

# A COMPARISON OF INTERGOVERNMENTAL FISCAL RELATIONS IN NIGERIA AND CHINA

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## Abstract

Nigeria and China are categorized as developing economies despite the fact that the latter's development credentials mock her categorization as such. The huge gap that exists in their levels of development is attributed to sundry factors. The most important of those factors is the structure of the fiscal relationship that exists among their respective governmental levels. This paper argues that while Nigeria's intergovernmental fiscal relations (IGFR) is structured in a way that discourages competition among the levels; China's is structured in a way that not only encourages horizontal competition among the levels, but also foster the productive and creative genius of the citizenry. Using secondary sources and qualitative methods of content analysis, this paper juxtaposes the two countries' IGFR and shows such varying levels in revenue generation, allocation and expenditure responsibilities. We learn that although intergovernmental fiscal disputes conflicts exist among levels of government, the Nigerian example stands to learn a lot from other developing countries (like China) wherein the focus shifts towards baking the 'National Cake' rather than the mere sharing. Ultimately, myriad politico-economic challenges in Nigeria are traceable to such disputes and the failure to adjust IGFR to the contemporary exigencies.

*Key words:* Nigeria, China, Fiscal Policy, IGFR, Revenue Allocation

*JEL Codes:* G28, H30, H50, H77, O57

## Introduction

Relationship among governmental levels is one of the issues that engage the attention of scholars in political science and public administration. This is because relationship among governmental levels is critical to the understanding the political, administrative and economic dynamics of a country. The number of governmental levels a country has is generally determined by history, landmass, administrative convenience, politics, and ethnic/racial mix.

Relationship among the governmental levels fluctuates between cooperation and tension. This is because the levels ceaselessly haggle over division of powers, resources, and responsibilities; and no national constitution has been able to pacify the relationship. What some

constitutions have been able to achieve is keep the intergovernmental tension at a manageable level. Scholars in comparative politics and public administration try to enhance cooperation and minimize tension between governmental levels through the study of intergovernmental relations. As explained by the Business Council of Australia (2006), "Intergovernmental relations are the responses that have been developed to facilitate cooperative policy making among divided governments within a federal system. Intergovernmental relations are supposed to play a 'bridge-building' role to bring a degree of coordination and cooperation to divided powers." It seeks to devise means by which powers, resources and responsibilities can be fairly shared among governmental levels in

a country. It does not matter whether the country is federal or unitary.

Intergovernmental tension occurs over both fiscal matters than over non-fiscal matters; it is tenser over the former. The branch of intergovernmental relations that study fiscal relationship among governmental levels is called intergovernmental fiscal relations (IGFR). According to De Bruyn and Budlender (2012), "Intergovernmental fiscal relations refers to the allocation of responsibility for expenditure and powers to raise revenue to different spheres of government." IGFR is concerned with how the different levels of government participate in revenue generation and expenditure responsibilities. It is not the system of government, whether unitary or federal, that a country operates that basically determines the type of IGFR it operates. A country operating a unitary system of government such as China may operate decentralized IGFR, while a country operating a federal system such as Nigeria may operate centralized IGFR. Most developing countries (with the exception of a few like China) operate centralized IGFR, while most developed countries (with the exception of a few like Australia) operate decentralized IGFR.

Geography, population, system of government, and national/ international political and economic realities such as recession and crises are among the major determinants of the type of IGFR a country operates. According to Fjeldstad (2001), "The way intergovernmental fiscal systems are organized varies from country to country. These differences partly reflect historical and geographical characteristics of each country, the degree of heterogeneity of the population and the extent of government intervention in the economy." Dictatorships and countries experiencing serious internal crises such as civil war and political instability do not allow of decentralized

IGFR. Hence, all communist countries of the Cold War era operated centralized IGFR.

