**Elite and Popular Perceptions of Taxation in Africa: Explaining Different Tax Cultures Across Nigeria**

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***Introduction***

Scholars historically link the development of representative institutions to the process of taxation. In order to raise income, rulers enter into a contract with citizens. These citizens agree to provide tax revenue in exchange for an enhanced role in governance. Thus, with taxation comes the incentive for decision-makers to shift policy toward citizen interests (Tilly, 1985/1990; Bates and Lien, 1985; Levi, 1988; North and Weingast, 1989; Acemoglu and Robinson, 2005). However, this initial argument does not account for the fact that, in certain non-Western cases, politicians can access revenue from non-tax sources (e.g. income from the sale of natural resources). With that said, previous analysis demonstrates that even in such instances, particularly in sub-Saharan Africa, revenue and representation are still linked (Gibson and Hoffman, 2009; Berger, 2009; Elemo, 2012). These scholars perform analyses of subnational governments in sub-Saharan Africa and illustrate how states/localities that generate more income from taxes on citizens also spend less on government salaries and allowances. Instead, these subnational governments devote public resources to non-recurrent expenditures, including service provision.

Even though previous literature investigates the positive consequences of increasing tax generation in sub-Saharan Africa, what can explain the initial subnational differences in rates of taxation? This paper investigates that question using a cross-regional analysis within Nigeria and comparing Lagos and Kano States. Though Lagos (South-West Nigeria) and Kano (North-West Nigeria) share similar levels of development, there is a large gap between the two states in terms of tax effort. Over the last 10 years, Lagos, on average, generated 53% of state income from taxes on citizens. On the other hand, Kano State averaged only 13% of revenue from taxation. What factors drive the divergent rates of tax generation?

This paper begins with an assessment of the levels of socio-economic development in Lagos and Kano, establishing that the two states are comparable. Next, using analysis of original interviews with tax administrators and state legislators and archival documents, this paper argues that higher rate of tax generation in Lagos (in comparison to Kano) can be attributed to elite political initiative. Through legislation, Lagos’ Governor Fashola and members of the Lagos State House of Assembly have empowered the State Internal Revenue Board (SIRB) to educate the public about the fiscal contract while pursuing and punishing evaders. On the other hand, in Kano, rather than strengthening the SIRB’s capacity, Governors Shekarau and Kwankwaso, as well as other political elites, have sought opportunities to increase the state’s share of petroleum income. Differences in the State Governors’ revenue priorities not only shape SIRB’s ability to maximize tax income, but also result in two different tax cultures, which manifest in disparate perceptions of the tax contract in Lagos and Kano.

***Theoretical Framework: Taxation, Representation, and Why Nigeria?***

The evolution of representative institutions is causally linked to the process of revenue and revenue extraction (i.e. taxation of citizens). The model originates from studies of 15th and 16th Century, where Western European rulers were engaged in war, border protection, and forging nation-states. In order to fund these expensive activities, rulers turned to taxing citizens. Specifically, rulers and citizens entered into a contract: citizens agreed to provide tax revenue in exchange for an enhanced role in government. With taxation came the incentive for political leaders to shift policy toward citizen interests (Tilly, 1985/1990; Bates and Lien, 1985; Levi, 1988; North and Weingast, 1989; Acemoglu and Robinson, 2005).

Thus, *representation* is the process by which elected officials act on behalf of constituents, gauging, deliberating upon, and incorporating citizen interests in political decision- making. This will eventually result in the expending resources to ensure that citizen preferences are being attended to (Huber and Powell, 1994; Aldrich, 1995; Stokes, 1999). However, this Western European framework does not consider the impact of another source of revenue becoming available, specifically natural resource revenue. Rulers, being rational and seeking to maximize their own utility, will also seek the most cost-effective method of acquiring resources to carry out their goals. In this case, access to an external revenue base, provides an avenue that is less costly than bargaining with citizens and affords a “ruler” the ability to maintain their preferred policy outcome. Instead of bearing the transaction costs associated with taxation (e.g. enforcing compliance with tax policies), leaders that are able fund their governments without taxation can bypass the need to defer to citizen interests. This choice also has the effect of stymieing the development of representative institutions. This is the case in many developing nations, and particularly salient in sub-Saharan Africa.

The “natural resource curse” (also known as the “oil or mineral curse”) originates in studies of democratization in the Middle East. The dilemma arises when nations endowed with substantial resource deposits (including, but not limited to petroleum and other fuels, metal ores, diamonds and precious stones) derive a substantial portion of their government revenues from the processing and sale of these commodities. These rents, paid by foreign companies and governments, allow political leaders to bypass deference to public interests, which citizen-based taxation would normally generate, reducing the demand for representation (Beblawi, 1987; Ross, 2001, 2004). A body of work, both large-N, statistical and small-N/case study analyses have emerged to investigate this link. In addition to this association between natural resource dependence and weak representative institutions, resource dependence is also linked to the decline in the quality of governance, weak political institutions, uneven economic development, and civil conflict (e.g. Karl, 1997; Lam and Wantchekon, 1999; Jones Luong and Weinthal, 2006; Welden, 2001; Wantchekon, 2002).

Scholars have also explored the linkages between methods of revenue extraction and representation at the sub-national level. For example, Guyer (1991: 14) characterizes the effects of limited taxation on the representation of local interests in Nigeria:

“With such low contributions in rural Nigeria, financial management becomes a poor basis for people’s demands for accountability...with no policy-making about, or financial instruments for local development of locally defined projects within the government system, the extension of national plans to local area becomes an act of fate whose financing bears no relation to the population affected by them.”

More recently, Gibson and Hoffman (2006) find that in Tanzania and Zambia, when local government revenue is derived from citizen taxation, politicians will be compelled to expend more funds on public services. On the other hand, when depending on those funds derived from sources outside of their local constituency (e.g. federal government transfers, foreign aid), politicians are more likely to spend resources on government salaries and other recurrent expenditures.

In another analysis, Berger (2009) relies on Afrobarometer and Demographic and Health survey data and finds that Nigerian local governments areas (LGAs) that were forced to collect taxes during the British colonial period generated a stronger the institutional capacity that manifests today in effective bureaucracies. Furthermore, citizens in these tax dependent LGAs indicate higher approval ratings and more effective public service delivery than their counterparts in non- tax dependent areas.

