NEITI Quarterly Review

FEDERATION ACCOUNT REVENUES AND ALLOCATIONS, 2023

Executive Summary

This report of the Federation Account revenue distribution to the three tiers of government was conducted by NEITI to enhance public understanding of the monthly information on Federation Account disbursements published by government. The ultimate 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.

In the second quarter of 2023, NEITI projected that the Federation Account revenue and allocations would increase significantly due to the two major policy changes by the new government of President Bola Ahmed Tinubu – the removal of petrol subsidy and the floating of the naira exchange rate.

The remittances and disbursements in 2023 mirrored these projections as the three tiers of government shared N10.143 trillion. Of this amount, the Federal government received N3.99 trillion while the states government received N3.59 Trillion. The 774 local government councils collected 2.56 trillion. The oil producing states received an additional N763.25 billion as derivation revenue.

The total distributable FAAC allocation in the year 2023 represents a 23.56% increase compared to the 2022 allocation which was N8.209 trillion without the 13% derivation. Consequently, the federal, states and local governments' shares increased by 16.79%, 29.99% and 26.22% respectively.

The major revenue generating agencies that remit funds to the Federation Account are the Nigeria Upstream Petroleum Regulatory Commission (NUPRC), the Federal Inland Revenue Service (FIRS) and the Nigeria Customs Service (NCS). The different streams of revenue contributed and remitted to the Federation Account by these agencies in 2023 include oil and gas royalties, petroleum profit tax, company income tax, value added tax and import & excise duties.

Other key findings of this analysis show that:

1. Revenue remittance to the Federation Account **fluctuates** significantly from month to month due to corresponding fluctuations in oil and gas revenue. Oil and gas revenues reflect crude oil prices and Nigeria's output which in turn is significantly affected by crude oil theft and acts of sabotage,
2. Revenue from solid minerals sector is very negligible, and reflects the underperformance of the sector.

Recommendations for enhanced performance of the Federation Account

1. Government (the National Assembly and the Executive) should adopt a more conservative estimates for crude oil prices and output to enhance budgetary performance, reduce budget deficits and borrowing and strengthen fiscal stabilization.
2. In the long run government should aim to reduce oil revenue dependency while state governments should improve their internal revenue generation capacity.
3. Government should review and improve the solid mineral sector policy and regulatory framework and implement reforms to grow the sector's productivity.
4. The Federation Accounts Allocation Committee stakeholders should sustain and strengthen transparency in the process of revenue remittances, disbursements and reporting.

Introduction

The Federation Accounts allocation to the three tiers of government increased in 2023 from a total distributable revenue of N8.2 trillion to N10.143 trillion. This represents an increase of N1.934 trillion or 23.56%. This increase is due largely to increased remittances into the Federation Account due to the removal of petrol subsidy and the floating of the exchange rate by the new administration of President Bola Ahmed Tinubu. Other factors which affected the distributable revenue for the period are discussed in this report. 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 inflows into the Federation Account as well as the factors that have affected the growth or decline in the size of revenue 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.

Analysis of Federation Account Inflows

The main sources of revenue inflows to the Federation Account in 2023 are the Nigeria Upstream Petroleum Regulatory Commission (NUPRC), Federal Inland Revenue Service (FIRS) and Nigeria Customs Service (NCS).

Total Distributable Revenue for 2023

The total revenue available for sharing by the federal, states and local governments was N10.143 trillion. Out of this the Federal Government received N3.99trillion, representing 39.37% of the total allocation. The 36 states got N3.585 trillion representing 35.34% while the 774 local government councils of the Nigeria federation shared 2.56 trillion, equivalent to 25.28%. Beside the "statutory" allocations, 9 (nine) oil-producing states received an additional N763.25 billion as derivation share of mineral revenue.

Figure 1

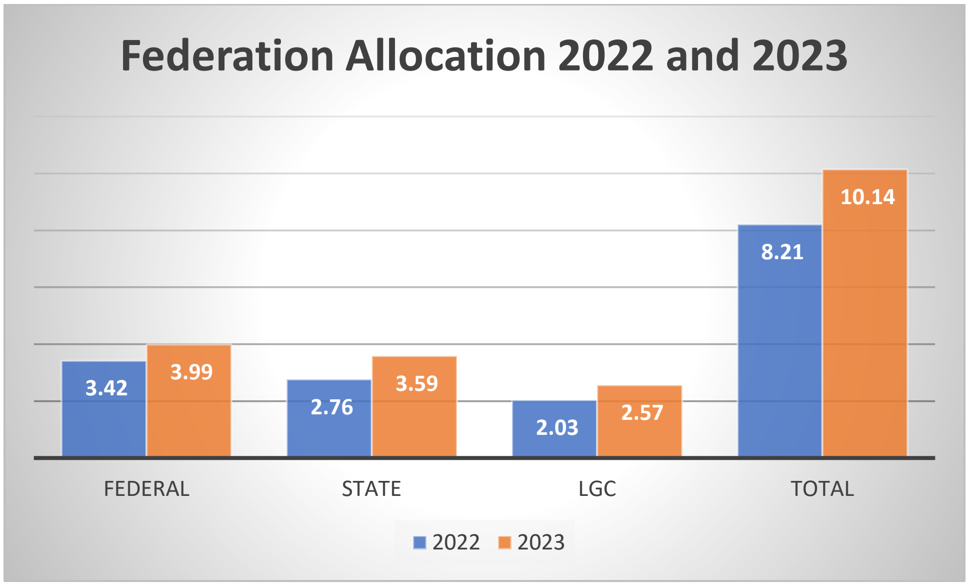
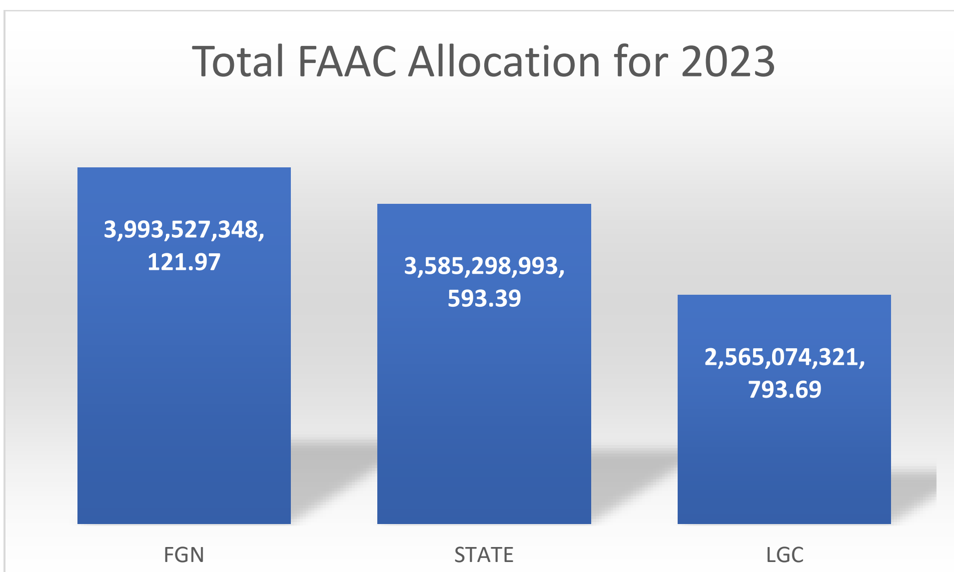


