NEITI Quarterly Review

FEDERATION ACCOUNT ALLOCATION FOR Q2 AND H1 2023

EXECUTIVE SUMMARY

This analysis of the Federation Account Allocation Committee (FAAC) disbursements covers the first half of 2024 but also includes disbursements to the three tiers of government in the month of July 2024. However, all comparisons with previous periods was limited to the period up to June 2024, which covers a full half-year period.

During the period, of January to July 2024, the sum of N8.3 trillion was distributed to the federation beneficiaries – federal, state, and local governments. From this amount, the federal government received N2.7 trillion representing 32.8%. The states received the largest share of N3.5 trillion or 42.6%. The Local Government Councils' share of 2.04 trillion represents 24.7%. The oil derivation revenue (N390.2 billion) distributed to beneficiary states accounted for 11% of total allocation to the 36 state governments. During the period, the average monthly FAAC distributions amounted to N1.18 trillion. The highest revenue was shared in July while the lowest allocation occurred in April. Between January and July 2024, the Federation Account allocation rose by 20%. Between the first and second quarters, FAAC disbursements increased marginally by 1.3% from N3.43 trillion to N3.47 trillion.

Compared to the previous six months, total FAAC disbursements increased by 16% from N5.95 trillion in July – December 2023 to 6.9 trillion in January to June 2024. On the other hand, a year on year comparison of Federation Account allocation between the first half (January to June) of 2023 and the corresponding period (January to June) in 2024 shows a significant increase of 41%. Between January and June 2023, N4.88 trillion was shared among the three tiers of government. In 2024, N6.9 trillion was shared to the beneficiaries in the first six months. This allocation is more than N2 trillion increase from the previous year.

Delta state received N316.4 billion between January and July 2024, the highest allocation among the 36 states. Nasarawa State received the lowest allocation of N58.37 billion. Lagos State has the largest debt deduction of N91.56 billion Nasarawa State recorded the lowest deduction of N1.73 billion. However, Kaduna State suffered the most impact of debt deduction measured by the ratio of debt deduction to revenue allocation at 34.7% while Borno showed the lowest impact at 2.2%.

There were no derivation revenue disbursements to solid minerals beneficiary states as the amounts for the seven months were not significant enough to be distributed to beneficiaries, hence the revenues are left to accumulate over a significant period of time. This situation reflects the continued underperformance of the solid minerals sector.

Recommendations

1. The Ministry of Mines Development should accelerate current reforms in the solid minerals sector to enhance investments and revenue generation from the sector to increase the sector's contribution to government revenue.
2. The Government should take advantage of the ongoing energy transition to encourage in country value chain development of critical minerals such as lithium for development into batteries which is a critical component in the production of Electric Vehicles (EVs) to enhance revenue generation and contribution to the economic sector.

3. The State Government should take advantage of ongoing reforms in the solid mineral sector to invest in mining activities to diversify their earnings through the incorporation of Special Purpose Vehicles (SPVs).
4. The Central Bank of Nigeria should continue and strengthen current measures to stabilize the exchange rate and reduce fluctuations in federation account remittances.
5. The three tiers of government should diversify their revenue base through the development of their Agricultural venture and food processing to improve food security and economic stabilization.
6. States should take steps to reduce their debt burden and increase their debt performance. Borrowing should only be made to finance capital projects with significant future earning potential.
7. The federal, states and local governments should adopt more realistic budget benchmarks from projected crude oil production and export.
8. The Revenue Mobilisation Allocation and Fiscal Commission (RMFAC) and the Office of the Accountant General of the Federation (OAGF) should deepen transparency to strengthen accountability in the management of revenues accruing to the three tiers of government.
9. Civil society organizations especially should strengthen their monitoring and tracking of government expenditure, budget performance, and project implementations to improve transparency and accountability in government fiscal performance.

INTRODUCTION

Revenue allocations to the three tiers of government from the Federation Account from January to July 2024 amounted to N8.3 trillion. From this amount, the federal government received N2.7 trillion representing 32.8%. The states received the largest share of N3.5 trillion or 42.6%. The Local Government Councils' share of 2.04 trillion represents 24.7%. The oil derivation revenue (N390.2 billion) distributed to beneficiary states accounted to 11% of total allocation to the 36 state governments. During the period, the average monthly FAAC distributions amounted to N1.18 trillion. The highest revenue was shared in July while the lowest allocation occurred in April. Between January and July 2024, the Federation Account allocation rose by 20%. Between the first and second quarter, FAAC disbursements increased marginally by 1.3% from N3.43 trillion to N3.47 trillion. This increase is due largely to significant exchange rate gain during the period

Beyond the changes in the amount of revenue shared by Nigeria's federating units, this review aims to enhance greater public understanding of the sources and allocation of revenues accruing to the country, and what the public should expect from government at all levels relative to the size of the resources that each tier of government received from the Federation Account. The review will also show the sources of the flow of funds into the Federation Account as well as the factors that have affected the growth or decline in the size venue and distribution over time. The objective of these disclosures is to strengthen public accountability of all institutions involved across the country's public finance value chain – generation, custody and distribution of public funds.

FAAC beneficiaries share N8.3 trillion in seven months

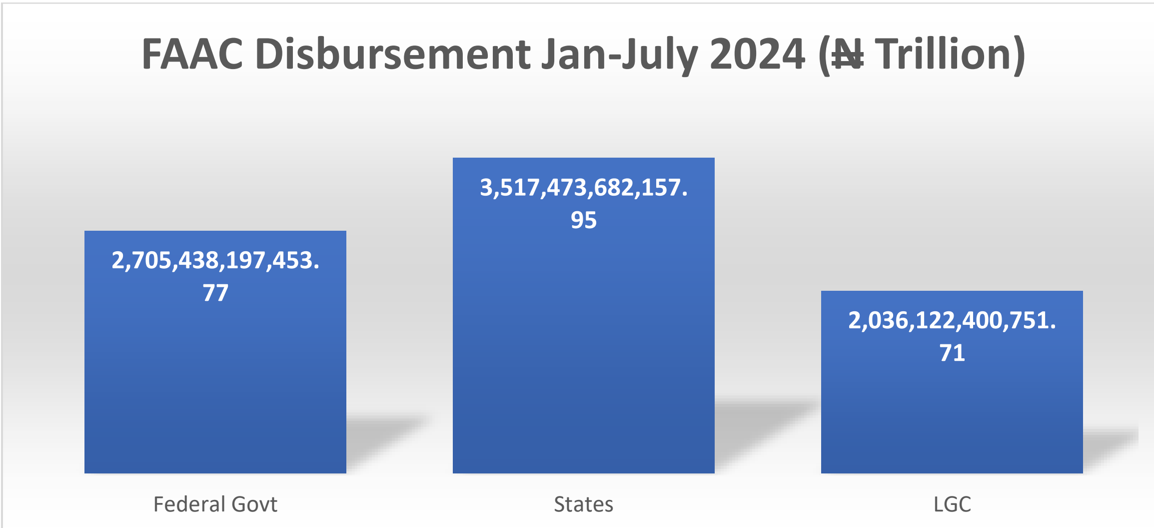

Figure 1: The three tiers of government shared a total of N8.3 trillion naira in seven months (January – July 2024). This represents a significant over the preceding and corresponding periods in the previous year.

During the period, the federal government received N2.7 trillion representing 32.8%. The states received the largest share of N3.5 trillion or 42.6%. The Local Government Councils' share of 2.04 trillion represents 24.7%.

FAAC allocation remains stable above N1 trillion monthly during the first half of 2024

The first seven months of 2024 recorded relative stability in FAAC monthly allocations The average monthly FAAC revenue shared by the three tiers of government in the first seven months up to July 2024 was N1.18 trillion.

