

NIGERIA***2024******January******Component: Revenue******Module: RM II – Revenue Administration***

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COUNTRY (S): Nigeria

LEAD DEPARTMENT: Fiscal Affairs Department

REGION (S): Africa

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: February 2024 – April 2027

FUNDING PROGRAM TITLE: GPFP Nigeria

PROJECT MANAGERS:

RM II/ REVENUE ADMIN: Paulo Paz – R2

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ESTIMATED BUDGET: \$3,078,090

BUDGET FOR ENDORSEMENT: \$1,164,639 (through FY25)

BUDGET FOR ENDORSEMENT: \$1,164,639 through FY25

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I. PROJECT PURPOSE

The Nigerian authorities have expressed interest in a new Capacity Development (CD) project to continue FAD's supported reforms to mobilize tax revenue collection and improve its tax and customs administration system. The authorities have implemented key reforms over the years, such as the use of technology to ease tax registration, filing, and payment; use of third-party data from other government agencies and private sector and analytics tools to improve desk reviews, tax audit and tax investigation and enforcement; progressing the development of risk engine to drive risk-based tax audit; a new internally developed tax information technology system (TaxPro MAX system), which is currently being implemented; and establishment of tax expenditure department to curb abuse of incentives. FAD has a resident advisor in the field supporting the reforms since June 2022. With regards to the customs component, the priorities of the Nigerian Customs Service (NCS) are revenue mobilization, modernization of processes and strengthening the use of data in decision-making and improving management.

The new CD project will focus on strengthening governance arrangements and core tax and customs administration functions, supporting the design and implementation of the multi-year reform plan aimed at improving tax compliance for increased revenue mobilization. This reform effort is aimed at contributing to the creation of fiscal space to help achieve Nigeria's development goals. The tax-to-GDP ratio for Nigeria has been below 10 percent, which is not only insufficient to meet the country's needs but also below the Sub-Saharan average.

The four-year project has been discussed with the authorities, who submitted a request to FAD for a capacity development program support. The medium-term objectives and outcomes were agreed upon based on a repeated TADAT assessment (May 2023). The estimated budget for this project proposal is \$3,078,090, but endorsement is requested for \$1,164,639 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

The priority for the new Government administration, which came into power in May 2023, is to restore macroeconomic stability and advance fiscal reforms. Fiscal developments in 2022 were mixed. Non-oil revenues increased by 38 percent year-on-year during January-September, mainly reflecting strong recovery of private consumption and improved tax administration efforts. However, oil revenues, despite higher international prices, increased by only 9 percent year on year. The new administration has reorganized the country's foreign-exchange system, abolished costly gasoline subsidies, and will be taking steps to boost tax revenue.

The government priorities for revenue administration reforms are indicated in its 'Strategic Revenue Growth Initiative' (SRGI) with four main objectives: (i) raise the revenue-to-GDP ratio to 15 percent by 2025; (ii) expand the tax base; (iii) counter tax evasion and encourage the payment of taxes by citizens; and (iv) enhance transparency in the tax system. The IMF Article IV Consultation has identified an urgent need for revenue mobilization and, in line with FAD advice, recommended: (i) further expanding the coverage of the Federal Inland Revenue Service's IT system; (ii) strengthening taxpayer

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segmentation with a focus on the Large Taxpayer Office (LTO)s, including reviewing the adequacy of the penalty regime for non-compliance; (iii) developing a Compliance Improvement Program; (iv) designing and implementing a comprehensive customs modernization program beyond e-customs; (v) improving the effectiveness of the State Internal Revenue Service's administration of the Pay-As-You-Earn (PAYE) system; (vi) modernizing controls on excise-taxed products, and (vii) strengthening inter-agency coordination and data sharing.

IMF priority areas / cross-cutting themes

FIRS has been investing in an in-house built IT system and relies on FAD to take full advantage of the new possibilities brought by the TaxPro MAX system. The system is at the core of the main FIRS reforms, with improved capabilities for taxpayer registration, filing, payment, data crossmatching, interfacing with other systems, report generation, and compliance identification, enforcement, and monitoring. Nonetheless, some work processes need to be reviewed to enhance the IT solution benefits.

