

AN ANALYSIS OF THE NIGERIA FEDERAL ACCOUNT ALLOCATION AND NAIRA DEPRECIATION IN THE PARALLEL MARKET

By

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Abstract

While it is basically recognized that currency fluctuations are a natural occurrence in the global foreign exchange market, the phenomena that are due to various factors, which inter alia are economic indicators, geopolitical events, and market sentiment, rate at which the Nigerian currency the Naira consistently depreciates, especially in the parallel market no sooner than the disbursement of FAAC allocation, is a cause for concern. The objective of this paper was therefore to analyze the relationship between the downward fall of the naira each time the disbursement of funds to all three tiers of government in Nigeria (Federal, State, and Local Government) is carried out. The methodology used was a quantitative approach with data obtained from literature such as newspapers and online magazines for a period of thirteen months, spanning January 2023 to January 2024. The result clearly established that the continuous depreciation of naira has a relationship with federal account allocation for the period under study and recommends that the appropriate government agencies shine a searchlight on the recipients of the allocations at all levels, as against dollarization and sterilization of funds that have earlier been suggested by some stakeholders.

Keywords: Federal Account Allocation, Naira Depreciation, Parallel Market.

Introduction

In Nigeria, all tiers of government—Federal, State and Local governments depend on revenue from the federation account to finance developmental projects. This is in line with Section 165 of the Constitution of the Federal Republic of Nigeria 1999 as well as the Allocation of Revenue (Federation Account, etc.) Act No. 1, 1982, which stipulates that the revenues generated by the Federal government should be credited into the Federation Account and disbursed monthly among the three tiers of government as defined in the Revenue Act 1982.

An agency of the Federal Government of Nigeria called the Federal Account Allocation Committee (FAAC) is responsible for receiving and sharing the allocation of funds to the states and the Federal Government of Nigeria. This agency also has the mandate and onus to ensure that the indices are scrutinized monthly by representatives from states both at the Commission (commissioners appointed by the governors) and at the office of the Accountant General of the Federation (OAGF) (through the FAAC committee, which includes the accountant generals from

all the states), who rely heavily on allocations. This happens at its secretariat at the Federal Ministry of Budget and National Planning in the nation's capital, FCT-Abuja.

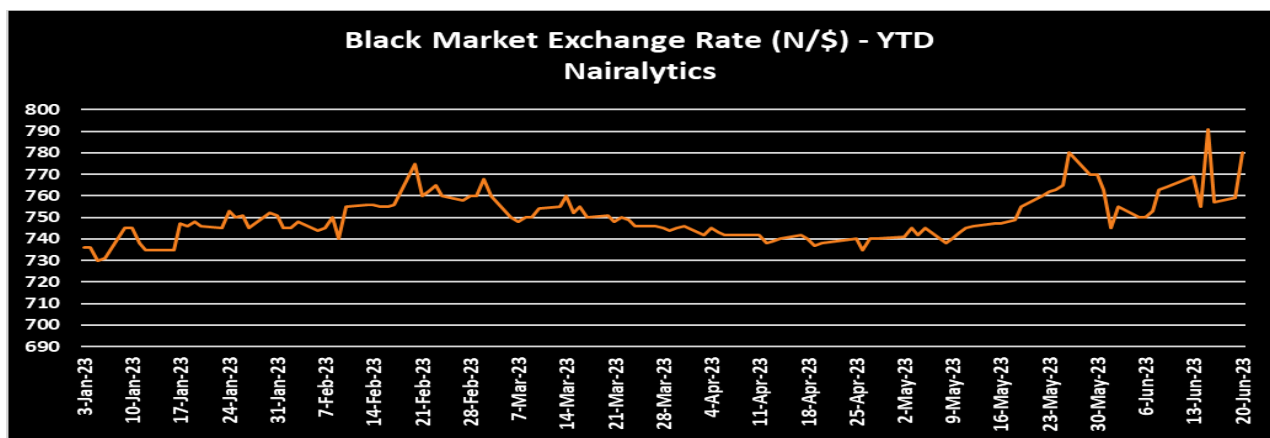
Although many factors are responsible for forex fluctuation, as mentioned by Twin (2024), the principal determinants are differential interest and inflation rates, current account deficits, public debts, and terms of trade. Therefore, investors and individuals involved in currency trading should stay well-informed about these factors to make informed decisions.

Additionally, it is crucial to note that black-market exchange rates can vary significantly across different locations within the country. These variations arise due to factors such as survey timing, supply and demand dynamics, purchasing power, and other relevant economic considerations. (Alabi 2023). The rate at which the naira value depreciates in the parallel market as observed for one year, especially immediately after the Federation Account Allocation Committee disburses funds to various tiers of government, suggests that supply and dynamics are strongly at play. The consequences of this fluctuation undoubtedly have a bearing on the socioeconomic lives of Nigerians, and this calls for the adequate attention of policymakers.

