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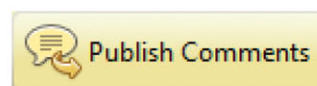
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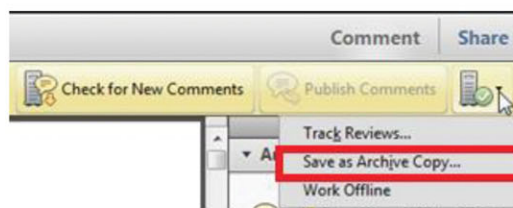
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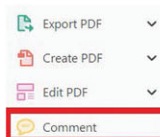
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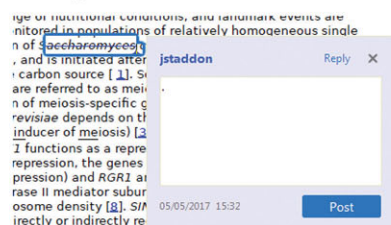


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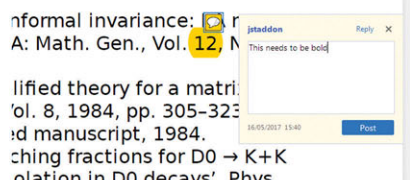
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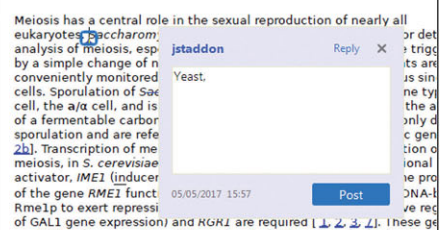


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USING e-ANNOTATION TOOLS FOR ELECTRONIC PROOF CORRECTION

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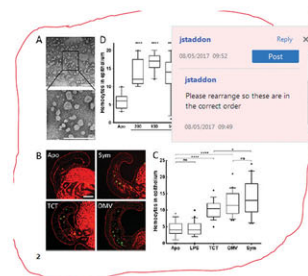
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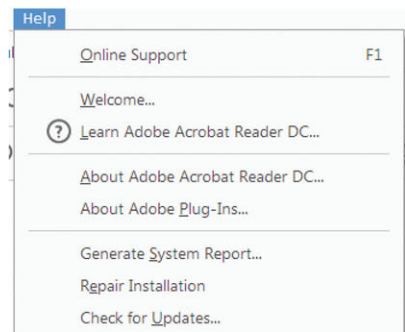
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Direct Taxation and State–Society Relations in Lagos, Nigeria

Q1 Leah Gatt and Oliver Owen

ABSTRACT

Existing research suggests that external sources of finance, such as foreign aid and natural resource rents, allow states to generate revenue independently of their societies, disincentivizing them from forming close links with their citizens and severely problematizing the notion of a social contract. In Lagos, Nigeria's commercial capital, a series of personal income tax reforms have seen an increase in taxpayer compliance. Considering Lagosians' perceptions of their relation with the state government, this study examines whether the state had to 'earn' its revenue by developing a closer relationship with its citizens, and whether citizens responded through a greater willingness to pay tax. It explores how citizens understand this relationship, what role they perceive themselves to fulfil, and what their expectations are for the future of state–society relations. The study shows how, through efforts to visibly link tax to service delivery, a social contract is emerging in between Lagos State and its citizens — but that this relationship differs among groups, in that it is shaped by pre-existing concepts of public organization and modes of political engagement.

INTRODUCTION

Taxation, as Bräutigam (2002) and Guyer (1992) observe, long escaped the attentions of researchers looking at the fundamental nature of post-colonial African states in transformation. While attention was on the political aspects of democratization and reform, the essential fiscal attributes of the state were left to specialists in that field and were disconnected from wider discussions of state building. However, scholars and technocratic practitioners of reform began to correct that imbalance in the last decade. This study, therefore,

The authors wish to thank Lagos State Government, Lagos Internal Revenue Service, Nic Cheeseman, Diane de Gramont, Moji Rhodes, and all named and unnamed interviewees for their assistance, as well as the anonymous reviewers and participants at workshops in Edinburgh and Roskilde Universities where this work was presented for their constructive comments. Parts of this research were supported by the Oxford University Press Fell Fund and the African Studies Centre at Oxford University, for which we extend our thanks.

focuses on a place where political leaders have attempted to mainstream revenue reform as an explicit locus of public discourse and a prime site for reworking state–society relationships: Lagos, Nigeria’s commercial capital. The study explores whether revenue reform policies have succeeded in forming a link in the public imagination — which can be equated to notions of social contract and reciprocal obligation — and what the shape and contours of such relationships are imagined to be.

External sources of finance, such as foreign aid and natural resource rents, allow states to generate revenue independently of their societies, disincentivizing close links with their citizens. This disconnection has limited the post-colonial state’s ability to respond to its citizens’ needs and interests. With the conjunction of taxation and representation, this severely problematizes the applicability of a social contract. In resource-dependent states such as Nigeria, it is possible to argue for the existence of a ‘negative’ social contract, predicated on the state’s mutual alienation from the wider population — a model which can clearly assimilate the sizeable informal economy. In this context, direct taxation has been suggested as a way of increasing states’ dependence on their citizens, encouraging them to develop more responsive, democratic links to their populations. This was even more pressing with the fiscal crisis following declining oil prices from early 2015. It showed the narrow fiscal bases of many of Nigeria’s 36 states, and their inability to weather external revenue shocks.

Having recently undergone a series of personal income tax (PIT) reforms — with a corresponding increase in taxpayer compliance and a 333 per cent rise in internal revenue over five years, Lagos State in Nigeria is a useful case for investigation. By looking at Lagosians’ perceptions of the state government we ask whether these have changed through the enforcement of PIT. First, has the state had to earn its revenue by developing a closer relationship with its citizens, and do citizens therefore show a greater willingness to pay tax? Second, how do citizens understand this relationship: what role do they perceive themselves to have in relation to the state, and what are their expectations for future state–society relations?

Recent studies highlight the causal mechanisms involved in public willingness to pay, or ‘tax morale’ (Bodea and LeBas, 2016; Fjeldstad et al., 2012), and in processes and outcomes of representation and accountability, ‘tax bargaining’ (Prichard, 2015). While these are useful pointers based on quantitative evidence, they leave room for deeper exploration of the preconceptions and motives that shape the actual behaviour of taxpayers and state actors. This is, therefore, a qualitative study which allows those actors to reveal the terms on which they internalize participation in such reforms and configure their legitimacy.¹

1. This study cannot hope to determine causal links to changes in embedded patterns of behaviour with this methodology. Any qualitative or quantitative study which aims to do so would have to ascertain levels of and change over time in: relative levels of tax

2 Through visibly linking tax collection to service delivery, Lagos State
3 has initiated a shift in state–society relations and, against the odds, initiated
4 the development of a social contract. Different social groups experience the
5 state in different ways and consequently, the terms of the social contract are
6 understood differently. By looking at two groups — self-employed profes-
7 sionals and market traders — we find that factors like economic and political
8 organization, access to the state, and existing modalities of engagement with
9 administrative and political processes are likely to determine an important
10 distinction. This is whether the idea of ‘contract’ that emerges is more institu-
11 tionalized and focused on the state itself, or more personalized, and focused
12 on the individuals in public office. This is of real import to understanding
13 through what terms taxpayers imagine the state’s contractual obligations in
14 exchange for taxes. It underscores that the story we are looking at is not
15 just about tax, but is embedded in understandings derived from longer-term
16 structures of political participation and change.

19 **Theoretical Framework**

21 A social contract relies on mutually fulfilling a set of agreed-upon obliga-
22 tions. The state agrees to protect and fulfil the needs of its citizens, who
23 agree to surrender some of their freedoms, recognize the governing body
24 as legitimate, and obey its laws and rule. When one party fails to carry out
25 its duties, the contract is severed, requiring a renegotiation. Taxation is an
26 expression of this contract; the state sets and enforces taxes, and the ease
27 with which society complies depends on its perception of the state as useful
28 and legitimate. Taxes carry financial and emotional burdens, making it dif-
29 ficult for governments to raise tax or enforce compliance without taxpayer
30 support or approval of public expenditure (Prichard and Leonard, 2010;
31 Ratner, 1980). Through tax, a state earns its income (Moore, 1998) and builds
32 representative institutions to increase compliance and reduce enforcement
33 costs (Levi, 1989).

