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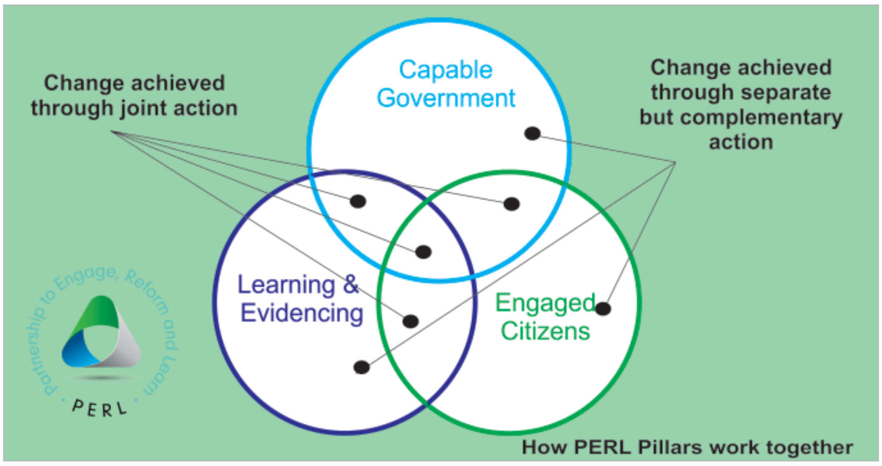
PERL - ARC Public Financial Management (PFM) Support: Highlights on Taxation, and IGR Tools and Resources

About the PERL – ARC

Accountable, Responsive and Capable (ARC) Government is one of the Pillars of the Partnership to Engage, Reform and Learn (PERL), which is a five-year governance programme, funded by the UK's Department for International Development (DFID). PERL focusses on supporting governments, citizens, and evidence-based advocacy. PERL provides assistance to governments in the core areas of policy development and implementation. This is done by assisting them in tracking and accounting how these policies, plans and budgets are used in delivering public goods and services to promote growth and reduce poverty to the citizenry. The programme also supports citizens to engage with these processes.

The PERL programme is being delivered through three 'pillars' which plan together to support sustainable service delivery reforms: Pillar 1. Accountable, Responsive & Capable Government (ARC); Pillar 2. Engaged Citizens (ECP); and Pillar 3. Learning, Evidencing and Advocacy Partnership (LEAP). The programme works at the federal level, in the partner states of Kano, Kaduna and Jigawa, and through regional learning and reform hubs in the South West, South East and North-East areas of Nigeria.



PERL- ARC PFM tools and resources

PERL- ARC work in Public Financial Management (PFM) builds on the legacy of its predecessor – the State Partnership for Accountability, Responsiveness and Capability (SPARC), a DFID-funded programme, that supported governance reforms in Nigeria's 10 states (Anambra, Enugu, Jigawa, Kaduna, Kano, Katsina, Lagos, Niger, Yobe and Zamfara) between August 2008 to April 2016. SPARC had, during its lifetime, amassed a rich collection of PFM tools and guides built from the experiences and work with partners to support key aspects of the public financial management system, including governance related issues in internally generated revenues and taxation.

The PERL programme, though not similarly designed as SPARC, builds on the relevant work of SPARC. In addition to supporting further reforms on governance and service delivery issues, PERL also aims to broaden the legacy reform efforts of SPARC, including promoting uptake of reform products (tools and guides) on PFM, policy and strategy and public service management. PERL-ARC's PFM support to government partners includes the following areas:

- Ease of Doing Business;
- Internally Generated Revenue (IGR);
- PFM Assessment for States;
- Revenue Forecasting;
- Budget process improvement to support policy and plan implementation to achieve service delivery to citizens;
- Budget Profiling, cash forecasts and plans;
- Budget performance reporting and monitoring; and
- Financial Reporting, based on International Public Sector Accounting Standards (IPSAS).

IGR/Tax related tools and resources

This section highlights three key tools and resources from SPARC legacy and PERL-ARC work, namely:

1. Framework for Internally Generated Revenue Enhancement (FIRE)
2. Impact of Taxation and Ease of Doing Business in the South-East
3. Intergovernmental Relations in Tax Administration in Nigeria: A Consolidated Scoping and Gap Analysis of Tax/IGR Administration Reforms in Jigawa, Kaduna and Kano States.

Framework for Internally Generated Revenue Enhancement (FIRE)

The Framework for Internally Generated Revenue Enhancement (FIRE) is one of the tools developed during the implementation of the SPARC programme (November 2015) and currently being updated. It provides guidance based on lessons learned, and examples of key areas to be considered during the development of an Internally Generated Revenue (IGR) strategy.

An IGR Strategy is essential if a state expects to see improvement in its internally generated revenues. Such a strategy will incorporate requirements for systems to record and manage taxpayer assessments and collection, adequate process and controls over taxpayer registration, recording, tax collections and follow up, adequate trained personnel and relevant legislation.

FIRE can be used as an initial guide in developing an IGR strategy in Nigerian states. It provides suggestions and considerations, rather than a total solution and panacea to solving the cash flows and financial position of a state. However, it can help to provide a 'roadmap' on how to go about developing an IGR improvement and maximisation strategy. The tool highlights basic questions that a revenue improvement strategy needs to answer. It describes common issues and challenges faced by Nigerian state government revenue collecting agencies, and proffers tips, implications and considerations that should help develop a strategic approach to improving IGR by addressing a number of the key challenges. FIRE can help a government to kick start its IGR improvement through a number of indicative IGR strategy activities which are discussed extensively in the tool.

