REVENUE ALLOCATIONS REPORT
Distribution of extractive industry revenues

Revenue streams from the oil and gas sector

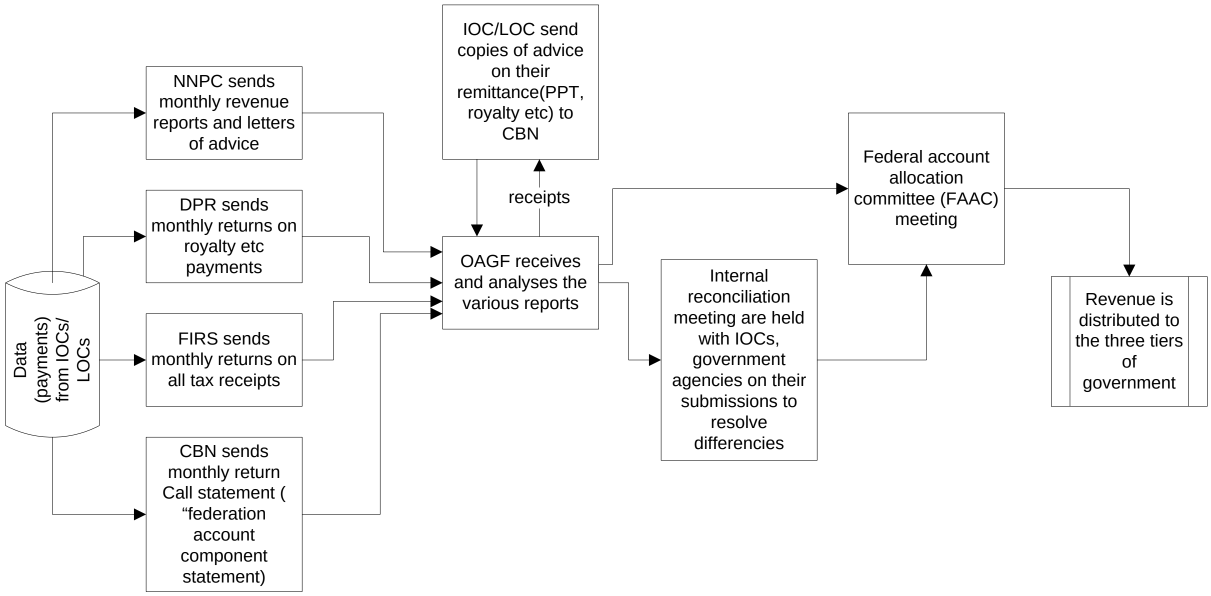
The Office of the Accountant General of the Federation (OAGF) was established for Treasury Management of Government. It has responsibility for providing adequate accounting systems and controls in the ministries, extra ministerial offices and other Arms of Government. The office also has the mandate of collating receipts and reporting on revenues of the Federal Government derived from Sec. 80(1) of the Constitution 1999 which stipulates that "All revenues or other money raised are received by the Federation (not being revenues or other moneys payable under this constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and from one Consolidated Revenue Fund of the Federation."

The Accountant- General of the Federation (OAGF) is the Chief Accounting Officer and he is charged with the constitutional role of preparing the nation's financial statements arising from collection and receipts of income, fees, rentals and taxes and payment out of the Federation Account. Accordingly Sec 85 S.5 of the Constitution provides that, "the Auditor-General shall, within ninety days of the receipts of the Accountant-General's Financial Statement, submit his reports under this section to each House of the National Assembly responsible for public accounts".

The office of the Accountant-General of the Federation (OAGF) is the executive arm of Government responsible for maintaining records for all revenues and receipt and payments into and out of the Federation Account.

The OAGF transaction recording procedures can be depicted in the diagram below:

Figure 1 - OAGF transaction recording process



The OAGF classifies revenue receipts into the Federation account into mineral and non-mineral revenue. Mineral revenues are the oil and gas specific flows which include royalty, PPT, EDT and proceeds from crude and gas sales. Non-mineral revenues are non-sector specific flows which include VAT, WHT and custom/excise duties etc. Deductions of joint venture cash calls and cost of collection to DPR are made from mineral revenue before payments are made to the Federation account.

