

Development of Natural Resources 2007 - 2011



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1 Introduction

1.1 Revenue Allocation Arrangement

In July 2002, the ‘**Modification Order 2002**’ provided for distribution of Federation revenue as follows:

- FGN 54.68%,
- States 24.72%,
- LGAs 20.60% and
- Derivation 13% (Mineral revenue only).

The breakdown of the Federal Government share is as follows: FGN **48.5%**, FCT **1%**, FGN share of derivation and Ecology **1.46%**, Stabilization Fund **0.72%** and the development of minerals **3%**.

This **Order** was adjusted in January 2004 giving birth to the existing revenue allocation formula of FGN **52.68%**, States **26.72%**, LGAs **20.60%** and derivation **13%** for mineral resource only. Again, the breakdown for the Federal Government share is FGN **48.5%**, FCT **1%**, FGN share of derivation and Ecology **1%**, Stabilization Fund **0.50%** while Development of Natural Resources is **1.68%**.

The **1.46%** FGN share of Derivation and Ecology was created following the Supreme Court ruling on the resource control case in April 2002 stating that the Ecology and derivation Funds were illegal. Prior to that judgment, **2%** of the total Federation Account was provided for the amelioration of ecological problems in part of the country and 1% for the derivation. Therefore to comply with the ruling of the Supreme Court, the 2% Ecology Fund and 1% Derivation were distributed as follows: FGN 1.46%; States 0.72%; LGAs 0.60%. The shares of the States and LGAs were added to their allocations. With the adjustments in January 2004, the FGN share was reduced to 1% and it is paid into a Fund administered by the Federal government but it is still being used for amelioration of derivation and ecological problems in any part of the country in accordance with such directions as may be issued in that behalf by the president from time to time.

In the **2002 Order**, 0.72% was allocated for Stabilization Fund but adjusted in January 2004 to 0.50%. The allocation is added to the FGN share and held in trust for all beneficiaries for unforeseen emergencies. The 3% allocated for the development of natural resources in the 2002 Order was also adjusted in January 2004 to 1.68%. The allocation is for the exclusive management of the FGN to develop alternative sources of revenue for the nation as may be directed by the President.

The Natural Resources Development Account was established to develop alternative mineral resources. The drive was to reduce the reliance of the Nigeria economy on petroleum. The account was set up to develop the alternative natural resources in each state of the Federation.

1.2 Work Methodology

The objective of the validation work on Development of Natural Resources Fund was to confirm that:

- Revenue allocated to the Fund was in accordance with the regulations setting up the Fund.
- All Revenue allocated to the Development of Natural Resources Fund was credited to the Funds account maintained with the Central Bank of Nigeria.

- The utilisation of the Fund was made in accordance with the regulations setting up the Fund.

Steps taken include:

1. The monthly statutory revenue due to the Fund based on 1.68% of Federation revenue was computed.
2. The figures obtained in Step 1 above was compared with the schedule of monthly Revenue Allocation by Federation Account Allocation Committee obtained from the Office of Accountant General of the Federation (OAGF) for the period under review.
3. The monthly allocations were traced to the Development of Natural Resources account 20054141328 statements domiciled with the Central bank of Nigeria.
4. All disbursements from the account were checked to verify the actual purpose and beneficiaries of the Fund.
5. Disbursements from the account that were found to be non-compliant with the purpose of setting up the Fund were identified and reported.
6. The account was reconciled to determine the balance as at the end of the period and the outstanding balance due to the Fund.

