important. She said:

*The Board had membership of seasoned professionals that cuts across different fields of consultancy, academia, banking and finance, Oil and Gas, engineering etc. There were also institutional representatives on the board from National Planning Commission (NPC), Ministry of Finance (MOF), Nigerian National Petroleum Corporation (NNPC), Central Bank of Nigeria (CBN), Corporate Affairs Commission (CAC), Federal Road Safety Commission (FRSC), Nigerian Immigration Service (NIS) that added value to the reform efforts.*

The point raised above is critical. Studying literature of the challenges of other ARAs within SSA reveals that part of the challenges confronting their operations is the appointment of politicians to senior or board positions. That way, decisions might be motivated by political and party considerations. The fact that the Principal, which in this case will be both the Minister of Finance, who is the person that recommends board appointments, and the President of Nigeria whose responsibility is to send to the Senate for confirmation, was able to select professionals without any strong party affiliations shows seriousness about making the reform a success and sustainable.

This would not have meant the CEO did not have challenges in meeting the mandate of the agency. According to another official:

*The appointment of then Chief Executive Ifueko Okauru in 2004 was greeted with reservations by the management staff of FBIR because she was considered young at 42 years to be the CEO and without any known political clout. Her educational background which is Honours in Accounting with cum laude at the University of Lagos, became a qualified chartered accountant during her honours program, Masters from Imperial College with a professional experience in consulting that saw her rising to become the senior partner at Arthur Anderson consulting (now split into*

*KPMG professional services, Accenture and Anderson Tax) was not seen as important enough as if she was someone not known within government or the political space[ CITATION FIR194 \l 1033 ].*

This is indicative of the high-powered managerial talent that is often outside the civil service and mostly associated with NPM that are appointed by the political leadership to drive reforms. The reaction of the Directors and management staff of FBIR is not strange considering that over the years the Directors General (DG) of most of the federal institutions are product of patronage. So, conformity and loyalty by the top bureaucrats to the DG is influenced by the perceived political relationship that exists between the DG and the highest political leadership of the country. This provides an insight to understand what is critical in the appointment of a Chief Executive of an agency of government. Perception of staff to the appointment of the Chief Executive plays a critical role on how they will behave towards the authority of the appointee. Possessing an impressive professional background and astute educational qualifications might not be enough to drive change within an agency if the appointee is not political savvy, lacks network among both the top bureaucratic and political class especially the Presidency.

### **5.2.2 Operational Efficiency**

To what extent did the reform improve the operations of FIRS is what this subsection intends to find. One of the FIRS officials who is a Program Manager at the Information and Communication Technology Department said FIRS Autonomy Reform have increased the operational efficiency of the agency. He mentioned:

*The reforms act has helped in operational efficiency. In the past taxpayers must go to the FIRS offices to pay for taxes, it's like a traditional system where you carry cheques but with the reforms it has helped in operational efficiency leveraging on IT (Information Technology) for better services. Right now, domestic banks receive all taxes and remit immediately to the federation account managed by CBN. A webportal software was also built to generate Tax Identification Numbers (TIN) which can be processed within 2 minutes if the taxpayer has all the necessary documentation. The intention is to make FIRS customercentric in its service delivery[ CITATION FIR192 \l 1033 ].*

As mentioned earlier most NPM reforms deploy and utilize technology to improve operations. From the above interview, the reform has eased the procedure of payment of taxes by taxpayers using technology. The official speaking further said:

*Touting and conversion of cheques were among the major corruption confronting the revenue authority before the reform.*

*This new operational structure has phased out tax offices direct collection of the taxes. The officials basically audit and make assessment. Then advised on the tax amount to be paid to the FIRS collecting Banks[ CITATION FIR192 \l 1033 ]*

Another official of FIRS speaking about this similar aspect said:

*The Act empower FIRS to create regulations to manage those issues. Now you have to walk into a commercial bank and tell them you want to pay tax, they give you payment details, and you pay directly to the federation account. FIRS don't have a corporate account where you pay tax into. FIRS don't take cash, bank drafts and cheque. You can even pay from the comfort of your bedroom. It has reduced interaction between taxpayers and tax personnel's[ CITATION FIR194 \l 1033 ]*

As instructive as this is, the use of technology to enhance its operations might not necessarily change the work culture of officials especially in an institution that is transitioning from the core civil service to a modern agency guided by the NPM principles of operations. One of the officials that had functioned in the Learning and Development Department spoke extensively about this. According to him:

