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Revenue Allocation in Nigeria: Implications for Sustainable National Development

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Abstract

The paper analyses the influence of oil price volatility on Exchange Rate Variability, External Reserves, Government Expenditure and real Gross Domestic Product using the methodology of Vector Auto-Regressive (VAR) to carry out regression analysis, impulse response function and factor error variance decomposition for robust policy recommendations. The results of the research show that unstable oil price exerts varying degrees of deleterious effect on exchange rate variability, external reserves, Government expenditure and real gross domestic product (GDP). Based on the findings of the study, we recommend the need for the country to branch out its revenue sources. This will further shield the dangle effect of the fluctuation in prices of oil. Serious policy attention should be attached to agricultural reformation, industrial policy drives, mines and mineral development to diversify Nigeria's economy following the downward slide in the oscillations in oil prices to address the problem of excessive dependence on crude oil exportation. This will help to achieve sustainable growth and development in Nigeria.

Keywords*: Exchange rate variability, External reserve, Oil price volatility, Real GDP.*

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Background to the Study

One of the most contentious issues in Nigeria today is fiscal federalism-revenue collection/taxing and spending powers between and among the federal and state governments. This include the revenue allocation formula and the so-called "resource control" question. The sharing of revenue from the federal account is based on the federal revenue allocation formular, managed by Revenue Mobilization Allocation Commission (RMAFC). Revenue allocation in Nigeria, a central theme in government has a chequered historical antecedent. Many Commissions/Committees were set-up by successive government at different times in the Nigeria national history and were saddled with the responsibility of examining various fiscal issues and make recommendations for the best principles and formulas in sharing national revenues to meet-up challenges facing contemporary times. Some of these Commissions/Committees include; the Phillipson Commission (1946), among others at it seen in the body of the work. It is worthy of note that all the Commissions/Committees were Ad-hoc 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 work explores the concept of inter-governmental relations, federalism and fiscal federalism, discusses the pros and cons of fiscal federalism as put forward by the actors involved in the upward or downward review of existing revenue allocation formula in Nigeria, with a conclusion and some recommendations.

Clarification of some Concepts

Intergovernmental Relations

Intergovernmental relations refer to the interactions between the national government and the sub-national governments. There is the formal constitutional allocation of governmental functions between federal and state governments in a federal system but such functions are absent in a unitary system. In the unitary state it is the central government that determines what functions to allocate to the sub-national government. The central government can also decide to modify the functional allocations without consulting the lower unit. In the context of federation, the federal and state governments are said to be "co-ordinate" which is in contrast to the unitary system where the sub-national governments are "subordinate" to the central government.

Federalism

Federalism is derived from the Latin word "foedus" meaning covenant; and that it is a political concept in which a group of members are bound together by covenant with a governing representative head. Further, the term is also used to describe a system of the government in which sovereignty is constitutionally divided between a central governing authority and constitutional political units such as states and local government. Federalism, therefore, implies the existence in one country of more than one level of government each with different expenditure responsibilities and taxing powers. It is essentially about government structure in the multilevel sense, rather than within a particular level of government, in the performance of government functions. There is a general believe that the concept of intergovernmental relations is often associated with federalism because the study of federalism, at its empirical level heavily stress the study of intergovernmental relations (Bamidele, 1980).

Fiscal Federalism

The word "fiscal" is derived from the Latin word "fiscus", which means a basket or purse, and pertains to the public treasury or revenue generation. A fiscal system is, the arrangement of how sovereignty manages the public treasury – revenue generation and spending. Fiscal federalism, therefore, refers to the fiscal (financial) relationships that exist between and among units of government in a federal system. It defines statutory structure within which government functions, such as allocation of resources distribution of income and stabilization are carried out in a multi-level government structure (national, regional state or province and council or district). The fiscal relationships so defined are usually founded upon mutual agreement. The sub- national governments, while independent in local affairs, pool their common resources together for the provision of national public goods and improved economic welfare within their jurisdiction. Thus, in a way, fiscal federalism is concerned with revenue generation and allocation between various levels of government Alade (1999).

