POLITICAL REFORM CONFERENCE, FEDERALISM & THE NATIONAL QUESTION IN NIGERIA

Edited by

WARISU O. ALLI

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Tax Assignments, Revenue Sharing And Political Reform: Nigeria In Comparative Perspective

E. Remi Aiyede

Introduction

Intergovernmental relations refer to the interactions between levels of government in a state system. Intergovernmental relations is particularly important in a federation because its condition reflects the health of a country's federal structure. Indeed, it is through the mechanisms of intergovernmental relations that the federation's functions and jobs get done. No issue in the Nigerian federation has been as controversial and recurrent as the issue of tax assignment and revenue sharing. Since independence several commissions have been put in place to help create an appropriate formula for revenue sharing. Yet by 1999, dissatisfaction over existing arrangements has been quite heated. Indeed, it became the basis for a series of intergovernmental conflicts. State governments challenge the national government's actions in channelling revenue directly to local governments, in making first line deductions from the federation account and single handed decision on proceeds from privatisation and excess crude oil sales. More significant, is the resource control movement, the clamour for state/community control of natural resources. The Summit of Governors and Members of the National Assembly from the South-South Geo-Political Zone, comprised largely by oil producing communities have called for states control of resources by an abrogation of the Land Use Act and other similar laws, which empower the federal government to control the natural resources found in the territories of Nigeria. They also demand that the distinction between offshore and on-shore oil in the implementation of the derivation revenue allocation to oil-producing states by the federal government be abolished. Even, after the Supreme Court gave a judgement declaring that the eight littoral states could not legally seek to control natural resources located beyond their seaward boundary, president Obasanjo had to seek a political solution by an Act abolishing the off-shore—on-shore dichotomy in the implementation of the derivation revenue allocation to relevant states. The movement has been so strong that it has led to a series of adjournment of the NPRC following the walk out by delegates from the South-South geopolitical zone over the procedure and decision of recommending 17 per cent as derivation revenue for Nigeria. These walk out only reflect a more worrisome armed struggle over federal control of resources and the consequent environmental degradation and impoverishment of the oil producing communities. Threat by movements such as the Asari Dokubo's Rebel Army to carry out disruptive activities in the Niger Delta region have occasioned increase in the price of crude in the international market.

Why is the question of revenue sharing and tax assignments a source of great tension in the Nigerian federation? Why has this issue not been resolved by the series of commissions? Why is it that the institution of a permanent Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) has not made the problem less controversial and conflict? What lessons can Nigeria learn from comparative experiences in other federations? These paper attempts to deal with these issues. The central argument however is that the problem of tax assignment and revenue sharing is tied to the nature of politics as private accumulation in Nigeria and the consequent failure of the political class to achieve visionary leadership that is able to establish consensus on the values and goals of national governance. Thus, revenue sharing and tax assignment has been the outcome of political struggles in which the majority groups have had a better chance of getting a good deal vis-à-vis the minority ethnic groups. The result has been the outbreak of armed struggle in the Niger Delta region and general dissatisfaction by southern groups with the revenue sharing arrangement which works in the favour of the north that has been awarded more states and localities by military governments largely headed by northerners.

Revenue Sharing and Tax Assignment in Nigeria

Four critical characteristics of politics conditions fiscal arrangements and ensures that it is inequitable. The first is privatisation of public office. Politics in Nigeria has been described variously as prebendal, neo-patrimonial, clientelistic or predatory, which means in the words of Joseph (1987) that 'the existing offices of the state may competed for and then utilised for the personal benefit of office holders as well as their reference or support group.' The second is that majoritan politics has come to reflect in policy choices that do not favour the minority oil-producing communities as demonstrated in the changes in the revenue allocation formula. Since the ascendance of oil as the major source of revenue, derivation has increasingly become insignificant as a factor of allocation of revenue. Derivation as factor in the distribution of revenue among the various sub-national governments used to be emphasised in the period when agricultural export was the main stay of the economy (Tobi 1991) (see table 1).

Table 1: The Status of Derivation in Revenue Sharing in Nigeria

Years	Producing state %
1960-67	50
1967-69	50
1969-71	45
1971-75	45 minus off shore proceed
1975-79	20 minus off shore
1979-81	-
1982-92	1.5 minus off shore
1992-99	Three minus off shore
1999-2003	13 minus off shore oil
2003-	13 plus off shore oil

Source: Adapted by author from Suberu 2001, Egwaikhide 2004.

