

# FAAC Disbursements in First Half of 2016 and Possible Implications

In the first half of 2016, all tiers of government received considerably less inflows from the Federation Account Allocation Committee (FAAC) than in the corresponding half of last year. This has implications for governance, security and development. The reasons for the reduction in FAAC disbursements are not far-fetched. The drastic fall in oil prices and lower oil production as a result of militant activities led to lower oil revenues. Also, and following from lower government revenues, consumption and investment expenditure fell, resulting in lower taxes, thereby leading to lower non-oil revenues. Pursuant to Sections 3 (i) (j) of the NEITI Act 2007, NEITI in this inaugural edition of its review series hereby provides an analysis of FAAC disbursements for the first half of 2016 and highlights some key implications for public management and governance.

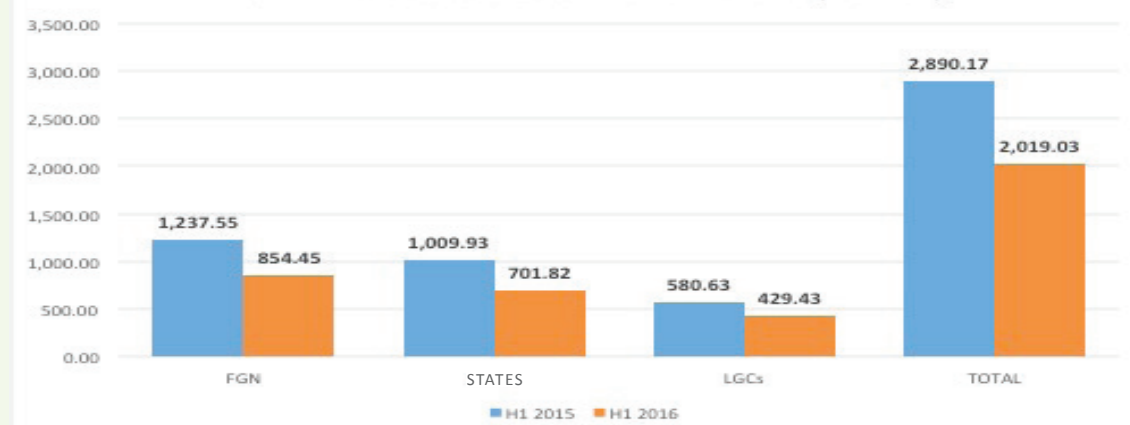
## Total FAAC disbursements slumped by 30% between 2015 H1 and 2016 H1

Total FAAC disbursement to the three tiers of government for January – June 2016 was N2.01 trillion while that of the first half of 2015 was N2.89 trillion. This shows that total disbursements dropped by 30% between the first halves of 2015 and 2016. The Federal Government took most of the hit. Total disbursements to the Federal Government fell from N1.23 trillion in the first half of 2015 to N854 billion in the first half of 2016. This represents a 30.9% decline. Total disbursements to States fell by 30.5% from N1.009 trillion in the first half of 2015 to N701 billion in the first half of 2016. For Local Governments, allocations from FAAC dropped by 26% from the N580.63 bn of the first half of 2015 and to the N429.43bn of the first half of 2016. Figure 1 presents FAAC disbursements in the first halves of 2015 and 2016.

### HIGHLIGHTS

- FAAC disbursement in the first half of 2016 were 30% lower than those of the first half of 2015;
- Historically, FAAC disbursements in second half of the year lower than those of the first half of the year;
- Reduced FAAC allocations across all tiers of government will likely constrain the capacity of governments to fully implement their budgets.
- Borrowing likely to increase, deepening budget deficits and debt burden across tiers of government.
- Federal Government relies more on Statutory Allocations than State or Local Governments

FIG 1: FAAC Disbursements H1 2015 and 2016 (N billion)



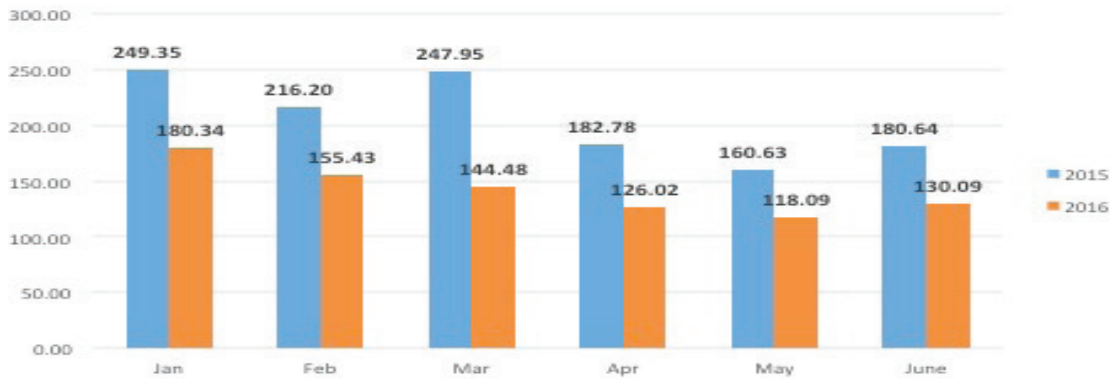
Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

