CASE STUDY:

Approach to Informal Taxation by the Anambra State Internal Revenue Service Anchored on Anambra Social Service Identification Number

(February 2020)

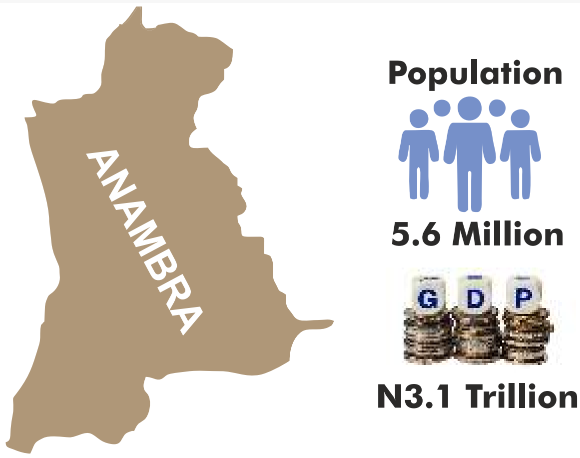
Identifying, documenting and promoting effective governance reforms significantly contributes to the diffusion and replication of such reforms, making it possible for a greater number of persons to benefit from the improved delivery of public services which is usually the ultimate result of governance reform initiatives.

It is against the background that the Anambra State Internal Revenue Service (ASIRS), with support from the Partnership to Engage, Reform and Learn (PERL), [PERL is governance reform Programme funded by the United Kingdom Foreign, Commonwealth and Development Office (FCDO)] has developed this case study which highlights ASIRS's approach to informal taxation which is anchored on the Anambra State Social Service Identification Number (ANSSID)

Objective of the Case Study

This case study documents the strategy deployed by the Anambra State Internal Revenue Service that has led to an improved internal revenue generation in Anambra State. It provides data and evidence that shows improvement in the state's taxpayer base, and documents the drivers of success, as well as lessons, and challenges.

The information for this case study was collected through desk review and in-depth interviews with the staff of the Anambra Internal Revenue Service.



Home to the largest market in Africa

Lowest poverty rate in the South East

Lowest domestic debt profile in the South East

Fig 1: Anambra key metrices, 2018

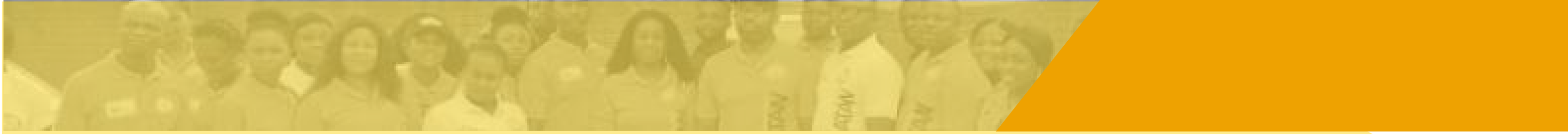
The Context

Anambra State is one of the largest trade hubs in South Eastern Nigeria - a region that is renowned as an economic hub for manufacturing, commerce, industry, and trade. Home to Onitsha, a historic port city that hosts Onitsha Main Market - the largest market in Africa in terms of geographical size and volume of goods traded – Anambra is one of the most socio-economically stable states in Nigeria. In the South East, Anambra has the lowest domestic debts[1], has the lowest poverty rate in the south east[2] and is relatively safe (not included in US list of unsafe Nigerian states). Anambra's population stands at 5.6 million (2018 Est) and according to the National Bureau of Statistics has a gross domestic product of N3.1 trillion (N262,216 per capita).

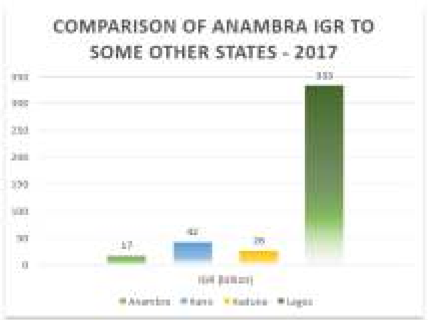
However, for a State with such significant economic activity from trade and manufacturing, the tax revenues of the State were dismal. Annual internal revenue from tax and non-tax sources was a dismal N17 billion in 2017 (compare 2017 IGR data from Lagos at N333 billion, Kaduna at N26 billion and Kano at N42 billion). In 2017, based on data from the voters register, the State had records of 806,000 economic actors who were qualified to pay Direct Assessment taxes but found that only 2,148 were paying.

1. Domestic Debt Data as at 31 March 2020 published by the Debt Management Office

2. Poverty and Inequality in Nigeria 2019 Report, Published by the NBS



ANAMBRA STATE IGR LANDSCAPE 2017



806,000
Active Economic Actors

Only **2,148**
Pay Direct Assessment Taxes

Fig 2: Anambra State IGR landscape, 2017

Strategy and Activities

In the spirit of the 2015 Addis Ababa Action Agenda on financing for development, the Anambra State Government has realised the importance of developing strong tax systems for increased internal revenue generation as well as the role of stronger tax systems in building the social contract between governments and citizens. The Addis Ababa Action Agenda recognizes that "significant additional domestic public resources...will be critical to realizing sustainable development and achievement of the Sustainable Development Goals."