Elemo (2012) explores the Gibson and Hoffman (2006) hypothesis in Nigeria, using budgetary data between 1999 and 2009. Evidence confirms that as Nigerian local and state governments’ capacities to generate tax income increases, spending on government salaries and allowances decreases. Instead, these governments expend revenue on public service delivery. On the other hand, reliance on natural resource income via federal transfers corresponds with increased recurrent expenditures on salaries and allowances.

In fact, honing in on Nigeria’s subnational governments provides analytical leverage in exploring these issues of revenue extraction and representation. Nigerian states vary in the extent to which they have mobilized income via taxation and/or rely on oil transfers. What can help explain these different trajectories?

 Several scholars outline the Nigerian system of revenue generation, driven primarily by access to income from petroleum (Okoko and Nna, 1997; Suberu, 2003; Fajingbesi et al, 2004). For example, Ikein and Briggs-Anigboh (1998: 271 - 275) and Olaniyi (2001) provide a brief account of the history of petroleum in Nigeria. While the exploration for oil began in 1908, Royal Dutch Shell Incorporated made the first discovery in 1956 in Rivers State. Since 1958, oil production has been concentrated in the following Nigerian (subnational) states: Rivers, Delta, Edo, Imo, Abia, Akwa Ibom, and Cross Rivers. By 1990, oil rents made up almost 82% of national government revenue (Ikein and Briggs-Anigboh, 1998: 346).

 Yet, Nigeria’s subnational governments also derive revenue from the petroleum industry. As of 2002, 55% of oil revenues accrue to the national government, 25% to the state governments, while the remaining 20% is distributed among local government administrations (LGAs). Of the revenue allocated to the 36 states, distribution is based upon equity, state population, level of state social development (e.g. education, health, water access), and state internal tax revenue effort (Usman, 2007).

 Although Nigerian states have historically been heavily dependent on petroleum income, a structure for subnational government tax generation exists. Post-independence (1960 – 1999), Nigeria’s military leadership repeatedly curtailed subnational entities’ power to tax. This created a situation where state and local governments were dependent on the national government for revenue. However, in the contemporary period, after Nigeria’s 1999 return to democratic governance, state and local governments have regained the authority to generate income, independent of federal transfers of petroleum revenue.

 Nigeria’s 1999 Constitution establishes a House of Assembly in each of the 36 states made up of 24 to 40 members.[[1]](#footnote-1) State Houses of Assembly are given the power to “make laws with respect to any matter within its legislative competence and correct any defects in existing laws; and expose corruption, inefficiency of waste in the execution or administration of laws within its legislative competence and in the disbursement or administration of funds appropriated by it” (Constitution of Federal Republic of Nigeria, 1999, Chapter 5, Part 2, Section E, Subsection 128, Clause 2). In order to facilitate the execution of their duties, local and state legislatures are endowed with the power to raise revenue via the taxation of citizens. Specifically, state governments have jurisdiction over the following taxes:

* Personal Income Tax (Pay As You Earn for individuals and Direct Taxation via individuals’ self assessment)
* Withholding Tax (individuals)
* Capital Gains Tax (individuals)
* Stamp Duties (documents executed by individuals)
* Pools, betting, Lotteries, Gaming, and Casino Taxes
* Road Taxes
* Business Premises Registration Fee (urban areas: 10,000 naira for registration and 5,000 naira per year for renewal; rural areas: 2,000 naira for registration and 1,000 naira per year for renewal)
* Development Levy (individuals: not more that 100 naira per year on all taxable persons)
* Naming of street registration fees in State Capital
* Right of Occupancy fees (land owned by State Government in urban areas)
* Market Taxes and Levies (only where State finance is involved)

(Federal Ministry of Finance, 2011b).

 As previously mentioned, Nigerian subnational governments differ in their tools revenue extraction and, as a result, have varied income portfolios. This paper performs an inter-regional comparison of Lagos and Kano States to investigate the origins of divergence in subnational tax generation. Though Lagos and Kano have similar levels of socio-economic development and a comparable workforce, there is a large gap between in their tax generation. Evidence from interviews with members of the tax administrations in Lagos and Kano suggest that political initiative explains these differences. In Lagos, politicians have provided the state revenue board with the resources necessary to place taxation on the public agenda. With this support, elites and LIRS officials launched a political campaign, engaging Lagosians and educating them about the benefits of tax-led development and the payment process. On the other hand, in Kano, as a result of politicians’ indifferent (and at times adversarial) attitude, the state tax service has not received the support or resources needed to engage in such a campaign. In this instance, citizens remain largely uneducated about the tax contract and tax generation has been (comparatively) stunted as a result.

***Comparing Lagos and Kano: Socio-Economic Indicators***

 In the period since Nigeria’s return to a democratic regime in 1999, Lagos and Kano share similar demographic, social, and economic attributes.[[2]](#footnote-2) Looking at Table 1, we see both states have around nine million citizens. Taking Nigeria’s population as a whole into account, Lagos State citizens make up 6.4% of the national population. Similarly, Kano’s state population is also about 6.7% of the whole. With that said, while Kano State has an area of roughly 7,700 square miles, Lagos State is one-sixth that size (1300 square miles). In terms of population density, there are about 6,718 people per square mile, compared to 1,207 people per square mile in Kano. Moreover, in Lagos, 93% of individuals reside in urban areas, while in Kano, this percentage is smaller (35%).

 Lagos and Kano are also similar in regards to education, health, and employment. Students enrolled in public primary school make up about 14% of Lagos and Kano’s state populations. Those enrolled in secondary school are roughly 16% of Lagos State’s populace; in Kano, this figure is closer to 12%. Looking at the ratio of state population to number of primary health care facilities, in Lagos there are about 8,000 people to 1 facility. This ratio is higher in Kano state where there are 10,000 people to each primary health care facility.

 Finally, looking at employment, about 37% of the populations that are of working age in Lagos and Kano State are employed. Table 2 describes the distribution of activities in which the working population is engaged. Private business via wholesale and retail trade is the dominant mode of employment in both states. 40% of Lagos’ employed citizens work in this sector, compared with 33% of Kano’s labor force. In Lagos, occupations in the service industry (e.g. hotels and restaurants, financial services, social and personal services) are the second-most common. 20% of employed Lagosians work in services, while 14% of Kano’s labor populace also works in this industry. In Lagos State 8% of the workforce are engaged in manufacturing and 7% in public administration. In Kano, between 2% and 3% of working people are in these two industries.

