REVIEW OF ECONOMICS, MANAGEMENT, AND PUBLIC POLICY

Vol. 1 November, 2023

REVIEW OF ECONOMICS, MANAGEMENT, AND PUBLIC POLICY

Vol. 1 November, 2023

REVIEW OF ECONOMICS, MANAGEMENT, AND PUBLIC POLICY
www.intl-academy.org/REMP

PUBLISHER

INTERNATIONAL EDUCATORS GROUP
Potomac, Maryland, USA

A Note on Nigeria's Economic Recovery Trajectory: How Real?

Akpan H. Ekpo, University of Uyo

ABSTRACT

This paper argues that for an economic such as Nigeria, it is more useful to x-ray other significant economic variables like rate of unemployment, incidence of poverty, misery index and rate of inflation, among others, when recovering from a recession than emphasise growth of real GDP. Recovery is only a phase in the business cycle. The Nigerian economy recovered from two recessions in 2016 and 2020 yet the economy remained in a state of stagflation before, during and after recovery.

INTRODUCTION

The Nigeria economy in recent times has experienced two recessions, 2016 and 2020. The leadership, policy-makers and technocrats show excitement when recovery sets in. It should be stated that recessions are typical occurrences in economies that depend heavily on market forces. However, because of inter-dependence among countries, recessions in developed economies may affect developing countries with the latter experiencing such as a client –often labelled client recession.

It is important to state that before the 2016 and 2020 recessions, the Nigerian economy has undergone several business cycles which are typical in a market driven economy. She has experienced from agriculture, petroleum and financial boom at various times in her history. However, none of the boom was ever linked to the real sector.

The economy had episodes of robust growth with relevant macroeconomic indicators at respectable levels. During the period 1960-1999, even with the implementation of the Structural Adjustment Programme, the economy registered low rates of unemployment, for example. Nonetheless, the implementation of the Structural Adjustment Programme (SAP) from 1986 brought untold hardship to millions of Nigerians. The policy of guided deregulation which saw the abandoning of SAP brought some relief. From 1993-1998, relevant economic indicates, such as inflation, exchange rate and unemployment began to move in the right direction.

During the period 1999-2007, there were efforts to better macro-manage the economy as reflected by the passage of the Fiscal Responsibility Act, Procurement Act (Due Process), etc. The GDP growth rate averaged 7 percent but was not generating employment. During the 1960-2007 episode, the economy was characterized by periods of boom, decline, trough and recovery. Even the 2008/09 global financial crisis mildly affected the Nigerian economy partly due to the fact that there was enough foreign exchange to finance imports for over a year.

The government in recent times appears excited when the economy recovers from a recession, often stressing the significance of the growth of GDP. While, the GDP and its relevant measures are useful in economic analyses, unnecessary emphasis on GDP growth may be misleading.

Consequently, the objective of this note is to ascertain the effectiveness of economic recovery through positive growth in GDP with evidence to bear on the Nigeria economy. Furthermore, the following question are addressed: (i) Does positive GDP growth path imply recovery? How far has government policies and programmes contribute to recovery? among others.

The paper is organized as follows: section 2 examines theoretical and conceptual issues while stylized facts and the economics of recovery follows in section 3. The discussion on how to manage the economy is analysed in section 4 with concluding remarks in section 5. It is expected that this note will contribute to the debate on the relevance of the recovery phase of the business cycle to the Nigerian economy.

THEORETICAL AND CONCEPTUAL ISSUES

The theory of the business cycle provides an explanation for the recovery phase in an economy. Market driven economies are characterized by the different phases of a typical business cycle namely: boom (peak), decline, trough (recession, depression if prolonged), and recovery. Economic recovery is the business cycle phase following a recession. The rule of thumb for a recession is if there are two consecutive quarters of negative GDP growth.

An economic recovery occurs after a recession as the economy adjusts and recovers some of the benefits lost during the recession. The economy can enter an expansion phase before hitting a boom. The recovery stage has its own peculiarities as mild expansion may not reduce unemployment, inflation and even poverty immediately. Hence, the recovery phase depends on the state of the economy before the recovery sets in.

It is important to state that the indicators of recovery include: (i) the stock market, which rises ahead of economic recovery since future expectations drive stock prices; (ii) unemployment rate remains high but may slow down often referred to as cyclical unemployment; (iii) consumer confidence, and (iv) inflation, if it is way above double-digit. Nonetheless, the main indicator remains, the GDP – a positive growth, no matter how marginal, after two quarters of contraction signals a recovery.
It is often argued that when there are signs of an impending recession, monetary policy if properly applied may minimise the adverse effect and thus slow down the recession. However, when the economy finally is in a recession, fiscal policy and sometimes structural policy would be required to enhance aggregate demand. The question to address is why the obsession with positive GDP growth after a recession?

The traditional analysis of business cycles anchors on the ups and downs as well as on mainly the nature and character of investment including the stock of inventory. The fluctuations are perceived as temporary shocks to the economy. The economy can return to stability with the implementation of sound macroeconomic policies (Ekpo, 2017, pp.1-34).
However, practically an economy is continually disturbed from its long run equilibrium by shocks (negative and positive). These shocks can be temporary or permanent, anticipated or unanticipated. The real business cycle theory stresses the effect of a technology (production) shock on the economy. In spite of the various theories of business cycle, the aim of policy is to reverse the phases, that is, have in place counter-cyclical policies. It should be noted that sound policies are required to manage the peak (boom) phase in a business cycle.

Our framework would be guided by the above brief discourse on theoretical and conceptual issues. We would discuss the Nigerian economy after recovery by examining the economic performance index which captures significant macroeconomic indicators such as inflation, budget deficit, unemployment and real GDP. In addition, the misery index and incidence of poverty would be analysed within the context of economy recovery.

STYLIZED FACT AND THE ECONOMICS OF RECOVERY

Table 1 and the Figures below provide stylized facts for analysing the recovery scenario in the Nigerian economy. For the period 2000-2021, except for the recessionary period, 1999, 2015, 2017 and 2018, the economy registered reasonable real GDP growth rates. The real GDP, growth in 2000 which stood at 5.52 percent rose to 14.60 percent in 2002 before declining but maintaining positive growth rates. Between 1999 and 2007 real GDP grew on average of 5 percent which was higher than the population growth rate of about 3 percent. From 2008-2015, real GDP registered an average growth rate at 5.6 percent.
The real GDP growth rates though positive were not only unsustainable but also remained single-digit. Real GDP growth should grow double-digit and sustainable for at least 15 years to have a dent on poverty reduction. We have shown elsewhere, that growth is not economic development (Ekpo, 2022). The positive growth rates were not supported by acceptable macroeconomic indicators.
During the period, 2000-2007, the rate of unemployment averaged 13 percent, inflation remained at double-digit, and the poverty incidence averaged 71 percent. The growth in real GDP seems to have no impact on unemployment and poverty reduction.

The unemployment rate of 13 percent during the period of 2000-2007 is higher than the threshold of 5 percent and 7 percent for developing countries. The same scenario repeat itself during the period 2008-2015. It can be argued that the policies

formulated and implemented during the 16 years of democratic experiment had no positive impact on the economy. The economic performance index averaged 70 percent which is less than the average score of 80 percent. Even with positive growth rates of real GDP, the economy remained in a state of stagflation as shown by rising inflation, rising unemployment and below average economic performance.

All the signs of an impending recession were visible from 2008/09; apart from the global financial crisis, there were sharp decline in consumption, investment and global oil prices. The economy was in a recession in 2016 with real GDP contracting at 1.58 percent. In 2013-2015, before the recession, real GDP grew on average of 2 percent below the population growth rate. During the same period, unemployment, poverty incidence, misery index and economic performance index were moving in the wrong direction.

TABLE 1 NIGERIA: SELECTED ECONOMIC PERFORMANCE INDICATORS 1999-2021 (%)

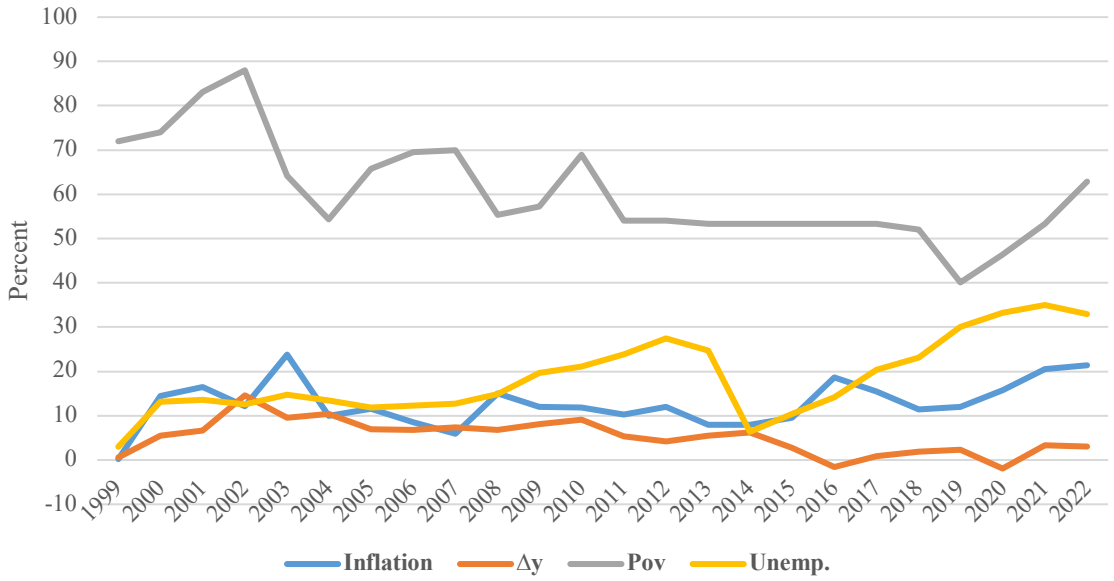
Year	Inflation	Δy	Pov	Unemp.	EMI	EPI
1999	0.20	0.52	72.0	3.0	24.54	77.3
2000	14.50	5.52	74.0	13.1	45.58	78.5
2001	16.50	6.67	83.1	13.6	48.39	78.6
2002	12.20	14.60	88.0	12.6	49.65	72.9
2003	23.80	9.50	64.2	14.8	59.31	66.1
2004	10.00	10.44	54.4	13.4	42.58	74.2
2005	11.60	7.01	65.7	11.9	41.45	74.2
2006	8.50	6.73	69.5	12.3	38.06	65.6
2007	6.00	7.32	70.0	12.7	36.24	55.6
2008	15.10	6.76	55.3	14.9	43.17	77.3
2009	12.00	8.04	57.2	19.7	47.70	78.5
2010	11.80	9.13	69.0	21.1	46.38	78.6
2011	10.30	5.31	54.1	23.9	50.88	72.9
2012	12.00	4.21	54.1	27.4	57.58	66.1
2013	8.00	5.49	53.3	24.7	48.87	74.2
2014	8.0	6.22	53.3	6.4	30.69	65.6
2015	9.6	2.79	53.3	10.44	40.34	55.6
2016	18.6	-1.58	53.3	14.20	58.25	68.2
2017	15.4	0.83	53.3	20.4	59.36	70.2
2018	11.40	1.92	52.0	23.1	58.62	70.2
2019	11.98	2.27	40.1	30.0	62.11	70.5
2020	15.80	-1.92	46.4	33.3	70.89	53.0
2021	20.5	3.40	53.3	35	70.81	53.0
2022	21.4	3.10	62.9	33	72.8	53.0

Sources: (i) National Bureau of Statistics, Abuja (ii) Incidence of poverty is also from Oxford Poverty & Human Development initiative; (iii) Agusto & Co., (iv) statista

Notes: Δ*y = growth in real GDP; Pov = incidence of poverty; Unemp = rate of unemployment; EMI [Ekpo's Misery Index] = inflation + unemployment + lending rate + 1/3 (unemployment rate) – real growth of GDP. EPI = Economic Performance Index – calculated by utilizing actual macroeconomic performance indicators against the accepted threshold. Average performance score is 80 percent*.

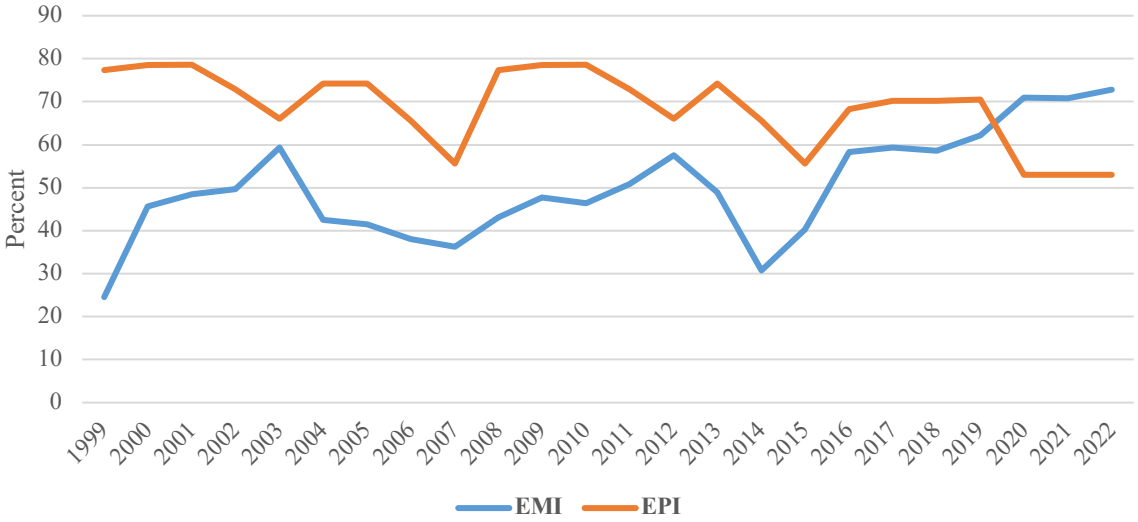
When the economy recovered from the recession in 2017 as a result of increasing government expenditure due to enhance revenue from oil exports, the economic fundamentals worsened and remained the same until the recession of 2020. The growth in real GDP by 0.83 percent in 2017 signalled economic recovery but the relevant macroeconomic indicators further worsened. The economy remained at the stagflation phase in spite of the marginal growth in real GDP (see figure 1).

Figure 1 :Selected Economic Performance Indicators in Nigeria, 1999-2022



It would have been better for the economy if the leadership and policy-makers declare a 'recession' in 2003 when the rate of unemployment was about 15 percent and rising for youths. The positive growth in real GDP is not a better way to gauge recovery in an economy like Nigeria, especially in an economy that is informal sector driven and remains to be diversified. Appropriate policies to address stagflation would reduce the adverse effects of a recession. The leadership, policy-makers and technocrats should think outside the box, examine the realities of the Nigerian economy and not fall into the trap of received theory. The incidence of poverty exceeded the relevant macroeconomic indicators during the period 1999-2022 (figure 1).

Figure 2 : Nigeria Misery and Economic Performance Index, 1999-2022



As long as the economy shows rising rates of inflation, unemployment (above 5 percent), rising incidence of poverty, rising misery index and other declining socio-economic indices, the situation is worse than a recession, that is, real GDP contracting in two consecutive quarters. From figure 2, it is clear that the misery index and the economic performance index were

fluctuating in the same direction but by 2021 the misery index rose above the economic performance index. In the recession of 2021 when real GDP grew by 0.11 in the 1st quarter of 2021, there was an 'excitement' that the system has recovered from the COVID-19 pandemic shock. It should be noted that the GDP is only one measure of gauging the performance and economic activities in an economy. The GDP has several challenges too numerous to discuss in this brief note.

MANAGING THE NIGERIA ECONOMY

The necessary institutions for managing a modern economy are in Nigeria. The Central Bank handles monetary and financial matters while fiscal policy is under the purview of the Executive branch of government. It is conventional that there must be coordination between monetary and fiscal authorities to enhance growth and development. Pundits have argued that the biggest challenge is that of implementation. Others allude to the lack of capacity in conceptualising and formulating policies. Consequently, policies are ad hoc and inconsistent. Furthermore, even good policies are politicized.

There have been episodes in the Nigerian economy when robust policies were formulated and implemented. The recent example is the Economic Sustainability Plan (ESP) put in place to reverse the adverse effects of the COVID-19 health pandemic. It was well implemented and the outcome was a less painful recession though the indices of stagflation remained. Another challenge in managing the economy rests on the lag structures, that is, the delay in identifying a crisis, formulating and implementing the needed policies. The lags are recognition, administrative and operation (Umoh, 2019). The delay in implementing policies have long-term negative effects making economic management very difficult. In addition, without political will policies needed to manage the economy would be mere abstraction.

CONCLUSION

Economic recovery is a phase in a typical business cycle. It is not too safe to examine economic recovery from the lens of positive real GDP growth - this is very temporary, that is, until another recession sets in. It is economies that depend heavily on the market mechanism that are susceptible to economic recession and/or depression.

In managing the Nigerian economy, relevant policies and programmes must be put in place to address, rising unemployment and under-employment, high rates of inflation, rising poverty, rising misery index and insecurity. It is the proper implementation of policies that would result in development. While growth is necessary, it is not a sufficient condition for development.

Consequently, how real is the recovery of the Nigerian economy after a recessionary phase when all relevant macroeconomic indicators are moving in the wrong direction despite growth in real GDP? Managing an economy is not a tea party.

REFERENCES

Ekpo, Akpan H (2022) ***Nigeria: A Resource Rich Economy in Disarray*****,** Lagos, University of Lagos Press.

Ekpo, Akpan H (2012) "Employment, Growth and Poverty: Nigeria: An Empirical Investigation" ***Nigerian Journal of Economic and Social Studies****,* Vol. 54, No. 3, pp. 295-314.

Ekpo, Akpan H (2017) "Monetary Policy During Economic Downturn: Nigeria, 1981-2016" ***Journal of Banking*** Vol. 7, No.1, June, pp. 1-34.

Ekpo, Akpan H (2016) "Global Economic Crisis and Africa's Economic Performance," ***Africa Insight*****,** Vol 46 (1) June, pp. 9-44.

Nasser Rashad Mawah et al (2021) eds. ***Fourth Industrial Revolution and Business Dynamics Issues and Implication***, Singapore, Palgrave Macmillan

Umo, Joe (2012) ***Escaping Poverty in Africa: A Perspective on Strategic Agenda for Nigeria***, Lagos Millennium Text Publishers Ltd.

Romer, David (2012) ***Advanced Macroeconomics*** 4th edition New York, Mcgraw – Hill, Irwin

The World Bank and The Removal of Subsidy on PMS In Nigeria: A Case of Politiking With Social And Economic Issues?

