



Analysis of Q3 2017 FAAC Disbursements and Mid-year Budget Implementation

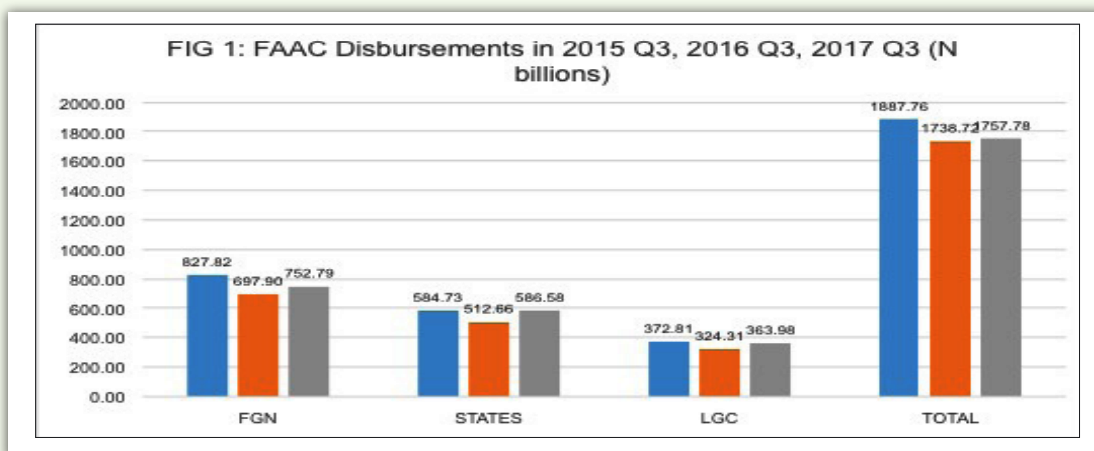
There was renewed optimism in the third quarter of 2017 following the exit of the country's economy from recession. Positive developments in the oil sector – evident from resurgent oil prices and increased production – played an important role in this exit from recession. Consequently, earnings from the oil sector and by implication, accruals to the Federation Account, have experienced an upward trend. This review presents an overview of the disbursements in the third quarter of this year.

In addition, the Budget Office of the Federation (BOF) recently released the 2017 second quarter and mid-year budget implementation report. The BOF produces these budget implementation reports to fulfil the requirements of the Fiscal Responsibility Act 2007. The reports are also published so as to enhance transparency and accountability in the budget process. These are important elements of Nigeria's obligation to the Open Government partnership.

This review combines a presentation of an overview of FAAC disbursements in the third quarter of 2017 and the half-year budget implementation report. While it would have been synchronous to review this mid-year budget implementation report in the previous issue of this review which examined the half-year FAAC disbursements, the report was not yet available from the BOF at the time we went to press. This has necessitated a small element of dissynchronisation. Despite this, it is important to review this budget implementation report so as to provide a more complete picture of the nation's fiscal position. Consequently, this review makes use of data from NEITI's attendance at FAAC meetings, and reports from the National Bureau of Statistics (NBS) and the Budget Office of the Federation.

Total FAAC Disbursements Increased by 1.09% between Q3 2016 and Q3 2017¹

Total FAAC disbursements in the third quarter of 2017 was N1.757 trillion which was 1.09% higher than the N1.738 trillion disbursed in the third quarter of 2016. However, this disbursement was 6.88% lower than the N1.887 trillion shared in the third quarter of 2015. Figure 1 shows that for Q3 2017, the federal government received the largest disbursement of N752.79 billion. This was followed by states which received N586.58 billion while local governments received N363.98 billion. These increased disbursements are in line with recent developments in the oil sector, where global oil prices have rebounded and Nigeria's oil production has risen. It is important to note that while disbursements are improving, they are still below 2015 levels.



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

HIGHLIGHTS

- N1.757 trillion was shared by three tiers of government in third quarter of 2017;
- Total FAAC Disbursements in Q3 2017 increased by 24.56% over the Q1 2017 figures and 27.6% over the Q2 2017 figures;
- High degree of volatility in FAAC disbursements throughout the year, implying difficulty in economic planning and execution of capital projects;
- The nine months of 2017 followed a rise-and-fall pattern, except between May and July which recorded two consecutive months of increases;
- Between Q1 and Q3, FAAC disbursements to states lower than 45% of budgetary requirements;
- Contrary to projections, oil revenue exceeded non-oil revenue in the first half of 2017 by 41%;
- Pattern of highest disbursement in Q3 maintained;
- For state governments, total FAAC disbursements in the first three quarters of 2017 ranged between 4.89% and 41.09% of their budgets;
- For the federal government, actual inflows in the first half of 2017 were 41% lower than budgeted figures.