This paper juxtaposes the IGFR of two developing countries viz. Nigeria and China. (China's economic credentials mock China's inclusion among the developing countries). Nigeria's current IGFR is structured in a way that the sub-national levels depend upon the centre for revenue generation, while the centre assumes only a few of the expenditure responsibilities. China's current IGFR is structured in a way that while the centre depends upon the sub-national levels for revenue generation, it corners most of the revenue and tasks the sub-national levels with most of the expenditure responsibilities. While this paper recognizes that both countries differ in history, demographics, governance structure, medium of revenue generation, among other parameters, however, the basis for comparison dwells on the fact that IGFR goes beyond these and any other parameters but focuses on relationship between centre and sub-national levels. Additionally, the paper reviews historical fiscal experiences of these two countries and provides context to understanding IGFR within the parameters of revenue generation, expenditure responsibilities, intergovernmental fiscal disputes and sub-national tax autonomy/fiscal dependency while proffering policy lessons.

### **Evolution of Nigeria's IGFR**

Nigeria's IGFR, quite unlike that of the United States, did not evolve. Instead, it was imposed, and has gone through two fundamental periods: the pre-war period and the post-war period. The IGFR of the pre-war period was essentially a part of the country's colonial heritage. The IGFR was horizontally structured from 1914, when the country was created from the amalgamation of northern and southern protectorates, to 1954 when fiscal federalism was established

in the three regions into which the country had been broken in 1945. Administrative federalism was introduced in 1945, but fiscal federalism was not introduced until 1954 the year the country became a federation. The amalgamation of 1914 was done with a view to freeing the British treasury from the burden of financing the economy of the Northern Province (previously called Northern Protectorate) which was plagued with annual budget deficit (Barkan, Gboyea and Stevens, 2002). The north is landlocked; and since the national economy then depended upon revenue from maritime trade, the Southern Province (previously called Southern Protectorate) which has harbours bore the responsibility of generating nearly all the national revenue.

The introduction of federalism in 1954 marked a new phase in the country's colonial IGFR by introducing a brand new IGFR whereby each of the regions began to contribute substantially to the federation account. Then, the national economy was agro-based. The north's economy depended upon export of groundnuts; the west's upon export of cocoa; and the east's upon palm produce. Each remitted fifty per cent of its revenue to the centre. During the period, the regions exercised fiscal autonomy over "expenditure decisions" mining, licenses, and PIT (personal income tax), while the centre collected exports, imports, and excise duties.

The first attempt to rejig the IGFR took place immediately after independence in 1960 with the reduction of the derivation share from fifty to ten percent. Since the late 1960s, the centre has dominated the IGFR. Three factors account for this. The first was the civil war which lasted from 1967 to 1970. The war radically reconfigured the country's IGFR. The regions had been abolished on the eve of the war and replaced

with states as war expediency meant to undermine the geographical base of the east whose secession attempt had instigated the war. The war did not only split the country into states, it also set in motion the process that has centralized the country's IGFR. The system whereby the regions remitted only half of their revenues to the centre was abolished, since the centre needed money to finance the war. The IGFR was one of the major casualties of the civil war.

The fiscal centralization set in motion by the civil war was enhanced by the second factor which was the oil boom that followed the oil-sale embargo Arab countries imposed upon the West following the 1973 Arab-Israel War (also called the Yom Kippur War). The billions of 'petrodollars' that poured into the country's treasury made the country to become almost totally dependent upon revenue from one commodity -oil.

The third factor was the decades-long military rule that allocated the lion's share of the national budget to the centre. Since dictatorship everywhere depends on brutal force, bribery, and patronage for survival, the military rule used the national revenue to buy arms, gratify its rank-and-file, and bribe civilian collaborators.

The table below shows how, starting from the civil war, the centre has had the lion's share of the revenue allocation side of the national budget.

**Table 1: Shares of Revenue between the Tiers of Government in Nigeria, 1958-2004**

Year	Federal Government %	States %	Local Governments %	Special Funds %	Derivation %	Remarks
1958	40	60	0	0	50	States (regions) had more share than the centre.
1968	80	20	0	0	10	Centre for the first time had more shares than states. Civil war began in 1967.
1977	75	22	3	0	10	Local Governments, created in 1976, became part of IGFR.
1982	55	32.5	10	2.5	10	Reduction of centre's share occurred during a short-lived civilian rule. Civilian government introduced 'Special Funds'.
1989	50	24	15	11	10	
1995	48.5	24	20	7.5	13	Increased as a result of violent agitation by oil-producing states
2002	48.5	24.72	20.6	6.18	13	
2004	48.5	26.72	20.6	4.18	13	Oil-producing states are demanding 50% as derivation %

Source: Barkan, *et al* (2002); Authors' computation

The introduction of local government as the third level of government in 1976 also impacted upon the IGFR. As the table shows, the centre's share of the national revenue allocation has steadily decreased, and the states' has fluctuated, whereas the local government's has steadily increased.

