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THE POLITICAL ECONOMY OF REVENUE ALLOCATION FORMULA IN NIGERIA

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ABSTRACT

This article examines the Political Economy of Revenue Allocation Formula in Nigeria. It was emphasized that one of the greatest desires of any economy is to cater for the socio-economic welfare as well as the material needs of her citizens. While adopting the Political Economy approach, the study sought to analyze the realities and challenges facing Nigeria; living in an inter-dependent world and how she ensures that she maintains an inter-dependent economy in her relationship with the various competing tiers of government within the polity. The study discovered that the structure of Nigeria's federalism, the major source of Nigeria's revenue i.e., oil affects and determines the way and manner in which the revenue allocations and reallocations are made...this invariably affects the pace of growth and development in the Country. The study recommended that there is need for a review of the present revenue allocation formula and each tiers of the federating unit should have equal representative in the review committee. Secondly, Investment should be made in agriculture which is one of the key sectors that sustained the economy of Nigeria before the discovery of oil in a commercial quantity.

Keywords: Federalism, Revenue Allocation, Political Economy Federating Units

INTRODUCTION

Every economy provides its citizens with the means of material livelihood and also aims at exploitation of natural resources to support its productive effort. The political economy of Nigeria is not limited to the operation of our economy within the country. It also has to do with foreign exchange which play vital role in the development of our economy. According to Nikitin (1983) political economy studies the basis of the development of society which has to do with the production of material wealth and the mode of production. The political economy of Nigeria goes beyond the above argument as much emphasy is placed on the socio-relation of men and distribution of the limited resources.

Nigeria operates a federal system of government with three tiers – the federal, state and local government. The federating unit is controlled by the federal government at the centre that determines the flow of income through revenue allocation. Each unit depends on the centre as the means of survival. This makes the economy only strong at the centre and weak in the unit. In a true federalism, each of the federating units should have full control of its resources but the Nigerian federalism is different.

The constitution of the Federal Republic of Nigeria provides that any amount standing to the credit of the federal account shall be distributed among the federating units. The formula for the sharing of the revenue posed a lot of problem in Nigeria right from the colonial period. Most of the persistent conflicts among the ethnic groups are associated with unsatisfaction in revenue allocation formula. The history of revenue allocation in Nigeria shows that various commissions had been set up to look at the issue in order to find a lasting solution. Most of the commissions recommendation were in favour of the government that put them in place (federal government). Many sectors are not satisfied with the present revenue allocation formula and some of the political instabilities in the country are directly linked with the revenue allocation formula.

This paper aimed at examination of the political economy of Nigeria; its system of government and relationship with revenue allocation. The work is presented under: introduction, political economy of Nigeria, revenue allocation formula, principles of derivation and conclusion.

POLITICAL ECONOMY OF NIGERIA:

According to the word of Wikipedia, the free encyclopedia political economy is a term used for studying production and trade and their relations with law, custom and government as well as with the distribution of national income and wealth. The study was developed in about 18th century as the study of the economics of states or politics hence the term political economy. It was meant to express the laws of production of wealth at the state level just as economics was the ordering of the home.

As Nikitin (1983) argued, political economy studies the basis of the development of society. This has to do with the production of material wealth and the mode of production. But production is studied in this regard only from the view point of economic relations among people in the production process. The political economy of Nigeria goes beyond the above argument as much emphasis is placed on the social relation of men and distribution of the limited natural resources. Nikitin further posits that it is the science of the development of socio-production. It clarifies the laws governing production, distribution, exchange and consumption of the material wealth in human society at various stages of its development.

The definition of political economy by Weingasi, B. R. and Donald Whiteman (2008) is more suitable to the Nigeria political economy: "Interdisciplinary studies drawing upon economics, sociology, and political science in explaining how political institutions, the political environment and the economics system-capitalist, socialist or mixed-influence each other."

Edame (2008) in his contribution to the development of political economy asserted that Marx began with an essentially sociological vision of the society which sought to discover how its products was distributed. He argued that Economic situation markly shaped the institutions and ideas of men and in so saying he tried to prove that it was necessary to explore the ideology of the moment the various forms of production known to history deeply affected social relationships and these in turn conditioned merits attitudes.

