THE PRESIDENCY

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Quarterly Review

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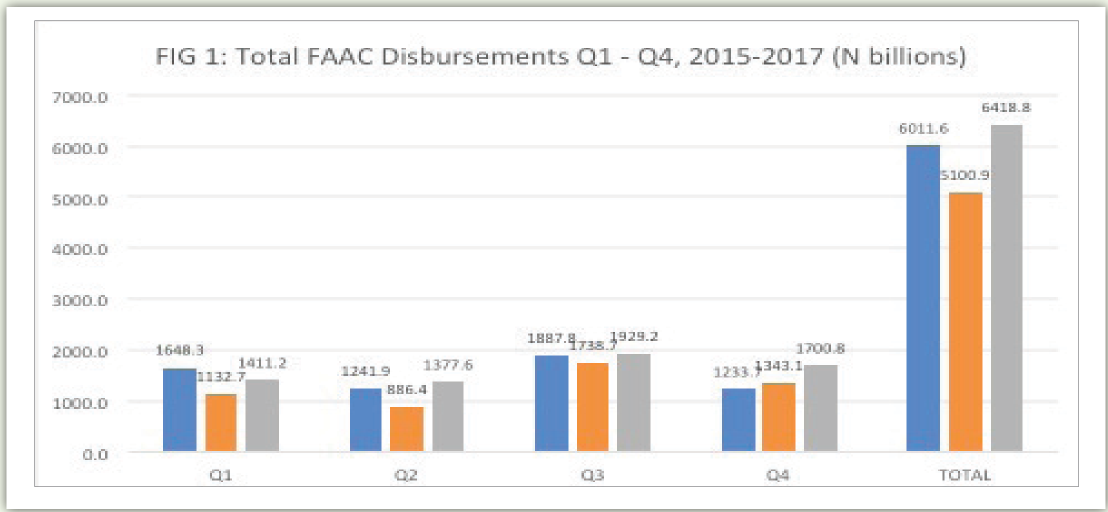
Analysis of FAAC Disbursements in 2017 and Projections for 2018

Revenue to the Federation Account was significantly higher in 2017 than in 2016, indicating a marked improvement on falling revenue which started in 2014 with the fall in global oil prices. This increase in revenue was as result of rising oil prices and improved oil production, as restiveness in the Niger Delta subsided. These positive developments culminated in the country's economy exiting recession in the second quarter of 2017.

This review provides an overview of FAAC disbursements to the three tiers of government in 2017 . Analysis is made drawing on data for disbursements in previous years and budget data. The review then makes some projections for government revenue in 2018.

Total FAAC Disbursements in 2017 Were 25.8% Higher than Total Disbursements in 2016 and 6.8% Higher than Total Disbursements in 2015[2]

Total FAAC disbursements in 2017 amounted to N6.418 trillion. This was 25.8% higher than total FAAC disbursements of N5.1 trillion in 2016. Also, total disbursements in 2017 were 6.8% higher than the N6.011 trillion disbursed in 2015. Thus, as seen from Figure 1, higher revenue accrued to the government in 2017 when compared with the previous two years. Figure 1 shows the distribution of quarterly disbursements. Total disbursements in 2017 were highest in the third quarter, with N1.929 trillion disbursed, while total disbursements were lowest in the second quarter (N1.377 trillion). Interestingly, the figures reveal that total disbursements were highest in the third quarter for 2016 and 2015. This is in line with previous reviews which found that disbursements were higher in the third quarter than other quarters. This could be attributable to increased demand for oil in the peak summer season of the third quarter.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

[1] 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.

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

HIGHLIGHTS

- **Total FAAC disbursements in 2017 were N6.418 trillion; 25.8% and 6.8% higher than total disbursements in 2016 and 2015 respectively; but 31.4% and 25.3% lower than the figures for 2013 and 2014 respectively.**
- **FAAC disbursements were 30.1% higher in the second half of 2017 than the first half.**
- **VAT disbursements have been increasing since 2015, a positive result for non-oil revenue of government.**
- **Total FAAC disbursements to states ranged between N10.4 billion for Osun State and N143.6 billion for Akwa Ibom State**
- **FAAC disbursements to states are a mere fraction of their budgets and range from 7.6% (Osun) to 57% (Yobe)**
- **The percentage of FAAC disbursements to budget of the Federal Government in 2017 was 34.45%.**
- **FAAC disbursements increased and decreased in alternate months, implying volatility in government revenue which adversely affects budget performance**

Total FAAC Disbursements in 2017 Were 34.1% Lower than Total Disbursements in 2013 and 25.3% Lower than Total Disbursements in 2014

Although FAAC disbursements in 2017 were higher than the figures for 2015 and 2016, they were still lower than the figures for 2013 and 2014. Figure 2 shows that total FAAC disbursements in 2013 and 2014 were N9.742 trillion and N8.595 trillion respectively. Considering that total disbursements for 2017 were N6.418 trillion, the disbursements in 2017 were 34.1% and 25.3% lower than disbursements in 2013 and 2014, respectively. Thus, revenue has not yet increased to the pre-oil price crash levels.

