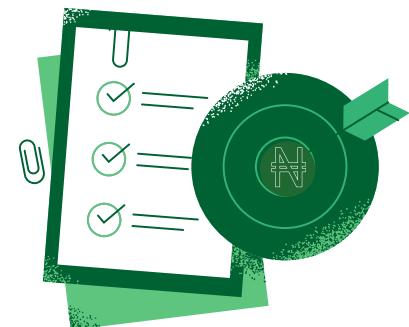




Fostering Accountability for Fuel Subsidy Removal in Nigeria

Prepared By :

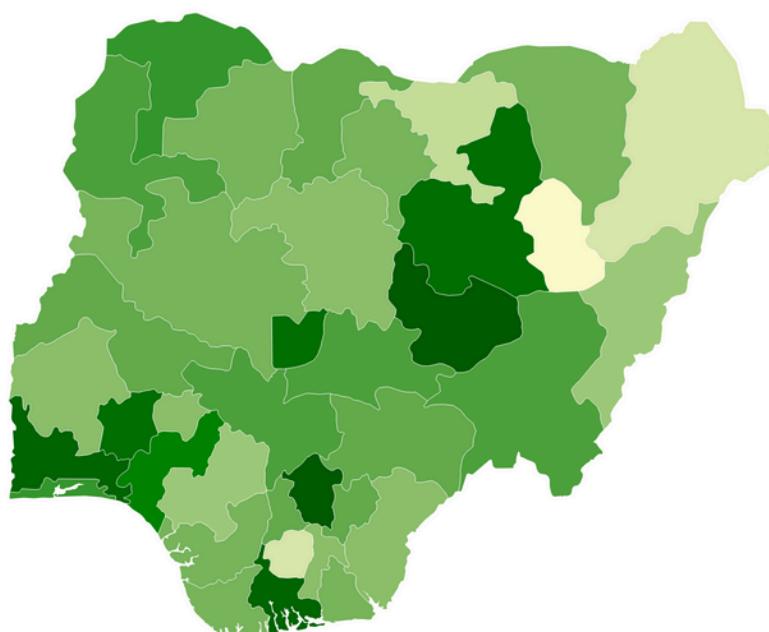
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FUEL SUBSIDY

Fuel is subsidized when the government fixes the price of petrol for consumers below the international price, and the government uses its resources to pay for the difference. Historically, the Nigerian government has subsidized the prices of petroleum products since the 1970s to make them more affordable for the populace and to mitigate the impact of price fluctuations on the cost of living for Nigerians. The subsidy is considered to be a drain on public finances, costing the government 4 trillion naira in 2022 i.e. about 40% of Nigeria's revenue in 2022 was spent on fuel subsidies. Of more concern is the loss of billions of dollars through corrupt practices in the payment of the subsidies. The subsidy was also alluded to increase the country's debt profile and divert resources away from critical sectors of the economy.

President Bola Ahmed Tinubu announced the removal of subsidy on premium motor spirit (PMS), popularly known as fuel during his inauguration on May 29, 2023. A positive macroeconomic implication of the removal of fuel subsidies in Nigeria is that the funds that would have been used for fuel subsidy payment could be channeled to the development of critical public infrastructure and other sectors such as the healthcare industry that require significant government intervention and funding at all levels.

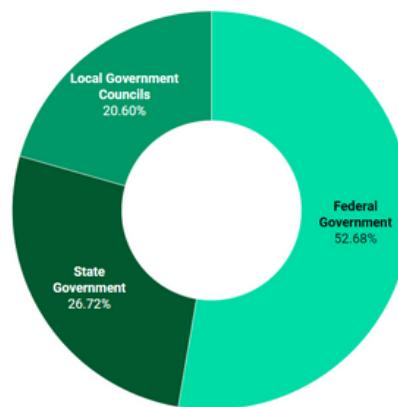
REVENUE ALLOCATION IN NIGERIA

The Federation Account is a central pool of funds that receives revenue from various sources, including oil, gas, customs duties, and taxes. Nigeria being a federation with 36 states, 774 local governments, and a federal capital territory, shares funds that flow into the Federation Account (FA) every month.

The Federation Account Allocation Committee is responsible for disbursing funds from the Federation Account to the different tiers of government. The distribution is based on a formula enshrined in the Constitution. The vertical allocation formula (inter-tier sharing) governs the sharing of funds between the federal, state, and local governments. While the horizontal allocation formula (intra-tier sharing) determines how funds are distributed among the 36 states and 774 local governments.