None of the reviews that have been made of the sharing formula since the end of the war in 1970 has either returned the formula to the pre-war IGFR status or reduced significantly the centre's domination in it. The centre has occasionally and grudgingly yielded a minuscule of its share of the Federation Account to the sub-national levels anyway. Special Funds which became prominent

during the military rule have been black holes into which funds disappear without traces.

**Table 2: Allocation of revenue items in Nigeria**

Item	Federal Government %	States %	Local Governments %	Special Funds %	Derivation %
Oil	53	27	20	4.18	13
				of the Fed. Govt.'s share	
Customs, excise & Corporate income tax	Ditto	Ditto	Ditto	Ditto	No derivation principle
VAT	15	50	35	Ditto	

Source: World Bank (2013), *Nigeria Economic Report*, No.1, May p. 24.

**Table 3: Allocation of states' share of the Federation Account**

Principle	Percentage	Remarks
Equality	40	States receive equal share
Population	30	Lagos and Kano states benefit the most
Landmass/terrain	10	Northern states benefit the most
IGR incentive	10	Oil-producing states

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benefit the  
most

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Source: World Bank (2013), *Nigeria Economic Report*, No.1, May, p. 24.

### Evolution of China's IGFR

China's IGFR has, like Nigeria's, gone through two fundamental periods viz. the pre-economic reforms period and the post-economic reforms period. During the pre-economic reforms period, IGFR was highly centralized. Then, the centre controlled both revenues and expenditure decisions (World Bank, 2002). The first effort to decentralize the country's IGFR that took place in 1957 to reduce the centre's share of the national revenue from 75 percent to 50 percent (Qian & Weingast, 1996). The first major attempt to overhaul the IGFR during the post-reforms period took place in 1980 with the establishment of the fiscal contract system, whereby the centre and the sub-national governments shared revenue according to agreed percentages. This reform was undertaken because "when the post-Mao fiscal reforms started at the end of the 1970s, the Chinese national economy was so devastated and the tax base was so small that the central government could hardly extract much revenue from the localities. On the contrary, it had to shoulder local fiscal responsibilities" (Zhan, 2008). Before 1980, both revenue collection and revenue transfers were centralized; the centre appropriated all taxes and profits, and then transferred them back to the provinces "according to expenditure needs approved by the centre" (Agarwala, 1992). The reform that was launched in 1980 was a contract system whereby the sub-national levels collected all taxes and then remitted a certain percentage of the revenues to the centre. But the failure by the sub-national levels to meet the expectation and that an increase in their fiscal powers would result

to augmented transfers to the centre, necessitated the 1994 reform. Dabla-Norris (2005) stated that revenue transfers from the sub-national levels to the centre between 1980 and 1994 dropped from 39 percent to 22 percent. The new reform introduced a sharing formula whereby taxes were divided into three types viz. central, provincial, and shared.

### Revenue Generation

The role that each governmental level should play in revenue generation is as complicated as the responsibilities that each level should shoulder in the provision of public services. In both Nigeria and China, the centre plays very critical roles in revenue generation and expenditure responsibilities.

#### Nigeria

Revenue generation-revenue allocation dichotomy has been a knotty issue in Nigeria's IGFR. More attention has been focused on revenue allocation than on revenue generation. Two factors dominate the country's revenue generation. One is the disturbingly high visibility of oil. The other is the domination of the centre, i.e. the federal government. Nigerian Constitution stipulates that "All revenues or other moneys raised or received by the Federation (not being revenues or other moneys payable under this Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation" (See section 10, Federal Republic of Nigeria, 1999). The bulk of these "revenues or moneys" come from oil which currently accounts for about 75 percent of the country's consolidated government revenue and 95 percent of exports (World Bank, 2013). The federal

government manages Nigeria's Consolidated Fund. Khemani (2003) noted that: "Even amongst developing countries, Nigerian fiscal federalism is distinguished by the overwhelming concentration of tax jurisdiction and collection at the level of the federal government. All the major sources of government revenue—petroleum profits tax, import duties, excise duties, mining rents and royalties, and companies' income tax—are controlled by the federal government. State and local governments have jurisdiction only over minor and low-yielding revenue sources, with the exception of personal income tax at the state-level and property tax at the local level."

