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Revenue Allocation and Gross Domestic Product (GDP) Growth in Nigeria 2001-2019.

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Abstract

There is obviously an uneasy calm about issues surrounding revenue allocation in Nigeria and the extent to which it impacts on economic growth. This study is to determine the impact of revenue allocation on economic growth using gross domestic products (GDP) as proxy. The study examined the impact of revenue allocation on economic growth represented by Gross Domestic Product (at current basic prices) for the period between 2001 to 2019. The study applied regression analysis with the help of SPSS version 25. The statistical analysis revealed that there is a positive relationship between revenue allocation and GDP at 5% level of significance. It was recommended amongst others that: Government must be deliberate in harmonizing all dissenting voices against especially the formula for allocating the said revenue, it was further suggested that revenue so allocated should be accounted for by the managers (i.e. President, Governors and Chairmen of local government areas) through feasible growth and developmental projects that have direct bearing to stimulate the economy and better the lives of the target citizenry. Therefore, the authors are advocating for 'Derivative' approach to revenue sharing, where regions and states are allocated revenue based on what they contribute to the central purse. Better still regions and states should be allowed to control their resources and pay taxes to the Federal Government.

Keywords: *economic growth, gross domestic product, revenue allocation*

Introduction

The practice of revenue sharing between Federal, States and Local Governments in Nigeria monthly by the federal account allocation commission (FAAC) remains a doctrine whose benefits

still beats the imagination of rational reasoning. Every month, federal, states and local governments go cap-in-hand to collect from the federation account to run the affairs of these tiers of government in a 'federation'. One then wonders when the monies are collected monthly, to what extent are these monies put to productive use as to add to gross domestic product (GDP) growth in the local governments, states and even cumulatively in the Nigerian economy.

This age long practice has consistently been entrenched into the fabrics of Nigerian state. Revenue sharing amongst the federating units have institutionalized beggarly attitude over and above the resilience of revenue generation in Nigeria. Most worrisome is the revenue potentials that abound in practically every state and perhaps every local government of the federation lying waste in their natural states, some never tapped, while others being put to use at the subsistent level. The inability to chart an economic revolution that will harness the Nigerian natural resource potentials has placed Nigeria almost permanently as a mono-economic nation, where all and sundry scramble for the revenue from oil and gas at the center.

Revenue allocation in Nigeria is the most controversial, contentious, hypocritical, corruption laden and whatever fits as evil that have happened to Nigeria from the colonial era till date. In the 1940's, revenue allocation was strictly on 'derivation', but soon after oil was discovered in commercial quantity, all other revenue generating ventures were jettisoned and oil became the main stay of Nigerian economy till date. Then derivation bases of revenue allocation were surreptitiously abandoned, and replaced with land mass, population, equality of states, revenue generating effort and many more. Administration after administration have tried to come up with acceptable formula to justify revenue sharing all to no avail, as the mere mention of revenue allocation formula triggers anger in the minds of the people from the oil producing region in Nigeria.

Undoubtedly, revenue allocation remains one of the most viable fiscal tools in the hands of the government for redistributing of funds to the federating units in the country. However, this monthly ritual has become a major evil that have befallen the nation. Several attempts by

government over the years to arrive at an acceptable formula for this purpose have failed. The more funds are released into the system, the more the nation experiences infrastructure deficit, unemployment, unfavourable balance of payments, soaring insecurity etc. This may not be unconnected with the lack of accountability in governance, that has fuel corruption in Nigeria. Therefore, the existence of all these notable problems necessitated this study to determine the relationship between revenue allocation and gross domestic product (GDP) growth in Nigeria. The objective of this study is to examine the impact of Revenue Allocation on Gross Domestic Product (GDP) growth.

Research Questions:

In other to address the stated objective, a research question was asked thus: How does revenue allocation impact on GDP growth in Nigeria?

Hypothesis:

A hypothesis was tested to establish the relationship between Revenue Allocation and Gross Domestic Product (GDP) growth thus: Revenue Allocation has no significant impact on GDP growth.