The current vertical allocation formula on the net federation account revenue distributable (i.e. after statutory deductions such as 13% derivation and other charges and costs,

VERTICAL ALLOCATION FORMULA



excluding VAT) is as follows:

Federal Government – 52.68% (general ecological problems (1%), Federal Capital Territory (1%), Development of natural resources (1.68%), statutory stabilization (0.5%), and the balance of 48.5% for the Federal Government). State Government – 26.72% Local Government – 20.60%. The horizontal allocation formula, which pertains to the distribution of funds among states and local governments, includes various factors and their corresponding percentages as follows: equal shares to each state or locality at 40%; population at 30%; social development needs at 10%; land mass and terrain at 10% and internal revenue generation at 10%.

DISTRIBUTION OF FEDERATION ACCOUNT REVENUE

2022-2023

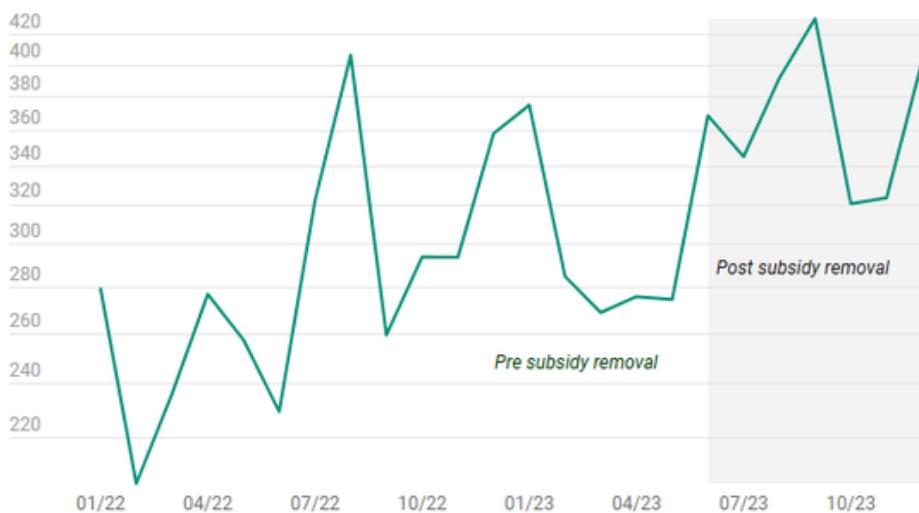
TOTAL FEDERAL ACCOUNT REVENUE (BILLION NGN)



The revenue distributed in 2022 fluctuated throughout the year with the highest being in August 2022.

There was a steady increase in the revenue distributed from July 2023 to December 2023 (above 1 trillion naira monthly) this period is marked by the removal of fuel subsidy. (See page 10 for more details).

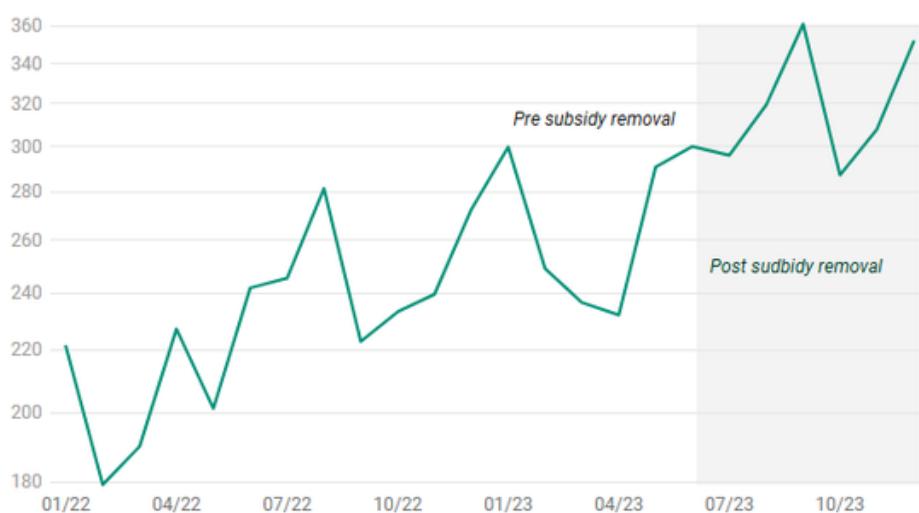
REVENUE DISTRIBUTED TO FEDERAL GOVERNMENT (BILLION NGN)



The revenue distributed in 2022 fluctuated throughout the year with the highest being in August 2022.

