

# CONSTITUTIONMAKING.ORG

## OPTION REPORTS

### NATIONAL/SUB-NATIONAL REVENUE SHARING

February 12, 2009

The following report is one of a series produced by the Constitutional Design Group, a group of scholars dedicated to distributing data and analysis useful to those engaged in constitutional design. The primary intent of the reports is to provide current and historical information about design options in written constitutions as well as representative and illustrative text for important constitutional provisions. Most of the information in these reports comes from data from the Comparative Constitutions Project (CCP), a project sponsored by the National Science Foundation. Interested readers are encouraged to visit [constitutionmaking.org](http://constitutionmaking.org) for further resources for scholars and practitioners of constitutional design.

## **1. INTRODUCTION**

One of the central issues in the often highly-charged constitutional debate over the relative powers of national and sub-national governance concerns the use and distribution of funds. We describe below the historical and cross-national patterns in such arrangements within as enshrined in constitutional texts. We investigate the use of such provisions in all constitutions, not just those of traditionally “federal” states.

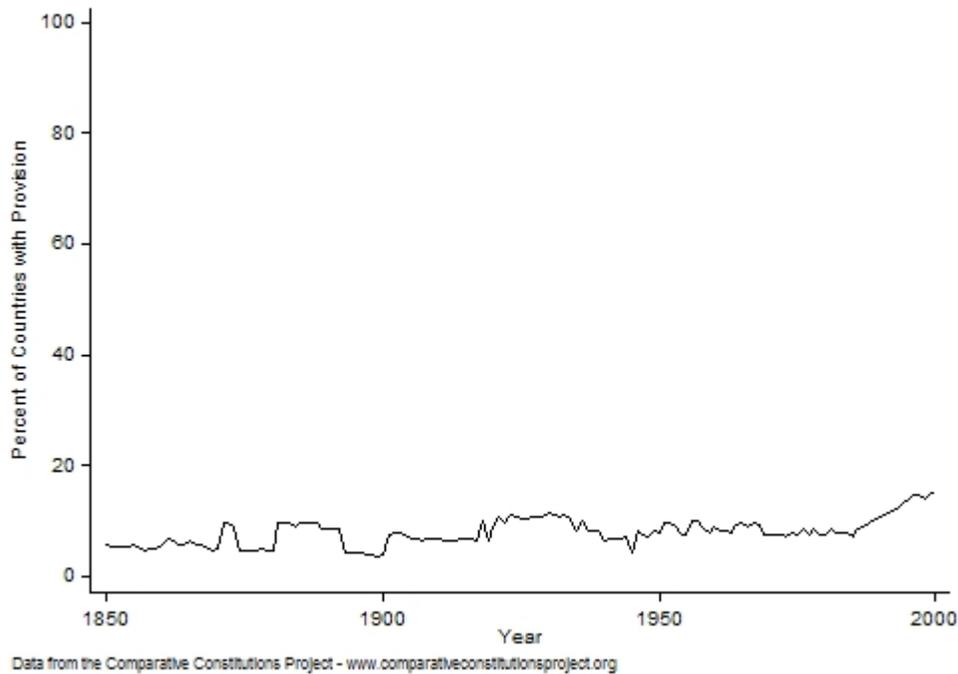
## **2. DATA SOURCE(S)**

The analysis reported below is based on data the Comparative Constitutions Project (please see the appendix to view the survey question text). As of this writing, the project’s sample includes 563 of the roughly 800 constitutions put in force since 1789, including more than 90% of constitutions written since World War II.

