ABSTRACT

Growth development theorists such as Rowstow have averred that third world countries (TWCs) need foreign Aid to stimulate development and move them into the 'take-off stage' which is characterised by growth and development. However, after decades of aid inflow into TWCs, the majority of TWCs are still struggling to achieve their development objectives. Therefore, it is doubtful if aids alone can jumpstart development in TWCs. This reality has given rise to a plethora of alternate propositions aimed at realising the development objectives of TWCs. The central argument of this paper is that Aid alone cannot improve the status of TWCs. It is further argued in the paper that Aid needs to be complemented by stimulants (initiated within TWCs) such as Remittance, Taxation, and Public-Private Partnership (PPP) to solve their economic development problems. To this end, it is suggested that an approach which combines indigenous options with Aid will significantly advance the development objectives of TWCs.

[1] INTRODUCTION

Third World Countries are infamously designated, in the context of development studies, as countries from the regions of the world characterised by poor socio-economic conditions and low rankings on the United Nations (UN) Human Development Index (HDI). The provision of aid packages from the first world, or developed countries are one of the main strategies adopted in a bid to ameliorate the socio-economic depravity in TWCs. The foreign

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aid packages whether in the form of financial, technical assistance, food aid, grant and loans with at least a 25% grant element, are given for reasons that are actuated by either humanitarian emotion, political and economic self-interest.

While there are cogent reasons for developed countries’ continued (foreign) aids interventions in TWCs, it is questionable if foreign Aid, as a mono-therapy has been an adequate strategy to rescue TWCs from their developmental doldrums. First, there is ample evidence to suggest that there is a positive relationship between Aid and corruption in TWCs. Secondly, TWCs do not always exercise full discretion on what and how foreign Aid is utilised. For example, Osei points out that the practice whereby aid donors’ impose restrictions [i.e. aid tying] on where the recipient can spend aid funds, and/or end-use restrictions—through the specification of commodities and projects for which external assistance can be used — has long raised concerns about the quality and effectiveness of Aid. Thus, while it was reported in 2013, by the OECD that: ‘Development aid rose by 6.1% in real terms in 2013 to reach the highest level ever recorded, despite continued pressure on budgets in OECD countries since the global economic crisis...’, the utilisation rate and real impact of foreign Aid in recipient countries is questionable. Shah identifies a couple of fundamental challenges militating against a positive impact of foreign Aid on TWCs to include. The first relates to the conditions imposed by donors that the recipient of Aid must use overpriced goods and services from the donor countries. Second is that foreign aid amounts being dwarfed by rich country protectionism that denies market access for poor country products, while the rich nations use Aid as a lever to open poor country markets to their products.

From the foregoing, it is clear that overdependence on Aid as a panacea for economic underdevelopment in TWCs has proved to be problematic. As such, the objective of this paper is to propose alternative policy options (macroeconomic tools) that could complement

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foreign Aid as a driver of sustainable development in TWCs. The following section highlights some features of foreign Aid that makes it inadequate as the sole or main method for changing the developmental status of TWCs. Part 2 recommends options that could serve as complementary to aid for the development of the region. Part 3 concludes the paper.

[2] FOREIGN AID

Foreign Aid is that part of capital inflow into states which is not a product of market forces. It is primarily the official government-to-government transfer of financial and technical resources for social and economic development programmes. It could also be capital transfers or technical assistance and training. It is basically the transfer from states with resources to spare to those with needs. According to Osei:

The fundamental idea of foreign Aid was that resources would be transferred to developing countries on concessional terms, that is, on terms and conditions more generous than those on credits obtainable from the world’s capital markets. The idea of concessionality is to enable aid patterns to be compatible not just with the aim of growth but with a position of net indebtedness that is tolerable in the long term in the recipient countries.

One of the most popular sources of Aid to TWCs is the Official Development Assistance (ODA). Though a subset of foreign investment, aids differ from foreign investment per se. This is because ordinarily, the former, are actuated by considerations other than market forces. However, from a socio-economic standpoint, aids are neither gift nor are they a manifestation of altruism. In this regard, Oya notes that the giving of foreign Aid is '...motivated by a mixture of alleged altruism, economic interests, historical ties and geo-

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7 Aid in form of military assistance includes supply of military hardware at subsidised rates, supply of military technical assistance such as military presence to a country in crisis or conflict with another country, military subversions, coups, assassinations, etc.