Fig1: A Chart showing the Federation Allocation to the three tiers of government comparing 2022 to 2023

Total Distributable Revenue for 2023



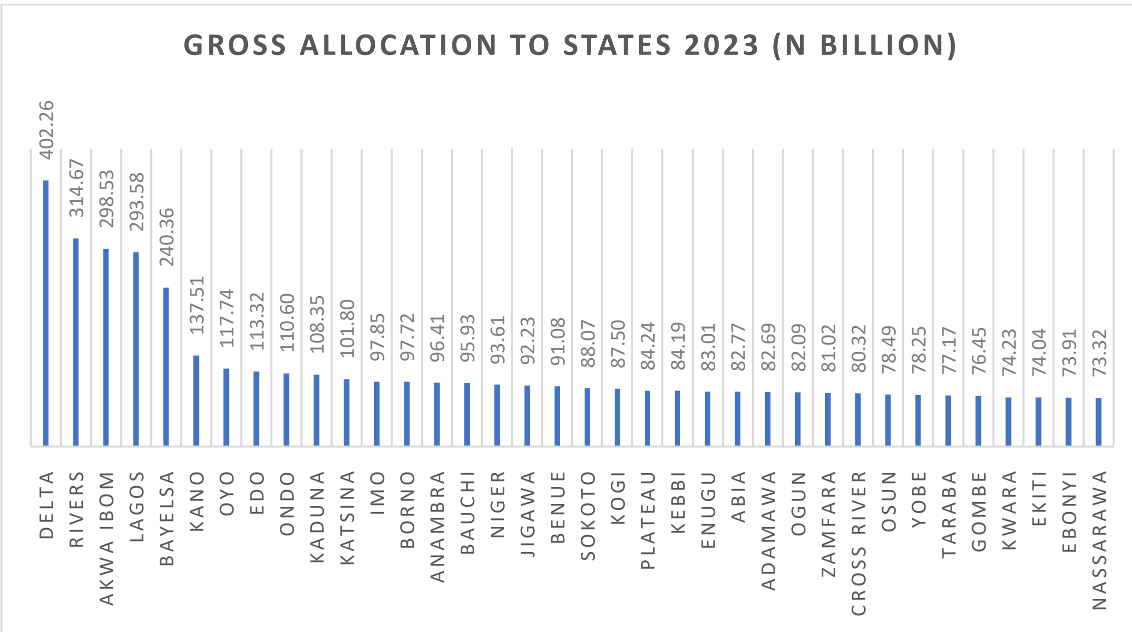
Delta tops allocation to states in Q4 2023

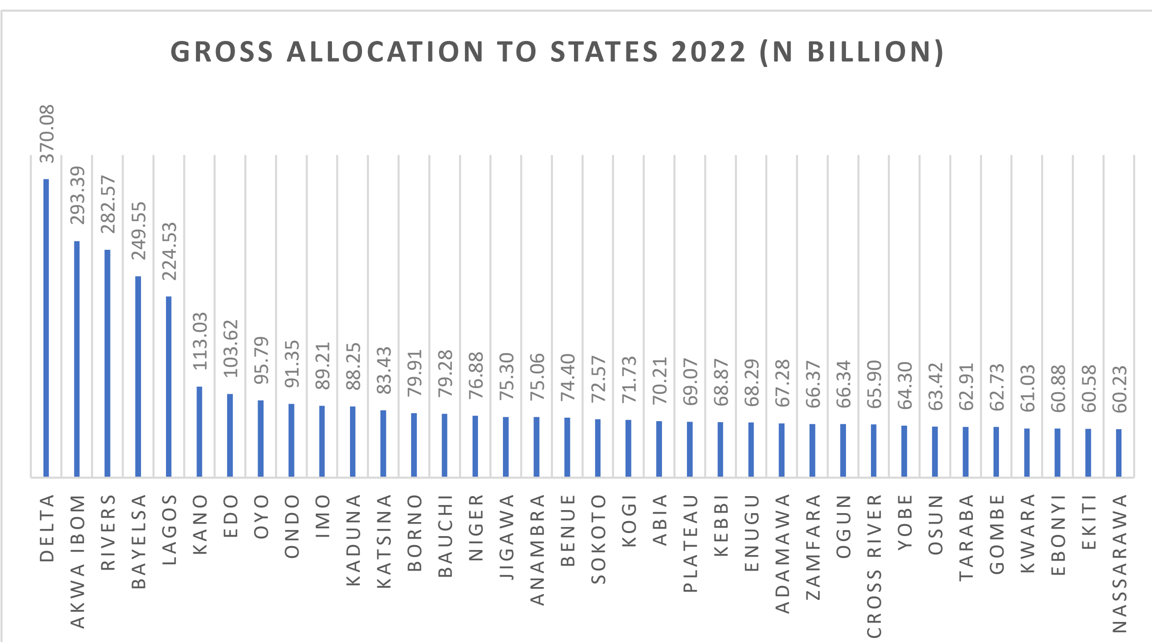
Delta State received the largest share of allocation to states from the Federation Account in 2023. The state received a cumulative sum of N402.26 billion (gross), inclusive of the state's share of oil and gas derivation revenue. Rivers State, in second place, received

N398.53 billion. Akwa-Ibom State received the third largest share of allocation to states with N293.58 billion. Nasarawa State received the least amount of 73.32 billion while Ebonyi and Ekiti states receive N73.91 billion and N74.04 billion respectively.