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

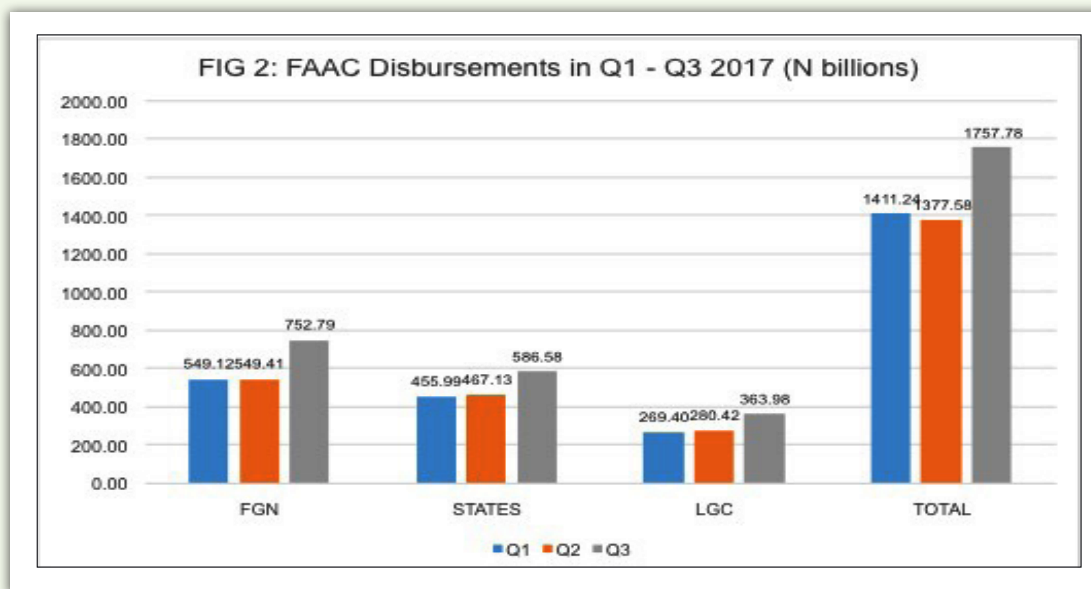
Total FAAC Disbursements in Q3 2017 Increased by 24.56% over the Q1 2017 Figures and 27.6% over the Q2 2017 Figures

FAAC disbursements in the third quarter of 2017 totaled N1.757 trillion. This represents an increase of 24.56% over total disbursements of N1.411 trillion recorded in the first quarter of 2017. This is also 27.6% higher than total disbursements of N1.377 trillion in the second quarter. Figure 2 presents FAAC disbursements for the first three quarters of 2017 and it is seen that disbursements were higher in the third quarter than other quarters for all three tiers of government.

Total FAAC disbursements to the federal government were N549.12 billion, N549.41 billion and N752.79 billion for the first, second and third quarters respectively. This implies that disbursements to the federal government in the third quarter increased by 37.09% over the Q1 figures. Also, disbursements to the federal government in Q3 increased by 37.02% over the Q2 figures. For state governments, FAAC disbursements totaled N455.99 billion in the first quarter, N467.13 billion in the second quarter, and N586.58 billion in the third quarter. These figures indicate that disbursements in the third quarter grew by 28.64% and 25.57% respectively over the figures for the first and second quarters. Total disbursements to local governments were N269.40 billion in the first quarter, N280.42 billion in the second quarter, and N363.98 billion in the third quarter. These reveal a 35.11% increase of third quarter disbursements over the first quarter disbursements. Also, the third quarter disbursements were 29.80% higher than disbursements in the second quarter.

These figures indicate that FAAC disbursements have been highest in the third quarter of 2017. Disbursements to federal government increased by the highest percentage while disbursements to states increased by the lowest percentage. These increases are encouraging signs and if sustained, will increase government expenditure which will help in boosting economic activities. This will ultimately help to move the economy further away from recession.

"These figures indicate that FAAC disbursements have been highest in the third quarter of 2017. Disbursements to federal government increased by the highest percentage while disbursements to states increased by the lowest percentage."



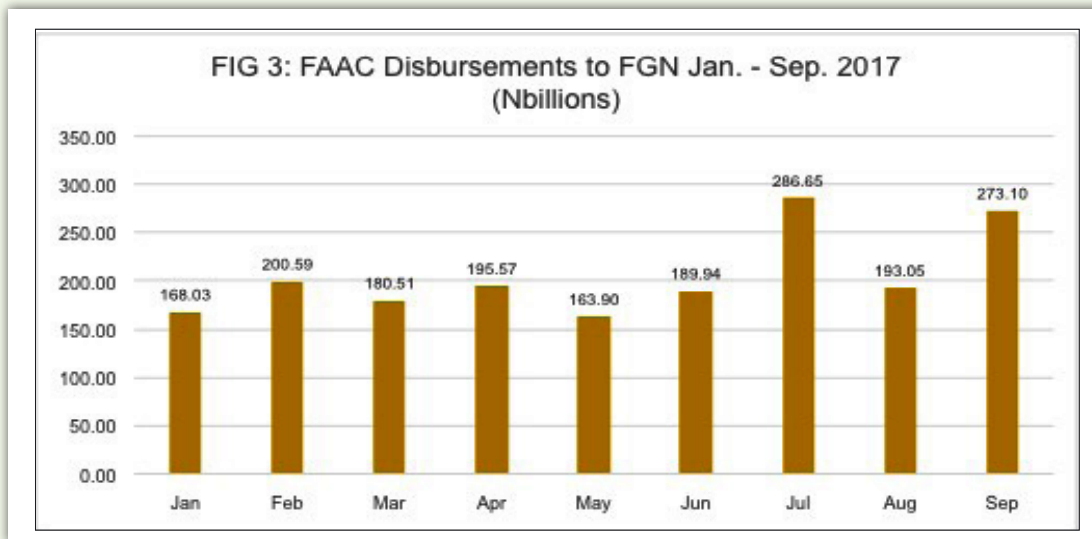
Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FAAC Disbursements to all tiers of Government Fluctuated Substantially in the First Nine Months of 2017

