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Impact of recession on Akwa Ibom State 2009 – 2010 Budget: Vocational and Technical Education in perspective.

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Abstract

In the wake of the most recent recession, Akwa Ibom State has faced multibillion-Naira budget gaps. An analysis of the make-up of the budgets reveals that the state's heavy reliance on oil revenue and personal income taxes particularly from high wage earners in the finance sector has exacerbated revenue shortfalls and hindered the progress of Vocational and Technical Education. To close the budget gap Akwa Ibom State has had to make difficult choices about tax increase and service cuts to the detriment of the wellbeing of wage earners in the state. In the future, the state might take steps to avert such budget quandaries by establishing "rainy day" funds or restructuring taxes to make them less burdensome to the business cycle and the business of equipping her youths with technological skills for State and National development. Strategies have been suggested for adoption by technological institutions in Nigeria to generate more funds for their productive existence and developmental attainment. Under the present budgetary constraints, vocational and technical education cannot meet the demands of accrediting agents for quality assurance which is a vital factor in personal development and the industrialization of the state and nation.

Introduction

This paper provides an overview of the state budget process in Akwa Ibom State and explores why the recession has taken such a toll on the states' fiscal climate. It begins by reviewing some general principles of state government finance and then

takes a closer look at the specific revenue sources and expenditures of Akwa Ibom State and the rules that govern the state's budget. The paper also considers the steps that state officials have taken to close emerging gaps in their budgets both now and in the recent past.

The overview of the state's budget sheds light on the genesis of the state's current fiscal year difficulties. It is observed that the revenue structure of the state has helped to create potential problems for Vocational and Technical Education. Specifically, the state heavy reliance on statutory allocation, derivatives and personal income taxes has made the revenue structure of the streams especially vulnerable to economic downturns. The non implementation of salary increases, layoffs, and capital losses that accompanied the most recent recession have sharply reduced these tax inflow. Moreover, the budget rules in the states most noticeably Akwa Ibom State are fairly lenient budget rules and the constraints affecting Akwa Ibom State allocation of tax revenues across different sectors may make it more difficult to deal with rising economic pressures.

There are certainly some of the policy options that might help state officials avert enormous budget shortfalls during future economic declines. Akwa Ibom State could diversify her economic strategies from finance, create reserve funds that would provide a buffer against economic shock, raise more revenue from sources less volatile than personal income taxes or commit to imposing temporary tax increase on high-income households during downturns. These suggested measures appear to pose challenges to productive existence of vocational education which holds the key to the solutions of state and national development (Dike, 2009).

State Budget Rules and Vocational and Technical Education

In principle, state governments are required to have annual balanced budgets. In practice, however, this requirement is fairly elastic. Normally, only the operating budget (often referred to as the "general budget", although states use different names) is required to balance, while state and local governments typically raise and disburse funds outside of this sphere. For example, capital budgets, which encompass funds or public construction and transportation, infrastructure, and employee pension funds are not part of operating budgets and are not usually required to balance every year. Indeed, in the case of capital budgets, financing frequently takes the forms of long-term debt issuance, while pension funds can run surpluses in anticipation of future payments to retired employees. In addition, Akwa Ibom State disbursements funded by the federal government are often omitted from operating budget expenditures, and federal payments are not counted in operating budget receipts.

Richard, Andrew, and Charles (2010) provide modest evidence that supports these propositions. But their research evidence also indicates that the requirement for balanced budgets is designed to keep governments from borrowing to fund their current operations. This treatment guarantees that the cost of goods and services cannot be passed on to future taxpayers through long-term financing. Vocational Education, could appropriately be funded over time because its benefits would be

realized by generations of Nigerians. Charles, Patience, and Victoria (2009), for example contended that these attributes portray Vocational Education as having the potentials to universalized access to basic entrepreneurial skills, engender a conducive learning environment and thus, eradicate or reduce poverty in the country. Of course, formal balanced-budget regulations are not only to curb excessive borrowing by state governments but also temper harsh fiscal climate. The cost of financing debt in the bond market has a similar effect: when states try to borrow too much, they may be perceived as a risky bet by bondholders; consequently, they are likely to see the credit rating on their bonds decline while their interest charges rise.

The particular rules the states must follow in balancing their budgets and move Vocational Education forward, are as stated by Richard, Andrew and Charles (2010). For instance, they contended that the governor should submit a budget that is prospectively balanced; that is, a budget in which projected revenues match or exceed projected expenditures. In other states, the legislature is required to pass a balanced budget. The most stringent rule in effect among the states is a prohibition against carrying a deficit into the next fiscal year (meaning that a portion of next year's revenues will be used to pay the current deficit). Charles, Patience and Victoria (2009) are of the opinion that when such happens, it will pose challenges such as poor infrastructures, lack of teaching and learning materials, the problem of irrelevant curriculum, poor conditions of service and of work for teachers and students. The foregoing observations point to the problem of the imbalanced budget. For the state and its institutions to move forward, the challenges must be laid to rest or appropriately addressed.