INTRODUCTION

The World Bank (WB) and the International Monetary Fund (IMF) have over the years, arrogated to themselves the role of a no-nonsense policeman for Africa on economic growth and development. This Bretton Wood Institutions that were created for purposes of economic reconstruction and rehabilitation following a world war has metamorphosed into an institution that goes about advising African countries on their economic trajectory, all be it, with consequences for refusal to abide by their recommendations. For this singular reason, Western scholars tend to promote the idea that developing economies should draw inputs from the World Bank and the International Monetary Fund, particularly in the areas of socio-economic policy.

However, in Africa, results tend to be quite different during the past 45 years (1976 – 2021). Take the case of Zaire (Democratic Republic of the Congo), once regarded as the second richest country in Africa. Following their first involvement with the World Bank through the first loan obtained in 1976, the country was degraded to the 5th Poorest Country in the World by 1997 (Umoren, 1999). And one of the WB conditionalities that drove the downward spiral of their economy was the removal of subsidies from key industrial sectors.
The World Trade Organization (WTO) recognizes government subsidy as "any financial benefit provided by a government which gives an unfair advantage to a specific industry, business, or even individual". On their part, the World Bank and the IMF agree that government subsidy is meant to transfer money from the government to an entity as a part of non-plan expenditure of the government. Such moves should ordinarily lead to a fall in the price of the subsidized product.

This paper is therefore at a loss as to why the same WB/IMF continue to argue forcefully for the removal of subsidy on Premium Motor Spirit (Petrol) in Nigeria. We question the intentions of this pressure on the government to remove subsidy on petrol given the devastating impact this is likely to have on the generality of the populace especially the poor. It is presented in five parts. The section following this introduction describes the five commonest types of subsidy that have potential positive impact on economic growth. In the third segment, we argue that subsidy removal on PMS in Nigeria would undoubtedly trigger higher inflation in Nigeria. In the fourth section, we establish a strong positive correlation between higher inflation, unemployment, and socio- economic degradation in Nigeria. The article is concluded in the fifth section, followed by references.

Types of Subsidies

There are basically five types of subsidies**:**

a) Cash subsidies, such as the grants mentioned above.
b) Tax concessions, such as exemptions, credits, or deferrals.
c) Assumption of risk, such as loan guarantees.
d) Stock purchases that keep a company's stock price higher than market levels.
e) Government procurement policies that pay more than the free-market price.

Major Global Subsidy Regimes
A good number of the big economies around the world are great players in the art of subsidizing focus sectors of their respective economies. Such attempts are geared towards the actualization of their socio-economic and sometimes, political exigencies. The three outstanding and most relevant cases for this paper are those of India, the United States of America, and the United Kingdom.

India:
In a 2004 White Paper on subsidies, the Government of India emphasized the need for rationalization of subsidy, which is teasingly described as a significant component of government expenditure. That policy thrust ensured the sustenance of the following categories of subsidy in India.

- ✓ Petroleum subsidy.
- ✓ Fertilizer subsidy.
- ✓ Food subsidy.
- ✓ Interest subsidy.

It is believed that the Indian economy has benefited from these subsidy regimes and contributed significantly to the positioning of India as the fourth largest economy in the world (World Economic Report, 2022).

United States of America:
The United States runs a free market economic where market forces should determine the outcome of economic activities. Yet, direct subsidies by the U.S. government influences market prices in order to drive economic growth. Each year, the U.S. federal government subsidizes a wide range of economic activities that are targeted for sustained growth. They include but not limited to:

- Farm Subsidies
- Oil Subsidies
- Ethanol Subsidies
- Export Subsidies
- Housing Subsidies
- Obamacare Subsidies (budgeted to spend $1.039 trillion on subsidies for middle-class working families between 2015 and 2024).

Beyond the subsidy regime however, the US government also parades a rich retinue of bailout schemes. Under this arrangement, the US Government extends financial support to companies facing potential bankruptcy threat. It can take the form of loans, cash, bonds, or stock purchases. The main reason advanced for bailout is to support an industry that may be affecting millions of people locally and internationally. Interestingly, a bailout may or may not require reimbursement and is often accompanied by greater government oversight and regulations.

By all accounts, bailout schemes are also subsidy programmes though they are designed specifically to enhance the survival of the national economy via the avoidance of distortions that may be triggered by the collapse of certain businesses and social institutions that were hitherto relied upon by government to strengthen the socio-economic fabrics of the country.

The United Kingdom:
As at the end of January 2021, the government of the United Kingdom had 1672 subsidy awards. Principal amongst them being:

- ❖ Agricultural Subsidy
- ❖ Oil Subsidy
- ❖ Renewable Energy Subsidy
- ❖ Urban Development Subsidy
- ❖ Education Subsidy

From the above narrations, one begins to wonder why a mighty economy like the United Kingdom would not be forced by the World Bank and the IMF; two agencies that are housed in that country to remove subsidy on petroleum products. If this carefully thought out tool of economic management is beneficial to larger economies of the West, why not Nigeria?

Subsidy Removal and Inflation

Sometime in 2020, the World Bank representative in Nigeria remarked that "historical data, including statistical analyses carried out by the World Bank, have not shown that there would be a remarkable rise in inflation should Nigeria remove fuel subsidy and increase the price of PMS". However, a number of studies, including data analysis carried out by The Guardian had established a strong positive correlation between PMS Price and inflation rate. Available data from the federal office of statistics also indicate that since 1973 when the government started tinkering with pump price of petrol till date, the price of PMS and inflation curves tend to move in the same direction and at a similar speed.

Table 1. Indicates the range of movement in inflation rate following correspondent increases in the price of PMS in Nigeria between 1986 and 2023.

TABLE 1. PMS PRICE MOVEMENT AND INFLATION

S/N	Period	PMS Prices		Inflation Rate %		%age Change
		From	To	From	To	
1	1986 - 1991	N0.20	N0.70	5.72	13.01	127.45
2	1992 -1993	N3.25	N11.00	44.59	57.17	28.21
3	1994-1999	N11.00	N20.00	57.03	6.62	-88.39
4	2000 - 2003	N22.0	N40.00	6.93	14.03	102.01
5	2004 - 2011	N55.00	N65.00	15.0	10.83	-27.8
6	2012 - 2016	N125	N145	12.2	15.7	28.68
7	2017 – 2023*	N171.8	N617	16.5	24.1	46.06

* Figure as at July 2023
Source: Compiled by Authors

As indicated in the above data set, extremely high PMS prices were also marked with extraordinary fast increase in inflation rates. For instance, between 1986 and 1991 when the official pump price was increased from 20 kobo to 70 kobo, inflation increased from 5.7 per cent to 13 per cent. Further increment to ₦3.23 in 1992 and subsequently to ₦11 representing about 241 percentage point increment triggered a galloping inflation as inflation rose from 13.01 per cent in 1991 to 44.59 percent in 1992, and thereafter 57.17 percent points in 1993. Thus, within the period, the economy witnessed the fastest rate of inflation following the steepest rise in PMS pump price. PMS price was again increased from ₦11 to ₦20 within the period 1994-1999. Within the same period, inflation reached her peak of 72.9 percent in 1995 before tapering off to 6.62 per cent in 1999. Perhaps, the combination of good economic policies and robust growth can be attributed to the disinflation that characterized the period as PMS price remain unchanged ₦11 till 1999. Consequently, inflation fell by 88.4 percentage points during the period.

Further increment in the price of PMS between 2000 and 2003, from ₦22 to ₦40, an 81.8 percentage point increase resulted in inflationary pressures that moved from a single digit of 6.93 percent to double digit of 14.03 percent representing an increase of 102.01 percentage points. Another increase was made between 2004 and 2011 from ₦55 to ₦65. However, inflation moderated within this period from 15 percent to 10.83 percent implying a year-on-year change of -27.8 percentage points as the economy enjoyed robust economic growth and significant oil windfall following the commodity price booms of the early 2000s.

The price of PMS has constantly been raised several times as presented in Table 1. Similarly, inflationary pressures have also intensified. As at July 2023, PMS sold at ₦617 per Litre with inflation at 24.1 percent. Hence, it is safe to argue that there appear to be a positive association between PMS Price and inflation in Nigeria, particularly because the price of PMS feeds into domestic prices of goods and services by increasing cost of transportation and production.

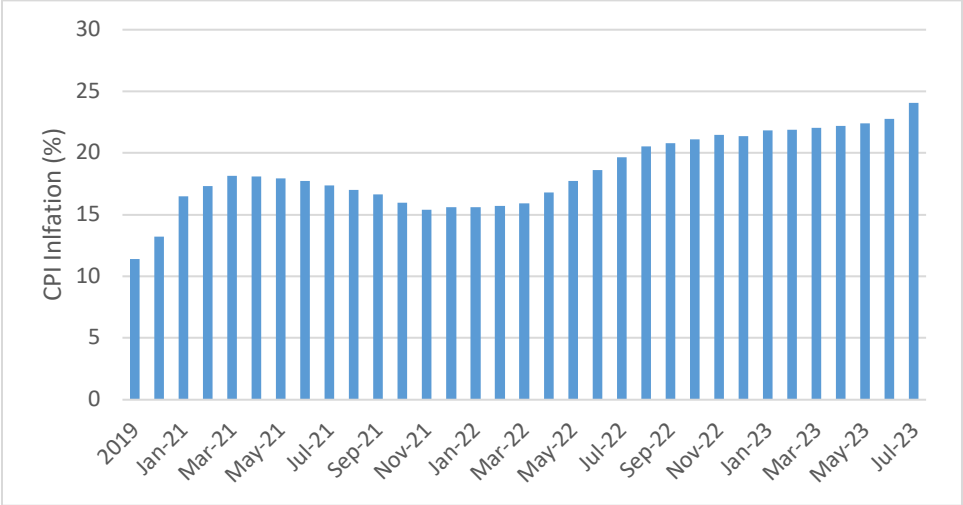
Inflation, Unemployment, and Socio-Economic Degradation

We have established that there is a positive relationship between inflation and PMS price in the Nigerian economy. High inflationary trends are often associated with a deterioration of the socio-economic conditions in an economy. Conventional wisdom suggest that high inflation creates uncertainty which is inimical to private sector investment and ultimately economic growth. On the other hand, economic growth is considered a proximate factor for poverty reduction. Hence, high and persistent inflation has the likelihood of stifling economic activities and eroding purchasing power of the domestic currency which in turn, exposes poor households to economic and social vulnerabilities, and even worst, an increase in the poverty level.

This is the scenario that characterizes the Nigerian economy currently. For instance, headline inflation (measured using the consumer price index) has witnessed a steadied upward trajectory in the last four years (Figure 1). On average, inflation rose from 11.4% in 2019 to 16.3% in 2021 which coincided with the Covid-19 pandemic which had an adverse effect on economic activities. Since 2022, inflation has accelerated rapidly. From a 15.6% in January 2022, inflation reached 21.34% in December 2022 implying a 36.8 percentage points increase. This trend in inflationary pressures has remained untamed with a further spike as inflation reached 24.08% in July 2023, which represents a further increase of 12.84 percentage points. Particular, the removal

of the PMS subsidy by the new administration contributed significantly to the inflation spike as prices of domestic goods and services following government's policy actions as PMS price increase three-fold from ₦198 to ₦617 per litre. Given that PMS is imported, and with the recent policy reform of a unified and market-driven exchange rate, the price of PMS is expected to vary as well. In fact, the free fall of the domestic currency will translate into further increase in the PMS price, and consequently more inflationary spike.

FIGURE 1: TREND OF NIGERIA'S CPI INFLATION RATE, 2019 – JULY 2023



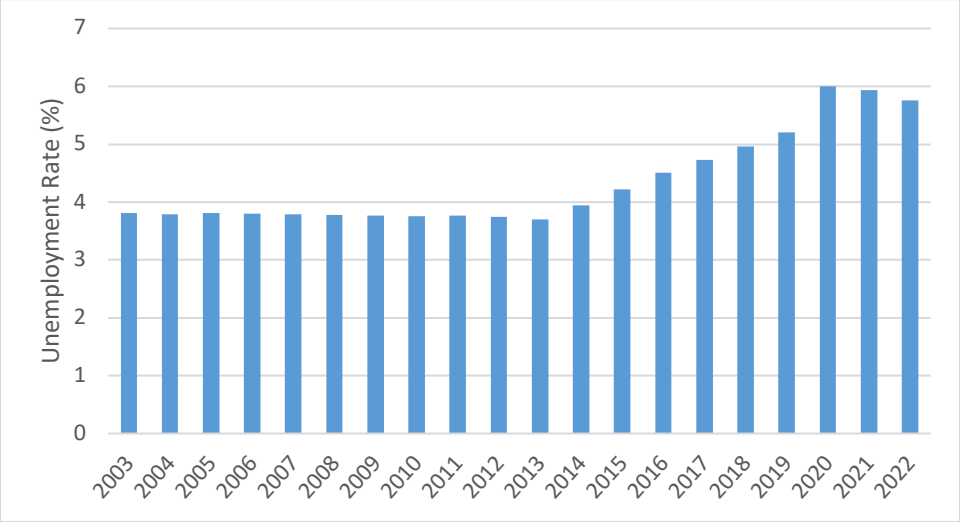
Source: Nigerian Bureau of Statistics (NBS), CPI and inflation report, July 2023

So far, efforts to curb this inflationary trend has been ineffective. For example, the monetary tightening stance of the CBN which has seen a hike in the monetary policy rate of over 700 basis points (bp) has not been able to cool down inflationary pressures. Also, the unification of the foreign exchange market, and subsequent floating of the Naira has not ensured exchange rate stability. In fact, the value of the domestic currency has become more volatile with significant depreciation since the introduction of the policy reform. Current estimates show that the loss in purchasing power as a result of inflation acceleration has led to the worsening socio-economic conditions as over 4 million people has been further pushed into poverty (World Bank, 2023).

As inflation impedes economic activity, a surge in unemployment should be anticipated. In Nigeria, unemployment is a thorny issue due to poor data quality. Figure 2 shows that unemployment was relatively constant from 2003 to 2013 with an average of 3.8%. However, the trend took an upward trajectory from 2014 with a rate of 3.9% while peaking at 5.9% in 2020 before gradually declining to 5.7% in 2022. Recently released unemployment figure for 2023Q1 from the NBS (2023) show a further decline to 4.1%. The mere fact that Nigeria's has maintained a single digit unemployment rate of less than 6% over the last two decade suggest that unemployment may not be a significant economic problem. While this is debatable, anecdotal evidence suggest that Nigeria is currently confronted with an unemployment crisis with over 30% of the population being unemployed. Meanwhile, the bulk of employment persons in the economy are mostly found in the informal sector. NBS (2023) reports that informal employment accounts for roughly 92.6% of employed Nigerians while 12.2% were underemployed compared to 13% in 2022Q4.

Nigeria is presently inundated with a hydra-headed twin problem of high inflation and unemployment. Inflation persistence in the short- to medium-term would lead a further deterioration in the socio-economic conditions of the populace. This may become pervasive as the bulk of population are employed in the informal sector which is largely unregulated and wage conditions are significantly poor. The challenge is further compounded by the poor infrastructure provisions in the country. Poor road networks and erratic power supply is associated with high cost-driven business environment, and is inimical for a robust and sustained economic growth. Significant policy reforms are therefore required to curb further deterioration in the country's socio-economic conditions.

FIGURE 2: TREND OF NIGERIA'S UNEMPLOYMENT RATE, 2003 – 2022



Source: World Bank's World Development Indicators online database

CONCLUSION

We have argued in this paper that government subsidy is a great tool for economic management in every market driven economy. It has been deployed successfully in many parts of the world to correct certain imbalances in national economies. However, the deployment of subsidy regimes in African countries have continually attracted negative comments and outright condemnations by the International Monetary Fund (IMF) and the World \bank (WB). In this paper, we considered the position taken by these two institutions worrisome, thus prompting us to examine the relationship between subsidy regimes and inflation, with particular reference to the removal of subsidy from prime motor spirit (PMS) in Nigeria, and the corresponding increase in the rate of inflation.

We consider the WB's assertion that the removal of subsidies will not cause inflation a most seemingly dishonest piece of advice given to Nigeria because our results indicate otherwise. The results have therefore given us cause to believe that the stand of World Bank on subsidy removal on PMS in Nigeria is very much in line with the same type of advice given by IMF officials to Nigeria in the 1986-1990 Structural Adjustment Programme (SAP) that destroyed the Nigerian economy, and devalued the Nigerian currency irredeemably. Sadly the World Bank will always turn-around to blame disastrous consequences of their economic advisory policies on implementation in order to avoid taking responsibilities for their outcomes. In essence, we have asserted that the WB's insistence on subsidy removal on PMS in Nigeria is not supported by data. On the contrary, we can infer from this result that the World Bank's view is not well thought out thus creating the impression that their policy guidelines are designed to continue entrench external control over Nigeria's political economy, which is by no means in the interest of Nigeria and Nigerians.

REFERENCES

Mehrotra, S. (2009). An Analysis of Government Subsidies in India: A Case Study of Uttar Pradesh. A Doctoral Thesis Presented to Aligarh Muslim University, India.

NBS (2023). Nigeria labour force statistics report 2022Q4 and 2023Q1. Nigerian Bureau of Statistics. Abuja.

Salunkhe, H. (2012). The overview of Government subsidies to agriculture sector in India IOSR Journal of Agriculture and Veterinary Science 1(5):43-47.

The Guardian (2021). Subsidy Removal won't Spike Inflation, says World Bank
Umoren, N. J (1998). Enhanced Structural Adjustment Facility (ESAF) and Development Finance. Working Paper: Walden University, Minneapolis
Umoren, N. J (2000). Impact of Structural Adjustment Programme on Zaire's Financial System. A PhD Dissertation.
World Bank (2023). Nigeria Development Update: Seizing the Opportunity. Washington DC: World Bank.

A Midterm Assessment of Government Policy on Economic Diversification Through the ERGP

Babatunde W. Adeoye, University of Lagos
Onyebuchi Iwegbu, University of Lagos
Aminat Eniayewu, University of Lagos
Anthonia T. Odeleye, University of Lagos
Taiwo V. Ojapinwa, University of Lagos
David M. Oke, University of Lagos
Babatunde Oke, University of Lagos
Ndubisi I. Nwokoma, University of Lagos

ABSTRACT

Overtime, available statistics and economic realities suggest that the continuous dependent of the economy on the oil sector is not sustainable, thus the need for economic diversification. This paper examines the efforts of the federal government's Economic Recovery and Growth Plan (ERGP) towards promoting economic diversification of the economy. The study employed the use of secondary data and survey design in carrying out the objectives. Structured questionnaires were used to retrieve information from the stakeholders and this was analysed using descriptive statistics and Chi-Square. Analysis of the result shows that stakeholders do not believe that ERGP has substantially engendered economic diversification; this evidence is corroborated from the analysed secondary data. The Chi-Square analysis shows that the opinions of the stakeholders on the inability of the ERGP to foster greater economic diversification is significant and should be upheld. The study recommends that the government must make conscious effort in ensuring that subsequent short-term plans are designed in such a way that it is realistic and achievable.