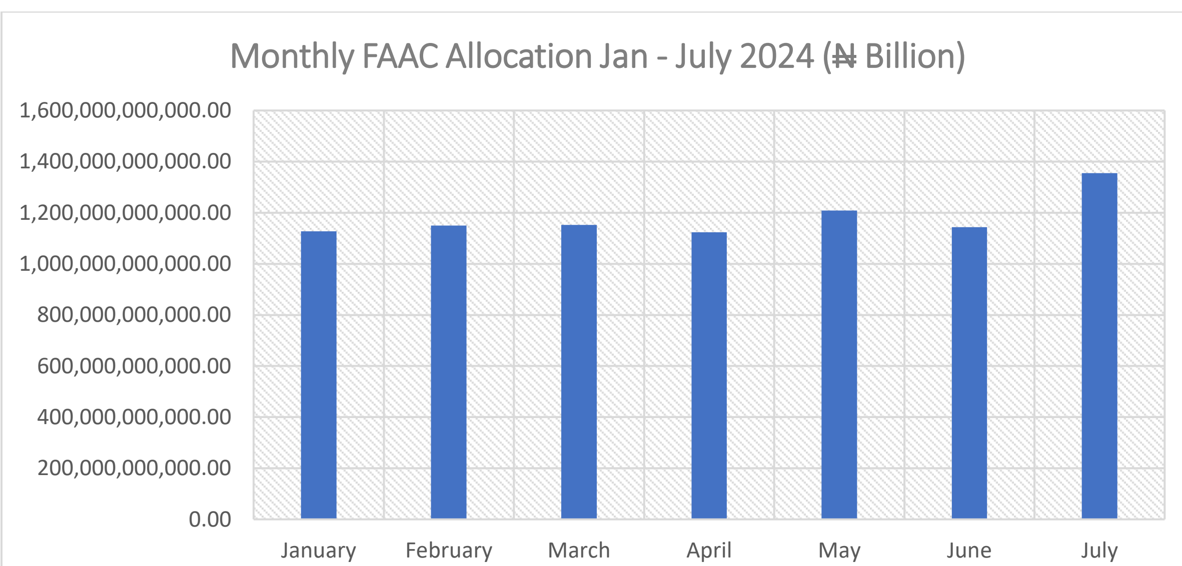

Figure2: Monthly FAAC revenue distributed to the three tiers remained around this figure, except for July's allocation which showed a relatively significant increase over the previous month's figure. The lowest total distribution of N1.12 billion was recorded in April while the highest distributed revenue of N1.35 trillion occurred in July 2024.

Trend line of monthly FAAC (cumulative) FAAC allocations (January – July 2024)

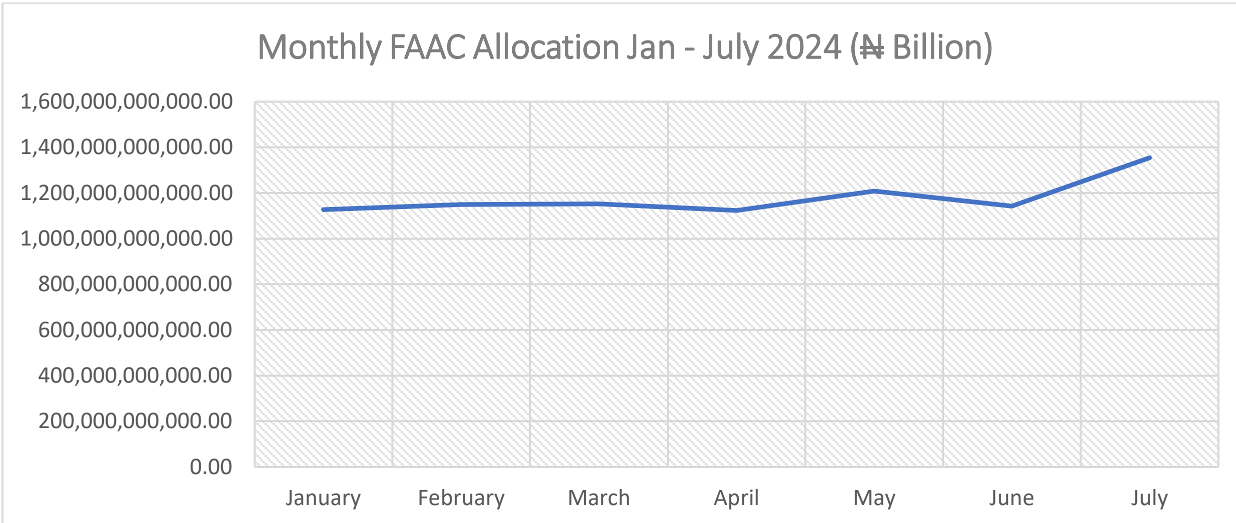

Figure3: The trend line reflects the data chart in Figure (X), and amplifies the illustration that federation allocation remained largely constant in the first four months in 2024 rising in May by 7.5% and dipping again by 5.3% in June. It rose significantly in July by 18.5%. Overall, the federation allocation in July was 20% more than the revenue allocation in January 2024.

Monthly federation account allocation disaggregated by tier of government

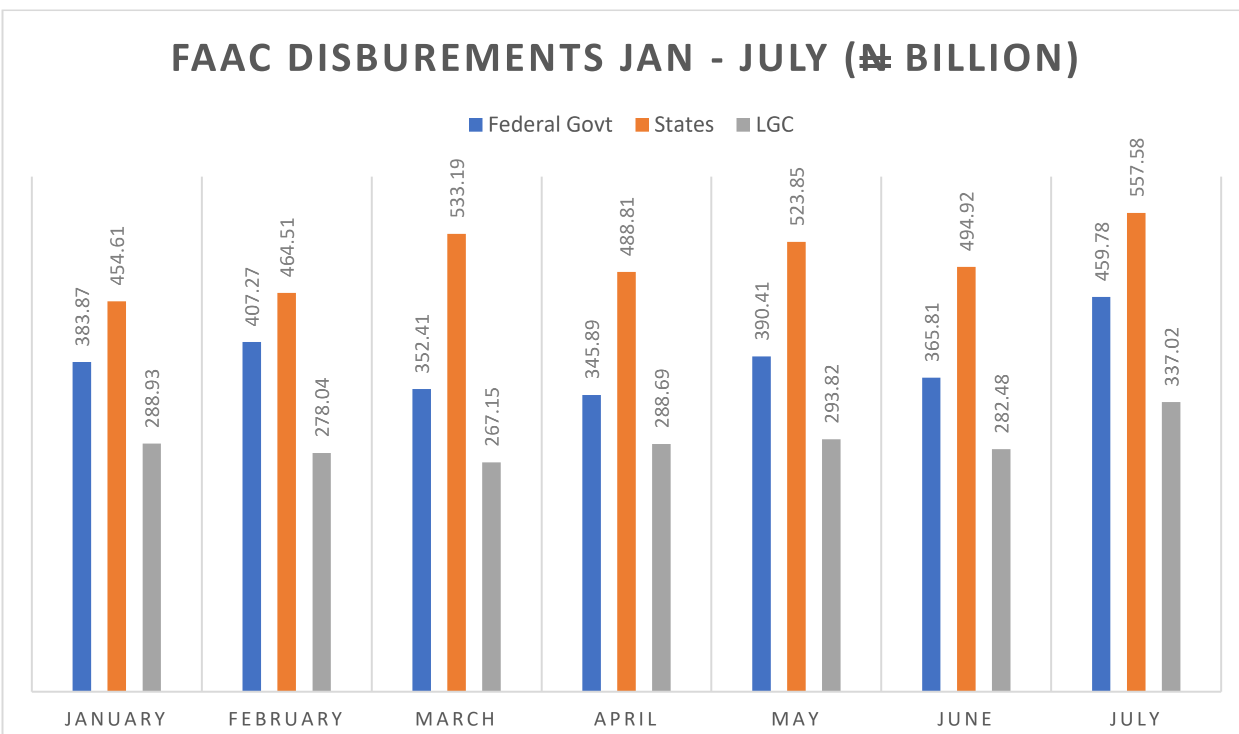

Figure 4 shows monthly Federation Account allocation disaggregated by tier of government for each of the seven months covered in the analysis. The federal Government recorded its highest allocation in July amounting to N459.8 billion while its lowest receipt (N345.9 billion) occurred in April. For the states, the second tier's highest allocation was also in July. Its allocation for this month was N557.6

billion while the lowest total receipts in seven months for the states was N454.61 billion in January. The local government councils received their highest allocation in July amounting to N337 billion and the lowest receipt was N267.15 billion in March.

