THE GOVERNMENT OF CROSS RIVER STATE

CRS FISCAL STRATEGY PAPER

2020-2022

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FORWARD

Fiscal Strategy Paper is a high level policy document which is represented in figures. Cross River has made two attempts to draw up fiscal strategy paper for the State but because of some circumstances it has never been used for reporting budget.

FSP - 2013 - 2016

FSP - 2017 - 2019

Government strategy is to raise revenue in such a way that meet its objective and to ration expenditure according to available fund.

This paper covers from background to global overview of economy to historical threat, to the final picture of fiscal update and assumption. The key points and recommendations are like a conclusion.

ACRONYMS

CONSOL	-	Consolidated
CRHA	-	Cross River State Assembly
CSO	-	Civil Society Organization
MDO	-	Debt Management Office
GDP	-	Gross Domestic Product
HIV	-	Human Immune Virus
MEDA	-	Microfinance Enterprise Development Agency
IGR	-	Internally Generated Revenue
IRS	-	Internal Revenue Service
LGC	-	Local Government Council
MDA	-	Ministry, Department and Agency
MTEF	-	Medium Term Expenditure Framework
MTBF	-	Medium Term Budgetary Framework
MTFF	-	Medium Term Fiscal Framework
MTRF	-	Medium Term Revenue Framework
MTSS	-	Medium Term Sector Strategy
VAT	-	Value Added Tax

INTRODUCTION

In the time past, State Government focus more on the policies of social needs, good governance, security of the people; generally state policies thrust were based on the well-being of its citizen. Today due to the growth of contemporary market economy, the states are now diving into facilitating the economic competitiveness of this new economy expectations. Such expectations are centre on investment portfolios:- Industrialization, Agricultural advancement and expansion, Agro-Industrialization and infrastructural development.

Let's but mention a few policies changes:

(a) **Agricultural advancement and Agro-Industrialization**:

It on records that in those past periods, the state government cannot indulge into Agricultural advancement and Agro-Industrialization. Such were the policies of the Regional and Federal Government – Rubber Plantations, Palm Plantations and Cocoa Plantations. The States were concern with Agricultural Extension Policies.

In fact, individuals in Small Scale and Corporate Bodies were the ones who competed with either Regional or Federal Governments.

Let's take for instance an encouraging example from Cross River under Governor Ayade, the State today assumes an Agro-Industrialization and food dimensions – Rice processing, Cocoa processing and Beverage factory. In Industrialization, the State now owns a Pharmaceutical and Power Plant which was hitherto a Federal Government concern. I like to emphasize here that this new economy policies involve huge capital investment and spending which ordinarily, a Nigerian state except the oil producing state cannot afford. It is not affordable because of the paucity of funds which cannot even cover the expenditure on the necessity of state governments.From the foregoing, the state has no choice than to develop a policy of fiscal strategy paper. This document guards the projections of state fund as against the expenditure and payment of debt and debt re-scheduling. A good example of debt-reschedule which Cross River State has to being in the bond market and through capitalization, or sales of debt, good example is Tinapa Business Resort whose debt was bought by AMCON.

The fiscal strategy policy will therefore uses the tools of MTRF, MTEFin strategizing Investment, Expenditure and Funding. It records the projections of the future based on the experience of the past.

I.A1 Budget Process

Budget cycle in a fiscal year describes the budget process. This process is based on MTEF process which has three components as:

(i) Medium Term Fiscal Framework (MTEF)
(ii) Medium Term Budget Framework (MTBF)
(iii) Medium Term Sector Strategies (MTSS)

It beings with the preparation, Execution, Control, Monitoring and Evaluation and so on.

I.A2 Summary of Document Content

In the production of a combined Economic and Fiscal update (EFU). Fiscal Strategy Paper (FSP) and Budget Policy statement (BPS) is the very first step in the budget preparation cycle for Cross River State Government.

The purpose of this document which is three fold is as follows:

(i) To provide a backward looking summary of key economic and fiscal trends that will affect the public expenditure in the future
(ii) It sets out medium term fiscal objectives and target which includes tax policy, revenue mobilization, level of public expenditure, deficit financing and public debt
(iii) Provide indicative sector envelops for the period 2020 – 2022 which constitute MTBR.

It also includes:

(i) Overview of global (selected countries) and State Economic performance

(ii) Trend in budget performance over some past years.

Finally, FSP is an important element in the Cross River Government Medium Term Expenditure Framework and annual budget processes to determine the resources available to fund Governments growth, poverty reduction programme and general expenditure both recurrent and capital.

I.A3 **Preparation and Audience**

The main aim of this document is to provide and as information, the 2020 – 2022 budget preparation cycle for all key stakeholders:-

- State House of Assembly
- State Executive Council (Exco)
- Ministry of Finance
- Economic Planning Department
- All Government Ministries, Departments and Agencies (MDAs)
- Civil Society

For Cross River the budget is prepare within the three quarters of a year prior to annual budget operational year (January to September).

1.B BACKGROUND

The 2020 – 2022 Cross River State Fiscal Strategy Paper is the third since the political dispensation.

The first was within the period of 2013 – 2016 which was published, while the second was 2017 – 2020 but was not published due to some discrepancies. The 2013 – 2016 was during the administration of Senator LiyelImoke while the 2017 – 2020 was during the administration of Sir Ben Ayade. It is a high level fiscal policy that guides the preparation of annual budget including of MTEF.

As best practice FSP requires the State Government to report on the successes and failure of past policies especially when one consider it impact on the State economy growth. The purpose and significance of Cross River State FSP is to provide a roadmap on how to deliver on Government development agenda which is done by managing available resources. It gives a direction for better public service as against financial constraints.

1.B1 **LEGISLATURE AND INSTITUTIONAL ARRANGEMENT FOR PFM**

Legislature framework for PFM in Cross River State.

All Public Financial Management Policies in Cross River State are back up with laws from the State House of Assembly.This paper concentration will be on laws affecting Public Finance Management with regard to IRS Budget, BPPP and Tourism

1. **STATE RESERVE FUND LAW NO 7 (2006) AS AMENDED**

   A Law to establish a Reserve Fund for the State and Local Government Councils for future use especially when there is economy depression or contraction. The law stipulates the payment of N50,000,000 monthly from State Funds, while each of the Councils pay N1,000,000 monthly.

2. **PUBLIC FINANCE MANAGEMENT LAW NO 12 (2011)**

   This law regulates financial management of all arms of government to ensure that revenue, expenditure, assets and liabilities are sustainably and efficiently ascertain the responsibility of persons entrusted with financial management.

3. **FISCAL RESPONSIBILITY LAW NO 13 (2011)**

   A law to provide for the prudent, sustainable, transparent and accountable management of financial resources of Cross River State. The law established Fiscal Responsibility Commission and also prescribe Budget Matters.

4. **PUBLIC PROCUREMENT LAW NO 15 (2011)**

   A law to establish the Cross River State Due Process and price Intelligence Bureau for Public Procurement and related matters.

5. **PUBLIC, PRIVATE PARTNERSHIP LAW NO 6 (2010)**

   A law to establish the Cross River Public Partnership Council to facilitate and regulates partnership between Government and Public and partnership and other related matters.

6. STATE PLANNING COMMISSION LAW NO 3 (2004), AMENDMENT LAW NO. 14 VOL. 40 (2007).

A law for the establishment of Cross River State Planning Commission and for matters connected therewith.

INSTITUTIONAL MANAGEMENT

During the second tenure administration of Governor Ayade, the structure of government increase tremendously. Ministries, Departments and Agencies increase astronomically. The total MDAs are 270; Commissioners are 39 (Thirty-Nine), but the MDAs seriously engage in PFM activities are as stated below:

- Ministry of Finance
- Office of Accountant General
- Internal Revenue Service
- Debt Management Department
- Department of Budget Monitoring & Evaluation
- State Auditor General
- State Planning Commission

The Ministries, Departments and Commission listed above is the state Economic Team.

- **Ministry of Finance**.

  The Commissioner for Finance is the Chairman of the State Economic Team while the Ministry itself is the head of Finance Cluster. The ministry gives a roadmap concerning state finances. In fact, all loans, investment portfolio memoranda are co-signed with him. In the State unlike the Federal Finance Ministries, Budget department and State Planning Commission are not summed in the ministry rather there are a department and Commission on their own respectfully. But the control and headship is with the Finance Ministry.

- **The Office of Accountant General**

  All functions concern with treasury which include expenditure management, revenue collection, accounts balancing. In fact, all returns revenue from MDAs are made to the Accountant General Office. Although, the office of Accountant

General pays all expenditure to the various MDAs; the MDAs in turn are require to submit monthly returns to this office. This process is carried out to enable the office exercise its function of end of year balancing, reconciling and bringing up the end of year financials and state accounts which the State Auditor-General confirms.

- **Internal Revenue Service**

  This office is chief host for State internal generation revenue. It determines the revenue to be collected by the MDAs and those in its direct control for collection. State Internal Revenue Service work closely with the Joint Tax Board. Joint Tax Board is the body that is saddle with responsibility of tax policies, tax reforms and tax treatise.

- **Debt Management Department**

  This is a department within the State ministry of Finance. It is manage by Special Adviser as Political head and a Civil Servant in the rank of Director, but all report to the Finance Commissioner. The department manages the debt portfolio of the State and renders returns to the Federal Debt Management Office (DMO).

- **Department of Budget Monitoring and Evaluation**

  This department is saddle with the responsibilities of preparing State yearly budget. Its monitors MDAs with regards to budget implementation directives and laws. It does the evaluation of budget projects and programmes with regards to expenditure on all state projects. Budget Office in collaboration with MDAs defend MDAs budget in the House of Assembly. It is the duty of Budget Office to present draft budget to the State Executive Council. It organizes Budget Forum for both MDAs Revenue and Expenditure and Citizen Budget. All MDAs render returns of revenue and expenditure to Budget Office which enable the office carry out quarterly and yearly Budget Performance.

