



Highs and Lows of FAAC Disbursements in Q3 of 2016

The Federation Account Allocation Committee (FAAC) recently completed disbursements for the three quarters of 2016. The disbursements to all tiers of government in the third quarter of 2016 were lower than for the comparable period in 2015. However, the third quarter featured substantial improvements in disbursements over those in the first and second quarters of 2016. This increase in government revenue portends well for the execution of budgets that have been constrained since the beginning of the year as a result of the drastic fall in FAAC disbursements.

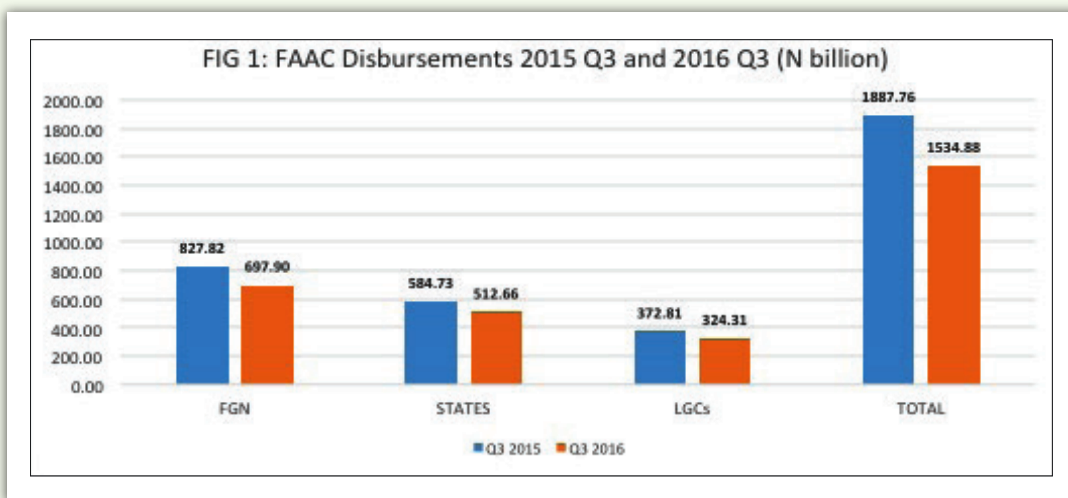
This review analyses disbursements from the FAAC to all tiers of government in the third quarter of 2016.

Total FAAC disbursements fell by 18.6% between 2015 Q3 and 2016 Q3

FAAC disbursements to the three tiers of government in the third quarter of the year totaled N1.53 trillion. This represents an 18.6% drop on total disbursements in the third quarter of 2015. Thus, similar to what was observed in the previous edition of the NEITI Quarterly Review, FAAC disbursements in 2016 have continued to fall below the 2015 disbursements. Figure 1 shows that the bulk of the shortfall was borne by the Federal Government. The Federal Government received N129.9 billion less in FAAC disbursements in Q3 2016 than received in Q3 2015. State Governments received N72.1 billion less in FAAC disbursements while Local Governments received N48.5 billion less in Q3 2016 than they received for the corresponding period in 2015.

HIGHLIGHTS

- N1.534 trillion shared by three tiers of government in Q3 of 2016;
- Q3 is the highest quarterly disbursement so far in 2016, though lower than the figure for Q3 of 2015;
- Highest monthly FAAC allocation this year was in July; though FAAC monthly allocation in 2016 only surpassed that of 2015 in September 2016;
- VAT allocations have been very volatile, but higher only in five months in 2016 than in 2015;
- FAAC allocations to state lower than expected, with negative implication for faithful implementation of most state budgets.



