INNOVATIONS FOR SUCCESSFUL SOCIETIES

A CHANGE AGENT IN THE TAX OFFICE: NIGERIA'S FEDERAL INLAND REVENUE SERVICE, 2004 - 2009

SYNOPSIS

In 2004 Ifueko Omoigui Okauru, a management consultant with no previous government experience, took on the challenge of fixing Nigeria's corrupt and dysfunctional tax system. As executive chairman of the Federal Inland Revenue Service, she was responsible for reforming a weak and ineffective organization to meet the needs of a changing country. To reduce its heavy dependence on oil, Nigeria needed to diversify its revenue streams beyond the petroleum sector. Improved tax administration offered an avenue toward achieving that goal. In overhauling the tax system, Omoigui Okauru had to overcome entrenched opposition from private consultants who earned high pay under the existing system, defeat the institutional inertia that characterized the revenue service, and curb the corruption that fueled citizens' distrust and hampered tax collection. To advance her vision for modernized tax administration, she recruited talented professionals and instituted specialized career tracks for employees, alongside additional training modules for existing staff and a reorganization of departments and functions. This case study chronicles the first five years of Omoigui Okauru's efforts to improve tax collection in Nigeria and offers an example of how an outside leader working with a team of experienced professionals can build the coalitions necessary for legislative, policy and administrative reforms.

Richard Bennet drafted this case study based on interviews conducted in Abuja, Nigeria in September 2011, and interviews conducted and text prepared by Itumeleng Makgetla in September 2009. Case published January 2012.

INTRODUCTION

A phone message greeted Ifueko Omoigui Okauru 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). Later that day, she spoke with the president. "He gave me 24 hours to make a decision because … my predecessor was leaving office on Monday," Omoigui Okauru recalled. "[The president] spoke to me on Thursday. He needed my feedback on Friday; he did not want any gap. So I said, 'OK, I'll take the job.'"

Forty-two years old, Omoigui Okauru had just left her consulting job and was musing over the possibility of opening an African furnishings business. Throughout her career, she had taken unexpected steps, often against the advice of her friends and family. Although she was the top science student in her class at the University of Lagos, she decided to study accounting and went on to earn a degree with honors. In 1983, colleagues questioned her decision to leave her job at the consulting firm Akintola Williams Deloitte just as she finished her internship, in order to start as an audit trainee at Arthur Andersen, an international accounting firm specializing in auditing, tax and consulting services. She climbed through the ranks of Andersen Consulting and became a local partner. In 1996, just two years shy of becoming an international partner, she decided to start her own independent consulting firm despite the admonitions of friends who told her she would be "starting from scratch" at the peak of her career.

Omoigui Okauru faced her toughest challenge in leading a reform of Nigeria's tax administration. Obasanjo, entering his second term as Nigeria's president, believed that as an outsider with no government ties, she would be an unfettered and energetic champion for tax reform. The country depended on the oil industry for 80% of its revenue, and Obasanjo recognized the need to broaden Nigeria's revenue base. Omoigui Okauru understood the core issue. "In any event that the oil prices change or production levels change, … the whole society was going to be in trouble," she explained.

Nigeria had a long history of relying on the taxation of primary products. Before the oil-price boom of the early 1970s, the country had generated most of its revenue from agricultural exports. Tax revenue had never played a strong role in the country's management of fiscal policy.[1] Improved tax collection promised a sustainable source of revenue that could help alleviate the country's external debt of nearly US$36 billion in 2004. "The president was thinking about the whole economic reform agenda," Omoigui Okauru said. "If government … did not look at how to build a sustainable revenue base, every other developmental plan, objective, goal could not be met."

The Nigerian constitution vested the FIRS with the authority to collect taxes but allowed the federal government to delegate certain tax collection to the state level. As the administering arm of the federal government, the service was responsible for levying company income taxes, petroleum profit taxes, value-added taxes, corporate capital-gains taxes, and stamp duties. The FIRS also managed employers' withholding of personal income taxes and administered personal income taxes for workers in the capital city of Abuja. By the early 2000s, the FIRS collected approximately 70% of Nigeria's total tax revenue, with the balance collected by state and local tax authorities. A separate federal service collected customs and excise duties on imports and exports.

In the early 1990s, the federal government began a review of tax administration that culminated in a 1993 presidential decree to expand the size and responsibilities of the existing Federal Board of Inland Revenue and establish the FIRS as the board's operational arm. The review also spurred the board to draft new tax legislation, including the institution of a value-added tax (VAT). But despite the reorganization, tax administration was still subject to staffing and budgetary limitations like many other departments in Nigeria's civil service.

By 2003 the FIRS faced significant problems, particularly with regard to capacity. The ratio of licensed tax professionals to support staff was low, as only 12.6% of the 7,600 total staff held certification from an accredited tax institution.[2] Because the Federal Civil Service Commission made all personnel decisions, the FIRS had little control over hiring, training and discipline. When she took over in 2004, Omoigui Okauru discovered that the FIRS had made little effort to investigate corruption complaints, much less press the civil service commission to take disciplinary action.