- **State Auditor General's Office**

  All Internal Auditors to MDAs are under direct control of State Auditor- General. This office is regarded as the Final Bus Stop apart from the House of Assembly for budget implementation which is done by auditing MDAs. It confirms

Accountant-General Financial Statements and submits report to the House of Assembly.

- **State Planning Commission**

  The Chairman is Chief Economic Adviser to the Governor. It has the responsibility of preparing development plans – long term, medium term and short term. The Commission galvanizes all MDAs Clusters for economic growth of the State. The Chairman of the Commission is the Vice Chairman to the Governor as far as economic matters are concern.

OVERVIEW OF BUDGET CALENDAR

S/N	STAGE	DATE	RESPONSIBILITY
1.	Issuance of Budget call Circular	Ending of June to 1st Week of July of every year.	Department of Budget has this responsibility
2.	Submission of MDAs draft budget to budget office for scrutiny and collection	Month of August	MDAs (Ministries, Departments & Agencies)
3.	MDAs Budget defend with Budget Office	From the month of September to 1st Week of October	State Economic Team, Budget Office Internal Revenue Service
4.	Draft Budget submitted to State Exco and amendment carryout after Exco deliberation.	Second week of October every year	Exco deliberation and passage of draft budget law.
5.	Organize Citizen Budget Forum	Either Second or Third Week of October	Budget Office Organise Budget Forum, invite NGOs, chiefs, opinion leaders, students and the executive of venerable
6.	Amendment of the Budget	Third week of October	Budget Office carryout amendment after the Forum.
7.	Present draft Budget to the State House of Assembly by Governor	Before or on the 30th of October	Budget Office
8.	Scrutinizing and passages of the years Appropriation Law	First week of November to last week of December	House of Assembly, Budget Office and MDAs.
9.	Pass the Appropriation Law	On or before 30thof December	House of Assembly
10.	Signing of Appropriation Law	By 31st December	The State Governor

11.	Issuance of Warrant to Accountant General	First week of every January	Either the Governor or delegated powers to Commissioner of Finance
12.	Budget Monitoring and evaluation	Every first to second week of alter a quarter	Budget Office
13.	Budget performance	Every 28 days after a quarter	Budget Office

2.A ECONOMIC AND FISCAL UPDATE

2.A1 GLOBAL ECONOMY

My opinion in dealing with economic overview visa viz global economic is to select the economy of United States of America, united Kingdoms, United Arab Emirates and African Economy. This school of thought believe that it will be more accurate representation of the '**world-divide'** - North and South America, Europe, Asia and Africa economy.

Our knowledge of elementary statistics tells us that in the consideration of many things like global economy which is a set, a sub-set has a better and more accurate representation of the set. This means that picking a set of USA, UK, United Arab Emirate and African economy from the countries of the world (set) according to the 'divide', it would have a better understanding and accurate economy analysis.

(a) United States of America

This countries practice a highly developed mixed economy. Though one of the most populous country in the world and has the world's largest economy by nominal GDP and net wealth. Again, its economy is the second largest as regards to purchasing power parity (PPP). It has the world's eighth largest per capita GDP and the tenth highest per capita (PPP) in 2019.

The USA economy is driving by technology, thus it firms are near the foregoing in technological advance. Such comparative advantages gives USA an edge over the world in computer, pharmaceutical, medical, aerospace and military equipment etc.Although some school of thought acknowledge India as a leading country in computer and software application.

Its monetary policies also favour the country, for USA dollaris mostly use all over the world for international transactions as such is the world foremost reserved currency.

This Nation economy is supported by abundant natural resources and highly productivity with total value of natural resources valued at $45 trillion in 2016. Due to the advantages it has the largest trading partners such as China, Canada, Mexico, Japan, Germany, South Korea, United Kingdom, France, India and Taiwan. It is the world largest importer and the second largest exporter with free trade agreement with several nations including NAFTA, Australia, South Korea, Israel and a few others. Market economy experts have said, the New York Stock Exchange and Nasdaq are by far the world's largest Stock Exchange by market capitalization and trade volume. In 2018 foreign investments made in the US total near $4trillion. In 2017 year, America Consumer spending comprised 68 percent of the US economy and its labour share of income was 43%. This means she has the world's largest consumer market; in fact if compare to japan, the US is five times larger.

<u>Debt profile</u>

A measure of National Debt held by the public in 2017, rank the 43rd highest out of 207 countries while income inequality ranked 41st highest among 156 countries; in fact the highest compared to other Western Countries.

Effect of COVID-19

In 2020, especially from the last month of the first quarter to second quarter, US Economy began to experience collapse due to the COVID-19 pandemic. This emerging coronavirus recession is regarded as the most widely severe global economic downturn than even Great Recession.

Public Debt	-	-	D116% of GDP – 2020
Revenue	-	-	$3.3 Trillion – 2018
Expenses	-	-	$4.1 Trillion – 2018
Economic	-	-	$35.26 Trillion and

Credit Rating	-	-	Stander and poor
			AA+ (Domestic)
			AA+ (Foreign)
			AA+ (T & C Assessment)
Out look	-	-	stable
Foreign Reserves		-	$128.3 billion by June 2019

Main data source: UA World Fact book.

Source: **https://en.wikipedia.org/wiki/Economy of the United States/Cities**

(b) Economy of United Kingdom

The city of London is the financial hub of United Kingdom. United Kingdom has a highly developed social market and market-orientated economy. It is the sixth – largest National economy in the world whose measurement is by nominal gross domestic product (GDP); nineth – largest by purchasing power parity (PPP) and twenty second largest by GDP per capita which comprise 3.3 percent of world GDP.

In 2016 the country was the tenth largest goods exporter in the world and the fifth largest goods importer. It reserves in foreign direct investment by second largest and third largest outside United Kingdom shores. It is one of the most globalized economics which include England, Scotland, Wales and Northern Ireland with more than 52 percent of its imports and export. In 2020, the European Union with its 27 members states remain one notable trade partner with UK.

Dominating Sectors and GDP Contribution

Each sector influencing variables are vital to the contribution of the GDP. The service sector is the dominate sector and its contribute 80 percent to the Nation GDP.

The financial services industry; of cause London is the second – largest financial centre in the world. It has the second largest aerospace industry, pharmaceutical industry is tenth-largest in the world. There is no doubt that out of 500 largest companies, 26 are headquartered in UK.

Although, in 2016 UK economy was boasted by North Sea Oil and Gas production, its reserves were estimated at 2.8 billion barrels even as a net importer of oil 2005.

UK was the first country to be industrialized in 18th century and during the 19th century it had a dominant role with global management of the economy, but since 1979 it takes the approach of laissez-faire. Equivalent of Nigerian Central bank is the Bank of England and since 1997 it monetary policy committee headed by the Chancellor of the Exchequer though exercised by Her Majesty, has been responsible for setting interest rate, quantitative easing. UK currency is Pound Sterling which is the World Fourth-largest reserve currency.

As a country, UK is a member states of many world bodies such as Common Wealth, the G7, the G20, the International Monetary Fund, the Organization of Security and Co-operation in Europe, NATO, United Nations, Security Council, the World Bank, the World Trade Organization, Asian infrastructure Investment Bank.

Weakness:

Some challenges weakened the developed economy of United Kingdom. First, the second Industrial Revolution which devastated United States and the German Empire presented some serious increase of economic challenges to UK. UK isone of country in the world and so the growth of its economy also depends on other developed Nations. Second, the lost of prosecuting World War I and II further weakened developed and stable economy. The third challenge is the recent world ravaging covid-19.

In May, the Bank estimated that the country economy could shrink by 30 percent in the first quarter of 2020 due to temporary ban on various UK non-essential business and travel as a result of Covid-19.

Furthermore, in 2020, the office of National Statistics reveal that the Country's GDP contracted by 20.4 percent. In fact, during April, UK economy witnessed the largest fall since 1997.

Prospect:

From the 21st Century the UK retains the ability to project power and influence around the world. In response to the coronavirus pandemic, in March 2020 UK through the Bank of Economics cut interest rate to 0.1%. in fact, quantitative easing is extended to a total of £645 billion since the start of covi-19 great recession.

Representation of United Kingdom Economy in Value:

Currency	-	Pound Sterling
Trade Organization	-	WTO, AIIB, OECD
Country Group	-	Developed/Advanced (1)
		High-Income Economy (2)
	Statistic	
Population	-	∆66,647,112 (1 January 2019)
GDP	-	∆$2.744 trillion (2019)
		$3.162 trillion (PPP; 2019)
GDP Rank	-	6th (Nominal 2019)
GDP Growth	-	1.3% (2018) 1.4 (2019)
	-	65% (2020) 4.0% (Projected 2021)
GDP per Capita Rank	-	∆$41.030 (Nominal; 2019 est)
		∆$46.827 (PPP; 2019 est)
GDP by Capita	-	1.2% (2020)
	-	∆1.3% (December 2018)
	-	RP1∆2.2% December
Base Borrowing rate	-	0.25%
Population below poverty line		∆22% in poverty (2018)
		∆ 23.1% at risk of poverty or social exclusion (2018)
GiniCoefficient	-	∆ 34.2 (2018, provision)
Human	-	∆ 0.920 very high (2018)
Development Index	-	o.845 very high I HBI (2018)
Labour Force	-	∆ 34.280,575 (2019)