Here is a demonstration that value was derived from the socio-economic relationship entered into by men for the purpose of production of means of subsistence. The study of Nigeria political economy gives the masses an opportunity to participate in the development of their immediate community. It also helps to make people builders of their society and as well develop the spirit of team work among the people.

We are living in an inter-dependent world and maintained an inter-dependent economy with varies principles. Every economy provides its citizens with the means of material livelihood and the economy should aim at exploitation of natural resources in support of its productive effort. The Nigeria economy is different from politics although it is inter-related but has its own peculiar structures.

The political economy of Nigeria is not limited to the operation of our economy within the country. Foreign exchange plays a vital role in the development of our economy. Nigeria depends on sale of crude oil for its foreign exchange earnings and any fall in the price of the oil as it is today affects the nation's economy. The political economy of Nigeria battles with these problems for many decades without finding a permanent solution.

(a) Rising level of un-employment and inflation
(b) Reliance on a single commodity (oil)
(c) Weak industrial and private base,
(d) Low quality of social amenities and low level of agricultural production. Ineffective or near

absence of power sector among others.

The management of the nation's economy should embark on bridging of inequality gap which exists because of un-equal endowment of natural resources which resulted in an imbalance in the development of the communities. As Akpan and Umodong, (2003) argued: The major economic roles of government are resource allocation, income distribution and macroeconomic stabilization. Through physical activities, taxes are levied on economic activities in the region with concentrated economic resources and some of the proceeds transferred to the scant resources region in a way that will guarantee equitable distribution across sectors and geographical regions within a fiscal system.

Akpan and Umodong also assert that the use of the government revenue allocation principle to engender development in resources of poor region is based on the theory of balanced growth which emphasizes the need to provide the basic minimum development conditions necessary for each region to rise above the low-level equilibrium trap. Planned development therefore calls for inter-regional transfer of resources through some physical processes.

From the historical point of view it seems as there was relatively peace in the management of Nigeria economy when oil was not the only source of income.

Before 1960, the main income earning exports were cocoa from the West, groundnut, cotton, hides and skin from the North and palm oil from the East. It was convenient for the majority ethnic groups who controlled the Federal government to emphasize derivation which was enshrined in the 1963 constitution. However by 1969 when petroleum becomes the major resources in terms of total income and foreign exchange earnings in the country, the majority group reduced the revenue allocation with regard to petroleum resources. The northerners controlled the federal government as well as the mineral resources. The implication of this was that the resources of the Niger Delta were transferred to the majority group in control of the federal government. Innocent and Ntechi (2012) argued that instead of establishing true fiscal federalism in which the federating units would develop the natural resources in their territories and pay loyalty to the Central Government, the political class has been satisfied with practicing unitary government which concentrates power and resources at the Centre.

Eboh (2012) in his opinion stated that: "The political class is just playing games with the lives of Nigerians. Assuming there was no oil; would we all die? Instead of focusing on how to develop our human capital and other aspects of our economy, people are focusing on how to share oil money".

Nigeria operates a federal structure of government with three levels of the federal state and local government each with different responsibilities, expenditure and taxation authority. The control of the federating unit is in the centre that determines the flow of income through revenue allocation. The total dependability of each unit on the centre as a means of survival makes our economy only strong at the centre and very weak in the unit.

As Akeem (nd) argued: The sharing of fund from the federation account is one of the contentious and sensitive issues in the Nigerian polity, this has remained a central element of interfiscal relations. In Nigeria revenue allocation is taken as the distribution of national revenue among the various tiers of government in the federation in such a way as to reflect the structure of fiscal federalism.

He further stressed that the stability of any nation as a political entity depends to a large extent on revenue allocation. The sustainability of a democratically elected government can be ensured if only there is an appropriate distribution of the nation's revenue among the federating units. It is inconsistent of the federal government to be saddled with the responsibility of collecting and distribution of money. It should only provide a broad outlines and all the federating units should be fiscally indented. And this can increase the economic activities and thereby solving the problem of dependence on oil as the only source of income. If the federating units are given opportunity to operate on their own, they can formulate a policy that can influence the economic and social wellbeing of the people.