 With that said, there are key differences between Lagos and Kano, both in terms of their working populations and ethno-religious characteristics. For example, 25% of Kano’s working population is engaged in agriculture, making it the second-most popular in the state. On the other hand, in Lagos, only 2% of employed individuals work in this area. According to Nigerian tax administrators, agriculture (particularly, smaller-scale farming) tends to be a difficult sector to tax (for example, because of the informal nature of record-keeping). On the other hand, individuals employed in the service sector generally work in more formal business settings. These employers are easier to pursue for tax information and payments.

 In addition, there are large differences in the ethnicities of Lagos’ and Kano’s populations. In Lagos, 69% of the population is Yoruba, while 16% identifies as Igbo. On the other hand, in Kano, 93% of the population belongs to the Hausa-Fulani ethnic group. These disparities also apply to religion: in Lagos, the majority of the population (61%) identify themselves as Christians. On the other hand, in Kano, most people (40%) are Muslim, 16% are members of the Izala movement (an Islamic society), and 12% identify as Sunni Muslims.

Despite these differences, this paper argues that a comparison between Lagos and Kano would be fruitful. These two states are the most populous in the federation with the same percentage of employed persons. Lagos and Kano have access to tax-bases of similar size. Taken together with their socio-economic similarities, one would also expect similar levels of tax effort. However, this is not the case. For example, between 2005 and 2009, the yearly portion of Lagos’ income derived from taxes was between three and five times that of Kano State (Table 3). Why has Lagos State been able to augment its capacity to extract taxes, while taxes (as a portion of total revenue) in Kano have increased at a more modest pace? Evidence from interviews with members of Lagos’ and Kano’s tax administration shed light on the origins of these differences.

***Explaining Lagos’ Tax Capacity: Political Leadership and Civic Education***

 Over the last ten years in Nigeria’s post-authoritarian period, the Lagos State Internal Revenue Service (LIRS), acting on behalf of the state government, has launched several projects to increase tax generation. In interviews with two high-level LIRS administrators, internally generated revenue via taxation and tax-led development are identified as superior to petroleum income. As one official asserts, “Oil is subject to international fluctuations and economic downturns. We can’t always rely on it. Lagos is among the first states in Nigeria to understand this” (Director #1, Lagos Internal Revenue Service, June 1, 2011). A second tax administrator agrees:

“For sustainable and meaningful development, taxation is necessary. Nigeria cannot only have an oil economy. Natural resources are not there forever. It’s not sustainable for economic development. Taxes come yearly. As long as we invest appropriately in development, taxes will regenerate. Taxes are the only viable means” (Director #2, Lagos Internal Revenue Service, Personal Communication, June 8, 2011).

LIRS officials have specified how political initiative from the executive and legislative arms of government is paramount to the success of taxation in Lagos:

“Recently, there’s even more realization that states can’t survive without internally generated revenue. Politicians have put pressure on the civil service to improve the tax administration. They have also been encouraging citizens to make their payments.” (Director #2, Lagos Internal Revenue Service, Personal Communication, June 8, 2011).

In fact, the Lagos State Government has been active in engaging citizens in an open dialogue about the tax contract and current reforms. For example, in an address to the Fourth Lagos State Taxation Stakeholder’s Conference, Governor Babatunde Fashola was very clear about the government’s stance:

“In the great social contract which binds all organized societies, the ability of government and public officers to play their part depends largely on resources made available to them; and the most certain, most durable, and most sustainable of these resources are the public funds which the people themselves contribute by way of taxation…In Lagos, in Nigeria, and throughout the world, it is becoming increasingly clear that a government cannot do more than it is financially empowered to do, and that taxation remains the golden key to economic development…beware of politicians who are coming to promise you that they can achieve development without enforcing the collection of taxes. Sweet as it may sound, the promise of lower and lower taxes must translate to lower and lower resources for government and eventually undermine government’s ability to tackle even the basic developmental challenges that daily confront us in the great megacity of ours (December 8, 2010).

 Under Governor Fashola’s leadership, the Lagos State House of Assembly also affirm the importance of taxation to the state through the passage of legislation. For example, the LIRS conducted an investigation into citizen and civil society complaints to identify the most prevalent problems in tax administration. The results of this inquiry revealed that tax collection at the local level was the most problematic. In particular, the lack of information between local authorities and the taxpayers led to the collection of illegal taxes by fake tax collectors. In the case of legal taxes, there were even reports of “unscrupulous revenue officers in the habit of varying the amounts payable to facilitate unlawful negotiations and extorting bribes from taxpayers” (Ipaye, 2010). As a response, LIRS officials collaborated with the Lagos State legislature to draft the Local Government Levies Law (passed into law in April 2010). This law lists the levies state and local governments can collect. It also stipulates that local and state tax officials are required to present official identification when interacting with citizens. Tax collecting authorities must explicitly publish the legal taxes and the how they will be administered and collected. Moreover, “the use of roadblocks and other obstructions for purposes of tax collection” is strictly prohibited.

Members of Governor Fashola’s political party in the state legislature (then the Action Congress of Nigeria, also the majority party in the House of Assembly) support the executive and bureaucratic effort to increase tax capacity at the local level. As one legislator remarks:

“We cannot give in to the attempts to slow down our tax drive. We must ensure that we administer taxes correctly, and this new law will allow us to do so. We must clear any areas of doubt or confusion in taxation. We can make sure that tax payment reaches government coffers and can be used for our common benefit” (Lagos State Honourable #2, Lagos State House of Assembly, Personal Communication, May 10, 2011).

With that said, there was some opposition from members of the minority People’s Democratic Party. According to another legislator,

“it is unconstitutional for local governments and even state governments to be collecting their own revenue. All revenue should be collected in one pool. All taxes should go to the Federation Account. From there, it can be disbursed to the federal state, and local level” (Lagos State Honourable #19, Lagos State House of Assembly, Personal Communication, May 16, 2011).