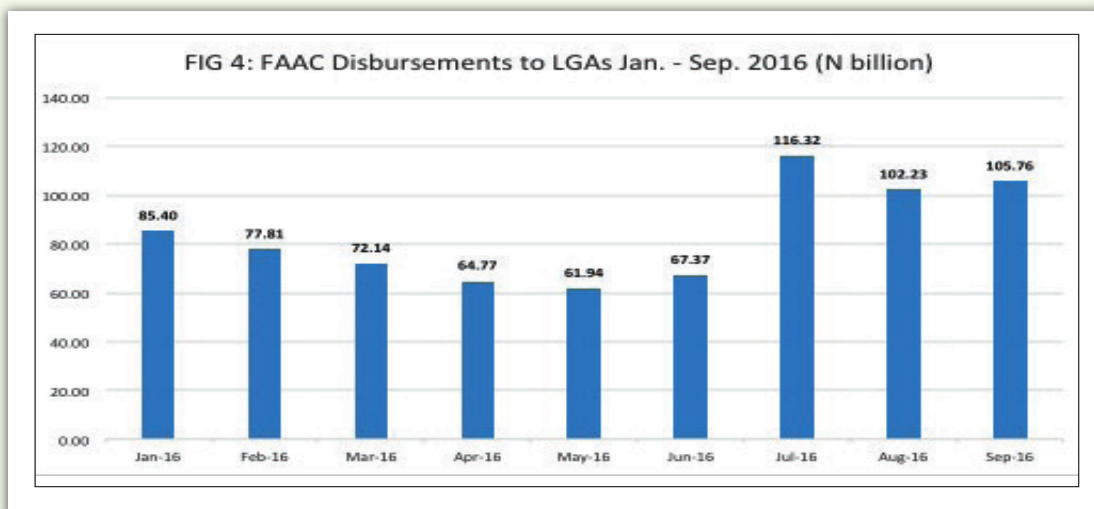
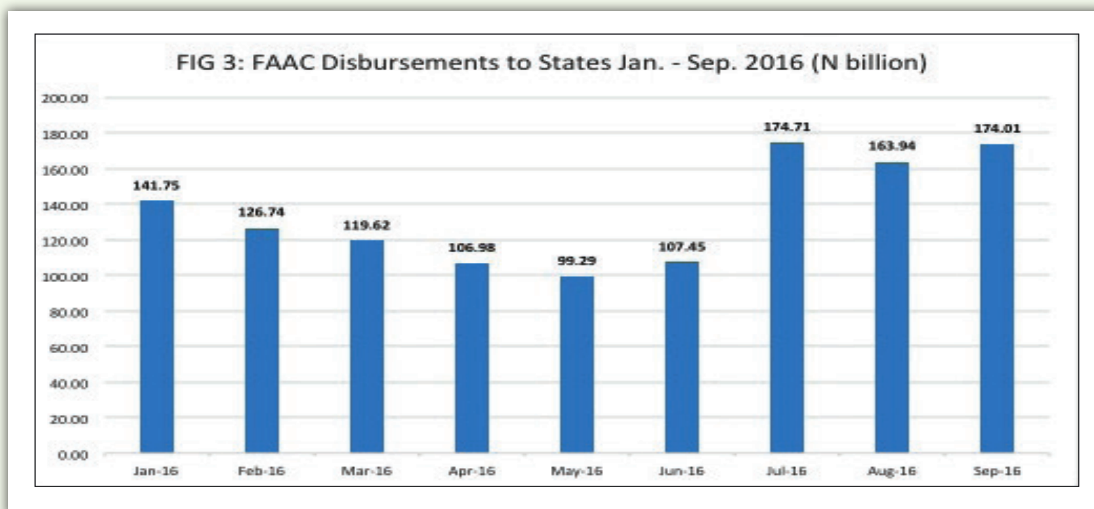
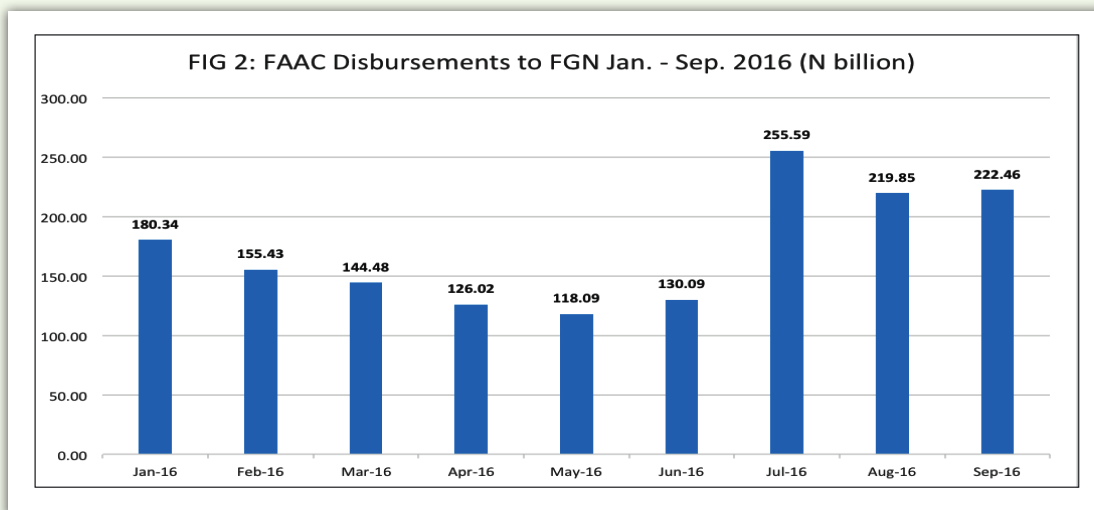
Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