There are several revenue streams to government from the oil and gas sector. While some revenues are paid to the Federal Government through its agencies, others are paid directly to sub-national entities. Revenues paid directly to the Federal Government include;

i. Proceeds from sale of Government Crude Oil and Gas
ii. Petroleum Profits Tax (PPT)
iii. Royalty (Oil & Gas)
iv. Signature Bonuses
v. Licenses and Concession Rental
vi. Gas Flared Penalties
vii. Companies Income Tax (CIT)
viii. Education Tax (EDT)

All revenues accruing to the Federal Government (after deductions) end up in the Federation account and forms part of revenue that is utilized in funding the national budget. This also includes revenues received in-kind. All in-kind revenues (profit oil, royalty oil and tax oil) are lifted by the NNPC on behalf of the relevant agencies or the Federation, with proceeds deposited in the relevant accounts.

Other revenue flows to sub-national entities are:

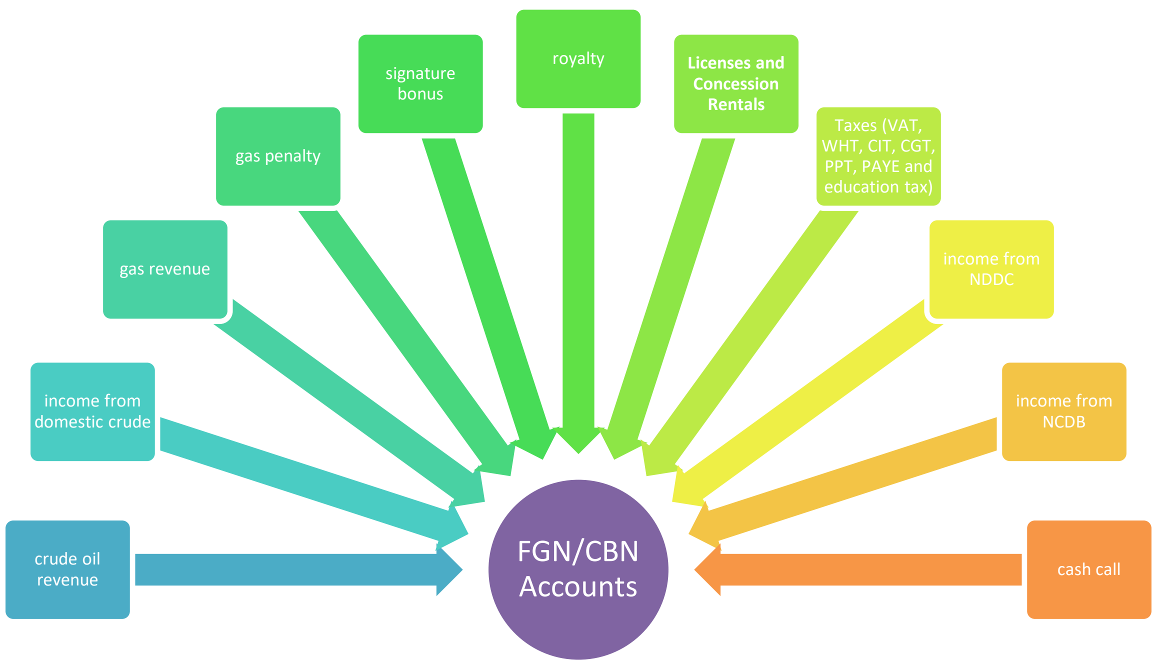
i. Niger Delta Development Commission (NDDC) Levy
ii. Nigerian Content Development and Monitoring Board (NCDMB) payments
iii. Nigerian Export Supervision Scheme (NESS) fees

These revenue streams from the sector do not flow into the Federation account. The NDDC levy, NCDMB 1% levy and NESS fess are paid directly to the NDDC, NCDMB and NESS respectively.

Financial Flows

The financial flows received by the Government from the covered entities are illustrated below:

Figure 2.0 - Financial flows



The payment flows are received from various agencies (FIRS – taxes, DPR – royalty oil and gas, signature bonuses, concession rentals, gas flare penalty, miscellaneous) and IOC's. A further description of the figure is stated below:

- **Income from domestic crude oil**
  The Income is realised from the sale of unrefined crude allocation for domestic refining. NNPC pays for domestic crude allocated in Naira at a converted export crude price using CBN exchange rate on the day of invoicing. Unrefined crude in excess capacity are sold and proceeds received into NNPC Account.

- **Federation crude oil income**
  The revenue proceeds are from the sale of crude oil and gas by the NNPC to international oil market. Proceeds are received in United States Dollar. This flow is reported by the Central Bank of Nigeria which is the receiving entity since payments are made to it on instruction of the foreign customer.

