



# UNDERSTANDING THE FEDERAL BUDGET

# A CITIZENS' GUIDE

[illustrated version]

# FORWARD

This Citizens' Guide to Understanding the Budget is designed to enlighten Nigerians on how the Federal Budget is prepared and implemented. It will show you the different sources of Government revenue and how money is appropriated among the competing social and economic needs.

This Guide is a continuation of Government's desire to be open and transparent in the management of the nation's resources. The Federal Budget remains governments' most important economic policy tool for translating its policies and goals into developmental actions.

It is a plan of how the Federal Government generates funds and utilizes same effectively, efficiently and responsibly to deliver public goods and services to Nigerians.



# WHAT IS THE FEDERAL BUDGET

The Federal Budget is a document that summarizes the Government's revenue and spending for a fiscal year.

**This fiscal year runs from 1 January to 31 December.**

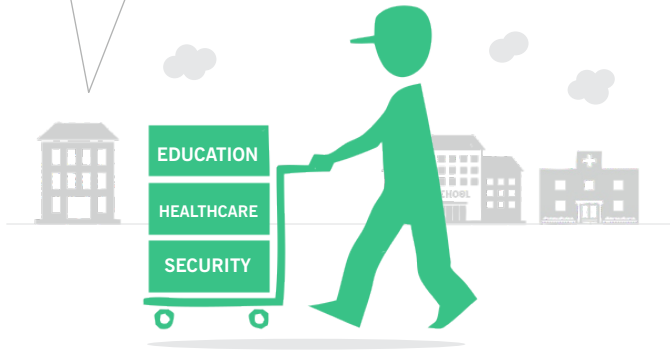


Under the section 81 of the Constitution of the Federal Republic of Nigeria (1999), the President is required to “cause to be prepared and laid before the National Assembly the annual budget of the Federal Government” for its passage.



# THE FEDERAL BUDGET

Through the Federal Budget the government;



Delivers essential public goods and services, such as education, healthcare, infrastructure and security to its citizens.



Plans its financial activities and comes up with detailed spending plans to provide these goods and services.

As a fiscal policy tool it affects many aspects of our economy such as;



General productivity



Price level of goods and services



Exchange Rates



Interest Rates

# WHY CITIZENS MUST TRY TO UNDERSTAND THE BUDGET

1



By understanding the Federal Budget, citizens are able to grasp how public resources are managed