The revenue distributed in 2023 also fluctuated throughout the year. However, higher values (above 300 billion naira monthly) were recorded between July and Dec 2023. (See page 10 for more details).

REVENUE DISTRIBUTED TO STATE GOVERNMENTS (BILLION NGN)



The revenue distributed to the State Governments in 2022 fluctuated throughout the year with the highest being in August 2022.

The revenue distributed in 2023 also fluctuated throughout the year. However, higher values (above 250 billion naira monthly) were recorded between July and Dec 2023. (See page 10 for more details).

ANALYSIS OF REVENUE GROWTH DURING THE PERIOD OF SUBSIDY REMOVAL

REVENUE DISTRIBUTED TO LOCAL GOVERNMENT COUNCILS (BILLION NGN)



The revenue distributed to the Local Government Councils in 2022 fluctuated throughout the year with the highest being in August 2022.

The revenue distributed in 2023 also fluctuated throughout the year. However, higher values (above 250 billion naira monthly) were recorded between July and Dec 2023. (See page 10 for more details).

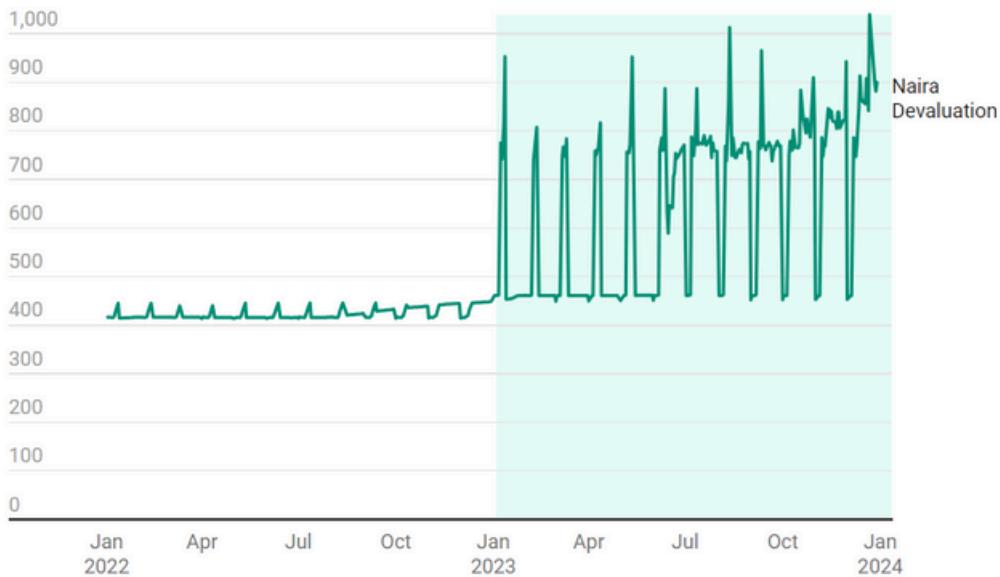
REVENUE GROWTH DURING THE PERIOD OF SUBSIDY REMOVAL

	Total	Federal Government	State Government	Local Government Councils
Pre subsidy removal (Billion NGN)	6,312.3	1,849.6	1,607.8	1,185.7
Post subsidy removal (Billion NGN)	9,734.6	2,215.5	1,923.1	1,415.8
% increase in revenue	54.2	19.8	19.6	19.4

Further analysis showed that the removal of fuel subsidies in Nigeria has significantly boosted the monthly inflow into the Federation Account. There was significant increase in the cumulative revenue distributed from January- June (before subsidy removal) compared to July to December (after subsidy removal) at all levels with the highest being the Federal government at (54.2%).

MACRO-ECONOMIC FACTORS

CENTRAL BANK OF NIGERIA USD EXCHANGE RATE FOR 2022-2023



Higher exchange rate gain is a significant contributor to the increase in revenue recorded as Federation Account gets more naira value for foreign currency income when the prevailing exchange rate is higher.

Some experts believe that there is a correlation between FAAC disbursements and the devaluation of the naira. This is because the increased demand for dollars after FAAC disbursements can put pressure on the exchange rate.