In broad terms, fiscal federalism is the division of power, functions and resources among the tiers (Federal, State and Local government) in a federating system. There are principles that guide fiscal federalism and sustain the overriding factors of administrative efficiency and fiscal independence. These, according to Kalu (2011), include:

1. Independence and Responsibility - The respective tiers of government should not only be autonomous in their resources but such resources should be enough to carry out their autonomous functions.
2. Adequacy and Elasticity - The principle of adequacy means that the resources of the government should be adequate so that each government discharges its obligation. Elasticity implies the expansion of resources in response to rapidly growing needs and responsibilities of the government concerned.
3. Administrative Economy and Efficiency - The administrative cost should be minimal and there should be no frauds and evasions in matters of finance.
4. Accountability - Every layer of government should be accountable to their respective legislature.
5. Uniformity - The financial system should be such that every government in the system should provide adequate level of public service without resort to higher rates of taxation than other states.
6. Fiscal Access - Every state should have the authority to develop their sources of revenue within their own ambit.

It is in furtherance of these principles that the adoption of exclusive and concurrent legislative lists in a federal system becomes relevant. Both the national and state governments are granted certain exclusive powers (the exclusive list) and share other powers (the concurrent list). A conflict often emerges on making decisions based on these criteria. To achieve administrative efficiency centralization is encouraged due to the lower administrative capacity at the decentralized levels. The goal of fiscal independence would encourage the devolution of more revenue-raising powers to lower levels of government to match the functions assigned to them. Hence, the means to these ends contrast. Intergovernmental fiscal relations covers such issues as models, for the assignment of responsibilities and tax powers, discussions of intergovernmental spill oils and intergovernmental grants, fiscal mobility and migration, vertical fiscal imbalance and dependence macroeconomic management and fiscal decentralization. According to Egwaikhade (2004) several pertinent issues are discernible from the literature. First, is the problem of how to allocate revenue among the three tiers of government, such that each tier can carry out its constitutional assigned functions. There is vertical revenue imbalance with the federal government appropriating more than its fair share from the federation accounts. The revenue expenditure divergence is reinforced through increased fiscal centralization. Intergovernmental fiscal conflict is the resultant direct effect of the concentration process in Nigeria.

Second there is horizontal imbalance – unequal fiscal capacity among states. Derivation principle, which dominated the horizontal revenue allocation scheme between the late 1940s and mid 1960s, exacerbated the horizontal imbalance (Mbanefoh & Egwaikhide, 1988). It was advocated that this criterion should be de-emphasized or discarded since it promoted uneven development. Since 1970s when oil revenue started to account for a sizeable proportion of Nigeria's total revenue, the use derivation diminished to a negligible level. The third issue has to do with the oil production externalities in the oil-producing states which has climaxed to the demand for resource control by the Southern Governors and leaders.

Revenue Allocation in Nigeria

Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) inaugurated a special committee on Revenue Allocation together with the Federal House of Representatives on August 23, 2006 to revisit the 1992 Revenue Allocation Formula the nation has been using to share revenue among the tiers of government. Before then the polity is yet to have a constitutionally backed sharing indices for the Federal (FG), States and Local Government Councils (LGCs). The politics of revenue allocation even in the present democratic dispensation has been so contentious that a week after, an ad hoc committee of the House of Representatives headed by Mr. Mark Terseer Gbillah had to undertake Public Hearings between March 2017 to March 3, 2018 across the six geopolitical zones. In all the centres there were heated debates and even some threats.

Under the current sharing formula, the Federal Government takes the lion's share of 52.68 per cent from the Federation Account. The 36 states take 26.72 per cent, while the balance of 20.60 per cent is given to the 774 local governments in the country. Over time, the formula has generated controversies and remains a key factor in the clamour for true federalism. Speaking at a pre-public hearing session with the acting Chairman of RMAFC, Mr. Shettima Abba-Gana, at the National Assembly, Terseer-Gbillah said the legislature would continue to oppose the revised sharing formula on the grounds of its non-approval by the parliament. Abba-Gana had told the committee that RAMAFC indeed reviewed the sharing formula as a statutory duty and sent its report to the Presidency, saying the formula had been updated. He added that the Presidency was expected to forward the report to the parliament. He, however, said he could not authoritatively say whether or not it was submitted to the National Assembly for approval. The committee members promptly described the formula as "illegal", arguing that there was no evidence that such an approval was obtained from the National Assembly. Teseer Mark-Gbillah spoke further, "What this means is that the current revenue allocation formula is illegal and unconstitutional because it is not backed by law. If it is true that you got it across to the President, then it should have been here by now.

