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Revenue Allocation Formulae in Nigeria: A Continuous Search

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Abstract

Resource disbursement is a fundamental fiscal issue in the practice of Nigeria federalism. This is largely so as the nation has federating units with their respective constitutional responsibilities to execute. The Federal States and Local Governments which constitute the three tiers of government in Nigeria are each given tax-raising powers. The responsibility of disbursing the funds accrued in the common pool account is the exclusive preserve of the federal government. The disbursement of revenue to the three tiers of government in Nigeria has been a subject of hot debate because of the political nature of the exercise. Thus, this article takes a critical look at the politics of revenue allocation in Nigeria and argues that it has remained a continuous exercise since Nigerian post independence governance and politics. Historical-descriptive approach was used as a method of data collection with secondary data used for analysis and drawing of necessary conclusions.

Key Words: *Resource Disbursement, Fiscal, Nigerian Federalism, Federating Units, Common Pool Account.*

Introduction

Revenue allocation in Nigeria, a central theme in government has a chaquered historical antecedent. Many commissions/committees have been set-up at different times in the Nigeria national history and were saddled with the responsibility of examining various fiscal issues and recommend the best principles and formulas in sharing national revenues to meet-up the challenges of the time. Some of these Commissions/Committees include; the Phillipson Commission (1946), the Hicks-Phillipson Commission (1951), The Chicks Commission (1968, The Raisman Commission (1958), The Binns Commission (1964), The Dina Interim Committee (1968), the Aboyade Technical Committee (1977), the Okigbo Commission (1980), the Revenue Mobilization Allocation and Fiscal Commission (1989) and various military decrees (revisions) particularly 1970, 1971, 1992, etc. It is worthy of note that all the Commissions/Committees listed above were adhoc in nature except for the Revenue Mobilization Allocation and Fiscal Commission which was established as a legal and permanent entity to deal with fiscal matters on a more regular basis as the need arises.

The Various Principles Recommended by the Commissions/Committees of Revenue Allocation in Nigeria

A close look at the recommendations of the various Revenue Allocation Commissions/Committees in Nigeria shows the following fourteen principles of revenue sharing of the national cake:

(i) Basic needs
(ii) Minimum Material Standards
(iii)Balanced Development
(iv) Derivation

(v) Equality of Access to Development Opportunities,
(vi) Independent Revenue/Tax effort
(vii) Absorptive Capacity
(viii) Fiscal Efficiency
(ix) Minimum responsibility of Government
(x) Population
(xi) Social Development Factor
(xii) Equality of States
(xiii)Landmass and Terrain
(xiv) Internal Revenue Generation Effort.
The above principles have continued to serve as the yardstick for revenue allocation up to this day.

Components of Revenue Allocation Formula in Nigeria
The Vertical and Horizontal Formulae:-

Fundamentally, there are two components of the revenue allocation formula used for the disbursement of the Federation Account as indicated here under.
Vertical Allocation Formula (VAF)
Horizontal Allocation Formula (HAF)
The Vertical Allocation Formula: This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2008:3).
The Horizontal Allocation Formula: The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated enbloc to the 36 States and 774 Local Governments. Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra tier sharing amongst the 36 States and the 774 Local Governments in Nigeria (Bashir, 2008:3)

Institutional Framework for Revenue Allocation in Nigeria
For analytical purpose, the table below provides at a glance the process which takes place monthly in the allocation of revenue from the Federation Account.

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S/N	*Institution*	*Role*
1	Revenue Mobilization, Allocation and fixed Commission	Monitor revenue accruals into and disbursements from the federation account. It therefore determines the allocation indices
2	Central Bank of Nigeria	A custodian of the federation account
3	Federation Accounts Allocations Committee	It determined monthly disbursement from the federation account. It comprises of representative of the federal, 36 states government, RMAFC, OAGF and other revenue agencies etc.
4	State Joint Local Government Account	It determines monthly disbursement from the State Joint Local Government Account. It comprises of representatives of the State and local governments.

Source: Kabir A Bashir (2008), Workshop paper.

PROF. ABOYADE COMMISSION (1978)

This was a six-member Committee charged with the responsibility of ensuring that each level of government of the Federation has adequate revenue to enable it discharged its responsibilities with due regard to the principles of:

(i) Equality of States
(ii) Derivation
(iii) Population
(iv) Even Development
(v) Geographical Considerations
(vi) National Interest

The Committee however, set aside all the criteria mentioned above and instead formulated five principles for the determination of statutory allocation to the states. These prevailing principles are as indicated below:

1.	Equality of access to development opportunities	0.25
2.	National minimum standard for National integration	0.22
3.	Absorptive Capacity.	0.20
4.	Independent Revenue.	0.18
5.	Fiscal Efficiency.	0.15
Total Weight.		**1.00**

Furthermore, the Aboyade Committee recommended the sharing of the consolidated fund as follows:

Federal Government	–	5%
State Government	–	30%
Local Government	–	10%
Special Grants According	–	3%

In spite of the fact that a greater proposition of the revenue allocation went to the Federal Government, the Federal Military government still exerts its influence and ensured the further inflation of its grant by 3% to the detriment of the federating units. Having done this, the report of the Aboyade Technical Committee was presented to the Constituent Assembly for approval.

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Unfortunately, the Constituent Assembly members failed to give the report the serious attention it deserved because of their pre-occupation with controversial issue such as the creation of more state, the Sharia Law Controversy and the formula for election of the President (Adewale, 1960:20) the next Commission on revenue allocation is the Okigbo Presidential Commission of 1980.