Most of the persistent conflicts among the ethnic groups are as the result of unsatisfaction in the revenue allocation formula. The problem lasts as long as the federal government continues to decide on the percentage of revenue to be allocated to the federating units. The federal government is the principal revenue earner in the country. Therefore the central government has always control more resources than its component units. Prior to the Richard Constitution of 1946, the Central government controlled most of the sources of revenue in the nation except the direct or poll taxes which the local administrations levied and collected. (Nnoli, 1980).

The economy of Nigeria greatly depends on crude oil production. And the price of crude oil in the international market is not stable and the economy fluctuates in proportion with the price of oil. The instability of the price of crude oil in the international market equally affects the economy as it is today. The recent development in the Nigeria economy necessitates a call to our political leaders to diversify Nigeria economy from oil sector to the direction of non-oil export trade.

Nigeria is blessed with abundant human and material resources and in an attempt to find a lasting solution to the Nigeria economic problems Akujura (2015) argued that: Prior to the discovery of oil in commercial quantities sometimes in the sixties/seventies, agriculture was recognize as viable source of revenue to the country and crops like groundnuts, cocoa, beans, robber, gum Arabic, kola nuts, cotton, soya beans, palm kernel, cashew nuts and the likes were exported to Europe, America and other continents across the globe. In the three main regions of Nigeria that is the North, South and the East, at least an agricultural product was largely produced and in commercial quantities which enhanced the standard of living and economic status of the people.

Akujara further argues that if the type of attention given to petroleum sector can be given to mining, commerce, agriculture, tourism and other sectors of the economy, the socio-economic status of the country will improve. Nigeria is blessed with many untapped natural resources which if properly harnessed will increase the country's annual resources. Over-dependency on oil has slowed down the development of alternative sources of revenue.

As long as Nigeria economy depends on the oil sector, it therefore means that the nation has no control of its economy because of the colonial foundation. As Eminue (2005) argued the economy of our country, greatly speaking, is not in our hands. Over 70% of our overseas trade is controlled by forces over which we have no control". Alhaji Waziri Ibrahim, then minister for education development, candidly admitted: "In the past our planning had been aimed to meet the requirement of the imperialists. There is no doubt about it.

Eminue further posits that the major objective of the colonialists was the subjection, domination and exploitation of the Nigerian people and their resources. The ownership structure of our industries including the oil sector remained predominantly expatriates both in the exploration and production as well as marketing categories. The interest of the western powers are not in the agriculture but is deeply entrenched in the oil sector.

FEDERALISM IN NIGERIA:

Nigeria as a nation operates a federal system of government. Under the federal system, there is existent of more than one level of government with different responsibilities. Ikeji (2011) argues that: "The choice of Federalism as the preferred system of government for Nigeria was not accidental. The eventual transformation of Nigeria into a federal state started in 1954 as a result of the 1953 Lyttleton Constitution Conference". He further opined that federalism seems to provide an attractive system of government especially in the context of ethnic pluralism found in many African States. In a federal structure, adequate autonomy is given to each level of government to enable it perform its responsibility without frustration. In a true federalism there must be constitutional division of power between all levels of government.

According to the Nigeria historical records in 1939, Sir Benard Bourdillon, the governor of Nigeria who succeeded High Clifford divided Nigeria into three provinces but he did not introduce the necessary principles of regionalism. In 1946 Author Richard made the provinces become regions and consolidated them by the introduction of the principles of regionalism. The Macpherson constitution of 1951 improved upon the principle of regionalism. This is because the constitution introduced a "quasi" federal system of government in Nigeria. It served as a good foundation of the future establishment of the federal system of government for Nigeria. It was agreed during the 1953 conference in London that Nigeria should adopt a full federal system of government that entailed a clear division of powers between the centre and the component regions (Anamgba 2006).

Nigeria officially adopted federalism in 1954 under the Lyttleton constitution. The constitution clearly divided the powers of the central government and regional governments. The major economic roles of the federal government are income distribution and allocation of resources and stabilization of the nations' economy. Federalism in this regard provides a framework for solving of political and revenue allocation problems. But the Nigeria federalism lacks the characteristics of the real federalism.