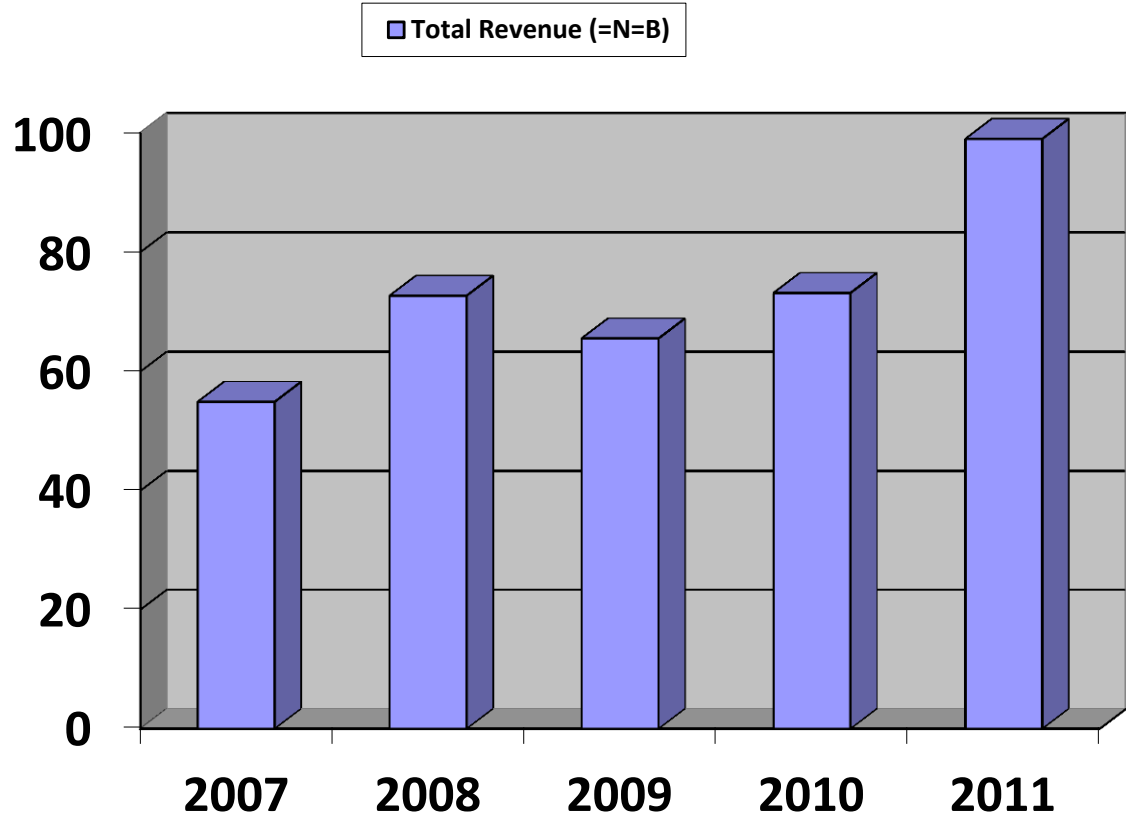
2 Revenue

As stated earlier, in January 2004 the disbursement to the Fund was reduced from 3% to 1.68% of the FGN share of allocation of the Federation Account. A review of financial records showed that total Fund allocated to the Fund during the period under review was ₦365 billion as shown in the table below:

Table 1: Transfers from the Federation Account to Development of Natural Resources Fund

	2007	2008	2009	2010	2011	Total
	₦m	₦m	₦m	₦m	₦m	₦m
Jan	3,034	3,981	5,851	4,839	5,398	23,103
Feb	3,414	3,599	3,564	6,494	5,382	22,452
Mar	6,640	7,115	5,045	4,440	5,368	28,608
Apr	4,354	5,925	5,959	3,480	5,381	25,098
May	4,355	10,449	4,241	10,205	6,103	35,353
Jun	4,362	5,901	4,249	5,321	8,154	27,987
Jul	5,836	6,130	4,280	5,367	15,258	36,872
Aug	5,128	5,925	9,157	8,893	8,227	37,330
Sep	4,375	5,930	4,580	5,770	8,254	28,909
Oct	4,388	5,908	8,969	5,413	9,327	34,005
Nov	4,375	5,922	4,684	5,401	13,877	34,259
Dec	4,671	5,932	4,979	7,571	8,182	31,335
	54,932	72,717	65,558	73,194	98,911	365,312

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011, Summary of Gross Revenue Allocation by Federation Account Allocation Committee for the 2007 to 2011 and OAGF 3.00% FGN Development of Natural Resources Ledger



Trends in allocation to Development of Natural Resources Fund from 2007 to 2011

From the chart above, the sum of ₦55 billion was allocated to the Fund in 2007, the allocation increased to ₦73 billion in 2008, an increase of 32%. The revenue decreased to ₦66 billion (by 10.9%) in 2009, increased to ₦73 billion (by 12%) in 2010 in 2011, allocation to the Fund was ₦99 billion, an increase of 35.6% over the preceding year.