2



Citizens can better follow the budgeting process including its implementation

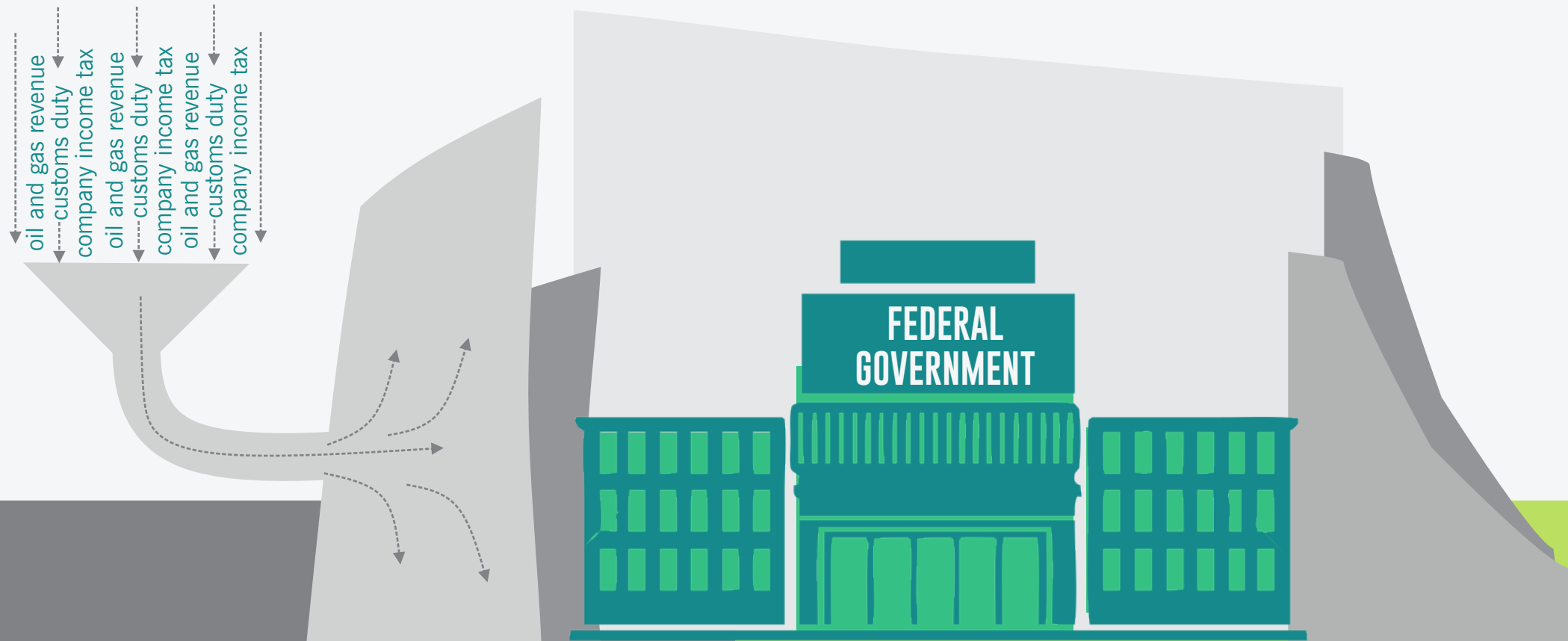
3



Citizens will be empowered to better hold Government Accountable

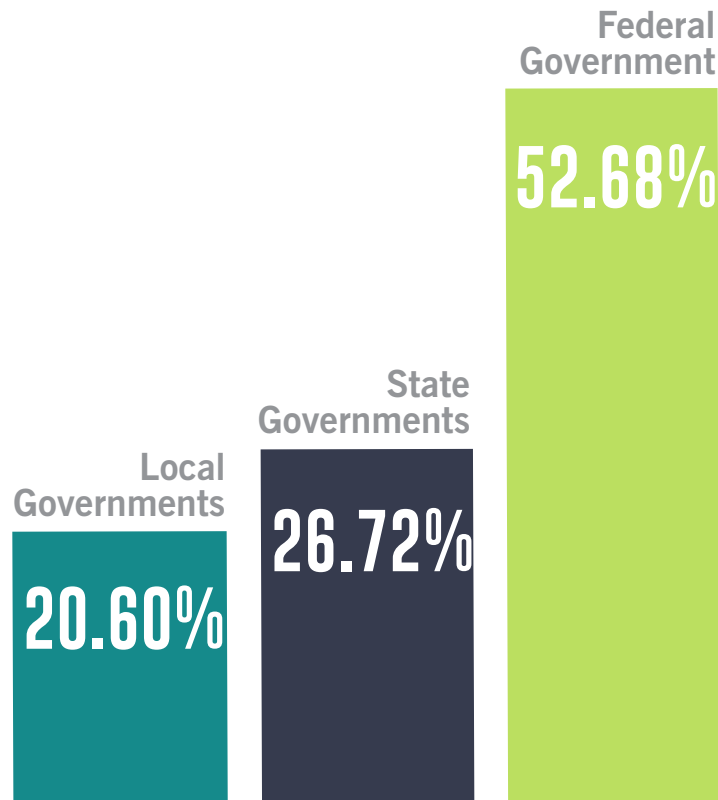
# WHERE THE MONEY COMES FROM

Money spent by the Federal Government through its annual budgets come through three main sources of revenue. These are the Federal Government's share of the Federation Account (made up of oil and gas revenue, customs duty, company income tax), value added tax and other revenue from enterprises owned by the Government.

