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FISCAL RESPONSIBILITY AND ECONOMIC EFFICIENCY: A FUNCTIONAL APPROACH

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ABSTRACT

In both developed and developing countries, there are basically two main sources of economic instability: exogenous shocks and inappropriate policies. Exogenous shock (terms-of-trade shocks, natural disasters and capital flow reversals) can throw an economy into disequilibrium and therefore require compensatory action. On the other hand, a disequilibrium can be self-induced by poor economic macroeconomic management such as an excessively loose fiscal stance. Therefore, economic crisis are often the result of external shocks and poor management. While the worlds of agriculture are vast, varied and rapidly changing, with the right policies and supportive investments at local, national and global levels, today's agriculture offers new opportunities to hundreds of millions of rural poor to move out of poverty. Similarly, the construction industry is an essential contributor to the process of development. Roads, dams, irrigation works, schools, houses, hospitals, factories and other construction works are the physical foundations on which development efforts and improved living standards are established. This paper there argued that an efficient and functional fiscal policy can have a direct impact on the poor through the distributional implications of tax policy as well as public spending. However, the genuine reformer is distinguished by courage which is that signal that separates the genuine reformer (undertaking transition) from the weak government (hoping to disguise itself).

KEY WORDS: Fiscal policy, fiscal deficit, fiscal responsibility, tax, public spending, agriculture, budget, construction, Africa, world, policies, reforms, debt, exchange rate, monetary policy, inflation, macroeconomics, central bank, government, poverty, efficiency, developing, developed, expenditures, revenue, external shocks, economics crisis.

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1.0 INTRODUCTION

In the analysis of public sector, various types of questions may be asked. These questions might take the following format. What criteria should be applied when one is judging the merit of various budget policies; what are the responses of the private sector to various fiscal measures such a tax and expenditure charges; and what are the social, political and historical forces which have formed the shape of present fiscal institutions and which determine the formulation of contemporary fiscal policy? Here, the first question asks how the quality of fiscal institutions and policies can be evaluated and how there performance can be improved. Perhaps, the answer requires setting standards of "good" performance. Moreover, objectives of efficiency in resource use must be supplemented by considerations of equity and distributional justice. The second question must be asked if the outcome of alternative policies is to be traced. That is, if the rents of a corporation profits tax or of a seller tax are to be judged, one must know who will bear the final burden; the answer to which in turn depends on how the private sector responds to the imposition of such taxes. On the other hand, if aggregate demand is to be increased, one must know what the effects of the reduction in taxes or increased in public expenditures will be; effects which once more depend upon the magnitude and speed of responses by consumers and firms in the private sector. However, the third question is asking why the fiscal behavior of government is what it is. This not only is a matter of economics but also includes a wide range of historical, political and social factors. Particularly how do interest groups try to affect the fiscal process and how do legislators respond to such pressures; how are the fiscal preferences of voters determined by their income, social and demographic characteristics; and how does the political process serve to reflect their preferences?

Specifically, why is it that in a supposedly private enterprise economy, a substantial part of the economy is subject to some form of government direction, rather than to the "invisible hard" of market forces? This is because of the fact that the market mechanism alone cannot perform all economic functions. In other words, public policy is needed to guide, correct, and supplement it in certain respects it is important to realize this fact since it implies that the proper size of the public sector is (to a significant degree) a technical rather than an ideological issue (Musgrave and Musgrave, 1984). To argue that the limitations of the market mechanism call for corrective or compensating measures of public policy does not prove (of course) that any policy measure which is undertaken will in fact improve the performance of the economic system. Unfortunately, public policy (no less than private policy) can also err and be inefficient, and consequently the basic purpose of this paper is

precisely that of exploring how the effectiveness of public policy formulation and application can be improved (with respect to revenue generation and allocative efficiency). Here, budget policy allocation function refers to the provision or social goods or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen. The distribution function refers to the adjustment of the distribution of income and wealth to assure conformance with what society considers a "fair" or just state of distribution. Similarly, the stabilization function refers to the use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments.

Confronted with acute resource gaps which have over time impeded growth, countries have to play an even greater role in promoting economic development. Consequently, these countries must mobilize their own internal resources, which apparently imply that they adopt and implement effective tax polices. If well designed, taxation has the capacity of raising the incremental savings ration (major determinants. In other words, the main purpose of taxation is to raise resources to finance government expenditure. That is, the problem of tax design may be seen as one of finding a way of raising those resources which is and ministratively and politically feasible (and which promotes equity and efficiency) as far as is possible. Here, there must clearly be some trade offs among revenue administration, political acceptability, equity and efficiency (Burgess and stern, 1993). Therefore, the problem of any tax reform is to find an improvement with respect to these criteria, of an existing system. Here, we must ask whether the perceived responsibilities of government should be different for developing countries. In other words, should there be a different role for the state in these countries? Consequently, it may be argued that market failure is more prevalent in back-ward economics so that there is a greater justification for government intervention (such as the use of corrective taxes and regulatory instruments). Again, wide spread vulnerability to extreme deprivation may point toward state intervention.

However, recently, many have stressed the problems of government failure, associated with rent seeking, corruption, and inefficiency, which should be set beside those of market failure in assessing the desirability of government action. Thus, it may be argued that government failure is so severe in developing countries that the level of government action should be (proportionally) lower than in developed countries. And yet, that the very low living standards of some groups, missing markets and the comparative advantage of government in some areas (infrastructure, social sectors) provide strong arguments as to why the role of government should be more than minimal in developing

countries (Dreze and Sen, 1989). For market failure: including, notably, externalities, public goods, and missing markets, in addition to conditions leading to the violation of perfectly competitive behavior such as imperfect information, increasing returns and entry barriers. For poverty and income distribution: outcomes, whether efficient or otherwise, may be such as to leave some members in situations of extreme deprivation or result in a distribution regarded as unacceptable or unattractive. For rights to education, health, nutrition, and housing: many would argue that "equality of opportunity" implies a state responsibility to provide literacy and to ensure basic nutrition, health care, and shelter without which an individual's participation in the economy and society are severely limited. For paternalism: the state may decide it has a superior view of individuals own self interest than individuals have themselves and further that it should, in some cases, override individual preferences (such as requirement to attend school, limitations on the use of certain drugs and compulsory pension schemes). For future generations: private individuals acting in their own self interest and that of their descendants may not make decisions which take the welfare or rights of future generations appropriately into account (such as global warming, air and water pollution, rain forests conservation, species protection, etc).

Indeed, all these arguments provide cogent reasons for government action and they point fairly directly to particular areas of government expenditure (notably infrastructure social security, education, health, pensions and environment) as well as government's role in keeping the economy competitive. Here, market failure arguments are especially persuasive concerning infrastructure power, communications etc) where increasing returns, public goods and externalities can all be of considerable importance. Again, legal and regulatory structures ensure that property rights are well defined and respected, contracts enforced, and illegal activity contained are essential for the competitive functioning of the economy. And give these tasks, one has to add basic administration, law and order and defense. However, the identification of important and costly areas for government action does not by itself justify extensive intervention. Even in a system where government tasks are efficiently discharged and politics are honest and constructive, one has to take into account the cost of raising resources. But governments may be corrupt, manipulative or manipulated, and inefficient. Therefore, the extent of government action should be substantially limited and the types of measures employed by the state be designed with the problems of manipulation and corruption in mind. Basically, in less-developed countries both the difficulties of and needs for state action would appear to be stronger than in their industrial counterparts. Yet, in the light of the scope and magnitude of problems facing the developing world; and given strong arguments for state intervention in certain areas, resort to "government

failure" arguments to justify minimal state activity would appear to represent an unreasonable and inadequate response. Thus, the government call on resources is likely to be major and therefore the magnitude of the task of taxation likely to be substantial. Consequently, how is government expenditure to be financed? Basically, there are four main sources: government revenue, internal borrowing, and external borrowing money printing.

Empirically, governments (especially in third world countries) have generally been recording deficits rather than surpluses, the rising magnitude of which had become of concern to economists and other stake holders. Hence, the way government deficits are financed, taxes raised, and public resources allocated and utilized have important consequences for economic growth. In other words, large public sector deficits are more generally, inappropriate expenditure and revenue policies have been identified as an important source of the disequilibrium. Hence, several hypotheses had been proposed regarding the major causes of the phenomenon (Morrison, 1982). These include slow or stagnating growth of government revenue; government revenue instability and poor government control over expenditures. However, one major factor responsible for the recent increase in government deficits is the rapid growth in the size, variety and complexity of services provided by the government. In other words, there is much reliance on government to provide most of the needs of the people. Unfortunately, these countries have inadequate resources to finance their expenditure programme, given their limited revenue base. Thus, public borrowing as well as loans and grants from external sources may not be adequate. To fill this gap, the government is usually forced to resort to deficit financing. However, there is a raging controversy regarding the net effects and desirability of deficit financing as a tool for promoting growth and development.

Recently, many countries of the world tend to decentralize some aspects of their public finance depending on the form of multi-level government being operated. Thus the division of fiscal responsibilities among the tiers of government has become popular; and the demand for it is strong given increased efficiency. And following public choice theory, the general belief is that governments are no longer assumed to be faceless robots doing whatever economic analysis shows to be in the social interest. In any case, the economic efficiency rationale for the division of fiscal responsibilities (such as expenditures powers) can best be examined as concerns of supply, demand, distribution and macroeconomic management (Prechard, 1989). This paper therefore examines (among other objectives) how economic efficiency conceptually reflects the possibility of re-providing public goods or services so as to achieve an increase in the net value of 'benefits' provided by those goods and services within the corresponding jurisdiction. The rest of this paper is

divided into eight sections. Section two presents the taxation analysis. Fiscal Federalism is the theme of section three while section four discusses fiscal deficit. Debt management is the subject matter of section five and construction financing discussed in section six. A case study of Africa is analyzed in section eight as well as the presentation of policy reforms (Strategies) in section eight. Section nine concluded the paper.

2.0 TAXATION ANALYSIS

Essentially, government derives receipt to finance expenditures, whether transfers or purchases, or to pay off public debt. And these receipts may take the form of taxes, charges or borrowing. Here taxes and charges are withdrawn from the private section without leaving the government with a liability to the payee. On the other hand, borrowing involves a withdrawal made in return for the government's promise to repay at a future date and to pay interest in the interim. In other words, taxes are compulsory imposts, whereas charges and borrowing involve voluntary transactions. The various taxes may be classified as follows: imposition in the product or in the factor market, imposition on the seller's or buyer's side of the market; imposition on households and firms and imposition on the sources or uses side of the tax-payer's account. Classifying our major taxes along these lines leaves us with the picture shown in table 2.1

TABLE 2.1 TAXES CLASSIFICATION

Taxes Imposed	ON FIRM		ON HOUSEHOLD	
	As seller	As Buyer	As Seller (sources)	As Buyer (uses)
In Product market all product	Retail sales tax value added (consumption type)	-	-	Expenditure tax
Some products	Cigarette tax	-	-	Gasoline Tax
In factor market, all factors, all employments	-	Value added (income type)	Income tax	-
Some factors all employments	-	Employer's payroll tax	Employee's payroll tax Tax on wages or capital income	-
Some factors some employments	-	Corporate profit tax local property tax	-	-

Here, taxes may be imposed on the holding of wealth or stocks, rather than on transactions or flows generated in current production (Musgrave and Musgrave, 1984). Again, personal taxes are taxes which are adjusted to the taxpayer's personal ability to pay, while in rem taxes (taxes on

"thing") are imposed on activities or objects as such, that is, on purchases, sales, or the holding of property, independently of the characteristics of the transactor or the owner. By way of comparison, personal taxes (such as the individual income tax) are direct and most in rem taxes (such as the sales tax) are indirect. Similarly, the term "excise", refers to a subcategory of indirect taxes and is applied to certain selective sales taxes imposed at the manufacturer level.

Indeed, economists and social philosophers have identified what constitutes a "good" tax system. The distribution of the burden should be equitable and everyone should be made to pay his or her "fair share". Taxes should be chosen so as to minimize interference with economic decisions in otherwise efficient markets. Here, such interferences impose "excess burdens" which should be minimized. Where tax policy is used to achieve other objectives, such as to grant investment incentives, this should be done so as to minimize interference with the equity of the system. The tax structure should facilitate the use of fiscal policy for stabilization and growth objectives. Again, the tax system should permit fair and non arbitrary administration and it should be understandable to the tax payer. Administration and compliance costs should be low as is compatible with the other objectives. In fact, these and other requirement may be used as criteria to appraise the quality of a tax structure. Here, the various objectives are not necessarily in agreement, and where they conflict, tradeoffs between then are needed. Thus, equity may require administrative complexity and may interfere with neutrality; corrective use of tax policy may interfere with equity, etc. Basically, an important goal of tax analysis is to characterize who gains and who loses from tax reform or tax changes, and by how much.

Consequently, the benefit principle has the advantage of linking the expenditure and tax sides of budget policy, but it is not readily implemented, since consumer evaluation of public services is not known to tax authorities but must be revealed through the political process. However, it has the disadvantage of excluding redistributional considerations. The ability to pay principle calls for a distribution of the tax burden in line with the economic capacity of the taxpayer. This has the advantage of permitting inclusion of distributional considerations but the disadvantage of dealing with the tax problem in isolation with the provision of social goods being left out of the picture. It also calls for a distribution of the tax burden in line with horizontal and vertical equity. To obtain horizontal equity, taxpayers with equal ability to pay should contribute equally, and to secure vertical equity, taxpayers with unequal capacity should contribute correspondingly different amounts. However, the implementation of equitable taxation in line with ability to pay requires the definition of a specific index by which ability to pay is to be measured. Essentially, this index would encompass all forms in which economic

welfare is derived, including leisure as well as present and future consumption. Therefore, income is the most widely used general measure of economic capacity. Yet, an alternative measure of capacity is in the form of consumption. Applied as an expenditure tax, the consumption base may be made the basis for personal and progressive taxation. And given the framework of an idealized system of lifetime taxation, the consumption base in preferable (on grounds of horizontal equity) to the income base. Here, the taxation of wealth is not needed under as accretion - base income tax, provided that all income has been subject to a comprehensive income tax. In other words, holding of wealth involves a utility which escapes taxation under a consumption tax. Indeed, the determination of the proper distribution of the tax burden among unequal involves complex considerations of vertical equity. Thus, the principle of vertical equity may be formulated so as to call for equality of sacrifice. This may or may not require progressive taxation but separate taxes on income, consumption and wealth may be called for it society takes different views of how each should be distributed.

Basically statutory incidence differs from economic incidence. The opportunity cost of resource transfer to public use, associated with as increase in public services, imposes a burden on consumers as a group as resources are withdrawn from private use. Here, this transfer is to be distinguished from distribution among consumers which arises in the case of tax-financed transfers or tax substitutions. Owing to efficiency costs, employment and output effects the tax burden may exceed the revenue gain. Again budget incidence allows for distributional effects of both tax and expenditure policies. In other words, incidence involves taxation effects on both the sources and uses side of the household account. Here, an overall measure of incidence may be derived by observing the resulting change in the coefficient of inequality. However, the task of incidence theory is to trace the final burden distribution of a tax. In general, the imposition of the tax raises price and lower quantity. A unit tax enters through a parallel upward shift in the supply schedule while the advalorem tax enters through a downward swivel of the demand schedule. Yet, the magnitudes of price and quantity changes depend on the elasticities of demand and supply. The burden will be distributed between sellers and buyers in the ration of elasticity of demand to that of supply. The distributional impact of a product tax (progressive or regressive) involves both the uses and sources side of the household amount. This may be recessive, leaving a tax on luxuries progressive and a tax on necessities regressive.

For taxes in factor markets, the tax typically applies to the sale of factor services and takes the form of an ad valorem tax. This tax raises the gross of return to the factor while reducing factor supply and lowering the net rate of return. The magnitude of adjustment and distribution of

the burden between sellers and buyers again depends on the elasticities of demand and supply. Again, households are affected from both the uses and the sources sides of their account (but the sources side now tends to be decisive). Similarly, a tax on capital income tends to be progressive, whereas a tax on wage income tends to be regressive. The outcome may differ depending upon the structure of the market in which the tax applies. Incidence of a tax on wage income may be affected by collective bargaining; and a tax on executive or professional income may be shifted to consumers due to administered pricing. While a profit-maximizing monopolist cannot shift a profits tax, shifting may occur under other forms of market behavior. The operation of the tax system is usually costly in that the burden exceeds what the government gets in revenue. This involves costs of tax administration and compliance, as well as an excess burden which arises as conditions of efficient resource use are interfered with. Here, compliance costs by taxpayers are substantially larger than administration costs. A selective consumption tax interferes with the choice between products, whereas a general consumption tax does not. An income tax interferes with the choice between present and future consumption, whereas a general consumption tax does not. An income tax and a general consumption tax both interfere with the choice between goods and leisure. However, a partial tax on capital income distorts investment choices. As the rate of a tax is increased, efficiency cost continues to rise, but revenue reaches a maximum and then decreases. Yet, the excess burden impose by a progressive income tax exceeds that of proportional tax, as the excess burden depends upon the marginal or bracket rate. Choice among taxes requires allowance for both efficiency and equity considerations; a tradeoff has to be made where needed. Here, the proposition that taxes should be neutral so as to avoid excess burden is based on the hypothesis that taxes are introduced into an otherwise efficient market. The case for neutrality does not apply where taxes are used to correct for market imperfections in the private sector. However, the efficiency cost of transfers may be viewed in much the same way as the efficiency cost of a general income tax, with severe costs arising in the case of redistributive transfers.

The corporation tax has been of declining importance as a source of revenue and it covers only part of all capital income. Unlike the personal income tax base, the bulk of taxable profits are received by a small number of very large corporations. The equity of the corporation tax must be assessed in terms of its burden impact among individuals, not firms. Provided that the corporation tax will not be passed on to consumers or wage earners, its burden must be attributed to shareholders or recipients of capital income at large. Since all sources of income should be treated equally, this calls for integration of corporate source income into the personal income tax. Indeed, general sales taxes may be based

on gross national product or consumption. Selective tax may be designed to serve as benefit taxes, to discriminate against demerit goods or to be imposed on readily available transactions. Sales taxes may be single or multiple-stage. Single-stage taxes may be imposed at the manufacturing, wholesale or retail level. On the other hand, multiple-stage taxes may be of the turnover or value added variety. Specifically, value-added taxes (VAT) may be of the consumption or income type. A consumption- type value-added tax is equivalent to a retail sales tax on consumer goods; and the value-added approach offers administrative advantages as well as disadvantages. The regressive nature of the sales tax arises because it falls on consumption and consumption as a percentage of income declines when moving up the income scale. Here, regressivity may be reduced by exemption of food and progressivity may be introduced by the granting of a credit against income tax. While the value-added tax is simply a sales tax administered in a multistage form, a personalized and progressive expenditure tax would be a genuinely new form of taxation. Such a tax could be more consumption taxation from its traditional regressive form into the progressive range. Again, wealth may be taxed on an in rem basis as under the property tax or on a personal basis as under the net worth tax; and the net worth tax may be used as a corrective to imperfect taxation of capital income under the income tax. The local property tax serves as a rough approximation to ability-to-pay taxation. Under competitive conditions, such a tax is equivalent to a tax on all capital income. As such its burden distribution is progressive, except for the lower end of the income scale. If the supply of capital is elastic, the longer-run adjustment to the tax may involve sharing of the burden by wage earners and consumers of capital intensive products such as housing. The part of the tax which is imposed on residential property may be viewed as a tax on housing consumption and which suggests is regressive burden distribution. For owner occupied residences, part of the tax is absorbed in imputed rent and for rental housing, imperfect markets may place part of the burden on tenants.

As an alternative form of wealth taxation, the tax may be imposed in personal form and be applied to net worth only. Such a tax may be applied on a person's global net worth with exemptions and progressive rates similar in spirit to the income tax. As distinct from the property tax, the base would include all assets, intangible as well as tangible, but liabilities would be deducted. To be effectively implemented, such a tax would have to be national rather than local in scope. Conventionally, the structure of death duties includes an estate tax at the federal and inheritance taxes at the state level. Though limited in revenue importance, death duties are a significant instrument of social policy. Since passage of wealth through bequests is one of the major factors in the concentration of wealth holding, death duties are a suitable instrument by which to

modify the distribution of wealth. They are also an effective instrument by which to implement society's attitude toward the passage of property rights at death. However, different types of death duties will serve different objectives and the choice among them poses an important policy problem. Essentially, the pay roll tax is collected from the employer (including the contributions of both employer and employee) the latter's being with held at the source. Since the tax is on gross earnings and as allowance is made for exemptions, the employee need not be required to file a return. However, the self-employed must file a return since there can be no source withholding. Like the rem tax (imposed on wage income and readily subjects to withholding) the payroll tax is an administratively ideal tax. While both are subject to withholding, the upper limit of taxable wages remains set on a global basis because over withholding may be credited against individual income tax. However, if more than one member of a family is in covered employment and subject to tax, the secondary earner may choose between his or her separate claim and the benefits due him or her under the spouse's claim. As in all incidence analysis, the outcome here, differs depending on the market structure in which the payroll tax is imposed indeed, the question remains, whether the payroll tax should be viewed as just one among other taxes. Conventionally, payroll taxes were thought of as contributions for the purchase of insurance benefits, that is, retirement income and unemployment compensation. Thus, the equity of the system was viewed in terms of net benefits received, rather than in terms of the tax burden only. Assuming an assignment of individual benefits in line with individual contributions and considering the net impact on lifetime incomes, the distributional results of the scheme would be neutral. Consequently, many observers has the view that social security benefits should not be considered in insurance terms, but as an expenditure program forming part of an overall policy of income maintenance to be provided for (like other expenditure) out of general tax revenue. Thus, the payroll tax may be judged like any other tax, independent of the benefit side of the social security system (Aaron, 1982 and Brittain, 1972).