FAAC allocations record slight increase in Q2 2024

Federation account allocations increased slightly for the states and local governments in the second quarter of the year. However, the allocation to the Federal Government declined by similar margin during the same period.

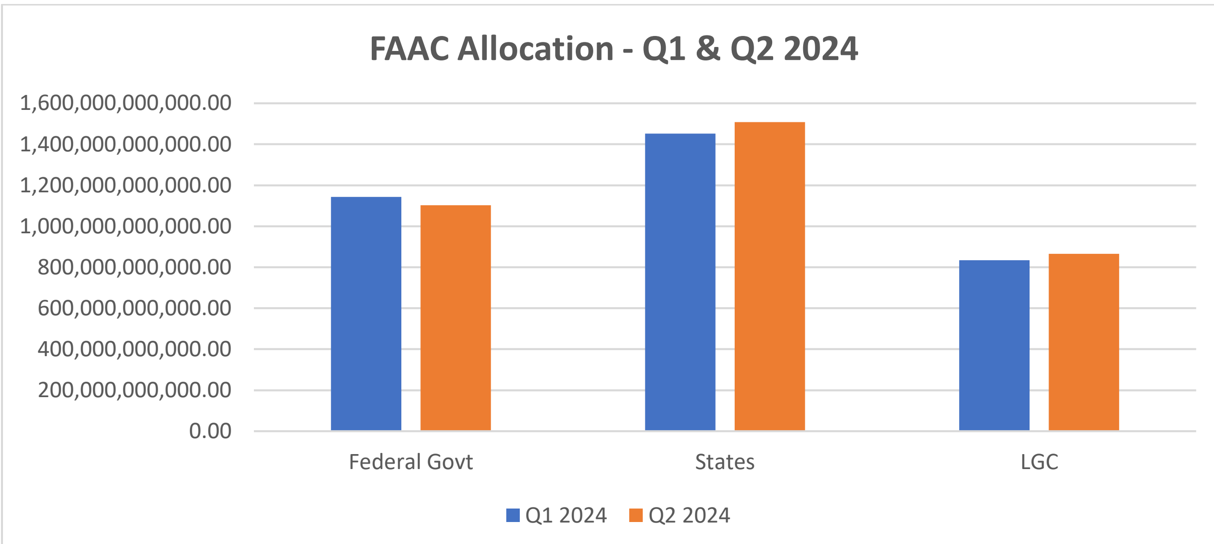

Figure5: Allocations to the states and local governments increased by 3.8% and 3.7% respectively. Conversely, the Federal Government's share of allocations decreased by 3.6% in Q2 2024. However, it would be noted that there was a decrease in 13% derivation revenue allocation to beneficiary states by 1.8%. overall, cumulative allocations to the three tiers of government increased by 1.3% in the second quarter of 2024.

FAAC allocation for H1 2024 increases over the previous six months

Total FAAC disbursements in the first half (January to December) 2024 increased by 16% from N5.95 trillion in July – December 2023 to 6.9 trillion in January to July 2024.

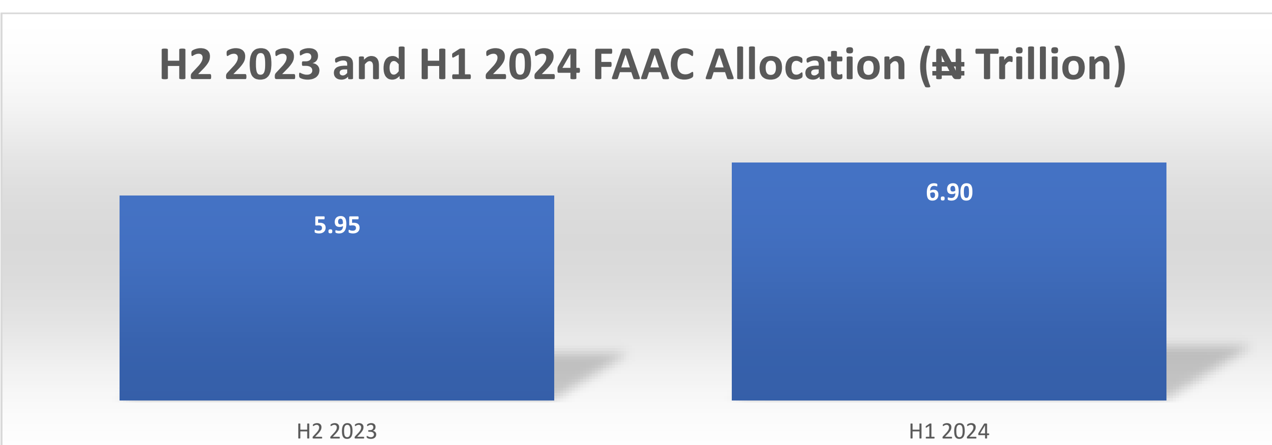

Figure 6: Consequently, the three tiers of government recorded corresponding increases in their Federation Account receipts for the period, with state governments recording the largest increase of 27.6% in their allocations while the local governments received 20% more allocation in the first half of 2024 than in the previous period. However, the Federal Government recorded only a marginal increase of 1.4%.

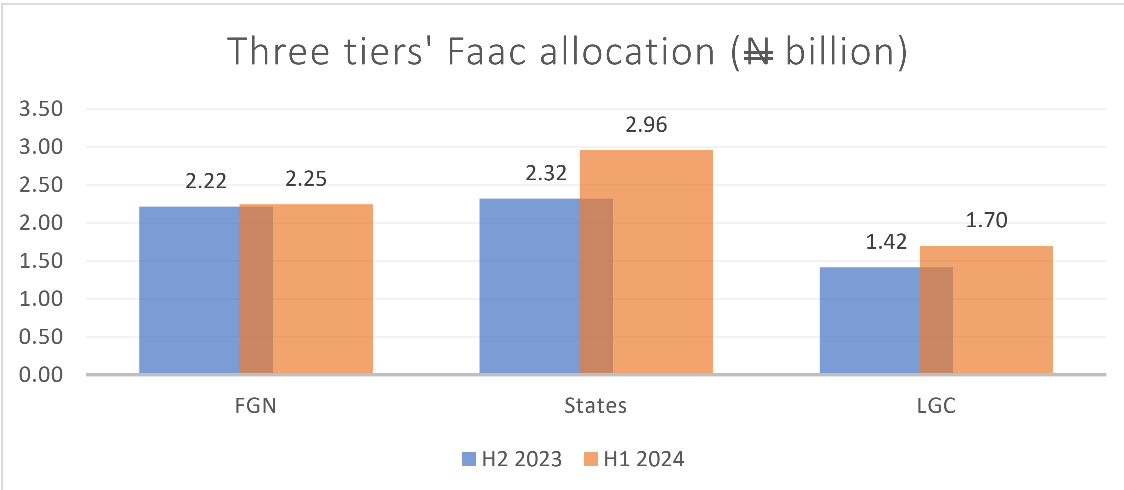

Figure 7 shows the comparison between H2 2023 and H1 2024. The State government allocation shows a significant increase between H1 2024 and the previous half of last year (H2 2023), while the Federal Government and Local Government recorded slight increase in revenue allocation.

Year-on-year FAAC allocation reveals significant increase in federation revenue and disbursements

A comparison of Federation Account allocation in the first half of 2024 with the corresponding period (first half of 2023) in the previous year show that a significant increase occurred within the past year.