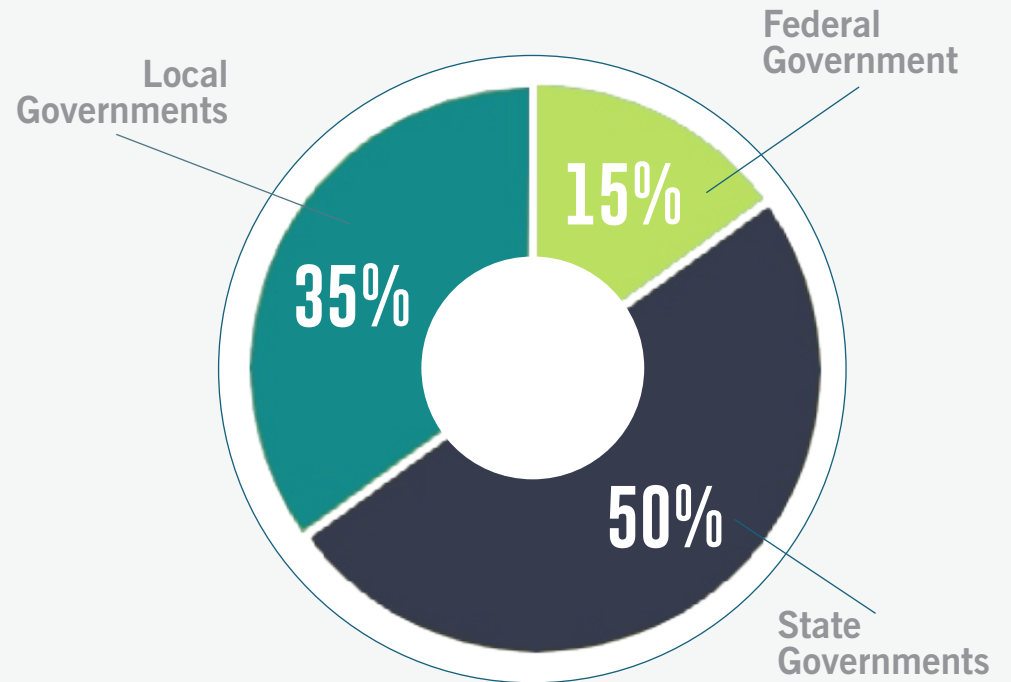


# WHERE THE MONEY COMES FROM: The Federation Account

The Federal Government, like the states and local governments, partly funds its spending plans from the distributable revenue pool referred to as the Federation Account. Revenues are then shared among the Federal, States and Local Governments monthly at the Federation Accounts Allocations Committee meetings, in accordance with the existing sharing formula.



