THE PRESIDENCY

NEITI Nigeria Extractive Industries Transparency Initiative

Quarterly Review

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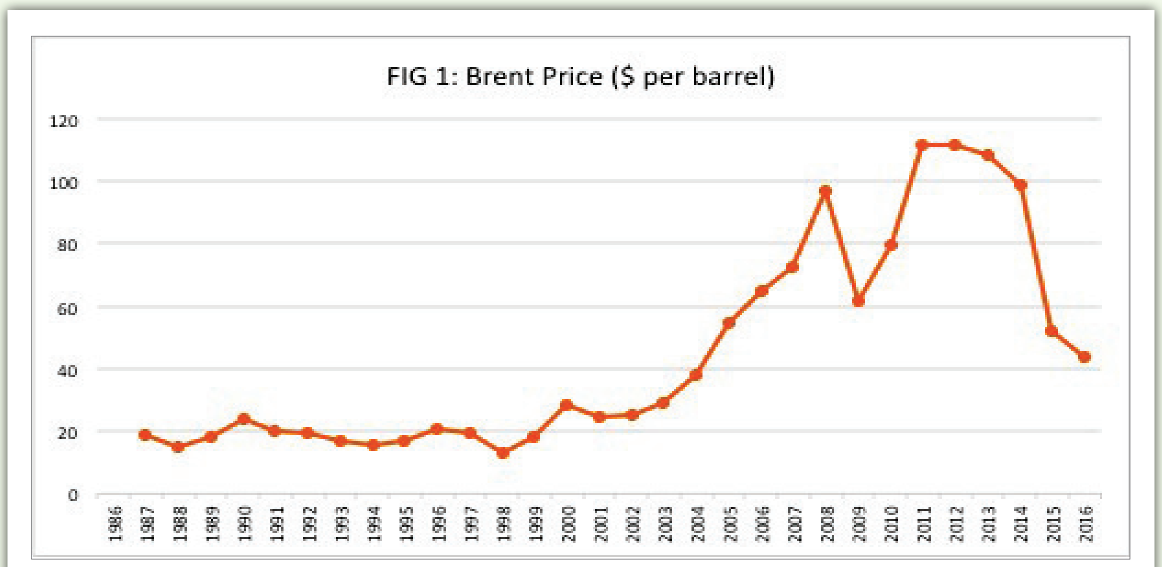
FAAC Disbursements in First Half of 2017: Trends, Issues and Implications

This review takes an analytical look at the statutory disbursements to the three tiers of government in the first six months of 2017. Drawing on data from the National Bureau of Statistics, Office of the Accountant General of the Federation, Budget Office of the Federation, the Federal Ministry of Finance, Debt Management Office, and NEITI's attendance of the meetings of the Federation Account Allocation Committee (FAAC), the report examines FAAC disbursements and its interactions with a number of other important variables such as debt service, budget estimates, and disbursements in previous time periods.

The general trend observed for the first half of 2017 is an increase on the total funds disbursed in the first half of 2016. However, total funds disbursed in the first half of 2017 were below disbursements in the corresponding period of 2015. This indicates that government revenue has remained low, primarily due to oil prices which has been on a downward spiral since late 2014. Although prices rose from late 2016 following the production agreement between OPEC and non-OPEC countries, oil prices have not risen above $60 per barrel, as against the average price of over $100 per barrel experienced in the first part of this decade (Figure 1).

Coupled with the low price of oil is the country's difficulty in meeting the targeted/budgeted production rate of 2.2 million barrels per day. Production has consistently fallen below two million barrels per day since March 2016 (Figure 2). Thus, the "double whammy" of low oil prices and low production that hit the country since 2014 has remained.



Source: Energy Information Administration

HIGHLIGHTS

- **FAAC disbursements in H1 2017 were 38% higher than H1 2016, but 3.5% lower than H1 2015**
- **Total Amount Spent by Governments on Debt Servicing was 40% of Total FAAC Disbursements in the First Quarter of 2017**
- **All three tiers of government experienced 40.67% shortfall between budgeted and actual FAAC disbursements in H1, 2017**
- **Domestic Debt Servicing Constitutes over 90% of Total Debt Servicing**
- **The Federal Government Has Released N760.18 billion to the 36 States and FCT in 2 Tranches for Paris Club Refunds**
- **The NNPC Completed the Refund of N450 billion to the Federation Account in the First Half of 2017**

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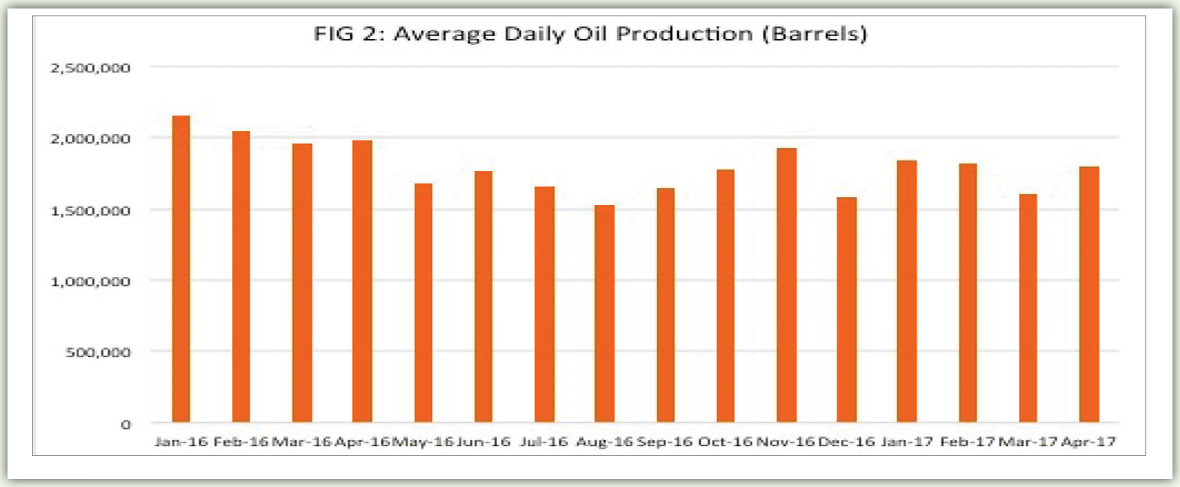