These figures represent the cumulative allocations for the year 2023

Figure 2

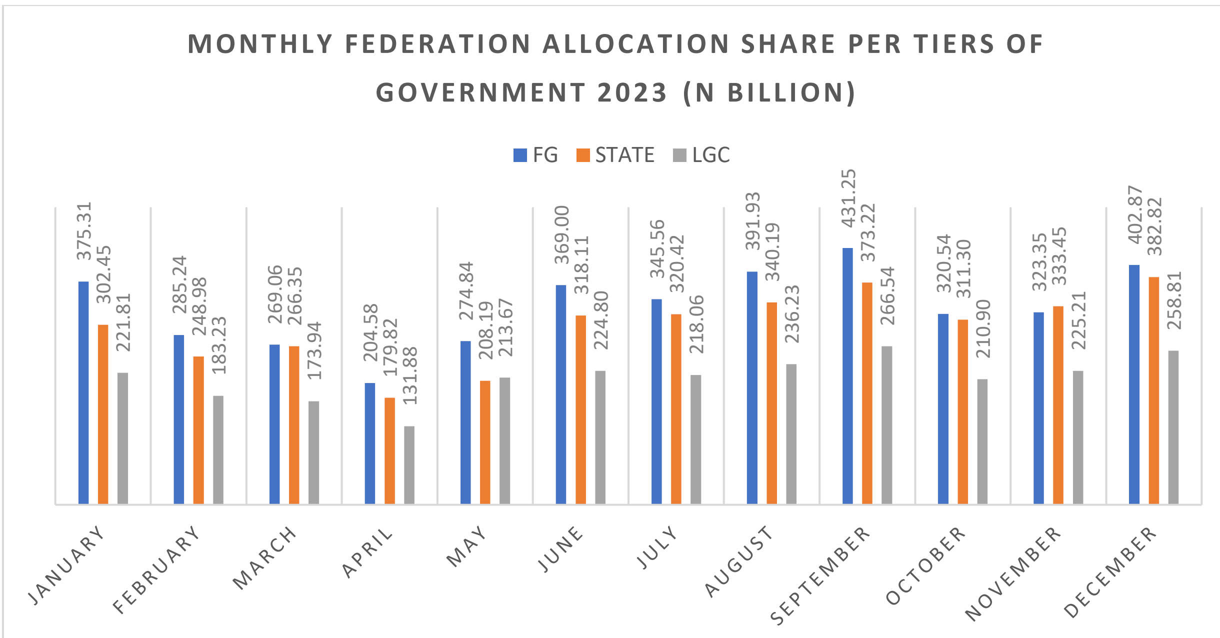




From the figure above, Delta topped the chart in both years in comparison but there was an increase in gross allocation to Delta in 2023 by 32.18billion. it is observed that the first five states that topped the allocation are all oil producing states in the country.

Monthly federation allocations to each tier of government for the period followed largely the same pattern.

Figure 3



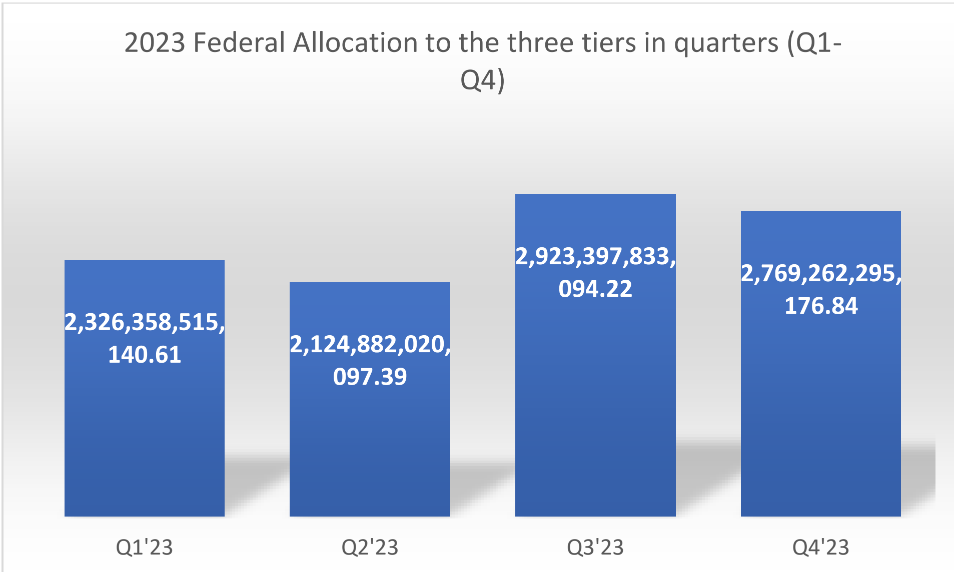
However, it should be noted that proportionality of Federation Account allocations to the three tiers of government, in line with the federation revenue sharing formula, does not include computation of derivation revenue to mineral producing states. Subsequent illustration and consideration of derivation revenue in the total amounts allocated could alter the relative size of allocations, especially between the federal and state government.