8 Osei (n 3) 349.


10 See I. A. Aniyie, ‘Foreign Investment and the Development of the Third World: An Examination of the Realities’ (2012) 1 Journal of Contemporary Law 155-176, where the distinctions and similarities between aid and foreign investment was highlighted.
strategic (imperialist) considerations...”\textsuperscript{11} Thus, it is important to determine whose interests are best served by foreign Aid by reflecting on two interlinked questions: is foreign Aid really in the best interest of the recipients and is it as effective as proponents of the growth theory of development make it out to be?

The growth theory of development as propounded by Rostow posits that development in any society or state is linear and in five stages: the traditional society; pre-conditions for take-off; take-off; drive to maturity; and, age of high mass consumption.\textsuperscript{12} According to this theory, TWCs are either in the traditional society or pre-condition stage and require foreign Aid to move them to the ”take-off” stage, which according to the theorists is the most critical level. It is at the ”take-off” stage that industrialisation and economic growth is possible.\textsuperscript{13} This theory may, however, be critiqued on the basis that there are drawbacks in the reliance of foreign Aid that question its effectiveness as a catalyst for launching TWCs to the take-off stage of their economic development. First, foreign Aid is often given based on conditions.\textsuperscript{14} For instance, it is often a stipulation that the Aid must be spent on goods and services produced in the country, providing the Aid or in selected countries. The aid package is also often provided based on the condition that it must be utilised in a particular manner; or, the recipient state is to arrange its affairs in a particular manner - which oftentimes is according to prevailing economic orientations that do not (adequately) take the socio-economic peculiarities of the recipient-state into cognisance.\textsuperscript{15} For instance, TWCs are cajoled into adopting mercantilistic orientation resulting in the liberalisation of their import regime. Without corresponding market access for their exports in industrialised markets as a result of the existence of numerous tariffs and non-tariff barriers, the TWCs become burdened with perennial trade and balance of payment deficits, financial instability, debt, recession or stagnation and underdevelopment.

Another basis for criticising the postulation that foreign Aid gets TWCs to the take-off stage is that TWCs often lack the absorptive capacity to maximally utilise aids as deficient or derelict infrastructure and technically competent personnel, amongst others, plague them. It is typical for TWCs who secure foreign Aid in the form of modern machinery and equipment to source for expatriate personnel to operate and maintain them because they lack indigenous capacity. Thus, where the foreign Aid is meant for a developmental purpose, the foregoing has the consequence of increasing the cost of the project and by extension, reducing the value of the Aid. Furthermore, a hypothetical situation as above has the effect

\textsuperscript{13} Ibid.
\textsuperscript{14} Osei (n 8).
of preventing the transfer of technology/technical knowledge. It is also an avenue for rent-seeking donors to exploit recipient states as it creates a situation where some of the funds from the Aid are repatriated to the state of origin in value-added form or as income.

Also, foreign Aid is perceived as incapable of stimulating and sustaining the development of TWCs because of its cyclical and volatility. Thornton examines the cyclicality of fiscal policy in 37 low-income African economies over sample periods of up to 44 years and finds that those African countries which are more dependent on foreign aid inflows and are characterised by lower levels of corruption are more procyclical.16 Regarding volatility, the value of aid volatility is huge. It has been estimated to cost between $0.07 and $0.28 per dollar of Aid, depending on the donor.17 Finally, the uncertainty that surrounds aids packages, particularly with regards to timing and volume, makes long-term planning difficult for the recipient country and has potential negative fiscal impacts on their economy. The economic wellbeing of the donor-country predicates the frequency and quantum of aid packages with donors more willing to provide aid packages when their economies are robust. When potential donor countries face economic difficulties - such as the economic recession of 200818 - the flow of foreign aids slows down, as these countries have to shore up their reserves to (re) stabilise their economy.

[3] PRESENTING COMPLEMENTARIES

The previous section highlighted the fundamental concerns why foreign Aid is considered both unreliable and insufficient either as the single or main source of funding to develop TWCs sustainably. Therefore a change of approach to the treatment of TWCs development malady is appropriate. The focus hereafter is an examination of what is considered complementary to aid in the process of developing the third world. These are remittance, taxation and public-private partnership (PPP).


[3.1] Remittance

Remittance is a product of international migration, and it encompasses earning - either in cash or in-kind or social remittance (i.e., ideas, services, etc.) - sent from either the destination of migration to the place of origin;¹⁹ or from the source state to a territory other than the source state.²⁰ It is either formal or informal. Remittance is formal when registered financial institutions within a state are utilised for the transfer. This includes remittance done through banks, companies whose business is money transfer (e.g. Western Union®) or courier and freight companies (e.g. DHL®). Informal remittance includes those done using routes like the *hawala* system,²¹ or individuals (family, friend and/or associates) who are travelling to the location(s) of the would-be recipient(s). The importance of remittance is growing for several reasons primarily linked to the growing volume of money involved; that is the volume of migration and the number of persons living outside their countries of origin.²² Also, the growth in academic discourse, particularly its relation to HDI and development of TWCs,²³ has contributed to a growing focus on the role of remittances in TWCs especially.