- **Taxes**
  - ***Petroleum profit tax***
    Petroleum Profit Tax is tax paid on profit generated by companies in the Upstream Sector of the oil industry. Petroleum Profit Tax is regulated by the PPT Acts of 2007. Petroleum producing operators like Joint Venture Companies, Production Sharing the Companies and other oil producers are first two statutorily required to prepare estimate of their income with the first two months and to forward the same to the Federal Inland Revenue Services. The agreed estimate of tax is payable in twelve equal monthly instalments.

  - ***Company income tax***
    Company Income Tax is tax paid on profit arising from gas operations of companies. Oil and Gas companies pay Company Income Tax in United States Dollar, on profit arising from gas operations.

  - ***Value added tax***
    This is consumption tax that is placed on a product whenever value is added at a stage of production and at the point of Sales. The rate of Value Added Tax is currently five percent (5%). Value Added Tax is paid by all covered entities in local and foreign currencies to the Federation Account with J.P. Morgan Chase Bank Domiciliary account with the Central Bank of Nigeria.

  - ***Withholding tax***
    With Holding Tax is a government requirement for the payer for an item of income to withhold or deduct tax from payment, and pay the tax to the relevant government authority, the Federal Inland Revenue Services. Withholding tax is paid by all covered entities in Naira to the State Government and in the USD to the Federation Account with the Central Bank of Nigeria.

  - ***Pay as you earn (PAYE)***

A Pay As You Earn Tax (PAYE) is a tax on Income of Employees on a monthly basis. The relevant deductions are paid by all covered entities in Naira or Dollar to the State Government to which they relate, as required by the specific State Personal Income Tax Act 2011 enactments as amended to date.

- ***Tertiary Education Tax***

  Education Tax Fund was created by an Act in the year 1993 for the funding of Tertiary Institutions in the Country. The fund is provided through Tertiary Education Tax collected by the Federal Inland Revenue Services (FIRS) in accordance to Tertiary Education Trust Fund (Establishment, etc.) Act 2011.

  Tertiary Education Tax is chargeable on assessable profit of petroleum companies at a rate of two percent (2%). The tax is an allowable deduction in computing an Exploration and Production (E&P) company adjusted profit.

- **Royalties**

  This is a regular payment from the oil companies in the Upstream to the Federal Government in return for the right of access to the crude oil. Royalty is a sum of money paid by a holder of a concession to the Federation based on the value of quantity of oil extracted at the fixed percentage from time to time by the government. Department of Petroleum Resources DPR is the government agency that receives the amount paid as royalty.

- **Signature bonus**

  The revenue is received at the time of Oil Prospecting License is given to oil company. Payments are made to the Department of Petroleum Resources DPR designated account at the Central Bank of Nigeria for the allocation of oil blocks.

- **Licenses and Concession Rentals**

  Oil and Gas companies pay concession Rentals as rent on oil blocks for which they have been granted concession. There are two categories of Rentals, which are:
  - Oil Prospecting Licenses (OPL)
  - Oil mining Lease (OML)

  The license is non-exclusive and is granted for a period of one year. It is renewable annually.

- **Funding Niger Delta Development Commission**

  The Niger Delta Development Commission is a Federal Government Agency established in the year 2000, with the sole mandate of developing the oil rich Niger Delta region of Southern Nigeria. In September 2008 the Niger Delta Ministry was formed and it became a parastatal under the ministry.

Presently, there is three percent (3%) Statutory Contribution required from upstream companies to the NDDC based on their Annual Budget. The Act establishing the NDDC provides that in addition to monies from the Federal Government, it has to be funded by annual contributions of the total budget of any oil producing company, operating on-shore and off-shore in the Niger Delta area of the country. Contributions are made in both foreign and local currencies to the commission.

- **Funding of Nigerian Content Development and Monitoring Board (NCDMB)**

  The Nigerian Content Development and Monitoring Board is the Regulatory Agency vested with the responsibility of regulating local content in the oil and gas industry in Nigeria. The Board was established by the Nigeria Oil and Gas Development Act which applies to all operators in Nigeria Oil and Gas Industry, including Exploration and Production and Services Companies.

  The board is funded by the Federal Government of Nigeria and by the Upstream Companies through remittance of one percent (1%) Statutory deductions from any contract awarded to any operator, contractors, sub-contractors alliance partners or any other entity in any project operation activity in any transactions in the upstream sector of the Industry.