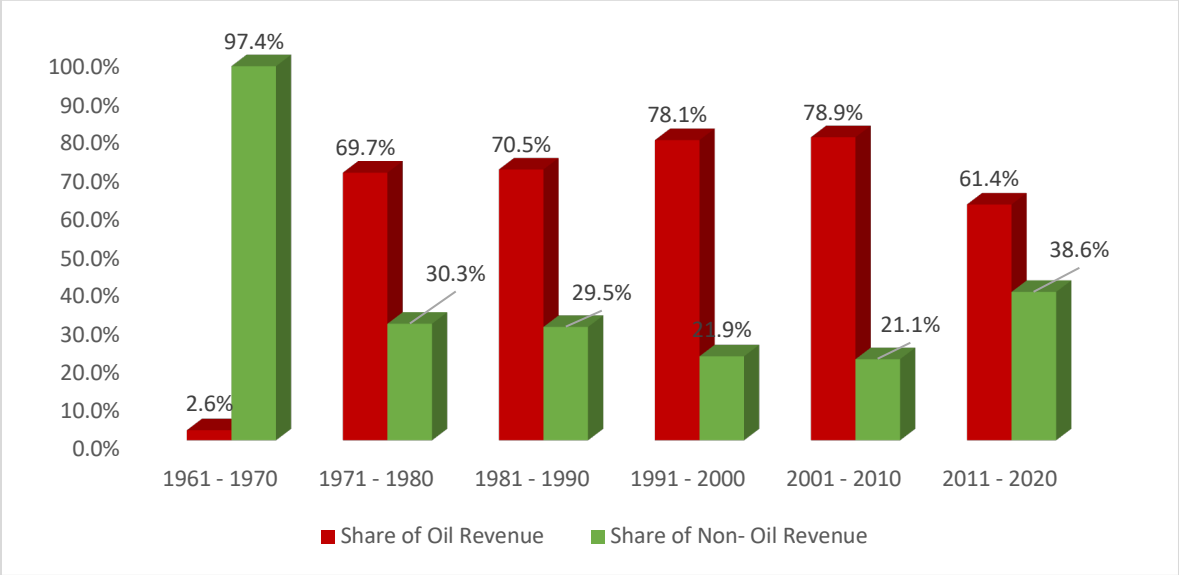
Keywords: Economic Diversification;ERGP; Government Programme
JEL Classification: O41; O47; E65; O21, L25

INTRODUCTION

Nigeria's economy has two main structures, the oil and the non-oil sector. Prior to the discovery of crude oil (1960 - 1970), the non-oil sector led by Agriculture; manufacturing; wholesale and retail; building and construction contributed an average of 80% of the output as shown in figure 1.1. In the post-oil discovery era, the non-oil sector declined. However, this sector absorbs more of the labour force and contributes towards job creation. Too much reliance in the oil sector (a non-renewable natural resources) is not sustainable as external shocks (oil price shocks) could directly affect the economy (Adeoye & Iwegbu, 2020). It is pertinent to note that as the economy slipped into recession in 2016, the prices of crude oil had already declined by more than 50% from$112 a barrel in 2014 to below $50 (BBC, 2016). It becomes important the Nigerian economy must develop strategies of focusing greater attention from the oil to the non-oil sector – economic diversification.

The economic objective of the federal government of Nigeria since the fourth republichas centred on fostering growth, restoring growth and/or ensuring inclusive growth. The medium-term plans and strategies (The Poverty Alleviation Programme (PAP); The National Poverty Eradication Program (NAPEP); The National Economic Empowerment and Development Strategy (NEEDS) of 2004; The Seven Point Agenda; SURE-P; N-Power) detailing the strategy to be followed explain these objectives. Since 1999, the various development plans and strategy document were designed to ensure that to help Nigeria overcome many challenges facing a typical developing economy – poverty, slow growth, unemployement, high prices, monocultural economy, and many others(Nwokoma, 2021).

FIGURE 1.1: SHARE OF THE CONTRIBUTION OF OIL AND NON-OIL REVENUE (1961 – 2020)



Source: CBN 2011 and 2020 Annual Statistical Bulletin

The weak success recorded by the PAP, NAPEP and NEEDS led to the development of another short-term strategy, the Subsidy Reinvestment Programe (SURE-P). The desire by the government to end the fuel subsidy led to itsestablishment. The SURE-P has the core objectives of reducing the negative immediate impact of the subsidy removal on the welfare of the citizens as well as lay a foundation for the successful development of a natural safety net programme that is better targeted at the poor and most vulnerable on a continuous basis.

The SURE-P was targeted on Agriculture & Rural Development, Transport, Education, Health, Aviation, Federal Capital Territory Administration, Water resources and few others. Between 2012 and 2015, ₦205.5 billion was estimated to have been invested in rural water supply and irrigation. Also, the Technical Vocational Education and Training (TVET) was set to empower the youths in vocational/technical skills, entrepreneurship and life skills. The sectors that the TVET scheme should focus attention on are the movies, music and fashion industries (Eze, 2019). The strategy of the SURE-P is to help Nigeria refocus her attention away from oil and subsidies towards investment in the agricultural and industrial sector. The SURE-P further disbursed an estimated amount of ₦8.9 billion to provide mass transit which was targeted at reducing the hardship in commuting due to the removal of subsidy. From this amount, 18 transport companies were successfully registered and 809 busses were introduced. Despite how promising and enticing the SURE-P was, the policy still suffered major setback as the funding of the renovation of the federal roads were abandoned (Nwokoma, 2021).

To further strengthen the diversification drive, the N-Power was inaugurated as a strategy of ensuring greater youth employment in agriculture and MSMEs as well as engendering poverty reduction. The policy covers youths that are within the ages of 18 and 35 years and as such, provides financial incentives to them after rendering certain services. The N-Power programme faced major setbacks as there were still ghost workers who do not come to work but receives the monthly stipend for the entire duration the scheme was set to run. There were also massive frauds with respect to impersonation and the officials handling the programme (Okeke &Ngonadi, 2017).

In 2016, the federal government launched the Economic Recovery and Growth Plan (2017 – 2020). The ERGP is a medium-term plan that is designed to majorly stimulate the economy towards recovery and greater growth trajectory, empower the youths by creating jobs, ensure social inclusion and remove obstacles that could militate the successful operations of businesses both locally and trade with other economies. The three broad objectives of ERGP include restoration of growth through targeting macroeconomic stability and economic diversification; investing in Nigerianpeople by increasing social inclusion, creating jobs and improving the human capital base of the economy; Building a globally competitive economy. The ERGP

aims to tackle the obstacles hindering the competitiveness of Nigerian businesses, notably poor or non-existent infrastructural facilities and the difficult business environment.

The ERGP targets agriculture as a key sector to support economic diversification and promote import substitution. The strategy aims to achieve massive production, self-sufficiency in certain imported commodities such as rice, wheat, sugar and palm oil. The agricultural sector thus, over the period, received tremendous direct support from the government and the Central Bank of Nigeria (CBN). In the first quarter of 2019, the CBN supported agricultural production through concessionary financing and risk-sharing programs such as the Commercial Agricultural Credit Scheme (CACS), the Nigerian Incentive-Based Risk Sharing in Agricultural Lending (NIRSAL) programme, and the Anchor Borrowers Programme. In this connection, the CBN had, starting from 2015, not provided foreign exchange through the official window for the importation of staples such as rice, vegetables, poultry, meat, and tomatoes.

In the last two years of implementation (2017 – 2019), it is important to assess the achievements recorded so far, identify some bottlenecks that can be strengthened so that the plan itself will not suffer some limitations faced by the previous plans. To this end, this paper assesses the efforts of the federal government's ERGP towards promoting economic diversification of the economy.

The scope of the study is limited to two years of implementing the ERGP; this is the period between 2017 – 2019. The survey itself entails all the stakeholders in Lagos State, which is considered the commercial capital of the country and also having most of the ethnic groups well represented in the State.The remaining section of this paper are divided into four; subsequent to this introduction is the review of literature, this is followed by the research methodology; results and findings. The final section provides a concluding remark and policy recommendations.

REVIEW OF LITERATURE

In order to provide the theoretical construct of the study, we shall be employing the Rostow's stages of economic growth, the balanced growth model as well as the unbalancedgrowth model. Rostow explains that there are five different stages that must be followed to ensure rapid and sustained economic growth. The growth stages followsa liner pattern as well as gradualism. The first stage is the traditional society; this is followed by the pre-condition for take-off, take-off, the drive to maturity and the age of high mass consumption (Rostow, 1961).

Rostow did not provide extensive background with respect to the traditional Society, however, pre-conditions for take-off includes the period of sustained industrialisation and that for a sustained industrialisation to take place, there must be an increase in investment in the transport sector as this will help to improve the functioning of the market, as well as aid production. The next condition that should be met is the transformation of the agricultural sector which is targeted towards improving food security- food availability, food accessibility food affordability.Another condition to ensure sustained development is expansion in imports which includes capital as well as the finance needed for the exploration of the natural resources (Nafziger, 2012).

The next stage according to Rostowis the take off stage. Rostow is of the opinion that this stage can span for a period of 20 - 30 years.In this stage,various strategic plans must ensure that any barrier towards economic growth and expansion is removed. At this stage, there is massive investment in the rail transport as well as other infrastructure. The level of investmentis expected to be between 5% and 10% of the net national product of the economy.Again, this is the stage at which the economy migrates from the agricultural concentrationtowards greater concentration on the manufacturing sector (Nafziger, 2012).At this stage,the economy will have to diversify from agriculturalproduction towards expansion in the manufacturing sector. Rostow is of the opinion that the expansion in this manufacturing sector must grow rapidly in such a way that it provides raw materials and act as the bottleneck sector.

The next stage is the drive to maturity.Rostow opines that at this stage, regular growth is expected and it is self sustainable.In this stage, a larger proportion of the labourforce is found in the urban sector as well as the population is increasingly innovative and dynamic. The drive to maturity must ensure that there isa reduction in bureaucratic bottlenecks as well as ensure greater economic security.

The final stage is the age of a high mass consumption.At this stage, the economy is fully developed and is in such a way that societies will begin to experience rapid innovative ideas as well as transformation.This theory helps to explain that for Nigeria to enjoy rapid development and growth, it must diversify away from the agricultural sector and ensure greater mobilization of resources towards the manufacturing, construction and the real estate sector.

The balanced growth theory explains that the only way developing economies can overcome the vicious cycle of poverty is by massive investment all the sectors of the economy.Nurkse (1961) did not consider the expansion of exports as a viable strategy; however,heopines that for development to occur, there must be a big push which will affect the entire sectors of the economy.The big push involves huge investment in infrastructure to a considerable extent which can come in the fomr of investment in infrastructure, power, transport and communications.The balanced growth approach emphasizes that there must also be massive investment in social capital; this will help to reduce the externalities associated with poorly developed human capital. The balanced growth theory has been criticized as therequired investment required for themassive investment is limited.

The unbalanced growth theory as developed by Hirschman (1958)emphasizes that the deliberate attempt of unbalancing the economy with an identified strategy is the most viable approach for growth and development. He opined that the big push is not a viable approach for developing economies because they do not have the required skills, human efforts as well as investment resources to achieve such purposes.He is of the opinion that there is a need identify the bottleneck sector(s) and massively invest in those critical sectors. The Investment in this critical sector has the ability to support development and because of the inter linkages with other sectors, there will be spillover investment flows into the other sectors of the economy thereby ensuring rapid development of the entire sector.

Hirschman (1958) is of the opinion that the investment left solely in the hand of the individuals in the market is not sufficient to spur growth. There is the need for the government to take up different investment projects in the critical sectors and by doing this, the inter-linkage nature of the sectors will cause other sectors to experience monumental growth. The unbalanced growth theory has however been criticized as the approach neglectsinvestments that are required in the agricultural sector. They opined that investment in the agricultural sectordoes not stimulate linkages as directly as do other Industries do. However, empirical investigation has shown that the agricultural sector has substantial inter-linkages, both the forward and backward linkages to contribute to the non-agricultural sector (Johnston & Mellor, 1961).

Empirically, the studies by Al-Roubaie (2018) investigated the relevance of diversification of the economy in a developing economy most importantly, in oil producing economies like Nigeria. The study used explorative style of investigation noted the consequences of over dependent on crude oil proceeds as volatility in oil prices could lead to adverse consequences in the economy ranging from huge budget deficits, rising prices of goods and services, unemployment, financial turmoil and currency devaluation. The study further noted that the continuous innovation in the productive sectors such as investment in human capital and the digital economy will create some backward linkages into other sectors of the economy and spur growth and development.

Onodugo, Amujiri and Nwuba (2015) examined the impact of diversifying the economy on Nigeria's economic development. The study, employing the exploratory style of investigation concluded that for diversification to actually lead to economic development, there is a need for a paradigm shift in economic policies that will stimulate the development of other sectors of the economy and these policies should be channeled towards the promotion of foreign private investment, upgrading of basic infrastructure, enhancing of electricity generation and distribution as well as reforms in the financial sector.

Etomi (2019) investigated how the ERGP has been implemented with respect to the 2018 National budget. The study used the exploratory technique of investigation to scrutinize the budget and establish to what extent it aligns with the ERGP plan. The study found that huge ratio of recurrent expenditures over the capital expenditures in the 2018 budget will limit the ability of the economy to achieve the ERGP economic growth target of 4.80%. The study further found out that for the set targets of the ERGP for 2018 to be achieved, the government must as a matter of urgency deepen the extent of diversification of the economy and this can be achieved by enhancing other sources of foreign exchange revenue in the area of the telecommunication sector, manufacturing and agricultural exports. The study further asserted that the rise in unemployment rate in 2018 can be attributed to the rising labour force which are the outcomes of high birth rate and not necessarily increase in job loss.

RESEARCH METHODOLOGY

This section describes the method employed in achieving the research objective. The study employs the descriptive and survey style of investigation in assessing the government's ERGP policy on economic diversification. Firstly, the study compares the performance of the non-oil sector of the Nigerian economy as against the projected performance of the sector based on the ERGP forecast. The purpose of this is to establish if any, the discrepancy that exists with respect to projected as against the actual performance. The non-oil sectors considered are the agricultural sector, industrial and services sector.

Secondly, the study employs a survey design in seeking the opinion of the stakeholders with respect to the performance of the non-oil sector of the Nigerian economy. The stakeholder's assessment is to help in understanding their perspective with respect to the efforts of the government towards economic diversification. The survey design is suitable in conducting belief studies that examines the perspective of the citizenry with respect to the effectiveness of a particular policy (Saunders, Lewis, & Thornhill, 2016).

The population of the study consists of the entire population of Lagos State. Lagos State was selected as it is the commercial center of the nation's economy. Also, because it has the highest hub of industries and also accounted for the largest contributions to the country's GDP. It also consists of diverse stakeholders as well as individuals whose state of origin cut across the six geopolitical zone. The population of the study is made up of 13, 898789 residents as at the end of 2018 (World Population Review, 2020). The population covers the entire twenty local governments and fifty-seven LCDAs we have in Lagos.

TABLE 3.1: SAMPLE DISTRIBUTION

Reference Object	Parameters				
Administrative Divisions	Ikeja	Badagry	Ikorodu	Lagos	Epe
No. of L G A	8	4	1	5	2
Selected Local Government, criteria	Ikeja; Alimosho; Somolu **Total = 3**	Ojo; Ajeromi-Ifelodun **Total = 2**	Ikorodu **Total = 1**	Lagos Island; Lagos Mainland **Total = 2**	Epe; Ibeju-Lekki **Total = 2**
Academic institutions (Staff and Students)	Lagos City Computer College	LASU; Adeniran Ogunsanya COE	Lagos State Polytechnic	University of Lagos	Pan Atlantic University
Public/ Civil Servants to survey	Staff of MDAs; LGs; NGOs	Staff of LGs	Staff of LGs; Staff of Sec. Schools (2)	Staff of Passport Office; State Liaison Offices; LGs	Staff of LGs; Staff of Sec. Schools (2)
Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders
Organized Private Sector to Survey	2 Commercial Banks; NBFI (2)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)
Informal Sector	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others
Questionnaires Administered	300	150	150	150	150
Questionnaires Completed and Returned	225	107	130	120	125

COE – College of Education; LGs – Local Governments; NBFI – Non-Bank Financial Institution

Source: Authors conceptualization from the survey conducted, 2019

The study employed the multi-stage sampling technique. At the first stage, the entire population is divided into the five administrative divisions in Lagos State – Ikorodu, Badagry, Ikeja, Lagos Island and Epe. Secondly, the study selected 10 highly concentrated area in terms of population density in the five administrative jurisdictions. Thereafter, the key stakeholder in each selected local government were identified and thereafter the respondents in these areas were randomly selected as presented in table 3.1. To select the samples, the study employed Yamane (1967) technique of selecting sample size from the entire population. The sample size is defined as:

$$n = \frac{N}{1 + N(e^2)} \tag{3.1}$$

Where n is the sample size, N is the population size and e is the sample error. Using the population size of 13,898,789; sample error of 3.34%, the sample size is given as 900. Out of the 900 copies of questionnaire distributed, only 707 were successfully filled and retrieved, implying that there is a response rate of 78.6%. The distribution of the questionnaire is presented in table 3.1.

PRESENTATION AND ANALYSIS OF RESULTS

This section analyses the responses of the stakeholders as well as presents the comparative analysis of the actual performance of the non-oil sector and the projected performance of the same sector. The sectors considered are the services sector, the agricultural sector and the industrial sector. The period of consideration is the first two years at which the ERGP plan first commenced.

Agricultural Sector Performance under the ERGP

The comparison of the performance of the ERGP projections in relation to the actual data on agricultural production, as published by the National Bureau of Statistics, NBS, is shown in Table 4.1 below. It is equally represented in Figure 4.1 which shows the trend of agricultural sector actual percentage growth compared to the ERGP forecast for the first two years of the Plan.