34 Most work on taxation and state building has drawn on Western political
35 history. Tax bargaining created representative political institutions, whether
36 through dialogue or episodic confrontation: a crucial phase in the West’s
37 democratization process (Easter, 2002; North and Weingast, 1989; Ratner,
38 1980; Tilly, 1992). Little research has been done into the financial basis of
39 social contracts in the developing world. Research has largely focused on the
40 ‘unearned’ aspect of rentier states in the Middle East and Africa (Anderson,
41 1994; Cheibub, 1998; Clark 1997; Herb, 2005; Ross, 2004; Yates, 1996)

44 compliance; relative tax burdens on different groups; levels and patterns of democratic and
45 civic participation both individually and as organized groups; party-political alignments;
46 and alternative vertical chains of political involvement, which can broadly be classified as
clientelism.

and aid-dependent states (Bräutigam, 2008). Considering the vast literature focused on third-wave democracies (Bratton and van de Walle, 1997; Joseph, 2002), whether taxation has the potential to encourage transitional states to consolidate is a pressing, but under-studied, question.

Some notable breakthroughs focusing on state-level perceptions of reform have been made (de Gramont, 2015; Moore 1998, 2001; 2008; Prichard and Leonard, 2010). However, with the exception of a few (Bodea and LeBas, 2016; Fjeldstad and Heggstad, 2011; ICTD, 2012), the citizen's perspective remains unexplored. Taxpayer experiences and perceptions are crucial to building compliance. They reveal whether taxation actually leads to greater pressures on a state to become more responsive, accountable and democratic. A qualitative study of perceptions is necessary to understand what factors are conducive to social contract formation, and whether different taxpaying social groups experience the state in different ways, thus affecting how the contract is formed and imagined.

Social Contracts, Nigeria and Lagos State

Contracts between African states and societies do, of course, exist in the absence of PIT. However, broad civic concepts of accountability, fixed on anonymous bureaucratic or symbolic institutions, are commonly subordinated to more particular linkages. These see individuals, identity groups and factions linked to the state through interlocutors, 'big men' and a politics of resource distribution (see Joseph, 1987 and Suberu, 2001 for classic articulations of this system in Nigeria and its effects in shaping political behaviour and state institutions). The state itself becomes its own network, constituting an elite section within wider society — inward-turned and primarily self-accountable. In Nigeria, social networks are deeply embedded in the state (Bayart et al., 2009). Patron-client relations constitute 'much of the social fabric for informal and party politics in Nigeria' and work as 'channel[s] for political participation', economic enhancement and social mobility, functioning at all levels of government (Forrest, 1993: 5). The effect is a particularistic and personalized system of rule, where politicians are able to stay in power by selectively distributing government resources to their communities. Clientelism can be seen as the result of 'a struggle to create a polity based on representation', but one that develops 'without (or before) taxation' (Guyer, 1992: 46) or which even perpetuates itself through partisan approaches to tax (Meagher, 2013).²

Nigeria's oil wealth has given the state considerable sources of revenue, increasing the avenues and pressures for wealth creation within patron-client networks. As a leading exporter in Africa and the 10th largest in the world,

2. And in Nigeria also *after* taxation; late colonial and early independence periods saw more overt and sustained collection of direct taxation than the recent past.

2 oil accounts for 35 per cent of Nigeria’s GDP, over 90 per cent of total
 3 export revenue³ and 70 per cent of overall government revenue.⁴ By stifling
 4 growth in other sectors, the oil economy increased private demands on the
 5 state and undermined the growth of a taxpaying middle class that may have
 6 checked the public expenditure excesses of military autocrats. The state’s
 7 ability to spend in the absence of taxation reduced its representation and
 8 accountability during the boom period (Forrest, 1993). While a lively strug-
 9 gle for representation and accountability existed in the absence of taxation,
 10 the state’s ‘rentier’ status granted it fiscal independence from its population.
 11 Broad political unaccountability became entrenched in the Nigerian system,
 12 creating a government only responsible to select individuals (Falola and
 13 Heaton, 2008). Furthermore, Apter (2005) argues, oil boom spending estab-
 14 lished ideas of the state in the public imagination as a capricious benefactor
 15 of fortunes, rather than a rational bureaucratic service provider.

16 Consecutive regimes promised expanded service delivery, and the author-
 17 itarian bureaucracy delivered expansion in infrastructure. But while devel-
 18 opment plans — like the Universal Primary Education (UPE) of the 1970s
 19 — were well intended, some were also poorly planned and sporadically ex-
 20 ecuted. Standards fell, as resources intended to serve a few were stretched
 21 beyond capacity (Asagwara, 1997). Nonetheless, promises have shaped ex-
 22 pectations of what the state should deliver and to this day the performance of
 23 state governors, especially in the south, is held against a memory of projects
 24 implemented or promised in the 1960s and 70s. However, their poor or failed
 25 delivery created deep distrust in government by Nigerians who perceived
 26 the state to be corrupt and unresponsive (Adebanwi and Obadare, 2010; For-
 27 rest, 1993; Maier, 2002; Smith, 2008).⁵ Consequently, the most crucial step
 28 towards a social contract was to ‘convince the majority of . . . people that
 29 the government exists to serve rather than to prey upon them’ (Maier, 2002).
 30 Reforms in Lagos State, therefore, offer insight into the potential effect of
 31 tax on state–society relations.

32 **Taxation in Nigeria**

33
 34 Taxation is not an alien concept in Nigeria. It has a rich pre-colonial history
 35 of state and community revenues based on trade, tolls, tribute, fines and
 36 social payments. However, it was not until unification in 1914 that com-
 37 pulsory direct taxation was universally imposed (Falola and Heaton, 2008).
 38
 39
 40

41 3. OPEC, Nigeria, please see: www.opec.org/opec_web/en/about_us/167.htm (accessed 22
 42 February 2018).

43 4. The decline in oil prices placed significant strain on Nigeria’s economy, including a deval-
 44 uation of the naira, delayed civil service salaries and stalled projects.

45 5. This has not extinguished calls for formal accountability and representation. Neither was
 46 that limited to those shut out of patronage networks. In Nigeria’s fluid political environment,
 critics participate in the political system and participants sometimes criticize it.

Even by 1939, it only raised 17 per cent of government revenues (Isichei, 1983), with the majority instead coming from customs revenues, trade taxes, service fees, licences and levies. Direct taxation in the colonial period was implemented mainly through the indigenous institutions of indirect rule. It was frequently regarded as illegitimate by Nigerians (Guyer, 1992) as it was burdensome but ‘nothing was given in return’ Isichei (1983: 388) and it was not accompanied by representation.⁶ The effect was widespread frustration and anti-tax protests broke out in the south-western regions of Oyo and Abeokuta, later in the south-eastern region of Aba, and in Ibadan and Ijebu (Isichei, 1983). This unwillingness to pay tax strongly contrasted with willingness to channel numerous funds into community development projects and the strong culture of voluntary giving in organized religious spheres where donations and tithe are common.⁷ It suggests that taxation was not opposed because people could not pay, but because the benefits of paying were not seen or because the state was not seen as deserving. There is thus a clear link between service provision and financial contributions to Nigerians. In the immediate pre- and post-independence era, and often in a conflictual manner, taxation drove a political consciousness associated with contribution and citizenship.