## **3. CLASSIFICATION AND HISTORICAL TRENDS**

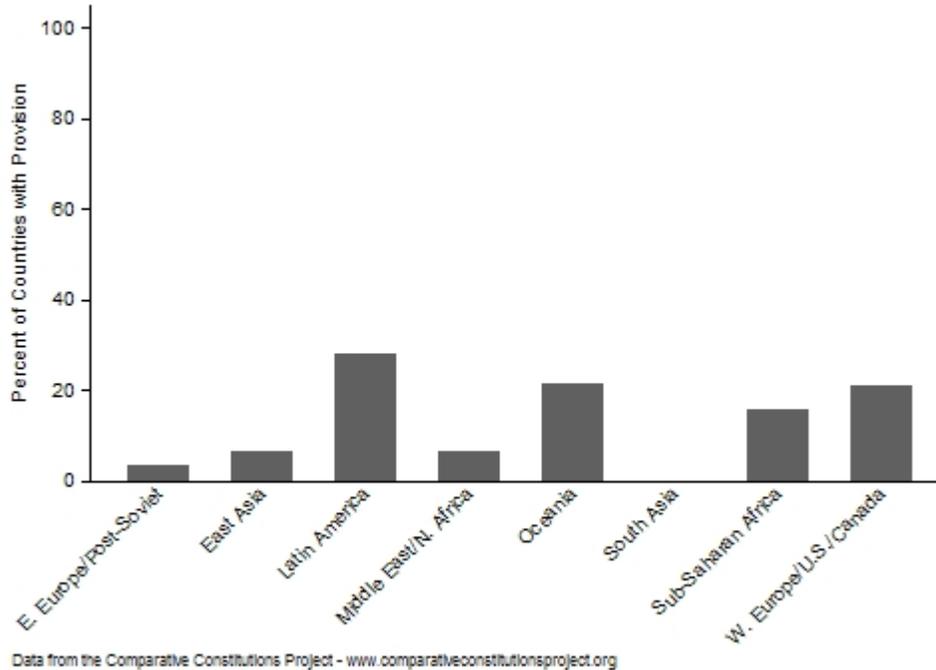
13% of the 563 constitutions under consideration since 1789 specify some sort of “plan” for revenue sharing between the national government and the subsidiary units. As Figure 1 suggests, the proportion of constitutions with such provisions has remained constant over the last 200 years. Of course, the number of constitutions with such provisions has increased, but that increase has been commensurate with the increase in the number of states.

**Figure 1. Percent of Constitutions that Specify a Plan for Revenue Sharing between the National Government and Subsidiary Units by Year (N=563)**



As Figure 2 indicates, there is some geographic variation in the provision of revenue sharing. It has been present in roughly one fifth of the constitutions of Latin America, Oceania, Sub-Saharan Africa, and West Europe/U.S./Canada but rarely included in constitutions written in East Europe/Post-Soviet and Middle East and absent in South Asia.

**Figure 2. Percent of Constitutions that Specify a Plan for Revenue Sharing between the National Government and Subsidiary Units in Force in 2000 (N=181)**



#### 4. NOTES ON ATYPICAL CASES

Constitutions differ with respect to the detail in which they describe revenue sharing. Some constitutions appear to raise the issue only to flag it, without providing any semblance of a plan. CCP's coders required at least general guidance regarding the sharing or distribution of funds in order to categorize the case in the affirmative.

Some constitutions provide for revenue sharing only under certain conditions. For example, the 1946 constitution of Brazil states: "Each state is bound to provide at its own expense for the necessities of its government and administration; but the union shall render aid to the state which in case of public calamity requests it" (article 5). Such cases were coded as other.

#### 5. SAMPLE CONSTITUTIONAL PROVISIONS

(Note: dates provided reflect the version of the constitution used to obtain sample provisions, and represent either initial year of

promulgation or year through which subsequent amendments are included.)

Grants to local governments.

(1) The President shall for each financial year, in accordance with this Constitution, cause to be presented to Parliament proposals as to the monies to be paid out of the Consolidated Fund as-

- (a) unconditional grant in accordance with clause (2) of this article;
- (b) conditional grant in accordance with clause (3) of this article;
- (c) equalization grant in accordance with clause (4) of this article.

(2) Unconditional grant is the minimum grant that shall be paid to local governments to run decentralized services and shall be calculated in the manner specified in the Seventh Schedule to this Constitution.

(3) Conditional grant shall consist of monies given to local governments to finance programmes agreed upon between the Government and the local governments and shall be expended only for the purposes for which it was made and in accordance with the conditions agreed upon.

(4) Equalisation grant is the money to be paid to local governments for giving subsidies or making special provisions for the least developed districts and shall be based on the degree to which a local government unit is lagging behind the national average standard for a particular service.

(5) District councils shall be obliged to indicate how conditional and equalization grants obtained from the Government are to be passed onto the lower levels of local government.

(6) The proposals made under clause (1) of this article shall be made at the same time as the estimates of revenue and expenditure under article 155 of this Constitution and shall state the sums of monies that are to be paid to each local government.

(7) The proposals made under this article shall form part of the Appropriation Act as provided for in article 156 of this Constitution.

- *Uganda 1995, Article 193*

Distribution of Revenues between the Union and the States

268. Duties levied by the Union but collected and appropriated by the States

(1) Such stamp duties and such duties of excise on medicinal and toilet preparations as are mentioned in the Union List shall be levied by the Government of India but shall be collected:

(a) in the case where such duties are leviable within any [Union territory], by the Government of India, and

(b) in other cases, by the States within which such duties are respectively leviable.

(2) The proceeds in any financial year of any such duty leviable within any State shall not form part of the Consolidated Fund of India, but shall be assigned to that State.

