

Analysis of FAAC Disbursements in 2018 and Projections for 2019

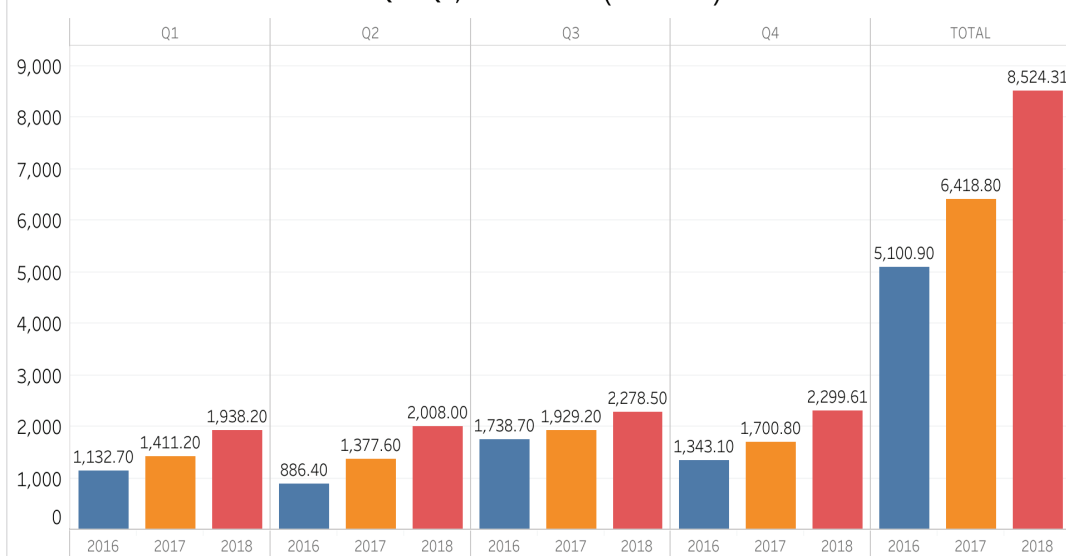
Government revenue, which has been rising since 2017, continued its upward trajectory in 2018. The rebound in federation revenue continued as a result of increases in both oil and non-oil revenue. Revenue rose consistently in all quarters of 2018.

This review provides an overview of the Federal Accounts Allocation Committee (FAAC) disbursements to the three tiers of government in 2018. In addition, the review also makes revenue projections for 2019.

Total FAAC Disbursements in 2018 were 32.8% Higher than Total Disbursements in 2017 and 67.1% Higher than Total Disbursements in 2016

Total disbursements from FAAC in 2018 were N8.524 trillion. This was 32.8% higher than the N6.418 trillion disbursed in 2017 and 67.1% higher than the N5.1 trillion disbursed in 2016. Figure 1 shows the quarterly distribution of disbursements in the years and it is seen that disbursements in all quarters in 2018 were higher than disbursements in the corresponding quarters in 2016 and 2017. This is a clear indication of consistent increase in revenues and disbursements. For 2018, total disbursements were highest in the fourth quarter (N2.299 trillion) while they were lowest in the first quarter (N1.938 trillion). Thus, disbursements in the highest month were 18.6% higher than disbursements in the lowest month.

FIG 1: Total FAAC Disbursements Q1 - Q4, 2016 - 2018 (N billions)



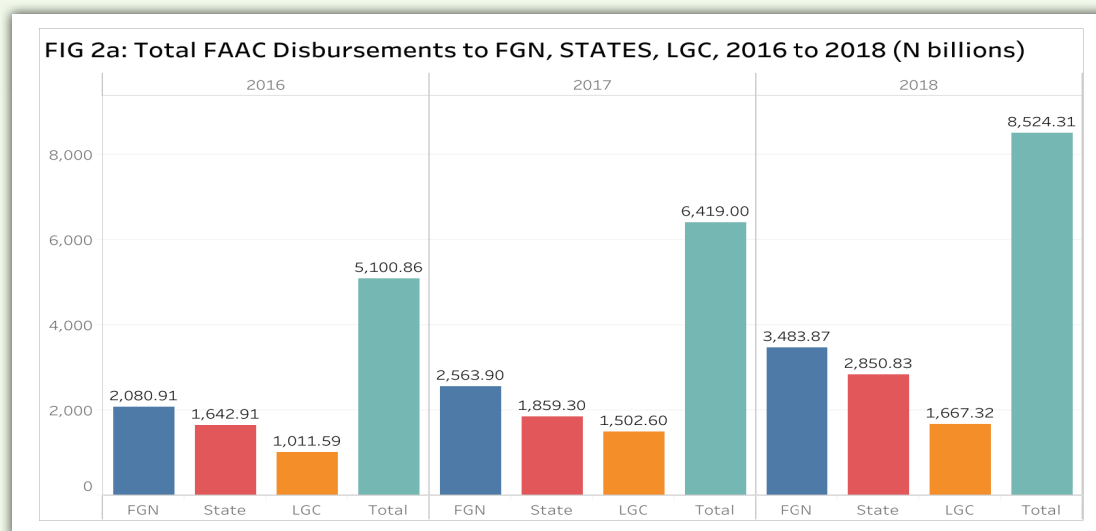
Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