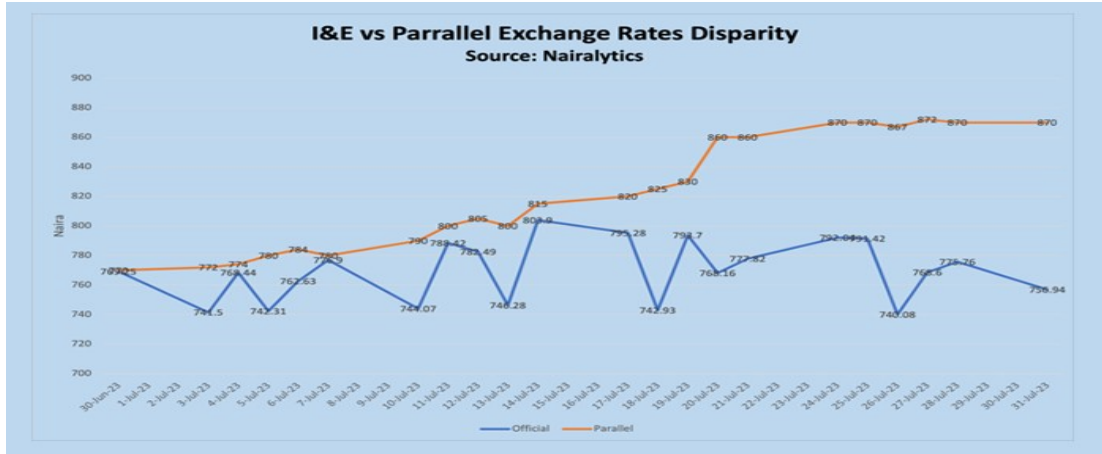
Concepts and Theories

Law enforcement officials say the value of the naira depreciates whenever FAAC allocations are shared among tiers of government (Oluwoyin (2024), this is confirmed by an analysis which also shows that, from July 2023 to January 2024, the naira depreciated in six months immediately in the black market after the FAAC shared money with the federal, state, and local governments. There is a relationship between the release of FAAC allocation and the depreciation in the exchange rate, especially in the parallel market. That is why we need to be very cautious about this rate unification theory,” Muda Yusuf, chief executive officer of the Centre for Promotion of Private Enterprises (CPPE), said (Bailey 2024).

According to Aina (2024), in the first six months of 2023, states and local governments got N520.87bn in January, N432.21bn in February, N410.4bn, and in March, N403.39. It further increased to N504.38bn in the month of May and N521.71 in June, making a total of N2.79tn. Similarly, the forex rate at the black market in the corresponding periods are as espoused below



Source: Nairametrics (2023) Black Market Exchange Rate (N/\$)-YTD



July 2023 Blackmarket Rate

Source: Nairametrics Research Team (2023)

FAAC disbursed N750.117 billion for January 2023 on February 20, 2023, according to Inokotong (2023), and the naira-dollar rate at the black market appreciated from N777/\$ (Ogbolu 2023a) to N770/\$ on February 25, 2023 (Ogbolu 2023b). FAAC disbursed N722.677 billion for February 2023 on March 22, 2023, as reported by Aro (2023), and the naira-dollar rate at the black market fell from N747/s (Ogbolu 2023c) to N750/\$ on March 27 (Ogbolu 2023d). FAAC disbursed N714.629 billion for March 2023 on April 19, 2023 (Egboboh 2023), and the naira-dollar rate at the black market fell from N742/\$ (Zaccheus 2023) to N745/\$ on April 24, 2023 (Ogbolu 2023e).

FAAC disbursed N655.932 billion for April on May 18th, according to Vanguard News (2023), and the naira-dollar exchange rate at the black market depreciated from N749 on May 18th (Ogbolu 2023f) to N760/\$1 on May 23, 2023 (Ogbolu 2023g). FAAC disbursed N786.16 billion for May, 2023 on June 22nd (Tunji 2023), and the naira-dollar exchange rate depreciated from N772/\$1 (Alabi 2023) to N775 on June 27th, 2023 (Ogbolu 2023h). FAAC disbursed N907.1 billion for June on July 20th, and the naira-dollar exchange rate at the black market fell from N825/\$ to N860/\$ as of July 25th.