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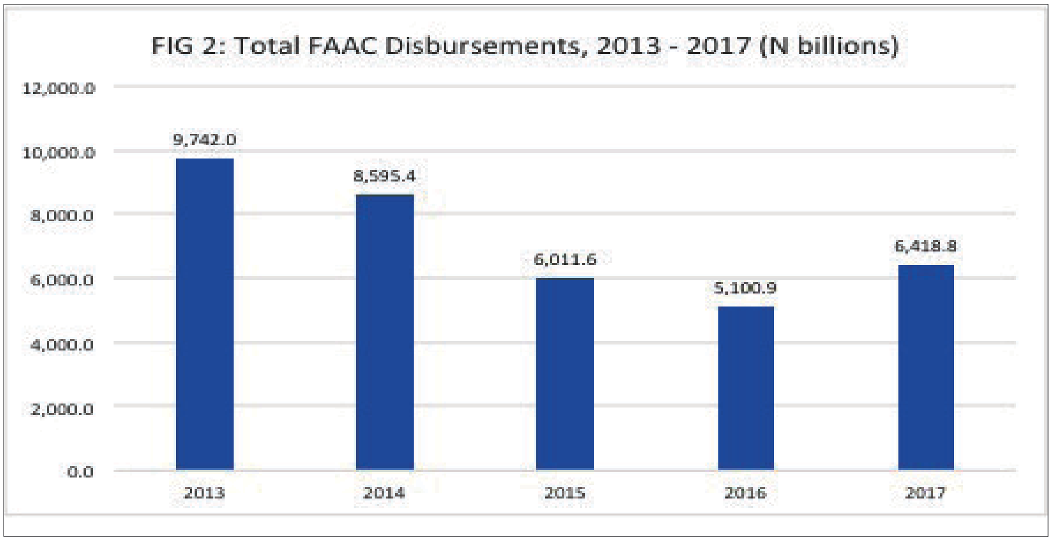
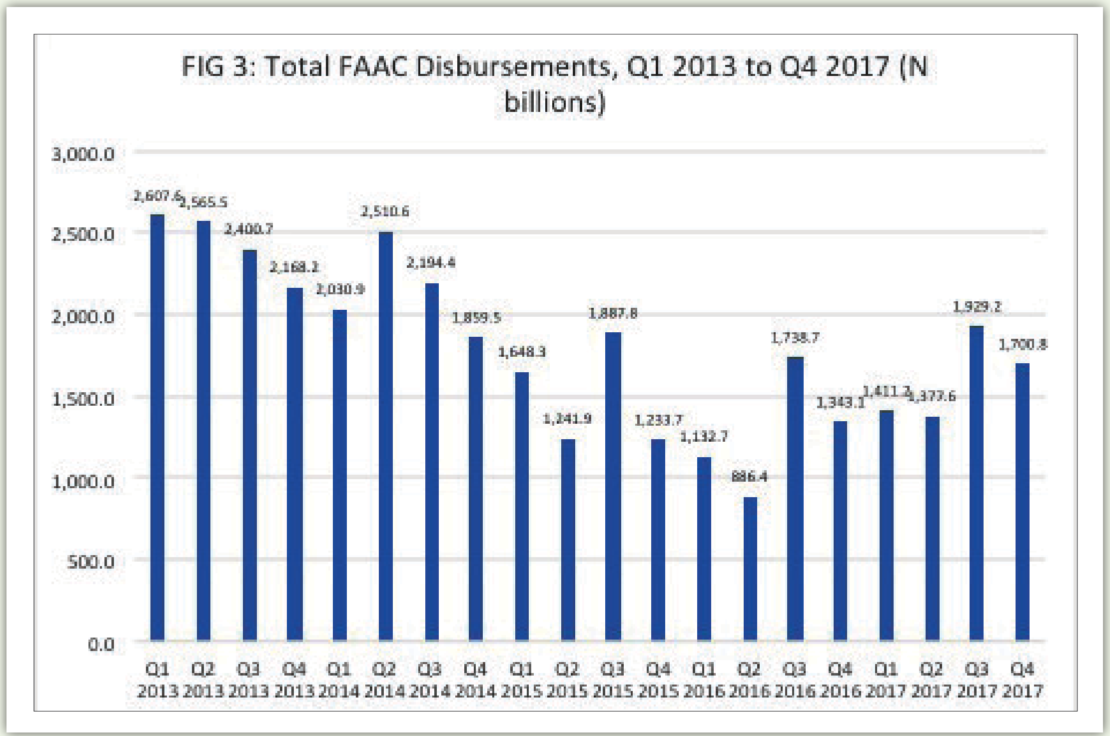


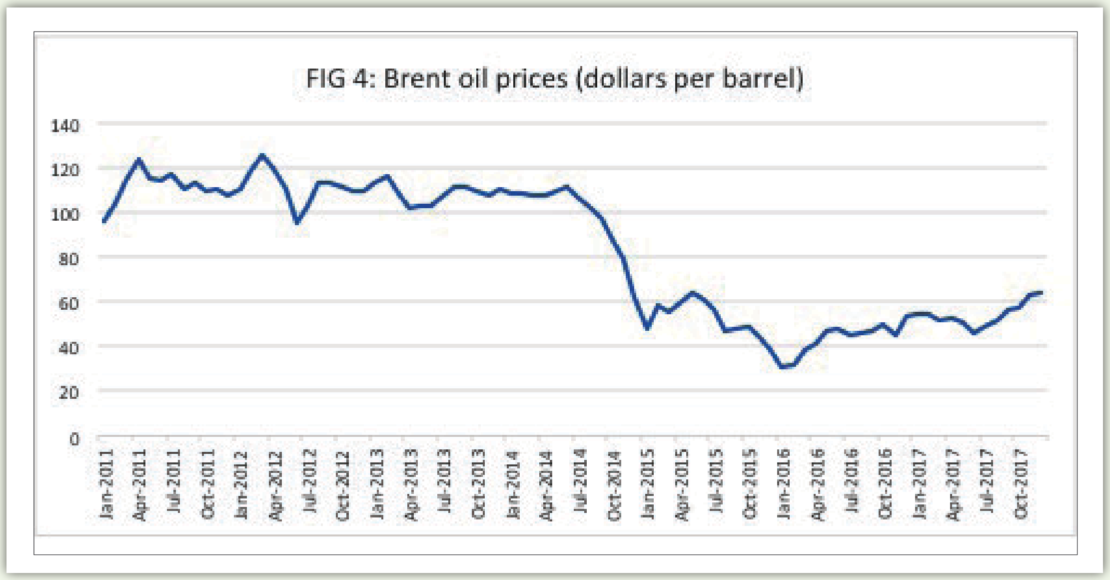
Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

Average Quarterly Total FAAC Disbursements Rose in 2017 but Have Not Reached the 2013 and 2014 Levels

Average quarterly FAAC disbursements were N1.604 trillion in 2017. This was higher than average quarterly disbursements in 2016 (N1.275 trillion) and 2015 (1.502 trillion). However, they are lower than average quarterly disbursements in 2013 (N2.435 trillion) and 2014 (N2.148 trillion). Figure 3 presents quarterly FAAC disbursements between 2013 and 2017. The figure shows that quarterly FAAC disbursements were above N2 trillion between the first quarter of 2013 and the third quarter of 2014. With the exception of the third quarter of 2015, quarterly FAAC disbursements experienced a continuous fall from the second quarter of 2014 until the second quarter of 2016. This mirrors the period of falling oil prices (figure 4). Although FAAC disbursements started rising from the third quarter of 2016, they have not reached the pre-price crash levels.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

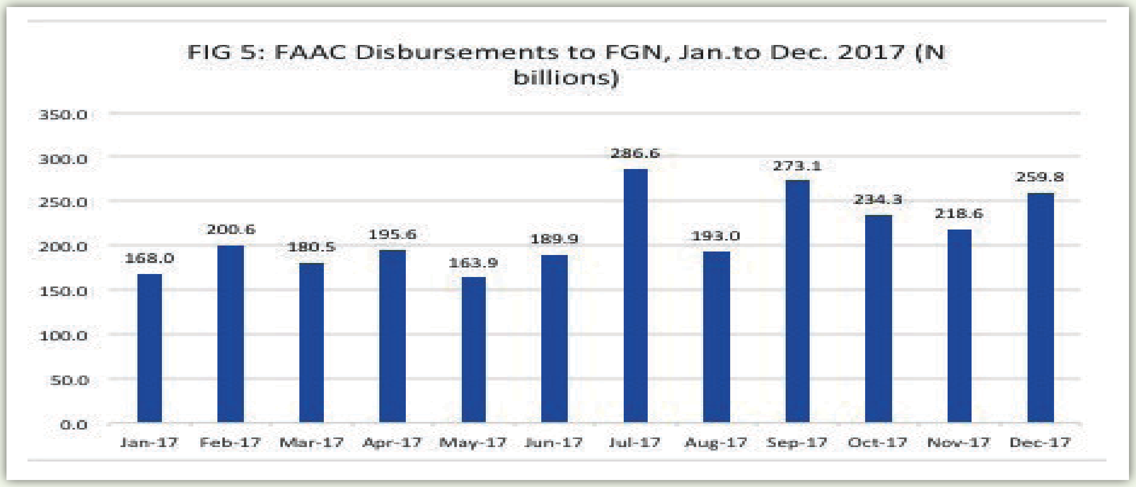


Source: Energy Information Administration

FAAC Disbursements to the Federal Government in 2017 Were Highest in July and Lowest in May

Total FAAC disbursements to the Federal Government in 2017 were N2.564 trillion. FAAC disbursements to the Federal Government in 2017 were highest in July when N286.6 billion was disbursed. This is 74.8% higher than the N163.9 billion disbursed in May, which was the month with the lowest disbursement. Figure 5 presents monthly FAAC disbursements to the Federal Government in 2017. Disbursements were N168 billion in January and this increased to N200.6 billion in February and then fell to N180.5 billion in March. This rising and falling trend in alternate months continued throughout the year, reflecting volatility in revenue for the Federal Government. This volatility can be attributed to volatility in oil production and prices. Such volatility will have a destabilizing effect on the execution of the federal budget.