Musgrave and Musgrave (1982) opined that in practice, sometimes the optimization of administrative costs is an economic issue, where also the distribution of resources involves some political issues in determining the constitutional criteria for such allocation in such a way that will ensure equality and/or equity. An efficient distribution is that in which no section of the society is worse off while making the other better off.

However, in practice the power of the federal government tends to supersede the powers of other tiers of government. This put other federating units in the position of begging the federal government for their sustenance. This is contrary to the tenet of federalism which recognizes division of labour among the component units of the federal government. Nwankwo (1970) observed the undermentioned to be factors that necessitated federalism in Nigeria.

(i) Cultural differences and existence of different ethnic groups
(ii) Economic reasons
(iii) Administrative efficiency
(iv) Fear of domination and desire for local independence
(v) Historical reasons and the desire for a union.

Structure of Nigeria Federalism:

The structure of Nigeria federalism has three levels of government which are: The federal, state and local government. The Nigeria federal structure grew from its three regions to thirty six states and Abuja. The foundation of Nigeria federalism began in 1954 - 1963 with the creation of three zones which were known as provinces and became regions in 1946. After the creation of one region in 1967, Nigeria became four regions in 1963-1967. The creation of 12 states from the existing 4 regions in 1967 by General Gowon brought the federal structure of Nigeria to a twelve state federal structure.

1976 – 1986 - Nigeria had 19 states

1987 – 1991 - It had 21 states

1991 – 1996 - It was made up of 30 states and in

1996 - Nigeria became a federation of 36 states and Abuja.

The Nigeria federalism was formally based on two levels of government that derived their powers from the constitution and this had been the position since 1954. It was in 1979 that Nigeria federalism was based on three levels of government that derived their powers from the constitution because of local government's recognition as the third tier of government in 1979 constitution. Nigeria maintained a three tier federalism with federal state and local government. They are relatively independence and perform their functions, according to the constitutional provision. When there is conflict in the performance of the legal functions the powers of the federal government shall supersede the powers of other tiers of government (Anamgba, 2006).

Nwankwo, (1990) asserted that the greatest problem associated with a federal system of government especially in Nigeria is Revenue Allocation. It is always difficult to find acceptable formula for sharing the federally generated revenue in a federal state. In Nigeria the problem is on the choice that principles of derivation, need, national interest, school enrolment or landmass should be used as the basis for working out acceptable revenue allocation formula for the country. Even if the principle may be generally acceptable as the main basis for working out the revenue allocation formula, the next problem is which of these principles would take presidence over others. Sometimes the constitutional principles may be wrongly interpreted and wrongly applied. This is one of the reasons why several Revenue Allocations were set up in an attempt to find a lasting solution to the problem. Accordingly, Nwankwo noted that in spite of all the past commissions, Nigeria is yet to have an acceptable revenue allocation formula for the country. Lack of a generally acceptable revenue allocation formula is one of the major problems encountered in Nigeria in the operation of the federal system of government.

REVENUE ALLOCATION FORMULA:

Revenue allocation is described as a method of sharing the centrally generated revenue among the different tiers of government and how the amount allocated to a particular tier is shared among its components. Nigeria is a federal state under the federal system of government, federation or centrally generated revenue is shared among the three levels of government – the federal, state and local governments. One of the major problems of Nigeria federalism is Revenue Allocation. As Nwankwo (1980) argued It is usually a difficult problem on how to find an acceptable formular for sharing the federally collectable revenue in a federal state. In Nigeria for instance, the problem is usually whither the principles of derivation, need, national interest, school enrolment and landmass should be used as a basis for working out an acceptable revenue allocation formular for the country.

Nwankwo also opined that when a particular formular is chosen, the next problem is which of them will be given presidence over others as the major criteria for sharing the revenue.

A constitutional provision is made for the sharing of centrally generated revenue. According to section 149:20 of the 1979 constitution:

Any amount standing to the credit of the Federal Accounts shall be distributed among the Federal and State governments, and the local government councils in each state, on such terms and in such manner as may be prescribed by the National Assembly.