Source: NNPC Monthly Financial and Operations Reports

FAAC Disbursements in H1 2017 were 38% Higher than H1 2016, but 3.5% Lower than H1 2015[1]

Total FAAC disbursements for the first six months of 2017 were N2.788 trillion. This represents a 38.12% increase over the N2.019 trillion disbursed in the corresponding period of 2016, indicating governments across the board were better off by more than a third in H1 2017 than in H1 2016. However, this figure is 3.51% below the N2.890 trillion disbursed in the first half of 2015. Figure 3 shows that the federal government received the most of this amount, followed by state governments, and then local governments, which is in line with the revenue sharing formula. The federal government received N1.098 trillion which was 28.5% higher than the N854 billion it received in the same period in 2016. State governments received N923 billion, which represents an increase of 31.5% on N701 billion they received in the corresponding period of 2016. Local government areas received N549.8 billion which was 28% higher than the N429 billion disbursed to them in the first half of 2016. Thus, state governments experienced the largest increase on the 2016 figures amongst the three tiers of government.

Figure 4 shows total disbursements by month. This figure reveals that FAAC disbursements for the first six months of the year were as follows: N430.16 billion (January), N514 billion (February), N466.93 billion (March), N496.40 billion (April), N418.82 billion (May) and N462.36 billion (June) . Thus, February (N514.15 billion) had the highest disbursements in the first half of 2017, while disbursements were lowest in May (N418.82 billion). The figure shows that disbursements were higher in all the first six months in 2017 than they were in 2016. Interestingly, disbursements in the first half of 2017 were higher than the corresponding period for 2015 in four months (February, April, May and June); while they were lower in two months (January and March).

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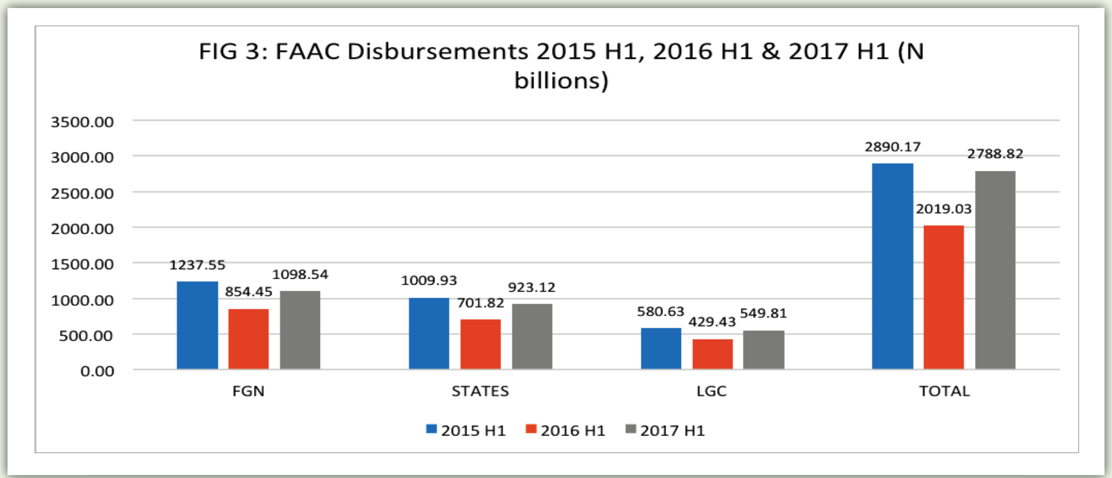


Source: National Bureau of Statistics and Office of the Accountant-General of the Federation

[1] Total FAAC disbursements comprise FGN, States, LGCs, 13% Derivation, Cost of Collection -NCS, Transfer to Excess PPT, Cost of Collection - FIRS, Cost of Collection – DPR, NCS Refund/FIRS Refund

FIG 4: Total FAAC Disbursements Jan. to Jun. 2015 - 2017 (N billions)

Source: National Bureau of Statistics and Office of the Accountant-General of the Federation

FAAC Disbursements to all Tiers of Government in the First Half of 2017 Exhibited Upswings and Downswings in Alternate Months[2]

Figures 5 to 7 depict FAAC disbursements to the federal, state and local governments respectively. These figures reveal frequent increases and decreases in FAAC disbursements to all tiers of government, thereby indicating high volatility in revenue inflows. This does not bode well for planning purposes and budget implementation.

Figure 5 shows disbursements to the federal government for January to June for three years: 2015, 2016 and 2017. For 2017, disbursements were highest in February (N200.5 billion) while they were lowest in May (N163.9 billion). However, a zig-zag type of movement is observed, where disbursements rose from January to February, then fell in March, and then rose in April, before falling in May and finally rising again in June. Such fluctuations reflect the unpredictable nature of dependence on revenues from commodity exports. This revenue volatility is also reflected when we compare the years 2015 and 2017. It is seen from Figure 5 that disbursements to the federal government were higher in 2015 than in 2017 for January to March. Conversely, disbursements were higher in 2017 than in 2015 for April to June. For the year 2016, some form of consistency is observed as it is seen that disbursements fell consistently between January and May.