The third is the consequential marginalisation of oil producing communities who are largely minorities in terms of development projects and revenue allocation in the struggles between dominant majority groups for power, as the former lost control over oil resources. Thus, the oil communities have had to engage the Nigerian state in an epic but alarming struggle for justice and equity (Graf, 1988, Joseph 1987, Obi, 1998, Lewis 1997, Aiyede 2002). The fourth is the fallout of the increased centralization of revenue sources and the heavy financial dependency on the centre by the federating units. These combined with the privatization of public office generates a situation where there is a reference for the practice of giving considerable importance to inter-state/local area equity in the distribution of allocation from federally collected revenue to sub-national units. These gives sub-national governments 'every incentive to get more funds from this source, encourage financial irresponsibility and set up strong forces for the creation of new states.' (Tom Forrest as cited by Suberu 1994:3). Rather than the revenue sharing and tax assignments being a rational

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Right now, sub-national governments suffer deficit in revenue powers that should enable them to prosecute their constitutional functions. While state officials have become millionaires by privatising public funds, local people do not feel pressured to hold them accountable because public revenue is not derived from citizens in most state and localities. Thus, government is propped up by oil money that is perceived as a national cake to be pillaged, while the real focus and work of government becomes secondary. Indeed, the present revenue arrangement has politically disempowered sub-national governments, and prevent them from economic autonomy. Sub-national units continue to rely heavily on allocation from the federation account to meet basic responsibilities. Table 2 shows the movement towards increased centralisation in Nigeria's fiscal federalism following the state creation exercises in the 1980s and 1990s.

Table 2: Independently Sourced Revenue of the States in Relation to Revenue Appropriated from the Federation Account: 1988-1999 (N Million)

Year	Independent Revenue (a)	Appropriation from the Federal Government (b)	Total	Extent of Dependence of States on (b) %
1988	2,169.0	8,823.0	10,992.0	80.3
1989	2,760.0	10,785.6	13,546.2	79.6
1990	2,726.2	15,943.8	18670.0	85.4
1991	3,147.1	19,434.3	22,581.4	86.1
1992	5,244.7	27,428.9	32,673.6	83.9
1993	5,726.2	32,014.4	37,740.6	84.8
1994	10,929.8	38,576.3	49,506.1	77.9
1995	17,287.3	118,714.7	69,641.6	75.6
1996	19,467.1	159,562.5	88,882.4	78.8
1997	27,368.2	166,557.0	193,925.2	85.9
1998	29,213.9	257,191.1	286,405.0	89.8
1999	34,109.0	303,871.2	337,980.2	89.9

Source: *Calculated from Central Bank of Nigeria (CBN) Annual Report and Statement of Account, several years.*

Here we see increasing dependence of the sub-national governments on national government for meeting their basic expenditure obligations. Federal allocation accounts for up to average of 80 per cent of total revenue of the states against the highest point of 55.7 under the four-region structure. The 'nature of the revenue (sources) assigned to the different levels of government and the principles of allocation employed by the federal authorities' determine the revenue conditions of the various governments (Asobie, 1998: 47). The nature of political restructuring of which revenue sharing and tax assignments are only a part is characterized by:

> The promotion of the 'cake-sharing syndrome; the augmentation of the centre's political and economic hegemony via the erosion of the size and resource base of sub-national governments; the proliferation of unproductive, corrupt, wasteful and unviable political and administrative units; the intensification of ethnic, regional and communal tensions over the beneficiaries and modalities of territorial restructuring; the stimulation of 'neoethnicity', or new forms of parochial, divisive and exclusionary identities; and the legitimisation of autocratic military rule (Suberu 1998:292)

A proper appreciation of the marked departure from the vision of the founding fathers of the federation can only be achieved when we make comparative review of the provisions of the 1963, 1979 and 1999 constitutions on fiscal relations.

The 1963 Constitution envisaged several areas of interface between the national government and regional (later state) governments on revenue allocation. Section 140 refers to the mining royalties and rents that are collected by the federal government. The Federation was to pay a sum equal to fifty percent of proceeds of any royalty received by the Federation in respect of minerals extracted from a region. Subsection (2) required that 30 percent of such proceeds be credited to the Distributable Pool Account. Section 141 then described the formula for sharing the revenue in the Distributable Pool Account among the regions.

Although Section 143 allowed the Federal Government to collect customs duties, the regions were to pay the cost of collecting the duties proportionate to their share in proceeds of those duties received by the region in respect of each financial year.