REAL GROSS DOMESTIC PRODUCT (GDP) AND GDP GROWTH RATE IN NIGERIA (2022-2023)

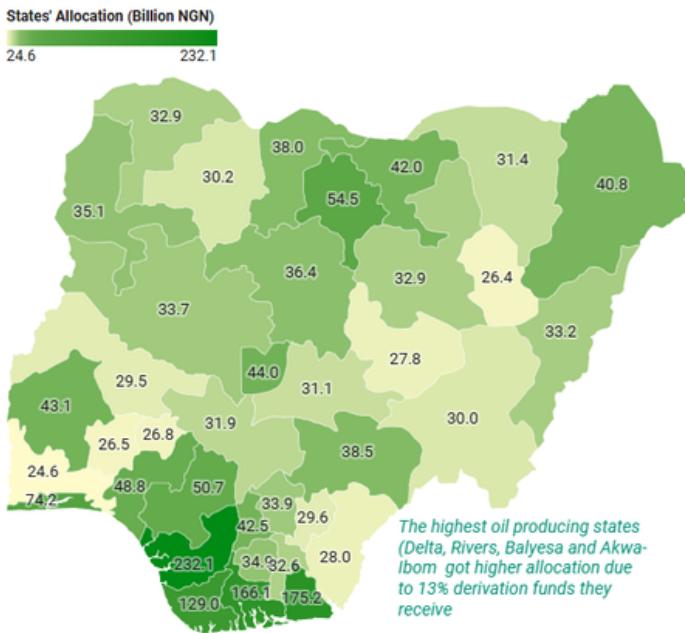
The increase in FAAC disbursements can have a positive impact on economic indicators like GDP growth by providing more funds for government spending and investment.

Year	Real GDP (Trillion NGN)	GDP growth rate (%)
2022 Q1	17.35	3.11
2022 Q2	17.29	3.54
2022 Q3	18.96	2.25
2022 Q4	21.04	3.52
2023 Q1	17.75	2.31
2023 Q2	17.72	2.51
2023 Q3	19.44	2.54
2023 Q4	21.77	3.46
2024 Q1	18.68	2.98

The Real GDP increased for all quarters in 2022 compared to 2023. However, the GDP grew by 3.46% (year-on-year) in real terms in the Q4 of 2023, which is lower than the 3.52% recorded in the Q4 2022 and higher than the Q3 of 2023 growth of 2.54%.

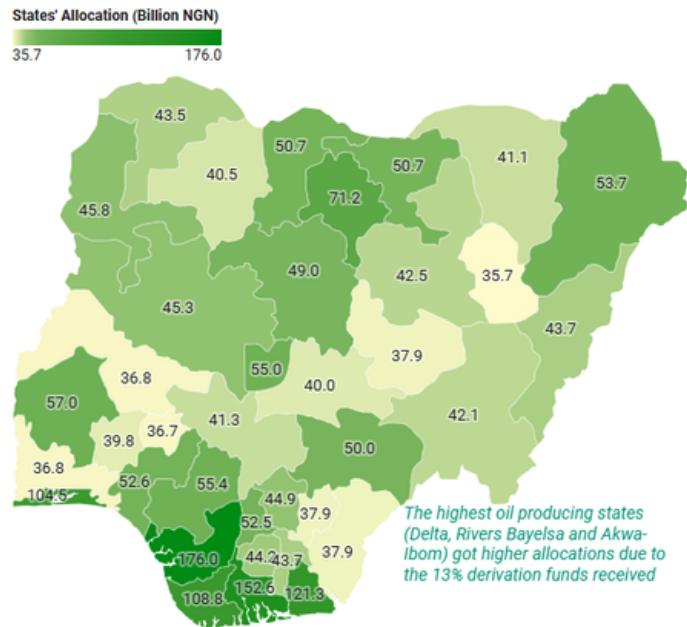
ANALYSIS OF REVENUE ALLOCATION TO STATE GOVERNMENT FOR FISCAL YEAR 2023

PRE SUBSIDY REMOVAL (JAN' 2023- JUN' 2023)



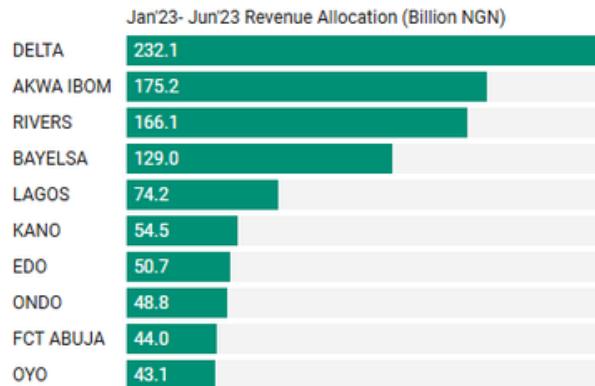
Only eight states get the 13% derivation fund of Nigeria's 36 states. They are Abia, Akwa-Ibom, Bayelsa, Delta, Edo, Imo, Ondo and Rivers. Six of these eight states are among the top ten of those that have received the highest FAAC allocation between January and June 2023.