Although the majority party prevailed and the Local Government Levies Law passed, politicians and tax administrators recognize that reforms to tax collection could not be achieved without popular support and understanding of taxation. Armed with legal authority, LIRS has taken this message directly to Lagosians. By focusing on income tax payment and collection, officials have engaged in a campaign to educate citizens about the fiscal contract, conveying how paying one’s taxes is a civic responsibility with clear benefits in terms of representation and service provision. In an interview, a tax administrator comments that:

“Before government can charge taxes, we must show how the revenue is used to provide services. Government must demonstrate to citizens that the money from taxes is used to develop infrastructure and facilitate business through access to shops, land, and credit. We use the money from taxes to create an enabling environment for citizens. Once people understand this, they will pay” (Director #2, Lagos Internal Revenue Service, Personal Communication, June 8, 2011)

For example, in an address to the Lagos State Branch of the Medical Women’s Association of Nigeria on International Women’s Day, Mr. Tunde Fowler, Executive Chairman and CEO of the Lagos State Internal Revenue Service, outlines how taxation benefits women:

“Women cannot be separated from the general society; when we talk about the society, we are talking about women and when we speak of the women, we are tabling about the society. This is so because of the critical roles women play in the economic, political, and social development of the society… ‘Health with the spirit of a mother’ is only attainable because government provides the necessary enabling environment, which is financed from taxation. Taxation is the bedrock of financing government activities and the benefits to society derives from the provision of these services” (March 8, 2009).

Likewise, in a presentation to the National Association of Banking and Finance Students, Mr. Fowler emphasizes the contractual nature of tax payment, and what non-compliance would mean for the ordinary citizen:

“The payment of taxes on income is a first principle of the social contract between the government and the governed. As that great American Statesman, Franklin D. Roosevelt, puts it, ‘taxes, after all, are dues that we pay for the privileges of membership in an organized society.’ It is the price we pay and must continue to pay for a civilized society. The people are at liberty to question the administration of the tax laws and demand accounting through their elected representatives. But no viable state can exist without tax. If government did not impose taxes, there would be nothing public. No highways, no public hospitals and schools, no law enforcement, no courts, no fire service, no waste collection, and so on” (October 28, 2010).

LIRS stresses how every able citizen must make their contribution through tax payment, “all income earners should pay tax. We all pay, no matter how small our incomes” (Ipaye, 2009). As a result, members of the tax administration have worked to expand the tax net while making compliance easier. This is particularly the case when dealing with the informal sector. Mr. Ade Ipaye, Special Adviser to the Governor of Lagos State on Taxation and Revenue, outlines these efforts in a 2009 report. The informal economy refers to economic activities that occur outside of government records and regulations. Because it involves “small-scale, largely self-employment activities, the informal sector is difficult to measure.” However, Lagos State tax administrators assert value in the informal economy:

“No doubt [the informal sector is] highly dynamic and pervasive, contributing substantially to employment and personal or household income. As a result, the informal sector is a major contributor to economic growth…it also provides competition in the economy and enhances innovation and adaptation, mobilizing capital and human resources which would otherwise been laid waster and idle” (Fowler, 2010).

Since LIRS promotes payment from all income-earning individuals, no matter how small their income, the tax administration has made reforms in order to enhance compliance from those working in the informal sector. For example, LIRS has increased the number of offices and locations. Individuals can file and pay taxes at over 120 bank branches, 36 tax stations, and mini-stations located in various markets. In addition, “forms can be obtained in all these locations and there are officers ready, able, and willing to explain the process absolutely free of charge” (Ipaye, 2010). Now, instead of travelling long distances and missing work in order to pay taxes, the process can be done at the taxpayer’s convenience. Second,

“The informal sector, as the name connotes, [is made up of] very informal people. They don’t keep accurate records. We have had to have discussions with them and agree on what is called a minimum tax expectation based on their income…a minimum of N2,500, then we’ve moved up gradually from there” (Fowler, 2010).

Furthermore, LIRS provides a table on the back of the tax forms where individuals can assess their income and expenditures with reference to others in their line of business. Then a taxpayer can make the corresponding income tax payment. The new Revenue Complaints and Information Unit investigates any problems, including any problems a taxpayer may experience with LIRS staff members. Finally, LIRS has urged members of the informal sector to join trade/business associations:

“This makes communication easier as we can most easily pass information or receive information from [those employed in the informal sector] through those associations…[For example,] staff members of LIRS have always attended the market men and women association meetings, and this offers the opportunity to answer members’ questions, take messages to government, and clear up outstanding issues. We have also arranged meetings with several other associations and trade groups in order to achieve the same end” (Ipaye, 2009).

Through community awareness campaigns, commercials, billboards/placards, films, documentaries, radio jingles, and other various means, LIRS (on behalf of the Lagos State Government) has entered into an explicit bargain with citizens. Pay taxes and government will use that income to address citizens’ needs, improve infrastructure, and develop the state. A high-level director at the Nigerian Ministry of Finance cites Lagos State as an example for the federation to follow:

“How I wish there were Fasholas in all states of Nigeria. Taxation is a mutual relationship: government must provide social amenities and people must pay tax. Every citizen has an obligation and civic responsibility to pay. It’s like voting. But if leaders can demonstrate what tax revenue can do, the community willingly pays. People in Lagos have seen the changes, the good roads and infrastructure. In Lagos, government functions for the people. Now people are eager to pay taxes because they see the benefits. They are diversifying the tax base by bringing the informal economy under the tax net and stopping the leakages. Lagos shows that in Nigeria, the will is there” (Director, Nigerian Ministry of Finance, Personal Communication, March 29, 2011).

Lagos officials identify tax income as the most optimum form of revenue, engaging in an explicit bargain with citizens. They aim to educate citizens about the role of taxation in society and the benefits ordinary people derive with tax income in regularized. Ultimately, these efforts have started to shift the tax culture in Lagos State. Through political leadership (e.g. putting taxation on the public agenda, legislation) and civic education, Lagos State engages citizens and has entered into a tax contract. By outlining the benefits of taxation to society as a whole and specific groups and simplifying the tax payment process, LIRS works to change Lagos’ increase tax compliance.

***A Contrast with Kano: The Lack of Political Will and an Adversarial Tax Culture***

 Turning to Kano State, we observe a markedly different relationship between the state revenue service and political arms of government. As in Lagos, tax administrators in the Kano Board of Internal Revenue (KBIR) identify tax revenue as superior to petroleum income; however, State Governors have not prioritized taxation in the public agenda or reforms to the state tax administration. Without political leadership and resources, KBIR has not been able to engage or educate citizens about the tax contract. With that said, Kano’s tax administration, in conjunction with the World Bank, has outlined various strategies to place tax reform and compliance on the political agenda, working to shift elite and public perceptions.