TABLE 4.1: AGRICULTURAL SECTOR % GROWTH VIS-À-VIS ERGP FORECAST (2016-2019)

	2016	2017			2018				2019		
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q3**
ERGP	4.69	5.03	5.03	5.03	5.03	7.04	7.04	7.04	7.04	7.23	7.23
NBS	**4.03**	**3.39**	**3.01**	**3.06**	**4.23**	**3.00**	**1.19**	**1.91**	**2.46**	**3.17**	**2.28**

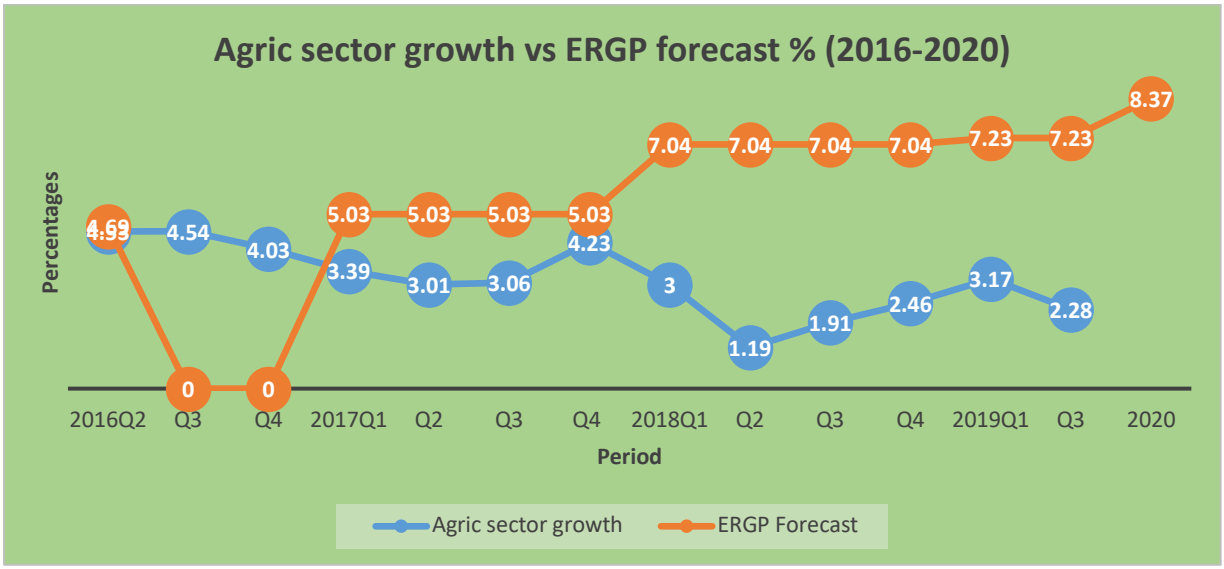
Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017, (iii) Nigeria Economic Recovery & Growth Plan 2017 – 2020

Table 4.1 shows that the Agricultural sector has continued to post a disappointing performance based on the divergence between the projected growth pattern of the sector and the actual growth trajectory. In the ERGP document, agricultural sector performance was projected to grow at 5.03% in the first quarter of 2017 but could only achieve 3.39%, leaving a gap of 1.6%. For the second quarter of 2018, the sector grew by 1.19% in real terms, a decrease of 1.82 percentage points from the second quarter of 2017, as well as a decrease of 1.81 percentage points from the preceding quarter. In the third quarter, the sector contributed 22.86% to overall GDP in real terms, lower than the contribution in the second quarter of 2017. This can therefore be inferred that an obvious gap exists between the target and actual performance of the implementation of the ERGP in terms of economic diversification.

For a sector that used to be key in assessing the performance of the Nigerian economy even during the period of recession, the performance of agriculture worsened over the period. The target of the ERGP is that agriculture will continue to be a stable driver of GDP growth with an average growth rate of 6.9% over the Plan period. However, this was not so. The performance

of the sector in the fourth quarter of 2018, of 4.23% drastically reduced the widening gap between the ERGP forecast and the actual growth values as shown in the NBS data. One of the likely causes of the slow growth in the sector and the gap between the ERGP forecast and the actual performance values can be attributed to the sustained invasion of farmlands by herdsmen, most especially in the Middle-Belt region.

FIGURE 4.1: ERGP FORECAST AND ACTUAL AGRICULTURAL SECTORGROWTH (2016 AND 2020)



Sources: (i) National Bureau of Statistics data on National Accounts; *(*ii) Ministry of Budget and National Planning (2017) (iii) Nigeria Economic Recovery & Growth Plan 2017 – 2020

According to the International Committee of the Red Cross, these incidences have displaced over 100,000 people in that region. This has thus crippled food production and partly contributed to rising food prices – as food inflation rose from 0.9% month on month (MoM) in April 2018 to a 12-month high of 1.6% MoM in June 2018. The high base effect of the second quarter of 2017 also contributed to the moderated growth in the sector. The base figure recorded in the second quarter of 2017 is the highest when compared with the same quarter in the last 7 years. Despite the establishment of the National Food Security Council in March 2018, by the Federal Government, in response to binding constraints to the Agricultural sector growth, the dismal narrative may not change except the incessant herdsmen-farmers' crises is tackled squarely.

The agricultural sector performance improved significantly in the third quarter of 2019 attributable largely to an increase in rainfall experienced in most parts of the country coupled with developments in the integrated meat/dairy industry. However, despite this, a gap of 4.95% still existed between the projected ERGP figure thus implying that and a lot still needs to be done to bridge this gap before the end of 2020, the terminal date of the ERGP.

Industrial Sector Performance under the ERGP

The comparison of the performance of the ERGP projections to the actual data on industrial production, as published by the National Bureau of Statistics, NBS, is shown in Table 4.2 below. It is equally represented in Figure 4.2 which shows the trend of industrial sector actual percentage growth compared to the ERGP forecast for the first two years of the Plan.

Although the actual growth rate for the industrial sector for the first quarter of 2017 was -7.24%, the ERGP projection of 7.74% left a huge gap of 14.98% reflective of the pattern for most of the quarters hereafter.The National Bureau of Statistics NBS data shows that the industrial sector grew by 9.19% in real terms, in the third quarter of 2018and surpassed the ERGP target of 7.74 %. This was the best performance over the period. The NBS data indicated that the industrial sector recorded an improvement in the third quarter of 2019, on account of expansion in manufacturing activities, due to marginal increase in

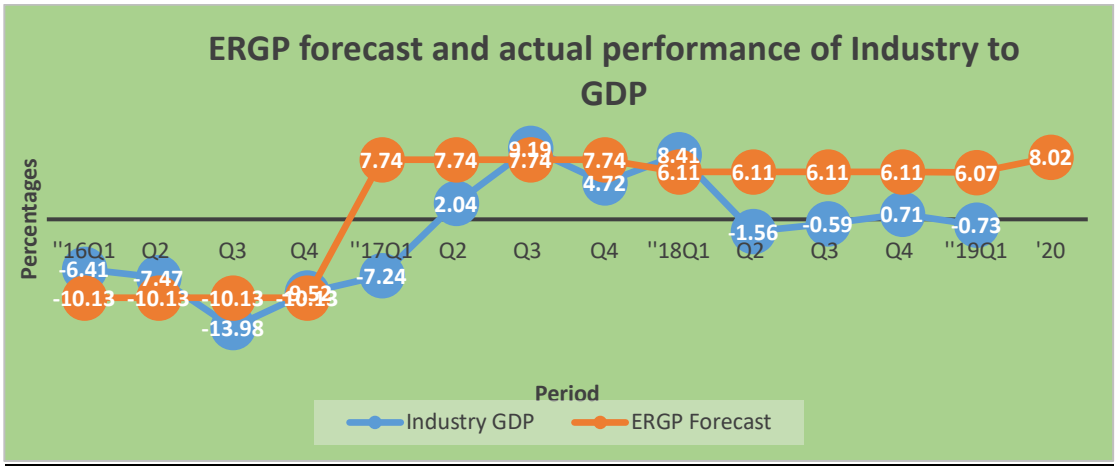
employment, electricity consumption, crude oil exploration, output and new orders in the sub-sector. Consequently, industrial production in the period under review indicated a marginal increase over the level in the preceding quarter.

TABLE 4.2: INDUSTRY % GROWTH OF GDP VS ERGP FORECAST (2016-2020)

	2016	2017			2018				2019		
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**2020**
ERGP	**-10.13**	**7.74**	**7.74**	**7.74**	**7.74**	**6.11**	**6.11**	**6.11**	**6.11**	**6.07**	**8.02**
NBS	**-9.52**	**-7.24**	**2.04**	**9.19**	**4.72**	**8.41**	**1.56**	**0.59**	**0.71**	**-0.73**	

Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017, (iii)) Nigeria Economic Recovery & Growth Plan 2017 – 2020

FIGURE 4.2: ERGP FORECAST AND ACTUAL INDUSTRIAL GDP (2016 AND 2020)



Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017, (iii)) Nigeria Economic Recovery & Growth Plan 2017 – 2020

Although the actual growth rate for the industrial sector for the first quarter of 2017 was -7.24%, the ERGP projection of 7.74% left a huge gap of 14.98% reflective of the pattern for most of the quarters hereafter.The National Bureau of Statistics NBS data shows that the industrial sector grew by 9.19% in real terms, in the third quarter of 2018and surpassed the ERGP target of 7.74 %. This was the best performance over the period. The NBS data indicated that the industrial sector recorded an improvement in the third quarter of 2019, on account of expansion in manufacturing activities, due to marginal increase in employment, electricity consumption, crude oil exploration, output and new orders in the sub-sector. Consequently, industrial production in the period under review indicated a marginal increase over the level in the preceding quarter.

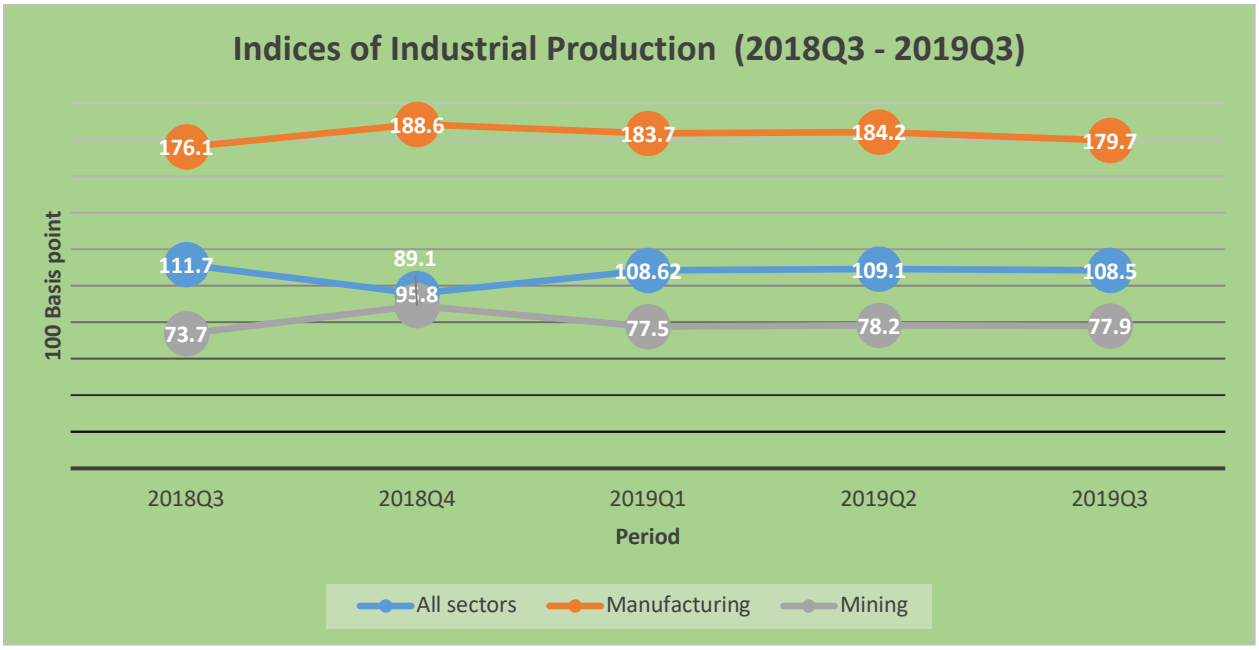
TABLE 4.3: INDICES OF INDUSTRIAL PRODUCTION

	2018		2019		
	Q3	**Q4**	**Q1**	**Q2**	**Q3**
All Sectors	**111.7**	**95.8**	**108.62**	**109.1**	**108.5**
Manufacturing	**176.1**	**188.6**	**183.7**	**184.2**	**179.7**
Mining	**73.7**	**89.1**	**77.5**	**78.2**	**77.9**

Source: *Quarter 3 report of the Central Bank of Nigeria, 2019*

Table 4.3 above shows the indices for industrial production between the third quarter of 2018 and the corresponding third quarter of 2019. The pattern is also reflected in Figure 4.3 above.

FIGURE 4.3: INDICES OF INDUSTRIAL PRODUCTION (2018Q3 - 2019Q3)



Source: *Quarter 3 report of the Central Bank of Nigeria, 2019*

This represents the possibility of experiencing a revamped industrial sector and achieving economic diversification.

SERVICES SECTOR PERFORMANCE UNDER THE ERGP

The comparison of the performance of the ERGP projections to the actual data on the services sector, as published by the National Bureau of Statistics, NBS, are shown in Table 4.4 below. It is equally represented in Figure 4.4 which shows the trend of the services sector actual percentage growth compared to the ERGP forecast for the first two years of the Plan.

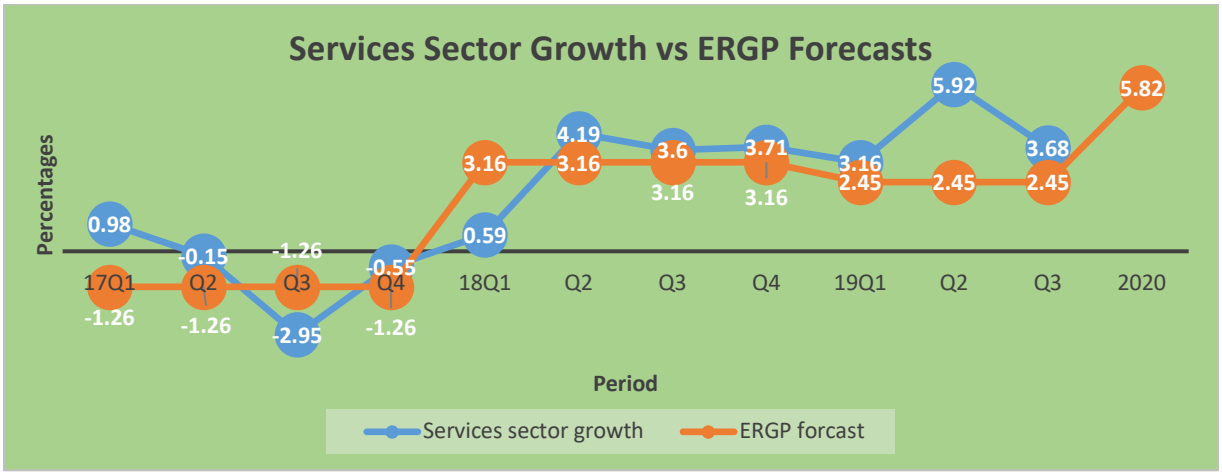
TABLE 4.4: SERVICES SECTOR GROWTH VS ERGP FORECAST

	2017				2018				2019		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
ERGP	**-1.26**	**1.26**	**1.26**	**1.26**	**3.16**	**3.16**	**3.16**	**3.16**	**2.45**	**2.45**	**2.45**
NBS	**0.98**	**1.15**	**2.95**	**0.55**	**0.59**	**4.19**	**3.6**	**3.71**	**3.16**	**5.92**	**3.68**

Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017, (iii)) Nigeria Economic Recovery & Growth Plan 2017 – 2020

The growth of the services sector in the first quarter of 2017 was 0.98%, higher than the 1.26 %projected in the ERGP, implying a 2.24% gap between them. For other quarters, largely, the NBS figures exceeded the ERGP projections.

FIGURE 4.4: SERVICES SECTOR GROWTH VS ERGP FORECASTS



Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017, (iii)) Nigeria Economic Recovery & Growth Plan 2017 – 2020

STAKEHOLDERS' ASSESSMENT OF THE IMPLEMENTATION OF ERGP TOWARDS ECONOMIC DIVERSIFICATION

In this section, we present the responses of the stakeholders with respect to their perspective on the extent of the implementation of the ERGP towards greater economic diversification. The questions asked tries to understand the perspective of the stakeholders with respect to how ERGP has helped to ensure greater economic diversification.

Issues relating to the restoration of macroeconomic stability and the restoration of growth, as enunciated in one of the objectives of the ERGP are evaluated here with respect to the perception of stakeholders in this regard. The responses to the questions here are categorised as "I Don't Know (IDK), "Disagree" (D), "Remain The Same" (RTS) or "Agree" (A), This applies to all the relevant Tables in the report. Table 4.5 shows the responses on issues relating to the restoration of macroeconomic stability and the restoration of growth of the ERGP.

From Table 4.5, 46% of the respondents acknowledged that government projects, as enunciated in the ERGP were commissioned in their locality while 34.9% disagreed. About 8.8% of the stakeholders expressed their ignorance of the commissioning of any such new developmental projects in their locality. The remaining 10.3% noted that there have been no changes. Similarly, 55.9% of the stakeholders disclosed that there exist many abandoned public projects since the initiation of the ERGP. About 30.6% of the respondents however are of the opinion that there are ongoing construction of public projects while 13.6% indicated that they are either not aware of the project abandonment or the projects have remained stagnant over the two- year time period from 2016.

Considering the respondents' reaction to the benefit of the various empowerment programmes initiated in the ERGP, 48.2% of the stakeholders noted that they have not benefitted from the empowerment programmes while 34.4% indicated that they have benefitted. 11% of them are not aware of any empowerment programmes and 6.4% could not account for any benefit that had accrued from the commencement of the programme.

On economic diversification, which is one of the specific objectives of restoring economic growth, particularly through increased agricultural production, a few of the respondents (27.2%) affirmed that their agricultural proceeds have increased

over time while a slightly larger number (29.7%) disagreed. 11.5% of the stakeholders said nothing really changed while 31.7% disclosed that they are unaware of the influence of the programme on the volume of agricultural proceeds. Similarly, 45.4% of the respondents believe that there are new entrants into agricultural farming in their locality while 22.5% of the respondents thought otherwise. Besides that, 32.1% of the respondents are either not aware of anyone engaged in agricultural farming in their locality or that agricultural farming has not attracted significant entrants within the period under study.