Omoigui Okauru's drive to increase tax revenues required her to rebuild the FIRS. During the next three years she organized a management team that included both experienced directors and outsiders. Together, they led an initiative to reform Nigeria's laws, administration and policies on taxation while moving ahead with internal changes. By 2007, when the National Assembly approved the FIRS Establishment Act, Omoigui Okauru's reforms were already well underway. The legislation increased the revenue service's autonomy from the Ministry of Finance and allowed the FIRS to recruit its own staff, expand its capacity and automate the collection process in order to reduce corruption and improve taxpayer compliance.

Throughout the reform process, Obasanjo supported Omoigui Okauru's agenda, knowing the importance of tax reform to the future of Nigeria's economy. Samuel Sunday Ogungbesan, FIRS tax director in 2011, stressed that the president's backing was crucial to the success of the reforms. "Once government is on your side, the job is more easily done," he said.

Improving tax administration required more than internal reform. Many Nigerians were not willing to pay taxes because they did not see the government using their money effectively to provide and improve services. Mark Anthony Dike, FIRS director of tax policy in 2011, noted, "The quid pro quo that is necessary for taxation was simply not there."

Because successful reform required changing the perceptions of taxpayers as well as reworking the administering agency, Omoigui Okauru knew that she needed to create goodwill. "Building a tax culture, rejiggering the tax organization, and building an institution that should stand the test of time. For me, that is a critical aspect of the development of this country," she said. Failing to build an institutional foundation for tax administration, she added, "would affect every other sector in the economy." This case study chronicles her efforts and documents the challenges of building coalitions in the face of entrenched interest groups.

THE CHALLENGE

Problems—especially a lack of reliable funding—had persisted at the FIRS for years prior to Omoigui Okauru's arrival. Her predecessor as executive chairman, Mallam Ballama Manu, recalled, "When I arrived [in 2001], over those first few weeks, I was surprised to discover that the institution was grossly underfunded." Although the FIRS was responsible for generating revenue at the federal level, the service faced a drawn-out budgeting process just like every other government department. Political wrangling often delayed the federal budget's approval, leaving the FIRS without funds to pay its staff. Resource delays and shortages hurt revenue-collection efforts and undercut government spending. By the early 2000s, the Nigerian government limited domestic spending to the amount of revenue collected, as part of efforts to reduce the country's debt; further borrowing was not an option. The cash budget system, intended to reduce the budget deficit and improve fiscal discipline, caused unpredictable fluctuations in appropriations to ministries.

Without knowing how much money they would have to spend on their own operations during the year, FIRS managers could not move ahead with plans to improve revenue collection. Although the government collected nearly 700 billion naira (US$4.5 billion) in 2003, hundreds of unregistered businesses did not pay taxes and many registered firms evaded levies. According to the World Bank, Nigeria's tax revenue accounted for 0.18% of gross domestic product in 2005, compared with 17.61% for all of Sub-Saharan Africa. Omoigui Okauru estimated that the FIRS was losing at least 12 billion naira (US$92 million in 2004) per year in collection-related fraud. Like her predecessor, Omoigui Okauru saw the need to invest in technology that could automate the collection process and modernize tax administration. But she also saw that the cash budget system did not allow her to direct resources to those areas, such as computers and personnel training, that needed the most improvement.

Staffing presented another cause of the low and uneven tax collection. Part of the problem was that the revenue service had too few trained staff. Because the FIRS collected each type of federal tax separately, many staff members specialized in a single type, such as the value-added tax, and had limited knowledge of other types, such as the levy on petroleum profits. In describing tax collection prior to her arrival, Omoigui Okauru recalled, "If you wanted to pay withholding tax, you went into an office. If you wanted [value-added tax] you went into another office, if you wanted to pay [corporate] income tax, you went to another office. … None of them were linked."

In addition, employee skills were out of date because the FIRS had not provided training courses for more than a decade. Without regular training courses and evaluations, directors did not have comprehensive, accurate data on staff qualifications and background, and therefore lacked the basic information upon which to base plans for reform.

Nigeria's federal system complicated tax collection. The FIRS dealt primarily with taxes levied on companies rather than individuals. States had the authority to collect personal income taxes, road taxes, and an assortment of other levies on individuals. In the late 1990s, the federal government created a Joint Tax Board. Chaired by the head of the FIRS, the board included representatives from each state revenue service and worked to harmonize collection policies. However, disjointed and inconsistent practices persisted in the absence of strong federal leadership. Individuals and companies often had to visit several offices at the local, state and federal levels in order to pay their taxes. All of these factors contributed to low compliance.