HIGHLIGHTS

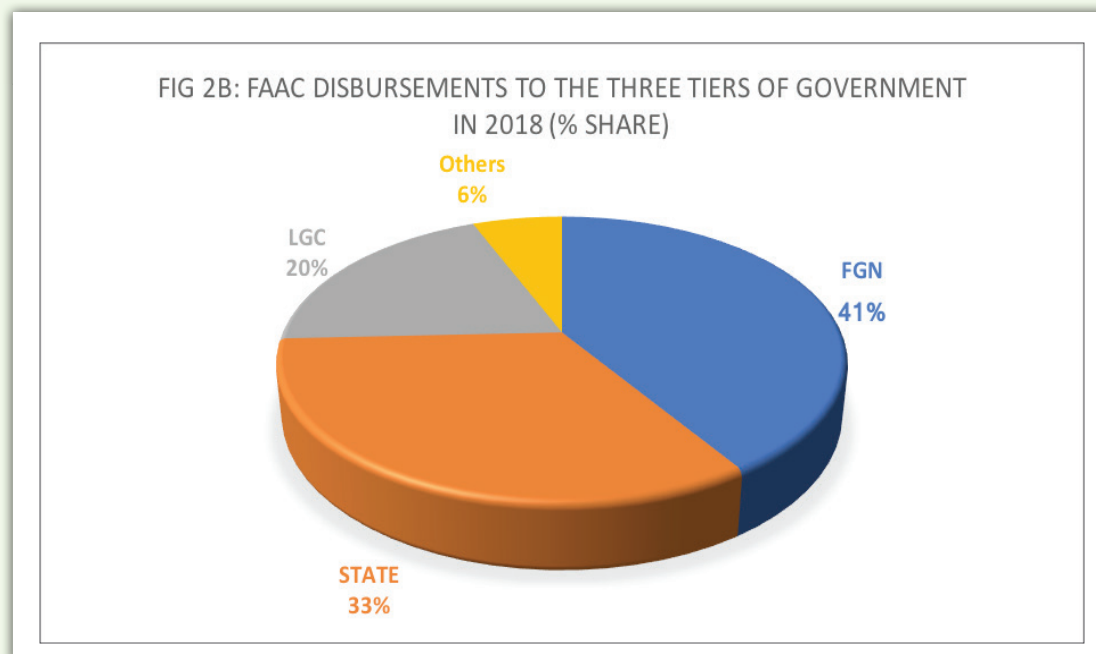
- Total FAAC disbursement in 2018 was N8.52 trillion, 32.8% higher than total disbursements in 2017 and 67.1% higher than total disbursements in 2016;
- Quarterly FAAC disbursements exceeded N2 trillion in three quarters of 2018, the first time since 2014;
- Total net FAAC disbursements to states ranged between N22.8 billion (Osun State) and N213.6 billion (Delta State), meaning net disbursement to Delta State was 935% of Osun State's;
- Five states received more than N100b in 2018 (Lagos, Bayelsa, Rivers, Akwa Ibom and Delta); only Lagos is not from the South-South zone out of the five;
- While FAAC disbursements were inadequate in servicing state budgets in 2018, it is projected that FAAC disbursements will increase further in 2019.

In 2018, FAAC Disbursements to the Federal, State and Local Governments were respectively 40.86%, 33.44% and 19.56% of the Total

Figures 2a and 2b present total disbursements to the three tiers of government. Disbursements to the Federal Government (FG) totaled N3.483 trillion, meaning that the FG received 40.86% of the total disbursements in the year. Disbursements to state governments were N2.85 trillion, constituting 33.44% of the total. Local governments received a total of N1.667 trillion, which makes up 19.56% of the total amounts disbursed. On the other hand, in 2017, disbursements to the federal, state and local governments were 39.94%, 28.97% and 23.41% respectively. Thus, while the federal and state governments received a slightly larger share of disbursements in 2018 compared to 2017, received a lower share of total disbursements.



Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation



Others consist of Cost of Collection -NCS, Transfer to Excess PPT, Cost of Collection - FIRS, Cost of Collection - DPR, NCS/FIRS Refund

Total FAAC Disbursements in 2018 have been the Third Highest since 2013

Figure 3a presents total FAAC disbursements between 2013 and 2018. The figure reveals that following the drastic drop in disbursements from 2015 to 2016, disbursements have consistently been rising from 2017. Figure 3b shows that total disbursements fell by 30% between 2014 (N8.595 trillion) and 2015 (N6.011 trillion). Subsequently, total disbursements fell by 15%, from N6.011 trillion in 2015 to N5.100 trillion in 2016. From 2017, total disbursements started rising as evidenced by the 25% increase from 2016 to 2017 (N6.418 trillion). Total disbursements in 2018 increased by 32% over the 2017 figures. These increases in FAAC disbursements are a welcome development from the disturbing government revenue figures of 2015 to 2016 which resulted in severe economic hardship on the Nigerian populace, and reflected in the economic recession from the second quarter of 2016 to the first quarter of 2017.

"From 2017, total disbursements started rising as evidenced by the 25% increase from 2016 to 2017 (N6.418 trillion). Total disbursements in 2018 increased by 32% over their 2017 figure."