The 1979 and 1999 Constitutions have made similar provisions, however, reflecting the flexibility that characterised the revenue allocation formula and structure of the Nigeria Federation from the 1970s on. Indeed, under the military between 1966 and 1979 and between 1984 and 1999 the revenue allocation formula was changed several times on the initiative of the federal government, sometimes after receiving the advice of a technical committee set up for the same purpose. Under the

1999 constitution, mines minerals, including oil mining, geological surveys and natural gas are placed in the exclusive legislative list. Table 3 shows tax assignments in Nigeria.

Section 149, 150, 151, 152 and item A of the Concurrent Legislative List of the 1979 Constitution provide for revenue allocation and a Distributable Pool Account "to be distributed in terms, and in such manner as may be prescribed by the National Assembly". Similar provisions are made in sections 162, 163, 164 165 and item A of the concurrent list of the 1999 Constitution. But the 1999 Constitution outlines basic principles to be taken into account in revenue allocation. These include: population, equality of states, internal revenue generation, land mass, terrain and population density. Furthermore, it requires that the principle of derivation be constantly reflected in any approved formula as being not less than thirteen percent of revenue accruing to the Federation Account directly from natural resources. For this purpose a permanent Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC) was set up to advice the president.

Table 2: Tax Assignments and Tax Jurisdiction in Nigeria

Types of Taxes	Jurisdiction		
	Legislation	Administration and collection	Retention
Import duties	Federal	Federal	Federation Account
Excise duties	Federation	Federal	Federation Account
Mining rents and royalties	Federal	Federal	Federation Account
Petroleum profits tax	Federal	Federal	Federation Account
Capital gains tax	Federal	State	Federation Account
Personal income tax1	Federal	State	State
Value Added tax	Federal	State	State
Company tax	Federal	State	State

Source: Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)

[1] Personal income taxes of the armed forces, external affairs, and the Federal Capital Territory are federally legislated, collected and retained.

Section 7(6a) of the 1979 Constitution empowers the National Assembly to make provision for statutory allocation to local governments. 7(6b) empowered a State House of Assembly to make provision for statutory allocation of public revenue to local government councils within the state. The same provision is made in Section 7(6a & b) in the 1999 Constitution. This Section, like the 1979 version, requires the National Assembly and the State House of Assembly to "make provisions for the statutory allocation of public revenue to local government councils" in the federation and within the state respectively. But of course the National Assembly is to determine the proportion of state revenue to allocate to local governments within a state.

Each state is to have a special account; the 'State Joint Local Government Account' into which allocation from the Federation Account to local governments in the state is paid. Both the 1979 (section 151) and the 1999 (section 164) Constitutions, in addition, have permitted the federal government to make grants to a state to supplement the revenue of that state.

The periodic adjustment of the revenue allocation formula has been a difficult task for civilian regimes. The first effort to revise the revenue allocation formula in 1981 by the Shagari government failed as the Supreme Court nullified the Act because of some procedural defects. In 1982 another Revenue Allocation Act was made on the recommendation of a Presidential Commission on Revenue Allocation (the Okigbo Commission). But aspects of this Act were also reviewed by the Supreme Court as they were challenged by state governors (Osaghae 1998:136, Adamolekun 1989:61).

Recognizing this challenges the 1999 Constitution established the RMAFC as a permanent body. However, since 1999 efforts to revise the revenue allocation formula has been bugged down by intrigues. At first, on the recommendation of the RMAFC, a bill to adjust the revenue allocation formula was submitted to the National Assembly by the President in 2002. This bill was later withdrawn. No other bill for that purpose has been presented to the National Assembly since then.

Comparative Experiences

Canada

Canada is one of the most decentralised federations in the world in terms of fiscal arrangement. It started as four province federation, but today it consists of 10 states, 2 territories, and nearly 5,000 local governments, including cities, towns, villages and townships, counties, and special service districts. It has a population of 31 million people. Originally, as noted earlier, the 1867 Constitution envisaged a highly centralised federation. Indeed, the federation started with a situation where the federal government's revenue was about three times those of the provinces. This changed over time, as the demands for service assigned to the provinces expanded relative to those of the federal government, especially from the post World War II period. Canada is constitutionally recognised as a two-tier federation. Local governments are creatures of the provinces; they receive their powers and responsibilities from the provincial legislatures. With the expanding responsibilities for services, state governments have devolved certain (especially welfare) responsibilities to municipalities (local governments). Secondary and primary educations were largely devolved to local governments, although some states have taken them back. Major sources of revenue are personal income tax, the corporate income tax, and the goods and services tax (VAT). Table 4 shows the structure of federal, provincial and local government revenue in Canada.