FAAC disbursements to all tiers of government in 2016 were higher in Q3 than for Q1 and Q2

The third quarter of 2016 witnessed substantially higher inflows of revenue from FAAC when compared to the first and second quarters of the year. Figure 2 displays disbursements to the Federal Government from January to September 2016. For the three months in Q3, all months recorded FAAC disbursements above N200 billion. It is interesting that prior to the third quarter, the highest disbursement to the Federal

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Government was N180.34 billion in January. A similar trend can be observed in Figures 3 and 4 which present, respectively, disbursements to the States and Local Government Areas. Figure 3 shows that for states, there was a 62.5% increase in disbursements between June and July. All months in the third quarter had disbursements above N160 billion. A similar story is observed from Figure 4, which shows disbursements to Local Government Areas. Disbursements increased by 72.6% between June and July. Thus, we still observe substantial increases in revenue inflows even for Local Government Areas in the third quarter of the year, when compared to the first and second quarters.

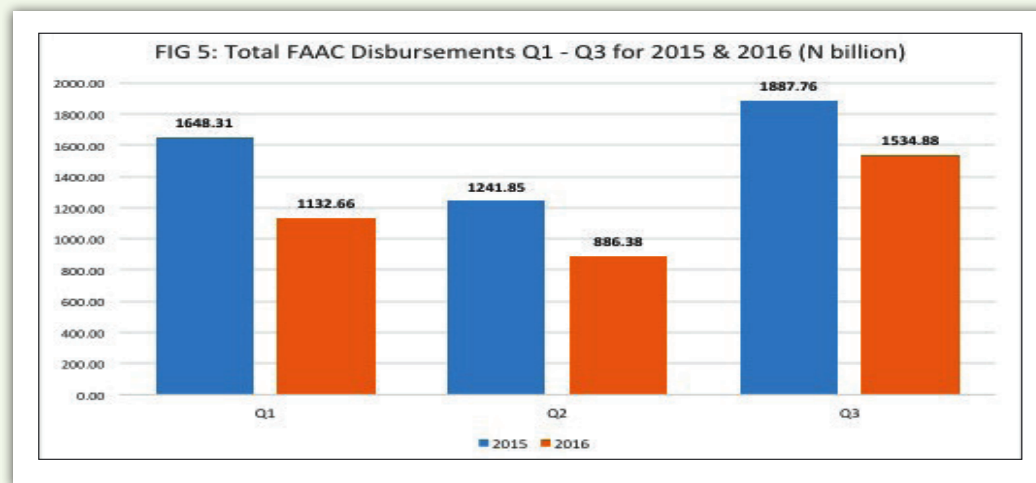


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Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

