

Setting the Social Minimum through a Tax for Service Programme

Background
Presentation for the
7th IGR Peer Learning
Event

29th September 2021

Content

- Guiding principles
- Informal sector workers – who are they?
- Stylized facts on government taxes and health spending
- What is Tax for Service?
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- NGF's TfS programme theory of change

Guiding principles

1. Revenue generation is state-wide policy.
2. There is a missing middle – legitimacy and trust for government.
3. Moving towards a predominant reliance on public funding for health services is a priority for governments to achieve UHC.
4. The most effective way to deal with the financial risk of paying for health services is to share it – the more people who share, the better the protection.
5. Social insurance coverage for some must not reduce access, risk protection or equity for others.
6. If parts of the population are not included in the first wave of the programme, a clear, realistic timetable is established for including them or other forms of coverage are established for them.

Informal Sector Workers – Who are they?

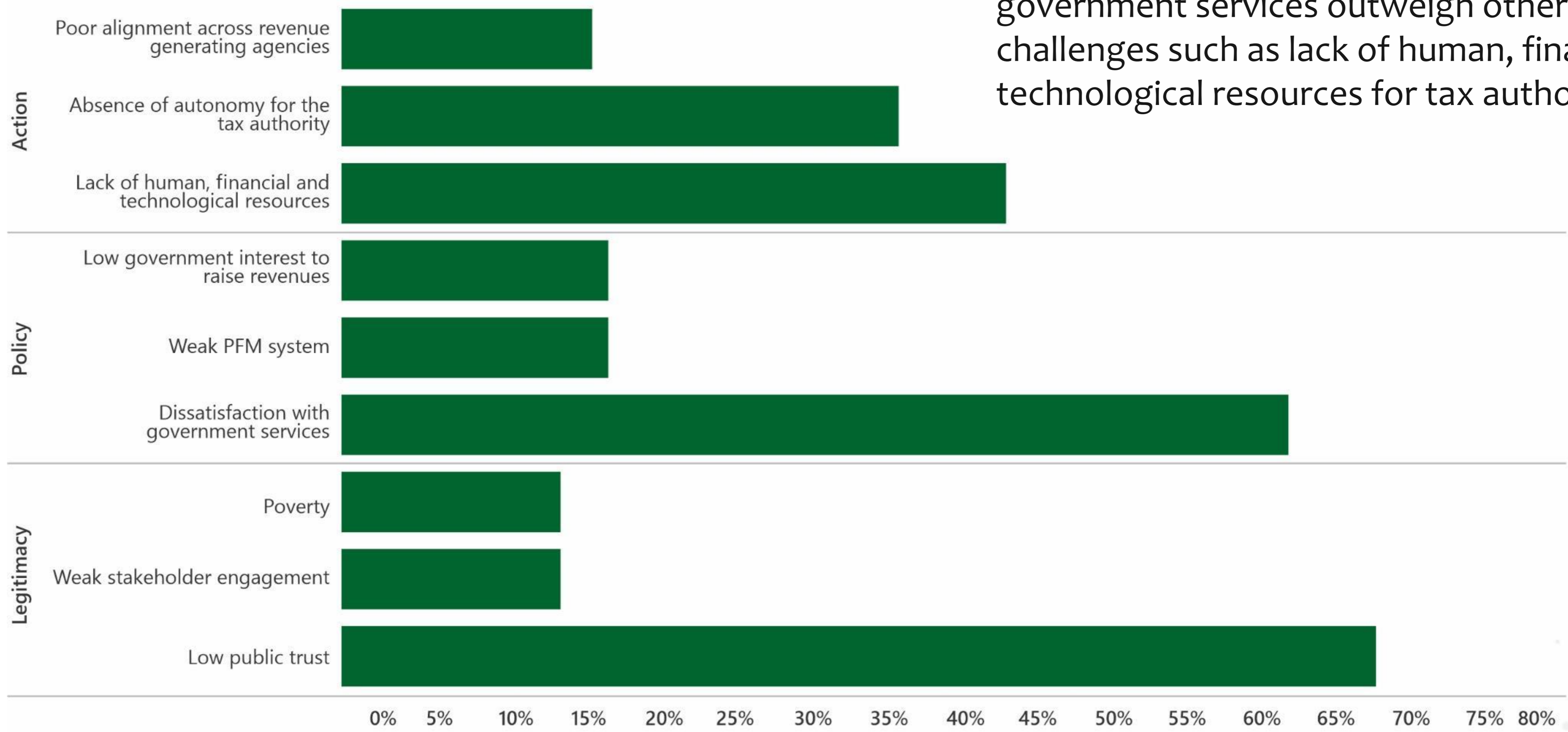
1. Not synonymous with MSMEs.
2. Size ~60%^a - 70%^b of GDP.
3. Tax payment among informal sector workers is low.
4. Accounts for 56% loss in potential tax revenue yearly, with the estimated tax revenue loss estimated at ₦3.5 trillion in 2018.^b
5. Only 2% of informal sector workers have a Tax Identification Number based on self reported data.
6. Not covered by any form of prepayment mechanism for healthcare

^a Dell'Anno, R. and Adu, O. (2020), "The size of the informal economy in Nigeria: a structural equation approach", International Journal of Social Economics, Vol. 47 No. 8, pp. 1063-1078. <https://doi.org/10.1108/IJSE-12-2019-0747>

^b Joseph, Tonuchi & Peters, Idowu & Mimiko, Daniel. (2020). How large is the size of Nigeria's informal economy? A MIMIC Approach. VIII. 204-228.

Stylized Facts

Figure 1.1: Risks of Taxation



- Low public trust and the dissatisfaction with government services outweigh other challenges such as lack of human, financial and technological resources for tax authorities

Source: Nigeria Governors' Forum, 2019

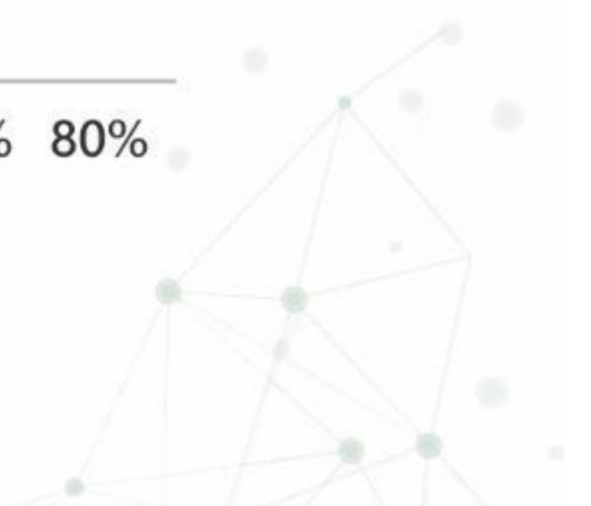
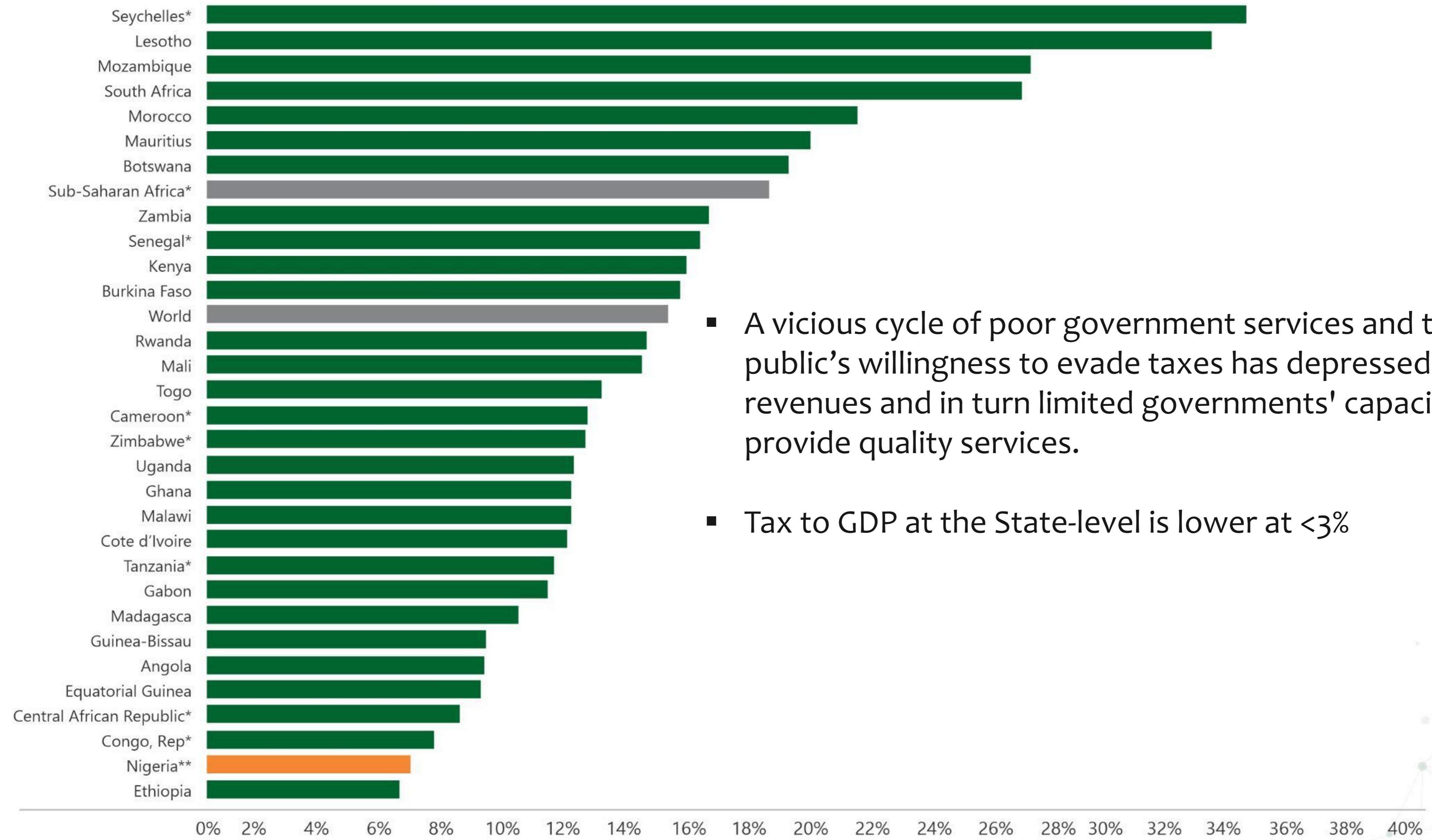


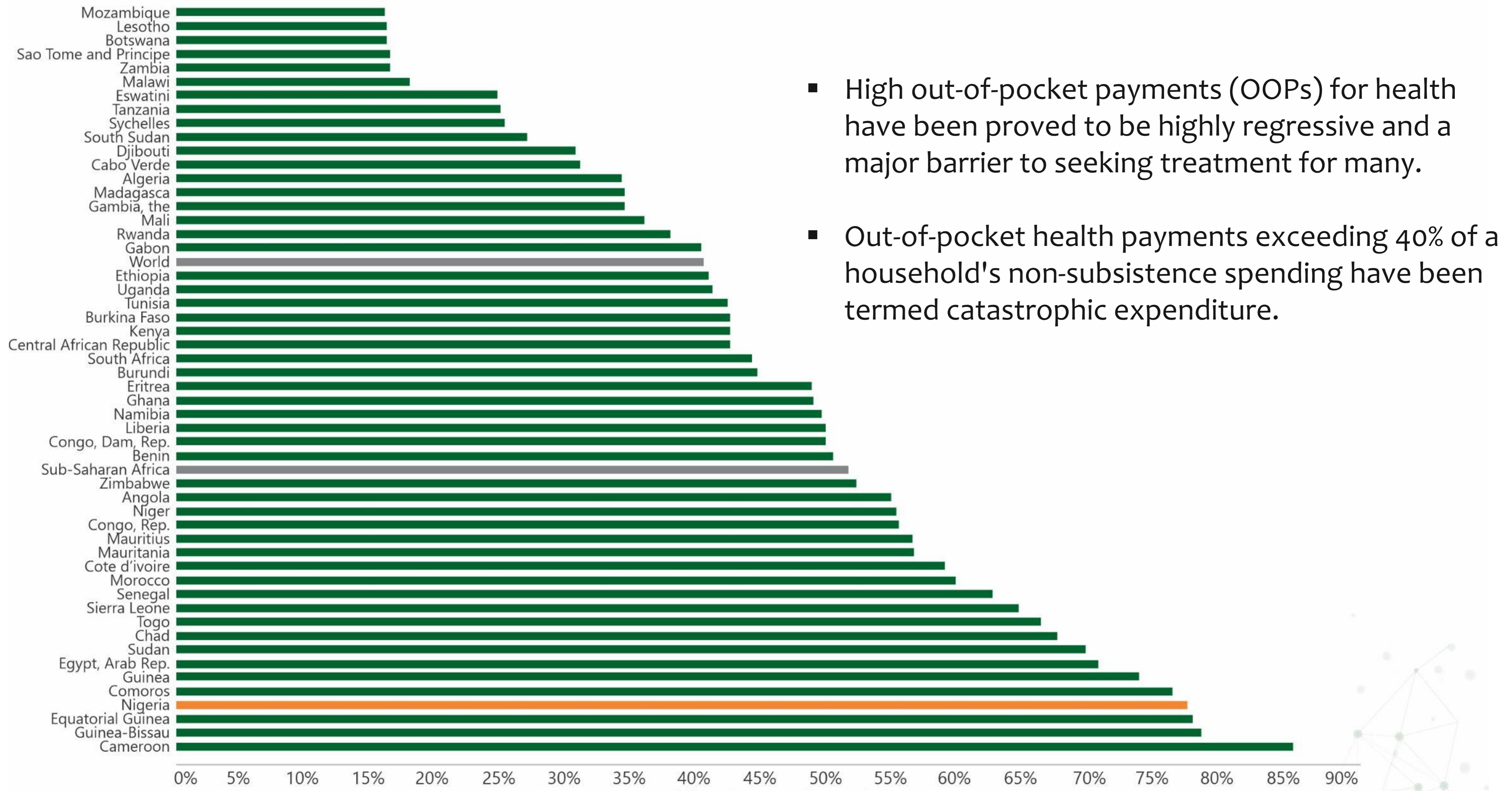
Figure 1.2 : Tax revenue (% of GDP), African Countries



- A vicious cycle of poor government services and the public's willingness to evade taxes has depressed tax revenues and in turn limited governments' capacity to provide quality services.
- Tax to GDP at the State-level is lower at <3%

Source: World Bank (2021), latest data as at 2019, *2018, **government estimate

Figure 1.3 : Domestic private health expenditure (% of current health expenditure), African countries



- High out-of-pocket payments (OOPs) for health have been proved to be highly regressive and a major barrier to seeking treatment for many.
- Out-of-pocket health payments exceeding 40% of a household's non-subsistence spending have been termed catastrophic expenditure.