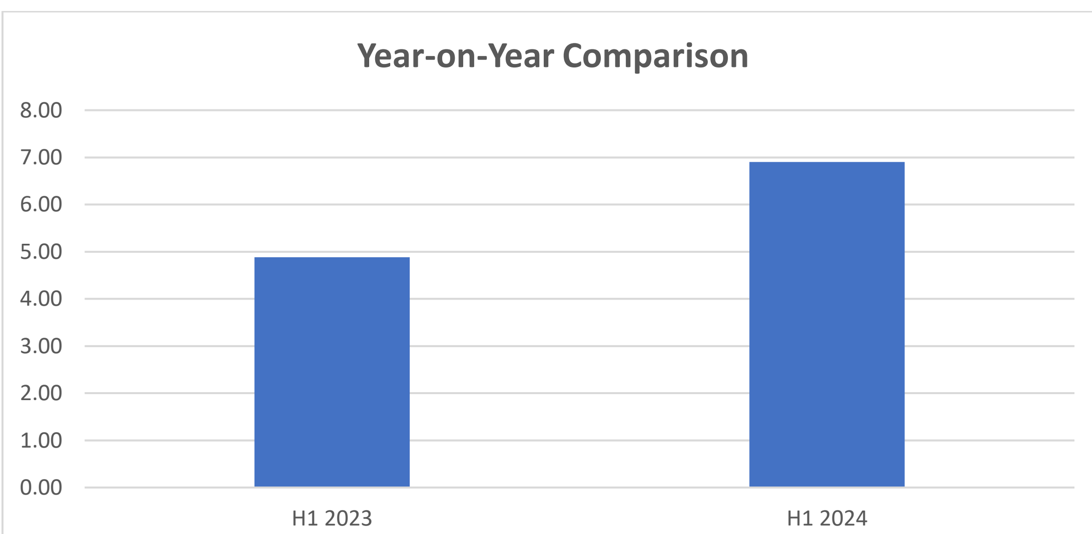

Figure 8: Federation Account revenue shared by the three tiers of government for the first half of 2024 increase over the same period in the previous year by 41.5%. Between January and June 2023, N4.88 trillion was shared among the three tiers of government. In 2024, N6.9 trillion was shared to the

beneficiaries in the first six months. This allocation is more than N2 trillion increase from the previous year.

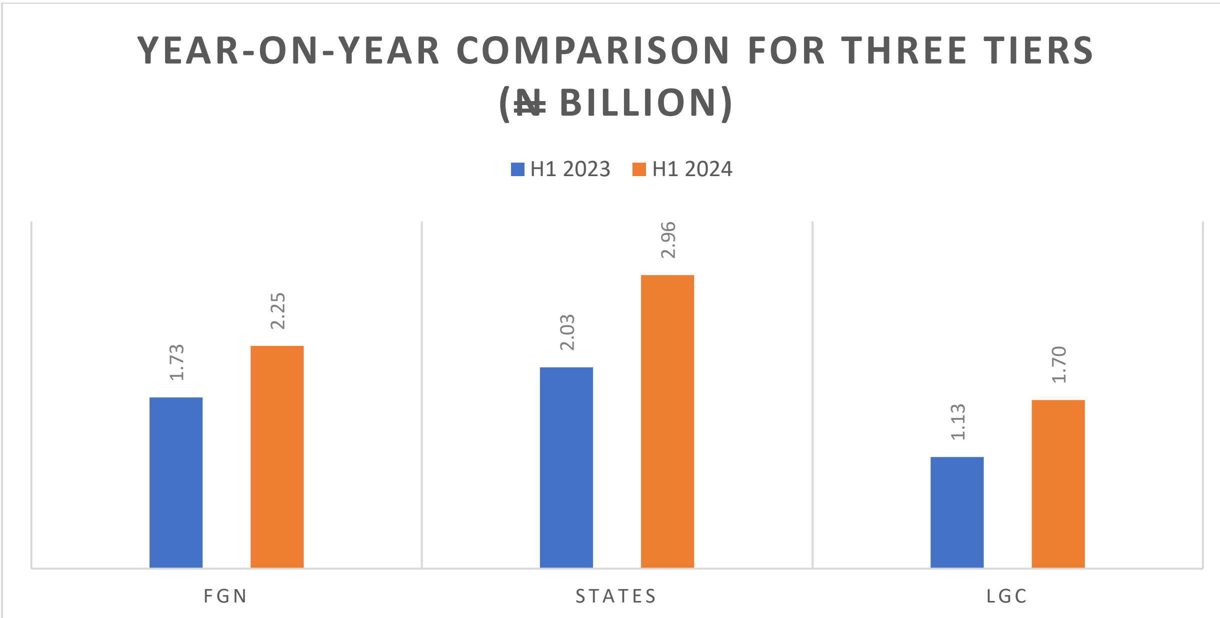

Figure 9: The three tiers of government recorded corresponding increases of 30.2%, 45.8% and 50.9% for the federal, state and local governments respectively.

States Governments share of Federation distribution fluctuates through January to July 2024

The federation allocation to the states rose and fell throughout the period (January to July). This reflected largely the pattern similar to the trend in total federally distributed revenue shown in Figure (10).

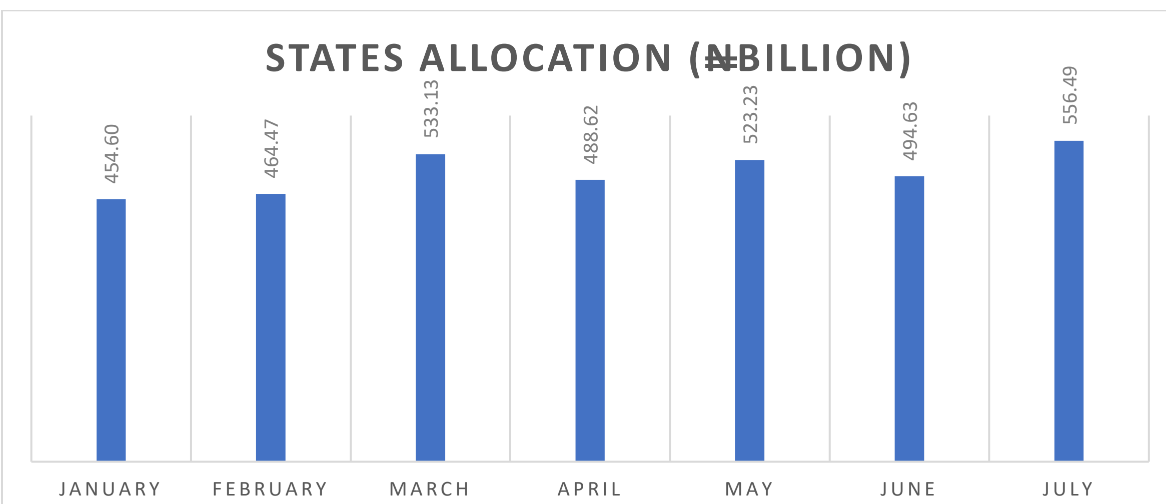

Figure 10: The federation allocation to states increased by 2.2% in February from N454.6 billion to N464.5 billion in March, and further increased by 14.8% to N533.1 billion in March. This was the only month of consecutive increases in allocations to the states for the period. Thereafter, the state's allocation fell by 8.3% to N488.6 billion in April. The allocation increased back up again by 7.2% to N523.2% in May then decreased again by 5.5% to N494.6 billion in June. The allocation then increased

to N556.5 billion in July, representing the largest increase of 20.1% during the period, from January to July 2024.

FAAC sharing ratio shows impact of 13% derivation revenue

While the impact of derivation revenue may be significant for the beneficiary states, it is however not a major determinant of the relative distribution of allocations to the three tiers of government, even though it (13% derivation revenue) has some impact on the sharing formula.