Indeed, when the social security system was first established, one option was that the old would go without benefits, since they had not contributed, while those working would begin to contribute so as to earn future benefits. Since contributors would become eligible only at retirement, contributions would initially exceed benefit payments. Thus, it would be necessary to build up and invest a reserve which at the later date would yield an interest income. This income, in conjunction with a constant tax rate, would pay for the benefits. In this way, each generation would pay for its own benefits, with the initial generation of retirees remaining out of the system. The alternative was to treat those already retired (as well as early retirees) as if they had contributed during their

working lives. Under this system, the initial generation of retirees would be given a gift by those still in the labor force. But the latter would be compensated when, at the time of their own retirement, they would be supported by the contributions of their children, who by then had moved into the labor force. Essentially, the basic premise underlying a social security system is that generations are willing to engage in a social contract. In other words, the working generation of today assumes the responsibility of supporting today's retirees, on the assumption that it in turn will be supported by the subsequent generation of workers.

Normative tax theory uses a combination of positive theory on the effects of tax changes, together with ethical criteria for the evaluation of the effects to appraise changes in the tax system. This argument involves a balancing of the economic criteria of efficiency, equity and revenue (Burgess and stem, 1993). Specifically, optimal tax theory combines economic criteria into a single objective and finds the best tax system subject to the various constraints. Usually, the expressed using a social welfare function, which itself depends on the utility or real income of households. If one household gains and no others lose, then the social welfare function (SWF) shows an improvement. In other words, SWF incorporates a tradeoff between efficiency and equity. Explicitly, the function usually takes the form

$W (u^1, u^2, \ldots..,u^h,\ldots..,u^H)$. (2.1)

Where U^h is the utility of household h. Here, a transfer of income Dy from household 1 to 2 would therefore change welfare by

$(B^2 - B^1)$ Dy (2.2)

Where B^h is the social marginal utility of income of household h.

It is often helpful to think of distributive value judgments in terms of specification of the Bs.

However, many of the problems of developing countries involve growth and change. Consequently, we may ask whether the theories of growth and taxation can be combined to provide useful insights into the role of policy in growth. Yet, we know much less about the dynamic behavior of individuals and there are important problems which arise for dynamic models and dynamic optimizing models are less tractable than static ones. The static theory of optimal taxation allows a dynamic interpretation if we view goods produces or consumed at different time as different goods. To the problem of apply and extending static models to a dynamic framework, must be added those issues which are intrinsically new when we pass to the dynamic from the static. These include: incorrect expectation; the development of knowledge; revision of policy and credibility; influence of future generations; pensions and intergenerational transfers; whether the tax base should be consumption, income or wealth, and the process of adjustment.

In most countries, tax evasion is rife. The effect of evasion activities can be to drive a wedge between the statutory and effective tax systems to the point that the revenue that is legally due bears little relation to that collected. In other words, taxation is a strange, unwelcome, and sometimes incomprehensible concept to many people of the world. Differences in the tradition of compliance probably explain as much of the worldwide pattern of taxation as do under – resourced or poorly organized tax administrations. Thus, the success or failure of systems of taxation (such as VAT) depends on the level of voluntary compliance as well as enforcement. That is, very few like paying taxes but the hostility to taxation and the propensity to evade depend on cultures as well as economic incentives. Here, problems of information and measurement imply that individual income taxation is particularly valuable to noncompliance. Tax evasion is not limited to income taxes, rather sales taxes and excises are evaded in many ways. A popular method is under invoicing and the problem seems to be particularly severe in the service sector, where clients are often presented with an option (a higher fee if tax is to be declared, and a lower one if the transaction is to go unreported.

Next, we illustrate the application of applied general equilibrium techniques by focusing on early small-dimensional general equilibrium tax modeling by Shoven and Whalley (1972) and Shoven (1976). These modeling analyses were a continuation of Harberger (1959, 1962, and 1966). The early harberger model is a two-factor, two sector, general equilibrium model in which a tax applies to the use of one factor (capital) in one sector. However, the model solves using servers of approximations and local linearization assumption. Yet, an empirical distinction is made between heavily and lightly taxed sectors.

The model assumes that each sector employs two factors, capital services and labor, in the production of homogenous outputs. These sectors are referred to as the "corporate" and "unincorporated" sectors, owing to the major role played by the corporation income tax in causing these differential tax rates. However, the sectoral distinction does not exactly correspond to the legal distinction between incorporated and unincorporated enterprises. In order to estimate the efficiency loss due to differential taxation of return to capital, the model applies a form of welfare analysis in the tradition of Marshalian producer surplus.

3.0 FISCAL FEDERALISM

Federalism can be defined as the theory of advocacy of federal political orders where final authority is divided between sub-units and the centre. It consists of a series of legal and administrative relationship established among units of government, possessing varying degrees of real authority and jurisdictional autonomy.

Conventionally, two processes of federalism are identified one process involves the coming together of independent states to cede or pool sovereign powers in certain domains for the sake of goods otherwise unattainable (such as security or economic prosperity). On the other hand, another process is evolution from a unitary set-up, where federations develop from unitary states as government's response to alleviate threats of secession by territorially clustered minorities in the latter arrangement; particular domains of sovereignty are granted to sub-units while maintaining broad range of actions for the central government and majorities. In other words, a federal government is a constitutional arrangement which divides law-making powers and functions of the state between two or more levels of government which are coordinated in status. Therefore, fiscal federalism is concerned with how to establish which level of government has the authority to impose and administer taxes. Also, it has to do with determining which government should administer and retain what proportion of revenue actually realized from taxation. Consequently, fiscal federalism attempts to grapple with the twin question of socio-economic disparities among the component units of the federal system, economic growth, stabilization and development of the whole federation (Oyovbaire, 1985).

Indeed, political history tells much in explaining the structure of fiscal arrangement in any one country. Taking each of the three major functions (allocation, distribution and stabilization) of government, we consider how the nature of fiscal arrangements changes in the context of a federation. Allocation theory as applied to the public sector has led to the belief that public services should be provided and their costs shared in line with the preferences of the residents of the relevant benefit region. And given the fact that a political process is needed to secure preference revelation, it follows that particular services should be voted on and paid for by the residents of the region. In other words, services which are nationwide in their benefit incidence should be provided for nationally; services with local benefits should be provided for by local units; and still

others should be provided for on a regional basis. Given the special characteristics of social goods, there is therefore an apriori case for multiple jurisdictions; and each jurisdiction should provide services the benefits of which accrue within its boundaries (i.e. by using only such sources of finance that will internalize the costs. Consequently, the spatially limited nature of benefit incidence calls for fiscal structure composed of multiple service units, each covering a different sized region within which the supply of a particular service is determined and financed.

Essentially, economic analysis suggests that provision for social goods proceed through a multi-jurisdictional setting, with national goods provided centrally and local goods provided on a decentralized basis. However, members of the federation may feel a stronger sense of distributive justice regarding members of their own constituent unit than regarding members of the federation at large. Here, the stronger is the sense of cohesion within the federation, the more will the problem of distribution be viewed in national, federation-wide terms; and the less it is, the more will distribution be viewed within the context of the member jurisdiction only. If they are to be effective, policies aimed at adjusting the distribution of income among people, must be conducted primarily at the central or national level. Thus, decentralization reduces the capacity to undertake redistributional policies (with resultant implications). Again, redistributive measure among jurisdictions occurs in the context of grants designed to equalize the terms at which local public services are supplied, calling for transfers from high-need, low-capacity jurisdictions to high-capacity, low-need jurisdictions. Yet, since the use of income is enjoyed by individuals and not jurisdictions, it would seem that the issue of distribution (as a problem is social policy) should relate to distribution among individuals and not among jurisdictions. However, redistribution among jurisdictions may be desirable, if only on second best grounds. Where central policies to adjust distribution among individuals on a federation-wide basis are deficient, redistribution among jurisdiction may serve as a substitute. Thus, grants made to poor jurisdictions may be expected to provide public service benefits to low-income people. Fiscal capacities among jurisdictions differ because low and high income individuals tend to separate in distinct communities. Consequently, some jurisdictions are caught in the vise of low tax base and high fiscal need. Thus low income residents in these communities suffer lower service levels while high-income residents will have to pay higher taxes than they would elsewhere. Therefore, a transfer to such jurisdictions might then serve to equalize both positions, as it will permit higher service levels with lower local taxes. Again, national policies may cause fiscal burdens to fall upon particular jurisdictions, calling for compensation from other units in the federation so as to spread the burden. Schemes of interjurisdictional transfers may therefore be appropriate policy measures, even though

fuller central assumption of responsibility for redistributional measures among individuals would be the better solution.
Similarly, it should be noted that the inter-juridictional equalization is frequently a price demanded by weaker jurisdictions for entry into the federation.

It is pertinent to note that the responsibility for stabilization policy has to be at the national or central level. Here, lower levels of government cannot successfully carry on stabilization policy on their own. However, in a closely knit federation, member jurisdictions will exist as completely open economies within the national market, with free factor and market mobility; and they will thus share in federation wide swings in economic activity, inflation and unemployment. Yet, in a fiscal policy setting, local fiscal measures will be ineffective as they meet with large import leakages; and these leakages do not arise if such fiscal measures are undertaken at the national level. Similarly, central banking policy is inherently a national function; and not only would decentralized monetary policy be seriously blunted in its effectiveness by the openness of the regional economy, but the power to print money would invite monetary irresponsibility at the state or local level. Consequently, the necessary degree of fiscal coordination is not likely to emerge in a decentralized setting, so that central responsibility for stabilization action is required. At the same time, central government responsibility for stabilization policy must account for the needs of state and local government. Thus, levels of spending and taxing at the lower levels of government may be influenced by the central government's stabilization policy. Essentially, central banking policy affects the availability and cost of credit for state and local government, and grants to lower-level units may be varied depending on cyclical conditions.

Basically, the ability of a jurisdiction to carry out its fiscal tasks (its fiscal position) depends on its tax base (its capacity) relative to the outlay required for rendering public services (its need). When jurisdictions with relatively high capacity are faced with low needs, their fiscal position is strong. Here, a standard level of services can be provided with a low ration of tax revenue to tax base (a low-tax effort). In other words, standard level of tax effort will generate a high service level relative to need (high fiscal performance). Where the opposite holds, a high effort may be needed to provide only a substandard performance level. Specifically, the various concepts are related to each other as presented below. First, we define the fiscal capacity of jurisdictions j or Cj as

$$C_j = t_s B_j \quad (3.1)$$

Where B_j is the tax base in J; t_s is a standard tax rate j and c_j measures the revenue which j would obtain by applying that rate to its base. Next, we define the fiscal need of jurisdiction j or N_j as

$$N_j = n_s Z_j \quad (3.2)$$

Where Z_j is the target population (such as number of school-age children); n_s is the cost of providing a standard service level per unit of Z, such as instruction per child; and N_j measures the outlay in j required to secure a standard level of performance or service. Next, we measure the fiscal position of j or P_j as

$$P_j = C_j/N_j = t_sB_j/n_sZ_j \qquad (3.3)$$

Here, fiscal position equals the ration of capacity to need and setting p for jurisdictions on the average equal to I, a value of Pj > I, implies a strong fiscal position and a value of P_j < I, a weak fiscal position. The value of P is the index to which distributional weights in grant formulas should be linked and we may define jurisdiction j_s tax effort E_j as

$$E_j = t_jB_j/t_sB_j = t_j/t_s \quad (3.4)$$

Or the ration of actual revenue in j obtained by applying j_s tax rate t_j to what would be raised by applying t_s. Next, we define the performance level M as

$$M_j = n_jZ_j/n_sZ_j = n_j/n_s \quad (3.5)$$

Or the ratio of actual outlay obtained by applying j's outlay rate n_j to that required to meet the standard level at the rate n_s.

Assuming a balanced budget, we have

$$T_jB_j = n_jZ_j \qquad (3.6)$$

By substituting from (3.6) into (3.3) we obtain an alternative definition of fiscal position:

$$P_j = \frac{n_j/t_j}{n_s/t_s} \qquad (3.7)$$

Thus, fiscal position may be defined as the ratio of capacity to need as in (3.3) or as the ratio of performance to tax effort as in (3.7). These concepts and problems which arise in comparing fiscal position both among states and among jurisdictions within states) pose one of the principal issues in fiscal reform. Essentially, they are of concern both to the federal government (called upon to reduce excessive differentials among states) and to the state governments (called upon to deal with excessive differentials among local jurisdictions).

4.0 FISCAL DEFICITS

Basically, fiscal deficit measures must be specified over three dimensions: deficit has to be defined for a public sector of a given coverage; the coverage or size of the public sector and its composition must be delineated; and the time-horizon relevant for assessing the magnitude of the deficit must be identified (Blejer and Cheasty, 1991). In the absence of standardized accounting rules for government, the conventional deficit is not well defined. Consequently, two main areas of variance are distinguished as follows: the distinction between the items that determine the deficit (income and outlays) and the items that finance it (drawing the line); and specification of the time at which the resource use is measured (cash versus accrual deficit). Though the conventional deficit measure exists in competing versions, all versions have at least one characteristic in common: in calculating the budget balance, they include (with the same weight) all government transactions. However, policymakers have (from time to time) calculated alternative measures of the deficit, with the aim of highlighting the differential impact of various budgetary transactions on important macroeconomic variables. Thus, the main types of special-purpose deficit that have been fairly widely calculated are the current deficit; deficit measuring the contribution of different transactions to aggregate demand; domestic deficit; structural (cyclically) adjusted deficits, primary deficit and operational deficit.

Generally, the conventional deficit measures the difference between public investment and public saving. In order to isolate public (dis) saving, the current deficit calculation omits investment outlays and capital revenues such as asset sales. In other words, the current deficit is the difference between non capital revenues and expenditures. Since different elements of government expenditure and revenue generate different net increases to, and withdrawals from, demand, policymakers attempt to isolate in the deficits measure, the government's contribution to aggregate demand. Here, tax-financed transfers such as pensions and unemployment benefits merely redistribute purchasing power from one part of the private sector to another. In terms of their impact on aggregate demand, they are akin to negative taxes rather than to government's expenditure on goods and services (Buiter, 1983). The domestic deficit is measured by including in the calculation only those budgetary elements that directly affect the domestic economy. The foreign deficit (impact of the budget on the balance of payments) can be measured by including only budget transactions directly connected to the external sector (Chelliah, 1973). Indeed, when the public sector has sizeable trade or capital flows to and from the rest of the world, the overall deficit measure can be particularly misleading. Specifically,

devaluation may cause the budget deficit to widen if government imports or foreign debt service are large, suggesting an expansionary fiscal policy (though resources injected into the economy by government remain unchanged or may even fall). While the budget deficit affects aggregate demand, aggregate demand also affects the budget deficit. Thus, income tax revenues will usually be lower and benefit transfer higher when unemployment in high. In other words, the budget deficit is affected by the business cycle and the impact of discretionary policy changes may differ depending on at which stage of the business cycle they are implemented. Basically, there are two main classes of "permanent" or long-run deficits. The full-employment deficit (or structural balance) was derived in the belief that a small surplus in that budget would ensure a high level of national saving while permitting built-in fiscal stabilizers to damp cyclical fluctuations. Therefore, the cyclically adjusted or trend budget balance was developed to provide a budget balance rule that would maintain a constant level of public liabilities. In other words, the full employment deficit can be defined as the cyclically adjusted balance when the national product reference trend selected is potential output (muller and price, 1984).

Although the structurally adjusted deficit is sometimes presented as measuring the impact of discretionary government policy, it includes an important nondiscretionary variable, namely, interest payments on the stock of public debt (which is usually predetermined by the size of previous deficits). Here they primary deficit (or non interest deficit) attempts to measure the discretionary budget stance by excluding net interest payments from the budget. It could also reflect the success of polices in moving the economy towards a sustainable growth path. However, the interest bill is beyond the control of current fiscal policy, not only because it represent the cost of previous deficits, but also because monetary policy can affect interest rates and hence budgetary interest payments. Again, inflationary fluctuations can significantly change the size of government nominal debt service. Besides its distortionary effects on real revenues and its effects on the real value of government assets and liabilities; inflation, while reducing the real value of the outstanding stock of unindexed public debt, may compensate creditors for such erosion in their real assets through higher nominal interest rates. In other words, some of the government's interest payments on its debt are in reality part of the amortization of that debt (Tanzi, 1977). If the inflationary component of interest rates is not removed from the interest bill, the deficit will be overstated by the size of the amortization element included debt outstanding and with its terms and denomination. Consequently, an alternative suggested to alleviate the problem is the operational deficit, which omits the inflation-induced portion of interest payments from the deficit calculation; that is, it is defined as the primary deficit plus the real

component of interest payments. Essentially, the operational deficit excluded inflation induced interest payments on the assumption that they are similar to amortization payments in their effects on the economy (that they do not represent new income to recipients) and are willingly reinvested in government bonds, at existing market conditions; and therefore they do not affect the level of aggregate demand in real terms. On the other hand, real interest payments can be consumed without reducing a bondholder's net wealth, and thus have an expansionary impact similar to any other type of expenditure. However, if inflation were to reduce the real demand for bonds, then, in an economy with accelerating inflation, inflation-induced interest payments would not be fully refinance able under existing market conditions but would require either higher real interest rates or higher bond liquidity, thus increasing demand pressures. Therefore, the operational deficit measure excluding the inflation component of interest payments would then underestimate the degree of fiscal imbalance.

Indeed, the classical economists have argued that deficit financing negatively affects private investment and believe that debt issued by the public sector adds to, competes with, the private sector demand for saving. This perception is based on assets market theory where the supply and demand for government securities reduces its prices and raises market interest rates. Here, interest rates are bid up, causing a crowding-out of some productive private investments and the excessive deficit financing can lead to stagnant or declining economic growth (Zahid, 1988). However, the Keynesian doctrine stresses the short-run positive effects but de-emphasized the potentially adverse long-run effects of deficit financing on investment and growth. In an economy with rigidity in wages and price structures, the Keynesians regard deficit financing as an important tool for achieving a level of aggregate demand consistent with full employment and price stability. In other words, whenever debt is used to finance government expenditures, consumer income would be increased. On the other hand, the neoclassical and monetary economists contend that the Keynesian doctrine does not fully take into account the displacement of private spending by taxation or borrowing required to finance government expenditure (as this will dampen the extent of the effect of the Keynesian multiplier on the economy). Unlike the Keynesian framework, the neoclassical macroeconomic models suggest that the method employed to finance public expenditure programmes will affect the levels of consumption, investment and net exports. Again, such models assume that aggregate consumption is higher, and national saving lower, if a given spending programme is financed by bonds issue rather than taxation (Yellen, 1989).

And given the limitations of neoclassical exposition, Ricardian equivalence is the label attached to the alternative view of the relationship

between deficit financing and growth. This view perceives deficit spending as the harbinger of neither good nor ill. In other words, the logic of the Ricardian Equivalence is that if the public is fully aware of the future tax implications of debt financing (and inter-generational transfers are a major motive for savings) then any increase in government debt would be matched by any equal increase in current savings, with no impact on domestic interest rates. Thus, deficit spending cannot be expected to offset fluctuations in economic activity nor can it be held responsible for high interest rates or large trade deficit (Barro, 1989; Darrat, 1989). This thesis suggests that the impact of a given programme of government spending is independent of its mode of financing and it is believed that rational consumers would base their consumption decisions on life-time income, which depends on the present value of government expenditure rather than on the timing of tax collections. Basically, the contention is that rational economic agents interpret government deficits as postponed tax liabilities and thus will have no effect on private wealth or interest rates. Yet, there is another contention that any attempt to correct deficits by raising taxes will merely cause more spending without any positive effect but increase the size of the public sector in the long run. Consequently, it is not possible to generalize the expected impact of fiscal deficits across economies.

5.0 DEBT MANAGEMENT EXTERNAL RESERVES

Basically, there are three main methods of deficit finance, namely: finance through money creation (inflationary financing), finance through sales of government securities (non-inflationary domestic financing), and finance through external borrowing (non-inflationary external financing). Here, money creation is differentiates from others in that it does not lead to any increase in a stock of debt; and often labeled inflation tax. However, since the debt incurred by government if it chooses to finance deficits through sale of government securities and external borrowing, will carry interest charges, the net contributions of such financing to long-term deficit financing is less than the gross contribution. Thus, the eventual consequence of dependence on these methods may be a need for a rise in conventional or inflation tax revenues. Essentially, there are five sub-divisions of methods of finance through sales of government securities; reserve requirements on banks and other financial institutions; required purchase of government bonds by banks at controlled interest rates; required purchases of government bonds by banks at market interest rate; credit rationing in the presence of controlled interest rates; arrears of government payments (Roe and Grigg, 1990).

Indeed, the connection between the direct sources of the government's financing and the real balance of deficit financing as between domestic and external source, follows the national accounting identity namely:

$$S_f = (I_g - S_g) + (I_p - S_p) \quad (5.1)$$

Where the subscript S_g and p indicate government and private, respectively; S is saving and I is investment. Here, either an increase in I_g or a reduction in S_g will raise the equilibrium interest rates at which total domestic investment is financed. Low interest absence of administrative controls will elasticities and the certainly imply larger movements of interest rates in this situation than will high elasticities but the direction of interest-rate movements is uncertain. Specifically, if the net foreign assets (liabilities) of a country are ignored, the consolidated balance sheet of its banking sector is given by:

$$DC_p + DC_g = M \quad (5.2)$$

And

$$DC_p / P_y + DG/PY = M/PY \quad (5.3)$$

Where Dc is domestic credit; M is money supply; and PY is the nominal value of GDP (gross domestic product). If the demand for real money balances is a negative function of the inflation (π) as in the equation

$$Md/P = \O e - \partial\pi \quad (5.4)$$

And if we suppose that all the revenue from the inflationary tax accrues to the government, then in any given year those revenues (R) in real terms are given by:

$$R/p = \overline{\Pi}(Øe^{-ð\overline{\Pi}}) \qquad (5.5)$$

Where Ø and ð are numerical parameters to be estimated.

