

# Making consumer incentive schemes work

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## POLICY NOTE

Consumer incentive schemes (CIS) should integrate evaluation in their design to pinpoint where the greatest revenue potential exists. Although CIS are very context-specific, they can help ease the final mile problem of VAT when designed well.

Examples from Tanzania and Zambia indicate that consumer lottery prizes need not be very high to generate positive results. Nonetheless, the schemes should be well-advertised before their implementation.

The expansion of mobile money and phones can further facilitate consumer incentive schemes and make it easier for taxpayers to participate.

# What is the full potential of consumer incentive schemes?

## Overview of how consumer incentive schemes work

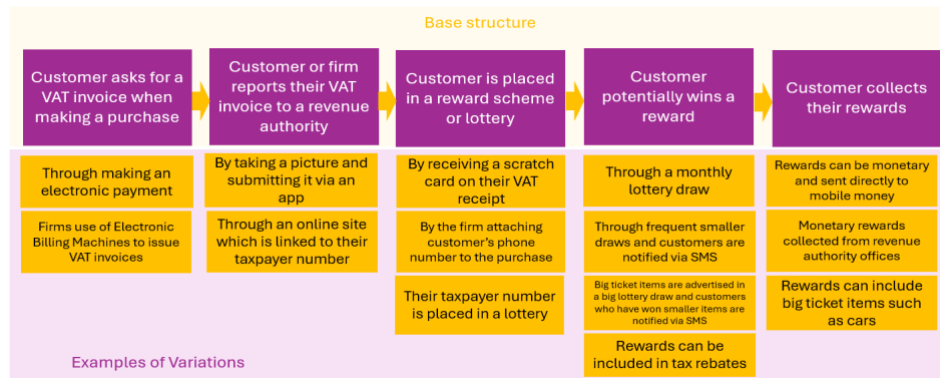
Consumer incentive schemes (CIS) help solve the "last mile" problem of VAT by encouraging consumers to ask for VAT receipts. In many lower- and middle-income countries (LICs and MICs), vendors may try to avoid paying VAT by not issuing VAT invoices on goods sold. In Tanzania, only 30% of businesses issued VAT invoices when prompted by a customer (Fjeldstad et al., 2020). A CIS gives consumers a reason to ask for a VAT invoice, as they can use these receipts to partake in a lottery to receive an incentive, often cash or physical prizes.

VAT has a built-in self-enforcing mechanism within business-to-business (B2B) transactions. A firm purchasing goods needs an invoice issued by a seller to deduct the VAT on the transaction. However, this chain breaks down at the final stage, where revenue authorities only receive information on the final VAT goods sold from the firm. CIS address this issue by giving the customer an incentive to also provide information to the revenue authority, which improves the auditing process.

## How are CIS structured?

CIS are usually structured so that customers ask for a VAT invoice when making a purchase, which places them in a lottery with the potential to win a prize, as seen in Figure 1. However, CIS vary substantially in how this structure is implemented. Variation can occur from the start of the process when customers ask for VAT invoices. In some countries, such as Romania, customers are encouraged to make electronic purchases, which are harder to avoid due to the information trail that is generated, while in Bangladesh, customers must ask for a separate VAT invoice printed with an Electronic Billing Machine (EBMs) (European Platform Undeclared Work, 2017; The Daily Star, 2020).

**Figure 1: Outline of how CIS are structured and how they can vary in design**



Some schemes can follow completely different designs. In China, firms issue special receipts that double as scratch card lottery tickets that tell customers if they have won a cash prize (Chao, 2012). In South Korea, the lottery is linked to tax rebates (Siwale and Dickenson-Jones, 2021). CIS design variations reflect a country's specific context and how consumers interact with the tax system.

## Consumer incentive schemes have successfully raised VAT in Brazil

When implemented correctly, CIS have the potential to increase reported VAT. In the case of Brazil, the consumer incentive scheme increased reported tax liabilities by almost 26% (Naritomi, 2019). However, it is worth noting that due to the cost of running the scheme, total tax revenue only increased by 9.3%. The amount of VAT raised will ultimately depend on the generosity of the prizes and the costs of administering the CIS.