Country engagement and alignment to reform priorities

The Finance, Budget, and National Planning Ministry (FBNPM), the FIRS, and Nigerian Customs Service (NCS) have demonstrated solid engagement with reforms. The authorities recently benefitted from the Japan Subaccount for Selected IMF Activities (JSA) CD program aimed to assist in managing the fiscal challenges of the COVID-19 pandemic and the recovery phase, including a resident advisor to guide the reform implementation, coordinate CD through FAD experts to support the revenue administration, and respond to FIRS needs in real time. A repeated Tax Administration Assessment Diagnostic Tool (TADAT) assessment, carried out in April-May 2023 to help identify the next steps on reforms, demonstrated relevant progress at FIRS and areas for further improvements, such as internal audit, services to taxpayers, refunds, and compliance on filing, payment, and accurate reporting. NCS has benefited from support from a JSA project to modernize the customs administrations of selected countries in West Africa, having prioritized the modernization of customs procedures aimed at regional integration.

With ambitious targets in the SRGI for revenue mobilization, authorities are committed to the reforms and requested additional FAD support. In August 2023, the Nigerian authorities requested a capacity development program to keep the pace of reforms based on the weaknesses identified in the TADAT assessment. Support in improving governance, quality, security of customs data and strengthening customs capacity to collect and analyze data was also requested by NCS.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

Against this background, this project proposal is aligned with the government's priorities and aims to improve tax and customs administrations' performance, increase tax and customs compliance, and enhance revenue collection. To this end, it is expected to broadly offer CD to (i) improve organizational and management arrangements, (ii) streamline and modernize administrative and technical processes and procedures, (iii) deepen the digital transformation of FIRS and NCS, (iv) strengthen tax enforcement, (v) enhance cooperation and data sharing among authorities and other stakeholders, (vi) implement a compliance risk management strategy based on third-party information, (vii) strengthen customs capacity to collect and analyze data to support risk management, performance

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management and decision-making, and (viii) implement management and control of the origin of exported and imported goods within the scope of the African Continental Free Trade Area (AfCFTA).

The recent 2023 TADAT performance assessment helped identify relative strengths and weaknesses in the tax administration. A post-TADAT mission will be undertaken in the 4th quarter of FY24 to review the root causes affecting FIRS performance and help to design a multi-year plan of reforms. In addition, the Revenue Administration Gap (RA-Gap) will be deployed to help the authorities estimate the policy and compliance gap to better design and focus reforms to close the tax gaps. Broadly, CD support will include strengthening governance and strategic management as well as the modernization of core operational functions. Compliance risk management will be a key CD area to assist the authorities in better identifying risks and designing and deploying compliance improvement plans across segments of taxpayers and industries.

Module RM II / Revenue Administration

The Revenue Administration module will focus on strengthening revenue administration management and governance arrangements and core business tax and customs administration functions. Each of these objectives will be unfolded by the outcomes summarized below, which will guide the CD strategy.

Objective: Strengthened revenue administration management and governance arrangements:

- Corporate priorities are better managed through effective risk management.
- Organizational arrangements enable more effective delivery of strategy and reforms.
- Capacity to reform increased due to clear reform strategy and strategic management framework adopted and institutionalized.
- Support functions enable more effective delivery of strategy and reforms.

Objective: Strengthened core tax administration functions:

- A larger proportion of taxpayers meet their filing obligations as required by law;
- A larger proportion of taxpayers meet their payment obligations as required by law;
- Audit and other verification programs more effectively ensure accuracy of reporting,
- Taxpayer services initiatives to support voluntary compliance are strengthened, and
- The integrity of the taxpayer base and ledger is strengthened.

Objective: Improved customs administration functions (SDG 17.1) – CAD

- Customs control during the clearance process more effectively ensures accuracy of declarations;
- Foreign trade operators better comply with their reporting and payment obligations;
- Trade facilitation and service initiatives better support voluntary compliance.