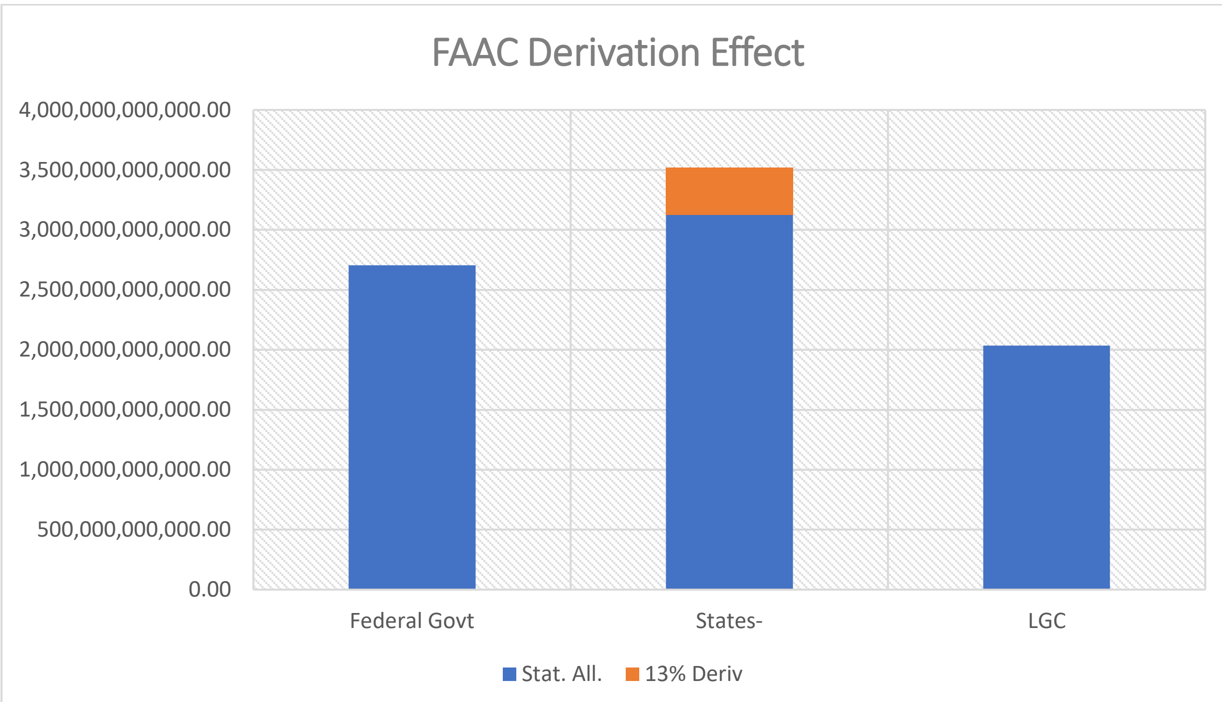

Figure 11: The revenue distribution shows a cumulative derivation share of N390.2 billion representing 11% of the N3.5 trillion allocations to the second tier in seven months.

Disaggregated data continues to reveal pattern and sources of disparity among 36 states

As in previous Federation Account distributions, revenue allocation data for the second tier of government show two allocation bands among the 36 states of the federation.

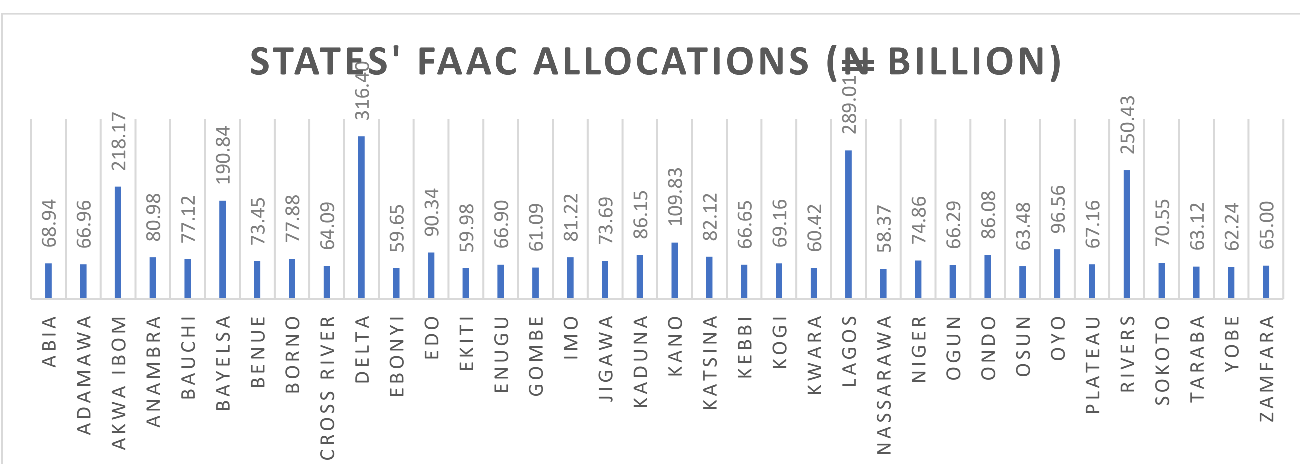

Figure 12: While revenue allocations received by the majority of the states (31 states) fall within a range of N58.4 billion and N96.6 billion, allocations to five other states (Akwa Ibom, Bayelsa, Delta, Lagos, and Rivers states received between N190.8 billion and N316.4 billion. To illustrate this difference, the average receipts for the top five states for January to July is N252.97 billion while 31 other states recorded an average receipt of N72.59 billion. In keeping with the previous trend, the states within the top band, apart from Lagos, are beneficiaries of the 13% oil derivation revenue.

Delta tops as Nasarawa trails in states' FAAC receipts

The ranking of states according to their Federation Account receipts mirrors both the difference in revenue allocation and the relative positions of the states in the revenue allocation chart.

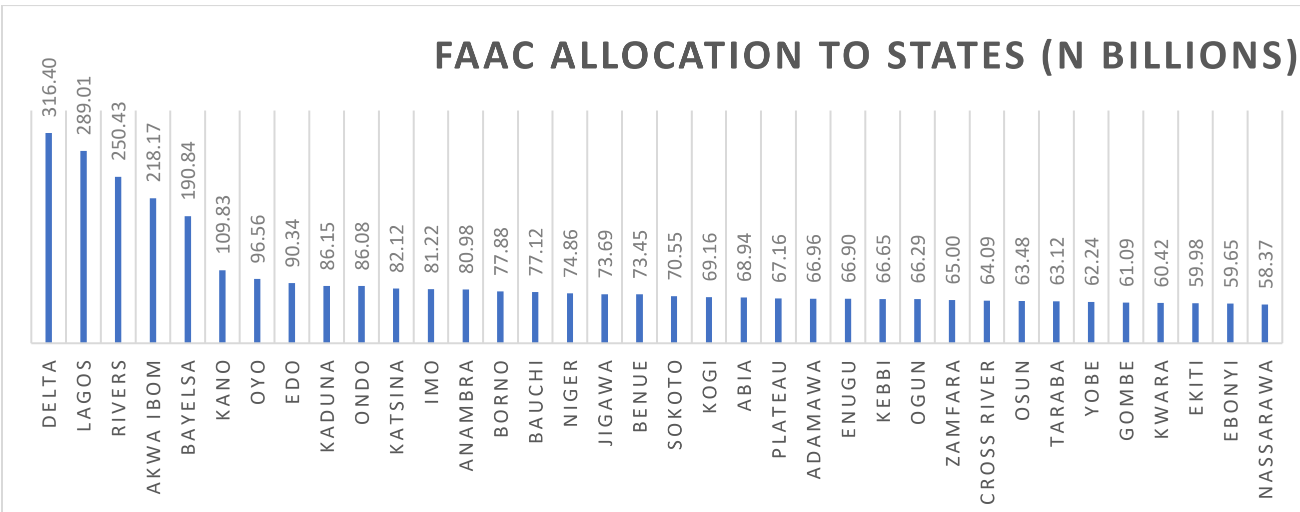

Figure 13: Delta State tops the chart N316.4 billion while Lagos and Rivers followed with N289 billion and 250.4 billion respectively. At the bottom end of the chart, Nasarawa received N58.4 billion followed by Ebonyi and Ekiti states with revenue receipts of N59.7 billion and N59.98 billion respectively.