POST SUBSIDY REMOVAL (JUL' 2023- DEC' 2023)

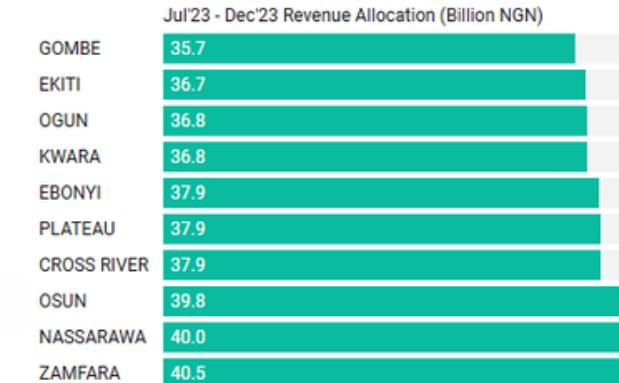
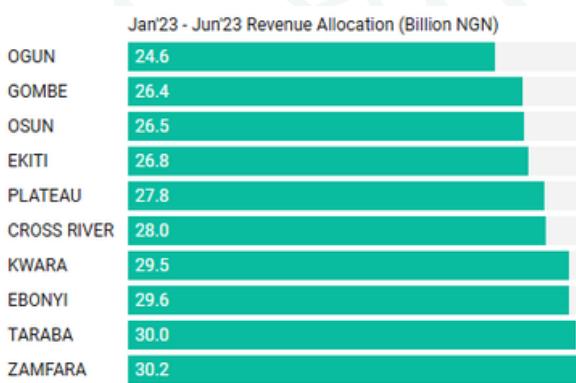


There was a significant improvement in the revenue disbursed to all states except the five highest receiving states Delta, Rivers, Akwa Ibom and Bayelsa that got lesser revenue post subsidy removal. Most of the states that received the least revenue pre subsidy removal also remained the least receiving states post subsidy removal

TOP TEN STATES

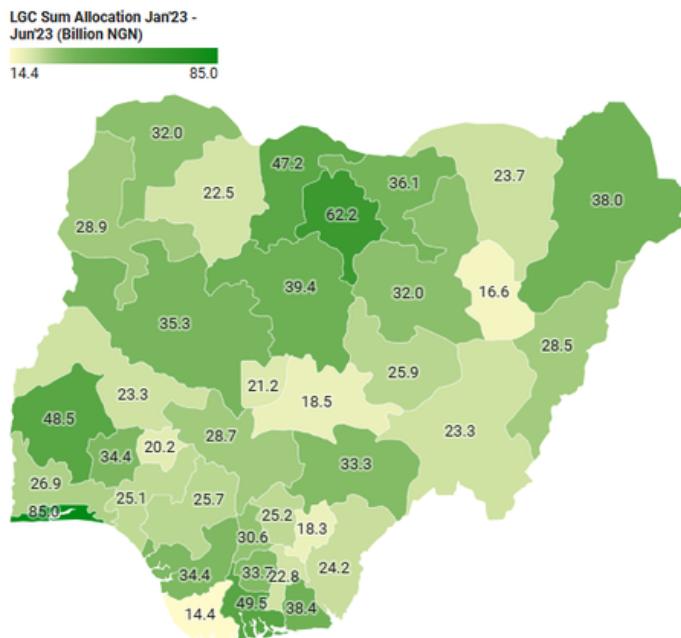


LEAST TEN STATES



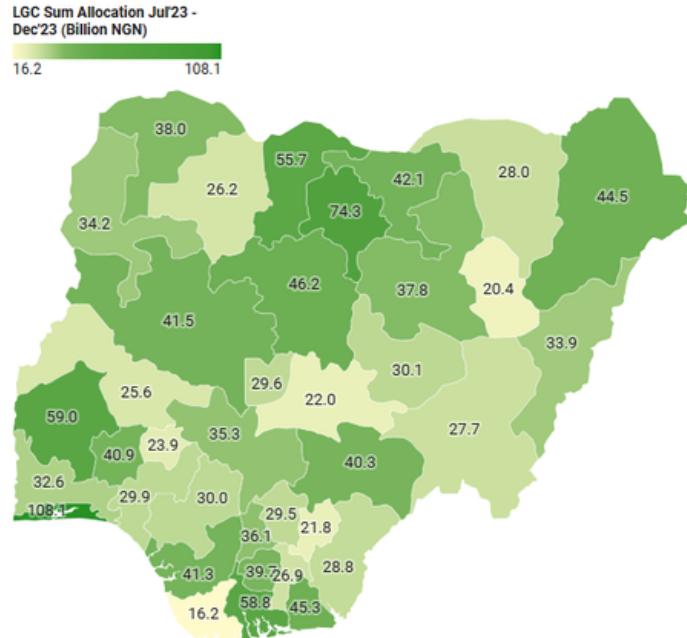
ANALYSIS OF REVENUE ALLOCATION TO LOCAL GOVERNMENT COUNCILS (LGC) FOR FISCAL YEAR 2023