Regarding the volume of money transferred, the World Bank put global remittance for 2011 at USD381 billion²⁴ with TWCs being the beneficiary of USD325 billion (approximately 74%)

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²⁰ This subsumes remittance spent by nationals of states abroad for medical care and education abroad.
²¹ *Hawala* remittance system is an informal banking arrangement that allow the transfer of funds both domestically and internationally without using formal financial institutions. They usually run parallel to and independent from the latter. Documentary requirements from both sender and recipient is minimal and this has made its utilisation attractive to persons involved in financial crimes international terrorism and terrorist financing as well as the international trade illicit psychotropic substances. See R. Ballard, ‘Coalitions of Reciprocity and the Maintenance of Financial Integrity within Informal Value Transmission Systems: The Operational Dynamics of Contemporary Hawala Networks’, (2005) 6 Journal of Banking Regulation 4, 319.
²² UN estimates put the global population of international migrants as at mid-year 2010 at 213 million. See UN, Trends in International Migrant Stock: The 2008 Revision (UN database, POP/DB/MIG/Stock/Rev.2008) Available at: [http://esa.un.org/migration/p2k0data.asp](http://esa.un.org/migration/p2k0data.asp) accessed 25 January 2015. It should be noted that the above figure cannot be accurate as there is the possibility of it not incorporating the undocumented migrants who have not been counted or become part of official data.
of the total).\textsuperscript{25} According to the UN, in 2012, the top TWCs’ recipients of remittances are India ($70 billion), China ($66 billion), the Philippines ($24 billion), Mexico ($24 billion), and Nigeria ($21 billion).\textsuperscript{26}

**Figure 1: Remittances and other resource flows to developing countries**

![Graph showing remittances and other resource flows](http://siteresources.worldbank.org/INTLAC/Resources/Factbook2011-Ebook.pdf)

Figure 1 above shows a steady increase in the volume of remittance as a source of funds into TWCs between 1990 and 2011. It also shows a significant gap between foreign Aid and remittance as a source of development funds to TWCs. Furthermore, compared with Foreign Direct Investment (FDI) and private debt and portfolio equity, remittance has proved to be resilient, not having any sharp declines in its growth rate. Interestingly, the World Bank also reports that 'The size of remittance flows to developing countries is now more than three times that of official development assistance.'\textsuperscript{27} As such, does it present a viable alternative or compliment to Foreign Aid? To answer this question, it is important to examine the pros and cons of this source of development fund.

Remittance has both micro and macroeconomic effects in TWCs. In relation to the former, it creates a social insurance structure for recipients as kinsmen abroad often provide support by making remittances (or increasing its volume) in reaction to unpalatable economic/financial situations at home.\textsuperscript{28} According to Bodomo, 'The greatest advantage that foreign

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\textsuperscript{26} Ibid 2.

\textsuperscript{27} Ibid.

remittance funding has over foreign aid funding is that these remittance funds go directly to the remittance targets, the recipients most of the time.\textsuperscript{29} Compared to foreign Aid, which can be misappropriated by government officials to the detriment of the people, remittance has the capacity actually to alleviate poverty and improve the HDI in TWCs. Another advantage of remittance is that unlike foreign Aid, they are devoid of conditionalities because they are usually gifts of love.\textsuperscript{30}

On the macroeconomic side, it has been shown that there is a positive relationship between remittance, the banking sector (or financial) development and economic growth.\textsuperscript{31} Also, remittance is an important external source of capital for TWCs. In some TWCs, it has become the second highest external contributor to capital\textsuperscript{32} whilst constituting a substantial part of the GDP of some others.\textsuperscript{33} The International Fund for Agricultural Development (IFAD) estimates that 1.9, 10 and 25.5\% of the GDP of Turkey, Philippines and Lebanon respectively is from remittance.\textsuperscript{34} In many countries, it is an important tool for poverty alleviation\textsuperscript{35} and a very important economic index.