2023 disbursement reflects increase in distributable revenue from 2022

The total distributable revenue of N10.143 trillion in 2023 represents a significant increase of 23.56% from N8.209 trillion in the previous year 2022. The federal, states and local governments cumulatively received N 1.934 trillion more than the amount shared in 2022. Similarly, the oil producing states received N763.25 billion in 2023, which is 206.95 billion, or 21.33% less than the amount they got in the previous quarter.

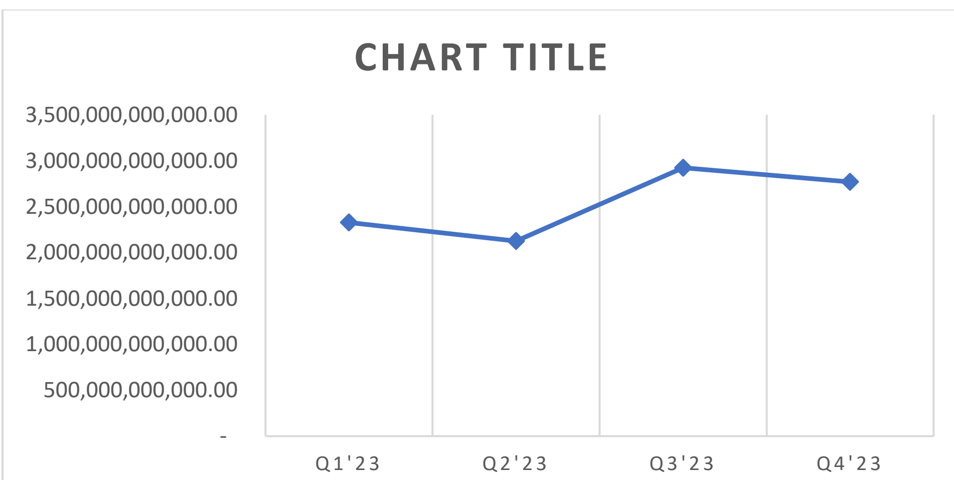
Overall, the trend shows a wavy increase and decrease from the first to the third quarter in 2023.

Figure 4



The trend line below mirrors more clearly the progression in total revenue disbursements from the Federation Account to the three tiers of government in the four quarters of 2023.

Figure 5

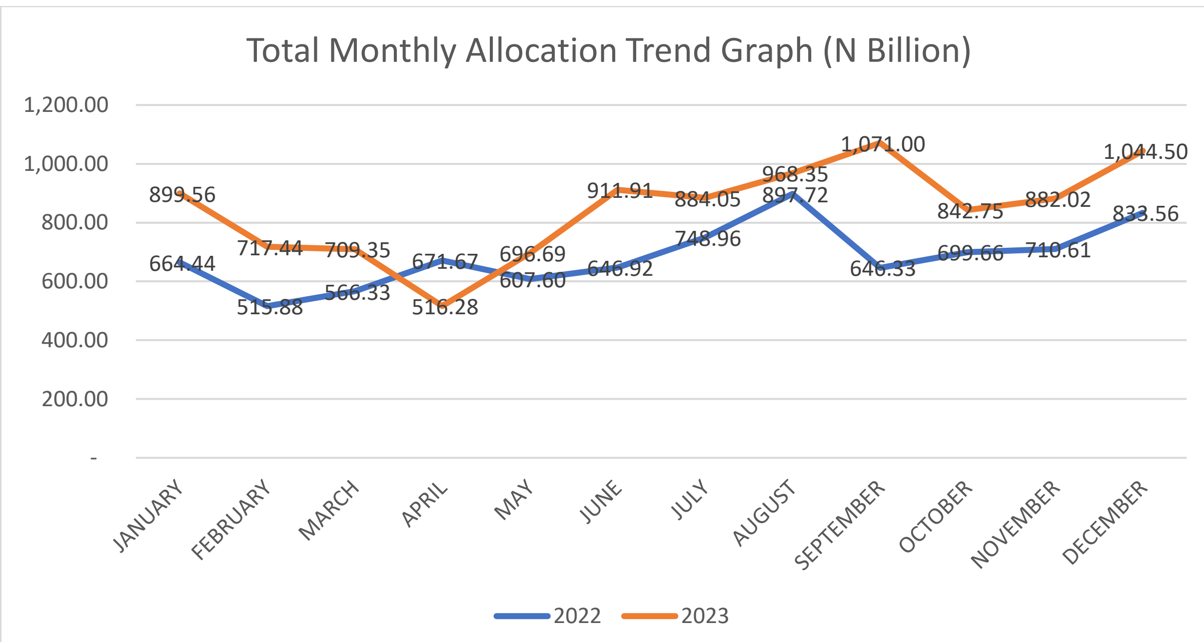


Three triers benefit from 2023 revenue growth

The increase in distributable revenue in 2023 is expectedly reflected in the corresponding increase in the allocations to the three tiers of government in this period. The first quarter of 2023 increased by N 579.71billion (33.19%) when compared to the increase in the first quarter of 2022. There was subsequent increase in the following quarters of Q2, Q3 and Q4 by 10.32%, 27.49% and 23.42% respectively. The Federal Government's share increased by N574.21 billion (16.479%) from the amount it received in 2022. The Federal government received N3.99 trillion in 2023 compared to the N3.42 trillion it received in 2022. State governments received N3.59 trillion in 2023 compared to N2.76 trillion they received in 2022. Similarly, local government councils' share of the federation allocation was N2.57 trillion in 2023 compared to N2.032 trillion disbursed to them in 2023.

The growth trend in the monthly allocation to each tier of government is shown in the trend line below.