Oil and taxes are the major sources of revenue for the country. The taxes, as divided among the three governmental levels, are as follows: The centre, through the Federal Inland Revenue Service (FIRS), which collects Companies Income Tax, Withholding tax on companies, Petroleum Profits Tax, VAT Education tax, Capital gains tax on residents of the Federal Capital Territory (Abuja), bodies corporate and non-resident individuals, stamp duties on bodies corporate and residents of Abuja, PIT (personal income tax) in respect of the Nigerian armed forces personnel, the Nigerian Police personnel, residents of Abuja, Ministry of Foreign Affairs personnel, and non-resident individuals. The states collect PIT (Pay As You Earn – PAYE, direct taxation –self-assessment), Withholding tax (individuals only), stamp duties on instruments executed by individuals, pools betting and lotteries, gaming and casino taxes, road taxes, fees for business premises registration in respect of urban and rural areas, development levy (individuals only), naming of street registration fee in state capitals, Right of Occupancy fees on lands owned by the state government in urban areas of the state, and rates in markets where state finances are

involved. The local government collects 'crumb taxes' such as shops and kiosks rates, tenement rates, marriage, birth and death registration fees, local government-owned market/motor park fees, cattle tax, public convenience, sewage and refuse disposal fees, and signage fees (See *Taxes and Levies Act*, (1998) for approved list)

The centre, through oil multinationals such as Shell, Texaco, Agip, and Addax, dominates the upstream sector of the oil industry. The other levels of government, state and local government are totally excluded from the sector. However, recent efforts have been made to gradually reduce foreign stranglehold on the sector. The flagship of the efforts is a law called the *Nigerian Oil and Gas Content Development Act*. Passed in 2010, this law seeks to transfer most of the manpower and technology in the sector from expatriates to local entrepreneurs. The downstream sector of the industry is dominated by private local entrepreneurs. However, there is still a vestigial presence of foreign marketers such as AGIP and TEXACO there.

The three levels participate in revenue generation; but only the centre and the states contribute to the Federation Account. The local government retains all of its taxes but receives allocations from the Account. Each of the levels has its own tax collecting agency –the FIRS for the centre, Board of Internal Revenue for the state, and Local Government Revenue Committee for the local government.

Both the state and local governments depend upon allocations from the Federation Account for budget. The states depend upon allocations from the Federation Account for over 90 percent of their revenue (Litwack, *et al*, 2014). As noted by Barkan *et al* (2002), "on the revenue side, the characteristic that most strikes the reader of government budgets is the low contribution of state

generated revenues relative to total revenues. In most states (Lagos State being the main exception) by far the largest source of revenue is the transfer from the Federation Account, which may amount to as much as 85 percent of current revenues. Federally collected VAT comes second, with internally generated revenue (IGR) third.” The World Bank reported that IGR do not account for more than 10 percent of state revenues (Litwack *et al*, 2014).

Loans became an indispensable source of revenue for the country after the burst of the petrodollar bubble. The oil boom was short lived, lasting only three years from 1973 to 1976. By the end of the 1970s, the Federation Account that was bursting at the seams with billions of dollars had begun to shrink as a result of wastage and corruption. The country’s exposure to external borrowings began in earnest in the late 1980s under the military regime of Olusegun Obasanjo. According to Nigeria’s Debts Management Office,

Nigeria’s external indebtedness dates back to pre-independence period. However, the quantum of the debt was small until 1978 [during the Murtala/Obasanjo military regime]. The debts incurred before 1978 were mainly long-term loans from multilateral and official sources such as the World Bank and the country’s major trading partners. The debts were not much of a burden on the economy because the loans were obtained on soft terms. Moreover, the country had abundant revenue receipts from oil, especially during the oil boom of 1973-1976. However, the fall in oil prices and hence oil receipts in 1977/78 forced the country to raise the first jumbo loan of more than \$1.0

billion from the international capital market. The loan, which had a grace period of three years, was used to finance various medium and long-term infrastructural projects, which did not directly yield returns for its amortization. (DMO, 2021)