The range (that is the difference between the highest and lowest receipts) of Federation Account allocation to the 36 states for the period (January to July) is N268.03 billion.

Derivation effect varies across beneficiary states

Nine states are current beneficiaries of the 13% derivation oil revenue. However, only four of the beneficiary states, who featured in the top band of revenue receipts by state governments, recorded significant impact of derivation revenue on there total receipts. Five other states recorded relatively and considerably smaller effect of derivation revenue in their total receipts.

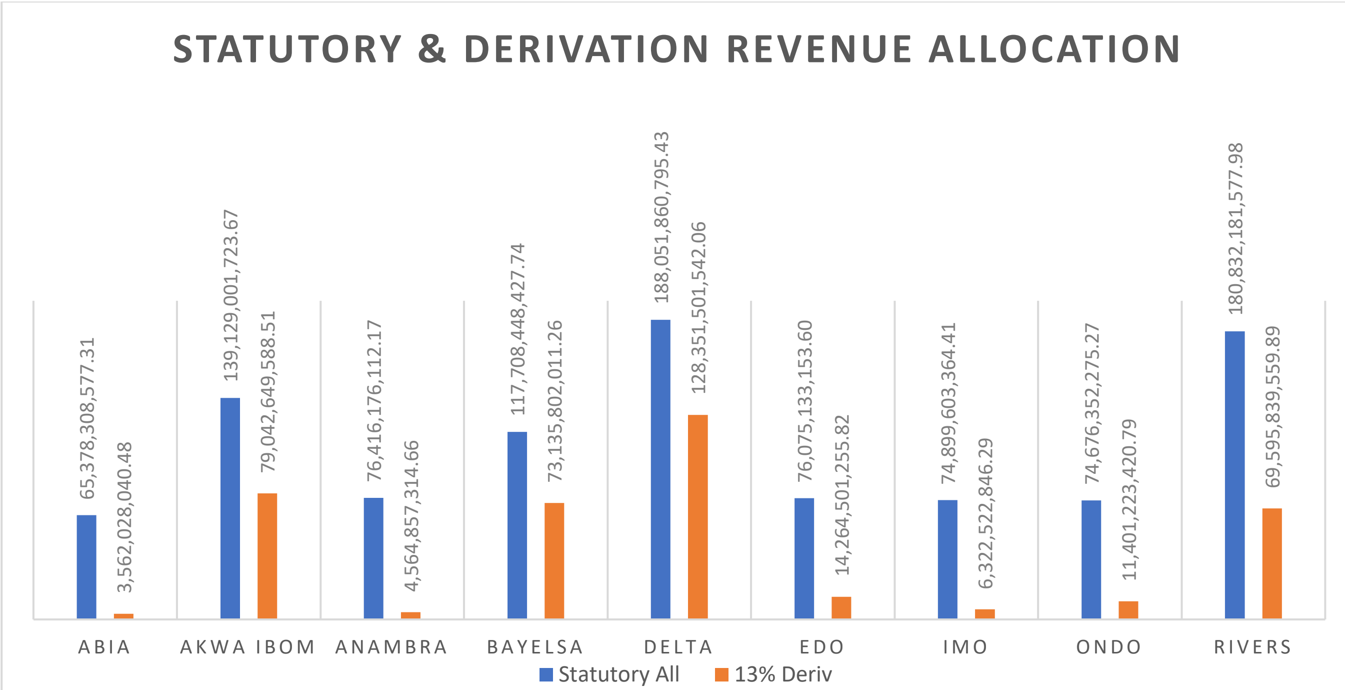

Figure 14: Abia, Anambra, Edo, Imo and Ondo recorded significantly lower amounts in derivation oil revenue. Overall, Delta State received the largest derivation revenue of N128.4 billion while Abia received the least amount of N3.6 billion. In-between, the derivation revenue ranking shows Akwa Ibom (second), Rivers (third), Edo (fourth), Ondo (fifth), Imo (sixth) and Anambra (seventh).

To measure the effect or weight of derivation revenue on beneficiary states' total receipts from the Federation Account, derivation revenue is shown as a ratio (percentage) of the states' Federation Account receipts.

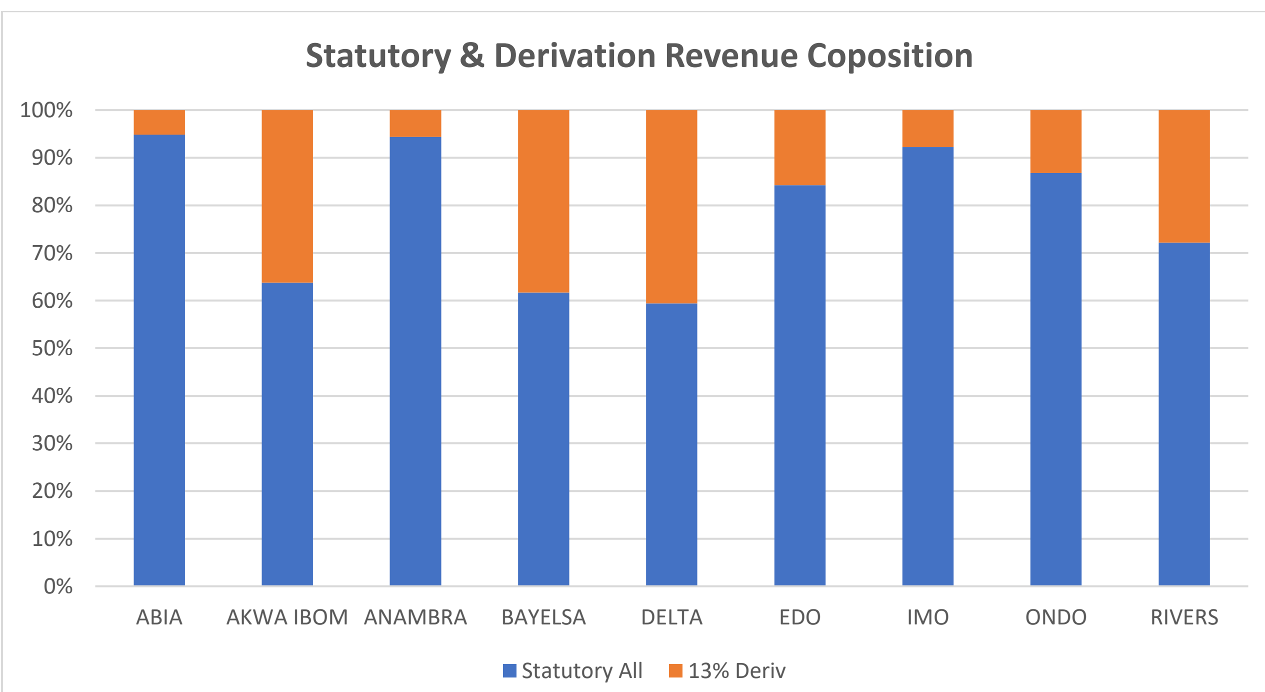

Figure 15: The data and chart show that while the derivation revenue effect on respective states' total Federation Account receipts may be similar to the sizes of their 13% derivation revenue receipts, the relative weight varies depending on the size of the respective states' other (statutory) revenue allocation. For instance, while Akwa Ibom State received a larger derivation revenue than Bayelsa State, Bayelsa has a larger derivation revenue ratio. Overall, Delta State derivation revenue is 40.6% of its total receipts from the Federation Account, followed by Bayelsa (38.3%) and Akwa Ibom (36.2%). Rivers State's derivation revenue is 27.8% of its total revenue. The states with the lease derivation revenue ratios are Abia (5.2%), Anambra (5.6%), and Imo (7.8%). Ondo state's derivation revenue ratio is 13.3%.

Debt deductions reflect states' debt burden

Debts being carried by states continue to feature in Federation Account allocation transactions as the debts are deducted directly from the states' share of federation allocations.