Domestic public debt is a product of government borrowing to finance its budget deficits. Critically, the major factors responsible for the growth of the domestic debt have been the need to provide deficit finance to the government. Recently, these types of the securitized domestic debt have become diversified with the number of instruments rising tremendously. These include treasury bills, treasury certificates, treasury bonds and development stocks. Development stocks are floated largely to provide development finance, either directly to meet the needs of the federal government or as loan on-lent to state governments. On order to meet developmental needs, the tenor of the maturities is usually long-term (varying between five and twenty-five years).

Foreign borrowing allows a country to invest and consume beyond the limits of current domestic production and (in effect) finance capital formation not only by mobilizing domestic savings but also by tapping saving from capital surplus countries. However, inappropriate and excessive foreign borrowing will generate debt service obligations that will constrain future economic policy and growth. Therefore, the objective of debt management policy is to achieve the benefits of external finance without creating difficult problems of macroeconomic and balance of payments stability. Global capital markets allow enterprises and governments in capital scarce countries to borrow from capital abundant countries, where the market interest rate is lower. In effect, world capital markets increase the interest that lenders in the capital abundant countries can earn and reduce the interest paid by borrowers in the capital – scarce countries. Thus, international lending can increase economic welfare in both the borrowing and lending countries. For capital-scarce countries, this means expansion of capital formation and higher optimal borrowing (Klein, 1994). Definitionally, gross external debt is the amount at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non residents to repay principal, with our without interest, or to pay interest, with or without principal. Here, gross debt is the stock of liabilities, on which debt service is calculated. That is, Net debt comprises assets less liabilities. A contractual liability is an obligation to make payments to an agreed schedule and equity participation is excluded. Principal, with or without interest means that interest-free loans are included in the core definition, and interest, with or without, principal includes loans of indefinite maturity (perpetual bonds). Disbursed and outstanding means that debts includes only committed

amounts drawn-down, not yet repaid, or cancelled and it does not include future interests payments. Here, undisbursed amounts are excluded as well as the exclusion of "frame agreements" under which agreed-upon loan contracts are to be concluded in the future. In fact, only when loan contracts are signed and drawn down do they become part of gross external debt. Usually, external debts are owed to nonresidents and residency is defined in relation to a territory, which comprises the general government, individuals, private non profit bodies, and enterprises (defined in terms of their relationship to the territory of that economy.

External debt records relate to stocks (amounts outstanding at any particular time) as well as flows (transactions in a defined period). Stock concepts are disbursed and outstanding debt, undisbursed balances, and arrears of principal (plus interest). On the other hand, flow concepts are loan commitments received, disbursements, amortization payments, interest payments, debt cancellation, debt write-offs, and amounts restructured. Disbursed debt outstanding is the outstanding balance of a loan and it is equal to the cumulative disbursements, less repayments, amount cancelled and amounts restructured. Undisbursed balance is the amount of a loan committed but not yet disbursed. The arrears of principal and interest are the cumulative amount of debt service payments due but not yet paid. Commitments are the sum that the creditor has agreed to lend. Disbursements are the amount of a loan that is utilized in the accounting period interest is the amount paid to the lender during the amounting period as compensation for use of his capital. Amortization is the principal repaid during the designated accounting period. The total debt service payments are the sum of amortization and interest payments. Cancellations are the annulment of undisbursed loan balances. Write-offs are the annulment of disbursed debt. Restructurings are the amount of principal or interest payment due but deferred, rescheduled, refinancing or exchanged as a result of debt-restructuring agreement; and these may be rescheduling or debt- exchange arrangement. Here, debt relief as debt cancellation is treated as a write-off.

Consequently, some key relationships can be derived from the above definitions. The available funds from a loan at any moment of time are equal to the original loan commitment amount plus any supplementary commitments, minus total disbursements and cancellations to date. This sum is often referred to as the "pipeline" of finance and each loan record should show this relationship overtime. At the end of any time period, the stock of debt is equal to the stock of debt at the end of the previous time period, plus disbursements, minus amortization, principal rescheduled, write-offs during the period. Pre-scheduled principal involves a transfer of the amount from the original loan to a new loan and arrears of interest on long-term debt are shown separately, as part of the short-term debt. The loan commitment value is the sum of disbursed debt plus

the undisbursed balance and it is equal to the loan commitment value less write-offs, cancellations, amortization and rescheduled principal. The arrears in total debt service at the end of any period equals the arrears in total debt service at the end of the pervious period plus the debt service scheduled to be paid, but minus debt service paid, in the period. Here, arrears must be recorded separately for principal, interest and other charges.

Essentially, there are two possible ways of grouping debt data: borrower type and creditor type. Among borrowers, the direct debt of the central government should be shown separately and within private sector debt, it is useful to identify separately debt that is guaranteed by the state (as such debts are in effect contingent budgetary liabilities). Creditors can first be broken down into official and private lenders; and official creditors can be multilateral or bilateral lenders. Private lenders are commonly grouped into bond holder, commercial books, suppliers and others. A cross-creditor scheme often used is export credits and private export credits consist of supplier's credits and buyers credits. Table 5.1 gives a detailed classification of debt-related flows while table 5.2 shows an international investment classification scheme (Klein, 1994).

TABLE 5.1 DEBT-RELATED FLOWS: CLASSIFICATION DETAILED

MATURITY: SHORT-TERM (One-year or less)
LONG-TERM (More than one year)

FLOW TYPE: DISBURSEMENTS
INTEREST PAYMENTS
AMORTIZATION
RESTRUCTURING
CHANGE IN ARREARS

BORROWER TYPE: GOVERNMENT (DIRECT DEBIT)
PUBLIC ENTERPRISES
OTHER PUBLIC SECTOR
PRIVATE SECTOR: PUBULIC-GUARANTEED
NON GUARANTEED

CREDITOR TYPE: OFFICIAL: MULTI LATERAL
BILATERAL
PRIVATE: BONDS
COMMERCIAL BANKS
SUPPLIERS
OTHER PRIVATE

TABLE 5.2 INTERNATIONAL INVESTMENT CLASSIFICATION SCHEME

1. DIRECT INVESTMENT ABROAD
    a. Equity Capital and reinvested earnings
    i. Claims on affiliated enterprises
    ii. Liabilities to affiliated enterprises
    b. Other Capital
    i. Claims on affiliated enterprises
    ii. Liabilities to affiliated enterprises

2. PORTFOLIO INVESTMENT
    a. Equity Securities
    i. Monetary authorities
    ii. General government
    iii. Banks
    iv. Other sectors
    b. Debt securities
    i. Bond and Notes
        1. Monetary authorities
        2. General government
        3. Banks
        4. Other sectors
    ii. Money-market instruments
        1. Monetary authorities
        2. General government
        3. Banks
        4. Other sectors
    iii. Financial Derivatives
        1. Monetary authorities
        2. General Government
        3. Banks
        4. Other sectors
3. OTHER INVESTMENT
    a. Trade Credit
    i. General government
        1. Long-term
        2. Short-term
    ii. Other Sector
        1. Long-term
        2. Short-term

b. Loans
i. Monetary authorities
1. Long-term
2. Short-term
ii. General government
1. Long-term
2. Short-term
iii. Banks
1. Long-term
2. Short-term
iv. Other sectors
1. Long-term
2. Short-term
c. Currency and deposits
i. Monetary authorities
ii. General government
iii. Banks
iv. Other sectors

4. OTHER ASSETS
a. Monetary authorities
i. Long-term
ii. Short-term
b. General government
i. Long-term
ii. Short-term
c. Banks
i. Long-term
ii. Short-term
d. Other sectors
i. Long-term
ii. Short-term

5. RESERVE ASSETS
a. Monetary gold
b. Special drawing rights
c. Reserve positions in the fund
d. Foreign exchange
i. Currency and deposits
1. With monetary authorities
2. With Banks
ii. Securities
1. Equities
2. Bands and notes
3. Money-market instruments and financial derivatives

e. Other claims

Ideally, foreign borrowing enables a country to invest or consume more than would have been possible for her own resources. In fact, all is well if export earnings grow rapidly and provide the foreign exchange from which ever increasing principal and interest payments can be met. But, if debt service obligations grow faster than foreign exchange earnings, that country may develop balance of payments difficulties. Consequently, the standard approach in assessing debt servicing capacity is to construct an economic model for projecting the balance of payments over a period of time. Consider a closed economy, where there is no foreign trade and production consists of goods and services for consumption or investment. Here, consumption good (c) can be for the government or the private sector and investment goods (I) comprise buildings, plant and equipment and inventories used by enterprises; investment, too, is either by the government or private enterprises. Thus, the production relationship can be represented by a simple equation.

$$Y(t) = C(t) + I(t) \quad (5.6)$$

$$C(t) = Cp(t) + (Cg(t) \quad (5.6A)$$

$$I(t) = Ip(t) + Ig(t) \quad (5.6B)$$

The (t) designates a discreet time period while the subscript (p) and (g) tell us which sector of the economy, private, government respectively is consuming or investing. Again, a minor image of the production relationship is the income relationship, and because production crates incomes equal to the value of outpour (Y). Here, some income is taken by the government as taxes (T); some is saved by the private sector (Sp); and the balance is spent on consumption (Cp). We can therefore represent this relationship as equation (5.7):

$$Y(t) - T(t) = Cp(t) + Sp(t) \quad (5.7)$$

Combing equation (5.6), (5.6A) and (5.7) we have

$$Cp(t) + Cg(t) + I(t) = Cp(t) + Cg(t) + Sp(t) + T(t) \quad (5.8)$$

Simplifying and combining terms, we have

$$I(t) = Sp(t) + (T(t) - Cg(t)) \quad (5.8A)$$

Equation 5.8A shows that, in a closed economy, investment is equal to private savings and public savings (measured by government tax revenue minus government current expenditures. In equation (5.6) we add a term for exports (x), showing production of goods and services that are sold to nonresidents; and in equation (5.7) we add a term for imports (IM),

showing the utilization of income for imported goods and services. By modifying equations (5.6) and (5.7) and their combination in (5.8), we arrive at equation (5.8B).
That is,

$$Y(t) = C(t) + I(t) + X(t) \quad (5.6^1)$$

$$Y(t) = Cp(t) + Sp(t) + T(t) + IM(t) \quad (5.7^1)$$

$$Cp(t) + Cg(t) + I(t) + X(t) = Cp(t) + Cg(t) + Sp(t) + T(t) + IM(t) \quad (5.8^1)$$

Resulting to:

$$I(t) = Sp(t) + (T(t) - Cg(t)) + (IM(t) - x(t) \quad (5.8^B)$$

The implication of (5.8B) is that imports can exceed exports only if financing is available and this financing may be in grants or direct investment or foreign exchange reserves. Alternatively, imports can exceed exports only to the extent that foreign loans and credits can be negotiated. Unlike equation (5.8B) let [I(t)] represent the average interest rate charged on external debt in period (t) and let [D(t)] represent the stock of debt as of some point in time. Thus, interest on external debt can be represented as:

$$I(t) * D(t-1) \quad (5.8c)$$

The growth of debt during the year (t) can be represented as:

$$D(t) - D(t-1) = i(t) * D(t-1) + [IM(t) - X(t)] \quad (5.9)$$

If we divide both sides of the equation by [D(t-1)], then the left side represents the growth rate of external debt [d(t)]. The equation then becomes:

$$D(t) = I(t) + [IM(t) - X(t)] / D(t-1) \quad (5.9A)$$

Indeed, equation (5.9A) highlights the factors that make debt grow faster or slower (that is, larger or smaller values of [d(t)]. Here, [d(t)] will be high if the average interest rate [I(t)] is high or if the noninterest current account deficit [IM(t) – X(t)] is high relative to the stock of debt of the previous period [D(t-1)]. Again, the size of the stock of debt is crucial (as with a larger debt stock) larger interest payments are required. And yet, the fundamental factor causing debt to rise is the reliance on external resources to finance capital formation.
Empirically, World Bank (1992) developed a method of projecting development prospects, external borrowing requirements and debt

servicing capacity for all countries to which the bank lends. In other words, a common approach has evolved over the past three decades: this conventional version is known as the revised minimum standard model extended (RMSM-X). It has four sections: RMSM –X (projection) module, historical data file. The basic model separates economic activity into the public, private, financial and foreign sectors. Yet, a central feature of the RMSM-X is its reliance on flows-of-funds accounting. Expenditures (uses) by one of the four sectors also comprise receipts (sources) by the other three sectors. The flows-of-funds accounting distinguishes between current and capital transactions. For each sector, current income minus current expenditures is defined as savings or the net accumulation of wealth. Here, savings is entered twice as a use of funds in the current account and a source of funds in the capital account as shown in table 5.3 (Klein, 1994)

TABLE 5.3 FUNDS SOURCES AND USES: MATRIX SCHEME

Current Account	Central Government	Private Sector	Monetary Sector	Foreign Sector	Production Account	Total Sources
Central Government		Direct Taxes Non Tax revenue	Profit and losses	Transfers current grants	Indirect Taxes subsides	Total
Private Sector	Transfers Interest on bonds		Profit and losses interest on demand and time deposits	Transfers workers and profit remittances	GDP at factor cost	Total
Monetary Sector	Interest on credit	Interest on Credit		Interest receipts		Total
Foreign Sector	Interest on foreign debt transfers	Interest on foreign debt profit remittances transfers	Interest on foreign debt		Imports exports	Total
C & S Account	Consumption savings	Consumption savings	Savings	Savings		Total
Central Government		Bonds Capital Revenue	Change in monetary credit	Foreign credit grants ADJ WRT INT ADJ WRT INT ADJ WRT	Savings	Total

				PRIN		
Private Sector	Capital Transfers		Change in monetary credit	Foreign credit DFI ADJ WRT INT ADJ WRT PRIN ERCORS and Omissions Foreign Credit ADJ WRT INT ADJ WRT PRIN	Savings	Total
Monetary Sector		Change in Money holdings			Savings	Total
Foreign Sector			Change in foreign reserves		Savings	Total
Investment Account	Investment	Investment				Total
Total uses	Total	Total	Total	Total	total	

As the RMSM-X model is used for projection purposes in countries which depend on external finance, one must not only project the debt flows of the pipeline debt but must make provision for new borrowing. Assumptions must be made of autonomous borrowing and related assumptions must be made also on the disbursement paths that these loans will take. Some variants of the model will allow domestic financial disequilibrium to spill over into residual borrowing (gap fill) and the type of credits used to close the gap must be specified.

Again, the model will calculate credit-worthiness, ratios and their projected values will indicate the plausibility of the scenario that results from the economic relationships and external borrowing possibilities that the user specifies. Specifically, the model does consider the consequence of complex debt restructuring scenarios or adjustments to the currency composition of the debt and these assumptions are worked out in another projection framework (debt strategy module, DSM) and the results are then fed into the RMSM-X calculations.

Indeed, an important aspect of debt management policy is to control the risk of external price fluctuations. In other words, a borrowing country's balance of payments is subject to shocks from three types of price changes that cannot be controlled by domestic economic policies. These include exchange rate

fluctuation, interest rate fluctuations and commodity prices. It is therefore possible to protect the balance of payments from wide savings in these prices by hedging. Essentially, hedging provides insurance against price risks which take the form of substantial unanticipated fluctuations. Such exposures call for better risk management, that is, the use of financial techniques to minimize adverse changes in future net cash flows arising from changes in external prices. However, financial techniques of risk management are sophisticated and when they are used in appropriately, there can be serious losses. It is therefore important that people develop a solid knowledge of international commodity, foreign exchange and financial markets and that there is also an appropriate institutional framework.

Conventionally, reserve is defined as money or its equivalent kept in hand or set aside usually to meet liabilities. Specifically, for external reserves, it is the liquid resources (assets readily converted into cash) of a nation for meeting international payments. In other words, foreign exchange reserves can be referred to as the liquid assets held by a country's government or central bank for the purpose of intervening in the foreign exchange market. Clearly, the external reserves of a country are the financial assets available to the government to meet temporary imbalance in the external payment; to intervene in its foreign exchange market in defence of its exchange rate; and to settle obligations arising from international trade, financing contracts, diplomatic relations and so on (Rasheed, 1995; Tella, 2007). Basically, a number of items constituted the external reserves of a country and these include mainly gold, foreign, currencies (note and coins), special drawing rights (SDRs) and the Reserve Tranche at the International Monetary Funds (IMF). Other items include balances payable on demand held with financial institutions abroad, bills of exchange and promissory notes denominated in foreign currencies, treasury bills issued by foreign governments, and marketable securities issued or guaranteed by foreign government or international financial institutions. Here, the type of assets held, where they are held and in what form give an indication of the principles followed by the country's foreign exchange management. It is important to note that a large proportion of the assets must be held in liquid form and should be readily available for settling the country's international transactions. The foreign exchange in excess of immediate requirement for transactions should be invested in interest bearing securities which are marketable and likely to appreciate in value but can be liquidated without much capital loss; and the assets must be held with reputable and credible financial institutions for safety purposes. In other words, the purpose of holding reserves is to allow central banks an additional means to stabilize the issued currencies from excessive volatility and protect the monetary system from shocks. Reserves are also used as a precautionary purpose to provide a cushion to absorb unexpected shocks or a sharp deterioration in their terms of trade or to meet unexpected capital outflows. Usually, external reserves are managed to ensure that they are adequate for meeting a range of defined national objectives

including the settlement of external obligations as scheduled and defence of the external value of the domestic currency to ensure that it is correctly valued and that the external sector does not lose competitiveness. They are also managed to control risks and thus ensure the security of reserves and guarantee reasonable earnings from their placement. For instance, the World Bank's Reserves Advisory and Management Program (RAMP) is both technical advisory program designed to build capacity in reserves management as well as asset management engagement allowing the world Bank to manage, for a fee, a portion of the external reserve of member Central Banks.

6.0 CONSTRUCTION FINANCE

Indeed, the construction industry is an essential contributor to the process of development. This is because of the fact that roads, dams, irrigation works, schools, houses, hospitals, factories and other constructions works are the physical foundations on which development efforts and improved living standards are established. Improving construction capacity and capability is therefore important to most developing countries in the world. This is because of the fact that the extensive basic infrastructures built up at high cost in earlier years, have now to be maintained; and it is generally expensive (if not impossible) to bring foreign contractors back again for this type of work. Again, there is need to improve on the efficiency, timeliness and quality of construction and maintenance work in many developing countries of the world. Essentially, the construction sector has two main classes of products: building (associated with housing, offices, hospital, factories) and civil works (involving infrastructure for water supply, transport, irrigation, power generation, etc). Ideally, construction activity is characterized by two important features. Its demand is subject to considerable fluctuations that can have serious repercussions on the utilization of resources and construction does not depend on a single technique of production. Here, there is usually a wide range of factor combinations (capital and labor) that can be tailored to suit each finished product (Word bank, 1984). Both areas can be influenced by economic measures: the former through planning and demand management and the latter through pricing policies which encourage the use of the most economic factor combinations.

The fluctuations in construction activity, relative to those of other sectors, tend to be greater in developing than in developed countries. If national policies succeed in stabilizing the economy, they would stabilize

demand for the construction industry. The twofold role of the government (as policymaker at the macroeconomic level and as an originator of demand and executor of works at the microeconomic level) stresses its importance for the sector. Through the timing of its investments, the government can influence fluctuations in demand for construction. In other words, the governments overall economic polices and specific industry related regulations can have a profound influence on investment decisions of the private construction sector. Here, backward linkages can have widespread impact because much of the raw, semi processed and processed materials can be provided by relatively unsophisticated labor intensive domestic sources and by basic industries such as cement and steel manufacturing. On the other hand, forward linkages affect practically all other sectors of the economy. These linkages, combined with a high, value added-to-output ratio, indicate that construction provides a substantive growth stimulus throughout the economy. Its importance as an agent of development is enhanced by it ability to provide gainful employment for a large number of workers. Much of the demand for labor is often net by taking unskilled workers from rural areas, which can subsequently be trained for more demanding jobs.

Critically, the main inputs in construction are management, personnel, equipment, materials and capital. The relative importance of these inputs varies from job to job for civil and building constructions and also depends on the choice of technology. However, the government's influences are felt strongly on both the supply and demand sides of construction. The actions include policies and legislation affecting licenses and permits, sanitary and building codes, minimum wages corporate taxes, rules on the importation of materials and spare parts, and the terms and availability of financing for construction, sound policies on interest rates and taxation (including provisions for investment and allowances on depreciation) could spread out the demand for construction. But construction tends to be undertakes when financial resources become available, this adds to inflationary pressures caused by constraints on construction capacity and shortage of materials. Yet one possible measure that can be considered by governments to stimulate construction is the establishment of a countercyclical credit policy which can create a reserve fund in period of high demand to be released for investment during economic down turns. Again, in an internationally financed work, domestic contractors are often at a disadvantage because they have to bid on the basis of equipment for which they have paid full import duties, while foreign firms pay no such duty. Yet, as approach to this problem would be require that foreign contractors pay duty on the amount that the equipment depreciates over the contract period. Full duty could be collected at the time of importation and the balance calculated

on the residual value at the end of the contract, refunded upon re-export of the equipment.

However, in principle, construction services should be procured with the aim of achieving economy and efficiency in countries that are developing a domestic construction industry, this long term objective must be reconciled with the shorter-term goal of providing a financial advantage to the employer, considering the capacity of domestic entrepreneurs to manage risk. Generally, procurement practices should be fair and lead to contracts that adequately protect the rights and sti pulate the obligations, of both parties. Here, fair bidding procedures are a means for establishing good procurement practices and the preferred method is that of awards made to the lowest evaluated bid received from pre-qualified bidders. For the larger tenders, prequalification is an involved process, devised with the specific characteristics of each project in mind. For smaller tenders, which a government calls at frequent intervals, and which normally attracts local bidders, it is preferable to maintain an up-to-date classified register of contractors, setting up categories of firms by the size of contract they can undertake. Such a permanent prequalification system must be linked with a good flow of information regarding the ongoing commitments of the bidders; must be based on readily verifiable information; and the system for updating must be simple (easy to operate with scarce resources). Again, governments use various methods to foster domestic construction enterprises through the contracting process. Foreign bidders are often required to have local participation of a certain minimum percentage. Similarly, parastatal construction enterprises are given direct access to contracts at noncompetitive prices. Because negotiated contracts usually result in the payment of a premium by the contracting authority, they need to be used with great care and some legislation explicitly forbids them.