The difference/gap in total FAAC disbursements between corresponding quarters has been narrowing since the beginning of the year

Figure 5 presents disbursements between quarters 1 and 3 for the years 2015 and 2016. It is seen from the figure that since the beginning of 2015, the largest disbursement was for N1.88 trillion in the third quarter of 2015. The smallest disbursement was for N886.38 billion in the second quarter of 2016. All quarters in 2016 have witnessed lower disbursements than corresponding quarters in 2015. However, the percentage decreases have been falling since quarter 1. The total disbursements were 31.2% lower in Q1 2016 compared to Q1 2015. Also, total disbursements were 28.6% lower in Q2 2016 than Q2 2015. Finally, total disbursements were 18.6% lower in Q3 2016 compared to Q3 2015. Thus, we see a consistent closing of the gap between differences in disbursements as we have moved along the year 2016.



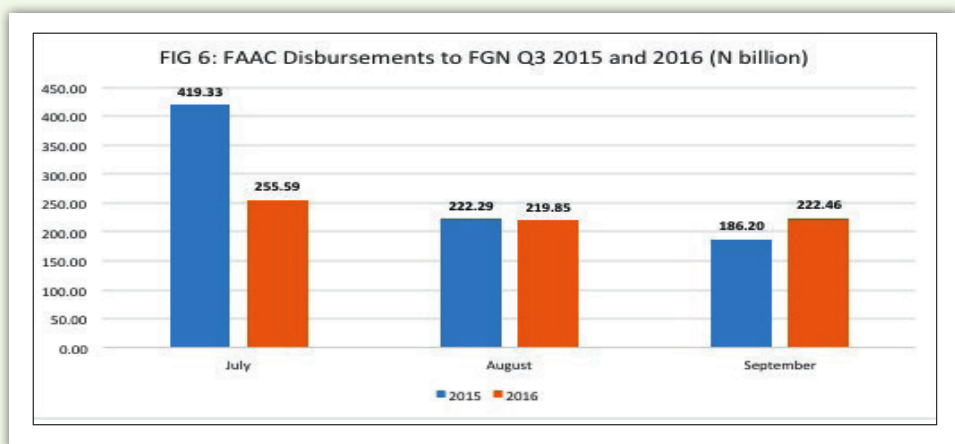
Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics

The gap in disbursements between 2015 and 2016 has been narrowing and all tiers of government received more in FAAC allocations in September 2016 than September 2015

Figures 6 to 8 present disbursements for July to September for respectively, the Federal, State and Local Governments. Similar trends are observed for all tiers of government. For the month of July, disbursements to all tiers of government were higher in 2015 than in 2016. Disbursements to the Federal Government fell by 39.04% between July 2015 and July 2016. For the same period, disbursements to States fell by 35.5% while disbursements to Local Governments Areas fell by 35.2%.

