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ANALYTICAL COMMENTARY

Designing an effective subnational IGR expansion strategy (2)

THE MEDIUM-TERM REVENUE STRATEGY (MTRS) is tax dominant and narrowly focuses on tax reforms over the medium-term. The subnational government (SNG) internally generated revenue (IGR) expansion strategy is more broadly focused, covering virtually all non-tax revenue sources and revenue collection institutions. The IGR expansion strategy also avoids a puffy fixation on the medium-term but gives proper attention to ongoing performance in the short-term and developing more permanent fixes in the medium-term based on identified short-term inadequacies without losing focus on the long-term goals. Short-term goals naturally lead to medium and long-term achievement.

Stakeholders in the revenue-expansion strategy development process comprise taxpayers (individual and corporate), revenue-generating and revenue-collecting government agencies, the coordinating ministry, the media, civil society organisations, and representatives of women groups and people with disabilities. Usually, the Chamber of Commerce and representatives of the different organised private sectors, representatives of the top ten tax paying organisations, and organised labour groups make up a reasonable tax paying community sample. Revenue-generating and revenue-collecting agencies comprise public utility and public service-providing institutions such as hospitals, waste management agencies, traffic management agencies, motor licensing offices, and fee-collecting schools (primary, secondary, tertiary). These utility providers generate revenue by providing paid services and collecting revenue. However, these institutions remit the collected revenue to the Internal Revenue Service, authorised by law to aggregate all such revenue proceeds.

Additionally, apart from assigning revenue codes to facilitate the aggregation across other collecting institutions, IRS directly oversees tax collections as an everyday function. Therefore, the IRS, the ministry of finance, and the budget office are critical in coordinating stakeholders in the overall strategy development process. The Ministry of Finance supervises all finance-related activities at most subnational government levels. In most cases, too, the head of the finance ministry usually speaks the minds of the governor or local council chairman. Civil society organisations, particularly those focused on fiscal issues and relevant media organisations, deserve seats among strategy development stakeholders. Women groups, people with disabilities, and other vulnerable groups make the membership list to ensure that revenue-generating initiatives do not adversely inflame their socioeconomic conditions.

Because of its reasonably substantial stakeholder size, a steering committee of between five and eight is usually necessary. The steering committee oversees the process from a cross-MDA level. This committee plays a significant role in the IGR expansion strategy development course as they provide the overall process direction, define methods, and set or reset the progress tone. Members often include knowledgeable people drawn from various stakeholder groups. Other members usually elect the steering committee chairperson to avoid unwarranted bias.

Before designing any strategy, some level of preparation and planning is necessary. These introductory level activities include acquiring additional knowledge regarding the subject matter, reviewing previously published documents relevant to acquiring such additional understanding, engaging with stakeholders to determine their availability and exploring suggestions that may be helpful in project planning. At least four critical activities comprise the required pre-design preparation. These include reviewing critical documents, conducting dipstick investigation on constraints and taxpayer compliance risks, consulting with stakeholders and preparing a draft design process plan.

There are several relevant documents that the facilitator of an IGR expansion strategy needs to understand and review comprehensively. These documents include state and local government revenue laws and development plans, medium-term expenditure framework, medium-term revenue outlook and medium-term sector strategy. It might also be helpful to analyse the audited financial statements of the target state and local governments over five years at the minimum and documents showing natural resource availability and distribution. A detailed review of these documents would equip the facilitator with good knowledge of the SNG's medium/long-term fiscal direction and the size of untapped primary sector potential. These documents would not only show the spending priorities but present a veiled picture of revenue goals for adequately addressing the target spending.

Although some of the already mentioned documents ideally should contain basic information on risk exposures constraining revenue expansion, they are nevertheless not always granular enough in classifying taxpayers and peculiar risk exposures. Therefore, an exploratory dipstick study on taxpayer compliance risks, broken down by hierarchy, tax and non-tax types, is critical knowledge to possess and share with those participating in the ideation phase. Similarly, a high-level, exploratory investigation focusing on government utility services demand analysis and utility customer recency-frequency-monetary (RFM) analysis for top priority non-tax revenue sources is essential. These dipstick studies would help narrow the gap between perception and actuality regarding the potential of several identified revenue sources. These data sets and more information provide a broad context for meaningful IGR expansion strategy design.