In the past, both state and federal tax agencies had contracted with private "tax consultants" to collect payments in exchange for a cut of 10%-20% of each tax bill. Although the practice, called tax farming, dated back to ancient Rome and was used in many other parts of the world, the system had serious consequences for public relations in addition to obvious shortcomings in terms of costs and accountability. The consultants often abused citizens by demanding cash in an "unprofessional, crude and violent" manner, according to Ayodele Odusola, an economist with the United Nations Development Programme.[3]

The practice continued even after the government passed legislation to ban the use of the consultants in 1998. In 2003, just before Omoigui Okauru joined the revenue service, the Joint Tax Board made a second attempt to eliminate the practice but again failed. To her dismay, even as she began work in 2004, she received applications from tax consultants offering their services. "The moment I took office, I must have received close to 100 proposals from tax consultants telling me to work with them, that they will collect taxes for me," she recalled.

Corruption was another challenge. During her first months in office, Omoigui Okauru heard allegations that her staff had stolen money and negotiated with taxpayers, but the department responsible for disciplinary action in the revenue service had not brought any cases to her attention. Samuel Sunday Ogungbesan, the FIRS coordinating director of tax operations, remembered, "There was lots of corruption, and people were disgruntled and unhappy." Corruption signaled the inability of the central office to monitor and control the operations in its component departments and regional offices. "I wanted to tell the taxpayer that the FIRS is here to provide a service—we want to work with you," Ogungbesan said. "But the taxpayers say, 'Look at what your officers are doing when it comes time to collect.'" In order to improve tax administration, Omoigui Okauru would need to change the attitudes and mindsets of her staff as well as the institutional framework of the Federal Inland Revenue Service.

FRAMING A RESPONSE

"I must say that I didn't know what to expect," said Omoigui Okauru, recalling her decision to take the job as the head of the FIRS. "I hadn't the foggiest idea. … I had never worked in government." Seeking guidance, she called her predecessor, Manu, who planned to return to the banking sector now that his interim term at the FIRS had ended. Manu explained to Omoigui Okauru that the FIRS had begun plans for reform. "The good thing is that you can drive the reform," he told her. "The bad thing is you are not going to be paid a good salary." He described the FIRS position as an opportunity to shape tax administration for Nigeria's future. When she spoke to the president to confirm her interest in the job, he asked if she wanted a special salary arrangement. "I said, 'Well, no,' because if I was driving the change, I needed to feel how others in the system were feeling," she explained. In May 2004 she arrived at FIRS headquarters.

As Manu had mentioned to Omoigui Okauru on the phone, FIRS reform efforts had started in 2002 when Finance Minister Mallam Adamu Ciroma appointed a 20-person study group to evaluate the revenue service and develop recommendations to strengthen tax administration, legislation and policy. "It's an unwritten rule, but everyone knows that there has to be a review of tax policy in Nigeria just about once every 10 years," Ogungbesan, the director of tax operations, explained. Although the finance minister officially initiated the effort, internal FIRS directors played an important role in pushing for the review. "We find that he who wears the shoes knows where it pinches," recalled Dike, the FIRS's director of tax policy and secretary of the study group.

Adedotun Phillips, a professor who had been director-general of the Nigerian Institute of Social and Economic Research, a government-funded think tank, served as the head of the study group. Divided into eight subcommittees with representation from the public and private sectors, the study group worked for six days every month for a year and completed their work in July 2003. The review coincided with the 2003 presidential election, and Obasanjo's reelection platform included promises of tax reform. When the president approached Manu and asked him to review the tax policy, the FIRS head pointed to the efforts already underway. The reforms fit the president's political and economic agenda, and therefore had support from the highest level of government.

As part of the reform effort, members of the study group traveled to other countries to examine tax-administration policies and implementation firsthand. Kabir Muhammad Mashi, a FIRS coordinating director who traveled to Malaysia on one of the fact-finding trips, recalled how the visits provided concrete examples of what was needed in Nigeria and how it should work. "What we saw in Malaysia was an automated, modern system," he said. "They had their own corporate headquarters, and it was well furnished. And the staff were dedicated."

The group recommended that the government reconfigure national tax policy, tax administration and tax legislation. In order to strengthen tax administration personnel and develop a new tax policy, Nigeria had to increase the autonomy of tax authorities and review closely all tax legislation, including provisions for incentives and waivers. Abiola Sanni, a senior lecturer in the law faculty at the University of Lagos, described Nigeria's tax system as chaotic. "You have a long list of taxes that are generating very little," he said. "You are creating problems for the administration and for taxpayers." The study group recommended a simplified tax code with broad-based levies on income and spending.

In 2003, new Finance Minister Ngozi Okonjo-Iweala assembled a working group, led by Seyi Bickersteth, a senior partner at the international consulting firm KPMG, to consider the report. The previous study group had outlined the problems and made broad, thematic recommendations. Bickersteth's working group had the task of developing specific policy recommendations. The group comprised government officials and representatives from the World Bank, the International Monetary Fund and the private sector. Its findings echoed the study group's recommendations for a national tax policy and the creation of an autonomous national customs and revenue authority funded by retained tax revenues.