Indeed, the quality of supervision affects (in particular) small enterprises that cannot afford the means to provide a high degree of quality control and therefore, must reply on the client's supervision. In fact, defective workmanship or materials (if not corrected at an early stage) may later require extensive reconstruction forcing the contractor into incurring no recoverable extra costs. In particular, there are cases where the client's supervision has been weak or deficient, or where the client has not been able to cooperate with an inexperienced contractor. In places where the construction industry is at as early stage of development, supervisors may have to provide a consideration amount of technical assistance. In practice, the smooth implementation of construction contracts requires the appointment of a trusted resident engineer with full authority being given to resolve onsite construction problems. However, shortage of engineers, surveyors, estimators, foremen, equipment operators, and other skilled workers hampers the

ability to do a large volume of work to acceptable standards of workmanship. Thus, important opportunities exist for the bank and governments to assist the industry in overcoming widespread deficiencies. Table 6.1 shows the range of skills required for three typical construction operations.

TABLE 6.1 TYPICAL CONSTRUCTION OPERATIONS: REQUIRED SKILLS RANGE

Personal Level	Labor-intensive gravel Road Construction	Building Construction	Hydro Power Scheme
Skill Labor	Masons: Equipment operations of mechanics	Masons: carpenters, electricians, Plumbers, joiners	Masons: Electricians, plumbers, welders, fitters, steel erectors, equipment operations, drillers, powder men, electricians
Technical Personnel	Foremen: pay clerks, engineers (Double up as surveyor), construction Engineer	Foremen, pay clerks, cost accountants (estimator or quantity surveyor), construction engineer	Specialist foremen: general foremen, pay clerks, Accountants; cost accountants, estimators, surveyors, structural engineers, electrical engineers, mechanical engineers, construction engineers, geologists, drug HTSMEN, Laboratory Technicians, inspectors, equipment superintendents, services superintendents, camp superintendents
Management	Engineers (doubling up	Engineer or	Project Manager;

Personnel	for technical function)	Architect (usually doubling up for technical function)	administration Manager; General Manager

Clients in general (and government in particular) can have a direct influence on contractors' finances in two areas: advance payments and regular payment procedures. Advance payments must be set to meet the bonafide initial cash requirements of the contractor and this should be done in a way that will enable the contractor to mobilize his resources promptly and avoid a heavy financial charge and unbalanced prices (front-end loading). Here, a system that provides for prompt payment of contractors invoices is the best form of financial assistance which the industry can have. Delayed payment are an enforced and expensive form of suppliers' credit, which only produce difficulties to the client who may have to face contractual problems or pay higher costs. Bonds and guarantees are normally written by banks, financing houses, and insurance companies. They can also be established through a cash deposit made by the contractor or through deductions made from his regular payment certificates. They equally serve to assure the client of the contractor's performance and ensure that the contract will stand by his price or forfeit the bond. Nevertheless, guarantees are a form of insurance cover for the owner and are essential in construction contracts. Yet, in a more complex environment, it may be possible to establish a central clearing house for "construction paper" linked to the commercial banking system; and this can be done in a way which would redistribute risk and financial exposure, possibly through the establishment of a fiduciary role in contracts for public and private construction.

Again difficulties in the supply of materials and machinery (main physical resources used in construction) may be caused by shortages of foreign currency, transportation and importation problem, and protection of inefficient local manufacturers. They can seriously affect the efficiency or even the continued viability of a domestic construction industry. While construction work can normally proceed by using substitutes for finishing materials, the lack of fuel, aggregate, timber, cement, steel, and asphalt can have an immediate paralyzing effect. Again, equipment and tools pose challenges that center on the freedom of choice the construction enterprise has on the flow of spare parts through the customs. Procurement based on political or protectionist considerations is another problem and often, contractors are obliged to buy locally produced equipment, vehicles, and tools, construction equipment must therefore be tough and reliable and have an assured supply of spare parts to ensure continuity of operations and cost efficiency.

7.0 AGRICULTURE DEVELOPMENT

From both historical and contemporary cross-section perspective, the agricultural transformation seems to evolve through at least four phases that are roughly definable (Timmer, 1988). The process starts when agricultural productively per worker rises and this increased productivity creates a surplus, which in the second phase can be tapped directly, through taxation and factor flows or indirectly, through government intervention into the rural urban terms of trade. Here, this surplus can be utilized to develop the nonagricultural sector; and for resources to flow out of agriculture, rural factor and product markets must become better integrated with those in the rest of the economy. The progressive integration of the agricultural sector into the macro economy (via improved infrastructure and market equilibrium linkages) represents a third phase in agricultural development. When this phase is successful, the fourth phase emerges. That is, the role of agriculture in industrialized economies is little different from the role of the steel, housing or insurance sectors. But when the integration is not successfully accomplished (and most countries have found it extremely difficult for political reasons) governments encounter serious problems of resource allocation and even problems beyond their borders because of pervasive attempts by high-income countries to protect their farmers from foreign competition. In other words, managing agricultural protection and its impact on world commodity markets thus provides a continuing focus for agricultural policy makers even when the agricultural transformations is "complete".

Indeed, the four phases in the agricultural transformation call for different policy approaches. In the earliest stage of development, the

concern must be for getting agriculture moving (Mosher, 1966). Here, a significant share of a country's investable resources may well be extracted from agriculture at this stage but this is because the rest of the economy is so small; and direct or indirect taxation of agriculture is the only significant source of government revenue. Building a dynamic agriculture requires that some of these resources be devoted to the agricultural sector itself; and these resources need to be allocated to public investment in research and infrastructure as well as to favorable price incentives to farmers to adopt new technology as it becomes available. As these investments in agriculture begin to pay off, the second phase emerges in which the agricultural sector becomes a key contributor to the overall growth process through a combination of factors (Johnston and Mellor, 1961). However, as structural patterns of growth emphasizes, there is a substantial disequilibrium between agriculture and industry at this early stage of the development process (Kuznets, 1966). Yet, differences in labor productivity and measured income between the rural and urban sectors persist to the present in rich countries, although the gap is narrowing and now depends on agricultural prices for any given year. Therefore, the process of narrowing the gap gives rise to the third environment for agriculture, in which it is integrated into the rest of the economy through the development of more efficient labor and credit markets that link the urban and rural economies. This integration is a component of the contribution process; improved functioning of factor markets merely speeds the process of extracting labor and capital from those uses in agriculture with low returns for those in industry or services with higher productivity. Here, the improved markets have welfare consequences and they lessen the burden on individuals trapped in low-income occupations. However, the gain has costs. As agriculture is integrated into the macro economy, it becomes much more valuable to fluctuations in macro prices and level of aggregate activity and trade; and much less susceptible to management by traditional instruments for the agricultural sector, such as extension activities and specific programs for commodity development and marketing (Schuh 1976). This vulnerability and complexity create the fourth phase in the agricultural transformation (the treatment of agriculture in industrialized economies).

Actually, the debate over the role of agriculture in the process of economic development extends at least as far back as the physiocrats in the eighteenth century. Specifically Clark (1940) provided the general facts about the role of agriculture during the growth process available to economists and planers at the beginning of the drive for economic growth in the developing countries. These facts formed the basis for the prevailing neoclassical view that agriculture was a declining sector (black box) which contributed labor, food, and perhaps capital to the essential modernization efforts in industry. Here, no policy efforts on behalf of

agriculture's own modernization were needed because the sector declined naturally. Thus, it is easy to see why agriculture was neglected as a source of growth in early strategies of economic development. Historical record shows that it always declines in relative importance in glowing economies and it is the home of traditional people, ways and living standards (antithesis of what nation builders in developing counties envisioned for their societies). Again, agriculture was thought to provide the only sources of productivity that could be tapped to fuel the drive for modernization. Surplus labor, surplus savings and surplus expenditures to buy the products of urban industry and even surplus foreign exchange to buy the machines to make them, could be had from an uncomplaining agricultural sector. In fact, nothing more was needed to generate these resources than the promise of jobs in the cities and a shared nationalistic pride in the growing power of the state. Unfortunately, the unique features of agriculture as a sector were not simply understood in the 1950s; nor was it accepted that the development of a modern agriculture was necessary as concomitant to development of the rest of the economy. However, Johnston and Mellor (1961) listed five roles for agriculture in economic development. Increase the supply of food for domestic consumption; release labor for industrial employment; enlarge the size of the market for industrial output; increase the supply of domestic savings; and earn foreign exchange. All these five roles are equally important and agriculture in the process of development is to provide increased food supplies and higher rural incomes to enlarge markets for urban output, as well as to provide resources to expand that urban output.

Indeed, the process of economic development is one of continuous redefinition of the roles of agriculture, manufacturing, and services. In light of the evolving role of agriculture in fostering growth and reducing poverty, countries can be classified as agriculture – based, transforming or urbanized, based on the share of aggregate growth originating in agriculture and the share of aggregate poverty in the rural sector (world bank, 2008). Here, three clusters of structurally different economies emerge and each with distinct challenges for agricultural policymaking. In agriculture based economies, agriculture contributes significantly to growth and the poor are concentrated; and the key policy challenge is to help agriculture play its role as an engine of growth and poverty reduction. In transforming economies, agriculture contributes less to growth but poverty remains overwhelmingly rural. In urbanized economies agriculture contributes only a little to growth and poverty is no longer primarily a rural phenomenon. Here, poverty is no longer primarily rural phenomenon and agriculture acts like any other competitive tradable sector and predominates in some locations Also; agriculture can reduce the remaining rural poverty by including the rural poor as direct producers and by creating good jobs for them. However, there is no unique route for

a country to more from an agriculture-based to an urbanized and eventually to a high-income country. Essentially, the above three country types capture the major distinguishing features in the role of agriculture for growth and poverty reduction across countries and provide useful framework to focus the discussion and help formulate broad policy guidance.

Specifically, biofuels offer a potential source of renewable energy and possible large new markets for agricultural producers. But few current biofuels programs are economically viable and most have social and environmental costs; upward pressure on food prices, intensified competition for land and water, and possibly; deforestation. With oil prices near an all-time high and few alternative fuels for transport, several countries are actively supporting the production of liquid biofuels (ethanol and biodiesel). As a renewable energy source, biofuels could help mitigate climate change and reduce dependence on oil in the transportation sector. They may also offer large new markets for agricultural producers that could stimulate rural growth and farm incomes. Yet, on the downside are environmental risks and upward pressure on food prices. These impacts, which depend on the type of feedstock (raw material), production process, and changes in land use, need to be carefully assessed before extending public support to large-scale biofuel programs. Though developed countries are leading in ethanol production, new players are emerging. Today, many developing countries are launching biofuel programs based on agricultural feedstock, biodiesel from palm oil; ethanol from sugarcane; biodiesel from oil-rich plants, such as jatropha, Pongamia, and other feedstock. Ideally, government should provide substantial support to biofuels so that they can compete with gasoline and conventional diesel. These supports include consumption incentives (fuel tax reductions), production incentives (tax incentives, loan guarantees, and direct subsidy payments) and mandatory consumption requirements. However, the breakeven price for a given biofuel to become economical is a function of several parameters. Here, the most important determining factors are the cost of oil and the cost of the feedstock which constitutes more than half of today's production costs.

Unfortunately, rising agricultural crop prices from demand for biofuels have come to forefront in the debate about the potential conflict between food and fuel. For example, the grain required to fill the task of a sport utility vehicle with ethanol could feed on person for a years, so competition between food and fuel is real. Thus, rising cereal prices will have an adverse impact on many food-importing countries. Even in the short term, higher prices of staple crops can cause significant welfare losses for the poor (most of whom are net buyers of staple crops). But many poor producers could benefits from higher prices. However, future biofuels technology may rely on dedicated energy crops and agricultural

and timber wastes instead of food crops, potentially reducing the pressure on food crop prices and contributing to the supply of more environmentally friendly supplies of liquid biofuels. But technology to break cellulose into sugars distilled to produce ethanol or gasify biomass is not yet commercially viable; and some competition for land and water between dedicated energy corps and food crops will likely remain. Whether the financial costs, efficiency losses, and the tradeoffs between food and fuel associated with these various support measures are justified depends on the environmental and social benefits and risks of biofuels and their contribution to energy security. Yet, the challenge for developing country governments is to avoid supporting biofuels through distortionary incentives that might displace alternative activities with higher returns and to implement regulations and devise certification systems to reduced environmental risks. In other words, governments need to carefully assess economic, environmental, and social benefits as well as the potential to enhance energy security.

Indeed, agriculture is one of the riskiest sectors of economic activity and effective risk-reducing instruments are severely lacking in rural areas. Negative shocks can deplete assets through distress sales of land and livestock; and it can take a very longtime for households to recover from such losses. When income and assets shocks coincide, households have to choose between reducing consumption and depleting assets. However, rural households often identify weather-related and health shocks as their biggest risks; and the immediate production and welfare losses associated with drought can be substantial. Illnesses and injuries in a family simultaneously reduce income because of lost time working and deplete household savings because of spending on treatment. Farmers also worry about abrupt changes in rules for land tenure or regulations for trade and rural political violence (crime) can also cause considerable form productivity losses. Here, the lack of access to insurance and credit markets make agricultural producers particularly vulnerable. Thus, households often reduce their consumption risk by choosing low-risk activities or technology, which typically have low average returns. Again, shocks can be idiosyncratic (when one households experience is weakly related to that of neighboring households) or covariate (when households in a same geographical area or social network suffer similar shock). Idiosyncratic shocks can arise from microclimatic variation, local wildlife damage or pest infestation, illness and property losses from fire or theft. On the other hand, covariate shocks, arising from war, natural disasters, price instability or financial crises, are often difficult to insure locally and require some coordinate external response.

In agriculture-based and transforming countries, small and medium-size traders and layers of intermediaries are common in the marketing of food staples and other agricultural commodities. Often one

person business dealing in several commodities, the traders and intermediaries are mainly self- funded because of limited access to credit. They maximize the returns on their working capital by rapidly turning over small quantities (with little storage). Quality grades are rarely standardized (nor are weights and measures) making personal inspection by buyers essential. This requires that traders travel extensively increasing transaction costs. Therefore, market modernization, beyond improving basic transport, includes marketing information systems, commodity exchanges and price-risk management. However, inadequate transport infrastructure and services in rural areas push up marketing costs, undermining local markets and exports. Thus, improving road connections is critical to strengthening the links of farmers and the rural economy to local, regional, and international markets. Market information keeps farmers and traders attuned to the demands and changing preferences of consumers, guiding farming, marketing and investing. But public market information systems have often been disappointing, with information disseminated too slowly, in the wrong form, or too in frequently to be of real use of market participants. Yet, several innovative approaches are being piloted in different parts of the world, building on advances in communications technology (ICTS) and the liberalization of telecommunications and broadcasting. Again, the perishability of most high-value agricultural products requires careful handling, special facilities (Pack houses, cold storage, and refrigerated transport) and rapid delivery to consumer to maintain quality and reduce physical and nutritional losses. In many counties, the long supply chain; poor access to roads and electricity; and inadequate infrastructure and services in physical markets add to the transaction costs and cause quality deterioration and spoilage losses. Again market infrastructure and facilities are often limited and congested, increasing the difficulty of trading perishable goods.

Agribusiness is the off-farm link in agro food value chains. It provides inputs to the farm sector and it links the farm sector to consumers through the handling, processing, transportation, marketing, and distribution of food as well as other agricultural products. Thus, there exist strong synergies between agribusiness and the performance of agriculture for development. Here, dynamic and efficient agribusiness spurs agricultural growth; and a strong link between agribusiness and smallholders can reduce rural poverty. Essentially, agribusiness comprises diverse private agro enterprises (small and mostly in rural market towns as operated by households that often have wage labor and farming as other sources of income); medium and large agro enterprises (mainly urban based due to the requirements for economies of scale and infrastructure); and large enterprises (dominated by multinational corporations that have consolidated through vertical and horizontal integration). However, in recent years, influenced by changes in consumer

demand and rapid technological and institutional innovations, the structure of agribusiness has changed dramatically and its performance has been highly dynamic. Consequently, market forces do not guarantee competitiveness, nor do they guarantee smallholder participation (both essential to link agricultural growth to development). And driven by gains from economies of scale and globalization of the food chain, multinational agro enterprises increasingly dominate the agribusiness sector along the value chain. They provide inputs such as pesticides, seeds and crop genetic technologies that have consolidated horizontally and vertically into a small number of multinational firms. On the marketing side, a few multinational enterprises are broadly diversified from seeds, feeds and fertilizers to product handling and processing of sweeteners and biofuels. Food processing firms are integrating backward to primary product handling and forward to retail distribution. Again, retailing has been transformed by the "supermarket revolution". In other words, national, regional and global supply chains are being radically altered, by passing traditional markets where small holders sell to local markets and traders.

Institutions governing land rights and ownership affect the efficiency of land use. That is, if those who farm lack secure rights to land, they have less incentive to exert effort to use it productively and sustainable or to carry out land-related investments. Secure and unambiguous property rights also allow markets to transfer land to more productive uses and users. Cost-effective systems of land administration facilitate agricultural investment and lower the cost of credit by increasing the use of land as collateral (thus reducing risk for financial institutions). Sales markets for acquiring land increase investment incentives and provide a basis for using land as collateral in credit markets. However, imperfections in other markets and expectations of future land price increases, affect markets for land sales more than those for rentals, implying that sales would not necessarily transfer land to the most productive producers. Historically, most land sales happened under distress, requiring defaulting landowners to cede their land to money lenders (who could amass huge amount of it). Therefore, the ability of agricultural enterprises and rural households to invest for the long-term and make calculated decisions for risky and time-patterned income flows is shaped by an economy's financial services. Despite the rapid development of financial services, a majority of small holders Worldwide remain without access to the services they need to compete and improve their livelihoods. Here, broader access to financial services (savings and credit products, financial transactions and transfer services for remittances) would expand their opportunities for more efficient technology adoption and resource allocation. Yet, financial constraints are more pervasive in agriculture and related activities than in many other sectors, reflecting both the nature of agricultural activity and the average

size of firms. In fact, financial contracts in rural areas involve higher transaction costs and risks than those in urban settings because of the greater spatial dispersion of production; lower population densities; generally lower quality of infrastructure; and the seasonality and often high covariance of rural production activities. Consequently, banks and other traditional for-nonprofit financial intermediaries lend to limit their activities to urban areas and to more densely populated, more affluent, more commercial areas of the rural economy. Thus, the inadequacies of rural financial markets reflect real risks and real transaction costs that cannot simply be wished or legislated away. Innovations are therefore required to permit more flexible forms of lending while guaranteeing that borrowers repay loans. One approach to resolve these problems follows from the creation of microfinance institutions (MFIs), which open the menu of available contracts with new arrangements that substitute for collateral. However, MFIS cannot provide the mainstay of rural finance. Therefore, promoting, improving or even creating rural institutions to support a wide-range of rural financial transactions, remains one of the fundamental challenges facing developing-country governments. Yet, government sponsored agricultural lending institutions have been successful in many non-developed economies. But in many developing countries, government efforts to improve rural financial markets have a record of doing more harm than good; heavily distorting market prices; repressing and crowding out private financial activities; and creating centralized, inefficient and frequently overstaffed bureaucracies captured by politics. Again, risk distorts investments and puts assets in jeopardy. Thus, individuals and local networks can do much to manage risk, but such strategies often founder on systematic risk, beyond the capacity of the individual and community to manage. Innovations to address systematic risk can complement the local capacity to manage idiosyncratic risks. Consequently, the expectation is that the innovations will underwrite a more productive and sustainable pattern of agricultural and human capital investment. Thus one element of any strategy to address the cost of risk is to expand a household's risk management opportunities. Communities have therefore developed informal systems of mutual insurance and contingent loans to respond to shocks based on traditional norms and local information. But these systems tend to fail poor families, one reason is the inherent limitation of insuring for covariate shocks: one's neighbors cannot provide assistance if they are under stress. Mutual insurance, though useful, tends to be weakest for the poorest and to fall short when it is most needed.

Indeed, the technological challenges facing agriculture in the 21st century are probably even more daunting than those in recent decades with the increasing scarcity of land and water, productivity gains will be the main source of growth in agriculture and the primary means to satisfy

increased demand for food and agricultural products. With globalization and new supply chains, farmers and countries need to continually innovate to respond to changing market demands and stay competitive. Revolutionary advances in the biological and information sciences have the potential to enhance the competitiveness of market-oriented smallholders and overcome drought and disease in production systems important to the poor. Here, the institutional setting for technological innovation is changing rapidly and it is more complex, involving plural systems (multiple sources of innovations). Therefore, the new world of agriculture is opening space for a wider range of actors in innovation (including farmers, private sector, and civil society organization). Thus, linking technological progress with institutional innovations and markets to engage this diverse set of actors is at the heart of future of productivity growth.

8.0 AFRICAN CASE

Over the past three decades, the growth performance of African countries has been rather disappointing. In fact, the average annual growth rate of per capita real income declined significantly in this period, compared with the record achieved in the postwar period up to the 1970s, and this deterioration worsened progressively in the first half of the 1980s (Otani and Villanueva, 1990). This poor growth performance was accompanied by a marked decline in the investment ratio in most countries. And despite this decline, expenditures on investment exceeded domestic savings substantially, causing rapid increases in foreign borrowing and external debt. Consequently, external payment positions become unsustainable in many African counties. Therefore, many countries attempted to compress aggregate demand, further weakening investment in both physical and human capital. The adverse implications of the compressed investments activity triggered alarming signals, echoed in economic and business circles, governments and international organizations.