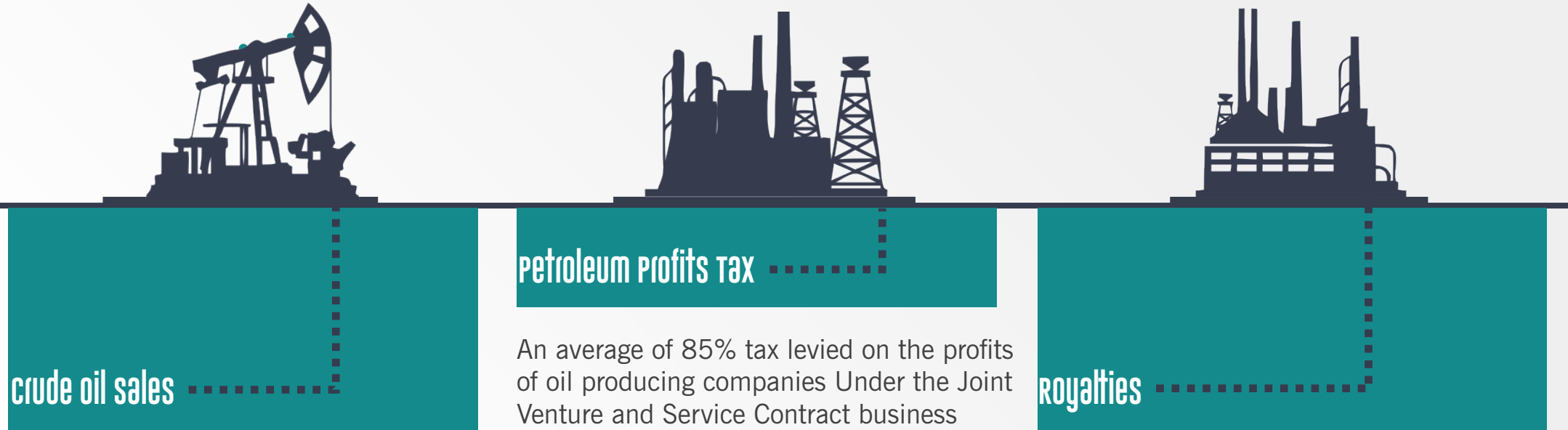
Main Pool Distribution Formula



Value Added Tax Pool Distribution Formula

# WHERE THE MONEY COMES FROM: The Federation Account: **oil revenue**

Oil Revenue is the most important source of revenue to the Federation Account and it is comprised of Crude Oil Sales, Oil Taxes, and Royalties.



Nigeria exploits its crude oil and gas resources through a number of business arrangements with oil producing firms in partnership with NNPC to discover and produce petroleum which is then sold to international and domestic markets.

An average of 85% tax levied on the profits of oil producing companies Under the Joint Venture and Service Contract business arrangements and an average of 50% tax applied to profits under the Production Sharing Contract arrangements.

## **Rents and other oil taxes**

This includes Rent as a fee for the use of the land (or oil acreage) from which oil is extracted, and penalties for gas flaring and fees for the right to lay pipelines to transport the oil produced.

Oil producing companies pay an average of 20% of the value of every barrel of crude oil produced in recognition of government' sovereign ownership of the crude oil. Offshore well rates depends on the water depth of the field.



# WHERE THE MONEY COMES FROM: The Federation Account: **Non-oil revenue**

The second category of revenue to the Federation Account is referred to as Non-Oil Revenue and its in two categories - Federation Account (Main Pool) holding all revenues other than value added tax revenues like Companies' Income Tax, Customs and Excise Duties and Levies. The other is the Federation Account (VAT Pool) holding receipts from Value Added Tax. **Note: All Independent Revenues are paid into the FGN's Consolidated Revenue Fund.**

## companies' income tax

Non-Oil producing companies that operate in Nigeria pay tax but at a lower rate of 30% of their profits.



## customs and excise duties

Importers pay between 0 – 35% of the value of the goods as taxes bring goods into Nigeria, they.



## value added tax pool

Most of the goods and services purchased in Nigeria are also taxed at 5% on the value of these purchases.