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{29} Bodomo (n 2) 25-26.
  \item \textsuperscript{30} Ibid. it is not in all cases that remittance is viewed in such positive light. For example, remittance as a source of funding has also been associated with terrorist financing and money laundering. See generally J. Trautsolt and J. Johnson, ‘International Anti-Money Laundering Regulation of Alternative Remittance Systems: Why the Current Approach Does Not Work in Developing Countries’, (2012) 15 Journal of Money Laundering Control 4, 407 – 420.
  \item \textsuperscript{35} In Nepal, the poverty level declined by 11 percentage points between 1995 and 2004, with a third to a half attributable to remittances. Household surveys have shown that remittances may have reduced the share of poor people in the population by 11 percentage points in Uganda, 6 percentage points in Bangladesh, and 5 percentage points in Ghana. See D. Ratha, \textit{ibid} and R. H. Adams and A. Cuecueha, ‘The Impact of Remittances on Investment and Poverty in Ghana’, Vol. 50 (2013) World Development 24-40. The IBRD estimates that remittance reduced extreme poverty by over 35\% in Mexico, Dominican Republic and El Salvador. See also E. Rosser, ‘Immigrant Remittances’, (2008) Vol. 41:1 Connecticut Law Review 16. Available at: \url{http://ssrn.com/abstract=1107485} accessed 05 February, 2015.and A. Adepoju & A. van der Wiel, (n 32), 359 for further information on the positive effect of remittance on the development in some development of some TWCs.
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In view of the magnitude of remittance and its importance, TWCs can access funds that are not of the same hue as Aid. Albeit the foregoing, one cannot but take cognisance of the fact that associated with it are some issues, which arguably, can depreciate its attractiveness as an option for development finance. One of such is that they are ordinarily procyclical as they tend to be affected by the economic situation in the host (source) state - increasing with a cyclical upturn in the economy of the state and vice versa. With reference to this trait of remittance, it is argued that where it is catalysed by altruistic emotions (for example, the sustenance of dependants) or self-interest (for example, the accumulation of wealth in state of origin as is the case with illegal immigrants or immigrants with no intention of remaining permanently in the source state), the impact of economic downturns in source states are bound to be marginal at best per time and stable over time. This is because this combination of factors\textsuperscript{36} countervails the pro-cyclicality. The foregoing is also the basis of the resilience which remittance possess.\textsuperscript{37} Furthermore, the instability that the seeming pro-cyclicality brings about can be countered by securitisation of future remittance.\textsuperscript{38}

Securitisation is a transaction that involves a potential borrower pledging future hard currency receivables as collateral to a special purpose entity that issues the debt.\textsuperscript{39} With the securitisation of future remittances, TWCs are assured stable funds which are not subject to conditionality and which are not affected by the economic cycles in the donor state. Securitisation of future remittances ensures that TWCs get funding at terms convenient for it - or at the worst, pre-negotiated terms. This approach has been adopted by Ethiopia, which

\textsuperscript{36}From the perspective of a TWCs, these factors are the reason(s) for and/ or the remittance and they include self-interest, need to repay intra/ inter family loans, intra/ inter family altruism. However, for a more 'scientific' explanation relating to the resilience of remittance flow \textit{vis-a-vis} other types of financing for development in TWCs during economic downturns, see S. Mohapatra, \textit{et. el}, ‘Outlook for Remittance Flows 2011-2012: Recovery After the Crisis, but Risks Lie Ahead’, (Nov. 8, 2010) 13 Migration and Development Brief, 2. Available at: <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief13.pdf> accessed 05 February, 2015. See also, A. Julca, ‘Can Immigrant Remittances Support Development Finance?’, (2013) 3 Special Issue \textit{Panoeconomicus} 365, 367 where the author highlighted some factors which motivates remittances by nationals of TWCs.

\textsuperscript{37}It possesses the ability to withstand the shocks in the economy and improve quickly after any downtime. The World Bank reports that the remittance fared better in comparison to Foreign Direct Investment (FDI) in 2009 as a result of the global financial crisis. The former declined 5.5 \% as against 40 \% decline of the latter. See World Bank, \textit{Migration and Remittances Fact Book 2011}, (n 24) x.


has successfully implemented a 'Diaspora bond' – a kind of debt security issued to Ethiopians outside the country to enable the government to tap into their assets.40

From the foregoing, it is beyond conjecture that remittance is a veritable means of financing development in TWCs. The focus now is what modalities should be put in place to harness this potential source of developmental funding optimally. Consequently, it is suggested that remittance inhibitors (and cost) be reduced or removed where possible. This is because, as a result of the presence of intermediaries in the channel of remittance, a sizeable portion of remittance is gobbled up in cost that eventually reduces the actual volume of remittance sent and received.41 Some TWCs are already towing this path. For instance, while Zimbabwe through its apex bank launched the Homelink (Pvt) Ltd in February 2005 primarily to mobilise foreign currency remittances from the diaspora and remove inhibitions to it,42 Bangladesh has adopted a similar model by floating a specialised bank - the Prabashi Kalyan Bank (PKB) in 2010 - for its migrant workers.43

