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**PRESIDENT,
FEDERAL REPUBLIC OF NIGERIA**

PRES/44

31st July, 2002

His Excellency,
Mr. Donald Duke,
Governor of Cross River State,
Government House,
Calabar.

Dear Governor,

**RE: ALLOCATION OF REVENUE [FEDERATION
ACCOUNT, ETC, (MODIFICATION)] ORDER 2002**

I wish to recall the meeting we held on July 26th, 2002 during which we discussed the 7.5%, hitherto allocated to Special Funds as re-distributed in the Allocation of Revenue [Federation Account etc, (Modification)] Order 2002 which I signed on 8th May 2002.

The purpose of the Executive Order was to modify the Allocation of Revenue (Federation Account) Act CAP 16 Laws of the Federation with a view to bringing it into conformity with the provisions of the 1999 Constitution to the extent of its inconsistency with Constitution.

I have given thought to all the points raised at the meeting and, in the true spirit of give-and-take characteristic of federal democracies such as ours, now wish to make the following proposals regarding the redistribution of the 7.5% previously allocated to Special Funds:

- a) **Federal Capital Territory (FCT) – 1%.** This should go through the allocation, to the Federal Government because of the nature of the functions and responsibilities of the FCT. This cannot be shared by other tiers of government. The Federal Government is only a conduit in this case. I observe though, that there was no objection whatsoever to this allocation.



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- b) **Development of Minerals – 3%.** The need to develop alternative mineral resources to oil and gas cannot be over-emphasised. It is essential and important that we develop additional sources of revenue. A seven-year programme is being worked out to commence from January 2003 that would make it possible for us to earn as much revenue from solid minerals as we derive from oil or gas. To be able to do this, we have to generate the necessary data and information from a comprehensive geological survey and mapping of the whole country. This is an expensive exercise and a precondition for the attraction of local and foreign investment to the development of our solid minerals. The development of the solid mineral sector will also provide the possibility for every part of the country, other than the oil and gas producing areas, to benefit from the principle of derivation.

To share the revenue set aside for this activity will smack of irresponsibility. For the avoidance of doubt, we would have, by so doing, failed to develop this very important sector of our national economy. I will, therefore, be disinclined to redistribute the allocation for the development of minerals to the three tiers of government on the basis of the existing revenue formula. It should therefore be added to the Federal Government's share of the Federation Account to be used as described herein.

- c) **General Ecological Problems – 2%.** I propose that this be shared among the three tiers of government on the basis of the existing formula. Thus, the Federal Government will get 48.5% of it, States (24%) and Local Governments (20%). The implication of this, however, is that States and Local Governments can no longer call on the Federal Government to intervene on ecological problems in their respective areas of jurisdiction. It also means that the one (1) kilometre-wide



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afforestation belt being developed in certain parts of the country will essentially remain the responsibility of States and Local Governments concerned. **The Federal Government will be in the vanguard, playing a coordinating role.**

- d) **Derivation – 1%.** I also propose that this allocation be shared to the various tiers of government on the basis of the existing revenue formula now that the 13% minimum allocation to derivation prescribed by the 1999 Constitution has been met.
- e) **Stabilisation Account – 0.5%.** It is both desirable and expedient that we keep something aside for the rainy day, which is what this fund is intended to do. I therefore propose that the allocation to this account be added to the Federal Government's share to be held in trust for all. This allocation is, in fact, rather small given the intention behind it. Thus, I further propose that the residues under general ecological problems and derivation totalling 0.225% be added to it. **The allocation to the Stabilisation Account will now be 0.725% which is still low.**

In the light of the foregoing, I am directing the Attorney General of the Federation to bring an amendment to the Executive Order I signed on 8th May 2002. The new revenue formula will thus be as follows:

Federal Government	=	54.68%
State Governments	=	24.72%
Local Governments	=	<u>20.60%</u>
Total	=	100.00%

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The Federal Government's share is made up of:

Federal Government's Existing Share	=	48.50%
Federal Capital Territory	=	1.00%
Development of Minerals	=	3.00%
Fed. Govt. Share of Derivation & Ecology	=	1.46%
Stabilisation (reserve to be shared in future by the three tiers of government)	=	<u>0.725%</u>
Total	=	54.68%

I trust that you will go along with the foregoing proposals as they are based on equity and fair-play and also, are consistent with the present revenue allocation formula.

Yours sincerely,
Olusegun Obasanjo
OLUSEGUN OBASANJO

Copy to:

- Hon. Minister of Finance
- Attorney-General of the Federation and Minister of Justice
- Accountant-General of the Federation.
- Chairman, Revenue Mobilisation, Allocation & Fiscal Commission

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CHAPTER 16

ALLOCATION OF REVENUE
(FEDERATION ACCOUNT, ETC) ACT

1982 No. 1. **An Act to prescribe the basis for distribution of revenue accruing to the Federation Account between the Federal and State Governments and the Local Government Councils in the States; the formula for distribution amongst the States *inter se*; the proportion of the total revenue of each State to be contributed to the State Joint Local Government Account; and for other purposes connected therewith.**

Commencement.

[22nd January, 1982]

Distribution of the Federation Account between the three tiers of Government, etc. Cap. 62.

1. The amount standing to the credit of the Federation Account (as specified in subsection (1) of section 149 of the Constitution of the Federal Republic of Nigeria) shall be distributed by the Federal Government among the various governments in Nigeria and the Funds concerned on the following basis, that is to say—

- (a) the Federal Government .. 55 per cent;
- (b) the State Governments .. 32.5 per cent;
- (c) the Local Government Councils 10 per cent;
- (d) the Fund for the Amelioration of Ecological Problems .. 1 per cent;
- (e) the Fund for the Development of Mineral Producing Areas of Nigeria 1.5 per cent of the revenue accruing to the Federation Account derived from minerals.