PRE SUBSIDY REMOVAL (JAN' 2023- JUN' 2023)



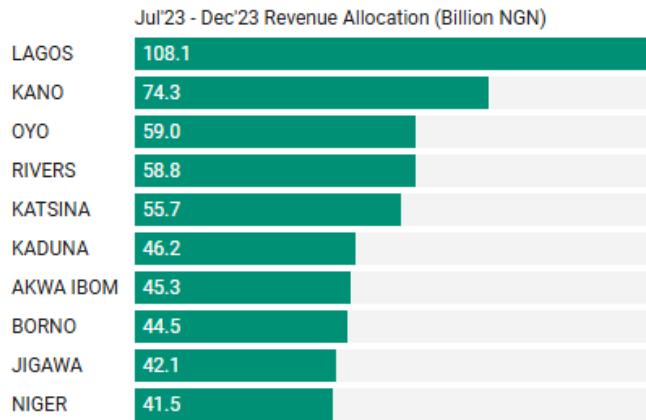
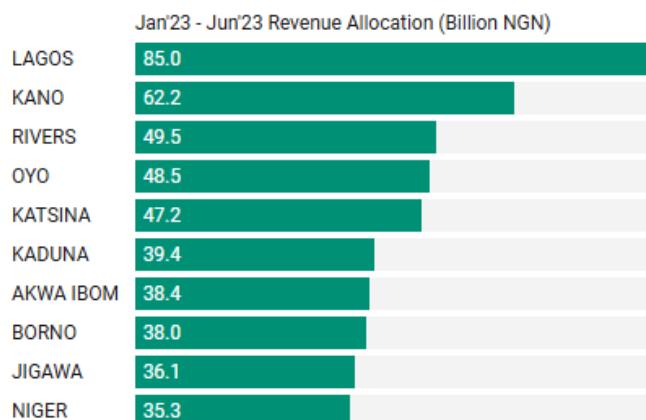
Cumulative revenue disbursement to LGCs was highest in higher populated states like Lagos, Kano, Kaduna etc.

POST SUBSIDY REMOVAL (JUL' 2023- DEC' 2023)

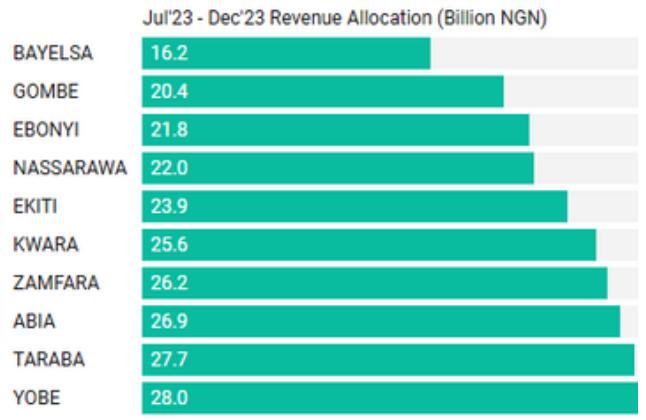
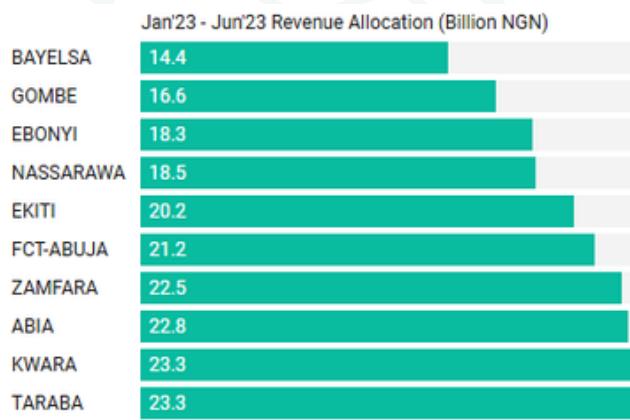


There was significant improvement in the cumulative revenue disbursed to LGCs in each state.