But the working group did not adopt all of the study group's recommendations for simplifying the tax code. Sanni noted that the working group in particular did not favor some of the study group's more drastic changes that called for increased power for state governments. "We have a system where the states do not need to generate anything," Sanni said. "They just go to the federal government at the end of the month. This is the root of corruption, in my own view. This is the root of inefficiency. This is the root of misallocation of resources that we have everywhere in Nigeria." Many states sought increased control over tax collection, which would lead to greater state discretion over their own budgets. But with the federal government driving the reform process, appeals for increased state power were a low priority.

The reports from the study group and the working group provided Omoigui Okauru with a solid understanding of the problems facing the FIRS when she arrived in 2004 as executive chairman. "Those two reports had, over a two-year time span, comprehensively reviewed the issues in the tax system and made recommendations, and that's when I came in," she recalled.

During her first months in office, Omoigui Okauru built a team of senior managers to help her develop a plan of action. As an outsider, she relied heavily on the institutional memory and working knowledge of experienced managers. Her team included veterans of tax administration, such as Elias Aderemi Sulu and Ogungbesan, each of whom had more than 30 years' experience working with the organization. Another member, Mashi, who had participated in the study group in 2002, had risen through the ranks of the Katsina state government's revenue service. Some key members had joined the FIRS during Manu's tenure, including Osy Chuke, an economist with a background in academia and finance. Chuke came to the FIRS in 2002, seconded from one of Nigeria's largest banks to help the revenue service develop more effective means for using commercial banks to collect tax revenue. Dike, another veteran of the FIRS, was a leading member of a reform effort during the early 1990s.

Omoigui Okauru and her team agreed to build their strategy on three pillars. First, they needed new laws that would fix the broken tax system and recognize the FIRS as an independent institution in terms of both funding and staffing. Doing so would be difficult and time-consuming. While that effort was under way, the FIRS team would lay the groundwork for the other two pillars: changing tax policy and reforming tax administration.

GETTING DOWN TO WORK

Omoigui Okauru's twin goals were to make the tax system "friendlier and also to build the FIRS itself as an autonomous institution." Although she was a newcomer to government, she recognized that achieving her aims would require a significant amount of political savvy. Building awareness and understanding among the board of the revenue service, the Ministry of Finance, the Federal Civil Service Commission, the president, the Cabinet, the National Assembly and the judiciary required painstaking attention. She said that she initially made presentations to all of them, in which she was "just selling the agenda, getting their support, getting their buy-in, seeking their help, which was day after day after day after day." She added that even when some early supporters later opposed the decisions of the revenue service, "What also helped was the fact that we went through those processes … so at least people could not fault you on not carrying everybody along. But it's no guarantee."

Omoigui Okauru also solicited the counsel of top managers to help her understand the interconnected challenges confronting the FIRS. She introduced herself to the top 60 members of the management team and conducted a survey to help set priorities. The survey asked the managers to identify the strengths and weaknesses of the organization, their vision for the FIRS, and the top three problem areas. "Based on their feedback … [we] worked together to develop what we call the tax-reform agenda," she said.

In 2004 Omoigui Okauru synthesized the findings of the reports and the survey to devise a plan with seven focus areas. At the core of the strategy was institutional autonomy and financial independence from the Ministry of Finance. The study and working groups had recommended that laws should authorize the FIRS to keep 4% of non-petroleum tax receipts to fund its operations, improve revenue generation and carry out the reforms.

Omoigui Okauru figured that this increased institutional autonomy—in terms of budgeting and the ability to hire and fire its own staff—would create the foundation for comprehensive institutional reform and enable the FIRS to develop solutions to the many other challenges it faced. "Because we are empowered financially, we are now doing a lot towards improving tax administration, especially from the non-oil sector," said Mashi, the FIRS coordinating director, who had supported increased autonomy as a member of the 2002 study group.

Along with gaining institutional autonomy and financial independence, Omoigui Okauru's seven initiatives included reforming human resources management and other internal practices, developing capacity (including staff training and infrastructure improvements), automating and modernizing tax administration, strengthening investigation and enforcement mechanisms for tax collection, auditing oil and gas companies and other large taxpayers, and educating taxpayers.

In 2005 the FIRS took eight tax bills to the Cabinet and subsequently to the National Assembly. Tax consultants were prominent among those who opposed the changes because of their vested interests in the status quo. The consultants stood to lose their lucrative livelihoods because of the proposed changes.

Omoigui Okauru stood fast in the face of the determined opposition and cited the Joint Tax Board's earlier condemnation of the role of tax consultants in collecting revenue. Her core argument was, "If I worked with you and not my staff, I would not be building an institution." She described beating back the tax consultants as "perhaps the single most vicious fight" of her tenure. "I didn't realize that it was that much of a problem, but it turned out to be one," she said. Tax consultants lobbied senators to delay the legislation, and started a campaign of misinformation that aimed to discredit Omoigui

Okauru and portray the reforms in a negative light. In 2007, after two years of determined effort by the FIRS team, the president signed into law the FIRS Establishment Act, which laid out the new powers and authority of the revenue service. The president also signed accompanying legislation that amended and updated aspects of the value-added tax and corporate income tax.