Growth herein proxy as GDP is a widely discussed construct by many authors, both academics and economic watchers are keenly interested in the growth and development of their economy. Sugathan,(2010) posited that from the earliest classical Malthusian/Ricardian era, to the modern growth theory by notable writers like Solow (1956) and Swan (1956) and the endogenous growth models of Romer (1986) and Luka (1988) all these authors made attempts to present economic growth models that will be universally accepted. The author contributed, by the exclusive discussion of 'growth and infrastructure', specifically a perspective on a model that allows for growth in the presence of unemployment.

The author's line of thought on growth in the presence of unemployment is particularly relevant to this study, giving that Nigerian situation is similar to the point raised. The country is in dire need of growth and infrastructure, but bedeviled by increased unemployment at an unprecedented level.

However, revenues are shared to the federating units in the economy and one expect a corresponding output to grow the economy in terms of gross domestic product and infrastructure.

Gross Domestic Product and Revenue Allocation

The traditional definition of Gross Domestic Product (GDP) is the total output in an economy over a period of time, usually a year. Uket, Wasiu & Etim, (2020) averred that gross domestic product remains one of the yardsticks for measuring economic development of any country and indeed Nigeria. Though, some authors hold different views about GDP as a predominant measure of development. Authors like, Barro, (1991), after examining 98 countries within the period of 1960-1985 argued that, growth is positively related to human capital. Charles, (2019), worked on the topic, Paul Romer: Ideas, Nonrivalry, and Endogenous Growth, argued that growth is better measured by technological innovations.

Feldman & Francis, (2003) in Okeke, Mbonu & Ndubuisi, (2018), opined that, economic development entails combined action and all-encompassing, long-term investment. However, the Bureau of Economic Analysis (in Karen & Louise 2018), gave a clear definition for GDP thus: Gross domestic product (GDP) is the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment.

The implication of the above explanation is that gross domestic product of a country is the entire final production of the period before deductions are made, and the productions here referred to are within the economy not outside the economy.

However, revenue allocation is simply the distribution of revenue/resources among the federating units in an economy, specifically referring to the Nigerian context were the federal, states and local governments share monies from the Federation Account. Suffice it to say that as resources are distributed among the federating units the cumulative effect should be growth in the overall

economy mostly through GDP. This study is especially interested in the relationship that exist between revenue allocation and GDP growth in Nigeria.

Types of Revenue Allocation Formulas

The two main types of revenue allocation formulas in Nigeria are; Vertical allocation formula (VAF) and the Horizontal allocation formula (HAF).

Vertical Allocation Formula

Here revenue resources are disbursed to the three tiers of government in a certain defined order. According to Federation Account Act (FAA), 1992 No. 106 and S.1.9. of 2002 (in Cordelia, John & Kabiru 2019) FAA, the amount standing to the credit of the Federation Account, less the sum equivalent to 13% which the derivation allowance to the oil producing states shall be distributed among federal, state and local governments on the following basis:

Federal Government (56%), State Government (24%) and Local Government councils (20%), making a total of 100%. However, the 56% allocated to the Federal Government shall be utilized as follows: Federal Government (48%), Special fund of (7.5%) is distributed as follows: Federal capital territory (FCT) (1%), Niger Delta Development Commission (NDDC) for the development of mineral producing areas (3%), Amelioration of general ecological problems (2%), Stabilization fund (0.50%), Mineral producing states (shared based on the amount of mineral produced from each state) (1%), totaling 56%. Stabilization Fund is used to augment allocation to any State of the Federation that suffers absolute decline in its revenue due to factors beyond its control (Federation Account Act, 1992; 2002).

Horizontal Allocation Formula

Horizontal allocation formula shows how revenue resources are shared amongst the 36 states of the federation and 774 local government councils, from the vertical allocation formula it shows that state gets 24% while the local government councils gets 20%, these percentages are however shared on some certain parameters provided in the law.

Victor (2013) presented the horizontal allocation formula thus:

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

Ohiomu, & Oluyemi, (2017), analyzed fiscal federalism and economic growth nexus in Nigeria to synthesize the extent to which revenue allocation formula has affected the path of economic growth and sustainable national development. Using Error correction model (ECM) in conjunction with diagnostic tests of variables using Augmented Dickey–Fuller unit root tests and Johansen Co-integration tests for robust policy recommendations. It was recommended that there should be accountability and transparency in the federating units, it was also posited that Local governments should be adequately funded to accelerate grass root development in the economy. Finally, the machinery for revenue generation and allocation should be improved upon.

