

FAAC Disbursements in 2016: Review and Projections

Though generally lower in 2016 than in 2015, the disbursements from the Federation Account Allocation Committee (FAAC) to all tiers of government picked up in the second half of 2016. This was largely due to the combined effects of rebound in oil prices and reduction in militant attacks on oil installations since the middle of 2016. These two factors contributed to increased government take from the oil sector and this in turn translated into higher disbursements to all tiers of government. This review combines an analysis of FAAC disbursements in the fourth quarter of 2016 with those of the entire year, with additional attention to debt, internally generated revenue, and the viability of states of the Federation.

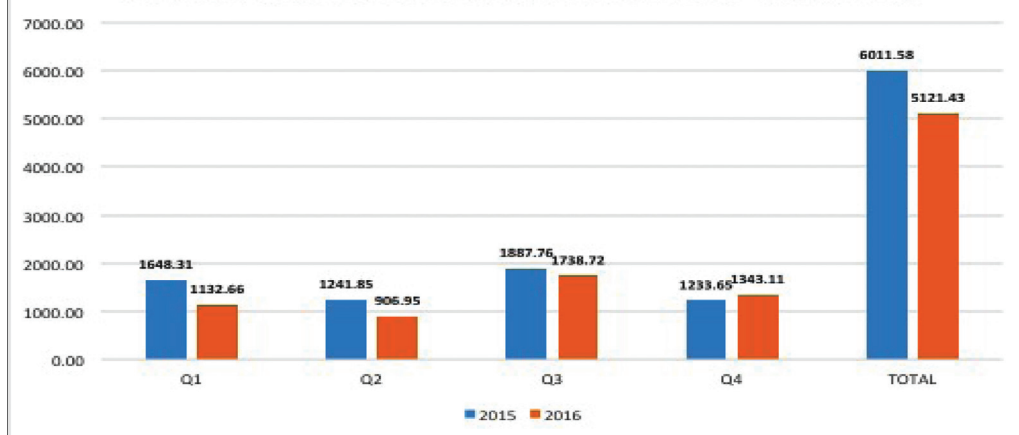
Faac disbursements fell from Q1 to Q3 2016 but increased in Q4

Previous issues of the NEITI Quarterly Review showed that disbursements in the first three quarters of 2016 were below the figures for the first three quarters of 2015. However, this trend was bucked in Q4 2016, when disbursements climbed to N1.343 trillion, a 9% increase on the corresponding quarter of 2015. This slight improvement in disbursements in the fourth quarter of 2016 could be an indication that the decline in revenue accruing to the Federation which has been observed since 2014 might be coming to an end. This is illustrated in Figure 1 which shows that total disbursements fell by 14.8% from N6.011 trillion for the year 2015 to N5.121 trillion for the 2016. Figure 1 shows a steady closing of the gap between total disbursements from Q1 to Q4. In Q1 2016, total disbursements were N1.132 trillion as against N1.648 trillion in Q1 2015, a decline of 31.2% in Q1 2016. Total disbursements fell by 26.9% from N1.241 trillion in Q2 2015 to N906 billion in Q2 2016. There was a further decline in Q3 when total disbursements dropped by 7.8% from N1.887 trillion in 2015 to N1.738 trillion 2016. However, total disbursements increased in Q4 by 8.8% from N1.233 trillion in 2015 to N1.343 trillion in 2016.

HIGHLIGHTS

- Total FAAC Allocations declined by 15% from N6.011 trillion in 2015 to N5.121 trillion in 2016
- Higher allocations in Q4 2016 signal possible end to declining revenues noticed since 2014
- Q4 2016 bucked the trend of quarter-on-quarter decline, figure higher than corresponding quarter in 2015 by 9%
- Disbursements in H2 2016 higher than H1 2016, a departure from trend noticed since 2013
- FAAC Allocation constituted 34% of FG's 2016 budget, not enough to cover recurrent budget for the year.
- FAAC allocations covered between 16% and 46% of states' budgets; IGR covered between 2% and 45% of states' budgets.

FIG 1: Total FAAC Disbursements 2015 and 2016 Q1 - Q4 (N billion)



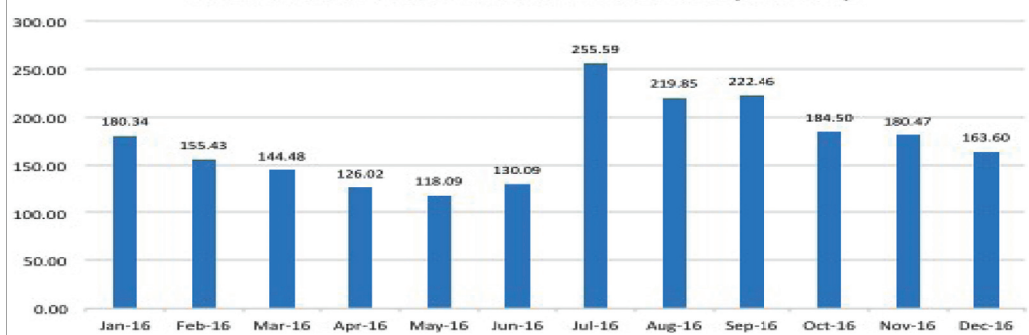
"However, total disbursements increased in Q4 by 8.8% from N1.233 trillion in 2015 to N1.343 trillion in 2016"

Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

A tale of two halves – disbursements to all tiers of government higher in the second half of 2016

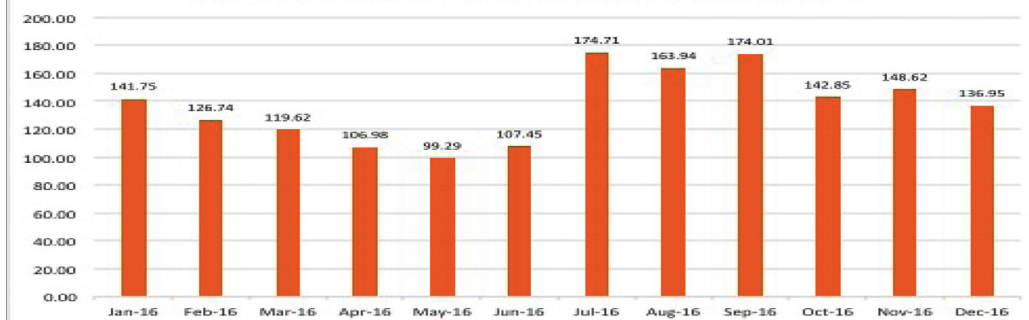
Figures 2 to 4 present disbursements to the Federal, State and Local Governments in 2016. These figures show that there was a general decline in disbursements to all tiers of Government between January and May. However, there was a surge in disbursements in July. Subsequently, there was a gentle fall in disbursements until December. The figures show that disbursements were higher in the second half of 2016 than the first half. In fact, all months in the second half, with the exception of December, had higher disbursements than all other months in the first half of the year. This contrasts with the observation in the first issue of this NEITI Quarterly Review using data from 2013 to 2015 that disbursements were generally lower in the second half of the year. These contrasting figures for 2016 could be explained by the fact that the first half of the year experienced negative shocks in both oil prices and oil production. These dampened total revenue accruable to the Federation. However, in the second half of the year, the environment was more favourable, thereby leading to higher government take. This clearly highlights the improved revenue as a result of reduced militant activities and the rebound in oil prices in the latter half of the year.