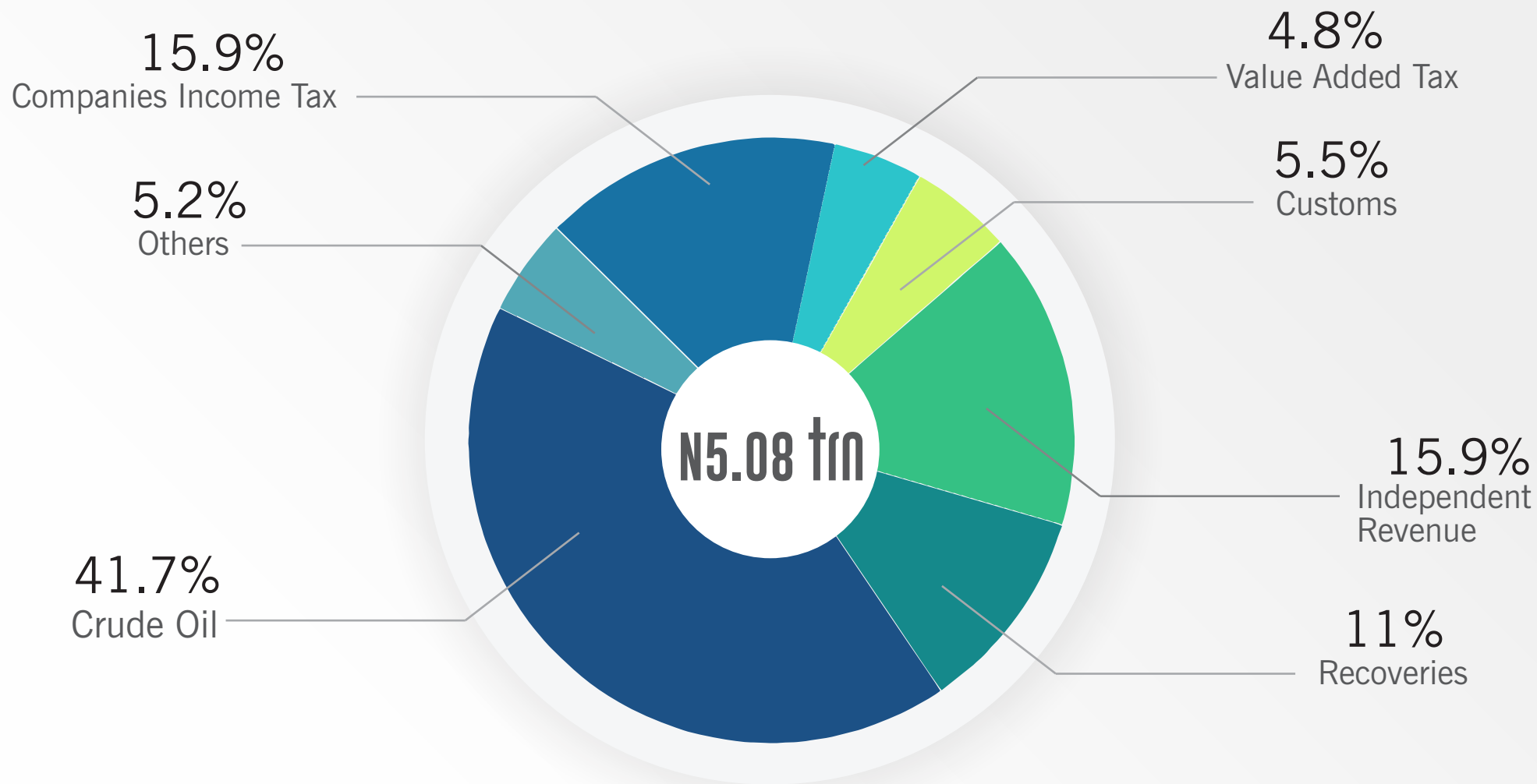
## independent revenue

These are operating surpluses, dividends, other internally generated revenues from Federal Agencies, Corporations, & Federal Government's investments in companies.