## FAAC disbursements fell for five successive months in first half of 2016

Figure 2 presents FAAC disbursements to the Federal Government in the first halves of 2015 and 2016. It is seen from the figure that disbursements fell consistently from January 2016 to May 2016. It was only in June 2016 that disbursements rose on the May figures. The figures for 2015 show a different picture. FAAC disbursements generally experienced upswings and downswings in successive months.

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FIG 2: FAAC Disbursements to FGN H1 2015 & 2016 (N bill.)



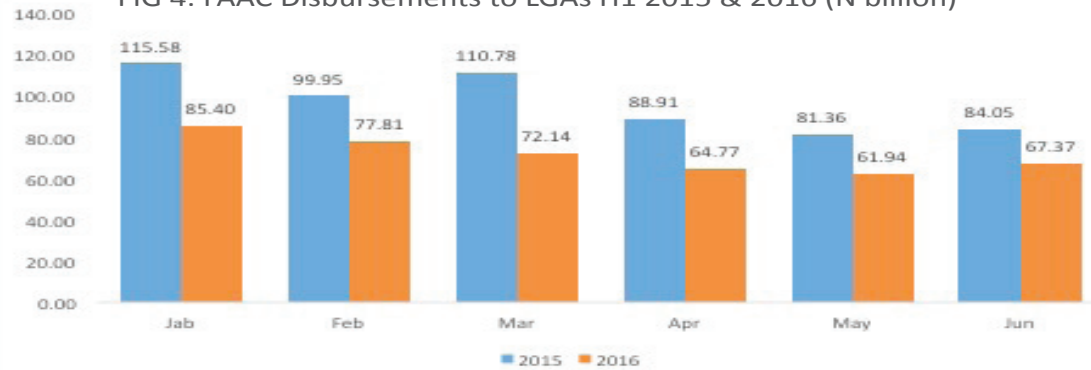
Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

Figures 3 and 4 present FAAC disbursements to State and Local Governments, respectively. A similar trend is observed, that is, disbursements fell continuously from January to May. It was only in June that there was a rise in disbursements.

FIG 3: FAAC Disbursements to States H1 2015 & 2016 (N billion)



FIG 4: FAAC Disbursements to LGAs H1 2015 & 2016 (N billion)



Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

## FAAC disbursements in the first half of the year were lowest in May

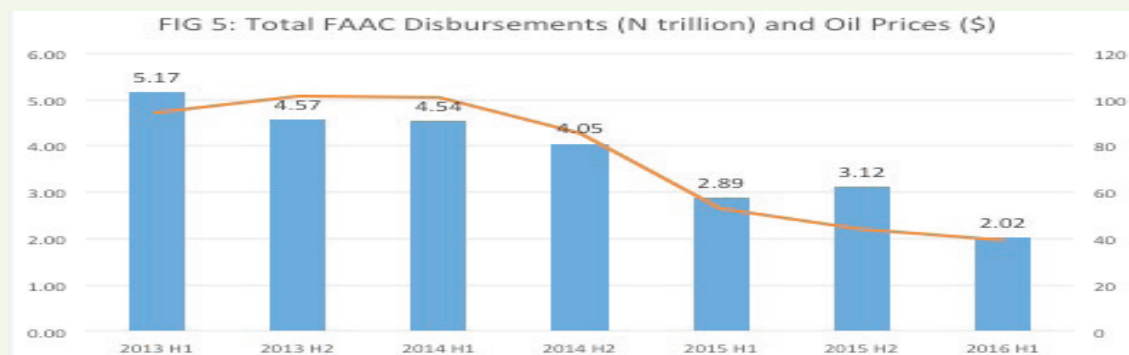
Figure 2 also shows that disbursements to the Federal Government were lowest in the month of May in both 2015 and 2016. In May 2015, the Federal Government received N160.63 billion while the figure for the corresponding month in 2016 was N118.09 billion.

Similarly, Figures 3 and 4 reveal that disbursements to the State and Local Governments were lowest in May in 2015 and 2016. For states, the highest allocation received for the first half of 2016 was N141.75 billion in January while N99.29 billion was received in May. This represents a fall of 29.9%. Local governments also received the largest allocation in the first half of 2016 in January (N85.4 billion) while they received N61.94 billion in May, representing a 27.4% fall.

