

Analysis of Federal Transfer in 2015

Introduction

As part of its work on Budget Preparation and Cash Planning, SPARC monitors the monthly FAAC (Federal Allocation Accounts Committee) distributions to states. This brief note provides details on the performance of federal transfers (Statutory Allocation, VAT (Value Added Tax) and Excess Crude) from January to April (four months) in 2015 and provides full-year forecasts based on the four month performance figures.

Budget Realism - with the exception of Lagos, a significant proportion of state government's recurrent revenue comes from federal transfers (Statutory Allocation, VAT and Excess Crude). Since performance of the underlying revenue sources (Mineral Sector, Customs and Excise, Companies Income Tax) is largely exogenous to state governments, the only way to ensure good performance is the make realistic forecasts.

Summary

A summary of the performance against budget and full year forecast is provided in table below, together with RAG (Red, Amber, Green) rating.

Figure 1: Summary of FAAC Performance for SPARC State January – April 2015

| State | 2015 Budgeted FAAC Receipts | Receipts Year-to-Date | Full Year Estimate | Full Year as % of Budget | | |
|---------|-----------------------------|-----------------------|--------------------|--------------------------|--------|-----------|
| Anambra | 48,040,549,002 | 14,110,651,966 | 40,704,519,484 | 85% | Red | Below 85% |
| Enugu | 66,170,000,000 | 14,110,840,399 | 40,382,134,824 | 61% | Yellow | 85% - 90% |
| Jigawa | 48,572,000,000 | 15,527,991,012 | 44,815,965,001 | 92% | Green | Above 90% |
| Kaduna | 80,673,363,650 | 18,196,938,523 | 52,227,733,897 | 65% | Red | |
| Kano | 68,210,532,069 | 22,520,699,284 | 65,091,360,270 | 95% | Green | |
| Katsina | 70,000,000,000 | 17,289,731,912 | 49,774,902,485 | 71% | Red | |
| Lagos | 126,000,000,000 | 39,425,298,563 | 118,559,127,684 | 94% | Green | |
| Niger | 61,315,402,545 | 16,136,773,150 | 46,522,993,780 | 76% | Red | |
| Yobe | 54,623,165,000 | 13,533,544,350 | 38,883,355,321 | 71% | Red | |
| Zamfara | 54,121,821,455 | 12,511,710,379 | 34,599,704,939 | 64% | Red | |

More detailed analysis is provided below.

FAAC Revenue Sources - Performance to Date

Statutory Allocation distributions have fallen month by month in 2015. The January distribution was based on last year's benchmarks for crude oil. February's allocation was 12% lower than January and there was a further 4% drop in March and 21% in April. The resultant allocation for April was more less than 2/3 of the January allocation, and half the highest distribution over the last 30 months (July 2013). Overall for the first four months of 2015 the total statutory allocation (including net derivation) was 22% lower than the same period in 2014.

