

Revenue Generation: Citizen voices are key to boosting local revenues for inclusive development in Nigeria



Over the years, several of Nigeria's state and local authorities responsible for tax administration have been working hard to modernise and reform the tax system. Several UK Government-funded governance programmes have been involved in supporting these efforts, working alongside these authorities, and with a broad range of citizen's groups, to facilitate citizen engagement on taxation and spending issues. During this time, tax laws and the Medium-Term Revenue Strategy have become catalysts for continuous reform, systematically involving citizens in discussions and communicating better with them.

Historically, it is the federal government that contributes an average of 80% of the revenues utilised by the 36 states. These revenues are linked to a global oil price which fluctuates and is becoming more unpredictable amid climate change and the energy transition. These oil revenue fluctuations make it difficult for state and local governments to plan long term for development in crucial sectors, such as health and education. What is more, international donor revenue has been flat and not expected to grow.

Taxes are a way a country can have a conversation with its citizens around the kind of society they wish to build at all levels of government – federal, state and local.

The Partnership to Engage, Reform and Learn (PERL) programme builds on the work of previous governance reform programmes by continuing to foster collaboration between local and state government authorities and citizen groups to address taxation and spending issues in three states: Kaduna, Kano, and Jigawa.

Box 1: Engaging Nigeria's citizens in state tax reform

Nigeria's history of muted local citizen input concerning taxation has gradually evolved over the past 15 years and significant strides have been made in institution-building at federal, state, and local levels. These efforts have laid the groundwork for citizen engagement and led to tangible change.

Three UK Government-funded governance programmes have provided technical assistance and resources to facilitate citizen engagement in tax reform prior to PERL:

- State governments have developed internally generated revenue (IGR) strategies and planning reviews, workforce audits and recommendations to revenue authorities with technical assistance from the State Partnership for Accountability, Responsiveness and Capability (SPARC, 2008-2016).
- Local and state level authorities have worked to reduce multiple taxation levels, bolster tax legislation and utilise training for tax authorities from compliance to customer relations provided by the Growth, Employment and Markets programme (GEM3, 2010-2016).
- State Houses of Assembly, mass media outlets and civil society organisations, with support from the State Partnership for Accountability and Voice Initiative (SAVI, 2008-2016), have built their collective voice and work more closely together to influence change, such as helping set up platforms for citizens to engage on the budget progress, from monitoring spending to analysing the budget.

The approach taken by stakeholders in these three States to deepening citizen engagement hinges on showing citizens the explicit link between governance reforms, such as tax reform, and getting better services from the increased revenues they generate – commonly referred to as internally generated revenue (IGR) or domestic revenue mobilisation – such as building health centres, outfitting classrooms, providing drinking

water or setting up seed banks for farming, based on their input. Also, by showing government the link between performance/service delivery from increased revenue mobilisation through a strengthened social contract. It seeks to join up the two sides of the equation – government and citizen input.

Box 2: Ensuring marginalised voices are heard

Kaduna and Jigawa States have both put in place ways that regularly engage citizens whose voices were largely absent from the conversation around how tax revenues are generated and spent, opening up avenues to more just taxation and more revenues to be spent to the benefit of poor and marginalised people.

Jigawa State expanded its citizen outreach, with women's groups represented in all chapters of the Jigawa State Market Association, giving special consideration for people with disability in fiscal palliative measures to support small businesses to cushion the adverse effects of the pandemic.

Kaduna State held public policy dialogues with workers in the informal sector on tax provisions. These dialogues not only reduced tensions and raised tax compliance, but also raised taxes on land use and hotel occupancy, which many had previously refused to pay, a good indicator of the current strength of the social contract.

As part of their engagement in the tax administration, **Kaduna, Kano and Jigawa** have continued to hold citizens-led tax summits that have stimulated voluntary compliance to tax laws in all three states.