FIG 3a: Total FAAC Disbursements, 2013 to 2018 (N billions)

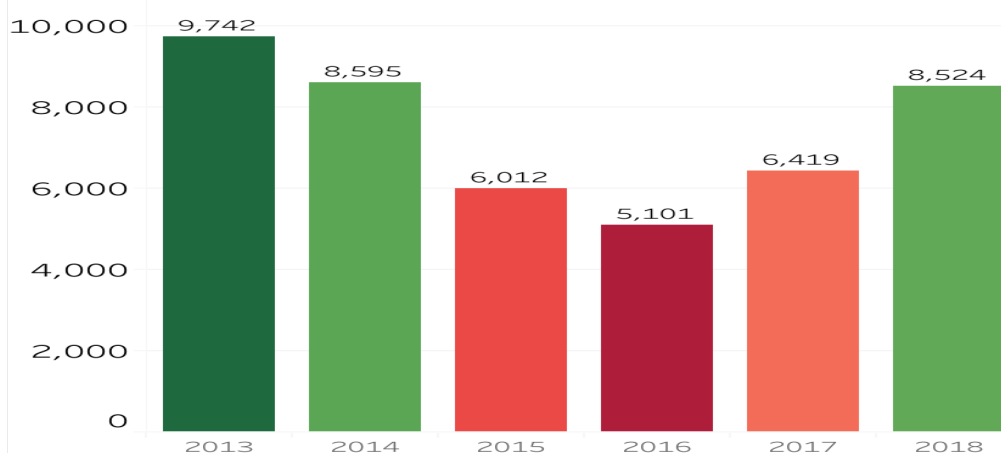
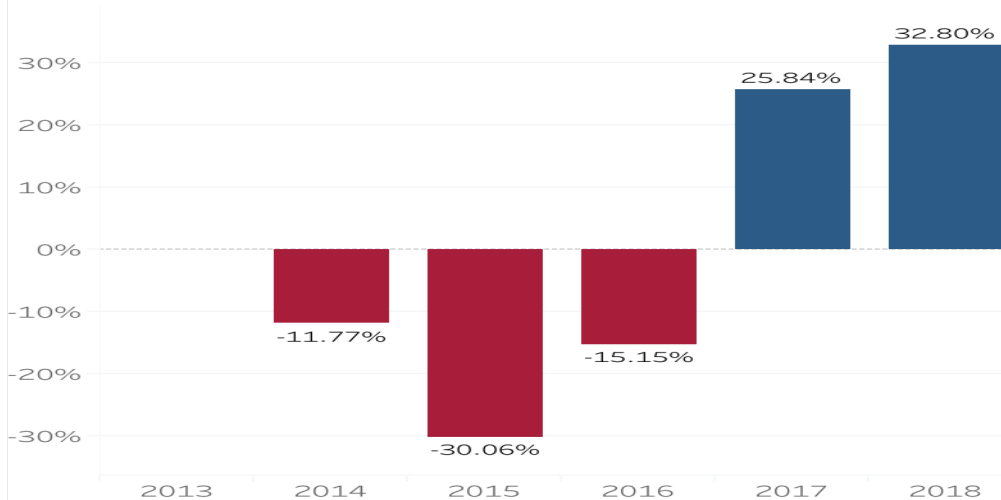


FIG 3b: Growth in Total FAAC Disbursements, 2013 - 2018 (%)



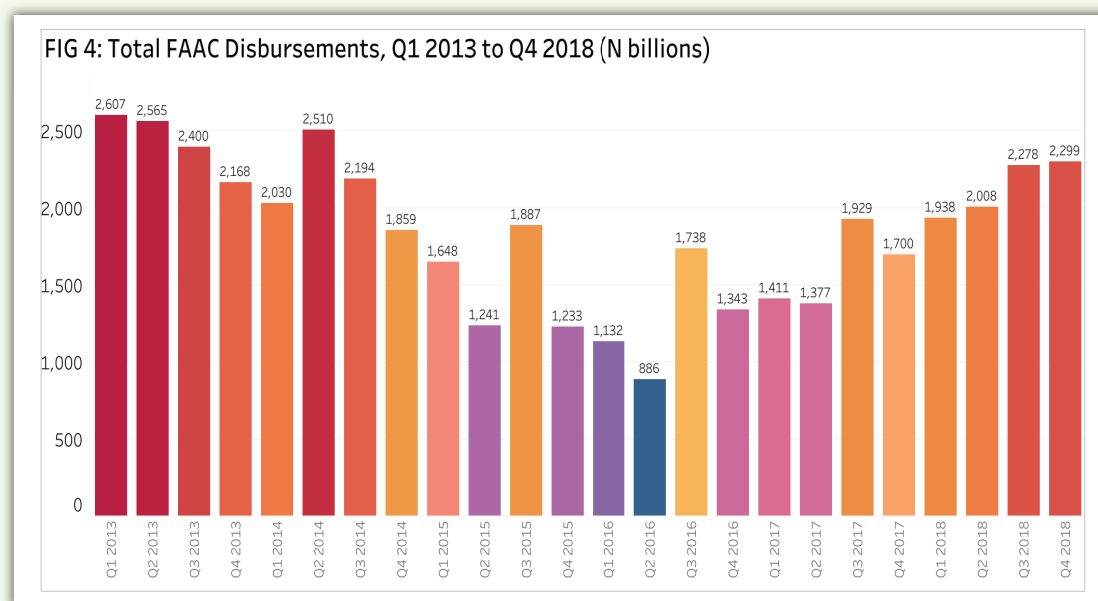
Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

Quarterly Total FAAC Disbursements Exceeded N2 trillion in Three Quarters of 2018, the First Time Since 2014

Figure 4 presents total quarterly FAAC disbursements between 2013 and 2018. The figure reveals that, with the exception of the third quarter of 2017, there has been a consistent rise in quarterly disbursements since the second quarter of 2017. The highest quarterly amount of N2.299 trillion disbursed in the fourth quarter of 2018 is the highest quarterly disbursement since the second quarter of 2014. There were three consecutive quarters in 2018 when total disbursements exceeded N2 trillion. The last time this happened was in the third quarter of 2014.

