

Raising revenue to reduce poverty



Summary

African governments must raise higher levels of revenue from domestic taxation in order to effectively implement sustainable poverty reduction strategies. A recent study looks at what generates support for taxation in Lagos, Nigeria, in particular, the relationship between the provision of basic public services and the willingness of individuals to pay higher rates of taxation.

Key findings:

- The popularity of the Governor Fashola's reform agenda in Lagos State demonstrates that African leaders can build a cross-ethnic support base by providing public goods.
- Although the willingness of the public to pay taxes is low in many African countries – where governments are typically viewed as wasteful and corrupt – willingness can be rapidly generated by an effective reform minded administration.
- The provision of basic public services dramatically increases the willingness of individuals living in recipient communities to pay higher levels of taxation.

Policy conclusion: The provision of effective public services not only benefits the very poor who cannot afford to pay for education and health care, it is also critical to generate public willingness to pay taxes and public support for future reform agendas. Extending new services can also help to boost government legitimacy among marginalized and disgruntled communities and can therefore help to reduce the risks of civil or political conflict. Government should prioritise providing tangible services to communities and ensuring that the availability of these services is widely publicized.

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Policy context

Historically, the combination of weak revenue collection systems, corrupt institutions, limited formal economies, and the illegitimate nature of authoritarian governments, undermined the ability of African governments to raise revenue from forms of direct taxation, such as income tax. As a result, states have typically relied on trade taxes and aid to finance the budget. In the multi-party era, this has constrained the ability of governments to invest in poverty reduction strategies, made them vulnerable to fluctuations in world markets, and has left them dependant on donor support.

Overview of project

Researchers from the University of Jos, Nigeria, and the University of Oxford, UK, chose Lagos as the site of the research because it is Nigeria's economic and financial capital and also its largest city: the last census in 2006 put the population at 10 million residents, which is widely believed to be an underestimate. All residents were eligible for inclusion provided that they were over 18 years of age and had been present for more than six months. A total of 620 residents were interviewed in seven Local Government Areas which reflect the range of populations in the state. Face-to-face household interviews were conducted in the language of the respondents' choice.

Project findings

Since coming to power Governor Babatunde Fashola has invested in roads and education policies, and sought to fund them by enforcing existing tax laws and introducing a 'consumption tax' on eateries. Despite raising taxation, Fashola's reputation as a reformer who delivers on his campaign promises has made him highly popular.

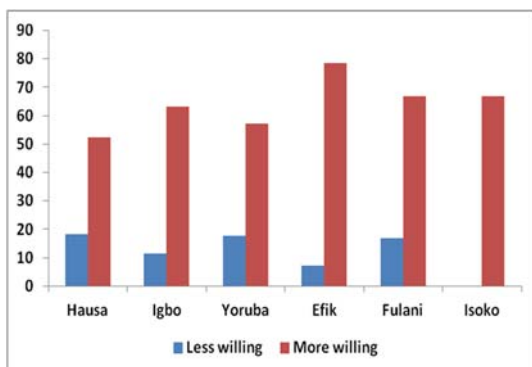


Figure 1: Attitudes to paying tax based on government performance, largest ethnic groups (%)

An impressive 74% of Lagosians are 'somewhat satisfied' or 'very satisfied' with the way that Governor Fashola has spent their tax money so far. Moreover, support for his reforms extends well beyond his natural support base. Despite Nigeria's deep ethnic and religious cleavages, within every community a majority of respondents stated that they were 'more willing' to pay tax based on the performance of the administration.

Few reported surprise that Fashola was re-elected in April 2011, securing over 80% of the vote.

Public willingness to pay tax is not shaped by personal income but by evidence that government revenue is being spent on services. Respondents were asked whether a number of public services such as schools, roads, and water pipes had been provided to the community by the administration. Individuals in communities that had received a number of services were far more willing to pay tax than those living in communities that had received none.

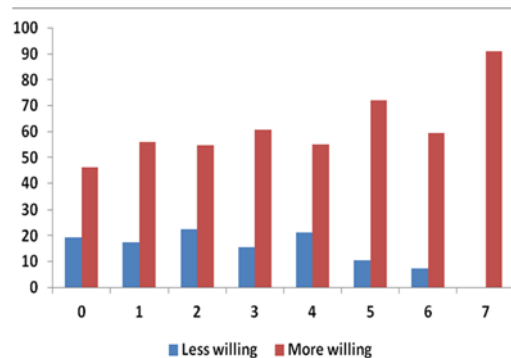


Figure 2: Attitudes to paying tax by the number of services provided to the community (%)

For more detailed information

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