ECONOMIC RECESSION AND RECOVERY IN NIGERIA: THE ROLE OF GOVERNANCE AND IMPLICATIONS FOR VISION 20:2020

Mulikat Folashade Usman¹
Rufai Mohammed Abdulrahman²

Abstract
This paper critically examined the role of governance in managing the economy and economic recessions in Nigeria. It reviewed and analysed the relationship between governance and economic growth (including periods of recessions) in Nigeria from 1999-2015. Secondary data was used to analyse the linear association between governance quality and GDP growth. The six Worldwide Governance Quality (WGI) indicators were used to measure governance quality while the GDP was used to measure economic growth. Methods of analysis included correlation and trend analyses. Among other results, statistical extrapolations indicated that the Vision 20:2020 would be far from realisable should the current economic trend and governance pattern continue. This dismal prognostication is essentially based on the GDP forecast of N112.54 Billion for 2020 which is many trillions of naira short of the set GDP target of $900 billion by 2020 for the realisation of the Vision 20:2020. The paper concluded that all the indicators of governance quality, except Voice and Accountability (VA), had a statistically significant relationship with economic growth measured using the GDP at either the 0.01 or 0.05 significance level in at least a regime or the entire study period. The paper also identified the importance of the issue of diversification of the economy as part of its recommendation. Moreover, the government must launch an all-out war against violent extremism and terrorism in order to achieve political stability and enhance economic growth.

Keywords: Governance, Economic recession, Leadership, Crisis, Recovery, Vision 20:2020

Introduction
No country in the world wants to experience economic recession because of the harsh and distasteful consequences that accompany it. However, economic recession is not a phenomenon that can be merely wished

¹ Department of Business Administration, Faculty of Management Sciences, Usmanu Danfodiyo University, Sokoto
² Department of Business Administration, Federal University Gusau
mfusman20@yahoo.com

Sahel Analyst (AJOM): ISSN 1118-6224
away. A number of factors are responsible for its occurrence as well as recovery from it. As observed by Lawal and Owolabi (2012), it is logically unbelievable and appalling that despite the long years of independence, Nigeria is still battling with the problem of good governance. They also noted that the crop of leaders that have attained leadership position since independence had in one way or the other lacked vision. Most of them have been engrossed with corruption and political bickering leading to the enthronement of corruption, maladministration and mismanagement of public resources, and consequently economic setback and abject poverty as national heritage.

Ufomadi (2011) reveals that the Nigerian economy has experienced all the phases of a typical business cycle (decline, depression or recession, recovery and boom). However, none of the booms (agriculture, oil and financial) resulted in any significant restructuring and transformation of the economy. Virtually, every regime, military or civilian, in Nigeria has proposed the need to diversify the economy, yet little or nothing has been concretely done. These leaders failed to understand that petroleum resources are exhaustible whereas investments in agriculture and other non-oil sectors are not. It is important to note that in the 1960 and early 1970s, Nigeria, Malaysia, Indonesia, Taiwan, Singapore and South Korea had similar income per capita, GDP (Gross Domestic Product) growth rates, and underdeveloped political structure.

But today, the Asian Tigers, sometimes called Newly Industrial Countries (NIC) have escaped underdevelopment and poverty, partly because of the way in which their economies are managed, yet, Nigeria is battling with economic recession, poverty and underdevelopment (Ufomadi, 2011). According to Investopedia (2016), a recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).

One issue that has been debated widely, over the last two decades, is the role of institutions and good governance in economic development and growth. Several empirical studies have established the conclusion that long-term growth and quality of institutions are closely related, although the causation and the way these variables interact are still highly debated (Rapanos & Kaplanoglou, 2014). The Nigerian economy has remained largely underdeveloped despite the huge human and natural resources. The per capita income is low, unemployment and inflation rates are high. The economy has continued to witness economic recovery which is immediately followed by economic recession and depression (Umaru, Donga & Musa, 2013).
Statement of the Problem

Quite a number of research efforts (Anazodo, Igboke-Ibeto & Nkar, 2015; Samuel, 2016; Umaru & Musa, 2013) have discussed possible causes of the current economic crisis in Nigeria. However, research on the influence of governance on economic growth (including recessions and recovery) over the past few years, especially, the relationship between all the six governance indicators and economic growth, which are; Control of Corruption (CC), Political Stability and Absence of Violence/Terrorism (PV), Government Effectiveness (GE), Rule of Law (RL), Voice and Accountability (VA), Regulatory Quality (RQ) is largely lacking. More so, not many of the studies have attempted to empirically show the possibility of achieving the Vision 20:2020. The present research attempts to fill this gap by studying the influence of governance in managing economic growth, particularly showing the relationship between governance and economic growth. It also attempts to offer up an empirical prognostication about the attainability of the Vision 20:2020.