*One of the major challenges the new management discovered during the process of driving the reform of FIRS was the lack of so many skills to drive the operations of an autonomous revenue agency. To show the seriousness of building the capacity of staff, Learning and Development was created as a department to focus on training and capacity building of all staff. The first core mandate of the department was to train all staff on the use of Microsoft Office tools since everyone are expected to start using computer for their functions. This initiative was greeted with resistances from some staff who deliberately refuse to use the computers allocated to them. There were still bent on using manual process to work. Some took home the laptop allocated to them and left it there. Management had to approve audit checks and those found wanting were given queries to show seriousness in the adoption of initiative[ CITATION FIR195 \l 1033 ]*

Training and capacity building can increase the morale of employees in an organization. It shows the organization is interested in staff career growth and development which should increase operational efficiency. However, among the challenges mentioned was the lack of coordination with other line departments on areas of training needs and sometimes the reluctance by heads of departments to release officials to attend trainings. There is usually the excuse by heads of department that their officials are busy with work, so

releasing them to attend training will affect the function from meeting its performance expectations. In some other instances those who are released are given the condition that they must come to work after the training each day affecting the official's full concentration and learning.

### **5.2.3 Relationship with the Ministry of Finance/ External Stakeholders**

The Ministry of Finance (MOF) is the supervisory ministry that is responsible for the general supervision and oversight functions of FIRS. Firstly, the FIRS Establishment (Autonomy) Act provides that the Executive Chairman and Board members are recommended by the Minister of Finance to the President for appointment [ CITATION FIR07 \l 1033 ]. So, by implication the FIRS Management team are products of the political dynamics of the state where the Minister of Finance can act as a leverage to cushion any stress from within the political system of the state for the agency to meet its mandate. Considering that some tax related actions by the agency might have political implications, it will be helpful to fully understand to what extent there was support from MOF to navigate the political arena. The MOF administratively is also involved in the amendments of aspects of the National Tax Policy which requires Senate approval, passage of annual budgets, allocation of the cost of collection by the Federal Accounts Allocation Committee (FAAC) which is 4% of the revenue generated for the running cost of the agency etc.

One of the FIRS officials interviewed described the relationship with the MOF as being supportive and collaborative. He said:

*The MOF has a Tax Policy Department that serves as an interlink with FIRS on areas of its technical interest like tax holidays, review of the % of VAT, assist in the collection from source of arrears of withholding tax and VAT from Ministries Departments and Agencies (MDAs). This might be because of the smooth working relationship between the Minister and the Executive Chairman of FIRS. Am saying this because after both Actors tenured ended and another set took over, I noticed some disconnection. The new Minister of Finance was more political than technical from my observation so I think their interest were at convergence to each other [ CITATION FIR193 \l 1033 ]*

This observation is instructive for it shows the type of relationship between the principal and agent which can influence the operations of the agency. In the same vein another official spoke that:

*To show the importance of making sure the MOF and FIRS are in sync in terms of policy direction, an Assistant Director Tax of FIRS was deployed to the MOF to serve as the liaison officer of the agency at the Tax Policy Department of the ministry. He is to give interpretation on technical areas and advise the permanent*

*secretary of the ministry on aspects within the scope of his deployment. This so far have improved the working relationship between the bureaucrats of the MOF and FIRS[ CITATION FIR194 \l 1033 ]*

The National Assembly is another critical stakeholder of FIRS. They are responsible for the approval of the annual budget of FIRS which is usually transmitted through the MOF. They also have oversight functions on the service through its Public Accounts Committee who checks at interval if agency is working in line with their corporate plan and budget submitted. As was further noted by [ CITATION FIR193 \l 1033 ] to show the importance of the National Assembly to FIRS, their members (especially those of the Public Accounts Committee) are usually invited during the corporate retreat of FIRS where discussion on the organizational plans and strategy to meet collection targets are deliberated. Specific trainings on tax administration are regularly organized by FIRS for the Public Account Committee members of the National Assembly to improve their capacity so there can legislate and collaborate with the agency in meeting its corporate objective.

There have also been contentious issues with the National Assembly especially when it comes to employment as expressed by another FIRS official. This was written in detail at the Appointment of staff subheading.