- **Cash call**

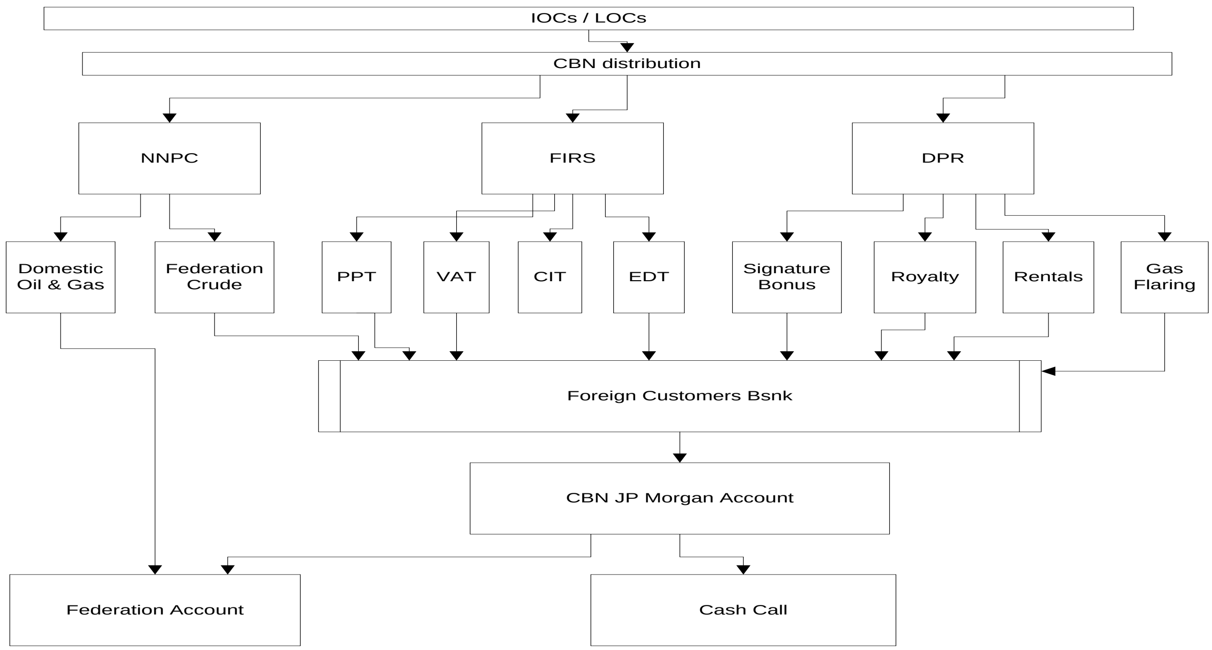
  This is cash advance payment required to be paid by each Joint Venture operating company to meet up with the cash operation requirements of the Joint Venture. The Nigeria National Petroleum Corporation pays on behalf of the Nigerian Government in its Joint Venture Agreement.

  The payment is made on monthly basis for each of the financial year. This only applies to the Joint Venture between NNPC and the Joint Venture Operators.

  Payments are made to the Joint Venture Operators both in local and foreign currencies by NNPC on behalf of the Federal Government.

  The financial transaction flows are illustrated in the diagram below.

Figure 3.0 - Financial transaction flow



3b. Subnational transfers

Overview of Federation Revenue Distribution, Management & Expenditure

Nigeria is a Federation with three federating units made up of the Federal, State and Local Governments. Federation revenue is therefore owned by the three federating units. Section 162 of the 1999 Constitution of the Federal Republic of Nigeria defines “revenue” as any income or returns accruing to or derived by the Government of the Federation from any source including;

- any receipt, however described, arising from the operation of any law;
- any return, however described, arising from or in respect of any property held by the Government of the Federation;
- any return by way of interest on loans and dividends in respect of shares or interest held by the government of the federation in any company or statutory body

Chapter 162 Section (1) states that “The Federation shall maintain a special account to be called "The Federation Account" into which shall be paid all revenues collected by the government of the Federation, except the proceeds from the Personal Income Tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or Department of Government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja”. Section (3) of the same chapter further states that "Any amount standing to the credit of the Federation Account shall be distributed among the Federal and State Governments and the Local Government Councils in each State on such terms and in such manner as may be prescribed by the National Assembly".