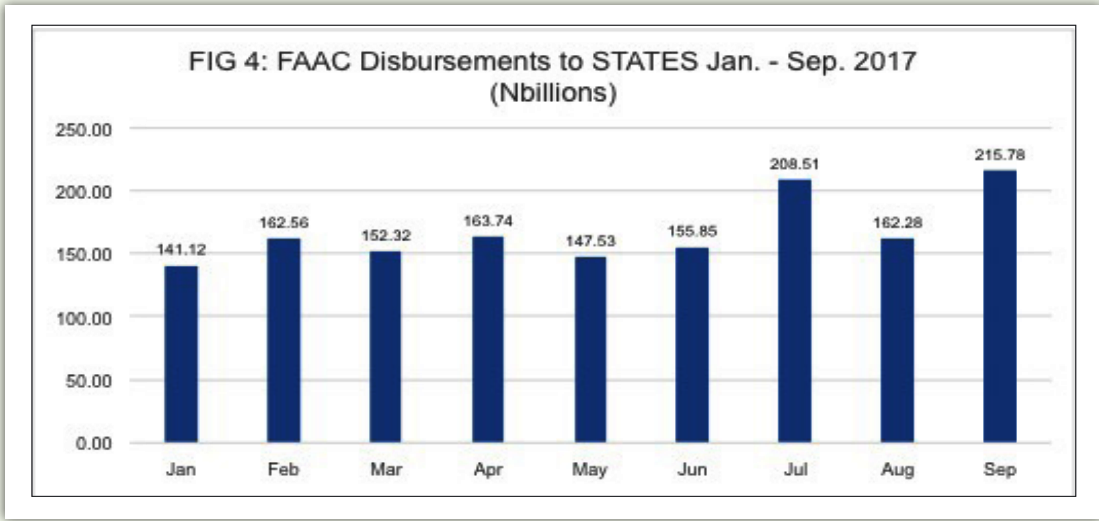
FAAC disbursements to the federal and local governments so far in 2017 were highest in July while they were highest for states in September. Data from the NNPC shows that oil production averaged 1.953 million barrels per day in June 2017, which is the highest level of production recorded in over a year. The last time oil production was this high was in March 2016 when 1.957 million barrels per day was produced. The NNPC has attributed this increase in production to normalcy in the Niger Delta region and resumption of export activities at the Forcados Terminal after many months . Disbursements to the federal government in 2017 were highest in July (N286.65 billion) and lowest in May (N163.90 billion). This is a difference of N122.75 billion, implying a 74.8% difference between the months with the highest and lowest disbursements. States received the highest disbursements in September (N215.78 billion) and lowest in January (N141.12 billion), a difference of N74.66 billion. This indicates a 52.9% difference. Local governments received the highest disbursement in July (N134.93 billion) and the lowest disbursement was in January (N85.40 billion). This reveals a difference of N49.52 billion or 57.9%. These figures suggest a high degree of volatility in government revenue across all three tiers of government. Figures 3 to 5 show that disbursements to the federal, states and local governments have risen and fallen in alternate months throughout the year. This makes economic planning and execution of capital projects difficult, and further buttresses the need for diversified sources of government revenue to limit volatility and ensure more stable and predictable revenue streams.

The nine months followed a rise and fall pattern, except between May and July when two consecutive months of increases was recorded.

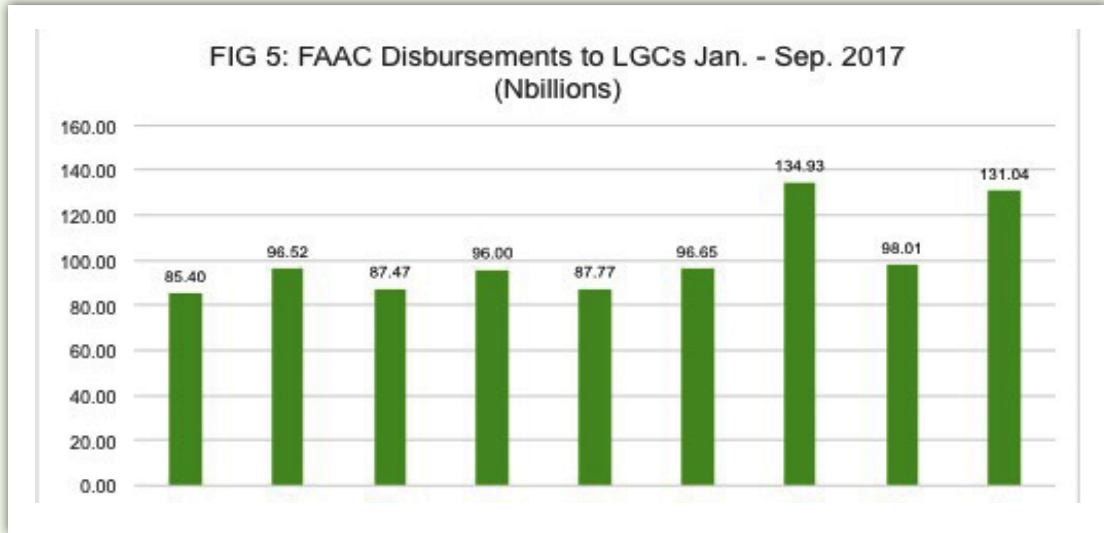
"These figures suggest a high degree of volatility in government revenue across all three tiers of government. Figures 3 to 5 show that disbursements to the federal, states and local governments have risen and fallen in alternate months throughout the year."