Objective of the Study

The general objective of this research work is to assess the role of governance in managing the Nigerian economy especially during economic recession. Specific objectives are to:

i. Determine the relationship between governance and economic growth.
ii. Determine the linear trend of economic growth over the period under review.
iii. Predict economic growth output up to year 2020 and examine the implications in the realisation of Vision 20:2020.

Hypotheses

For the purpose of this research work, some hypotheses are formulated.

H01: There is no significant relationship between governance and economic growth in Nigeria.
H02: The Nigerian economic growth pattern has no linear trend.
H03: There is a statistically significant prognostication that the Vision 20:2020 is not realisable.

Literature Review

Nigeria faces an existential crisis located at the nexus of leadership, governance and corruption. Several normative and empirical obstacles inhibit bureaucratic leadership in its efforts at promoting good governance and fight against corruption in a developing country like Nigeria. The spirit of patriotism and nationalism in Nigeria and Africa in general seem to have gone with the attainment of political independence in 1960. Ever since then, African leaders hardly pursue the goals of the state but their own personal and sectional interest (Anazodo, et al., 2015).
It would be recalled that the late world renowned novelist, Chinua Achebe, in 1983 wrote a small book entitled “The Trouble with Nigeria.” In the book, Achebe largely blamed the plight of the country on leadership failures, saying: “the trouble with Nigeria is simply and squarely a failure of leadership. There is nothing basically wrong with the Nigerian character. There is nothing wrong with the Nigerian land or climate or water or air or anything else. The Nigerian problem is the unwillingness or inability of its leaders to the responsibility, to the challenge of personal example which are the hallmark of true leadership” (Kayode, 2014).

The tales of corruption in the political economy of Nigeria since 1960 has never failed to attract interest. Historically, corruption and governance issues cannot be separated because it is only expected that the best form of governance would abhor corruption just as a corrupt regime would not be interested in promoting popular governance. The Nigeria’s political elite seems to have a consensus among most of them on the question of corruption. This issue, in a way is related to Achebe’s position on Nigeria’s leadership. Political corruption is often aided by the political elites, through their appalling acts of political accommodation which is in itself driven by the quest to gain or “grab” or retain political power at whatever cost (Kayode, 2014).

According to Odekunle (2007) in Tolu, Kayode and Ilepe (2012), most of the problems Nigeria is facing today particularly, in terms of development are caused by the sharp practices of our past and present leaders. In terms of accountability, transparency and service delivery, despite the abundance of human and natural resources that make the country the toast of many nations, our leaders have not been at their best as people’s expectations of a better hope and opportunities have long be dashed, with governance ingredients still at its elusive stage to Nigerians. The leadership problem that has confronted Nigeria since independence is making the polity deteriorating. Few of the leaders if any, work for the development of the country more often than not, their policies are hastily put together and poorly executed.

However, with effective leadership, good governance, good economic strategies and eradication of corruption, the Nigerian economy is expected to bounce back from economic recession and grow massively beyond expectation. Samuel (2016) notes that our over reliance on oil has come back to haunt us 'unexpectedly'. Over the years, we have paid lip service to the development of the non-oil sector. A significant drop in oil prices has depleted our revenue earnings and the effect is visible to all; less money for the Government to spend and undue pressure on the available foreign exchange! As a country heavily dependent on imports, this has been our albatross. The last time Nigeria was in recession was in 2004 (Rewane, 2016).

