Citizens' Guide to the Federal Budget

2014

Budget Office of the Federation
Federal Ministry of Finance

Foreword

This *Citizens' Guide to Understanding the 2014 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. It also outlines what Nigerians stand to benefit from the 2014 Budget. This Guide is a continuation of Government's desire to be open and transparent in the management of the nation's resources.

The presentation of this Guide is non-technical. It is easy to read and understand. It clearly conveys an understanding of the Federal Budget. Thus, it is my sincere hope that this document will enhance citizens' understanding and appreciation of the many aspects of our work on the Budget. This, I believe, will enable the reader engage more meaningfully in the debates and discussions surrounding the Budget as well as provide a platform through which the Government and its officials can be held accountable for the public resources entrusted in their care.

I therefore commend this *Citizens' Guide* to all Stakeholders that wish to gain a definitive insight into the preparation and implementation of our Federal Budget.

Dr. Ngozi Okonjo-Iweala
Coordinating Minister for the Economy and
Honourable Minister of Finance

Preface

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.

Given the pattern and nature of public receipts which are often constrained by a number of factors, planned expenditure are suitably designed keeping in view the country's competing needs as well as its wide-ranging implications for the people. Designing these revenue and expenditure flows is a very tasking undertaking - one that requires a great deal of time and effort with careful ordering of spending priorities. Thus, we have prepared this guide to help citizens better understand the "A, B, C" of the federal budget. This will enable all stakeholders better engage in the budget process and hold Government accountable for the management of the nation's financial resources.

This *Citizens' Guide* therefore seeks to illuminate the Budget by making it a more open, transparent and accessible document. This will empower citizens to have a better understanding of the Budget preparation process, implementation and review; and to ultimately, be in a better position to influence, monitor and assess the effectiveness of Government's policies.

This *Citizens' Guide* is presented in two parts. The first part addresses general issues regarding the Federal Budget: what it is, where the financial resources come from, what they are spent on and how it is prepared. The second part focuses specifically on the 2014 Budget - its background, contents and priorities.

Readers can also access this *Citizen's Guide* and other relevant materials on the 2014 Budget on the Budget Office's website: www.budgetoffice.gov.ng. It is our hope that it will enhance readers' understanding of our Budget preparation and implementation work.

Dr. Bright Okogu
Director-General, Budget Office of the Federation

Table of Contents

Part A: An Overview

A-1. 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 1st January to 31st December.

The Federal Budget, of course, is not the only budget that affects the country's economy. In the public sector, the budgets of State and Local governments have an impact as well. State and Local governments are independent of the Federal Government, and they have their own sources of revenue and spending priorities with our fiscal federalism arrangement. Your individual income and spending plans and those of small, medium-sized and large businesses also impact on the economy.

A-2. The Federal Government's Budget

Pursuant to section 81 of the Constitution of the Federal Republic of Nigeria (1999), Mr. 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 Budget gives details of expected revenue and expenditure, and presents the direction of Government's policies and spending priorities for a given fiscal year.

Through the Budget, the Federal Government delivers essential public goods and services, such as education, healthcare, infrastructure and security to its citizens. The government plans its financial activities and comes up with detailed spending plans to provide these goods and services. The Federal Budget as a fiscal policy tool affects many aspects of our economy such as the general productivity in the economy, the price level of goods and services, interest rates at which individuals and businesses can borrow money, the exchange rate at which the Naira trades against other currencies and the rate of growth of the economy. These 'macroeconomic variables', as Economists call them, affect the wellbeing of the entire economy and, indeed, the social and economic wellbeing of all Nigerians.

A-3. Why Citizens Should Try to Understand Government Budgets

BY understanding how public resources are managed, you can better follow the budgeting process including its implementation. This will empower you to better hold Government to account.

A-4. Where the Money comes from - and where it goes

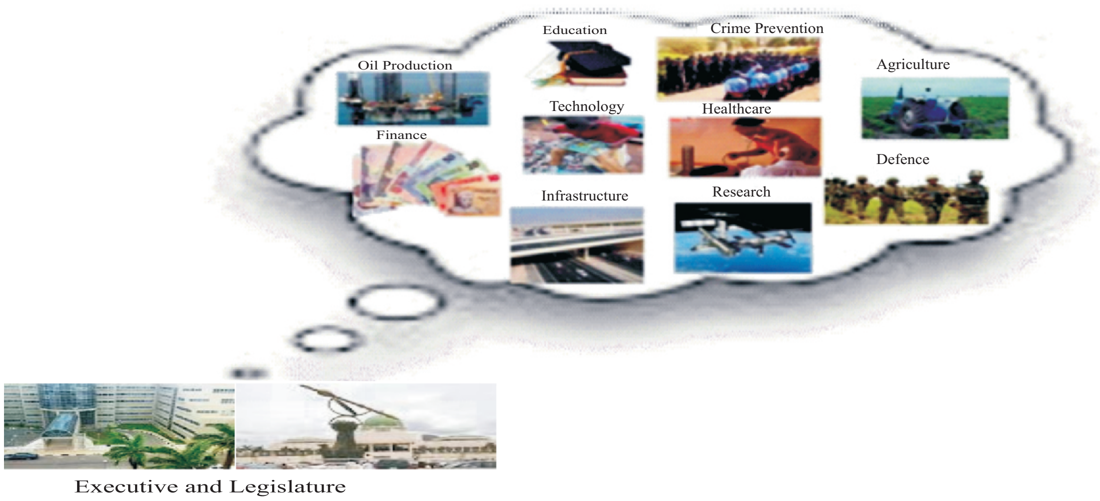
AS illustrated in *Figure A.1* below, a typical Nigerian household would normally discuss its income expected over a period, how much to spend on food, shelter, clothing, transport, education, etc. and how much to save for the rainy day. As is sometimes the case, where they do not have enough money to meet their needs, they might discuss how they can spend less, such as by cutting back on some items like attendance at the cinema, travels and so on. Alternatively, they might consider working more hours or seeking more lucrative ventures to earn extra income. They might even decide to borrow if they think the shortfall would be temporary!

However, where the expected income over the period exceeds the requirement to meet the needs, they might decide to use some of the extra to improve their situation in critical areas like paying off debts built up over the years or making some critical investments with future earning streams. Like the household situation, the Government estimates how much money it expects to receive over a fiscal year and the medium term, where such monies will come from, and how much of it to spend in order to achieve goals set in the Government's developmental policy documents such as the *Transformation Agenda*.

Figure A.1: Household Budgeting

Unlike the household situation, however, the Government keeps in mind that it collects revenue on behalf of its citizens. To this extent, the Government debates how its revenue and spending decisions will help grow the economy and improve the wellbeing of citizens. The rest of this chapter is dedicated to a discussion, in some detail, of how the Government raises revenues and what the revenues are spent on.

Figure A.2 Government Budgeting



A-4.1 Sources of financing the Budget

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.

The Federation Account & Interaction between the Tiers of Government

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. Revenues, aside from Value Added Tax, are distributed as indicated in Figure A.3., while the distribution of Value Added Tax revenue is as shown in *Figure A.4*.

The States and Local Governments also provide public goods and services, such as education, healthcare and infrastructure to citizens within their geographic areas. However, under our system of fiscal federalism as provided in the 1999 Constitution, each level of government is responsible for the management of its own finances. This is why this *Citizens' Guide* limits the discussion to the Federal Budget.