FIG 2: FAAC Disbursements to FGN in 2016 (N billion)



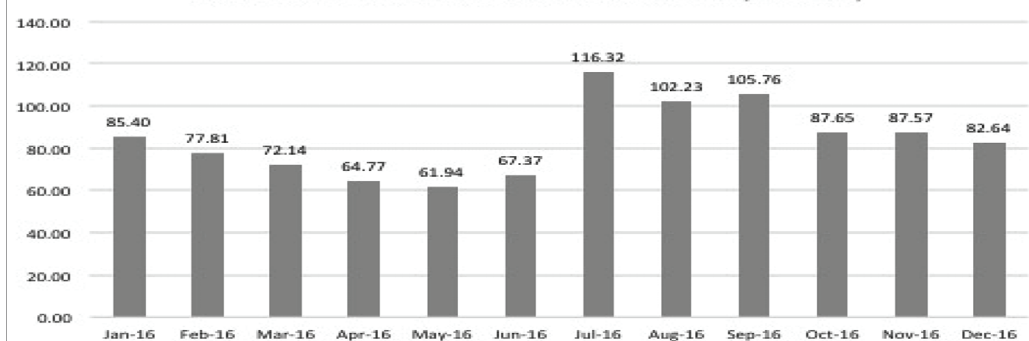
Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

FIG 3: FAAC Disbursements to States in 2016 (N billion)



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

FIG 4: FAAC Disbursements to LGAs in 2016 (N billion)

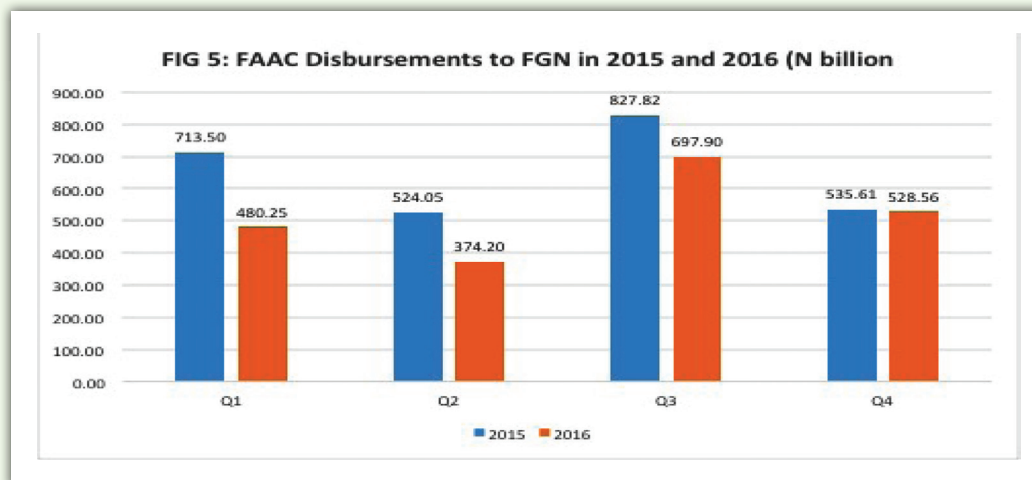


Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

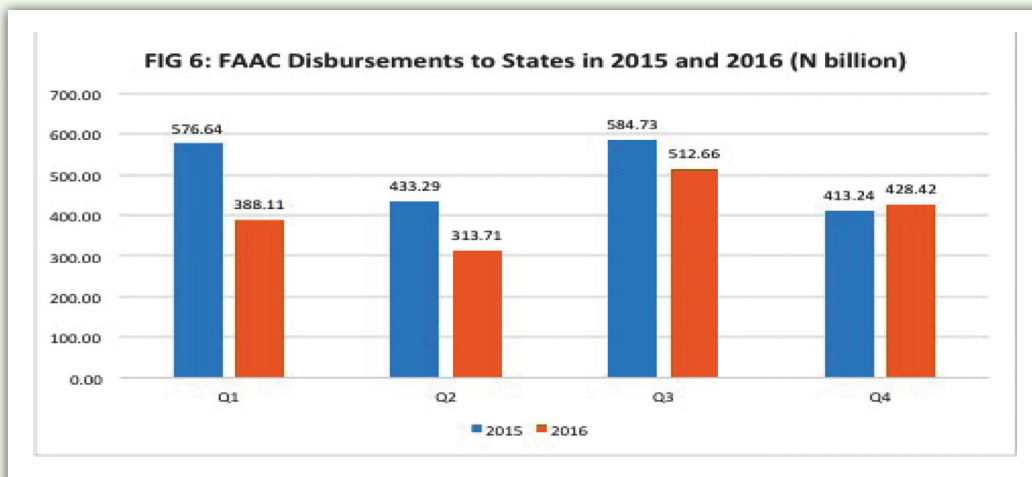
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Disbursements to all tiers of government highest in Q3 and lowest in Q2

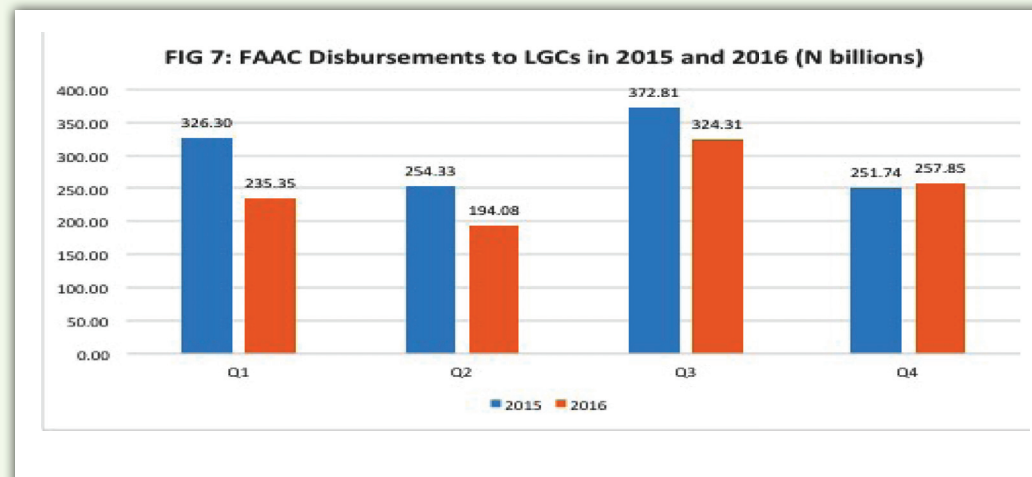
Figures 5 to 7 present disbursements to the Federal, State and Local Government Areas respectively in Q1 to Q4 of 2015 and 2016. The figures reveal that disbursements tend to be highest in Q3 and lowest in Q2. This is true in both years under consideration – 2015 and 2016 - and for all tiers of government. The only exceptions were disbursements to State and LGAs in 2015, where the lowest disbursements were recorded in Q4.