#### **5.2.4 Funding**

One of the critical aspects of the FIRS Establishment Act is that it granted the agency financial autonomy to run its day to day operations. This basically empowers the agency to improve the wages of staff in other to have a competitive salary scale that can attract the right talents and skills, provide working tools and infrastructures, carry out projects that will enhance the operations of the service etc. The former Executive of FIRS Chairman Ifueko Omoigui in an interview said, *“when I arrived in 2004 to my surprised, I discovered the institution was grossly underfunded”*[CITATION Ric12 \p 3 \l 1033 ]. This is understandable when you consider the budgeting process of Nigeria which is usually confronted with political wrangling especially between the Executive and the National Assembly. This most times delayed the budget approval passage leaving the FIRS without funds to pay salaries and run its operations. The unpredictable funding allocation to FIRS to run its operations made FIRS Managers unable to make strategic plans to improve its operations. Funding was among the main aspect of the reform which is evident on the Dotun Philips Study Group recommendations that the federal tax institution should have financial autonomy from the MOF through the appropriation of 4% of non-petroleum tax receipts to fund its operations[ CITATION Fed12 \l 1033 ]. To what extent has the funding autonomy element improved the performance of FIRS is what this sub theme intends to find out.

Speaking to one of the FIRS officials who is in the tax policy department and served as member of the tax policy reform team said.

*Funding autonomy is one of the major milestones that happened to FIRS. Speaking as someone that worked at the service before the reform took place and comparing to now a lot has change for good. The infrastructures of the agency before the reform were less functional with so many cases of leaked roofing, limited working tools like pool vehicles and furniture's. it was usually difficult to get the Permanent Secretary or in some cases the Minister of Finance to approve funds for capital expenditures because of the regular complain of non-availability of funds. Currently part of the FIRS organizational objective is to have prototype offices nationwide and mission is to acquire the properties not renting any of them. It has not been achieved 100% but there has been a huge improvement towards meeting the target[ CITATION FIR193 \l 1033 ]*

For him it was a challenge working at the service pre-2007 FIRS because of the lack of available infrastructures. Another official made a similar point that there were offices with leaked roofing which can be embarrassing for officials to work and attend to taxpayers, limited number of staff especially only those at the senior level had access to computers, few official vehicles to carry out tax payers engagement exercise, non-competitive wages and conditions of service for staff etc. After the reform one of the major highlights is the increase of salaries and other allowances which improved the morale of staff that reflected in their job performance. However how much has the improved wages reduced the corruption of officials in the agency popularly called touting. This basically refers to when officials act as middlemen to taxpayers unofficially to assist in their assessment, filings and payment of taxes which is mostly undercharged deliberately so less taxes are paid to the government coffers while the difference in the amount collected by the officials. Such cases are act of gross misconduct and if it is reported and the official found guilty, the outcome is dismissal according to the FIRS Human Resources Personnel Processes (HRPP). For the official, touting has really reduced because no staff is ready to lose their job which now has an improved condition of service because of “few change” there will receive from touting[ CITATION FIR195 \l 1033 ].

Cases shows that funding autonomy has not all the time lead to improvement of performances of ARA. Cases of Kenya, Tanzania, Uganda, Ghana shows that though the collection improved immediately the reform started but the performance started dwindling later[ CITATION Tal04 \l 1033 ].

In the case of FIRS, one of the officials interviewed said he will consider funding the main aspect of the reform. For him, funding made the agency able to afford increasing the salary of staff, provide infrastructures and deployment of

technology to support operations and fund research and training. The agency engaged the public through sensitization and education on payment of taxes as a civic duty through the media and established tax clubs at seven universities to create the consciousness of tax payment to students. With fixing of the fundamentals of funding the agency experienced a steady increase in tax revenues for the government except for the decrease which was attributed to 2007-2009 global credit crunch/financial meltdown [ CITATION FIR194 \l 1033 ]

The collection figures show there have been improvement and underperformance on few occasions when you study the revenue collection breakdown from 2000 to 2018

Despite the development so far through the funding instrument of the reform, there are still few challenges. There is first the political influence, mostly from the National Assembly. One of the FIRS officials interviewed said that there have been occasions where the National Assembly members have used their approval powers of the agency budget to influence its tender or procurement process to favor companies representing their interest. Their access to the budget estimates that stipulates the various capital expenditures for the year is usually what provides the background for the negotiation of such transaction. The sad thing, according to the official, is that most times such companies are the least qualified for the job so hardly deliver according to the scope of the contract. Failure of the agency to oblige the Senators request can have an influence on the appropriation to the agency. So most times it is usually an advantage to have an Executive Chairman who is politically savvy and same time has a smooth working relationship with the Minister of Finance who can use his/ her political clouts within the government to douse such possible tension[ CITATION FIR195 \l 1033 ].