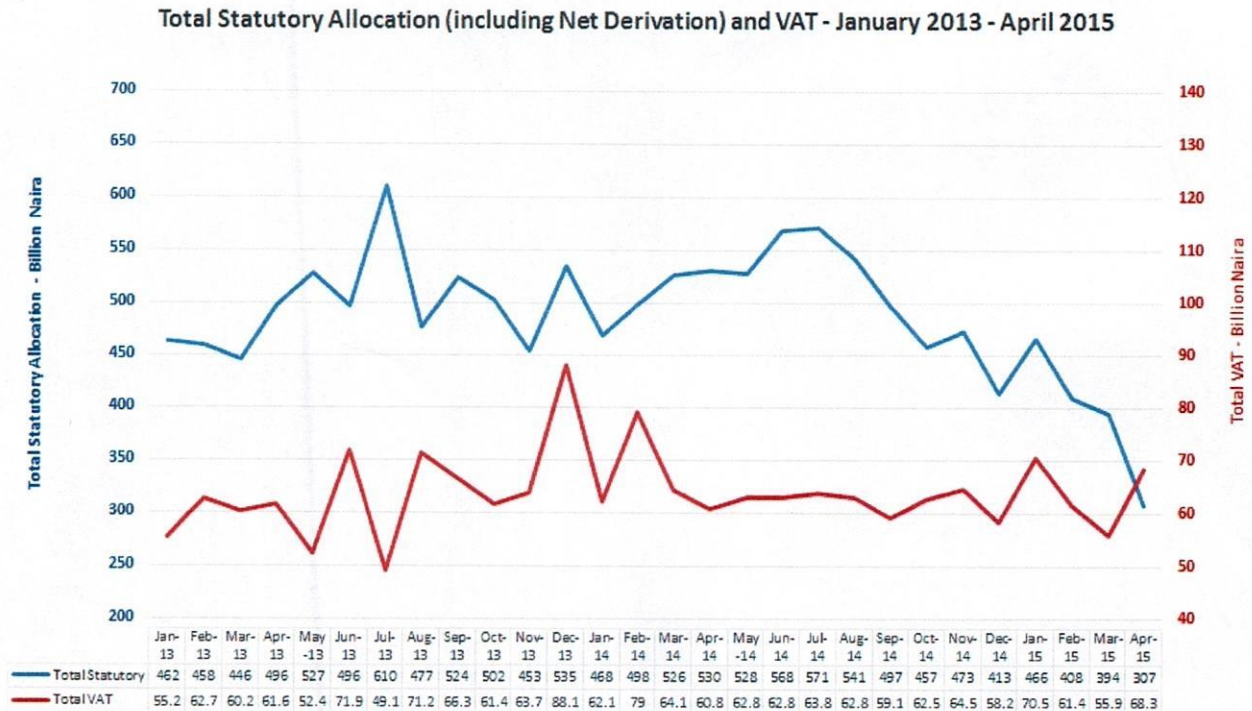
Underlying Non-Mineral revenue contributions (Companies Income Tax, and Customs and Excise Duties) have been robust compared to the same four month period in 2014 (in fact a 4% growth year-on-year compared to 2014), meaning the fall is solely due to mineral sector whose contributions have declined by 27% compared to the same period in 2014, and specifically the fall in both the crude oil benchmark and the actual price. Excluding January allocations (which are based on December 2014 collections and hence the 2014 benchmarks), the decline in mineral revenues for the period February-April compared to 2014 is 35%. Full year forecast for 2015 based on the first four months is 27% lower than that realised for 2014.

Without access to the detailed FAAC pack, the average monthly sales price, daily production and effective NGN:USD exchange rate at which crude has been sold are not known. But the distribution figures are consistent with the reduced benchmarks for 2015 (compared to 2014) of \$52 per barrel (\$77.5 in 2014) and 2.27 million barrels per day (MBPD) production (2.39 in 2014), and increased NGN:USD exchange rate of 198.5 (160 in 2014).

VAT distributions fell during February and March compared to January, possibly due to the elections, but recovered in April. The total VAT receipts for the first four months of 2015 were 4% lower than the same period in 2014, but based on flow data from the last seven year, the full year receipts for 2015 are forecast to grow modestly based on the first four month's distributions

The performance of Statutory Allocation (total for all three tiers of government) and VAT (again total across the three tiers after cost of collection deduction) is presented in the line graph in Figure 2 below.

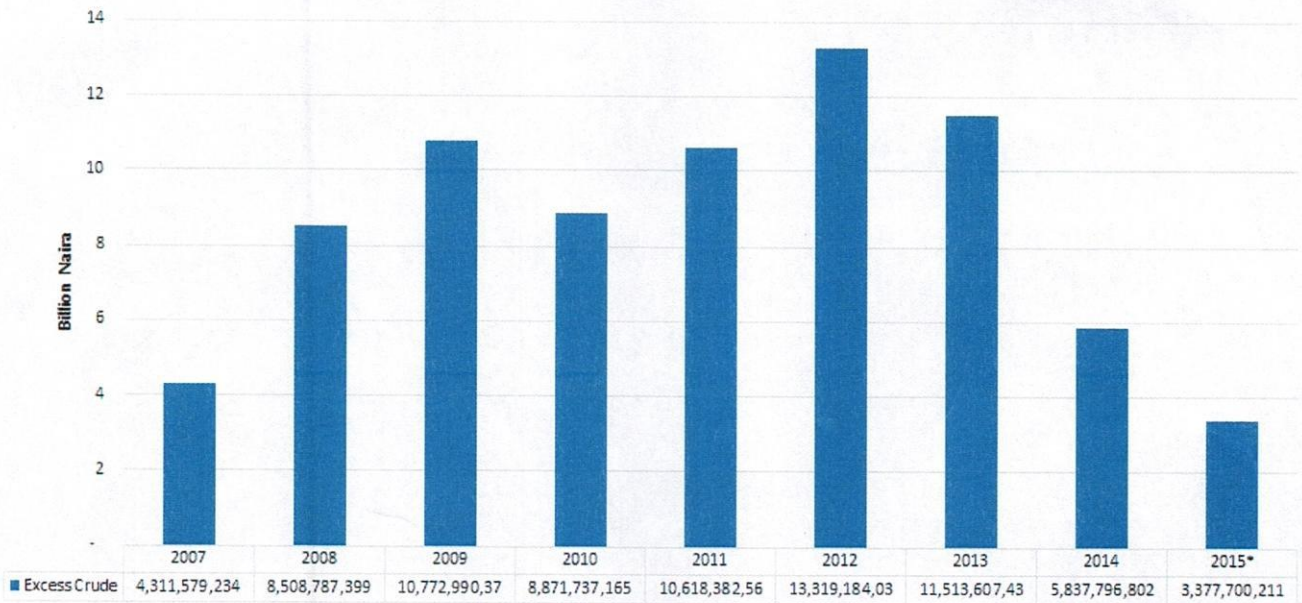
Figure 2: Statutory Allocation and VAT Figures