 In an interview, a top KBIR director identifies internally generated income through taxation as the best way to fund development:

“Certainly yes. It is through tax that we can build infrastructure. But in Kano, if the statutory allocation [federal transfers of petroleum income)] was not there, how would Kano survive? This is the big question. We can only survive through tax revenue. We must tap taxation to survive in future” (Director, Kano Board of Internal Revenue, Personal Communication, July 5, 2011).

Like his counterparts in Lagos State, this KBIR administrator believes tax-based development is the most reliable and sustainable. However, he emphasizes that Kano is not meeting its potential:

“We should collect five billion naira per month in taxes, but we collect far less, between five and six hundred million. We are not collecting enough. In fact, it is grossly inadequate.”[[3]](#footnote-3)

When asked to describe the nature of KBIR’s relationship with elected officials, particularly the Governor and Kano’s House of Assembly, this director describes an adversarial one, in which the state tax administration has been relegated:

“For now, [politicians] have not grasped the benefits to accrue from taxation. There is a total lack of support for the tax administration. The facilities don’t meet our needs. The board [KBIR] is treated as if we are not a ministry. We are not given resources. We don’t have vehicles or computers. There is not enough for the adequate payment for our salary. There is no capacity building. There is no political pressure on citizens to pay tax.”

Rather than develop state tax capacity, Kano’s State Governors (as a part of the Northern Governors Forum) have called for reforms to the formula for allocating federal oil income. Over the last four years, these state executives have sought to increase the percentage of oil income coming to Northern States. In particular, Governor Kwankwaso of Kano (1999 – 2003) opposed the derivation principle, whereby states that produce petroleum collect an additional 13% of oil income (on top of revenue from the standard allocation). According to Governor Kwankwaso:

“The South-South [location of petroleum producing states] get more than their northern counterparts from [oil] incomes emanating from the Federation Account. It implies that some states in the country are getting richer while others get poorer by the day. This has been unfair to majority of Nigerians especially the northern states. It is unfair for oil states to be receiving huge sums of money. The North today is in a very grave situation where illiteracy, poverty and general backwardness are on the rise. This is a result of the unfavorable federation allocation structure in which the Northern states are at a great disadvantage” (February 24, 2012, Address to Northern Governors Forum during the Inauguration of the Sir Ahmadu Bello Memorial Foundation Advisory Council).

However, members of Kano’s tax administration criticize Governor Kwankwaso, instead arguing that:

“It is irresponsible to ask for more revenue based on what is given to oil bearing states. Rather than ask for more funds from the federal government, Kano should explore ways of more money for itself. Leaders should concentrate on diversifying of our revenue base and use sustainable alternatives like taxes” (Director, Kano Board of Internal Revenue, Personal Communication, July 5, 2011).

In 2009, KBIR collaborated with the World Bank and the United Kingdom’s Department for International Development (DFID) to assess the current tax administration and develop a modernization plan to reform KBIR and tax generation in the state. As the KBIR director argues, this report confirms the lack of political leadership from state Governors and the lack of autonomy and resources in Kano’s tax administration:

“[The KBIR needs] considerable autonomy in control and decision making in the areas of fiscal as well as human and physical resource management…As regards physical infrastructure, the Kano State BIR offices are housed in rented premises (with the exception of one) making it very difficult for long term planning. The buildings, furniture and general office equipment are largely in a dilapidated state and are unsuitable for modern ways of working, service delivery, and the installation of modern computer systems” (KBIR Modernization Plan, 2009).

Both the KBIR director and the Modernization Plan explain the tax administration’s relationship with citizens in the same adversarial fashion:

“Citizens have no desire to pay [taxes]. This is probably because of the years of no tax payment during the military regime. People are now skeptical. They won’t pay tax unless they understand why” (Director, Kano Board of Internal Revenue, Personal Communication, July 5, 2011).

The Modernization Plan corroborates this characterization, emphasizing:

“Above all, a fight against public ignorance of the taxation laws and their obligations as taxpayers is a central pillar in increasing effectiveness in revenue generation as well as propelling a positive corporate image of the BIR” (KBIR, 2009).

In line with the Modernization Plan, the KBIR director argues Kano residents must be educated about taxation as a civic duty with benefits for society as a whole:

“The old method of forced compulsion no longer applies. No one pays taxes with a smile, but we must educate people to voluntarily pay. This civic tax education can enlighten taxpayers to make them aware of how to make payments and what they gain from it. If you want to reform and boost taxes, taxpayers’ education through advertising and public hearings is necessary” (Director, Kano Board of Internal Revenue, Personal Communication, July 5, 2011).

Like administrators in Lagos, KBIR officials recognize that before citizens will pay taxes, government must make the first move, demonstrating how regular tax income allows government to engage in public development:

“Taxpayers doubt the government. They do not believe the money they will pay will be used judiciously. Government must first show what they have done, improving electricity, water supply, roads, and security. Government must create an enabling environment where people can carry out their business. It is a give and take. If people believe when they pay tax, they will get these things in return, citizens willingly pay.”

To address the limited political resources available to KBIR, the board received assistance from the World Bank/DFID tax team to draft the Kano State Board of Internal Revenue Autonomy Act. This legislation was submitted to the Kano State House of Assembly and passed on February 1, 2012. As the title suggests, this act would afford the KBIR political and fiscal autonomy to act as independent revenue board:

“[With] freedom from the traditional Civil Service institutional arrangements, [KBIR can] adopt new ways of working and funding so as to embrace better and modern techniques of tax administration. Foremost, management plans will reorganize the BIR governance structure so as to become more productive, efficient and taxpayer focused” (KBIR, 2009).

With this autonomy, the KBIR would be able improve its office infrastructure and computerize and automate the tax collection process. Administrators believe “[reducing] human interventions in tax transactions,” will curtail corrupt practices. In this scenario (similar to that in Lagos), tax officials can focus on civic education and improving interactions with taxpayers (KBIR, 2009).