Every month, a Federation Account Allocation Committee (FAAC) meeting is held by agents of the Federal and State Governments. The committee is chaired by the Minister of Finance. At this meeting, revenue generated in the month is distributed among the three tiers of government, other agencies and special saving fund accounts. Revenue is shared in accordance with the vertical formula, as determined by RMAFC and approved by the National Assembly. The formula allocates 52.68%, 26.72% and 20.60% to the Federal, State and Local Governments respectively. The 52.68% to the Federal Government are paid into the Federation Account. 26.72% and 20.60% accruing to the States and Local Governments are shared among the constituents by applying factors such as equality, population; land mass, IGR and social development. 13% is deducted as a first line charge and is further shared among the oil producing States.

The agencies charged with the assessment, collection and remittance of Federation Revenue from the oil and gas sector are:

i. Nigeria National Petroleum Commission (NNPC)
ii. Department of Petroleum Resources (DPR)
iii. Federal Inland Revenue Service (FIRS)

For more details on the process of collection of federation revenue, the vertical and horizontal sharing models, see NEITI FASD Report (2007-2011).

The Management of the Oil and Gas Sector is an enormous task. The Nigeria Extractive Industries Transparency Initiative (NEITI) has the responsibility for monitoring and ensuring that all payments due to the Government from all extractive industry companies, including taxes, royalties, dividends, bonuses, penalties, levies and such other income streams from the industry, are duly made. NEITI is also charged with ensuring that all fiscal allocations and statutory disbursements of revenue from Extractive Industry (EI) sources due from the Federation Account to statutory recipients are made and properly accounted for.

Revenue Allocation

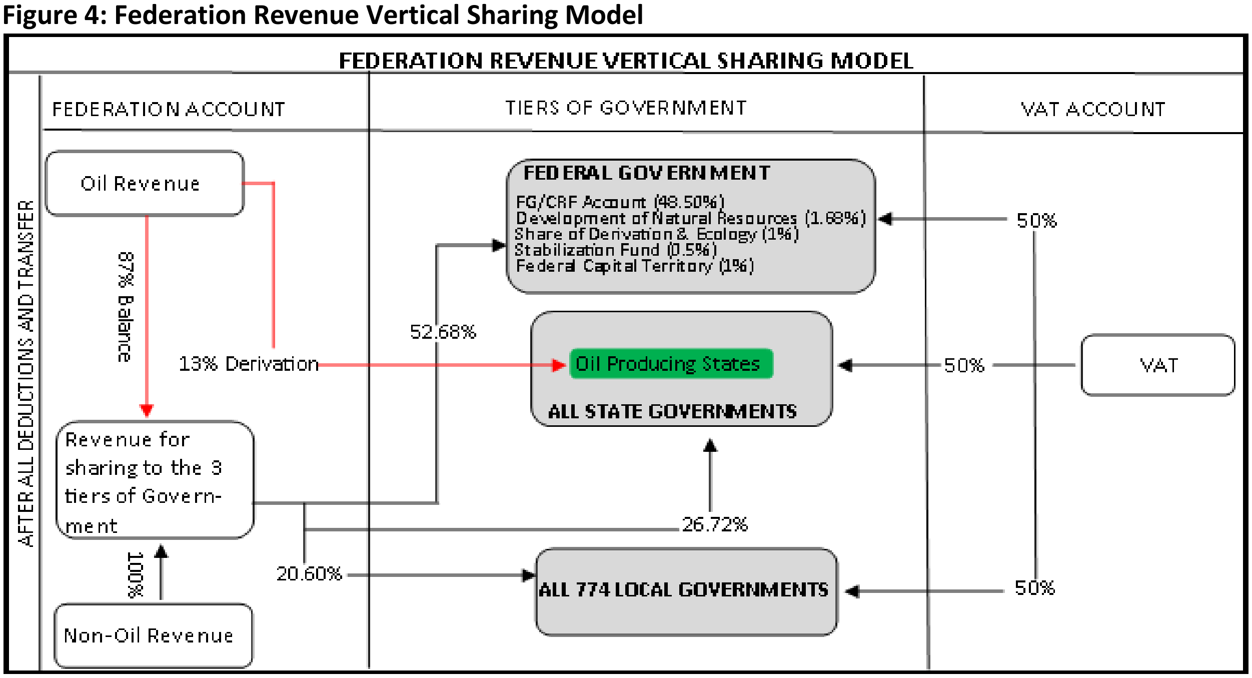
The Revenue Allocation Act provides for the distribution of federation funds. Section 1 of the Act provides that, "the amount standing to the credit of the Federation Account, less the sum equivalent to 13% of the revenue accruing to the Federation Account directly from any natural resources as a first line charge for distribution to the beneficiaries of the derivation funds in accordance with the Constitution is distributed among the Federal and State Governments and the Local Government Councils in each State of the Federation9." The current Revenue Allocation Formula and distribution of Federation Account Revenue among the three tiers of Government are;