With the discovery of oil, direct taxation was gradually neglected. The political and administrative structure of Nigeria changed: from a parliamentary system overseeing three regions, to an executive system with, by 1996, 36 constituent states split into 774 constitutionally recognized local government areas (LGAs). State creation and hyper-centralization reduced the states’ ability to generate their own revenue and control tax systems. However, strategic revenue sources such as mineral rights, value-added tax (VAT), company, port and petroleum profits taxes were centralized (Forrest, 1993; Suberu, 2001). Collection of PIT, capital gains tax, stamp duties and road tax were delegated to states for purposes of internally generated revenue (IGR) but PIT rates are set by the federal government, operating on a progressive scale (Table 1). Petty local taxes such as market fees are collected by LGAs. However, their visibility, performance and autonomy is often deliberately constrained by state governments. Most states and LGAs remain heavily dependent on federal budget allocations (FBAs) and generate little to no IGR, limiting their divergence from federal government policy and spending.

6. Traditional rulers, bestowed with new powers of tax collection, did little to represent their people, diverting their loyalties to the colonial government. Equally, as tax rates were presumptive and based on little information, the system lay open to evasion or conversely, arbitrary overexploitation (see Niven, 1982 and Pierce, 2006).

7. And in which they pay for many of the same functions as does taxation — maintenance of personnel and buildings, and educational, health and social programmes, albeit through faith communities.

Direct Taxation and State–Society Relations in Nigeria

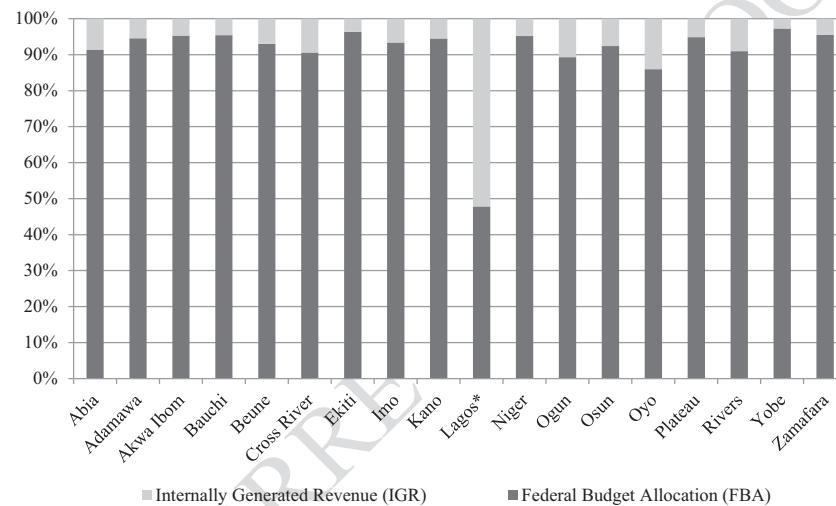
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Table 1. PIT Rate Structure

	PIT Act (34) 2011
First ₦ 30,000	7%
For every Naira of the next ₦ 30,000	11%
For every Naira of the next ₦ 50,000	15%
For every Naira of the next ₦ 50,000	19%
For every Naira of the next ₦ 160,000	21%
Above ₦ 3,200,000	24%

Source: Federal Government of Nigeria (2011).

Figure 1. Internally Generated Revenue across Select Nigerian States 2011



Note: This and subsequent figures are expressed in nominal terms, which we consider adequate for the purposes of the article as we are not trying to measure changing tax burden nor the real spending power of government, which might be of interest in a broader quantitative study.

Source: Data compiled using LIRS sources.

Lagos State was selected as the research site because of recent tax reforms that have seen a rise in compliance and lower dependence on FBA (Figure 1). The unfavourable conditions and history of Nigerian state–society relations make this case significant as it offers the opportunity to analyse, first, whether the literature on social contract formation through taxation is overstated, and second, to outline the importance of path-dependence and context.

FEDERAL ALLOCATION IN CRISIS: THE COMING OF A MEGACITY AND THE NEED FOR REVENUE

Lagos, Nigeria's commercial capital, located in the south-west of the country, is the smallest, most populous state, claimed by its government to have

reached 20 million inhabitants in 2016 and growing at a rate of 6 per cent annually (Lagos State Government, 2016). Growth has placed financial pressure on Lagos since federal allocations are limited and unreliable, straining long-term economic planning. Furthermore Lagos' main avenues for revenue generation (port taxes, company tax and VAT) are collected by the federal government. Equally, at most points when civilians ruled Nigeria, Lagos has been ruled by parties in opposition at the national level, giving additional political incentives for revenue collection. Lagos lost further central government revenues from grants when the federal capital was relocated to Abuja in 1991 (Fourchard, 2012).

There have been many unsuccessful attempts to accelerate tax collection. Most notably during the 1979–83 democratic interlude between military regimes, the city's elected governor, Lateef Jakande, stepped up the collection of tenement rates, property sales taxes and fees for improvements to buildings.⁸ Later, the city, under the military regime of Sani Abacha (1993–98), tried engaging tax-farming consultants to collect business taxes for a percentage of the return. Yet the results were not transformational. Indeed, although Lagos has always had a more diverse tax base and greater commercial activity to tax than most of Nigeria's 36 states, according to Wale Edun, Lagos State's first post-military Commissioner for Finance (1999–2007), Lagos' IGR profile before 1999 was 'not markedly different' to other large urban states such as Rivers (containing oil capital Port Harcourt) and Kano.⁹

With the return to democracy in 1999, the newly elected governor, former commercial accountant Bola Ahmed Tinubu, reinitiated tax reform, coinciding with a number of showdowns over the limits of federal and state competencies throughout the 2000s.¹⁰ Finally, Lagos administration unilaterally created 37 new LGAs. The administration had long contended that the city was deliberately under-counted in national censuses and revenue allocations, and under-provided for by its constitutionally stipulated 20 LGAs. The move was immediately contested by the federal government. When Lagos State held elections for the new bodies in March 2004, the Obasanjo government withheld federal allocations due to the LGAs, hoping to 'starve' the state administration into compliance. The amounts were large, as LGAs are responsible for huge payroll liabilities to local civil servants,

8. Jakande was elected on the platform of the Unity Party of Nigeria (UPN); an opposition party at the time and itself an offspring of the Action Group (AG) of Obafemi Awolowo and, in turn, a progenitor of the Alliance for Democracy (AD), later Action Congress of Nigeria (ACN) and now All Progressives Congress (APC). This changing constellation of initials should not obscure that in the south-west of Nigeria, they are all basically the same party; a continuation of the partly leftist, partly regionalist AG political legacy, which is often portrayed as the historic 'natural party of government' in areas with predominantly Yoruba populations.

9. Interview, Wale Edun, London, 14 March 2017.

10. For instance, clashes over road management which led to street fighting in 2005–06 (see Bénit-Gbaffou et al., 2013).

such as teachers. Allocations were only paid in 2007 when President Umar Musa Yar'Adua ordered the release of the outstanding ₦ 10.8 billion (US\$ 30 million) (*Nigeria Village Square*, 2007).¹¹

Tinubu's IGR reforms were already showing results prior to this, and were essential in helping the state survive the fiscal storm. However, following this crisis, easing federal dependence through IGR and PIT gained even higher priority.¹² Lagos has a large industrial sector and a tax base of at least eight million people from which to generate revenue (Lagos State Government, 2016). In 1993, tax already stood at 36.7 per cent of state revenue, far more than any other Nigerian state (National Institute, 1994). This was drawn from a small tax base made up of large businesses and public sector employees¹³ and even here, evasion was rife (National Institute, 1994). Under the Tinubu administration, Lagos State embarked on a PIT reform that gained momentum under the Fashola administration. IGR has steadily risen since, from 600 million N/month (US\$ 1.6 million) in 1999 to 20 billion N/month (US\$ 55.6 million) in 2016 (*Vanguard*, 2016). Lagos now generates 75 per cent of its own revenue (*Ventures Africa*, 2013). While not solely attributable to taxation, Lagos Internal Revenue Service's (LIRS) collection (Figure 2), accounted for 79 per cent of IGR by 2015 (*Vanguard*, 2016).