TABLE 4.5: STAKEHOLDERS' ASSESSMENT OF THE STATE OF THE COUNTRY'S EFFORT TOWARDS ECONOMIC DIVERSIFICATION

Statements	Responses in Percentages				Descriptive Statistics				
	IDK	D	RTS	A	Mean	Mode	Std	Skew	Kurt
Projects are being executed/commissioned by the government in my locality.	8.8	34.9	10.3	46	4.870	7	2.15	-0.29	-1.44
Many public projects are abandoned.	7.1	30.6	6.5	55.9	5.223	7	2.13	-0.58	-1.28
I enjoyed at least one of government's empowerment program(s) or free benefit.	11	48.2	6.4	34.4	4.281	3	2.14	0.21	-1.42
My regular farm yields have increased.	31.7	29.7	11.5	27.2	3.682	1	2.37	0.30	-1.42
I am aware of someone who has started agricultural production.	28.1	22.5	4	45.4	4.332	7	2.60	-0.13	-1.73
The government transport system is relatively available during busy hours to board.	9.5	35.9	6.6	47.9	4.861	7	2.20	-0.29	-1.50
The government transport system is relatively faster in transit compared to other commercial private buses	7.6	26.4	7.8	58.1	5.328	7	2.12	-0.72	-1.07
I spend more money for fuelling my generator in a month.	8.9	27.4	9.5	54.2	5.178	7	2.16	-0.60	-1.19
The economy has improved in comparison with those of past administrations.	7.5	41	12.7	38.8	4.655	3	2.07	-0.06	-1.46
I feel there is a better transparency or less corruption in governance.	8.2	42.7	7.4	41.7	4.652	3	2.14	-0.05	-1.54
Corrupt government officials are made to face the law.	9.8	40.9	7.5	41.9	4.629	7	2.18	-0.08	-1.53
Average	**12.6**	**40.9**	**7.5**	**41.9**	**4.699**				

Note: *IDK = I don't Know; D = Disagree; RTS = Remain the same; A = Agree; Minimum value = 1, Maximum Value = 7, In SPSS coding, 1 = I don't know; 3 = Disagree; 5 = Remain the same; 7 = Agree*

Source: Construct from Field Survey, 2019

Another salient initiative of the government is the provision of mass transits for easy movement of people from their homes to their respective place of work or business. Upon enquiry on the impact of the transportation system on the people, majority of the stakeholders interviewed (58.1%) agreed to the fact that the government transportation system is faster when compared to other private commercialized buses. A minority (41.9%) are either in support of the statement or are not aware of the influence of the government mass transit on the ease of transportation for the people.

The stakeholders also noted that there has not been a considerable impact on the empowerment programmes initiated by the government because most of the programmes are not evenly distributed across the country's geopolitical regions. Furthermore, the stakeholders disagreed on the slight increase in the prices of goods and services as well as on the overall improvement of the economy. On a final note, there also exist a point of departure on the control of corruption and transparency by the Buhari administration. The majority do not see any reduction in the incidence of corruption in the country.

TABLE 4.6: CHI-SQUARE STATISTICS RESULT ON ERGP'S EFFORT TOWARDS GREATER ECONOMIC DIVERSIFICATION FROM STAKEHOLDER'S PERSPECTIVE

Scale	Average Observed Frequency	Expected Frequency	Residual	Chi-Square Stat
IDK	88.82	176.75	-87.93	258.9713***
D	244.36	176.75	67.61	
RTS	57.97	176.75	-118.78	
A	315.90	176.75	139.15	
Total	707			

Source: Construct from Field Survey, 2019

Using the average responses from table 4.5, we conducted the chi-square statistics to test if there is a statistically significant difference in the opinion of the respondents from the expected. The result as presented in table 4.6 shows that the chi-square statistics is very large and greater than the critical value; this implies that we reject the null hypothesis of no statistical difference in the responses of the stakeholders from that of the expected value. The implication of this is that the divergent opinions of the stakeholders on the inability of the ERGP to foster greater economic diversification is significant and should be upheld. Thus, we conclude that the economy has done little in fostering economic diversification.

CONCLUSION AND POLICY RECOMMENDATION

This paper assesses the mid-term performance of the Economic Recovery and Growth Plan with respect to fostering economic diversification. The assessment covers stakeholders' perspective as well as a comparative analysis of the performance of the non-oil sector which is the focused sector.

The agricultural sector grew by 3.42% in 2017 but grew more slowly by 2.14%the following year due largely to the invasion of farmlands by herdsmen particularly in the Middle Belt regions well as some other parts of Northern Nigeria which constitute the country's food basket. The growth rate of the sector both in 2017 and 2018 were below the targets of 5.03% and 7.04% respectively set in the ERGP. Subsequently, in the first and third quarters of 2019, the agricultural sector grew by 3.17% and 2.28% respectively. These real growths are also lower than the ERGP forecast of 7.23% for 2019. From the findings of the stakeholders' perspectives, as revealed in the field survey, there has not been an improvement in agricultural activities over the period. The agricultural sector is still plagued with a myriad of problems. The actual growth rate of the sector is still below the ERGP target. The lackluster growth in the agricultural sector is largely attributable to standing structural issues such as poor infrastructure, poor distribution networks and adoption of obsolete farming techniques, that have hindered the productivity of the sector. The challenges in the sector have been further heightened by conflicts in food-producing regions in the form of the crises between farmers and herdsmen-a precarious situation that has caused many farmers to desert their farmlands. The stakeholders' perspectives field survey also indicated that the government performed fairly well in encouraging the local production of goods as well as the purchase of such locally manufactured products. The expansion in software productions in the country was also acknowledged in the survey.

The target of the ERGP is that agriculture will continue to be a stable driver of GDP growth with an average growth rate of 6.9% over the Plan period. However, over the period under review, the sector posted a disappointing performance when the ERGP projection is compared with the actual NBS data. The divergence became very pronounced from the second quarter of 2018 when the ERGP projection for growth of agriculture was 7.04% while the actual NBS data was 1.19%. The perennial and sustained invasion of farmlands by herdsmen, most especially in the Middle-Belt region is a key causative factor, thus crippling food production and partly contributed to rising food prices. All these happened despite the establishment of the National Food

Security Council in March 2018, by the Federal Government. Agricultural production has received a boost over the period though they are uncertain about any increase in yields for their efforts. The ERGP appears to have been very optimistic in its projections. This was corroborated by the poor performance of virtually all the economic indicators set in the Plan documents. For most of them, the actual figures from the National Bureau of Statistics data fell far short of the targets set for them in the ERGP.

Government must make conscious effort in ensuring that subsequent short-term plans are designed in such a way that it is realistic and achievable. Also, efforts must be put in place to ensure that the resources allocated for the actualization of subsequent plans are properly channeled towards the various projects.

REFERENCES

Adeoye, B.W., & Iwegbu, O. (2020). Harnessing new sources of economic strength to achieving sustainable development goals in Nigeria. *The Nigerian Journal of Energy & Environmental Economics*, 11(1), 41 – 54. https://nauecojournals.com/index.php/stage/pdfreader/130

Al-Roubaie, A. (2018). Linkages creation and economic diversification: The case of Muslim countries. *SHS Web of Conferences*, 56, 1 – 14.

BBC, (31st Aug, 2016). *Nigerian economy slips into recession*. Available at https://www.bbc.com/news/business-37228741

Etomi, G. (2019). Assessment of the implementation of the economic recovery and growth plan (ERGP) goals viz-a-viz the 2018 national budget. *GEPLAW Focus*, 21(1), 1 – 7.

Eze, K.T. (2019). Government Social Intervention and Job Creation in Nigeria: A Study of SURE-P and N-POWER Programmes, 2012- 2018. *Global Journal of Human-Social Science*, 19(7), 41 – 50.

Hirschman, A.O. (1958). *The strategy of economic development*. New Haven, CT: Yale University Press.

Johnston, B. F., & Mellor, J.W. (1961). The role of agriculture in economic development. *American Economic Review*, 51(4), 571–581.

Nafziger, E.W. (2012). *Economic development* (5th ed.). Cambridge University Press.

Nurkse, R. (1961). *Patterns of trade and development*. New York: OUP.

Nwokoma, N.I. (2021). Meeting the challenges of poverty and unemployment reduction. In N.I. Nwokoma & R.O.S. Dauda (eds.). *enhancing Nigerian development prospects: Essay in honour of Vremudia P. Diejomaoh*. (Chp. 4, pp. 67 – 88). Lagos, Nigeria: Unilag Press & Bookshop ltd.

Okeke, C., & Ngonadi, A. (2017). The Politics of Subsidy Reinvestment and Empowerment Programme (SURE-P) and Youth Employment in Nigeria. *NG Journal of Social Development*, 6(2), 10 – 30.

Onodugo, I.C., Amujiri, B.A., & Nwuba, B.N. (2015). Diversification of the economy: A panacea for Nigerian economic development. *International Journal of Multidisciplinary Research and Development*, 2(5), 477 – 483.

Rostow, W. W. (1961). *The stages of economic growth: A non-communist manifesto*.Cambridge: CUP.

Saunders, M., Lewis, P., & Thornhill, A. (2016). *Research methods for business students.* Edinburgh gate, England: Pearson education limited.

World Population Review, (2020). Nigeria population 2020.https://worldpopulationreview.com/countries/nigeria-population/ Accessed 21 April 2020.

Yamane, T. (1967). *Statistics, an introductory analysis* (2nd ed.). New York: Harper and Row

Goodwill Impairment Test: Implications and Challenges Beyond the Models

Essien Akpanuko, University of Uyo
Ntiedo J. Umoren, University of Uyo

ABSTRACT

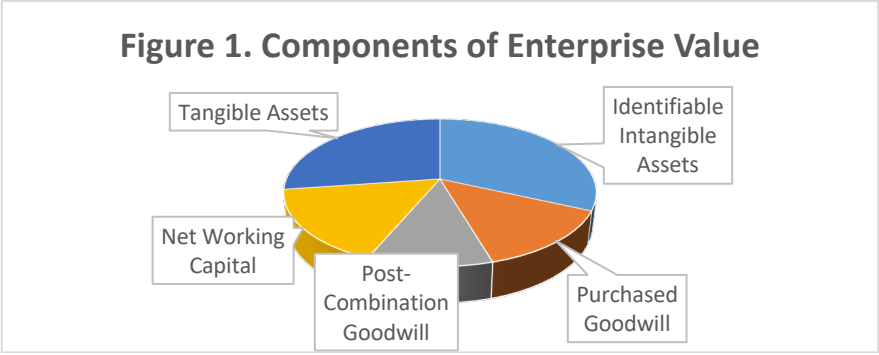
The paper evaluates the benefits of the new provisions and the challenges that lie in wait that the available models cannot contend. This is against the background that under the International Accounting Standard (IAS) 36, rather than amortizing goodwill, entities are required to test the impairment of the excess prices they paid for such purchased assets at least annually, and write off such declines during those periods. Ordinarily, it is expected that this matching of declines in the excess prices paid for such assets with the periods that the declines occurred should produce more revealing financial statements. Sadly, studies (Parkman, 2012, Dallas, Addison and Houston, 2012 and Feldman, 2013) indicates that this is not always the case. One of the reasons advanced for this outcome is that changes in acquisition goodwill are indistinguishable from changes in post-business combination internally generated goodwill, thus precluding separate measurement and impairment testing of both types of goodwill. Therefore, the impairment test continues the existing inconsistent treatment of intangible assets. By employing the survey design, we evaluate the different models that test impairment losses in order to identify any apparent limitations of some models. Our result indicate that most models are limited by two major problems, namely, prediction of future cash flows and the inability to separate acquisition goodwill from total enterprise goodwill in the post-acquisition period. The study thus proffers some strategic approaches to addressing the challenges inherent in goodwill impairment test.

Keywords: Intangibles, Assets, Goodwill, Value, Impairment, Models

INTRODUCTION

Ordinarily, business organizations are expected to purchase assets periodically, one of which is goodwill. In order to do that though, it is incumbent on the entity to carry out an impairment test.The international Financial reporting standards (IFRS) and IAS 36 states that rather than amortizing goodwill, entities are required to test the impairment of the excess prices they paid for such purchased assets at least annually, and write off such declines during those periods. These tests for goodwill impairment should be at each reporting date or wherever there is an indication that the goodwill may have been impaired. The carrying amount of goodwill will then be written down to the extent of the impairment and this impairment loss recognized in the calculation of income for the relevant period. This notwithstanding, this asset can also be created or earned in the course of creating value while upholding high standards, doing good business and delivering value for every amount of money spent by the customer. It is one intangible asset whose value changes with change in behavioral perceptions of the customer and the ability of the enterprise to influence and control the decision outcomes of these consumers. These values depend on a complex interwoven set of factors beyond the control of enterprise managers. Yet whether purchased or created, goodwill is a vital component in the determination of a firms' total value as shown in figure 1.

While the impairment test approach has a certain logic, the mechanics of its operation and valuation process is complex and subject to a high degree of varying interpretations. Indeed some of the calculations required by the models designed for its value measurement could be subject to guessing, albeit educated guessing. Theoretically, the adoption of IAS 36 is intended to improve the reliability of accounting report. In practice, it is expected that this matching of declines in the excess prices paid for such assets with the periods that the declines occurred should produce more significant revelations in the financial statements. Also, it should provide distinct information on post-acquisition or post-business combination internally generated



goodwill and purchased goodwill. Sadly, several studies, amongst them, Parkman, 2012, Dallas, Addison and Houston, 2012 as well as Feldman, 2013 suggest otherwise. This has raised a number of doubts about the reliability of the goodwill valuation directly and the value of the enterprise indirectly. The reliability doubts and ambiguity has implications for financial report preparers and auditors in a number of critical areas, namely: corporate governance and auditing.

It is for this reason that we attempted in this paper to address the gaps observed in the goodwill impairment test research. These concerns are expressed in the following sets of questions:

1. To what extent have firms complied with the IAS 36 requirements?
2. What are the characteristics of goodwill that creates implementation challenges?
3. What factors limit compliance or increase subjectivity?

This study therefore aims to:

1. Evaluate the different models that test impairment losses and their limitations.
2. Identify the characteristics of goodwill and the difficulties for preparers in assigning "fair values" to assets and liabilities.
3. Evaluate the benefits of the new provisions and highlight the subjective aspects of the new standard.

The paper commenced with an identification of the characteristics of goodwill and the difficulties for preparers in assigning "fair values" to assets and liabilities. This was followed by a discussion of the previous and the IAS 36 treatment of goodwill using an illustrative example and highlighting the subjective aspects of the new standard. By providing a global view of goodwill reporting practices as a basis, the paper discussed the challenges beyond the models.

Characteristics of Goodwill

Smith and Smith (2002), and Alfredson (2001) state two characteristics that must be met for goodwill to be recognized as an asset. Firstly, future benefits stem from these assets. According to Nethercott and Hanlon (2002), the future benefits that stem from an efficient and effective organization, including market penetration and superior operating teams represent unidentifiable assets. Secondly, goodwill must pose a cost or other value that can be measured reliably. As indicated by Cathro (1996), there are some difficulties defining what identifiable intangible assets are because it may not be possible to quantify their value. However, Grant (1996) and Barber (1992) define identifiable intangible assets as severable, identifiable, transferable, enduring in nature and capable of protection or enforcement. It is possible for accountants, therefore, to overvalue identifiable intangible assets, such as patents and licenses and undervalue goodwill. If goodwill does not meet these characteristics, however, it should not be recognized as an asset (Nethercott and Hanlon, 2002; Wyatt et al., 2001).

Goodwill can only be recognized when an entity has acquired another entity or part thereof, as goodwill cannot be purchased or sold as a separate item (Hoggett and Edwards, 2000). To value goodwill, most countries standards require the valuation of all identifiable assets, both tangible and intangible, at fair value (Nethercott and Hanlon, 2002). Goodwill then becomes a balancing item, the difference between the purchase consideration given and the fair value of the identifiable net assets acquired.

Interestingly under both the current and new treatment of goodwill, the concept of fair value is fundamental in arriving at the amount of goodwill to be recorded. Fair value is defined in international financial reporting standards, as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction". Unfortunately, determination of the fair value of an asset in individual situations is not always straightforward. Horton and

Macve (2000) believe that fair value appeals to standard setters as holding out the promise of an "objective" way of resolving the problems of reporting financial position and financial performance, and that the fair value concept has been elevated to a "catch-all" concept to resolve measurement issues objectively.

When capital markets, however, are not perfect or are incomplete, the fair value concept is ambiguous, not well defined, and it is possible in individual situations that several fair values could exist (Barth and Landsman 1995, p.99, Bradbury 2000, p. 20). In incomplete market settings, the alternative fair value constructs of entry value (replacement cost), exit value (market/liquidation value) and value-in-use (earnings capitalization/present value of future cash flows) are likely to differ (Beaver 1981, p. 102, Barth and Landsman 1995, p. 99). Consequently, measurement error in fair value estimates can exist, affecting their relevance and reliability. The application of fair value concepts, therefore, determines the amount recorded as goodwill on acquisition and may vary depending on the interpretation of fair values.

Previous Treatment of Goodwill

The current treatment of goodwill in most countries is similar and within these standards is a future benefit from unidentifiable assets. It also identifies the main aspects of goodwill treatment, goodwill is not capable of individual recognition, can only be purchased to be recognized, and is measured as the excess over the fair values of assets at acquisition, and should be amortized to an expense account on a straight-line basis, varying from country to country over a time period not exceeding 20 years.

Interestingly this current treatment was introduced to prevent companies employing methods such as the inverted sum of the years' digits method, under which a smaller portion of goodwill was amortized in the earlier years to lessen the impact on net profit (Gaffikin et al, 2001, p 106). It also requires the unamortized balance of goodwill to be reviewed at each reporting date and expensed against income to the extent that future benefits are no longer probable.

Implications of the Current Treatment

Probably the most controversial aspect of the current treatment of goodwill is the amortization period. As Lamond (1995 p. 68) states "there is no explanation for the magical 20 year selection of the maximum amortization period for goodwill in several countries". On the negative side some enterprises may well be disadvantaged in comparison with other companies that are not subject to a 20 year goodwill amortization period. It is feasible that goodwill that manifested with an acquisition could still be intact after 20 years.

Johnson and Teaney (1993) identified the problems caused by the requirement of national standards to companies in relation to their international comparability and reporting as follows:

i. When competing for foreign business acquisitions, companies are penalized due to lower reported post combination earnings.
ii. Capitalization of goodwill and subsequent amortizations are arbitrary and understate net income.
iii. Goodwill is not measurable and has no value.
iv. The goodwill account includes the errors incurred at acquisition, both positive and negative, made when identifying and valuing all other assets and liabilities.