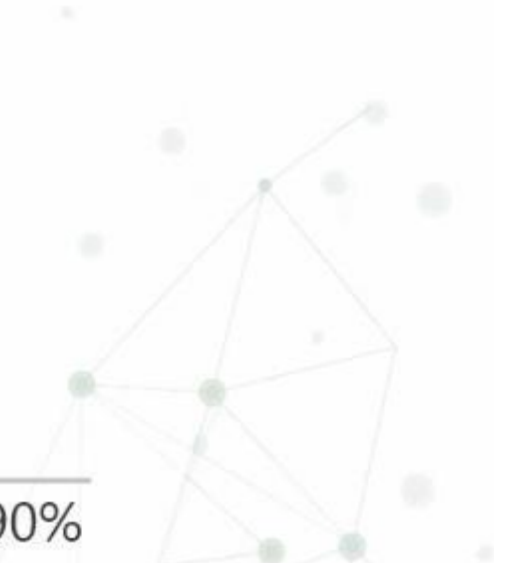
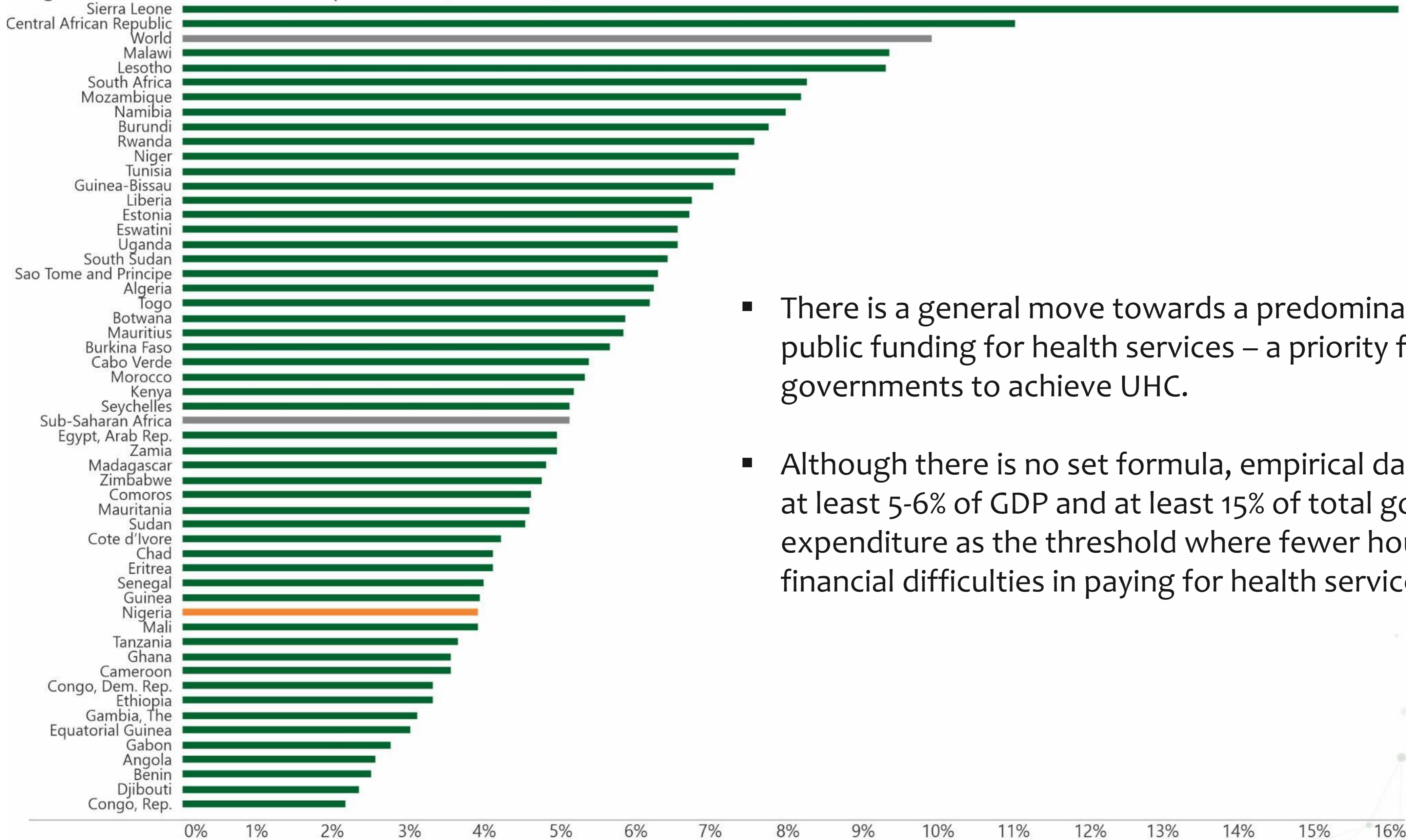


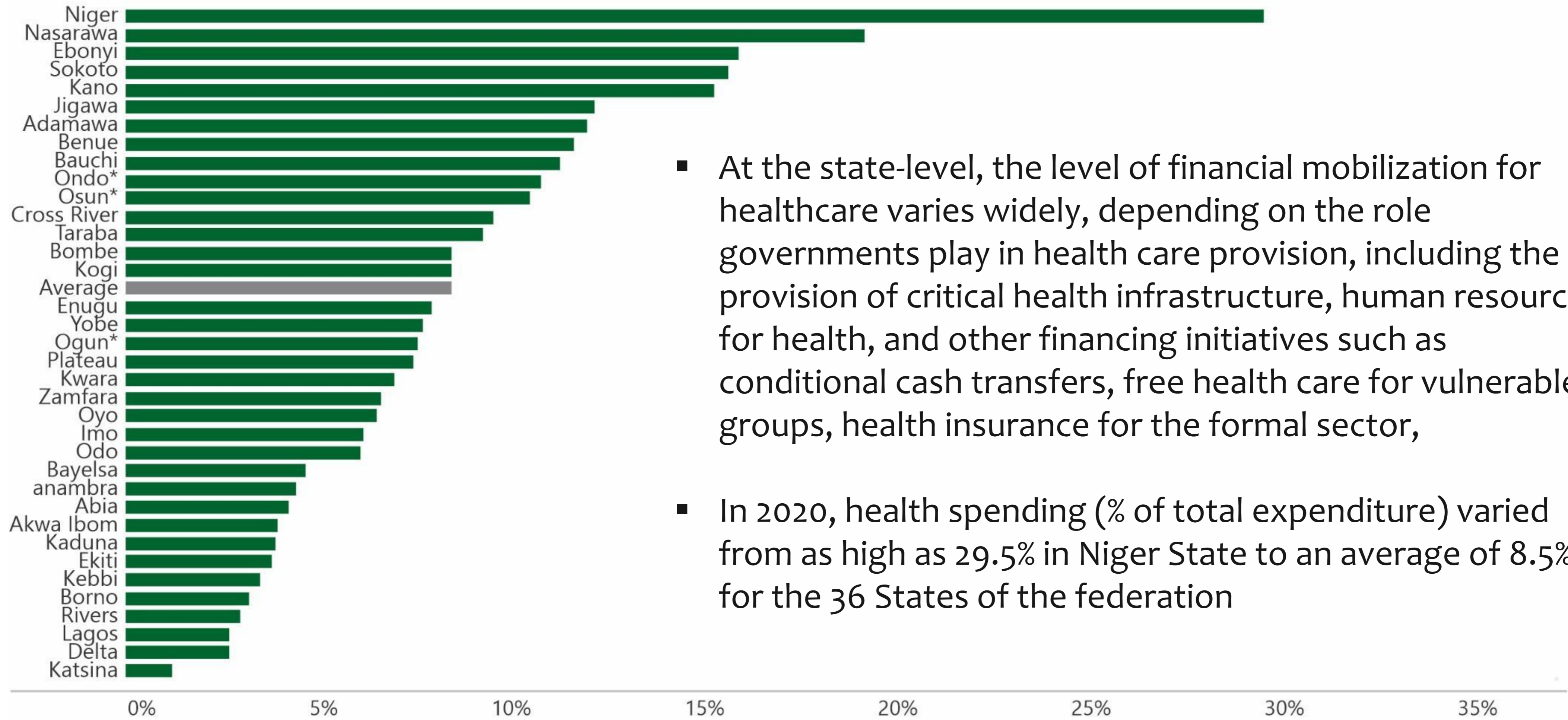
Figure 1.4 : Current health expenditure (% of GDP), African countries



- There is a general move towards a predominant reliance on public funding for health services – a priority for governments to achieve UHC.
- Although there is no set formula, empirical data estimates at least 5-6% of GDP and at least 15% of total government expenditure as the threshold where fewer households face financial difficulties in paying for health services.

Source: World Bank (2021), latest data as at 2018

Figure 1.5: Health expenditure (% of total expenditure)



- At the state-level, the level of financial mobilization for healthcare varies widely, depending on the role governments play in health care provision, including the provision of critical health infrastructure, human resources for health, and other financing initiatives such as conditional cash transfers, free health care for vulnerable groups, health insurance for the formal sector,
- In 2020, health spending (% of total expenditure) varied from as high as 29.5% in Niger State to an average of 8.5% for the 36 States of the federation

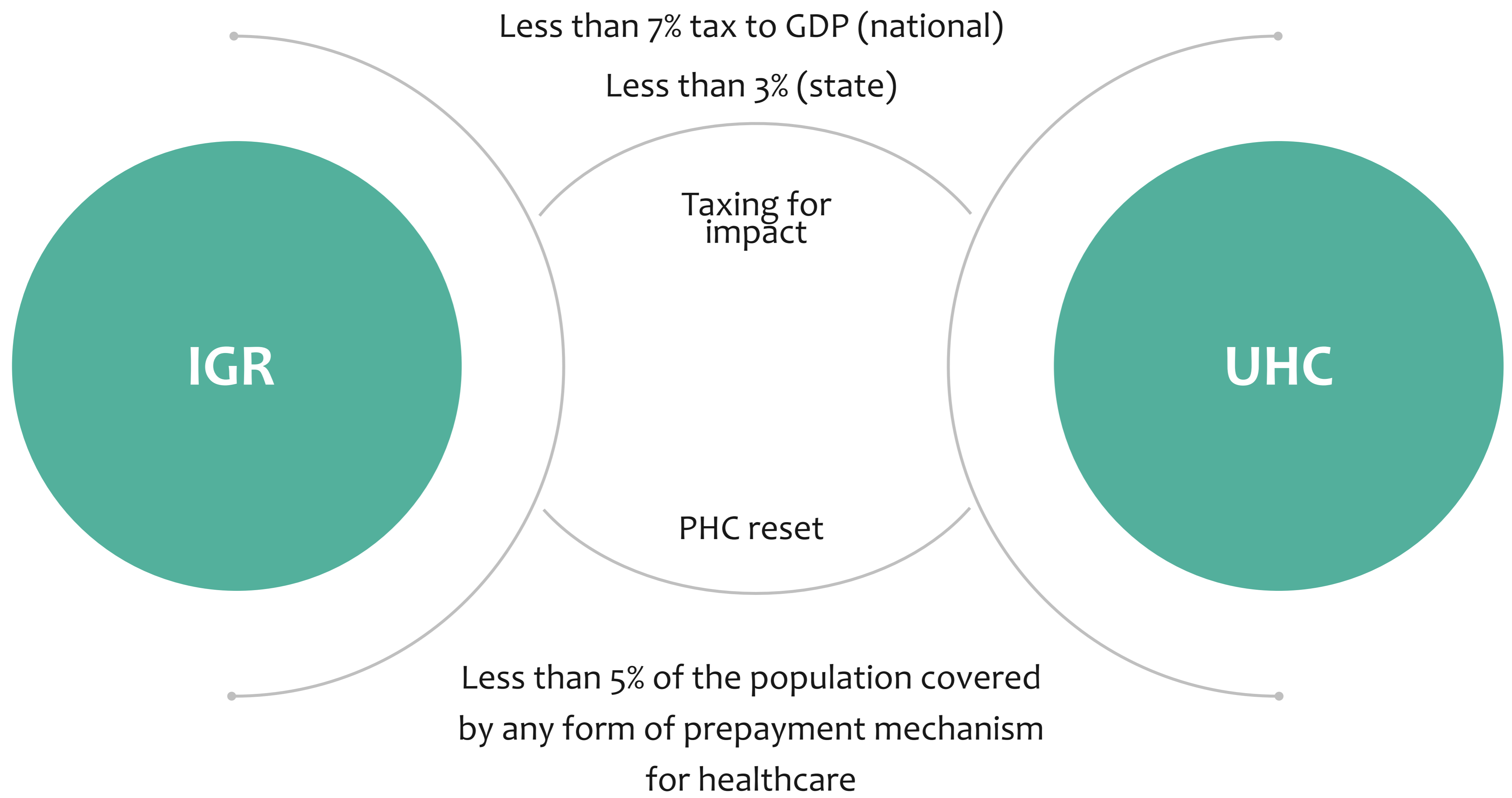
Source: NGF estimates from the 2020 audited financial statements of States. Data as at 2020, *2019.