Figure A.3: Federation A/C Distribution Formula

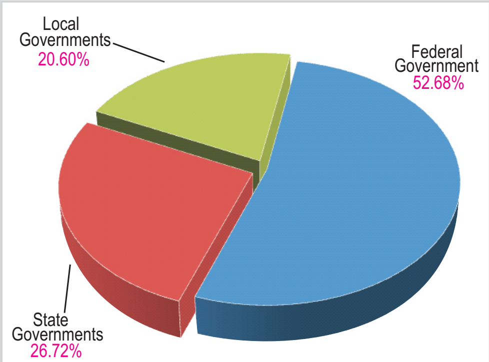
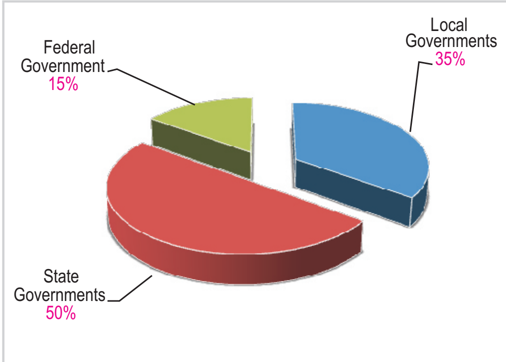


Figure A.4: VAT Pool Distribution Formula



Oil Revenue

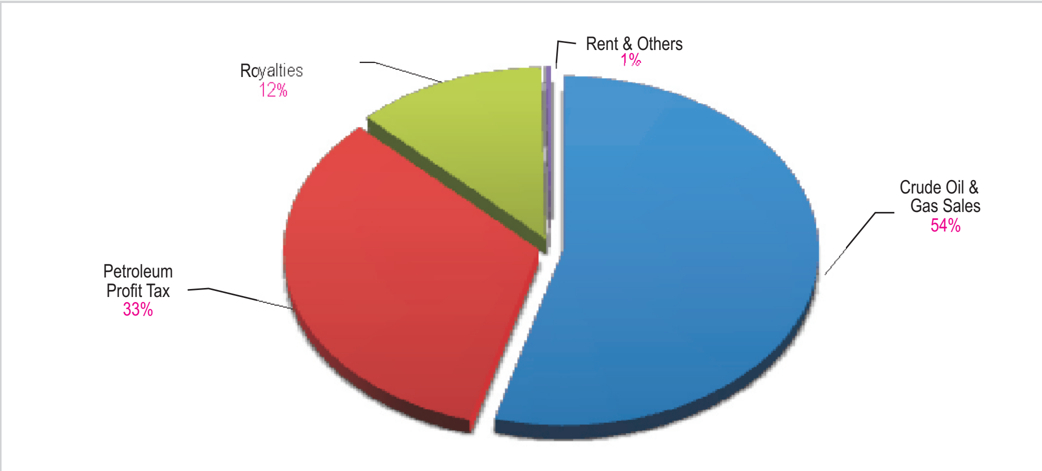
Oil Revenue is the most important source of revenue to the Federation Account and it is comprised of (1) Crude Oil Sales, (2) Oil Taxes, and (3) Royalties.

Crude Oil Sales

Nigeria has significant crude oil and gas resources which the government exploits through a number of business arrangements with oil producing companies. The Nigerian National Petroleum Corporation (NNPC) represents the government's interests in these business arrangements.

The most important of these arrangements is the ***Joint Venture***, under which oil companies, in partnership with NNPC, work to find and produce petroleum. Here, the oil companies and NNPC (through the Budget) contribute money to operate the business, and then share the crude oil that is produced. The moneys contributed are referred to as *Joint Venture Cash Calls*. NNPC takes the Government's share of the crude oil and sells this in the international and domestic markets yielding a major source of revenue to the Federation Account.

Figure A.5: Breakdown of Annual Average Oil Revenues (2008-2012)



Gas Sales & Oil Taxes

Sales of ***Natural Gas*** have increasingly become an important source of revenue for the Budget.

Added to this source are the ***Oil Taxes*** generated from taxes on the oil companies. These taxes include (1) Royalties, (2) Petroleum Profits Tax, (3) Rents and Other Oil Taxes.

1. ***Royalties***

   Oil producing companies are required to pay a fee for every barrel of crude oil they produce in recognition of government's sovereign ownership of the crude oil. Presently, the rate of royalties is about 20% of the value of crude oil produced, but the rate for offshore wells depends on the water depth of the field.

2. ***Petroleum Profits Tax***

   A tax of 85% is levied on the profits of oil producing companies under the Joint Venture and Service Contract business arrangements while a tax of 50% is applied to profits under the Production Sharing Contract arrangements. This constitutes the second most important source of revenue to the Federation Account.

3. ***Rents and Other Oil Taxes***

   Government charges *Rent* as a fee for the use of the land (or oil acreages) from which oil is extracted. There are also other charges and levies (*Other Oil Taxes*) paid by oil companies to government including penalties for gas flaring and fees for the right to lay pipelines to transport the oil produced.

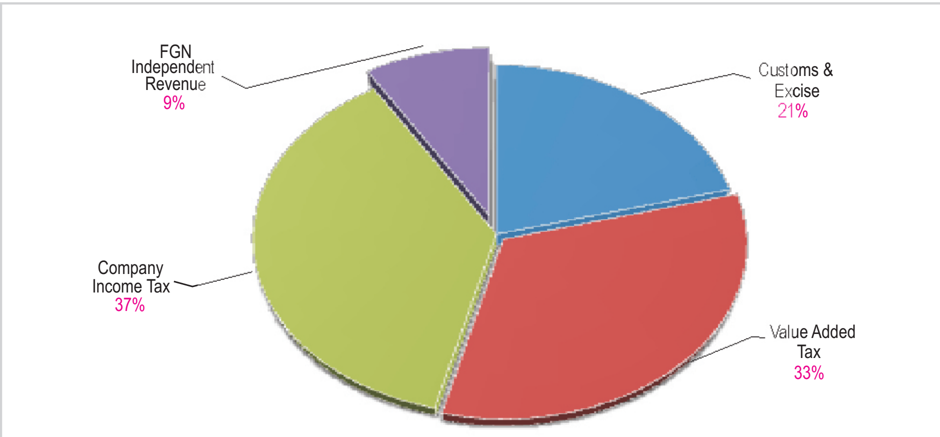
Non-Oil Revenue

The second category of revenue to the Federation Account is referred to as *Non-Oil Revenue*. This covers revenue that is derived from sources other than oil and is 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.

1. ***Companies' Income Tax***

   People form companies to carry on various businesses which yield profits for them. Companies that operate in Nigeria but which do not produce oil still pay tax but at a lower rate of 30% of their profits. Companies Income Tax is also an important source of government revenue.

Figure A.6: Breakdown of Average Non-oil Revenues (2008-2012)



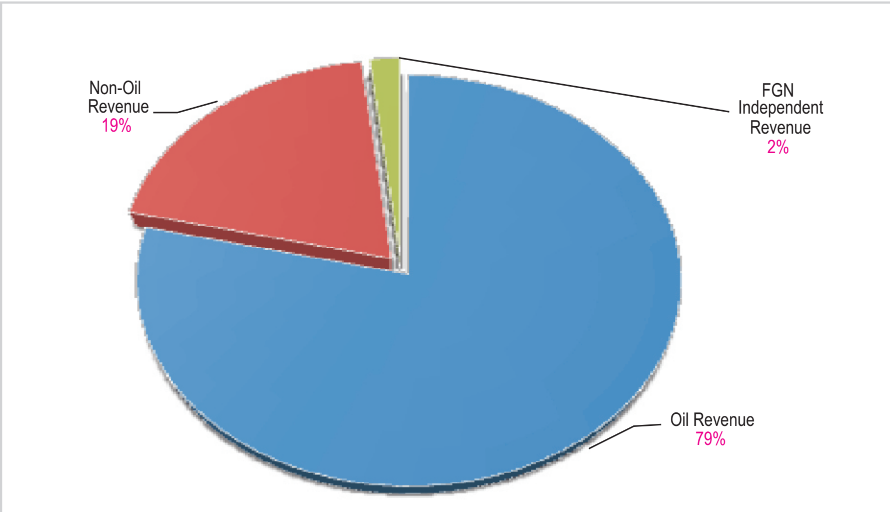
2. ***Customs and Excise Duties***

   When importers bring goods into Nigeria, their imports are also taxed. This charge is called import duty and presently varies between 0 - 35% of the value of the goods. The importation of certain items like tobacco attracts higher duties and additional surcharge while the importation of items like wheat flour, wheat grain, and rice are to attract additional levies ranging from 15% to 65% from July 2012 in order to help develop the agricultural sector.

3. *Value Added Tax Pool*

Most of the goods and services purchased in Nigeria are also taxed at 5% on the value of these purchases. This tax is called *Value Added Tax* (or VAT) and is a consumption tax, meaning that it is only charged on actual purchases made. However, VAT is not paid directly into the Federation Account but is collected in an account called the VAT Pool from where it is shared in accordance with the formula indicated in *Figure A.4*. From *Figure A.8* below, one can see that the Federal Government receives 15% of VAT revenues, out of which 1% goes to the Federal Capital Territory. The balance of 85% goes to States and Local governments.