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

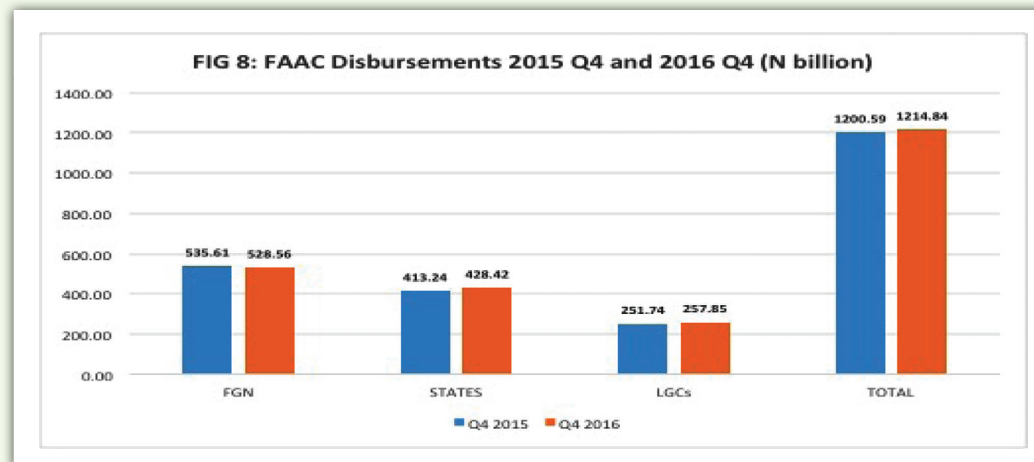


Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

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FAAC disbursements to the three tiers of government increased by 1.18% between 2015 Q4 and 2016 Q4

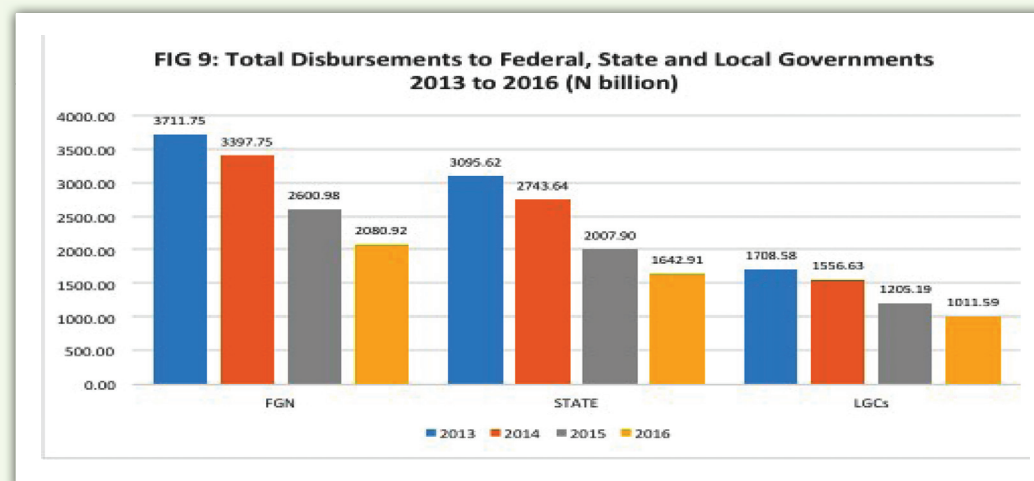
Total FAAC disbursements to the three tiers of government in the fourth quarter of 2016 totaled N1.214 trillion. This represents a slight improvement of 1.18% on the figure of N1.200 trillion disbursed in the corresponding quarter of 2015. Figure 8 reveals that the increase in disbursements was for the States and Local Government Areas, as disbursements to the Federal Government fell. Disbursements to the Federal Government fell by 1.31% from N535.61 billion in Q4 2015 to N528.56 billion in Q4 2016. On the other hand, FAAC disbursements to States increased from N413.24 billion in Q4 2015 to N428.42 billion in Q4 2016, an increase of 3.68%. Disbursements to Local Government Areas increased by 2.42% from N251.74 billion in Q4 2015 to N257.85 billion in Q4 2016.



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

Total disbursements to all tiers of government have experienced a general decline since 2013

Figure 9 presents total disbursements to Federal, State and Local Governments from 2013 to 2016. The figure shows that disbursements have fell consistently from 2013 to 2016. The Federal Government received N3.711 trillion in 2013 and this fell by 43.9% to N2.08 trillion in 2016. Similarly, disbursements to State Governments totaled N3.095 trillion in 2013. In 2016, States received N1.642 trillion, which represents a 46.9% decline on the 2013 figures. Disbursements to Local Governments experienced the lowest decline amongst the three tiers of government. Local Governments received total disbursements amounting to N1.011 trillion in 2016. This was 40.7% lower than the figure of N1.708 trillion they received in 2013.



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

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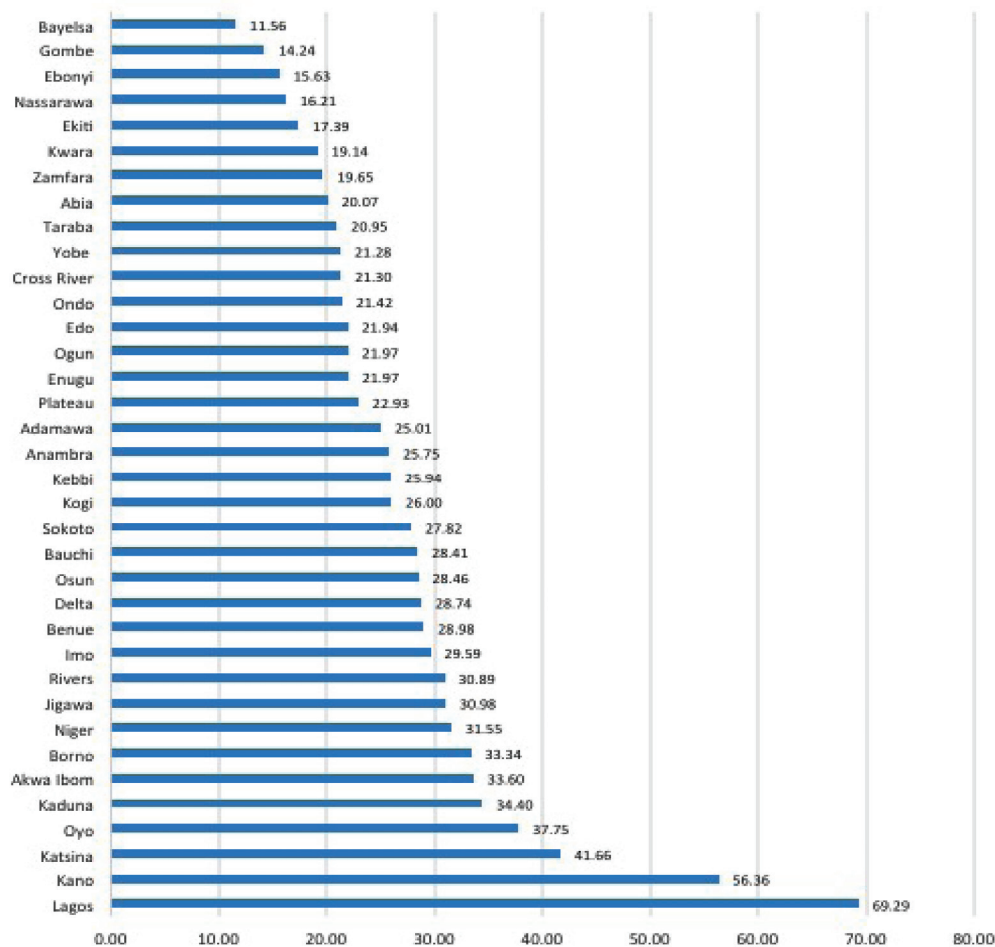
There was wide disparity in total disbursements to local and state governments in 2016