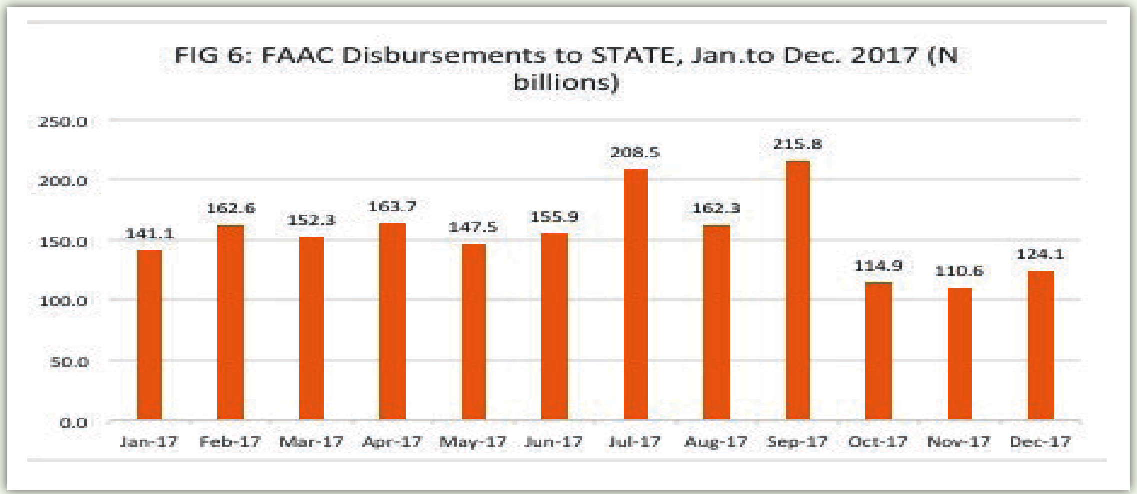
"Figure 5 presents monthly FAAC disbursements to the Federal Government in 2017. Disbursements were N168 billion in January and this increased to N200.6 billion in February and then fell to N180.5 billion in March."



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FAAC Disbursements to State Governments in 2017 Were Highest in September and Lowest in November

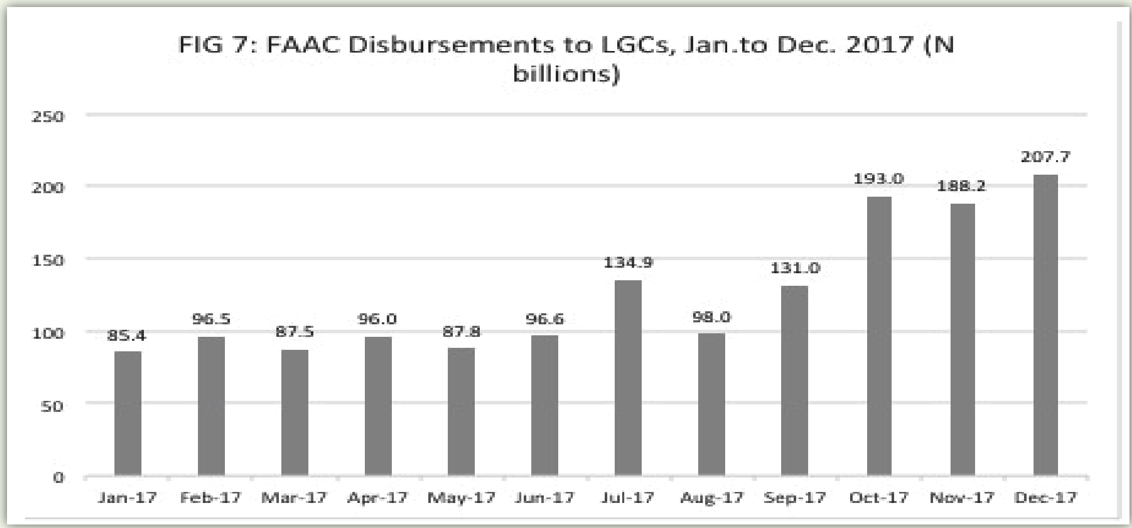
Total FAAC disbursements to state governments in 2017 came to N1.859 trillion. Figure 6 presents monthly FAAC disbursements to state governments in 2017. The figure shows that states received the largest disbursements from the Federation Account in September with N215.8 billion. The lowest disbursement to states was recorded in November (N110.6 billion). This implies that the difference between amounts disbursed to states in the highest and lowest receiving months was N105.2 billion. This shows a 95.1% difference between the highest and lowest disbursements to states in the year. This further reiterates the volatility in government revenue.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FAAC Disbursements to Local Governments Areas in 2017 Were Highest in December and Lowest in January

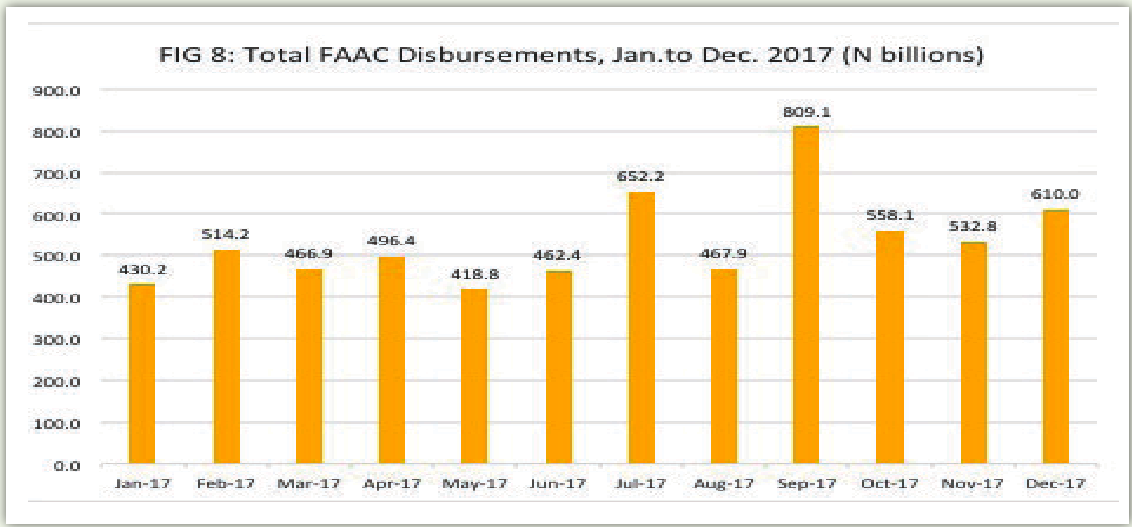
Total FAAC disbursements to LGAs in 2017 were N1.502 trillion. Monthly FAAC disbursements to local governments in 2017 were highest in December (N207.7b) and lowest in January (N85.4b). This indicates a difference in disbursements of N122.3 billion between the highest and lowest months. Thus, disbursements in December were higher by 143% over disbursements in January. Again, this illustrates the high degree of volatility in government revenue across all three tiers of government and its consequent negative implications for the budgets.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FAAC Disbursements Were 30.1% Higher in the Second Half of 2017 than in the First Half