How Economic Recession Affects Akwa Ibom State Budget

Recessions create budget pressures because they tend to slow the growth of revenues while creating a need for higher spending in a number of areas as follows:
Impact on Revenues: How a recession affects a state's revenues depend on the particular mix of resources used by the state and the response of these sources to deteriorating economic conditions. All states, however, are likely to see some decline in revenue growth, which in turn may affect not only their income streams in the short run, but also their ability to raise revenue for years to come. A state's tax revenues come from some combination of four main sources: individual income tax, corporate income tax, general sales tax, and various other taxes. During the 2009 – 2010 recessions, the national revenue indicates that all sources of state tax revenue fall on a year-over-year basis, a phenomenon not seen since 1980's (Federal Reserve Bank of New York, 2010).

The total projected recurrent revenue for 2010 is put at N206,867 billion. This represents an increase of N30,211 billion or 17.1% over 2009 corresponding estimates of N176,656 million. The break down is graphically illustrated in figure 1.

KEY

1. Derivation Revenue (Includes Excess Crude Oil) – 77.4%
2. Statutory Revenue – 12.13%
3. Int Gen Revenue – 7.1%
4. Value Added Tax (VAT) – 3.34%

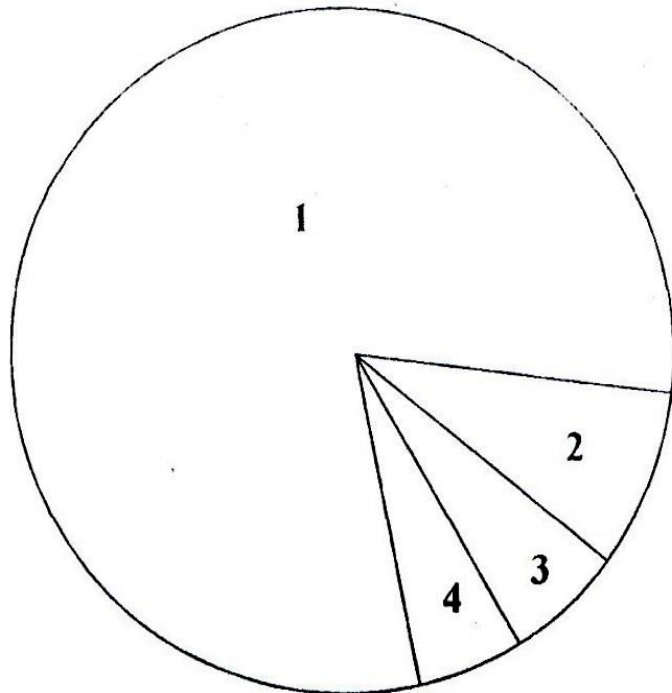


Figure 1: The Projected Recurrent Revenue in Akwa Ibom State For 2010

Estimated Internally Generated Revenue:

Revenue from personal income tax and corporate income taxes, which together account for nearly half of all tax revenues, have been especially sensitive to the business world and have declined significantly since 2009. The extent to which Akwa Ibom State's revenues fall when economic activities decline has been the subject of an extensive literature search. Much of it focused on general sale taxes and personal income taxes, fines and fees, licenses, earnings and sales, rent on government property, interests, receipts, on dividends, reimbursements and miscellaneous variables which together constitute about two thirds of the state tax nationwide. One recent study has indicated that when state revenues are booming, a 1% decline in personal income, on the average, causes a drop in sales and income tax revenues far greater than 1% in that fiscal year (Bruce, Fox & Tuttle, 2006, in Richard, Andrew, & Charles 2010).

Impact on Expenditure

The decline in revenues during a recession often coincides with increased demand for state spending. State expenditures from operating budgets typically finance general state operation (mostly public employee compensation) support local governments; and fund various social services such as Vocational and Technical Education. In an economic downturn, spending on social services, particularly unemployment, insurance benefits, welfare and Medical aid tend to rise.

Furthermore, reduced rate of return on investments, or even outright losses, can worsen shortfalls in public employee's benefit funds, intensifying pressures to step up funding from tax revenues. State budgets are also affected by the flow of funds between governments that are, between the federal government and state governments and between state governments and local governments tend to rise in order to help these entities fund programmes such as unemployment, insurance or other forms of social welfare. This is generally manifested in the Akwa Ibom State schedule of Revenue collected from the Federation Account form January –

December (Review of 2009 budget performance). The total statutory collection received from the federation account amounted to N150,074,439,941.91. The total deduction from the federation account was N1,228,080,526.17 while the total net receipt stood at N148,846,395,315.74.