For PIT, there are two main collections; one for salary-based income earners (Pay as You Earn, or PAYE) and another for the self-employed and informal sector (non-PAYE).¹⁴ While PAYE is remitted from source, non-PAYE — applicable to a significant number of Lagosians — requires self-assessment and income declaration. Non-PAYE tax collection is subject to higher constraints, as few are registered income earners and individual bookkeeping is lacking (Volkerink, 2009). Therefore, the state does not possess the data to fully monitor compliance. Yet LIRS continues to collect from this sector with an effort disproportionate to the generated revenue. It sees the first return as expanding the size of the tax net — the absolute number of personal taxpayers known to government. The amount collected from non-PAYE is modest compared to PAYE, and the smallest single category of tax payment (see Figure 3 and Table 2 below). Nevertheless, their gradual inclusion is meaningful, not only when considering the short amount of time in which it has been achieved, but also because their non-PAYE status requires a higher measure of voluntary compliance. In this category, political messaging in connection with taxation and the public internalization and interpretation of this messaging are central to collection.

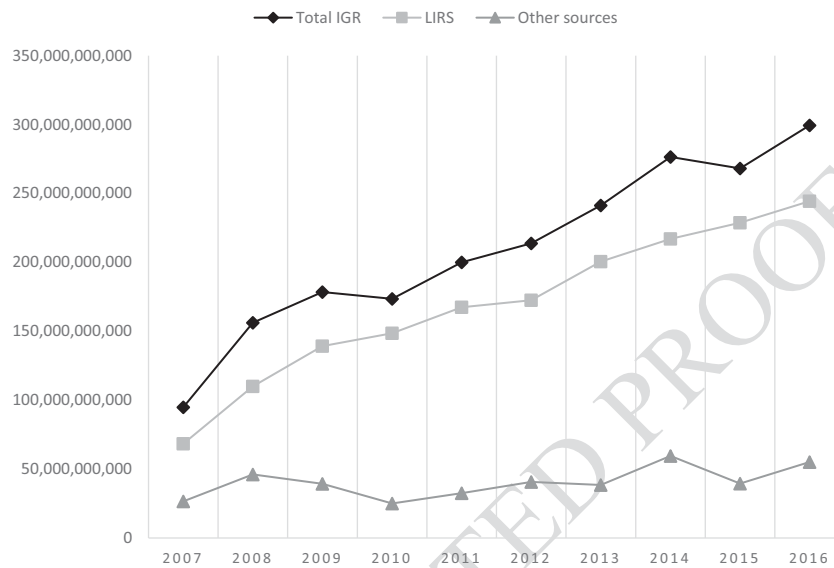
11. Exchange rate used: ₦ 1 = US\$ 0.0028 as of 16 February 2018.

12. Interviews, Mr Bicci Alli, Deputy Director Personal Income Tax and Mr Ipaye, former Attorney General, Lagos, 15 March 2012.

13. Speech by G.B.R Fashola, Rhodes House, Oxford, 17 September 2011.

14. PAYE data is reported as aggregate. A breakdown by sector is not publicly available.

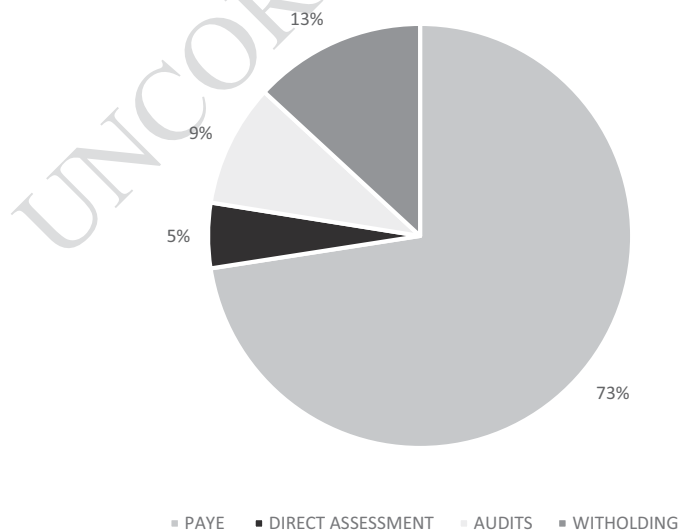
Figure 2. Source of Internally Generated Revenue in Lagos 2007–2016
(nominal terms)



Note: Tax authorities' expression of revenue in nominal terms makes the increase seem more dramatic than when adjusted for consumer price increases. However, calculation of real terms increase is impeded by variable quality of Lagos-specific price data.

Source: LIRS (2016).

Figure 3. Percentage Contributions to LIRS Revenue by Source Q2 2011



Source: Data compiled using LIRS sources.

Table 2. Amount and per cent Contributions to LIRS Revenue
by Source Q2 2011

TAX TYPE	Amount (millions ₦)	% of Quarterly total
PAYE	28.778	72.5
DIRECT ASSESSMENT	1.971	5
AUDITS	3.709	9.3
WITHHOLDING	5.208	13.1
Q2 TOTAL	39.666	100

Note: Data from LIRS, rounded to nearest 1M Naira by authors. This accounting period was chosen as it is the same period within which initial fieldwork took place. LIRS lists data by type of collection method, so the category ‘Direct Assessment’ includes both of the PIT taxpayer groups in this study.

Source: Data compiled using LIRS sources.

Personal Income Tax Reforms: Administration, Sensitization, Enforcement and Personality

Lagos instituted reforms towards quasi-voluntary compliance in the non-PAYE sector which facilitated PIT collection to an unprecedented level in Nigeria, and indeed in Africa. The reforms focused on strengthening state mechanisms for monitoring and collection, and creating an environment conducive to voluntary compliance. The measures were implemented through a gradualist approach of service delivery and tax ‘sensitization’, combined with clear political commitment.

Under the Tinubu administration, a tax review committee, set up to review the tax system, suggested structural reforms that were subsequently implemented. The new tax system was to be fair, simple, flexible, less burdensome, economically efficient and politically acceptable so as to encourage voluntary compliance. Taxes were now required to be deposited into dedicated bank accounts, thereby avoiding intermediaries and risks of leakage and coercion by touts.¹⁵ Taxpayers were given a receipt as proof of payment and an Electronic Tax Clearance card. The project was handled by a company called Alpha Beta Consulting, known as ABC, which received a share of revenues collected.¹⁶ It is widely believed in Lagos that former Governor Tinubu had a significant share in ABC, and it is of interest in charting political alignments that in late 2011, Lagos State Government announced an intention to discontinue use of the firm which was eventually not confirmed (*Vanguard*, 2011).¹⁷

15. The subsequent Ambode administration continues to make taxes more accessible to Lagosians. As of March 2016, taxpayers can pay using point of sale devices, mobile payments and through an online portal on the LIRS website. Tax forms have also been reduced from six pages to two pages and are available in English, Pidgin English and Yoruba. A 24/7 LIRS hotline has also been set up, with staff speaking all three languages.

16. Exact figures are unavailable at time of writing.

17. See de Gramont (2015) for a full discussion of this important political dynamic.

The tax collection increase can also be attributed to parallel efforts geared directly towards citizens. ‘Enlightenment programmes’ were organized to raise tax awareness and to link it to service provision. Government projects were accompanied with ‘Taxpayer Money at Work’ billboards and a ‘Pay Your Tax’ campaign is ongoing and widespread. As LIRS’ PIT Deputy Director explained, ‘When you talk to people, when you engage them, educate them and explain to them why they pay taxes . . . rather than forcing them, they will understand. You create . . . voluntary compliance. Okay, eventually you have to force, but do your own part first’.¹⁸

Enforcement was initially prioritized only among large PAYE businesses. For non-PAYE, it was sparse due to limited enforcement tools and LIRS’ tax education ethos taking precedence. However, Lagos State has since moved into a second stage where it intends to be firmer with evaders (*PM News*, 2016).

Babatunde Raji Fashola of the Action Congress, formerly Tinubu’s Chief of Staff, was elected governor in April 2007. During his time in office, Governor Fashola enjoyed significant political capital for the public service developments in Lagos under his administration (rehabilitation of public schools and hospitals, roads, public transport and waste management). Few Lagosians expressed surprise at his re-election in 2011, which saw an 81 per cent majority secure a second term in office. The ‘Fashola factor’ — the combination of genuine commitment and personal interest in reforms with communication-led leadership — is often cited as the main reason for successful reforms. Continuity with the previous administration’s policies and personnel is also important to note.