Specifically, aggregate economic performance in sub-Saharan Africa during the past decade has remained unsatisfactory. Both domestic and external factors have contributed to the disappointing overall performance (Ghara and Hadjimichael, 1996). The external environment, characterized by sharp declines in world commodity prices and substantial losses in the terms of trade has been generally unfavorable. These effects has also been compounded by unfavorable weather and all countries in the region have been confronted with deep rooted development constraints (rapid population growth, low human capital development and inadequate infrastructure) which have constituted major impediments to private sector development and the supply response of the economies. Again, ethnic conflicts, political instability, adverse security conditions, protracted

civil wars, governance concerns, legacy of repressive regimes, bloated (inefficient , public administration, ineffective judicial systems, complex administrative (institutional) frameworks as well as inappropriate economic policies have also contributed to the weak aggregate economic performance. In recent years however, some of the common shocks which are believed to have constrained economic management took several forms. The instability in export earnings arises from the concentration of Africa's exports on a few primary commodities, their low income and price elasticities, sharp swings in their demand and supply, and the geographical concentration of the exports. Again changes in major import prices especially prices of critical imports (like oil) can have destabilizing effects as well as changes in cost of foreign borrowing. Thus, given Africa's stock of existing debt and need for new external borrowing, an increase in interest rate in international capital market can seriously affect government budget. Indeed, there is a sense in which many of these shocks originate from the deliberate policies of industrial countries. Here, the ties between Africa and the industrial countries have tended to be procyclical, with the result that the impact of any shock is rather amplified than dampened. In fact, past events have shown that recession in industrial countries weaken demand for the primary commodity exports of Africa, reduces net resource transfers to the region and exacerbate the downturns in Africa's economic activity (UNECA, 1993).

In particular, the massive and unprecedented intervention by many governments around the world appears to have halted the 2008 financial meltdown. But while global banks were crashing all round it, the industry in Africa remained firm. Perhaps, the most interesting African trend at present is the boom in frontier discoveries that is helping to spread the benefits of hydrocarbons to more countries. Yet, it is difficult to ignore the global economic crisis. Africa may have fewer ties to the global economic system than most other regions and so is sheltered from the credit crisis to some extent, but recession in North America, Europe and East Asia parts will cut demand for the raw materials that underpin most African economies. At the same time, European and North American demand for Chinese consumer goods is likely to fall, triggering lower demand for oil, copper, iron one and other raw materials in Africa's fastest growing trading partner. This should not have such a big impact on the African oil industry, as long as oil prices remain fairly buoyant. However, the credit crisis could affect upstream development of oil companies are unable to secure sufficient financial support. This is particularly crucial for the independents that have discovered oil and gas in relatively unattractive regions for the first time and which need to attract the support of larger partners of financial institutions to fund field development. Thus, the full impact of the economic crisis remains to be seen and reduced market

liquidity will surely affect some projects, but the most attractive projects may still proceed.

Consequently, the effects of fiscal policies on the growth rate of potential GNP are transmitted through changes in the ratios to GNP of tax revenue, non-capital expenditure and the budget deficit. The composition of government expenditures and taxes also affect the growth rate of potential GNP. Table 8.1 shows the comparative African tax performance (World bank, 2003).

TABLE 8.1 COMPARATIVE AFRICAN TAX PERFORMANCES

A S/N	B COUNTRY	C REGIONAL INCOME PROFILE	D TAX REVENUE PERCENTAGE OF GDP 2001	E TAX ON INCOME, PROFITS, CAPITAL GAINS % OF TOTAL TAXES 2001	F DOMESITC TAXES ON GOODS/SERVICES % OF VALUE ADDED ON INDUSTRY AND SERVICES 2001
1	ALGERIA	NALMI	32.10	77.90	3.30
2	ANGOLA	SALMI	-	-	-
3	BENIN	WALI	-	-	-
4	BOTSWANA	SAUMI	-	-	-
5	BURKINA FASO	WALI	-	-	-
6	BURUNDI	EALI	16.70	22.50	17.00
7	CAMEROON	CALMI	12.50	26..00	7.20
8	CAPE VERDE	WALMI	-	-	-
9	CENTRAL AFRICAN REPUB.	CALI	-	-	-
10	CHAD	CALI	-	-	-
11	COMOROS	EALI	-	-	-
12	CONGO (DEM REP)	CALI	0.00	16.70	0.00
13	CONG (REP.)	CALI	10.70	16.00	6.60
14	COTE D' VOIRE	WALI	16.90	21.00	4.90
15	DJIBOUTI	NALMI	-	-	-
16	EGYPT	NALMI	-	-	-
17	EQUAT. GINEA	CAUMI	-	-	-
18	ERITREA	EALI	-	-	-
19	ETHIOPIA	EALI	13.00	33.10	7.40
20	GABON	CAUMI	-	-	-
21	GAMBIA	WALI	-	-	-
22	GHANA	WALI	-	-	-
23	GUINEA	WALI	11.20	10.10	0.80

24	GUINEA BISSAU	WALI	-	-	-
25	KENYA	EALI	-	-	-
26	LESOTHO	EALMI	-	-	-
27	LIBERIA	WALI	-	-	-
28	LIBYA	NAUMI	-	-	-
29	MADAGASCAR	EALI	11.30	15.70	5.20
30	MALAWI	EALI	-	-	-
31	MALI	WALI	-	-	-
32	MAURITANIA	WALI	-	-	-
33	MAURITIUS	SAUMI	17.40	14.00	9.20
34	MAYOTTE	SAUMI	-	-	-
35	MOROCCO	NALMI	25.00	28.50	12.70
36	MOZAMBIQUE	EALI	-	-	-
37	NAMIBIA	SALMI	29.90	35.30	8.80
38	NIGER	WALI	-	-	-
39	NIGERIA	WALI	-	-	-
40	RWANDA	EALI	-	-	-
41	SAOT. & PRINC.	CALI	-	-	-
42	SENEGAL	WALI	17.00	22.80	7.20
43	SEYCHLLES	SAUMI	-	-	-
44	SIERRA LEONE	WALI	6.80	26.90	2.80
45	SOMALIA	EALI	-	-	-
46	SOUTH AFRICA	SAUMI	26.50	57.00	10.80
47	SUDAN	EALI	6.60	18.30	5.10
48	SWAZILAND	SALI	26.60	26.40	6.60
49	TANZANIA	EALI	-	-	-
50	TOGO	WALI	-	-	-
51	TUNISIA	NALMI	26.00	22.30	12.50
52	UGANDA	EALI	10.70	20.10	5.30
53	ZAIRE	SALI	-	-	-
54	ZAMBIA	SALI	-	-	-
55	ZIMBABWE	SALI	-	-	-

Table 8.1 cont.

S/N	COUNTRY	G EXPORT DUTIES PERCENTAGE OF TAX REVENUE 2001	H IMPORT DUTIES PERCENTAGE OF TAX REVENUE 2001	I INDIVIDUAL HIGHEST MARGINAL RAX RATE (%) 2002	J CORPORATE HIHEST MARGICAL RAX RATE (%) 2002
1	ALGERIA	0.00	12.10	-	-
2	ANGOLA	-	-	-	-
3	BENIN	--	-	-	-
4	BOTSWANA	--	-	25.00	15.00
5	BURKINA FASO	--	-	-	-
6	BURUNDI	0.00	16.40	-	-
7	CAMEROON	3.90	31.60	60.00	39.00
8	CAPE VERDE	-	-	-	-
9	CENTRAL AFRICAN REPUB.	-	-	-	-
10	CHAD	-	-	-	-
11	COMOROS	-	-	-	-
12	CONGO (DEM REP)	1.00	33.70	60.00	40.00
13	CONG (REP.)	0.00	23.20	50.00	45.00

14	COTE D' VOIRE	15.30	27.60	10.00	35.00
15	DJIBOUTI	-	-	-	-
16	EGYPT	-	-	32.00	40.00
17	EQUAT. GINEA	-	-	-	-
18	ERITREA	-	-	-	-
19	ETHIOPIA	2.90	26.30	-	-
20	GABON	-	-	50.00	35.00
21	GAMBIA	-	-	-	-
22	GHANA	-	-	30.00	33.00
23	GUINEA	0.20	42.90	-	-
24	GUINEA BISSAU	-	-	-	-
25	KENYA	-	-	30.00	30.00
26	LESOTHO	-	-	-	-
27	LIBERIA	-	-	-	-
28	LIBYA	-	-	-	-
29	MADAGASCAR	0.00	53.50	-	-
30	MALAWI	-	-	38.00	38.00
31	MALI	-	-	-	-
32	MAURITANIA	-	-	-	-
33	MAURITIUS	0.00	29.30	25.00	25.00
34	MAYOTTE	-	-	-	-
35	MOROCCO	0.00	18.80	44.00	35.00
36	MOZAMBIQUE	-	-	20.00	35.00
37	NAMIBIA	-	-	36.00	35.00
38	NIGER	-	-	-	-
39	NIGERIA	-	-	25.00	30.00
40	RWANDA	-	-	-	-
41	SAOT. & PRINC.	-	-	-	-
42	SENEGAL	-	-	50.00	35.00
43	SEYCHLLES	-	-	-	-
44	SIERRA LEONE	0.00	49.80	-	-
45	SOMALIA	-	-	-	-
46	SOUTH AFRICA	0.00	2.90	42.00	30.00
47	SUDAN	0.80	35.50	-	-
48	SWAZILAND	0.00	54.70	39.00	30.00
49	TANZANIA	-	-	30.00	30.00
50	TOGO	-	-	-	-
51	TUNISIA	0.10	12.50	-	-
52	UGANDA	0.00	50.30	30.00	30.00
53	ZAIRE	-	-	-	-
54	ZAMBIA	-	-	30.00	35.00
55	ZIMBABWE	-	-	46.00	30.00

NOTES: NA = North Africa, EA= East Africa; WA= West Africa; CA= Central Africa, SA= South Africa, LI= Low income, CMI = Low Middle Income, UMI = Upper Middle Income

SOURCES: World Bank, World Development Indicators, United Nations Human Development Reports.

Essentially, taxes are the main source of revenue for many governments and the sources of the tax revenue received by governments as well as the relative contributions of these sources are determined by policy choices about where and how to impose taxes and by changes in the structure of the economy. Here, tax policy may reflect concerns about distributional effects, economic efficiency (including corrections for externalities) and the practical problems of administering a tax system. There is no ideal level of taxation but taxes influence incentives and thus the behavior of economic actors and the economy's competitiveness. Taxes are compulsory transfers to governments from individuals, business or institutions, and they include service fees that are dearly out of proportion to the costs of providing the services but exclude fines, penalties, and compulsory social security contributions. Here, taxes are considered unrequited because governments provide nothing specifically in return for them, although taxes typically are used to provide goods or services to individuals or communities on a collective basis. Usually, the level of taxation is typically measured by tax revenue as a share of gross domestic product (GDP). Therefore, comparing the levels of taxation across countries provides a quick overview of the fiscal obligations and incentives facing the private sector. In the presented table, tax data in local currencies are normalized by scaling values in the same units to ease cross country comparisons. Again, the table shows only central government data, which may significantly understate the total tax burden, particularly in countries where provincial and municipal governments are large or have considerable tax authority. Here, low ratios of tax revenue to GDP may reflect weak administration and large-scale tax avoidance or evasion. They may also reflect the presence of a sizable parallel economy with unrecorded and undisclosed incomes. Tax revenue ratios tend to rise with income, with higher-income countries relying on taxes to finance a much broader range of social services and social security than lower-income countries are able to provide. As economies develop, their capacity to tax residents directly typically expands and indirect taxes become less important as a source of revenue. Thus, the share of taxes on income, profits and capital gains is one measure of an economy's (and tax systems) level of development. Actually, in the early stages of development, governments tend to rely on indirect taxes because the administrative costs of collecting them are relatively low. Yet, the two main indirect are international trade taxes (plus customs revenue) and domestic taxes on goods and services. Table 8.1 shows these domestic taxes as a percentage of value added in industry and services. Here, agriculture and mining are excluded from the dominator because indirect taxes on goods originating from these sectors are usually negligible. However, what is missing is a measure of the uniformity of these taxes across industries and along the value added chain of production. Without

such data, no clear inferences can be drawn about how neutral a tax system is between subsection "Surplus" revenues raised by some governments by charging higher prices for goods produced under monopoly by state-owned enterprises are not counted as tax revenues. Equally, losses from charging below-market prices for products are rarely identified as subsidies.

Export and import duties are shown separately because the burden they impose on the economy is likely to be large. Typically, export duties levied on primary products often take the place of direct taxes on income and profits but reduced the incentive to export and encourage a shift to other products. On the other hand, high import duties penalize consumers; create protective barriers (which promote higher priced output and inefficient production) and implicitly tax exports. However, lower trade taxes enhance openness (to foreign competition, knowledge, technologies and resources) energizing development in many ways. Actually, the tax revenues collected by governments are the outcomes of systems that are often complex, containing many exceptions, exemptions, penalties and other inducements that affect the incidence of taxes and thus influence the decisions of workers, managers and entrepreneurs. Here, a potentially important influence on both domestic and international investors is a tax system's progressivism, as reflected in the highest marginal tax rate on individual and corporate income. Figures for individual marginal tax rates generally refer to employment income; and in some countries the highest marginal tax rate is also the basic or flat rate and other surtaxes, deductions and the like may apply. Again, in many countries, several different corporate tax rates may be levied, depending on the type of business (mining, banking, insurance, agriculture, and manufacturing), ownership (domestic or foreign), volume of sales or whether surtaxes or exemptions are included.

In the above table, the corporate tax rates are mainly generally rates applied to domestic companies. Tax revenue comprises compulsory transfers to the central government for public purposes and compulsory transfers such as fines, penalties, most social security contributions are excluded. Refunds and corrections of erroneously collected tax revenue are treated as negative revenue. Taxes on income, profits and capital gains are levied on wages, salaries, tips, fees, commission, and other labor services compensation; interest, dividends, rent, and royalties; profits of business, estates, and trusts; and capital gains an losses. Social security contributions based on gross pay, payroll, or number of employees are not included, but taxable portions of social security, pensions and other retirement account distributions are included. Domestic taxes on goods and services include all taxes and duties levied by central governments on the production, extraction, sale, transfer, leasing or delivery of goods and rendering of services, or on the use of

goods or permission to use goods or perform activities. These include value added taxes, general sales taxes, single-stage and multistage taxes (stage implying stage of production or distributions) excise taxes, motor vehicle taxes, and taxes on the extraction, processing or production of minerals or other products. Export duties include all levies collected on goods at the point of export and rebates on exported goods that are repayments of previously paid general consumption taxes, excise taxes, or import duties are deducted from the gross amounts receivable from these taxes, not from amounts receivable from these taxes, not from amounts receivable from export duties. Import duties comprise all levies collected on goods at the point of entry into the country and the levies may be imposed for revenue or protection purposes and may be determined on a specific or advalorem basis as long as they are restricted to imported products. Again, the highest marginal tax rate is the highest rate shown on the schedule of tax rates applied to the annual taxable income of individuals and corporations. The income levels above which the highest marginal tax rates for individuals apply are also presented.

Indeed, a surge in debt forgiveness grants (as from 2002) has drawn attention to their treatment in official development assistance (ODA) statistics. These grants from the OECD's development assistance committee (DAC) countries have increased tremendously. In particular, one-half to three quarters of these grants have been allocated to sub-Saharan African and the prominence of debt relief in aid flows in recent years is evident. Essentially, debt relief from the donors' perspective (budget office) can be quite different from that from the recipients' perspective (availability of resources). However, one important question that arises then is whether ODA debt forgiveness grants represent additional flows (Cross-border flows) to recipients. Here, several advocacy groups have argued that ODA statistics are misleading because debt cancellations do not represent "genuine" aid. Yet, DAC statistical guidelines allow debt cancellation to be reported as debt forgiveness when the action on debt occurs within the framework of a bilateral agreement and is implemented for the purpose of promoting the development or welfare of the recipient. Although debt cancellation may not deliver additional flows to borrowers, it does reflect government budget effort. The extent of the budget effort will depend on the terms of government guarantees for export and commercial credits and on the timing of write-offs for official loans. And because of the differences in practices across donors, the extent of the budget effort for a particular debt action varies across countries. Table 8.2 shows the African Debt Profile.

TABEL 8.2 COMPARATIVE AFRICAN DEBT (AID) PROFILE

A S/N	B COUNTRY	C REGIONAL	D NET AID FROM	E NET AID FROM	F NET AID FROM

		INCOME PROFILE	ALL DONORS (2004 $ MILLIONS) 2005	DAC DONORS (2004 $ MILLIONS) 2005	MULITILATERAL DONORS 2005
1	ALGERIA	NALMI	371	290	71
2	ANGOLA	SALMI	442	258	183
3	BENIN	WALI	349	207	142
4	BOTSWANA	SAUMI	71	52	19
5	BURKINA FASO	WALI	660	339	319
6	BURUNDI	EALI	365	181	184
7	CAMEROON	CALMI	414	336	77
8	CAPE VERDE	WALMI	161	104	56
9	CENTRAL AFRICAN REPUB.	CALI	95	62	33
10	CHAD	CALI	380	167	213
11	COMOROS	EALI	25	17	08
12	CONGO (DEM REP)	CALI	1,828	1034	793
13	CONG (REP.)	CALI	1,449	1,360	89
14	COTE D' VOIRE	WALI	119	151	-32
15	DJIBOUTI	NALMI	79	54	23
16	EGYPT	NALMI	926	659	238
17	EQUAT. GINEA	CAUMI	39	30	09
18	ERITREA	EALI	355	226	132
19	ETHIOPIA	EALI	1937	1202	706
20	GABON	CAUMI	54	30	24
21	GAMBIA	WALI	58	15	43
22	GHANA	WALI	1120	603	503
23	GUINEA	WALI	182	128	54
24	GUINEA BISSAU	WALI	79	39	40
25	KENYA	EALI	768	495	260
26	LESOTHO	EALMI	69	39	30
27	LIBERIA	WALI	236	149	87
28	LIBYA	NAUMI	24	17	04
29	MADAGASCAR	EALI	929	500	429
30	MALAWI	EALI	575	322	251
31	MALI	WALI	691	378	313
32	MAURITANIA	WALI	190	125	66
33	MAURITIUS	SAUMI	32	22	10
34	MAYOTTE	SAUMI	-	-	-
35	MOROCCO	NALMI	652	289	309
36	MOZAMBIQUE	EALI	1286	771	513
37	NAMIBIA	SALMI	123	99	23
38	NIGER	WALI	515	256	259
39	NIGERIA	WALI	6437	5966	471
40	RWANDA	EALI	576	292	284
41	SAOT. & PRINC.	CALI	32	18	13
42	SENEGAL	WALI	689	440	249
43	SEYCHLLES	SAUMI	19	08	11
44	SIERRA LEONE	WALI	343	130	213
45	SOMALIA	EALI	236	146	90
46	SOUTH AFRICA	SAUMI	700	486	213
47	SUDAN	EALI	1829	1472	315
48	SWAZILAND	SALI	46	20	26
49	TANZANIA	EALI	1505	871	622

50	TOGO	WALI	87	59	27
51	TUNISIA	NALMI	376	269	105
52	UGANDA	EALI	1198	704	492
53	ZAIRE	SALI	-	-	-
54	ZAMBIA	SALI	945	836	109
55	ZIMBABWE	SALI	368	179	189

Table 8.2 cont.

S/N	COUNTRY	G NET AID SHARE GDP (PERCENTAGE) 2005	H HIPC DEBT INITIATIVE DECISION OINT 2006	I HIPC DEBT INITIATIVE COMPLETION POINT 2006	J DEBT SERVICE RELIEF COMMITTED ($ MILLION) 2006
1	ALGERIA	0.40	-	-	-
2	ANGOLA	01.30	-	-	-
3	BENIN	08.10	JUL.2000	MAR. 3000	460
4	BOTSWANA	00.70	-	-	-
5	BURKINA FASO	11.60	JUL.2000	APR. 2002	930
6	BURUNDI	45.60	OCT.2000	FLOATING	1,472
7	CAMEROON	02.50	OCT.2000	APR. 2006	4,917
8	CAPE VERDE	16.10	-	-	-
9	CENTRAL AFRICAN REPUB.	07.00	-	-	-
10	CHAD	06.40	MAY 2001	FLOATING	260
11	COMOROS	06.50	-	-	-
12	CONGO (DEM REP)	25.70	JUL. 2003	FLOATING	10.389
13	CONG (REP.)	24.30	-	-	2,881
14	COTE D' VOIRE	00.70	MAR. 1998	-	-
15	DJIBOUTI	11.10	-	-	-
16	EGYPT	01.00	-	-	-
17	EQUAT. GINEA	00.50	-	-	-
18	ERITREA	036.60	-	-	-
19	ETHIOPIA	17.00	NOV 2001	APR 2004	3,275
20	GABON	00.60	-	-	-
21	GAMBIA	12.60	DEC. 2000	FLOATING	90
22	GHANA	10.40	FEB. 2002	JUL. 2004	3,500
23	GUINEA	05.50	DEC. 2000	FLOATING	800
24	GUINEA BISSAU	26.30	DEC. 2000	FLOATING	790
25	KENYA	04.00	-	-	-
26	LESOTHO	04.7	-	-	-
27	LIBERIA	44.60	-	-	-
28	LIBYA	00.10	-	-	-
29	MADAGASCAR	18.40	DEC. 2000	OCT 2004	1,900
30	MALAWI	27.70	DEC. 2000	FLOATING	1,000
31	MALI	13.00	AUG. 2000	MAR 2003	895
32	MAURITANIA	10.40	FEB. 2000	JUN 2002	1,100
33	MAURITIUS	00.50	-	-	-
34	MAYOTTE	-	-	-	-
35	MOROCCO	01.30	-	-	-
36	MOZAMBIQUE	18.80	APR. 2000	SPE. 2001	4, 300
37	NAMIBIA	02.00	-	-	-
38	NIGER	15.20	DEC 2000	JUN 2004	1190
39	NIGERIA	06.60	-	-	-

40	RWANDA	26.70	DEC 2000	JUN 2005	1316
41	SAOT. & PRINC.	28.30	DEC 2000	FLOATING	200
42	SENEGAL	08.00	JUN 2000	APR 2004	850
43	SEYCHLLES	2.60	-	-	-
44	SIERRA LEONE	28.80	MAR 2002	FLOATING	950
45	SOMALIA	-	-	-	-
46	SOUTH AFRICA	00.30	-	-	-
47	SUDAN	06.60	-	-	-
48	SWAZILAND	01.80	-	-	-
49	TANZANIA	12.00	APR 2000	NOV 2001	3,000
50	TOGO	04.10	-	-	-
51	TUNISIA	01.30	-	-	-
52	UGANDA	13.70	FEB 2000	MAY 2000	1950
53	ZAIRE	-	-	-	-
54	ZAMBIA	13	DEC 2000	APR 2005	3,900
55	ZIMBABWE	10.80	-	-	-

NOTES: NA= North Africa; EA= East Africa; WA= West Africa, CA=Central Africa; SA= South Africa; LI= Low Income; LMI= Low Middle Income, UMI= Upper Middle Income

SOURCES: World Bank African Development Indicators (2007) united Nations (H.D) Report.