		∆ 78.7% employment rate (2018)
Labour Force by occupation	-	agriculture: 1.5%
		Industry: 18.%
		Services: 79.7% (2011)
Unemployment	-	-3.8% (Feb. 2020)
		∆ 11.0% youth unemployment (4-2019)
Ease-of-doing Business rank	-	∆ (very easy, 2020)
Export	-	∆ $837 billion (4th, 2019 est)
Export	-	manufacture goods, fuel, chemicals food, beverages, tobacco
Main Export Partners	-	▣ European Union 48.8%
		United States 18.6%
		Germany 8.7%
		Netherland 6.9%
		Francis 6.6%
		Ireland 6.0%
		☒Switzerland 3.1%
		Belgium 3.1% (2018)
Import	-	∇$876.6 billion (5th; 2018)
Import goods	-	manufactural goods – machinery, fuel, foodstuff.
Main Import Partners	-	▣ European Union 51.2%
		Germany 11.6%
		United States 10.9%
		Netherland 7.4%
		China 6.8%
		France 6.4%
		Spain 4.9%
		Belgium 4.4% (2018)
FDI	-	Inward; $1.196 trillion
		Outward: 81.443 trillion

Current account-∆-£15.8 billion (2019)

Gross External ∆ $7.499 trillion (March, 2017)

Net International

Investment position-∆ $575 billion (2016)

Public Finances

Public debt	-	∇85.4% of GDP (2019)
		∆ £1.892 trillion (2019)
		∇ 83.2% GDP (FY 19/20)
		∆ £1.853 trillion (FY 19/20)
Budget balance	-	£46.1 billion deficit (2019)
	-	2.1% of GDP (2019)
	-	£50.0 billion deficit (FY 19/20)
	-	2.2% of GDP (FY 19/20)
Revenue	-	38.9% GDP (2019)
Expenses	-	41.0% GDP (2019)
Economic aid	-	ODA £14 billion (2017)
Credit Rating	-	Standard & poor
		AA (Domestic)
		AA (Foreign)
		AAA (T & C Assessment)
Outlook	-	Stable
Filch	-	AA

Foreign Reserve ∆ $164.2 billion (31 March 2018)

Main data source: UA World Fact Book

References: https://en.wikipedia.org/wiki/Economy of the United Kingdom

(c) The Economy Of The United Arab Emirates

The town of Dubai is the financial centre of the United Arab Emirates (UAE) and is the second largest in the Middle East, South Arabia being the first. UAE has a gross domestic product of (GDP) in USA $414 billion, AED 1.52 trillion in 2018.

Although UAE is very successful in its quest to diversify its economy particularly in Dubai, but there is still heavily reliant on revenue from petroleum and Natural Gas. Abu Dhabi and other UAE emirates are conservative in their approach to diversification.

In 2009, 85 percent of UAEs' economy was based on the oil export. In 2011 oil export accounted for 77 percent of the UAE state budget.

One of the influencing variable towards the success story of Dubai diversification of its economy is the Tourism potentials of the Country. Other also include biggest and massive construction boom, an expanding manufacturing based and a thriving services sector. In fact, currently there is $350 billion worth of active construction projects.

In 1971, UAEs economy has grown by nearly 231 times to AED 1.45 trillion in 2013. The non-oil trade grow to AED 1.2 trillion, a growth which is 28 times from 1981 to 2012.

The Economy of UAE is one of the most open worldwide, and the economy history dates back to the time when ships sailed to India, along coast, as far as South of Mozambique.

The UAE is a member state of the World Trade Organization and OPEC (Organization of Petroleum Exporting Countries).

Value Representation of the Economy of UAE:

Currency	-	United Arab Emirates dirham (AED)
Fiscal year	-	Calendar year
Trade Organization	-	WTO and OPEC
Country group	-	Developing/Emerging (1)
		High-income economy (2)

STATISTICS

Population	-	9,630,959 (2018)
GDP	-	▽ $405.771 billion (nominal 2019)
		∆ $746.350 billion (PPP, 2019)
GDP Rank	-	30^{th} (Nominal, 2019)

		33rd (PPP, 2019)
GDP growth	-	1.7% (2018) 1.7% (2019)
	-	1.1% (2020 f/e) 1.2% (2021)
GDP per Capita	-	∇ $3.20 (Nominal, 2019)
		∆ $69.435 (PPP, 2019)
GDP per Capital		
Rank -	-	24th (Nominal 2019)
		7th (PPP, 2019)
GDP by Sector	-	Agriculture: 0.9%
		Industry: 49.8%
		Service: 49.2% (2017)
Inflation	-	1.2% (2020)
Population below		
Poverty line	-	NA
Gini coefficient	-	32.5 medium (2014)
Human	-	∆ 0.866 very high (2018) (35th)
Development India	-	N/A/HD/(2018)
Labour Force	-	∆ 6.904,890 (2019)
		78.8% employment rate (2017)
		Expatriates accounts for about 85% of Workforce.
Labour Force by		
Occupation	-	Agriculture: 7%
		Industry: 15%
		Services: 78%
		(2020)
Unemployment	-	∆ 2.5% (2017)
Main Industries	-	Petroleum, Petrochemicals, Fishing, Aluminum Cement, Fertilizer, Ship repairs, construction; Materials, handcraft, textiles.
Ease-of-doing	-	∆ 16th (very easy, 2020)

External

Export	-	∆ $305.8 billion (2017)
Export goods	-	crude oil 45%, natural gas, re-export, dried fish (2012)
Main Export	-	India 10.1% Iran 9.9% Japan 9.3% China 5.4% Omom 5% Switzerland 4.4% South Korea 4.1% (2017)
Imports	-	∆ $229.2billion (2017)
Import goods	-	Machinery and transport equipment, chemical food.
Main Import	-	China: 8.5% USA: 8.8% India: 6.6% (2017)
FDI Stock	-	∇ $129.9 billion (31st Dec. 2017) ∆ Abroad. $124.4 billion (31st Dec. 2017)
Currency Account	-	∆ $26.7 billion (2017)
Gross External	-	∆ 237.6 billion (Dec. 31 2017)
Gross Extremal Debt		∆ $237.6 billion

Public Finances

Public debt	-	∇19.7% of GDP (2017)
Budget balance	-	0.2% of GDP (2017)
Revenue	-	110.2 billion (2017)
Expenses	-	111.1 billion (2017)
Credit Rating	-	Standard and poor: AA

Outlook	-	stable
Moody	-	A92
Gifts	-	AA
Foreign Reserve	-	∆ $95.37 billion (31 Dec. 2017)

Main data source: CIA World fact Book

Reference: https://en.wikipedia.org/wiki/Economy of the United Arab Emirates.

(d) **Economy of Africa**

History

One would be correct to say that Africa before colonization and during colonization have diverse economy. The driving force was the extensive trade routes that developed between cities and kingdoms – land trade route, sea which did involve navigating rivers and those that developed around port cities which became large African Empires and wealthy because of the trade routes.

Therefore, it was not surprised that African Countries with close relationships with Arab Kingdoms were converted to Islam during the Ottoman Empire. Furthermore, Africa with economic potential and the finding of a trade route to the India Ocean brought the Portuguese to South Saharan Africa; in fact the first trade partners to Africa especially Nigeria.

The colonial entrance to Africa brought interest which created new industries such as palm oil, rubber, cotton, precious metals, spices, cash crop and a lot of others goods/crops. Farm plantations wereopened. The aim of establishing these farms and subsequent upgrade to industries was to feed the colonial master home factories.

Africa Economy boom:

It was evident that after African countries became Independent in the 20th century, there was an economy resound among some countries. Nigeria experience it own oil boom during the 70s. There is no doubt the African economic boom since 2000s can be compared to the Chinese economic boom that had emerged in Asia since the late 1970s. Thus in 2013 Africa hosted seven world's fasted growing economics.

Summary of African Economy:

In 2013 African was said to be the world fasted growing content at 5.6 percent a year, and GDP raised by an average of over 6 percent between 2013 and 2023. In 2017, African Development Bank reported that Africa was the world's second-fasted growing economy. It estimated that average growth rate will resound 3.4 percent per year. Moreover, several international business observers have also name Africa as the future economic growth engine of the world.

In 2018, Nigeria became the biggest economy in terms of mineral GDP, follow by South Africa in terms of PPP. Egypt was second biggest after Nigeria while Equatorial Guinea possessed Africa's highest GDP per capita. Oil rich countries as Algeria, Libya and Gabon and mineral-rich Botswana emerged among the top economic in the 21st century. Surprisingly, Botswana has remain the site of African's largest and one of the world's longest period of economic boom (1966-1999).

It will interest every African to know that China and India are increasing important trade partners with 12.5% of Africa's export to china and account for china's imports. As regards to India, African export accounts for 4 percent as against India imports for 8 percent. Five of the world Countries – Indonesia, Malaysia, South Arabia, Thailand, and its United Arab Emirates are another increasing important market for Africa's export.

Future Prospects:

It is expected that with expanding trade, English language speaking skills, improving literacy and Education, availability of resources and cheaperlabour force, African economy will continue to perform better in future; if one imagine trade between Africa and China at 2011 that stood at US$166 billion.

Challenges to African Economy:

A number of reasons accounts for some African Countries poor economy such as:

- Colonization and subsequent challenges created by decolonization
- The cold war of the big nations
- Pervasive political corruption
- Brain-drain of workforce

- Purposeful underdevelopment of Africa.

In fact, the reasons above have seen countries like Zimbabwe and Democratic Republic of Congo with potential of world richest resources based sunk into the list of the world poorest nations.

African economy at a glance

Statistics

Population	-	1.307 billion (16% - 2019)
GDP	-	\$2.58 trillion (Nominal: 2020)
		\$6.36 trillion (PPP, 2017)
GDP growth	-	3.7%
GDP per capita	-	\$1.970 (2020)
Millionaires	-	140,000 or 0.011%
Unemployment	-	15%

NIGERIAN ECONOMY

Location of Nigeria:

While trying to delve into the economy of Nigeria, some school of thought is that the location of the country should first and foremost be traced. This school of thought believe that the location of a country especially the developing economy like Nigeria determines the occupational distribution of such a country. For instance, the vegetation and climatic conditions of a country select farming pattern and thus determine the crops production and the mineral resources deposit.

Nigeria is located at the extreme corner of the Gulf of Guinea on the West Coast of Africa. It is bordered by Chad on the North East, by Cameroon on the East, by Atlantic Ocean (Gulf of Guinea) on the South, by Benin Republic (formerly Dahomey) on the West, and by Niger on the North and North West.