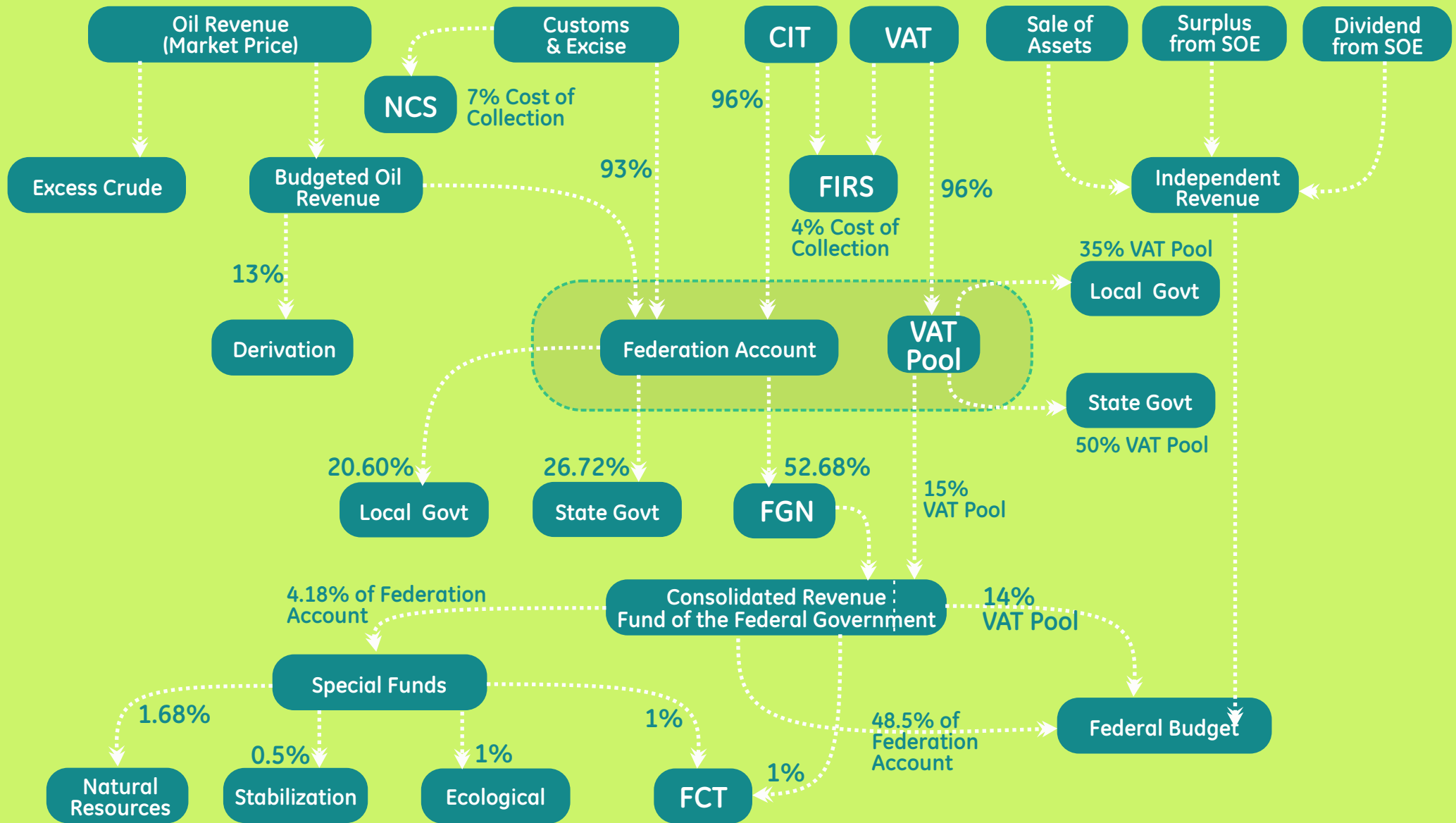
# REVENUE PROJECTION FOR 2017 BUDGET

The total FGN revenue in 2017 is projected at N5.08 trillion.



Note: Others include; Mining, LG Dividends, Federation account levies, FGN share of signature bonus