Here, Net aid from all donors is met aid from the organization for Economic co-operation and Development (OECD) Development Assistance Committee (DAC); Non-DAC bilateral (OPEC); former council for mutual economic assistance (CMEA) countries; CHINA (OECD data) and multilateral donors. The Net aid from DAC donors is net aid from OECD's DAC donors. The Net aid from multilateral donors is net aid from multilateral sources, such as the African Development Fund; European Development fund for the commission of the European Communities; the international Development Association; the International fund for Agricultural Development Arab and OPEC financed multilateral agencies, and United Nations Programs and agencies. Aid flows from the International Monetary Funds (IMF) trust fund and structural Adjustment facility are also included. United Nations programs and agencies include the United Nations Technical Assistance Programme, United Nations Development Programme, United Nations Office of the High commissioner for refugees, United Nations Children's Fund and the World food programme. Arab and OPEC Financed Multilateral agencies include the Arab Bank for Economic Development in Africa, Arab fund for Economic and Social development; Islamic development bank; OPEC fund for international Development; Arab Authority for Agricultural Investment and Development, Arab fund for technical assistance to African (Arab) countries and the Islamic solidarity fund. Here, the Net aid as a share of gross domestic product (GDP) is calculated by dividing the nominal total net aid from all donors by nominal GDP. For a given level of aid flows,

devaluation of a recipient's currency may inflate the across countries that have implement different exchange rate policies should be interpreted carefully. Heavily indebted poor countries (HIPC) Debt initiative point is the date at which an HIPC with an established track record of good performance under adjustment programs supported by the international Monetary Fund and the World Bank Commits to undertake additional reforms and to develop and implement a poverty reduction strategy. Then, the country receives the bulk of debt relief under the HIPC initiative without further policy conditions. The debt service relief committed is the amount of debt service relief, calculated at the decision point that will allow the country to achieve debt sustainability at the completion point.
The African agricultural productivity statistics is shown in table 8.3 (World bank, 2008).

TABLE 8.3 AFRICAN AGRICULTURAL PRODUCTIVITY STATISTICS

A S/N	B COUNTRY	C REGIONAL INCOME PROFILE	D PREVALENCE OF CHILD MALNUTRITION % OF CHILDREN UNDER FIVE 1990-1995	E PREVALENCE OF CHILD MALNUTRITION % OF CHILDREN UNDER FIVE 2000-2006	F GROSS DOMETIC PRODUCT & MILLIONS 2006
1	ALGERIA	NALMI	13	10	114,727
2	ANGOLA	SALMI	-	31	44,033
3	BENIN	WALI	-	30	4,775
4	BOTSWANA	SAUMI	-	-	-
5	BURKINA FASO	WALI	33	38	6,205
6	BURUNDI	EALI	-	45	807
7	CAMEROON	CALMI	15	18	18,323
8	CAPE VERDE	WALMI	-	-	-
9	CENTRAL AFRICAN REPUB.	CALI	23	24	1,486
10	CHAD	CALI	-	37	6,541
11	COMOROS	EALI	-	-	-
12	CONGO (DEM REP)	CALI	34	31	8,543
13	CONG (REP.)	CALI	-	-	1,385
14	COTE D' VOIRE	WALI	24	17	17,484
15	DJIBOUTI	NALMI	-	-	-
16	EGYPT	NALMI	17	09	107,484
17	EQUAT. GINEA	CAUMI	-	-	-
18	ERITREA	EALI	44	40	1085
19	ETHIOPIA	EALI	48	38	13,315

20	GABON	CAUMI	-	-	-
21	GAMBIA	WALI	-	-	-
22	GHANA	WALI	27	22	12906
23	GUINEA	WALI	27	33	3317
24	GUINEA BISSAU	WALI	-	-	-
25	KENYA	EALI	23	20	21,186
26	LESOTHO	EALMI	-	-	-
27	LIBERIA	WALI	-	-	-
28	LIBYA	NAUMI	-	-	-
29	MADAGASCAR	EALI	34	42	5,499
30	MALAWI	EALI	30	22	2232
31	MALI	WALI	-	33	5929
32	MAURITANIA	WALI	48	32	2663
33	MAURITIUS	SAUMI	-	-	-
34	MAYOTTE	SAUMI	-	-	-
35	MOROCCO	NALMI	10	10	57,307
36	MOZAMBIQUE	EALI	27	24	7608
37	NAMIBIA	SALMI	26	24	6372
38	NIGER	WALI	43	40	3544
39	NIGERIA	WALI	39	29	114,686
40	RWANDA	EALI	29	23	2,494
41	SAOT. & PRINC.	CALI	-	-	-
42	SENEGAL	WALI	22	23	8,936
43	SEYCHLLES	SAUMI	-	-	-
44	SIERRA LEONE	WALI	29	27	1443
45	SOMALIA	EALI	-	-	-
46	SOUTH AFRICA	SAUMI	09	-	254,992
47	SUDAN	EALI	34	41	37,565
48	SWAZILAND	SALI	-	-	-
49	TANZANIA	EALI	29	22	12,784
50	TOGO	WALI	-	-	2206
51	TUNISIA	NALMI	09	04	30298
52	UGANDA	EALI	26	23	9,322
53	ZAIRE	SALI	-	-	-
54	ZAMBIA	SALI	25	23	10,907
55	ZIMBABWE	SALI	16	-	5,010

Table 8.3 cont.

S/N	COUNTRY	G GROSS DOMESTIC PRODUCT AVERAGE ANNUAL % GROWTH 2000-2006	H AGRICULTURAL VALUE ADDED PER WORKER ($ 2000) 1990-1992	I AGRICULTURAL VALUE ADDED PER WORKER ($2000) 2001-2003	J AGRICULTURAL VALUE ADDED PERCENTAGE OF GDP 2006
1	ALGERIA	5.00	1,911	2,067	8
2	ANGOLA	11.10	183	160	7
3	BENIN	3.80	368	578	32
4	BOTSWANA	-	-	-	-
5	BURKINA FASO	5.70	143	163	-
6	BURUNDI	2.50	110	80	35
7	CAMEROON	3.60	389	596	20
8	CAPE VERDE	-	-	-	-
9	CENTRAL AFRICAN REPUB.	-0.60	290	407	54

10	CHAD	14.30	179	226	21
11	COMOROS	-	-	-	-
12	CONGO (DEM REP)	4.70	186	154	46
13	CONG (REP.)	4.50	-	-	04
14	COTE D' VOIRE	0.10	601	761	21
15	DJIBOUTI	-	-	-	-
16	EGYPT	4.00	1531	1975	15
17	EQUAT. GINEA	-	-	-	-
18	ERITREA	2.70	-	64	17
19	ETHIOPIA	5.70	-	149	48
20	GABON	-	-	-	-
21	GAMBIA	-	-	-	-
22	GHANA	5.30	302	331	38
23	GUINEA	2.90	149	193	13
24	GUINEA BISSAU	-	-	-	-
25	KENYA	3.80	335	327	28
26	LESOTHO	-	-	-	-
27	LIBERIA	-	-	-	-
28	LIBYA	-	-	-	-
29	MADAGASCAR	2.70	187	179	28
30	MALAWI	4.10	72	130	36
31	MALI	5.70	204	227	37
32	MAURITANIA	5.00	574	385	17
33	MAURITIUS	-	-	-	-
34	MAYOTTE	-	-	-	-
35	MOROCCO	4.40	1,438	1515	17
36	MOZAMBIQUE	8.20	108	137	22
37	NAMIBIA	4.70	811	1057	11
38	NIGER	3.70	170	172	-
39	NIGERIA	5.90	592	843	23
40	RWANDA	5.10	192	222	41
41	SAOT. & PRINC.	-	-	-	-
42	SENEGAL	4.50	249	249	18
43	SEYCHLLES	-	-	-	-
44	SIERRA LEONE	12.30	-	-	47
45	SOMALIA	-	-	-	-
46	SOUTH AFRICA	4.10	1796	2391	3
47	SUDAN	6.90	346	707	31
48	SWAZILAND	-	-	-	-
49	TANZANIA	6.50	245	283	45
50	TOGO	2.30	354	404	44
51	TUNISIA	4.60	2,431	2,431	11
52	UGANDA	5.60	187	230	32
53	ZAIRE	-	-	-	-
54	ZAMBIA	4.90	161	205	16
55	ZIMBABWE	-5.60	244	266	22

NOTES: NA= North Africa; EA = East Africa; WA= West Africa; CA = Central Africa; SA = South Africa; LI= Low Income; LMI = Low Middle Income; UMI = Upper Middle Income.

SOURCES: World Development Report (2008)
United Nations Human Development Reports.

Here, the prevalence of Child Malnutrition is the percentage of children under five whose weight for age is less than minus two standard deviations from the median for the international reference population ages 0-59 months. The reference population, adopted by the World Health Organization (1983) is based on children from the United States, who are assumed to be well nourished and estimates of child malnutrition are from national survey data. The proportion of children who are underweight is the most common indicator of malnutrition and being underweight (even mildly) increases the risk of death and inhibits cognitive development in children. However, it perpetuates the problem from one generation to the next, as malnourished women are more likely to have low-birth- weight babies. Gross domestic product (GDP) is gross value added at purchasers prices, by all resident producers in the economy plus any taxes and minus any subsidies not included in the value of the products. It is calculated without deducting for depreciation of fabricated assets or for depletion or degradation of natural resources. Value added is the output of an industry after adding up all outputs and subtracting intermediate inputs; and the industrial origin of value added is determined by the International Standard Industrial Classification (ISIC) revision. The report conventionally uses the United States dollar and applied the average official exchange rate reported by the International Monetary fund for the year shown; and an alternative conversion factor is applied if the official exchange rate is judged to diverge by an exceptionally large margin from the rate effectively applied to transactions in foreign currencies and traded products. Again, Gross domestic product average annual growth rate is calculated from constant price GDP data in Local currency. Here, agricultural productivity refers to the ratio of agricultural value added, measured in constant 1995 United States dollars, to the number of workers in agriculture. Value added is the net output of an industry after adding up all outputs and subtracting intermediate inputs. However, the industrial origin of value added is determined by the International Standard Industrial Classification (ISIC) revision three. On the other hand, Agriculture value added corresponds to ISIC divisions one to five and includes forestry and fishing.

From the beginning, the fiscal relationship in Nigeria involved only two levels of government: Central government and local authorities (native authorities). However, the power to raise tax was vested in the central government and the native authorities were given complete freedom of disbursement of their own share. Until 1913, this pattern of fiscal relationship remained in force and subsequently. The native authorities were allowed to retain fifty percent of general tax revenue and then pay over the balance of fifty percent to the government treasury. Again, the conference of residents and the central governments (1926-1929) debated the tax position on ground. However, the then secretary of

state refused to amend the law and thus the right over taxation was retained for the central government. Yet, in 1929, the principle of deviation was implicitly introduced into the revenue allocation formula in Nigeria. And between 1933 and 1934, the share of native authorities that were classified as fully organized was reduced drastically; and therefore in 1935, Sir John Maybin (Nigerian government administrator) introduced the concession of the principle of need or even development into the revenue sharing formula in the country. However, Sir Bernard Bourdillion (1935-1939) criticized the principle of deviation (allocation) based on the degree of organization on the grounds that it made for uneven development.

Subsequently, various developments in revenue allocation principles evolved in Nigeria. In 1947/48 (Unitary system). The fiscal commissioners (Sir Sydney Phillipson and S.O. Adebo) made some recommendation while deviation and even progress were the acceptable principles. In 1952/53 (Quasi Federal System), the fiscal commissioners were Prof. J.R. Hicks, Sir Sydney Phillipson and D. Sketton. They made recommendations while deviation, need and national interest were the accepted principles. Yet, in 1954/58 (federal system), the fiscal commissioner was Sir Louis Chick. He made several fiscal recommendations and the accepted principles were derivation and fiscal independence. In 1959/60 (federal system), the fiscal commissioners were Sir J. Raisman and Prof R. Tress. They made several recommendations and the accepted principles were derivation, national unity and fiscal independence.

Again, in 1964/67 (Federal system) Mr. H. Bin (Fiscal commissioner) made several recommendations and the acceptable principles were derivation fiscal independence, National interest, East (30%), North (42%), Mid west (8%) and West (20%). In 1968 (federal system) Chief O. Dina committee made several recommendations and the acceptable principles were equality of states (50%) population (50%) and derivation. The federal military government also (1975/76) re-examined the fiscal position and the accepted principles were equality of states, population and derivation. In 1977, Prof A.O Aboyade fiscal technical committee made several recommendations and the accepted principles include equality of access to Development opportunities (25%); National Minimum Standard for National Integration (22%); Absorptive Capacity (20%); Independent Revenue and Minimum tax effort (18%); fiscal efficiency (15%); federal (60%); state joint A/c (30%); Local Govt (10%) and special Grants A/c(0%).

In 1979, the Okigbo Presidential Commission was appointed in the light of the deliberations in the constituent assembly and terms of reference were offered. In keeping with the Nigerian constitution, the commission agreed to the federation account into which all federally collected revenues, expect the proceeds of taxes on the personal income

of the personnel of the Armed forces, the Nigeria police force, external affairs officers and residents of the federal capital territory, should be paid. However, it recommended that the constitution be amended to the effect that receipts accruing form the repayment of loans and sales of capital assets should not be regarded as revenue and therefore should not form part of the federation account. Additional fiscal recommendations were also made. Indeed, the recommendations of the commission were accepted and adopted with minor amendments by the National Assembly and signed into law in 1982. Here, the federation account was to be distributed among the three levels of government as follows: federal government (55%); state governments (35%) and local government councils 10%. Thus, the 35% share of state governments was applied as follows: equality of states (30.5%); ecological problems (1.0%); derivation principle (3.5%). The 3.5% allocation on the basis of derivation was sub-divided into 2.0% to directly accrue to states concerned in proportion to the value of minerals extracted from the territory of the states and 1.5% into a fund for the development of mineral producing areas of the country. These are in addition to other related fiscal modification.

In fact, the system of revenue jurisdiction approved by the National assembly in 1982 remained unchanged up to year 2000. However what has been altered a number of times is the formula for distributing the federation Account. Specifically, in 1985, the military administration amended the allocation formula with the principal objective of relating the allocation on the basis of derivation to the total value of minerals extracted rather than to the total revenue in the federation account. Again, in 1989, an important institutional change was made and the military administration established a Revenue Mobilization Allocation and fiscal commission. The commission was empowered (among other assignments) to monitor the accruals to and disbursement of revenue from the federal Account. Again, the 1990 system of revenue allocation (as approved in 1982) was adopted without modification. In 1992, however, there was a review of the allocation formula involving a reduction of the federal government's share in the federation account while the share of local government as well as special fund and ecological fund share were increased. Again, in 1995, the formula remained unchanged (as of 1992) with minor differences occurring in the structure and jurisdiction of revenue.

Significantly, in 1994, sales tax was replaced by the value-added tax (VAT) in an attempt to ensure that the state government adopted uniform rates and to enhance receipts. Here, the FGN assured responsibility for the administration and collection of the VAT proceeds the sharing formula was 20:50:30 and early, 1995 (50:25:25) and much later (4:35:25). However, section 162 of the 1999 constitution reserves for the

National Assembly, the power to determine the formula for allocating the federation account, taking into account the principles of population, equality of state, internal revenue generation, landmass, terrain as well as population density, provided that the principle of derivation shall be constantly reflected in the formula as being not less than 13% of the revenue accruing to the federation account directly from any natural resources. However, pending the determination of the system by the national Assembly, the Nigerian constitution provides that the system of revenue allocation in force in the fiscal year should apply. Here, the distribution of revenue among the states and local governments was based on the following principles and weights as approved by the national assembly: equality of states and local governments (40%), population of states and local governments (30%), social development factor (10%), land mass/terrain (10%) and internal revenue effort (10%).

The expenditure assignment in Nigeria (as provided in the constitution) include Defence (F), foreign affair (F), Immigration (F) International trade (F), money and banking (F), Environment (F/S), Air and Rail (F), industry and agriculture (F/S), education (F/S/L), health (F/S/L), Police (F) and Highways (F/S/L). On the other hand, the tax assignment (Legislation/ administrative collection) include personal income tax (F/F,S); companies income tax (F/F); withholding tax (F/F,S); Resource Tax (Petroleum, solid mineral) and customs (import and export duties) (F/F); VAT (F/F); Education tax (F/F); Capital gains, tax (F/F,S) Stamp duties (F/F,S); pools betting and lotteries (S/S); Road taxes (S/S); Business taxes (S/S); Development levy (S/S); Land (S/S,L); Market taxes (S/S,L); Naming of Streets (S/L); property (tenement rates) (L/L); Estates (S/S); Entertainment (L/L); Advertisement (L/L); Fees (Birth marriage, death registration, motor parks, driver's license, shops, liquor license, slaughter slap) (L/L); Gifts tax (S/S) and capital transfer (S/S).

Recently, the fiscal responsibility Act 2007 of Nigeria was enacted. It was an act to provide for prudent management of the nations resources, ensure long term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium term fiscal policy framework, and the establishment of the fiscal responsibility commission to ensure the promotion and enforcement of the nation's economic objectives and for related matters. A major component of this act is that the federal government shall ensure that its fiscal and financial affairs are conducted in a transparent manner and accordingly ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances. Equally, the National Assembly shall ensure transparency during the preparation and discussion of the medium term expenditure framework, annual budget and the appropriation bill. Again, the Federal Government may

provide technical and financial assistance to states and local governments that adopt similar fiscal responsibility legislation along the same lines as this Act for the modernization of their respective tax, financial and asset administration. In addition to any other power, conferred on him under this act, the president shall make regulations generally for the purposes of carrying into effect the provisions of this act.

Currently, Nigeria operates a federal political economy (federalism) implying a series of legal administrative relationships established among units of government possessing varying degrees of real authority and jurisdictional autonomy. However, the Nigerian federal system has metamorphosed from a two-tier federal arrangement comprising three unequal regions to a three-tier federal system of thirty-six states, one federal capital territory and seven hundred and seventy-four local government, each of which is constitutionally recognized. Unfortunately, there has been increasing wave of discordant voices from state and local governments over revenue allocation in the country; and this suggests that appropriate balance is yet to be struck in the use of revenue allocation to correct the imbalance between responsibilities and revenue powers at the lower levels of government. Tables 8.4, 8.5 and 8.6 show the various local, state and federal finances in Nigeria.

TABLE 8.4 FEDERAL GOVERNMENT FINANCES: NIGERIA DATA

A	B Total Federal Collected Revenue N Million	C Oil Revenue N Millions	D Non Oil Revenue N Millions	E Federation Account N Millions	F Federal Government Retained Revenue N Millions	G Total Expenditure N Millions	H Recurrent Expenditure N Millions	I Current Surplus (f) Deficit (-)
1970	634.0	166.6	467.4	582.4	448.8	903.9	716.1	187.8
1971	1168.8	510.1	658.7	1068.6	1168.8	997.2	823.6	173.6
1972	1405.1	764.3	640.8	1325.8	1404.8	1463.6	1012.3	451.3
1973	1695.3	1016.0	679.3	1613.0	1695.3	1529.2	963.5	565.7
1974	4537.4	3724.0	813.4	4371.1	4537.0	2740.8	1517.1	1223.5
1975	5514.7	4271.5	1,243.2	5294.1	5514.7	5942.6	2734.9	3207.7
1976	6765.9	5365.2	1,400.7	6470.1	6765.9	7856.7	3815.4	4041.3
1977	8042.4	1749.8	1961.8	7703.1	8042.4	8823.8	3819.2	5004.6
1978	7371.0	4555.8	2815.2	6781.4	5178.1	8000.0	2800.0	5200.0
1979	10912.4	8880.8	2031.6	10599.8	8868.4	7406.7	3187.2	4219.5
1980	15233.5	12353.3	2880.2	14746.5	12993.3	14968.5	4805.2	10163.3
1981	13290.5	8564.4	4726.1	10182.8	7511.6	11413.7	4846.7	6567.0
1982	11433.7	7814.9	3618.8	9884.9	5819.1	11923.2	5506.0	6417.2
1983	10506.7	7253.0	3255.7	9798.6	6272.0	9636.5	4750.8	4885.7
1984	11253.3	8269.2	2984.1	10672.4	7267.2	9927.6	5827.5	4100
1985	15050.4	10923.7	4126.7	13750.2	10001.4	13041.1	7576.4	5464.7
1986	12595.8	8107.3	4488.5	11,868.3	7969.4	16223.7	7696.9	8526.8
1987	25380.6	19027.0	6353.6	24692.2	16129.0	22018.7	15646.2	6372.5
1988	27596.7	19831.7	7765.0	26770.3	15588.6	27749.5	19409.4	8340.1
1989	53,870.4	39130.5	14739.9	46860.3	25893.6	41028.3	25994.2	15034.1

1990	98102.4	71887.1	26,215.3	68064.2	38152.1	60268.2	36219.6	24048.6
1991	100991.6	82666.4	18325.2	54000.0	30829.2	66584.4	38243.5	28340.9
1992	190453.2	164078.1	26375.1	77800.0	53264.9	92797.4	53034.1	39763.3
1993	192769.4	162102.4	30667.0	106799.4	126071.2	191228.9	136727.1	54,501.8
1994	201910.8	160192.4	41718.4	110461.0	90622.6	160893.2	89974.9	70913.3
1995	459987.3	324527.6	135439.7	161988.9	249768.1	248766.1	127679.8	121138.3
1996	523597.0	408783.0	114814.0	179000.0	325144.0	337217.6	124491.3	212926.3
1997	582811.1	416811.1	166000.0	208000.0	351262.3	428215.2	158563.5	269651.7
1998	463608.8	324311.2	139297.6	257331.4	353724.1	487113.4	178097.8	309015.6
1999	949187.9	724422.5	224765.4	576801.4	662585.3	947690	449662.4	498027.6
2000	1906.2	1591.7	314.5	1262.5	597.3	701.1	461.6	239.5
2001	2231.6	1707.6	903.5	1427.4	797.0	1018.0	579.3	438.7
2002	1731.8	1230.9	501.0	1606.1	716.8	1018.2	696.8	321.4
2003	2575.1	2074.3	500.8	2011.6	1023.2	1226.0	984.3	241.7
2004	3920.5	3354.8	565.7	2657.2	1253.6	1426.2	1032.7	351.3
2005	5547.5	4762.4	785.1	2033.9	1660.7	1822.1	1223.7	519.5
2006	5965.1	5287.6	677.5	3219.1	1836.6	1938.0	1290.2	552.4

Table 8.4 Cont.