Note: Actual spending by the State ministries of health

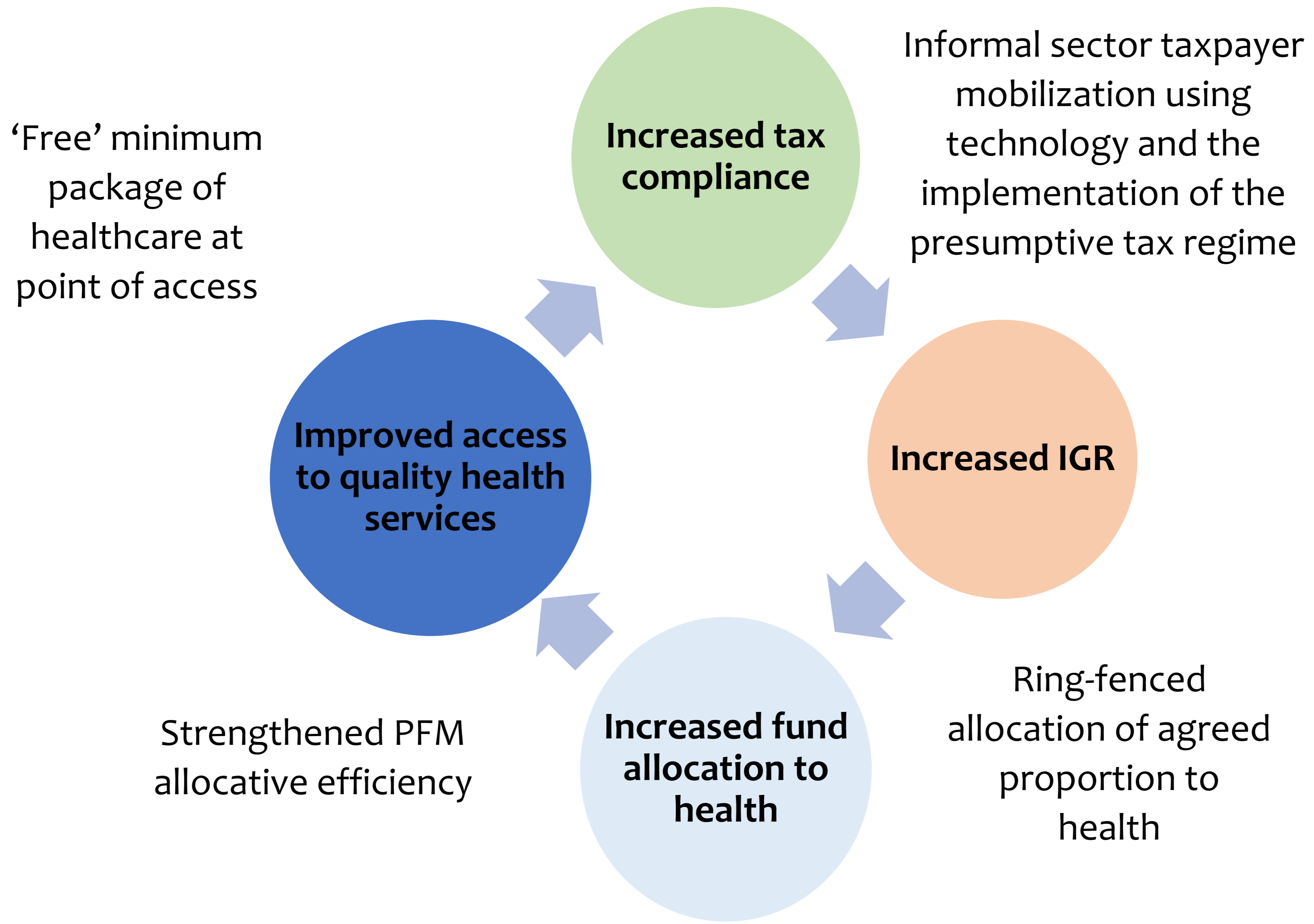


What is Tax for Service?

Tax-for-Service



Tax-for-Service Theory of Change



Informal Sector Survey - Methodology and Findings

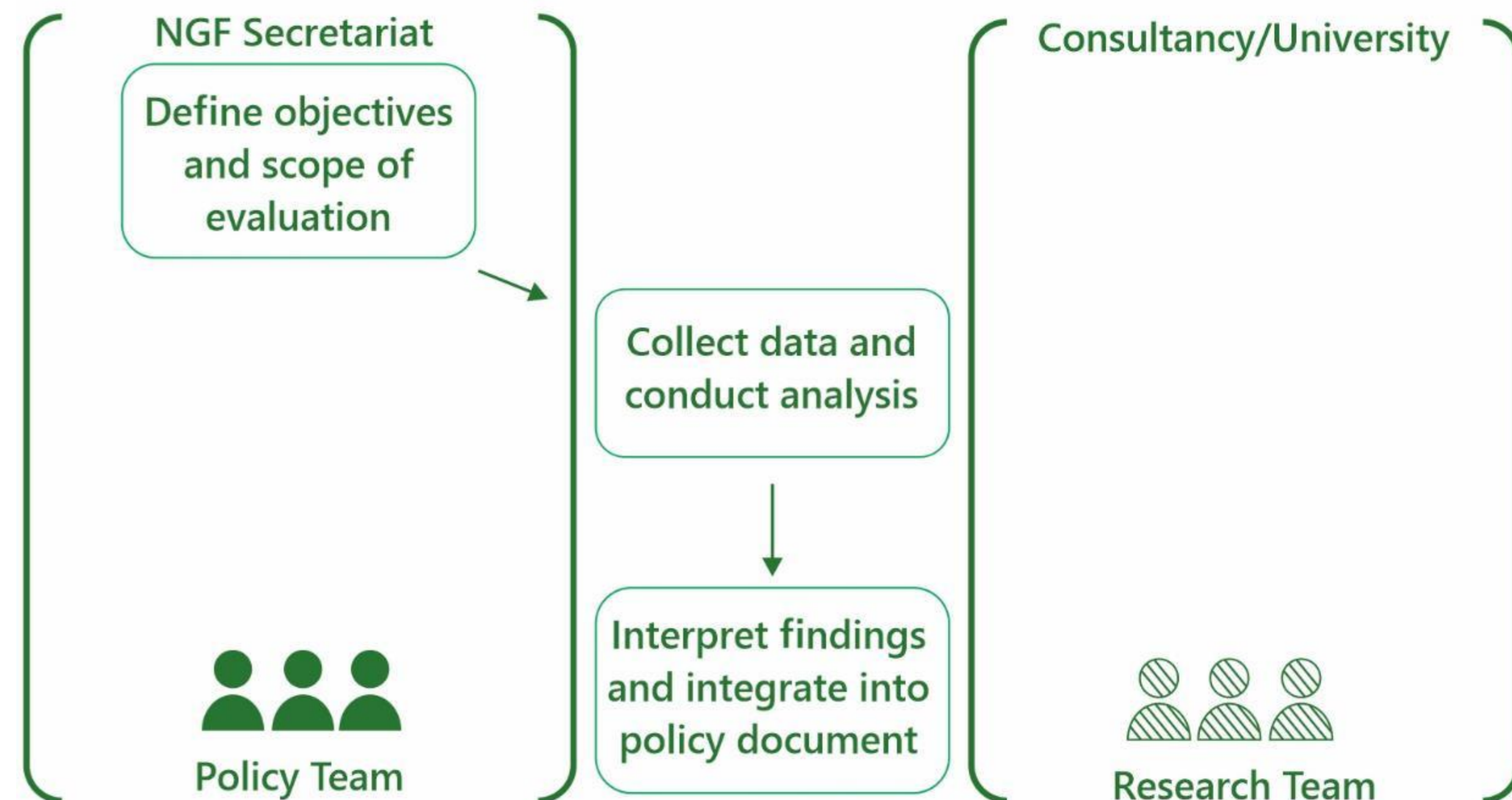
Methodology

1. Data collection took place from December 2020 to January 2021.
2. The household survey was conducted with at least 1000 respondents in each state (i.e., 12,000 in all 12 states).
3. 40/60 rural/urban split to sufficiently capture the urban population who have more exposure to both taxation and access to health facilities.
4. 50/50 gender split to ensure equal representation of men and women.
5. In-dept interviews in each state with the State Ministry of Finance (SMoF), the State Internal Revenue Service (SIRS), the State Ministry of Health (SMoH), the State Health Insurance Agency (SHIA), the State Primary Healthcare Development Agency (SPHCDA), the State Drug Management Agency (SDMA), the State Hospital Management Board (SHMB), and health facilities (HFs).

Table 1.1 : Representative States of the survey

S/N	Geopolitical Zone	Selected States
1	South South	Edo and Delta
2	South East	Anambra and Enugu
3	South West	Ogun and Ekiti
4	North Central	Kwara and Plateau
5	North East	Yobe and Borno
6	North West	Kaduna and Kano

Figure 1.6 : Research Model



Demographics

- 53% of informal sector workers in Nigeria live in households of up to 4 persons, including themselves.
- 44% of these workers are also heads of their household, indicating how important informal economic activity is for the livelihood of not just these workers but their households.

Figure 2.1 : Highest level of education completed

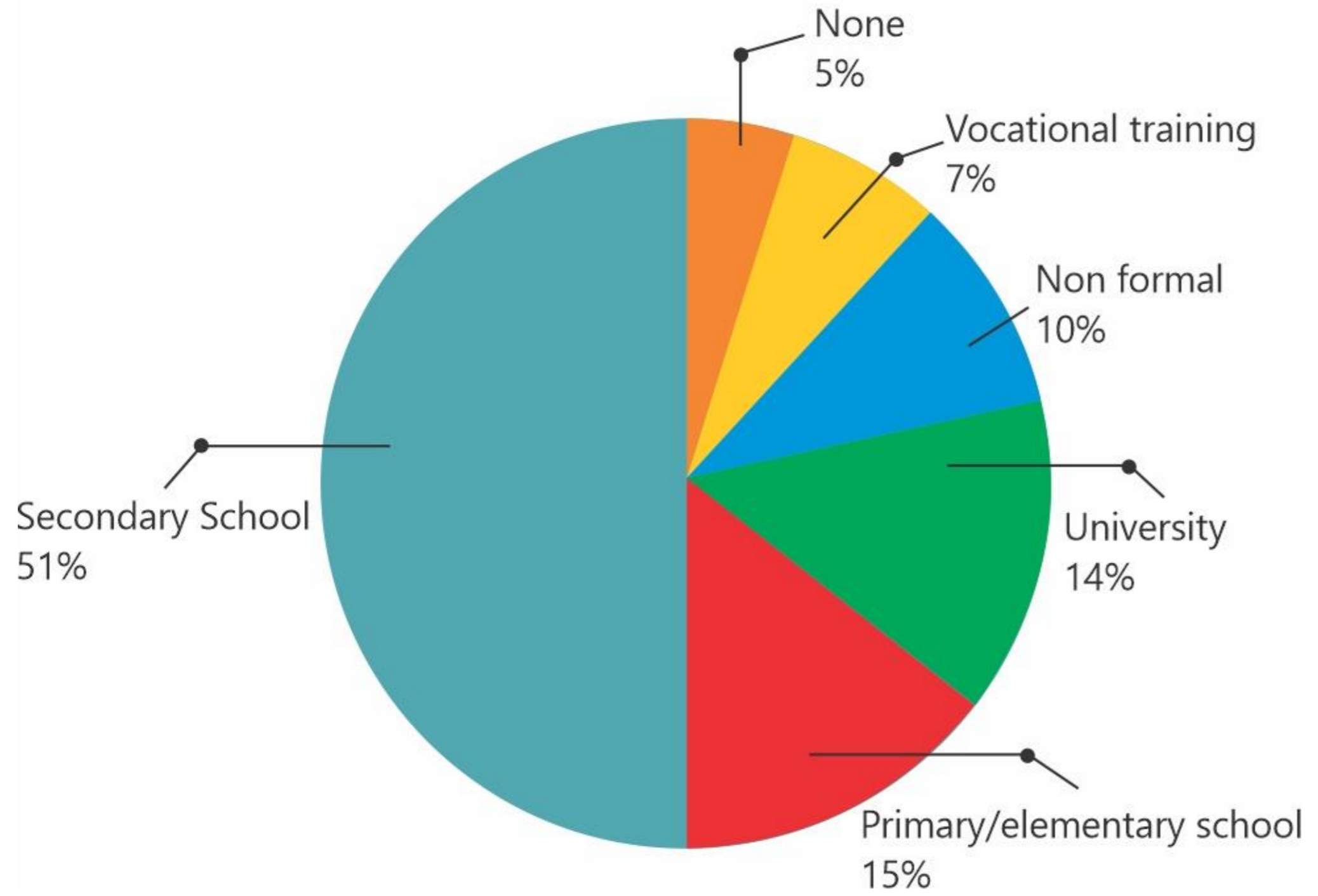
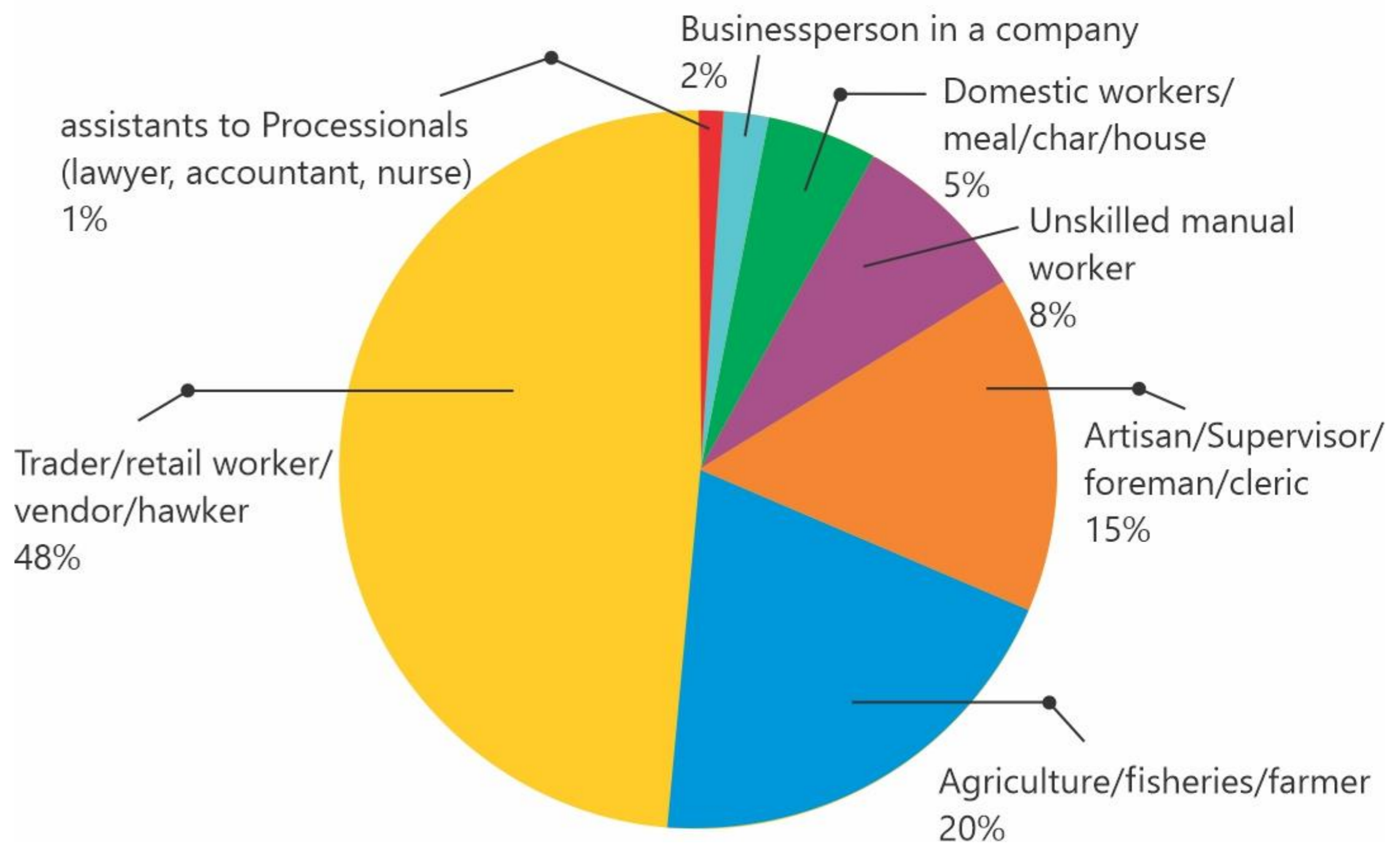