# THE FLOW OF REVENUES

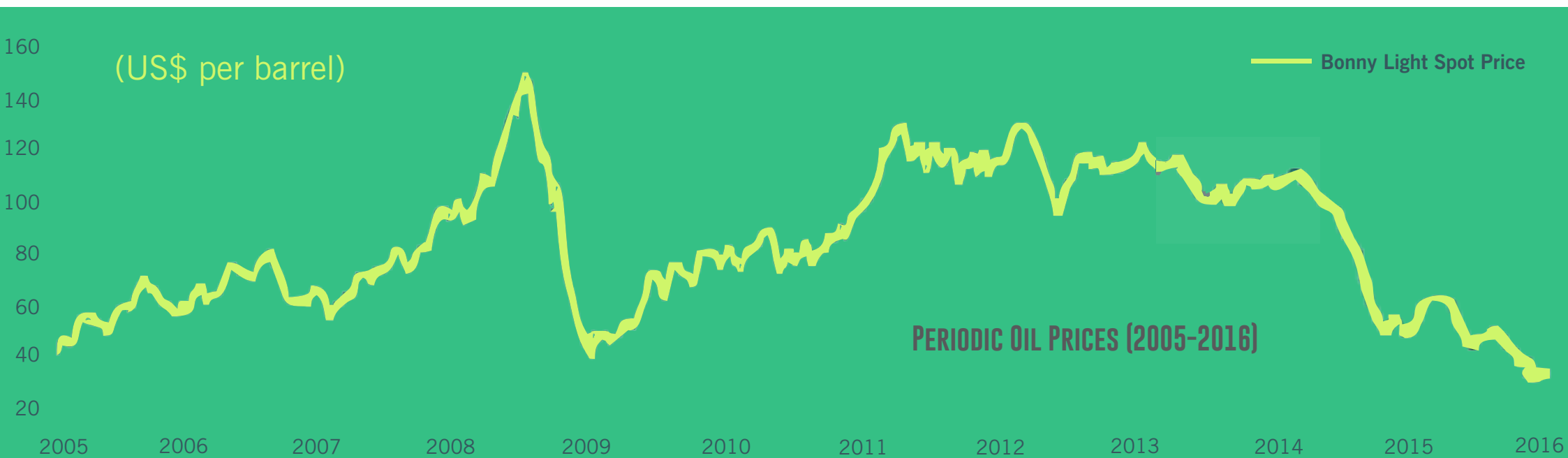


# HOW BUDGET SPENDING IS CONTROLLED

The international market prices of Nigeria's oil and gas determine how much money the Federal Government obtains from sales per unit; and how much it can spend to finance its Budget. Oil prices are very unpredictable and as they rise and fall, oil revenue accruing to the Government also varies and makes planned spending unpredictable.

Instead of using the current or forecast market price of oil as its basis for budgetary planning, the Government uses a more prudent, notional price that is considered to be sustainable and realistic in the long term. This lower price is referred to as **the Budget Benchmark Price**.

If oil is sold above the Budget Benchmark Price, the extra revenue is saved in the Excess Crude Oil Account. Savings are then available to finance future spending shortfalls in case the price of oil later falls below the Budget Benchmark Price or where other pressing spending needs arise.



# BUDGET SPENDING CLASSIFICATION

Federal Budget spending may be classified into 3 broad categories; Statutory Transfers; Debt Service; and MDA Expenditure (recurrent and capital spending by the Ministries, Departments and Agencies of Government).

A.

## statutory transfers

The Federal Government is required by law to make certain mandatory expenditures annually in respect of;

### The national judicial council

This practice is instituted to protect the independence of the Judiciary as a separate arm of government.

### The niger delta development commission

This commission was established to promote the development of the Niger Delta region.

### The independent national electoral commission

This commission is statutorily responsible for the furtherance of democracy in Nigeria through the conduct of open and transparent elections in the country.

### The national assembly (NASS)

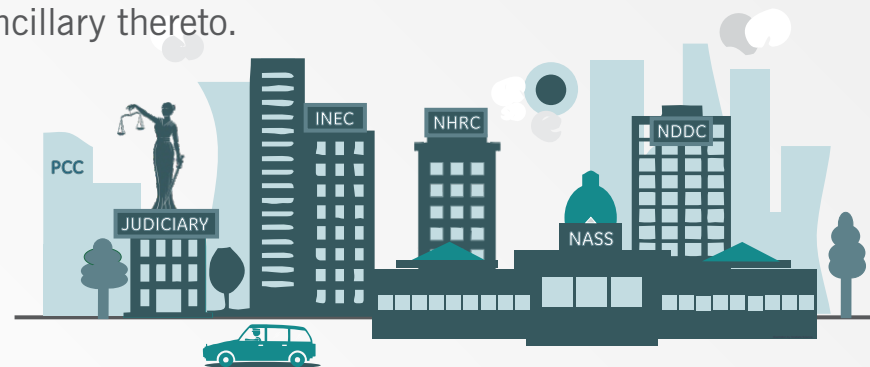
This practice is instituted to perform legislative functions at the federal level.

### The national human rights commission

This commission was established to ensure the investigation and prosecution of human rights violations in the country.

### Public complaints commission

This commission inquires into the complaints by members of the public concerning the administrative action of any public authority and companies or their officials, and other matters ancillary thereto.