Thus, the bulk of KBIR’s plan is aimed directly at citizens, with the goal of improving voluntary taxpayer compliance, primarily thorough public awareness campaigns. A Public Relations & Protocol Unit will be charged with developing reference materials for citizens and organizing taxpayer education, which includes the following methods: conferences, consultative meetings, trade show stands, print media, advertisements, bill boards, radio jingles, drama productions, leaflets, seminars, workshops, clinics, and talk show appearances (KBIR, 2009). KBIR would further public promotions by introducing an annual Revenue Week and a taxpayer appreciation event. A new Public Affairs and Taxpayer Services Department (PATS) will conduct an annual taxpayer perceptions surveys. In addition, this department will allow KBIR to:

“Capture data and provide feedback on taxpayer inquiries and complaints; Engage with taxpayers and the general public in order to secure their recommendations and feedback on service delivery in the BIR operations; Conduct regular surveys to determine level of satisfaction and public confidence in the service delivery by the BIR; Sensitize the BIR Staff on the new procedures for handling taxpayer inquiries and complaints while executing their work; Institute a customer care monitoring and evaluation system” (KBIR, 2009).

Kano State Board of Internal Revenue’s tax generation capacity has been hindered through the deficient political support and public awareness and compliance with the tax payment process. However, as in Lagos, the KBIR identifies legislation (granting the board political and fiscal leadership) and public engagement as prescriptions. Through instilling public confidence in KBIR and the tax system, the tax administration aims to shift Kano’s tax culture from indifferent and adversarial to compliant.

***A Tale of Two Tax Cultures: Elite and Popular Perceptions in Lagos and Kano***

 The previous analysis of civil servant interviews and reports compares Lagos and Kano’s tax administration from the perspective of those actively engaged in the two revenue boards. In light of these characterizations, I consider elite perceptions of taxation in these two states. Using original legislative interviews, I compare legislators in Lagos and Kano: how do they perceive state (and Nigeria’s) reliance on oil revenue? Do legislators believe the tax department has the right to compel tax payment? Which level of government should engage in income tax collection? Based on the analysis in the previous section, I hypothesize legislators in Lagos will be more likely than their counterparts in Kano to identify tax revenue as superior to oil income (1). Legislators in Lagos will be more likely to indicate the state government has the primary responsibility for collecting income taxes (2). Last, legislators in Lagos will be more likely to agree that the tax department has the right to compel tax payment (3). I expect these relationships as a result of LIRS officials’ characterization of politicians as cooperative. LIRS administrators identify political elites as supportive, placing tax policy on the public agenda and collaborating with the tax administration tax generation. On the other hand, KBIR officials (for now) describe politicians as indifferent and unsupportive of the tax administration.

Comparing Legislative Perspectives of Tax Dependence and Payment

 Relying on the data collected in interviews with members of the Lagos and Kano Houses of Assembly, evidence corroborates civil servants’ characterizations of their respective state political elites. We observe that, generally, legislators in both states prioritize tax dependence over reliance on federal petroleum income transfers. However, in Kano, this belief does not transfer into support of the state tax administration’s right to compel and collect taxes.

 All 20 of the legislators interviewed at the Lagos House of Assembly indicate that Nigeria is too reliant on oil revenue and that diversifying via tax revenue would be a more optimal path.

 According to one Lagos State legislator: “for now, Nigeria has a mono-resource dependent economy. Taxes and a strong tax regime are necessary” (Lagos State Honourable #2, Lagos State House of Assembly, Personal Communication, May 10, 2011). Another official agrees, arguing: “Nigeria is stupidly reliant on oil, thinking it’s something in perpetuity. Petrol decreases as it’s utilized, until its dried up. It’s myopic. Nigeria must exploit other areas that allow us to build the tax base” (Lagos State Honourable #3, Lagos State House of Assembly, Personal Communication, May 10, 2011). In another interview, one legislator separates Lagos from the remainder of the federation, reporting: “Yes, Nigeria is too reliant on oil, but not in Lagos. There is too much laziness in other states. People must learn that it’s best for them to contribute to their government and pay taxes” (Lagos State Honourable #6, Lagos State House of Assembly, Personal Communication, May 11, 2011). Finally, another legislator from the Lagos House of Assembly laments Nigeria’s prospects for development: “It is only through taxation that we can have the resources to govern. If we are unable to raise internally generated revenue with tax, Nigerian cannot stay above water. It is sad for development” (Lagos State Honourable #7, Lagos State House of Assembly, Personal Communication, May 12, 2011).

 Likewise, 18 out of 20 legislators from Kano assert Nigeria is over-reliant on oil income to the country’s detriment.[[4]](#footnote-4) As one legislator states: “If oil goes, there will be no money to sustain the country. In fact, it is the military government that bred this culture. People must contribute to government in order for government to perform its functions (Kano State Honourable #1, Kano State House of Assembly, Personal Communication, March 9, 2011). Another member of the Kano State Assembly agrees saying: “States need to tax so government can provide infrastructure and maintain it. But internally generated revenue is meager. Without federal accounts, states would collapse” (Kano State Honourable #13, Kano State House of Assembly, Personal Communication, July 6, 2011). In another interview, a Kano legislator remarks: “Truly, there are no earnings from taxes. Taxes are the backbone of the country, but no one wants to pay. We have forgotten other means of revenue besides oil” (Kano State Honourable #4, Kano State House of Assembly, Personal Communication, March 9, 2011). Last, an official specifies that Northern Nigeria is particularly worse off as a result of dependence on oil income: “There is too much dependence on oil, especially in Northern Nigeria. In the North, we are behind other states in taxation. I don’t even think internally generated revenue is a priority. This has made Nigerians lazy and to abandon innovation. Without federal allocation, most states and local governments would fail (Kano State Honourable #6, Kano State House of Assembly, Personal Communication, March 8, 2011).

Thus, contrary to Hypothesis 1, evidence from legislative interviews suggest that officials from both Lagos and Kano *say* that they prioritize tax-based development as a superior option. The majority of legislators from the two states agree that generating income from taxes should be a priority.

With that said, turning to Hypothesis 2, we find a divergence in legislators’ beliefs about which level of government should collect (income) taxes. In Lagos, officials’ opinions about tax generation being a priority also align with their belief in the state’s primacy as collectors of income taxes from citizens. In fact, this responsibility constitutionally belongs to states (as opposed to the federal government, local government, traditional leaders, or members of the community). Evidence suggests this is not the case in Kano (Figure 1).