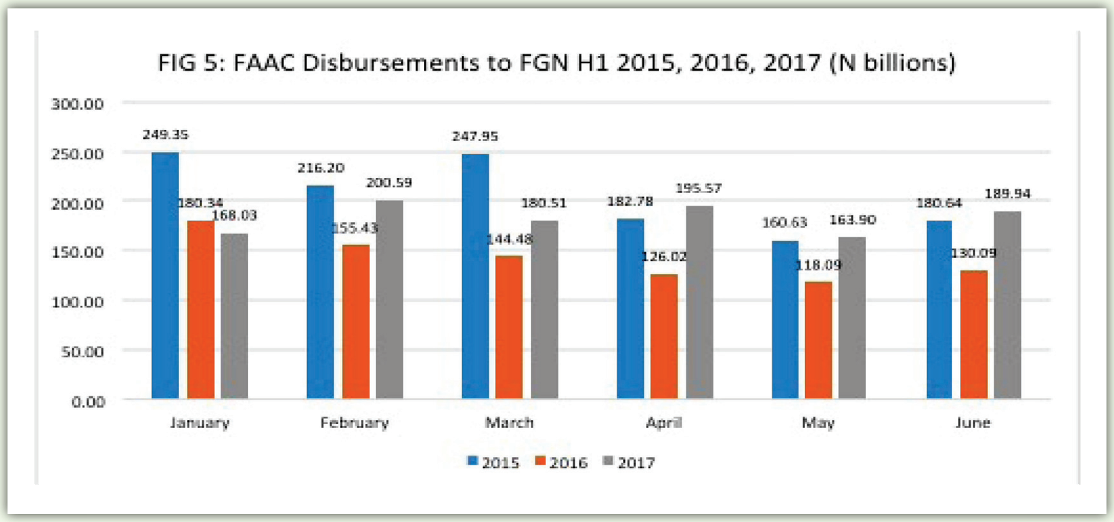
Figure 6 presents the disbursements to state governments from 2015 to 2017. The highest disbursement to states was recorded in April (N163.7 billion) while the lowest disbursement was recorded in January (N141.1 billion). The figures for 2017 reveal a similar pattern in the disbursements to the federal government as disbursements rose and fell in alternate months. Similar to what was observed for the federal government, disbursements to state governments were higher in 2015 than in 2017 from January to March while they were higher in 2017 from April to June. Figure 6 also shows a consistent fall in disbursements to states between January and May 2016.

Figure 7 shows the disbursements to local government councils over the same period. The figures are largely similar to what was observed in Figures 5 and 6. Disbursements to local governments in the first half of 2017 increased and decreased in successive months.

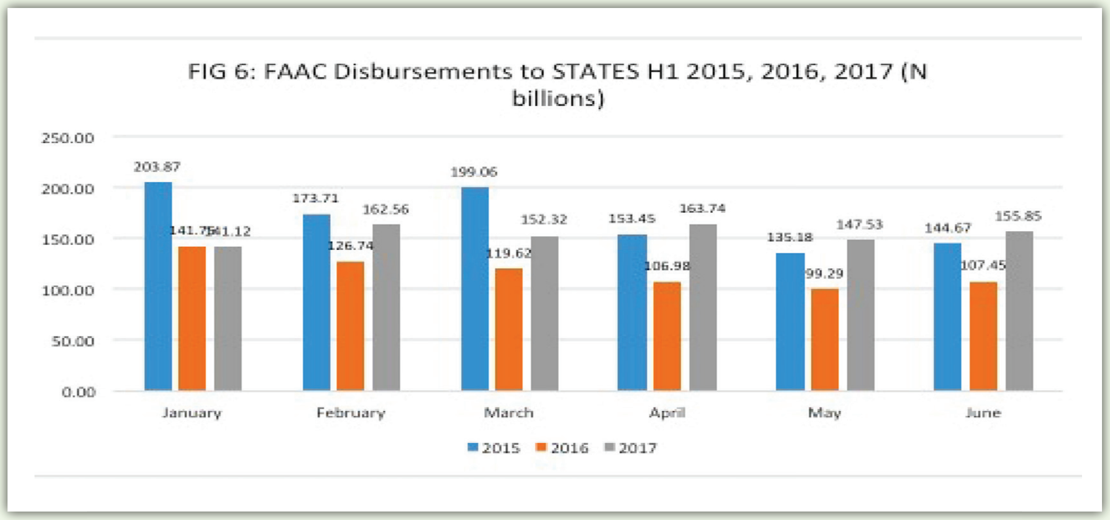
The volatile nature of disbursements to all tiers of government in the first half of 2017 would suggest difficulty in implementing budgets at the federal, state and local government levels. The volatility in revenue inflows will adversely affect planning and expenditure of government, and thus likely hamper efforts at stimulating economic growth and development.

"The highest disbursement to states was recorded in April (N163.7 billion) while the lowest disbursement was recorded in January (N141.1 billion)."

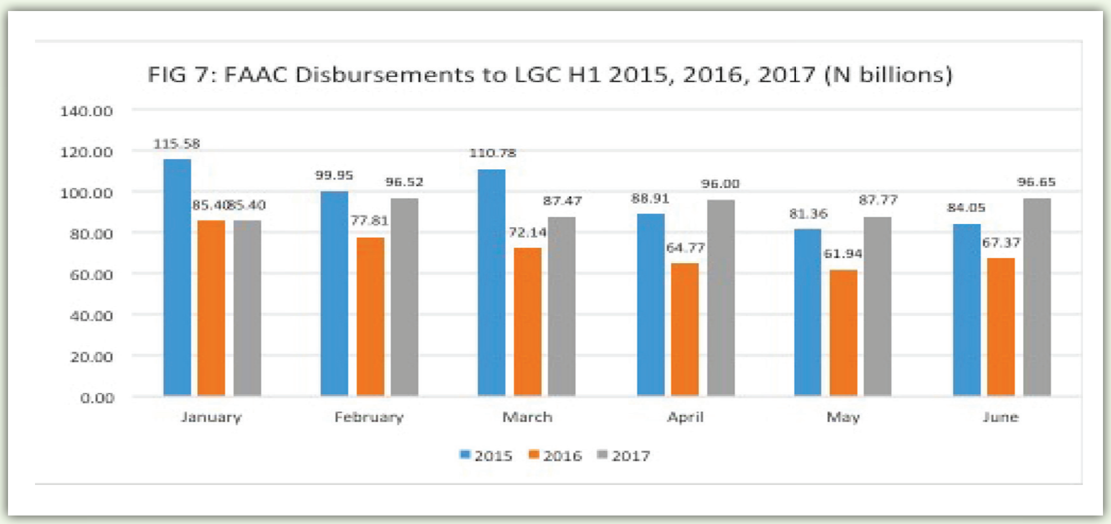
[2] This review focuses on months of disbursement rather than months of allocation. The FAAC allocations for any specific month are disbursed in the immediate succeeding month. However, since the allocations are not actually available for spending until they are disbursed in the next month, it is more important to analyse disbursement of funds. It is these disbursed funds that are available to the different tiers of government for expenditure in any month, rather than allocations for that month.