Formula for distribution between the States *inter se*.

2. (1) The 55 per cent specified in section 1(a) of this Act shall be allocated to the Federal Government for its exclusive use.

(2) The 32.5 per cent specified in section 1(b) of this Act shall be sub-divided and allocated as follows, that is to say—

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- (a) a sum equivalent to 2 *per cent* of the revenue derived from minerals extracted from the mineral producing areas of Nigeria shall be paid directly to the mineral producing States in direct proportion to the value of minerals extracted from the area of each such State; and
- (b) an amount equivalent to 32.5 *per cent* of the Federation Account aforesaid less the sum specified in paragraph (a) of this subsection shall be paid to all the States in accordance with the provisions of subsection (6) of this section.

(3) An amount equivalent to the value of 1 *per cent* of the Federation Account aforesaid, shall be paid into a fund to be administered by the Federal Government for the amelioration of ecological problems in any part of Nigeria in accordance with such directions as may be issued in that behalf from time to time by the President.

(4) An amount equivalent to 1.5 *per cent* of the revenue accruing to the Federation Account derived from minerals extracted from the mineral producing areas of Nigeria shall be paid into a fund to be administered by the Federal Government for the development of the said mineral producing areas, which fund shall be managed in accordance with such directions as may be issued in that behalf from time to time by the President having due regard to the value of minerals extracted from the particular areas concerned.

(5) For the avoidance of doubt, a sum equivalent to the difference between the amount standing to the credit of the Federation Account in any one year, less the aggregate of the sums specified in section 1 of this Act shall revert to the Federation Account to be allocated and distributed in accordance with the provisions of this Act.

(6) The 32.5 *per cent* standing to the credit of all the States in the Federation Account as stated in section 1(b) of this Act, shall be distributed by the Federal Government among the States using the following factors—

- (a) minimum responsibility of Government, that is equality of States 40 *per cent*

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- (b) population 40 per cent
 - (c) social development factor as represented by primary school enrolment 15 per cent
 - (d) internal revenue effort as represented by the ratio of total internal revenue to total recurrent expenditure 5 per cent; and
 - (e) of the 15 per cent allocated pursuant to paragraph (c) of this subsection, 11.25 per cent thereof shall be attributable to direct primary school enrolment, that is to say, the number of children of primary school age who are actually in school while the balance of 3.75 per cent shall be attributed to inverse enrolment, that is to say, the number of children of primary school age who are not in school.

Formula for distribution between the Local Government Councils in the Federation.

3. The amount standing to the credit of local government councils in the Federation Account shall be distributed by the Government of the Federation among the States using the same factors as those specified in section 2(3) of this Act.

Proportion of revenue to be paid by each State to State Joint Local Government Account. Cap. 62.

4. In addition to the allocation made from the Federation Account under section 1 of this Act to Local Government Councils, there shall be paid by each State in the Federation to the State Joint Local Government Account (as specified in subsection (5) of section 149 of the Constitution of the Federal Republic of Nigeria) in each quarter of the financial year a sum representing 10 per cent of the total revenue for that quarter of the State concerned.

Establishment of Federation Account Allocation Committee, and functions.

5. (1) There is hereby established for the Federation a body to be known as the Federation Account Allocation Committee which shall comprise the following members, that is to say—

- (a) the Federal Minister of Finance to be the Chairman thereof;
- (b) the Commissioner for Finance of each State in the Federation;
- (c) two persons to be appointed by the President; and

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(d) the Accountant-General of the Federation.

(2) The Director-General of the Federal Ministry of Finance or such officer as may be designated by the said Minister shall be the Secretary to the Committee.

(3) The functions of the Committee shall be—

(a) to ensure that allocations made to the States from the Federation Account are promptly and fully paid into the Treasury of each State on the basis and terms prescribed by this Act; and

(b) to report annually to the National Assembly in respect of the function specified in the above paragraph.

6. (1) There is hereby established for each State in the Federation a body to be known as the State Joint Local Government Account Allocation Committee which shall comprise the following members, that is to say—

Establishment
of Joint
Local
Government
Account
Allocation
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for each
State and
functions.

(a) the Commissioner charged with the responsibility for Local Government in the State to be the Chairman thereof;

(b) the Chairman of each Local Government Council in the State;

(c) two persons to be appointed by the Governor of the State;

(d) two representatives of the Accountant-General of the Federation; and

(e) the Accountant-General of the State.

(2) The Director-General of the State Ministry charged with responsibility for Local Government or such officer as may be designated by the said Commissioner shall be the Secretary to the Committee.

(3) The functions of the Committee shall be to ensure that allocations made to the Local Government Councils in the State from the Federation Account and from the State concerned are promptly paid into the State Joint Local Government Account and distributed to Local Government Councils in accordance with the provisions of any law made in that behalf by the House of Assembly of the State.

Limit on power of State Governments for borrowing money.

7. The power of State Governments for borrowing money shall not extend to money, funds or revenue allocated to Local Government Councils under this Act.

Report by Accountants-General in the Federation.

8. (1) Not later than ninety days following the end of each financial year, the Accountant-General of the Federation shall report to each House of the National Assembly on the payments made to each State under this Act and stating whether or not the payments were correctly made under this Act.

(2) Not later than ninety days following the end of each financial year, the Accountant-General of each State shall report to the House of Assembly of the State and each House of the National Assembly on the payments made to each Local Government Council in the State and stating whether or not the payments made were correctly made under this Act and under the relevant Law of the State governing such payments.

Short title.

9. This Act may be cited as the Allocation of Revenue (Federation Account, etc.) Act.