As noted by Nobes and Parker (2000) income is reduced as a result of goodwill amortization which may lead to a competitive disadvantage in comparison with those that do not amortize. On the positive side a balancing item, goodwill, cannot be capitalized indefinitely but rather has to be expensed periodically. Whilst there is some scope for creative accounting with the current standard, for example, by writing off a large amount of goodwill when profits are larger than normal to promote income smoothing, it is suggested that the new treatment has potentially many more avenues for preparers to be creative.

Proposed New Treatment of Goodwill

As outlined in IAS 36, goodwill acquired in a business combination shall not be amortized but shall be tested for impairment annually (or more frequently if events or changes in circumstances indicate that it might be impaired). Instead of being subject to annual amortization, goodwill balances therefore, will be subject to an impairment test as at each reporting date or whenever there is an indication that the goodwill may have been impaired. The carrying amount of goodwill will then be written down to the extent of the impairment and this impairment loss recognized in the calculation of profit and loss for the relevant period. This revised accounting treatment is elaborated in the IASB's exposure draft of proposed amendments to international standard

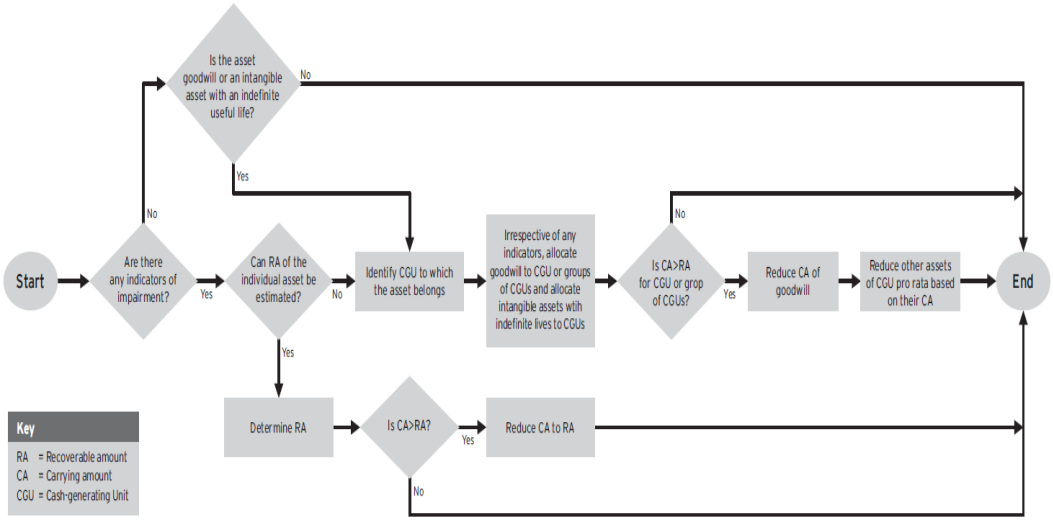
IAS 36: Impairment of Assets. Pursuant to this international standard, goodwill is considered to have been impaired when its carrying amount exceeds its implied value.

The initial carrying amount of goodwill is arrived at in the same way as under GAAP; that is, goodwill is simply the balancing item between the purchase consideration and the fair value of the identifiable net assets. The first problem then is how to ascertain the implied value of goodwill in individual situations. Guidance is provided on this issue in the exposure draft of proposed amendments to international standard IAS 36: Impairment of Assets. The basic problem is that goodwill does not produce income on its own. Rather, the income is produced from a parcel or package of net assets, of which goodwill is the residual, not capable of separate identification. Accordingly, where it is not possible for the recoverable amount of an individual asset to be estimated, IAS 36 requires the cash-generating unit to which that asset relates to be identified. A cash-generating unit is defined as 'the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets' (para 5). That is, cash-generating units represent 'the lowest aggregation of assets that generate largely independent cash inflows from continuing use' (para 61).

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash generating units. An impairment loss is recognized for a cash-generating unit if the 'recoverable amount' for the unit is less than its carrying amount (para 103). The carrying amount for a cash-generating unit is represented by the book value of the individual assets (including goodwill) and liabilities pertaining to that unit. Hence, a key starting point is to determine the 'recoverable amount' of the cash-generating unit to which the goodwill relates. Recoverable amount is defined as the higher of net selling price and value in use. Value in use involves the calculation of the net present value of the estimated future cash inflows and outflows to be derived from continuing use of the asset.

Once it is determined that an impairment loss should be recognized (that is when the carrying amount of the cash-generating unit's net assets exceeds the unit's recoverable amount), it is necessary to calculate the implied value of goodwill. This is measured as the recoverable amount of that cash-generating unit over the net fair value of the identifiable assets, liabilities and contingent liabilities the entity would recognize if it acquired that cash-generating unit in a business combination on the date of the impairment test. It is important to note that, while the necessity for the recognition of an impairment loss is determined by reference to the carrying value of the cash-generating units net assets (including goodwill), the amount of the impairment loss is calculated by reference to the fair value of the unit's identifiable assets and liabilities (including contingent liabilities). This can be affected by any values assigned to identifiable intangible assets, such as brand names, trademarks, copyrights and mastheads (Schmidt, 2003). If recognition of an impairment loss is required, that loss is firstly written off against the value of the goodwill allocated to the cash-generating unit. If the amount of the impairment loss exceeds the carrying amount of the goodwill, the excess is allocated to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

FIGURE 2. THE FLOW CHART FOR GOODWILL IMPAIRMENT



Source:

In summary, the following steps outline the process involved in recognizing an impairment loss on goodwill:

Step 1: Ascertain the recoverable amount of the relevant cash-generating unit. The recoverable amount is the higher of the unit's a) net selling price and b) value in use (net present value of the estimated future net cash inflows).

Step 2: Determine the carrying amount of the net assets (including goodwill) of the relevant cash-generating unit. If the carrying amount exceeds the recoverable amount, an impairment loss must be recognized.

Step 3: If recognition of an impairment loss is required, determine the implied value of goodwill. This is the excess of the recoverable amount of the cash-generating unit over the net fair value of the unit's identifiable assets, liabilities and contingent liabilities.

Step 4: Reduce the carrying amount of goodwill by the amount of the impairment loss. If the amount of the impairment loss exceeds the carrying amount of goodwill, the excess should be written off against other assets of the unit on a pro-rata basis.

The process is diagrammatically presented in figure 2.

In reference to the above assume that as at 30 June 20X6 the net assets acquired from B Ltd have been held in a single division that represents a single cash generating unit. Furthermore, at this date, the carrying amounts of the identifiable assets and liabilities of B Ltd are as follows (all fair values).

	N	N
Assets:		
Cash on deposit	33 000	
Accounts receivable	70 000	
Inventory	98 000	
Plant and equipment	195 000	
Land and buildings	400 000	
Patents and trademarks	100 000	896 000
Liabilities:		
Accounts payable	68 000	
Bank loan	138 000	206 000
Carrying amount of B Ltd's net identifiable assets		690 000

As goodwill of N100 000 has also been recognized, the total carrying value of the net assets is N790 000 (N690 000 + N100 000).

The directors of A Ltd estimated that the net selling price that could be received from the sale of B Ltd, the cash generating unit, is N700 000 while the value in use of the division (net present value of the estimated net cash inflows) is N750 000. The recoverable amount of the division is the higher of these two amounts and therefore is N750 000.

Accordingly, as the recoverable amount of the cash-generating unit (N750 000) is less than the carrying amount of the unit's net assets (N790 000), a N40 000 impairment loss on goodwill must be recorded. This is done by the following journal entry:

DR Goodwill impairment loss	40 000	
CR Accumulated impairment losses		40 000

In the balance sheet goodwill will be disclosed as follows:

		N
Non-current assets		
Goodwill		100 000
Less: Accumulated impairment losses	40 000	
	60 000	

METHODOLOGY

The research reported in this paper focuses on data drawn from a sample of 200 large firms listed corporations across the globe which reported goodwill as comprising an element of their asset base in their 2006 consolidated financial statements. In

approaching the research, a two layered comparative/evaluative methodology was employed. The first layer of the methodology requires a comparison to be made between the content of a firm's impairment testing disclosure and a checklist of requirements derived from IAS 36. This allows disclosures to be categorized according to a bi-modal "comply" or "non-comply" taxonomy.The second layer of the methodology looks beyond distribution of disclosures into the basic categories of "comply" and "non-comply" and recognizes that within the "comply" category of disclosures there is a gradation of quality. Thus, an additional element of the methodology employed is the construction of multi-category disclosure quality taxonomies which provide a more nuanced perspective on disclosure practice than simple "comply" versus "non-comply" categorizations.

Bearing this in mind, several dimensions of the IFRS goodwill reporting regime are of potential interest and can be investigated by dint of required disclosures under IAS 36. The first relates to the role of cash generating units (henceforth CGUs) as the crucible within which the impairment testing process transpires. In order to generate quality assessments, it was necessary to develop compliance and disclosure quality taxonomy for both discount rate and growth rate based disclosures. In relation to discount rate disclosures, the taxonomy applied required the allocation of each sample firm to one of four dimensions being "multiple explicit discount rates", "single explicit discount rates", "range of discount rates" and "no effective disclosure".

Allocation of a firm to the first of these categories indicated that the firm was fully compliant with the requirements of IAS 36 in relation to discount rate disclosures, and that the degree of transparency inherent in its disclosures was sufficient to allow an external analyst to develop meaningful insights into the process of impairment testing employed by the sample firm. Firms assigned to this category provided details of the specific discount rate used to discount cash-flows for the purpose of impairment testing for each defined CGU, and used varying discount rates as the risk characteristics of CGUs varied.

Firms were assigned to the second category "single explicit discount rate" where they provided details of a specific discount rate for each CGU, but there was no observed variation in discount rates assigned to CGUs, even though CGU risk levels were arguably different. The quality of compliance and disclosure for firms in this category was assessed as lower than that of firms in the first category.

Firms were assigned to the third category "range of discount rates", where they provided details of discount rates employed for the purpose of recoverable amount modeling and impairment testing, but rather than specifying a particular discount rate used in the context of testing for impairment in a particular CGU, simply provided details of a range of discount rates used across a range of CGUs. It is questionable whether this practice fulfills the disclosure requirements stipulated under AASB 136, and it is clear that the quality of this form of disclosure is lower than in categories one and two, above. Finally, where the degree of information provided in relation to discount rates was so limited that it would not sustain any meaningful external evaluation, firms were assigned to a fourth category, labeled "no effective disclosure". These firms were judged not to have complied with the relevant requirements of AASB 136, and the quality of their disclosures was poor.

The final research sample of 200 firms was selected using the following process. Commencing with the largest (by market capitalization) and moving to each successively smaller firm, organizations were included in the research sample if they had reported under A-IFRS for 2006, and had goodwill as a component of their asset base. Details of the 200 constituent firms comprising the final research sample, their market capitalization and the value of their goodwill balances are set out in Appendix A.

Data Presentation and Discussion of Findings

The combined market capitalization of the final research sample was $882.1 billion representing 63.5% of total Australian equity market capitalization as at December 2006. In undertaking the process of sample compilation, the audited financial statements for a total of 412 listed firms were screened. These firms had a combined market capitalization of $1.350 trillion which represented 97.12% of the total Australian equity market capitalization as at December 2006. For the purposes of analysis, the 200 constituent firms were arranged by their GICS industry group classification18 and subsequently divided into 15 groups comprising organizations with related principal lines of business. At the date of sampling, the 200 firms included in the final sample controlled assets valued at $2,341,892 million, which included goodwill of $77,874 million. An overview of the research sample broken down by assigned sector, the dollar value of firm assets within the sector, and the dollar value of goodwill for each sector is shown in Table 1, below.

TABLE 1– OVERVIEW OF RESEARCH SAMPLE

Sector	Total Assets ($ million)	Total Goodwill ($ million)	Goodwill as % of Total Assets
Banks & Insurance *(n=12)*	1,927,443	22,868	1.19%
Capital Goods *(n=18)*	15,599	1,646	10.55%
Commercial Services & Supplies *(n=20)*	10,894	2,090	19.19%
Consumer Services *(n=8)*	12,420	4,223	34.00%
Diversified Financials *(n=20)*	36,468	2,431	6.67%
Energy *(n=4)*	15,308	1,624	10.61%
Food, Beverage & Staples *(n=15)*	62,163	10,983	17.67%
Health Care *(n=14)*	20,119	6,291	31.27%
Materials *(n=17)*	50,738	5,874	11.58%
Media *(n=13)*	24,566	1,855	7.55%
Real Estate *(n=11)*	40,219	2,409	5.99%
Retailing *(n=18)*	11,138	1,607	14.43%
Software & Services *(n=13)*	3,519	1,957	55.60%
Technology & Telecommunication *(n=8)*	38,276	2,767	7.23%
Utilities & Transportation *(n=9)*	73,022	9,250	12.67%
TOTAL *(n=200)*	**2,341,892**	**77,874**	**3.33%**

Source: Survey, 2014

The first group of analytical procedures performed on the data gathered for this study focused on the use of CGUs as an element of the impairment testing process. A threshold question of interest was the degree to which the total reported value of each sample firm's goodwill could be completely reconciled to the sum of the goodwill values disclosed as having been allocated that firm's defined CGUs. Inspection of the financial reports of the two hundred firms comprising the final research sample revealed three distinct clusters of practice.

TABLE 2–CGU ALLOCATION COMPLIANCE BY SECTOR

Sector	Fully compliant *(number of firms)*	Ostensibly compliant *(number of firms)*	Non-compliant *(number of firms)*
Banks & Insurance *(n=12)*	**9**	**-**	**3**
Capital Goods *(n=18)*	**15**	**-**	**3**
Commercial Services & Supplies *(n=20)*	**18-**	**-**	**2**
Consumer Services *(n=8)*	**7**	**-**	**1**
Diversified Financials *(n=20)*	**14**	**-**	**6**
Energy *(n=4)*	**2**	**-**	**2**
Food, Beverage & Staples *(n=15)*	**14**	**4**	**-**
Health Care *(n=14)*	**14**	**-**	**-**
Materials *(n=17)*	**14**	**-**	**3**
Media *(n=13)*	**9**	**2**	**2**
Real Estate *(n=11)*	**9-**	**2**	
Retailing *(n=18)*	**14**	**-**	**4**
Software & Services *(n=13)*	**10**	**-**	**3**
Technology & Telecommunication *(n=8)*	**7**	**-**	**1**
Utilities & Transportation *(n=9)*	**8**	**-**	**1**
TOTAL *(n=200)*	**164**	**3**	**33**

The first and dominant cluster comprised 164 firms for which a reconciliation of the type described above was possible. These were assessed as being fully compliant with the relevant disclosure requirements of IAS 36. The second cluster comprised 3firms in relation to which all goodwill bar an immaterial portion had been allocated to a CGU. These firms were assessed as being ostensibly compliant with the disclosure requirements of IAS 36. The third cluster comprised 33 firms where it was not

possible in any meaningful way to draw a link between the value of reported goodwill and any of the firm's defined CGUs. These firms were assessed not to have complied with the requirements of IAS 36. These details are set out in Table 2, below.

In contemplating the results in Table 2, it is notable that slightly in excess of 15% of the sample (a group of firms reporting some $5.2 billion in goodwill) failed to provide details of the manner in which they had allocated goodwill between CGUs for the purpose of impairment testing. This is contrary to the requirements of paragraph 80 of AASB 13633. More than representing a mere technical breach, failure to provide details in relation to CGUs creates fundamental difficulties for financial statement users wishing to undertake independent evaluation of the robustness of valuations ascribed to goodwill by reporting entities.

An obvious problem which arises where this information is not provided is the lack of capacity on the part of the financial statement user to understand how goodwill is distributed across a business, where it is concentrated and what types of underlying business activities it is principally associated with. This results in a diminished capacity on the part of financial statement users to develop detailed reporting entity impairment risk profiles.

Potentially valuable information is also lost in the presence of the CGU aggregation problem. By defining too few CGUs relative to the true number of operating units within the organization which generate independent streams of cash-flows and with which at least some goodwill is associated, the level of disclosure transparency achieved falls, and the risk that impairment losses which should be recognized in a given period are not recognized in that period rises.

As the data in Table 5 makes clear, the dominant method adopted by large Australian listed reporting entities is the value in use approach, pursuant to which the recoverable value of CGU net assets is estimated via the construction of a discounted cash-flow model of CGU pre-tax cash flows. These choices have consequences for the nature and content of disclosures firms are required to make in relation to the process of impairment testing.

By way of contrast, firms choosing to adopt the fair value approach to impairment testing face a lower required disclosure burden and avoid the obligation to provide details such as discount rates and assumed growth rates. The challenge presented as a consequence of the decision to adopt the fair value approach to goodwill impairment testing is to find an appropriate benchmark asset portfolio, a current price for which can be reliably observed.

Given the limited classes of assets for which liquid markets exist or in relation to which current reference transactions are observable, perhaps the greatest surprise in the data set out in Table 5 is that 17 firms exclusively based their impairment assessments on this approach, with a further 7 disclosing that they made some use of the technique, but note here the potential for this choice to be exercised opportunistically to the detriment of disclosure quality.

Discount rate disclosures are central requirements in cases where firms adopt value in use as their approach to impairment evaluation. AASB 136 requires that firms disclose the discount rate(s) used36 in the process of modeling CGU asset portfolio recoverable value, and that the discount rates applied be preferable to the risks associated with the assets within each CGU. This information is of fundamental value to financial statement users wishing to independently evaluate the robustness of the impairment testing process applied by a firm. However, as the data in Table 6 demonstrates, disclosure practices in relation to discount rates leave much to be desired.

One striking feature of the data is the infrequency with which firms adopting the value in use approach select and explicitly disclose different discount rates for each of their defined CGUs. Instead, the most common practice is to define a single discount rate and apply this on a blanket basis to all CGUs. Given that it is most unlikely that all CGUs within these firms have substantially the same risk profile, it appears defensible to conclude that inappropriate discount rates are being used in a substantial number of impairment testing procedures.

It is also notable that approximately a fifth of those firms which disclosed that they had adopted a value in use approach to impairment testing failed to provide any meaningful disclosures in relation to the discount rates applied in the testing process, either because they were wholly silent on the question of discount rates, or because they stipulated a range of discount rates applied in the testing process, leaving financial statement users at a loss when attempting to understand the level of discount rates applied to particular CGUs.