Nigeria occupies an area of 923,768 sq. km (356,669 sq. mi) and has a total boundary length of 4900km (3,045 miles), out of this boundary length, 853 km (530 miles) is coastline; though the borders between Nigeria with Chad and Nigeria and Cameroon are in dispute warranting occasional border clashes.

VEGETATION AND CLIMATE TYPES

Nigeria is located in the tropical belt where climate condition are season; damp and humid. It is affected by three climate types distinguishable as one moves from Northern part of the country to the Southern part through middle belt. There are –

(1) **Forests**

(a) Saline Water Swamp (b) Fresh Water Swamp forest (c) Evergreen Rainforest

(2) **Savanah Vegetation Comprises of** –

(a) Guinea Savanah (b) Sudan Savanah, and (c) Sahel Savanah

(3) **Mountains Vegetation**

The Nigerian Economy has experience both boom and contraction; boom during and after colonial period and early period of crude oil discovery and extraction. Economy contraction was severe during the administration of President ShehuShagari that ushered in austerity measures which was seriously followed by a two digit inflation.

In fact, from 2004 to 2014 economy of Nigeria grew by 7.5% and it was regarded as one of the fast growing economies. The fall or decline in crude oil prices since 2014 and half hazard attempt on diversifying of the economy gave a negative growth rate of -0.4% in 2016 and in 2019 to first quarter of 2020 it tried to re-bounce to 2.1%. While in the first quarter of 2020, GDP growth rate was 2.93% but came down to -4.42% after the fall of covid-19.

In 2012 inflation was 12.2% while in 2014 it fell to 9.0% but in 2016 inflation rate rise to 18.5% and 2020 first quarter fell to 10.81%. From ending of March 2020 to date inflation has again risen to 14.13%.

Exchange rate was a bit favourable rate to US dollar. During President Jonathan it remain very stable at N120 per dollar in government transactions but N150 per dollar in ‘black market’.

Nigeria mineral deposit and extraction has a below average contribution of 40% to Gross Domestic Product.

CREATION OF CROSS RIVER STATE

Cross River State was created on 27 May, 1967 from the former Eastern Region of Nigeria by the Military Junta of General Yakubu Gowon Regime with the name South Eastern State. In 1976 when General Murtala Mohammed became the Head of State. South Eastern State changed its name to Cross River State and AkwaIbomwas then created out of Cross River; September 1987.

ECONOMY:

Judging from Cross River State vegetation, the Sate growth GDP depends 80 percent on agriculture. The economy is predominantly agricultural which is sub-divided into two sectors:- the private and public sectors. The private sector is dominated by local subsistence farmers while the public sector is run by the Government and large plantations and demonstration farms owners. The main crops are cassava, yams, rice, plantain, bananas, cocoyam, maize, cocoa, rubber, groundnut and palm produce.

As a matter of fact, Cross River State sometimes emphasized fish farming so as to diversity its economy. Measures' taken to boost the fish farming was in areas of fish farming, processing, storage, marketing. Cocoa and oil palm became the main stay of the state economy. The state has an available land of about 18,000 km^2.

Cross River State with 58 percent of world rainforest is one of the reasons why the state is regarded as having 25 biodiversity hotspots in the world. In fact, because of rain forest and climate conditions, the state still have monkey family known as 'Mandrills'.

Indication from the office of the statistics revealed that 5 percent of Cocoa beans, 2 percent each of palm oil and kernel and 100 percent of rubber latex produced in the state were exported. The only major solid mineral that is industrially processed in the state has been limestone. Cement factory in Cross River State is due to the presence of large deposit of limestone.

While about 40 percent of the estimated state population constitute active/labour force; agricultural sector employed about 80 percent of the state labour force contributing about 40 percent of the state GSP. It is generally accepted that tourism and agricultural potentials attract investors to the State – Willmon Palm Estate.

One devastating problem is that over the years unemployment and poverty rate have become ‘cancer’ that is incurable. It was this singular problems that encouraged the Governor to create MEDA to address and encourage small and medium Enterprises.

The Emerging Economy:

From 2016 to date the administration of Governor Ayade is diversifying the State economy by introducing processing of the State main Crops -Cocoa and rice which hitherto was exported raw. In fact, the State policies on agriculture are now futuristic thus preparing the state for economy advancement and growth development.

Planning framework and development strategy- Vision 2020

Cross River State had gone through development agenda to enable it migrate from subsistence farming and Civil Service State to an agro-industrial state. There is a bright future for the state economy advancement and GDP growth.

The propelling engine has been the development strategy the state has developed – e.g. Vision 2020. Sometimes during the administration of Governor LiyelImoke, the planned framework to usher development to the State was Cross River State Vision 2020 (CR 2020). Its aim was to make the business environment hospitable, efficient, attractive, and rewarding to private investors and tourists.

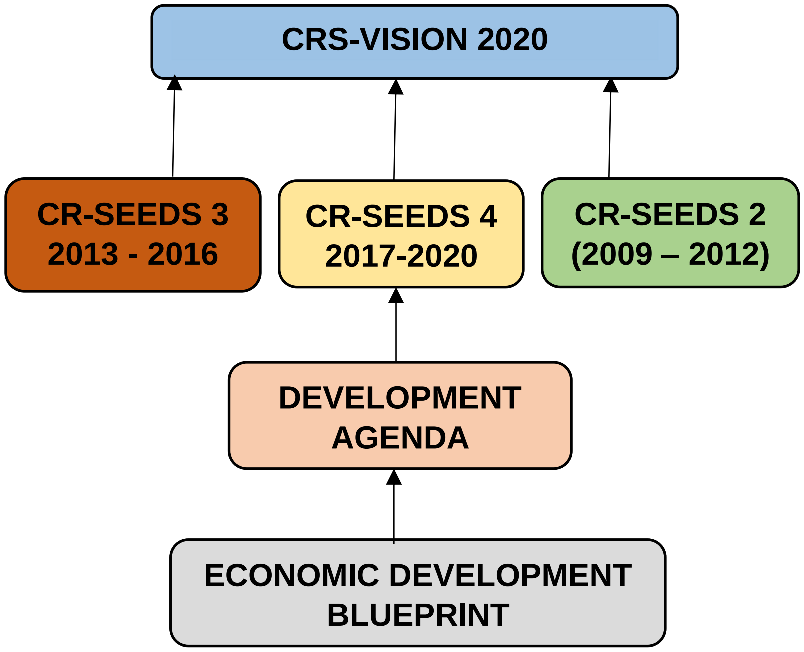
Vision 2020 had a medium term planned component – Cross River State SEEDS.

CR – SEEDS 2 (2009 – 2012)

CR – SEED 3 (2013 – 2016)

CR – SEED 4 (2017 – 2020)

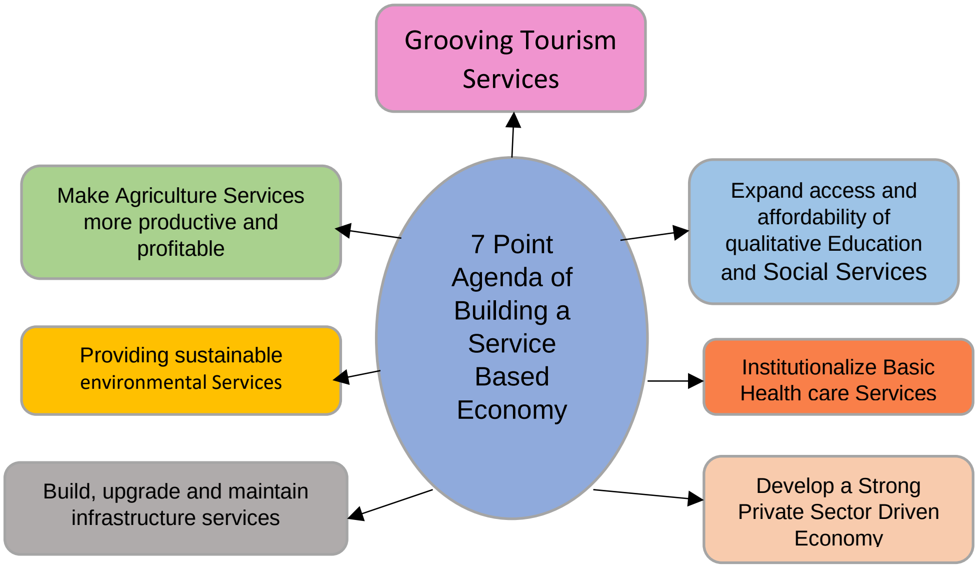
Fig 1



We are in the last stage of that vision (CR-SEEDS 2020). With the aims and objective of vision 2020 and the recent economy advancement of Agro-industrialization; the State is set for greater height of developmental growth. Let's therefore, join hands with the state Governor in praying to God that coronavirus with its attendance effect should come to end.

Development agenda

During the administration of Governor LiyelImoke, the State had Seven Point Development Agenda. This agenda prioritizes economic development and growth through diversification of economy especially in the non-oil and service sectors. The aim of that government was the determination to make increase in productivity and job creation. Therefore, his target was re-awaking the consciousness of every Cross Riverians to this policy and resuscitation of non-oil sector such like ICT, Entertainment, Social Works, construction and Tourism.



With Governor Ben Ayade, the agricultural Services is not only strengthen but industrialized for the utilization of the State raw materials (Natural Resources)

2B. FISCAL UPDATE

$2B_1$. HISTORICAL TREND:

In trying to trace the fiscal updated of Cross River State, an attempt is made to assess the budget performance and the financing gap percentage of the past two political administration and the present.