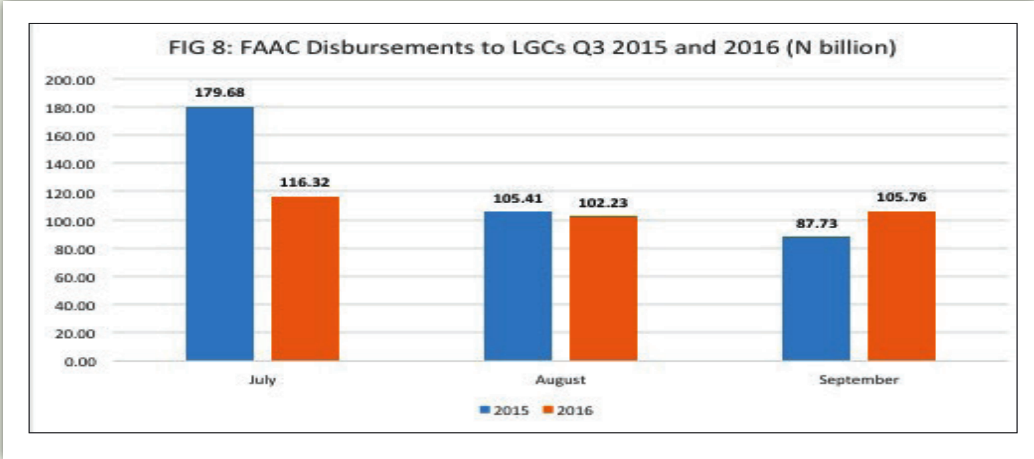
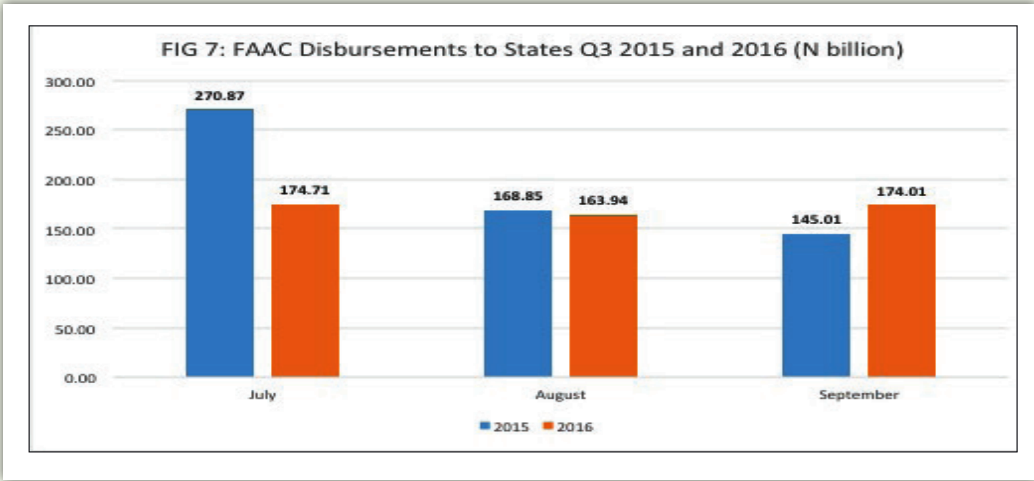
In August, differences in disbursements to all tiers of government for 2015 and 2016 had narrowed and were largely similar. Disbursements to the Federal Government fell by 1.09% between August 2015 and August 2016, while they fell by 2.9% for States. For the same period, Local Governments witnessed a fall in disbursements of 3%.

In September, all tiers of government received more from FAAC in 2016 than 2015. Thus, the gradual narrowing of the differences in disbursements has changed the dynamics in such a way that inflows for 2016 were higher in September than the figures in 2015. Disbursements to the Federal Government increased by 19.4% between September 2015 and 2016; while for states disbursements increased by 20.0%. Disbursements to Local Governments increased by 20.5% between September 2015 and 2016.



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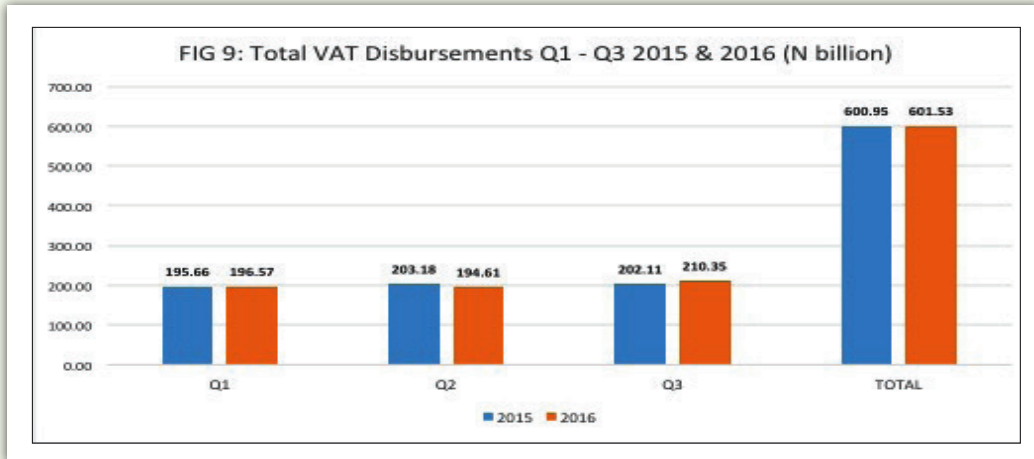
Sources: Office of the Accountant-General of the Federation; Federal Ministry of Finance; National Bureau of Statistics