Figure A.7: Historic Annual Average Revenue (2008-2012)

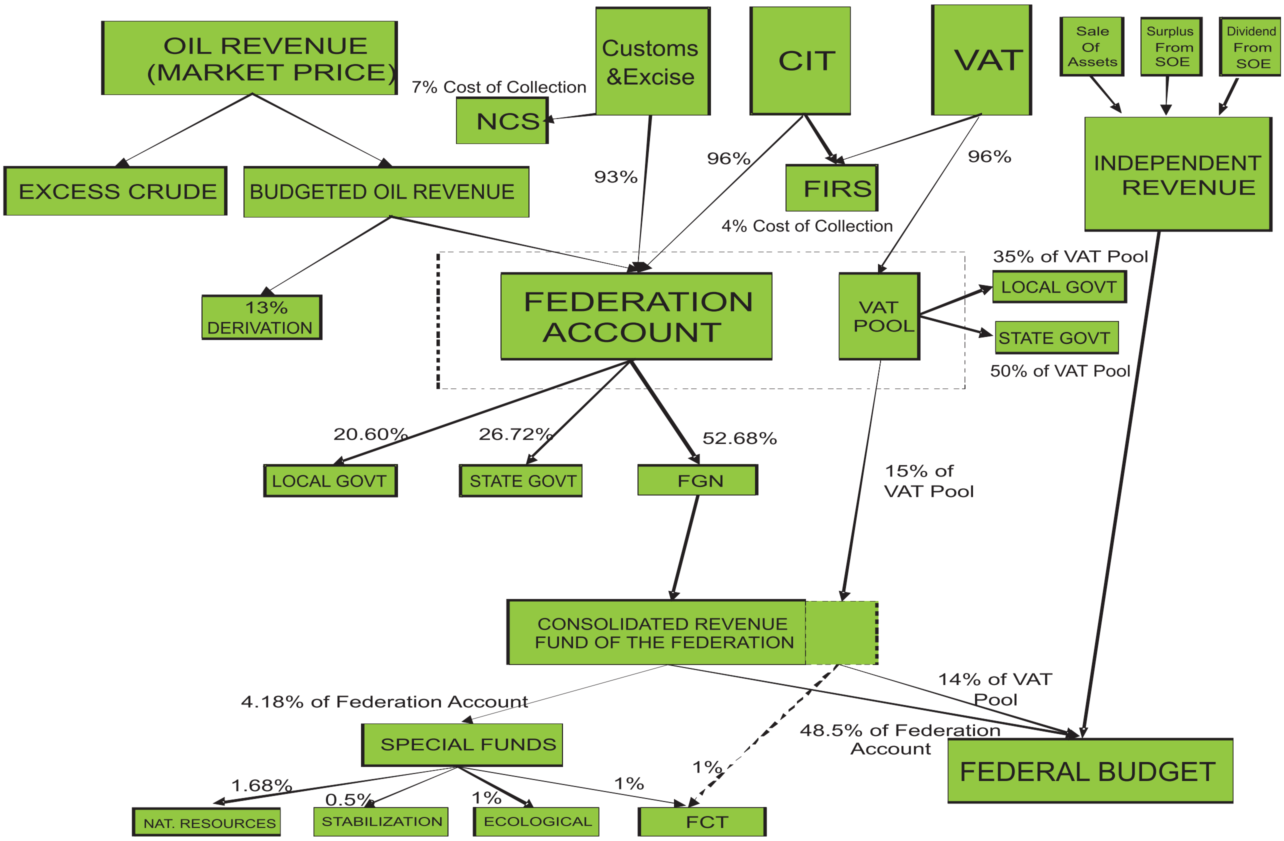


4. *Independent Revenue*

The third major source of revenue known as Independent Revenue includes revenue which is not derived from either the Federation Account or the VAT Pool, but accrues directly to the Federal Government. These revenue sources include (1) *Operating Surpluses of Federal Agencies and Corporations* (2) *Dividends from Federal Government's investments in companies* and (3) Other sundry revenue, such as *internally generated revenue of Federal Government MDAs*.

As *Figure A.7* clearly demonstrates, Oil Revenue is by far the largest source of revenue for the Federal, State and Local Governments, accounting for up to 66% of total Federal Government revenues over the 2008-2012 period. *Figure A.8* shows how these revenues flow to fund the Budget.

Figure A.8: The Flow of Revenues



Source: Budget Office of the Federation

Coping with the International Oil Price fluctuations

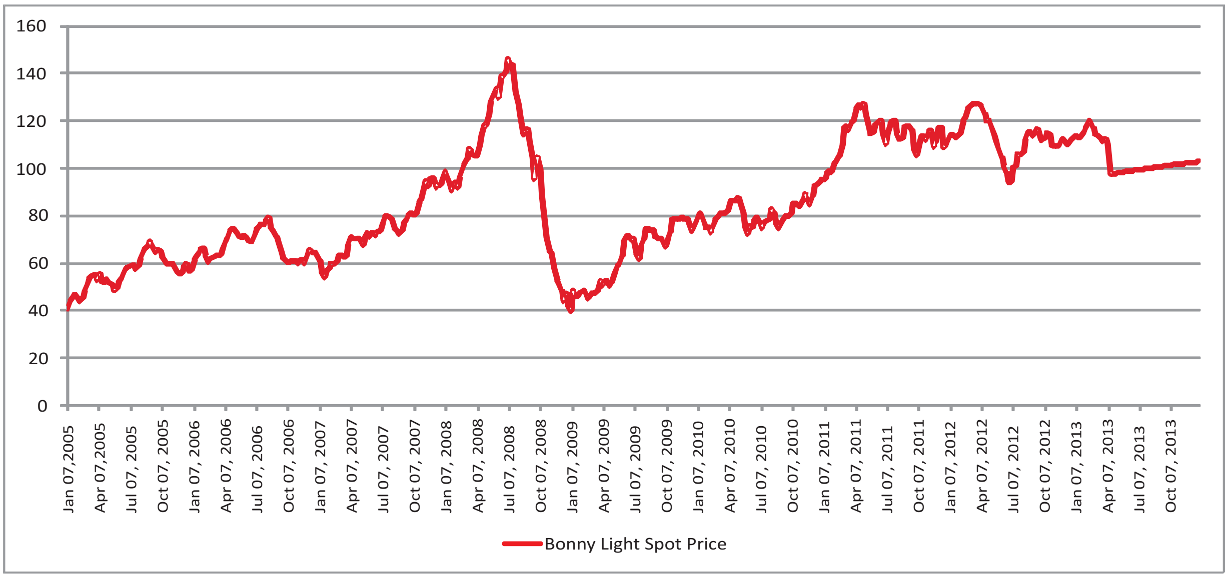
As Nigeria's oil and gas is sold in the international markets, their international prices determine how much money the Federal Government obtains from sales per unit; and how much it can spend to finance its Budget. Oil prices tend to be very unpredictable and as they rise and fall, oil revenue accruing to the Government also varies and makes planned spending unpredictable. Consequently, the Government has, in recent years, implemented measures to protect its spending plans from the periodic swings in the price of crude oil illustrated in *Figure A.9*.

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 realistic and sustainable 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* in the same way that individuals and households try to save money for their future. These 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. By doing this, the Government can reduce the dependence of its spending plans on the periodic swings in oil prices.

Furthermore, Government has been trying to diversify its revenue sources and reduce its dependency on the oil sector by developing the non-oil sectors of the economy.

Figure A.9: Periodic Oil Prices (2005-2013)



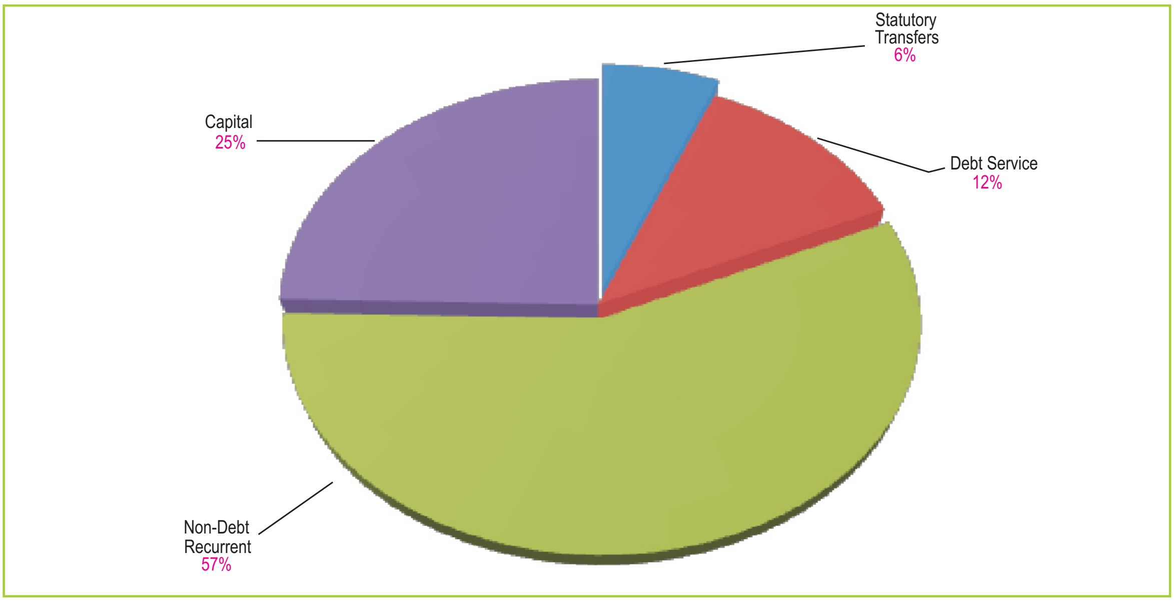
Source: International Energy Agency

A-4.2 Major Heads of Budgetary Expenditure

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).