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## Total FAAC disbursements are generally lower in the second half of the year

Figure 5 presents data for half-yearly aggregate FAAC disbursements from the first half of 2013 to the first half of 2016. A general decline is observed. It can be observed from the figure that, between the first half of 2013 and first half of 2016, FAAC disbursements have been falling every half. With the exception of the second half of 2015, FAAC disbursements are lower in the second half of the year when compared to the first half. While total disbursements were N5.17 trillion in the first half of 2013, they had dropped to N4.57 trillion in the second half of 2013. Total disbursements in 2014 also fell from N4.54 trillion in the first half to N4.05 trillion in the second half. While total disbursements in the first half of 2016 were N2.02, it is likely this trend may not continue given the rise in oil prices and the exchange rate and decline in militant activities.



Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics; Energy Information Administration

## Co-movement of total FAAC disbursements and oil prices

Figure 5 also presents the trend of oil prices as a line graph and it is easy to see that total FAAC disbursements have followed the trend of oil prices. This shows the dependence of governments at all tiers on the oil sector, and this fact highlights the vulnerability of public revenue to global oil market developments.

## Federal Government relies more on statutory allocations than States or Local Government Areas

Tables 1 to 3 present the breakdown of disbursements to the three tiers of government for the first half of 2016. On average, statutory allocations constituted 86% of total disbursements to the Federal Government in the first half of 2016. Statutory allocations make up 71% of total disbursements to State Governments and 67% of disbursements to Local Governments. Thus, the Federal Government relies more on statutory allocations than the States or Local Governments. This should not be surprising since the FG gets 52.68% from the Federation Account, while the states get 26.72% and the LGAs receive 20.60%. Because States and Local Governments receive more than the Federal Government from VAT, disbursements from VAT account for a larger share in their allocations. In the first half of 2016, while VAT accounted for 6.59% of total allocations to the FG, allocations from VAT accounted 26.79% of disbursements to states and 30.65% of disbursements to LGAs. (It would be recalled that FG takes 15% of VAT, while states and LGAs receive 50% and 35% respectively).

**TABLE 1: BREAKDOWN OF DISBURSEMENTS TO FG H1 2016 (N bill.)**

	Statutory	% of Total	Exchange Gain Difference	% of Total	NNPC Refund	% of Total	VAT	% of Total	Others	% of Total	TOTAL
January	147.57	81.83	2.01	1.12	6.33	3.51	8.94	4.96	15.49	8.59	180.34
February	137.47	88.44	1.59	1.02	6.33	4.07	10.04	6.46	0.00	0.00	155.43
March	127.20	88.04	1.62	1.12	6.33	4.38	9.33	6.46	0.00	0.00	144.48
April	109.11	86.57	1.34	1.07	6.33	5.02	9.25	7.34	0.00	0.00	126.04
May	101.22	85.12	1.13	0.95	6.33	5.32	9.40	7.90	0.84	0.70	118.91
June	112.83	86.97	1.20	0.93	6.33	4.88	9.38	7.23	0.00	0.00	129.74
TOTAL	735.40	86.02	8.91	1.04	37.98	4.44	56.33	6.59	16.32	1.91	854.94

Note: Others include distribution of part of NLNG dividend for 2015; and excess bank charges recovered

**TABLE 2: BREAKDOWN OF DISBURSEMENTS TO SG H1 2016 (N bill.)**

	Statutory	% of Total	Exchange Gain Difference	% of Total	NNPC Refund	% of Total	VAT	% of Total	Others	% of Total	TOTAL
January	102.55	72.35	1.55	1.09	29.79	21.02	7.86	5.54			141.75
February	92.11	72.68	1.16	0.92	33.47	26.41	0.00	0.00			126.74
March	87.30	72.98	1.23	1.03	31.09	25.99	0.00	0.00			119.62
April	75.09	70.21	1.02	0.96	30.83	28.83	0.00	0.00			106.95
May	67.08	67.30	0.85	0.85	31.32	31.43	0.42	0.43			99.68
June	73.97	69.72	0.87	0.82	31.26	29.46	0.00	0.00			106.09
TOTAL	498.10	71.07	6.69	0.95	187.77	26.79	8.28	1.18			700.83

Note: Others include distribution of part of NLNG dividend for 2015; and excess bank charges recovered

*"On average, statutory allocations constituted 86% of total disbursements to the Federal Government in the first half of 2016. Statutory allocations make up 71% of total disbursements to State Governments and 67% of disbursements to Local Governments."*