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Total VAT Disbursements increased marginally by 0.096% in the first 3 quarters of 2016 over the 2015 figures

In order to gain some understanding of non-oil revenue, Figure 9 presents total VAT disbursements for Q1 to Q3 in 2015 and 2016. Total VAT disbursements for the first 3 quarters of 2015 was N600.95 billion while a total of N601.53 billion was disbursed for the corresponding periods in 2016. This represents a 0.096% increase from 2015 to 2016. Closer examination of Figure 9 shows that VAT disbursements increased in Q1 and Q3 while they fell in Q2. The disbursements increased by 0.46% and 4.07% in Q1 and Q3 respectively, while they fell by 4.21% in Q2.

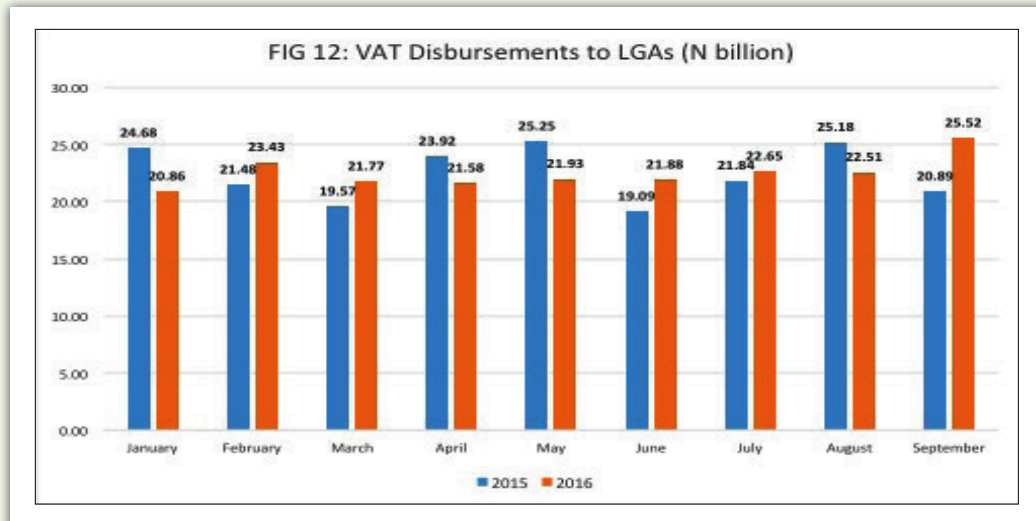
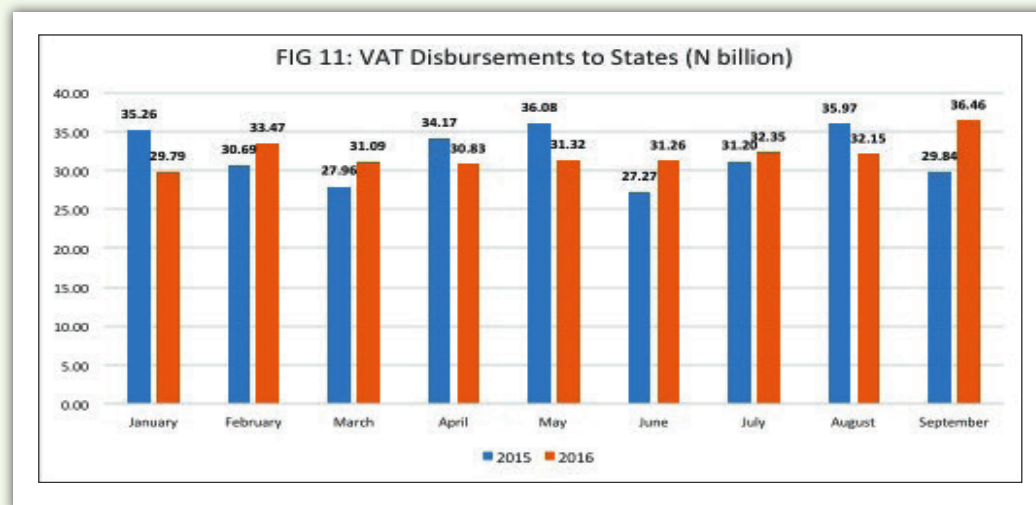
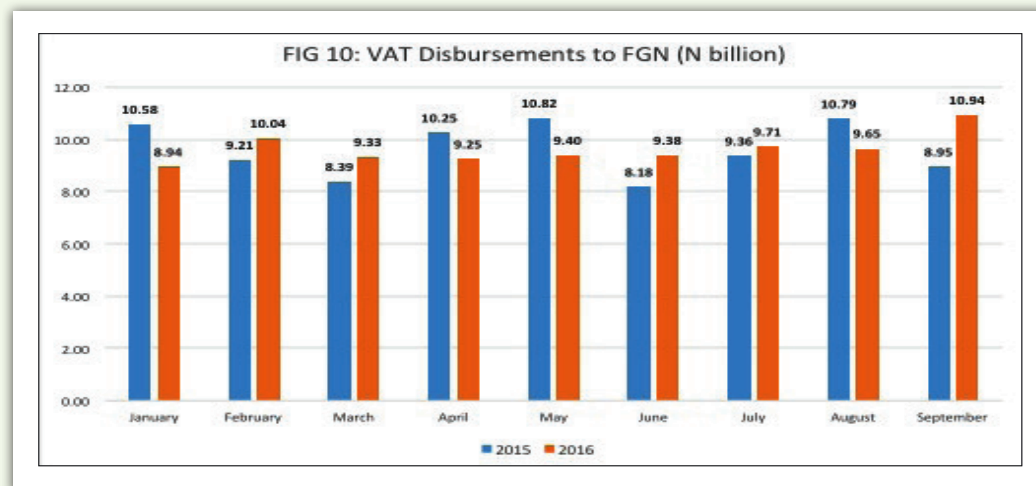