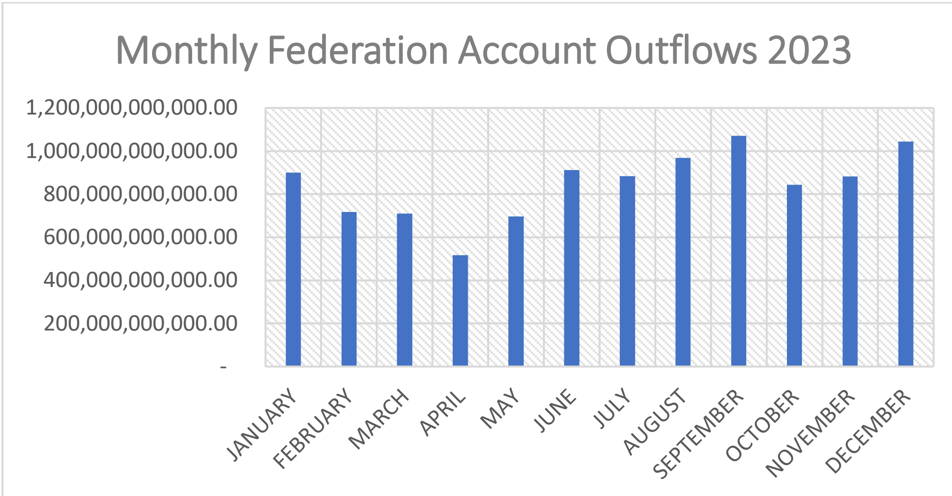
Figure 6



Monthly trend in FAAC disbursements sustained in 2023

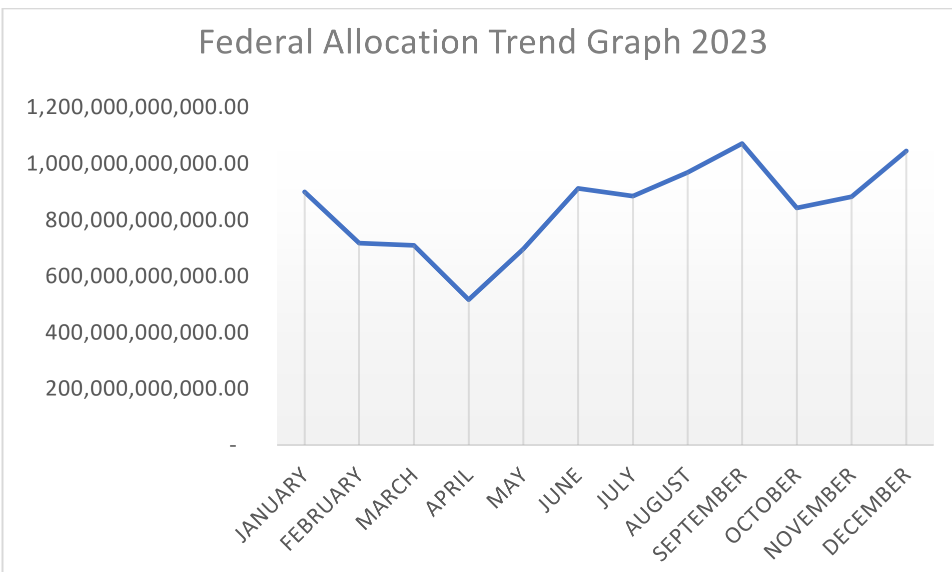
The distributed revenue from the Federation Account maintained an upward trend in the successive months in the fourth quarter of 2023. Federation allocations increased steadily between October and December from N842.75 billion to N1.044 trillion.

Figure 7



The trend line for the monthly changes in the amount of distributed revenues from the Federation Account is represented in Figure 8 below.

Figure 8



Total federation allocation had declined from almost N900 billion in January to less than N709 billion in March. Subsequently, federation allocations began to increase again in April, dipping only slightly, from N911 billion in June to N884 billion in July, but rising again to more than N1 trillion in September 2023. There was a dip from N 1.07 trillion in

September to N 842 billion in October. The allocation began to increase again in November. In December the federation allocation increased to N 1.044 trillion.

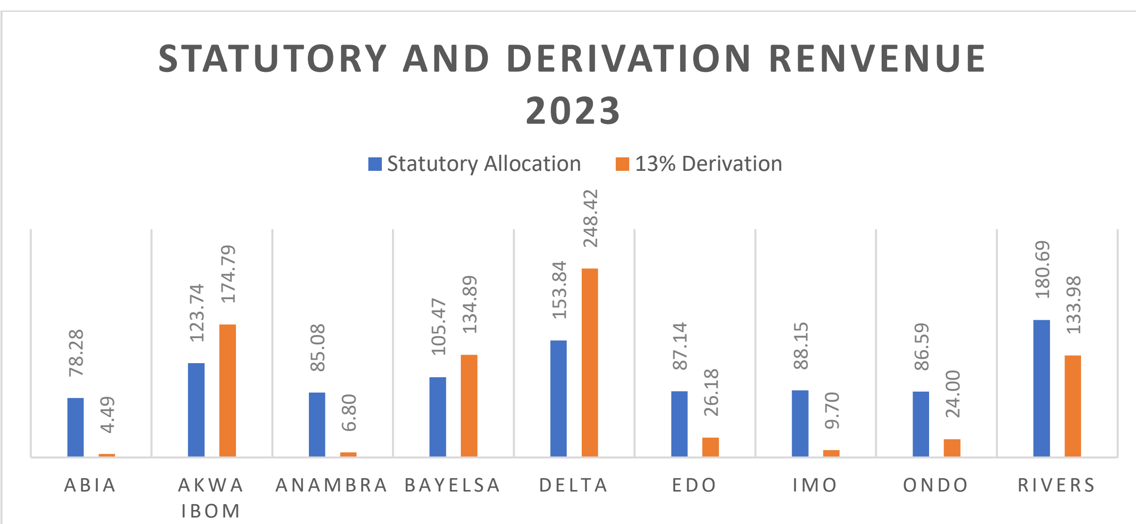
Changes in Federation Accounts receipts vary across tiers of government

While total distributed revenue from the Federation Account recorded an overall increase of 23.56% in 2023, the increase accruing to each tier of government varied, largely due to the type of revenue item contributing to the inflows into the Federation Account. In the same period (2023), states and local governments recorded increases in their allocations of 29.99% and 26.22% respectively. The increase in allocation to the Federal Government however was 16.79%.