- Governor Donald Duke - 2006 Budget
- Governor Senator LiyelImoke - 2011 Budget
- Governor Sir Ben Ayade - 2018 Budget

In 2006, approved budget of Cross River State was 29,441,131,450 and supplementary (Revised) of ₦44,776,768,650 due to an increase in the statutory share of allocation to the State. Budgeted provision was ₦29,441,131,450 as against increase to ₦30,385,002,944.82. Addition Federation Accounts Share to Cross River was therefore ₦943,871,494.82 0r 3.21%.

Furthermore, out of internal Bank Loans budget was N3,750,000,000 only N2,763,849,158.52 was received during the budget fiscal year. It was also a deficit budget with about N340,375,760 while total inflow was N44,486,392,890; total budget was N44,776,768,650.

See breakdown below :

Recurrent inflow

Internal sources – N2,616,200,000

Federal Sources (Federal Allocation) – N29,441,131,450

Capital Receipt:

Value added tax	-	N2,217,229,200
Grants	-	N3,281,563,510
Other Capital Receipts	-	N2,130,268,730
Internal Bank Loan	-	N1,000,000,000
Total	**-**	**N12,379,061,440**

Recurrent Expenditure Breakdown

Personnel Cost	-	N6,790,744,700
Overhead	-	N6,203,947,800
Consol	-	N8,176,978,970

Capital Expenditure by Sectorial N 21,174,671,470

Economic Sector	-	N16,817,692,690
Social Services	-	N3,515,661,270
Regional Dev.	-	N907,655,120
General Administration	-	N2,364,048,100
Total		**N23,605,705,180**

PERFORMANCE (Inflow)

ITEM	2018 REVISED BUDGET (₦)	2018 ACTUAL INFLOW (₦)	VARIANCE (₦)	% PERFORMANCE
Internal Inflow	2,616,200,000	3,141,503,923.53	-525,303,923.53	120.00%
Statutory Allocation	29,441,131,450	30,385,002,944.82	943,871,494.82	103.21%
Capital Receipts	12,379,061,440	8,574,000,189.59	3,805,061,250.41	-69.26%
Total	**44,436,392,890**	**42,100,507,057.94**	**4,223,628,821.66**	94.74 %

Recurrent Expenditure performance

ITEM	2018 REVISED BUDGET(₦)	2018 ACTUAL COLLECTION(₦)	VARIANCE(₦)	% PERFORMANCE
Personnel Cost	6,790,744,700	6,526,414,849.95	264,329,850.05	96.11%
Overhead	6,203,947,800	5,098,990,710.62	1,104,957,089.38	82.19%
Consolidated	8,176,978,970	6,876,758,459	1,298,220,511.00	84.12%
Total	**21,191,671,470**	**18,504,164,019.57**	**2,669,507,450.43**	

Capital Expenditure performance

ITEM	2018 REVISED BUDGET (₦)	2018 ACTUAL COLLECTION (₦)	2018 VARIANCE (₦)	% PERFORMANCE
Economic Sector	16,817,692,690	15,676,225,489.95	1,141,467,200.05	93.25
Social Services	3,515,661,270	1,683,209,100.93	1,832,452,169.07	47.00%
Regional Dev.	907,695,126	618,209,948,.34	289,485,171.66	68.11%
General Admin	2,364,048,100	1,458,660,153.89	905,387,946.11	61.71%
Total	**23,605,097,186.00**	**19,436,304,693.11**	**4,168,792,486.89**	82.34

BANK LOANS

<u>Contribution of bank loans to budget 2006</u>

In 2006, the State Governor seek assistance of a bank loan to enable Cross River State finance some capital projects. The budget office made a project in 2006 budget of N3,750,000,000 but actual draw down was only N2,763,849,158.52 so, the percentage share provision was 8.34%

Governor Liyellmoke – 2011 Approved budget

Approved budget of 2011 had a budget size of N119,280,828,421.62 and reflected a zero financing gap.

The breakdown of the inflow was;-

<u>Recurrent Revenue</u>

Internal Revenue Service	-	N 48,421,089,953.35
Capital Receipt	-	N70,859,738,468.27 (*with a total internal Loan provision of* N21,900,000,000)

Similarly a breakdown of expenditure side of the budget was:

A **Recurrent Expenditure**:

Personnel Cost	-	N13,735,031,966.90
Overhead Cost	-	N14,611,081,948.12
Consolidated Fund	-	N12,546,544,575.01
Total Recurrent outflow	**-**	**N40,892,658,490.03**

B **Capital Expenditure** - N78,388,169,931.59

Sectorial breakdown of Capital Expenditure –

Economics	-	N35,190,786,157.57
Social Services	-	N17,598,087,150.13
Regional Dev.	-	N8,157,547,969.13
General Administration	-	N17,441,748,654.39

Total Capital Expenditure **N 78,388,169,931.22**

Performance Index:

Inflows:- Recurrent Revenue and Capital Receipts

ITEM	Approved 2011 (₦)	ACTUAL COLLECTION (₦)	VARIANCE (₦)	% PERFOR-MANCE
Internal Services	15,064,988,407.99	9,159,651,948.22	5,905,336,459.79	60.80%
Statutory Allocation	33,356,101,545.36	49,574,586,254.55	16,218,484,709.19	148.62%
Total	**48,421,089,953.35**	**58,734,238,202.77**	**22,123,821,168.98**	**121.30%**

RECURRENT EXPENDITURE	Approved 2011 (₦)	ACTUAL COLLECTION (₦)	VARIANCE (₦)	% PERFOR-MANCE
Personnel Cost	14,298,188,348.95	12,565,058,984.83	1,733,129,364.12	87.88%

Overhead Costconsolidated	12,534,105,729.19	12,061,061,309.29	473,044,419.90	96.23%
Total	**39,566,388,760.07**	**40,080,887,515.93**	**4,926,846,323.90**	**101.30**

CAPITAL RECEIPTS	Approved 2011 (₦)	ACTUAL COLLECTION (₦)	VARIANCE (₦)	% PERF
Opening Balance	9,226,066,917.96	0	-	-
Transfer from Consolidated Fund Charges	7,528,431,463.00	7,528,431,463.00	-	
Value Added Tax	6,147,832,064.04	6,463,982,829.41	316,150,765.37	105.14
From Reserve Fund	500,000,000.00	500,000,000.00	0.00	100.00
Excess Crude	12,076,371,867.04	5,473,769,101.20	-6,602,602,765.84	45.33
Grants	7,370,984,197.40	221,613,771.00	-7,149,370,426.40	3.01
Internal Loans-Bond	21,900,000,000.00	7,457,812,284.72	-14,442,187,715.28	34.05
Other Capital receipts	6,110,051,956.83	0	-6,110,051,956.83	0
Total Capital Receipts	**70,859,738,466.27**	**27,645,609,449.33**	**-33,988,062,098.98**	**39.01**

Sectorial capital expenditure performance

Sectors	Approved Budget 2011(₦)	Actual(₦)	Variance(₦)	% Perfor-mance
Economic	35,190,786,157.57	20,467,998,682.02	14,722,787,475.55	**58.16**
Social Services	17,598,087,150.50	11,673,683,051.39	5,924,374,099.11	**66.33**
Regional Dev.	8,157,547,969.13	8,587,452,666.28	-429,904,697.15	**105.27**
General Admin	17,441,748,654.39	10,360,167,446.19	7,087,581,208.20	**59.40**
TOTAL	**78,388,169,931.59**	**51,089,301,845.88**	**27,304,838,085.71**	**65.17**

The share of Bank loans in 2011 Approved Budget was N21,900,000,000 therefore, the budget financing reduced capital receipt to N48,959,738,468.27 (70,859,738,468.27 – 21,900,000,000). It therefore, means that Bank Financed 2011 approved budget with 30.90%.

2018 BUDGET

Cross River State Revised 2018 Budget size was N1,300,603,170,306.12

The breakdown is as follow:

A.	Internal Sources	-	N45,614,919,022
	External Sources	-	N67,729,260,003
	Other Capital Receipts	-	N 1,187,258,991,281.92
	TOTAL		**N 1,300,603,170,306.12**

The internal sources is further broken down into –

Revenue from Internal Revenue Service	-	N15,470,450,000
Revenue from MDAs	-	N30,144,469,022
TOTAL	-	**N45,614,919,022**

Recurrent Expenditure

Personnel Cost	-	N110,915,124,518
Overhead Cost	-	N40,361,474,109
Statutory	-	N32,583,229,465
Sub-total	**-**	**N183,859,827,792**

B.	**Capital Expenditure**	-	N1,114,237,842,513.43
	Economic Sector	-	N328,515,158,209.20
	Social Service Sector	-	N113,768,191,176.68
	Regional Development Sector	-	N72,049,709,547.10
	General Administration Sector	-	N599,910,283,580.45
	Total	**-**	**N1,114,243,342,513.43**

Budget Performance

Inflow

Item	Revised Budget (₦)	Actual (₦)	Variance (₦)	% Perf
Internal Services	45,614,919,022.00	17,552,105,937.09	28,062,813,082.91	38.48
External Services (Capital)	67,729,260,003.00	42,758,634,265.22	24,970,895,737.78	63.13
Other Capital Receipts	1,187,258,991,281.92	15,000,000,000.00	-1,172,258,991,281.92	1.26
TOTAL	**1,300,603,170,306.92**	**75,310,740,202.31**	**-1,119,225,282,461.23**	**5.79**

Expenditure

Recurrent Expenditure

Item	Revised Budget(₦)	Actual Performance(₦)	Variance(₦)	% Perfor-mance
Personnel Cost	110,915,124,578	24,866,916,758.89	86,048,207,759.11	22.42%
Overhead Cost	40,361,474,109	13,813,757,026	26,547,717,083	34.23%
Consolidated Fund	32,583,229,165	9,740,899,614.47	22,842,329,550.53	29.90%
Total	**183,859,827,792**	**49,421,573,399.36**	**135,438,254,392.64**	
Capital Development				
Economic Sector	328,515,158,209.20	15,043,680,876.19	313,471,477,833.01	4.58&
Social Service Sector	113,768,191,176.68	5,138,396,051.11	108,629,795,125.57	4.52%
Reg. Dev. Sector	72,049,709,547.10	9,315,366,630.68	62,734,342,916.42	12.93%
Gen. Admin Sectr	599,910,283,580.45	31,980,852,152.32	567,929,431,428.13	5.33%

Item	Revised Budget(₦)	Actual Performance(₦)	Variance(₦)	% Perfor-mance
Total	1,114,243,342,513.43	61,478,295,210.30	1,052,765,047,303.13	

<u>2018 Budget Finances</u>

The Revised Budget 2018 had Internal and External Loans prevision of N51,000,000,000.