Figures 10 and 11 present total disbursements to Local and State Governments, respectively in 2016. From figure 10, Bayelsa State received the lowest disbursements to its Local Governments with N11.56 billion while Lagos State received the highest disbursement with N69.29 billion. Figure 10 shows wide disparity in disbursements received by Local Governments in different States across the country. Local governments in seven states received between N10 billion and N19.9 billion; Local Governments in 19 states received between N20 billion and N29.9 billion. Local Governments in seven states received between N30 billion and N39.9 billion. The three highest receiving Local Governments were in Katsina (N41.6 billion), Kano (N56.3 billion) and Lagos (N69.2 billion). This shows considerable variation in amounts received by Local Governments in different states.

Figure 11 also shows wide disparities in total disbursements to State Governments, although more states are lumped together in a particular band. Kwara State received the lowest disbursement (N30.08 billion) while Akwa Ibom State received the highest disbursement (N116.64 billion). 25 states received between N30 billion and N39.9 billion in 2016; while five states received total disbursements between N40 billion and N49.9 billion. Three states received total disbursements above N100 billion.

Figures 10 and 11 show that Lagos State ranked in the Top 2 recipients in total disbursements to Local and State Governments. Conversely, Ebonyi State ranked in the Lowest 3 recipients of total disbursements to Local and State Governments in 2016.

FIG 10: FAAC Disbursements to Local Governments in 2016 (N billion)

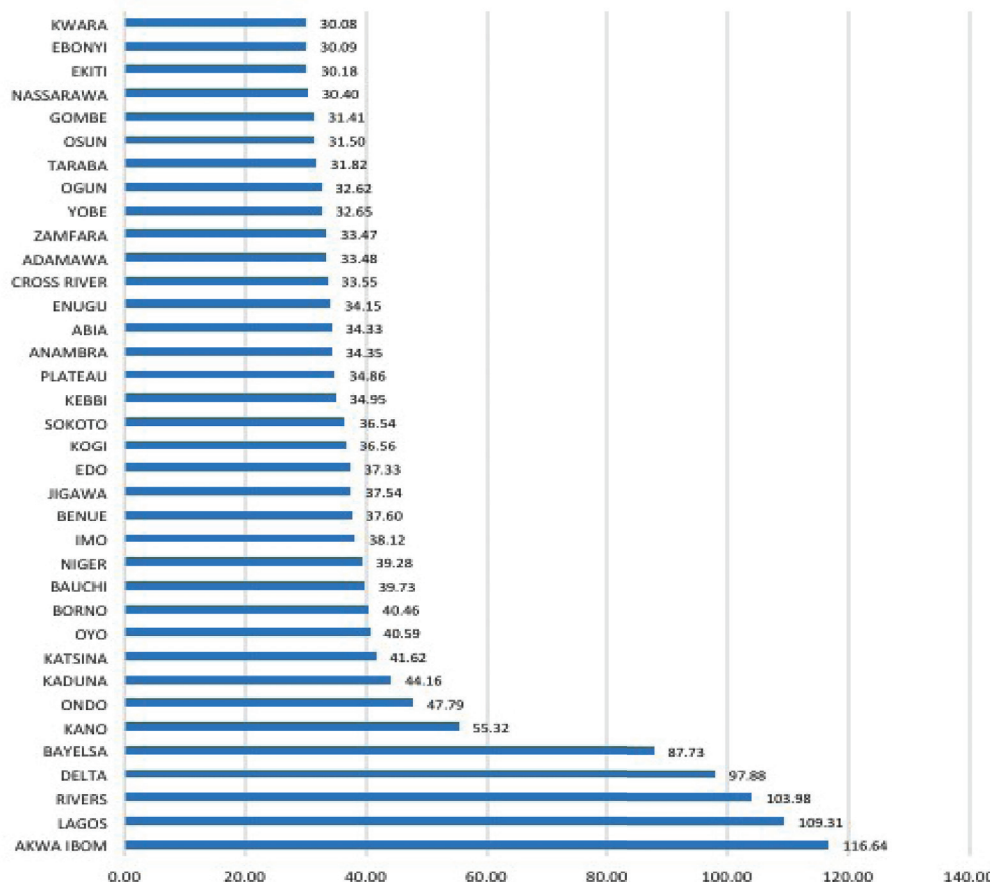


Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

Note: Disbursements to Local Government comprises of Gross Statutory Allocation, Exchange Gain Difference, Value Added Tax, Excess Revenue from various sources, eg. NLNG dividend, recovery of excess bank charges, excess PPT, solid minerals revenue

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FIG 11: FAAC Disbursements to State Governments in 2016 (N billion)



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

Note: Disbursements to State Governments comprises of Gross Statutory Allocation, 13% Share of Derivation, Value Added Tax, Distribution of Exchange Gain, NLNG dividend, Distribution of Excess bank Charges Recovered, Distribution of solid minerals revenue

Total revenues of state governments in 2016 not sufficient to fund their budgets

This issue and previous issues of the NEITI Quarterly Review have shown that all tiers of government received lower FAAC disbursements in 2016. This, coupled with the recession in the country, has also led to a fall in Internally Generated Revenues (IGRs) of states. Table 1 presents data on states' budgets, FAAC allocations, IGRs and total debts. The table shows that revenue of all state governments fell drastically short of their budgets. Some states such as Cross River, Sokoto, Borno, Jigawa, Osun and Plateau had total revenues in 2016 which were below 30% of their budgets. Lagos and Rivers states, at 61.95% and 60.61% respectively, had the highest revenues as a proportion of their budgets. This signals increased debt for the states. Considering that most states already have a high debt burden, there is a high probability of even higher debts for the states.