Although the effects of governance on growth have been widely explored, an issue that gains interest is the extent to which weak institutions
and governance prolong crises. According to Rapanos and Kaplanoglou (2014), find evidence that weak institutions precede crises and also that strong institutions shorten the duration of crises. This issue is quite relevant for the countries that are experiencing recession. A pertinent question is to what extent the economic recession is due not only to the crisis but also to the quality of institutions of these countries, and if the quality of institutions affects the exit from the crisis. We shall briefly look at some of the most important concepts in this work.

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. It is the market value of goods and services produced by an economy over time and can be measured using the gross domestic product (Olusegun & Charlotte, 2014; Investopedia, 2016). As stated in the work of Noko (2016), the National Bureau of Economic Research (2008) defines an economic recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production and whole sale-retail sale.

Traditionally, Economists define a recession as two successive quarters of decline in the growth of the Gross Domestic Product (GDP). Going by the report of the National Bureau of Statistics of negative growth rates for the 1st, 2nd and 3rd quarters of 2016 as negative, economic recession is upon us (Samuel, 2016). According to Noko (2016), some of the causes of the economic recession include poor economic planning, high inflation rate, high interest rate, high taxation and policy conflict. Over dependence on oil and paying of lip service to the development of the non-oil sectors also contributed to the economic recession.

Although governance does not have a single, established meaning, as observed by Bassam (2012), most scholars agree that good governance practices fight corruption (Agere, 2000; Bevir, 2010; Mimicopoulos et al., 2007), lead to effective and efficient government programs (Agere, 2000; Box, 1998; Salamon, 2002; Santiso, 2001), hold elected officials and bureaucrats within government accountable for their actions (Agere, 2000; Dubnick & Frederickson, 2009; Heinrich et al., 2009), and maintain economic growth (Adams & Mengistu, 2008; Alkire, 2010; Kaufmann & Kraay, 2002; Mehanna et al., 2010).

Governance describes the overall manner in which public officials and institutions acquire and exercise their authority to shape public policy and provide public goods and services (de Ferranti et al., 2009). Good governance, according to the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2009), has 8 major characteristics. It is participatory, consensus oriented, accountable,
transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law. These criteria are often used by international organisations and recipient nations to assess how their governments are achieving better governance (Mimicopoulos et al., 2007 in Bassam, 2013).

Good governance is the standard used to determine the level of a country’s governing quality by international institutions and countries providing political, administrative, and financial support and advice to other countries (Bassam, 2012). Although many measurement indices have been developed over the years, there are no perfect measurement indicators of governance. Some researchers use the Corruption Perceptions Index (CPI) which measures a nation’s corruption levels. However, in this study we will adopt the Worldwide Governance Indicators because they cover the most important aspects of the governing process.

Unlike other indices, as stated in the work of Bassam (2012), the Worldwide Governance Indicators contain an indicator for each aspect of the governing process, affording researchers and policy-makers a better understanding of the political process (Kaufmann et al., 2009a; de Ferranti et al., 2009; Langbein & Knack, 2010; Thomas, 2008). About 31 sources are used to construct the governance indicators, and each indicator concentrates on measuring one aspect of the governing process. In addition, the WGIs use an aggregate methodology to construct the indicators, each of which has been structured using many data sources, such as surveys and reports. Each country is assigned a governance score between +2.5 (high quality) and -2.5 (low quality), and its performance is ranked on a scale of 0 to 100 (Bassam, 2012).

As stated in the work of Rapanos and Kaplanoglou (2014), there are six WGIs according to the initiators, Kaufmann, et al. (2011), as discussed briefly below:

i. **Control of Corruption (CC)** – captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests.

ii. **Political stability and absence of violence/terrorism (PV)** – captures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

iii. **Government effectiveness (GE)** – captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.

iv. **Rule of law (RL)** – captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular
the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

v. **Voice and accountability (VA)** – captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

vi. **Regulatory quality (RQ)** – captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

**Vision 20:2020**

According to Kayode and Emmanuel (2013), the Vision 20:2020 is an economic plan aimed at making Nigeria one of the 20 most developed and largest economies in the world in the year 2020. The Vision statement as indicated in the document is that “by year 2020 Nigeria will be one of the 20 largest economies in the world able to consolidate its leadership role in Africa and establish itself as a significant player in the global economic and political arena.” The Vision was introduced in 2007 at the tail end of the President Obasanjo’s regime. A Steering Committee was inaugurated in April, 2008 to come up with a working document that would serve as a guide in actualising the Vision 20:2020. The Vision 20:2020 document was submitted and approved for implementation by the Federal Executive Councils on October 14, 2009. The document is expected to be implemented through three medium term development plans. The first plan will run from 2009-2012. The second will be from 2013-2016, while the third plan will be from 2017-2020.