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Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	- Strengthened revenue administration management and governance arrangements: - Strengthened core tax administration functions - Improved customs administration functions

B. Country Engagement

The authorities have developed a SRGI document that sets three thematic areas for reforms: (i) achieve sustainability in revenue generation; (ii) identify new and enhance the enforcement of existing revenue streams; and (iii) achieve cohesion in the revenue ecosystem (people and tools) with related initiatives to drive revenue growth. The Ministries, Departments, and Agencies (MDA), including FIRS and Nigeria Customs Service (NCS) medium-term plans are to be fully aligned to the SRGI. Oversight of this SRGI lays the establishment of a governance structure to oversee revenue reform and mobilization efforts. The initiative is designed to have a steering committee led by the Minister of Finance and consisting of the heads of several MDAs, including FIRS and NCS, a project management team and secretariat, and project implementation units.

Aligned with these areas, the JSA CD program was designed to help develop and implement post-COVID revenue recovery action plans, strengthen business processes, especially digitalized processes, and revise compliance improvement plans. The ongoing CD work has focused on strengthening governance arrangements and core tax administration functions. To assess the progress over the last five years, a new TADAT was undertaken in 2023. Compared with the 2018 TADAT Assessment, the results attested to relevant tax administration improvements. For example, in 2023, FIRS scored “A” or “B” scores for 23 dimensions, while it had scored only 6 “A” or “B” scores in the 2018 TADAT assessment. Relevant improvements are related to the (i) review and guidance on the deployment of the in-house built IT system, (ii) strengthening of the audit function, and (iii) improving tax expenditures monitoring. FAD has also provided CD for NCS under a specific CD project.

Based on the progress made and the identified needs, authorities requested to be contemplated in a new CD program in the revenue administration area. The total revenue collection to GDP ratio is below the SRGI’s target of 15 percent, which is insufficient to support fiscal consolidation and ensure debt sustainability. Areas for reforms were agreed upon based on TADAT findings (internal audit, services to taxpayers, refunds, and compliance on filing, payment, and accurate reporting), government priorities, and agreements with international institutions.

C. Delivery Modalities

CD will be composed of a mix of remote and in-person activities, benefiting from the presence of one resident advisor in the field. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other TA providers, and adjust reform implementation plans.

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- **Short-term expert (STX) visits** to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration. Remote assistance is planned to support the implementation of management and control of the origin of goods under the AfCFTA.
- **Long-term expert (LTX)** resident advisor placement to guide the reform implementation, coordinate technical assistance support, and respond to Authority's needs in real time.
- **Workshops**, during the HQ missions, staff visits, or STX missions, to share experiences, to provide stakeholders with a view of progress achieved and challenges faced, and to discuss with the tax administration managers and staff their views on the reforms and particular technical subjects.
- **Peer-to-peer (P2P)**: engagements designed for project beneficiaries to exchange their views and experiences undertaking specific reforms, providing opportunities for Nigerian officers to observe practices adopted by other institutions that have robust arrangements in place in specific areas.

D. Coordination / Cooperation

FBNPM, FIRS, and NCS are currently receiving IMF CD on tax and customs administration, including the extractive industry area. The authorities have benefitted from external funding from the IMF COVID-19 Japan Sub-Account (JSA) funding program, JSA Program for West African Customs, multi-donor Managing Natural Resources Thematic Fund (MNRW), and the African Regional Technical Assistance Centre in West Africa 2. The current MNRW project is expected to run for one year more, when it is expected to merge with this project, and the JSA project for West African customs ends in April 2024. Anyway, the appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. The activities in this proposal reflect FAD's assessment of specific needs to ripen revenue administration reforms in Nigeria. FAD and AFRITAC West 2 coordinate closely to ensure consistency and complementarity. The new program will keep close coordination and ensure integrated IMF CD.