Derivation revenue remains significant share of revenue for oil producing states

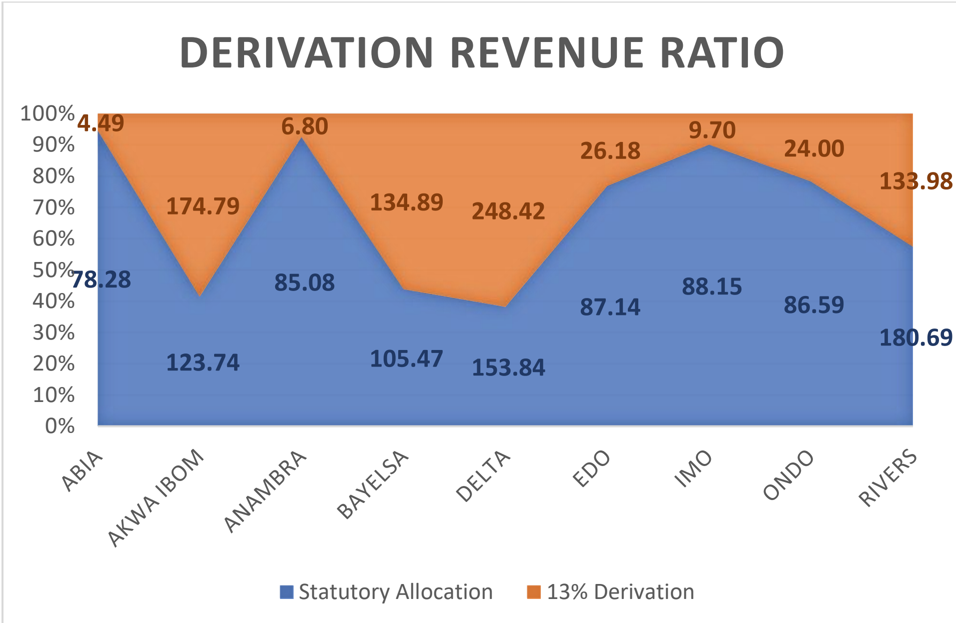
As in the third quarter, nine states received a share of 13% allocated to mineral producing states from the proceeds from mineral revenue. Derivation revenue remains a significant portion of revenue for some states including Delta, Akwa Ibom, Anambra and Rivers states. Oil derivation revenue was above the statutory revenue for Delta State at 161.47%. This is followed by Akwa Ibom and Bayelsa states at 141.25% and 127.89% respectively. Rivers State has a derivation revenue ratio of 74.15%. The other oil producing states have much less derivation revenue ratios. Apart from Ondo State (27.71%) and Edo (30.04%), the other states – Abia, Anambra and Imo – recorded a derivation revenue ratio of about 20% or less.

Figure 9



Derivation revenue ratios recorded by nine oil-producing states in Q3 2023 is more graphically reflected in the chart below.

Figure 10

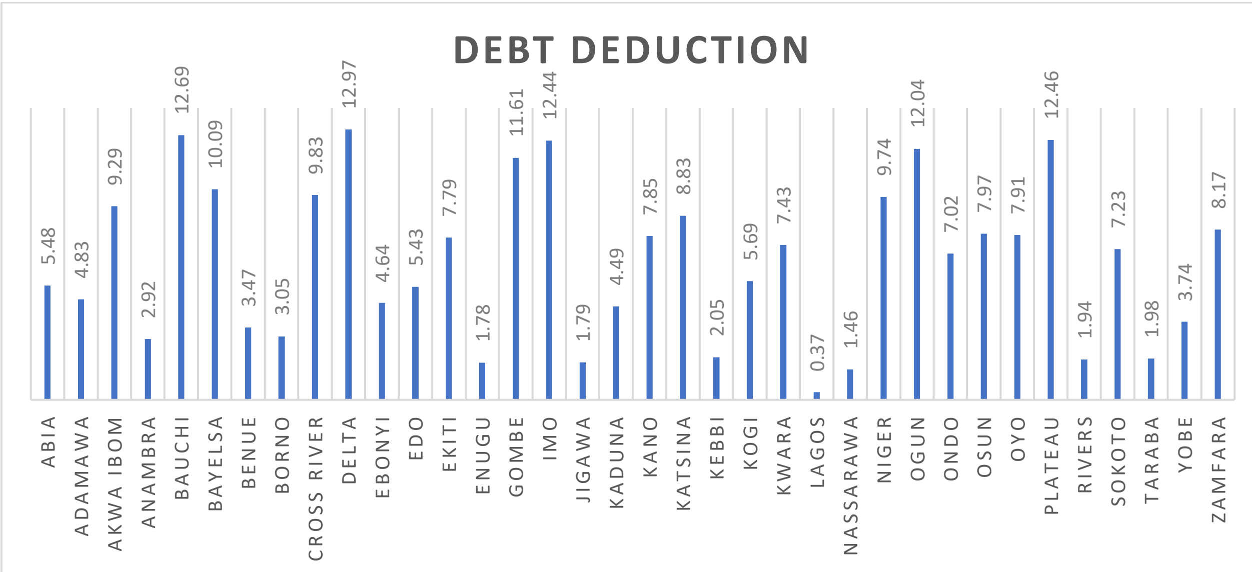


It is noted that solid minerals producing states did not receive derivation revenue during the fourth quarter. This is typical for most of the periods of Federation Account disbursements. The reason for this recurring situation is that solid minerals revenue is usually very small and hence cannot be shared every month. This revenue is therefore left to accumulate over a period of time before sharing can occur.