The figures reveal particularly striking increases in 2018, compared to 2017. For the first quarter of 2018, total disbursements were N1.938 trillion, while total disbursements in the first quarter of 2017 were N1.411 trillion. This represents an increase of 37.3% over the 2017 figures. Total disbursements in the second quarter of 2018 were N2.008 trillion while corresponding figures for 2017 were N1.377 trillion, an increase of 45.8%. Total disbursements in the third quarter of 2018 (N2.278 trillion) increased by 18.1% over the 2017 figures (N1.929 trillion). Total disbursements in the fourth quarter of 2018 were N2.299 trillion while corresponding figures for 2017 were N1.7 trillion, an increase of 35.2%.

These figures suggest that the nation might be getting back to the levels of revenue observed prior to the drastic fall in oil prices that started in 2014. However, disbursements have not yet reached the levels recorded in 2013 and 2014.

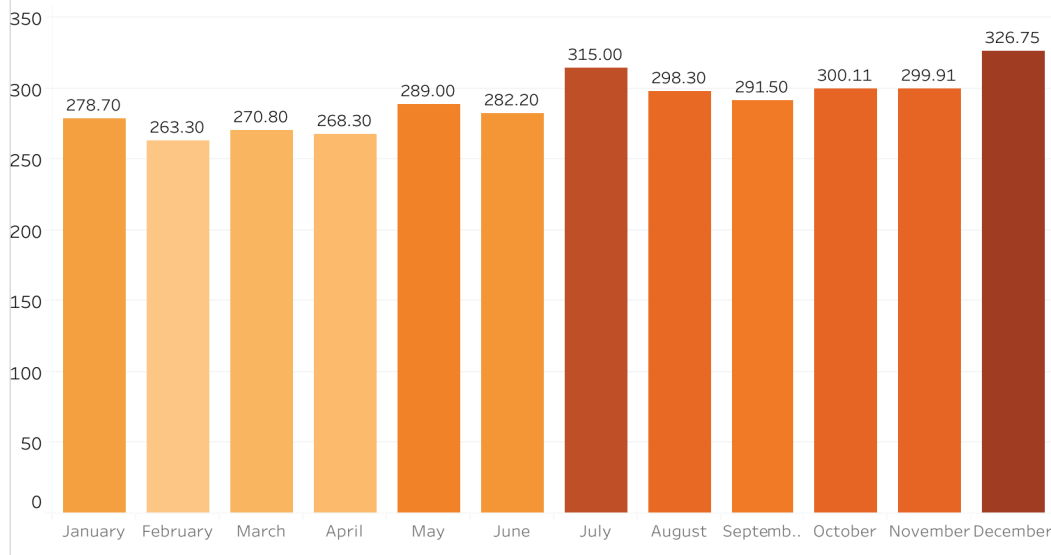


Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

FAAC Disbursements to the Federal Government were Highest in December and Lowest in February

Figure 5 presents total FAAC disbursements to FG in 2018. Monthly FAAC disbursements to FG were highest in December (N326.75 billion) and lowest in February (N263.30 billion). This indicates a difference of N63.5 billion. Thus, disbursements to the Federal Government in the highest month were 24% higher than in the lowest month. Figure 5 shows an interesting feature of monthly FAAC disbursements which have been observed in previous issues of this review, that is, increases and decreases in disbursements in successive months. With the exception of September, the figure shows oscillating patterns in disbursements in successive months. As highlighted in previous issues of this review, this feature is symptomatic of volatility in revenue due to dependence on commodity exports.

FIG 5: FAAC Disbursements to FGN, Jan. to Dec. 2018 (N billions)



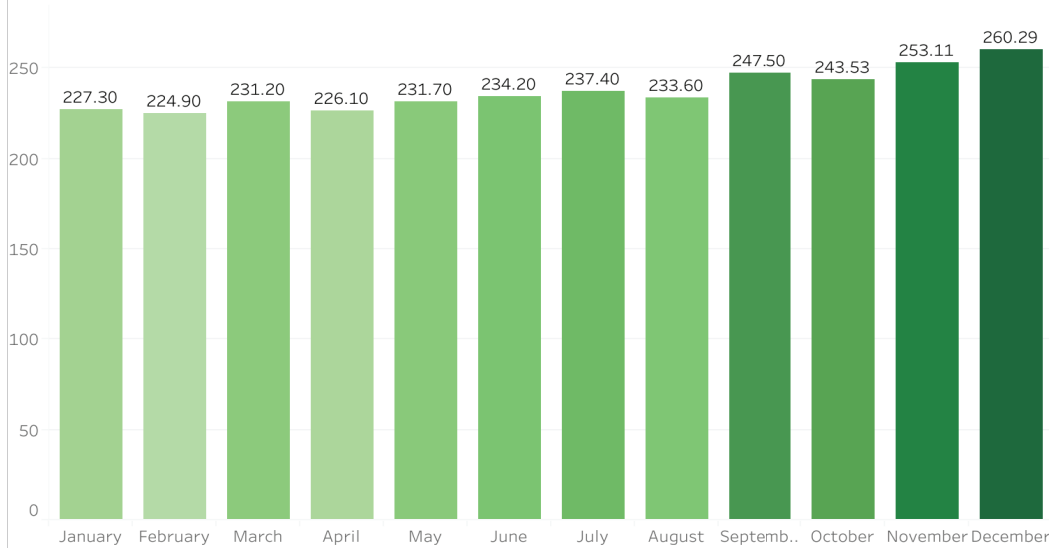
Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

"Figure 6 presents the monthly disbursements to states in 2018. The figure reveals that for the first five months of 2018, disbursements were volatile and exhibited the zig-zag-type behavior observed for disbursements to the federal government."