### **5.2.5 Appointment of Staff**

One of major highlights of the FIRS Autonomy reform is the ability of the agency to hire and fire its officials according to laid down procedures. The departure from the control of the agency human resources management processes by the Federal Civil Service Commission (FCSC) can be considered a watershed in the light of the FIRS Establishment (Autonomy) Act 2007. The FCSC is the constituted body statutorily responsible for the recruitment, promotion, deployment and discipline of all senior civil servants of the federation of Nigeria from level 8 and above[ CITATION Pub98 \l 1033 ]. The credibility and professionalism of the FCSC process is a contentious issue knowingly fully well there are hardly advertisement of job positions, but the various ministries departments and agencies (MDAs) are regularly staffed with new hires. As similar in most developing countries especially in SSA, the FCSC is seen as an institution of patronage which the politicians use to reward political supporters, members of their political constituency, family members

and relatives etc.[ CITATION Lad02 \l 1033 ]. So, it becomes a challenge to attract the right skills and talents into the civil service to drive efficient and effective service delivery to the citizenry.

This backdrop explains the situation of the quality of staff in FIRS before the service gain autonomy. The FIRS Executive Chairman Ifueko said “the revenue service needed to fill 1,900 vacancies in order to improve the ratio of professionals to administrative staff and meet the needs of the reform plans for improved tax administration”[CITATION Ric12 \p 8 \l 1033 ]. Until the autonomy Act was signed into law, the agency was employing mostly the services of consultants and employees on contractual basis. The FIRS Establishment (Autonomy) Act was signed into law 2007 during the last days of the administration of President Obasanjo. The emergence of a new political administration led to an administrative hurdle on interpretation of the FIRS Autonomy on Human Resources for the FCSC disputed the constitutionality of the agency powers to recruit and argued that there should retain the powers to recruit civil servants into the MDAs. The office of the newly elected President Yar Adua approved the suspension of FIRS ability to begin direct recruitment which led the revenue authority to seek an interpretation of its Autonomy Act on human resources from the Attorney General/Minister of Justice of the Federation. According to Okauru, it took a year to receive the interpretation from the Office of the Attorney General which caused a major delay on the reform process of the institution[CITATION Ric12 \p 8 \l 1033 ]. Though it was eventually confirmed that the Autonomy Act empowers FIRS to do direct recruitment of its employees, this shows the relationship between politics and reform and the necessity of building political coalition in support of reform efforts.

Another critical challenge according to Ifueko was that even after the agency’s ability to recruit was confirmed, she started receiving different request from members of the National Assembly and other Stakeholders to recruit candidates they recommended from their political constituency for in their mind “ they supported the institution, it is now the turn for the institution to support them”[CITATION Ric12 \p 9 \l 1033 ]. She was open to hiring the recommendation of the stakeholders only that such positions will be limited to that of entry level and there all must pass the recruitment test outsourced to consultants.

Speaking further on the issue, the FIRS officials said.

*the 2010 recruitment exercise that started 2009 was one of the major first tests of FIRS exercising its ability to conduct direct recruitment. There were so many interests that try to influence the outcome. The original plan was to make the process 100% merit driven in line with the define FIRS recruitment guidelines but from the look of things the Executive Chairman must have been advised*

*to rethink the decision considering the following year she might have to go to the National Assembly to approve the budget of the agency. So, 30% of the vacancies declared were used to satisfy the interest of stakeholders[ CITATION FIR194 \l 1033 ].*

So, judging by the interview, the pressure from the National Assembly members made the recruitment process less than 100% merit driven. This gives an idea of some of the challenges of Executive Agencies operations which circumstances always require for it to manage stakeholders interest of patronage. Beyond the external stakeholder's influence of direct recruitment, there is also the issue of managing the internal HR process of transiting the former FBIR staff to FIRS.

Several staff from FBIR lacked the possession of the qualification defined by FIRS and indicated interest to transit to FIRS. This led to the setup of the Transition Committee to supervise the transition of staff of FBIR to FIRS base on the criteria that all staff of the FBIR will be transited to FIRS only on the condition of meeting the minimum educational requirements of having Higher National Diploma (HND) or Honors Degree as provided in the FIRS HRPP. Those who do not possess such qualification will be given a conditional transition letter that gives them a period of 5 years grace period to gain such educational requirement otherwise the offer will be terminated and exited from service with full exit entitlements. The thought behind the policy is that the institution intends to adopt technology using various operating software's in its operations so will require officials to possess certain level of educational level to operate within the system[ CITATION FIR197 \l 1033 ].