Table 4: Canada: Structure of Federal, Provincial (state) and Local Government Revenue 1994 (in per cent)

	Federal Government	Provincial Government	Local
Income taxes			
Personal	47.1	24.3	33.6
Corporate	8.1	3.0	5.1
On payments to non residents	1.0	-	0.4
Property and Related Taxes			
Consumption Taxes			
General sales	14.0	12.4	13.2
Motive fuel	2.5	3.6	3.3
Alcoholic beverage and tobacco	2.3	1.5	2.0
Custom duties	2.5	—	1.3
Other	0.6	0.2	0.4
Health and Social Insurance Premiums	14.2	6.1	9.7
Miscellaneous	0.3	2.8	1.7
Natural Resource Revenues	—	3.5	2.0
Privileges, licenses, and permits	0.3	2.9	1.8
Sales of goods and services	2.8	7.5	5.3
Return on investments and other revenue	4.4	12.1	9.1
Total consolidated own revenue	100.0	100.0	100.0

Source: Krelove, Stotsky and Vehorn 1997.

The Federal government used to control revenue on natural resources through special taxes on natural resources and through federal-state revenue sharing arrangement. However this access was gradually ceded to the provinces.

Revenue Sharing Formula in Canada

There is a wide gap among he states in terms of fiscal capacity. States with abundant natural resources are the richest, with higher fiscal capacities. Thus, efforts are made to reduce this imbalance by federal grants and equalisation payments. Equalisation payments are a general purpose unconditional grants to only those provinces with below average tax capacity. The other grants are based on perceived needs. Under the equalisation grant programme, the poor states are equalised up without necessarily equalising down the rich provinces. However, more of the federal funds come from the resources rich provinces. Hence they still contribute to the gross equalisation process. The formula was initially based on a national average, called the Representative National Average Standard (RNAS). It was later changed to the Representative Five-Province Standard (RFPS) which includes only British Columbia, Manitoba, Saskatchewan, Ontario and Quebec (the richest provinces).

Brazil

Brazil is a federation with 26 states and a Federal District and about 5,000 municipalities (local governments) of widely ranging sizes. In the 1988 Constitution, the municipalities have been formally granted a status of members of the federation. Brazil is a country characterised by major disparities, both among regions and in size of incomes. Per capita incomes ranged from the equivalent of less than $600 a year in the poorest state (Piaui) to more than US$4,200 in the richest (Sao Paulo). It has a population of 172 million people. Table 5 shows the assignment of responsibilities, while table 6 shows the tax assignments to various levels of government in Brazil.

Table 5: Tax Expenditure Assignments

Expenditure Function for	Responsibility for policy and Control	Responsibility Provision
Defence	F	F
Foreign affairs	F	F
Foreign trade	F	F
Monetary and Financial policies	F	F
Social Security	F	F, S
Sectoral policies	F, S	F, S
Immigration	F	F
Railroads and airports	F	F, S
Natural resources	F	F, S
Environmental protection	F, S	F, S
Education	F, S, L	F, S, L
Health	F, S	F, S, L
Social assistance	F, S	S, L
Police	F, S	F, S, L
Water and sewerage	F	S, L
Fire protection	F, S	S
Parks and recreation	L	L
Roads		
National	F	F
State	S	S
Interstate	F	F, S
Local	S	L

Note: F = federal, S = state, and L = local.
Source: Ter-Minassian 1997.

Table 6: Tax Assignments in Brazil

Tax Category	Responsibility for: Definition of base	Setting of rate	Administration
Foreign trade	F	F	F
Corporate income	F	F	F
Capital gains	F	F	F
Personal income	F	F	F
Transfer of property	S, L	F, S, L	S, L
Vehicles	S	S	S
Property	L	L	L
Rural property	F	f	f
Payroll	F	F	F
Civil servants' payroll	F, S, L	F, S, L	F, S, L
Sales taxes			
IPI	F	F	F
ICMS	F, S	F, S	S
ISS	F, L	F,L	L
Fees, royalties	F, S, L	F, S, L	F, S, L

Note: F = federal, S = state, L = local

IPI is a selective value-added-type tax, a series with different rates and a credit mechanism (subject to revenue sharing)

Rural property tax is shared 50 per cent with the local governments

CMS is a broad based value-added type tax.

Source: Ter-Minassian 1997.

Revenue Sharing Formula in Brazil

There are two funds maintained for revenue sharing these are the Fundo de Participacao dos Estados (FPE) and the de Partioacao dos Municipios (FPM). The FPE is made up of 21.5 percent of the net revenues of the three main federal taxes, namely the personal and corporate income taxes and the selective VAT (IPI). The distribution of the fund among the states is fixed by law of 1989 that determines a coefficient for each state. The coefficients are based on redistributive criteria, which attribute higher weights for the three poorer regions (North, Northeast, and Centre-West). The coefficient varies between 9.4 per cent for the state of Bahia (the largest and most populous state in the Northeast) to 1 percent for Sao Paulo (the state with the highest per capita income). Altogether, the above-mentioned poorer regions receive 85 per cent of the FPE.