A further notable feature of the data is the wide range of discount rates applied by firms within each defined industry grouping. In some cases, defined discount rates appeared to be inexplicably low – for example the firm in the commercial services and

TABLE 5.METHOD EMPLOYED TO DETERMINE RECOVERABLE AMOUNT

Sector	Fair Value Method	Value-in-use Method	Mixed Method	Method not Disclosed
Banks & Insurance *(n=12)*	**4**	**6**	**1**	**1**
Capital Goods *(n=18)*	**-**	**17**	**-**	**1**
Commercial Services & Supplies *(n=20)*	**-**	**18**	**1**	**1**
Consumer Services *(n=8)*	**-**	**8**	**-**	**-**
Diversified Financials *(n=20)*	**2**	**12**	**1**	**5**
Energy *(n=4)*	**-**	**3**	**-**	**1**
Food, Beverage & Staples *(n=15)*	**1**	**13**	**-**	**1**
Health Care *(n=14)*	**1**	**13**	**-**	**-**
Materials *(n=17)*	**-**	**15**	**1**	**1**
Media *(n=13)*	**2**	**9**	**1**	**1**
Real Estate *(n=11)*	**2**	**6**	**1**	**2**
Retailing *(n=18)*	**2**	**13**	**-**	**3**
Software & Services *(n=13)*	**1**	**11**	**1**	**-**
Technology & Telecommunication *(n=8)*	**1**	**6**	**-**	**1**
Utilities & Transportation *(n=9)*	**1**	**7**	**-**	**1**
TOTAL *(n=200)*	**17**	**157**	**7**	**19**

supplies segment which disclosed the use of a pre-tax discount rate of 5.7% - a rate lower than common estimates of the long run risk free rate. In another case, a firm disclosed that it had not discounted cash-flows (despite the requirement to do so), meaning that the effective discount rate it had applied was 38%.The consequence of this substantial variation is that the discount rates employed by the firms studied ranged between 0% at the low end and 40% at the upper end, with an arithmetic mean pre-tax discount rate of 12.3% but high dispersion around the mean.

Overall, three key themes emerge in relation to the discount rate issue. First, the non-compliance rate with the basic requirement to disclose discount rates is surprisingly high. Second, most firms appear to be undertaking their impairment testing procedures using blanket whole of firm discount rates when what is required in order for the results of the impairment testing process to be robust is the application of CGU specific risk adjusted discount rates. Third, there is some evidence of the use of aggressively low discount rates, with the result that CGU asset portfolio recoverable values will have been overestimated and potential goodwill impairment losses deferred or avoided.

In addition to the problems encountered in relation to discount rate disclosures, difficulties in relation to growth assumption disclosures were also evident. The most profound of these was the very high level of non-compliance with basic disclosure requirements pertaining to growth assumptions embedded into value in use discounted cash-flow models. As the data starkly demonstrate, in excess of 70% of firms failed to make any disclosure in relation to assumed growth rates, despite the clear and explicit requirement that they do so. The data suggest that the structure of the discounted cash-flow models used by firms as tools for the estimation of CGU asset portfolio recoverable value tended to be simple, as evidenced by the dominant selection of a single explicit cash-flow forecast horizon, followed by a terminal value perpetuity component. 127 of 164firms (77.5%) constructed their models in this way.

TABLE 6 – DISCOUNT RATE DISCLOSURES (VALUE IN USE AND MIXED METHOD FIRMS ONLY)

Sector	Multiple Explicit Discount Rate (no. of firms)	Range of Discount Rates (no. of firms)	Single Explicit Discount Rate (no. of firms)	No Effective Disclosure (no. of firms)	Minimum Discount Rate (pre-tax) %	Maximum Discount Rate (pre-tax) %	Average Discount Rate (pre-tax) %
Banks & Insurance *(n=7)*	**1**	**1**	**2**	**3**	**10.5**	**18.5**	**13.6**
Capital Goods *(n=17)*	**1**	**-**	**11**	**5**	**8.5**	**17.7**	**11.7**
Commercial Services & Supplies *(n=19)*	**5**	**-**	**13**	**1**	**5.7**	**20.1**	**12.4**
Consumer Services *(n=8)*	**3**	**1**	**3**	**1**	**9.5**	**18.6**	**12.9**
Diversified Financials *(n=13)*	**1**	**-**	**8**	**4**	**6.0**	**13.6**	**9.9**
Energy *(n=3)*	**-**	**1**	**2**	**-**	**11.7**	**18.9**	**14.2**
Food, Beverage & Staples *(n=13)*	**1**	**1**	**10**	**1**	**8.7**	**13.6**	**12.1**
Health Care *(n=13)*	**1**	**-**	**10**	**2**	**8.9**	**17.1**	**11.6**
Materials *(n=16)*	**-**	**2**	**11**	**3**	**7.0**	**19.0**	**11.5**
Media *(n=10)*	**3**	**3**	**2**	**2**	**7.7**	**20,0**	**12.6**
Real Estate *(n=7)*	**1**	**-**	**5**	**1**	**7.5**	**18.0**	**10.9**
Retailing *(n=13)*	**2**	**-**	**11**	**-**	**10.4**	**16.6**	**13.1**
Software & Services *(n=12)*	**-**	**1**	**10**	**1**	**10.3**	**17.0**	**14.1**
Technology & Telecommunication *(n=6)*	**1**	**1**	**3**	**1**	**9.0**	**40,0**	**19.2**
Utilities & Transportation *(n=7)*	**1**	**-**	**6**	**-**	**0.00**	**13.0**	**9.1**
TOTAL *(n=164)*	**21**	**11**	**107**	**25**	**00.0**	**40.0**	**12.3**

Advantages of the New Treatment of Goodwill

First, the underlying logic for removing the traditional amortization methodology is that the amortization on a straight-line basis over a set number of years contains no information value for those using financial statement (Ravlic, 2003). On the other hand the goodwill impairment test would be operational and capture a decline in value of goodwill (Donnelly and Keys, 2002).

Second, the new treatment satisfies the need for analysts and the other users of financial statements for better information about intangible assets and does not require goodwill to be automatically 'written down' irrespective of the individual situation. Rather it is to be written down only if it is found to be impaired (Colquitt and Wilson, 2002).

Third, an advantage over the amortization method is the time period estimation. An estimate of its useful life becomes less reliable as the length of the useful life increases (Waxman, 2001). The current standard's use of a 20 year maximum period of amortization has no rationale; it is simply an arbitrary number.

Disadvantages of the New Treatment of Goodwill

First, whilst the current treatment of goodwill is considered to be arbitrary, it is easy to apply in comparison with the new treatment. The identification of a cash-generating unit could be difficult in cases where a company has acquired another company and the latter consists of a number of separate subsidiaries or branches. Should the cash generating unit be the complete initial purchase or should a number of units be identified? This could be the case where the acquired company has, for example, separate manufacturing units in various Australian states. For example assume a company has separate manufacturing units in Nigeria, Lagos and South Africa, Johannesburg, one of which has "overvalued" goodwill of N50, 000.00 and the Queensland one of which has "undervalued" goodwill of N50, 000.00 If the cash-generating units are considered at the individual state level, a goodwill impairment loss of N50,000 would need to be recorded for the New South Africa manufacturing unit. However, if the manufacturing units in both states combined are considered to represent the cash generating unit, goodwill for the combined units would not be overvalued and therefore no goodwill impairment loss would need to be recorded.

The above example shows that the recoverable amount of the relevant cash-generating unit needs to be calculated under the new international treatment. This involves calculating the net selling price and value in use of the unit. The identification of the initial cash-generating unit/units could have a strong bearing on those calculations. For example the net selling price of an acquisition could be estimated if there was a market for its shares and it was treated as one cash-generating unit. If the market acquisition was broken down into a number of cash-generating units, the estimation of the net selling price of each unit could be extremely subjective to estimate. Similarly the calculation of the net present value of the cash-generating unit is complex and subject to much interpretation. The estimation of the present value of net cash inflows could also vary dramatically depending on the underlying assumptions employed about discount rates and future time periods. The difficulties in assessing the recoverable amount of an individual asset and in estimating future cash inflows of independent assets, and the subjectively in the identification of an assets cash-generating unit, imply that the process is open to abuse (Cearns, 1999).

Second, comparability will be reduced in industries with heterogeneous companies (in age and grown style). For example, companies that grew without acquisitions will have long lived assets on their books at depreciated values while companies that grew primarily through acquisition will have current assets on their books. (Rockness, Rockness and Ivancewich, 2001).

Third, conducting a detailed test for impairment on every asset and associated goodwill from initial acquisition at the end of each reporting period may be time consuming and costly (Mcgeachin, 1997; Rockness, Rockness and Ivancewich, 2001).

As a result of the operationalization of the new method there is much scope for creative accounting. It may well be that goodwill will remain as an asset in balance sheets and will not be written down and therefore reported profits will not be affected by any write-off of goodwill. This could have a beneficial effect on share prices and would be favored by management.

Beyond The Models: The Challenge of Auditing the Proposed Treatment of Goodwill

The transition to the proposed accounting treatment of goodwill under IAS 38 will not only challenge the preparers of financial statements but also the auditors of those financial statements. Goodwill will no longer be routinely amortized but will be assigned to an entity's reporting units and tested for impairment at least annually, as indicated in the second illustrative example presented earlier. The International Standard on Auditing ISA 545 provides specific guidance for fair value issues thus,

> "The measurement of fair value maybe relatively simple for certain assets or liabilities, for example, assets that are bought and sold in active and open markets that provide readily available and reliable information on the prices …".

As depicted in the illustrated example, most situations relating to company consolidations and the assignment of goodwill may not be as simple. The assignment of fair value determines the amount of goodwill or discount on acquisition because the purchasing price of the investment by the investor company in the investee company is pre-determined and therefore the assignment of fair values of identifiable net assets will determine any goodwill or discount on acquisition. Hence, the notion of the simple market exchange process would rarely apply to group accounts. Moreover, auditors will not only have to deal with the unexpected complexities and ambiguities regarding the assignment of fair value. Auditors will have to verify identification of cash generating units (CGUs), calculation of the selling price of the CGUs and the calculation of the recoverable amount of the CGU based on estimates of discounted cash flows.

In 2001, the United States introduced a similar impairment testing system. The U.S. experience suggests that the proposed treatment might be more realistic commercially but potentially could cause volatility of reported earnings. Some U.S. companies reported more write-downs, particularly when the economy began to slow and it was discovered that a lot of effort was required to justify the carrying amount of their existing goodwill balances, "particularly when the purchased business had merged with another" (Schmidt, 2003 p. 82). In fact the illustrative audit program in the American Institute of CPAs for the FASB, suggests that the audit of business combinations and associated goodwill on other intangible assets is complex, costly and time-consuming, as many of the audit objectives require substantive testing to substantiate the valuation of goodwill (see pp 57-77 of AICPA toolkit, 2003). Moreover, if the reported earnings become negative as result of goodwill write-downs, the proposed treatment of goodwill is vulnerable to manipulation and creative accounting, particularly by management who might want to a more favorable outcome as suggested by agency theory.

CONCLUSION

Accounting for goodwill is again a controversial issue with the adoption of international accounting standards. The current method of accounting for goodwill will change dramatically as detailed in the AASB's ED109 and IASB's ED3. Goodwill acquired in a business combination will no longer be amortized but rather goodwill will be tested for impairment annually (ED3, 54). This paper explored the potential impact of the proposed changes to goodwill accounting. We compared and discussed the current treatment and the proposed treatment, thereby demonstrating the advantages but also the complexities of the proposed treatment for preparers and auditors. Auditors will be required, in many instances to use their professional judgment and rely on managements' abilities and integrity as well as sound corporate governance mechanisms (such as audit committees) for the 'fair' valuation of goodwill and associated transactions. In light of the issues raise in this paper, we ask, how prepared are preparers, and corporate governance mechanisms, including external audit, to contend with such a dramatic and complex change required by the proposed accounting treatment for goodwill?

REFERENCES

Alfredson, K. (2001). Accounting for Identifiable Intangibles – An Unfinished Standard – Settling Task. Australian Accounting Review, 11 (2), 12 – 21.

Amel-Zadeh, A., Glaum, M., and Sellhorn, T. (2021). Empirical Goodwill Research: Insights, Issues, and Implications for Standard Setting and Future Research. European Accounting Review. 1 – 32.

American Institute of CPAs (2003). *Auditing Fair Value Measurements and Disclosures – A Toolkit for Auditors.* New York, USA.

ASX Corporate Governance Council (2003). *Principles of Good Corporate Governance and Best Practice Recommendations*. March, Australian Stock Exchange, Sydney.

Barber, V. (1992). The Impact of Goodwill Regulation on Accounting for Identifiable Intangible Assets in Australia.*An unpublished honours thesis*, Department of Commerce, University of Queensland.

Barth, M.E. and W.R. Landsman (1995). Fundamental Issues Related to Using Fair Value Accounting for Financial Reporting. Accounting Horizons, 9 (4), 97 – 107.

Beaver, W.H. (1981).*Financial Reporting: An Accounting Revolution*. Englewood Cliffs: Prentice-Hall Inc.

Bradbury, M.E. (2000). Issues in the Drive to Measure Liabilities at Fair Value. Australian Accounting Review, 10 (2), 19 – 25.

Cathro, G. (1996). Goodwill: Now You See It, Now You Don't. Australian Tax Review, 25 (4), 169 – 185.

Cearns, K. (1999). Impairment: Understanding CGU's. Accountancy, 123 (1267), 104 – 105.

Chambers, D., & Finger, C. (2011). Goodwill Non-Impairments. The CPA journal, 81, 38-41.

Charles, M. (2003). Abysmal Southcorp Sinks to N1B Loss. The Courier Mail, 3 September, p. 25.

Colquitt, L. and Wilson, A. (2002). The Elimination of Pooling-of-Interests and Goodwill Amortization and its Effect on the Insurance Industry. Journal of Insurance Regulation, 20 (3), 338 – 351.

Donnelly, T and Keys, R (2002). Business Combinations and Intangible Assets. Australian CPA, 72 (4), 68 – 69.

Ernst & Young (2010). Impairment accounting - the basics of IAS 36 Impairment of Assets

Gaffikin, M., Dagwell, R. and Wines, G. (2001).Corporate Accounting in Australia, Sydney, Australia University of NSW Press

Ghosh, A., Xing, C (2021). Goodwill Impairment and Audit Effort. Accounting Horizons 35 (4), 83–103.
Gierusz, M.; Ho ´nko, S.; Strojek-Filus, M.; Swietla, K. (2022). The Quality of Goodwill Disclosures and Impairment in the Financial Statements of Energy, Mining, and Fuel Sector Groups during the Pandemic Period—Evidence from Poland. Energies: 15, 1 – 20.
Grant, S. (1996). Goodwill: The Debate That Never Ends. Australian Accountant, 66 (11), 18 – 21.
Hoggett, J. R. and Edwards, L. (2000). Financial Accounting in Australia. Australia, Sydney: John Wiley& Sons.
Horton, J. and Macve, R. (2000). Fair Value for Financial Instruments: How Erasing Theory is Leading to Unworkable Global Accounting Standards for Performance Reporting. Australian Accounting Review, 10 (2), 26 – 39.
Johnson, J. and Tearney, M. (1993). Goodwill – An Eternal Controversy. The CPA Journal, 63 (4), 58 – 69.
Klimczak, K., Dynel, M. and Pikos, A (2016). Goodwill Impairment Test Disclosures under Uncertainty. Journal of Accounting and Management Information Systems, 15 (4), 639-660.
Lamond, Bob (1995). Goodwill: The Final Solution. Charter, 66 (2), 68 – 74.
Li, Z. Q. (2020). Impact of Executive Changes on Goodwill Impairment. Modern Economy, 11, 561 – 569.
Malijebtou, N., and Jilani, F. (2017). Determinants of Goodwill Impairment Losses under IAS 36: The French Case. International Journal of Accounting and Financial Reporting 7 (1), 348 – 371.
McGreachin, A. (1997). Bringing Impairment under one Umbrella. Accountancy, 120 (1247), 66 – 69.
Nethercott, L. and Hanlon, D. (2002). When is Goodwill not Goodwill? The Accounting and Taxation Implications. Australian Accounting Review, 12 (1), 55 – 63.
Nobes, C. and Parker, R. H. (2000) *Comparative International Accounting*. London: Financial Times/Prentice Hall.
Ramanna, K., & Watts, R. L. (2008). Evidence from Goodwill Non-impairments on the effects of Unverifiable Fair value accounting. Harvard Business School Accounting and Management Unit. Working paper.
Ravlic, T. (2003). Goodwill Hunting. Australian CPA, April, pp. 69-70.
Rockness, J. W., Rockness, H. O. and Ivancevich, S. H. (2001). The M and A Game Changes. Financial Executive, 1 (7), pp. 22 – 25.
Schmidt, L. (2003). Intangibles tangle. Business Review Weekly, August 7-13, pp. 80-83.
Smith, G. and Smith, J. (2002). An Epigrammatic Examination of the Nature Measurement and Valuation of Goodwill between 1810 to 2002. Faculty of Commerce, Charles Sturt University Working Paper, Bathurst, NSW.
Šapkauskienơ, A. and a *, Šviesa, L. (2014). The analysis of factors influencing the write-off of goodwill. Procedia - Social and Behavioral Sciences 156, 643 – 647.
Tan, X., Ge, X., Liu, Q., and Yuan, Z. (2021). The Impact of Goodwill Recognition and Goodwill Impairment on the Increasing Holdings of Block Shareholders. Complexity. 1 – 13.
Waxman, R. (2001). Goodwill Convergence. The CPA Journal, 71 (10), 18 – 24.
Wines, G., Dagwell, R., & Windsor, C., (2007). Implications of the IFRS goodwill accounting treatment. Managerial Auditing Journal, 22, 862 – 880.
Wyatt, A, Matolcsy, Z. and Stokes, D. (2001). Capitalisation of Intangibles – A Review of Current Practice and the Regulatory Framework. Australian Accounting Review, 11 (2), pp. 22 – 38.

Poverty Alleviation in Nigeria Through the ERGP: Any Success Stories?

Babatunde W. Adeoye, University of Lagos
Onyebuchi Iwegbu, University of Lagos
Aminat Eniayewu, University of Lagos
Anthonia T. Odeleye, University of Lagos
Taiwo V. Ojapinwa, University of Lagos
David M. Oke, University of Lagos
Babatunde Oke, University of Lagos
Ndubisi I. Nwokoma, University of Lagos

ABSTRACT

The Economic Recovery and Growth Plan (ERGP) is a medium-term plan that is formulated to achieve three basic objectives amongst which is investing in the people is through increase in social inclusion, creation of jobs and improve in the human capital base of the economy. This paper assesses the success of the plan towards one of the major challenges of developing economies – poverty reduction. Survey method of investigation and secondary data sources were employed in achieving the objective. The data retrieved from the survey were analysed using tables, frequency counts, percentages and mean while the hypothesis was tested using the independent t-test. The secondary data was analysed using trends and graphs. The result from the study revealed that the government appears not to have achieved much, particularly on social inclusion and improvement of quality of life towards poverty reduction as evidenced by the stakeholders' perspectives survey.Going forward it is pertinent that the government takes an appropriate survey of the society to tailor its policies in such a way that it will suit the larger populace, bolster inclusive growth and propel an increase in human capital development.