METHODOLOGY

The analysis of public attitudes is based on fieldwork conducted in Lagos in March–April 2012 and September 2013, and interviews in Lagos and London in 2016 and 2017. Forty-six interviews were conducted (12 with state commissioners, civil servants and LIRS representatives, 34 with Surulere residents) to obtain a qualitative understanding of state and taxpayer perceptions. The interviews sought to gain insight into how citizens felt about paying PIT and whether it had changed their perceptions and expectations of the state. Interviews were conducted with two distinct groups of Lagosians, embodying differences between forms of economic, social and political organization, which can be glossed as formal and informal.

The main research question — how implementing direct income tax influenced state–society relations in Lagos State — broke down into three further questions that were explored through the interviews. These are: i)

18. Interview with Mr Bicci Alli, Deputy Director Personal Income Tax, Lagos, 15 March 2012.

2 ‘Have Lagosians’ awareness and attitudes toward paying tax changed, and
 3 have they done so as a result of increased service provision?’; (ii) ‘Has taxa-
 4 tion influenced Lagosians’ sense of ownership towards the state government
 5 and its expenditure?’; and (iii) ‘Have tax reforms led to a renegotiation of
 6 state–society relations in Lagos?’. The study focused on PIT paid to Lagos
 7 State, not including indirect taxes like VAT. Federal and LGA taxes were
 8 included in interviews to gauge different attitudes towards tax payments.

9 Surulere, a heavily populated and much-frequented locality on the main-
 10 land, was selected as the area to conduct taxpayer interviews because it
 11 hosted a wide range of ethnic, religious and socio-economic groups, al-
 12 though comparatively few of the richest or poorest Lagosians. It was also
 13 fairly representative of government expenditure (Lagos State Ministry of
 14 Economic Planning and Budget, 2012). Interviews focused on a select num-
 15 ber of services, such as street lights, water, health and education, which
 16 Surulere residents expected to be provided by Lagos State (Lagos State
 17 Ministry of Economic Planning and Budget, 2006). This focus therefore
 18 minimized concerns that respondents would not know which level of gov-
 19 ernment was responsible for providing what services.

20 To make a meaningful comparison of the way individual professions
 21 shaped attitudes towards a social contract, other factors were held constant
 22 as far as possible.¹⁹ Participants varied in three significant ways: gender,
 23 profession and level of education. Group A comprised self-employed pro-
 24 fessionals both male and female, and Group B predominantly consisted of
 25 female market traders who formed part of an association and operated in a
 26 registered market. This difference provided some leverage for identifying
 27 explanatory factors for variations between citizen–state contracts. Signifi-
 28 cantly, one group derived their livelihoods and status from participation in
 29 the educated, formal economy, while the other derived theirs in the semi-
 30 formal economy.²⁰ Participants were targeted through churches, markets and
 31 contacts made through fieldwork. Additionally, two public meetings were
 32
 33
 34

35 19. In particular, the assumption was that the same location meant exposure to the same level of
 36 state infrastructure, services and expenditure. Note: the study concentrated on autonomous
 37 or self-employed labour. This was to gauge the direct ‘felt’ relationship with the state
 38 engendered by taxation, whereas the PIT for salaried workers is deducted at source as
 39 PAYE, with passive or minimal taxpayer participation.

40 20. We do not assume that income necessarily varies more between these groups than within
 41 them — the incomes of market traders can be considerable and sometimes larger than those
 42 of the professional classes. The point in using market traders and self-employed profession-
 43 als was their profound sociological difference and their different terms of insertion in local
 44 political economy. Market traders are hugely important factors in political mobilization and
 45 this is what makes any approach to taxing them politically sensitive. Yet their combined
 46 power as an organized group contrasts with their low educational status and relative dis-
 empowerment individually. The opposite, and the opposite political positioning, is true of
 self-employed professionals.

attended; a Lagos State Government press conference on tax compliance²¹ and a LIRS public meeting with association leaders.²²

Structured interviews with self-employed professionals were conducted: all were recorded and a series of questions were asked. A similar style of interviewing was initially conducted with market traders. However, structured interviews were often difficult and strained, and recording was generally resisted.²³ Considering this, a more ethnographic approach was taken: time was spent in the same market over a period of two weeks with a group of organized market traders. This engendered a more personal account of the group's relationship with the state and with taxation, which did not come through in structured interviews. Therefore, some quotations (indicated as such) are taken directly from fieldwork notes, compiled daily after time spent in the market.²⁴ Interviews with street traders not part of an association were also conducted. However, due to the small number of interviews with this sub-sector, and for the purpose of maintaining a meaningful comparison between groups, unorganized street traders do not form part of this analysis.

OPENING NEGOTIATIONS AND EMERGING CONTRACTS

States can only extract revenue from their societies as far as constraints will allow (Levi, 1989). Lagos faces numerous constraints, including limited monitoring capacity, inadequate data on its population, a large informal and self-employed sector, and a society marked by deep distrust of the government. These constraints make for what Guyer (1992: 71) calls 'a situation where people will have to be seduced, rather than forced, into participation'. To overcome these constraints, Lagos State created quasi-voluntary compliance through negotiation and persuasion: by improving its monitoring capabilities while simultaneously engaging with society through campaigns and negotiations and by making efforts to show Lagosians that it is working for them. As Mr Ipaye, Attorney General at the time of research (and former tax committee member under Tinubu), explained, creating a system of taxation is a 'double-edged sword':

The government must be willing to work even if people start to pay and they don't see what is coming out of it, they will lose interest. And how much can you enforce? It is such a huge

21. Lagos State Tax Compliance Press Conference Ikeja, Lagos, 20 March 2012.

22. LIRS/Association Leader Meeting, Mushin, Lagos, 22 March 2012.

23. Recording and formal interviews in Nigeria can generate suspicion and discomfort for participants — especially those with lower levels of formal English-language education — and inhibit free expression.

24. As expected, a number of people felt uncomfortable discussing issues of taxation with a foreign researcher, despite guaranteed anonymity. This suggests that those willing to participate were indeed taxpayers and their responses honest.

Direct Taxation and State–Society Relations in Nigeria

15

economy, and most of it informal. So, you need people to cooperate, to buy in and really do some voluntary compliance.²⁵

In such an economy, the government cannot rely on enforcement alone to generate stable income from tax. As Mr Fowler, Chairman of LIRS, explained, tax monitoring is a manual, time-consuming process which reclaims only 8 per cent of total tax revenue collected.²⁶ Thus, the effort put into enforcement is disproportionate to the gains.

Campaigning for Fiscal Enlightenment

Recognizing enforcement constraints, LIRS embarked on an ‘Advocacy and Enlightenment Education Programme’ to increase compliance, moving away from ‘armchair collection’ and pure enforcement. Rather, it took a proactive communications-based approach, aimed to interact with prospective and current taxpayers. LIRS hoped to ‘get taxpayers on [their] side’.²⁷ At the heart of the programme were two successive state-wide campaigns to inform the public about taxation. Handled by a private-sector advertising agency which had worked on Fashola’s election campaign, they were modelled on a combination of entertainment, information and public mobilization — which characterize political campaigns and rallies in Nigeria.²⁸ This is telling in terms of the framing of tax policy, in part, as a socio-political mobilization. Through TV advertisements, social media (LIRS has Facebook, Twitter and YouTube accounts), a website²⁹ and billboards next to major public works, LIRS actively linked completed government projects to taxes, encouraging the public to contribute to Lagos’ development through PIT. LIRS’ campaign also engaged with the public through religious leaders, adverts featuring Nollywood stars, radio and TV appearances, the distribution of pamphlets and CDs, YouTube videos,³⁰ and even a tax theme song³¹ and DVD dance drama explaining the history and importance of tax. A Citizen’s Budget, listing the amount earmarked annually for different sectors and specific