2.1 Revenue Distribution by Sources

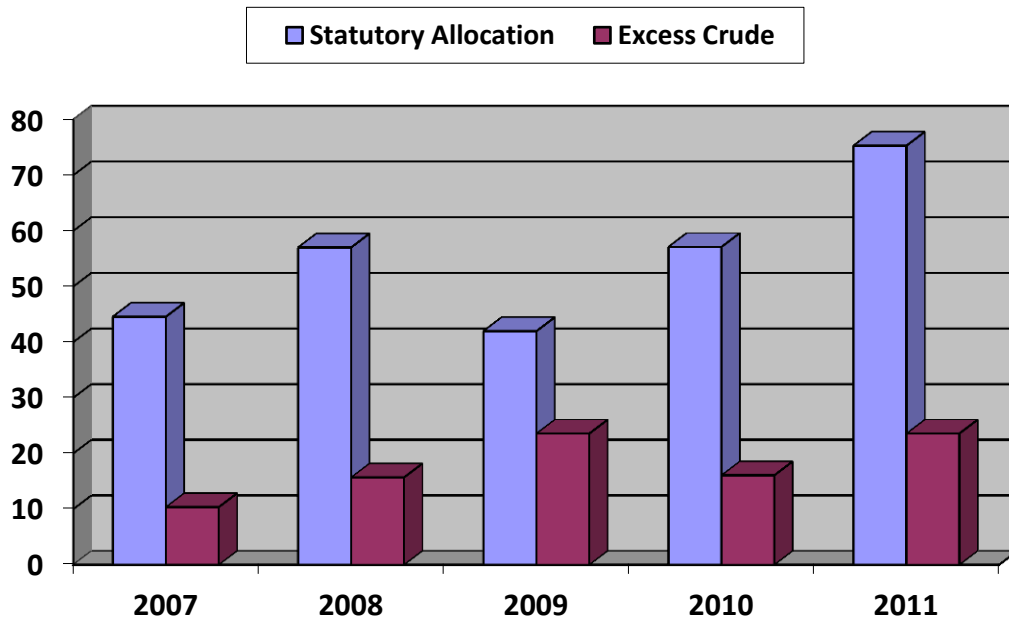
The source of revenue allocated to the Fund was a combination of Statutory Allocation and Excess Crude Allocation. This is shown in the table below:

Table 2: Statutory and Excess Crude Allocations

	2007		2008		2009		2010		2011		Total	
	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude
	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m
Jan	3,034	-	3,981	-	4,511	1,340	3,498	1,341	5,163	235	20,187	2,915
Feb	3,414	-	3,599	-	3,564	-	4,188	2,306	5,216	165	19,981	2,471
Mar	3,640	3,000	3,718	3,398	3,176	1,869	3,363	1,077	5,251	117	19,148	9,461
Apr	3,449	905	5,925	-	2,973	2,986	3,480	-	5,271	110	21,098	4,001

	2007		2008		2009		2010		2011		Total	
	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude	Stat. All.	Excess Crude
	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m	₦m
May	2,922	1,433	4,906	5,543	2,914	1,327	5,241	4,964	4,596	1,507	20,579	14,774
Jun	3,346	1,016	4,617	1,284	3,767	482	4,989	332	5,773	2,381	22,492	5,495
Jul	3,935	1,902	6,130	-	3,872	407	5,367	-	6,981	8,277	26,285	10,586
Aug	4,397	731	4,774	1,150	3,893	5,263	5,364	3,529	7,987	240	26,415	10,913
Sep	4,330	45	5,471	459	2,997	1,583	5,408	362	8,254	-	26,460	2,449
Oct	3,443	945	4,859	1,049	3,535	5,434	5,413	-	8,205	1,122	25,455	8,550
Nov	3,989	387	4,669	1,252	2,508	2,176	5,401	-	6,545	7,332	23,112	11,147
Dec	4,671	-	4,372	1,560	4,268	711	5,405	2,166	6,082	2,100	24,798	6,537
	44,570	10,364	57,021	15,697	41,978	23,578	57,118	16,077	75,324	23,586	276,012	89,301

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011, Summary of Gross Revenue Allocation by Federation Account Allocation Committee for the 2007 to 2011 and OAGF 3.00% FGN Development of Natural Resources Ledger



Total allocation to the Fund from Statutory allocation for the years under review was ₦276 billion representing 76% of total allocation while allocation from the Excess crude Account was ₦89 billion representing 24% of total allocation to the Fund.