The distribution formula for the FPM is more complex. 10 per cent of the fund is distributed to the Capitals of each state. 86.5 percent is distributed to municipalities (local governments) with less than 156, 216 population and the rest to the remaining municipalities. The distribution is based on the state to which the municipality belongs and the size of its population.

India

The Indian federal structure has its origin in the Government of India Act of 1935 and Indian Independence Constitution of 1950. The Indian federal structure is highly centralised compared to most federations. The Central government is empowered to limit the rights of the 25 state governments and 7 union territories and even take over completely their administrations in emergencies, including financial emergencies.

Local government entered the constitution in 1933. It however remains a creature of the individual states that have the powers to dissolve and reconstitute them. The country has a population of about 1.3 billion people.

Table 7 shows the distribution of responsibilities among the two levels of government in India, while table 8 reflects tax assignments.

Table 7: Central and State Government Responsibilities and Taxes in India

Central Government Expenditures Defense Railways, highways, airways and shipping Post and telecommunications Heavy industry Strategic industries External affairs Foreign trade	*Central government taxes* Corporate profit tax Import duties Property and wealth taxes (non-agricultural) Income tax surcharges Stock exchange stamp duties
Shared Responsibilities Population and family planning	*Shared Taxes* Personal income tax (except agriculture and professional self employment) Exercise duties (except alcohol and narcotics) Property and wealth taxes (agriculture) Tax on railway tickets
State Government Expenditures Irrigation Power Education Health Rural Development Roads Public Order Culture	*State Government taxes* Personal income tax (agriculture and professional self-employment) Sales tax (including sales tax on interstate sales) Exercise duties on alcohol and narcotics Urban property tax Mineral taxes Stamp and registration duties (except stock exchange)

Source: Hemming, Mates, and Potter 1997.

There have been variations in tax assignments among the various governments, expenditure responsibilities and transfer arrangements across time. A constitutional Amendment in 1993 provided for the formation of a state finance commission to review and recommend changes to fiscal relations between the state and local governments. This commission is appointed every five years to recommend how proceeds of taxes should be shared between the central government and states, and how the share of states should be divided among them. This commission also make recommendations on how to distribute grants in aid to the states.

The constitution specifies the expenditure responsibilities of the different levels of government and provides for the sharing of revenues as shown in table 8.

Table 8: Structure of Government Tax Revenue in India, 1995/96 (percentage shares)

	Central Government		State Governments	
	Before revenue sharing	After revenue sharing	Before revenue sharing	After revenue sharing
Tax revenue	62.1	44.5	37.9	55.5
Income tax	100.0	27.5	……	72.1
Profit tax	100.0	100.0	……	……
Excise duties	100.0	54.1	……	45.9
Sales tax	5.0	5.0	95.0	95.0
Import duties	100.0	100.0	…….	……
Others	25.3	25.3	74.7	74.7

Source: Hemming, Mates, and Potter 1997.

The states and local governments are responsible for over 50 per cent of public expenditures. The states raise approximately 35 per cent of total public revenues, thus fiscal imbalances are addressed through transfers from the federal government.

Revenue Sharing Arrangements in India

There are four components to the India transfer system. The first involves Finance Committee transfers that are designed to correct vertical imbalances. The level of transfer in this case is tied to the gap between actual expenditures and own-revenues, involving a small measure of debt relief to the state. The second is the Planning Commission transfers intended to support the development plans of the central and state governments. These are used to reduce poverty and income inequality across states. Although there is a formula provided by the Planning Commission, in practice, the level of grants are negotiated every year and are subjected to the planning commission's discretion.

The third component is the conditional grant programme, a shared-cost programme intended for mandated programmes such as primary education. The fourth is deficit financing whereby the federal government provides loans to state governments.

Australia

The federation of Australia was formed in 1901. It is made up of the Commonwealth Government (Federal Government), six original colonial state governments and two self-governing mainland territories. These territories are treated as states but can only attain full statehood by a majority vote of the existing states. There are also 900 local governments. The constitution has no formal recognition to these local governments. The country is made up of about 19 million people.