Source: National Bureau of Statistics and Office of the Accountant-General of the Federation



Source: National Bureau of Statistics and Office of the Accountant-General of the Federation

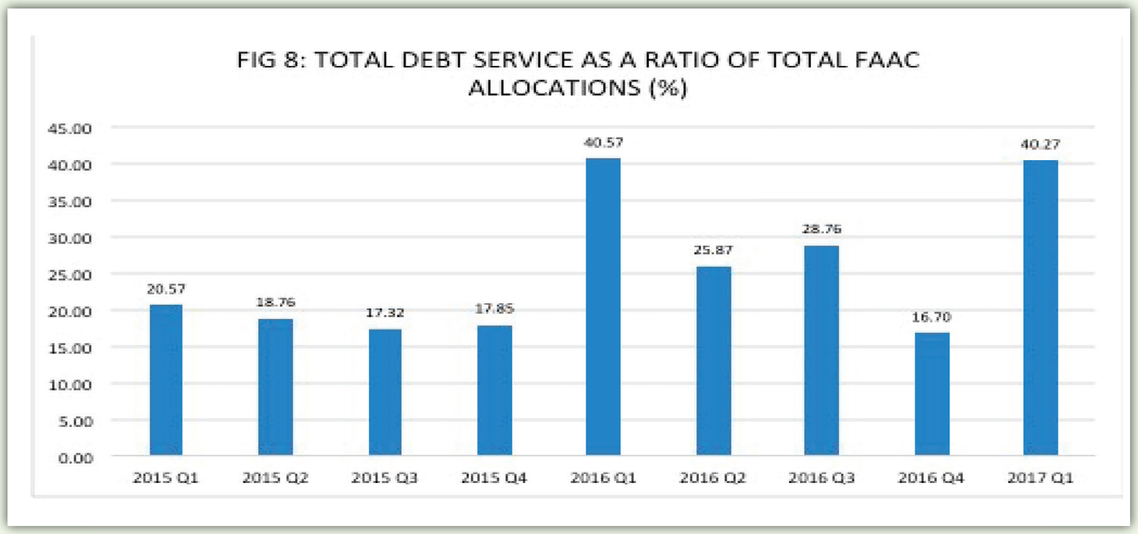


Source: National Bureau of Statistics and Office of the Accountant-General of the Federation

"The volatile nature of disbursements to all tiers of government in the first half of 2017 would suggest difficulty in implementing budgets at the federal, state and local government levels"

Total Amount Spent by Governments on Debt Servicing was 40% of Total FAAC Disbursements in the First Quarter of 2017[3]

In the first quarter of 2017, the total amount paid by all three tiers of government for servicing their debt was N513 billion. When compared with total FAAC disbursements of N1.274 trillion, this means that debt servicing took up 40.27% of total FAAC disbursements. This is a substantial proportion of revenue inflows and shows that the nation's debt in relation to revenues may be reaching a critical level. Figure 8 shows quarterly debt servicing as a proportion of total FAAC allocations from the first quarter of 2015. The figure reveals that debt servicing as proportion of total FAAC allocations is generally higher in the first quarter of the year, after which it falls to lower levels. Based on this, the figure of 40.27% observed in the first quarter of 2017 might be an upper threshold and it would thus be expected that this figure will be lower for the remaining quarters of the year. However, Figure 8 also reveals rising average levels of debt servicing to total FAAC disbursement ratios. This ratio averaged 18.63% in 2015 and 27.98% in 2016. It is thus possible that the average debt servicing ratio to FAAC disbursements ratio could be higher in 2017.



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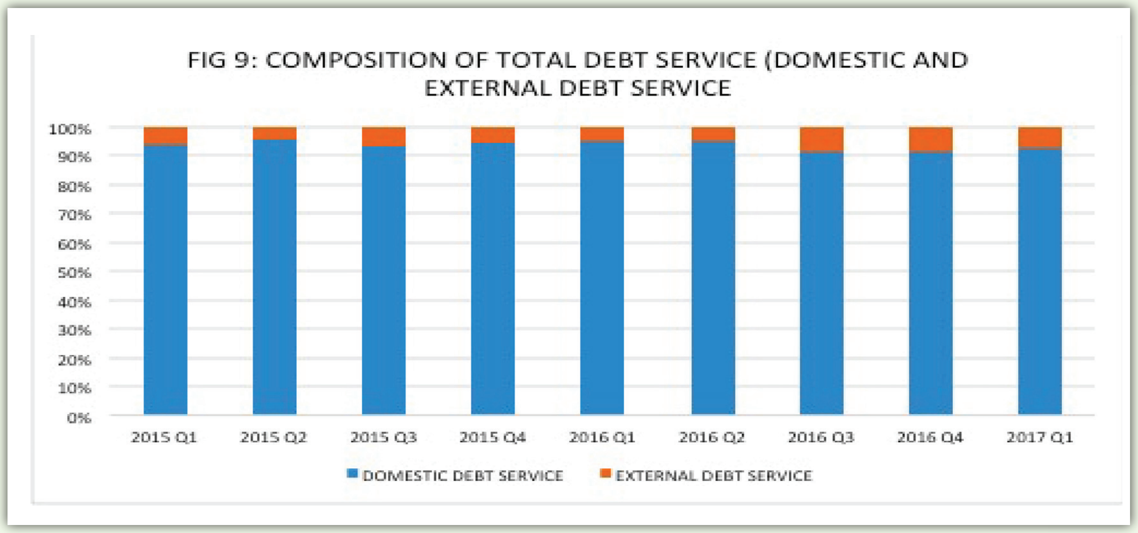
Domestic Debt Servicing Constitutes over 90% of Total Debt Servicing

Figure 9 presents the composition of debt servicing between the first quarter of 2015 and the first quarter of 2017. The figure reveals that domestic debt servicing consistently outstrips external debt servicing. In the first quarter of 2015, domestic debt servicing made up over 93% of total debt servicing. This figure did not change much by the first quarter of 2017 as domestic debt servicing was over 92% of total debt servicing. It is seen from figure 9 that domestic debt servicing has consistently contributed over 90% of total debt servicing since 2015. The Central Bank of Nigeria (CBN) in its Communique No. 114 of the Monetary Policy Committee (MPC) Meeting of July 24 and 25, 2017 indicated that credit to government has been growing while credit to the private sector has been falling, indicating the likeliness of crowding out effect on private sector investment.