TOP TEN LOCAL GOVERNMENT COUNCILS



LEAST TEN LOCAL GOVERNMENT COUNCILS

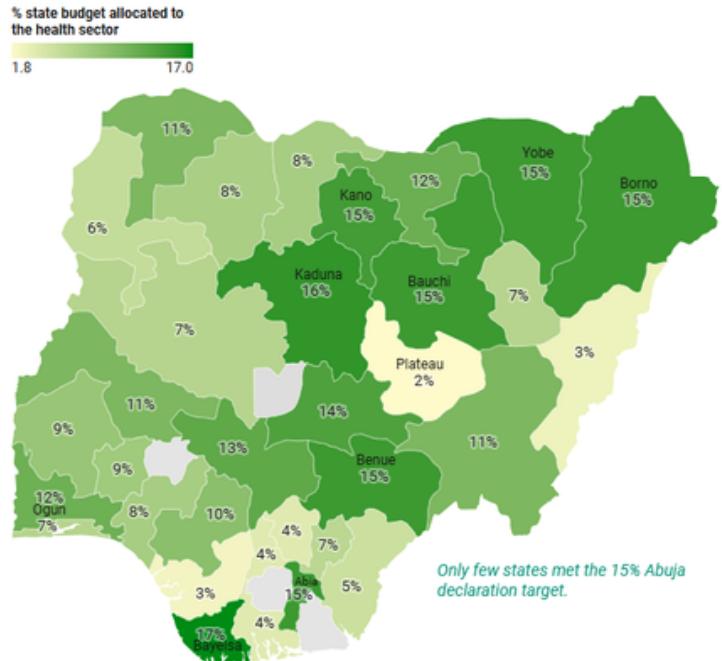


ANALYSIS OF REVENUE ALLOCATION TO STATE GOVERNMENT FOR FISCAL YEAR 2023

Nigeria like many other African countries committed to improve health funding through the Abuja declaration on health where government committed to boost health funding to a minimum of 15% of their annual budget.

This set target has not been met in Nigeria at the federal and the state level. A few states that have at some point met this target have not been consistent and have not achieved the 15% actual expenditure on health.

PERCENTAGE OF STATE BUDGET ALLOCATED TO HEALTH IN 2024



HEALTH BUDGET ALLOCATION BY THE TOP TEN HIGHEST FAAC RECEIVING STATES

State	Jan'23 - Jul'23 (Billion NGN)	Jul'23 - Dec'23 (Billion NGN)	Proportion of state budget allocated to health in 2024
RIVERS	166.1	152.6	4%
OYO	43.1	57.0	9%
LAGOS	74.2	104.5	7%
KANO	54.5	71.2	15%
FCT ABUJA	44.0	55.0	N/A
EDO	50.7	55.4	10%
DELTA	232.1	176.0	3%
BORNO	40.8	53.7	15%
BAYELSA	129.0	108.8	17%
AKWA IBOM	175.2	121.3	N/A

HEALTH BUDGET ALLOCATION BY THE LEAST TEN HIGHEST FAAC RECEIVING STATES

State	Jan'23 - Jul'23 (Billion NGN)	Jul'23 - Dec'23 (Billion NGN)	Proportion of state budget allocated to health
GOMBE	26.4	35.7	7%
EKITI	26.8	36.7	N/A
OGUN	24.6	36.8	12%
KWARA	29.5	36.8	11%
EBONYI	29.5	37.9	7%
PLATEAU	27.8	37.9	2%
CROSS RIVER	28.0	37.9	5%
OSUN	26.5	39.8	9%
NASSARAWA	31.1	40.0	14%
ZAMFARA	30.2	40.4	8%

N/A: Data was not available at the time of this research

States are at varying levels of prioritization of healthcare, which is usually attributed to competing priorities and low revenue of the government. The removal of fuel subsidies has positively impacted the revenue pool of the government at all levels which necessitates the increase in funding for health development. However, analysis shows that many of the states receiving the highest share of the federation revenue are spending abysmally low on health care while some states that receive the least share spend fairly on healthcare.

It's also worthy of note that state budget performance is sub-optimal, hence the increase in FAAC revenue received by states provides an opportunity for the government to efficiently expend all budgeted allocations on health.

CALL TO ACTION



Since the removal of the fuel subsidy in May 2023, there has been a notable lack of transparency and accountability regarding the utilization of the subsidy savings, particularly at the state level.