Excess Crude – modest exchange gains (i.e. excesses generated when proceeds from crude oil export sales are converted to Naira at a rate higher than the benchmark) have been distributed every month so far this year, the most significant of which was in March. It is not known whether these exchange gains are historical (e.g. allocations of excesses generated in 2014 and before) or if they are being distributed as they are accrued on a monthly basis – this can be only determined from sight of the full FAAC pack data.

There have also been two modest NNPC (Nigerian National Petroleum Company) refunds / supplementary distributions, in February and April. No SURE-P (Fuel Subsidy Re-Investment Programme) has been distributed in 2015.

The bar graph in Figure 3 below shows historical annual Excess Crude (including Augmentation, NNPC and other refunds, Exchange Gains and other Excesses) for Anambra state – the trend is indicative for all states. The allocation for 2015 is based on a similar level of distribution for the remainder of the year based on the first four months figures. It is 42% lower than 2014, 71% lower than the 2013 figure and 63% lower than the average annual distributions since 2007.

Figure 3: Annual Excess Crude Distributions**Excess Crude Allocations 2007-2015 - Anambra State (Indicative of all states)**

* Full Year Estimate based on January to April distributions

State's Performance against Budget

Figure 4 below provides a summary of the actual receipts for January to April 2015 and compares them to the budget for each state. Based on the receipts to date, a forecast is provided for the full year.

The performance across the states is highly variable – Kano, Lagos and Jigawa are the best performing (or have the most accurate budgets), all forecast to achieve 90% of their budgeted revenue or above. It is noteworthy that Kano and Lagos are the two SPARC states who have been receiving support on formal Fiscal Strategy Papers or equivalent and forecasting the longest (Medium Term Budget Framework document in Lagos and EFU-FSP-BPS (Economic and Fiscal Update, Fiscal Strategy Paper and Budget Poilict Statement) document in Kano).

Enugu, Kaunda and Zamfara face significant revenue short-falls with forecast full year performance of between 60-65%. Katsina, Niger and Yobe are also below 80%.

Whilst this paper does not present facts on why the budgets certain states were too ambitious, the following should be noted:

1. All SPARC states received support to produce an EFU-FSP-BPS document in 2014 to cover 2015-2017;
2. These all included robust estimates for Statutory Allocation, VAT and Excess Crude (albeit with minor differences in assumptions);
3. At the time of their production (April-June 2014), the outlook for the mineral sector has considerable better than the reality by the end of 2014.
4. The states whose budgets are in line with the forecasts in this paper are likely to have a) adjusted their FAAC revenue forecasts during the annual budget preparation process in late 2014 in order to capture the changing mineral sector environment, and b) avoided political interference in the estimates.

The likely impact of the revenue short-falls will be non-completion of capital projects, resulting in a carry over to 2016, or temptation to cancel some projects, as well as pressure on FAAC to distribute excess crude (as has been experienced year to date).

Notes:

Basis for full year projections – it is assumed that Statutory Allocation will continue at the average level experienced in February – April (as noted above, the January figure is based on the prior year benchmarks). For VAT, the average collection for January to April (as a percentage of the full year total, and excluding outliers) for the last seven years is 33% - this is used as the basis for forecasting the full year receipts. For Excess Crude, it is assumed that the monthly distributions for the remainder of the year will be at the current level (i.e. average for the first four months of 2015).

Data Sources – data on receipts from January-April 2015 have been collected from the monthly FAAC summary sheets that are posted on the Office of the Accountant General of the Federation website (www.oagf.gov.ng). It should be noted that the Statutory Allocation figures are gross (i.e. before debt servicing and other deductions). Budget data is via state published budgets. It should also be noted that in some states, Statutory Allocation and Excess Crude are combined (hence no budgeted figure showing for Excess Crude).

Finally as noted above, more detailed analysis could be performed on receipt of the full FAAC pack data.