The Australian system is a highly centralised system in terms of revenue powers of the federal government. Indeed, the federal government raises 70 per cent of the total public sector revenue. However, its functions are limited. Hence there is a high vertical imbalance between revenue and expenditure assignments at the national and state levels. As a result, the federal government provide a number of grants and loans to the state and local governments for them to carry out expenditure responsibilities.

Table 9: Revenue Sources in the Australian Federation

Revenue Sources	Central	State	Local
Public enterprise surpluses	5%	12%	3%
Taxes on goods and services	23%	11%	
Personal income taxes	47%	—	—
Company income taxes	15%	—	—
Taxes on goods and services	23%		
Payroll taxes	9%	—	—
Property taxes	—	11%	56%
Grants from the federal govt.	—	39%	6%
Grants from the state governments	—	—	20%
Other taxes	4%	9%	—
Fees and fines	—	—	4%
Other revenues	6%	9%	—
Total relative % of public revenue	68	28%	4%

Source: Craig 1997(adapted).

Revenue Sharing Arrangement in Australia

Revenue sharing in Australia takes the forms of general purpose grants and specific purpose payments from the federal government.

The main functional expenditures financed by the specific purpose payments are education, health and housing. These payments are made to enable states work towards realising national policy objectives and they cover both capital and recurrent needs.

The general purpose payments are equalisation grants. The Commonwealth Grant Commission (CGC) was established in 1933 as a permanent independent body to assess the claim of states. In general, the CGC's investigations seek to determine relative needs according to the principle "that each state should be given the capacity to provide the same standard of state-type service as other states, if it makes the same effort to raise revenues from its own sources and conducts its affairs with such operational level of efficiency". Thus, the key indices for revenue sharing are the revenue raising capacities and expenditure needs by national financial and policy standards. A major review is done every five years.

As for local governments, a general purpose grant is paid to each state on an equal per capita basis. Each state government maintains a separate grant commission to determine the allocation of those funds to their local governments. The state commissions are independent of the CGC but their recommendations are subject to constraints imposed by federal laws, which include the requirement that all local authorities should share in the grant.

Ethiopia

Ethiopia became a federation with the 1994 Constitution. It has nine states. In addition, there are two other jurisdictions with the status of provisional administration. Inter-state boundaries reflect ethnic or linguistic groups. States vary considerably in land area, population and economic circumstance. For example, Orimija is estimated to have a population of 17.1 million and a land area of about 0.32 million square kilometres, while both Gambella and Harari have populations of only 0.1 million each and land areas of 27, 3000 square kilometres and 3, 000 square kilometres respectively. The entire country has a population of about 66 million people.

Ethiopia is a centralised federation in terms of revenue powers of the various governments. The federal government controls about 84 per cent of total public revenue. The most important revenue sources are concentrated in the federal government. Indirect taxes dominate total revenue of government and the federal government has a high share of revenue from indirect taxes. Revenue collection is also concentrated in a few states hence a wide gap in revenue-raising capacities among the states. States owned expenditure account for only 16 percent .

Table 10: Tax Assignment between the Federal and State Governments

Federal	State	Joint
Duties, taxes and other charges on imports and exports	--	--
Personal income tax of employees in federal government, international organisations and those working in enterprises owned by federal government.	Personal income tax of state government employees and those working in enterprises owned by the states and in the private sector	Personal income tax of enterprises jointly owned by federal and state governments.
Profits tax and sales tax from federal government-owned enterprises and those operating across regional boundaries	Profit tax and sales tax from the state government-owned enterprises	Profit tax and sales tax of enterprises owned jointly by federal and state governments
--	Income tax, royalties , and land rent from small-scale mining enterprises	Profits tax, royalties, and rent from large scale mining, petroleum, and gas enterprises that are incorporated.
--	Agricultural income tax from private and incorporated farmers	--
Taxes on National lottery prizes and gambling	--	--
Taxes from air, rail, and marine transport	Fees from water transportation within the state	--
Taxes from rent of property owned by the federal government	Taxes from rent of property owned by the state government and income from private properties within the state.	--
Charges and fees on licenses and services of federal government,; stamp duties; and rents of federally owned government houses and properties	Charges and fees on licenses and services of the state government; rents on state-owned houses and properties; and fees on the use of land.	--
--	Profits and sales taxes from individual merchants who are residents of the state.	Profits tax, on corporations and tax on dividends paid to shareholders
--	Forest royalties	

Source: Constitution of Ethiopia (As cited by Brosio and Gupta 1997)

Revenue Sharing Formula in Ethiopia

There has been no stable grand formula for revenue sharing in Ethiopia. As a new federation, efforts are being made each year to improve of previous frameworks. For example, recurrent expenditure grant in 1994/95 were based on the following broad criteria for allocation for recurrent expenditure: the number of existing "Weredas" and zones in each state, the length of rural roads, the number of state agricultural demonstration centres, and the 1993/1994 state expenditure for education and public health. For capital expenditure the formula used contained the following weights: population (30 per cent), I-distance (a variable that seeks to capture differences in levels of social and economic development among the state) (25 percent), regional tax effort (20 percent), 1992/1993 capital expenditure (15 per cent), and area (10 per cent).