Kano State: tax reforms following national crises

As the largest commercial hub in northern Nigeria with a projected population of over 15 millionⁱ, Kano State has faced challenges growing its private sector. An atmosphere of political insecurity, driven by a fractious political elite, has led to attempts by successive Governors to exert high levels of personal influence over the budget to deliver on their parties' political manifestos. This has hampered ceding more resources and control to participatory public processes. Kano also historically had a coercive tax collection system, and an anti-tax sentiment has persisted.

But the 2017 economic slump and 2020/21 COVID-19 pandemic motivated the state government to take a series of measures to boost domestic revenues. The government is now deploying a Medium-Term Revenue Strategy (MTRS) as its roadmap to reforming its system of generating revenues, focusing on greater transparency and accountability of state finances. It has a strategy to improve tax payment by citizens through greater citizen participation and understanding how these revenues lead to better services according to citizen's directives.

All this stems from a partnership between FCDO and the Kano State Government, to strengthen the functionality of Kano State Internal Revenue Service (KIRS). The State Government's Technical Working Group, set up to carry out the MTRS, together with the Head of Service, sought the support of PERL to involve citizens and professional bodies in the development of the tax policy and its validation. The State Assembly also had public hearing on the revenue bill which led to its speedy passage into law. PERL helped to facilitate citizens engagement in these processes as well as provide technical advice on the final drafts of the tax policy, and the MTRS communications strategy and training plan, and a review of the Mutual Accountability Framework on transparency and accountability in revenue administration. Insights on these plans were also gathered from government, an organised private sector, media and Market Women Associations.

Support was also sought to build greater public trust. In 2022 Kano State reactivated its Taxpayer Service and Grievance Redress Mechanism as result of the findings from the citizens-led tax summit. To provide better services to taxpayers, KIRS duly carried out the training plan for its revenue officers. A Budget Call Circular was also created with guidelines for revenue-generating ministries, departments and agencies (MDAs) to follow the State MTRS and revenue targets and projections in their budget proposals.

As a part of a communications strategy designed to build citizen awareness and understanding of the MTRS and encourage their participation in conversations, Kano State relaunched its website and social media pages and radio programmes. Citizens introduced a tax clinic to carry out the MTRS and discussed its progress at town halls, in media interventions, and in tax dialogues.

As part of the process, specific steps to enhance tax compliance were recommended within the State's tax policy. These recommendations were discussed by stakeholders during a high-level session organized by PERL to improve government officials' understanding of the MTRS. These reforms have led to growth in IGR: revenues rose 37% in 2022 compared with 2016. In a first, non-tax IGR – revenue coming from licenses, fees, levies, rents, duties and other charges not regarded as 'tax' – was greater than tax revenue in 2022, a testimony to the better functioning of the overall system of revenue administration and the synergies created by the MTRS.

Kaduna State: a model of best practice on IGR

A political and economic powerhouse state in the northwest with about ten million people, Kaduna has an internationally savvy civil society and many federal institutions, with a will to develop competent government but a large and waning private industrial base.

While the push to modernise the system of IGR was helped along by the arrival of a reform-minded Governor Nasir El Rufai in 2015, it has been undermined by lack of a skilled workforce and weak and overlapping revenue authorities with a lack of strategic focus. What is more, citizens were poorly informed on how these revenues are generated and used.

Under the El-Rufai administration, important reforms were made with technical assistance from PERL to revenue generating MDAs between 2017 and 2019, mostly on mandate mapping, corporate planning and strategy development. The Kaduna State Investment Promotion Agency set up a one-stop investment centre. The Tax Codification and Consolidation Law which established the State Internal Revenue Service, centralized the collection of revenues, making it easier for citizens to pay taxes and levies. To better understand their mandates and the functions on these revenues, Kaduna State Primary Health Care Development Agency set up an administration and human resources department to show how paying taxes leads to better government services, or 'tax for service'. At the same time, a training needs assessments in Kaduna Internal Revenue Service (KADIRS) and local governments on workforce requirements led to better understanding of skills needed, and service improved.