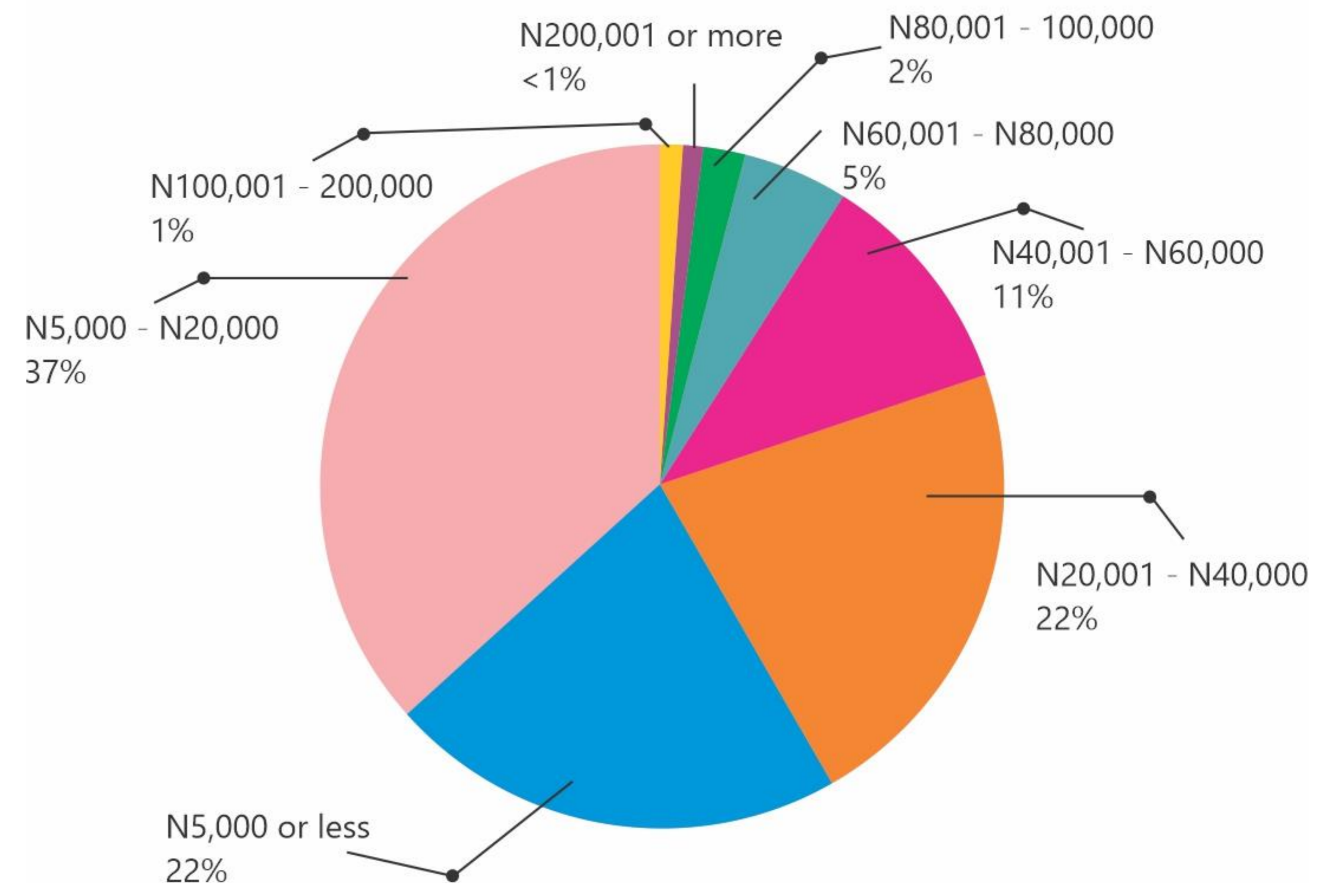
Figure 2.2: Occupation of informal sector workers



Income level

- Over 50% earn below 20,000 Naira while less than 2% earn above 100,000 Naira
- The level of financialization among informal workers is also low, with just 57% of them owning or operating a bank account.

Figure 2.3: Average personal monthly income



Income level

- Economic activity and skill plays a major role in determining incomes.
- Informal workers who work as or assist legal aids, accountants, nurses, engineers and teachers earn on average more than other informal workers. Artisans too.
- There is a lot of optimism around improving their own living conditions with 83% believing that their living conditions will be better or much better a year after

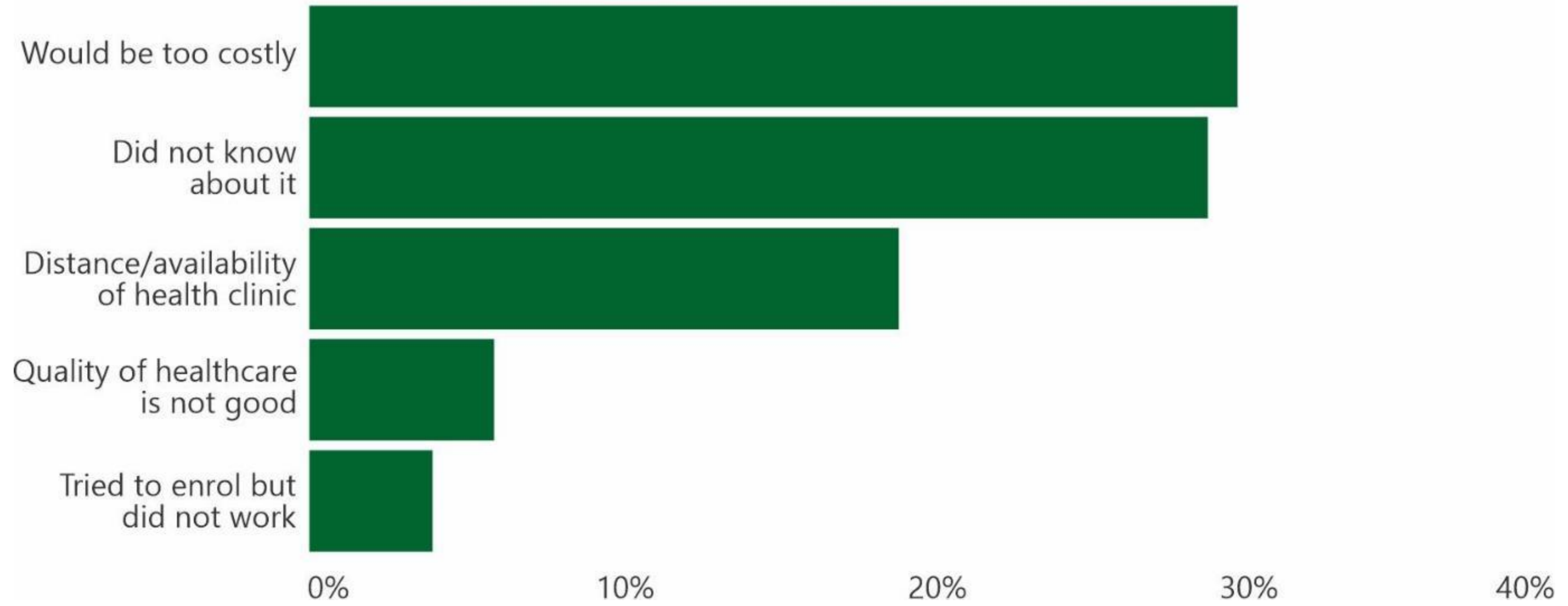
Table 2.1 : Personal income across occupational groups

	< N5,000	N5,001 - N20,000	N20,001 - N40,000	N40,001 - N60,000	N60,001 - N80,000	N80,001 - N100,000	N100,001 - N200,000	> N200,001	Total
Do not know	15%	71%	14%	0%	0%	0%	0%	0%	100%
Refuse to answer	0%	0%	53%	0%	23%	23%	0%	0%	100%
Other	9%	23%	16%	9%	22%	22%	0%	0%	100%
Agriculture	23%	34%	21%	12%	5%	2%	2%	1%	100%
Trader/vendor/retail	23%	39%	21%	10%	4%	2%	1%	0%	100%
Domestic worker	29%	47%	16%	5%	2%	0%	0%	1%	100%
Artisan/skilled labour	14%	33%	29%	14%	6%	3%	1%	0%	100%
Unskilled labour	32%	32%	21%	9%	4%	2%	0%	0%	100%
Businessperson	11%	25%	29%	12%	15%	6%	1%	2%	100%
Assistants to Professional	1%	14%	30%	20%	12%	7%	13%	4%	100%
Total	22%	37%	22%	11%	5%	2%	1%	0%	100%

Knowledge about health insurance

- Two thirds of informal sector workers in Nigeria have never heard about health insurance
- Workers that earn less have heard less about health insurance. Education also makes a difference

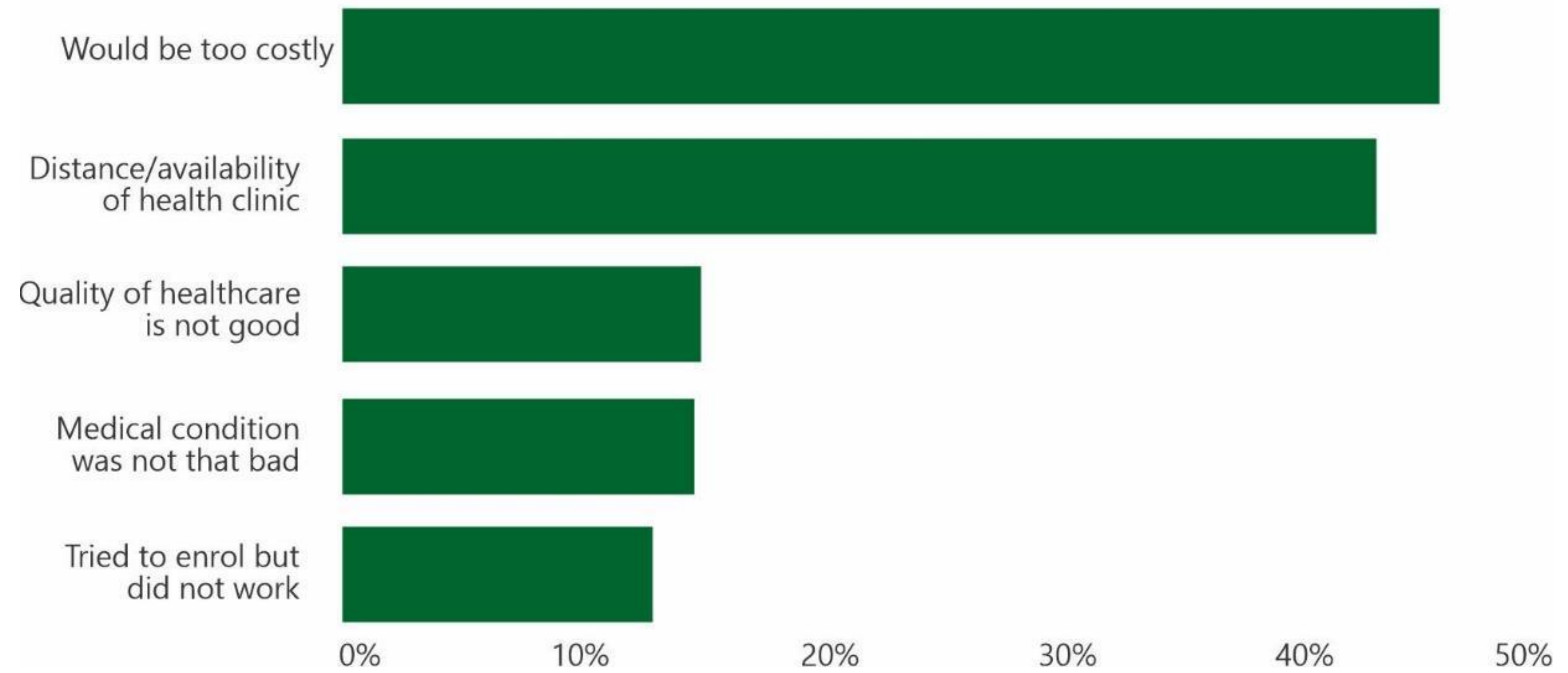
Figure 2.4 : Primary reasons for not enrolling in a health insurance programme



Healthcare needs

- Over the past year, ~20% of informal sector workers needed medical care out of which ~20% could not access medical care.
- 59% of health care needs were linked to malaria.