Figure 8 presents aggregate monthly FAAC disbursements for 2017. It can be observed that disbursements were generally higher in the second half of 2017 than the first half. Total disbursements in the first half of 2017 was N2.788 trillion while the figure was N3.630 trillion for the second half. Thus, disbursements in the second half of 2017 were 30.1% higher than disbursements in the first half. Again, the volatile nature of disbursements from FAAC is observed from Figure 8. Aggregate disbursements were highest in September (N809.1 billion) and lowest in May (N418.8 billion), indicating a variance of N390.3 billion. With the exception of two months (July and November), disbursements rose and fell in alternate months throughout the year.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

Total VAT Disbursements in 2017 Were 19.3% Higher than for 2016 and 24.3% Higher than for 2015

Revenue from value added tax has been rising over the past few years. Figure 9 presents VAT disbursements from 2015 to 2017. VAT disbursements in 2017 were N967.7 billion and N811 billion in 2016. Thus, VAT disbursements rose by 19.3% in 2017 over the figures for 2016. Also, total VAT disbursements in 2015 were N778.7 billion, meaning that VAT disbursements in 2017 rose by N188.9 billion (24.3%) over the 2015 figures. This increase in VAT disbursements highlights the increased drive and focus of the government on increasing sources of non-oil revenue. In 2017, states received the highest share of VAT revenue with N464.5 billion. This was followed by LGAs with N325.1 billion, while the Federal Government received the lowest share of VAT revenue with N139.3 billion. This is based on the fact that states take 50% of VAT, while LGAs and FG take 35% and 15% respectively.

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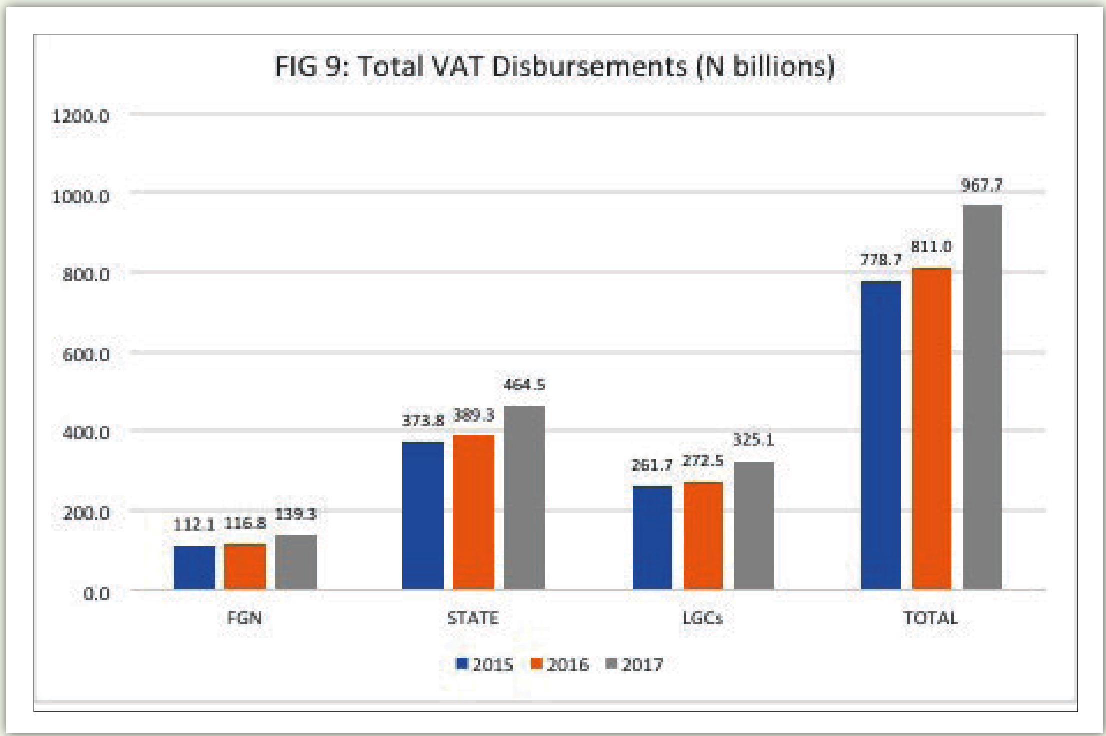
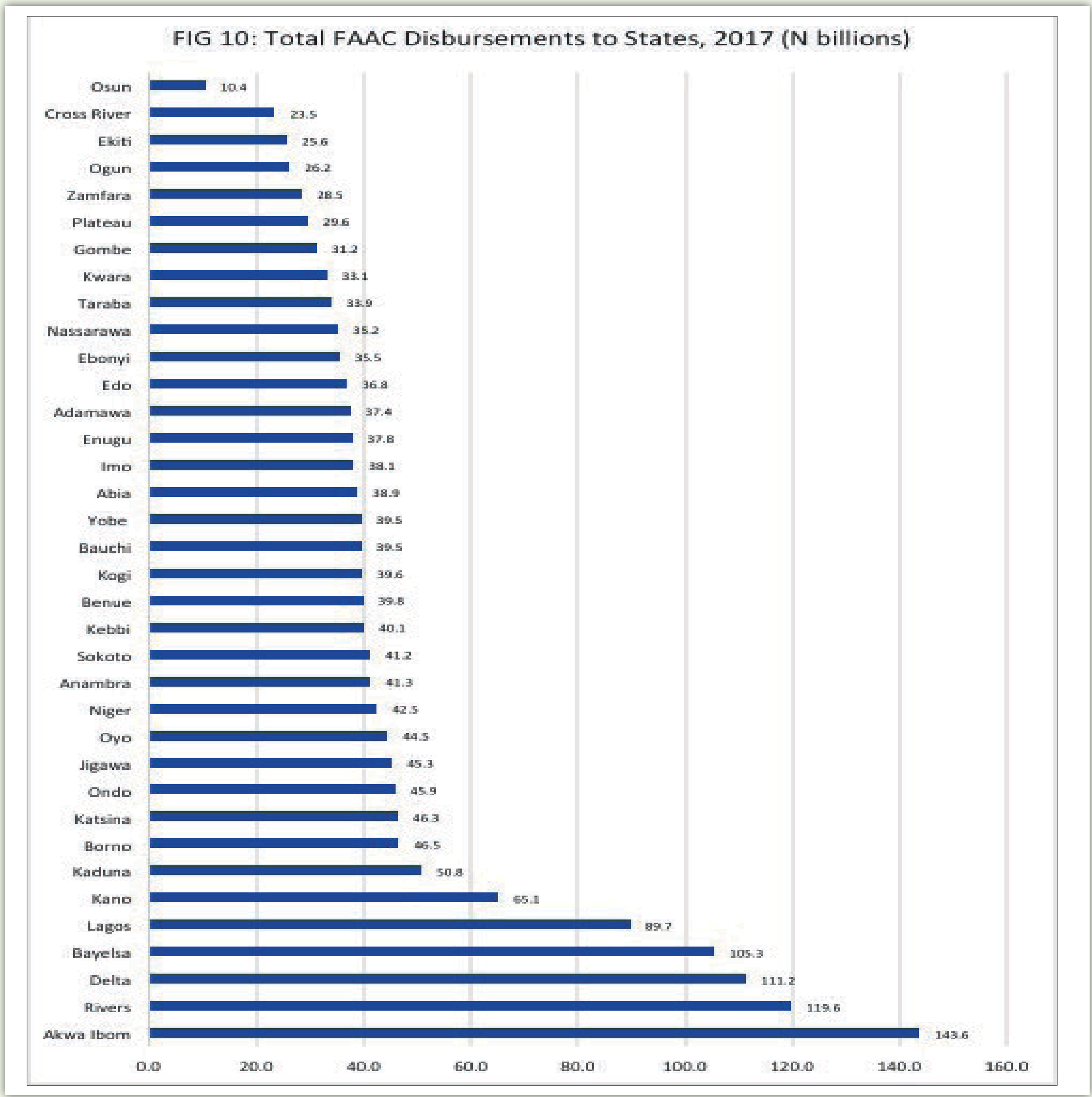


Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

Total FAAC Disbursements to States Ranged Between N10.4 Billion and N143.6 Billion

Total FAAC disbursements to states in 2017 varied widely. Figure 10 presents disbursements to states. Osun State received the lowest disbursement of N10.4 billion while Akwa Ibom State received the highest disbursement of N143.6 billion. Only four states received above N100 billion: Bayelsa (N105.3 billion), Delta (N111.2 billion), Rivers (N119.6 billion) and Akwa Ibom (N143.6 billion). Five states received disbursements ranging between N20 billion to N30 billion: Cross River, Ekiti, Ogun, Zamfara, Plateau. Fourteen states received disbursements between N31 billion and N40 billion: Gombe, Kwara, Taraba, Nasarawa, Ebonyi, Edo, Adamawa, Enugu, Imo, Abia, Yobe, Bauchi, Kogi, Benue. Nine states received between N40.1 billion and N50 billion: Kebbi, Sokoto, Anambra, Niger, Oyo, Jigawa, Ondo, Katsina and Borno. Kaduna State received N50.8 billion, Kano State received N65.1 billion and Lagos State received N89.7 billion.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FAAC Disbursements to States are a Mere Fraction of their Budgets and Ranged from 7.6% to 57%

Many states rely on FAAC disbursements to fund their budgets. The lower FAAC disbursements to states which started in 2014 have resulted in chronic shortage of funds for many states. Figure 11 presents total FAAC disbursements to states and their budgets. The figure shows clearly that FAAC disbursements are grossly insufficient to fund state budgets.

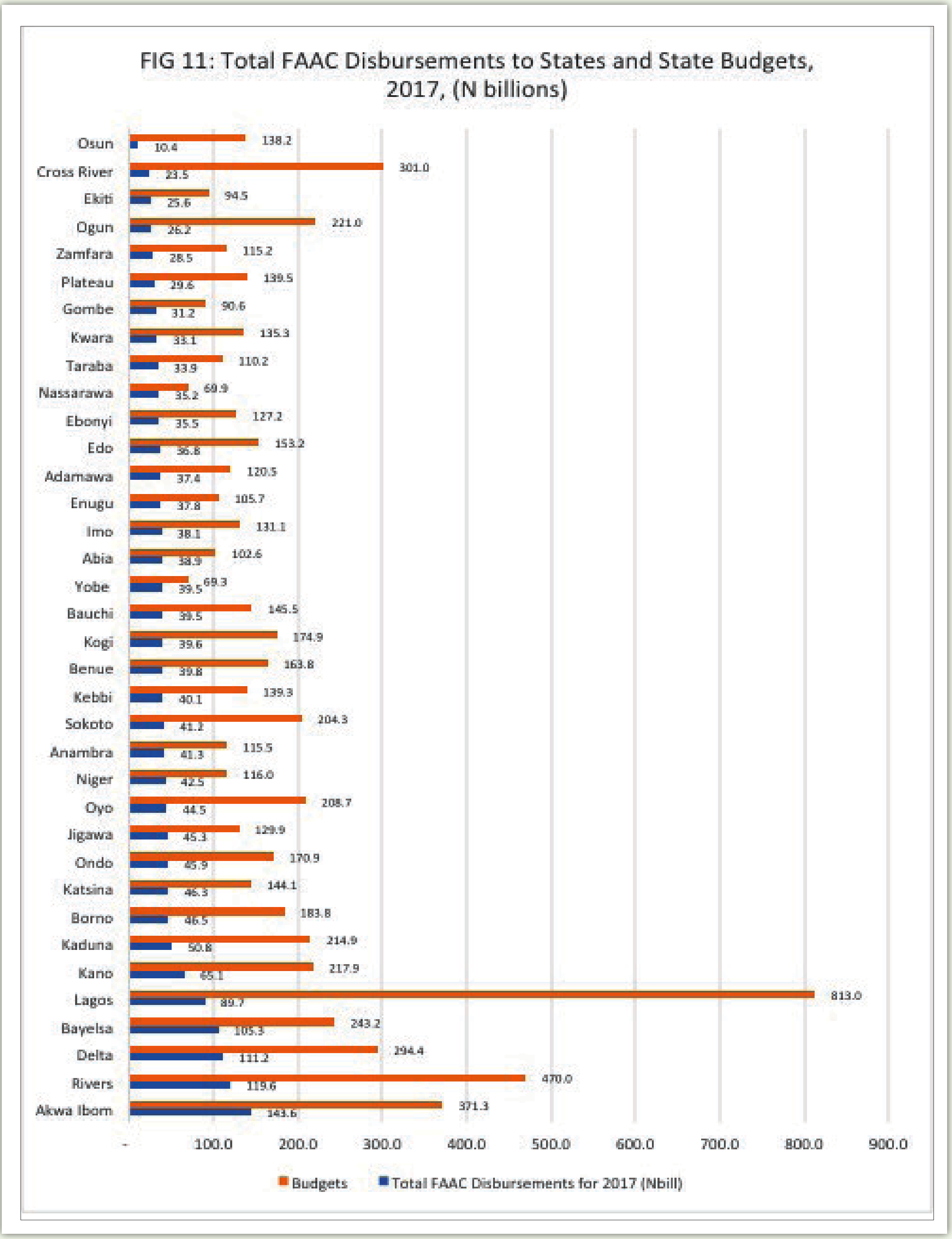
Total FAAC disbursements to states as a percentage of their budgets ranged from 7.6% in Osun State to 57% in Yobe State. Cross River also had a FAAC disbursement to budget percentage below 10% (7.8%). Only two states (Yobe and Nasarawa) had FAAC disbursement to budget percentages above 50%. Eighteen states had FAAC disbursement to budget percentages between 20% and 30%: Sokoto, Plateau, Oyo, Kogi, Kaduna, Edo, Benue, Kwara, Zamfara, Borno, Rivers, Ondo, Ekiti, Bauchi, Ebonyi, Kebbi, Imo and Kano. Eleven states had FAAC disbursement to budget percentages between 30.1% and 40%: Taraba, Adamawa, Katsina, Gombe, Jigawa, Enugu, Anambra, Niger, Delta, Abia, and Akwa Ibom. Bayelsa was the only state with FAAC disbursement to budget percentage between 40% and 50%.