FAAC Disbursements to State Governments were Highest in December and Lowest in February

FAAC disbursements to state governments had a similar pattern as disbursements to the Federal Government. Disbursements to states in 2018 were highest in December (N260.29 billion) and lowest in February (N224.90 billion). This shows a gap of N35.4 billion between disbursements in December and February, indicating an increase of 15.7% between the highest and lowest receiving months. Figure 6 presents the monthly disbursements to states in 2018. The figure reveals that for the first five months of 2018, disbursements were volatile and exhibited the zig-zag-type behavior observed for disbursements to the Federal Government. However, states had two episodes where disbursements increased for three consecutive months (May to July, October to December).

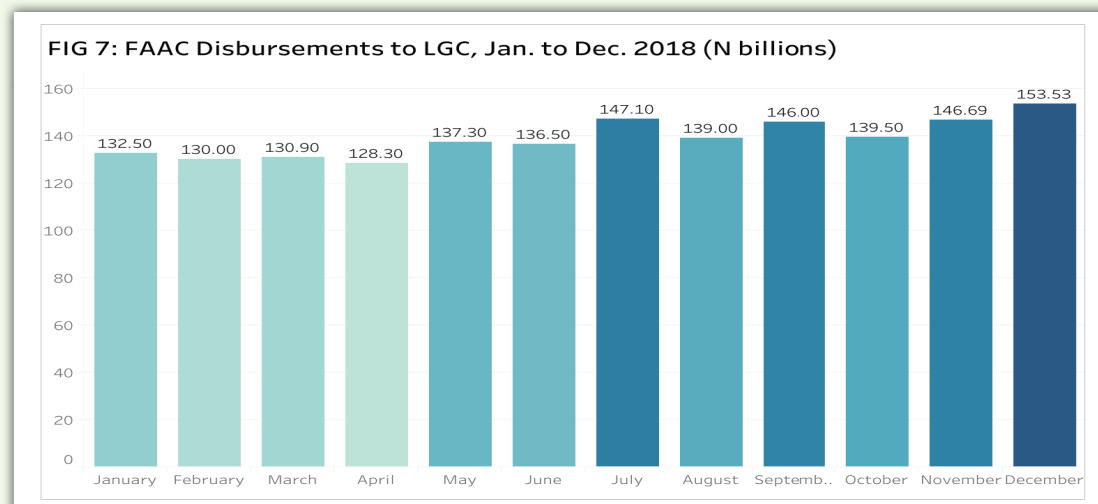
FIG 6: FAAC Disbursements to STATES, Jan. to Dec. 2018 (N billions)



Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

FAAC Disbursements to Local Government Councils were Highest in December and Lowest in April

Figure 7 presents monthly disbursements to local government councils in 2018. The highest disbursement of N153.53 billion was received in December while the lowest disbursement of N128.30 billion was recorded in April. There is a N25.2 billion (19.7%) difference between the months with the highest and lowest disbursements. This difference is lower and milder than was observed last year. In 2017, disbursements to local government councils in the highest month were 143% higher than disbursements in the lowest month. Thus, disbursements to local governments in 2018 were relatively more stable when compared to 2017.

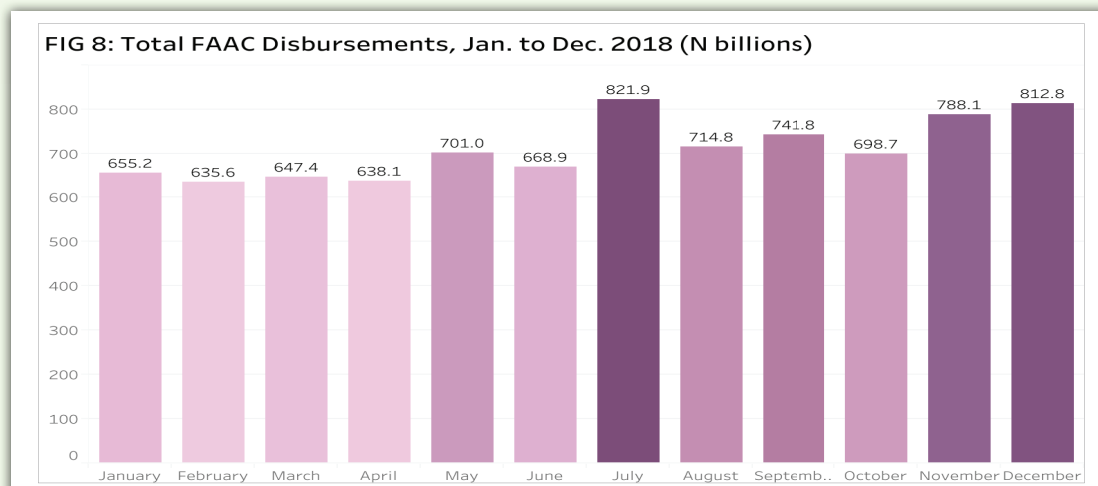


Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

Total FAAC Disbursements were Highest in July and Lowest in February

From Figure 8, total FAAC disbursements were highest in July (N821.9 billion) and lowest in February (N635.6 billion), indicating a variance of N186.3 billion. This is lower than the variance of N390.3 billion observed for 2017. This reveals that disbursements were less volatile in 2018 than in 2017. Considering the fact that disbursements were considerably higher in 2018 than 2017, this augurs well for the nation's finances, as higher and more stable revenue is desirable.