Note: Total comprises of VAT to FGN, States, LGCs, Deductions Cost of Collection - FIRS

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VAT Disbursements have been volatile, increasing in 5 months over the 2015 figures and falling in 4 months

Figures 10 to 12 present the breakdown of VAT disbursements to the three tiers of government. It is seen that states receive the largest share of VAT income (Figure 11), followed by Local Government Areas (Figure 12), and lastly the Federal Government (Figure 10). The Figures reveal similar patterns of VAT disbursements for all tiers of government for quarters 1 to 3 in 2015 and 2016. VAT disbursements were higher in five months in 2016 than for their corresponding months in 2015 (February, March, June, July and September). This applied to all tiers of government.

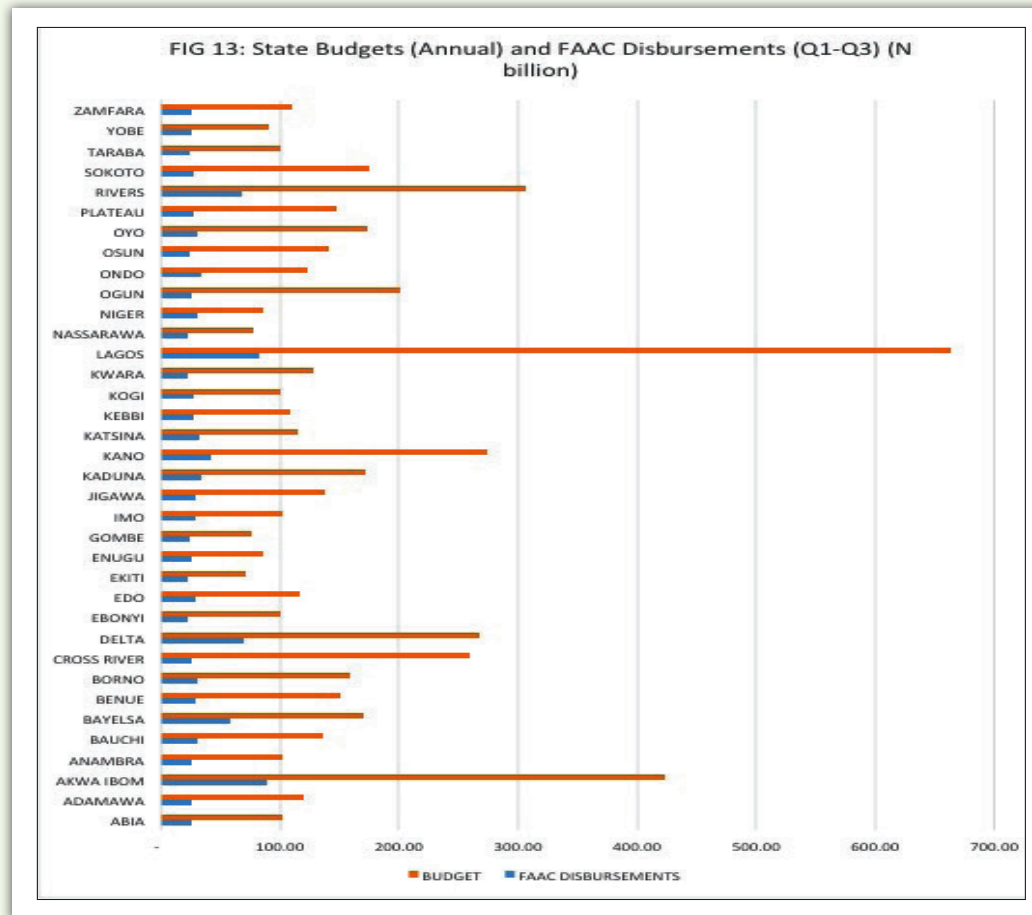


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FAAC Disbursements to States for Q1 – Q3 2016 are critically lower than State Budgets

Figure 13 presents the 2016 budgets for States and also total FAAC disbursements for Q1 to Q3 in 2016. The Figure shows that the lower disbursements from FAAC seen throughout 2016 will likely have dire consequences for budget implementation of all states of the Federation. It is well known that virtually all states rely on FAAC disbursements to fund their budgets. However, the dwindling revenue from the petroleum sector, which has led to substantially lower disbursements from the Federation Account will limit the ability of states to effectively execute their budgets. Even though the states also have revenue inflows from internally generated revenue, (IGR), this is very low in many states and only 3 states (Lagos, Rivers, Delta) had IGR higher than N40 billion in 2015. Thus, it can be inferred from Figure 13 that most states will incur massive budget deficits in 2016, and it is unlikely that they will be able to fully implement their budgets.



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

Conclusion

This review examined FAAC disbursements to all tiers of government for the third quarter of 2016. The review showed that revenue accruable from FAAC disbursements in the third quarter of 2016 was lower than for the corresponding period in 2015. Thus, as was revealed in the previous edition of this Review, lower revenue is being channeled into the Federation Account. Interestingly, this Review showed that disbursements in the third quarter of 2016 have far outweighed those in the first two quarters of the year. This reflects the rise in oil prices and reduction of militant activities recorded over this period. This Review also showed that cumulative FAAC disbursements to States for Q1 to Q3 in 2016 are substantially lower than the 2016 budgets for all States. Even though the states will still receive disbursements for Q4 and they also receive inflows from IGR, it is highly unlikely these will be sufficient enough to offset the big gap between expenditure and revenue. This suggests that many States will incur heavy budget deficits and they will not be able to effectively implement their budgets for the year. Exceptions are states which sufficiently generate IGR (Lagos, Rivers, Delta).

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