Considering the issues of substandard quality confronting some of the educational system in Nigeria, the fear is it might just lead to officials acquiring certificates from some educational institution after four years without necessarily learning which will totally defeat the whole essence of the policy.

This reservations was confirmed by [ CITATION FIR193 \l 1033 ] who said that the challenge with the transition arrangement was that quite a number of those affected submitted certificates in line with the condition of their transition offer. But during the interview process where the transition committee will interview each before making their recommendations to the Board, there noticed most of the interviewees cannot remember their research topic and discuss what exactly their discipline was about and how it can add value to FIRS as an institution.

The assumption is that the essence behind the policy is to have a knowledge driven workforce that is well educated and intellectually equipped to drive and sustain the reform effort of the Service.

Speaking to [ CITATION FIR192 \l 1033 ] who is a Program Manager at the Information and Communication Technology (ICT) Governance Unit, he

mentioned that he was working with a telecom company called Globacom as Software Engineer when he saw the job advert and applied to work for FIRS. For him it has been an interesting experience so far. First quite a lot of young, educated and Experienced hire were recruited with him into the service from different professional background and organizations thereby creating an emerging generation of workforce in the service that immediately tapped into the reform programs of the service. He was part of the team that deployed and drive the adoption of the use of Microsoft official emails for all staff, worked with the team that integrated FIRS web portal which is the field office operational website that is integrated with the Nigeria Customs Service (which is separated from the tax authority unlike in some other countries where there are merged together), and the Corporate Affairs Commission (CAC) etc. This opportunities for him has given him the platform to add value by improving the performance of the service.

Ability of the service to attract different professionals is an indicator of its public image and expectation that it possesses a competitive condition of service that can retain those employed so there can build a career within. In 2010, 1900 staff were recruited and another 1320 in 2012[ CITATION FIR196 \l 1033 ]. From conversation with the FIRS Officials, those employed have handled various projects of the service in facility management, project management and HR, Tax Reforms processes, IT deployment etc. It will be however instructive to find out the social relationship between the former FBIR officials (that transited) with the newly recruited hires and how it has reflected in the general operations of the service and the succession planning especially as it affects the leadership of the institution. Reading the induction presentation of the Executive Chairman to the newly recruited officials she said

*For the newly recruited staff in the Service, let me welcome you to FIRS and wish you every success. Like all new staff into an organisation, there will be different degrees of reception to your entry into the FIRS. Some existing staff will welcome you, others may stay neutral, and some may be hostile. Gradually though, as you add visible value to the organisation, and to the people you work with, you should hopefully get more converts by the day to full or near full acceptance. My experience when I was headhunted and invited to join the FIRS six years ago, is no different. I am proud to be a part of the FIRS family achieving all we have achieved and continue to achieve together. I use my example to let you know that what you are facing or will face will not be unusual. Rather it is a challenge to you to prove your worth and to defend the rigorous process you all went through without exception. You all went through screening processes and those processes continue even after employment. Your ability to be confirmed and accepted will be*

*dependent on your performance and satisfactory conclusion of the requirements for your confirmation.[ CITATION Omo10 \l 1033 ]*

Most of the interviewees were silent about their various experiences of the social relationship between the officers of the FBIR and the new hires that joined after the reform. I can only be speculative that it must have resulted to different shades of reactions from fear and reservations especially of new talents and skills joining the agency which might be intimidating for some to support and reception to some others who are open to new challenges and embracing new ideas.

### **5.3 CONCLUSION**

The reforms in FIRS have been discussed with few variables of the reform areas tested through the interview session of few of its officials and other research works on the subject matter. The areas that it tested includes the role of the CEO in driving reforms, to what extent did the reform drive efficiency in service delivery, the funding regime and independence to manage its human resources. Closer focus was on the administration of Ifueko Omoigui the then Executive Chairman of FIRS who piloted the reform process and how some of experiences of that period shaped the nature and character of today's FIRS.

From all indications, the reform has led to an improved performance of the service in the areas of improved revenue collection, better productivity tools and work environment, recruitment of the right skills through the motivation of competitive salary package etc. Though the institution is still battling with managing external influences in its HR processes specifically in recruitment because of the influence of stakeholders that have influence on the institution. Further research might reveal more aspects of the FIRS reforms, especially as it affects its relationship with the politics of the state. It will be instructive to find out how the interplay between political actors of the state affect the independence of FIRS in its operations.