This proposal is also integrated and complemented by CD provided by other institutions. The IMF's long history of close coordination with other CD providers and the country's authorities will continue to build on synergies in the CD provision. Other cooperating partners are involved in reforms, though their engagement is limited to targeted areas. Currently, the Authority's external support includes programs of the World Bank, the United Kingdom's Foreign, Commonwealth and Development Office, and African Tax Administration Forum. A program of peer-to-peer engagement with the UK's His Majesty's Revenue and Customs is in its early stages. Close coordination through regular meetings, report sharing, joint missions, and mutual support are intended to keep synergies and avoid overlap of CD.

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IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Probability	Impact	Mitigation Measures
External climate/conditions				
General	External shocks (social, political, economic, etc.) impact government revenue and expenditures.	High	High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks.
Revenue Administration (RM II)	Government revenue measures adversely impact the tax ratio.	Medium	High	Work with country team and authorities to monitor revenue measures and their impact on the tax ratio and propose reforms to boost the tax ratio.
Political Support				
General	Political instability and/or lack of political support may slow down and even stop reforms.	High	High	Close consultation with the country team to assist authorities in recognizing the relevance of reforms. Strategic advice and hands-on capacity building to have a more permanent impact.
Management and Technical Staff Support and Commitment				
General	Patronage and cronyism in senior staff appointments.	Medium	High	Develop and implement a robust succession plan.
Revenue Administration (RM II)	Tax administration executive management changes affecting reform implementation	Medium	Medium	Regular engagement, encouragement, and monitoring. Close collaboration and communication with FAD team and other partners
Resource Adequacy				
Revenue Administration (RM II)	Deficient transparency and accountability in tax and customs administrations.	Medium	Medium	Maintain an effective alignment between organizational structure, people and business/internal processes. Implement a comprehensive framework for performance management to cover all functional areas of FIRS and NCS
Revenue Administration (RM II)	Cronyism and nepotism in hiring low-capacity and unskilled staff.	Medium	High	Provide staff with the necessary tools, technology, and skills towards high performance. Reposition FIRS Training School to ensure development of required skills.

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General or Module	Description	Probability	Impact	Mitigation Measures
Other risks				
General	Slow implementation of reforms	Medium	Medium	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.
General	Overlap of reforms with other development partners	Low	Low	Coordinate reforms with major development partners

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	FY27	FY28	Grand Total
RM II / Revenue Administration						
Field-based CD activities						
Resident advisor	1/12	1	1	-	-	
HQ-led CD mission (Tax)	1	1	1	1	1	5
STX visits (Tax)	0	3	3	3	3	12
Staff visits (Tax)	0	1	1	1	1	4
Staff visits (Customs)	0	1	1	0	0	2
Workshops (during the HQ missions)	0	1	1	1	1	4
1 TADAT sub-national mission	0	1	1	0	0	2
Peer-to-peer engagement	0	1	1	1	1	4
Remote CD activities						
STX visits (Customs)	0	3	2	2	2	9

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Table 3. First year workplan

Timing		CD Delivery	Proposed Topics of CD
FY24 – Q5	Follow-up	1 FB and 1 remote STX	Post-TADAT mission to prepare a roadmap of reforms
FY25 – Q1	Follow-up	1 FB and 1 remote STX	IT system, CRM
FY25 – Q2	Follow-up	1 FB and 1 remote STX	On-time filing and payment enforcement
FY25 – Q3	Follow-up	1 Sub-national TADAT and 1 FB STX	TADAT and arrears
FY25 – Q4	Follow-up	1 HQ mission, 1 peer to peer and 1 FB STX	Use of third-party data
FY25 – Q1	STX	1 FB STX 1 remote STX	Support in the reengineering of cargo control and customs clearance processes Management and control of the origin of goods - AfCFTA
FY25 – Q2	STX	1 FB STX	Improving customs data quality and governance, and strengthening capacity to collect and analyze data to support risk and performance management and decision.
FY25 – Q4	Follow-up	1 FB STX	Customs data governance, quality, and analysis
FY25 – Q4	Follow-up	1 remote STX	Management and control of the origin of goods - AfCFTA

VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	FY28	TOTAL (USD)
Direct Delivery	246,747	841,701	841,360	466,459	480,453	2,876,720
Module RM I - Tax Policy	0	0	0	0	0	0
Module RM II - Revenue Administration	246,747	841,701	841,360	466,459	480,453	2,876,720
Module SM I - Spending Policy	0	0	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0	0	0
Subtotal	246,747	841,701	841,360	466,459	480,453	2,876,720
Trust fund management fee (7%)	17,272	58,919	58,895	32,652	33,632	201,370
TOTAL	264,019	900,620	900,256	499,111	514,084	3,078,090

The estimated budget for this project proposal is \$3,078,090, but endorsement is requested for \$1,164,639 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

The objective of this module is to help Nigeria to improve the tax and customs administrations' performance and revenue collection. Strengthening core administration functions will streamline tax and customs administration processes and proceedings and increase tax compliance. Enhancing revenue administration management and governance arrangements will modernize tax and customs administrations with increased transparency and accountability through digitalization.

In particular, CD activities will focus on:

- Improving organizational and management arrangements.
- Streamlining and modernizing administrative and technical processes and procedures.
- Strengthening tax and customs enforcement.
- Implementing a compliance risk management strategy to include development and monitoring of compliance improvement plans.
- Developing capacity in tax gap analysis.
- Deepening the digital transformation of FIRS and NCS
- Enhancing cooperation and data matching and sharing among authorities and other stakeholders.
- Improving the quality and governance of customs data.
- Strengthen customs capacity to collect and analyze data.
- Appropriate implementation of management and control of origin of exported and imported goods.

B. Expected Results (outcomes)

This CD project aims to obtain the following results: (i) increase revenue collection, (ii) improve tax and customs administrations' performance, (iii) increase tax compliance (filing and payment rates), (iv) simplify the tax system, (v) reduce the floor for unexpected behaviors through a more transparent institution, (vi) decisions made based on better quality customs data and (vii) trade facilitation and increased voluntary compliance with customs legislation.

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C. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Reform management capacity strengthened or in place for reform implementation, including dedicated resources.
Corporate priorities are better managed through effective risk management.	Better mitigation of risks through a compliance improvement program (TADAT POA2-4).
	Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5).
Organizational arrangements enable more effective delivery of strategy and reforms.	Clear separation of roles and responsibilities between HQ (definition of standard operation procedures, planning and monitoring) and local branches (execution) adopted.
Support functions enable more effective delivery of strategy and reforms.	Improved human resources strategies and practices to support the tax administration (TADAT 2019 POA2-7).
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems to support the tax administration.
Objective	
Strengthened core tax administration functions	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their filing obligations as required by law.	Management of filing compliance improved.
A larger proportion of taxpayers meet their payment obligations as required by law.	Management of tax arrears improved (TADAT POA5-15).
	Management of refunds improved (TADAT POA8-24).
Audit and other verification programs more effectively ensure accuracy of reporting.	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2019 POA6-19).
	Automated cross-checking used to verify return information (TADAT 2019 POA6-20).
Taxpayer services initiatives to support voluntary compliance are strengthened.	Scope, currency and accessibility of information for taxpayers improved (TADAT 2019 POA3-8).
The integrity of the taxpayer base and ledger is strengthened.	More accurate and reliable taxpayer information held in centralized database (TADAT POA1-1).

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Objective	
Improved customs administration functions (SDG 17.1)	
Outcome(s)	Indicator(s)
Customs control during the clearance process more effectively ensures accuracy of declarations.	Risk-based control selectivity applied more consistently.
	Effective application of procedures based on international standards for valuation, origin and the tariff classification of goods improved.
Foreign trade operators better comply with their reporting and payment obligations.	Alignment of customs procedures (including transit) with international standards and regional integration objective improved.
Trade facilitation and service initiatives better support voluntary compliance.	Active engagement with the trade community supports voluntary compliance.