The breakdown of loans provision in the Revised budget were as follows –

Accountant General Chart of Account – Sundry Loans - N10,000,000,000 for Ministry of Finance.

Internal Loans - N20,000,000,000.

Loan for Sundry Infrastructure - N18,000,000,000

Ministry of New Cities:

Loan for infrastructure and Housing at submit – N3,000,000,000

Percentage share of loans 2018 Revised Budget is 4.57%.

Comparing the three budgets, it is true that 2018 would have perform higher but did not due to over blown budget provisions that never saw the light of the day.

BUDGET INFLOW AND OUTFLOW

The inflow and outflowof the three year budget shows that the State made a high level performance in 2006 and 2011 but in 2018 fiscal year the performance started going down. The reason was that the budget had projections, not creditable and not reliable.

STATE RESERVE FUND:

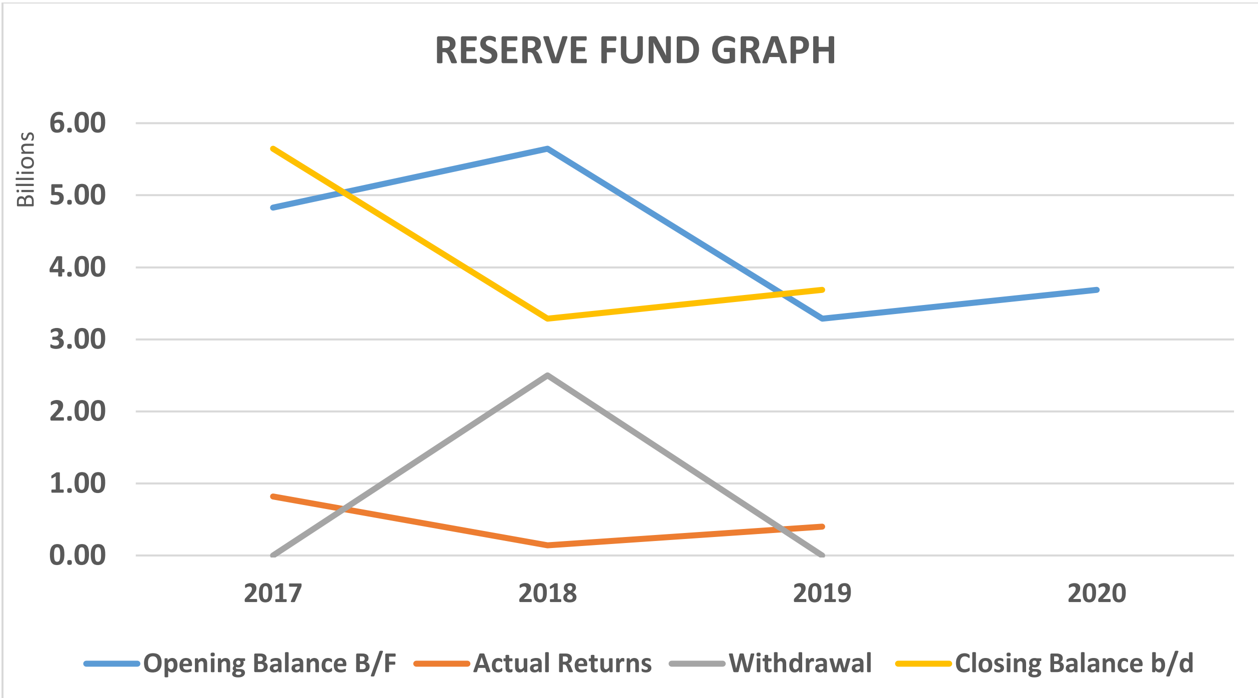
The economy growth and cushioning of the effect of economy contraction of the State in future enabled the then Governor – Donald Duke to established the STATE RESERVE FUND. The law stipulated a monthly contribution of N50,000,000 for the state with a yearly contribution of N600,000,000. The law also applied to the Eighteen (18) Local Government Area Councils whose contribution was N1,000,000 (one million Naira) only per council totaling N18,000,000 monthly and N216,000,000 a year.

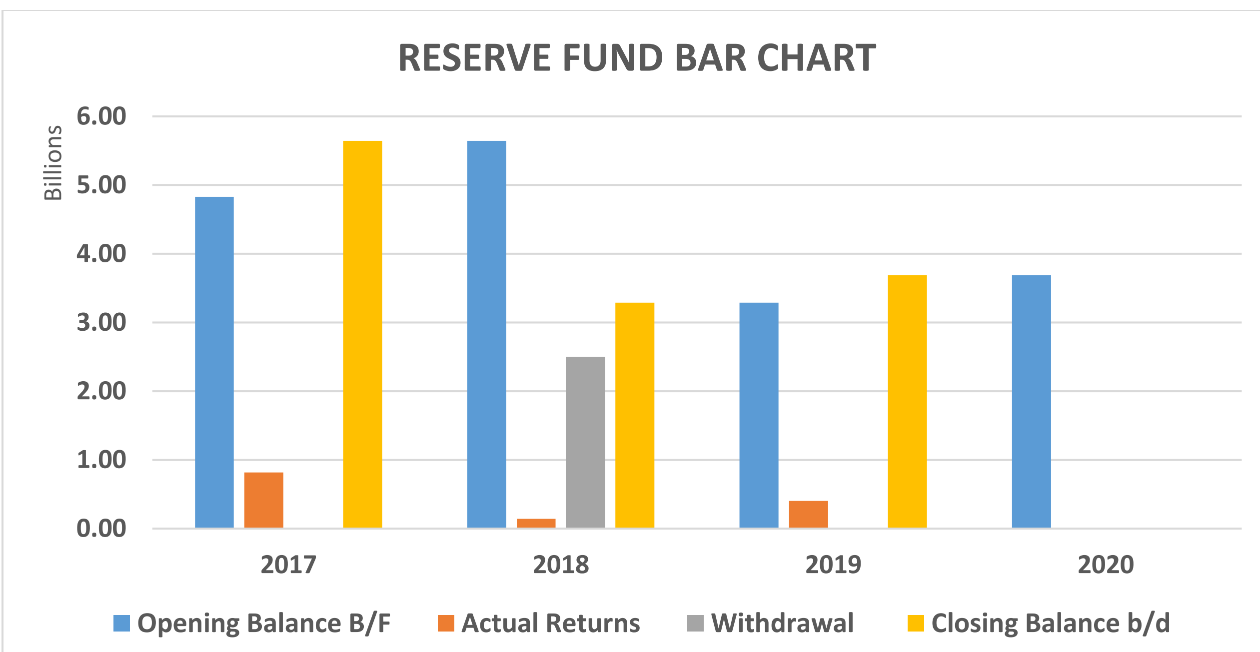
The law went further to state that only after twenty five years (25) should withdrawal from the fund be made. Unfortunately the law was amended during GovernorLiyel's administration and withdrawal started.

	2017	2018	2019	2020
Opening Balance B/F	4,827,285,856.59	5,646,088,345.28	3,287,109,997.54	3,687,912,154.54
Monthly or Yearly contribution	-	-	-	-
Actual Returns	818,802,488.69	141,021,652.26	400,802,160.06	
Withdrawal	-	2,500,00,000	-	
Closing Balance b/d	5,646,088,345.28	3,287,109,997.54	3,687,912,157.54	

Figure above shows the operation of Reserve Fund

Source: Ministry of Finance Hq.





Graphical Representation of the operation of Reserve Fund, indicates that if the first Reserve Fund Law has not been amended, the graph would have shown a straight line direction/line.

STATE DEBT

Cross River State debt is in two fold – External and Domestic/Internal. External debt is in US dollars.

External Debt:

As at 2019 External debt stock was N94,032,206,676 when converted from the debt burden of US$208,960,459.28 which is 36.02% of the State debt burden.

Domestic/Internal debt:

Domestic debt which is made up of twelve (12) items is N166,953,584,919.28 as at December, 2019. Below are the items that made up internal debt Stock.

External and Domestic Debt Stock AS AT THE END OF 2018 AND 2019

S/N	DESCRIPTION	2018 N	2019 N	% LEVEL 2019
A.	External Debt Stock	47,260,895,216.19	94,032,206,676.00	36%
B.	Domestic Debt Stock			
1.	Budget Support Facility	16,869,000,000	17,525,794,256.91	7%
2.	Salary Bail Out	7,091,831,007.57	6,890,464,845.14	3%
3.	Restructured Comm. Bank	32,373,416,704.99	31,791,197,461.47	12.1%
4.	Excess Crude Accounts	9,364,243,206.38	9,119,323,801.15	3%
5.	State Bond	4,390,604,094.93	3,247,746,954.65	1.2%
6.	Commercial Bank Loans	892,323,11.84	1,620,979,286.29	0.6%
7.	Agricultural Loan	2,116,349,407.12	2,482,928,000.05	0.9%
8.	Judgment Debt	32,043,765.70	32,048,765.76	0.012%
9.	Government to Govt.	22,341,666,666.67	22,341,666,666.67	8.5%
10.	Contract Arrears	39,123,760,294.05	39,123,760,295.05	14.9%
11.	Pension and Gratuity	14,252,393,536.02	13,671,462,665.66	5.25
12.	Other Debts.	19,108,216,920.99	19,108,216,920.99	7.3%
	Total	**215,216,743,938.57**	**260,985,791,595.28**	**100%**

3. **FISCAL STRATEGY PAPER**

3.A **MACROECONOMIC FRAMEWORK**

For best practice, macroeconomic framework is based on some key indicators use to evaluate economy performance. It reflects Production, Price and Naira to Dollar Exchange Rate for Mineral Sector Benchmark as contain in every fiscal year Federal Government Medium Term Expenditure Framework.