3 Fund Utilisation from 2007 to 2011

A review of the operations of the Fund from 2007 to 2011 showed that the proceeds were not utilised for the purpose for which the Fund was established. Rather, it served as a borrowing Fund for the Federal Government to meet its obligations. The Federal Government obligations financed through loan from the Fund include:

1. Servicing of budget deficits
2. Release of Fund for Fertiliser procurement
3. Release of Fund to Ministry of Agriculture
4. Release of Fund to Ministry of Water Resources, monetisation arrears for PHCN Staff, and to PENCOS for the purchase of Head office

3.1 Release of Funds for servicing of budget deficits

Between 2007 and 2011, the sum of ₦275, 000,000,000 was released as loan from the Development of Natural Resources Fund to finance budgets deficits as shown in the table below:

Although letters have been written to Federal Ministry of Finance to confirm the receipt of these Funds but as at the time of writing this report, no response has been received

Table 3: Release of Fund for servicing of budget deficits

DATE	PURPOSE	₦
05/01/2007	Loan: Released to Federal Ministry of Works against 2007 Appropriation for the dualisation of Abuja- Lokoja Road and dualisation of Kano-Maiduguri etc Road FD/FA/124/VOL.II/341/DRF	20,000,000,000
26/01/2007	Loan: Released to Federal Ministry of Works against 2007 Appropriation for the dualisation of East - West Roads. FD/FA/114/VOL.II/34/DRF	15,000,000,000
15/05/2007	Being Released From 3.0% FGN Dev Natural Resources into 2007 Budget To Finance 2nd Qtr Cap Warrant B/O OAGF FD/FA/VOL.III/54/DRF DD 15/05/2007	100,000,000,000
19/10/2009	Being Transfer of Funds from 3% FGN Share Of Nat. Res. into Crf B/OAGF. Funding Of 2009 Supplementary Budget Fd/Fa/124/Vol.V/193/Df	50,000,000,000
7/9/2010	Released to the Consolidated Revenue Fund (CRF) as loan to accelerate capital budget releases and be refunded from proceeds of domestic borrowing between July and December, 2010 vide letter Ref.No.PRES/87/MF/111 of 16th August, 2010. FD/FA/124/VOL.VIII/58/DF	70,000,000,000
30/03/2011	Part of N93,246,426,000.00 which approved by Mr. President to be borrowed & advanced to States & Local Governments to meet shortfalls in their revenue since the beginning of the Year (2011). FD/FA/124/VOL.IX/45/DX	20,000,000,000
	Total	275,000,000,000

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011 and OAGF 3.00% FGN Development of Natural Resources Ledger

3.2 Release of Funds for Fertiliser Procurement

The sum of **₦94, 836,298,921** was released from the Fund between 2007 and 2011 to Fertilizer Revolving Account as stated in the table below. Within the same period, the refund made to the account by various state governments on procurement of fertilizer was **₦66, 089,822,502**.

However, due to timelimitations of this audit assignment, it could not be determined whether the refunds made to the fund were for 2007 to 2011 release or for the prior years. The table below shows the details of release of Funds for fertilizer procurement during the years under review.

Letters have been written to the Federal Ministry of Agriculture to confirm the receipt of these Funds but as at the time of writing this report, no response has been received.

Table 4: Release of Fund for Fertiliser Procurement

DATE	PURPOSE	₦
24/12/2008	Loan approved by Mr. President to offset outstanding liabilities of '08 season fertilizer supplies and to repay back all affected States in four instalments starting Jan'09. FD/FA/124/VOL.III/188	21,898,355,627
13/11/2009	Loan to settle liabilities of 2009 season fertilizer supplies FD/FA/124/VOL.V/232	27,808,087,500
19/10/2010	Release to Fund the fertilizer revolving A/c for the supply of the fertilizers for the 2010 farming Season vide letter ref.no.PRES/95/MARD/13/87/MF/99 FDE/FA/124/VOL.VII/183/DF	10,727,500,000
21/01/2011	Being Amount due for reimbursement of fertilizer supplied form the total amount approved by Mr President vide letter Ref.no PRES/95/MARD/6/87/MF/76 of 7th June,2010 FD/FA/124/VOL.VIII/87/DF	983,383,106
14/02/2011	Being the approved loan to Fund the fertilizer supplies for 2010 farming season vide letter ref.no PRES/95/MARD/13/87/MF of 2nd Aug.2011F. FD/FA/124/VOL.VIII/310/DF	15,240,412,500
3/6/2011	Part of N89.319 billion approved by Mr. President as loan from 3.0% to Fund the fertilizer supplies for the 2010 farming season. FD/FA/124/VOL. IX/129/DF	16,122,787,500
10/10/2011	Being the approved loan to Fund the fertilizer supplies for 2010 farming season vide letter ref.no PRES/95/MARD/13/87/MF/99 of 5th Sept.2011 FD/FA/124/VOL.IX/276/DF	2,055,772,688
		94,836,298,921

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011 and OAGF 3.00% FGN Development of Natural Resources Ledger.