Figure A.10: Percentage Distribution of FGN Spending – Average (2008-2012)



Source: Budget Office of the Federation &
Office of the Accountant General of the Federation

Statutory Transfers

The Federal Government is required by law to make certain mandatory expenditures annually in respect of (1) the National Judicial Council, (2) the Niger Delta Development Commission (NDDC), (3) the Universal Basic Education Commission (UBEC), (4) the Independent National Electoral Commission (5) the National Assembly (NASS), and (6) the National Human Rights Commission. These mandatory expenditures are referred to as Statutory Transfers.

1. ***The National Judicial Council***

   Under our laws, the National Judicial Council is responsible for the administration of the judiciary. The 1999 Constitution makes it mandatory for the Federal Government to transfer to the Judiciary, financial resources required for its operations. This practice is instituted to protect the independence of the Judiciary as a separate arm of government.

2. ***The Niger Delta Development Commission***

   The Niger Delta Development Commission (NDDC) was established to promote the development of the Niger Delta region. The Federal Government is required by law to contribute an amount equivalent to 15% of the amount received by oil producing States from the Federation Account to fund the NDDC's activities. This money is spent on development projects in the region and complements the work of the Ministry of the Niger Delta, which is also funded through the Budget.

3. *The Universal Basic Education Commission*

Since 2004, every child has been required by law to compulsorily complete basic education. The law requires the Federal Government to set aside and transfer 2% of its revenues to the Universal Basic Education Commission (UBEC) to finance this free and compulsory basic education.

4. *The Independent National Electoral Commission (INEC)*

The Independent National Electoral Commission is statutorily responsible for the furtherance of democracy in Nigeria through the conduct of open and transparent elections in the country. To promote a high level of integrity, credibility, impartiality and dedicated service, the law requires a statutory provision of its financial resources in order to maintain its operational independence.

5. *The National Assembly (NASS)*

Like the Judiciary, the National Assembly is a separate arm of the Federal Government and is responsible for performing legislative functions at the federal level. The 1999 Constitution, as amended in 2011, makes it mandatory for the Federal Government to transfer to the NASS, financial resources required for its operations. This practice is instituted to protect its independence as a separate arm of government.

6. *The National Human Rights Commission*

Like the INEC and NASS, the Commission's Act was amended in 2011 to protect its independence in ensuring the investigation and prosecution of human rights violations in the country. It also receives a transfer from the budget.

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 *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.

Although many years ago, the Government used to spend much more money than it earned, in recent years, the Government has saved up money (in the *Excess Crude Account*) as its earnings from oil sources are based on a projected Budget Benchmark Price using a formula known as moving averages. This is usually lower than the actual oil price in the international oil market. Lower public domestic borrowing is good for the economy as it leaves room for credit to private sector businesses that need loans. Furthermore, with a controlled borrowing plan, funds that would have been spent on debt service would be saved or can be used for the provision of essential public goods and services.

MDA Expenditure

Statutory Transfers and Debt Service currently make up on average about 24% of Federal spending. The balance of 76% 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 and Capital Expenditure.

Recurrent Expenditure: *Salaries, Pensions & Overheads*

The Federal Government employs people to work in the various MDAs and pays them ***salaries*** in order to maintain the administration of government and continue to provide public goods and services. In addition to the pension contributions paid on behalf of workers under the *Contributory Pension Scheme*, the Federal Government continues to pay the ***pensions*** of existing pensioners under the old *Pay-As-You-Go System*. Finally, the Government incurs ***overhead costs*** (such as payment for electricity, water, telecommunications, office rent, office equipment and consumables, staff training, transportation, etc.) just like any ordinary business.

Capital Expenditure

Capital Expenditure is used to provide infrastructure such as roads, water and power; fund educational services such as schools, colleges and universities; and provide healthcare facilities and services among others.

A-5. How is the Federal Budget Prepared?

Sharing Responsibility for the Budget

The 1999 Constitution requires the President to submit an annual budget proposal to the National Assembly for their approval (or passage). Once the National Assembly approves the budget proposal (or *Appropriation Bill*) and the President assents to it, it becomes Law (or an *Appropriation Act*). In this way, responsibility for the Federal Budget is shared between these two of the three arms of the Federal Government.

The Executive's Development Plans: the Nigeria Vision 20:2020 (*First National Implementation Plan*) and the Transformation Agenda

The President gives directives to the Minister of Finance and the Budget Office of the Federation to prepare the Budget in line with the government's vision and direction for Nigeria. These plans explain how the Government will develop the nation by building infrastructure, reducing poverty, generating wealth and creating jobs. Presently, this vision is as indicated in the *First National Implementation Plan* of the *Nigeria Vision 20:2020* and the Administration's *Transformation Agenda*. The Federal Budget serves as a policy tool for achieving the immediate, medium and long-term development goals in these policy documents as its preparation is based on them.

The Medium-Term Fiscal Framework

The *Fiscal Responsibility Act 2007* provides detailed guidance about how the Budget should be prepared and what stages it needs to pass through before it is completed. Under this law, the Budget is to be based on a medium-term fiscal framework. Fiscal frameworks are used by many countries to indicate how they plan for their revenue, expenditure, borrowing and fiscal balance (deficit or surplus) for a few years in advance. Fiscal frameworks normally include a Revenue Framework dealing with where the money comes from and an Expenditure Framework dealing with what the money is spent on.

The Medium-Term Revenue Framework

The Medium-term Revenue Framework is part of the fiscal framework. It documents the aggregate revenue to be received by the Federal Government over the following three years. To prepare this document, the Budget Office consults with many of the Federal Government's revenue generating and collecting agencies to forecast estimates of both oil and non-oil revenue. The underlying assumptions are agreed and are then used to project the expected aggregate revenue that should accrue to the Federation Account and the VAT Pool Account over the following three years. Once the relevant sharing formulae are applied, the share of revenue belonging to the Federal Government is determined.

The Medium-Term Expenditure Framework

Once there is a clear idea of the expected revenue, the Budget Office prepares the Medium-Term Expenditure Framework which shows (1) the maximum amount that the Federal Government wishes to spend in the next three financial years (2) how these amounts are to be shared across the major expenditure heads and (3) the difference between available revenues and the total amounts to be spent.

The aim here is to balance the need to spend money to achieve Nigeria's developmental goals and the need to live within its means. The *Fiscal Responsibility Act 2007* provides a fiscal rule to guide this work which states that aggregate spending should not exceed aggregate revenues by more than 3% of GDP (Gross Domestic Product), except in certain situations, such as when there is a recession or danger or threat to national security. GDP is used by Economists to measure the total value of goods and services produced within the economy in any single year.

Once the total amount of money to be spent is determined, the size of the *Budget Deficit/Surplus* is ascertained by subtracting total spending from total revenues. If total expenditures are greater than total revenues, there will be a Deficit and the Government has to decide how to finance this, usually by borrowing, selling state assets or relying on other sources.

The Aggregate Expenditure Ceiling or maximum amount of spending is then shared among the three major expenditure heads, that is, Statutory Transfers, Debt Service and MDA Expenditure. This is all documented in the Medium-Term Expenditure Framework (MTEF).