In short, recession can place great stress on states amidst other challenges faced by vocational/technical education, (Otu, Udo and Usoro, 2010). The fact that the programme relies more heavily on volatile income taxes – Akwa Ibom State as a prime example is apt to face more fiscal stress during economic downturns (Dike, 2009 and McGuive 1991). In practice, Akwa Ibom State can adjust to cyclical revenue declines in different ways to help it address the challenges of Vocational and Technical Education. Poterba (1994) observed and pointed that a state's reaction to an unexpected worsening of its finances depends on the nature of its budget rules. Akwa Ibom State with its stringent rules tends to rely more heavily on spending cuts when faced with revenue losses. So given the differences in its rules, Akwa Ibom State would be expected to respond differently to the revenue losses, in order to address the stress posed by poor implementation of Vocational/Technical Education programme for national and sustainable development.

Akwa Ibom State Budget and the Affairs of Vocation and Technical Education

Akwa Ibom State's budget process starts with the governor who oversees the preparation of the budget that outlines planned receipts and outlays for the coming year, portions of which are items that make up its operating budget or what Akwa Ibom terms its "general budget". Within the general budget, expenditures cannot exceed revenues. The state legislature modifies the budget and enacts it into law. The governor is also required by state law to manage the budget through administrative actions during the fiscal year (that is, to order spending cuts to close emerging gaps in the general budget). Akwa Ibom State budget, like those of other states, does not follow the calendar year, which begins April 1 and ends in March 31. Budget preparation begins well in advance, the governor and state legislature review drafts of the upcoming fiscal year's budget in January.

The general budget accounts for less than half of the state's expenditure in the fiscal year that ended in March 2009. Akwa Ibom's spending was roughly N221,757,382,973.32. Within the general budget, the state's revenue streams come primarily from personnel income taxes, which amount to roughly 86.2% of the monies raised, followed by fines and fees amounting roughly to 84.4%, followed by licenses amounting to 9.6% while earnings and sales stood at 96.1% etc. In particular, the entrepreneurs in Akwa Ibom contribute large amounts to the state. Education and social services accounted for N344.8 billion subvention to public schools for the first and second terms of the school year. This amount did not provide any meaningful impact on the development of vocational and technical education in the state. Being a workshop –based education, vocational education becomes the key to the success or failure of the whole economic system, as the rest of the structure is built upon it.

(Abolarim, 2009). This is why funding and management of Technology Education are crucial issues which should be tackled with all seriousness in our contemporary system. In Akwa Ibom State, the craze for technology education is insatiable, and the budgetary allocation for vocational and technical education is insufficient, therefore all possible potential sources of funding should be identified and fully exposed and utilized (Tayo, 2000). In order to improve technology education at all levels there is obvious need for more financial assistance and the participation of private organizations as well as other agencies that possess the attitudinal and financial capability of moving vocational and technical education forward for the attainment of vision – 2020 and other dreams yet to come in the interest of Nigeria's industrialization. Stella (1998) in Olusegun (2000) has partially explained the following strategies technological institutions in Nigeria can employ to generate more funds for their business of training the youths for national development.

Given the current structure of Akwa Ibom State's revenues and expenditures, the state's options for dealing with a large budget gap are rather limited. As noted earlier, all personal income tax receipts (as well as a portion of sales taxes) can be used for only a fairly narrow range of purposes such as effective funding of Vocational and Technical Education. A hike in the personal income tax can be used to sustain spending on these items, but cannot directly fund other expenditures such as state employee compensation. It is true that other revenues from oil companies are also used to help fund the programmes financed by the Property Tax Relief Fund. In principle, the more income tax receipts that are available, the less the need to devote other tax revenues to the Property Tax Relief Fund. These revenues could then be used for other programmes, although the amount that can be shifted in this fashion might be limited.

Another potential option for addressing a large budget gap during an economic downturn is to scale back aid to Akwa Ibom State's public schools and municipalities. However, large reductions in these programmes could put pressures on localities to increase property taxes in order to maintain what are often mandated services. Trimming state spending on state employee compensation and benefits also poses significant challenges. Reducing employee compensation quickly in a meaningful way while still maintaining overall services would be difficult, and near-term cuts in employee benefit programmes could imply the need for enhanced spending in this area in the future. One other approach to bridging the budget gap – cuts in Medicaid, welfare, and other forms of giving aids to persons – would have the disadvantage of reducing social assistance at the very time such programmes would be in demand.

These general considerations are important to understanding the state's current situation and the policies that have been adopted. Prior to the passage of budget for the 2010 fiscal year, officials projected that, in the absence of legislative changes budget implementation for the period of January to December 2009, was estimated at N240,718,708,000 but the actual performance stood at N181,561,228,832.71. The percentage achievement for fiscal 2009 stood at 78.1%.