25. Interview with Mr Ipaye, former Attorney General, Lagos, 15 March 2012.

26. Interview with Mr Tunde Fowler, former Chairman LIRS, Lagos, 16 March 2012.

27. Interview with Mr Bicci Alli, Deputy Director Personal Income Tax, Lagos, 15 March 2012.

28. Interview with Ms Moji Rhodes, former Lagos State Deputy Chief of Staff, London, 11 June 2016.

29. The LIRS website has undergone significant improvements over the years. Please see: www.irs.lg.gov.ng/

30. For the animated video ‘Let’s Contribute’, please see: www.youtube.com/watch?v=mDJ8AZrwCnA

31. The tax song featured stars familiar to middle-aged Nigerians of all three, major national ethnolinguistic groups indicating the target informal-sector breadwinners the campaign sought to reach.

projects, was created and distributed.³² Additionally, a team of 50 LIRS representatives went out daily to markets, garages and public functions, distributing promotional material and talking to the public.³³

LIRS organized a ‘tax walk’ through Lagos for three days where staff handed out flyers and answered questions, informed people of new public services, helped fill out tax forms — and widened the tax net. The walk aimed to show the ‘man on the street’ that tax men were not ‘hounds and wizards’ but ‘just like any other person — just like you’.³⁴ Thus, aside from a practical collection aspect, the walk was a state trying to humanize itself, to appear more approachable to society, for the purpose of increasing IGR.

The State and Associational Life

Lagos State penetrated existing networks to increase compliance and bolster its capacity to enforce and monitor tax payment, especially in the informal sector. The high constraints associated with this sector encouraged collective tax bargaining between the state and society. Through bargaining with association leaders, a tax rate was agreed on for all members. Both informal and formal sector association leaders were involved. In the informal sector, market association leaders were invited to attend meetings with LIRS where a flat rate of ₦ 2,500 per annum (US\$ 7) was agreed for all market traders. In the self-employed professionals sector — where associations have weaker member cohesion — association leaders were instrumental in negotiating presumptive tax rates based on number of years in the profession and seniority. Association leaders interviewed for both groups described the process as a ‘back and forth’. A labour organization representative explained how the rate was set: ‘We negotiated for it! [in a] series of [government] meetings. Look we cannot pay this, this is what we can pay. And they agree with us’.

Association leaders explained how visible improvement in public services encouraged them to support direct taxation and enforce compliance amongst members. Public goods allowed them to support taxation without risking their reputations. One leader explained that without tangible benefits, there was little that she could do to enforce: ‘If they didn’t use [tax money] for anything, there would have been a lot of confusion and protesting’. LIRS’ engagement with association leaders went beyond negotiating tax rates. Leaders strengthened enforcement, communicated updates and discussed problems with the system. Meanwhile, association leaders used

32. For a list of Citizen Budgets published by the Lagos State Ministry for Budget and Economic Planning, please see: <http://mepb.lagosstate.gov.ng/budget-documents/citizens-guide-approved-budget/>

33. Representative were university graduates who followed a training programme. All were required to wear name tags and uniforms to distinguish them from protection racketeers, known as ‘touts’. None collected money.

34. Interview with Mr Bicci Alli, Deputy Director Personal Income Tax, Lagos, 15 March 2012.

2 LIRS meetings to communicate grievances and make suggestions. These
3 served to highlight areas of friction, such as the state government's forcible
4 (and often heavy-handed) relocation of roadside traders.³⁵

7 **Explaining Compliance**

9 Growing perceptions of a working state government among interviewed
10 taxpayers demonstrated how visible public services increased willingness to
11 pay taxes: 'I still complain but I'm no longer too sad paying my tax, because I
12 . . . see some things that . . . are for the good of everybody. I could say that the
13 feeling is not as painful as it used to be'. The sentiment was expressed by both
14 groups. One trader accepted paying tax because he believed that Lagos was
15 improving: 'When you go to hospital, you see many things are better. . . . We
16 have seen what they have done with that money, so we are happier to pay'.

17 Taxation encouraged taxpayers to reassess what to expect from their state,
18 suggesting a slow but gradual trust in government, and an increased will-
19 ingness to pay taxes and contribute to the state's development. A participant
20 explained, 'These days you see maternity wards coming up everywhere,
21 funded by state government, being revitalized. That is something! . . . I want
22 to contribute. I am beginning to review my mindset'.

23 It might be thought that transparency over revenues and their disposal
24 would be central to this trust-building nexus. Certainly, that is the implicit
25 view of non-governmental organizations who advocate participatory bud-
26 geting processes. Yet above, a different locus of trust emerges, in visibility
27 rather than transparency; a visual metaphor which denotes being able to see,
28 rather than see through. Interviews found that while taxpayers wanted to see
29 their tax money being used to develop public services (roads, street lighting,
30 waste collection), transparency per se was not as important to them. While
31 Lagos State invested in transparency efforts such as a public budget, this was
32 not cited in interviews as a reason for paying taxes. By contrast, visibility
33 (of works and of government presence) was considered important. Some
34 interviewees furthered that it was not realistic to expect that all tax monies
35 would be spent on public services and goods, and that they expected some
36 to be pocketed. However, this did not matter as long as services were being
37 provided.³⁶

38 Interviewees' perception of a working government was especially clear
39 when asked how they felt paying tax to another level of government. The
40

42 35. An example of such suggestions at a public meeting attended by the author: 'If . . . this issue
43 of scattering people, sending people away is reduced or totally stopped, it will encourage
44 them to pay'. (Lagos, 22 March 2012).

45 36. This ethic of toleration based on performance, in contrast to a mechanistic expectation of
46 tax payment and transparency, may also be patterned on existing expectations of political
support, which are fundamentally transactional.

lack of service provision and perception of corruption at federal and LGA levels was continuously cited as the reason people preferred to pay state taxes. An interviewee who had only recently voluntarily started paying PIT, complained that while he was obliged to pay company tax to the federal level, he felt apprehensive about it: ‘If I have a way I can avoid paying tax to the federal government, I would. So many things [it is] supposed to give us, but they don’t give us. So why should I pay tax?’.

Similar views extended to LGAs. As one trader explained: ‘At least you can see the state presence. They improve the roads, the water’. Another participant said that LGAs ‘are not working so then why should we pay them?’.³⁷

Direct taxation and the necessity of encouraging quasi-voluntary compliance encouraged the state to move closer to its society through engagement and service provision, which seemed to gradually increase willingness to pay taxes. There is thus some evidence that a social contract was being formed, though by no means complete, nor homogenous across or within professional groups. At the heart of this differentiated contract was understanding it as either personalized or, as the taxation literature suggests, broad and civic. In Lagos, both were true. For both groups, former Governor Fashola was a central figure with significant political capital. However, while all market traders (Group B) demonstrated a personal contract with Fashola and little connection with the state as an abstract entity, self-employed professionals (Group A) exhibited a trend towards a more institutionalized contract. Consequentially, the expectations of what constitutes a political relationship differs between groups.

Self-Employed Professionals (Group A)

Gradually including self-employed professionals into the tax net was important for social contract formation in Lagos. This diverse, numerous and affluent group comprises Lagos’ male and female professional and business class.³⁸ The group was generally brought into the tax net on an individual basis because associational cohesion, in direct contrast to market traders, was weak. Among members of this group, evidence indicates that tax payment created a sense of ownership towards state expenditure, giving what

37. Interviews with unorganized street traders revealed that LGA taxes were seen as coercive. The evidence here gives credence to the commonsense proposition that effective delivery of public goods increases willingness to pay tax. However, Bodea and LeBas (2016) note that the simple presence of the state, apart from any positive opinion, increases perceptions of its legitimacy. Even paying bribes can be positively correlated with tax morale, a point on which Fjeldstad et al. (2012) agree.

38. Interviewees included doctors, accountants, architects, entrepreneurs and consultants.

2 interviewed professionals referred to as the ‘moral right’ to hold the state to
3 its contract obligations.