Although Omoigui Okauru had to shelve some of her planned reforms until the 2007 passage of the law granting the FIRS legal and financial autonomy, she was able to move ahead in many areas by using loans from the Federal Economic Reform and Governance Project, a World Bank program, with President Obasanjo's active support.

Improving staff management, expanding capacity

Beginning in 2004, the FIRS took the first steps to reorganize human resources management. But, although Omoigui Okauru recognized the need to align the hiring process with the requirements of the reform, the Federal Civil Service Commission controlled the recruitment, hiring, dismissal and discipline of the FIRS staff. As long as the civil service dictated human resources management, comprehensive reform was impossible. The FIRS lacked the money for proper staff training, development and performance appraisal. A joint committee with representatives from both the FIRS and the civil service met in 2004 to examine how they could optimize staffing levels, but Omoigui Okauru and her team understood that transformation required a departure from previous human resource practices.

As they waited for the National Assembly to approve the FIRS Establishment Act, team members began planning for the development of an integrated human resources payroll and pension management system. The system would manage personnel budgets and track the training and evaluations of the staff. Drawing on her experience in consulting, Omoigui Okauru also sought to build a performance management culture that evaluated staff based on results. "Even as we restructured, people knew what was going to be rewarded and recognized as performance," she 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 chairman's plans for improved tax administration. Until legislation allowed the FIRS to control hiring, the service took on consultants and employees on a contractual basis.

An unexpected political hurdle delayed the service's plans to implement its own human-resources policies. Although President Obasanjo signed the FIRS bill into law during his last days in office, the office of the new president, Umaru Yar'Adua, quickly suspended the revenue service's ability to begin direct recruitment. The head of the Federal Civil Service Commission had disputed the constitutionality of the law and argued that the commission should retain the power to manage personnel matters for all public servants. The attorney general took almost a year to rule in favor of the FIRS. For Omoigui Okauru, the delay illustrated the limits of building coalitions in support of reform efforts. "You can go through these processes, but the real test is what happens when you make that decision and you take that action. Then you'll know for sure those who are behind you, and those who are not," she said. "Even though I've made all of these presentations and everybody said they were with me, once … the FIRS Establishment Act passed in 2007, the first person to kick against it was one of the stakeholders."

Even when the revenue service had received statutory authority on hiring, other challenges impeded effective recruitment. Omoigui Okauru received constant requests from members of other ministries, the National Assembly, and other stakeholders to hire people they recommended.

"In their minds, they supported the institution and believed that they also need to be supported," she said.

The team prized transparency and fairness in the recruitment process. Although Omoigui Okauru and her team were open to the idea of hiring staff recommended by ministers and National Assembly members who had voiced support for tax reform, they wanted to limit such "stakeholder hires" to entry-level positions as much as possible. All new hires, regardless of who had recommended them, had to undergo standardized tests, followed by interviews with an internal hiring panel, and a formal induction course upon entry. By October 2009, 60,000 people had applied for the advertised vacancies. The FIRS hired many finance and accounting professionals who had lost their jobs in the wake of the global financial crisis in 2008, increasing the overall staff's level of talent and education.

In addition to hiring professionals, the revenue service began to improve the training of existing staff. Employees often had shifted from department to department as needs dictated, but after 2007 the FIRS concentrated on placing employees on career paths based on their particular skills. The service recruited on the basis of particular specialties and put new employees on career paths as well. Using a mix of domestic and international consultants, along with internal FIRS trainers, the service launched a program of mandatory annual training tailored to the skills that each position required. In addition, many staffers participated in quarterly skills workshops. Staffers worked with supervisors to identify areas where they needed to improve. Sometimes with the help of outside consultants, the management team designed educational modules for each area of specialization. Computer training was also a priority. From 2005 to 2007, 3,000 people—more than half of the FIRS workforce—learned various computer skills. Later, when funding autonomy led to increased revenue, management began to purchase computers and updated equipment for all employees.

Initially, the unions and the existing staff resisted the changes. They feared that under the new legislation, which set higher educational standards for employment, many would lose their jobs. To win their support, Omoigui Okauru approved a five-year grace period, until 2013, for staff to earn the required certification.

The reorganization of departments and offices was a major component of capacity expansion. In the past, separate offices had administered separate taxes for each region. As training improved the staff's ability to handle more than one type of tax, the FIRS began to consolidate its offices and integrate them into one-stop shops that enabled taxpayers to process all of their taxes at a single point rather than going to separate offices to pay each type of tax. Simplified payment procedures, including greater opportunities to pay taxes through banks, limited the opportunities for staff to negotiate with taxpayers and siphon off revenue.