Table 1: Revenue Allocation Formula

	%
Federal Government	52.68
State Government	26.72
Local Government Councils	20.6

Source: FAAC Committee records 2015

Figure 4: Federation Revenue Vertical Sharing Model



Source: Fiscal Allocation and Statutory Disbursement (FASD) Audit 2007-2011 Summary Report[1]

[1]NEITI FASD Report (2007-2011)

The distribution of revenue from the Oil and Gas Industry and other non-oil and gas sources is illustrated in Figure 1 above. The percentage accruable to each tier of Government (36 states and 774 Local Governments) is shared among the constituents of each tier by applying factors such as Equality, Population, Land Mass, Internally Generated Revenue, Social Development (Health, Education and Water) while the 13% derivation fund deducted as a first line charge is further shared among the Oil producing states based on the derivation principle. For more information on the formula for calculating transfers to states and local government areas (LGAs) - Allocation to state.

The subnational transfers for 11 states were reconciled in the 2007-2011 FASD report[2]. NEITI is in the process of procuring an Independent Administrator to conduct the 2012 – 2015 FASD.

Revenue Shared by FAAC in 2015

The OAGF accounts for all remittances after a credit advice for each vote head has been sent to it by the relevant agency. This advice indicates a successful transfer of collections to the Federation account. According to OAGF records, total remittances to the Federation account (less Joint Venture cash calls and cost of collection to DPR) from mineral revenue for 2015 amounted to N3.135 Trillion while non-mineral revenue (less 4% and 7% collection fees paid to both FIRS and NCS respectively) amounted to N1.381 Trillion. Total revenue shared by the three tiers of Government for the year was N4.716Trillion. See table below for details.

Table 2: Federal Account Allocation Statement for the period Jan-Dec, 2015

	Gross	Deduction	Net
Mineral Revenue	3,980,535,648,580.09	845,353,942,546.40	3,135,181,706,033.69
Non-Mineral Revenue	1,469,173,316,816.17	87,923,191,247.10	1,381,250,125,569.07
Exchange Rate Differential Revenue*	199,640,857,657.06	-	199,640,857,657.06
Total Revenue	**5,649,349,823,053.32**	**933,277,133,793.50**	**4,716,072,689,259.82**

Source: FAAC Committee records 2015

Table 3: Analysis of Distribution: Oil and Gas Revenue for the Period of January to December 2015.

[2] Insert link

Details	Rate	JAN – DEC, 2015
Amount for Distribution		**3,135,181,706,033.69**
Federal Government	52.68%	1,436,903,938,782.54
State Government	26.72%	728,816,880,111.42
Local Government	20.60%	561,887,265,355.36
Derivation (13% Of Mineral Revenue)	13.00%	407,573,621,784.38
Total		**3,135,181,706,033.69**

Source: Office of the Accountant-General of the Federation

Table 4: Analysis of Distribution: Non-Oil and Gas Revenue for the Period of January to December 2015

Details	Rate	JAN- DEC, 2015
Amount for Distribution		**1,381,250,125,569.07**
Federal Government	15.00%	207,187,518,835.36
State Governement	50.00%	690,625,062,784.54
Local Government	35.00%	483,437,543,949.17
Total		**1,381,250,125,569.07**

Source: Office of the Accountant-General of the Federation

Table 5: Analysis of Distribution: Oil and Gas/Non- Oil and Gas Revenue for the Period of January to December, 2015

Details		JAN – DEC, 2015
Amount for Distribution		**4,716,072,689,259.82**
Federal Government		1,644,091,457,617.90
State Governement		1,419,441,942,895.95
Local Government		1,045,324,809,304.53
Derivation (13% Of Mineral Revenue)		407,573,621,784.38
Exchange Differential		199,640,857,657.06
Total		**4,716,072,689,259.82**