"The lower FAAC disbursements to states which started in 2014 has resulted in chronic shortage of funds for many states. Figure 11 presents total FAAC disbursements to states and their budgets."

Lagos State and Ogun State present interesting case studies. The percentage of FAAC disbursements to budget in Lagos State was 11% while it was 11.8% in Ogun State. However, these states have very high internally generated revenue. In 2016, Lagos State had the highest IGR amongst states (N302.43 billion) while Ogun State had the third highest IGR (N72.98 billion). Thus, these two states are less dependent on FAAC disbursements than other states. Therefore, the low percentages of FAAC disbursements to the budgets of these two states does not adversely affect budget execution to such a large extent, as is evident in other states.

These figures mean that the states will have to focus more efforts on generating revenue . However, this gap is so much that it is likely that many states will not be able to generate sufficient funds to close this gap. They might need to resort to increased borrowing, which is already at alarming levels.

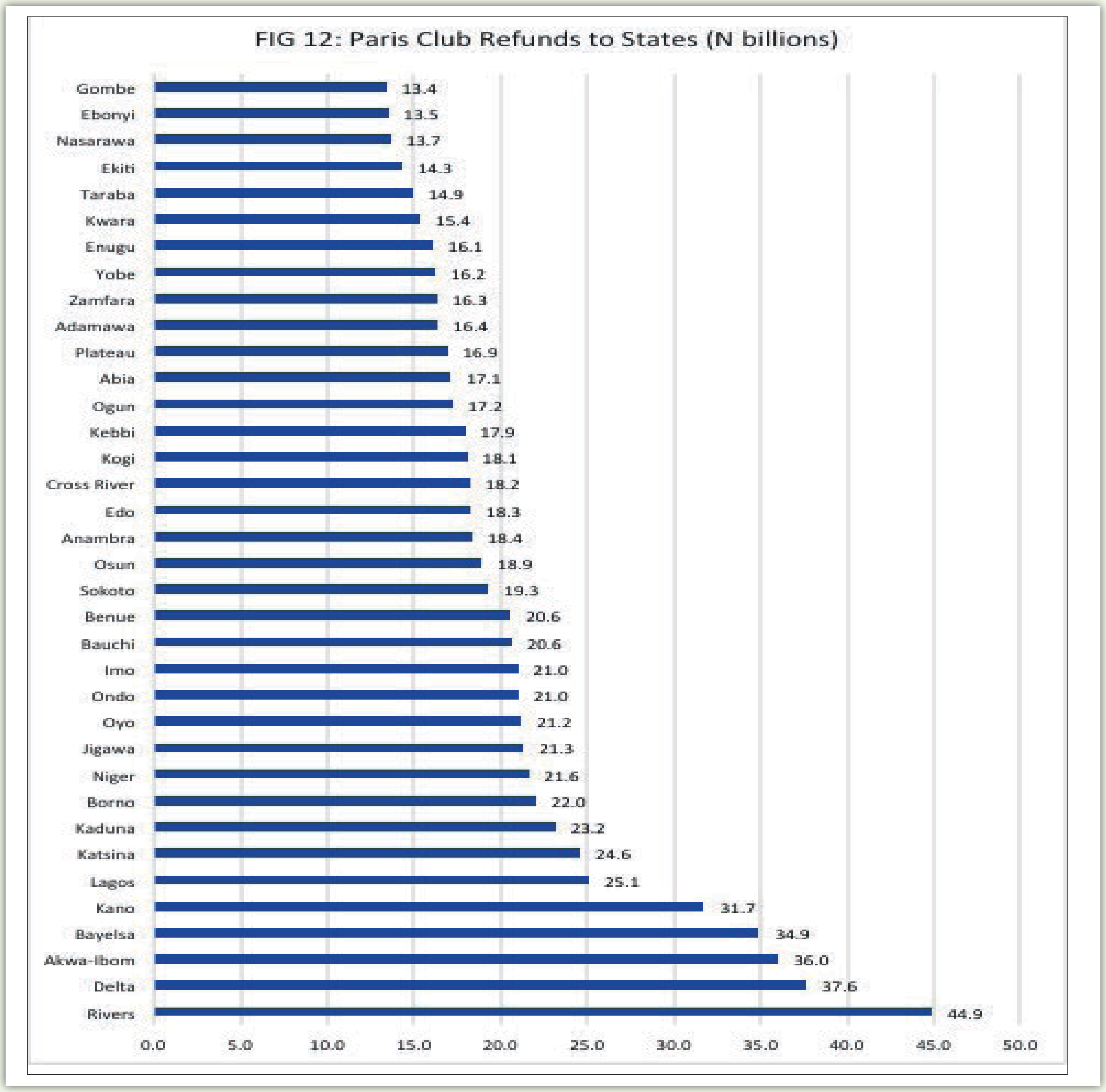
[3] It would have been good to include data on internally generated revenue (IGR) in this analysis but full year IGR data for 2017 is not yet available from the National Bureau of Statistics.



Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, BudgIT

States Received an Additional N760.18 Billion in Revenue from the Paris Club Loan Refunds

A total of N760.18 billion was released to the 36 states and FCT for refunds of Paris Club loans in 2017. The payments were refunds for 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. The refunds were released in two tranches. The first tranche was N516.38 billion, and the second tranche was N243.79 billion. Figure 12 presents the total of the two tranches released. Rivers State received the highest (N44.925 billion) while Gombe State received the lowest (N13.4 billion) . Such money should reduce the large variance between FAAC disbursements and budgets of states.



Source: Ministry of Finance

[4] The FCT actually received the lowest release of N2.054 billion, but has been excluded from this analysis because it is technically not a state

Debt Service Payments of States Ranged Between 0.44% and 31.79% of Gross FAAC Entitlements

Some states have had to increase borrowing in order to fulfil their obligations. This has resulted in high debt service payments by these states, with such payments deducted at FAAC before disbursement to the affected states. However, this is not a universal occurrence and there are many states that have very low debt service payments. It is seen from Table 1 that Borno State had the lowest debt service to gross FAAC entitlement ratio (0.44%) while Osun State had the largest ratio (31.79%).