OKIGBO PRESIDENTIAL COMMISSION (1980)

The Okigbo Presidential Commission on revenue allocation which was constituted in 1980 gave the following recommendations for the sharing of revenue:

Federal Government – 55%
State Government – 35%
Local Government – 10%

Just like other post independence formulea on revenue allocation, the Okigbo Commission recommendation was accompanied with controversy, disagreement and conflict (Ademolekun1986:30)

REVENUE ALLOCATION UNDER IBB REGIME 1985 – 1989

The thorniest issue under Babangida regime was the fiscal scheme. The issue of revenue allocation was so thorny that Babangida regime had to review the revenue allocation four times during its duration. From the inception of the Babangida regime in 1985 all through 1989, the formula of revenue allocation stood at:

Federal – 55%
State – 32.5%
Local – 10%

Allocation to the oil mineral producing states, and general ecological problems stood at 1.5% and 1% respectively.

SUMMARY OF REVENUE ALLOCATION FROM 1988 – 1993 (IN BILLIONS)

ALLOCATIONS:	1988	1989	1990	1991	1992	1993
Federal Government	13.92 (55%)	14.91 (55%)	22.71 (50%)	31.86 (50%)	47.1 (50%)	58.2 (48.5%)
State Government	8.23 (32.5%)	8.807 (32.5%)	13.63 (30%)	19.18 (30%)	23.58 (25%)	28.8 (24%)
Local Governments	2.53 (10%)	2.71 (10%)	6.81 (15%)	9.59 (15%)	18.87 (20%)	24.0 (20%)

SOURCE: First Bank: Monthly Business and Economic Reports for 1988, 1989, 1999, 1991, 1992 and 1993
***Notes: Numbers in Brackets are the percentages of allocation.

REVENUE ALLOCATION UNDER ABACHA REGIME 1994 – 1998

Abacha regime adopted and maintained the formula bequeathed to it by the Babangida regime. This formula is presented below:

Federal Government – 48.5%
State Government – 24%
Local Government – 20%
Special Fund – 7.5%

According to T.Y. Danjuma, the Federation Account here is made up of revenue from the following sources:

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(1) Company income tax
(2) Import Duties
(3) Export Duties
(4) Exercise Duties
(5) Petroleum profit tax
(6) Mining rents and Royalties
(7) NNPC Earnings from Direct States
(8) Pipeline Licenses and fees
(9) Surpluses arising from the sale of Gas

The introduction of Value Added Tax (VAT) in (1996) has also diversified source of fund for the tiers of government. The formula adopted for the sharing of the VAT fund (vertically) since the 1997 fiscal years is:

Federal Government – 35%
State Government – 40%
Local Government – 25%

The higher percentage enjoyed by the VAT revenue sharing has been justified by Chief Anthony Ani – Former Finance Minister when he said:

> in order to compensate state government whose incomes from the PAYE (Tax) are likely to be adversely affected by the enhanced allowances granted tax payer, the VAT distribution formula is further reviewed in favor of state….

REVENUE ALLOCATION UNDER PRESIDENT OLUSEGUN OBASANJO (1999-2007)

The proposed formula by Revenue Mobilization, Allocation and Fiscal commission gives:

Federal Government – 41.3%
State Government – 31%
Local Government – 16%

Apparently, not satisfied with what it considered an upside formula, the Southern Governors insist that only equal revenue sharing between the federal government and the states in Nigeria will be considered fair and realistic by the Southern States. They therefore requested for the adoption of the following formula for revenue allocation in Nigeria:

Federal Government – 36%
State Government – 36%
Local Government – 25%
Federal Capital – 1%
Ecology – 2%

REVENUE ALLOCATION (2000 – 2010)

The current vertical allocation formula which is based on Presidential Executive order is as follows:

Federal Government – 52.68%
State Government – 26.72%
Local Government – 20.60%

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While the horizontal allocation formula which captures factors/principles and percentage is as follows:

Equality	–	40%
Population	–	30%
Landmass/Terrain	–	10%
Internally Generated Revenue	–	10%
Social Development Factor	–	10%

For purpose of emphasis, the Social Development Factor comprised of Education (4.0), Health (3.0) and water (3.0) (Bashir 2008:7).

Conclusion

Revenue Allocation in Nigeria be it in pre-independence or post-independence era is characterized with controversy. Each level of government-federal, state and local wants to have a sizeable share of the national cake. The frequent promulgation of military decrees before now and the frequent setting up of commissions both for the purpose of revenue allocation was to satisfy the interest of the stake-holders in having a fair share of allocation from the common pool account. It is in a bid to satisfy these competing interests that Nigeria is in a continuous search for a generally acceptable formula for revenue allocation. Therefore, all efforts aimed at achieving generally acceptable formulae for revenue sharing in Nigeria should be guided by national interest which should super cede individual or primordial interests.

Recommendations

The debate on revenue allocation should be geared towards meeting the nation's economic needs rather than focus on geopolitical and ethnocentric considerations. The debate should lay emphasis on both revenue sharing and generating. The 13% derivation allocated to the littoral states be reviewed upward to 20% to cushion the negative effects of oil exploration and exploitation which came with considerable measures of economic and environmental degradation on the oil producing communities, and to tackle the specific development challenges in the Niger Delta region of Nigeria.

There is need to devolve more financial resources from the federal government to local governments. The reason for this recommendation is that the states and local governments are more grass root oriented and the vast majority of Nigerians live in the rural areas where basic amenities are lacking

All hands must be on desk on the part of Nigerians to support any process that could lead to the emergence of a just, fair and equitable revenue formula that can stand the test of time.

The revenue mobilization, allocation and fiscal commission should endeavor to come up with a credible review exercise by mapping out programmes and processes that would guarantee full involvement and participation of all stake holders.

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