> "Members were also alarmed that in spite of the important nature of RMAFC's work, the agency was still collecting data manually from the 36 states and local governments for processing, with little or no Information and Communications Technology input."

Similarly one may cite the attempt by El-Rufai's FCT (then minister FCT), to establish its own Revenue Board against the existence of Federal Inland Revenue Service; and his preference for FCT to be treated as if it were a state as against governors' resistance to that in the present proposed revenue formula. While some of the arguments may be logical, there is a need for independent institutions like constitutional bodies to be neutral in the politics of the tiers. With the interest shown by National Assembly and other Nigerians on the Revenue Allocation Formula lately, it may be necessary to highlight its historical perspectives at least from the one formulated in 1992 which was bequeathed to democratic government in 1999.

The 1992 recommendation which was used till the advent of democracy in 1999 has the following features: FG 48.5%, State 24%, LGCs 20% and Special fund 7.5% (which was distributed: FCT 1%, Ecology 2%, Stabilisation 1.5% and Natural Resources 3%). The first proposal in the Regime of President Olusegun Obasanjo which was submitted to National Assembly from RMAFC had this proposal: FG 41.3%, States 31%, LGCs 16% and Special Funds 11.7% (i.e. FCT 1.2%, Ecology 1%, Natural Resources 1%, Agriculture and Solid Mineral Development 1.5% and Basic Education 7%). Before the National Assembly could debate on that proposal, there was a Supreme Court verdict in April 2002 on the Resources Control Suit which nullified provision of Special Funds in any given Revenue Allocation formula. With that new development, the formula in operation then (from 1992), had to give way as President Olusegun Obasanjo invoked an Executive Order in May 2002 to redistribute the formula to reflect the verdict. That Executive order, which is acceptable by law, gave FG 56%, States 24% and LGCs 20%. But when there was an outcry from other tiers against that distribution, the President reviewed the Executive Order in July 2002 with some adjustments by fraction where the FG had 54.68%, States 24.72% and LGCs 20.60%. In March 2004, the then Minister of Finance, Dr. Okonjo Iweala issued a letter modifying the second Executive Order that increases state allocation to 26.72% and reduces FG to 52.68%. That ministerial circular on the modification has since been the indices for the monthly distributions from the Federation Account. Between those periods the RMAFC resubmitted another proposal on Revenue Formula where it proposed: FG 46.63%, States 33% and LGCs 20.37%. But for very mysterious reason there was an allegation of circulation of fake bills in the National Assembly. This singular allegation influenced the withdrawal of the formula until September 2004 that another proposal from RMAFC was submitted to the President. That proposal now with National Assembly recommends for FG 53.69%, States 31.10% and LGCs 15.21%. But in the actual fact there is 6.5% built into the allocation of FG to cater for Special Funds thereby leaving the FG with 47.19% as its rightful due. The spirit behind lumping the funds into FG's, is to guard against the repeat of constitutional errors which the Supreme Court voided in its ruling of April 2002. The 6.5% would be applied as follows: Ecological Fund1.50%, Solid Mineral Fund 1.75%, National Reserve Fund 1.50% and Agricultural Development Fund 1.75%. Under the current sharing formula (2018), the Federal Government takes the lion's share of 52.68 per cent from the Federation Account. The 36 states take 26.72 per cent, while the balance of 20.60 per cent is given to the 774 local governments in the country.

From the above historical perspective, one can observe the needless delay, politicking and controversies that trailed this constitutional requirement for statutory allocation from Federation Account to tiers of government. The area that has been greatly misconstrued lately is the alleged adjustment of vertical allocation which does not affect the horizontal formula as it is being insinuated. The horizontal allocation indices are for sharing amongst states and LGCs which include such proxies as Equality, Population, Internal Revenue, Landmass, Rural Road, Inland Water Way, Education, Health and potable water. The vertical allocation to federal, states and local government councils is not changed.

Though new problems may arise from the ongoing debate and consultations amongst the stakeholders seeking for upward review, it is better the formula is passed now than delay for another lengthy time. Unfortunately, the deal might hit a brick wall, as governors in various states of the federation are threatening to back out of the new minimum wage agreement, unless the federal government reviews the existing federal revenue allocation formula. Under the sharing formula, the federal government allocates to itself 52.68 percent of the federal revenue, while a state gets 26.68 percent. The 774 local governments are left with 20.50 percent, while the oil producing states get 13 percent as derivation fund. The governors, hinder the aegis of the Nigerian Governors' Forum, NGF, at their demands that the comment revenue allocation must be reviewed; otherwise they would not be able to pay workers the expected N18, 000. To press home their demand, the forum set up a six man committee headed by Babatunde Fashola, Lagos State governor, with the mandate to review the 1999 constitution, whereby the federal allocation will be reviewed.