Figure 8 also reveals that total disbursements were higher in the second half of 2018. Total disbursements in the second half of the year were N4.578 trillion while disbursements totaled N3.946 trillion in the first half of the year. This indicates a variance of N631.9 billion, meaning that disbursements in the second half were 16% higher in the second half of the year. This trend continues a pattern observed from previous issues of this review where revenue has been observed to be higher in the second half of the year.



Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

Total Net FAAC Disbursements to States Ranged between N22.8 billion and N213.6 billion

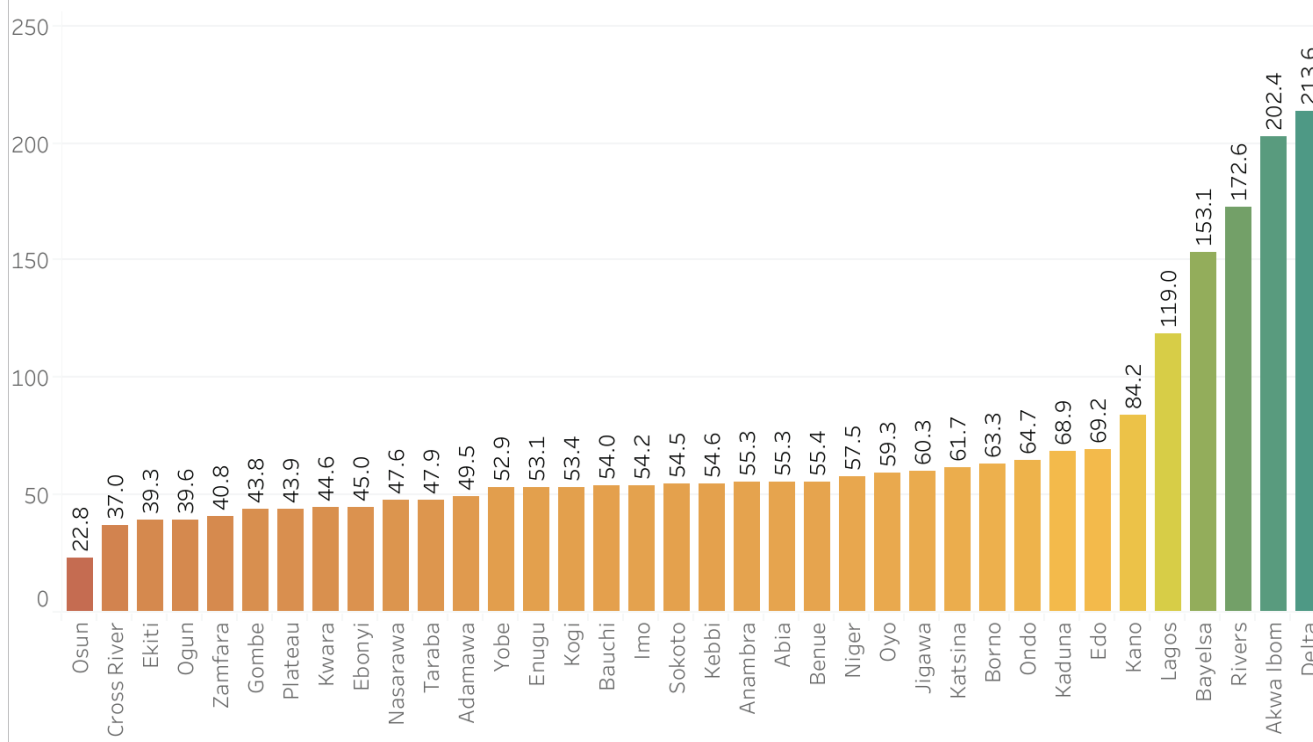
Figure 9 presents total net disbursements to states. There is a wide disparity in disbursements received by different states. The state with the lowest disbursement was Osun State (N22.84 billion) while Delta State received the highest disbursement with N213.63 billion. Delta State received N21.16 billion in December, and this is just N1.68 billion lower than the total disbursements received by Osun State in the year. To further put this in context, Delta State received 935% of what Osun State received in 2018.

Only five states received higher than N100 billion. Lagos State received N119 billion, Bayelsa State received N153.1 billion, and Rivers State received N172.6 billion. Two states received above N200 billion: Akwa Ibom State (N202.4 billion) and Delta State (N213.6 billion). Of these states, only Lagos State is not from the South-South.

Most states (23) received less than N60 billion. Three states received between N30 billion and N39.9 billion: Cross River, Ekiti, Ogun. Eight states received between N40 billion and N49.9 billion: Zamfara, Gombe, Plateau, Kwara, Ebonyi, Nasarawa, Taraba, Adamawa. Twelve states received between N50 billion and N59.9 billion: Yobe, Enugu, Kogi, Bauchi, Imo, Sokoto, Kebbi, Anambra, Abia, Benue, Niger, Oyo. In addition, six states received between N60 billion and N69.9 billion: Jigawa, Katsina, Borno, Ondo, Kaduna, Edo. Finally, Kano State received N84.2 billion.

"Delta State received N21.16 billion in December, and this is just N1.68 billion lower than the total disbursements received by Osun State in the year."