Delta tops debt chart, Lagos has least debt deductions

The debt deductions for states in 2023 show that Delta State recorded by far the largest debt deduction in 2023. With total deduction of N12.97 billion, Delta debt deduction was more than the deductions for Bauchi State, the second largest with N12.69 billion in 2023 by 282 million. Lagos State recorded the least cumulative debt deductions amounting to N370million

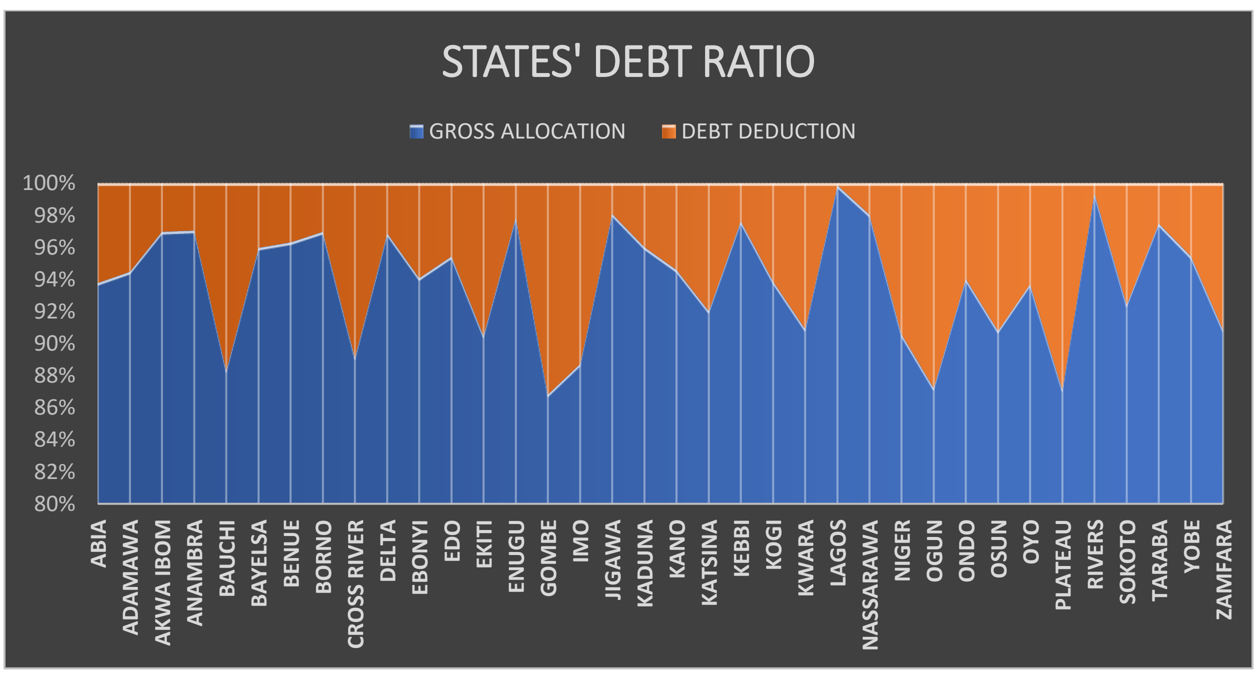
Figure 11



Average debt burden declines in 2023

The overall debt burden, as shown by the ratio of total debts to gross revenue allocation, declined in 2023, from 2022

Figure 12



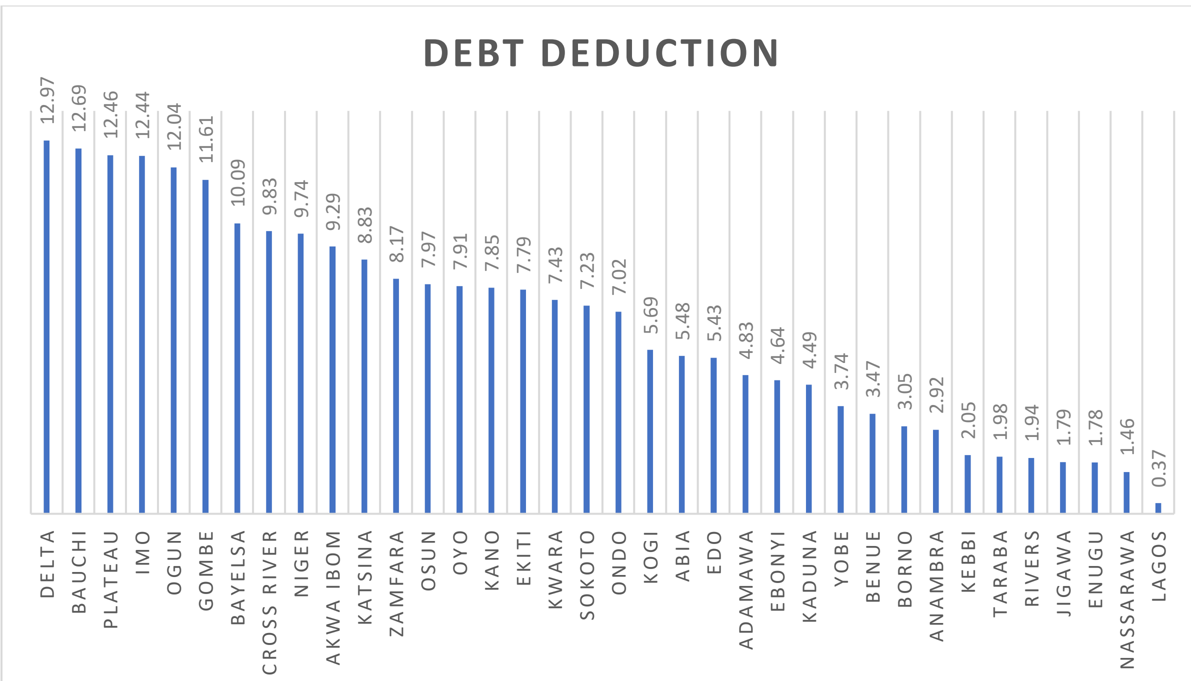
Debt deductions as shown in the chart above occupy a significantly lower space than in 2022.

This report notes that the reduced debt burden is attributable more to the increase in the size of Federation Account allocations in than a reduction in the size of debt.