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



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



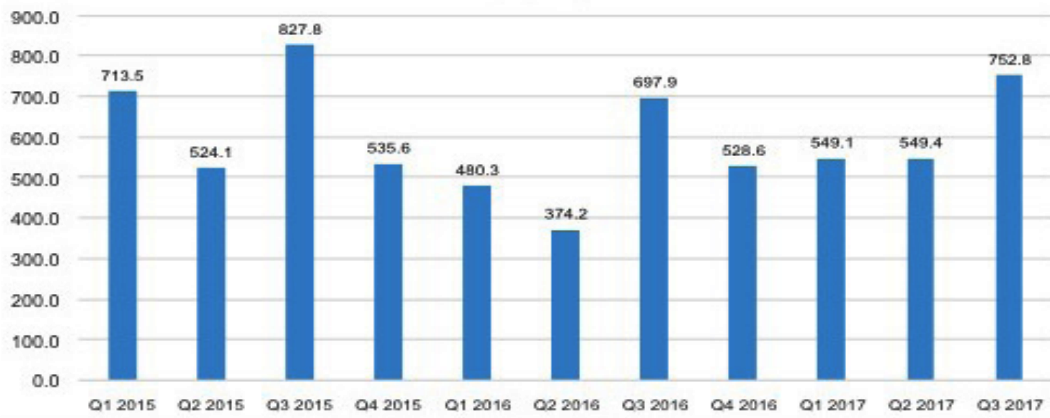
Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

"Figure 7 also shows that between 2015 Q1 and 2017 Q3, FAAC disbursements to states were highest in the third quarter of 2017. Figures 6 and 8 also show that since 2015 Q1, disbursements to the federal and local governments were second highest in the third quarter of 2017."

FAAC Disbursements are Generally Higher in the Third Quarter of the Year

Figures 6 to 8 present FAAC disbursements to the three tiers of government from 2015 Q1 to 2017 Q3. An interesting trend is observed, showing that disbursements are always highest in the third quarter of every year. The third quarter represents the summer season where global oil demand, and consequently oil prices are generally higher than other times of the year. This could possibly explain the higher revenue in these third quarters. Figure 7 also shows that between 2015 Q1 and 2017 Q3, FAAC disbursements to states were highest in the third quarter of 2017. Figures 6 and 8 also show that since 2015 Q1, disbursements to the federal and local governments were second highest in the third quarter of 2017. If this increasing trend continues, especially with rising oil production and prices, this would possibly suggest an improvement in the fiscal positions of all three tiers of government.

FIG 6: FAAC Disbursements to FGN 2015 Q1 - 2017 Q3 (N billions)



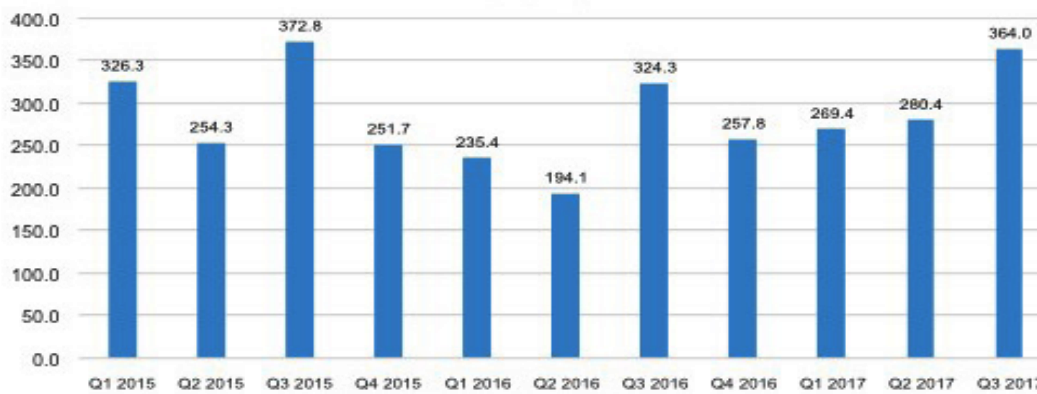
Source: National Bureau of Statistics, Fiscal Disbursements Division @ NEITI

FIG 7: FAAC Disbursements to STATES 2015 Q1 - 2017 Q3 (N billions)



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

FIG 8: FAAC Disbursements to LGCs 2015 Q1 - 2017 Q3 (N billions)



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

For State Governments, Total FAAC Disbursements in the First 3 Quarters of 2017 Ranged between 4.89% and 41.09% of their Budgets

Table 1 presents total FAAC disbursements for the first three quarters of 2017 and state government budgets for 2017. When total FAAC disbursements (Q1 to Q3) are expressed as percentage of state budgets, a dismal picture emerges. The ratios for all states is lower than 42%, which implies that states will have to aggressively raise IGR in order to be able to actualize their budgets. The alternative is increased borrowing. About half of the states (15 states) have FAAC disbursements as a ratio of budgets lower than 20% - (Osun: 4.89%; Cross River: 5.45%; Lagos: 7.83%; Ogun: 8.40%; Sokoto: 14.88%; Plateau: 15.04%; Oyo: 15.41%; Edo: 15.88%; Kogi: 16.39%; Kaduna: 17%; Kwara: 17.63%; Zamfara: 18.02%; Rivers: 18.37%; Ekiti: 19.19%; Ondo: 19.62%). With the exception of Lagos and Rivers States, these states do not have sufficient IGR to fund their budgets. The other states do not fare particularly better as their FAAC to budget ratios range between 20.31% (Ebonyi) and 36.29% (Nasarawa). Only one state, Yobe (41.09%) had a ratio above 40%.