Stakeholders' Consultations

In recent years, the Federal Ministry of Finance and the Budget Office have been working hard to make the Budget process more open, transparent and accessible to ordinary citizens. This publication is one of the efforts taken to achieve this. Another activity is the presentation of the medium-term fiscal frameworks and the budget to different Stakeholders (including the National Assembly, the National Economic Council, the Organised Private Sector, Civil Society and the Public Sector) for their input and buy-in. These Stakeholders' Consultations sometimes take the form of open and interactive sessions. The contributions and concerns of the Legislature are particularly important when preparing the Budget as they are the peoples' representatives in Government.

MDA Expenditure Ceilings

Once the aggregate revenue and expenditure are determined in the medium-term fiscal framework, the MDA Expenditure needs to be shared among the numerous Federal Government MDAs. This work is done by the Budget Office of the Federation under the supervision of the Honourable Minister of Finance and is subsequently approved by the Federal Executive Council chaired by Mr. President. In deciding spending ceilings, the Budget Office takes account of the size of each MDA's payroll and the priority level accorded to the MDA's activities in view of the Government's policy programmes. An Expenditure Ceiling is allocated to each MDA from which it must meet its needs and deliver services to Nigerians. The allocation of these Expenditure Ceilings is to ensure that the total spending by Government does not exceed the total Expenditure Ceiling determined in the Medium-Term Expenditure Framework. Usually, *Indicative Expenditure Ceilings* are initially provided to MDAs and finalised later.

Medium-Term Sector Strategies (MTSS)/Ongoing Capital projects/Nigeria Vision 20:2020 (*First National Implementation Plan/Transformation Agenda*)

Beginning from 2005, MDAs were required to prepare *Medium-Term Sector Strategies* (or MTSS) by clearly articulating their goals and objectives against the background of the overall medium and long-term development goals of the Federal Government (i.e., the *Nigeria Vision 20:2020* and the *Transformation Agenda*). The MDAs identify and document the key projects and programmes that they will execute over the next three fiscal years, bearing in mind their overall goals and objectives and the resource constraints of their Expenditure Ceiling. These initiatives (that is, the projects and programmes) are costed, phased over three years and linked to expected outcomes. The results of this exercise are documented in MTSS Reports which are then used as policy documents against which the MDAs' budget submissions are evaluated.

However, over the years, there has been a huge build-up of ongoing (uncompleted) capital projects in the MDAs. This situation arose largely from poor administration of MDAs' capital projects implementation as a result of MDAs picking too many projects and spreading the available scarce resources too thinly thereby making it difficult to complete them. This underscores the need for MDAs to concentrate on the completion and exit from a few, viable ongoing projects rather than spreading resources thinly among several projects. Beginning from the 2012-2014 medium term, Government has continued to strategically focus capital spending on the implementation and exit from viable ongoing capital projects which are consistent with the *Transformation Agenda*.

Approval of the Medium-Term Expenditure Framework & the Fiscal Strategy Paper by the Executive Council of the Federation & National Assembly

An important part of Nigeria's fiscal framework is the Medium-Term Expenditure Framework. This formal document includes the Fiscal Strategy Paper which summarises how the Federal Government proposes to carry out its fiscal affairs over the following three years. Under the *Fiscal Responsibility Act 2007*, this Fiscal Strategy Paper and the Medium-Term Expenditure Framework are to be presented to the Federal Executive Council for their consideration and approval, so that proposed spending tradeoffs can be properly debated and agreed.

In preparing the Fiscal Strategy Paper and the Medium-Term Expenditure Framework, input is sought from key stakeholders such as the National Planning Commission, Nigerian National Petroleum Corporation, the Central Bank of Nigeria and the National Bureau of Statistics among others. Once the Federal Executive Council approves the Medium-Term Expenditure Framework Report and the Fiscal Strategy Paper, these are then sent to the National Assembly for their consideration and approval. For the 2014 Budget, the Fiscal Strategy Paper and the Medium-Term Expenditure Framework were presented to the Federal Executive Council and then the National Assembly in September 2013. Once again, the responsibility for the Government's medium-term fiscal plans is shared by both the Executive and the Legislature.

The Budget Call Circular & Evaluation of Submissions by MDAs

The next stage of preparing the Budget involves the Minister of Finance issuing the Budget Call Circular to the MDAs. This Circular gives detailed instructions on how the MDAs should prepare and submit their expenditure estimates within the limits of their Expenditure Ceilings and in accordance with government's priorities. The MDAs then prepare their budget proposals accordingly and submit this to the Budget Office. The Budget Office then ensures that the MDAs have stayed within their allotted Expenditure Ceilings and that the budget proposals are consistent with the priorities of government and the MTSS or their prioritized ongoing capital projects and programmes. During this process, there are additional *Bilateral Discussions* between the Ministry of Finance in collaboration with the National Planning Commission and the Chief Economic Adviser to Mr. President, and the MDAs to align the spending plans with the goals earlier established. Once the Bilateral Discussions are completed, the Budget Office evaluates and consolidates the MDAs' final submissions and prepares the draft Budget.

The President's Approval & Transmission of the Budget to the Legislature

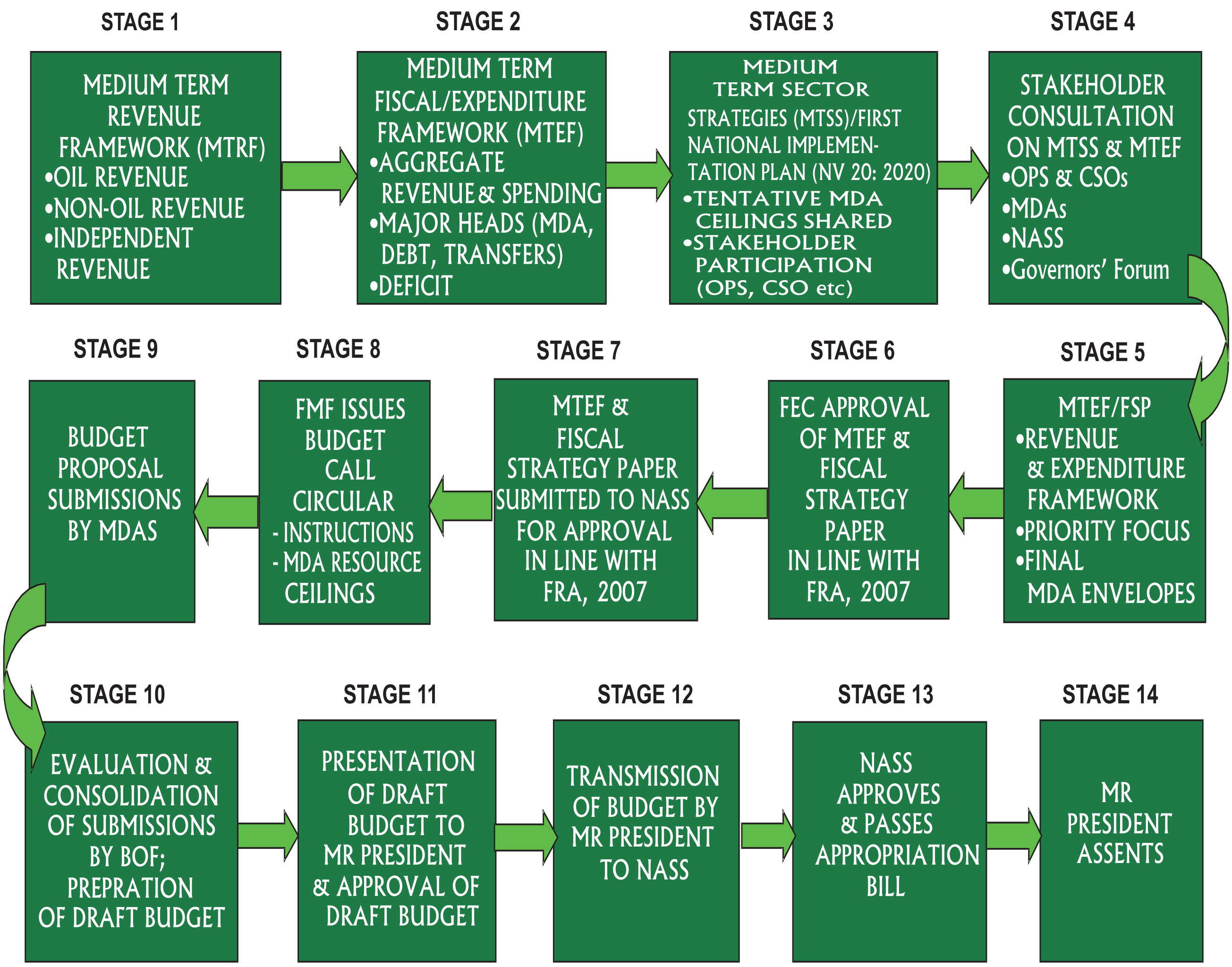
Prior to the submission of the Budget, there are a series of consultations between the Executive and the National Assembly regarding the size and contents of the Budget. For instance, as the practice has been in recent years, there are numerous meetings between the Ministry of Finance, the MDAs and the various Committees of the National Assembly that have oversight over the MDAs to fine-tune the government's spending plans. This process helps to ensure that the Budget reflects the priorities of government and the aspirations of the people. Once it has been completed, the draft Budget is presented to the President for his approval. Once the Presidential approval is given, the Budget and other supporting documents are formally presented by the President to the National Assembly for their consideration and appropriation. This is in line with the 1999 Constitution, which requires the Budget to be presented by Mr. President to the National Assembly.