4 Significantly, the majority of Group A made a clear distinction between
5 Lagos State Government as provider of new services and collector of taxes,
6 and Fashola as the proactive governor who facilitated this. Unlike market
7 traders, only 3 of the 13 interviewed spoke of the two interchangeably. The
8 majority of Group A professionals were also keenly aware that their money
9 was fuelling service provision: ‘It is not Fashola’s money that he is using [to
10 provide services], it is state money, it is the money of the masses. Coming to
11 clap when Fashola is coming to cut the tape — those things are not necessary.
12 It is your [tax] money, you have trusted them to do that’.

13 Interviewees complained of the personality factor in Lagosian politics and
14 stressed the need to move beyond it. One interviewee felt it was wrong to
15 separate Fashola from the state system because he was part of it. Thus, how
16 the public understood his success should depend on the institution’s function
17 as a whole. When asked of their expectations for the next administrations
18 and their willingness to pay tax under another governor, the majority of
19 participants expressed faith in the future of Lagos State governance but that
20 ‘the next administration is going to have to fill in very large shoes’.

21 Interviewees thus spoke of a relationship with the state that extended
22 past the current administration. This important shift did not go unnoticed.
23 Another participant of the focus group explained its significance when he
24 said, ‘We don’t trust institutions here in Nigeria, [but] what Lagos State has
25 been managing to do is build trust. It is not that it is complete, it will take
26 time for us, but I think we will reach a tipping point’. Other participants
27 agreed with this statement.

28 The most obvious explanatory factor for this was level of education and ac-
29 cess to information. Group A participants all had tertiary education and high
30 levels of access to information, with the majority following the news regu-
31 larly. Significantly, interviewees had the political and technical knowledge of
32 taxation, governance and civil rights to discuss and critique state–society dy-
33 namics. Often, the nature of interviewees’ professions (accountants, lawyers)
34 provided a solid base for knowledge. Participants were highly aware of the
35 concept of direct taxation, its role in a state’s economy and the rights attached
36 to it. All participants, bar two, pointed to Lagos State’s ‘revenue allocation
37 crisis’ as a reason for its PIT reforms. Group A taxpayers were also aware
38 of what a taxpaying society has the right to demand from their government.
39 As one explained: ‘If you pay tax, then the government is liable to you to
40 make sure the money is spent properly’. This was clear when compared to
41 federal allocations: ‘Now I say okay, what are you [Lagos State] doing with
42 my money? We don’t see the money from the centre as our money, so if the
43 public tap is running continuously, I can just walk past. I don’t care’.

44 Significantly, professionals showed a willingness to ensure both sides
45 of the social contract were upheld. This demand was fuelled by another
46 difference between the groups, the felt nature of tax. A tax burden perceived

to be heavy, increases demands and expectations (Gloppen and Rakner, 2002; Levi, 1989; Moore, 2007). One participant complained of how he felt overtaxed and that this prompted him to question what the government was actually providing: ‘After we are squeezing ourselves to pay 100 000N (US\$ 278) you have to say, why can’t you provide?’.

Complaints of tax burdens were often followed by a discussion of what public services participants actually used, and a resulting demand for improved services. Group A argued that while they paid tax, they still paid for a number of other services, including healthcare and schooling, because the quality of these in the public sector had not reached levels that met their expectations.

High awareness of taxpayers’ rights, burdensome taxes and limited use of public services appeared to influence what self-employed professionals expected from the state. Most significantly, these factors affected the type of contract that was being formed; one that exhibited a growing trend towards a broader institutionalized contract that saw rising expectations directed at the state. Thus, while Fashola’s political capital ran deep among participants, to many he was not the only foundation for their compliance and expectations.

Market Traders (Group B)

LIRS brought a growing number of market traders into the tax net as an explicitly long-term project which acknowledged that, in the initial phases, administering such a project might cost more than its revenue.³⁹ Group B was a less diverse group, made up of Lagos’ predominantly female market traders selling food and household goods. Lagos is a city heavily dependent on physical markets. Market control has itself been an important locus of local politics during Lagos’ growth (see Barnes, 1986). Market women have long been important to wider political mobilization, reaching both the street economy and the general female population. In the 1920s, they mobilized to oppose the imposition of a water rate (an early bout of formal tax bargaining). With the advent of universal adult franchise in the 1950s, ‘they formed an ancillary wing in every major party in Lagos’ (Fourchard, 2011: 50). The present-day political and economic significance of market women is attested by the 2013 installation of Tinubu’s daughter to succeed his late mother as Iyaloja-General (head of the market women) of Lagos. Due to the importance of this social constituency, taxing them required careful planning and was strategic for creating a social contract that extended beyond business and elites. Setting a tax rate of ₦ 2,500 (US\$ 7) for market traders was done through back-and-forth negotiation between market association leaders and

39. Habituation and inclusion in the tax net are aims in themselves, as is future revenue. Fjeldstad et al. (2012) also point highlight showing that others are being treated in a comparative way, when encouraging core target taxpayers to pay.

2 LIRS. Thus, taxation of the market was conducted through its own modes
3 — the extended haggle and public associational self-ordering.

4 This study found that this group's taxation was internalized in a particular
5 way. Market traders' taxation had not seen the corresponding feelings of
6 ownership of expenditure, and demands for increased accountability, that it
7 had among professionals. Instead, what can be observed was the formation
8 of a personalized social contract centred on Governor Fashola as the main
9 provider. This was immediately revealed in interviews where Fashola's
10 popularity with traders was clear. The majority claimed to be generally
11 pleased with improvements they attributed to him. As one trader commented:
12 'He promised and he succeeded. He said there will be a lot of changes in our
13 environment, and he did it'.

14 Significantly, and in contrast to Group A interviewees, when asked how
15 they felt about Lagos State Government, traders continuously answered in
16 personal terms and referred to the former governor's personal role. Interview-
17 wees rarely spoke of Lagos State as the tax collector and service provider.
18 As one market woman commented, 'If not for Fashola, we would not have
19 these things'. She followed by explaining that 'we don't trust our leaders —
20 everything they promise is just for us to accept them'. Fashola, however, was
21 held apart from this as one who successfully provided what he promised.
22 Beyond Fashola as an individual, lack of trust strongly persisted. This type
23 of personal contract also clearly surfaced in interviews with association lead-
24 ers, who spoke of Fashola and the state interchangeably. They claimed they
25 only accepted taxes for their members because of 'the way he [Fashola] runs
26 government'.

27 Fashola himself contributed to this personalization. The governor put him-
28 self forward as a hands-on political figure, who is compassionate, attentive
29 and accessible. By giving out his phone number to the public and host-
30 ing public meetings where taxpayers could ask questions, Fashola appeared
31 available to those previously excluded from direct state interaction. This
32 impression of personal direct government, which could transcend the short-
33 comings of a bureaucracy, echoes the sought-after direct 'reach' to the top
34 which Barnes' Mushin informants valued in her 1986 study. It conceptually
35 transforms a city of millions into a navigable and intimate space in the public
36 imagination.

37 At the societal level, degree of education and access to information af-
38 fected how changes at state level were interpreted. Market traders were
39 generally less educated than professionals and not as knowledgeable about
40 taxation, citizens' rights and governance. This was aggravated by the nov-
41 elty of taxation in many communities. Some participants said PIT was a
42 completely new concept to them, and that 'women never paid tax before'.⁴⁰

44 40. Note that they are here defining citizenship by gender, not occupation. This change echoes
45 colonial authorities sparking the Aba 'women's war' of 1929 by extending direct taxation
46 to (previously exempt) women.

When asked whether they were approached to start paying, all traders (unlike self-employed professionals) said that they were. Most information they received on taxation was delivered through association leaders, or by LIRS staff who visited their markets. When asked whether they knew how the tax system works, most interviewees responded that they didn't: 'I don't have [any] idea of that. I work a lot. You will not be watching TV and you will not be able to see much of what is happening in your state'.