The GDP growth and inflation (CPI) are as the Federal Office of Statistics and agreeable with IMF out-look. It is on record that Cross River has not for about four years today had their State Macro-Economic Framework statistics.

The State depends on the Federal figures.

Fig. Macro-Economic Framework

items	2018	2019	2020 Before Covid-19	After the fall of Covid-19	2021	2022
National GDP Growth	1.09%	1.85%	2.93%	-4.42%	3.35%	3.85%
Oil Price Benchmark	$40	$42	$57	$20	$35	$55
Oil Production Benchmark MGPS	2.2mbPD	2.2mbPD	2.2mbPD	1.7	2.2mbPD	2.36mbPD
Exchange Rate	N305	N305	N305	N360	N305	N305
Inflation 10%	17.50%	16.20%	10.81%	14.13%	10.52%	10.19%
Non-oil (NbN) GDP			129,692.6		145,616.6	163,438.8
Oil GDP			13,267.9		13,873.9	16,146.1
Consumption (NbN)			122,752.4		136,214.7	151,079.7

Source, Federal Ministry of Finance – Budget & Planning Office. MBNP 2020 – 2022 MTEF/FSP

State Debts Repayment projection

External debt balance as at December 2019 was N94,032,206,676 while Domestic debt aggregate total balance was N166,953,584,919.28.

Monthly debt Repayment for External Debt is N222,020,699,58 resulting to yearly repayment of N2,664,248,394.96 while the Domestic debt has a monthly repayment of N1,003,185,350.56 and yearly of N12,038,224,206.71 using April 2020.

CROSS RIVER STATE IRREVOCABLE ORDER PAYMENT (ISPO) FOR Q1 & Q2 2020

Fig. 6

	Creditors	January 2020 N	February 2020 N	March 2020 N	April 2020 N
1A B	External Debt Domestic Debt	114,172,380.52	114,172,380.52	222,020,699.58	222,020,699.58
1.	Excess Crude Acct (ECD)	89,972,595.59	89,972,595.59	89,972,595.59	89,972,595.59
2.	State Bond	168,946,957.36	168,946,957.36	168,946,957.36	168,946,957.36
3.	Restructure Comm. Bank	444,989,043.29	444,989,043.29	444,989,043.29	444,989,043.29
4.	Salary Bailout (FG)	70,686,069.99	70,686,069.99	70,686,069.99	70,686,069.99
5.	Accelerated Agric Dev. Scheme	68,527,113.42	68,527,113.42	68,527,113.42	68,527,113.42
6.	Comm. Agric Credit Scheme	52,599,721.84	52,599,721.84	52,599,721.84	52,599,721.84
7.	Counterpart Fund (World Bank/EU Donor Programmes	30,758,147.29	30,758,147.29	30,758,147.29	30,758,147.29
8.	Counterpart Fund (UBE Matching Grant)	31,986,841.43	31,986,841.43	31,986,841.43	31,986,841.43
9.	CBN Budget Support	152,567,179.41	152,567,179.41	152,567,179.41	152,567,179.41
	Total	1,225,206,050.14	1,225,206,050.14	1,225,206,050.14	1,225,206,050.14

CROSS RIVER STATE DMO OFFICE:

External Debt Yearly Repayment = N2,664,248,394.96

Domestic Debt Yearly Repayment = N12,038,224,206.72

From the State Reserve Fund attempt can be made to project from the balance of 2020 December for 2021 and 2022.

PROJECTION USING 10.55% FOR ACTUAL RETURNS

Item	2020	2021	2022
Opening Balance	3,687,912,154.54	4,076,986,886.84	4,507,109,000.40
Monthly or yearly contribution	-	-	-
Withdrawal	-		
Actual Returns	389,074,732.30	430,122,116.56	475,499,999.85
Closing Balance	4,076,986,886.84	4,507,109,003.40	4,982,609,003.25

Assessment of 2017 actual returns, 16.96% was applied, while 2018 was 2.5% and 2019 it was 12.19%. Therefore, average percentage returns for the three years gives 10.55%. This is because, the actual returns is not always known until at the end of trading/investment period of one year.

The above would also be possible if withdrawals and monthly contribution are not made from or to the fund.

3.B FISCAL STRATEGY AND ASSUMPTION

INFLOW	REVISED BUDGET 2020 N	PROPOSED BUDGET 2021 N	PROPOSED BUDGET 2022 N
Statutory Allocation	26,565,994,810	31,879,193,772	38,255,032,526
VAT	12,475,174,025	14,970,208,830	17,964,250,596
Other Capital Receipts	87,321,045,612	104,785,259,534	125,742,311,441
IGR	20,725,030,427	26,942,539,555	35,025,301,422
Total Inflow	**147,087,248,874**	**178,577,201,691**	**216,986,895,985**
OUTFLOW			
Recurrent Expt.			
Personnel Cost	31,391,635,375	32,961,217,143.75	33,620,441,486.63
Overhead Cost	33,679,219,052	33,679,219,052	33,679,219,052
Consolidated	11,222,623,781	13,070,532,624.50	11,259,049,781.32
Total Outflow	**76,293,478,208**	**79,710,968,820.50**	**78,558,710,319.95**
Capital Expt.			
Economic Sector	24,298,491	34,081,336,059.40	37,713,870,483.16
Social Services	28,631,340,531	40,083,876,743.40	56,117,427,440.76
Law & Justice	390,288,831	546,404,363.40	764,966,108.76
Regional Dev.	7,062,000,698	9,886,800,977.20	13,841,521,368.08
General Admin	10,411,329,135	14,575,860,789	20,322,205,104
Total	**70,793,770,666**	**99,114,278,932.40**	**138,759,990,504.26**

The Recurrent Expenditure is inclusive of debt burden repayment.

3.C THREE YEARS FISCAL FRAMEWORK

ITEM	PORPOSE 2020 BUDGET	PROPOSE 2021 BUDGET	PROPOSE 2022 BUDGET

	N	N	N
INFLOW			
Statutory Allocation	26,565,994,810	31,879,193,772	38,255,032,526.40
VAT	12,475,174,025	14,970,208,830	17,964,250,596.00
Other Capital Receipts	87,321,049,612	104,785,259,534.40	125,742,311,441.28
IGR	20,725,030,427	26,942,539,555	35,025,301,421.50
Total Inflow	**147,087,248,873**	**178,577,201,691**	**216,986,895.18**
OUTFLOW			
Personnel Cost	31,391,635,375	32,961,217,143.75	33,620,441,486.63
Overhead Cost	33,679,219,052	33,679,219,052	33,679,219,052.00
Consolidated Fund	11,222,623,781	13,070,532,624.75	11,259,049,781.32
Total outflow	**76,293,478,208**	**99,710,968,820.50**	**78,558,710,319.95**
Capital Expenditure	70,793,770,666	99,114,278,932.40	138,759,990,504.84
Revised Budget 2020	147,087,248,874	178,825,247,752.90	217,318,700,825.00

ASSUMPTIONS

As stated earlier, Cross River State has not statistics of macro-economic framework. The State depends solely on the Published Statistics of Federal Government through Federal Ministry of Finance. Therefore, all the Macro-economic statistics recorded on this figures are all published figures from the Federal Government MTEF. The State has adopted it.

INFLOW

Internal Revenue Generation:

In many States of the Country, the effect of Covi-19 is gradually subsiding due to adaptation of citizens to the rules of reducing the pandemic – social distance, washing of hands, face cover and so on; business is resuming fully, Revenue Agents have gone back to work.The market economy recovered of 30% increase was used to determine 2021. In 2022 another 30% increase of 2021 is applied because by this year market economy has recover fully. Again, farming seasons will not experience another lockdown. Furthermore, taxes may be defreeze whose assessment and collection was stopped by the Government of Cross River State.

STATUTORY ALLOCATION

Statutory Allocation to States will move gradually above 2020 covid-19 allocation because in 2021 economy would have recover about two third of 2020 before the fall covid-199. Crude oil produce will return to 2.2mbpd and so the value of Sales will increase and so state share will also increase. Certainly, world crude trading will gradually takes its position by 2021 and by 2022 will be fully operational.

The Pump Prices of Petroleum Product have gone back to N143 per litre from the N120 during the high period of Covid-19. That will bring another source of income to Federal Allocation sharing to States.

VAT

Value Added Tax would surely also increase in 2021 but by 2022 it would be full. This is because, factories, captains of industries, meddle and big business houses would open their business after the 9 lockdown. Gradually in 2021 but would be full in 2022.

Again recently precisely this 2020, Federal Government increase the payment of VAT from 5% to 7.5%.Itwas not long (2 weeks of the first quarter) VAT collection was somehow stop due to Covid-19. VAT collection will be fully operational and the gains of the increase would raise the amount more than what was total collection as at 2019.

OTHER CAPITAL RECEIPTS

The Capital Receipt will also increase though not fully since the banned on taxes collection is not yet lifted; its effect will be more in 2020 and 2021 but by 2022 this aspect covid-19 palliatives must have be stopped. Because the world all over, would be recovering or must have recover by 2022; Donors Partners will increase their activities in the State.

Banks would have recover from the lockdown because individual and corporate business will resume depositing cash to Banks. Thus the liquidity of bank at most increase tremendously. Therefore,if the liquidity of Banks increase granting loans to state Governments and individual will be possible.

OUTFLOW

Personnel Cost:

The Covid-19 Revised Budget of Cross River State has the provision of N31,391,635,375. In 2020, a provision of 30% of the PE recruitment is provided. This percentage is suggested because of the retirement that already has taken place in 2019 and 2020 which is N7,847,908,843.75.