Approval by the National Assembly & Assent by Mr. President

After the Budget's presentation to the National Assembly, it is debated by each House of the National Assembly in various standing Committees. The recommendations of these Committees are considered and collated by the Appropriation Committees of the Senate and House of Representatives. These Appropriation Committees make final recommendations to each House. Once debates on these recommendations are concluded, each House passes their Appropriation Bills. If these Bills differ in the final numbers or assignment to expenditure heads, the two Houses meet to harmonise their respective positions. Once harmonized, the final Appropriation Bill is then sent to the President for his assent. The President gives his assent to the Appropriation Bill and in so doing, passes the Budget into law.

As can be seen, the preparation of the Federal Budget is a long and collaborative exercise, involving many stages: first within the Executive, then between the Executive and the Legislature. It also involves a lot of consultation with various stakeholders that are not within the Government such as the organized private sector, civil society and the media.

Figure A.11: The Budget Preparation Process



Source: Budget Office of the Federation

PART B: The 2014 Budget Proposal

B-1: The Budget Parameters

The federal budgets, as indicated earlier, are based on Medium-Term Fiscal Frameworks which are prepared against the interplay of various global and domestic variables. On the global front, the level of industrial and economic activities affect the demand for commodities like our main revenue earner - oil. These affect commodity prices, and ultimately, revenues to fund our budgets. On the domestic front, several factors including disruption to oil production and planned sales volumes, security challenges which slow down economic activities and government agencies' ability to collect planned revenues, etc. also impact on revenues to fund the budgets. These call for prudence in preparing our fiscal estimates.

The 2014 Budget Proposal is based on the following parameters:

Table B.1: Key Parameters

Assumptions	
Oil Production Benchmark (mbpd)	*2.3883*
Oil Price Benchmark (USD/barrel)	*77.50*
Exchange Ra te (Naira/US$)	*160.00*
GDP Growth (%)	*6.75*

Box B-1: Priorities of the 2014 Budget

The 2014 Budget builds on the pillars of macroeconomic stability, structural reforms, governance and institutions, and investing in priority sectors upon which the 2012 and 2013 Budgets were founded. The 2014 Budget focuses on developing or revitalizing the engines of growth that would support higher industrial capacity utilization, increased domestic output and increased gainful engagement of the human capital. In this respect, it focuses on ***job creation and inclusive growth*** *through:*

- *Plans to advance ongoing* ***Infrastructure Development*** *works particularly in the power, aviation, roads and rail sectors. Focus is on these sectors as they have multiplier effect on productivity, employment and movement of the factors of production.*
- *Providing structural and financial support to key* ***Sectoral Initiatives*** *in Agriculture (Nagropreneur programme and Fund for Agricultural Finance in Nigeria), Manufacturing (Nigeria Enterprise Development Programme), Housing & Construction (Nigeria Mortgage Refinancing Company) and the Creative/Nollywood Industry (Project Advancing Creativity & Technology).*
- *The establishment of a* ***Wholesale Development Finance Institution*** *to provide affordable medium- to long-term financing to Nigerian entrepreneurs.*
- *It is also focused on engendering* ***peace and security*** *across the country. In particular, Government would institute a development programme for the North East starting with some pilot areas.*

B-2 2014 Budget: The Big Numbers

- **Where the Money Comes From - 2014 Fiscal year Revenue estimates**

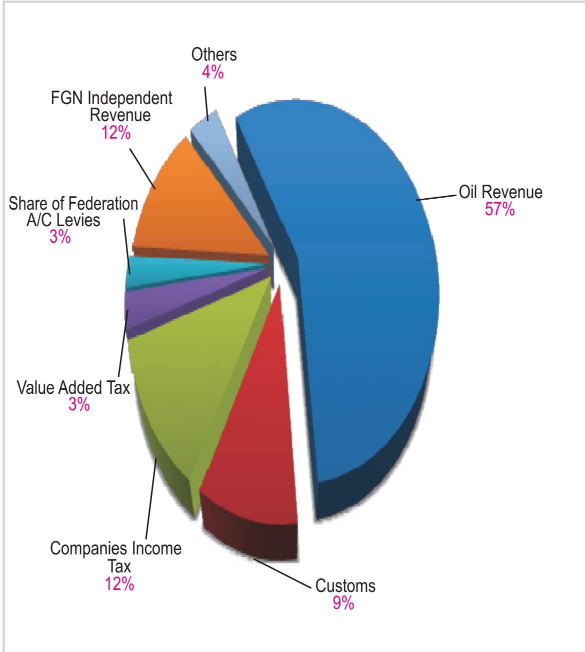
Based on the assumptions highlighted in *Table B-1*, the total federally collectible revenue for fiscal year 2014, comprised of oil revenue of N7.165 trillion and non-oil revenue of N3.711 trillion as indicated in *Table B-2*, is N10.876 trillion, which is less than the estimates for the 2013 fiscal by N464.27 billion. Of this amount, N3.731 trillion (inclusive of the Government's independently generated revenues), is estimated to fund the federal budget in 2014.

Table B.2: Where the Money Comes From

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
	N'bn	N'bn
Gross Federation Account Inflows	**11,041.61**	**10,453.39**
Gross Oil & Gas Revenue	*7,734.15*	*7,164.81*
Gross Non-Oil Revenue	*3,307.46*	*3,288.58*
FGN Budget Revenue	**4,100.18**	**3,731.00**
Oil Revenue	**2,354.51**	**2,114.53**
Non-Oil Revenue	**996.71**	**1,021.41**
Customs	*357.66*	*352.89*
Companies Income Tax	*457.24*	*454.54*
Value Added Tax	*127.05*	*113.63*
Share of Federation A/C Levies	*54.77*	*100.34*
FGN Independent Revenue	***455.78***	***452.04***
Others (incdg. Unspent balance & share of Special A/Cs)	***293.17***	***143.02***

Figure B-1 is a graphical representation of the contribution of the different sources to the federal budget revenue estimates for 2014.

Figure B.1: Where the Money Comes From
(%age Contributions)



B-3: Where the Money Goes

The Federal Government plans to spend N4.643 trillion (exclusive of SURE-P Budget – *see Table B.5*) in 2014. This represents a decline by 6.9% from the N4.987 trillion approved for 2013. About 57%, 9%, 15% and 12% of this planned expenditure is funded from oil, export/import trade incomes, company income tax & value added tax, and FGN's independent revenue sources. The balance of about 7% is from miscellaneous sources. Compared to about 14% of the estimates in 2013, a growing percentage of this funding is projected to come from the non-oil tax payments – the more reason why you should engage closely in the budget preparation and in its implementation.