Under the Constitution, only the centre can obtain external loans –for itself and for the states. All external loans obtained by the states are guaranteed by the centre and are considered a component of the centre’s debt portfolio. Domestic loans taken out by states are monitored by the Debts Management Office (DMO), and should not exceed their ceilings. Also, domestic bonds issued by states are approved by the DMO (World Bank, 2013). Loans obtained by the states are serviced with at-source deductions on the federal allocations. Loans incurred by the local government are grafted into state loans and so are not recognized as distinct loans under the centre’s debt portfolio.

## China

China’s revenue generation system is quite different from Nigeria’s in that the centre is minimally involved in it. The centre is just a revenue-coordinating unit, and the economy depends upon taxes collected from sundry sources for revenue. Xu (2011) said that “The central government directly controls only a small proportion of the Chinese economy.” Before 1980, “revenue collection was highly centralized with local governments remitting most of tax revenues to the centre and receiving transfers for expenditures from the national budget” Dabla-Norris (2005). In 1980, the structure was adjusted to make the sub-national governments to remit certain percentages of the taxes to the centre under a negotiated

system called “contracting system.” The sub-national governments collected all revenue excepting customs duties (Qian, 2002). The deficiencies noticed in the system necessitated the radical restructuring that took place in 1994. Agarwala (1992) said, “The basic objective in designing the revenue-sharing formulas was to create incentive for the provinces to maximize resource mobilization.”

In China, the bulk of the revenue comes from taxes and other sources such as receipts from the State-owned assets that should be turned over in accordance with relevant regulations, receipts from special items, and receipts from other sources (See Article 19 of the *Budget Law of the People’s Republic of China*, 1994). Taxes are divided into three types: central, sub-national, and shared (See Article 20 of the *Budget Law of the People’s Republic of China*, 1994). China is not natural-resource rich like Nigeria. So, the bulk of the revenue comes from taxes imposed upon the manufacturing sector. The sub-national levels generate the bulk of the revenue and remit parts to the centre its shares. This arrangement requires remittance of agreed share of revenue from the lower level to the next. This contrasts with Nigeria’s in which only the states remit to the centre. The sub-national governments collect all the taxes, and then remit central taxes and a part of the shared taxes to the centre. This contrasts with Nigeria’s in which each level is totally responsible for collecting its own taxes. The federal government has an FIRS office in each state and Abuja. The Chinese central government only maintains a small tax office in each provincial capital.

Among the central taxes are excise taxes, income tax on all central government enterprises, and all customs duty. Among the shared taxes are VAT 75-25 local, salt tax, and natural resources taxes. Among sub-

national taxes are income tax of sub-national enterprises, the urban land use tax, property tax, and vehicle and vessel utilization tax (World Bank, 2002).

### **Expenditure Responsibilities**

The government is expected to provide certain services for the public. These services are commercialized, subsidized or provided free of cost. Where the last two are involved, the government is expected to source the money to provide them. Responsibilities such as defense and currency are universally exclusively handled by the centre; whereas others such as education and health are shared among the governmental levels. Responsibilities can be shunted from one level to another; and levels tend to shed or dodge responsibilities or to offload them upon others. Devolution of responsibilities is the norm in intergovernmental fiscal relations. But devolution entails availability of incentives and funds. Bahl and Wallich (1995) pointed out that “the design of inter-governmental fiscal policy should always begin with the expenditure side.”

### **Nigeria**

The expenditure responsibilities of the three levels of Nigerian government are outlined in the Legislative Lists of the Constitution (See Second and Fourth Schedule of Nigeria’s 1999 Constitution). The items on the Exclusive List are the responsibilities of the centre. Among them are: defense, security, currency, maritime, mining. The centre, states and local governments cater those on the Concurrent List jointly. Among them are: education, health, and electricity. Those not captured in these two Lists are handled by the local governments in collaboration with the states (World Bank, 2013). Each of the three levels funds her

responsibilities with IGR and non-IGR. The former includes internally generated taxes and rates; whereas the latter includes allocations from the Federation Fund and domestic and external loans.