A	J Current Surplus (F) Deficit (-)	L Percentage Of GDP (%)	K Overall Surplus (f) Deficit (-) N Millions	M Percentage of GDP (%)	N Financing N Millions	O Foreign *Net) N Millions	P Banking System (Net) N Millions	Q Domestic (Net) N millions	R Other funds N Millions
1970	-267.3	-5.1	-455.1	-8.8	455.1	1.0	165.6	227.4	226.7
1971	345.2	5.3	171.6	2.6	-171.6	40.9	276.0	300.1	-512.6
1972	392.5	5.4	-58.8	-0.8	58.8	40.9	6.3	0.3	17.6
1973	731.8	6.7	166.1	1.5	-166.1	48.9	28.5	60.5	-275.5
1974	3019.9	16.5	1796.4	9.8	-1796.4	45.5	188.5	242.3	-2084.2
1975	2779.8	12.9	-427.9	-2.0	437.9	27.5	362.9	453.0	-52.6
1976	2950.5	10.8	-1090.8	-4.0	1090.8	24.5	620	1041.3	25.0
1977	4223.2	12.9	-761.4	-2.4	781.4	-0.5	1599.8	1886.3	-1095.4
1978	2378.1	6.6	-2821.9	-7.8	2821.9	1500.0	1250.5	1582.5	-260.6
1979	5681.2	13.2	1461.7	3.4	-1461.7	363.8	101.8	729.0	-2554.5
1980	8188.1	16.1	-1975.2	-3.9	1975.2	255.3	150.7	387.1	1332.8
1981	2664.9	2.6	-3902.1	-3.8	3902.1	464.4	3018.0	4200.8	-763.1
1982	313.1	0.5	-6104.1	-5.5	6104.1	263.5	3989.2	3402.0	2438.6
1983	-1521.2	1.3	-3364.5	-2.8	3364.5	1106.9	5296.3	7057.0	-4799.4
1984	1439.7	1.2	-2660.4	-2.1	2660.4	1184.5	2370.0	2928.2	-1452.3
1985	2425.0	1.7	-3039.7	-2.1	3039.7	1045.9	785.6	571.2	1422.6
1986	272.5	0.2	-8254.3	-5.7	8254.3	708.1	475.2	475.5	7070.7
1987	482.8	0.2	-5889.7	-2.9	5889.7	832.7	2809.7	6465.6	-1408.6
1988	-3820.8	-1.4	-12160.9	-4.4	12160.9	1918.7	6102.4	8361.8	1880.4
1989	-10326.0	-2.6	-15134.7	-3.7	15134.7	5719.0	-9236.4	-5797.8	15213.5
1990	1932.5	0.4	-22116.1	-4.4	22116.1	980.6	2727.7	6092.6	15042.9
1991	-7414.3	-1.3	-36755.2	-6.2	35755.2	2972.6	31107.1	32112.4	670.2
1992	230.8	0.0	-39532.5	-4.3	39532.5	-11859.6	33598.9	46716.7	4675.4
1993	-53233.5	4.7	-107735.3	-9.5	107735.3	16963.5	89402.0	91136.0	-364.2

1994	647.7	0.0	-70270.6	-4.8	70270.6	8390.8	40900.1	60247.6	1632.2
1995	122138.3	4.1	1000.0	0.0	-1.000.0	22455.4	17819.6	7102.2	-30557.6
1996	244975.7	5.9	32049.4	0.8	-37049.4	7825.4	-153143.2	-32049.4	103314.7
1997	264651.7	6.2	-5.000	-0.1	5000.0	13382.6	-62889.5	-8382.6	52254.5
1998	175626.3	4.3	-133389.3	-3.3	133389.3	16605.6	108990.5	116783.7	12898.0
1999	212922.9	4.4	-285104.7	-5.9	285104.7	21040.8	172638.1	264065.9	109986.5
2000	135.7	0.0	-103777.3	-1.5	103777.3	0.0	73137.0	103447.3	330.0
2001	217.6	0.0	-221048.9	-3.1	221048.9	0.0	136734.1	118720.0	102328.9
2002	20.0	0.0	-301401.6	-3.8	301401.6	0.0	60794.5	149026.7	152374.9
2003	39.0	0.0	-202724.7	-2.0	202746.4	0.0	134246.4	163746.4	39000.0
2004	220.8	0.0	-172601.3	-1.5	172620.0	0.0	0.0	45500.0	126120.0
2005	437.0	0.0	-161406.3	-1.1	161400.0	0.0	0.0	143500.0	17900.0
2006	546.4	0.0	-101397.5	-0.6	101251.4	0.0	0.0	45000.0	56251.4

Notes: Recurrent expenditure includes interest payments on debt service, other transfers and extra-budgetary items. Capital expenditure includes capital repayments on debt service, other transfers and net-lending. Other funds include public, special and trust funds, treasury clearance funds, excess reserves and so on.

Sources: CBN statistical bulletin (2006) NBS Annual Abstract of Statistics (2006)

TABLE 8.5 STATE GOVERNMENT FINANCES: NIGERIAN STATES/FCT DATA

A	B Current Revenue N Millions	C Federation Account N millions	D Value Added Tax N Millions	E Internal Revenue N Millions	F Grants others N Millions	G Stabilization Fund Receipts N Millions	H Recurrent Expenditure N Millions	I Current Surplus (+) Deficits N Millions	J Capital Expenditure N Millions
1980	3817.1	3695.4	-	121.7	0.0	-	2917.8	899.3	4316.0
1981	4874.8	3825.6	-	142.6	906.6	-	4611.0	263.8	6379.9
1982	4561.5	3245.7	-	74.9	1240.9	-	4733.9	-172.4	5946.6
1983	4329.4	2958.5	-	38.0	1332.9	-	5262.1	-932.7	5828.8
1984	4400.9	2722.0	-	58.8	1620.1	-	4590.6	-189.7	2474.3
1985	4844.9	3260.8	-	1584.1	-	-	4823.1	21.8	1034.0
1986	4704.4	2843.8	-	1860.6	-	-	4601.0	103.4	1173.7
1987	8151.6	6197.1	-	1954.5	-	-	5721.2	2430.4	2542.3
1988	10360.1	8181.3	-	2178.8	-	-	7193.4	3166.7	3585.1
1989	11502.1	9899.8	-	1602.3	-	-	8140.6	3361.5	4824.1
1990	19967.4	16378.8	-	2761.7	670.5	156.4	13387.5	6579.9	6661.8
1991	24772.2	19742.2	-	3181.2	1382.0	466.8	15872.3	8899.9	11151.4
1992	32673.6	24497.3	-	5244.7	957.3	1974.3	20780.3	11893.3	16280.3
1993	37740.6	27660.6	-	5726.2	1622.5	2731.3	29799.0	7941.6	14381.7
1994	49506.1	29006.8	5026.0	10929.8	3478.3	1065.2	37772.2	11733.9	18144.0
1995	69641.7	38671.5	6556.9	16993.0	7284.0	436.2	53152.0	16489.7	24743.1
1996	89529.1	41493.0	11286.0	19467.0	16652.3	630.8	54825.0	34704.1	29162.6
1997	96962.6	50902.5	13905.3	27368.2	4337.3	449.3	58956.2	38006.4	33730.0
1998	143202.5	66067.1	16206.8	29213.9	31477.8	236.9	75124.7	66077.8	68648.9
1999	168990.1	103657.3	23750.5	34109.0	6551.7	921.6	102690.1	66300.0	60430.9

2000	359072.1	251570.0	30643.8	37788.5	33289.3	5780.5	196784.1	162288.0	158895.6
2001	573548.2	404094.0	44912.9	59416.0	58064.4	7060.9	294709.5	278838.7	235241.7
2002	669817.7	388294.7	52632.0	89606.9	129714.4	9569.7	424195.4	245622.3	283473.8
2003	854997.1	535179.9	65887.6	118753.5	134179.3	996.8	545308.7	309688.4	324019.9
2004	1113943.7	777208.0	96195.6	134195.3	104344.8	2000.0	556812.3	557131.4	412926.2
2005	1419637.0	920985.9	87449.8	122737.8	137445.3	10775.3	789127.4	630509.6	514724.7
2006	1543770.1	1016078.2	110566.8	125228.9	125323.1	11885.2	894323.9	649446.2	583976.4

Table 8.5 cont.

A	K Total Expenditure N Millions	L Overall Surplus (+) Deficit (-)	M Financing N Millions	N Internal Loans N Millions	O External Loans N Millions	P Opening Cash Balance N Millions	Q Other funds N millions	R Share of Excess Crude N Millions	S Extra Budgetary Expenditure N Millions
1980	7233.8	-3416.7	3417.3	728.6	433.6	-	2255.1	-	-
1981	10990.9	-6116.1	6116.1	558.9	1167.4	-	4389.8	-	-
1982	10680.5	-6119.0	6119.0	546.8	1331.2	-	4241.0	-	-
1983	11090.9	-6761.5	6761.5	-737.0	1652.8	-	5845.7	-	-
1984	7064.9	-2664.0	2664.0	446.9	1318.2	-	898.9	-	-
1985	5857.1	-1012.2	1012.2	487.5	-	-	524.7	-	-
1986	5774.7	-1070.3	1070.3	1343.3	-	-	-273.0	-	-
1987	8263.5	-111.9	111.9	3739.4	-	-	-3627.5	-	-
1988	10778.5	-418.4	418.4	973.7	-	-	-555.3	-	-
1989	12974.7	-1472.6	1472.6	2064.5	-	-	-519.9	-	-
1990	20049.3	-81.9	81.9	158.0	795.2	-	-871.3	-	-
1991	27023.7	-2251.5	2251.5	350.8	102.5	-	1798.2	-	-
1992	37060.6	-4387.0	4387.0	986.9	1678.1	-	1722.0	-	-
1993	44180.9	-6440.3	6440.3	218.3	2214.8	-	4007.2		-
1994	55916.0	-6409.9	6410.3	979.8	3962.2	-	1468.3	-	-
1995	77895.5	-8253.8	8253.9	2723.6	1641.3	-	3889.0	-	-
1996	83987.0	5542.1	-5540.9	131.6	2595.0	-	-8267.5	-	-
1997	92686.0	4276.6	-4276.3	180.0	191.8	-	-4648.1	-	-
1998	143168.8	33.7	-33.7	4149.2	246.0	-	-4428.9	-	4359.2
1999	167896.0	1094.1	-1094.0	4479.9	295.2	-	-5869.1	-	4775.1
2000	359670.6	-598.5	598.2	3834.9	156.0	-	-3392.7	-	3990.9
2001	596956.4	-23408.2	23408.2	19232.1	1410.2	4936.8	-2170.9	-	67005.2
2002	724537.2	-54719.5	54719.5	32451.7	15879.3	5092.0	1296.5	-	16868.0
2003	921159.7	-66162.6	66162.6	71030.9	14680.4	13005.0	-32553.7	-	51831.1
2004	1125057.0	11113.3	11113.3	4396.9	-	-	6716.4	-	155318.5
2005	1478585.4	58948.4	58948.4	22557.1	-	33255.6	3135.7	140242.9	174733.3
2006	1586796.6	43026.5	43026.5	26954.0	-	14262.3	1810.2	154687.9	108496.3

NOTES: Federation Account implies statutory allocation (gross)

Internal Loans include capital receipts for 1986-1989
FCT means Federal Capital Territory

Sources: CBN Annual Reports for various years
CBN Statistical bulletin (2006)
NBS Annual abstract of statistics (2006)

TABLE 8.6 GOVERNMENT FINANCES: NIGERIAN LGA DATA

A	B Current Revenue N Millions	C Federation Account N millions	D State Allocation N million	E Value Added Tax N Millions	F Internal Revenue N Millions	G Grants Expenditure N millions	H Recurrent Expenditure N Millions	I Current Surplus (+) Deficits N Millions	J Capital Expenditure N Millions
1993	19874.5	18316.4	253.1	0.0	1035.6	269.4	13966.5	5908.0	5508.8
1994	19223.1	17321.3	466.4	0.0	1205.9	229.5	14884.2	4338.9	4082.9
1995	24412.7	17875.5	625.4	3558.1	2110.8	242.9	16317.2	8095.5	6126.1
1996	23789.6	17586.5	685.1	3306.9	2211.1	0.0	16620.1	7169.5	6045.5
1997	31254.4	20443.3	578.9	7586.1	2506.9	139.2	21856.5	9397.9	8083.4
1998	44948.2	30600.9	750.4	10170.8	3331,6	94.5	29192.2	15756.0	14864.7
1999	60800.6	43870.3	419.8	9559.8	4683.8	2266.9	41613.9	19186.7	18827.3
2000	151877.3	118589.4	1923.1	13908.7	7152.9	10303.2	93899.9	57977.4	59964.9
2001	171523.1	128500.5	1598.6	20102.7	6020.4	15300.9	122712.7	48810.4	48661.8
2002	172151.1	128896.7	1672.3	18727.2	10420.8	12434.1	124701.6	47449.5	45118.6
2003	370170.9	291406.9	2119.8	39648.4	20175.5	16820.3	211633.0	158537.9	150080.2
2004	468295.2	375656.3	3625.7	45985.2	22407.8	20620.2	295654.7	172640.5	165395.9
2005	597219.1	493000.3	2343.9	55793.6	24042.5	21138.8	374514.6	222704.5	213463.2
2006	674255.7	550796.3	3434.8	75920.0	23225.1	20879.5	398181.2	276074.5	267656.7

A	K Total Expenditure N Millions	L Overall Surplus (+) Deficit (-) N Millions	M Financing N Millions	N Loans N Millions	O Opening Cash Balance N Millions	P Other Funds N Millions
1993	19475.3	399.2	-399.2	39.9	-	-439.1
1994	18967.1	256.0	-256.0	71.5	-	-327.5
1995	22443.3	1969.4	-1969.4	50.5	-	-2019.9
1996	22665.6	1124.0	-1124.0	-11.0	-	-1124.0
1997	29939.9	1314.5	-1314.5	-1519.1	-	-1519.1
1998	44056.9	891.3	-891.3	2888.9	523.0	2356.9
1999	60441.2	359.4	-359.4	259.6	2499.4	-3118.4
2000	153864.8	-1987.5	1987.5	3734.6	3356.0	-5103.1

2001	171374.5	148.6	-148.6	-	3756.3	-3904.8
2002	169820.2	2330.9	-2330.9	-	4928.1	-7259.0
2003	361713.2	8457.7	-8457.7	-	6805.4	-15213.1
2004	461050.6	7244.6	-7244.6	-	8714.4	-15958.9
2005	587977.8	9241.3	-9241.3	-	51707.2	-58283.7
2006	665838.0	8417.8	-8417.8	-	-20560.1	12142.3

Notes: Grants and others include stabilization fund and general ecology

Sources: CBN Annual Reports and statement of accounts
CBN Statistical Bulletin (2006)
NBS Annual Abstract of Statistics (2006)

In particular, the state governments are seriously questioning the recent diminution in their share of the federation account while the local governments are complaining that the likes in their share of the federation account have not kept pace with the additional responsibilities assigned to them (with, special reference to primary education and primary health care). In fact, the share of the federal government is still believed to be on the high side given the view that it has surplus funds that is wasteful, as it has an almost limitless capacity to donate large sums of money (to questionable causes). However, empirical evidence has shown that government in Nigeria is characterized by chronic corruption (Nwaobi, 2004). Indeed, budget experts have identified that Nigeria's budget that is not implemented can be blamed on public servants and this has retarded development. In other words, unimplemented budgets mean unspent funds, which imply money in the vaults of these government offices. Here, the operational method is to deliberately delay the award of contracts knowing fully well that in the next budget, they would encourage the contractors to come for variation. Unfortunately, these public servants have perfected the act so well that even the most eagle-eyed investigator would certainly meet brick wall while trying to unravel anything against them. This is because public servants hide under the pretext of bank loan as the only source of revenue to finance many of their multi-million naira estate projects. But in actuality, there is no loan collected.

As a remedy, when federal government of Nigeria came out with the due process policy, it was aimed at eliminating contract inflation through encouraging competitive bidding of any government establishment was mandated to establish an in-house tenders' board to handle contract bidding. But no sooner had this policy was distorted. Rather, what takes place in the in-house tenders' board is a mere writing of quotation by whoever that is in charge for the sake of auditing. The conventional thing is where all the five or so biddings are written by one person in such a way that every other quotation would be disqualified based on laid down criteria with the exception of that of the establishment interest. In other words, many of the biddings that are published everyday with taxpayers' money in the dailies are just to fulfill the requirement for due process

policy. In fact, the contract has already been concluded before publication, specifically, in the 2008 budget, the Nigeria government proposed to spend the sum of N94.36 billion to improve and develop the transport sector, N89.95 billion for agriculture (water) resources and N3.4 billion for cooperative (community) tractor services. The government also voted N114.4 billion for the completion of the thirty-two on-going power transmission projects (and rehabilitation) of key power stations nation wide, as well as N210.45 for education. But despite the huge sum of money voted in the budget for road rehabilitation and maintenance, the state of the nations' roads are appalling while the supply of electricity remained epileptic. Also, the level of unemployment is rather getting worse as some companies which could not operate in the difficult terrain of the Nigerian environment are closing shops. Consequently, infrastructure has placed the Nigeria manufacturers on a services competitive disadvantaged position in the global market place, leading to huge dumping of goods from countries with lower production costs. Again, in a celebrated case letter dated October 19. 2008, addressed to the speaker, house off representatives (Bankole) and distributed to all members of the house titled "Open Request for Explanation regarding allegation of fraud in the House", the head of chambers (Keyamo) said that Nigerians deserve to know how complicit or otherwise the speaker was in the alleged fraud (Car purchases misappropriations scandal). Unfortunately, this issue is unresolved to date.

At his independence broad cast to the nation (October 1, 2008) the Nigerian president said that he has saved over N400 billion from unspent capital releases to ministries, departments, and agencies, MDAs, in 2007. However, it was doubtful if the nation can harvest such huge amount at the end of 2008 fiscal year. Investigations revealed that contracts hitherto on the drawing board have suddenly been given out. In some cases, where contractors have not yet moved to site because they had not been mobilized, certificates haven been quickly raised and funds released to enable them move to site immediately. Essentially all these were to beat the statutory period for award of contracts within a financial year. In other words, contracts within the sector are gradually growing in leaps and bounds, since no ministry or parastatal wants to return unspent money to the central purse. Again, the travails of Grange and Aduku (health ministry fraud) have taught ministries officials a lesson. They have devised a way of diverting the funds into projects without attracting the attention of the Economic and financial crimes commission or arousing the curiosity of the presidency.

Yet, as the effects of the global financial meltdown begin to catch up with the Nigerian economy, governments at all levels are beginning to look at hitherto neglected sources of revenue to fund their budgets. In other words, the rapid crash in the crude oil prices from a peak of $147.27

in July 2008 to $61.92 per barrel in November 2008, has exploded every shared of optimism about ability of the Nigerian economy to withstand the pressure that the global economic meltdown has brought to bear on it consequently, the Nigerian president declared the new thinking of government at the recent international tax conference organized by the joint tax Board in Abuja. That is, for a nation to carry out basic functions of government pursue and implement its development programmes like the vision 2020 and the seven-point agenda, it requires a stable, predictable and sustainable source of revenue. Consequently, this leaves Nigeria with no choice than to conform to international best practices and make taxation the primary source of revenue for the government. Furthermore, the need to seek alternative and more reliable source of revenue should be an imperative to the states and local government councils as the era of dependence on monthly allocations from the federation Account was over. However, driving the budget on taxes would work very well if we were in a country where the unemployment level is not as high as we have in Nigeria. It must be remembered that greater percentage of Nigerians that are unemployed will not pay taxes, as well as companies that are closed down. So how are the different tiers of government going to generate enough money to drive their billion and trillion naira budgets? This is a critical question that Nigerian leaders must thing through and find creative answers to. If not, Nigerians may become permanent victims of the global economic downturn.