All 36 states recorded monthly deductions for the period to offset part of their debts and other standing obligations.

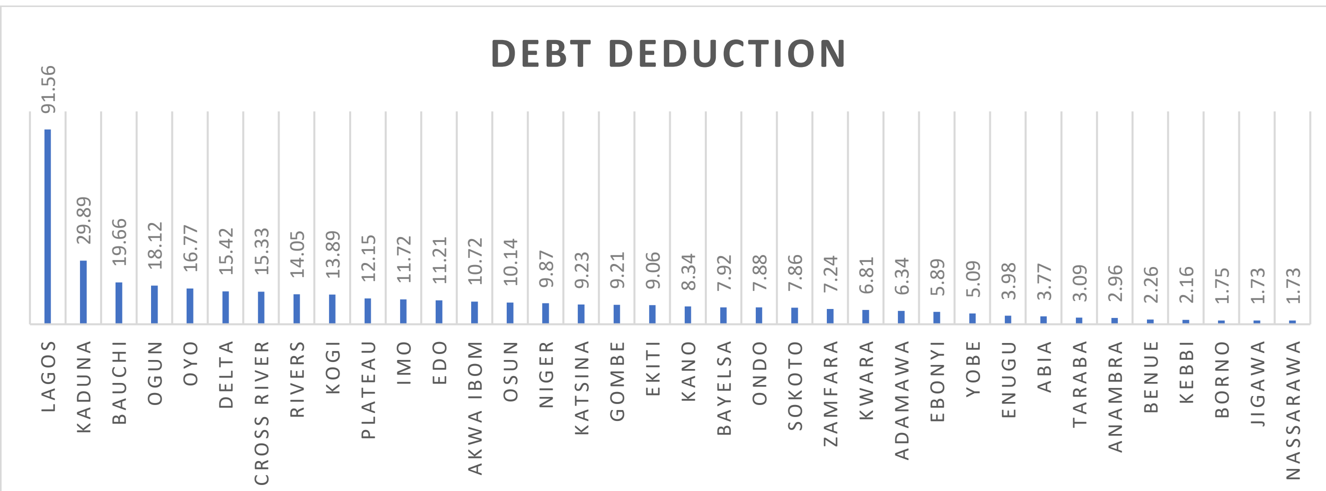

Figure 16: Lagos State recorded a cumulative deduction of N91.6 billion for seven months (January to July) in 2024. This is more than 300% the size of Kaduna's with the second highest deduction of N29.9 billion. Bauchi and Ogun are third and fourth with deductions of 19.7% and 18.1% respectively. Nasarawa and Jigawa states posted the least debt deductions each with N1.73 billion. Borno and Kebbi recorded deductions of N1.75 and N2.16 billion representing the second and third lowest deductions.

Size of debt deductions may be evidence of states' carrying capacity

The 36 states have a cumulative debt deduction of N414.8 billion in seven months.

The deductions from the states' allocations (January to July) to repay the states' debt obligations accounts for 11.1% of gross allocations to the states. Broken down for each month, Figure (X) shows the effect of debt deductions on monthly Federation Account allocations.

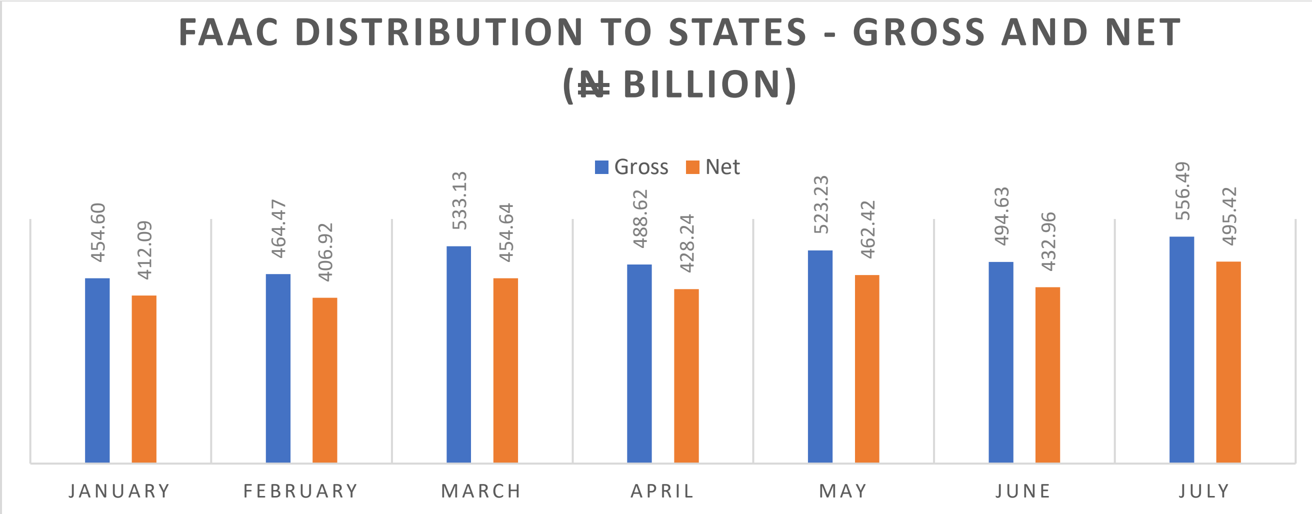

Figure 17: The monthly effect of deductions for debt repayment reflects the ratio of the total debt deductions to gross allocations for the period. When the debt deductions are put together for all the states, the assessment indicate that deductions do not have a very significant effect on the states' 'take home' as indicated by the graphic relationship between the gross allocations and net value for each month in the covered period.

Debt ratio vary among states of the federation

While the chart on debt deductions shows states with very high deductions and other states with low deductions, the actual measure of impact is reflected in the net allocation to states.

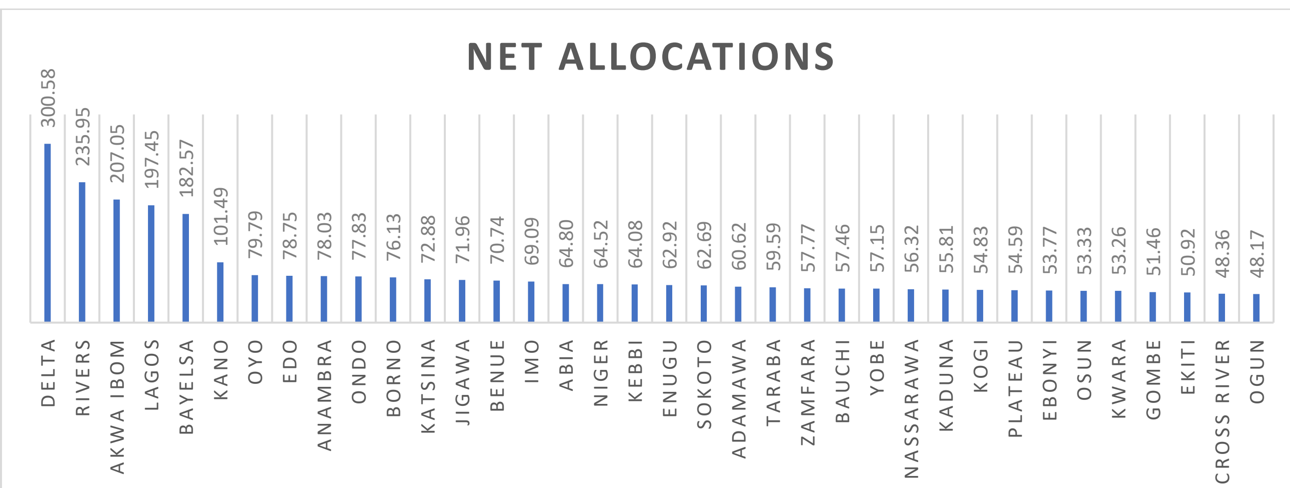

Figure 18: Delta State, which has the sixth highest deduction, retains its position as the state with the highest net allocation (after deduction). however, Lagos state, with the second largest gross allocation,, fell to 4th place after deduction of its debt and other obligations. Kaduna has the 9th largest gross allocation of N86.2 billion. However, it occupies the 27th place in net allocation. Its 'take-home' for the period fell from N86.2 billion to N55.8 billion after deductions amounting to N29.9 billion.