Ironically, the committee chairperson has agreed to pay the minimum wage to workers in Lagos. The payment took effect from January. The payment, seen as over 100 percent increasing a director in the state service on level 17, will be earning about N4.5 million annually, (N375,000 monthly) while a worker on level 12 will be earning between N1.2 million annually (N100,000 monthly). The then, Edo State governor Adams Oshomhole, has also promised to increase the wages of his workers to a sum not less than N18, 000 when the federal government passes the law for the minimum wage (Eme and Elekwa, 2011:29). However, the bulk of the governors have stated emphatically that they might not be able to pay the new minimum wage. Their refusal to embrace a new minimum wage policy has ignited the fury of trade union. At the delegate's conference of the NLC held in Abuja, the union said it would do all in its power to force the state governments to assent to payment of the new minimum wage, since they too were part of the tripartite pact that lasted for years.

Current Revenue Sharing Formula in Nigeria

The Federal Government, the 36 states and their local government areas have so far shared N1.4 trillion from the federation account, being revenue generated in the first quarter of 2017. The breakdown is contained in the monthly Federation Account Allocation Committee, FAAC, report obtained by the News Agency of Nigeria, yesterday, in Abuja. The key agencies that remit funds into the federation account are Nigerian National Petroleum Corporation, NNPC; Federal Inland Revenue Service, FIRS, and Nigeria Customs Service. The total revenue shared in January between the federal, states and local governments was N430.16 billion, meaning that federal took N168 billion, states, N114.28 billion and local governments, N85.4 billion. The federation grossed in N514 billion in February and Federal Government's share was N200.6 billion, states, N128.4 billion and local governments, N96.52 billion.

However, in March, revenue generation dipped lower, grossing N466.9 billion, and from it, the Federal Government got N180.5 billion, state governments, N116.5 billion and local governments, N87.5 billion. The allocation was made using the revenue sharing formula, Federal Government, 52.68 per cent; states, 26.72 per cent and local governments 20.60 per cent. The report showed that before distribution, state liabilities were deducted. The liabilities paid by the states in the first quarter, included an external debt of N8.73 billion, contractual obligations of N30.15 billion and other deductions amounting to N50.23 billion. The other deductions, covers National Water Rehabilitation Projects, National Agricultural Technology Support, Payment for Fertiliser, State Water Supply Project, State Agriculture Project and National Fadama Project. What each State got Abia N8.42bn Adamawa N7.8bn A-Ibom N34.88bn Anambra, N8.7bn Bauchi, N7.9bn Bayelsa, N22.97bn Benue, N8.16bn Borno, N9.74bn C-River, N4.28bn Delta, N21.54bn Ebonyi, N7.56bn Edo, N6.5bn Ekiti, N4.97bn Enugu, N7.86bn Gombe, N6.35bn Imo, N7.92bn Jigawa, N9.66bn Kaduna, N10.56bn Kano, N14.02bn Katsina,N10.05bn Kebbi, N8.37bn Kogi, N8.28bn Kwara, N6.9bn Lagos, N19.03bn Nasarawa, N7.41bn Niger, N9 billion Ogun, N4.98 Ondo,N10.22bn Osun, N1.76bn Oyo, N8.9bn Plateau, N5.7bn Rivers, N26.8bn Sokoto, N9.07bn Taraba, N6.9 billion Yobe, N8.33bn Zamfara, N5.91bn (https://www.vanguardngr.com/2017/05/fg-states-lgs-share-n1-41trn-q1-2017).

Institutional Framework and Components for Revenue Allocation 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).

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) For analytical purposes the tables below provide at a glance the process which takes place monthly in the allocation of revenue from the Federation Account.

Table 1: Institutions and their Roles in Revenue Allocation

S/NO	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	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

Table 2: Derivation Formula 1960- Till Present

Years	Producing state (%)	Federal Govt. (%)	Distributable pool (%)*
1996-67	50	20	30
1967-69	50		50
1969-71	45		55
1971-75	45 minus off-shore proceeds		55 plus off-shore proceeds
1975-79	20 minus off-shore proceeds		80 plus off-shore proceeds
1979-81			100
1982-92	1 and half		98 and half
1992-99	3		97
1999-2018	13		87

Source: Adapted from Sagay, 2001. Beginning from 1967, the federal government shares from the distributable pool.