Concerns about such crowding out effect on the private sector was one of the motivating reasons for the recent decision of the federal government to refinance maturing domestic debt with foreign debt. According to the Minister of Finance, Mrs. Kemi Adeosun, this movement from domestic to foreign borrowing will not only free up more cash for banks to lend to the private sector, but it will also have multiplier effects on job creation in the country. It is also hoped that this initiative will lead to downward pressure on domestic interest rates. Thus, borrowing to the private sector could not only increase, but it could also be cheaper. Another consideration was to reduce the cost of borrowing to government, as interest rates on the international market are lower than domestic interest rates. This could lower debt servicing.

[3] Figures for debt servicing from the Debt Management Office were not available for the second quarter of 2017



Source: Debt Management Office

There was a Shortfall of 40.67% between Budgeted and Actual FAAC Disbursements in the First Half of 2017

Figures from the 2017 budget reveal that total FAAC disbursements to all tiers of government were estimated at N9.402 trillion for the year. This figure was based on a number of assumptions, such as: oil production of 2.2 million barrels a day; benchmark price of oil of $44.50 per barrel; dividend from NLNG; revenues from solid minerals; and various forms of taxes. If all these assumptions held and revenue flowed into government coffers as expected, then dividing the expected FAAC disbursements by two would give an estimated figure for disbursements mid-way through the year. Doing so gives a half-year estimate of FAAC disbursements of N4.701 trillion. It is pertinent to note that despite these various sources, oil revenue constitutes the substantial component of government revenues. However, revenue from oil has been considerably lower than budgeted, primarily because of lower than budgeted production figures. While oil prices have largely been above $44.50 per barrel, as seen in Figure 2, oil production has fallen consistently below the budgeted figure of 2.2 million barrels a day. This has resulted in the big gap between actual and budgeted disbursements (Figure 10). Since actual total FAAC disbursements were N2.788 trillion, this shows that there was a variance of -N1.912 trillion, indicating a shortfall of 40.67% between actual and budgeted FAAC disbursements.

For the federal government, actual disbursements were N1.098 trillion while the budgeted figure was N1.978 trillion. This implies a variance of -N880.3 billion (44.4% shortfall). Actual FAAC disbursements to state governments were N923 billion, while N1.696 trillion was budgeted. This shows a variance of -N773.7 billion (45.5% shortfall). Finally, local governments received N549 billion of the budgeted figure of N1.025 trillion, representing a variance of -N475. 7 billion (46.3% shortfall). Thus, all three tiers of government received close to 50% less than was budgeted in the first half of 2017.

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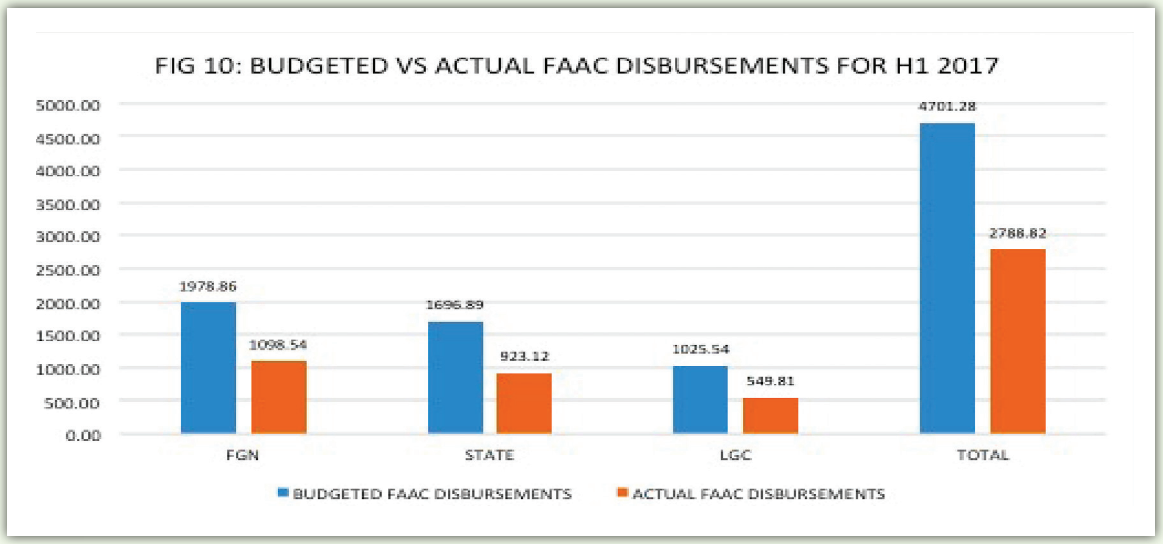

Source: National Bureau of Statistics, Office of the Accountant-General of the Federation, Budget Office, Federal Ministry of Finance, Budget Office of the Federation