To get an idea of how these ratios will change when the FAAC disbursements for the fourth quarter of the year are added, we have used disbursements in the third quarter as proxies for disbursements in the fourth quarter. It was seen earlier from figure 7 that historically, disbursements to states are always highest in the third quarter of the year. Thus, we have used disbursements in the third quarter as proxies for disbursements in the fourth quarter and these are presented as assumed FAAC disbursements for the fourth quarter. When these figures for assumed FAAC disbursements in the fourth are added to FAAC disbursements in the first three quarters and expressed as a ratio of budgets, only two states will have total disbursements above 50%. Based on these assumed figures, it is clear that many states will not be able to actualize their budgets, or they will resort to increased borrowing.

"When these figures for assumed FAAC disbursements in the fourth are added to FAAC disbursements in the first three quarters and expressed as a ratio of budgets, only two states will have total disbursements above 50%. Based on these assumed figures, it is clear that many states will not be able to actualize their budgets, or they will resort to increased borrowing"

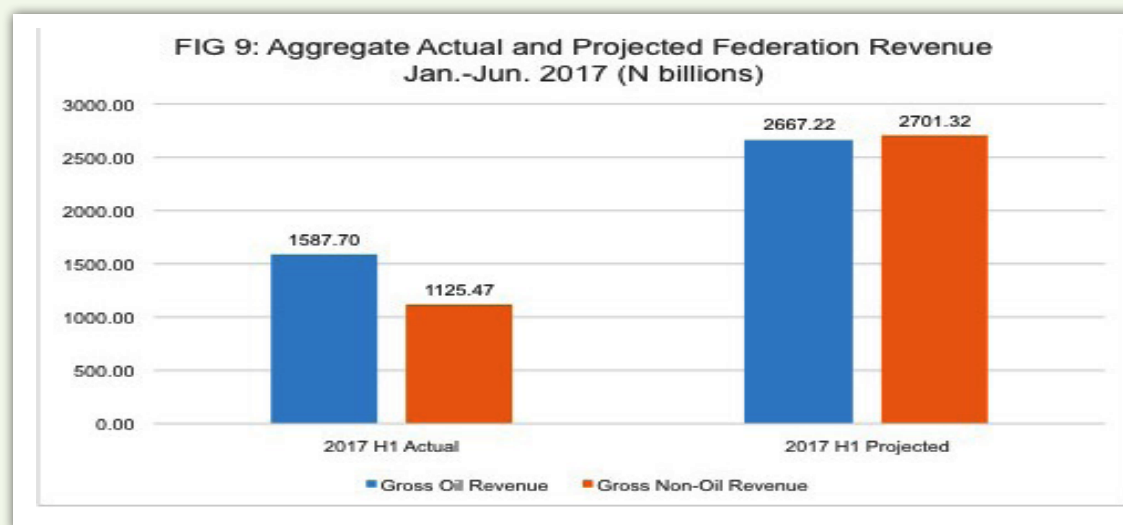
Table 1: FAAC Disbursements and Budgets for States in 2017

States	FAAC Disbursements Jan - Sep 2017 (N billions)	Budget 2017 (N billions)	FAAC Disbursements (Jan. - Sep. 2017) as a ratio of Budget (%)	Assumed FAAC Disbursements in Oct. to Dec. 2017 (N billions)	Assumed Total Disbursements from FAAC in 2017 as a ratio of Budget (%)
Abia	27.87	102.55	27.17	11.17	38.07
Adamawa	26.93	120.46	22.35	11.01	31.50
Akwa Ibom	103.78	371.29	27.95	34.89	37.35
Anambra	29.84	115.50	25.83	11.97	36.20
Bauchi	27.91	145.45	19.19	11.76	27.27
Bayelsa	74.68	243.20	30.71	28.09	42.26
Benue	28.48	163.80	17.38	11.77	24.57
Borno	33.52	183.84	18.23	13.66	25.66
Cross River	16.41	301.00	5.45	7.55	7.96
Delta	72.19	294.40	24.52	30.54	34.90
Ebonyi	25.83	127.20	20.31	10.41	28.49
Edo	24.32	153.18	15.88	10.90	22.99
Ekiti	18.13	94.46	19.19	7.90	27.55
Enugu	27.27	105.72	25.80	11.16	36.36
Gombe	22.35	90.56	24.68	9.35	35.01
Imo	27.30	131.14	20.82	11.12	29.30
Jigawa	32.92	129.87	25.35	13.16	35.48
Kaduna	36.55	214.92	17.00	14.89	23.93
Kano	47.54	217.90	21.82	18.97	30.52
Katsina	34.11	144.09	23.68	13.60	33.11
Kebbi	28.83	139.33	20.69	11.77	29.14
Kogi	28.66	174.85	16.39	11.74	23.10
Kwara	23.85	135.26	17.63	9.74	24.83
Lagos	63.62	812.99	7.83	24.01	10.78
Nassarawa	25.37	69.90	36.29	10.31	51.03
Niger	30.90	116.00	26.64	12.68	37.57
Ogun	18.56	221.00	8.40	8.16	12.09
Ondo	33.53	170.85	19.62	12.81	27.12
Osun	6.76	138.20	4.89	4.11	7.86
Oyo	32.15	208.65	15.41	13.37	21.81
Plateau	20.98	139.49	15.04	9.13	21.58
Rivers	86.32	470.00	18.37	32.82	25.35
Sokoto	30.41	204.30	14.88	12.01	20.76
Taraba	24.11	110.20	21.88	10.00	30.95
Yobe	28.48	69.30	41.09	11.51	57.71
Zamfara	20.76	115.20	18.02	8.71	25.58