Cordelia, John, & Kabiru, (2019), investigated the impacts of federation account allocated funds on economic growth in Nigeria pre and post democracy. The authors used annual time series data from 1989 to 1998 and adopted Ordinary least square method to perform the multi-regression analysis. These authors found that utilization of federation account allocated funds to the state and local governments does not have significant positive impact on economic growth in the country, before and after the return to democracy. Though allocation to federal government exerted significant positive influence on growth only after democracy restoration, but insignificant negative impact on growth prior to return of democracy, these authors recommended that revenue sharing formula in the country should be based more on impact of expenditure incurred on executed projects (long term and short term) by each tier of government than on any other parameter to achieve fairness and efficiency in public service delivery at all levels of governance.

Emengini & Anere (2010), carried out descriptive analyses to ascertain the various formulas used by federal government of Nigeria to allocate Revenue from federation account and their socio-economic impact on the states and local government councils, using Primary and secondary data. Simple percentages, tables, graphs and statistical tests by using students T-Test and correlation co-efficient. Findings revealed that socio-economic status of the states and local councils are not significantly influenced by the level of revenue accruing to them from the federation account; Interest to share in the revenues accruing to states from federation account has a strong influence on the demand for new states. Moreover, revenue allocation has been a very contentious issue and a source of worry to every government in Nigeria.

Amire & Okufuwa (2020), examine the impact of fiscal federalism on Nigeria economic development over the period 1981 to 2017. They sourced secondary for the study. These authors recommended that, for fiscal federalism to achieve the desired development outcome in terms of higher literacy rate, increase in per capita income and declining mortality rate of infant local government sovereignty should be fully granted by reviewing subsection (4)-(8) of section 162 of the constitution and the tax jurisdiction power between the state and federal government should be reviewed.

Dagwom (2013), empirically examined the impact of revenue allocation on economic development in Nigeria. The research covered the period between 1993 to 2012. Error correction model (ECM) and Pairwise Granger Causality test was used to analyzing the data. The study carried out test of stationarity of the variables using Augmented Dickey–Fuller unit root test and test of long-run relationship among the variables using Johansen Cointegration test. The study revealed that revenue allocation has significant causal relationship with economic development in Nigeria.

Muriithi, (2013), examined the relationship between government revenue and economic growth in Kenya, and concluded that increase in value added tax (VAT) leads to positive effects on the rate of economic growth. Ojo (2010), carried out a study on the politics of revenue allocation and resource control in Nigeria: implications for federal stability, and advocated for federal system

with fiscal policy that can imbue in the citizenry the sense of justice, equity and fairness vis-à-vis revenue allocation. To do otherwise, will be to jeopardize all efforts at national cohesion and integration.

Methodology

This study adopted a longitudinal research design for the study because the data used for the study were time series data. The scope of this study covers from 2001-2019. The data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin. Based on the perceived causal relationship between the dependent and independent variables of the research, a Multiple Regression model which is stochastic in nature was specified to predict revenue allocation and economic growth.

The functional model of the study was specified thus:

GDP = f(RAN) …… (1)

Where;

GDP = Gross Domestic Product

RAN = Revenue Allocation

$GDP = B_0 + B_1 RAN + ut$ …… (2)

Log transformation of equation 2 is presented as;

$Log(GDP) = B_0 + B_1 log(RAN) + ut$ ……(3), Where;

B0 = constant term

B1 = coefficient of parameter revenue allocation

Ut = unexplained variable

Results and Discussion

Table1

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	LOGRAN[b]	.	Enter

a. Dependent Variable: LOGGDP

b. All requested variables entered.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923[a]	.852	.843	.14858

a. Predictors: (Constant), LOGRAN

Table 4: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.153	1	2.153	97.543	.000[b]
	Residual	.375	17	.022		
	Total	2.529	18			

a. Dependent Variable: LOGGDP

b. Predictors: (Constant), LOGRAN

Descriptive Statistics

Table 2

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
REVENUE ALLOCATION	19	1543.96	8515.95	5238.6405	2295.65337	-.220	.524	-1.218	1.014
GROSS DOMESTIC PRODUCT	19	8134.14	139811.51	59902.6195	40317.97676	.394	.524	-1.021	1.014
LOGRAN	19	3.19	3.93	3.6670	.23650	-.860	.524	-.411	1.014
LOGGDP	19	3.91	5.15	4.6510	.37481	-.575	.524	-.826	1.014
Valid N (listwise)	19								