A complete picture of the debt carrying capacity for the 36 states is illustrated in Figure 19.

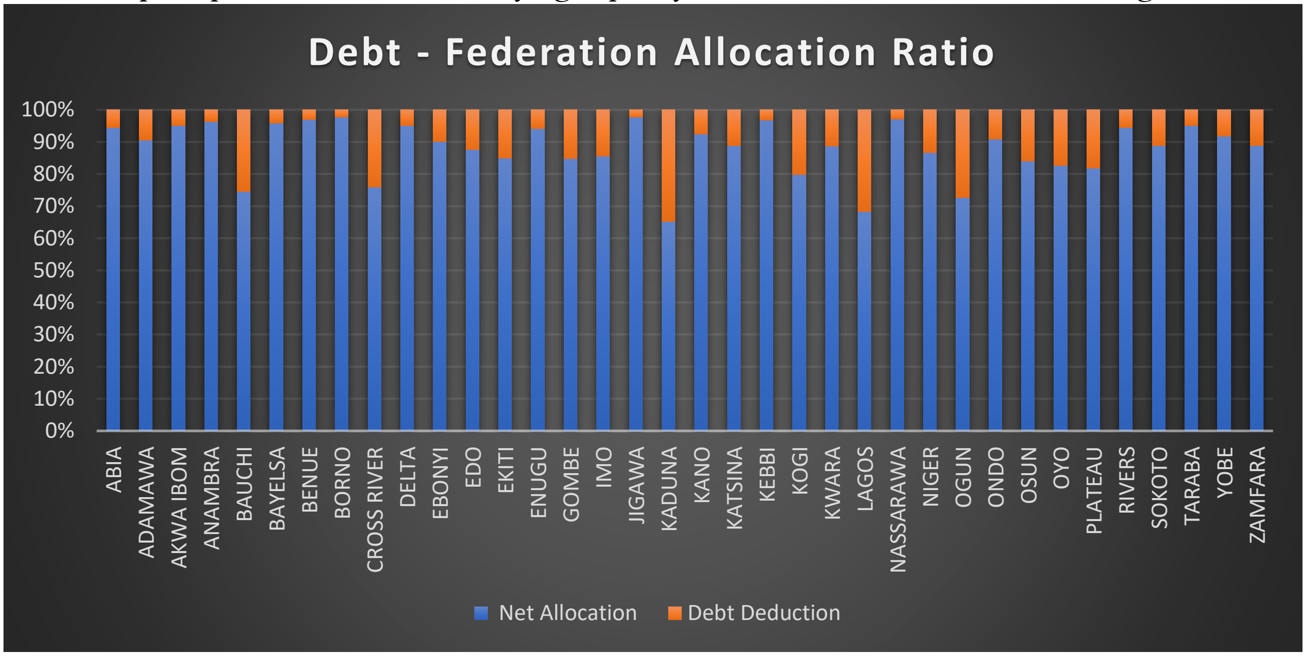

Figure 19: Kaduna and Lagos states show significant levels of debt deductions as a ratio of gross revenue allocation. In the seven months (January to July 2024) covered in this report, 34.7% of Kaduna state's revenue was deducted for debt repayments while Lagos state parted with 31.7% of its revenue for dept deductions. Other states with significant debt deductions are Ogun (27.3%, Bauchi (25.5) and Cross River (23.9%).

States with the least debt deduction ratio are Borno (2.2%), Jigawa (2.4%), Nasarawa (3%) and Benue (3.1%). Other states with similarly small deductions are Kebbi, Abia, Anambra, Akwa Ibom, Kano, Rivers and Taraba.

FAAC data reveals continued weak performance of solid minerals sector

Data presented on derivation revenue shared to beneficiary states indicate that there was no revenue shared as solid mineral derivation in the seven months covered in this report. As in previous Federation Account allocation data, derivation revenue from solid minerals for the period was too small to be distributed to 37 entities (36 states and Federal Capital Territory). The total derivation revenue, which is warehoused over a period of time to accumulate enough to be share, was N1.9 billion. This is less than 0.5% of oil derivation revenue distributed to beneficiary states in the same period.

Summary of Q2 2024 FAAC remittances and disbursements

Federation account allocations to the three tiers of government increased between April and May by 6.14%, but declined by 3% between May and June. In absolute terms, total allocations was N 1.066 trillion in April and N 1.136 trillion in May. The month of June recorded the least revenue distributed of about N1.101 trillion. However, total disbursements for the entire second quarter period shows a significant increase of 1.42% from the Q1 2024. This increase is as a result of increase in mineral (mainly oil and gas) revenue generated within the period compared to the previous year and an increase in the exchange rate that occurred at the beginning of the year. As in previous periods, oil revenue was largely determined by crude oil losses (theft and sabotage) and international prices of the commodity. However, outside the volume produced or exported, the exchange rate also determined the size of the flows into the Federation Account and hence the amounts disbursed to, and received by the Federation Account beneficiaries.

Federation Accounts remittances and allocations: Outlook and revenue projections for Q2 2024

RECOMMENDATION

1. Government, through the Ministry of Mines Development should accelerate current reforms in the solid minerals sector to enhance investments in the sector and increase the contribution to government revenue. The federation's high dependence on Oil and gas revenue is unhealthy given the constant fluctuations in crude oil revenues owing to price fluctuations and other factors. Urgent action in this regard is also necessary given Nigeria's and the international community's current commitment to transit away from crude oil as a source of energy and hence source of revenue for producing countries.

2. The Government should take advantage of the ongoing energy transition to encourage in country value chain development of critical minerals such as lithium for development into batteries which is a critical component in the production of Electric Vehicles (EVs) to enhance revenue generation and contribution to the economic sector.

3. The State Government should take advantage of ongoing reforms in the solid mineral sector to invest in mining activities to diversify their earnings through the incorporation of Special Purpose Vehicles (SPVs).

4. The three tiers of government should diversify their revenue base through the development of their Agricultural venture and food processing to improve food security and economic stabilization

5. NEIITI notes that most states continue to depend highly on Federation Account allocation to finance their budgets. NEITI recommends that states should take advantage of ongoing reforms in the solid minerals sector to invest in mining activities and diversify their earnings. Current investments in mining have huge revenue potential given the growing demand for critical minerals to fuel the global energy transition.

6. The central bank of Nigeria should continue and strengthen current measures to stabilize the exchange rate and reduce fluctuations in federation account remittances.

7. States should take steps to reduce their debt burden and increase their debt performance. Borrowing should only be made to finance capital projects with significant future earning potential to increase states independent revenues and insulate the states from uncertainties in Federation Account allocations.

8. In the meantime, the federal, states and local governments should adopt more realistic budget benchmarks from projected crude oil production and export. This would reduce the effects of fiscal shocks arising from oil price, revenue and exchange rate fluctuations.

9. The Revenue Mobilisation Allocation and Fiscal Commission (RMFAC) and the Office of the Accountant General of the Federation (OAGF) should deepen transparency to strengthen accountability in the management of revenues accruing to the three tiers of government. While NEITI commends the two institutions for their routine publication of federation allocation data, the publications should be timelier to improve the currency of information and public interest in the revenue disbursements. Particularly, both institutions should increase transparency in the payment of special revenue accruals like the arrears of derivation revenue or debt repayment refunds.

10. Civil society organisations, especially those with revenue and expenditure monitoring mandate, should strengthen their monitoring of federation account allocations. Similarly, other CSO's especially at the grassroots level, should strengthen their budget tracking and project tracking capacity to effectively monitor the application of federation account disbursements to the three tiers of government.