On August 22nd, N966.1 billion was shared for July. The naira weakened from 850/\$ on August 22nd to 905/\$ on August 26th. On September 29th, N1.1 trillion was shared for August. The exchange rate at the black market went from N995/\$ on September 29th to N998/\$ on October 3rd. On October 24th, FAAC shared N903.4 billion for September. The exchange rate at the black market was N1,200/\$ on October 24th and N1,140/\$ on October 28th. On November 22nd, the three tiers of government received N906.9 billion for October. The exchange rate at the black market was N1,140/\$ on November 22nd and N1,155/\$ on November 26th.

On December 15th, FAAC announced that it shared N1.09 trillion for November. Between December 15th and 19th, the exchange rate at the black market was N1,230/\$ and N1,235/\$, respectively. On January 23rd, the committee shared N1.13 trillion for December. The exchange rate at the black market was N1,355/\$ on January 23rd and N1,415/\$ on January 27th (Bailey 2024).

Table 1: Impacts of FAAC Allocations on Naira Forex Black Market Rate

No	Months	FAAC Allocations	Forex Rate Pre & Post FAAC Disbursement	Comments
1	January 2023	N750.174 billion	N777/\$ on 20 February to N770 on 25 February	Naira Appreciation
2	February 2023	N722.677 billion	N747/\$ on 22 March to N750/\$ on 27 March	Naira Depreciation
3	March 2023	N714.629 billion	N742/\$ on 19 April to N745 on 24 April	Naira Depreciation
4	April 2023	N655.932 billion	N749/\$ on 18 May to N760 on 23 May	Naira Depreciation
5	May 2023	N786.16 billion	N772/\$ on 22 June to N775/\$ on 27 June	Naira Depreciation
6	June 2023	N907.1 billion	N825/\$ to N860/\$ as of July 25.	Naira Depreciation
7	July 2023	N966.1 billion	850/\$ on August 22 to 905/\$ on August 26.	Naira Depreciation
8	August 2023	N1.1 trillion	N995/\$ on September 29 to N998/\$ on October 3.	Naira Depreciation
9	September 2023	N903.4 billion	N1,200/\$ on October 24 and N1,140/\$ on October 28.	Naira Depreciation
10	October 2023	N906.9 billion	N1,140/\$ on November 22 and N1,155/\$ on November 26.	Naira Depreciation
11	November 2023	N1.09 trillion	N1,230/\$ on December 15 and N1,235/\$ on December 19,	Naira Depreciation
12	December 2023	N1.13 trillion	N1,355/\$ on January 23 and N1,415/\$ on January 27	Naira Depreciation

Source: The FAAC Disbursements for the Months of June 2023 to December 2023 were Sourced from Business Day Newspaper, 13th February 2024.

Results and Findings

There is a consistent downward fall in the naira whenever the Federal Account Allocation Committee disburses funds to the three-tiers of governments in Nigeria. At one point, Charles Soludo, the former Central Bank Governor, suggested that FAAC be shared in dollars so that you would not have this kind of movement (Bailey 2024). However, dollarization carries with it the risk of a loss of autonomy for a developing country that adopts it. When a country does not build and develop its own currency, it runs the risk of allowing its monetary policy to be controlled by a foreign country.

If the developing country and the country whose currency they are adopting enter a politically contentious relationship, it could spell disaster for the developing nation that relies on a currency that is not theirs. It may be difficult for any country to fully develop if they do not have control over the money supply and currency within their nation (CFI, 2024). Also suggested is the sterilization of some of the FAAC funds, meaning that, according to Bailey (2024), not every fund should be shared so that the government can control the money supply, however, the states could feel starved of funds for salary payments and infrastructural provisions.

Recommendations

Due to the negative effect of the dollarization of the economy and sterilization of FAAC funds, as stated in this paper, it is recommended that the government critically beam security searchlights on the immediate and remote causes of the depreciation of naira after FAAC funds disbursement.

There is also a need for the government to strengthen various anti-money laundering institutions and tighten the noose on the Bureaux De Change operators, as exemplified by the UAE's stringent rules of licensing and auditing of currency exchange operators, capable of curbing parallel market growth, contained in the Central Bank of UAE Rule Book of 2014, the objective of which, according to the CBUAE Rule Book (2014), is to regulate and enhance the exchange business profession, support its geographical spread, and facilitate the provision of exchange services throughout the UAE based on solid foundations.

The government should also find a way of making the patronage of the official market attractive and less cumbersome for genuine and legitimate forex users. Due to the clear relationship between federal allocation and parallel market forex rates, as shown in the result of this study, there is an apparent demand and supply market mechanism at play. There is therefore a need for the regulatory authorities to restrict the volume of transactions a Bureaux De Change operator can engage in with every individual within a particular period. Various technologies could be used to monitor the compliance, with serious sanctions on the defaulters who would be used to deter others from wrongdoings.

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