Table 3: Nigeria's Federal, State and Local Tax Jurisdiction and Assignment

Tax	**Legal Jurisdiction**	**Collection**	**Retention**
Import duties	Federal	Federal	Federation Account
excise duties	Federal	Federal	Federation Account
Export duties	Federal	Federal	Federation Account
Minning rents & Royalties	Federal	Federal	Federation Account
Petroleum Tax Profit	Federal	Federal	Federation Account
Capital Gains Tax	Federal	State	State
Personal Income Tax	Federal	State	State
Personal Income Tax: armed forces, external affairs, officers. Non-residents, residents of the FCT and Nigeria Police force.	Federal	Federal	Federal
Value added Tax (Sales tax before 1994)	Federal	Federal/State	Federal/State
Company tax	Federal	Federal	Federation/ Account
Stamp duties	Federal	State	State
Gift tax	Federal	State	State
Property tax and ratings	State	State/Local	State/Local
Licenses and fees	Local	Local	Local
Motor park dues	Local	Local	Local
Motor Vehicle	State	Local	Local
Capital transfer tax (CTT)	Federal	State	State
Pools betting and other betting taxes	State	State	State
Entertainment tax	State	State	State
Land registration and survey fees	State	State	State
Market and Trading license and fees	State	Local	Local

Source: Anyawu, 1995, Jimoh, 2003; Federal Republic of Nigeria Constitutions, 1963, 1979 and 1999-date

Table 4: Vertical allocation of the federation account, 1981-Till Date

ITEMS	Initial 1981 Act 1/	Revised 1981 Act	1990	January 1992	June 1992 to April 2002	May 2002 (1st Executive Order)	July 2002 (2nd Executive Order)	March 2004 (Modified from FMF) 2
Federal Government	55	55	50	50	48.5	56	54.68	52.68
State Government	26.5	30.5	30	25	24	24	24.72	26.72
Local Government	10	10	15	20	20	20	20.6	20.6
Special funds	8.5	4.5	5	5	7.5			
-A) Derivation (Oil-Producing States)	2	2	1	1	1	0	0	0
-B) Dev. Of Mineral Producing Areas	3	1.5	1.5	1.5	3	0	0	0
-C) Initial development of FCT Abuja	2.5	0	1	1	1	0	0	0
-D) General Ecological problems	1	1	1	1	2	0	0	0
-E) Stabilisation	0	0	0.5	0.5	0.5	0	0	0
-F) Savings	0	0	0	0	0	0	0	0
-G) Other Special Projects	0	0	0	0	0	0	0	0
TOTAL	100	100	100	100	100	100	100	100

Source: Adapted from Ojo, 2010

Note:

1. From the 1999 Constitution, the 13% Derivation provision is accounted for before the revenue is allocated into the federation account.
2. The current revenue formula is based on the modified grant from the Federal Ministry of Finance, which came to effect in March, 2004

Table 5: Horizontal revenue allocation formula, 1970-Till Date

Principles	1970-80 (%)	Initial 1981 Act (%)	Revised 1981 Act (%)	1990 to 1995 (%)	Proposals of NRMAFC (%)	Proposals of NCC Committee on Revenue Allocation (%)	Current Formula (%)	September 2004 Proposal (%)
Equality of States (Minimum responsibility of Government)	50	50	40	40	40	30	40	45.23
Population	50	50	40	30	30	40	30	25.6
Population density	0	0	0	0	0	10	0	1.45
Internal Revenue Generation Effort	0	0	5	10	20	10	10	8.31
Land mass	0	10	0	10	0	10	10	5.35
Terrain								5.35
Social Development Factor	0	0	15	10	10	0	10	8.71
Education							4	3
Health							3	3
Rural Road/ Inland Water Way								1.21
Water							3	1.5
Total	100	100	100	100	100	100	100	100

Source: Adapted from Ojo 2010

Table 6: Vertical allocation of the federation account proposals that were not implemented, 1981-Till Date