Any amount standing to the credit of the states in the Federation Account shall be distributed among the state on such terms and in such manner as may be prescribed by the National Assembly

The constitution provided that any amount standing to the credit of the Federal Account shall be distributed among the Federal, State and Local Government Councils in each state on such terms and such manner as may be prescribed by the National Assembly. Since the terms and manner must be prescribed by the National Assembly it cannot maintain uniformity throughout the state. Again the provision may suffer from political interpretation as well as implementation

Revenue allocation in a federal state always has its inherent problems right from the colonial period. Most of the commissions created to produce a workable principles failed to receive a general acceptability of the people. Akujuru asserted that "revenue allocation is no doubt part of the processes of fiscal federalism. Typically the challenges of fiscal federalism in Nigeria hinge on the equality of the expenditure assignment and revenue-raising functions amongst the three tiers of government.

Revenue allocation problem persist in Nigeria because the nation operate adulterated form of federalism. Under the colonial administration; there was not much problem of revenue sharing because the power of the centre of the regions in respect of revenue was defined. Actual payment to the federating units by the centre was stipulated and it was not a debatable matter in the Assembly. The issue of derivation to oil producing states, offshore/onshore dichotomy, percentage of revenue allocated to other tiers of government raise political dust among the oil producing state and the tiers of government.

The problem of imbalance in revenue generation between the states and the centre, differences in population density, uneven development, industries, natural resources, distribution of wealth and social services account for crises in determining the allocation formula (Nnoli, 1980). The Nigerian federal system is facing a lot of challenges and one of such is lack of a generally acceptable revenue allocation formula.

Historical records have it that since 1946, revenue allocation exercise in Nigeria has been more or less adjunct to political or constitution changes. Various revenue allocation commissions have been set up in Nigeria from 1946-1987 and up to the present day to evolve a better formula for revenue allocation. But none of the recommendations from the commissions proved satisfactory to the people. The problem is centred on establishment of the acceptable option be it the principles of derivation, need, national interest, even development or population should be used as a basis of working out the formula for sharing among the three levels of government as provided in the constitution.

The revenue allocation formula of Nigeria is based on section 162:2 of the constitute of the Federal Republic of Nigeria.

The President upon the receipt of advice from the Revenue Mobilization Allocation and Fiscal Commission, shall table before the National Assembly proposals for revenue allocation from the Federation Account, and in determining the formula the National Assembly shall take into account, the allocation principles especially those of population, equality of states, internal revenue generation, land mass, terrain as well as population density. Provided the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federal Account directly from any natural resources.

The constitutional proposals for the revenue allocation became a debatable issue and the revenue allocation committee's recommendations lacked acceptability. Every government in Nigeria attempted to address the problem but changes in the formula are closely associated with the type of government either military or civilian.

COMPONENT OF REVENUE ALLOCATION FORMULA IN NIGERIA:

There are two fundamental components of revenue allocation formula which are used for the allocation of revenue in Nigeria – the vertical and horizontal formulae.

The vertical Allocation formula shows the percentage allocated to the three tiers of government. The formula is applied vertically to the total volume of disbursable revenue in the federation account at a particular point in time. It allows every tier of government to know what is due to it. The Federal Government, the 36 states all 774 Local Governments (Bashir, 2008).

Bashir observed that Horizontal Allocation formula is only applicable to the state and local government, as it provides the basis for sharing of revenue already allocated to the 36 states and 774 Local Governments. The allocation due to the state and local government is determined through the formula. Lukpata, (2013) gives an up-to-date revenue allocation formula as follows:

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 formulae on revenue allocation, the Okigbo Commission recommendation was accompanied by controversy, disagreement and conflict (Ademolekun 1986:30).