Prior to the FIRS Establishment Act in 2007, Omoigui Okauru and her team closed offices with poor performance and moved staff to assignments where there was less interaction at the point of payment. The transfers and office closures created an uproar within the FIRS staff. Rumors spread that Omoigui Okauru intended to lay off all of the workers in closed offices, despite the fact that at the time the Federal Civil Service Commission still maintained authority over personnel decisions. Though she said that she "didn't consider the political implications of the decisions," she later realized that it was a "political minefield, but it was done." Though many offices initially closed, the service subsequently expanded the number of integrated offices across the country.

Modernizing and automating tax collection

In 2005, as a part of the reorganization effort, Omoigui Okauru formed the Modernization Department as an office that could stand apart from the day-to-day business of tax operations and concentrate on strategic planning for reform projects. Chuke, a member of Omoigui Okauru's senior management team who had experience working with the financial sector, coordinated the efforts.

Omoigui Okauru knew that automating tax collection would curtail corruption by reducing interaction between staff and taxpayers and increasing the FIRS's monitoring and tracking capabilities. Manual procedures, such as the generation of receipts, compliance tracking and tax clearance certification provided ample room for fraud. With a computerized system, the FIRS could monitor lapses in the collection process, identify individuals who were skimming revenue and reduce the number of fraudulent clearances.

But automating the entire system was not simple. "What was designed as a quick win turned into a marathon," Chuke said. "We underestimated the enormity of the task."

Working closely with the banking sector and several Nigerian information technology companies, the FIRS developed a taxpayer identification number (TIN) system to register and track tax payments for every company in the country. Companies could pay their taxes at one of many approved collection banks. The banks transferred payments to one of four lead banks, which then transferred the money to the Central Bank of Nigeria. The FIRS installed software that monitored the entire process and traced the payments to ensure accuracy. The changes required extensive negotiation and coordination with the banking sector over the course of several years. The TIN system officially launched in 2009.

The lack of a comprehensive register of taxpaying companies complicated the assignment of TINs. To create an accurate register of the tax base, FIRS launched a taxpayer enumeration project. The project aimed to widen the tax net by developing a list of actual and potential taxpayers. The service hired consultants at the regional and state levels to conduct the survey. As the register of companies with TINs grew, the service developed a taxpayer database. Efforts to synchronize federal tax collection with state and local tax collection to form a national taxpayer database were still in progress in 2011, but the FIRS had made significant headway in developing its own register of taxpayers.

Reducing corruption, improving compliance

The FIRS executive team understood that reducing corruption, increasing compliance and improving collection required more than automation. During her first months in office, Omoigui Okauru's team developed a code of conduct for FIRS staff. Ogungbesan, the director of tax operations in 2011, noted that changing staff behavior required "a mix of persuading, exhorting and encouragement." The team initially drafted the code of conduct after discussions with the staff and the unions. However, when team members asked staffers to sign it, the unions objected.

Omoigui Okauru said the unions accused the revenue service of introducing rules that did not exist elsewhere in the civil service. She realized that although the document had been circulated, the unions had not really bought into the changes. The FIRS's board of directors set up a committee to reconsider the code. Although it took three years for all parties to approve the code of conduct, Omoigui Okauru emphasized the importance of the negotiation and deliberation process in making sure all voices were heard.

Setting up an internal enforcement mechanism was an important step. Omoigui Okauru moved the department responsible for discipline under the direct supervision of her own office. In short order, the number of disciplinary cases brought to her attention began to mount, requiring her to seek additional help. She contacted the State Security Service, the federal government's main law enforcement agency, which assigned an investigator to her office to uncover further cases of corruption. The security service also provided help in monitoring staff activities in regional offices. Ogungbesan reflected that the moves signaled a significant change. "A few people were caught and dismissed," he said. "It set the tone and circulated the message that we mean business."

Under Omoigui Okauru's direction, FIRS management also brought the field operations policy, tax legislation, and tax policy departments under the Compliance and Enforcement Group, in order to coordinate policy with the civil and criminal investigations division, the legal division and the tax audit department.

Other measures were needed to help Nigeria comply with requirements of the Extractive Industries Transparency Initiative (EITI), which Obasanjo had joined in late 2003. The EITI, a coalition of governments, companies, civil society groups and international organizations, aimed to improve public access to information about the payments that oil, gas and mining companies made to governments, and to institute auditing standards and foster public debate on monitoring of the industries.

The FIRS began to strengthen its audit capacity in 2005 by expanding the manpower and training of its audit and investigations divisions. Omoigui Okauru's team upgraded internal financial systems and improved collaboration with the Department of Petroleum Resources, in order to eliminate discrepancies between the taxes levied on petroleum profits and actual production data. In 2004, Obasanjo officially launched Nigeria's efforts to comply with EITI, setting up an independent audit of the oil industry by a London-based consulting firm in 2005 and 2006. The initial audit shed light on an industry that had previously resisted transparency, though poor record keeping and the lack of cooperation from two of the major oil companies slowed the audit process. Still, the initial audit paved the way for the FIRS to conduct its own audit of all large companies in 2007, including those in the oil and gas sector. With the president's support providing political cover, the audits generated payment of tax arrears of 40 billion naira (US$260 million).