One of the key parameters for achieving the Vision 20:2020 is to improve the living standards of her citizens and place the country among the top 20 economies in the world with a minimum GDP of $900 billion and a per capital income of no less than $4000 per annum.

**Methodology**

The study adopted the exploratory research design, using two methods of analyses to test and validate the research hypotheses: correlation and trend analyses. The secondary data used in this research paper was obtained through Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS) while data on governance indicators were taken from the Worldwide Governance Indicators (WGI, 2016) Report. The sampling technique adopted in this work is a non-probability sampling method known as Judgment Sampling.

**Results and Discussion**

**Trend Analysis**

Fitted Trend Equation

\[ Y_t = -0.01789 + 0.005928t \]
Forecasts
Period Forecast
2016 0.088821
2017 0.094750
2018 0.100678
2019 0.106606
2020 0.112535

Figure 1: Showing Trend Analysis Plot for GDP

The above shows that the growth pattern of the Nigerian economy has a linear upward trend. Although there are observed periods of recession in 2004 and 2008/2009, an upward growth began in 2009 up until 2015. The yearly GDP value of 2016 could not be obtained as at the time of this research analysis, but it was later discovered from the National Bureau of Statistics that the Nigerian economy experienced recession all through 2016. The GDP forecast for year 2020 is ₦112,54 Billion. This shows that there is a statistically significant prognostication that the Vision 20:2020 (of achieving a GDP $900 billion by 2020) is not realisable.

Table 4.1 Correlations between Governance Indicators Variable and GDP

<table>
<thead>
<tr>
<th>Time period</th>
<th>CC&amp;GDP</th>
<th>GE&amp;GDP</th>
<th>PV&amp;GDP</th>
<th>RL&amp;GDP</th>
<th>RQ&amp;GDP</th>
<th>VA&amp;GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2015</td>
<td>0.015</td>
<td>-0.279</td>
<td>-0.724*</td>
<td>0.467</td>
<td>0.503**</td>
<td>0.331</td>
</tr>
<tr>
<td>1999-2003</td>
<td>-0.842</td>
<td>0.426</td>
<td>-0.815*</td>
<td>-0.793</td>
<td>-0.781</td>
<td>0.634</td>
</tr>
<tr>
<td>2003-2007</td>
<td>0.991*</td>
<td>-0.564*</td>
<td>-0.881**</td>
<td>0.981*</td>
<td>0.754*</td>
<td>-0.178</td>
</tr>
<tr>
<td>2007-2011</td>
<td>-0.712</td>
<td>-0.250</td>
<td>-0.421**</td>
<td>-0.822</td>
<td>0.793</td>
<td>0.382</td>
</tr>
<tr>
<td>2011-2015</td>
<td>-0.192</td>
<td>0.044</td>
<td>-0.801*</td>
<td>0.982*</td>
<td>-0.833</td>
<td>0.804</td>
</tr>
</tbody>
</table>

Source: Author’s Computation (2017)
Economic Recession and Recovery in Nigeria: The Role of Governance and Implications for Vision 20:2020

Note: *and ** means significant relationship at 1% and 5% respectively.
CC: Control of Corruption
GE: Government Effectiveness
PV: Political Stability and Absence of Violence/Terrorism
RL: Rule of Law
RQ: Regulatory Quality
VA: Voice and Accountability
GDP: Gross Domestic Product

For the entire unbroken period of Nigeria’s democratic governance, the period 1999-2015 under review, the linear relationship between control of corruption and economic growth is positive, very weak and statistically insignificant. This means that the Nigeria’s governance quality of controlling corruption made no significant impact on the GDP growth. A strong, positive and significant relationship is however found between control of corruption and economic growth during the 2003-2007 regime. Every other regime recorded a negative but insignificant relationship between control of corruption and GDP growth.