FIG 9: Total FAAC Disbursements to States in 2018 (N billions)



Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation

FAAC Disbursements are Inadequate in Servicing State Budgets

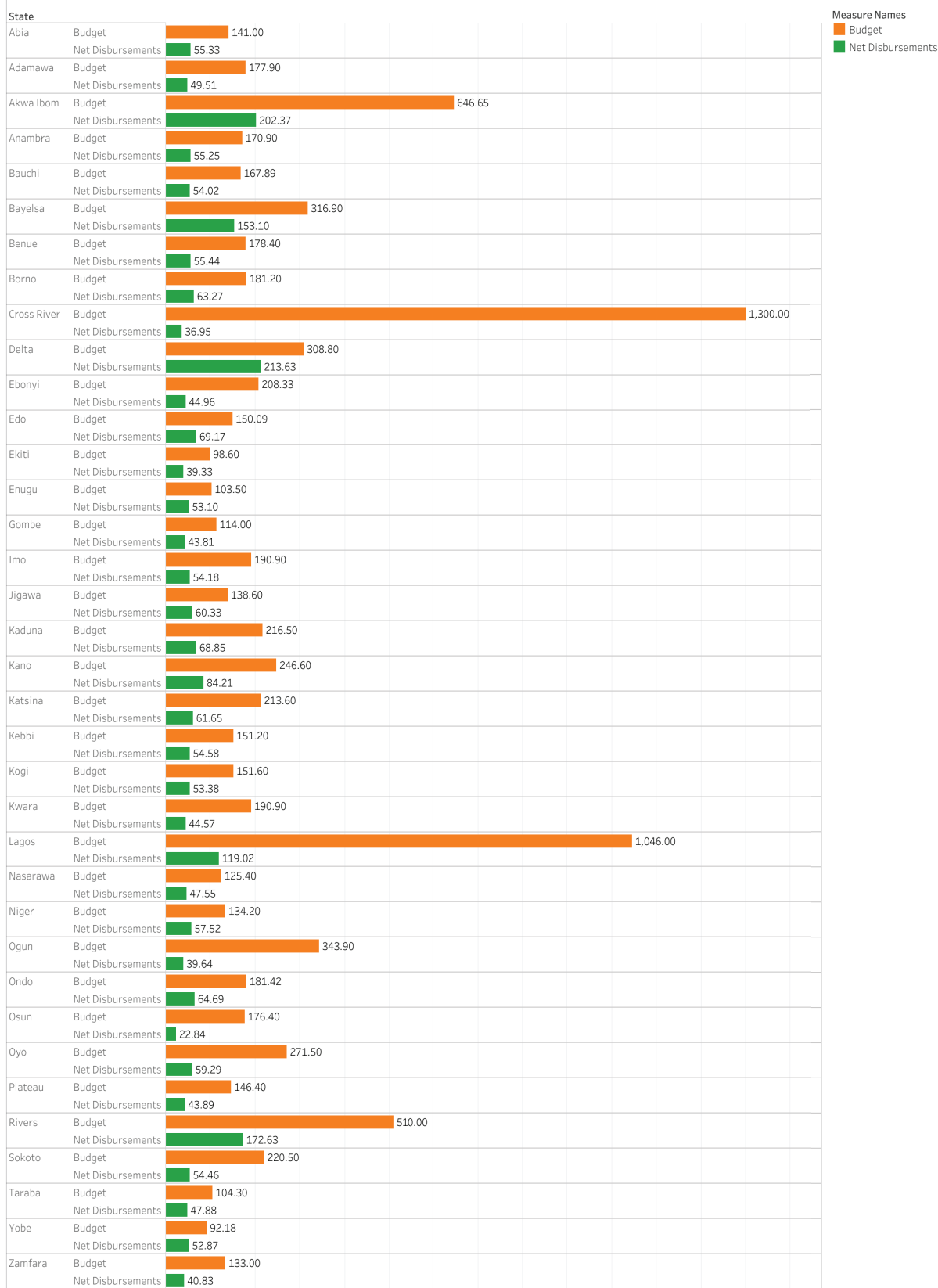
While FAAC disbursements to states have increased considerably over amounts disbursed in recent years, they are inadequate in servicing their budgets. Figure 10 presents total FAAC disbursements and budgets for the states for 2018. The figure shows the wide disparity between budgets and FAAC disbursements. Clearly, there is no state that can adequately finance its budget solely from FAAC disbursements. This inability varies from state to state. There are three states where FAAC disbursements are more than 50% of their budgets: Delta, Enugu, Yobe. For all other states, disbursements are less than 50% of their budgets.

While internally generated revenue (IGR) contributes to revenue for all states, it is highly unlikely that IGR will be able to make up for the shortfall in FAAC disbursements. IGR figures are only available for the first half of the year. In order to facilitate the analysis, the half-year IGR figures were multiplied by two to give approximate full year IGR figures. The approximated IGR figures show that IGR was less than 50% of FAAC disbursements for most of the states. There are four exceptions: Cross River, Lagos, Ogun and Rivers States. For these states, IGR was more than 50% of FAAC disbursements. It was only in Lagos and Ogun States that IGR was actually higher than FAAC disbursements. There are six other states where IGR is more than 40% of disbursements: Enugu, Kaduna, Kano, Kwara, Osun, Oyo. For these ten states, there is a probability that actual IGR will be sufficient to augment FAAC disbursements to finance their budgets.

For all the other states, it is highly unlikely that even with actual IGR, they will be able to finance their budgets. There are some extreme cases. There are eight states whose budgets were more than 200% of their FAAC disbursements: Cross River, Ebonyi, Kwara, Lagos, Ogun, Osun, Oyo, Sokoto. There is another group of ten states whose budgets were more than 150% of their FAAC disbursements: Adamawa, Akwa Ibom, Anambra, Bauchi, Benue, Imo, Kaduna, Katsina, Plateau, and Zamfara.