Furthermore, the government of TWCs are enjoined to design and implement financial inclusion policies. This can be 'kick-started' by getting hawaladars44 to register with the agency responsible for regulating financial intermediaries and impose sanctions on those who do not. The same should be demanded of remitters and recipients.45 This has benefits for the TWCs. These suggestions are made with the crusade against money laundering and terrorist financing in mind. When restrictions to remittance of funds are relaxed, the remitters who patronise informal routes are bound to migrate to the formal routes, thus bringing their transactions within the scrutiny of the relevant authority. With registration, hawala operators will be known and better controlled by the state. This has a domino effect as it strengthens the crusade against money laundering, terrorist financing etc. Secondly, it

40 Bodomo (n 29) 26.
41 Transfer cost in Southern Africa is between 17-22%, for the Latin America–United States and Latin America–Spain corridors averages between 5-7% for every $200 of remittance. In 2008 global average remittance cost was 8.8% but dropped to 7.3% in 2011 as a result of the modalities implemented to reduce remittance cost. See Julca (n 36) 371. Also, the weighted average cost of remitting $200 to TWC in Q3 2011 ranged from 6.6% to 19.0%; with the Middle East and North Africa on the high end of the chart. See generally S. Mohapatra, et. al, ‘Outlook for Remittance Flows 2012-2014’. (2011) 16 Migration and Development Brief. Available at: <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/MigrationandDevelopmentBrief16.pdf> accessed 05 February, 2015.
43 It provides financial and intermediation services to potential migrant workers, those working abroad and recipients in Bangladesh. See H. Zaman and M. Ibne Akbar, ‘Exploring non-traditional Sources of Development Finance: The Case of Remittance in Bangladesh’, (2013) 13, 2 Progress in Development Studies 105, 113. See also, Julca (n 41) 371 for another example of a cost reduction strategy referred to as the Directo a Mexico
44 Hawaladars are the providers of the service of informal money transfer.
45 El Salvador, Mexico and Bangladesh are examples of states that have created institutions to facilitate the implementation of these policies. As a matter of fact they provide models that can be replicated elsewhere. See Zaman and Ibne Akbar (n 43)113; Julca (n 43).
can also increase the revenue base of the state as the *hawaladars* can then be taxed after registration.

### [3.2] Taxation

Taxation is an important contributor to the development of any state and is bound to improve ‘TWCs’ development indices.\(^{46}\) The utilisation of taxation as a means of financing development of TWCs is devoid of the corollaries associated with the presence of Aid in their economy. For example, with taxation, revenue is made available to the government for use for general or specific purposes.\(^{47}\) The Ghanaian National Health Insurance Levy (NHIL) and the Communication Service Tax (CST) are examples of the use of tax to generate revenue for specific developmental purpose. The NHIL is levied pursuant to the Ghana National Health Insurance Act 2003 (Act 650) at the rate of 2.5% on the price of non-exempted goods and services consumed in Ghana\(^ {48}\) to provide a broad range of health care services to Ghanaians through health insurance schemes.\(^ {49}\) The Ghanaian CST is levied on the use of communication services pursuant to the Communication Service Tax Act 2008 (Act 754) and is earmarked for the finance of the Ghanaian National Youth Employment Programme.\(^ {50}\) Another earmarked tax that has the capacity of funding development is the levy imposed on fuel and diesel sold within South Africa.\(^ {51}\) Also, in Nigeria, the Tertiary Education Trust Fund and the National Information Technology Development Fund are examples of funds set up and financed via especially collected taxes.\(^ {52}\) The Ghanaian, South African and Nigerian taxes

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\(^{46}\) Notably, the African Tax Administration Forum (ATAF) and the Organisation for Economic Co-operation and Development (OECD) reiterated this point and stated categorically that they are committed to ventures that are capable of raising revenue to decrease aid dependency. ‘ATAF – OECD Workshop on Exchange of Information in Tax Matters’ held in Botswana, November 8 − 10, 2010 where the See *Tax and Development*, being a presentation at the aforementioned Workshop.

\(^{47}\) The Tertiary Education Trust Fund and the National Information Technology Development Fund are examples of funds set up and financed via especially collected taxes. See generally, Tertiary Education Trust Fund (Establishment, etc.) Act 2011 and the National Information Technology Development Agency Act 2004.


\(^{49}\) For a discourse on the effect of the Ghana NHIS and extension the NHIL, see N.J. Blanchet, G. Fink and I. Osei-Akoto, ‘The Effect of Ghana’s National Health Insurance Scheme on Health Care Utilisation’, (June 2012) Vol. 46 (2) 76-84 Available at: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3426378/#R8> accessed 01 August 2014.