Hence, even with no increases in spending, the state faced a gap of about 22.9% (State Budget, 2010).

The 2010 state budget addressed this gap by trimming operating costs (achieved by freezing state workers pay and imposing mandatory furloughs), scaling back property tax rebates, applying for enhanced federal aid, boosting revenue collections through a tax amnesty programme and temporarily raising income taxes. The budget also reduced contributions to employee benefit funds and increased a variety of other taxes and fees. Only the last of these should be expected to have a permanent impact on the state's budget balance.

Other policy options for Akwa Ibom State and for states in similar positions, might focus on adjusting the composition of revenues to avoid dramatic budget shortfalls. Akwa Ibom State is heavily dependent on the highly cyclical personal income tax. One approach to smoothening revenue streams is to reduce reliance on cyclical sensitive tax bases and raise revenues from less volatile sources, notably sales taxes (Sobel and Wagner 2003). Such a strategy would reduce the downward momentum of tax revenues during a recession. However, higher sales taxes would increase burdens on low-income households, who typically come under disproportionate stress during an economic downturn.

Another approach to closing sizable budget gaps like Akwa Ibom's is to follow a policy rule of temporary raising of income taxes on high-income households during a downturn. The advantage of this approach is that it places a larger burden on household during an economic decline (and less liquidity constrained than the state itself). Such a tax would be removed once the economy begins to improve. Edgerton, Haughwout, and Rosen (2004) pointed out that Akwa Ibom State has adopted this balancing strategy in the past, adding temporary surcharges to the top income tax bracket during downturns.

Akwa Ibom State's Budget and Vocational/Technical Education vis-à-vis the Demands of Quality Assurance.

When it comes to statutory allocations of monies to the state and national department affairs, Vocational and Technical Education is often given the "shorter end" of the stick. In this respect, vocational and technical education suffers serious disadvantages especially in the face of quality assurance, the agents of which are the National Board for Technical Education (NBTE) National Commission for Colleges of Education (NCCE) and the National Universities Commission (NUC). These agents try to achieve their purpose of quality assurance through accreditation exercise. Currently, Nigeria is one of the 16 African countries that operate Functional National Quality Assurance Agencies (Materu, 2007; and Gasskov, 2004). Even though Quality Assurance is a very recent phenomenon in the educational scene, each state should endeavour to comply with its demands to enhance accountability, quality improvement for Nigeria's industrial development.

It is instructive at this stage to define related terms, so that the plight of vocational and technical education in the state's budgetary consideration may be better understood and appreciated. These related terms are identified and defined by Materu (2004) and Gasskov (2004) as follows:

Quality: This term refers to fitness of purpose "meeting standards as defined by an institution, quality assurance bodies and appropriate academic and professional communities. Already, Nigeria allocates less than 10% of its national budget to education as against the 26% recommended by UNESCO. About 80% of Nigeria's youths are unemployed and 10% are underemployed due to improper education and it is quite clear that budgetary constraints constitute an offensive factor in improper education (Dike, 2007 and Ola, 2009). Quality is subject to a broad range of factors. These factors include institutional visions and goals, the talent and expertise of the teaching staff, admission and assessment standards, the teaching and learning environment, the employability of its graduates (relevance to the labour market) the quality of the library and laboratories, management effectiveness, governance and leadership. Some of the factors are finance-related while a few others are attitudinal. Threading through them all is financial support which vocational education is not sufficiently graced to receive from Akwa Ibom State.

Quality Assurance: Is a planned and systematic review process of an institution or programme to determine whether or not acceptable standards of education, scholarship and infrastructure are being met, maintained and enhanced. A training institution or programme is only as good as the quality of its teaching staff.

Accreditation: This is a process of self-study and external quality review used in higher education to scrutinize any institution and or its programmes for quality standards and need for quality improvement.

When the mission of vocational and technical education is viewed within the budgetary constraints in Akwa Ibom State, then the meeting of the foregoing demands becomes an uphill task or impossible. This is detrimental to the community, state and national development.

Summary

The major ideas covered in this paper may be summarized as follows: the importance of sound budget planning and preparation in any national development cannot be overemphasized. Akwa Ibom State budget has faced million naira budget gaps to the detriment of successful functioning of state organs including vocational and technical education which is the key to the solutions of state and national developmental problems. Removing the budgetary constraints from the state's efforts at achieving industrialization means a lot to vocational and technical education. The end of such constraints is sure to help vocational and technical education to achieve quality assurance demanded by accrediting agents. National Board for Technical Education, National Commission for Colleges of Education and National Universities Commission. Akwa Ibom State and other Nigerian states should adjust the composition of their revenue modes to prevent dramatic budget shortfalls.

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