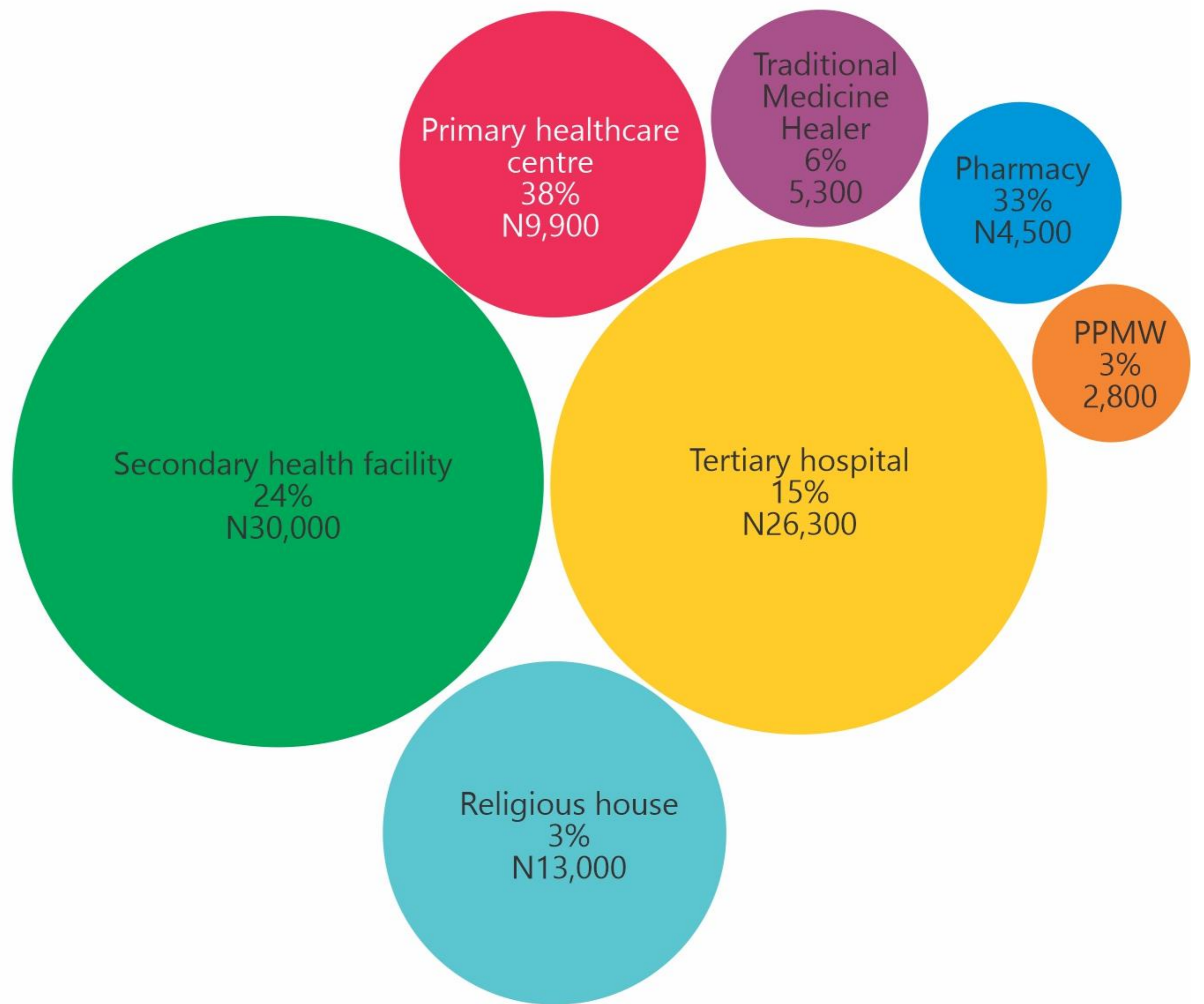
Figure 2.5: Main reasons for not accessing healthcare



Health Spending

- PHCs are the primary go-to facility for informal sector workers to access treatment services.
- Healthcare costs are three times higher in secondary and tertiary health facilities.

Figure 2.6: Use of health facilities & average spending by those that accessed healthcare



Healthcare Affordability

- Almost one third of people indicated that they had postponed or skipped seeking healthcare or medication when they needed it in the last three months alone.
- 40% of the poorest income group indicated they had done this, versus about a quarter in higher income groups.

Figure 2.7 : Health services are affordable to me

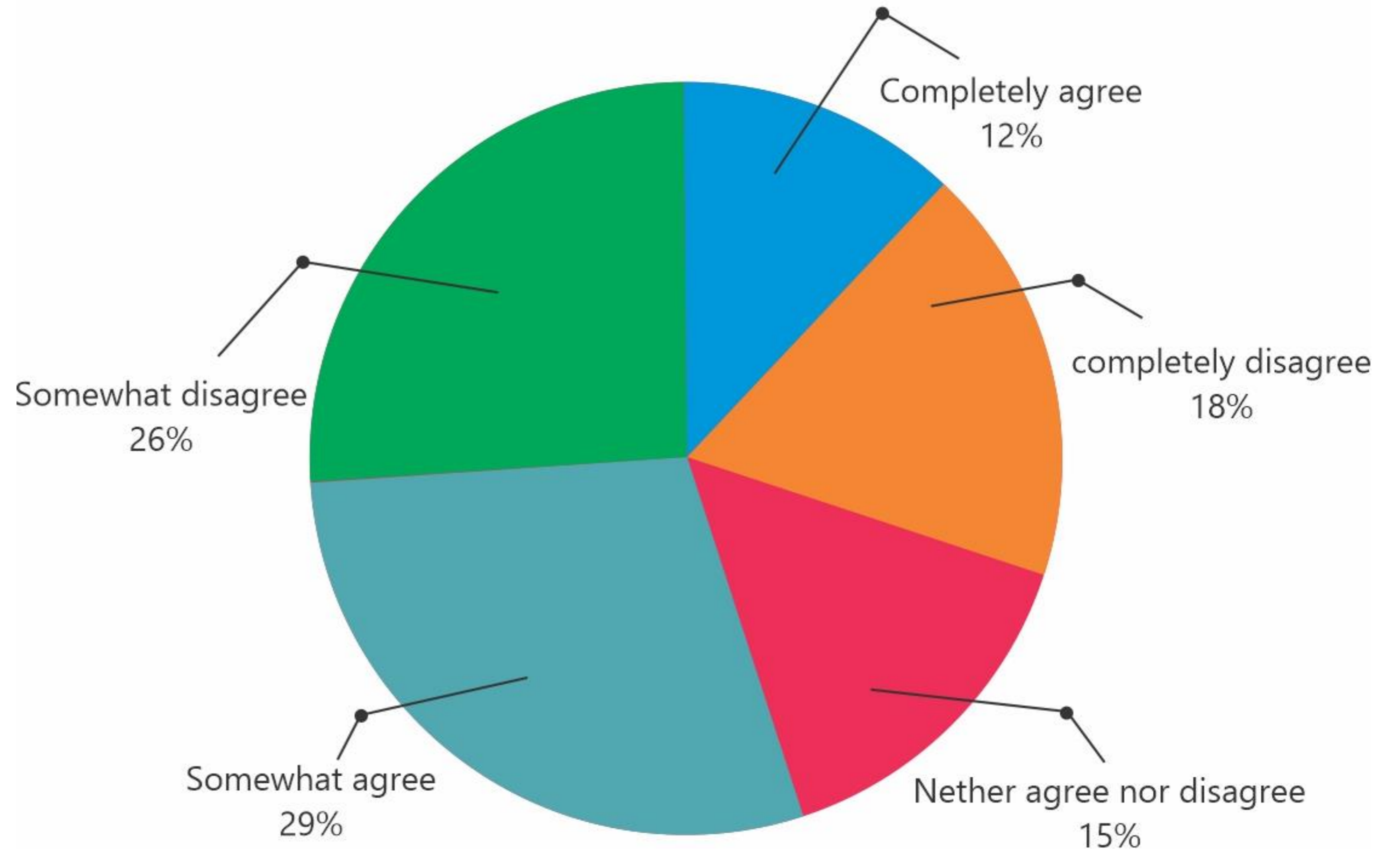
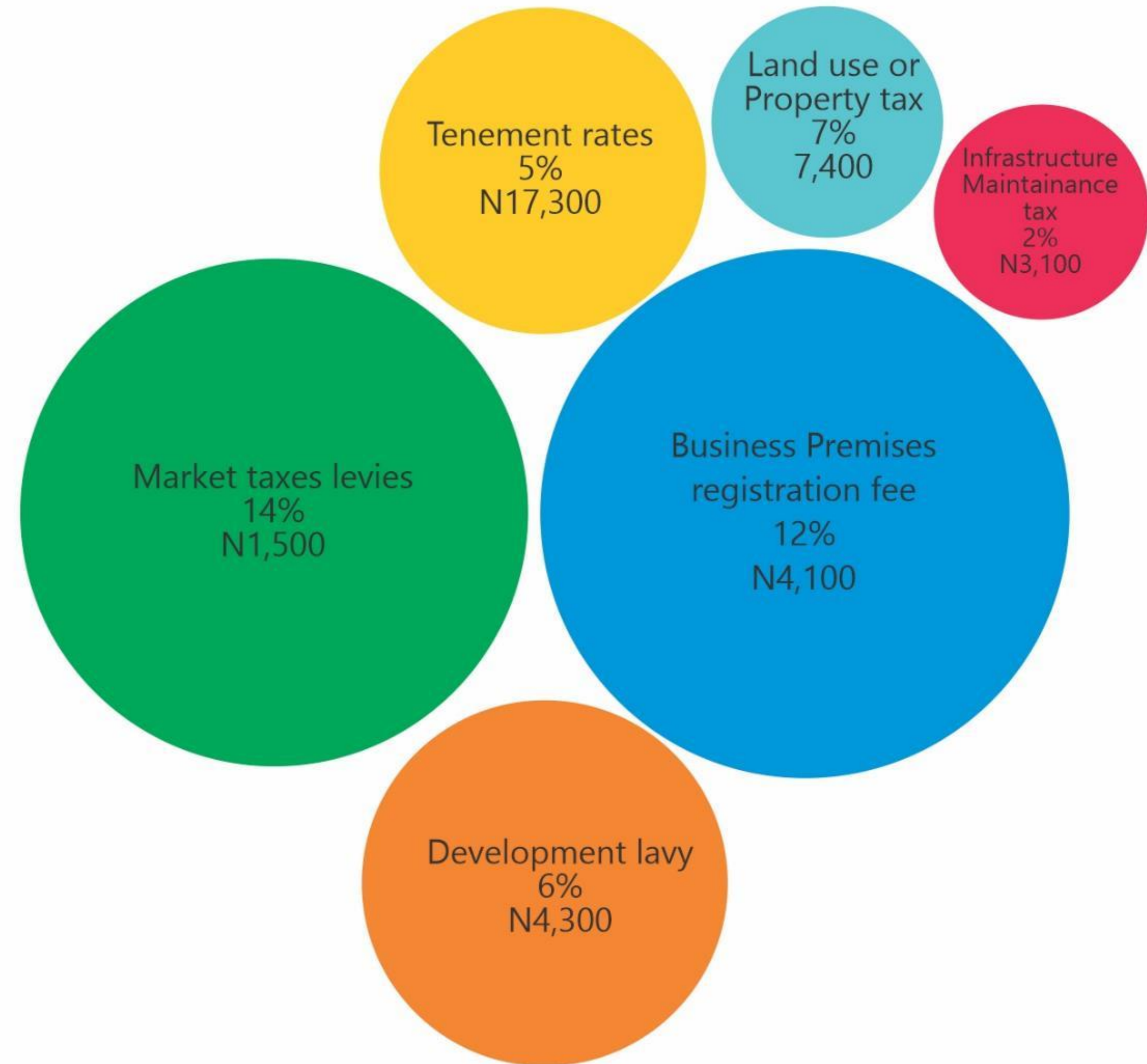


Figure 2.8: Share of workers who paid selected taxes and the average rates paid

Tax Payment

- Only 2% of informal sector workers have a Tax Identification Number based on the self-reported assessment.
- The taxes most paid by these workers are market taxes and levies and business registration fees, paid by 14% and 12% of informal sector workers respectively.



Tax Payment...