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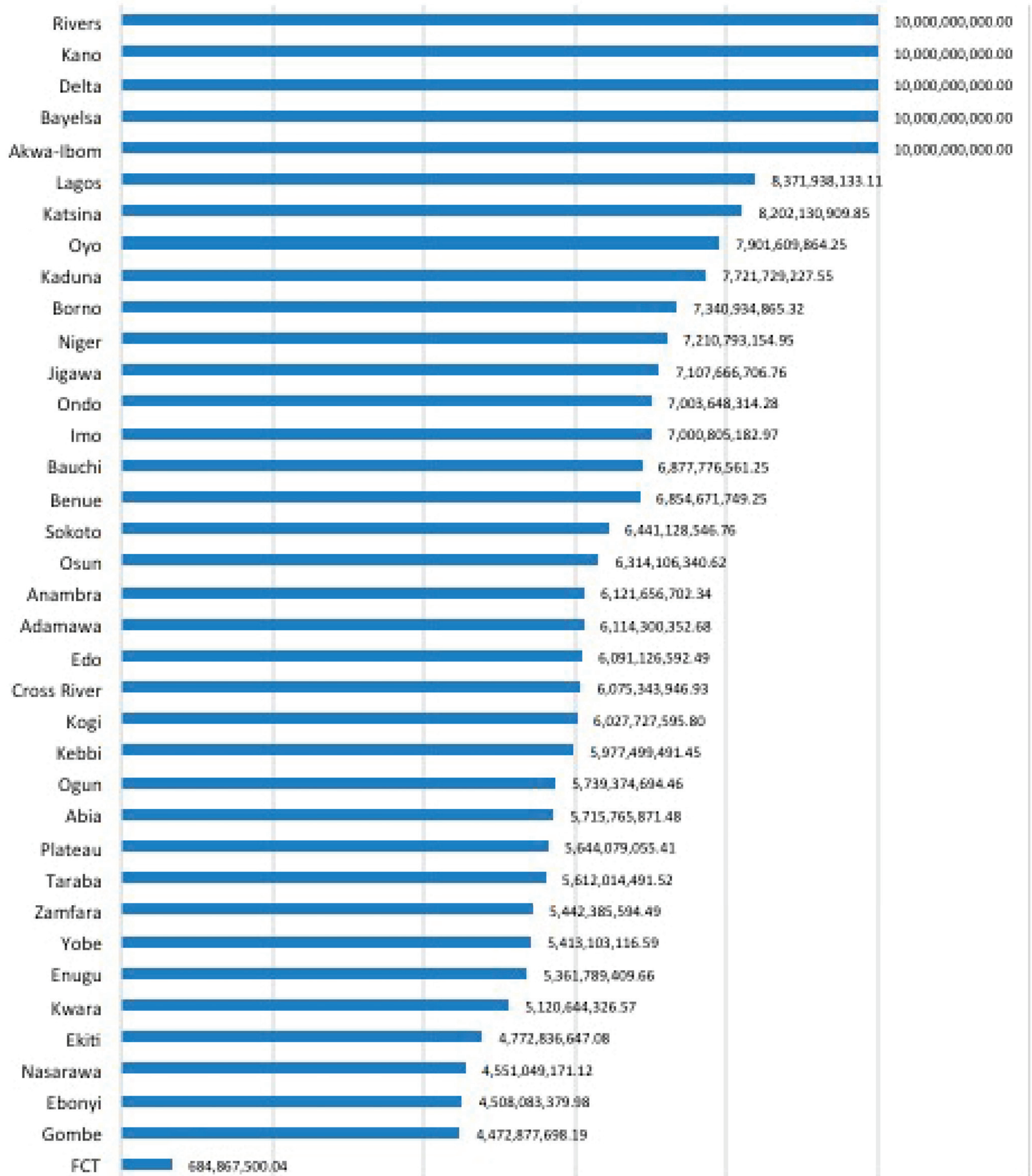
The Federal Government Has Released N760.18 billion to the 36 States and FCT in Two Tranches for Paris Club Debt Refunds

On 18 July 2017, the Federal Ministry of Finance released details of the second tranche of refunds to the 36 states of the Federation and the Federal Capital Territory (FCT). The payments were for the refunds of over-deductions from the FAAC allocations of states and local governments for quick payment of debt relief on Paris Club, London Club Loans and Multilateral debts for the period 1995 to 2002. These funds were released following approval of the President on May 4, 2017. The total disbursements to states were N243,795,465,195.20. Figure 11 reveals that five states received the highest amount of N10 billion (Rivers, Kano, Delta, Bayelsa, and Akwa-Ibom). The FCT received the lowest release of N684.8 million.

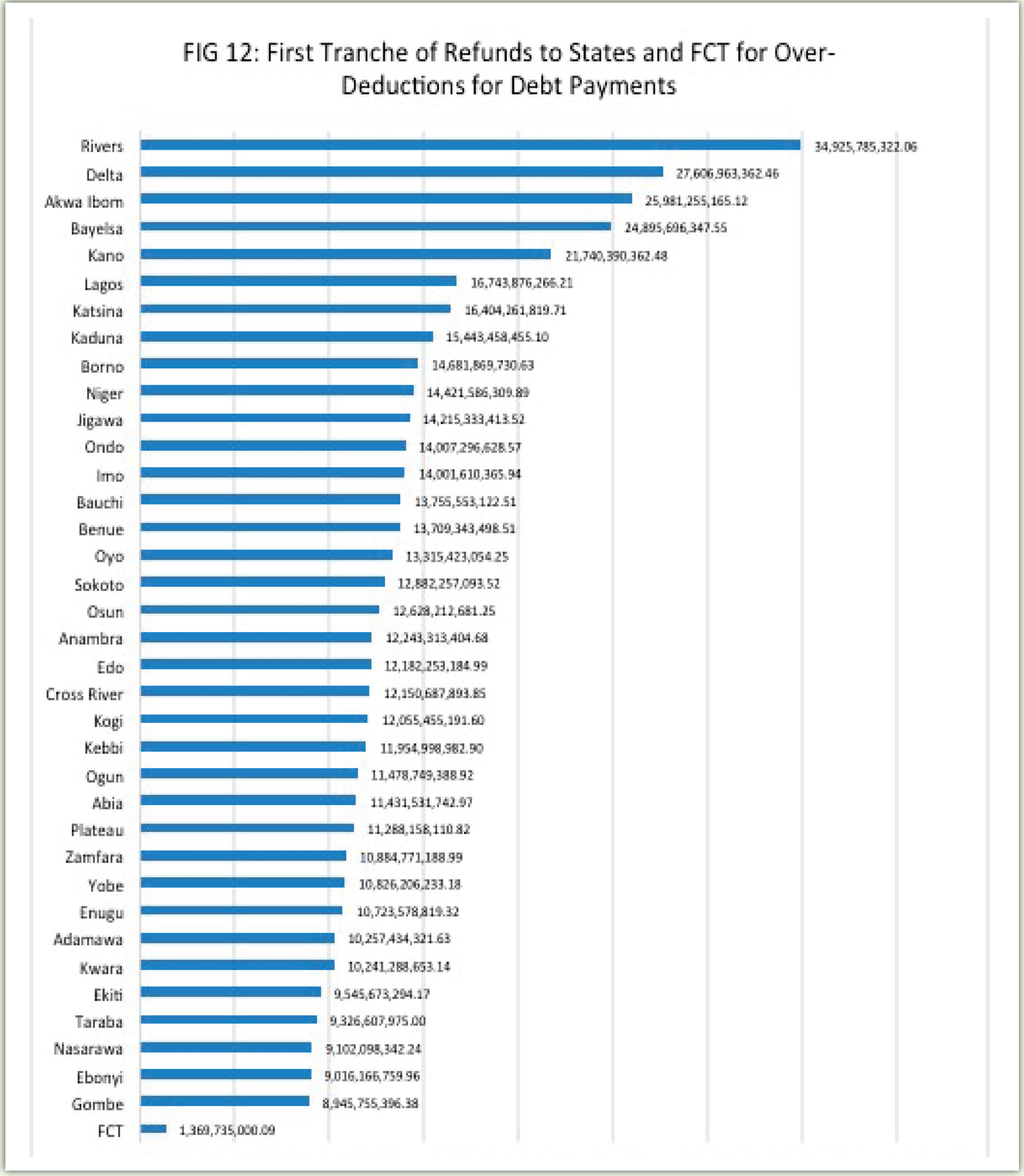
A total of N516.38 billion was released to the 36 states and the FCT in the first tranche of refunds. In a statement from the Federal Ministry of Finance released on 9 June 2017, the President gave the approval for the release of these funds on November 21, 2016. Figure 12 presents details of the first tranche of refunds. A total of N516,384,636,883.81 was disbursed to the 36 states and the FCT. Rivers State received the highest disbursement of N34.925 billion while the FCT received the lowest disbursement of N1.369 billion. In summary, five states received above N20 billion; 26 states received between N10 billion and N20 billion; five states and the FCT received less than N10 billion.