## CHAPTER SIX: CONCLUSION

### 6.1 SUMMARY AND CONCLUSIONS

In the light of the financial challenges confronting most SSA states it becomes expedient to focus on their domestic revenue generation to meet developmental needs than depending on financial Aids or collection of loans from the International financial institutions (IMF, Paris club, World Bank).

The FIRS Establishment Act (Autonomy) was passed in 2007 as a product of the tax reforms in Nigeria to improve the revenue collection and services of the institution. Before then it was an extra-ministerial department at the Ministry of Finance whose productivity was highly limited due to funding limitations, lack of skilled workforce due to non-competitive remuneration, unconducive working environment etc. The adoption of agencification as an institutional reform instrument made Nigeria part of the SSA states that adopted ARAs.

The focus is understanding what the experience has been so far in the implementation of agencification and if such experience has improved the capacity to collect taxes by FIRS.

#### 6.2.1 Leadership

The role of the leadership of an institution is very critical in the driving and sustaining of reform efforts. From the interview conducted and research sources examined, the then Executive Chairman of FIRS was able to midwife the reform process through her commitment, engagement with external stakeholders and administrative skills to manage talents. Listening to her interview session on **transforming public institutions** she said that.

*one of her major challenge was getting succession planning right. Because it is not only one person (administrative tenure) that builds an institution but rather a succession of several leaders that builds an institution [ CITATION Int17 \l 1033 ]*

Her observation is crucial in building an institution but considering that the position of the Executive Chairman of FIRS is a political appointment by the President, it becomes a product of the political dynamics or settlement of the state. The FIRS Establishment (Autonomy) Act spells out certain professional qualifications and experiences before anyone can be appointed as Executive Chairman. To ensure this provision of the Act, the President should avoid appointing a politician or someone who had once contested or occupied an elective position of government considering the sensitivity of the position and nature of the operations of the revenue service.

Other areas include building of sustainable structures and develop a strategic plan. Carefully outline the role of FIRS, the Executive Chairman, and the Board and set up relevant structures as contained in the various enabling laws.

### **6.2.3 Efficient Service Delivery**

Part of the outcome of the reform efforts of FIRS is the adoption of technology to drive its activities. Almost all staff were allocated computers and trained on the use of computer software in carrying out their everyday functions. The Taxpayer Service Department was established and incorporated within each of the various field offices to build customer relationship with taxpayers. They also generate Tax Identification Number (TIN) for taxpayers without any charges.

Some of the challenges reported so far were that some taxpayers had to part with money to the officials of the taxpayer service before their TIN was generated. When asked how many cases have been officially reported and such officials disciplined the response was descriptive about how corruption within FIRS has reduced but no numbers to validate the position. The consensus from all those interviewed was that corruption have really reduced when compare to before the autonomy reform mainly due improve condition of service, to the adoption of technology, the use of collecting banks for payment of taxes unlike before where payments are made to the various tax offices.

### **6.2.4 Funding**

Funding is one of the two critical areas of the FIRS Autonomy. The financial independence from the MOF is very important to avoid meddling in the operations of the service. The Finance Minister is mostly a high-level political actor in any political administration, so it will be crucial to separate the revenue authority from the MOF to avoid the possibility of using the institution to achieve or score political interest.

The FIRS financial autonomy has enabled the service to fund building projects like the building of prototype offices nationwide. The plan is to acquire its own buildings by reducing the properties rented by the agency. The working environment looks more conducive through the purchase of modern office working tools and furniture, pool vehicles and importantly the capacity to now pay a competitive salary scale.

There should be full transparency on how FIRS budget is spent and disclosure regarding FIRS' own compliance with its tax obligations. Use data to inform administrative policies and consider impact of changes on FIRS and taxpayers in the short, medium and long term.

### **6.2.5 HR Autonomy**

The ability of FIRS to totally have control of its HR can be considered a watershed when especially you consider where the organization is coming from. The improved funding has enabled the agency to review salary of its officials to be able to attract the right skills and professionals into the service. Vacancies in areas can easily be filled either through internal advert or external advert if none within possess the requisite skills needed for the position. There is also provision for headhunting especially for senior positions for those with specific scarce skills or experience.

Despite the funding autonomy of FIRS, its annual budget still needs to be appropriated and passed into law by the National Assembly. This mostly can be tool of engagement (or blackmail) to arm-twist FIRS into breaching its rules like accepting candidates for employment without following the merit process, interfering in the procurement process of the service by expressing interest through various companies as fronts to provide services etc.