- Tax payment in the informal sector are primarily contact based to individuals
- The majority (78%) also reported that they receive a receipt of payment when paying taxes.
- Persons who work as businesspersons or with professional service providers are also the most likely not to pay taxes

Figure 2.9 : Location where informal sector workers generally pay taxes

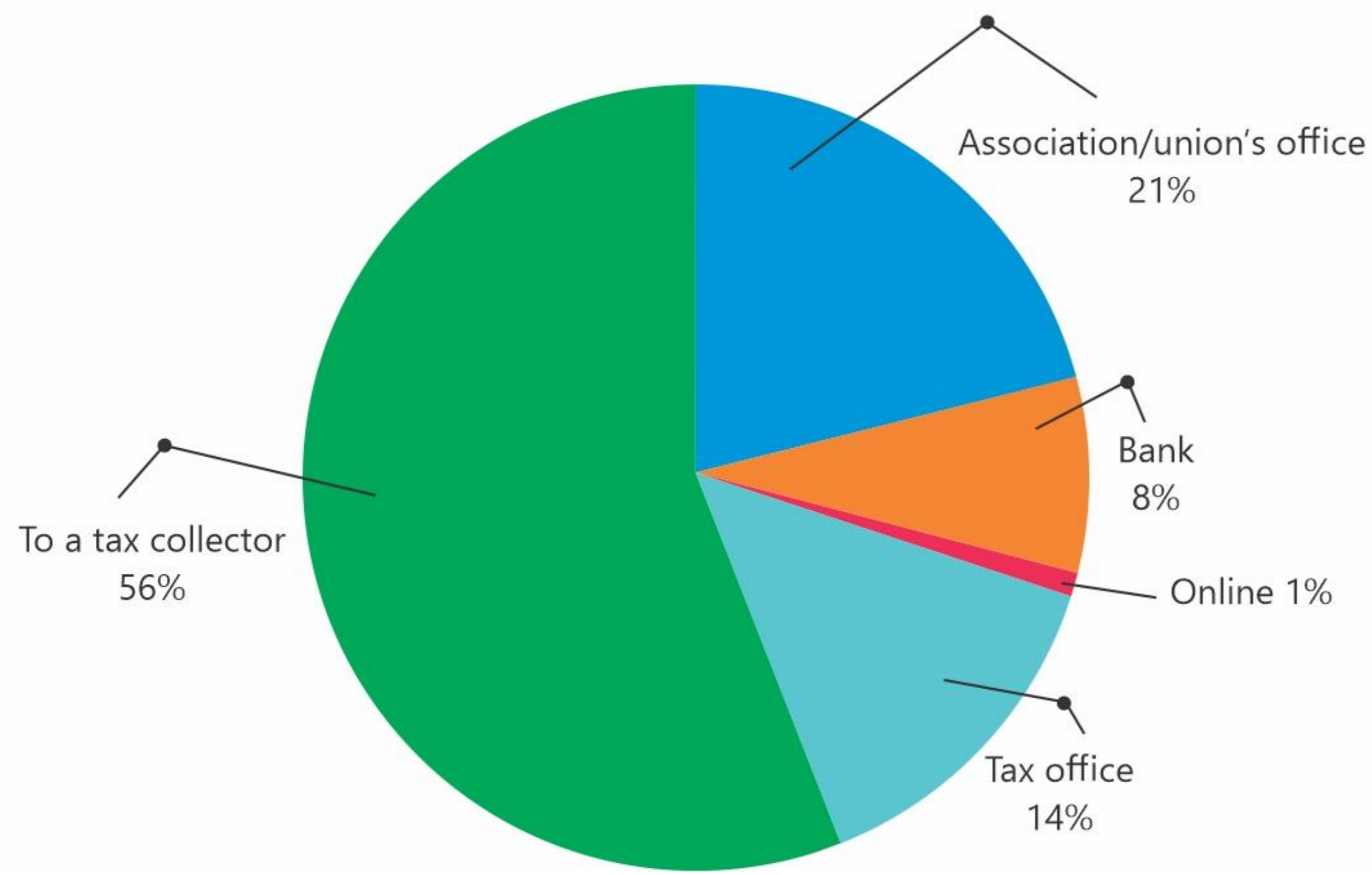


Figure 2.10: Opinion on tax burden

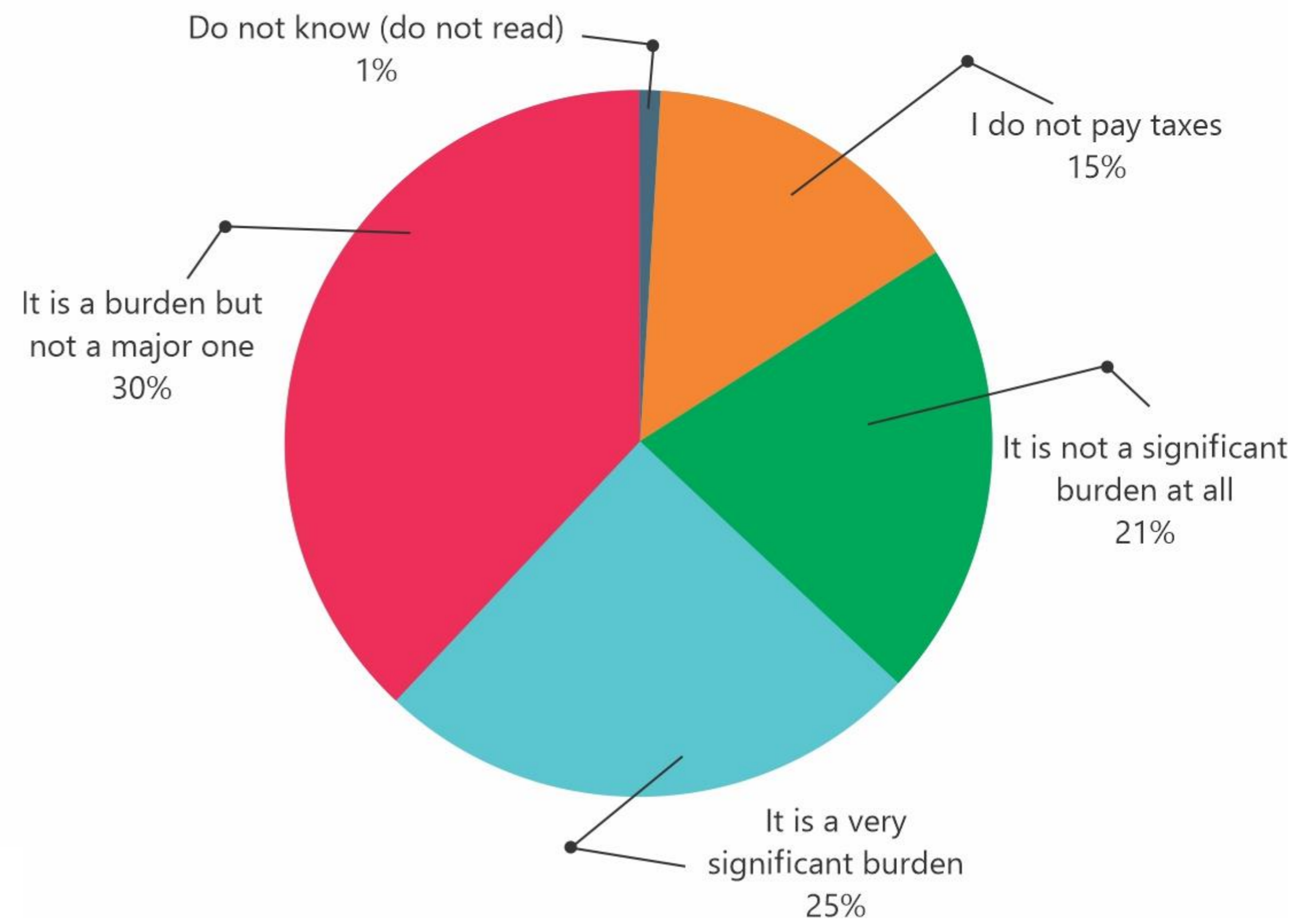
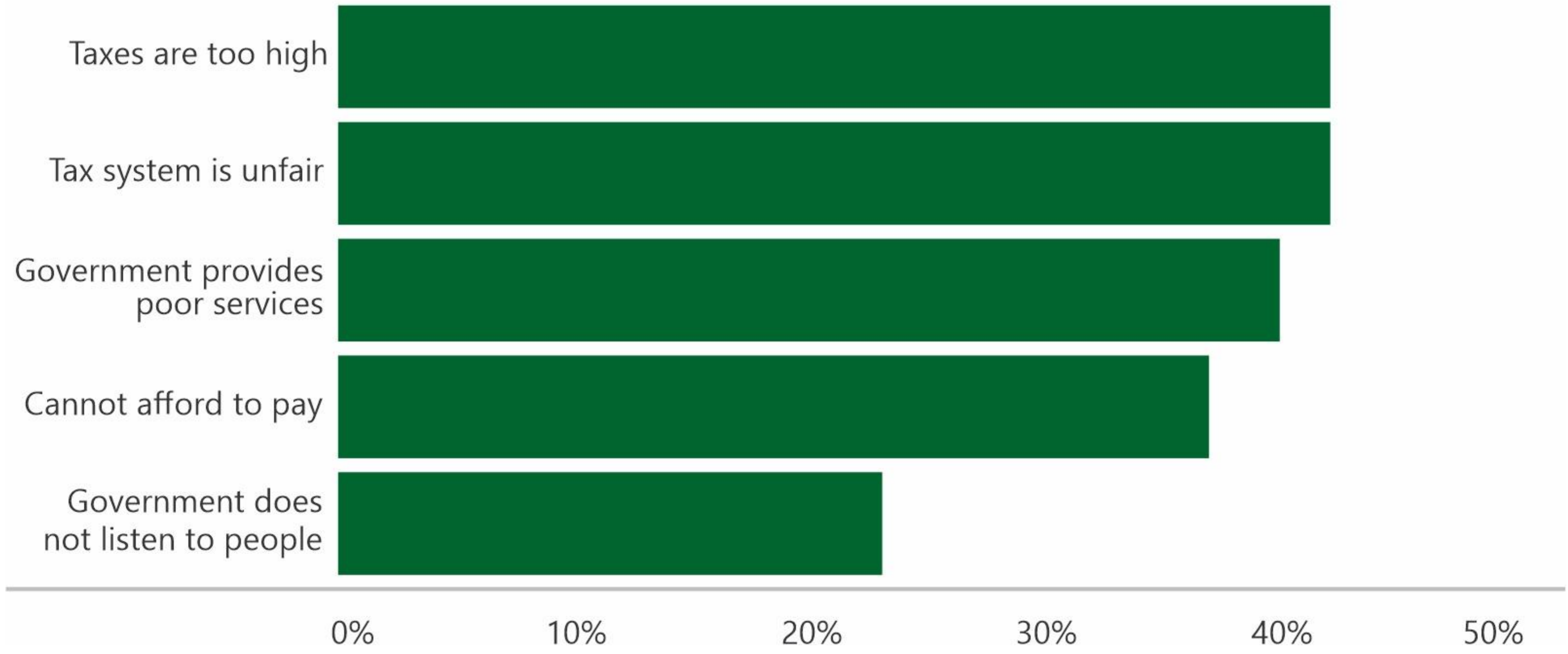


Figure 2.11 : Main reasons for not paying taxes



Tax Perception

- Many informal sector workers question the notion that tax authorities have the right to make people pay taxes.