Table B.3: Where the Money Goes

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
	N'bn	N'bn
Proposed 2014 Budget (*excluding SURE-P*)	**4,987.24**	**4,642.96**
Statutory Transfers	387.98	399.69
Debt Service	591.76	712.00
Recurrent (Non-debt) Expenditure	2,386.02	2,430.66
Capital Expenditure	1,621.48	1,100.61
Subsidy Reinvestment & Empowerment Programme (SURE-P)	273.52	268.37
Proposed Aggregate 2014 Budget (*including SURE-P*)	**5,260.76**	**4,911.33**

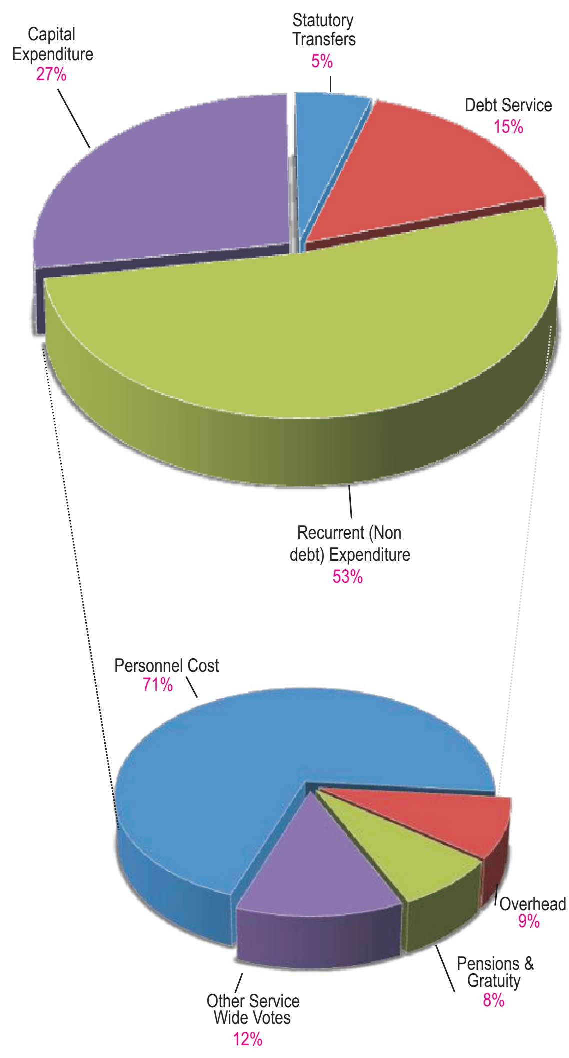
Box B-2: 2014 Budget Notes

- ***The 2014 Budget focuses on creating jobs and furthering the Administration's fiscal consolidation plans.***
- ***The 2014 Budget proposal plans to spend 6.92% less than the 2013 Budget as government tries to stay within the limits of its available resources.***
- ***Recent challenges with meeting our revenue estimates as a consequence of crude oil theft and pipeline vandalism on our oil revenues; security challenges in some parts of the country on non-oil tax generation and collection; and the unintended effect of the Government's fiscal measures like those on rice, wheat, etc. on customs duties collection meant lower revenue estimates for 2014.***
- ***Since spending plans are dependent largely on revenues, the decline in spending plans is guided by the need for fiscal prudence and efficiency in the management of our common resources.***
- ***This necessitated reductions to the operating budgets of every Executive branch department.***
- ***The Budget continues to protect core responsibilities of government – providing enabling environment that is conducive for job creation, supporting industry, supporting infrastructure development, providing public safety and caring for the most vulnerable Nigerians.***

Of the planned expenditure, a total of N399.69 billion or 9% is earmarked for statutory transfers, N712 billion or 15% is for debt service, N2.431 trillion or 52% is for recurrent (non-debt) expenditure while the remaining N1.101 trillion (or N1.267 trillion when elements of capital expenditure in statutory transfers are added) is earmarked for capital expenditure. The capital spending rises to N1.532 trillion (or 31.19% of the total budget) when the capital expenditure component of the statutory transfers and the SURE-P capital budget are added to the regular budget. Relative to the huge decline in budget revenue estimates for the fiscal year, the provision for capital spending underscores the Federal Government's desire to continue to invest in key developmental infrastructure projects.

The different sectoral allocations are shown in *Figure B.2* below:

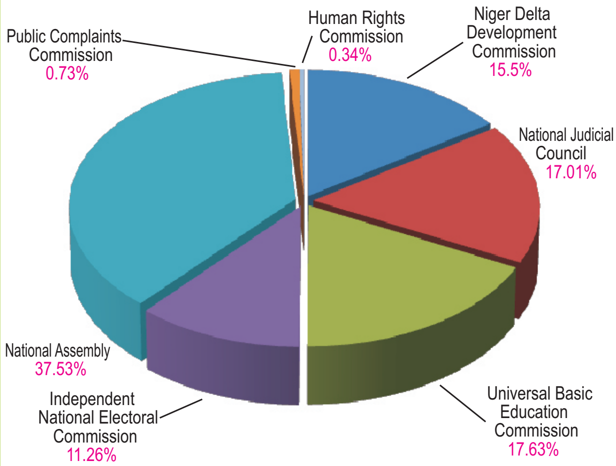
Figure B.2: Where the Money Goes (Regular Budget)



Composition of Non-debt Recurrent Expenditures

Of the aggregate statutory transfers as shown in Figure B.3, the Niger Delta Development Commission (NDDC) is expected to get N61.94 billion or 15.5%, the National Judicial Council (NJC) will get N68 billion or 17.01%, and the Universal Basic Education Commission (UBEC) is allocated N70.47 billion or 17.63%. Furthermore, the Independent National Electoral Commission (INEC) is allocated N45 billion or 11.26%, and the Public Complaints Commission is allocated N2.93 billion or 0.73%. Also, the National Human Rights Commission – N1.35 billion or 0.34% while the National Assembly is allocated N150 billion or 37.53%.

Figure B.3: Where the Money Goes (Statutory Transfers)



Box B-3: Recurrent Expenditure (Why it still dominates Government spending)

- ***The structure of Government expenditure:***

  In recent years, Government has continued to pay attention to rebalancing the structure of public expenditures from recurrent spending towards capital. Since the 2011 fiscal year, the trend has been progressively turned in favour of capital spending from about 21% to over 32% in 2013. While Government wishes for an even faster turn, the ratio cannot be overturned suddenly due to certain constraints indicated hereunder.

- ***Composition of recurrent expenditure:***

  It is the cost of running public administration such as salaries & wages, overheads, pension expenditures, etc.
  Personnel expenditure currently accounts for over 50% of our recurrent expenditure and about 37% of aggregate expenditure.
  A large portion of the fiscal year's cost of servicing public debts.

Box B-3 (Contd.)**: Recurrent Expenditure**

- ***Why is the recurrent expenditure growing?***

  Personnel emoluments are contractual, and they tend to increase annually due to new recruitments, promotions, etc. Government is committed to citizens' wellbeing and would not cut this cost simply by laying off workers.
  Operations/running costs like petrol, power costs, stationery, etc. are being better managed leading to improving efficiency, and therefore, our overhead costs continue to drop.

- ***Size of the Wage Bill***

  In the recent years, the wage bill has been rising steadily; from about N857 billion in 2009, it has doubled to about N1.72 trillion in 2013 following continued demands for wage increases.
  The size of the country's wage bill has critical implications for our development because it reduces the amount available for other expenditure heads like Capital.

- ***What is Government doing to check the growth?***

  Government is implementing measures to enhance efficient application of its scarce resources through measures like:
  - ✓ *Implementation of the Integrated Payroll and Personnel Information System (IPPIS) to weed out "ghost workers".*
  - ✓ *Postponing construction of new office complexes, procurement of administrative capital, and moving from foreign to local training, etc.*

Box B-4: Capital Expenditure

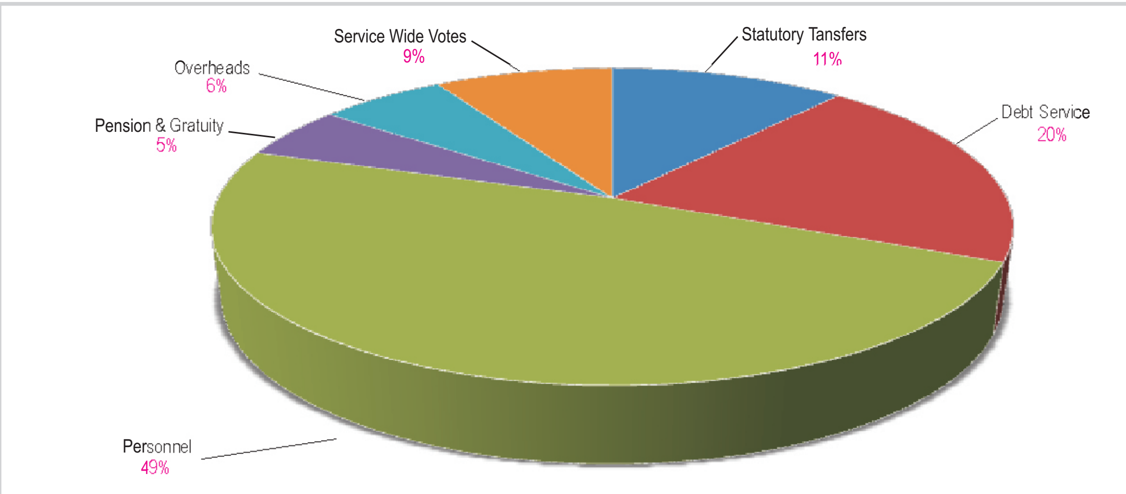
- ***Why is capital expenditure not higher than it is?***

  Most elements of the recurrent spending are not easy to adjust downward overnight. You cannot reduce the wage bill unless you sack workers, and Government does not like to fire people. So, if revenue goes down, items such as salaries, debt service, etc. must still be accommodated before any other expenditure item.
  The expenditure ceiling for capital is the balance after key elements of recurrent type expenditure have been accommodated.