For example, in Lagos 13 out of the 20 legislators (65%) believe the state government has the primary responsibility for collecting income taxes. This is in line with Nigeria’s Federal Constitution and the 1993/2007 Personal Income Tax Act, in which collection of income taxes is under the jurisdiction of state governments. There are exceptions for federal employees, members of the military, and residents of the Federal Capital Territory (Abuja), who pay income taxes to the federal government. On the other hand, six out of 20 legislators (30%) in the Lagos State Legislature believe the federal government should collect income taxes, while the remaining member (5%) believes local governments should be the primary collector.

Conversely, in Kano, state legislators are more likely to place the federal government in the role of primary collector of income taxes. 16 out of 20 Kano legislators (80%) indicate that the federal government should have the primary responsibility of collecting income taxes. Two legislators (10%) believe the state government should have this task, while the remaining two members (10%) place this responsibility at the local level.

 A Pearson’s correlation (r = 0.57) indicates a strong, positive association: legislators from Lagos are more like than those from Kano to believe state government has the primary responsibility for collecting income taxes (Table 4).[[5]](#footnote-5) The observation that legislators from Kano believe the federal government should collect income taxes corresponds with Suberu’s (2001, 2004) argument: Northern governments prefer a centralized distributive system. According to Suberu (2004: 341), Northern political leaders support the collection of taxes and revenue at the federal level, with transfers to subnational authorities. In fact, one legislator from Kano comments: “By definition, tax revenue is any money derived from the execution of the law. The federal government should collect everything, then states can collect from the Federation Account.” (Kano State Honourable #15, Kano State House of Assembly, Personal Communication, July 6, 2011).

Thus, we find support for Hypothesis 2: Lagos State legislators report being more supportive of the state’s power to collect income taxes.

 When testing Hypothesis 3, we observe a similar relationship when considering elite perceptions of the tax department’s authority to compel tax payment (Figure 2). 20 out of 20 (100%) legislators from Lagos agree or strongly agree that “the tax department always has the right to make people pay taxes.” On the other hand, in Kano, there’s less support for the tax department’s right to compel tax payment. 12 out of 20 members (60%) of legislators from Kano indicate they disagree or strongly disagree that “the tax department always has the right to make people pay taxes.” The remaining eight members (40%) agree or strongly agree with this statement. But even then, only three out of 20 (15%) legislators interviewed strongly agree with the tax department’s authority to compel citizens to pay. Another analysis of correlation (Table 5) confirms legislators from Lagos are more likely than their counterparts in Kano to agree (or strongly agree) that the tax department has the authority to compel citizens to pay taxes.[[6]](#footnote-6) With a Pearson’s r of 0.69, this is a strong, positive association.

 Empirical analysis confirms the assertions made by tax administrations in Lagos and Kano States. Contrary to Hypothesis 1, elites from both Houses of Assembly express the belief that tax-led development is superior to dependence on petroleum income. However, in support of Hypothesis 2, we see that in Lagos, legislators also support the state government’s authority to collect income taxes and the tax department’s right to compel tax payment. This is not the case in Kano, where elites are more likely to indicate the federal government has the responsibility for collective income taxes. Likewise, legislators in Kano are less likely to support the tax department’s authority to make citizens pay taxes (Hypothesis 3). This political support (or lack thereof, as in the case of Kano) has real consequences for the tax administration’s ability to educate citizens about taxation and execute tax policy. In Lagos, as a result of political leadership and initiative, taxation and reform has been placed on the public agenda, providing legal and financial resources to LIRS. This has not yet occurred in Kano, where KBIR officials describe politicians as indifferent and at times adversarial toward the state tax administration.

Comparing Nigerians’ Willingness to Pay Taxes and Actual Tax Payment

 Based on Lagos and Kano SIRB officials’ characterizations of tax culture in their states, I also expect citizens in Lagos State to be more willing to pay taxes when compared to those in Kano State. Furthermore, I hypothesize that Lagosians will be more likely to report tax payment. Since Governor Fashola has led the effort to empower LIRS, the state tax administration has successfully engaged in public awareness campaigns, educating citizens about the benefits of tax-based development and the process of tax payment. LIRS has also worked to bring the informal sector under the tax net. On the other hand, in Kano, Governor Kwankwaso has focused state efforts on augmenting oil income dependence, rather than generating tax income. As a result, KBIR have yet to launch such a campaign, instead describing citizens as unaware and unknowledgeable about the tax contract. I argue that Lagosians, having a firmer understanding of the tax contract, will be more compliant with tax payment.

 Preliminary results from the Afrobarometer Public Opinion Survey (2008) provide evidence that citizens of Lagos are, in fact, more willing to pay taxes. Lagosians also report actual tax payment at a higher rate. Looking at Figure 3, 59% of respondents from Lagos agree or strongly agree that the tax department has the right to make people pay taxes. On the other hand, 36% of respondents from Kano report this opinion. Rather, 45% of people from Kano disagree or strongly disagree with the tax department’s authority to compel tax payment (compared with of respondents from 36% in Lagos).

 Comparing respondents’ reported tax payment (Figure 4), we see Lagosians are more likely to report actual tax payment in all three types of levies. 44% of respondents from Lagos say that they have paid income taxes in the last year, compared to 18% of respondents from Kano. 45% of Lagosians indicate paying property taxes in the last year, while only 5% of respondents from Kano say they made property tax payments. Last, 42% of respondents from Lagos report paying local government taxes, whereas 24% from Kano also paid local levies. Considering Nigeria as a whole, Lagos rates of tax payment exceed those across the federation. On the other hand, reports of actual tax payment in Kano are below the national average.

***Conclusion***

This paper suggests that differences in political leadership can help explain why Lagos and Kano have two different tax cultures, which ultimately results in two different rates of tax generation. Evidence from interviews with tax administrators suggests that in Lagos, Governor Fashola has lead efforts of create a relationship of cooperation and compliance between political elites, tax administrators, and citizens in Lagos. On the other hand, Governor Kwankwasu in Kano has prioritized increasing the state’s access to natural resource income. As a result, relationships between legislators and tax officials in Kano are based on indifference and a lack of engagement. For example, by opening up dialogue between political elites and tax administrators, Governor Fashola has placed the taxation and notions of the fiscal contract on the public agenda. Through this engagement, LIRS officials have bargained with citizens, publicizing the individual and societal benefits of tax payment. This suggests that political initiative, particularly from governors, can give momentum to developing state tax capacity.