Thus, a total of N760,180,102,079.01 has been released to the 36 states and FCT for refunds of Paris Club loans. Figure 13 presents the total of the first and second tranche releases and it is seen that Rivers State received the highest release of N44.925 billion while the FCT received the lowest with N2.054 billion. The Federal Ministry of Finance has stressed that these releases should largely be used for the payment of workers' salaries and pensions. In light of lower FAAC disbursements as a result of lower oil production and prices, these refunds should go a long way in alleviating the challenges with workers' welfare that states have been experiencing since late 2014.

FIG 11: Second Tranche of Refunds to States and FCT for Over-Deductions for Debt Payments

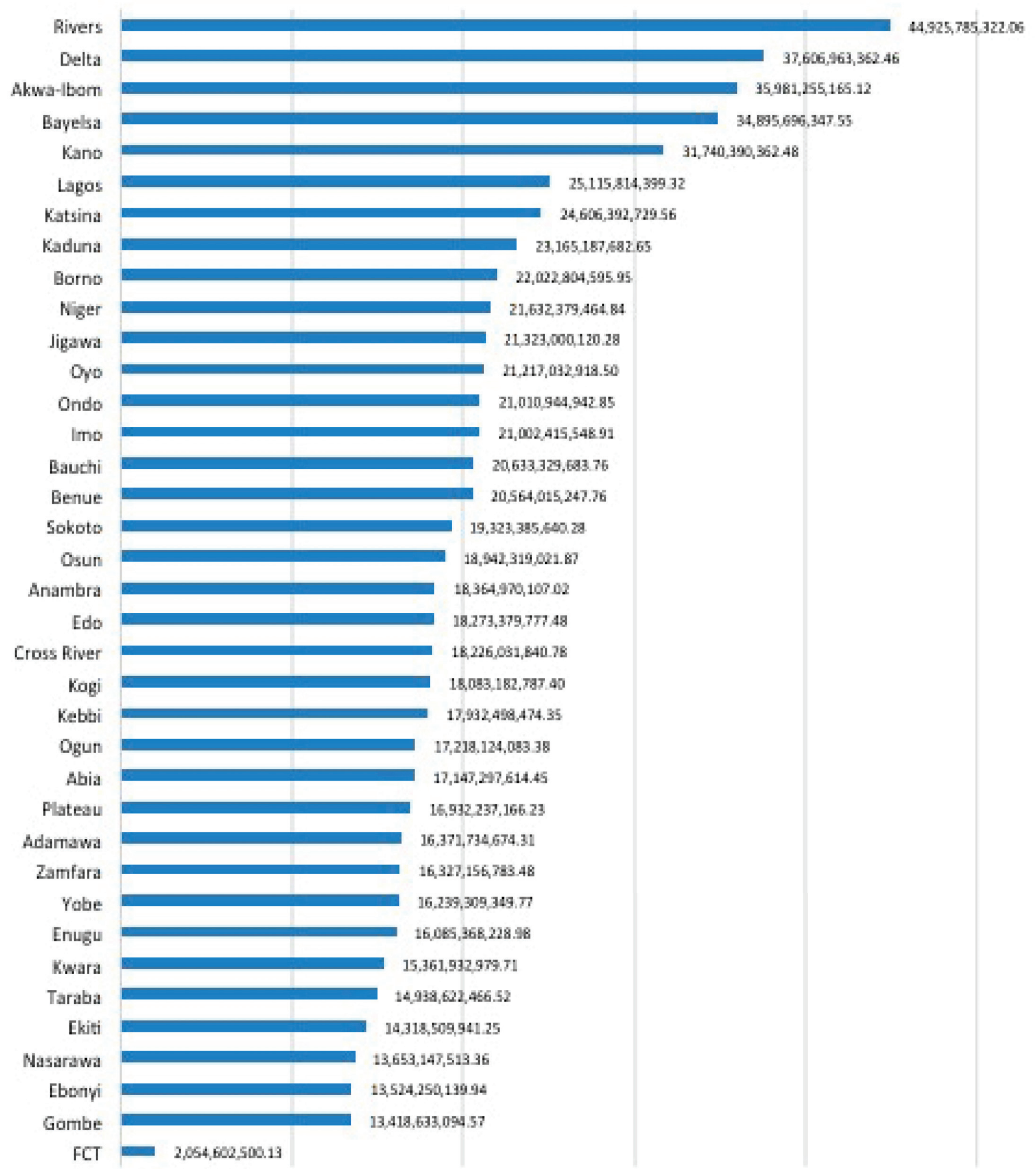


Source: Debt Management Office



Source: Federal Ministry of Finance

FIG 13: Total of First and Second Tranche of Refunds to States and FCT for Over-Deductions for Debt Payments



Source: Federal Ministry of Finance

The NNPC Completed the Refund of N450 billion to the Federation Account in the First Half of 2017

The NNPC completed the refund of its indebtedness of N450 billion to the Federation Account in April 2017. Table 1 shows payments by NNPC to states and local governments and it is seen that a total of N243.757 billion was paid to states and local governments. Payments to state governments totaled N151.446 billion while payments to local governments came to N92.311 billion. Disbursements of this refund to states and local governments actually commenced in October 2011 with N15.234 billion. This was for the first and second installments of the refund. Thereafter, a total of N7.617 billion was disbursed in each of the next 30 months (implying a total of 32 monthly installment payments of N7.617 billion). For each of these payments, states received N3.742 billion while local governments received N990.266 million. Oil producing states shared an additional N2.884 billion for 13% derivation.