\(^{50}\) Ibid.

\(^{51}\) The levy is the primary source of income for the South African Road Accident Fund (RAF) compensation scheme administered by the South African Revenue Service (SARS) administers the fuel levy and pays it to the RAF, in accordance with provisions of the Customs and Excise Act (No. 91) 1964 and the Road Accident Fund Act (No.56) 1996 as amended by the RAF (Amendment) Act (No. 19) 2005.

\(^{52}\) See generally, Tertiary Education Trust Fund (Establishment, etc.) Act 2011 and the National Information Technology Development Agency Act 2004.
contribute to social security benefits and by extension, development within the jurisdictions.53

Based on the foregoing, it is argued that with an effective and properly administered tax system, there is bound to be an improvement in the volume of revenue available to TWCs to fund development projects currently dependent on foreign aid. The Nigerian tax system provides facts to justify this assertion. Since 2004, the Nigerian tax system has been undergoing a plethora of reforms geared towards its improvement. Amongst these were the formulation of a National Tax Policy;54 the restructuring of the relevant tax authorities RTAs);55 and the process of tax administration.56 These reforms have led to a significant increase in the revenue generated from tax in Nigeria.57

An increase in tax revenue in TWCs does not guarantee eradication of the social-economic challenges experienced in the foreign aid regime. However, a distinct advantage of taxation as a compliment to aid is that with taxation, revenue sourcing is not limited to only one tier of government. As such, sub-national governments which have constitutional powers to levy tax can generate the much needed revenue to meet their development objectives while been subject to more transparency and accountability criteria from the people in their constituents. An analogy to explain this point is found in TWCs like Nigeria that operates a federal system of government. Sub-national tiers like Lagos state which have been active in the reformation of their Internally Generated Revenue (IGI) base have not only generated the much needed income to fund its development projects but have also been more accountable to the people, especially when there has been perceived misappropriation of


54 The National Tax Policy is a statement of Nigeria’s approach to taxation, both from the practical and normative point of view. It was developed through stakeholders’ consultation and was launched on 5 April 2012. See National Tax Policy (Nigeria: Federal Ministry of Finance, 2012)

55 This has manifested in the granting of autonym to the RTAs which in turn has made it possible or the latter to operate outside the mainstream of government bureaucratic structure. Currently, the FIRS, Lagos Internal Revenue Service (LIRS) and the Adamawa State Board of Internal Revenue (i.e., RTAs siezed with the power to collect amongst others the taxes due to the Federal Government of Nigeria, the government of Lagos and Adamawa States respectively) autonomous of the government bureaucratic structure of their jurisdiction of operation

56 Manifestation of this in tax systems is the automation of the process of tax collection which ended the era of tax fraud and diversion of funds meant for government coffers, the move from government or administrative assessment to self-assessment and the putting in place of legal structures to support these paradigm shifts

57 Data sourced from the Tax Revenue Accounting Department (TRAD), FIRS show that for a six years period (2005 – 2010) tax revenue generation has surpassed the collection target given it by the Federal Government of Nigeria. Collection figures (target against actual collection) are ₦1,304.4billion and ₦1,741.8billion; ₦2,274.8billion and ₦2,972.2billion; ₦3,054.1billion and ₦3,866.2billion; ₦1,753.3billion and ₦1,846.9billion; ₦2,507.3billion and ₦2,839.3billion.
their tax. In essence, taxation capabilities for sub-national governments in TWCs allow for consensual interaction and public participation in governance as well as make accountability a key element of that society. It also allows the input of the majority of the populace and reflects a bottom-up approach to dealing with the developmental issues of the state.

Furthermore, unlike Aid, tax revenue is perceived as a collective contribution to the social welfare and development of the state, the allocation and spending of public funds attract greater public scrutiny. Thus, unconscionable spending of tax revenue is bound to attract criticism from many within as well as beyond the borders of the state. Because of these, there is bound to be a feeling of collective ownership and responsibility for the wellbeing of the state by all therein. Compared to Aid, taxation as a macroeconomic tool for financing development in TWCs is sustainable. Although Aid may reduce the pressure on domestic finance, it is susceptible to ebb. When this happens, the economies of recipient states contracts and they are plunged to a level where their HDI is often worse than it was before the entrance of the Aid. In contrast, tax is not cyclical, thus is more sustainability. In fact, should there by a downturn in the economy of a state, the government may choose to increase its tax base as a means to shore up national revenues.