The information in Table 1 is presented in Figures 12 to 14 which clearly illustrate the wide variances in state governments' budgets and their abilities to fund them. Figure 12 presents 2016 state governments' budgets and total FAAC disbursements. The budgets completely dwarf FAAC allocations and it is clear that there is no state whose FAAC allocations can fund the budget. Of particular interest are states such as Lagos, Akwa Ibom, and Kano where the budgets far outweigh FAAC allocations. Figure 13 presents state governments' budgets and IGRs and this situation is even more critical than presented in Figure 12. IGR is very low in most states and it is only in two states – Lagos and Ogun – that IGR is higher than FAAC allocations. Figure 14 presents budgets and total revenue which comprises total FAAC allocations and IGR. The figure shows that total revenue by itself cannot fund states budgets.

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Table 1: Summary of Budgets, FAAC allocations, IGR and Total Debt Burden of state governments

State	Budget (N billion)	FAAC Disbursements (N billion)	FAAC Disbursements (% of Budget)	IGR (N billion)	IGR (% of Budget)	Total Revenues (% of Budget)	Total Debt Burden (N billion)
Abia	101.40	34.33	33.85	13.35	13.17	47.02	44.93
Adamawa	120.10	33.48	27.87	7.59	6.32	34.19	67.93
Akwa Ibom	423.00	116.64	27.58	16.59	3.92	31.50	161.23
Anambra	101.40	34.35	33.88	14.79	14.59	48.47	20.60
Bauchi	135.31	39.73	29.36	5.39	3.99	33.35	83.78
Bayelsa	170.60	87.73	51.43	7.41	4.34	55.77	113.69
Benue	150.70	37.60	24.95	8.89	5.90	30.84	49.15
Borno	159.00	40.46	25.44	2.52	1.59	27.03	28.22
Cross River	259.20	33.55	12.94	13.54	5.23	18.17	153.54
Delta	268.00	97.88	36.52	44.89	16.75	53.28	331.95
Ebonyi	101.16	30.09	29.75	11.03	10.91	40.66	46.05
Edo	116.60	37.33	32.02	20.68	17.73	49.75	94.54
Ekiti	70.50	30.18	42.80	2.39	3.39	46.19	67.29
Enugu	85.10	34.15	40.13	12.67	14.89	55.02	57.56
Gombe	76.80	31.41	40.90	3.57	4.64	45.55	63.89
Imo	102.20	38.12	37.30	5.43	5.31	42.61	88.06
Jigawa	137.20	37.54	27.36	3.34	2.43	29.79	30.96
Kaduna	171.70	44.16	25.72	15.50	9.03	34.74	110.39
Kano	274.33	55.32	20.17	34.46	12.56	32.73	81.05
Katsina	114.30	41.62	36.42	5.51	4.82	41.24	30.03
Kebbi	109.00	34.95	32.06	3.13	2.87	34.93	76.83
Kogi	99.94	36.56	36.58	7.73	7.73	44.31	51.05
Kwara	128.10	30.08	23.48	16.46	12.85	36.33	45.38
Lagos	662.60	109.31	16.50	301.19	45.46	61.95	603.25
Nassarawa	77.30	30.40	39.33	2.09	2.71	42.04	55.63
Niger	85.09	39.28	46.16	5.76	6.76	52.93	33.13
Ogun	200.20	32.62	16.29	56.30	28.12	44.41	103.75
Ondo	123.70	47.79	38.64	7.78	6.29	44.92	40.54
Osun	141.27	31.50	22.29	8.96	6.34	28.64	165.91
Oyo	173.10	40.59	23.45	15.66	9.05	32.50	65.59
Plateau	146.70	34.86	23.76	9.09	6.20	29.96	104.06
Rivers	307.00	103.98	33.87	82.10	26.74	60.61	147.98
Sokoto	174.30	36.54	20.97	6.22	3.57	24.54	22.90
Taraba	100.88	31.82	31.54	4.11	4.07	35.61	33.83
Yobe	89.93	32.65	36.31	3.80	4.23	40.54	11.74
Zamfara	109.40	33.47	30.59	4.21	3.84	34.43	55.71

Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics, Debt Management Office, Budget
Notes: Total debt burden of domestic and external debt. Domestic debt is as at December 31, 2015. External debt is as at June 30, 2016

FIG 12: State Governments Budgets & FAAC Disbursements (2016)