Table 2 presents payments of these refunds to the federal government. Disbursements of these refunds started in September 2014 with N10 billion. Disbursements in subsequent months were for N6.330 billion. These payments of N6.330 billion per month continued for 31 consecutive months, until April 2017. A total of N243,757,800,000.00 was refunded to states and local governments while a total of N206,242,200,000.09 was refunded to the federal government. Thus, a total of N450,000,000,000.09 was refunded by the NNPC to the Federation Account between September 2011 and April 2017.

NNPC's indebtedness was for portions of domestic crude oil receipts it had withheld from November 2004. It is pertinent to note that a payment schedule was worked out between FAAC and NNPC in September 2011 following pressure from various quarters. This offers encouraging signs for the possibility of such arrangements for future repayments by the NNPC. NEITI's Policy Brief released in March 2017 identified unremitted payments by the NNPC and NPDC to the Federation Account totaling N316.074 billion and $21.778 billion.

"Table 3 presents payments of these refunds to the federal government. Disbursements of these refunds started in September 2014 with N10 billion. Disbursements in subsequent months was for N6.330 billion. "

Table 1: NNPC Refund of Indebtedness to Federation Account - Disbursements to States and Local Governments

MONTH	STATE	LG	13% derivation	TOTAL
Oct-11*	7,484,887,946.25	5,769,442,428.75	1,980,532,125.00	15,234,862,500.00
Nov-11	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Dec-11	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jan-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Feb-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Mar-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Apr-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
May-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jun-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jul-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Aug-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Sep-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Oct-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Nov-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Dec-12	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jan-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Feb-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Mar-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Apr-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
May-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jun-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jul-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Aug-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Sep-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Oct-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Nov-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Dec-13	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Jan-14	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Feb-14	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Mar-14	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
Apr-14	3,742,443,973.13	2,884,721,214.38	990,266,062.50	7,617,431,250.00
TOTAL	**119,758,207,140.15**	**92,311,078,860.15**	**31,688,514,000.00**	**243,757,800,000.00**

Source: National Bureau of Statistics, Office of the Accountant-General of the Federation
Note: * The payment for October 2011 represented the first and second installments

Table 2: NNPC Refund of Indebtedness to Federation Account - Disbursements to Federal Government

MONTH	FGN	TOTAL
Sep-14	10,000,000,000.00	10,000,000,000.00
Oct-14	6,330,393,548.39	6,330,393,548.39
Nov-14	6,330,393,548.39	6,330,393,548.39
Dec-14	6,330,393,548.39	6,330,393,548.39
Jan-15	6,330,393,548.39	6,330,393,548.39
Feb-15	6,330,393,548.39	6,330,393,548.39
Mar-15	6,330,393,548.39	6,330,393,548.39
Apr-15	6,330,393,548.39	6,330,393,548.39
May-15	6,330,393,548.39	6,330,393,548.39
Jun-15	6,330,393,548.39	6,330,393,548.39
Jul-15	6,330,393,548.39	6,330,393,548.39
Aug-15	6,330,393,548.39	6,330,393,548.39
Sep-15	6,330,393,548.39	6,330,393,548.39
Oct-15	6,330,393,548.39	6,330,393,548.39
Nov-15	6,330,393,548.39	6,330,393,548.39
Dec-15	6,330,393,548.39	6,330,393,548.39
Jan-16	6,330,393,548.39	6,330,393,548.39
Feb-16	6,330,393,548.39	6,330,393,548.39
Mar-16	6,330,393,548.39	6,330,393,548.39
Apr-16	6,330,393,548.39	6,330,393,548.39
May-16	6,330,393,548.39	6,330,393,548.39
Jun-16	6,330,393,548.39	6,330,393,548.39
Jul-16	6,330,393,548.39	6,330,393,548.39
Aug-16	6,330,393,548.39	6,330,393,548.39
Sep-16	6,330,393,548.39	6,330,393,548.39
Oct-16	6,330,393,548.39	6,330,393,548.39
Nov-16	6,330,393,548.39	6,330,393,548.39
Dec-16	6,330,393,548.39	6,330,393,548.39
Jan-17	6,330,393,548.39	6,330,393,548.39
Feb-17	6,330,393,548.39	6,330,393,548.39
Mar-17	6,330,393,548.39	6,330,393,548.39
Apr-17	6,330,393,548.39	6,330,393,548.39
TOTAL	**206,242,200,000.09**	**206,242,200,000.09**

Conclusion

This review conducted an analysis of FAAC disbursements to the three tiers of government for the first half of 2017. The review showed that FAAC disbursements were higher in the first half of 2017 compared to the first half of 2016, although the 2017 figures were lower than the 2015 figures. The review also showed high volatility of FAAC disbursements in the first half of 2017, with increases and decreases in successive months in the first half of the year. Such volatility in revenue inflows to all tiers of governments does not bode well for planning and budgeting. In addition, this review showed that debt servicing accounted for 40% of FAAC disbursements in the first half of the year. An interesting feature of the figures for debt servicing is that domestic debt servicing takes up over 90% of total debt servicing expenditure. The three tiers of government, it was observed, experienced a 40.67% shortfall between budgeted and actual FAAC disbursement in the first half of 2017. This review also showed that from December 2016, the Federal Government has released a total of N760,180,102,079.01 in two tranches to the 36 states and FCT for refunds of Paris Club loans. These refunds are expected to be utilized largely for the payment of workers' salaries and pensions, thereby alleviating the challenges with workers' welfare that states have been experiencing since late 2014. Finally, this review showed that the NNPC completed the refund of its indebtedness of unremitted domestic crude oil sales of N450 billion to the Federation Account in April 2017. A similar arrangement could be worked out for funds withheld or monies not yet paid by NNPC and its subsidiaries, especially NPDC.