From the Budget submissions on Personnel Cost to budget office, it was discover that 25% of the Cross River State workforce will retire by 2020 and 35% for December 2021 as against 2022; a provision of 30% was made in 2021 budget for recruitment which amounts to N9,419,490,612.50

The formula to arrive at budget provision for 2021 and 2022 is PE + Recruitment Less Retirement. In 2020, the recruitment is increase to 37% because indications on MDAs budget submission have more, one-third ($^1/_3$) retirement from Service which is 35% retirement.

The same formula.

e.g PE for 2020	-	N31,391,635,375
Recruitment – 30%	-	N9,417,490,612.50
Less 25% Retirement	-	N7,847,908,843.75

PE Provision for 2021 N32,961,217,143.75

The calculation of 2022 is based on the PE provision of 2021.

CONSOLIDATED

In Revised 2020 Cross River State budget, consolidated fund is N11,222,623,781. This is made up of:

1,300 Political Appointees	-	N3,120,000,000
Revenue Agents	-	N1,000,000,000
Arrears of Gratuity & Pension	-	N6,420,950,125
Normal Pension Payment	-	<u>N681,673,656</u>
	-	**N11,222,623,781**
Add 25% of 2020 PE	-	N7,847,908,843.75
	-	**N19,070,532,624.75**
Less Payment of Gratuity Arrears	-	<u>N6,000,000,000</u>

	-	**N13,070,532,644.75**

Same formula affect the 2021 and 2022 such as:

1,300 Political Appointees	-	N3,120,000,000
Revenue Agents	-	N1,000,000,000
Normal Pension	-	N681,673,656
Balance of Pension Arrears	-	N420,950,125
35% Retirement (gratuity and Pension)	=	N11,536,426,000.32
Less payment of gratuity	=	N5,500,000,000
		N11,259,049,781.32

Overhead Cost

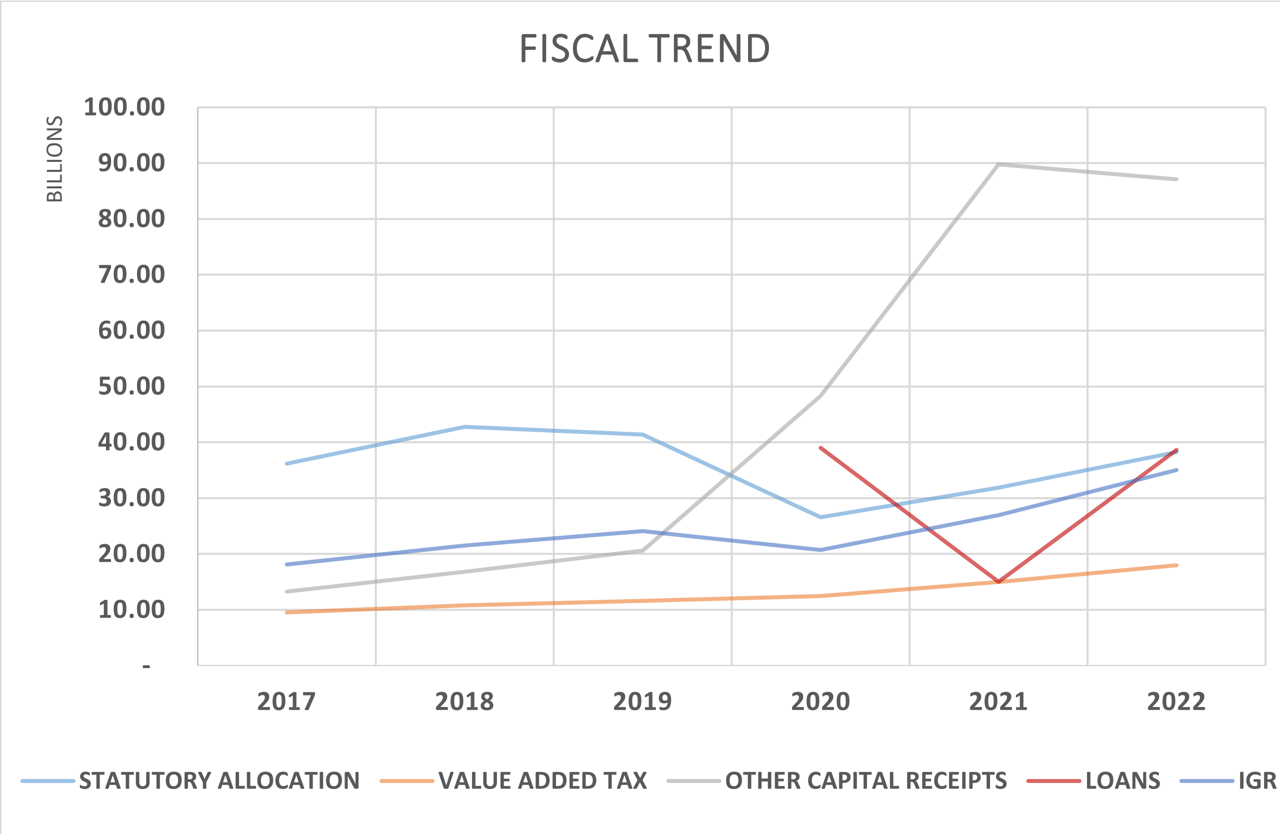
Overhead Cost is not projected within the 2021 and 2022 fiscal year. This is because there is no intention by the Governor to increase MDAs that can warrants change of imprestto MDAs. Again the Governor has not contemplated reviewing the amount of Imprest. Also the debt profit repayment has a standing irrevocable order, so, there can't be changes until the State debt is completely settled.

Sectorial Capital Expenditure

Sectorial Capital Expenditure projection for 2021 and 2022 fiscal years would have being the balances for those years from MTEF provisions. This is not possible because of the state finances. The propose budget inflow provision for 2021 and 2022 fiscal years are N178,577,201,691 and N216,986,895,985.18 accordingly. Whereas the MTEF projections are N294,597,128,501 for 2021 and N806,374,336.70 for2022, the only best economic option is to reduce some of gigantic projects and carry forward to 2023 and 2024 MTEF period. This will certainly equate inflow and outflow and thus balance the budgets of 2021 and 2022. In this vein, therefore, each sector must be added with 40%. The strategy will give a deficit balance of N248,046,061reduceable from the bigger project provisions. In 2022, the same 40% shall apply to all Sectors.

3C2. FISCAL TRENDS

From each MDA and Sectors envelop, plus actual figures for 2017, 2018, 2019 and the forecast for 2020, 2021 and 2022 the trend is as seen in the graph.



	2017	2018	2019	2020	2021	2022
STATUTORY ALLOCATION	36,182,984,692.19	42,758,624,265.22	41,406,205,692.24	26,565,994,810.00	31,879,193,772.00	38,255,032,562.40
VALUE ADDED TAX	9,517,926,601.90	10,766,785,550.74	11,565,185,319.55	12,475,174,025.00	14,970,208,830.00	17,964,250,596.00
OTHER CAPITAL RECEIPTS	13,250,851,815.84	16,783,992,901.36	20,566,305,400.70	48,321,045,612.00	89,785,259,531.40	87,085,471,751.68
LOANS				39,000,000,000.00	15,000,000,000.00	38,656,839,689.80
IGR	18,104,562,225.62	21,497,628,122.64	24,093,842,506.80	20,725,030,427.00	26,942,539,555.00	35,025,301,421.50

3C2 **FISCAL RISK**

Cross River State Government though with enough resource base, is today largely depended on one revenue source which is the Federation Allocation source. It therefore means that any depression on the National economy; will be affected more seriously by Cross River State. A very good example is the effect of mid 1980 economy depression that ushered austerity measures. Again the current Coronavirus pandemic; though affecting the whole Nation but the burden on Cross River State economy is more serious.

Some fiscal risks have damaging effect on the Cross River economy- these are –

Revenue Elasticity

Economic Condition Changes, and

Effect of Inflation

- **Revenue Elasticity**

  The fiscal strategy revenue framework must respond automatically to changes in the National Income. Over some years, today Cross River State Internal Revenue Service has being trying to automate its revenue generation.

- **Economic Conditions Changes**

  It is true that revenue forecast are usually based on variables and parameters which are consistent with the macro-economic environment. In fact, changes in economics' conditions can modify or alter budget forecasting assumptions. Covid-19 as an aspect of changes that affected macro-economic has adverse effect on Internal Revenue Generation. This affected the 2020 approved budget tremendously downward.

4 BUDGET POLICY THRUST

The budget policy thrust for 2020 is a commitment to creating a conducive environment to enable Foreign Direct Investors and Donors invest more in the State. The policy further made it clear that the State in 2020 will 'harvest' the gains of previous budgets to actualize the Agro-Industrial advancement for the State growth.

From the name of the Budget – ***OlimpoticMeristemasis*** signifies growth. Meristemasis is the active cell in a plant that stimulates growth in a young plant.

Therefore, the plant is the State while the cell is the gains of previous budget and the variables in the 2020 budget.

5. SUMMARY OF KEY POINTS AND RECOMMENDATIONS

KEY POINTS:

The Cross River State fiscal strategy paper key points can be summarized as follows:-

a) Fiscal Strategy Paper is a roadmap for government policies which are reduced to budget figures; therefore budget projection for both inflow and outflow should equate so as to avoid budget financing gaps. Over blown budget must be discouraged.

b) Budget should address the wishes of the State citizens and should reflect the State policies.

RECOMMENDATION

a) Budget provisions for the incoming year should be a function of derived demand of the current year. Thus budget performance should be the criteria for allocating figures.

b) Budget should be regarded as something sacrosanct which should follow religiously.

c) Deficit financing should be avoided because granting of loans to State Government may have a hitch, especially if such a State has overshot its threshold.

d) A State should avoid over ambitious budget size. This will give poor budget performance.