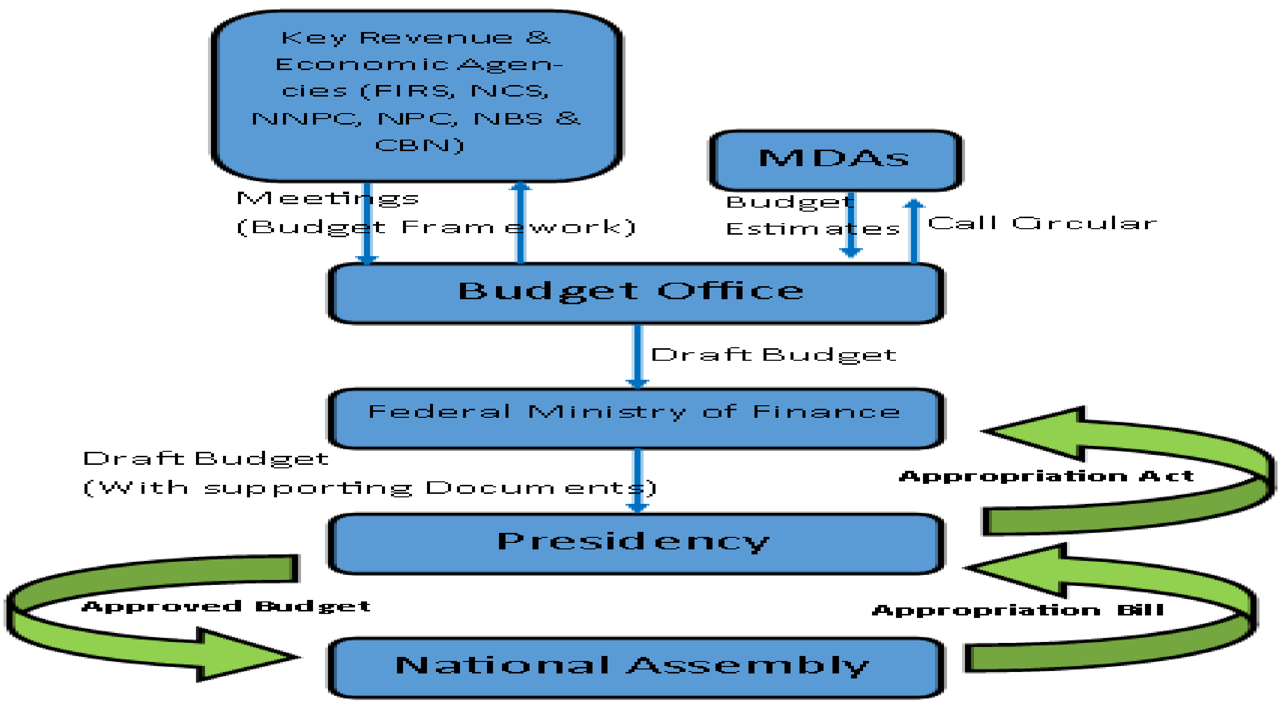
Source: Office of the Accountant-General of the Federation

3c. Revenue management and expenditures

The budgeting process of the FGN

The budgeting process of the FGN is initiated by the Ministry of Budget and National Planning (after consultation with the key revenue generating agencies and key economic agencies) vide a budget call circular to all Ministries, Departments and Agencies of the Federal Government. The Nigerian Government is currently in the process of preparing a proposal for the 2018 fiscal year. The call circular was issued on the 11th of August 2017[3] and sets out the requirements that must be satisfied in the preparation of the 2018 FGN budget proposal. All submissions by the MDAs are then evaluated and consolidated as a draft budget proposal by the Budget Office of the Federation under the supervision of the Ministry of Budget and National Planning. The draft budget proposal along with all supporting documents is then submitted to the President for approval. The President then makes a formal presentation to a joint session of the National Assembly for consideration and appropriation. The two arms of the legislature separately consider and harmonize the draft budget and thereafter approves separately, after which it is presented as the Appropriation Bill to the President for assent. Once the President assents to the Appropriation Bill, it becomes an Act of parliament passed into law. The budgeting circle is shown in the flow diagram below.

Figure 5.0 – Simplified Budget Circle



For more on the Budget process, a copy of the 2018 Budget Call Circular and other related details, visit [www.budgetoffice.gov.ng.](http://www.budgetoffice.gov.ng)

[3] 2018 Budget Call Circular, http://www.budgetoffice.gov.ng/index.php/2018-budget-call-circular