Similarly, traders did not know why the state decided to tax its citizens. When asked why she had to start paying tax, one woman said, 'Fashola, he is very strict about it, that we must pay'.⁴¹ This also reflected a limited belief in their rights as taxpayers. The state remained distant and Fashola became a state figure who provided public goods, and with whom the contract was formed. The less onerous nature of taxes is also relevant. Market traders were obliged to pay ₦ 2,500 (US\$ 7) per annum, based on the estimation that they were earning ₦ 50,000 (US\$ 139). This was clearly an underestimation for traders operating in registered markets.⁴² In contrast to Group A, few traders complained that the level of state taxation was high.⁴³

This is important when one considers that market traders make regular use of government services. Unlike self-employed professionals, traders claimed to regularly use public hospitals and clinics, schools and transport. Interviewees were more aware of health and education reforms put in place because they, their families and friends were directly affected. So, to some extent, PIT in Lagos represented redistributive, progressive taxation.

Taxation had, however, not yet created a sense of greater participation amongst traders. Despite LIRS' greater engagement with association leaders, interviewees expressed a lack of meaningful access to the state. When asked whether he felt that he could communicate concerns through association leaders, one trader responded that 'they can't do much'. Similarly, one trader replied when asked what she would do if taxes were raised: 'What can I do? I am just a market woman'.⁴⁴ While channels were made increasingly available to leaders, traders' feelings of exclusion remained — a situation in stark contrast to their periodic decisive importance during elections.⁴⁵

41. Taken from interview notes, 10th March 2012.

42. Based on a small qualitative sample, ₦ 250,000 (US\$ 694) would have been a very conservative estimate of the turnover for a central Lagos market stall, in which case tax would comprise only 1 per cent. This figure was also recently reported by the subsequent LIRS Chairman, Mr Olufolarin Ogunsanwo (*Vanguard*, 2016).

43. In fact, as Joshi and Ayee (2008: 183) observe, such 'presumptive' taxation is often popular both with government — as it spares the effort of trying to work out actual incomes in the undocumented realms of the economy — and with taxpayers, as it is usually lighter than they would have to pay on actual income.

44. Taken from interview notes, 12 March 2012.

45. A debate exists as to whether involving civil society and associative groups in administration reinforces or weakens them. For Meagher (2007, 2013) the inter-reliance changes such

With Group B, the combination of low awareness of tax and taxpayer rights, less onerous taxes, regular use of public services, a history of bypassing institutions to interact directly with power, and feelings of limited access to the state, resulted in a different imagined contract among market traders — one skewed more towards a personalized relationship with former Governor Fashola, as opposed to Lagos State Government.

CONCLUSION: STATE–SOCIETY RELATIONS AND CONTRACT FORMATION

Motivated by generating IGR to meet its growing needs, Lagos State Government had to ‘earn’ its income by showing its citizens why they should pay tax, providing public goods and engaging them through tax negotiations. Against a history of state unresponsiveness and neglect (Adebanwi and Obadare, 2010; Smith, 2008), this led to a slow but steady increase in citizens’ willingness to comply with tax-payment.⁴⁶ As evidenced in this article, taxpayers seem to be finding PIT to be less painful, and are more willing to pay as a result of a perception that the state is now working. In this way, there is some evidence that an abstracted social contract is being formed in Lagos State. However, this process is by no means complete, nor is it homogenous throughout society. Instead its shape depends on access to information, the form of state engagement both current and historical, the felt extent of tax and the use of government services. These socio-economic differences, as seen through a profession comparison, are important indicators of who drives and shapes the limits of the social contract’s terms. Importantly, it is not purely material socio-economic differences that shape this, but the modes of socio-economic organization and interaction with the state.

The demand for better services was a feature of all interviews with Group A taxpayers who argued that the provision of current services was not enough and that their quality had to be improved. The question posed by many taxpayers was, ‘We have seen that they are doing something, but are they doing enough?’. Conversely, while traders are more amenable to paying taxes when they can see service provision, taxation does not equate a ‘moral right’ to demand more from the state. Market traders demonstrated little sense of ownership towards state expenditure. None referred to the money being used for public projects as ‘my’ or ‘our’ money. Instead traders attributed service delivery to Fashola’s role as provider. The concept of

associations, co-opting them and redirecting their accountability. In contrast, Barnes (1986) depicts Lagos market women’s enthusiasm for their organizations’ (and leaders’) closeness to the state, in order to leverage the benefits of inclusion.

46. Whether political legitimacy is more a product or a prerequisite of tax payment is an interesting but separate discussion.

political authority remained one of benevolent paternalism. Expectations of transparency and participation were also differentiated. For professionals, PIT encouraged the demand for greater participation and more representative institutions. However, perceptions of state corruption were cited as a major obstacle to their groups' compliance. For market traders, as long as services were provided, it mattered less whether some funds were being pocketed.⁴⁷ As one interviewee explained, 'They can steal, there is no problem about it. But when they steal, they should remember the masses'.⁴⁸

The most significant difference between the two groups was the definition of contractual obligations. With self-employed professionals, a trend away from a highly personalized contract is being initiated. For market traders however, the relationship is imagined as a highly personal contract with the governor. Indeed, both imaginings of a social contract are sustainable and non-contradictory. The abstracted, bureaucratic, individuated analysis of formal-sector professionals, and the personalized, communitarian, directly-negotiated perspectives of informal-sector traders, are both rooted in particular educational and life experiences, and in the wider modalities of their insertion into systems of economy, state and politics.

These findings are encouraging for Lagos and for understanding how taxation can support democratization processes. The gradual inclusion of self-employed professionals highlights the importance of moving beyond a PAYE basis in driving broad demands for better governance. Meanwhile, the negotiated inclusion of the informal sector points to an eventual potential to drive informal demands for accountability — previously articulated through particularistic patronage and party-political formations — into the fold of formal administration. This is unless the overtly political modes of organization prove more dominant, or the state itself perpetuates this form of renewed 'indirect rule' for cost considerations. The extent to which findings can be extrapolated are, however, limited. Lagos State is in many ways unique. The numerous corporate structures and large PAYE tax base have made collection feasible and profitable. Its commercial capital status means it has significant income at its disposal, which it can use to channel into major government projects that help to build trust in its tax system. Furthermore, Lagos' large population means it has both a large taxable base, and is home to a large number of highly educated professionals who can work in government and outside, to monitor and drive contract terms. Most other

47. This resonates with Schatzberg's (2001) work on the basis of the neopatrimonial contract: that a leader's legitimacy is not challenged when he 'eats' in good times but rather when he 'eats' while others around him 'starve'.

48. Unlike the state, the federal level is seen as 'stealing' without giving anything back, prompting some traders to refer to former President Jonathan as a 'bad man' (interview notes, 13 March 2012). When asked whether they think that 'stealing' also occurs in Lagos, one market women replied yes, but that this mattered less because 'Fashola, he spends on us and gives a lot' (interview notes, 13 March 2012).

2 states lack both, while only some share Lagos’ deep-rooted civic public
3 sphere.

4 Nevertheless, these findings remain significant as a contribution to the
5 taxation and democratization debate. Crucially, they demonstrate that even
6 in diverse societies dominated by informal economies, people are willing
7 to support a governor and pay tax when public goods are provided. The
8 findings also demonstrate how ‘felt’ taxes, like PIT, are more conducive to
9 social contract formation (Fjeldstad and Semboja, 2001; Levi, 1989). Finally,
10 it shows how tax collection reform is important as a political transformation
11 because it simultaneously gives states more control over their finances and
12 development, while creating demands for closer relations between a state
13 and its society.

14 Lagos is in an interesting period of transition. By engaging with its citizens
15 and by providing the services it promised in exchange for tax collection,
16 between 2007 and 2015 Lagos State Government can be seen to have slowly
17 shifted the expectations and perceptions of its citizens: from ineffective,
18 distant and predatory to closer, useful and responsive. All this on social
19 and historical foundations which predicate and condition different concepts
20 of the social contract itself. This happens along a continuum of civic and
21 particularistic imaginings of the public sphere: with formal professionals and
22 informal traders drawing on opposite ends of a dual heritage of institution
23 building and personalized rule.

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Direct Taxation and State–Society Relations in Nigeria

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