***Tables and Figures***

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 1: STATE DEMOGRAPHICS (2005 – 2006)** |   |   |   |
| **STATE** | **POPULATION (2006)** | **POPULATION AS % OF TOTAL NIGERIA** | **AREA (SQUARE MILES)** |
| **LAGOS** | 9, 013, 534 | 6.44 | 1,341.70 |
| **KANO** | 9, 383, 682 | 6.70 | 7,772.60 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 1 (cont’d): STATE DEMOGRAPHICS (2005 – 2006)** |   |   |   |   |
| **STATE** | **% POPULATION ENROLLED IN PUBLIC PRIMARY SCHOOL** | **% POPULATION ENROLLED IN PUBLIC SECONDARY SCHOOL** | **POPULATION PER PRIMARY HEALTH CARE FACILITY** | **% POPULATION EMPLOYED** |
| **LAGOS** | 13.95 | 15.98 | 8,160 | 37.19 |
| **KANO** | 13.76 | 12.40 | 10,070 | 36.82 |

|  |  |  |
| --- | --- | --- |
| **Table: 2 DISTRIBUTION OF WORKING POPULATION BY ACTIVITY (%)** | **LAGOS** | **KANO** |
| **AGRICULTURE** | 2 | 25 |
| **FISHING** | 1 | 1 |
| **MANUFACTURING**  | 8 | 12 |
| **CONSTRUCTION** | 5 | 2 |
| **TRADE** | 40 | 33 |
| **TRANSPORT** | 7 | 2 |
| **PUBLIC ADMINISTRATION** | 7 | 2 |
| **EDUCATION** | 5 | 3 |
| **HEALTH/SOCIAL WORK** | 3 | 1 |
| **SERVICES** | 20 | 14 |
| **OTHER**  | 3 | 2 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 3: TAX GENERATION IN LAGOS AND KANO (Tax Revenue As A Percentage of Total Revenue, %)**  |   |   |   |   |   |
| **STATE** | **2005** | **2007** | **2008** | **2009** | **MEAN** **(1999 – 2009)** |
| **LAGOS** | 51.2 | 62.2 | 63.5 | 64.3 | 53.4 |
| **KANO**  | 11.2 | 14.7 | 17.2 | 21.6 | 13.2 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4[[7]](#footnote-7): CORRELATION BETWEEN LEGISLATOR'S HOME STATE AND BELIEF STATES SHOULD COLLECT INCOME TAXES (%, n = 40)** |   |   |   |
|  |  | **WHICH LEVEL OF GOVERNMENT SHOULD COLLECT INCOME TAXES** |   |
| **STATE** | **FEDERAL** | **LOCAL** | **STATE** |
| **KANO** | 80 | 10 | 10 |
| **LAGOS** | 30 | 5 | 65 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Table 5: CORRELATION BETWEEN LEGISLATOR'S HOME STATE AND BELIEF TAX DEPARMENT CAN COMPEL PAYMENT (%, n = 40)[[8]](#footnote-8)** |   |   |   |   |   |
|   |  |   | **TAX DEPARMENT CAN MAKE PEOPLE PAY TAXES** |   |   |
| **STATE** | **STRONGLY DISAGREE**  | **DISAGREE** | **NEITHER AGREE NOR DISAGREE** | **AGREE** | **STRONGLY AGREE** |
| **KANO** | 30 | 30 | 0 | 25 | 15 |
| **LAGOS** | 0 | 0 | 0 | 25 | 75 |

**Figure 1: ELITES “Who do you think actually has *primary* responsibility for collecting income taxes?”**

**Figure 2: ELITES “The tax department always has the right to make people pay taxes.”**

**Figure 3: CITIZENS “The tax department always has the right to make people pay taxes.”[[9]](#footnote-9)**

**Figure 4: CITIZENS “Have you had to make any of the following payments during the past year…”[[10]](#footnote-10)**

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1. The 1999 Nigerian Constitution also creates National Assembly (Senate and House of Representatives), constituting the legislative branch of federal government. The Senate (upper house) is made up of 109 members (three per state, one from the Federal Capital). The House of Representatives (lower house) consists of 360 members elected from single-member districts (by simple majority). [↑](#footnote-ref-1)
2. The statistics presented are from two 2006 and 2007 (respectively) reports from the Nigerian National Bureau of Statistics: Social Statistics in Nigeria, 2005 and 2006 Population Census. [↑](#footnote-ref-2)
3. This is compared to Lagos State, which reports generating an average of 14.5 billion naira per month in tax revenue (Fowler, 2010). [↑](#footnote-ref-3)
4. Two legislators from the Kano State House of Assembly indicate that they “do not know.” [↑](#footnote-ref-4)
5. STATE is a dummy variable where Kano = 0 and Lagos = 1. Similarly, PRIMARY RESPONSIBILITY FOR COLLECTING INCOME TAXES is a dummy variable where Federal Government, Local Government = 0 and State Government = 1. [↑](#footnote-ref-5)
6. STATE is a dummy variable where Kano = 0 and Lagos = 1. TAX DEPARTMENT CAN COMPEL TAX PAYMENT is an interval variable where, Strongly Disagree = 1, Disagree = 2, Neither Agree, Nor Disagree = 3, Agree = 4, Strongly Agree = 5. [↑](#footnote-ref-6)
7. Pearson Chi2(2) = 13.5884, Pr = 0.001; Pearson’s r = 0.568. [↑](#footnote-ref-7)
8. Pearson Chi2(3) = 20.0000, Pr = 0.000; Pearson’s r = 0.685. [↑](#footnote-ref-8)
9. Pearson Chi2(4) = 39.8884, Pr = 0.000. [↑](#footnote-ref-9)
10. INCOME TAXES: Pearson Chi2(1) = 24.1717, Pr = 0.000; PROPERTY TAXES: Pearson Chi2(1) = 62.2832, Pr = 0.000; LOCAL TAXES: Pearson Chi2(1) = 20.4561, Pr = 0.000. [↑](#footnote-ref-10)