Figure 2.13 : Trust in state tax officials to collect taxes fairly

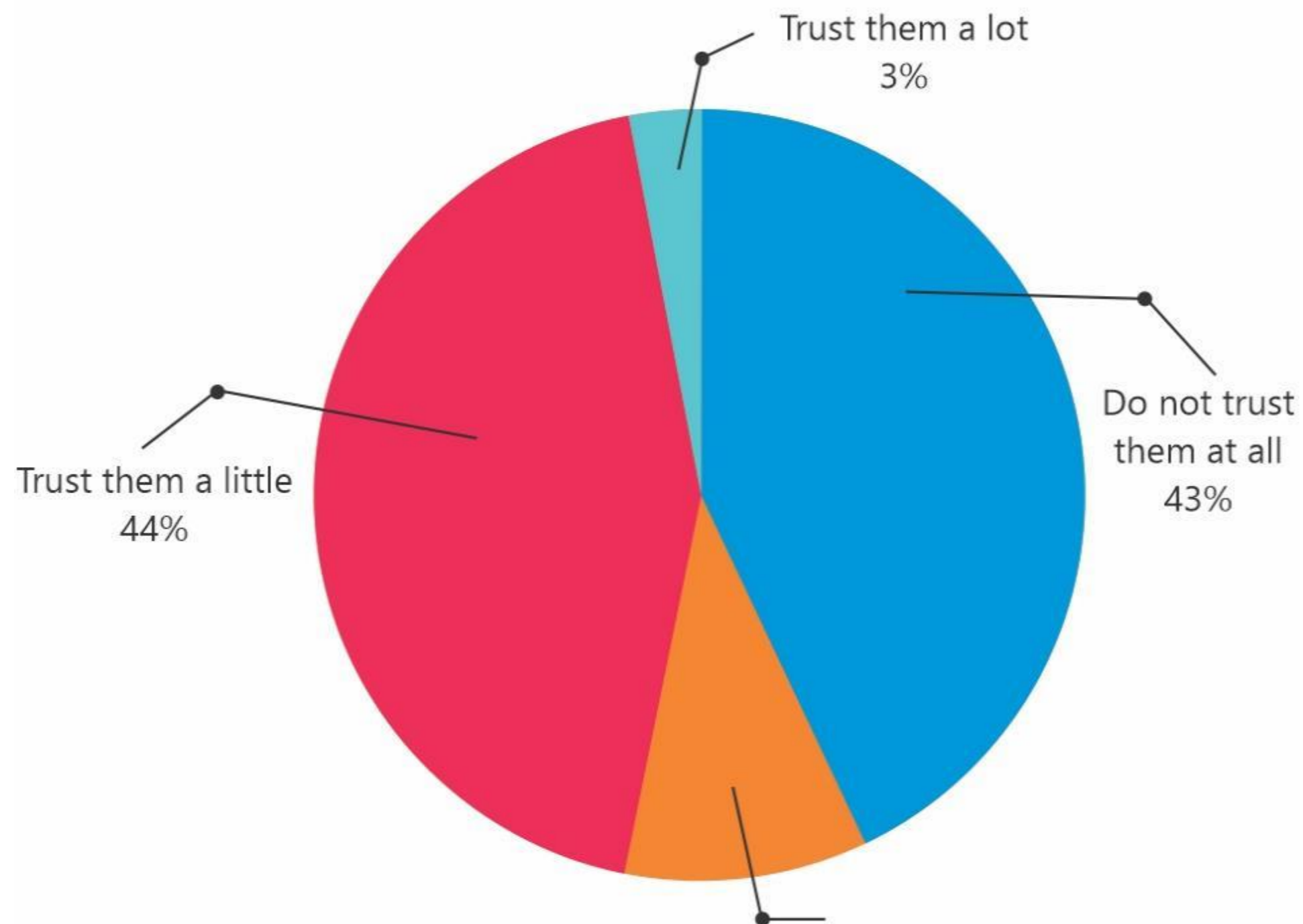


Figure 2.12 : Perception about not paying taxes

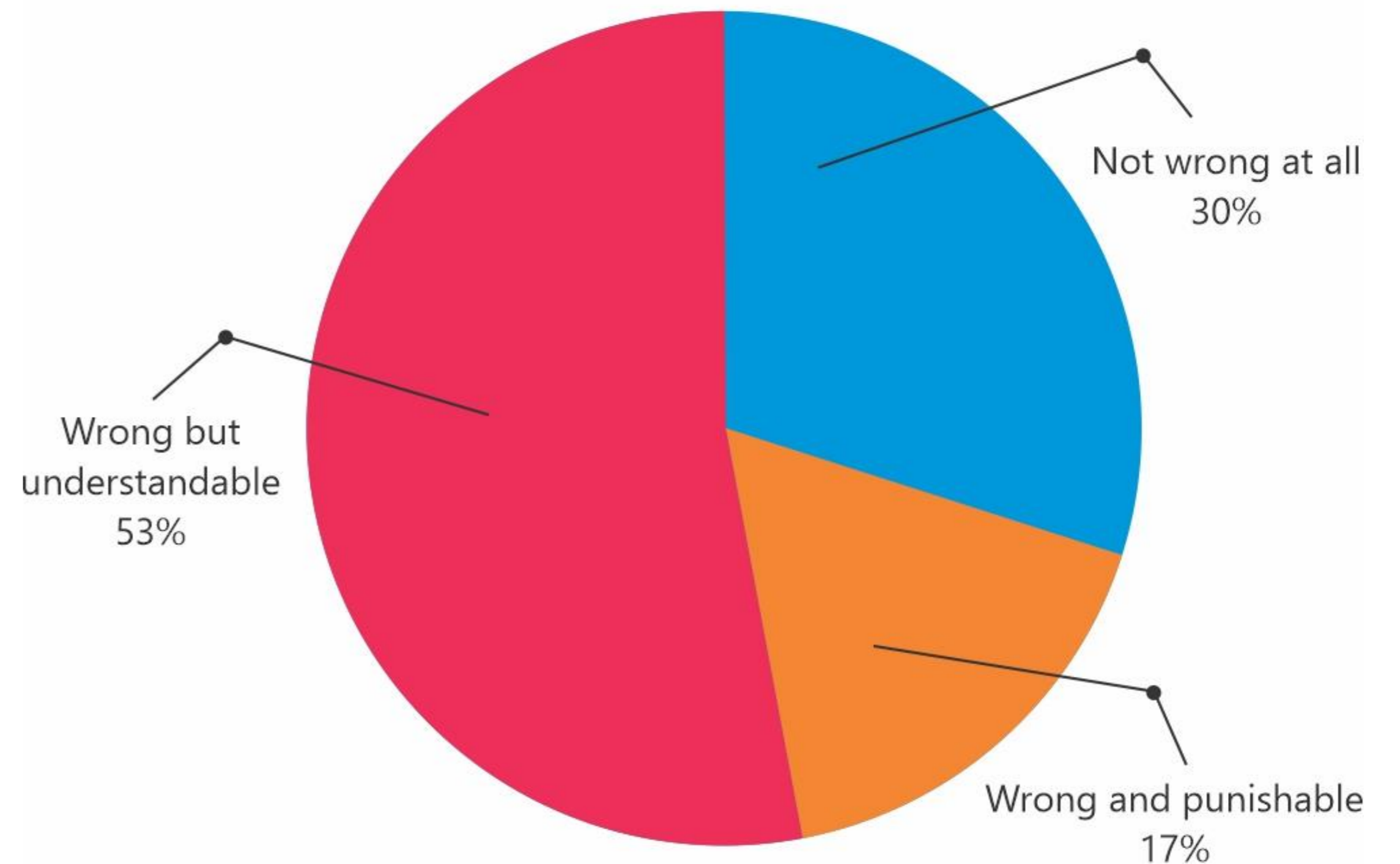
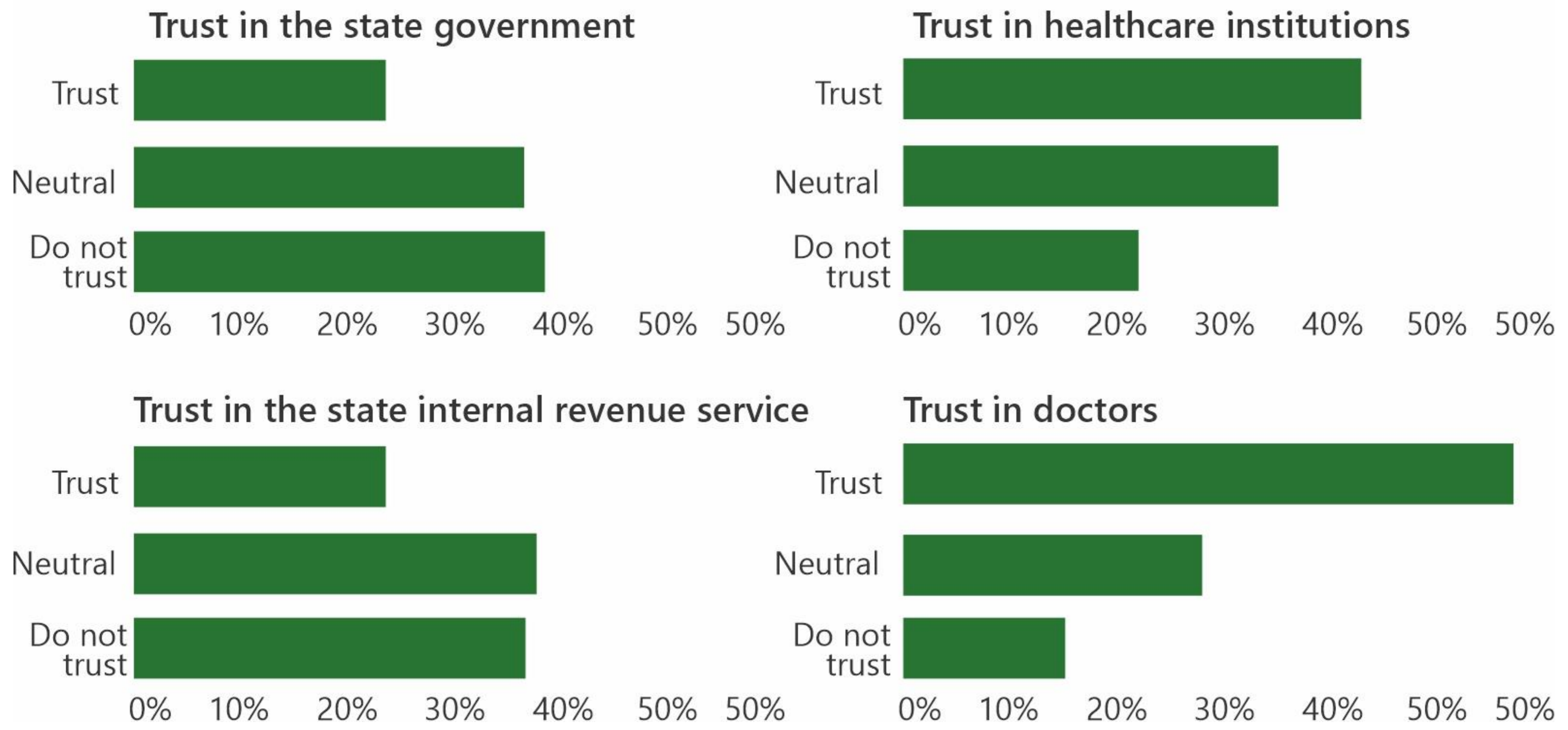
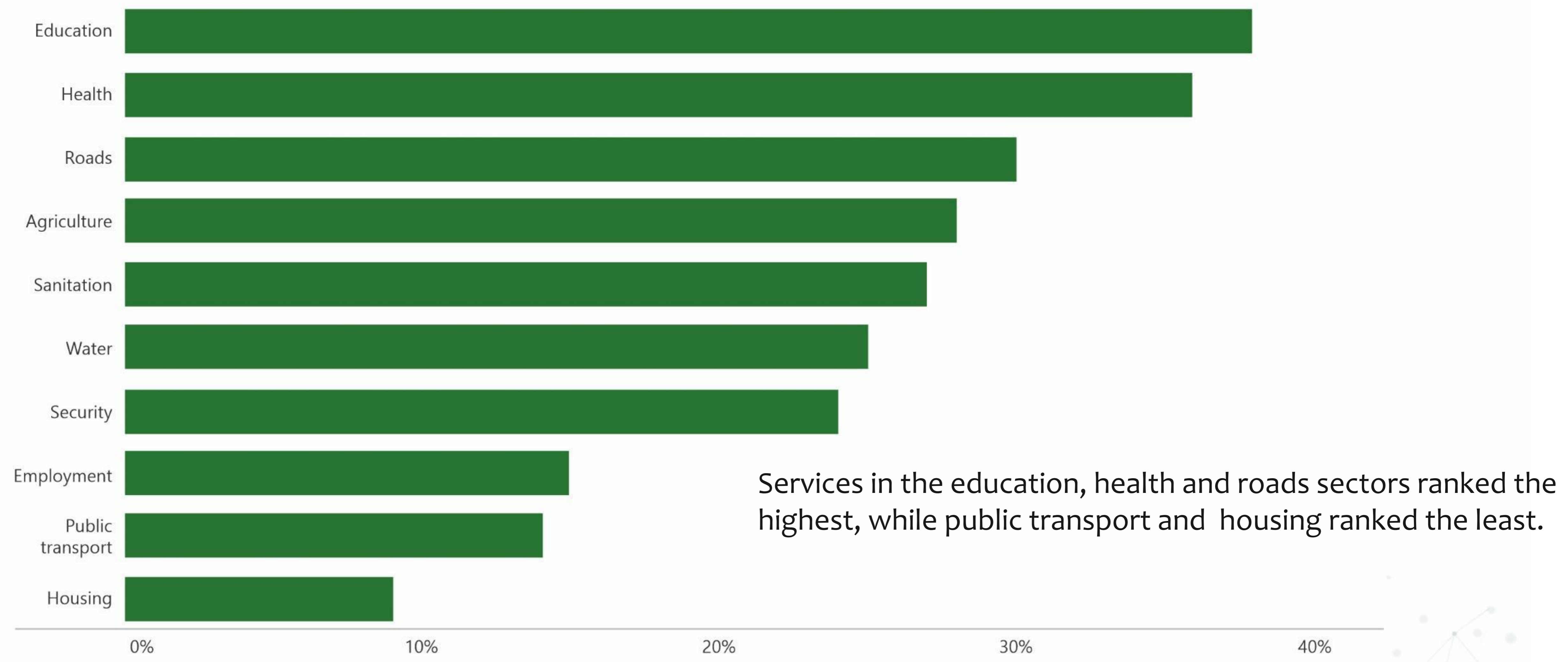


Figure 2.14: Trust in government and institutions



- Contrary to core governmental bodies, there is less distrust in health institutions and doctors, where people who distrust them represent only 22% and 15% of all informal workers, respectively.

Figure 2.15: Believes the government provides good services in the following areas



Note: Each service reflects 100%, with the number reported as the percentage of informal sector workers that are satisfied with services in the sector.

Figure 2.16: Share of workers who have received social benefit and their level of satisfaction