**Piloting and evaluation are needed to determine the true value for money of running CIS.**

## Tanzania's experience - preparation is key

Tanzania ran a CIS pilot in Dar es Salaam between July and October 2022 (Buluba et al., 2024). During this pilot, researchers were able to investigate how to structure and advertise the scheme and what type of firms reacted well to the scheme.

### How was the pilot structured?

The CIS required consumers to ask firms to enter their names into the lottery once they purchased a VAT-liable good. Customers would provide their phone numbers to a salesperson to be entered into the lottery.

Prize amounts were announced weekly and monthly. Small prize draws were held weekly and offered TZS 250,000 (USD 104). The monthly large prize draw offered TZS 1,000,000 (about USD 417). Winning customers were contacted via the phone number they provided to pick up the prizes at the tax offices.

### How did they advertise?

A CIS can only successfully raise VAT revenues if customers know of the CIS and ask for invoices. In the Tanzanian CIS, advertising in the area of the pilot started a week before the start of the CIS. Public announcements were made by moving vehicles three times a week. The frequency of the public announcements was reduced to once a week once the scheme started. Some further posters and adverts were placed in commercial zones and local radio stations to raise awareness of the scheme. By the last wave of the scheme, almost **half of the survey respondents knew of the scheme**.

### Did it increase VAT receipts, and which firms did the pilot impact?

VAT invoices increased among VAT-registered firms but not among unregistered firms. In total, VAT liability increased by almost 50%<sup>1</sup>, but the number of receipts did not drastically increase. Businesses would not issue real VAT invoices when customers requested them, and they would overcompensate by not issuing VAT invoices at a higher rate if customers did not request them.

## What would a Zambian CIS look like?

To benefit the most from a CIS, the Zambian Revenue Authority (ZRA) should build a scheme **focusing on VAT-registered indus** but unlikely to issue VAT invoices. CIS are not best placed to target unregistered firms. Similarly, registered firms that are already VAT compliant are unlikely to generate added revenue from a CIS and may, in fact, cost the ZRA more than it brings in.

### What do we already know about consumers and VAT in Zambia?

In a survey undertaken in Lusaka in 2021 by the IGC, survey takers were given a receipt 90% of the time by formal firms, of which 68% were VAT invoices, while in semi-formal firms, receipts were issued 20% of the time, out of which 28% were VAT invoices. These figures suggest that there is room within

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<sup>1</sup> VAT liability increased by TSH 7 million compared to the control mean of TSH 12 million.

formalised and semi-formalised industries to improve the last mile of VAT collection.

Why do customers not ask for VAT invoices already, and can they even identify a VAT invoice? 21% of survey takers said that firms offered them a lower price not to receive a VAT invoice. Moreover, customers may not be able to identify a legitimate VAT invoice. In the same survey, only 23% of customers felt confident identifying a VAT invoice, highlighting that any CIS scheme should advertise what a VAT invoice looks like and reward customers enough to offset potential price discounts.

### **A CIS reward may not need to be large to have positive outcomes**

In a 2021 study on a small CIS with micro firms, IGC found that offering even ZMK 35 can incentivise consumers to request VAT invoices (Dillon et al., 2025). The pilot was aimed at micro firms and offered participants either a large reward of ZMK 300 or a smaller reward of ZMK 35. As part of the study, firms collected VAT invoices, and when the researchers returned at the end of the week, participants were given the option of playing a lottery and winning a prize.

The study found that the large prize of ZMK 300 led to a 46% increase in collected VAT invoices compared to the control group. However, while the smaller prize was less promising, it still led to a 29% increase in collected VAT invoices.

## **What next?**

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CIS can successfully recover VAT revenues that would otherwise not be collected. However, to ensure that the schemes are successful and provide good value for money, we recommend trialling a pilot first.

CIS can take many forms and be structured in multiple fashions. In Zambia, a CIS that targets formalised and semi-formalised firms that do not report all their VAT would have the highest potential to increase VAT revenues. Moreover, using technology, such as mobile money, in the design of the pilot could simplify the process for customers.

Before any CIS is attempted, taxpayer education is vital. Taxpayers must be aware of the CIS and should know how to identify VAT invoices. The best method of achieving these goals may need to be discovered through an iterative learning process.



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