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

For the Federation, Oil Revenue Exceeded Non-oil Revenue by 41% in the First Half of 2017

Figure 9 presents projected and actual oil and non-oil revenue inflows for the first half of 2017. The 2017 Fiscal Framework projected quarterly projections of N1.333 trillion and N1.350 trillion for gross oil and non-oil revenue respectively. As shown in Figure 9, this translates to half-year projections of N2.667 trillion for oil and N2.701 trillion for non-oil revenue. Thus, the government projected a slightly higher ratio (50.3%) for non-oil revenue as a share of total revenue. Actual revenue for the first half of the year fell short of projections. Actual oil revenue was N1.587 trillion, representing a shortfall of N1.079 trillion, implying a 40.4% underperformance. Non-oil revenue fared slightly worse, as only 41.6% of the projected revenue was realized. Actual non-oil revenue totaled N1.125 trillion, indicating a shortfall of N1.575 trillion. Total actual oil revenue, though projected to be slightly lower than non-oil revenues, was 41% higher than total actual non-oil revenue.

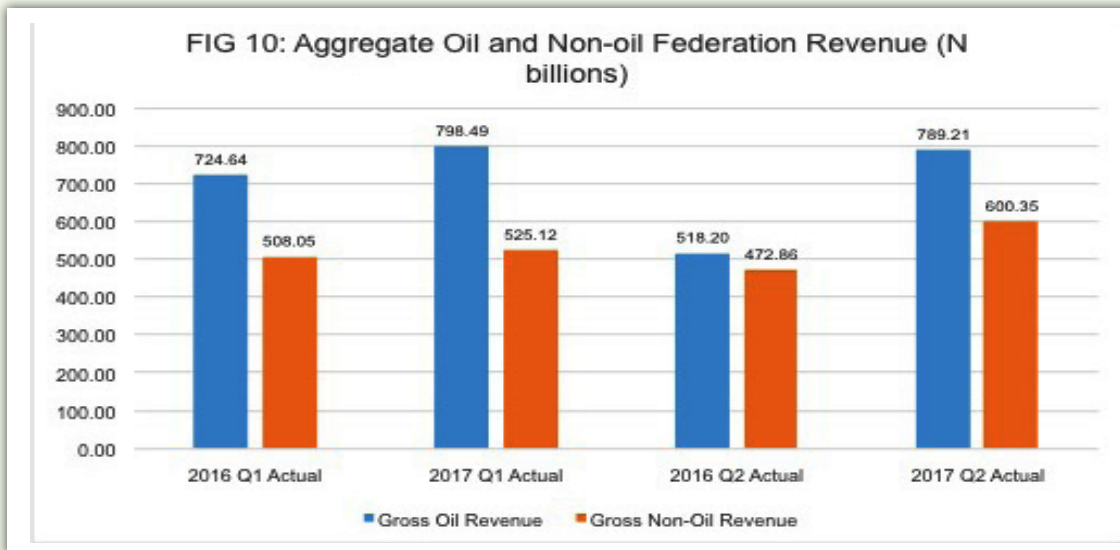


Source: Budget Office of the Federation

"As shown in figure 9, this translates to half-year projections of N2.667 trillion for oil and N2.701 trillion for non-oil revenue. Thus, the government projected a slightly higher ratio (50.3%) for non-oil revenue as a share of total revenue"

For the Federation, Total Revenue in the First Half of 2017 Surpassed Total Revenue in First Half of 2016 by 22%

Despite these shortfalls in revenue, there is still cause for optimism. Figure 10 shows actual oil and non-oil revenue for the first and second quarters of 2016 and 2017, and the revenue realized in 2017 has been higher than 2016 figures. In the first quarter of 2017, actual oil revenue was N798.49 billion while the figure for the first quarter of 2016 was N724.64 billion. Similarly, non-oil revenue increased from N508.08 billion in the first quarter of 2016 to N525.12 billion in the first quarter of 2017. These figures indicate an increase in total gross revenue of 7.37% from N1.232 trillion in the first quarter of 2016 to N1.323 trillion in the first quarter of 2017. Oil revenue in the second quarter increased from N518.20 billion in 2016 to N789.21 billion in 2017; while non-oil revenue increased from N472.86 billion to N600.35 billion in 2017. Thus, total gross revenue in the second quarter increased by 40.2% from N991.06 billion in 2016 to N1.389 trillion in 2017. In summary, overall revenue in the first half of 2017 increased by 22% over the revenue in the first half of 2016.