In all the time periods assessed, a strong, significant, negative relationship was found to exist between Political Stability and Absence of Violence/Terrorism (PV) and GDP. This means that decrease in violence/terrorism led to increase in economic growth and increase in violence/terrorism led to decrease in economic growth. Aside PV, regulatory quality (RQ) was found to have a significant positive relation with GDP for the period 1999-2015. All other governance indicators (GE, RL and VA) were found to have an insignificant relationship with GDP. See Table 4.1 above for other correlation coefficients.

However, it is important to point out that during regimes characterised by recessions, 2003-2007 of which there was recession in 2004, all the governance indicators except VA had a significant relationship with GDP with GE and PV sharing a negative relationship, and others (CC, RL and RQ) sharing a positive relationship with GDP. Another regime characterised by recession in our study period is the 2007-2011 of which there was recession in 2008/2009. In this period, Political Stability and Absence of Violence/Terrorism (PV) as a governance indicator had a significant albeit moderate negative relationship with GDP. Correlation coefficients of other indicators were statistically insignificant and had a mix of both positive and negative relationships with GDP.

Conclusion
This study was carried out to assess the relationship between Nigeria’s governance quality and economic growth including the periods of recessions and recovery. The governance quality was measured by the six Worldwide Governance Indicators, viz. Control of Corruption (CC), Government Effectiveness (GE), Political Stability and Absence of Violence/Terrorism (PV), Rule of Law (RL) and Regulatory Quality (RQ).
Violence/Terrorism (PV), Rule of Law (RL), Regulatory Quality (RQ) and Voice and Accountability (VA). Economic growth was measured by the Gross Domestic Product (GDP). Two statistical methods of analysis were deployed to evaluate the research questions and test the hypotheses.

It was found that although there were fluctuations in the growth of the Nigerian economy for the period under review, particularly in 2004, 2008/2009, the growth pattern maintained a statistically significant upward trend. And although the forecast showed an increase in growth, the GDP value predicted for 2020 was nowhere near the $900 billion target for the realisation of the Vision 20:2020.

This research found that economic recessions affected the relationship between governance and economic growth, and that the relationship of governance to economic growth was different for every democratic regime from 1999-2015, our time span. The relationships of all governance indicators with GDP were seen to have changed after each regime, although some remained largely unchanged. The results showed that some indicators have the most significant relationship with growth when analysing all the regimes in this study. Political Stability and Absence of Violence/Terrorism has a statistically significant negative association with economic growth for all the regime periods irrespective of periods of recessions. This shows that reduced violence/terrorism would enhance growth and increased violence/terrorism would slow down economic growth and prolong recession.

Predictably, control of Corruption (CC), the ability of the public to hold the government accountable for its actions, had an insignificant negative relationship with growth for most of the regimes i.e. 1999-2003, 2007-2011 (a period characterised by recession in 2008/2009) and 2011-2015 except for the period 2003-2007 where a significant positive relationship was found to exist between it and GDP growth. With only a negative relationship found for 2003-2007, Voice and Accountability (VA) had a statistically insignificant positive relationship with economic growth for the rest of the study period. In contrast, Political Stability and Absence of Violence/Terrorism (PV) had the most significant negative relationship with economic growth for all the regimes at all times including periods of economic recession.

**Recommendations**

Based on the outcome of findings of this research, the following recommendations are provided. This study posits that although the Vision 20:2020 might not be realised based on the research findings, all the six indicators of governance quality should be restructured to conform to global best practice in order to lift the economy out of recession and jumpstart its growth. Particularly, since it was found that Political Stability and Absence of Violence/Terrorism (PV) was the only governance indicator that had the most statistically significant negative relationship with economic growth, it is
recommended that violence and terrorism must be reduced to the barest minimum or completely defeated in order to enhance political stability and promote economic growth, and also jerk up the economy and lift it out of economic recession. The paper also recognises the importance of the issue of diversification of the economy so as to reduce over dependence on oil and develop other non-oil sectors.

References


Rewane, B. J. (2016). *Nigeria-technically in recession could this have been avoided?? Monthly economic news and views, Lagos business school executive breakfast meeting.*