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

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

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 insisted that only equal revenue sharing between the federal government and the states in Nigeria will be considered fair and realistic by the Southern States. Therefore they 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%

The percentage of revenue allocated to the state and local government as per the commission's recommendations in this work shows that the formula is still unsatisfactory. In the real sense of it both the state and local governments receive only about half of their constitutional entitlements from the federal account. In all the revenue allocation commission's recommendation adopted in the country, the percentage allocated to each of the tiers shows that the federal government receive more revenue than others. Seventy percent of the Nigeria population lives in rural areas producing the resources that feed the nation, but they are not fairly treated when it comes to distribution of social services and other amenities.

THE PRINCIPLES OF DERIVATION:

In a true federation, each of the federating units should have adequate control of its resources. Sometimes arrangement is made that enable the whole federation to benefit from the resources but not at the expense of those who produce it. This is the aspect which our nation has failed to uphold since 1946. The closer substitute to the option appears to be the adoption of the principles of derivation in the allocation of centrally generated revenue. Under the colonial administration, there were not much problems of revenue sharing because the power of the central and regions were clearly defined.

In Nigeria decision as to what percentage of the centrally generated revenue that would be retained by the federal government, the proportion that would be shared among the state government and the proportion that will go to the local government has always been problem due to the fact that there is no consension of opinion as to what could be seen as an ideal formula (Chibueze 2011). Many commissions created to produce workable formula could not receive general acceptability of all sectors. Philipson commission of 1996 recommended the principles of derivation as the bases for allocation of federal government revenue. By derivation its meant the principles by which revenue originating from within a region are allocated to it. The nation of even progress required that in the interest of an even development of the country a relatively poor region should receive a relatively disproportionate share of federal revenue (Nnoli 1980:202).

While accepting the inherent logic behind the derivation principles, Nnoli further argued that there was a problem of implementation as the north argued that the money that was due to them had gone to the east while the east and west argued that the north received a large allocation. The northerners argued for the distribution of the revenue to the region on a per capita basis. Those from the west called per the principles of derivation in view of its contribution to such revenue. In that regard the eastern delegates called for the principles of need which was so beneficial to their poor region (Nnoli 1980).

The Federal Government of Nigeria interprets the principles of derivation to mean the principles that revenue accruing to the federal account from any natural resources shall be deemed to have been derived from the state or territory where such resources are located and for which the approved formula for revenue allocation for the Federation Accounts shall reflect the facts that not less than 13% of the revenue shall apply. Having regard to the claim of the literal states that natural resources located offshore ought to be treated or regarded as located within the respective territories of the literal states (Emimie 2005)

History has it that before independence, the mainstay of the Nigerian economy were groundnut from the North, cocoa from the West and palm oil from the East. Derivation was fifty percent (50%) However the distribution of the resources fitted the three main ethnic groups.

The discovering of oil in the south south region comprising minority ethnic groups, the increasingly almost total dependence of the Nigeria economy on oil, mineral revenue ever since and the advent of military rule saw the gradual devaluation of the derivation principles in favour of other allocation principles such as equality of states population and landmass. In practice however, principles such as population and landmass favoured certain ethnic groups at the expense of others (Adewasi, 2005).

There has been a lot of arguments for and against derivation principles but the strongest authority for derivation is equity. Adewasi, A. I. former commissioner for finance for Lagos state distributed the present revenue allocation formula as “unprogressive, discriminatory and grossly unfair to the states”.

CONCLUSION

The constitution of the Federal Republic of Nigeria has both colonial and military ideology which affects interpretation and application. Recommendations from various revenue allocation commissions are always influenced by the constitutional interpretation and the government in power.

Nigeria should practice the real federation where the federating units manage and control their resources without limitation by the government at the centre.

70% of the Nigeria population lives in the rural areas and produce the agricultural needs of the urban areas. The local government has the responsibility to cater for the need of the people in terms of social services but is prevented from rendering such services, since the federal government allocated more than fifty percent of the revenue to itself leaving the state and the local government to struggle, balance and survive.

There is need for a review of the present revenue allocation formula and each tiers of the federating unit should have equal representative in the review committee. For a stable political economy in Nigeria, there is a need to reduce the money that goes to the federal government in favour of the state and local governments.

Investment should be made in agriculture which is one of the key sectors that sustained the economy of Nigeria before discovery of oil in a commercial quantity. It can create employment more than any other sector of the economy.

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