# BUDGET SPENDING CLASSIFICATION

## B. debt service



Whenever the Federal Government spends more money than the revenues it earns, it must find the financial resources to pay for this additional spending. Usually, the government borrows the money used for this additional spending.

Moneys borrowed within Nigeria are referred to as **Internal or Domestic Debts** while moneys borrowed from outside Nigeria are referred to as **External or Foreign Debts**. When the government pays interest and principal on its debts, this is referred to as **Debt Service**.

## C. MDA Expenditure



In 2016, statutory transfers and debt service constituted about 30% of total expenditures. The balance of 70% is **MDA Expenditure**, that is, money spent by the Ministries, Departments and Agencies (MDAs) of Government to provide public goods and services.

There are two main categories of MDA Expenditure, namely **Recurrent Expenditure** which includes Salaries, Pensions and Overheads, while **Capital Expenditure** is used to provide infrastructure such as roads, water and power; fund educational services such as schools, colleges and universities; and provide

# THE BUDGET PREPARATION PROCESS



The Ministry of Budget and National Planning prepares a budget calendar which is approved by the Executive Council of the Federation



The Medium-term Fiscal Framework (MFF) are then used to decide where the money comes and what the money is spent on



The Medium-term Revenue Framework (MRF) aggregates revenue to be received by the Govt over the following three years



The Medium-term Fiscal Frameworks (MFF) and the budget are presented to Stakeholders; the NASS, NEC, Civil society and the public sector



The Medium-term Expenditure Framework (MEF) and the Fiscal Strategy Paper is approved by the Executive Council of the Federation and the National Assembly



The MDAs identify and document key projects and programmes that they will execute bearing in mind their goals and objectives and the resource constraints



An Expenditure Ceiling is communicated to MDAs in a Call Circular and are applied to capital and overheads



This Call Circular and Evaluation of Submissions details instructions on how to prepare and submit expenditure estimates



After a series of consultations by the Executive regarding the size and contents of the Budget, the President presents the Appropriation Bill to the National Assembly



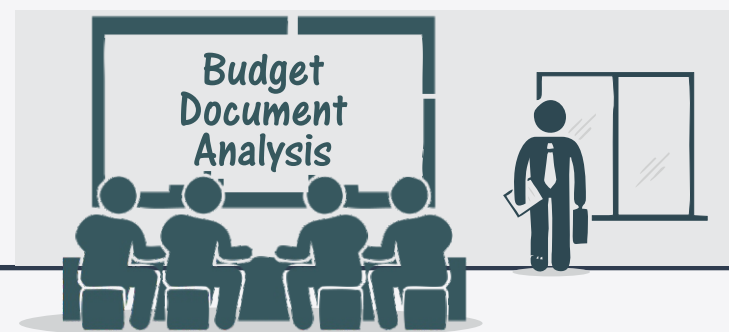
The budget is debated by each House of the National Assembly after which there is a harmonization and the Bill becomes an Appropriation Act

## BUDGET IMPLEMENTATION & MONITORING



The government has placed special emphasis on tracking the deliverables promised by the MDAs in recent years. The Minister of Finance, through the Budget Office of the Federation, has an obligation to report on the implementation of the budget pursuant to **sections 30 and 50 of the Fiscal Responsibility Act 2007**.

## OPPORTUNITIES FOR STAKEHOLDERS PARTICIPATION



The Federal Budget is our budget and the benefits it promises are for all Nigerians. Citizens can participate by attending public consultations on the budget which are held yearly. Observations on the budget can be sent to the BOF through the Citizen's Portal on the BOF website. The i-monitor page (<http://www.budgetoffice.gov.ng/nbi/app/index.php/i-monitor-budget#>) allows citizens to send in observations on budget implementation and upload pictures as well.

There are several published documents like this Citizens' Guide and other reports that are available on the website of the Budget Office of the Federation ([www.budgetoffice.gov.ng](http://www.budgetoffice.gov.ng)) and the Federal Ministry of Finance ([www.fmf.gov.ng](http://www.fmf.gov.ng)).



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