To improve citizen understanding and raise their voices, the capacity of Kaduna's Tax Justice Network and other local CSOs, CBOs, and volunteers was also enhanced to engage with a wider set of stakeholders and lead advocacy on strengthening social contracts. Tax summits and public policy dialogues were held on tax policy and administration, and tax networks and coalitions of citizens were expanded. Through e-portals and printed copies, the government improved the way it communicates to citizens on such matters as rules and regulations which has increased compliance to the state tax laws. Grievance redress mechanisms and tax clinics have been set up to address taxpayers concerns across the State.

These reforms have been supported by an inclusive technical working group, constituted with PERL's support, that includes citizen groups such as business membership organisations and professional bodies to help develop an inclusive MTRS for KADIRS and fine-tune the first draft calling for creating Public Service on Wheels to bring tax payments to neighbourhoods.

Stakeholders were also supported to conduct staff training needs assessments at KADIRS, map mandates to eliminate overlapping delivery of investment and revenue collection and improve the delivery of health and education services. They also collaborated with tax coalitions and the private sector to develop strategies for revenue generation and service delivery, as well as provided technical advice to draft the government's policy and manual on public-private partnerships.

Kaduna State's IGR has risen at least 20% in an average year since 2016. The Kaduna Internal Revenue Service IGR performance shows that IGR in Kaduna State rose from 23.0 billion Naira in 2016 to 62.4 billion in 2023. This increased revenue has contributed to improved allocations to education – from 64.85 billion Naira in 2017 to 105.42 billion in 2023 – and health – from 24.87 billion Naira in 2017 to 59.09 billion in 2023. The contribution of the state's domestically revenue to recurrent expenditure is now averaging 70%, making it possible to devote a significant proportion of revenue from the federation account to capital expenditure. With this, Kaduna state was able to meet all IGR-related disbursement indicators of the World Bank-funded State Fiscal Transparency, Accountability

& Sustainability (SFTAS) Program, attracting additional revenue.

Box 3: How Increased Revenue is Transforming Health Service Delivery in Kaduna State

"Our IGR grew from N160 million to N700 million. With increased revenue at our disposal, we now have 24-hour uninterrupted power supply because in addition to electricity supply from the national grid, we have standby functional generators for backup. Similarly, whenever a medical equipment stops working, we now have money available to fix it and continue service delivery seamlessly, uninterrupted."

Chief Medical Director of Barau Dikko Hospital in Kaduna.

[see corresponding **Human Angle Story No.3**]

Kaduna serves as a model to other states in the region of what can be achieved when a reform champion (Governor) is provided support by a programme like PERL, as and when opportunities arise, and when non-state actors are adequately prepared to provide meaningful inputs and accountability measures to a sustained reform agenda which is producing results for the poor.

Jigawa State: from federal dependence to fully funded locally

A mostly rural and peaceful state with an estimated six million people, Jigawa State has a high poverty rate and heavily depends on federal transfers for about 90 percent of its revenues and public sector jobs. The economy is mostly based on agriculture and the formal private sector is underdeveloped.

Building in previous interventions, PERL amplified the Tax-for-Service Initiative piloted by GEMS3 in some markets, such as Hadejia, bringing together market associations and LGA authorities. In 2018, the State expanded tax collection and monitoring and responded to advocacy from such constituencies for a single treasury account. A new Revenue Consolidation and Codification Law in 2019 harmonised taxes across state and local government. A wide range of citizens – including people living with disabilities and youth groups – State House of Assembly representatives, members of the business community, Market Women Association, and academia were involved

and evaluated whether the needs of all citizens were fairly represented.

As a result of these and other actions supported by PERL, establishing trust with state authorities, working with non-state actors, providing mentoring and technical inputs where needed, Jigawa State set up a technical working group for the MTRS, appointed the Deputy Governor of the State to lead it and drafted a state tax policy. Another outgrowth of the MTRS was a campaign to educate high net worth individuals and businesses on taxation. A tax for service clause was included in the policy showing how the tax reforms will protect the poor and the vulnerable from unfair taxation and how the revenues will be used to improve their services.