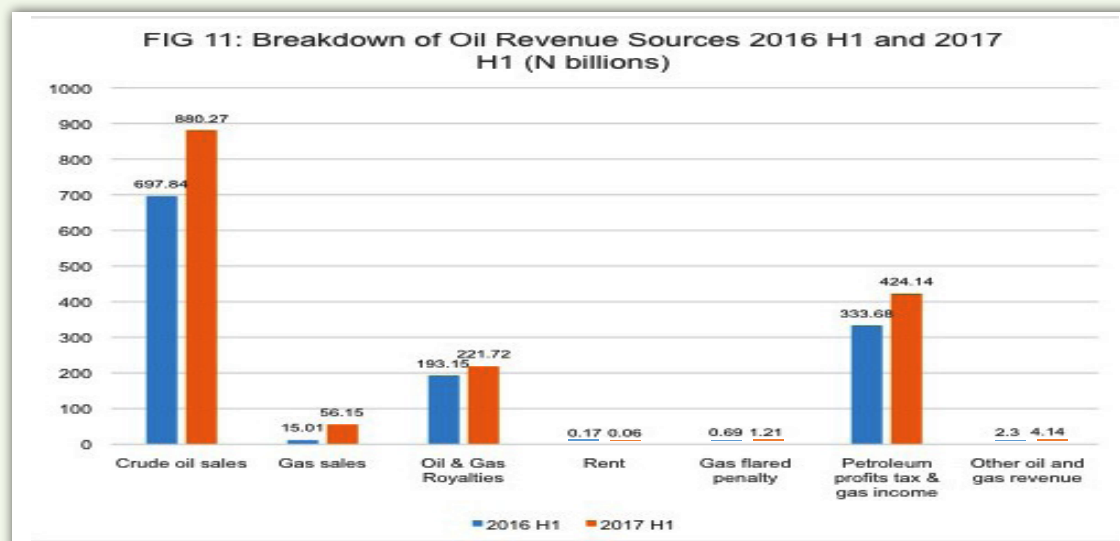


Source: Budget Office of the Federation

For the Federation, Oil Revenue in the First Half of 2017 was 27.7% higher than Oil Revenue in the First Half of 2016

Total oil revenue received in the first half of 2017 was N1.587 trillion which is 27.7% higher than the figure of N1.242 trillion received in the corresponding period of 2016. Figure 11 presents the breakdown of sources of oil revenue where it is seen that all sources, with the exception of rent, were higher in 2017 than in 2016. Oil revenue totaled N880.27 billion in the first half of 2017 while it was N697.84 billion in 2016, indicating an increase of 26.1%. The next highest source of oil revenue is petroleum profits tax which was N424.14 billion in the first half of 2017, against N333.68 billion in 2016, showing a 27.1% increase. Gas sales recorded the highest increase in 2017 H1 with revenue increasing by 274% from N15.01 billion in 2016 to N56.15 billion in 2017. Revenue from royalties increased by 14.7% from N193.15 billion in 2016 H1 to N221.72 billion in 2017 H1. This increase in oil revenue in the first half of 2017 reflects both domestic and global trends attributable to rising oil prices and increased oil production. If sustained, these factors can further boost government revenue for the remaining part of this year and enhance the ability of government to service the budget.

" H1 with revenue increasing by 274% from N15.01 billion in 2016 to N56.15 billion in 2017. Revenue from royalties increased by 14.7% from N193.15 billion in 2016 H1 to N221.72 billion in 2017 H1"



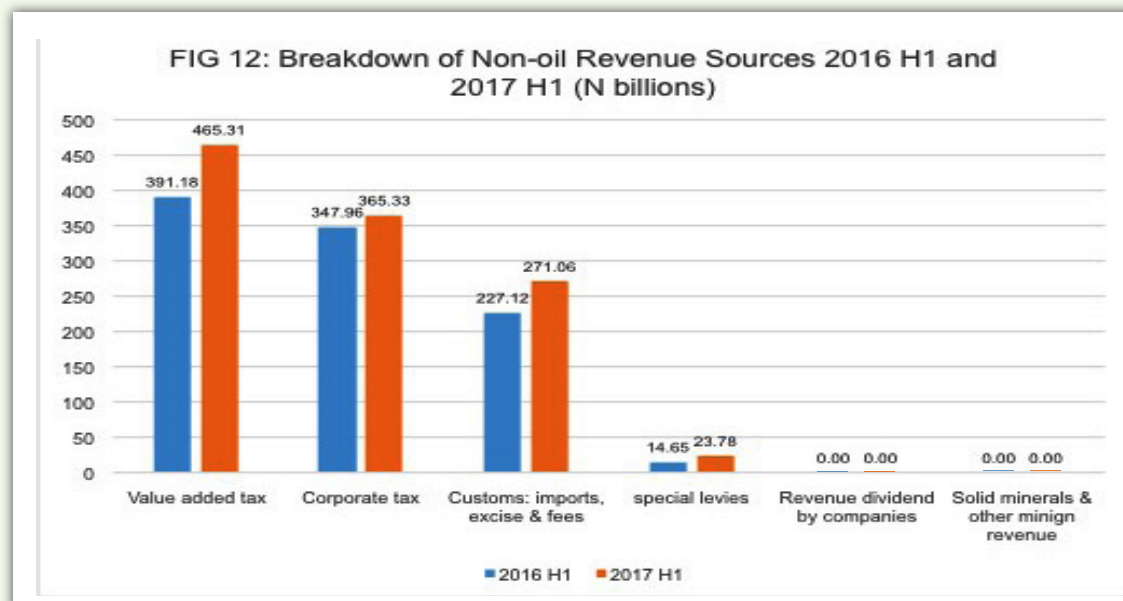
Source: Budget Office of the Federation

For the Federation, Non-oil Revenue in the First Half of 2017 was 14.7% higher than Non-oil Revenue in the First Half of 2016

Similar to oil revenue, non-oil revenue was higher in the first half of 2017 than the corresponding period of 2016. However, the increase in non-oil revenue in 2017 over the 2016 figures was 14.7%, indicating that oil revenue accounted for a larger proportion of the increased revenue. Figure 12 shows that the largest component of non-oil revenue is value added tax (VAT) which was N465.31 billion in the first half of 2017 as against N391.18 billion in the first half of 2016, indicating an increase of 15.9%. Corporate tax recorded a small increase of 4.7% from N347.96 billion in 2016 H1 to N365.33 billion in 2017 H1. Revenue from customs increased by 16.2% from N227.12 billion in 2016 H1 to N271.06 billion in 2017H1. The highest increase in non-oil revenue was recorded in special levies which increased by 38.3% from N14.65 billion to N23.78 billion. The improved performance recorded in 2017 has been attributed to the increase in economic activities, expansion in the tax base and the improvement in performance of revenue collecting agencies. Interestingly, there was no revenue recorded from solid minerals and dividends from investments funded by FAAC.