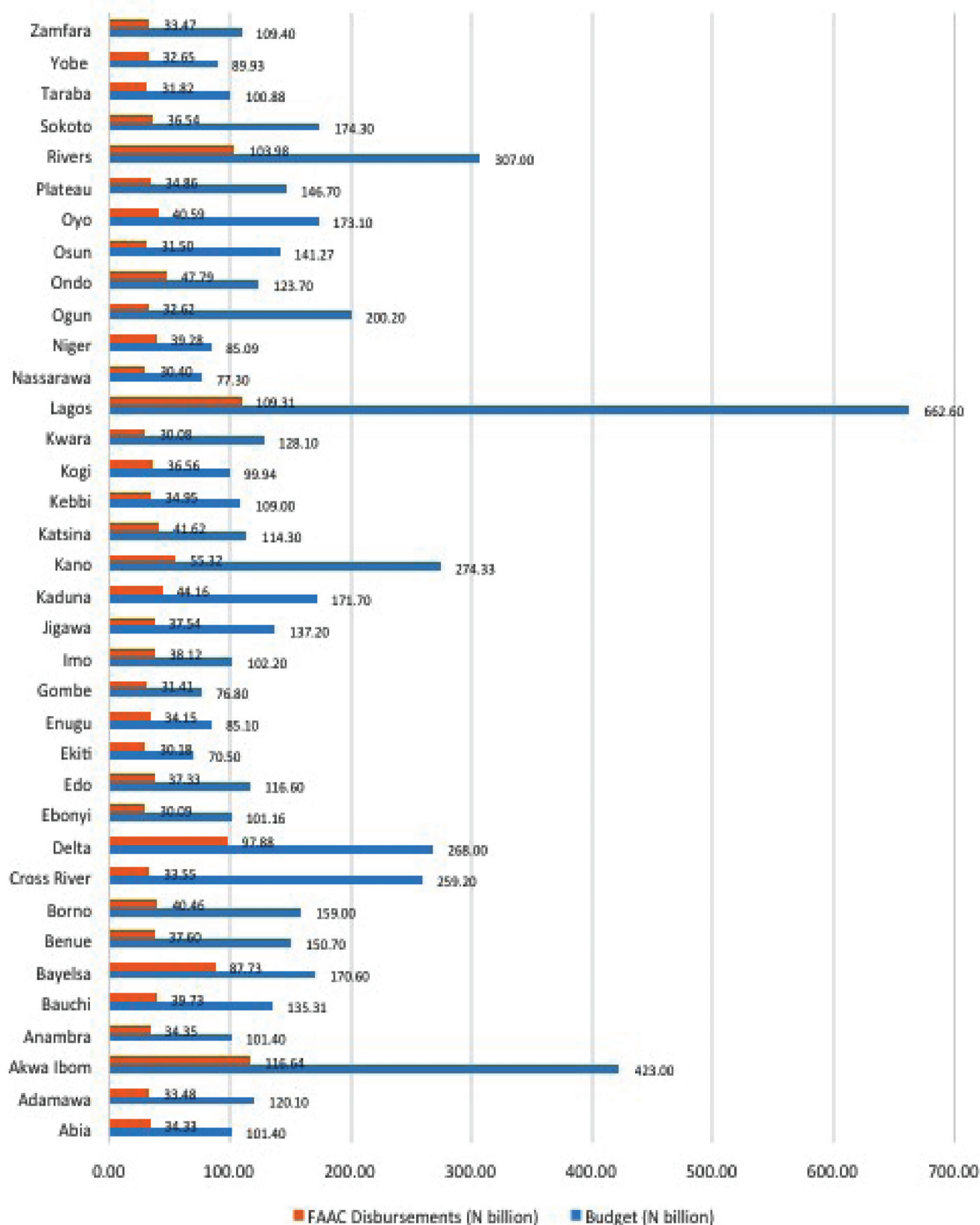


FIG 13: State Governments Budgets & IGR (2016)

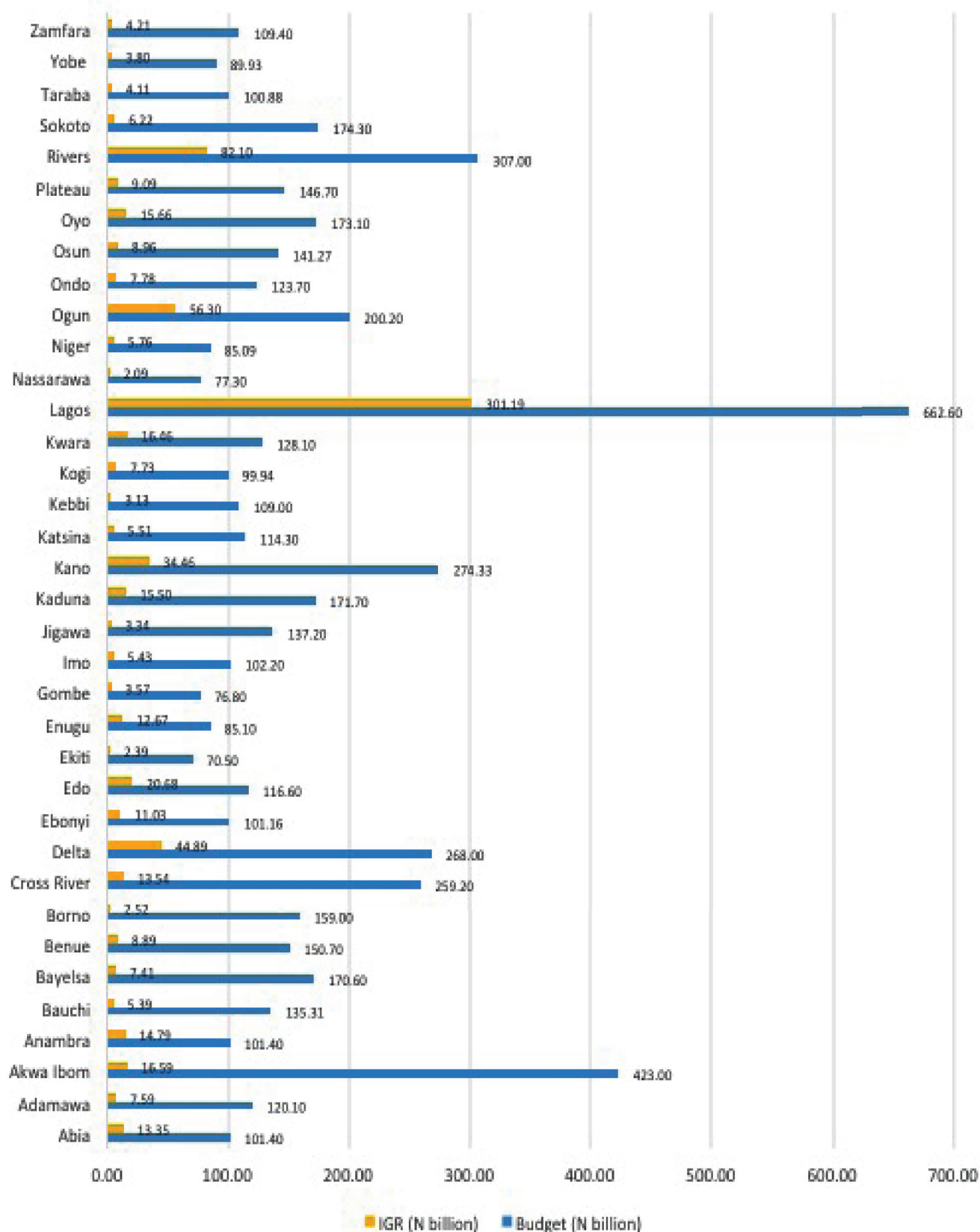


FIG 14: State Governments Budgets & Total Revenue (2016)