### **6.2.6 Relationship with Stakeholders**

The outcome of the interview shows critical engagement with the Ministry of Finance, National Assembly, Federal Civil Service Commission, Attorney General of the Federation. There is the need to see more engagement with the private sector and professional bodies as input to areas the reform of FIRS can be improve. The Institute of Chartered Accountants of Nigeria (ICAN), Chartered Institute of Taxation of Nigeria (CITN) are among the key professional bodies that should regularly be engaging the agency on improving its operations. Other government agencies that FIRS need to collaborate more with includes the States (provinces) Internal Revenue Service, Nigeria Bureau of Statistics, Nigeria Investment Promotion Commission, Budget Office, National Planning Commission, Economic Advisory Council, Economic and Financial Crimes Commission (EFCC) etc.

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**APPENDICES**

Approval by FIRS for Invitation letter to the Federal Inland Revenue Service to Conduct Interview of its Officials

[www.firs.gov.ng](http://www.firs.gov.ng)

Revenue House,  
15 Sokode Crescent Wuse Zone 5,  
Abuja, Nigeria  
27<sup>th</sup> February 2019

University of Cape Town,  
Post Office Box Private,  
Rondebosch, 7701,  
South Africa

Dear Sir/ Ma,

**RE: INVITATION FOR THOMAS EDOYE (THMEDO001) FOR RESEARCH STUDY WITHIN THE SERVICE**

I am writing on behalf of the Service to invite Mr. Thomas Edoye with a student number THMEDO001, from the University of Cape Town to embark on his research towards his master's program at the university. The ministry is much happy to invite him for study for his thesis on the topic: **The Effects of Agencification on the Performance of the Federal Inland Revenue Service of Nigeria.**

The ministry is ready to assist him with all the necessary information needed during his stay for the period of 15<sup>th</sup> April to 20<sup>th</sup> June 2019. Attach is a subsistence cost for been in the ministry which is \$1,315 Thank You

Hope our invitation meets your request and be considered. For much detail on the above, can contact me via the email above.

Signature removed to avoid exposure online

Ojiugo Akpachiogun,  
Senior Manager,  
Federal Inland Revenue Service, Nigeria  
[ojiugo.akpachiogu@firs.gov.ng](mailto:ojiugo.akpachiogu@firs.gov.ng),  
+2347086474789

# Email Notification of the interview to the Participants who are all Officials of FIRS

1/14/2020 Mail - Edoye Thomas - Outlook

## Request for Research Interview Appointment

Edoye Thomas <THMEDO001@myuct.ac.za>  
Wed 2019/04/17 08:46

To: mike.adoga@firs.gov.ng <mike.adoga@firs.gov.ng>; efe.omorodion@firs.gov.ng <efe.omorodion@firs.gov.ng>; ifidon.omokhomion@firs.gov.ng <ifidon.omokhomion@firs.gov.ng>; talatu.omokhomion@firs.gov.ng <talatu.omokhomion@firs.gov.ng>; ifeanyichukwu.aniyie@firs.gov.ng <ifeanyichukwu.aniyie@firs.gov.ng>; vincent.odili@firs.gov.ng <vincent.odili@firs.gov.ng>; ikechukwu.okechukwu@firs.gov.ng <ikechukwu.okechukwu@firs.gov.ng>; emeka.nwankwo@firs.gov.ng <emeka.nwankwo@firs.gov.ng>  
Cc: Viothan Naidoo <vinothan.naidoo@uct.ac.za>  
Bcc: Edoye Thomas <THMEDO001@myuct.ac.za>

Good Morning,

My name is Edoye Thomas, a second year Masters of Philosophy student of Public Policy and Administration at the University of Cape Town, South Africa. I am conducting a research on **"the effects of agencification on the performance of FIRS, Nigeria"**.

The research intends to study to what extent has the FIRS Autonomy Act 2007 been implemented and the impact on the performance of the service.

The interview intends to use Informant Interview approach which basically is selecting individuals who were/are actively involved in the core subject matter of the research base on their roles and positions . This basically explain why you were selected for the interview with the hope that the data gather from your experience will guide in the outcome of the research.

I will be glad to be contacted when you will be available for the interview between now and next week.

NB: Find attached the Ethics Informant Sheet for the research.