### **China**

In China, expenditure responsibilities are shared among the five levels of government. Like in Nigeria, “most government functions are carried out by subnational governments” (Xu, 2011). The World Bank estimated that “Sub-national governments account for more than 70% of total budgetary expenditures as well as more than two-thirds of EBFs [in China] (World Bank, 2002).” Responsibility distribution is a prerogative of the centre. According to the World Bank, “The Central Government decides how to share expenditure responsibilities between the centre and the provinces, and then leaves the intermediate layers to decide how they would share responsibilities with subordinate levels (World Bank, 2002).” One of the major implications of China’s highly decentralized IGFR is that the sub-national levels bear the bulk of expenditure responsibilities. According to the World Bank, “Relative to other countries, China has transferred a much larger portion of expenditure responsibilities to lowest levels of government (World Bank, 2002).” The lines of division of expenditure responsibilities between the centre and the levels are blurred, quite unlike Nigeria’s in which the Constitution specifies who should do what. Consequently, “the lack of a formal assignment responsibility means that the actual division of expenditure responsibilities among the different levels of sub-national government is left to the discretion of the provinces” (World Bank, 2002). The 1994 reform clawed back revenues but left expenditure responsibilities unchanged (World Bank, 2002).

### **Intergovernmental Fiscal Disputes**

Fiscal relationship among governmental levels is generally turbulent. This happens because the lower levels tend to assert their autonomy as discrete entities. Governmental hierarchy is like a pecking order. The higher levels tend to not only meddle in the affairs of the lower levels, but also offload their responsibilities onto the lower levels. In most countries, the tendency is for the centre to want to control the revenue while inflicting most of the expenditure responsibilities upon the lower levels. Disputes occur because national Constitutions often do not make the fiscal boundaries between the levels indisputably clear. For example, most Constitutions empower the centre to legislate on issues which the sub-national levels should have jurisdiction over. Scholars believe that the course tensions always come with power-sharing relationships, and these tensions can turn into real conflict, especially when one level of government seeks to mandate new unfunded responsibilities on another level, tries to preempt the traditional authority of another entity, or diverts or reduces resources (especially tax revenues) from another governing body, either directly or indirectly. (De Bruyn and Budlender, 2012)

### **Nigeria**

The World Bank identified six primary areas of dispute in Nigeria’s IGFR. They are: (a) the formula for the division of revenues from the Federation Account, (b) the division of tax authority, (c) the financing of the fuel subsidy, (d) the management of the fiscal reserve of the country (Excess Crude Account, Sovereign Wealth Fund), (e) the division of some revenues between Federation Account and Federal Government Budget, (f) a perceived uncertain division of responsibility and

authority between different levels of Government in some areas (World Bank, 2013).

Disputes among Nigeria's governments have led to the formation of fiscal interest groups such as the Nigerian Governors' Forum (NGF) and the Association of Local Governments of Nigeria (ALGON). The disputes are either political or fiscal; but fiscal disputes occur more frequently than political disputes. Fiscal disputes are caused by high vertical fiscal imbalance (VFI) which "occurs where the allocation of revenue between the federal and state governments does not match the expenditure responsibilities of those governments (Business Council of Australia, 2006)." There are two kinds of fiscal disputes in Nigeria. The first one occurs between the thirty-six states and the federal government. These contiguous governmental levels often quarrel over control of revenues accruing from natural resources, particularly oil. The states, particularly the oil-producing ones in the oil-rich Niger Delta region, have been demanding fiscal federalism whereby they can control the resources that are found in their territories. The oil-producing states have been demanding the abolition of the 13 percent derivation principle. They want reversion to the pre-war period's 50 percent. The levels also quarrel over the Excess Crude Account. The account was established in 2004 "to act as a stabilization fund, closing budget deficits that are a product of oil price volatility, and to potentially fund domestic infrastructure investments (Bassey, Alobari, Naenwi, Dimoji, Onwuneme, 2014). It consists of "revenues from oil over and above a benchmark price in the approved annual budget ... [and] in the event that the oil price falls below the benchmark price...are used to support planned budgetary revenues" (World Bank, 2013). The states in 2011 sued the federal government over the transfer of \$1bn from the account to its proposed

successor, the Sovereign Wealth Fund. The states want the money transferred to the Federation Account instead.