"There are three states where FAAC disbursements are more than 50% of their budgets: Delta, Enugu, Yobe. For all other states, disbursements are less than 50% of their budgets."

FIG 10: Total FAAC Disbursements to States and State Budgets in 2018 (N billions)

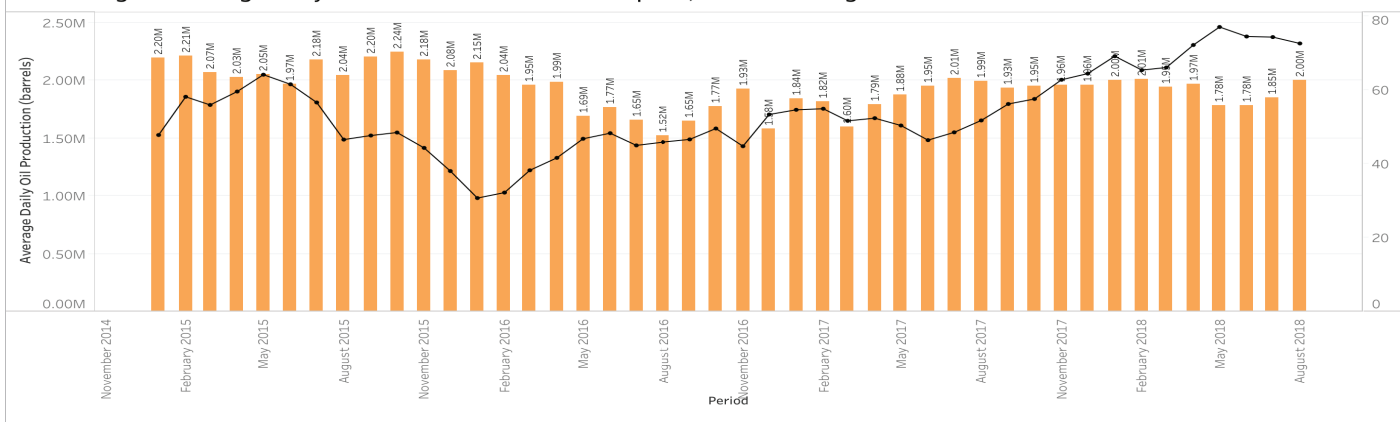


Sources: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Accountant General of the Federation,

Projections for 2019

The analysis conducted in this review has revealed that government revenue improved in 2018 when compared to the previous three years. FAAC disbursements increased in every quarter of 2018 from the preceding quarter. These increases can be attributed to the major source of government revenue: the oil sector. Figure 11 presents average daily oil production and oil prices from January 2015 to August 2018. This figure reveals that oil prices started falling in 2015, while oil production was still relatively stable. However, oil production started falling in 2016. These two factors contributed to the plunge in the nation's revenue and resulted in the drastic fall in FAAC disbursements which started in the fourth quarter of 2014 (Figure 4). Figure 11 shows that both oil production and oil prices started rising around the same time in 2017. The sustained rise particularly in oil prices has led to the continuous increase in FAAC disbursement. With the concerted efforts by the Organisation of Petroleum Exporting Countries (OPEC) to limit oil production, coupled with sanctions on Iran and Venezuela oil exports, it is expected that oil prices will not fall to the very low levels experienced from 2014 to 2017. Oil production is also expected to increase in 2019. An important offshore field – Egina - started production in late December 2018. With an optimum capacity of 200,000 barrels per day, production from this field and other shut-in fields whose production is expected to come back on-stream will increase the nation's oil production. Increased oil prices and oil production bode well for government revenue. Thus, it is anticipated that FAAC disbursements will continue rising in 2019.

FIG 11: Nigeria Average Daily Oil Production and Brent Oil price, Jan 2015 - Aug. 2018



Sources: NNPC, Energy Information Administration

Conclusion

This review examined FAAC disbursements to the three tiers of government in 2018. The review showed that total disbursements from FAAC in 2018 were N8.524 trillion. The quarterly breakdown showed that the amounts disbursed in the first to fourth quarters were respectively, N1.938 trillion, N2.008 trillion, N2.278 trillion, N2.299 trillion. With total disbursements of N3.483 trillion, the Federal Government received 40.86% of the total amounts disbursed in the year. This was followed by state governments with N2.85 trillion (33.44%) and local governments with N1.667 trillion (19.56%).

This review also revealed that with the exception of the third quarter of 2017, there has been a consistent rise in quarterly disbursements since the second quarter of 2017. These figures suggest that the nation might be getting back to the levels of revenue observed prior to the drastic fall in oil prices that started in 2014.

For states, there is a wide disparity in disbursements received by different states. Osun State received the lowest disbursement of N22.84 billion while Delta State received the highest disbursement with N213.63 billion. The states cannot adequately finance their budgets solely from FAAC disbursements.

This review projected that FAAC disbursements will increase further in 2019. This is largely due to expected increase in Nigeria's oil production and further consolidation of efforts by OPEC to keep oil prices from falling.

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The NEITI Quarterly Review is an analytical review of topical issues designed to ensure transparent and accountable management of revenues from the extractive sector. It is one of NEITI's policy and advocacy tools.

Address: NEITI, 60, Nelson Mandela Street, Off Kwame Nkrumah Street, Asokoro, Abuja.
Email: info@neiti.gov.ng Website: www.neiti.gov.ng

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