The third pre-design activity is stakeholder consultation. One reason to consult stakeholders well before the brainstorming sessions is to secure their buy-in to the project. Stakeholders need to understand why it is necessary to put in place an IGR expansion strategy. They would also need to know the role they are to play in the process. Generally, it is crucial that stakeholders fully understand the likely beneficial and hurtful implications of the proposed activity and how the benefits far outweigh identified costs. Another reason is to dialogue and share their perceptions and views on a broad range of issues that ordinarily should play up at the design level. Such exploratory discussions may be in the form of private-public dialogues or group interviews by sectors or ministries. Based on this background, it becomes necessary to revert to these stakeholders when the strategy document is eventually in place for their validation. On a practical level, stakeholders must own the document and its ideas. Ideally, validation is a post-design activity to ensure that the contents of the eventual document are consistent with their collective agreement.

The fourth pre-design activity is the delineation of a robust design process plan. To achieve meaningful design outcomes, it is essential to carefully think through the design process from the beginning to the end. The process design should include adopting a high impact-yielding methodology for input management, brainstorming framework, criteria for idea rejection, consensus-building approach, and idea documentation format, in addition to other relevant considerations. Sometimes, the input management approach can take the form of presentations to clarify key elements of reviewed documents and approaches. But even the process of selecting those to make these presentations is clarified. In general, the lucidity and completeness of the strategy design process plan partially determine how solid and reliable the eventual document may be.

Four key elements define the SNG IGR expansion strategy design: design meeting and brainstorming, strategy documentation, strategy validation and clarification, and strategy operationalization and performance management. The design process plan contains details illustrating each element's required activities and processes.

The brainstorming sessions are at the heart of the design process. Learning from insights from reviewed documents and consultations, the brainstorming team defines optimal long-term revenue targets and develops a strategic roadmap that leads to their actualization. The new roadmap or the vital pathway would include the new targets and details of initiatives leading to their realisation, the work breakdown structure, clear implementation milestones, and the cost of delivering all these. Depending on the structure of the ideation process, there could be a combination of plenary and breakout sessions, with the former focusing on foundational issues while the latter dealing with strategic themes. For instance, the plenary session should be able to define the broad strategic direction and goals of the SNG IGR expansion.

In contrast, breakout sessions can focus on performance measures and indicators to drive them. The breakout sessions may also work on themes such as strengthening revenue collection institutions, domestic resource mobilisation policy reforms, technology adaptation and deployment, and legal issues. The strategic direction is the long-run revenue pathway consistent with the SNG's long-term development expenditure plan. The critical concern in framing the broad strategic direction is determining the revenue-expansion efforts required to successfully deliver the medium-term expenditure requirements and sustained effective implementation of the long-term development plan. The strategic goals are the pillars that support and energise the strategic direction, without which there would likely be consistent failures. The performance measures and the indicators for each of these goals are in a time-dimensioned structure to ensure sustained revenue-generating efforts across the short-term, medium-term and long-term.

Since the entire brainstorming session aims to produce a robust and implementable SNG IGR expansion strategy document, an effective documentation process is usually critical. Experts in note-taking and rapporteurs must be adequate to capture all consensus reached in the document. Note takers and rapporteurs work closely with chief facilitators and coordinators of breakout group sessions. At the end of the ideation and brainstorming sessions, the final output put together by the note takers and rapporteurs is submitted first to the facilitator and coordinators of group sessions for their review. Second, it is to present the zero draft document to the steering committee members for additional review. After these two levels of review and the attendant modifications, the document becomes a draft awaiting validation.

The validation process for the IGR expansion strategy document can take the form of either group-level validation or individual-level validation. At the group level, the stakeholders who initially brainstormed and produced the document gather once again to review the draft to ensure that it authentically represents their views. As a result, they may pay closer attention to the wordings of the documents to eliminate words and phrases that may create conflicts or make them more challenging to understand.

Strategy documents are not for the shelves. Therefore, strategy operationalization and performance management are indispensable for mobilising all necessary resources to actualize set targets. Similar to the strategy design, there must be some consensus on steps for personalising and driving the strategy. A good approach is for each revenue collection MDA to go through the strategy document and domesticate it. They should identify performance measures and indicators relevant to their success and identify critical activities whose implementation would satisfy the indicator's requirements within the defined time frame. In most instances, the activity execution order is in finish-to-start and start-to-start format, which shows predecessors, peers and successors. For each of these activities, there must be a set start and completion date and the person or office responsible for the activity's failure or success, the resources required to deliver the activity and the status of resource availability, adequacy, and quality. Sometimes it is essential to determine if policy issues may affect the activity's success and schedule an activity that ensures their offset. It is usually more effective to hold an individual rather than an office accountable for an activity's success or failure. The reason is to considerably minimise the fog on who has the responsibility or is accountable for the success of the activity in question and ensure that the right person with the right competencies and dispositions to guarantee the successful delivery of an activity handles it. Yes, while official positions confer responsibilities, that is usually not the case on the ground. Finally, an appropriate performance management system and software should objectively capture the IGR expansion strategy implementation level over designated review periods.