The third source of fiscal dispute between the centre and states is the power of the former to legislate a national minimum wage for the whole country. The Constitution empowers the centre to legislate a minimum wage for the whole federation (See Second Schedule of the 1999 Constitution of Nigeria) but the states have risen against this provision, arguing that wages and salaries should be exclusively determined by each state's ability to pay. So far, the states have been able to block nationwide implementation of this constitutional provision. Sub-national levels vary in their respective fiscal capabilities. As noted by the World Bank, "One important factor in determining the type of fiscal decentralization is the extent to which subnational entities are given autonomy to determine the allocation of their expenditures. (The other important factor is their ability to raise revenue.) (See World Bank, 2001)

Dispute between the states and local governments is mostly over the disbursement of the latter's share of the Federal Account. Dispute between the centre and states occurs at a much higher frequency than between the states and local governments. Dispute between states and local governments is generally muffled, because the states exercise a tighter grip upon the local governments than the centre does upon the states. It seems that the fate of the local government has been sealed by the Constitution itself. The status of the local government in the Constitution is so ambiguous that it is difficult to state whether it is a governmental level or a mere administrative outpost for the state. Khemani (2003) noted that, "As things stand now, the state-level discretion with regard to the powers of the LGAs has led to wide

variation in the extent of autonomy afforded to LGAs both within and across states—in many cases they function as mere administrative extensions of state governments.” The local government does not have direct access to its share of the Federation Account, for the Constitution empowers the state to operate what is called “State Joint Local Government Account” (See Article 162(6) of *1999 Constitution of Nigeria, 1999*). State government’s influence upon the local government remains strong because the local governments, unlike the states vis-à-vis the federal government, have not been able to assert their rights and prerogatives decisively.

### **China**

Tension between the Chinese governmental levels, whether political or fiscal, particularly between the centre and the provinces, is rare and often muffled, because of the enormous control the higher levels exert over the subordinate levels. In Chinese politics, no leader can resist his superior at a higher level without regrettable consequences. The unitary system of government China operates does not allow of much assertion of rights and prerogatives from lower levels of government. Sub-national leadership is appointed by the centre, unlike in Nigeria where leadership of each level is elected independently of the others.

Resistance by lower levels often takes the form of circumventing directives from above; and no court may be approached to arbitrate disputes between levels. Wang (1997) has noted that it was “the lack of precise definition of expenditure responsibilities... [that has] made it inevitable for the central and sub national governments to be involved in constant

disputes over who was responsible for what.” Unlike Nigeria’s IGFR in which dispute is over both revenue generation and expenditure responsibilities, dispute in China’s is often over expenditure responsibilities.

The centre easily offloads responsibilities upon the sub-national levels and increases its share of revenue. As has been noted by Zhan, “in the budgetary arena, despite frequent bargaining with the localities, the central government retained a rather firm grip on the fiscal agenda. In accordance to the varying exigencies, it launched fiscal reforms from time to time to maximize its interests. It first resorted to fiscal decentralization to shed its financial responsibility for local expenditures and to encourage local fiscal efforts, which generated remarkable economic and fiscal growth; when the time came to reap the harvest, the centre reclaimed the fiscal control it once gave out and substantially increased its share of the growing tax pool” (Zhan, 2008). In lieu of confronting the higher levels, the lower levels often engage in fierce competition for their attention. The competition, according to Breslin (1999) “seems to have been heightened by the post-Mao reforms.”

### **Discussions on Sub-national Tax Autonomy and Fiscal Dependency**

While the level of tax autonomy is important in the discourse of IGFR, an examination of such trends between Nigeria and China overtime provides interesting perspective for comparison. Yardstick for measuring of such tax autonomy as well as spending powers of sub-national levels of government has proved elusive to scholars, however the OECD Fiscal Federalism Studies alongside the Korean Institute for Public Finance provides relevant parameters for the