PERL supported the Jigawa Internal Revenue Service (JIRS) in developing an action plan that involved citizens, to reform staffing and ways of operating, and remove systemwide blockages to collecting state revenues. A whole-of-government planning to the state's internal revenue strategy, with targets to meet spending needs, was included.

There were significant improvements in pre COVID-19 locally generated revenues in the state, from 3.5 billion Naira in 2016 to 12.9 billion in 2019, a growth of about 266% over the four years. More than one thousand high-net individuals were added to the State's taxpayer database during this period, reflected in increased revenues across the state's principal market groups, which rose 100% for livestock, 300% for agriculture, and 244% for the fish market.

Jigawa State is now able to fund its budget for all sectors, with greater investment in health and education. The Hadejia market has an agreement with local authorities on a tax-for-service policy to reflect their needs, while the policy has increased revenues and simplified the IGR system for citizens and business owners. For instance, prior to PERL's intervention, Hadejia market barely generate N30,000 revenue in a week, but with PERL and tax network's support, the market now generates N2.2 million weekly leading to provision of social services in the market which includes construction of drainages, sand filling and lightening of the market.

Collective efforts leading to greater public participation

Widening the net of citizen engagement, Kaduna State expanded its network of stakeholders for holding conversations on tax matters, which became the Tax Justice Network, a way to deepen these discussions with citizens and government on greater accountability and policy for poverty reduction. PERL and Acton Aid Nigeria jointly supported empowerment of taxpayers in the state through comprehensive tax education programs, including those of the Kaduna State Theatre for Developmentⁱⁱ and Kaduna Tax Clinicⁱⁱⁱ. These are improving tax literacy, fostering inclusion and promoting voluntary tax compliance in both formal and informal sectors. The Tax Justice Network has also given a voice to marginalized and vulnerable groups, including women and persons with disabilities, through tax education radio programs and public-private dialogues promoting fairness and equitable taxation across the state.

Kaduna State has also stepped up its engagement with professional bodies to make sure its tax administration was according to best practice and partnered with the Chartered Institute of Taxation Nigeria (CITN) to raise awareness on taxation and its benefits to promoting economic growth, good governance and more equitably distribution of resources. The Tax Justice Network's advocacy for a dedicated complaint resolution system resulted in establishment of a swift and efficient grievance redress mechanism at the state's Revenue Service. This is reducing conflict between taxpayers and the authority, improving taxpayer satisfaction, enhancing professionalism and trust between taxpayers and the revenue authority.

By working closely together, with PERL's support, the government authorities and citizen groups in states like Kaduna have helped to align the processes of local and state government in tax planning, budgeting, and spending over a ten-year period, based on the Medium-Term Revenue Strategy as a tool for further reform.

At the same time, through PERL's facilitation of cross-state learning events, tax authorities from different states have met to share their experiences in their tax reform journeys to accelerate learning and pick up the pace of reform. Collectively, these efforts are enhancing greater efficiency across tax authorities at all levels – federal, state and local – while giving citizens greater access to the data and the planning cycle to help them engage.

ⁱ Source: Kano State Bureau of Statistics

ⁱⁱ Kaduna State Theatre for Development is a drama group of Ahmadu Bello University (ABU), supported by PERL to sensitize taxpayers

ⁱⁱⁱ Kaduna Tax Clinic is an innovation of the Tax Justice Network, KADIRs, CITN and other development partners, to visit markets and other public places to educate taxpayers and address their concerns.



The opinions expressed above are those of the authors and do not necessarily represent the views of the UK's Foreign, Commonwealth & Development Office (FCDO)

PERL is the FCDO's flagship Public Sector Accountability & Governance programme in Nigeria since May 2016



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