Twenty states had total debt service to gross FAAC entitlement ratios less than 5%: Abia, Adamawa, Akwa Ibom, Anambra, Benue, Borno, Ebonyi, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kwara, Nasarawa, Ogun, Rivers, Sokoto, Taraba, and Yobe. Nine states had debt service to gross FAAC entitlement ratios in excess of 10%: Cross River, Edo, Ekiti, Gombe, Lagos, Ondo, Osun, Plateau and Zamfara. It is interesting to note on one hand that all states had some form of foreign debt service, while only 18 states had domestic debt service. On the other hand, domestic debt service is generally higher than external debt service, showing that local creditors are disproportionately exposed to public loans. Loans to the public sector have the tendency to crowd out loans to the private sector and this inhibits private investment, a key catalyst for economic growth.

TABLE 1: Debt Service Payments, FAAC Disbursements to States (2017)

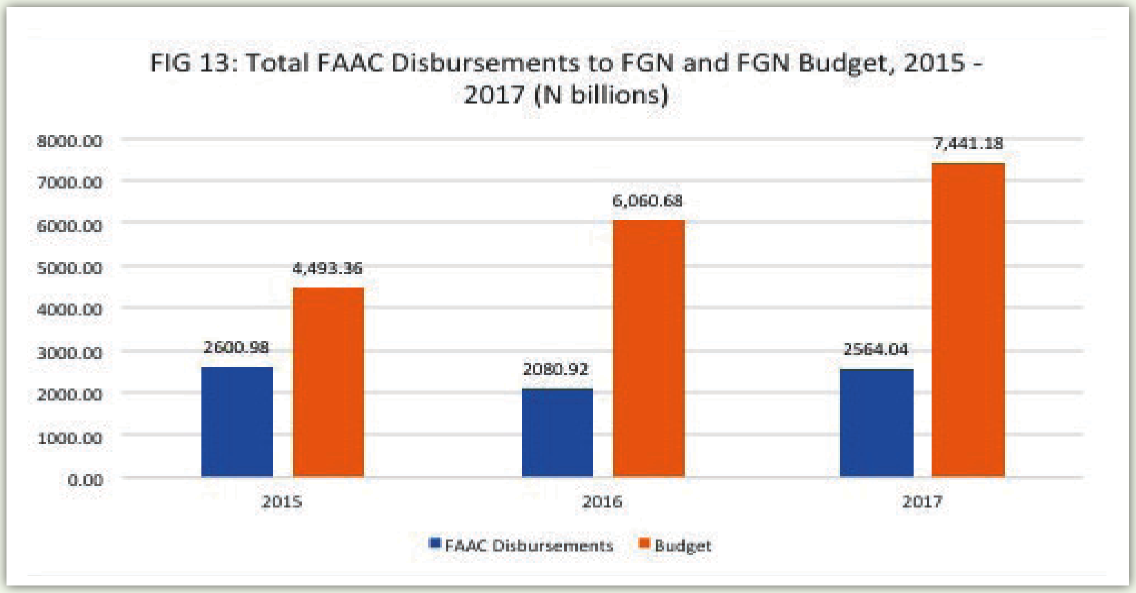
States	External Debt Service (Nbill)	Percentage of External Debt Service to Gross FAAC Entitlements (%)	Domestic Debt Service (ISPO) (Nbill.)	Percentage of Domestic Debt Service to Gross FAAC Entitlements (%)	Other Deductions (Nbill.)	Percentage of Other Deductions to Gross FAAC Entitlements (%)	Percentage of Total Debt Service to Gross FAAC Entitlements (%)	Gross FAAC Entitlements (Nbill.)	Net FAAC Disbursements (Nbill.)
Abia	0.35	0.79	-	0.00	5.11	11.52	0.79	44.33	38.88
Adamawa	0.53	1.27	-	0.00	3.96	9.45	1.27	41.93	37.44
Akwa Ibom	1.34	0.86	-	0.00	11.73	7.49	0.86	156.69	143.61
Anambra	0.47	1.08	-	0.00	1.28	2.98	1.08	43.09	41.34
Bauchi	0.82	1.64	3.67	7.37	5.75	11.56	9.02	49.75	39.52
Bayelsa	0.34	0.28	6.70	5.39	11.86	9.55	5.67	124.16	105.26
Benue	0.27	0.57	1.25	2.66	5.55	11.84	3.23	46.86	39.80
Borno	0.22	0.44	-	0.00	3.88	7.66	0.44	50.64	46.54
Cross River	2.85	6.79	7.60	18.11	8.07	19.22	24.89	41.96	23.45
Delta	0.25	0.18	13.19	9.45	14.84	10.64	9.64	139.48	111.20
Ebonyi	0.39	1.03	-	0.00	1.89	5.01	1.03	37.77	35.49
Edo	0.86	1.77	6.24	12.81	4.77	9.79	14.58	48.71	36.84
Ekiti	0.76	2.01	6.00	15.88	5.37	14.22	17.89	37.75	25.63
Enugu	0.64	1.50	2.06	4.82	2.18	5.11	6.32	42.72	37.83
Gombe	0.33	0.84	4.34	11.04	3.40	8.66	11.87	39.30	31.23
Imo	0.58	1.20	-	0.00	9.89	20.35	1.20	48.58	38.12
Jigawa	0.32	0.69	-	0.00	1.59	3.38	0.69	47.18	45.26
Kaduna	2.48	4.45	-	0.00	2.44	4.38	4.45	55.73	50.81
Kano	0.60	0.84	-	0.00	5.83	8.15	0.84	71.57	65.14
Katsina	1.26	2.42	-	0.00	4.43	8.52	2.42	52.03	46.34
Kebbi	0.56	1.29	-	0.00	3.17	7.24	1.29	43.81	40.08
Kogi	0.30	0.66	2.95	6.49	2.59	5.68	7.15	45.48	39.65
Kwara	0.40	1.06	-	0.00	4.15	11.02	1.06	37.66	33.11
Lagos	9.73	7.88	24.00	19.45	-	0.00	27.33	123.42	89.69
Nassarawa	0.32	0.84	1.22	3.19	1.49	3.90	4.03	38.23	35.20
Niger	0.42	0.87	2.76	5.66	3.07	6.31	6.52	48.73	42.47
Ogun	0.92	2.27	-	0.00	13.60	33.41	2.27	40.71	26.19
Ondo	0.62	1.06	8.71	14.87	3.35	5.72	15.93	58.58	45.90
Osun	1.18	3.00	11.35	28.79	16.46	41.74	31.79	39.43	10.44
Oyo	1.42	2.72	1.20	2.30	5.08	9.74	5.02	52.18	44.47
Plateau	0.24	0.55	7.32	16.80	6.38	14.65	17.35	43.56	29.62
Rivers	0.63	0.45	-	0.00	17.89	12.95	0.45	138.15	119.63
Sokoto	0.42	0.91	-	0.00	4.03	8.81	0.91	45.69	41.24
Taraba	0.22	0.56	-	0.00	5.89	14.72	0.56	40.04	33.92
Yobe	0.40	0.98	-	0.00	1.08	2.64	0.98	40.97	39.49
Zamfara	0.25	0.60	5.87	14.05	7.18	17.19	14.65	41.75	28.45

Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI
Note: Other deductions cover National Water Rehabilitation Projects, National Agricultural Technology Support Programme, Payment for Fertilizer, State Water Supply Project, State Agricultural Project and National Fadama Project

FAAC Disbursements to the Federal Government in 2017 were 34.45% its Budget

Similar to observations for state governments, FAAC disbursements to the Federal Government in 2017 were inadequate to fund the budget. Figure 13 shows that while N7.441 trillion was budgeted for 2017, inflows from FAAC totaled N2.564 trillion. This shows that the ratio of FAAC inflows to the budget was only 34.45%. This figure is similar to the FAAC disbursement to budget ratio for 2016 which was 34.33%. The figures for 2015 were better. In 2015, the Federal Government budgeted N4.493 trillion and received N2.600 trillion from FAAC, which was 57.88% of the federal budget. As was observed for states, the fact that the federal receipts from FAAC are grossly inadequate to service the budget makes budget implementation difficult and may increase further exposure to debts..

"In 2015, the Federal Government budgeted N4.493 trillion and received N2.600 trillion from FAAC, which was 57.88% of the federal budget"



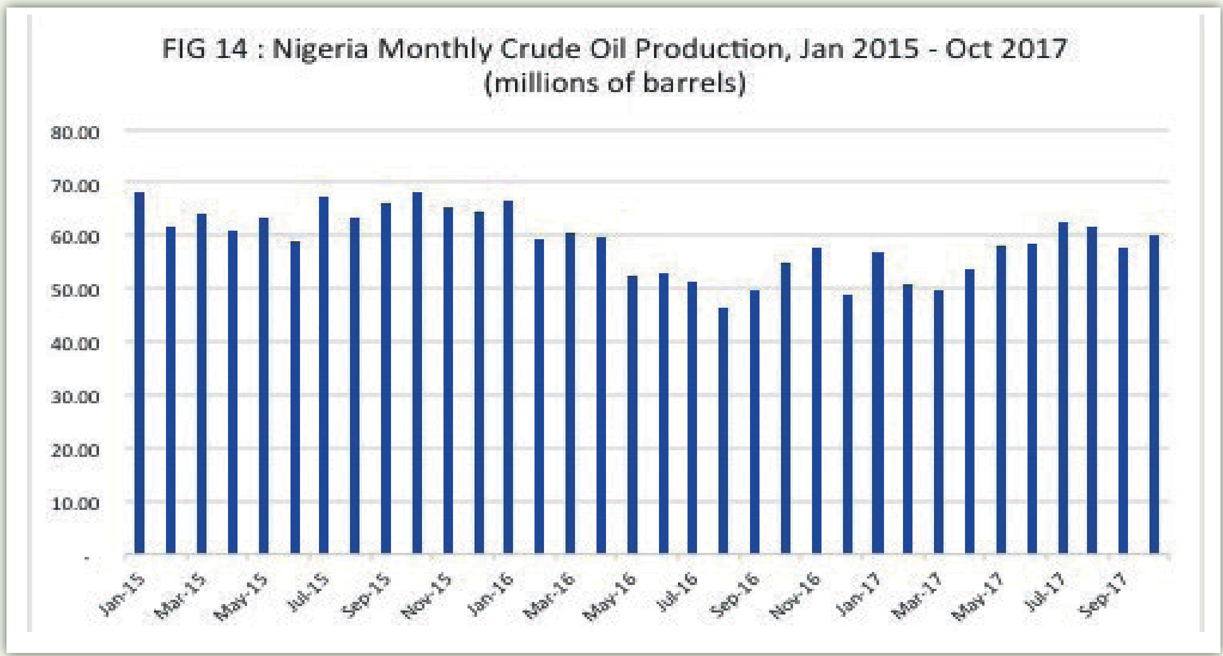
Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI, Budget Office of the Federation

Projections for 2018

This review has analysed FAAC disbursements to the three tiers of government in 2017. Lower and volatile oil prices and disruptions to oil production have resulted in lower government revenue since 2014. However, following the production agreement between OPEC and non-OPEC countries in late 2016, oil prices rebounded and rose above $70 a barrel in January 2018. Although this price is still below the average price of over $100 per barrel experienced in the first part of this decade, it is better than the low price of $30 a barrel of January 2016. In addition, oil production which fell drastically in 2016 experienced an upsurge in 2017 as militant activities in the Niger Delta subsided. Figure 14 shows that monthly oil production fell from 68.07 million barrels in January 2015 to as low as 46.56 million barrels in August 2016. Oil production has thereafter risen steadily and was 60.34 million barrels in October 2017.

These figures indicate that the "double whammy" of low oil prices and low production that hit the country since 2014 may be coming to an end. In light of this, there are bright prospects for government revenue in 2018. If both oil production and prices continue to rise and non-oil revenue continues to grow, then that government revenue will increase in 2018. This would be a positive development for revenue to all tiers of government.

A caveat would be in place here. The rising global oil prices have increased the prices of imported refined petroleum products. This has resulted in less government revenue from the NNPC which makes under-recovery on value of crude oil given to it as domestic crude allocation. Continued rise in oil prices would increase this variance, resulting in even less remittances to the Federation Account.



Source: NNPC Monthly Financial and Operations Reports

Conclusion

This review examined FAAC disbursements to all tiers of government in 2017. The review found that total FAAC disbursements in 2017 were N6.418 trillion. Of this sum, total FAAC disbursements to the federal, state and local governments were N2.564 trillion, N1.859 trillion, N1.502 trillion respectively. The review also found that total FAAC disbursements in 2017 were 25.8% and 6.8% higher than total disbursements in 2016 and 2015 respectively. In addition, FAAC disbursements were 30.1% higher in the second half of 2017 than the first half. VAT disbursements have been steadily rising. Total VAT disbursements in 2017 were 19.3% higher than for 2016 and 24.3% higher than for 2015.

Furthermore, this review found that Osun State received the lowest disbursement of N10.4 billion while Akwa Ibom State received the highest disbursement of N143.6 billion. Declining oil revenue has led to a situation where FAAC disbursements to states are a mere fraction of their budgets and range from 7.6% (Osun) to 57% (Yobe). States received an additional N760 billion in revenue from the Paris Club loan refunds, and this should help alleviate the difficulty in budget execution from falling FAAC disbursements. The ratio of FAAC disbursements to budget of the Federal Government in 2017 was 34.45%.

Finally, this review made some projections for revenue in 2018. Oil prices have been increasing and rose above $70 a barrel in January 2018. In addition, oil production experienced an upsurge in 2017. If these trends continue, it is likely that government revenue will increase in 2018. This would be a positive development for revenue to all tiers of government.

"Declining oil revenue has led to a situation where FAAC disbursements to states are a mere fraction of their budgets and range from 7.6% (Osun) to 57% (Yobe). States received an additional N760 billion in revenue from the Paris Club loan refunds, and this should help alleviate the difficulty in budget execution from falling FAAC disbursements."

NEITI Nigeria Extractive Industries Transparency Initiative THE PRESIDENCY

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.

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