In 2007, the service established the Intelligence, Surveillance and Anti-Corruption Division in order to expand the efforts to detect tax evasion, tax-related fraud, bribery, the issuance of fake tax clearance certificates, and staff misconduct. The unit made unannounced spot checks in offices across the country. In 2009, the service landed its first conviction of tax fraud for the forgery of a tax clearance certificate.

Getting the word out: taxpayer education

Outreach was an important component of the reform process. A 2006 survey by a consulting firm found that much of the public viewed the service as corrupt and cited mismanagement of funds as the greatest disadvantage to paying taxes. The negative perception of the FIRS matched a pervasive public dissatisfaction with the government.

In 2007, the FIRS launched a massive multimedia public relations campaign that included a new logo designed to create a new "brand" for Nigeria's tax administration. Media advertisements highlighted the responsibility to pay taxes and the government services that the taxes funded. Billboards and posters featuring waterworks and freshly paved roads sprang up around the country. As part of the internal reorganization of departments, Omoigui Okauru's team allocated staff and resources toward a dedicated communications directorate.

Segun Sosimi, Omoigui Okauru's special assistant at the time, said the FIRS's public-image campaign represented a sharp break from the past. "We used to be selective about what events we went to, but now we seek out places where we can get the word out about the FIRS," he said. Because of complicated procedures, many businesses had not understood how the FIRS collected withholding taxes, for example. "It's like creating a fraternity. We share our pamphlets. It's an information campaign for the private sector," Sosimi said. The FIRS hosted information sessions at trade fairs, town hall meetings and road shows. The service also gathered important input from the private sector through the outreach campaign, and sought to incorporate the input in the 2009 draft of the national tax policy.

OVERCOMING OBSTACLES

Despite diligent planning and efforts to articulate their strategy for reform, Omoigui Okauru and her team faced significant resistance that delayed implementation. Overcoming these obstacles required her—a management consultant with no previous government experience—to learn how to navigate Nigeria's political arena.

To a large extent, the president's explicit backing shielded Omoigui Okauru from opponents who felt they had much to lose from tax-reform efforts. "So I didn't consider the political implications of the decisions I was taking," she said. For instance, regarding the revenue service's efforts to consolidate organizational units and collapse offices, she conceded that she had not thought through the implications for people's jobs and the politics of the outcome.

Other actions also engendered unforeseen opposition. Arriving as an outsider, Omoigui Okauru created animosity within the senior ranks of the FIRS by hiring contract workers from 2004 to 2007, when the new laws allowed the service to make its own financial and staffing decisions. Although the contract workers were loyal to her, many civil servants had longstanding loyalties to others in the organization. She learned that she had to build consensus for change among the seasoned directors, some of whom may have felt they were in line for the executive chairman position prior to her arrival.

In 2007, opposition spilled out into the open during the reconfirmation process for Omoigui Okauru's appointment to a second term as the head of the revenue service. "That's when I knew how unhappy some tax consultants were, because they were not in support of my reappointment," she said. Before leaving office in May 2007, President Obasanjo had nominated Omoigui Okauru to a second four-year term, and his successor, Yar'Adua, reconfirmed her nomination in June. Running into a series of hurdles set up by opponents, her nomination languished in the Senate until April 2008.

Although a Senate committee had recommended her, opponents lobbied hard to scuttle the endorsement. "If you look at the history of the Senate, there is probably a … world record there. It probably will show that my Senate confirmation took the longest time from when the committee finished its report to when they presented it," Omoigui Okauru said. After the Senate confirmed her, senators told newspapers that tax consultants had fed them misinformation about Omoigui Okauru that had delayed the confirmation process. The committee had also received a petition opposing her confirmation.

Throughout the confirmation process, Omoigui Okauru did not know the source of the opposition. "I wish I had recorded every day of that whole year, because there were times I would sit back and wonder, 'Now, where is this all coming from?'" she said. "You go for a meeting and they tell you that, 'I understand that you sacked all the persons from a particular part of the country in the FIRS.'" She would deny the claim but be told by others that they had received text messages confirming that she had taken such an action. "I said, 'Wait a minute, I haven't done any severance exercise. If there was any severance exit that was done, it was part of the entire public service reform.'"

During the delay, the Senate president encouraged Omoigui Okauru to talk with her opponents. "I had to go to nearly every senator to talk to them," she recounted. "A lot of them said that they didn't know me, [but] that I was always doing tax, tax, tax, tax! And this was politics, and I needed to become a politician, you know; they needed to know me." She thought the meetings helped because she was able to give her version of events in the face of accusations and misinformation.