Similarly, in his 2009 budget speech, the Nigerian president maintained that the recent volatility of the oil price is apparent in the unprecedented decline of prices from record highs of about US $147/barrel in July, 2008 to the price of about $50/ barrel in December, 2008, and there is no guarantee that prices will not further decline despite OPEC's recent mitigating efforts. Therefore, the country must adopt a prudent outlook that does not invest misplaced confidence in the expectation of unrealistically high prices. In this respect, the federal government of Nigeria recently (in January 2009) inaugurated the presidential steering committee on the Global Economic Crisis. The task before the team is to respond as a team at the national level in a proactive manner in order to mitigate any potential effects of the current global economic and financial crisis on the Nigerian economy; to advise government and make recommendations on what measures that needs to be taken, both at the national, state and local government levels. The committee would not only mitigate the possible effects of the crisis on the Nigerian economy but would also enable the Nigerian economy to take advantages also of the opportunities offered by the global financial crisis. In other words, Nigeria must evolve and drive proactive response to the economic challenges in a holistic and coordinated manner; and the global crisis should be seen as an opportunity waiting to be exploited (and maximize). Indeed, given the

reality of the interdependence of the world economies, the national economy is clearly not immune from the adverse effects of the uncertainty and instability in international currency and commodity markets. Crude oil price swings portend adverse implications for the nation's fiscal outlook. We are actually witnessing falling external reserves and marked depreciation of the naira. Here, efforts have been made to shore up investors confidence in the economy through appropriate budgetary interventions and requisite monetary policy. Yet, in order to effectively strengthen the financial sector, protect the integrity of the financial markets and restore investor confidence in the economy, more comprehensive practical oriented measures need to be evolved.

Indeed, poor national fiscal outlook also manifest at the state and local levels in Africa. For example, the fiscal induced poverty level in the Nnewi South local government of Anambra State of Nigeria remains unbearable.

The local government in question is comprised of ten communities: Ukpor, Amichi, Ezinifite, Osumenyi, Unibi, Ekwulumili, Utuh, Ebenator, Azigbo and Akwaihedi. Here, agriculture which is the most predominant occupation in the area is practiced with crude implements and most farming households lack access to credit improved varieties and new technologies. Unemployment remains a problem in the area as graduates and young school leavers migrate to Urban, cities in search of employment opportunities. If poverty must be reduced and standard of living raised, it is then imperative that all developmental stake holders (Civil, local, state, national, regional and international agents) must adopt a well coordinated fiscal framework.

9.0 POLICY REFORM STRATEGIES

Essentially, fiscal policy can have a direct impact on the poor, both through the government's overall fiscal stance and through the distributional implications of tax policy and public spending. Here, structural fiscal reforms in budget treasury management, public administration, governance, transparency, and accountability can also benefit the citizens through inducing more efficient and better targeted use of public resources. However, there is no rigid, predetermined limit on what would be an appropriate fiscal deficit. Rather, this should be based on the particular circumstances facing a country; its medium-term macroeconomic outlook and the scope of external budgetary assistance with regard to the composition of public expenditure, policymakers need to assess not only the appropriateness of a proposed poverty reduction spending program but also of planned non-discretionary and discretionary no priority spending. They should take into consideration, the distributional and growth impact of spending in each area as well as placing due emphasis on spending programs that are pro-poor, such as certain programs in health, education and infrastructure; and on the efficient delivery of essential public services.

Consequently, an important medium-term objective for many developing countries will be to raise domestic revenue levels with a view to providing additional revenue in support of their development strategies. Thus, existing revenue base should be reviewed relative to its capacity to provide for the poverty spending requirements from nonblank domestic financing; and revenues should be raised in as economically neutral a manner as possible, while taking into consideration equity concerns and administrative capacities. Here, a broad-based consumption tax (such as VAT) preferably with a single rate, minimal exemptions and a threshold, should exclude smaller enterprises from taxation. Generally, the VAT should extend through the retail sector and should apply equally to domestic production and imported goods and services. It should also cover agricultural products and inputs, subject to a threshold that should exclude small farmers.

Taxes on international trade should play a minimal role; and import tariffs should have a low average rate and a limited dispersion of rates to reduce arbitrary and excessive rates of protection. Here, exemptions should be kept at a minimum and nontraiff barriers should be avoided altogether. Exporters should have duties rebated on imported inputs used for producing exports and export duties should generally be avoided. Similarly, the personal income tax should be characterized by only a few brackets and a moderate top marginal rate; by limited personal exemptions and deductions; by a standard exemption that excludes persons with low incomes and by extensive use of final withholding. However, the use of a simplified regime for small business and the informal sector may complement these major taxes. Yet tax policy should aim at moving toward a system of easily administered taxes with broad bases and moderate marginal rates. And to the extent that some revenue provisions may be regressive, they should be offset through the expenditure system.

If inflationary pressures from the fiscal stance are transmitted exclusively through the financing channel; they can be reduced without fiscal adjustment, if alternative sustainable source of financing (such as external financing) are available. However some fiscal adjustment is typically necessary because of the insufficient amount of alternative finance or that fiscal stance is putting upward pressure on prices through the aggregate demand channel. Conventionally, successful disinflation episodes have typically been accompanied by sizeable and sustained fiscal adjustment; and countries that wish to target a significantly lower rate of inflation need to ensure that the corresponding fiscal adjustment is adequate. Thus, aggregate fiscal policy is ideally embedded in a macroeconomic framework that ensures economic stability and promotes economic growth (World Bank, 2002). That is setting an aggregate level of spending that is consistent with the country. Overall macroeconomic goals and resource availability helps to promote stability and predictability in program financing over the medium term.

Indeed, a feasible and credible budget can be prepared only on the basis of accurate forecasts of economic growth and resource availability. Here, the intention should be to provide analysts with a broad understanding of the potential constraints facing budgetary decision makers and strategies for overcoming these constraints. Yet, a questionnaire like the public expenditure management diagnostic may be used to guide the analysis of institutional factors at the country level. Thus, the budget process can be portrayed as a cycle and idealized version as shown below.

FINANCE MINISTRY SUPPORTED CABINET VERSION

STEP A: Projecting Macroeconomic resources

STEP B: Setting of budgetary guidelines and expenditure ceilings

MINISTRIES VERSION

STEP C: Prepare line agency expenditure proposals

FINANCE MINISTRY VERSION

STEP D: Proposals appraised by MF and negotiated with line agencies to enable reconciliation of proposals

STEP E: State budget prepared by MF

CABINET VERSION

STEP F: Budget approved by Cabinet and submitted to parliament (National Assembly).

PARLIAMENT/NATIONAL ASSEMBLY VERSION

STEP G: Budget appropriations debated and approved by parliament/National Assembly.

FINANCE MINISTRY VERSION

STEP H: Funds released by MF and budget executed by line agencies

SECTOR MINISTRIES VERSION

STEP I: Accounts submitted by line agencies and complied by MF

INDEPENDENT AUDITOR VERSION

STEP J: Government accounts audited

PARLIAMENT VERSION

STEP K: Approval of audited accounts by parliament/National Assembly

However, the greatest challenge lies not in collecting information but in devising ways by which the information gathered can be used to support policy and managerial decisions. While managers will generally have discretion in how they use and respond to comments by the general public and service users, policy makers will prefer to base decisions on a sound quantitative base. But where the results of consultation exercises are intended for sub national levels of government, clear guidance should be provided on how this information can be integrated in routine planning and budgeting procedures. Again, while consultation provides decision makers with information, participation requires that citizens and the beneficiaries of services take an active role in resource management decisions. Traditionally, the budget process has been closed. That is, carried out within government under a veil of surely and revealed to the

public only after legislative approval. However, greater transparency in the budget process, as evidenced by the timely publication of public financial management information (budgets, accounts, and forward-planning documents such as the medium term expenditure framework) in a form that permits meaningful analysis; is a necessary precondition to greater participation. Yet, another precondition is allowing citizens to voice their concerns and priorities through the press, lobby groups and their representatives.

In fact, to foster participatory budget planning, it will be necessary to provide information to stakeholder so that they understand the budget process and how they can influence key decisions. In other words, it will be necessary to provide stakeholders with information on budget decisions after the passage of the budget. Thus, the government should open avenues for stakeholders to monitor actual expenditures to ensure correspondence between budget plans and actual budget execution. Therefore, the key to building a participatory budget planning system is facilitating the culture of open communication at various levels of government and among public officials, local political leaders and citizens groups. Because stakeholders will have diverse education and linguistic backgrounds, effective communication and information dissemination strategies about the budget process will often require radio broadcasts and printed materials in local languages. By more directly involving stakeholder groups, participatory budget planning can help boost public support for the local and national budget process, which in turn increases people's willingness to voice their concerns about fiscal management and their budget priorities and improve communication among government officials political leaders and civic groups. Essentially, citizens are more likely to pay taxes once they understand the budget process and how their contributions are used to finance beneficial public services. Here, they must have confidence that minimal corruption exists in the local financial management system; and hence participatory budget planning can help to increase the local revenue base for public service provision.

Evaluation is a systematic examination of the relevance, operation and outcomes of programs and policies, compared to a set of explicit or implicit standards, intended to improve public actions. Basically, different types of evaluation address different evaluation questions and there questions can be broadly classified in three categories: process, outcome and reasons. The process questions aim to understand how the program or a specific component of it is being implemented as originally designed. However, the outcome questions seek to assess whether the situation of individuals or households in terms of key outcomes such as knowledge, behavior, well-being etc, has changed; and the extent to which the program is responsible for the observed changes. Outcomes may change for a number of reasons; and attribution questions ask whether observed

changes were caused by the program or whether they could have occurred anyway. Similarly, question about reasons aim to explore the reasons behind the observed process and outcomes. In other words, they ask how and why results were what they were. Consequently, these questions can be roughly matched by three major types of evaluation: process evaluation, outcome evaluation and theory-based evaluation. In turn, each type of evaluation has a menu of possible evaluation designs and data collection methods. Unlike the process and outcome evaluation, theory-based evaluations examine the links between inputs, activities and outcomes and aim to determine whether a breakdown has occurred and if so, where, why and how. They present an explicit or implicit theory about how and why a public action would work as a series of micro steps and analyze them sequentially to track the unfolding of assumption. By following the sequence of steps, this type of evaluation can determine if and where the process from program inputs to outcomes failed.

Indeed, by further reducing the protection of imports and the taxation of agricultural commodity exports can pose a fiscal dilemma for many agricultural based countries that depend on these revenues for public investment. In particular, for sub-Saharan Africa, trade taxes account for about a quarter of all government revenue. Thus, agriculture remains the dominant sector in most agriculture-based countries and so will have to continue to contribute to national and local government revenue (consistent with their current level of economic development). Consequently, four key principles to guide agricultural taxation remain valid. They should be nondiscriminatory; minimize efficiency losses; and consider the effectiveness of fiscal capture and capacity to implement. Again agriculture should not be taxed at a higher rate than other sectors, and agricultural taxes should be integrated with general value added, profit, and income taxes. Output and input taxes should be minimized; and land taxes can minimize efficiency losses and induce production. Output taxes can be replaced by consumption taxes (sales or value added taxes) in counties with the administrative capacity to implement them. However, the capacity to implement new systems will have to build over many years. Yet, in the interim, it may be necessary to rely partly on commodity and input taxes for revenue.

Further trade liberalization in developing countries may need to be sequenced with tax reforms to reduced tax losses from trade revenues and subsequent public investment in the agriculture sectors in the affected countries. Here, complementary policies and programs are needed to compensate losers in developing countries and to facilitate rapid and equitable adjustment to emerging comparative advantages. Again, supply response to trade reforms depends on public investments in core pubic goods such as irrigation, roads, research, and development, education, and associated institutional support. But public investments on

agriculture are often too squandered on regressive subsidies. Therefore, significant room remains for improving the efficiency of public resources by increasing investments on high-priority public goods. Thus, actions are needed to increase information, accountability and commitment. On the other hand, information gaps in public knowledge of budget allocations and impacts of public spending on agriculture have to be closed through greater publicity and transparency of budget allocation and evaluation. Similarly, political economy determines the pace and extent of reform and has to be addressed in both developed and developing countries. Therefore, building coalitions to support and sustain reforms can help.

However, the key elements of the future agenda are to continue to get prices right through trade and domestic policy reform; to ensure that the quality of public spending improves; to provide support to complementary programs to facilitate transitions; and to invest massively in core public goods for longer-term sustained growth. All these, requires a comprehensive approach beyond price and adjustment; and governments must therefore focus on improving market infrastructure institutions, and support services. In practice, addressing the political economy of agriculture-for-development agendas will continue to be difficult. Thus, a first political economy challenges is to give voice to pro-farming coalitions in the agriculture-based countries that can mobilize public support for small holder-based agricultural growth. Similarly, a second political economy challenge is to avoid the subsidy and protection traps in addressing rural-Urban income disparities and poverty in the transforming and urbanized countries (by investing more in pubic goods and safety nets). Here, new private actors can add voice and political support to improve agricultural incentives. Yet, political and macroeconomic stability is necessary for agricultural growth and without stability; few other parts of an agricultural growth agenda can be implemented. However, strategies should reflect four objectives in a "policy diamond" that set priories in the agriculture-for-development agenda.

Essentially, the first objective is establishing efficient markets and value chains while the second is that of accelerating smallholder entry to agricultural markets and raising small-holder innovativeness and competitiveness. Next, is that of improving livelihoods and food security in subsistence agriculture and low-skilled rural occupations. And lastly, is that of increasing employment and investment opportunities in the rural economy while enhancing skills to allow the rural poor to seize these opportunities or to successfully migrate. Together, these objectives will drive the three pathways out of poverty (farming, rural employment and migration). On the other hand, the policy objectives for the transforming countries should differ drastically. Here, they should promote high-value activities to diversify smallholder farming away from land-intensive staples

as urban incomes rise and diets change. Extend the green revolution in food staples to areas by passed by technological progress and with large numbers of poor, including many of the extreme poor, and provide safety nets. Also, promote livestock activities among the landless and smallholders as a substitute for land. They should also provide infrastructure to support the diversification of agriculture and of rural economies; as well as promoting the rural nonfarm economy to confront the rural employment problem and invest massively in skills for people to migrate to the rapidly growing sectors of the economy. Yet, the policy agenda for urbanized countries are equally important. Here, they should include smallholders in the new food markets, which requires (among other instruments) greater access to land and skills for the new agriculture. They should improve productivity in subsistence agriculture and provide social assistance, together with payments for environmental services to create incentives for conservations. Similarly, they should follow a territorial approach to promote the rural nonfarm economy and enhance skills to give access to the jobs and investment opportunities offered by growth of the rural nonfarm economy. However, the nation state remains responsible for creating an enabling environment for the agriculture-for-development agenda, because of the fact that only the state can establish the fundamental conditions for the private sector and civil society to thrieve: macroeconomic stability, political stability, security and the rule of law.

Aligning agricultural strategies and policies with budget is important to avoid under investment and disinvestment. In real sense, investing is more challenging for agriculture-based countries, given the considerable financial resources required consequently, donor funding can help meet these requirements, but increasing the domestic revenue base and improving budget planning and management are national responsibilities. Medium-term expenditure frameworks based on program budgets with clear objectives, specific costing, and transparent planning, align financial resources with priorities. However, in transforming and urbanized countries, the challenge should often be to create political support for reallocating budgetary resources from unproductive and inequitable subsidies to more effective policy instruments. Indeed, policymakers and stakeholders at all levels (from local to global) have to make special efforts to seize these opportunities for realizing the agenda. Thus, sound agricultural development strategies require stronger capacity for policy analysis and evaluation, and a commitment to evidence-based policy making. But in a global world and on a small planet, there is considerable mutual interest in supporting every country's agriculture-for-development agenda. In fact, meeting these challenges is ultimately a matter of equity and justice between North and South (and between present and future generations).

For the promotion of the construction industry, government actions should include policies and legislation affecting licenses and permits, sanitary and building codes; minimum wages; corporate taxes; rules on the importation of materials and spare parts; and the terms and availability of financing for construction. Essentially, the taxation regime of a country can have an important effect on the development of the industry. Here, an incipient construction industry can be assisted by tax incentives, such as tax holidays; investment or reinvestment allowances; accelerated depreciation on equipment; and customs duties exemptions. However, such incentives must be temporary and cover only the formative period of the industry. In general, incentives can foster growth of the industry and can also promote the export of its services. Concurrently, and in order to increase earnings of foreign exchange, domestic construction firms should be exempted from business tax and be given tax credit against income and corporate taxes for all the foreign currency earned. Definitely, this will help in developing the country's construction industry as well as success in exporting its services. Yet, in an internationally financed work, domestic contractors are often at a disadvantage because they have to bid on the basis of equipment for which they have paid full import duties; while foreign firms pay no such duty. Here, a possible solution to this problem would be to require that foreign contractors pay duty on the amount that the equipment depreciates over the contract period. Therefore, full duty could be collected at the time of importation and the balance (calculated on the residual value at the end of the contract) refunded upon re-export of the equipment. Differently, these foreign contractors could post a bond for the full value of the duty which could be redeemed after payment of duty on the value used in the contract and upon re-export.

Indeed, in the formulation of a comprehensive strategy for the construction industry; the main emphasis should be on civil works where the greatest supply gaps are visible and the most difficulties arise (due to the relatively larger capital resources required and risks involved). Therefore, developing a competitive construction industry should be an important objective of government policy. Firstly, governments should assign to a particular office the responsibility for promoting the development of the construction industry. Its tasks would ensure that fuller account of the industry is taken in the broader process of development planning; and would identify the problems and constraints of the industry and draw up a strategy to overcome them. In correspondence, contractors should be encouraged to set up a representative association which can serve as a channel for conducting a dialogue with the government and as an agent for taking joint action by the industry. Importantly, attention needs to be paid to the effects of monetary and interest rate policies on the construction market and on

housing; to budgeting regulations that provide multi-year contracts and allow continuity of cash flow for them; to policy and legislation that can improve general government contracting practices and contract supervision procedures; to wage and employment policies that encourage a wider use of an under-employed or unemployed labor force; and to procedures for allocating and channeling foreign exchange that is required by the construction industry, especially for the procurement of spare parts.

Again, there is need for continuing to reform, update, and fine-tune regulations and procedures on pre-qualification, bidding, contracting, payments, building standards, land acquisition and land titling, relevant customs procedures, uninterrupted flow of inputs and payments, etc. At the macroeconomic level, effort will be required to reduce or eliminate distortions in factor prices and interferences with the supply of factors of production. These distortions include monopolistic control of the supply of major materials and insufficient or delayed allocation of foreign exchange for purchase of spare parts. Other related issues include foreign exchange rate, import tariff regimes on equipment and regulations controlling the hiring and firing of labor and the wages as well as social security contributions. The government should also aim to achieve a greater understanding of the potential and needs of the informal sector of construction. And considering the labor-intensive and self-help nature of informal construction work, relatively minor financial inputs coupled with strong technical assistance support can produce a considerable impact.

However, given a country where there is a substantial gap between the services needed from the construction industry and their effective availability; and that this gap is likely to persists unless special measures are taken; and given the nature of the orchestrated actions, sustained over relatively long periods (which are required to develop the industry) success will largely depend on how interested and committed the authorities are to the development of an efficient, domestic capacity and how prepared they are to undertake difficult reforms of legislation and contracting procedures, as well as making a concentrated and sustained effort to help overcome problems (Constraints). Indeed, these challenges are demanding but promising with solutions of the 21st century if adequately implemented).

10.0 CONCLUSION

Indeed, a fundamental requirement of economic development is an adequate rate of capital formation relative to that of population expansion. Such capital formation is defined to include all expenditures of a productivity increasing nature; and it may take the form of investment in the public or the private sector. Here, the public investment is in the form of infrastructure and sets the framework for subsequent manufacturing investment whether public or private. Again, capital formation includes investment in human resources in the form of education and training as well as in physical assets. However, where human productivity is adversely affected by malnutrition and disease, increased food consumption and provision of sanitation and health facilities take on the aspect of investment in human capital. Thus, the use of resources for productivity-enhancing purposes may take a wide variety of forms, and the actual mix must be determined in the process of expenditure and resource planning.

It is therefore crucial that the fiscal system should play a multifold role in the process of economic development. Here, the level of taxation affects the level of public saving and hence the volume of resources available for capital formation. Again, both the level and the structure of taxation affect the level of private saving and public investment is needed to provide infrastructure types of investment. Similarly, a system of tax incentives and penalties may be designed to influence the efficiency of resource utilization; and the pattern of taxation on imports and exports relative to that of domestic products will affect the foreign trade balance. It is much less easy to prescribe a direct tax system which lives happily with both the theory and what is administratively possible. Here, on exception would be a land tax out this is often ruled out for political reasons. Consequently corporate taxation is likely to remain a mainstay of taxation in developing countries. But the measurement of personal and small business income from any one source is extremely difficult, except for individuals whose occupations are entirely as employees in the more

formal sectors. Even there, fringe benefits and evasion can cause server problems.

It is therefore futile to believe that domestic fiscal policy can perform the trick single handedly. Even on the basis of very optimistic assumptions regarding internal economic reform, most developing countries will continue to stagnate unless there is a substantial improvement in the quality of global economic management including timely and adequate support by donors for these reforms; settlement of political disputes and a breakthrough in relevant technologies (particularly in the agricultural sector).

Perhaps, the magnitude of government fiscal surplus or deficit is probably the single most important statistic in measuring the impact of government fiscal policy on the economy. And in view of its phenomenal growth, it is generally accepted that public sector finances and related policies constitute a central aspect of economic management, which partly influence overall macroeconomic performance as well as the distribution of resources between the public and private sectors. Therefore, there is a growing recognition that the formulation and implementation of macroeconomic management proposals and reforms must include wide-ranging fiscal reforms that will explicitly recognize the importance of deficit financing. In other words, the way government deficits are financed, taxes raised and public resources allocated and utilized have important consequences for economic growth.

In reality, fiscal adjustment towards a sustainable path can come through enhancing government revenues and policy-makers can improve non-oil revenue intake in order to expand the volume of resource available to government as well as reducing the vulnerability of public finances to commodity (oil) price shocks or movements. However, higher revenues will not help developing countries move towards fiscal sustainability if it draws attention and effort away from addressing expenditure issues along fiscal transparency and accountability in fact, it could have the pervasive effect of expanding government spending (and debt); and consequently moving the economy further away from its fiscal sustainability objectives.

Finally, the economic literature teaches us that there is one thing that a genuine reforming government can do to distinguish her from the lies that come from a weak government trying to disguise her. In other words, the genuine reformer needs to do something that the weak government is simply too frightened to do. That is, the genuine reformer is distinguished by courage and courage is (in economic parlance) that signal that separates the genuine reformer undertaking a transition from that of the weak government hoping to disguise her. Basically, this is the fiscal responsibility challenge of the 21st century.

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