Kind Regards

Thomas Edoye

Sent from [Mail](#) for Windows 10

<https://outlook.office.com/mail/search/id/AAQkAGI4ODNmNGQ1LTA5OWMlNDM3ZC04OTdhLTJkY2Y5MjY1Y2U3MwAQADpuVnVh4H5Cp3osHDSsf...> 1/1

## The Interview Questions Attached to the email to the Participants

1/14/2020 Mail - Edoye Thomas - Outlook

**Re: Request for Research Interview Appointment**

Edoye Thomas <THMEDO001@myuct.ac.za>  
Tue 2019/04/23 16:22

To: mike.adoga@firs.gov.ng <mike.adoga@firs.gov.ng>; efe.omorodion@firs.gov.ng <efe.omorodion@firs.gov.ng>; ifidon.omokhomion@firs.gov.ng <ifidon.omokhomion@firs.gov.ng>; talatu.omokhomion@firs.gov.ng <talatu.omokhomion@firs.gov.ng>; ifeanyichukwu.aniyie@firs.gov.ng <ifeanyichukwu.aniyie@firs.gov.ng>; vincent.odili@firs.gov.ng <vincent.odili@firs.gov.ng>; ikechukwu.okechukwu@firs.gov.ng <ikechukwu.okechukwu@firs.gov.ng>; emeka.nwankwo@firs.gov.ng <emeka.nwankwo@firs.gov.ng>; Ojiugo C. Akpachiohu <ojiugo.akpachiohu@firs.gov.ng>; Nosagiagbon Uwaifo <nosagiagbon.uwaifo@firs.gov.ng>; PETER IBIE <ibie.owie@firs.gov.ng>; EBAMUGHA SUOWARE <michael.suoware@firs.gov.ng>

Bcc: Edoye Thomas <THMEDO001@myuct.ac.za>

Please find below questions that will be asked during the interview;

1. Please provide details of the role you played in the implementation of the FIRS Autonomy Act reforms.
2. What was the experience with regards to stakeholder support to the implementation process of the reform?
3. How would you describe the effect of the FIRS Autonomy Act on the following areas?
  - a) operational efficiencies,
  - b) political accountability,
  - c) staffing and budgeting autonomy,
  - d) client responsiveness/relations, and
  - e) performance monitoring?
4. To what extent did the implementation of the FIRS Autonomy Act allow the service to attract qualified professionals
5. To what extent has the implementation of the FIRS Autonomy Act impacted on the relationship between the Ministry of Finance, and Federal Civil Service Commission?
6. What has been the effect of the implementation of the FIRS Autonomy Act on staff

Sent from my Samsung Galaxy smartphone.

----- Original message -----  
From: Edoye Thomas <THMEDO001@myuct.ac.za>  
Date: 17/04/2019 7:46 am (GMT+01:00)  
To: mike.adoga@firs.gov.ng, efe.omorodion@firs.gov.ng, ifidon.omokhomion@firs.gov.ng, talatu.omokhomion@firs.gov.ng, ifeanyichukwu.aniyie@firs.gov.ng, vincent.odili@firs.gov.ng, ikechukwu.okechukwu@firs.gov.ng, emeka.nwankwo@firs.gov.ng  
Cc: Vinothan Naidoo <vinothan.naidoo@uct.ac.za>  
Subject: Request for Research Interview Appointment

Good Morning,

<https://outlook.office.com/mail/search/id/AAQkAGI4ODNmNGQ1LTA5OWMiNDM3ZC04OTdhlTJKy2Y5MjY1Y2U3MwAQADpuVnH4H5Cp3osHDSsf...> 1/2

## Ethics Clearance Approval from Politics Department



**UNIVERSITY OF CAPE TOWN**  
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

Department of Political Studies  
Room 5.33 • Leslie Social Science Building • Upper Campus  
University of Cape Town • Private Bag X3 • Rondebosch • 7701  
Cape Town • South Africa  
Telephone: +27 21 650 3381  
Fax: 021 650 3799  
Email: [hum-politics@uct.ac.za](mailto:hum-politics@uct.ac.za)

To: Dr. Vinothan Naidoo  
From: A/Prof Thiven Reddy  
Subject: Ethics Clearance  
Research: The Effects of Agencification on the Performance of The Federal Inland Revenue Service in Nigeria  
Date: 24<sup>th</sup> April 2019

This letter confirms that the student researcher, Mr Thomas Edoye (THMEDO001) Ethics Project Title: The Effects Of Agencification On The Performance Of The Federal Inland Revenue Service In Nigeria has been approved by the Political Studies Ethics Committee on the 24<sup>th</sup> April 2019.

Signature removed to avoid exposure online

A/Prof Thiven Reddy  
Ethics Committee  
Department of Political Studies

“OUR MISSION is to be an outstanding teaching and research university,  
educating for life and addressing the challenges facing our society.”