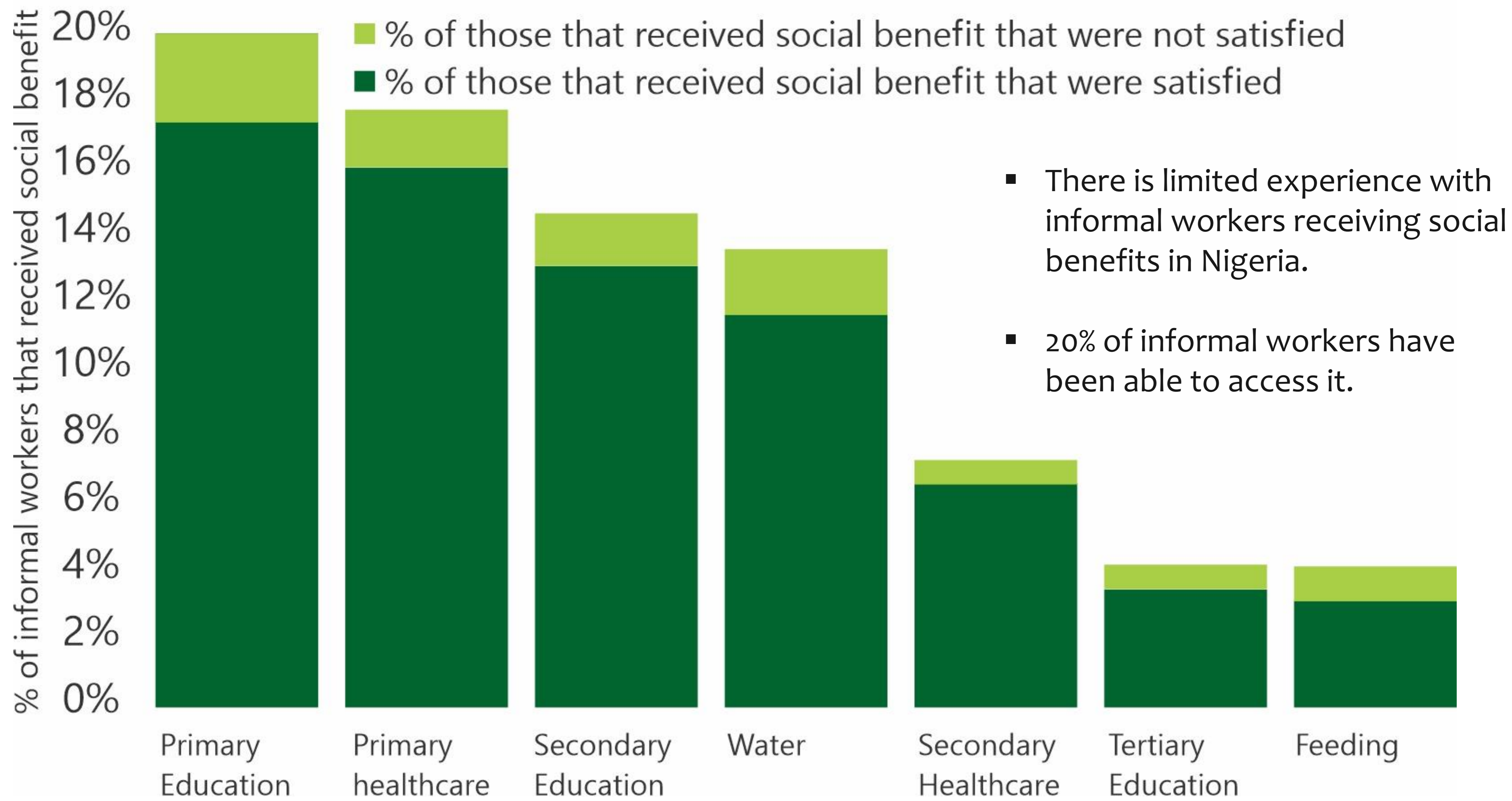
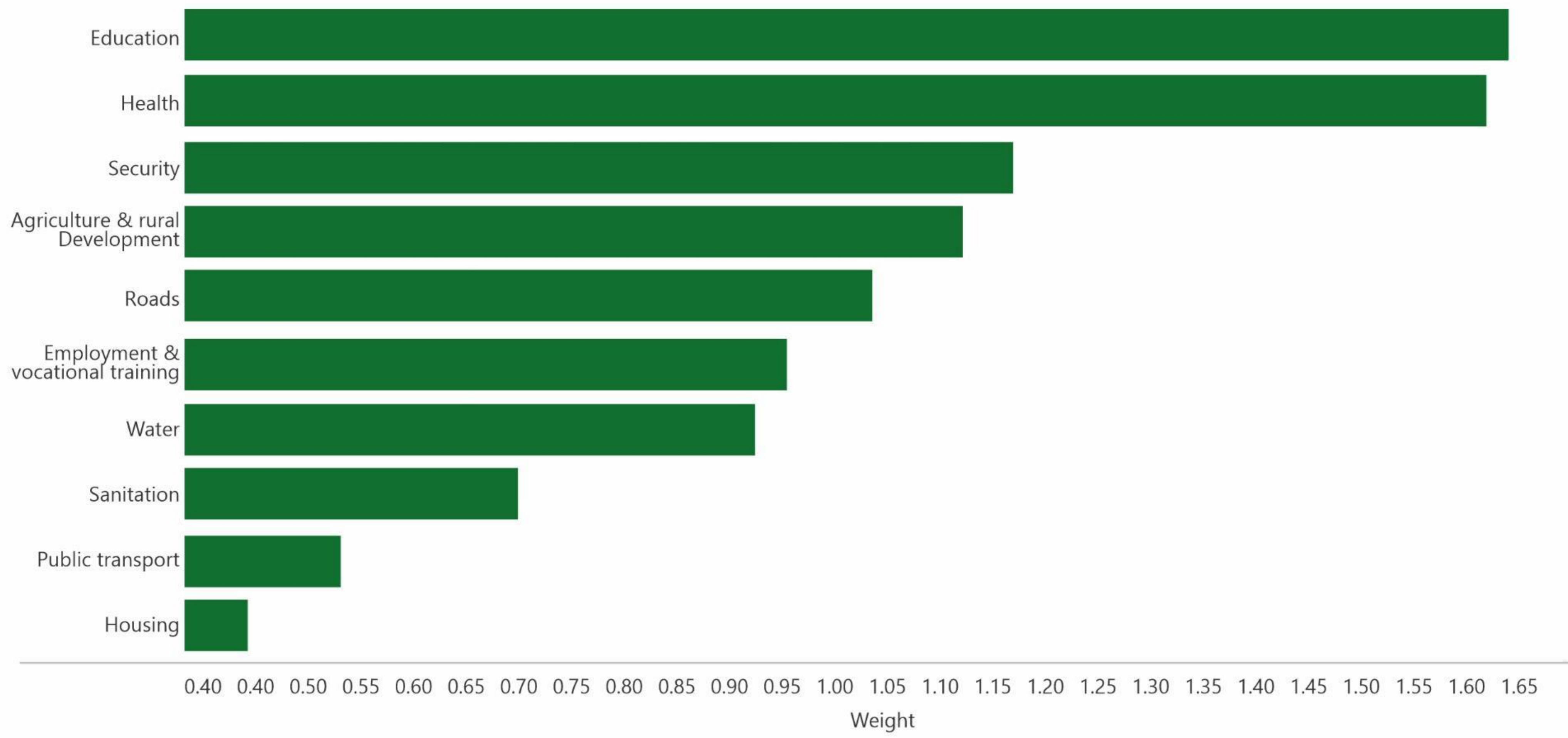


Figure 2.17 : Priorities of informal workers for government's use of tax revenue



Note: Each respondent was given 10 marbles and told those 10 marbles represented extra money the government could invest. They were then asked to distribute the 10 marbles across sectors they thought were important. They were told that not every sector had to be covered in case they thought the government should not spend more money in this sector.



Tax Preferences

- 41% are more comfortable with paying taxes to the local government vs 25% who chose the SIRS

Figure 2.18 : Main reason to feel positive about the Tax-for-Service programme

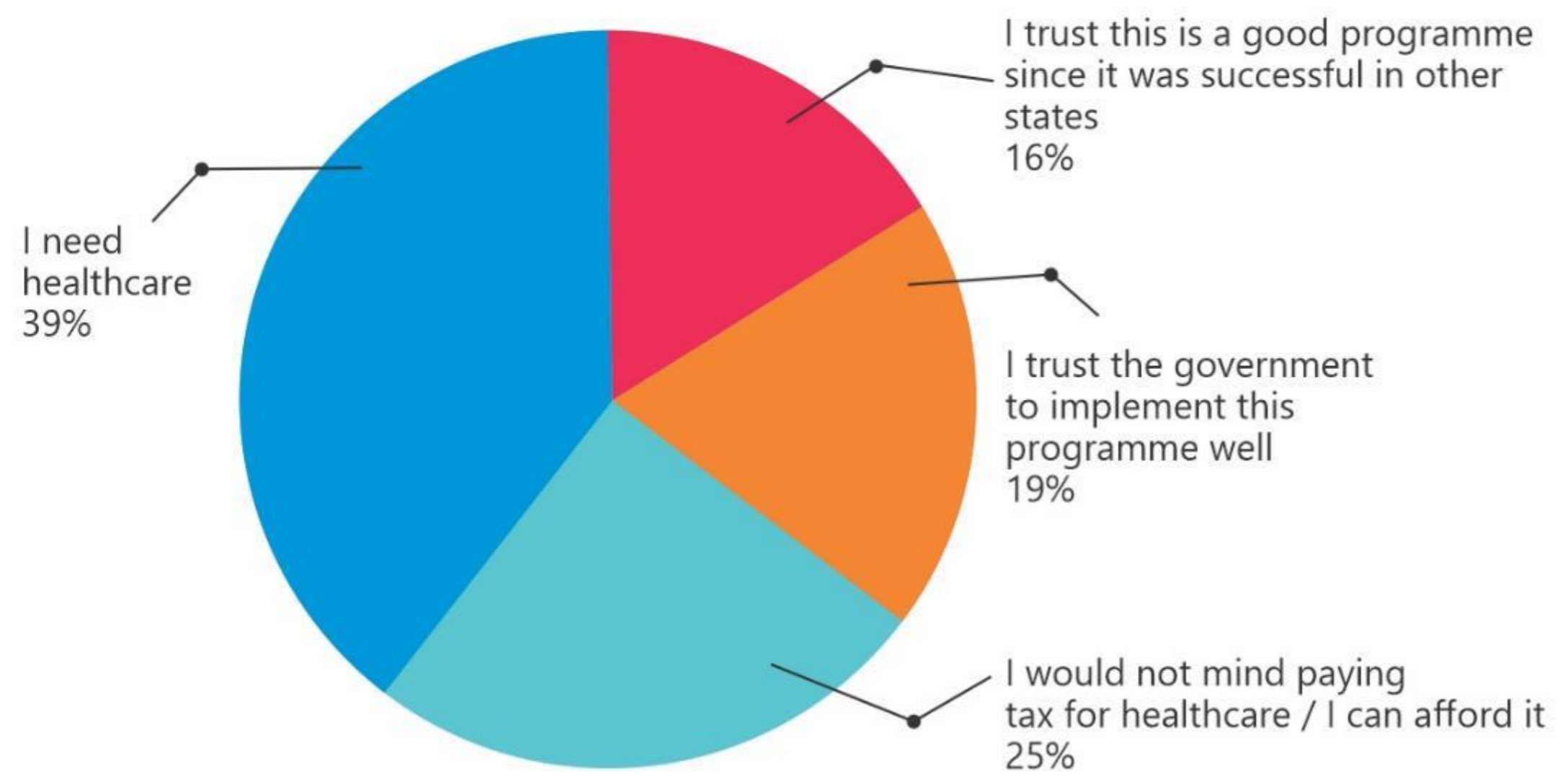


Figure 2.19 : Authority informal sector workers are most comfortable paying taxes to

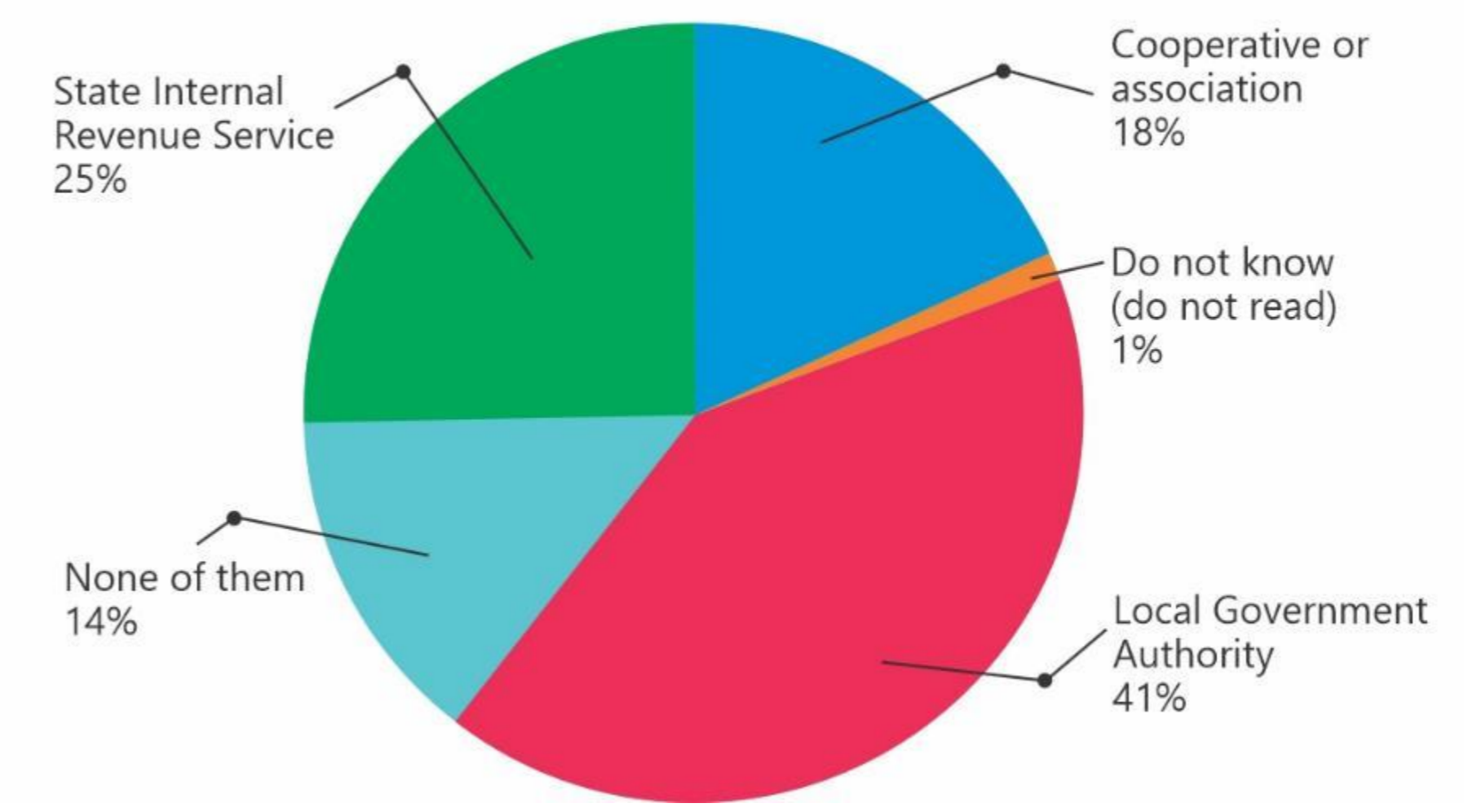


Table 2.2: Self-reported amount to pay as income taxes per month

Self-reported willingness to pay per month	Median	Average	25th-75th percentile
Minimum amount	500	1600	500-1000
Maximum amount	1000	2200	500-2000

- If their top three services were covered, then informal sector workers were, on average, willing to pay monthly income taxes of at least 1,600 Naira and at most 2,200 Naira.
- It should be noted that informal workers with higher incomes are willing to spend more than lower earners, indicating again that affordability is a key constraint.

Conclusions

Conclusions

- Survey results reveal a dire need for better healthcare for informal workers in a system where two thirds of informal workers have never heard about health insurance.
- A policy innovation that strengthens the social contract between citizens and the government and could potentially improve the generally low tax morale and tax compliance in the country.
- Informal sector workers have shown a strong desire for progressive taxes, their experience and policy views show that they are willing to pay more in exchange for services that will benefit them directly such as healthcare and education.

Conclusions...

- Before explaining the TfS programme, 47% of informal workers in Nigeria felt motivated to pay taxes on income if they can access free services for medical needs. After explaining the programme, however, this number increased to 93%.
- But there are challenges to overcome to ensure that the programme is rolled out successfully.
 - On the one hand, there is low trust for tax authorities and the government. This is in part due to their limited exposure to social benefits and in part due to the perceived self-interested priorities of the government.
 - On the other hand, not all informal sector workers are equal. Some are able to spend higher amounts on health insurance than others, with a significant share highlighting that the cost of healthcare is a primary reason not to enroll or look favourably to tax payment.

The TfS Mechanism

Theory of Change