Omoigui Okauru attributed her eventual confirmation to high-level support in the Senate and especially in the presidency. "If I didn't have the support of the president, I wouldn't be sitting here," she said.

ASSESSING RESULTS

In finally confirming Omoigui Okauru as the executive chairman of the FIRS for another four years in 2008, the Senate noted the work she had done to turn the institution around. Senator Patrick Akwashiki said, "We have worked with her when I was in the House of Representatives' Committee on Finance. She made the organization what it is today. There were so many loopholes in the past. She did so well. I know she will continue the good work."[4]

In addition to securing the passage of the landmark 2007 FIRS Establishment Act, the service overhauled tax administration and demonstrated significant increases in revenue collection. Nigeria's tax revenue grew to 8.8% of GDP in 2010, from 6.1% in 2005, according to data from the Organisation for Economic Co-operation and Development. In 2003, the government collected 698 billion naira (US$4.5 billion) in taxes. In 2004, that figure grew to almost N1.2 trillion (US$7.8 billion), and the total for 2008 was N2.9 trillion (US$18.8 billion). Government tax collection dropped in 2009 to N2.2 trillion (US$14.7 billion), reflecting lower receipts from petroleum profits as the global price of oil slumped at the end of 2008. Even when accounting for inflation, which ranged from 8% to 14% during the reform period, the figures represented significant increases in collection.[5]

Following the initial 2006 perception survey, the FIRS contracted for more polling of the public to assess its image. Although surveys in 2010 and 2011 showed marginal improvement in how the respondents viewed the revenue service, the perception of corruption and mismanagement remained. However, the surveys indicated that much of the dissatisfaction stemmed from concerns about the government's overall misuse of tax revenue rather than specific dissatisfaction with FIRS performance.

In line with Nigeria's economic goal of broadening the tax base and reducing dependence on the petroleum industry, the FIRS achieved significant progress in generating non-oil revenue. Combined non-oil revenues increased every year after the reforms began. According to FIRS records, 2010 non-oil revenue was N1.74 trillion (US$11.5 billion), more than six times the 2003 total of N265 billion (US$1.7 billion).

Given the sharp drop in the price of crude oil between 2008 and 2009, the increased non-oil revenue shielded the government from substantial revenue shortfalls. Education and outreach efforts also helped to establish the importance of non-oil revenue. When President Goodluck Jonathan came to office in 2010, his administration left the Federal Inland Revenue Service's organization intact, signaling the government's continued support for Omoigui Okauru, who remained in office in 2011.

REFLECTIONS

Like other reformers brought into Nigeria's government by former President Olusegun Obasanjo, Ifueko Omoigui Okauru came to the FIRS from the private sector. She noted that her lack of public sector experience might have helped her take steps that a more seasoned government official would have considered too politically sensitive. She was not aware of the established ways of doing things. "I didn't come with any preconceived ideas, and I think naivety in my approach helped, too," she explained.

Although former executive chairman Ballama Manu praised the institution for its improvement, he noted that as a member of the FIRS board of directors in 2011 he saw room for continued growth and improvement. "We are still just scratching the surface on how to improve compliance," he said. "How do you improve compliance? Through education? Through enforcement? Are the rates too high? Some people argue that if you don't see how tax revenue is being utilized to improve people's lives, why should you pay taxes? It's a challenge for the government." He summed up the strategy for improved taxation moving into the future: "Let the government demonstrate the efficient utilization of resources, so the average taxpayers would see where the money is going. The level of compliance would also improve through enhanced enforcement actions and better taxpayer services."

Abiola Sanni, professor of tax law at the University of Lagos, noted that the FIRS reforms could pave the way for increased centralization of tax administration, marginalizing the role of state collection agencies and reducing state control. "In a federal system, it's imperative for states to have some level of control over their tax policy, their tax laws, and their tax administration," he said. Although increased harmonization and integration of federal and state level tax administration could improve compliance, reforms also had the potential to limit state influence. Still, Sanni praised the improvements at the federal level. "The FIRS you see today is totally different from the FIRS we used to have. It's been set on the path of growth," he said.

Omoigui Okauru said she saw herself as a "change agent" rather than "a tax person." In the face of the opposition, she recalled, her "belief in the need to develop Nigeria" kept her going. "I think that whatever I am doing is helping to build Nigeria. … So whatever problems I face … I see them as just hiccups, just another hurdle," she said. "To build Nigeria, we need to build institutions, and the revenue service is one such institution."

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[1] Ayodele Odusola, "Tax Policy Reforms in Nigeria," *World Institute for Development Economics Research* 3 (January 2006): 1.
[2] Odusola, 22.
[3] Odusola, 25.
[4] "Senate Approves Omoigui of FIRS for Another Term," *Economic Confidential*, April 10, 2008 (http://www.economicconfidential.net/mayfirsomigui08.htm).
[5] Data from FIRS collection records. Inflation statistics from the International Monetary Fund's World Economic Outlook Database.

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