ITEMS	NRMAFC Proposals Before 1995 (not accepted) (%)	Proposals of the NCC Committee on Revenue Allocation (1994- not accepted) (%)	RMAFC Proposal August 2001 (%)	December 2002 (RMAFC revised Formula submitted but withdrawn) (%)	RMAFC Revised Proposal September 2004 (%)
Federal Government	47	33	41.3	46.63	53.69
State Government	30	32.5	31	33	31.1
Local Government	15	20	16	20.37	15.21
Special funds	0	0			0
-A) Derivation (Oil-Producing States)	2	0			0
-B) Dev. Of Mineral Producing Areas	2	6.5	1.5		0
-C) Initial development of FCT Abuja	1	2	1.2		0
-D) General Ecological problems	0.5	2.5	1.0		0
-E) Stabilisation	0.5	0	1.0		0
-F) Savings	2	0.5	-		0
-G) other Special Projects	0	3	7.0		0
TOTAL	100	100	100	100	100

Source: Ojo

BESA- Basic Education and Skill Acquisition

From the above analysis therefore, the issues of revenue allocation are partly economic but largely a matter of political compromise and an issue central to this compromise is the impact of a given 'revenue allocation structure' on the nature of federalism. The exegesis of the section 162(2) of the 1999 Constitution is a confirmation that the centrist philosophy has found its way into the 1999 constitution of the Federal Republic of Nigeria handed down by the military, such that even under democracy, fiscal centralization has been too attractive for democratically elected governments at the centre to resist. Thus, calls by lower tiers of government for more decentralization of fiscal arrangement have continued to fall on deaf ears. To the utter amazement of every ardent observer, fiscal Mobilization Commissions appointed by the central government and the National Assemblies have continued to formulate revenue allocation formulas which maintained fiscal centralism without recourse to the yearnings for true federalism embedded in new revenue allocation formula that decrease the allocation of the federal government and increases that of the centre.

Conclusion

The FAAC monthly meeting is where allocation is made to the three tiers of government chaired by minister of finance Mrs. Kemi Adeosun and commissioners of finance from the 36 states of the federation and FCT every month, as well as representatives of revenue generating agencies. The monthly federation account allocation committee (FAAC) meeting for august 2018, ended in a deadlock. This is the fifth time the meeting is ending in deadlock this year. It will be recalled that the FAAC ended inconclusive in March for February allocation and in April for March allocation and also on 3rd June for May allocation. Though the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) through its spokesperson Ibrahim Mohammed urge all stakeholders in the sharing of federation account to cooperate with the commission towards providing equitable revenue formula, adding that federal government was aware of the enormous responsibilities of the commission and would not renege in its pledge to provide the necessary environment for it to deliver on its mandate. Adding also that the commission would carry out a critique of existing processes for reviewing indices of sharing of the 13 percent derivation fund to avoid the recurrent problem of over payment and under payment for some states and also address the issues of compensation for states currently suffering from the adverse effects of oil production activities and security beyond 200 meters isobaths. This work looks at the crisis of revenue allocation formula in Nigeria. One of the things that have been bordering the intergovernmental fiscal relations for a long time had been how to arrive at the most acceptable formula and principles for revenue allocation in Nigeria. It is appropriate to say that revenue sharing formula in Nigeria has caused a lot of unending conflicts and disputes among the three tiers of government as well as between the Federal Government and the oil producing states.

Recommendations

From the foregoing it is crystal clear that revenue sharing formula in Nigeria is problematic.

1. It is recommended that the federal Government should emphasize greatly on the use of derivation principle in revenue allocation sharing formula. This is to encourage both the oil and non- oil producing areas to look inward for other viable revenue earning sources instead of relying wholly on oil that is depletable.
2. The domineering and exploitative attitude of the Federal Government over revenue allocation in Nigeria should be checkmated by the National Legislative body. In other words, the law making body should enact a bill restricting the Federal Government from encroaching further on the role specifically designated to the Revenue Mobilization, Allocation and Fiscal Commission.
3. Apart from the above, to further resolve the conflict of revenue allocation formula in Nigeria, the State and Local Governments should intensify their drive efforts from internally generated revenue. The reasonable increase in this revenue will definitely reduce the incessant struggle and quest for more shares of revenues from the federation account.
4. The National Assembly should also be looking at the constitutional responsibilities of each tier of government as a basis for determining the percentage allocation due to them.

5. There is also the need to review the 1999 constitution by the National Assembly especially section 162 (a – c) to accommodate revenues from privatization and Excess Crude Account accruing to the Federation account.

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