This belies the low production in the midst of abundant solid minerals the country possesses. Coal production has only been about 0.006% of proven reserves while about 1.2% of the lead/zinc reserves has been mined. Limestone production has been about 1.93% of proven reserves while gold production has been about 14% of proved reserves. It is hoped that the implementation of the Solid Minerals Road Map as a key element of the Economic Recovery and Growth Plan (ERGP) will ensure greater revenue from solid minerals in the future.

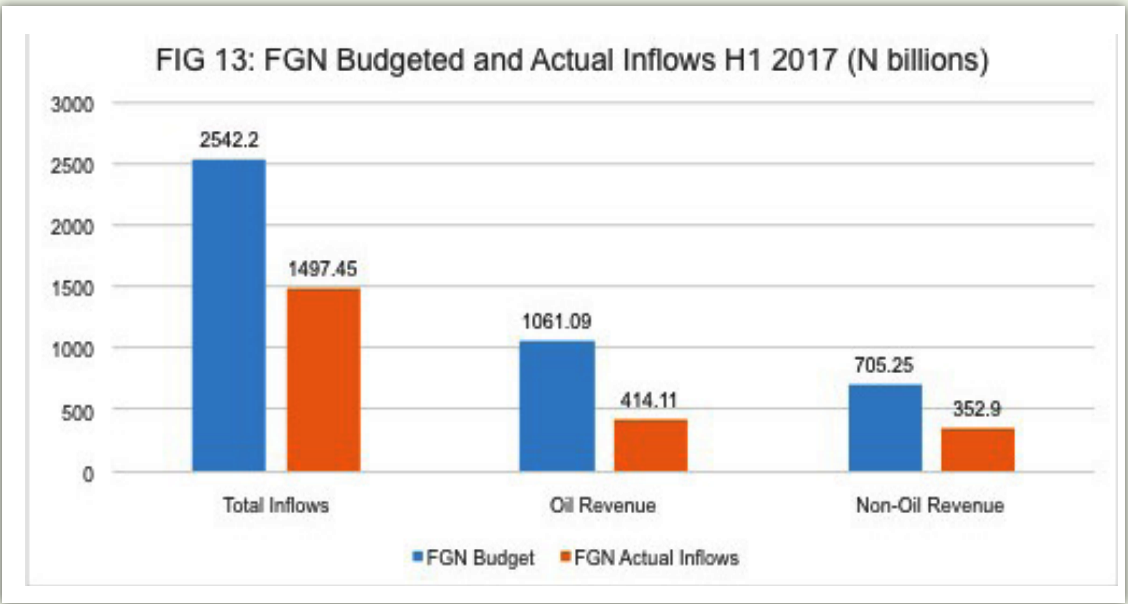
"The improved performance recorded in 2017 has been attributed to the increase in economic activities, expansion in the tax base and the improvement in performance of revenue collecting agencies."



Source: Budget Office of the Federation

For the Federal Government, Actual Inflows in the First Half of 2017 were 41% Lower than Budgeted Figures

Figure 13 presents budgeted and actual inflow figures for the federal government for the first half of 2017. The federal government budgeted N2.542 trillion as inflows for the first half of 2017. However, actual inflows were N1.497 trillion, indicating that actual inflows were 41% lower than budgeted. A breakdown of the inflows reveals that the oil sector accounted for a larger part of the shortfall. Budgeted half-year inflows from the oil sector was N1.061 trillion but actual oil inflows to the federal government was N414 billion. Revenue from the oil sector was 60% lower than budgeted. The federal government’s budget estimated half-year non-oil revenue inflows at N705 billion but N352 billion was actually received, indicating a 49% shortfall. As seen previously, it is hoped that the oil price and domestic oil production surge will continue for the rest of the year so that inflows in the second half can compensate for the shortfalls experienced in the first half of the year.



" Revenue from the oil sector was 60% lower than budgeted. The federal government’s budget estimated half-year non-oil revenue inflows at N705 billion but N352 billion was actually received, indicating a 49% shortfall"

Source: Budget Office of the Federation

Conclusion

This review has examined FAAC disbursements to all tiers of government in the third quarter of 2017. The review showed that disbursements to the three tiers of government increased in the third quarter when compared with the corresponding quarter of 2016. The review also revealed a volatile pattern of disbursements with revenue falling and rising in successive months. This has deleterious implications for planning and budget performance. In addition, the review showed that disbursements received by states in the third quarter of 2017 was highest than in the previous quarters since 2015 and second highest for the federal government and local governments since 2015. This review also examined the budget implementation reports for the first half of 2017. Oil revenue was found to have exceeded non-oil revenue in the first half of 2017, which was contrary to budgetary expectations, where non-oil revenue was projected to be higher than oil revenue. Also, the review showed that revenue in the first half of 2017 surpassed revenue in the corresponding period of 2016, thereby suggesting a positive outlook for future revenue and budget performance.

"Oil revenue was found to have exceeded non-oil revenue in the first half of 2017, which was contrary to budgetary expectations, where non-oil revenue was projected to be higher than oil revenue. Also, the review showed that revenue in the first half of 2017 surpassed revenue in the corresponding period of 2016, thereby suggesting a positive outlook for future revenue and budget performance."