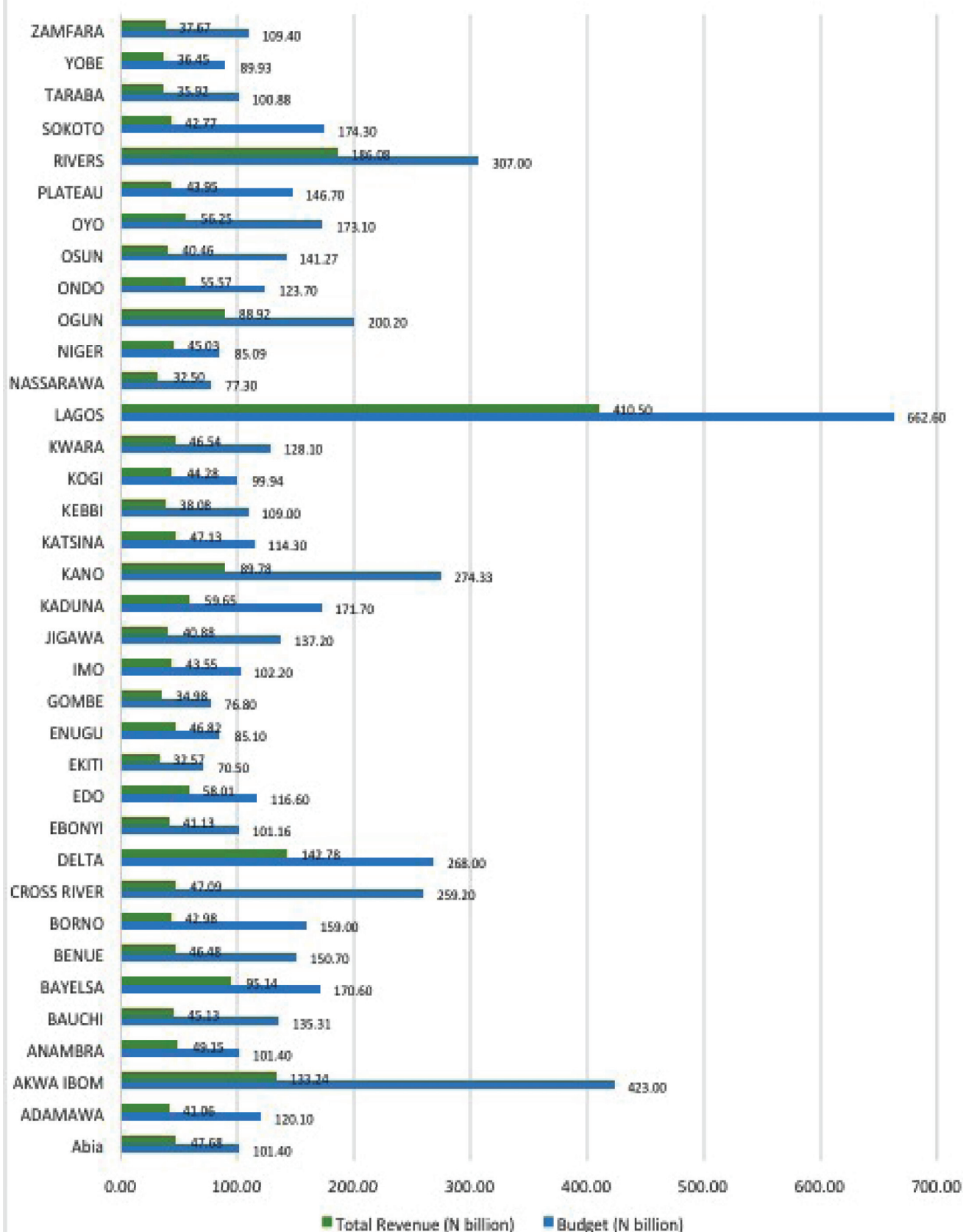
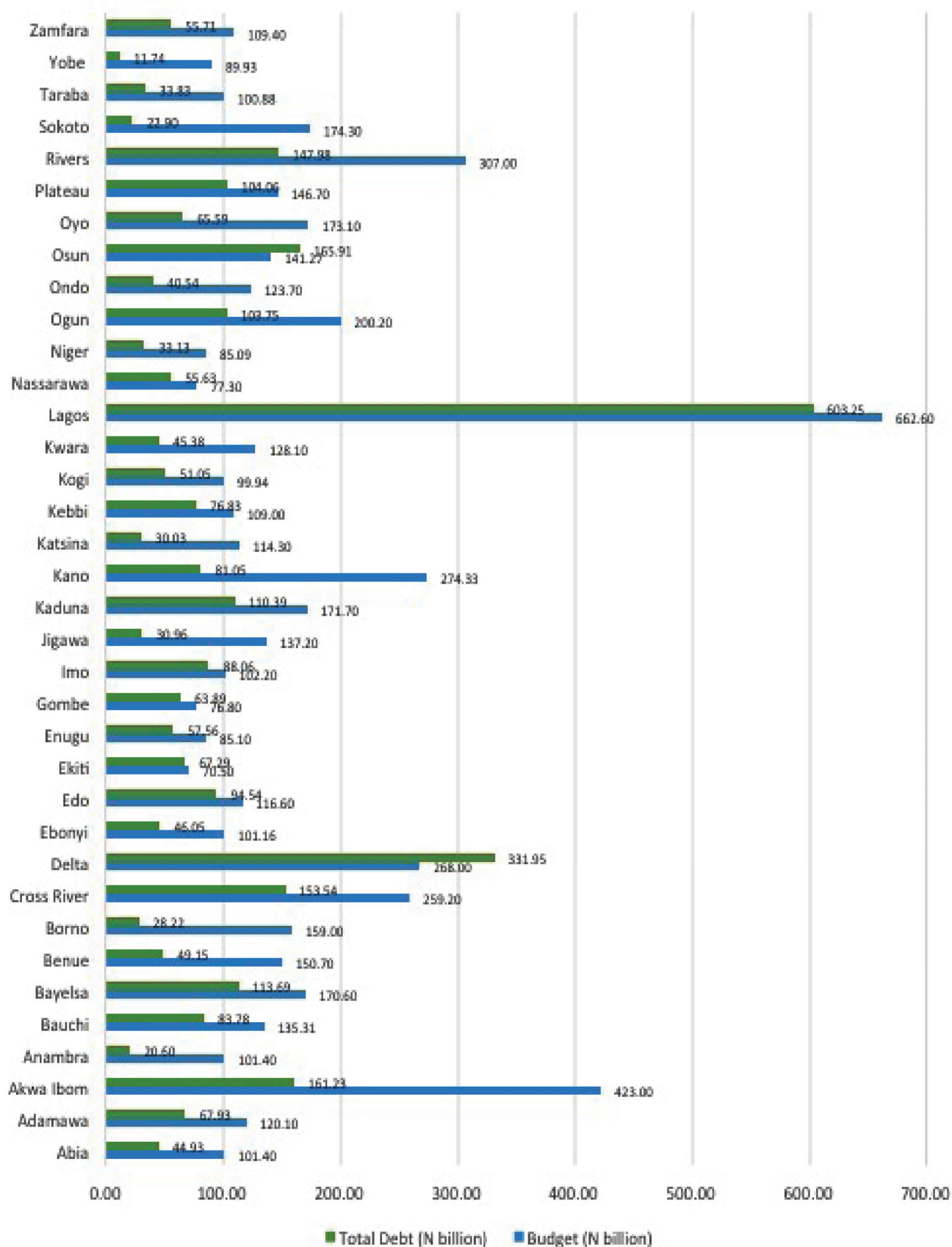
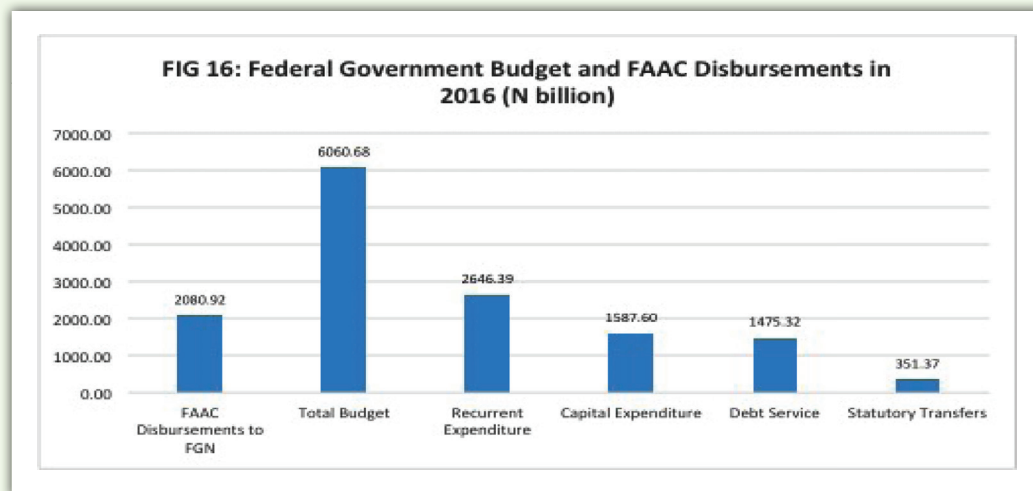