Notwithstanding the foregoing, the adoption of taxation is not totally devoid of issues that are capable of hindering its effectiveness and making it counterproductive. First, taxes may become of excessive and numerous; issues determined by the tax rates and the number of distinct tax payments to which a taxable person is subject to. Notably, TWCs tax rates and number of taxes is higher than the global average. According to a recent PricewaterhouseCoopers report, Africa and South America had an average total tax rate in 2012 of 52.9% and 52.7% respectively as against world average of 26.7%; while Africa, Central America and the Caribbean, Central Asia and Eastern Europe and 36.1, 33.7 and 29.5 distinct payments as against world average of 26.7. These facts impact on the easy of manoeuvrability within the tax systems in the aforementioned regions, their ability to attract and retain investment and in general, their business environment.

Another issue associated with taxation is its susceptibility to abuse and/or misuse. Prominent amongst these is the grant of waivers and incentives. The waivers and incentives take different forms, such as zero or reduced tax rate; loss carry forward (or backward) provision; (3) the grant of pioneer status to certain industries/enterprises or the designation

60 The situation is worsened where the exemption lacks provision as to its duration (or what is usually referred to as a sunset clause) or the government is in the habit of extending the exemption period.
of certain areas within the state as free trade zones. Such regimes are abused and/or misused where the process leading to it is not transparent, guided and/or regulated by clear and articulated policy objectives geared towards improving the economic standing of the state. In the foregoing circumstances, this is an issue that requires attention in TWCs because of the effects which include: (1) revenue base erosion and capital flight; (2) market distortions and non-neutrality of the tax system as the existence of gains or incentives now influences investor decision; (3) inequity as beneficiaries would have lower after-tax cost to contend with compared to the after-tax cost for non-beneficiaries; (4) the impact on tax morality especially where taxpayers perception is that beneficiaries and the entire tax system are negative, etc. The employment of taxation as a complementary to aid in the development of TWCs could also be the genesis of harmful tax competition amongst them. This arises when in a bid to make their tax regime attractive to investment; TWCs are drawn into a race to the bottom to provide the lowest tax rates oftentimes without consideration to optimality; the tax bases of other countries; its impact on global trade and investment patterns and neutrality of tax systems generally.

[3.3] Public-Private Partnership

Public-private partnership (PPP) generally involves private sector investment in the provision of public services. There are several attempts at defining PPPs, many having evolved from institutional perspectives including those advanced by the International Monetary Fund (IMF), Organization For Economic Co-operation and Development

61 These are usually abused where monitoring (inclusive of audit) of the industries/enterprises is inefficient and/or ineffective.

62 The fate of TWCs is worsened where the beneficiaries are ‘footloose and quota hopping’ production companies or investors. Characteristically, they roam TWCs closing down in one country without paying the benefits or wages, and setting up shop in other countries for just a few years, after which they leave behind the same situation. See E. de Haan and M. V. Stichele, Footloose Investors: Investing in the Garment Industry in Africa (Amsterdam, SOMO Paper March, 2008) for an exposé on the activities of footloose investors in Africa. Available at: <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1660426> accessed 05 February 2015.


65 Optimality involves balancing of the qualities of a ‘good’ tax or tax system. It involves a design which takes into cognisance and blends together revenue yield (adequacy), equity, efficiency and simplicity. For an exposé on the subject, see J. Alm, ‘What is an ‘Optimal Tax’ System’, (March 1996) Vol. 49 No. 1 National Tax Journal 117-133

(OECD), Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank, HM Treasury of the United Kingdom, and the Asian Development Bank, for examples. Nwangwu, after carefully distilling several definitions of PPPs proffers one that encapsulates the idea succinctly thus:

long term relationship between public sector agencies and private sector entities under which the responsibility for any or all of the combination of designing, financing, construction, management and operation of public infrastructure and utilities that were traditionally undertaken by the public sector are contractually shared and jointly undertaken by both the public and private sector, usually in proportion to the kind of risks each party can best carry.

In essence, PPPs involve private investors bearing the financial burden of a public-interest project (infrastructure or service) with accompanying risks and reward/returns are shared according to a pre-determined formula by the personalities in the partnership. It usually results in the transfer and reallocation of the risk associated with a venture.