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-.712	.544		-1.309	.208
	LOGRAN	1.463	.148	.923	9.876	.000

a. Dependent Variable: LOGGDP

Table.1 as presented shows the variables entered into the SPSS software for this study, while table 2. Presents the descriptive statistics of the mean sum of 5238.6405 and 59902.6195 for Revenue Allocation and Gross Domestic Product respectively, implying the convergence of the variable. The corresponding standard deviations of 2295.65337 and 40317.97676. indicates the dispersion

of the data. Therefore, the mean and the standard deviation are statistically important in this study for comparison, the mean value of 5238.6405 with its corresponding standard deviation of 2295.65337, means there is significant dispersion from the mean in this study, while 59902.6195 in comparison to 40317.97676 means a minimal dispersion.

Table.3 as can be observed, revealed the model fitness of this study, statistically a model fitness of 51% and above is deemed fit. 'R' denotes the relationship between the independent variable and the dependent variable, which is represented here as 92% between Revenue Allocation and Gross Domestic Product. 'R Square' is the coefficient of variation that shows the extent to which the independent variable predicts a change or variation in the dependent variable.

From the model therefore, Revenue Allocation triggered 82% variation in Gross Domestic Product at a standard error of .14858. with the 'Adjusted R Square' of 84% it implies that our model is statistically fit for this study.

The coefficient of 1.463 revealed that a Naira (₦1) increase in Revenue Allocation will cause 1.463 increase in Gross Domestic Product, and further proves there is positive coefficient of 1.463 for Revenue Allocation to GDP, which is very significant. Anova value of .000 which is less than the test significance level of @ 0.05 means the result of the study is statistically viable and fit.

Discussion of finding

The ratio of Revenue Allocation to GDP may be statistically significant, but the question begging for answers is'' has it really stimulated growth and development? given the realities on ground in terms of lack of Critical infrastructure, decay in health care, brain drain occasioned by dwindling educational sector, insecurity that many have blamed on the altar of untamed youth unemployment, injustice in the very formula for sharing the revenue etc., this is worrisome and calls of realistic measures to correct the imbalances in revenue allocation to engender feasible growth and development. Revenue allocation from inception have remained a contentious issue as opined by Emengini & Anere (2010) and it is so till date.

This study corroborated other studies that belief that there is a significant relationship between revenue allocation and economic growth, even though there are others that differ also. From the reviewed literature, Dagwom, (2013), aligned with the result of this study that revenue allocation has positive relationship with economic growth. However, Cordelia, John & Kabiru (2019), opined that, there is no positive impact of revenue allocation on economic growth before and after reinstatement of democracy. These authors agreed that after reinstatement of democracy the component of revenue allocation to federal government exerted significant positive impact on economic growth. The variation of this result with ours may be as a result the differences in the scope of the studies. Emengini & Anere (2010), argued that, states and local councils are not significantly impacted by revenues allocated to them, while Ojo, (2010), advocated for justice, equity and fairness to enhance allocation effectiveness.

Conclusion

This study revealed that a significant relationship exists between Revenue Allocation and Gross Domestic Product measuring economic growth. The positive relationship between Revenue Allocation and GDP is statistically very significant at 0.05 level. This significant result is the cumulative impact of the three tiers of government. this can be attributed to the absolute reliance of the three tiers of government in Nigeria on Revenue sharing monthly to finance their operations, a situation that have stagnated initiative and motivation to source revenue from other available alternative sources to support spending over the years.

Recommendation for policy direction

Arising from this study therefore, it is recommended that:

Government must be deliberate in harmonizing all dissenting voices against especially the formula for allocating the said revenue

Revenue so allocated should be accounted for by the managers (i.e. President, Governors and Chairmen of local government) through feasible growth and development projects that have direct bearing to stimulate the economy and better the lives of the target citizenry.

The indices for revenue sharing especially the horizontal formula is politically skewed, and have defile objective reasoning. Therefore, we advocate for 'Derivative' approach to revenue sharing where regions and states are allocated revenue based on what they contribute to the central purse.

Better still regions and states should be allowed to control their resources and pay taxes to the Federal Government.

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