In line with this, Anambra State has over the last six years taken steps to improve the tax systems and the capacity of the State to collect tax and other domestic revenues. In the last two years, the Anambra Internal Revenue Service has adopted an innovative strategy based on identity management as well as coordination and collaboration with revenue generating Ministries, Departments and Agencies (MDAs).

In March 2018, Dr. David Nzekwu was appointed Chairman of the Anambra Internal Revenue Service (AIRS), his core mandate was to increase the State's tax base. A year prior, the AIRS had commenced the digitization of tax administration processes through a tax management system designed by Appmart, a Nigerian software development firm. The Appmart system, at the time, collected and digitized the data of citizens as part of the processes for obtaining tax clearance certification; and this meant that the State only had the information of citizens who were voluntarily tax compliant. At that time, the number of such voluntarily tax compliant individuals (who paid tax through direct assessment) was 2,148.

Dr. David Nzekwu, Chairman, AIRS

This was a challenge as, based on the numbers from other sources such as the voters register a large proportion of citizens were evading tax; and there was an imperative to broaden the tax base. However, without data it was impossible to increase the tax net and the overarching question for the Chairman and his team was 'how do we collect the type of data we need to increase tax compliance?'

The strategy and the activities the Chairman and his team deployed to address this challenge can be sequenced as follows:

- **Obtaining stakeholder buy-in:** a stakeholder meeting, attended by Appmart, representatives of relevant ministries, departments and agencies etc was convened; and it was agreed that there was a need to link tax collection to service delivery in order to address the customary aversion of citizens to paying taxes. A taxpayer registration system that not only imposed financial obligation (tax compliance) on citizens but also provided access to social services was therefore required. The system also needs to be designed in such a way that it will enable citizens to enrol themselves into the tax net – wittingly or unwittingly.

- Reviewing and building on what exists: The Chairman and his team reviewed the existing taxpayer registration system being implemented by the Joint Tax Board (JTB). The JTB system used fingerprints for registration and so required individuals to be physically present for them to be enrolled. The State government also had an existing database that held records of 806,000 persons who were not in the tax net given that the information held in the database did not include tax information neither were they active taxpayers. When it became clear that what existed did not meet the emerging need, Appmart was asked to modify the existing tax management system to create an identity management system that will enable citizens to enrol themselves. It was this effort that birthed the Anambra State Social Service Identity (ANSSID) scheme, an innovative technology driven solution that links tax data collection with the provision of social services.

ANAMBRA SOCIAL SERVICE ID
...ticket to quality services in Anambra

Registering and obtaining an ANSSID number requires the use of facial biometrics. This is to make it easy for citizens to enrol (using their computer and other mobile devices) and to eliminate duplications

- Deploying the system: work to create ANSSID began in April 2018; and the ANSSID number registration process started in August 2018. The exercise commenced with state owned schools, with a directive that parents must make all payment with an ANSSID number. In April 2019, it became mandatory that all transactions conducted between the state government and citizens required the ANSSID number - land registration, driver licensing, vehicle registration, etc.

Linking ANSSID to the Informal sector

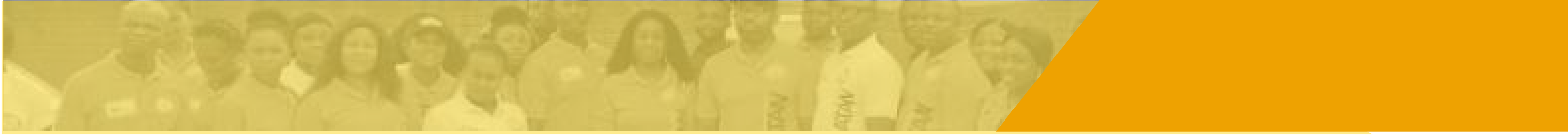
The Chairman of AIRS and his team consider that the informal sector in Anambra State was quite significant; and that it remained 'informal' because the relevant extant laws that govern its operations were not activated. For instance, the Anambra State Business Premises Registration Law 1982, amongst other things, defines what constitutes a business (any trade, vocation, etc., whether in a fenced location or not); and provides that the state (Ministry of Trade and Commerce) should maintain a register of all businesses existing in the State. Now, Section 85 of the Personal Income Tax Act 2011 specifies that for any individual to own/register a business, one needs a Tax Clearance Certificate (TCC)

The informal sector typically refers to the part of any economy that is neither taxed nor monitored by any form of government

To enforce the provisions of these Laws - thereby formalising sundry businesses in the state - the AIRS have begun the registration of businesses in the state, making the ANSSID number a key requirement in the process. To do this, the AIRS obtained the consent of the Ministry of Trade and Commerce, and thereafter obtained approval of the Executive Council to recruit Community Revenue Officers who were assigned to revenue zones and clusters to register businesses in those zones/clusters. The AIRS has deployed a similar arrangement, (leveraging extant laws on motor registration) to enrol commercial tricycle operators. The Service is working with the Federal Road Safety Commission to issue driving licences to all commercial tricycle operators in the State, also making the ANSSID number a key requirement.