- *India 2002, Article 268A*

(1) In order to make the local bodies engaged in local self governance more competent by mobilizing and allocating resources, and maintaining an equitable and judicious balance in the distribution of the fruits of development, and to make the local bodies accountable in recognizing, formulating and implementing local level projects, there shall be sharing of accountabilities and revenues between the Government of Nepal and local self governance bodies according to the provisions in the law.

(2) While mobilizing and sharing revenues pursuant to clause (1) special consideration should be given to balanced and uniform development, and the total advancement of socially and economically backward classes and communities.

- *Nepal 2007, Article 140*

The Governorate Councils shall assist the federal government in the coordination of federal ministry operations within the governorate, including the review of annual ministry plans and budgets with regard to activities in the governorate. Governorate Councils shall be funded from the general budget of the State, and these Councils shall also have the authority to increase their revenues independently by imposing taxes and fees; to organize the operations of the Governorate administration; to initiate and implement province-level projects alone or in partnership with international, and non-governmental organizations; and to conduct other activities insofar as is consistent with federal laws.

- *Iraq 2004, Article 56*

(2) The states shall have power of legislation and execution to determine what state taxes shall be allocated to the municipal districts; to determine the shares of the municipal districts in the revenues of the states; and to determine the contributions and allowances from the treasuries of the states to the expenditures of the municipal districts.

- *Austria 1920, Article 13.2*

The Congress shall have power:

2. To impose indirect taxes, as a power concurrent with the Provinces. To impose direct taxes proportionately equal throughout the territory of the Nation, for a specified period of time, provided that the defense, common security and general welfare of the State require them. The taxes foreseen by this clause, with the exception of the part or whole of those that are predestined for specific purposes, are subject to co-participation [with the Provinces].

A legal covenant, based on agreements between the Nation and the Provinces, shall institute regulations for co-participation in these taxes, guaranteeing the automatic remittal of the funds.

The distribution between and among the Nation, the Provinces and the City of Buenos Aires, shall be effectuated in direct relation to the competencies, services and functions of each one of them, observing objective criteria for distribution; said distribution shall be equitable, show solidarity, and shall give priority to achieving an equivalent level of development, quality of life and equality of opportunity throughout the entire National territory.

The legal covenant shall have the Senate as its Chamber of origin and must be passed by an absolute majority of the totality of the members of each Chamber; it may not be modified unilaterally or subjected to regulations, and it shall be approved by the Provinces.

There shall not be a transfer of competency, services, or functions without the respective reallocation of revenues, as approved by a law of the Congress, if applicable, and by the interested Province or the City of Buenos Aires, as the case may be.

A Federal fiscal body shall be in charge of controlling and administering the execution of what is established by this clause, as determined by law, which law shall ensure the representation of all the Provinces and the City of Buenos Aires in the body's composition.

- *Argentina 1997, Article 75.2*

The Municipalities, the Provinces, the Metropolitan Cities and the Regions have financial autonomy of revenues and expenditures.

The Municipalities, the Provinces, the Metropolitan Cities and the Regions have autonomous resources. They establish and apply their own taxes and revenues in harmony with the Constitution and according to the

coordination with the principles of public finances and the tax system. They receive a share of the joint participation (*compartecipazione*) from the proceeds of the State taxes that are related to their territory.

The law of the State shall establish an equalization fund (*fondo perequativo*), without restrictions as to their destination, for (the benefit of) the territories with lesser fiscal capacity per inhabitant.

The resources that are derived from the sources referred to in the previous paragraphs, are to enable the Municipalities, Provinces, the Metropolitan Cities and Regions to finance integrally the public functions attributed to them.

In order to promote the economic development, the social cohesion and the social solidarity, to remove the economic and social inequalities (*squilibri*), to promote the effective exercise of human rights (*diritti della persona*), or to pursue goals diverse from the normal exercise of their functions, the State allocates (*destina*) additional (*aggiuntive*) resources and effects special interventions in favor of specific Municipalities, Provinces, Metropolitan Cities and Regions.

The Municipalities, Provinces, Metropolitan Cities and Regions have their own patrimony, attributed according to the general principles, determined by State law. They may incur indebtedness only in order to finance expenditures for investment. Any guarantee by the State for such loans is excluded.

- *Italy 2003, Article 119*

## 6. APPENDIX

This report is based on the following question(s) from the Comparative Constitution Project's "survey instrument":

[SUBREV] Does the constitution specify a plan for revenue sharing between the national government and the subsidiary units?

1. Yes
2. No
96. other, please specify in the comments section
97. Unable to Determine

For additional documentation on the Comparative Constitutions Project, (including the full codebook, the sample, the sources of constitutional texts and translation issues related to those texts, coding procedures, publicly available data, etc.) please visit the project website at [www.comparativeconstitutionsproject.org](http://www.comparativeconstitutionsproject.org).