More recently a general formula that makes no distinction between current and capital expenditure has been used. This formula captures three variables: population, the state revenues budgeted, and the I-distance indicator weighted by population. Each variable carried a weight of 33.3 percent.

United States of America (USA)

The United States of America is the oldest federation in the world. It has a population of about 285 million people. It is made of 50 states and 83,186 local governments. These local governments include municipalities, townships, counties, school districts, and special service districts.

The Constitution of the USA specifies the responsibilities of the federal government and leaves the residual responsibilities to the states. Local government powers are granted by the state governments and thus vary considerably across the states. Indeed, the relationship between states and local governments vary from state to state. In some states local governments play more roles than state governments in expenditure and revenue generation (e.g. Massachusetts). In some state municipalities are the dominant local government while counties are dominant in others (e.g., Maryland). The role of federal, state and local governments have evolved in response to changing conditions in the over 2000 years of the existence of the US federation.

An important aspect of these changes in expenditure and revenue assignment in the American federation is the growth in importance of the federal and state governments and the corresponding decline in the importance of local governments. In particular the federal government has expanded its role in many areas that had traditionally been the responsibility of state and local governments in its bid to implement the Great Society Programmes of the 1960s. The expansion has also been accelerated with income transfers to the poor and to the elderly. There has therefore been a growth in the level of intergovernmental transfers from higher to lower levels of government. The delegated powers of the American Congress has been interpreted in such a way that allows the federal government very few restrictions in the areas in which it can exercise its power.

Most of the federal government financial intervention in social programmes was through transfers to lower level governments rather than direct spending. However, in the 1980s there has been a reduction of government's budgetary position such that there is no longer vertical imbalance in the US system. Intergovernmental transfers rose to 27.6 per cent of state and local government expenditures by 1980 in the USA. A large proportion of these grants is passed to the local government through the states. State governments also provide grants to local governments.

The USA Constitution grants the federal and state governments independent taxing powers, while local governments derive their taxing powers from the state governments. Each government imposes its own taxes. There are no shared taxes. More than one government may exploit the major revenue sources.

Table 11: Revenue Sources in the USA

Federal Government	**State and Local Government**
Taxes	***Taxes***
Individual income	Intergovernmental transfers
Corporation income	Property
Sales, gross receipts, and customs	Sales and gross receipts
duties Charges and miscellaneous	Individual income
Insurance trust	Corporation income
Others	Charges and miscellaneous
	Utilities and liquor stores
	Insurance trust
	Others

Source: Stotsky and Sunley 1997 (adapted)

Revenue sharing arrangement in the USA

The USA does not use intergovernmental transfers for the purpose of equalisation, nor are there any constitutionally prescribed revenue-sharing arrangements. But non conditional program of general revenue sharing was provided by the federal government to local governments from 1972 to 1986 and to state governments from 1972 to 1981. The formula used then was a mixture of factors reflecting the expenditure needs and capacity of the various governments. The federal government continues to give block grants and categorical grants to the states and localities. Categorical grants provide money for specific programmes while block grants apply to broad categories of related functions and impose few restrictions on how states and local governments allocate funds to activities within the block.

Conclusions: Some Lessons From International Good Practices

Lessons from successful international experience in fiscal relations are very useful to improving the situation in Nigeria. One important lesson is that revenue sharing and tax assignment is a rational negotiable issue among the federating states of federation. The negotiations are informed by the values that a federal system has set for itself. The Nigerian founding fathers adopted the highly competitive federal structure in 1963 in order to ensure equity and even national development side by side with competitive revenue drive hence the importance attached to derivation. Thus, it can be inferred that the military dominance of politics in Nigeria has played no small role in bringing the country to the sorry state it is in now. However, politicians did not show a marked departure from the legacy of the military because of the entrenched use of politics as a veritable means of accumulation. Hence the business as usual tendencies and the consequent intensification of the resources control movement in the post-military era.