3.3 Release of Fund to Ministry of Agriculture

The sum of **₦106, 185,950,000** was released from the Development of Natural Resources Fund to the Ministry of Agriculture as depicted in the table below:

Also, a letter written to this effect to the Federal Ministry of Agriculture to confirm the receipt of these Funds is yet to be responded to as at the time of compiling this report.

Table 5: Release of Fund to Ministry of Agriculture

Date	Purpose	Amount
25/09/2009	Released for implementation of 2009 Agriculture and Food Security programmes 1st payment. FD/FA/124/VOL.V/128/DF	95,185,950,000
31/08/2009	Released for implementation of 2009 Agriculture and Food Security programmes 2 nd payment. FD/FA/124/VOL.V/162/DF	1,000,000,000
01/02/2010	Released to Federal Ministry of Agriculture & Water Resources, for the implementation of 2009 Agriculture and Food Security amount approved by Mr. President vide SH/PSP/08/578 of 14th August, 2009. FD/FA/124/VOL.V/285/DF	10,000,000,000
		106,185,950,000

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011 and OAGF 3.00% FGN Development of Natural Resources Ledger

3.4 Others

The Details of other Funds released from the Development of Natural Resources Fund during the period under review amounted to ₦63,488,085,669 and is tabulated below:

Letters have been written to the relevant agencies to confirm the receipt of these Funds but as at the time of writing this report, no response has been received.

Table 6: Other Releases from the Fund

DATE	PURPOSE	₦
05/01/2007	Being Release of Funds to the National Pension Commission for the Purchase Of New Head Office Building VIDE AGF LT DD 27/12/06. FD/FA/124/VOL.II/342	350,000,000
13/12/2007	Being Release of Fund to MOFI As FGN's Equity Shares In IDP & ACGSFB/O AGF. FD/FA/124/VOL.III/99/DF	1,950,000,000
24/01/2007	Loan: Released to Messrs A. G. Siemens Ltd against 2007 Appropriation for the establishment of 3 x 157MW (471 MW) Power Plant at Geregu, Lokoja. FD/RS/31/VOL.II/29/DRF	2,100,000,000
10/8/2010	Released to CRF as loan to pay the balance of monetization arrears due to PHCN staff to be refunded through FGN bond floated for this purpose.	57,588,085,669
4/3/2011	Released for control of Trans-boundary Pests for the 2010 National Pest Control Programme FD/FA/124/VOL.IX/25/DF	1,500,000,000
		63,488,085,669

SOURCES: CBN Development of Natural Resources account 20054141328 statement from 2007 to 2011 and AOGF 3.00% FGN Development of Natural Resources Ledger

4 Account Balance

The account balance as reported in the account statement as at 23 December 2011 was ₦108,138,781,261.81 (One Hundred and Eight billion, Seven hundred and Thirty-Eight million, Seven hundred and eighty one thousand, Two hundred and sixty-one naira, eighty-one kobo).

4.1 Account Reconciliation

A reconciliation of the bank statement from 2007 to 2009 shows the result below:

Table 7: Reconciliation of Account Balances 2007 - 2009

ITEMS	₦
Opening Balance as at January 4, 2007	81,879,691,582.48
Add: Inflow during the period under review (2007 to 2011)	365,311,823,281.17
Expected Balance	447,191,514,863.65
Less: Balance as at December 23, 2011	108,138,781,261.81
Outstanding Balance from FGN for 2007 to 2011 (withdrawals only)	339,052,733,601.84

From the table above, the opening balance on the account as at January 4, 2007 was ₦82 billion, total inflow into the account from 2007 to 2011 was ₦365 billion, therefore the expected balance as at December 23, 2011 was ₦447 billion. This is the expected balance because during the period under review, the Fund was not utilised for the purpose for which it was established.

By computation from this audit, the outstanding balance from the Federal Government to the Fund from 2007 to 2011 was ₦339 billion.

5 Recommendations

5.1 Observation

- In the course of the audit, it was observed that some refunds (N66, 089,822,502) were made by State Governments based on loans received for agricultural programmes. However, it was impossible to verify the particular loans that were being repaid as the account is a revolving account and the source documents of loan disbursement were not made available to the audit team.

5.2 Recommendations

1. The Natural Resources Development Account was established to develop alternative natural resources in each state of the Federation. The drive was to reduce the reliance of the Nigeria economy on petroleum. However, our audit revealed that disbursements were made to MDAs for various expenditures outside the purpose of setting up the fund. As such, we recommend a comprehensive audit of the fund to ensure transparency in its administration and application. This audit should be carried out on transactions from inception of the fund to date.