Relative debt sustainability consistent with states' relative debt size

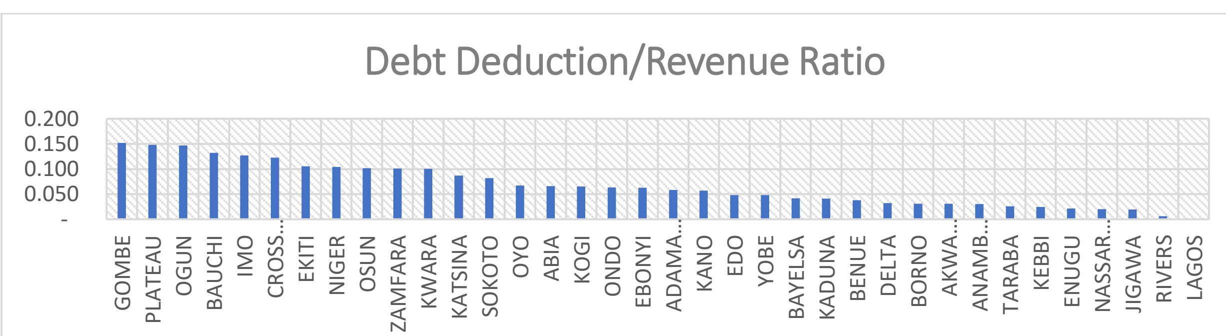
The absolute size of debt deductions per state shows a pattern that is similar to the states' debt-revenue allocation ratio.

Figure 13



In Figure 13 above: Delta, Bauchi and Plateau states occupy the top positions while Lagos, Nasarawa, Enugu and Jigawa have the lowest debt deductions in 2023.

Figure 14



The stark similarity in the debt size and sustainability charts indicates that states' borrowing decisions are being determined by the size of their Federation Account allocations and expected future earnings. While this pattern indicates good fiscal decisions by the states, it may also cause states to increase their current borrowings as revenues from the Federation Account allocations are beginning to increase.

Gap in solid minerals revenue disbursement reflects perennial underperformance of the sector

Mineral revenue flows to the Federation Account is reflected in the schedule of remittances from the payment streams applicable to mineral extraction activity. It is also reflected in the derivation revenue disbursed to beneficiary states from the applicable revenue stream. However, there is no FAAC disbursements of solid minerals revenue during the period covered by this report. The 13% derivation revenue allocation shows disbursements only to the nine oil producing states, whereas other states of the federation where solid minerals are exploited did not receive derivation revenue for the period.

The lack of solid mineral revenue disbursement either for derivation purpose or statutory disbursement by other federation entities is due to the fact that solid minerals revenues remitted to the Federation Account is not significant enough to shared among the federal government as well as all the states and local governments including in the Federal Capital Territory. Hence solid mineral revenues is allowed to accumulate over long periods into a significant amount before it is shared.

Summary of 2024 FAAC remittances and disbursements

The analysis of FAAC disbursements for the period shows a significant increase of 23.56% in the 2023 allocations from the 2022. This increase is as a result of increase in mineral (majorly oil and gas) revenue generated within the period compared to the previous year and subsidy removal that occurred in the month of March. Monthly revenues decreased steadily between July and September. The month of April recorded the least allocation of about N516.28 billion. However, there was a slight increase in the monthly allocations for September N1.017 trillion, which is the highest allocation in the year 2023. 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 and the removal of fuel subsidy also determined the size of the flows into the Federation Account and hence the amounts disbursed to, and received by the federating units – federal, state and local governments – and other statutory recipients.

RECOMMENDATION FOR IMPROVED FEDERATION ACCOUNT PERFORMANCE

1. ***Adopt more realistic estimates and oil revenue projections***

Future budget benchmarks for projected crude oil production and export (volume and price) should be guided by more conservative estimates, given the reality of oil price volatility in the international market. The estimates should also realistically account for potential disruptions in crude oil production either due to theft, sabotage or deferred production. This approach would ensure that revenue performance and FAAC disbursements do not deviate substantially from planned values thereby ensuring improved budget implementation.

2. ***Ensure exchange rate stability***

While the latest depreciation of the naira has increased the volume of the naira equivalent of export earnings remitted to the Federation Account, it creates challenges for controlling inflation which undermines government's capacity to implement a fully deregulated pricing regime for products, services and sectors that drive economic and social activities. It compounds government's debt servicing and its ability to enforce budgets and timelines for projects. The Central Bank of Nigeria should therefore prioritise stabilizing the exchange rate to facilitate effective implementation of the deregulation policy and stabilizing foreign exchange dependent inflows into the Federation Account.

3. ***Aim for greater fiscal stabilization***

Fiscal stabilization attempts to bridge the gap between expenditure estimates and the sources for financing the public budget. The Nigerian government's oil price-based budgeting system should aim to close the gap between estimated revenue and actual receipts. The National Assembly should collaborate with the executive arm of government to set crude oil production and price benchmarks that would guarantee that there is a robust stabilization account accruing from the excess of production volumes and prices above the budget benchmark. In this way, the excess revenue from one period would be used to smoothen expenditure through the budget cycle. This strategy would also enable government to grow the Excess Crude Account (ECA) which can be utilized as a savings and investment fund.

4. ***Review minerals revenue dependence and enhance internal revenue generation***

In the long term, government should aim to reduce natural resource dependence and insulate the country's economy against oil price volatility by de-linking the budget from oil and gas revenues. At such point, crude oil output and prices would no longer constitute parameters for determining budget revenue projections.

5. ***Enhance extractive revenue diversification to grow the solid minerals sector***

Given the poor performance of the solid minerals sector given the very low remittance to the Federation Account, government should incentivize investment in the sector to enhance the sector's productivity and revenue potential. Government should review the sector's roadmap and strengthen its institutions to carry out effective regulation and policy implementation.

6. ***Deepen transparency and accountability in management of Federation Account revenue and disbursements***

So far, government's disclosures on revenue, remittances to and disbursements from the Federation Account is commendable. Government should sustain fiscal transparency policies and programmes in line with its OGP and EITI commitments. States, local governments and other beneficiaries of the Federation Account should domesticate or adopt these principles to strengthen accountability in the application of funds.