measurement, conceptualization and operationalization fiscal decentralization and tax autonomy. The focus of this study was to among other things review the “measure[ing] of fiscal decentralization in general and their usefulness in policy analysis.” Although such parameters were provided within the context of OECD cross-country studies, some level of emphasis was made on developing countries. One interesting concept introduced to the discourse on fiscal decentralization and tax autonomy was “taxing power”, which is local tax revenue excluding tax sharing and other types of local taxes for which local governments do not control the tax base and tax rate (OECD, 1999). By delving into the operationalization of taxing power in sub-national governments among developed and developing countries, Kim (2013) goes beyond the popular utilization of empirical statistics of ratio of “sub-central government revenue and expenditure in total spending or expenditure” –i.e. ratio of tax revenue to total revenue of sub-national government. Such empirical data fail to capture the extent of sub-national government’s fiscal decision-making power. By using OECD (1999) categories of taxing power (see Table 4) this presents a better alternative to understanding measures of fiscal decentralization and IGFR thereby not over-estimating the fiscal power of sub-national governments by failing to differentiate between local government’s budget size and its independent fiscal powers.

**Table 4: OECD Classification of Local Taxes**

a. 1	Sub-central government (SCG) sets the tax rate and tax relief
a. 2	SCG sets the tax rate and tax relief after consulting the Central Government (CG)
b. 1	SCG sets the tax rate with no bounds set by the CG
b. 2	SCG sets the tax rate with bounds set by the CG
c. 1	SCG sets tax allowances
c. 2	SCG sets tax credits

c. 3	SCG sets both tax allowances and tax credits
d. 1	SCGs determines revenue split for tax sharing
d. 2	SCGs have to agree with revenue split for tax sharing
d. 3	CG determines tax sharing arrangement by legislation
d. 4	CG determines tax sharing arrangement annually
e	CG sets rates and base for the SCG tax
f	None of the above categories (a,b,c,d, or e)

Source: OECD (1999), Taxing powers of states and local governments, *Tax Policy Studies*, No. 1. OECD publishing

Furthermore, the parameters provided by the OECD shows the true picture of fiscal decentralization and IGFR by “excluding revenues from tax sharing and local taxes that are legally under the control of the central government from local tax revenue” (Kim, 2013).

When this indicator of taxing power is applied to China, at least before 1994 when the percentage of tax sharing between the central and provisional change significantly, Lin and Liu (2000) and Jin *et al* (2005) argues that there is a positive correlation (when marginal retention rate is added) between her fiscal decentralization and impressive economic growth wherein China’s economic growth rate surpassed other countries within the same period. This view that China’s impressive economic growth has something to do with her approach to fiscal decentralization and tax autonomy at the regional levels has been shared by various scholars (see Weingast, 2009; Blanchard and Shleifer, 2001). It therefore seemed that while her political leaders maintain political centralization, they allowed for such tax autonomy at local levels. In Nigeria, the taxing power indicator shows lesser autonomy for sub-national governments that is a cause for concern to many public policy analysts. Again, failure to review this system has cause further conflict in IGFR in Nigeria and more likely the reason for slow economic take-off as

there exist little or no incentive for sub-national governments to generate further revenue beyond those provided via tax sharing.

### **Conclusion and Recommendations: What can Nigeria Learn from China?**

Nigeria's IGFR lays the emphasis on the revenue allocation side, not on the revenue mobilization side. Most of the noise one hears over the IGFR is about how the governmental levels can share the "National Cake". Little attention is paid to how the levels can participate in baking the "National Cake." Most of the national wealth is trapped at the top in Nigerian federation. This breeds and feeds corruption, encourages indolence among the governmental levels, generates a lot of heat and tension among the federating geopolitical zones, fuels the do-or-die struggle by the ethnic groups to capture power at the centre, and impedes whatever efforts have been made to unlock the creative genius of the citizenry of a potentially rich country. Reinforcing cleavages such as ethnicity, party politics, geopolitics, and religion have frustrated all the efforts that have been made to restructure the IGFR. The heart of the matter is that the northern parts of the country do not want the pre-war fiscal federalism to be reinstated. They are not willing to give up the undue advantages which the decades of military rule in which they dominated gave them in the revenue allocation system.

Nigeria can learn a lot from China which has been able to establish a highly competitive society through a vibrant IGFR. The centre should divest itself of the unnecessarily enormous powers it holds in the IGFR. It should emulate the Chinese central government which, not only plays a

minimal role in revenue generation, but also does not hoard the remittances it receives from the lower levels.

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