- ***What is the focus of the 2014 Budget's capital expenditure?***

  The completion of ongoing capital projects that are consistent with achieving the goals of the Administration's Transformation Agenda.
  To support the implementation of projects/programmes in critical sectors like agriculture, power, infrastructure, housing & construction, etc., that would engender job creation and inclusive growth.

Figure B.4 : Components of Recurrent Expenditure



B-4: Fiscal Balance

Following the prudent estimates of the Budget revenues and the planned expenditures for 2014, the proposed fiscal deficit is N911.96 billion or 1.9% of GDP. Please see *Table B.4* below.

Table B.4: The Fiscal Balance

FISCAL ITEMS	2013 Budget	2014 Executive Proposal
	N'bn	N'bn
FGN retained revenue	**4,100.18**	**3,731.00**
Proposed Budget expenditure	**4,987.24**	**4,642.96**
Fiscal deficit	(887.07)	(911.96)
Deficit (as a % of GDP)	*-1.85%*	*-1.90%*
Financing sources:	**887.07**	**911.96**
*Privatization Proceeds**	*10.00*	*15.00*
FGN's Share of Signature Bonus	*75.00*	-
Sharing from Stabilisation Fund Account (ECA)	*225.00*	*324.97*
New Borrowings	*577.07*	*571.99*

How will this deficit be financed?

This projected deficit will be financed from the proceeds of privatization of Government properties (N15 billion), FGN's share from the stabilization fund account (N324.97) and new borrowing will contribute N571.99 billion.

While the budget deficit increased slightly, in keeping with the Government's efforts to both avoid crowding out the private sector and gradually reduce public debt volume, the estimated borrowing in 2014 declined to N571.99 billion from N577.07 billion in 2013.

Box B-4: Subsidy Re-investment & Empowerment Programme (SURE-P)

*Under the Government's regime on deregulation of the petroleum sector, the federal government's share of savings from the partial removal of subsidy on petrol is being reinvested. The reinvestment plan, known as the **S**ubsidy **R**einvestment and **E**mpowerment **P**rogramme (**SURE-P**) which was formally launched in February 2012, is designed to stimulate the economy, alleviate poverty, and improve the welfare of Nigerians. The projection indicates that about N426 billion would be saved annually. Of this, the FGN's share is projected at N180 billion. Government has continued to invest these funds into key infrastructure projects and social safety net programmes as presented in the Table B.5 below.*

The implementation of the SURE-P budget since 2012 has continued to improve. Among others, the Programme has provided resources to build social safety net schemes encapsulated in the Saving One Million Lives Programme for pregnant women and children; funded job creation initiatives such as the graduate internship scheme, public works, etc.; and funded mass transit programmes. In addition, several infrastructure projects across our nation including the Lagos-Kano, Port-Harcourt - Maiduguri railway lines and the Abuja-Lokoja road were completed or advanced through SURE-P resources.

As in the past two years, SURE-P will be allocated the estimated subsidy savings of N180 billion in 2014 augmented by the projected 2013 unspent balance of N88.37 billion, bringing the total to N268.37 billion.

Table B.5: The 2014 SURE-P Budget

S/N	MDA/PROJECTS	AMOUNT (N'Bn)
A	**MINISTRY OF NIGER DELTA**	
	ALLOCATION	**30.00**
1	AUGMENTATION FOR EAST-WEST ROAD (SECTION I-IV)	30.00
B	**FEDERAL MINISTRY OF WORKS**	
	ALLOCATION	**100.00**
1	ABUJA-LOKOJA	12.50
2	BENIN-ORE-SHAGAMU	10.00
3	KANO-MAIDUGURI DUALISATION (SECTION I-V)	12.50
4	PORTHARCOURT-ENUGU-ONITSHA	11.00
5	SECOND NIGER BRIDGE (counterpart funding)	10.00
6	OWETO BRIDGE	7.00
7	SPECIAL PRESIDENTIAL INTERVENTION	12.00
8	CALABAR-IKOM-OGOJA-KATSINA ALA ROAD	5.00
9	LAGOS-IBADAN EXPRESSWAY	20.00

Box B-4: Continued

S/N	MDA/PROJECTS	AMOUNT (N'Bn)
C	**FEDERAL MINISTRY OF TRANSPORT (RAIL)**	
	ALLOCATION	**43.00**
1	LAGOS-KANO	5.00
2	PORTHARCOURT-MAIDUGURI	16.00
3	**ABUJA-KADUNA**	
	(a) Main	12.00
	(b) Bridge/Interchange at ONEX	2.00
	(C) Right of way/Fencing work	4.00
	(D) ROLLING STOCK	2.00
4	Transport (Rail Rolling Stock)	2.00
D	**SOCIAL SAFETY NETS**	**68.67**
1	MATERNAL & CHILD HEALTH	12.05
2	NON COMMUNICABLE DISEASES (NCDS)-STROKE	0.45
3	PUBLIC WORKS FOR YOUTH	4.00
4	CSWYE (FML&P)	25.00
5	MASS TRANSIT	–
6	VOCATIONAL TRAINING CENTRES	4.00
7	CULTURE & TOURISM (Capacity Building)	0.35
8	COUNTERPART FUND FOR HIV/AIDS PROGRAMME	8.00
9	FMH-POLIO ERADICATION PROGRAMME	4.32
10	GRADUATE INTERNSHIP SCHEME (FMF)	8.00
11	NPHCDA-POLIO ERADICATION PROGRAMME	2.50
E	**SURE-PROGRAMME BOARD: consultancy and Logistics**	**1.20**
F	**MONITORING AND EVALUATION (NPC)**	**0.50**
G	**FEDERAL MINISTRY OF INFORMATION-PUBLIC ENLIGHTMENT ON SURE-P**	**2.00**
H	**FEDERAL CAPITAL TERITORY ALLOCATION**	**23.00**
1	THE ABUJA RAIL MASS TRANSIT PROJECT	10.00
2	PROVISION OF INFRASTRUCTURE AND SERVICES TO GIDAN DAYA DISTRICT FOR RESETTLEMENT OF NYANYA LABOUR CAMP, WASA AND MAMUSA WEST DISTRICTS, AND OTHER CONSTRUCTION WORKS IN FCT	13.00
	TOTAL REINVESTED FUND	**268.37**

B-5: Budget Implementation & Monitoring

The government has placed special emphasis on tracking the deliverables promised by the MDAs in recent years. The Coordinating Minister for the Economy and Honourable 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*. These reports are posted on the website of the Budget Office of the Federation on an ongoing basis.

Towards strengthening budget implementation monitoring, the Budget Office of the Federation now involves Civil Society Organizations and the Media in the monitoring exercise. This provides an independent and objective viewpoint to further enhance the Monitoring and Evaluation function of the BOF and encourage the MDAs to deliver on their promises to the Nigerian populace.

B-6: Opportunities for Stakeholder Participation

The Federal Budget is our budget and the benefits it promises are for all Nigerians. There are several ways for Nigerian citizens to participate in the Federal Budget process including, sending observations on the budget to the Budget Office of the Federation, and contributing to discussions during the budget preparation process. There are several published documents like this *Citizens' Guide* and other reports that are available on the websites of the Budget Office of the Federation and the Federal Ministry of Finance. Budget documents may be downloaded for free from the website of the Budget Office of the Federation (*www.budgetoffice.gov.ng*), or that of the Federal Ministry of Finance (*www.fmf.gov.ng*). Your comments and input may be communicated in writing to: The Director-General, Budget Office of the Federation, Federal Ministry of Finance, Central Area, PMB 251, Garki, Abuja, Nigeria or by electronic mail through *info@budgetoffice.gov.ng*.

Notes

Notes

Notes