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Catch Them If You Can: The Politics and Practice of a Taxpayer Registration Exercise

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Summary of Working Paper 160

Tax registration drives have become an increasingly popular intervention to expand the coverage of tax nets across sub-Saharan Africa. Promising increased revenue for states and formalisation benefits for newly registered enterprises, the appeal of these interventions is intuitive. However, there is increasing evidence that registration drives do not lead to a substantial increase in revenue and disproportionately target lower income groups.

What's going on? Little is understood about why poor outcomes persist, partially because research to date has largely focused on assessing the impact of registration exercises rather than analysing the **motivations** for them and the processes of implementation. Greater attention to motivations and **processes** in tax registration produces better insight into:

- The incentives and constraints of individuals and institutions
- Critical junctures of policy implementation and failure
- State-society relations in everyday practice, and
- Areas and pockets of success that may otherwise get overlooked in an analysis of aggregate outcomes that only considers a narrow metric of success

This study sheds light on these dynamics through an analysis of the motivations for and implementation of a taxpayer registration exercise of micro and small enterprises in Freetown, Sierra Leone implemented by the National Revenue Authority. Relying on a unique combination of ethnographic data, key informant interviews, focus group discussions with registration enumerators and managers, and administrative data of newly identified businesses, it first finds **that a concerted effort to register new taxpayers led to no newly registered taxpayers and no revenue gains**, with newly identified taxpayers being disproportionately low-income businesses with limited potential tax liability.

We argue that these outcomes were the result of diverging objectives between national and international stakeholders and between street- and higher-level officials, combined with an unrealistically technocratic view of the exercise. Registration exercises are critical sites of state-citizen interactions, bargaining, and trust-building or -breaking, and need to be recognised as fundamentally political endeavours. This different conceptualisation may lead policymakers to plan registration exercises differently, placing the focus outside of short-term revenue gains.

Results of the registration campaign

From a revenue perspective, the registration exercise in Sierra Leone proved disappointing.

1. **Large-scale data collection, but poor quality data:** The drive successfully collected and updated the information of a substantial number of businesses. And although adding these newly identified taxpayers to the registry would effectively double the number of registered businesses in the Western Province, previous estimates of the potential size of informal activities give reason to believe that there is still a significant number of unregistered businesses that have not yet been captured. Moreover, data collected on businesses contained key gaps that are likely to limit its usefulness for tax administration and collection purposes.
2. **Newly identified businesses represent a skewed sample of the underlying business population:** The registration campaign disproportionately targeted lower-income businesses, despite the aim to capture businesses above a set income threshold. This does not imply that enumerators intentionally targeted some businesses over others - instead, we argue that the biases that emerged were largely an unconscious and wholly predictable outcome of these types of registration exercises. Simply put, some types of business are more visible to street-level bureaucrats, and thus more likely to get captured by these exercises.
3. **Newly identified businesses were not actually registered:** Most critically, despite identifying businesses, the exercise did not actually lead to the

businesses being registered or receiving a taxpayer identification number. Formalisation is often conceived as a "light-switch-like" act, though registration actually depends on a range of relationships with different institutions. Because of the discrepancy between data collection and actual registration, the exercise in Sierra Leone exemplifies the limits of this one-dimensional approach.

Explaining disappointing outcomes

These disappointing outcomes were the result of diverging objectives between national and international stakeholders and between street- and higher-level officials, combined with an unrealistically technocratic view of the exercise. The effectiveness of implementation was influenced by donor-driven pressure to implement the exercise quickly, domestic pressure to prioritise short-term revenue gains over longer-term relationship building with taxpayers, and poor institutional coordination. These factors in turn influenced street interactions with taxpayers – disproportionately incentivising the registration of lower-income businesses and hurting taxpayer trust.

Policy Takeaways

1. **Tailored regional and local strategies:** Tax registration is not merely a technocratic process, but rather a fundamentally political endeavour. It needs to be tailored to local realities, including around the pre-existing relationships between the revenue authority and citizens.
2. **Clear and harmonised objectives of registration exercises across various stakeholders:** This harmonisation means not only coordination and communication, but also overcoming power dynamics between and within the institutions involved.
3. **Moving away from a revenue-centric view of formalisation:** While tax registration drives may not produce significant increases in revenue, they may help to educate taxpayers, expand the presence of the state, especially in rural areas, and build future taxpayers through developing a relationship with some of the population they had previously not interacted with. These goals are feasible objectives of tax registration exercises but are often sidelined by revenue imperatives in formalisation projects.

Taking seriously the conversations, knowledge, expectations, and frustrations generated through the process of this data extraction can contribute to a broader view of formalisation interventions – and perhaps help to avoid some of the more disappointing outcomes.

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