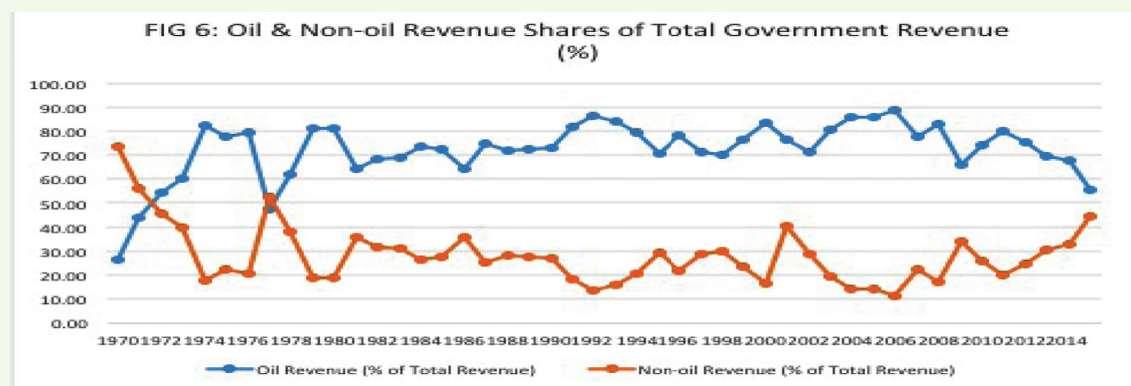
**TABLE 3: BREAKDOWN OF DISBURSEMENTS TO LG H1 2016 (N bill)**

	Statutory	% of Total	Exchange Gain Difference	% of Total	NNPC Refund	% of Total	VAT	% of Total	Others	% of Total	TOTAL
January	57.70	67.57	0.79	0.92	20.86	24.42	6.06	7.09	85.40		
February	53.76	69.09	0.62	0.80	23.43	30.11	0.00	0.00	77.81		
March	49.74	68.95	0.63	0.88	21.77	30.17	0.00	0.00	72.14		
April	42.67	65.87	0.53	0.81	21.58	33.32	0.00	0.00	64.78		
May	39.58	63.55	0.44	0.71	21.93	35.21	0.33	0.52	62.28		
June	44.12	66.38	0.47	0.71	21.88	32.92	0.00	0.00	66.47		
TOTAL	287.57	67.05	3.48	0.81	131.44	30.65	6.38	1.49	428.87		

Note: Others include distribution of part of NLNG dividend for 2015; and excess bank charges recovered

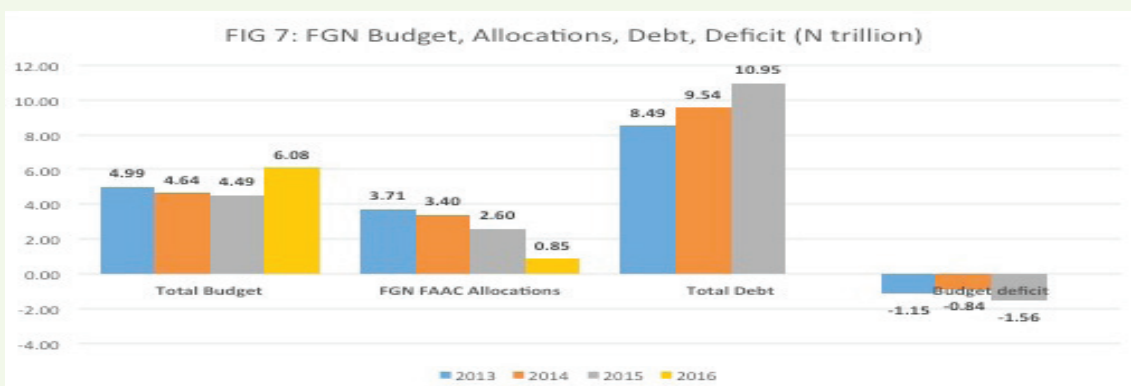
## Lower FAAC disbursements will constrain capacity of governments to fund budgets

Since 1980, oil revenue has accounted for over 65% of total federally collected revenue. For ten years, oil revenue contributed over 80% of total government revenue (1980, 1991-1993, 2000, 2003-2006, 2008). The graphs in Figure 6 show the massive gulf in oil and non-oil revenue. Figure 6 aptly illustrates the extent of the various governments' dependence on the oil sector for revenue. This will invariably have effects on the abilities of the Federal, State, and Local Governments to fund their budgets this year



Source: CBN Statistical Bulletin 2015

Figure 7 shows that the Federal Government had already been borrowing in previous years with higher FAAC allocations. Both the budget deficit, and consequently, federal debt have been rising. With considerable lower FAAC disbursements, borrowing will likely increase and this would result in higher debt.



Sources: Budget Office of the Federation; CBN Statistical Bulletin 2015; Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

## Conclusion

This report shows that disbursements to all levels of government were lower in the first half of 2016 than in the first half of 2015. Dwindling revenue implies that all levels of government will not have enough resources for budget execution. Thus, borrowing is inevitable, and this will increase budget deficits and worsen the debt situation. Even though, historically, disbursements in the second half of the year had been lower than the first half, this could be different this year. The resurgence in oil prices coupled with decreased militant and exchange rate differentials could boost statutory allocations from oil.

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