PPP, as a source of funding development in TWCs, has several advantages. These include bringing about national savings; a reduction on the strain on the limited public resources; and, promote efficiency in the utilisation of resources. PPPs are also beneficial as they promote an efficient procurement regime and reform the public sector, provide better value for money, reduce governmental debt levels while ensuring better efficiency in providing and running infrastructure services in more politically attractive forms than nationalisation or privatisation. The above benefits are possible because, under PPPs, the private investors usually bring to the relationship, the requisite capital, technical expertise,

72 Ibid. See also, A. Akintoye and M. Macleod, ‘Risk Analysis and Management in Construction’, (1997) 15 International Journal of project Management 1, 32.
75 For instance Savas is of the opinion that ‘privatisation’ and ‘contracting out’ are expressions, which generate opposition quickly. See E.S. Savas, Privatization and Public- Private Partnerships, (New York: Chatham House, 2000) 2.
market savvy and sometimes, goodwill. The government, as the public sector participant the partnership bears the responsibility of creating a transparent and sound regulatory framework characterised by protection from expropriation/ nationalisation, respect for contract terms, etc. In Nigeria, for example, the federal government has developed the basic legislative and institutional framework to promote PPPs in the country. These include the Nigerian Investment Promotion Commission (NIPIC) Act, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act and the Infrastructure Commission Regulatory Commission (ICRC) (Establishment, Etc.) Act 2005, amongst others.

Briefly, the NIPC Act allows 100% foreign participation in Nigeria business as well as repatriation of capital and dividends without any inhibition from the government while the ICRC Act provides inter alia for the participation of the private sector in financing the construction, development, operation or maintenance of infrastructure or development projects of the government of Nigeria through concession or contractual arrangements like PPP. In addition to the state's role in the creating an enabling environment for PPPs to flourish, other factors contribute to the success (or otherwise) of this development model including the proper allocation of risks and consistency of governments (and policies), for instance. The main point being put forward, though, is that PPPs present an avenue for TWCs to invest in the provision of infrastructure and development projects without having to rely on foreign Aid. The terms of most PPPs are generally geared towards the investor making profits on their investments rather than tying TWCs to agreements that include terms to make socio-economic transformations.

It is noteworthy that TWCs increasingly embrace PPPs with successful outcomes. For example, PPPs targeted at the supply of wholesome water globally have succeeded by being able to serve the majority of the urban population in about 44 countries, the bulk of which are located in the third world. In Bangladesh, GrameenPhone, that is the second largest corporate taxpayer in Bangladesh was created via PPP. It has created improved telephone penetration from 0.3 % in 1997 to over 6 % in 2004 and led to the establishment of the Village Phone Programme, an initiative that aims to provide mainly low-income women in rural areas with an income which is more than the nation's per capita income. Another example of a PPP initiative is the Project Bhoomi in India that created an online system for

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the delivery of land titles to rural farmers. It succeeded in establishing an accurate and genuine land record and created a source of revenue for the Indian government.79

The above projects are testamentary to the fact that with PPPs, projects that meet local needs and circumstances may be developed with quite obvious benefits to all the stakeholders. With foreign aid grants, money is more often than disbursed in accordance with the agenda of the funding party with beneficiaries scrambling to align with such objectives to derive benefits. With PPPs, the fluctuation in aid flow and conditionalities are avoided. PPP is driven by market forces, which dictate the volume and quality of investment in TWCs. PPPs are more sustainable than Aid because the involvement of private actors, (who are driven by profit) makes the choice of projects selected for implementation largely subject to business factors. Also, the conditions attached to their performance are informed by business factors which are more guaranteed to lead to results for the consumers.

[4] CONCLUSION

Many TWCs rely extensively on foreign Aid to provide development infrastructure and initiatives to their citizens. However, for several reasons, including the conditionalities attached and the global recession, foreign Aid can no longer be considered “the” viable option to development funding in TWCs. The article has highlighted three of these alternatives that do not only provide funding for projects but also involve their nationals – whether local or in the diaspora – in the process. This way, there are less conditionalities (if any); interest in the projects/initiatives stretches beyond narrowly defined objectives as many aid grants are; and perhaps most importantly, are sustainable. The thrust of this paper is that these sources of development funding - remittances, taxes and PPPs – are more viable sources of development funding for TWCs as they seek to improve their HDI. While these sources of funding involve the participation of citizens of the country in question, they also are more sustainable and subjected to less conditionalities as foreign Aid which often contributes to adverse socio-economic conditions. This is more so that foreign Aid is dwindling and cyclical, especially with the global recession.

Consequently, TWCs must shift from relying extensively on foreign Aid and begin to explore other forms of funding development projects and initiatives to get their citizens out of the doldrums of poverty. Involving citizens in the development process through any or all of the three means discussed has several advantages for the TWCs. The citizens of the country participate directly in the funding of development thus they have a stake in the successful delivery of projects and initiatives with consequences including greater public scrutiny of government activities; stronger likelihood of successful completion and delivery of

development projects and initiative; and, more sustainable sources of development funding. As a result, TWCs must formulate policies, laws and institutions that can harness these sources of development funding.
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