With this, the major blocs that constitute the state's informal sector are being enrolled into the state's taxpayer database.

Management and Staff of ANSSID at the 2020 Tax Awareness Week



Initial Outcomes

- Since the rollout of the ANSSID, AIRS has seen immediate positive results. Today, the database of taxpayers captured for tax assessment has grown from 2,148 in 2018 to 300,000 as at January 2020 with a target of 500,000 in two years and 3 million in four years – covering individuals both at home and in the diaspora.

- Internally generated revenue has increased by over N750 million monthly with annual tax revenue moving from N17 billion in 2017 to N26 billion in 2019 with a target of N30 billion in 2020.

- As at March 2020, 19,000 businesses in the state have been registered and geo-tagged.

- Because ANSSID captures financial value of transactions, the state has generated an indicative tax assessment of about N15 billion (between January – March 2020); and will move to reconcile and collect the taxes after the statutory March 31 deadline for filing tax returns.

- The ANSSID platform ensures that the information provided is unique, reliable, and authentic. The data is also useful to government for proper planning and budgeting for the provision of social services, and the state now has a uniformed central system where all information about any residents can be easily retrieved.

- The unique design of the platform also ensures ease of registration from anywhere in the world and also eliminates duplication of information on the platform. The system has also assisted greatly in security-related issues in the State.

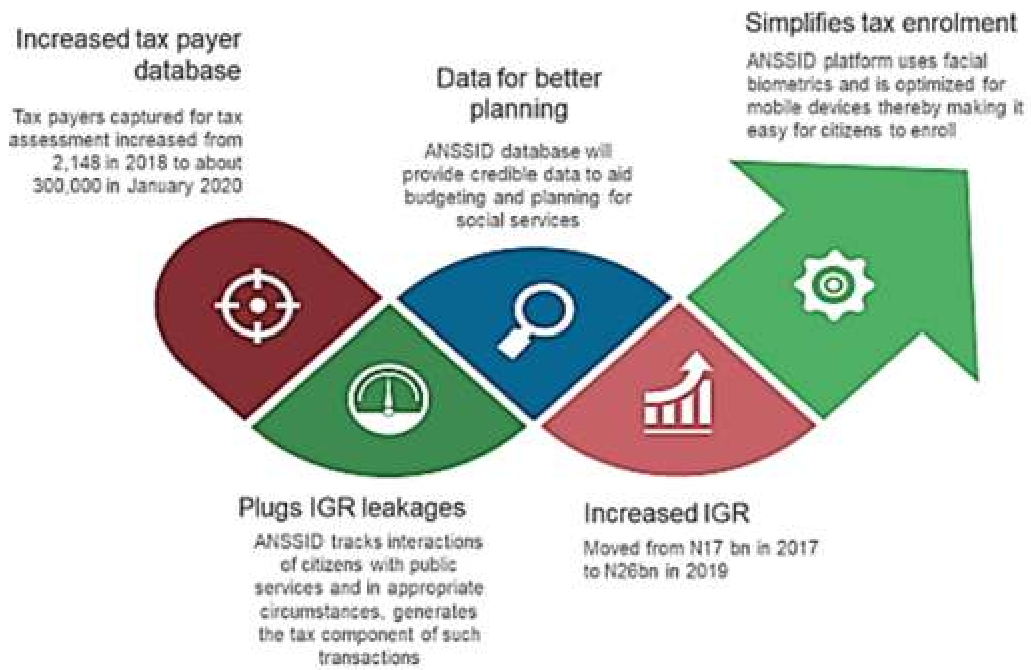


Fig 3: Initial outcomes

One key driver of success was the technical and equipment support provided by development partners. For instance, the European Union and World Bank funded State and Local Government Reform (SLOGOR) Project supported staff training and provided tablets that were used for data collection, registrations and geo-tagging

Lessons Learned

- Low tax morale can be linked to a weak social contract between citizens and the state. Citizens over the years have received limited public services, amenities or infrastructure from the taxes government collects, and this has led to tax evasion. An increase in transparency, accountability and delivery of public services will increase morale among citizens.

- Despite progress there is still an ongoing need to increase the tax base as Nigeria has a significantly low tax-to-GDP ratio (5.7% in 2017). Nearly 70 per cent of state revenues come from the federation revenue transfers; therefore, subnational increases in tax collection will help reduce states' overreliance on federation revenue sources that are largely from oil export revenues that often come under threat from shocks in the global crude oil market.

- Technology enables the development of successful tax systems. The use of facial biometrics has made it easy for potential taxpayers (both at home and in the diaspora) to enrol into the platform from the comfort of their homes.

- Without political support tax reforms and indeed any other reform will have limited success. The ANSSID scheme has enjoyed very high-level political support and this has helped the AIRS to manage and navigate the interests and resistance to the reforms.

- Inter-agency collaboration is a key driver of success. The ANSSID scheme would have had very limited success if the AIRS was not able to work out innovative partnerships with other relevant public institutions such as the Ministry of Trade and Commerce and the Federal Road Safety Commission.

Anambra State Internal Revenue Service

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