PERL Report on Tax and Ease of Doing Business in the South-East

Taxation is a key factor in the business environment. It can be an incentive or disincentive to businesses and entrepreneurship. To understand how taxation affects ease of doing business in the South-East region of Nigeria, and to enable stakeholders to proffer suggestions to improve taxation contribution to the ease of doing business in the region, PERL supported an assessment on the impact of Taxation (tax policy and tax administration measures of the Southeast states and Federal Government of Nigeria) on Ease of Doing Business in the Southeast of Nigeria.

The report of the assessment drew data and information from primary and secondary sources of information, specifically relying on interviews with key government officials involved in revenue administration in the five states, non-state actors such as Chambers of Commerce, CSOs working on ease of doing business, Traders' Associations and publications on tax laws, administration and ease of doing business.

The activities carried out in the course of the assessment included:

- A review of the tax policy and tax administration measures of the Federal Government and their impact on the ease of doing business in the SE zone;
- A review of the tax policy and tax administration measures of the states in the SE region and their implications for ease of doing business in the zone;
- A scoping and gap analysis of the tax policy and administration measures in the SE, identification of good practices for region-wide learning and replication, identification and profiling of tax stakeholders across the SE zone, identification of key tax issues that impinge on ease of doing business, and establishment of actions that can be taken by the states/region to reduce the negative impacts of and improve the positive aspects of the tax policy measures.

The assessment shows that while some tax policies and measures in the five SE states (e.g. harmonised demands served on business for some taxes, levies and charges by Imo State Board of Internal Revenue) are positively impacting on the ease of doing business, there are also a significant number of policies and measures that are impacting negatively on ease of doing business. The quality of revenue administration in some states is still at a level that will negatively impact on the investment climate and private sector development. Multiple taxation by local and state governments, lack of clarity on the amount of tax payable, lack of adequate public complaints and conflict resolution mechanisms, and activities of illegal private collectors of revenue have serious implications for investors as these challenges create uncertainties about the potential return on their investments.

Intergovernmental Relations in Tax Administration in Nigeria: A Consolidated Scoping and Gap Analysis of Tax/IGR Administration Reforms in Jigawa, Kaduna and Kano

The need for the Federal Government of Nigeria and its state governments to mobilise internal revenues has become inevitable owing to dwindling revenue from oil. The National Economic Council Retreat of March 2016 had within its 71 Resolutions, a dedicated theme on Revenue Generation and Fiscal Stability. The Technical Report of the Retreat has suggested that for Nigeria to attain the average revenue to GDP ratio of similar economies, it has to increase its tax revenues by 300% from the less than 7% to 20% of GDP, and that at least 70% of its revenues must come from non-oil sources to ensure sustainability and forestall the country's exposure to shocks in oil prices.

Meanwhile, a number of interventions have been undertaken in the various tax related reforms in partner states by programmes funded DFID and other development partners. These include SPARC, the State Accountability and Voice Initiative (SAVI), the Growth, Employment and Markets in States (GEMS3), and Enhancing Nigerian Advocacy for a Better Business Environment (ENABLE). And now the approach of the Partnership to Engage, Reform and Learn (PERL) is to support Internal Revenue effort with partners, and support DFID's strategy to support the federal and state governments to improve their capacity to increase revenues in the long-term.

In response to this need and current demand, PERL embarked on an IGR scoping assignment to identify gaps that would provide opportunities for potential support by development partners. Domestic revenue mobilisation is not only useful in augmenting dwindling revenues from oil, but also provides a more stable and sustainable source of revenues, with the potential to increase voice and mutual accountability in governance.

The scoping assignment sourced information from the discussions with federal agencies, development partners and state governments and concentrated on PERL's three partner states of Jigawa, Kaduna and Kano, and the Federal Government, whilst considering intergovernmental leveraging.

At the federal level, the scoping study of Intergovernmental fiscal institutions provides observations and feedback on a broad scan of intergovernmental relations around taxation and revenue between subnational level governments and federal agencies – including the Nigeria Governors' Forum (NGF), the Joint Tax Board (JTB), the Federal Internal Revenue Service (FIRS), the Federal Ministry of Finance (FMoF) and the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC).

At the state level, the scoping study covers discussions with the State Government Ministries of Finance and Economic Planning, the Internal Revenue Services, development partners and programmes, including DFID's PERL Programme pillars (ARC, ECP and LEAP), GEMS3 and ENABLE. The works undertaken by previous programmes such as SPARC and SAVI were also considered in relation to capacity assessments and IGR strategy work within Jigawa, Kaduna and Kano States.

The PERL report on, 'Intergovernmental Relations in Tax Administration in Nigeria: A Consolidated Scoping and Gap Analysis of Tax/IGR Administration Reforms in Jigawa, Kaduna and Kano' has details of gaps identified as well as potential opportunities for support by development partners, in tax / IGR administration reforms at federal level and in the PERL partner states of Jigawa, Kaduna and Kano.

The opportunities for state support and advocacy were identified through the Nigeria Governors' Forum (NGF), working primarily with Governors, and the Joint Tax Board (JTB), working with Executive Chairmen of State Boards of Internal Revenue. At the state level, findings and implications are diverse and reported separately for Jigawa, Kaduna and Kano. There are also opportunities for working through the Open Government Partnership across board.

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