FIG 15: State Governments Budgets & Total Debt Burden



Total FAAC disbursements to the federal government were 34.3% of the 2016 budget

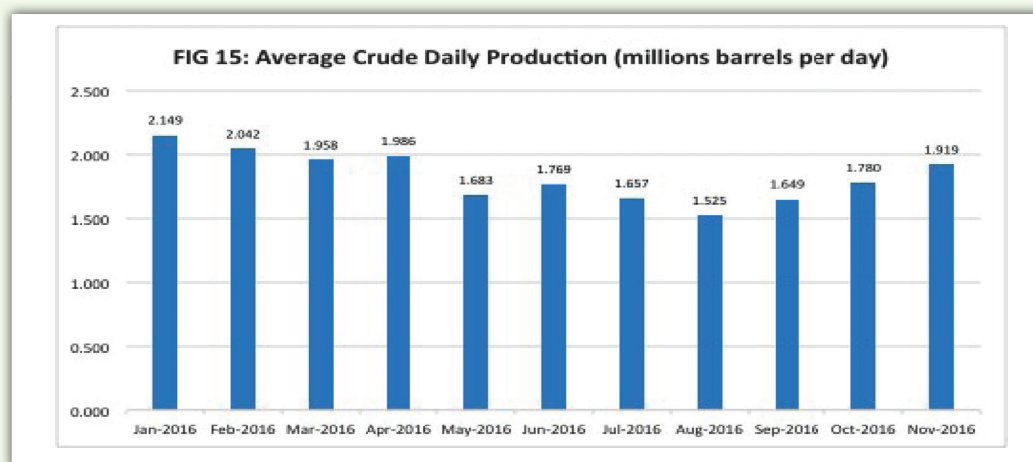
The Federal Government received a total of N2.08 trillion from the Federation Account in 2016. This represents a drop of 19.9% of the total N2.6 trillion received in 2015 (Figure 9). Figure 16 presents the 2016 total Federal Government budget, its component parts, together with total FAAC disbursements to the Federal Government in 2016. The 2016 budget was for N6.06 trillion. This implies that at N2.08 trillion, total FAAC disbursements were only 34.3% of the budget. Figure 16 shows that the total disbursements were not even enough to cover recurrent expenditure. Thus, the Federal Government would have to resort to even higher debts to fund the budget. The implication of this is that debt service payments, which accounted for 24.3% of the 2016 budget, would increase.



Sources: Office of the Accountant-General of the Federation, National Bureau of Statistics

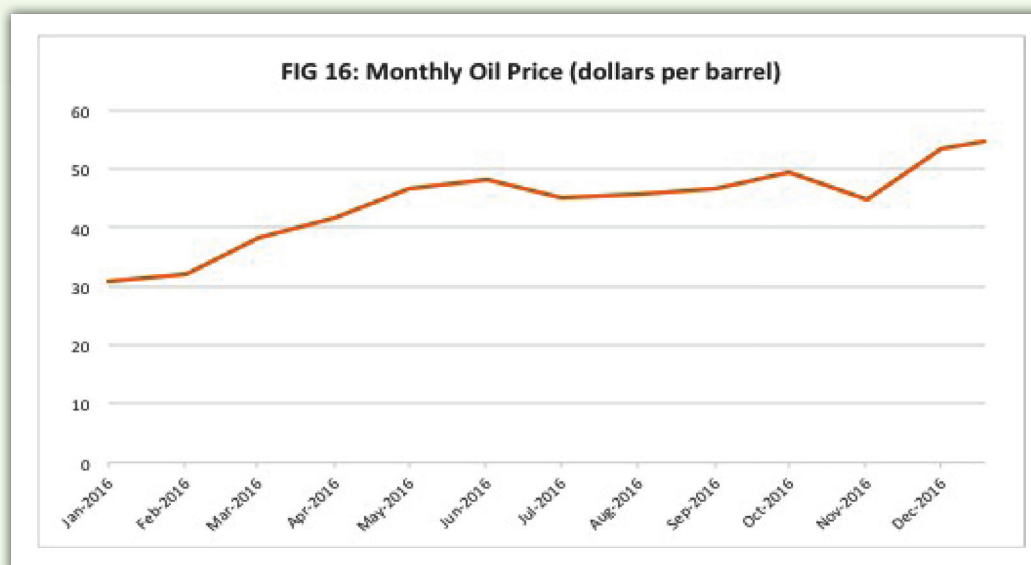
Projections from 2016

Because of the dependence of government revenue on petroleum exports, Nigeria's public finances are subject to frequent upswings and downswings, following movement of global oil prices. As shown by this and previous issues of the Review, all three-tiers of the Nigerian Government have been subjected to dwindling and volatile revenues as a result of militant attacks in the Niger Delta and falling/unstable oil prices. This Review showed that government revenue started rising in the second half of 2016. Figures 15 and 16 respectively show daily crude oil production and oil prices for 2016. Figure 15 shows that oil production fell from January until August, after which it started rising. Figure 16 also shows a gradual rise in oil prices from \$30.70/barrel in January 2016 to \$54.58/barrel in January 2017. Thus, both oil production and oil prices have been on the rise. The combined increase in these two variables led to the increase in government revenue experienced by all tiers of government in the second half of 2016. If this rising trend continues, government revenues will likely increase further. This will improve the abilities of the Federal Government and the state governments to fund their budgets.



Source: NNPC Monthly Financial and Operations Report

"Figure 15 shows that oil production fell from January until August, after which it started rising. Figure 16 also shows a gradual rise in oil prices from \$30.70/barrel in January 2016 to \$54.58/barrel in January 2017."



Source: Energy Information Administration

Conclusion

This review has examined FAAC disbursements to the three tiers of government in the 4th quarter of 2016. It also analysed total disbursements to State and Local Governments for the year 2016. The review showed that disbursements to the three tiers of government were higher in the 4th quarter compared to the corresponding quarter of 2015. The review also showed that disbursements in the second half of 2016 were higher than disbursements in the first half of the year. In addition, there are wide disparities in amounts disbursed to Local and State Governments. Lagos State featured in the Top 2 recipients of FAAC disbursements to both tiers of government, while Ebonyi State is ranked in the Lowest 3 recipients to both Local and State Government. Finally, the review showed that the States fell short of raising enough revenues to fund their budgets. Thus, their debt burden, which is already high will increase further in the nearest future as they increase borrowing to fund their budgets. On a positive note however, all tiers of government stand to benefit if current upswing in oil prices and oil production is sustained.

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