Moreover, the recent Supreme Court ruling granting financial autonomy to Local Government Areas (LGAs) in Nigeria requires that the public is informed about the funds allocated to these LGAs and that they hold their leaders accountable for how these funds are used.

Furthermore, the LGA autonomy presents an opportunity for improved funding for healthcare, allowing for more effective healthcare delivery at the grassroots level by focusing on local needs. The following are recommendations to maximize the gains of fuel subsidy removal and mitigate its economic impacts on Nigerians.

1. GOVERNMENT TRANSPARENCY

The government should ensure transparency on how the funds saved from subsidy removal are being distributed and utilized. This can increase trust and demonstrate that the funds are being reinvested in essential areas like healthcare, education, and infrastructure.

2. PUBLIC AWARENESS

There should be concerted efforts by government orientation agencies and Civil Society Organizations to effectively engage the citizens through context appropriate strategies on funds allocations at all levels especially LGA allocations. This is to ensure that they are asking questions and holding grassroot leaders accountable to their responsibilities. This can help to push the effective implementation of palliative measures to cushion the economic impact of subsidy removal on the most vulnerable populations.

3. CITIZENS PARTICIPATION IN GOVERNANCE

This plays a crucial role in ensuring that subsidy gains are managed transparently, equitably, and effectively. Public input and scrutiny can ensure that the processes and decisions related to fuel subsidy removal are clear and open. Citizens can advocate for and help design social welfare programs that alleviate the economic hardships caused by subsidy removal. Furthermore, citizen involvement brings diverse perspectives and insights, which can lead to more informed and inclusive policymaking.

4. ESTABLISHMENT OF ACCOUNTABILITY MECHANISMS

The establishment of robust accountability mechanisms for fuel subsidy removal such as public forums, surveys, and feedback systems can help foster citizen involvement and ensure that government is held accountable for how the funds saved from subsidy removal are utilized.

5. STRATEGIC STAKEHOLDERS ENGAGEMENT

Fuel subsidy removal and local government autonomy presents a significant fiscal space for the improvement of health funding at all levels which should be leveraged to improve health outcomes in Nigeria. Development partners and Civil Society Organizations should leverage this window of opportunity to strategically engage the government stakeholders and policy makers on the need to improve government expenditure at all levels and ensure strict monitoring for efficient utilization.

DISTRIBUTION OF FEDERATION ACCOUNT REVENUE

2022-2023

FEDERATION ACCOUNT REVENUE DISTRIBUTION FY 2022 (BILLION NGN)

Month	Total	Federal Government	State Government	Local Government Councils
01/22	766.5	279.5	221.2	163.9
02/22	692.9	204.6	179.3	131.9
03/22	722.4	236.2	190.0	140.6
04/22	1152.8	277.1	227.2	167.9
05/22	833.9	257.6	201.3	149.3
06/22	904.5	229.6	241.8	175.9
07/22	1220.2	321.9	245.4	182.3
08/22	1257.1	406.6	281.3	210.6
09/22	905.5	259.6	222.9	164.2
10/22	1098.2	294.2	233.2	172.8
11/22	957.1	294.0	239.5	177.1
12/22	1175.0	358.5	272.5	202.5

The revenue distributed in 2022 fluctuated throughout the year with the highest being in August 2022.

FEDERATION ACCOUNT REVENUE DISTRIBUTION FY 2023 (BILLION NGN)

Month ▲	Total	Federal Government	State Government	Local Government Councils
01/23	1,436.9	375.3	299.6	221.8
02/23	1,032.5	285.2	249	183.2
03/23	860	269.1	236.5	173.9
04/23	872.6	276.1	232.1	171.3
05/23	976.3	274.8	290.7	213.7
06/23	1,134	369	299.9	221.8
07/23	1,886.3	345.6	295.9	218.1
08/23	1,802.8	391.9	319.5	236.2
09/23	1,483.9	431.2	361.2	266.5
10/23	1,594.8	320.5	287.1	210.9
11/23	1,346.5	323.4	307.7	225.2
12/23	1,620.3	402.9	351.7	258.8

There was a steady increase in the revenue distributed from July to December (above 1 trillion naira monthly) this period is marked by the removal of fuel subsidy.

DATA SOURCES

- The data on Federal Revenue Distribution, Real GDP and GDP growth rate were from the Nigeria Bureau of Statistics website.
- The data on exchange rate was from Central Bank of Nigeria website.
- State budget data was sourced from press releases from state governments available online and from similar research which can be accessed at <https://consilium.substack.com/p/2024-previewng-nigerias-states-health-budget>