Nigeria needs to adopt a longer term view of the issue of tax assignment and revenue sharing taking into consideration strategic issues of international competitiveness. It must be emphasised that natural resources constitute a not quite significant source of revenue in successful federations. Hence revenue from natural resources has not been the mainstay of such countries. The challenge for Nigeria is to transform the constituents of the country into relatively independent units with economically empowered governments that can carry out development programmes and attract private investment (foreign and local). In other words, fiscal relations should be informed by a more practical concern about economic competitiveness, such that ensures competing governmental units by providing room for public/private partnership in productive activities at the lower levels to enable the exploration of economic potentials of the various states.

The federal government enjoyed total control over natural resources in federations like Canada where natural resources was once an important or major source of income. But such control was eventually ceded to the states after several decades. By the time these control was ceded, natural resources has been overtaken by other sources as a major income earner. In other federations where such resources are federally controlled there has not been great difficulties and challenges like we experience in Nigeria because those countries like Australia have enjoyed economic progress. Thus, the problem in Nigeria cannot also be divorced from the visionless and predatory leadership that has mismanaged the economy, promoting inequity as they play one group against another. Therefore, the real practical step for Nigerian leadership is to map out a way of diversifying sources of income within a time frame that ensures that control of income from natural resources are ceded to the relevant states. For general practice of tax assignments and revenue sharing, the approach provided by the defunct American Advisory Commission on Intergovernmental Relations that studied collected and coordinated data on state and local governments can be useful. The Commission has suggested four relevant criteria for assigning functions to governments taking into consideration marked differences in tax and revenue effectiveness. These are: economic efficiency, equity, political accountability and administrative effectiveness.

Economic efficiency requires that jurisdictions be optimally organised and large enough to achieve economy of scale, maximise the use of technology, use specialisation labour, and effect greater savings, but small enough to avoid diseconomies such as huge coordination costs. They should also be able to use market-type pricing in delivery of goods and services.

Equity requires that jurisdictions be large enough to bear the cost and receive the benefits or have the capacity and willingness to compensate other units that provide those benefits. It also demands that each unit possess adequate capacity to pay for public services undertakings and willingness to implement measures to effect fiscal equalisation "to ensure that a jurisdiction or individual can buy a level of pubic service at a price that is not more burdensome than the price that most other jurisdiction or individuals would pay for that service."

Political accountability implies that sub-national units would be responsive to their citizens in the performance and delivery of public goods and services, provide maximum opportunity for citizens' participation in the performance and delivery of such services.

Administrative effectiveness means that units must be able to balance competing interests, have adequate legal authority for the effective performance and administration of a function, be able to identify objective and means for implementing and re-assessing programme goals and objectives in the light of planned performance and be able to promote means of or facilitate cooperation and minimize local conflict (See McKinney and Howard, 1998: 417-418).

Also, the World Bank in its World Development Report 1999/2000 has provided very useful lessons for decentralisation reform. Some summary guidelines of best practices suggested by the World Bank are included in the appendix as tables 13 and 14. These were underlined by the following basic principles:

- power over the production and delivery of goods and services should be rendered to the lowest unit capable of capturing the associated costs and benefits.
- Public goods and services should be provided by the lowest level of government that can fully capture the costs and benefits

- There should be effective institutional arrangements to foster accountability at the local level, and fiscal restraint on the part of local and national government.
- There must be clear rules specifying the range of responsibilities of each level of government.

Table 14: Principles and best practices in grant design

Grant Objective	Principles of grant design	Best Practices	Practices to avoid
Bridging fiscal gap	Reassignment of responsibilities between levels of government Tax abatement Tax base sharing	Tax abatement in Canada Tax base sharing in Brazil, Canada, Pakistan, and South Africa	Deficit grants Tax-by-tax sharing as in India and Pakistan
Reducing regional fiscal Disparities	General nonmatching grants Fiscal capacity equalization transfers	Fiscal equalization programs in Australia, Canada, Germany	General revenue sharing using multiple-factor formulas
Compensating for benefit Spillovers	Open-ended matching transfers with matching rate consistent with estimated spillover	Transfers for teaching hospitals in South Africa	
Setting national minimum Standards	Conditional nonmatching block transfers with conditions on standards of services and access	Roads and primary education grants in Indonesia Education transfers in Colombia and Chile	Conditional transfers with conditions on spending alone ad hoc grants
Influencing local priorities In areas of high national But low local priority	Open-ended matching transfer with matching rate varying inversely with local fiscal capacity	Matching transfers for social assistance in Canada	ad hoc
Stabilization	Capital grants provided maintenance is possible	Limited use of capital grants with encouragement of private sector participation through guarantees against political and policy risk	stabilization grants with no future upkeep requirements

Source: World Bank (1997: 129)

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