Keywords: Poverty, Economic Recovery and Growth Plans, Government Programmes
JEL Classification: I38, E65, O21

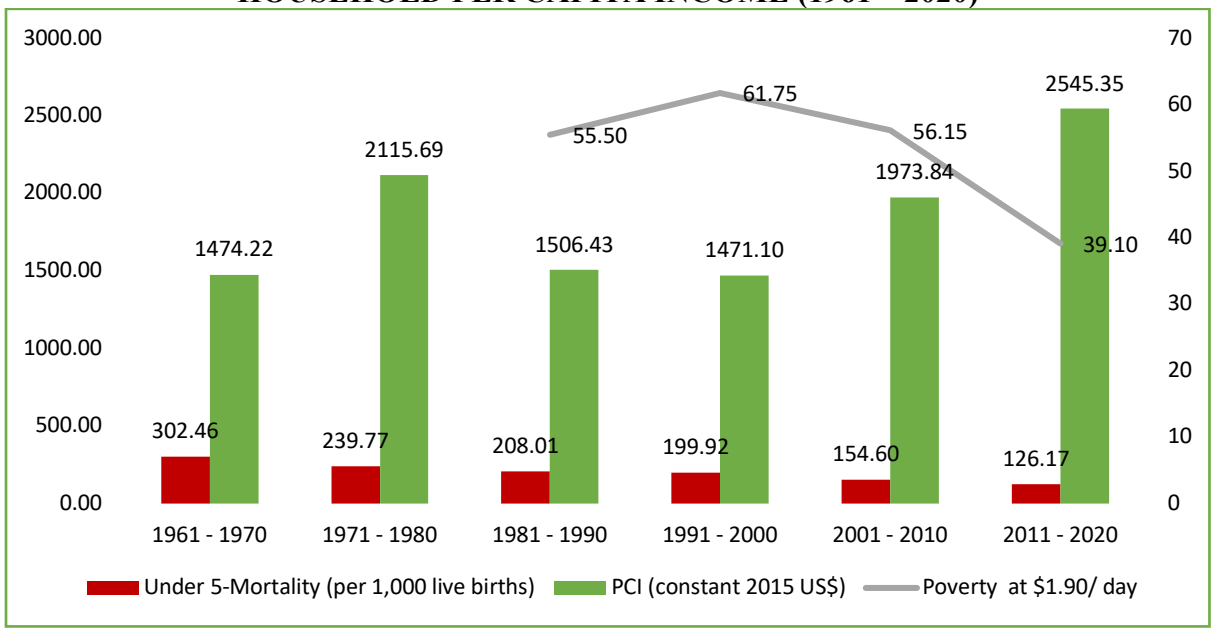
INTRODUCTION

Little achievement has been made by the federal government of Nigeria towards poverty reduction. Poverty is the state of lack and the inability to meet the basic need of life – food, clothing and shelter. According to World Bank (2021), it is the inability of an individual to meet have an average income or consumption of at least $1.90 per day. Empiricaldata reveals that despite these efforts through the development and implementation of various development plans, poverty has continued to persist. Figure 1.1 shows that the percentage of those below the poverty line ($1.90/day) increased from 55.5% between 1981 – 1990 to 61.75% between 1991 – 2000. It declined to 39.10% between 2011 – 2020. This suggests that the policies and development strategies between this period may have yielded positive response towards poverty reduction. Not only did the poverty headcount declined, under 5 mortality rate declined from 302 per 1,000 live births between 1961 – 1970 to 126 between 2011 – 2020. At the same time, the per capita income has increased from $1,474.22 between 1961 – 1970 to $2545.35 between 2011 – 2020.

A close examination of the development strategies since 1999 shows that government has consistently developed plans that can help towards poverty reduction. The Poverty Alleviation Programme (PAP) which is one of the medium-term planning of the government came on board in the wake of the of the fourth republic where over 70% of the entire population were living below the poverty line (Ngara, Esebonu, Ogoh&Orokpo, 2014). The hope of this policy was to eradicate poverty and drastically pull Nigerians out of the poverty line. The policy was geared towards the creation of 200,000 jobs (Obadan, 2001). Despite this strategy, the incidence of poverty never declined. The inability of the PAP program to yield positive results towards

employment generation and poverty reduction led to the introduction of the National Poverty Eradication Program (NAPEP) scheme. This scheme was designed to spur poverty reduction strategies at the local government level which will then be coordinated at the national level. The local government's principal target centers on devising strategies of reducing poverty at the local level. The NAPEP was designed to ensure implementation of strategic schemes which will alleviate the masses out of the poverty line. Elumilade, Asaolu and Adereti (2006) noted that the schemes designed to eradicate poverty were Youth Empowerment Scheme (YES); Rural Infrastructure Development Scheme (RIDS); Social Welfare Service Scheme (SOWESS) andNatural Resources Development and Conservation Scheme (NRDCS).

FIGURE 1.1: DATA OF POVERTY HEADCOUNT, UNDER 5 MORTALITY RATE AND HOUSEHOLD PER CAPITA INCOME (1961 – 2020)



Source: Authors Construct using the data from Word Bank (2021)

These projects were designed to ambitiously reduce the persistent of poverty; an initial amount of ₦6 billion was approved during its commencement in 2001. The NAPEP is distinct from the PAP as this was not a sector project implementation agency but a coordination facility that ensures that the core poverty eradication Ministries were effective (Hussaini, 2014). Despite this effort, the increase in poverty rendered the strategy ineffective. The National Economic Empowerment and Development Strategy (NEEDS) of 2004 came on board to seek for ways in reducing poverty, the goal post in improving the welfare of the citizenry is far from reality. The subsidy reinvestment and empowerment programme (SURE-P) was again inaugurated just to ensure that part of the nation's savings from the subsidy removal is invested in critical sectors of the economy that has multiplier effect on other sectors and principally to reduce the increasing level of unemployment in the economy. The policy is more of a social intervention programme designed to ensure poverty and unemployment reduction (Eze, 2019).

Despite this continuous effort, it became obvious that change in administration implies that a new development plan must be inaugurated. The swearing in of the Buhari's administration ushered in a new medium-term development plan – The Economic Recovery and Growth Plan. The plan was designed to restore growth through targeting macroeconomic stability and economic diversification; invest in Nigerianpeople and build a globally competitive economy. The objective of investing in the people is through increase in social inclusion, creation of jobs and improve in the human capital base of the economy. Before the global pandemic of 2020, the ERGP plan has been implemented half-way, it becomes necessary to examine the success of the plan towards one of the major challenges of developing economies – poverty reduction. This assessment considers the opinion of relevant stakeholders on the efforts made by the government towards poverty reduction.

This study is novel as it is among the first to the best of our knowledge to evaluate the achievement of the ERGP plan from the stakeholders' perspective. It is also novel as it considers the success of the plan prior to the outbreak of the COVID-19 pandemic, this will help to provide the impact assessment without considering the major unbalances the pandemic has created

to the entire world. The study extends the frontier of knowledge by conducting a survey across all the relevant stakeholders to understand their perspective of the plan; since the plan is made for them and is based on the people's mandate.

This study covers the period between 2017 – 2019 which is exactly mid-way towards the implementation of the plan. Also, the survey was conducted across the stakeholders who reside in Lagos State as the State was chosen due to it having almost at least one of the representatives form the various tribes in Nigeria and it also been the commercial capital of the country. The remaining section of this paper are divided into four; subsequent to this introduction is the literature review and this is followed by the research methodology; results and findings; and conclusion and policy recommendation.

LITERATURE REVIEW

The theory considered in this study is the human capital theory.The human capital theory explains the role of investment in human capital formation through investment in education, health and housing. The human capital theory presupposes that investing in the productive capacity of the populace has the tendency to spur growth and engender development (Woodhall, 1997).According to the human capital theory, plans and strategy should be geared towards investment in education as this will increase the productivity of the populace and contribute to and development. From the theory, investment in education astronomically leads to increase in the productive human capability and this will ultimately increase growth.

According to the human capital theory, it is better to invest in human capital than the physical capital, although investing in both are necessary and sufficient conditionsfor development.Applying this theory to the study implies that the Federal Government needs to formulate plan geared towards increase in investment in human capital; the implication of this is the government needs to invest in the people and the investment in the people will translate to innovative ideas (Dethier&Effenberger, 2011).

From this theory, to achieve the fourth industrial revolution and enhance the quality of life of citizens in Nigeria as well as the country at large, there is the need to ensure that substantial investment is expended in improving the quality of life of the citizens (HLPE, 2011; Slater & McCord, 2009). This theory therefore supports the target of the ERGPwhich are to enhance social inclusion, quality of life and investing in the people.

There are various levels of investment which can ensure poverty reduction. The first is the development of strategies and ensuring resource mobilization that will enhance the literacy level; this is followed by investment in health in order to improve the health status of the citizens as well as ensure productivity. Finally, the third is investment in housing this is achieved by constructing robust houses that will ensure safety; security of lives and properties.

One of the ways that can be followed in order to ensure improvement in the quality of life and reduction in poverty is investment social protection programs.These programs is a way of providing intervention in the area of clothing and shelter.Also, sustainable investment in the agricultural sector can be a veritable tool in which if applied, will enhance food security for the growing population.Also,one of the strategies that can be employed in enhancing the quality of life of the Citizens is investment in other social protection instruments such as the conditional cash transfer, empowerment of the micro, small and medium scale enterprises. Also, the provision of subsidy in the production and industrial sector are veritable strategy of enhancing economic growth and development.

Empirically, Solomon and Fidelis (2018) appraised the Nigeria's Economic Recovery and Growth Plan using content analysis and obtained data from the secondary sources. The study commended the efforts of the government towards enhancement of the non-oil sector by developing strategies of generating sustainable revenue in the long run. The study recommended that careful attention should be placed on the implementation process of the ERGP.

Uche (2019) examined the impediments of development plans and policies in Nigeria with a view to recommend practical strategies of enhancing its applicability. The study noted that despite the various development plans since 1960, the widespread of poverty and unemployment still prevails in the economy and as such, the study recommended that for development programmes to be relevant, successive government must continue with the existing development policies already in place so that the long-term goals of those plans can be actualized. The study also recommended the development of development plans that has the local content in mind as this will enhance inclusive growth and job creation in the economy.

The Centre for Democracy and Government (2019) assessed the effectiveness of various government policies and programmes that have been established since 2015 till 2019 which is geared towards economic growth and development. To achieve the study, the paper employed the descriptive style of investigation as well as content analysis. The study noted that the targets and goals in the plan document is unrealistic as events and economic uncertainties have made the realization of the set targets almost unattainable. The study recommends that there is the need for the government to begin and plan for more robust plan that will be able to improve the economy. Also, there is the need for the government to establish robust institutional arrangements for implementation, monitoring and evaluation.

Otinche (2018) stylized some critical issues relating to the implementation of the ERGP using exploratory technique of investigation. The study identified the extent of corruption as a major setback in implementing the plan. The study posited that for there to be substantial actualization of the plan, thee is the need to have a reliable institutional framework and sound political system coupled with an ethical, social and political orientation of governance by the stakeholders.

RESEARCH METHODOLOGY

This section explains the approach followed towards the actualization of the objectives set out in section one of this paper. The study employs an hybrid of both the use of exploratory style of investigation and survey design in achieving its

TABLE 1: SAMPLE DISTRIBUTION

Reference Object	Parameters				
Administrative Divisions	Ikeja	Badagry	Ikorodu	Lagos	Epe
No. of L G A	8	4	1	5	2
Selected Local Government, criteria	Ikeja; Alimosho; Somolu **Total = 3**	Ojo; Ajeromi-Ifelodun **Total = 2**	Ikorodu **Total = 1**	Lagos Island; Lagos Mainland **Total = 2**	Epe; Ibeju-Lekki **Total = 2**
Academic institutions (Staff and Students)	Lagos City Computer College	LASU; Adeniran Ogunsanya COE	Lagos State Polytechnic	University of Lagos	Pan Atlantic University
Public/ Civil Servants to survey	Staff of MDAs; LGs; NGOs	Staff of LGs	Staff of LGs; Staff of Sec. Schools (2)	Staff of Passport Office; State Liaison Offices; LGs	Staff of LGs; Staff of Sec. Schools (2)
Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders	Traditional Leaders
Organized Private Sector to Survey	2 Commercial Banks; NBFI (2)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)	1 Commercial Bank; NBFI (1)
Informal Sector	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others	Market women/men; Transporters at Garages; Others
Questionnaires Administered	300	150	150	150	150
% Completed and Returned	75.00%	71.33%	86.67%	80.00%	83.33%

COE – College of Education; LGs – Local Governments; NBFI – Non-Bank Financial Institution

Source: Authors conceptualization from the survey conducted, 2019

objective. The exploratory style of investigation made use of secondary data to explore the impact of various programmes executed during the implementation of the ERGP.

The survey design involves the use of structured questionnaire in gaining insight from the stakeholders on the effectiveness of the plan towards poverty reduction. The structured questionnaire is considered adequate at it helps to provide structured answers to the relevant research questions; it is also easy to comprehend and analyse (Majid, 2018; Yin, 2003). In order to administer the questionnaire, the population will have to be defined first. The entire population of the study is made up of the population of Lagos State. The population figure is 13,898,789 residents as at the end of 2018 (World Population Review, 2020). The delimitation of the population is made up of the local community development associations as well as the twenty local government areas.

To make it representative, the study ensures that sample covers the entire regions within the state. This is achieved by employing the multistage sampling technique. At the first stage, Lagos state was divided into the five administrative divisions which are Ikorodu, Badagry, Ikeja, Lagos Island and Epe. Thereafter, the study chose 10 high density areas within the five administrative jurisdictions. Thereafter, the key stakeholder in each selected local government were identified while the respondents in these areas were randomly selected as shown in table 3.1. The study employed the Yamane (1967) approach of determining the sample size. Using the population of 13,898,789 as at the time of this survey and a sample error of 3.34%, the sample size of 900 was determined. However, only 707 copies of the questionnaire were successfully filled and retrieved.

In order to analyse the secondary data, the study made use of trend analysis and cross-tabulation to compare the targeted objective of the ERGP and the actual performance. Also, descriptive statistics such as the use of tables, frequency counts, means and percentages were used to present the analysis of the data while the independent t-test was employed in testing the null hypothesis.

PRESENTATION AND ANALYSIS OF RESULT

This section analyses the data retrieved from the survey as well as the secondary data retrieved which was designed to measure the success of the ERGP towards poverty reduction. The section starts by analyzing the secondary data retrieved.

Analysis of the Various Intervention Programme of the ERGP towards Poverty Reduction Price Level Change and the Standard of Living

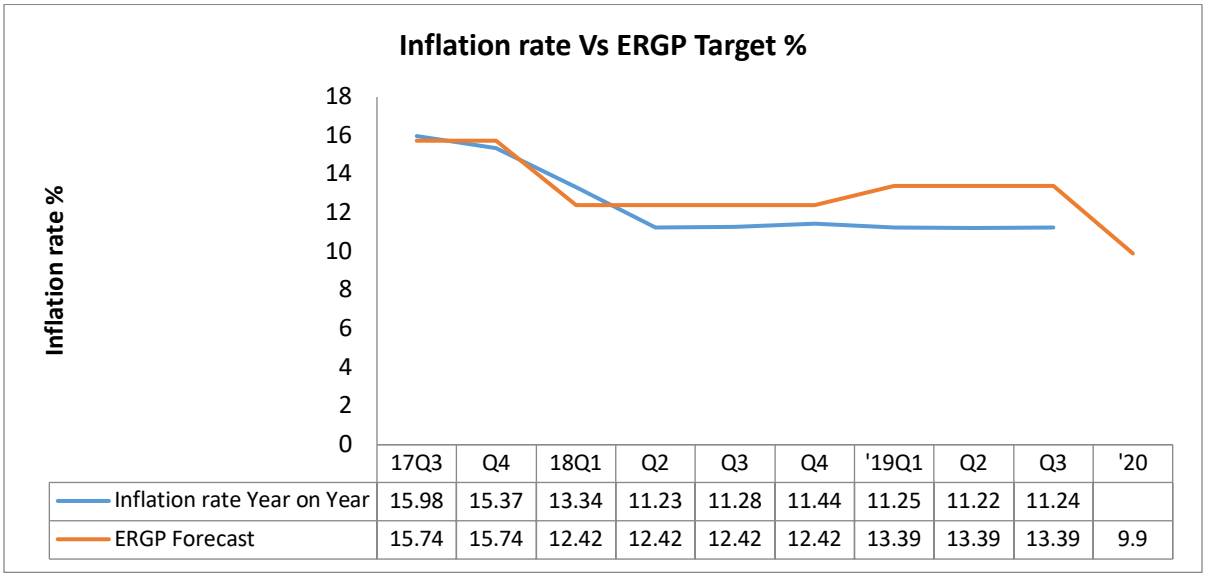
The comparison of the performance of the ERGP projections to the actual data on inflation, as published by the National Bureau of Statistics, NBS, is shown in Figures 4.1 below. This is for the first two years of the Plan. The figure shows that the value of inflation by the third quarter of 2017 is more than the ERGP target of about 15.74%.

Figure 4.1 above shows that the rate of inflation slowed down to 11.25% in the first quarter of 2019, showing a consistent decline month-on-month since January 2017. Headline inflation stood at 11.24% at end-September 2019, compared with 11.22% and 11.28% at the end of the preceding quarter and the corresponding period of 2018, respectively. The inflation rate figure is lower than the ERGP target of 13.39 in 2019. The 11.24% figure of the third quarter of 2019 is lower than the 2019 projection figure by 2.5 percentage points. The sustained supportive CBN monetary policy framework has been supportive in this regard. The rate of the fall in inflation appears suggestive that it could align substantially with the ERGP target in 2020 if the trend continues. This implies that the efforts towards ensuring that the standard of living is not eroded through increases in price is yielding positive response.

Analysis of ERGP towards Investing in the People

The ERGP's concept of "Investing in the People" with a focus on health and education is exemplified in Figure 4.2 below. It adopts the global definition of Human Capital Development indicators of health and education.

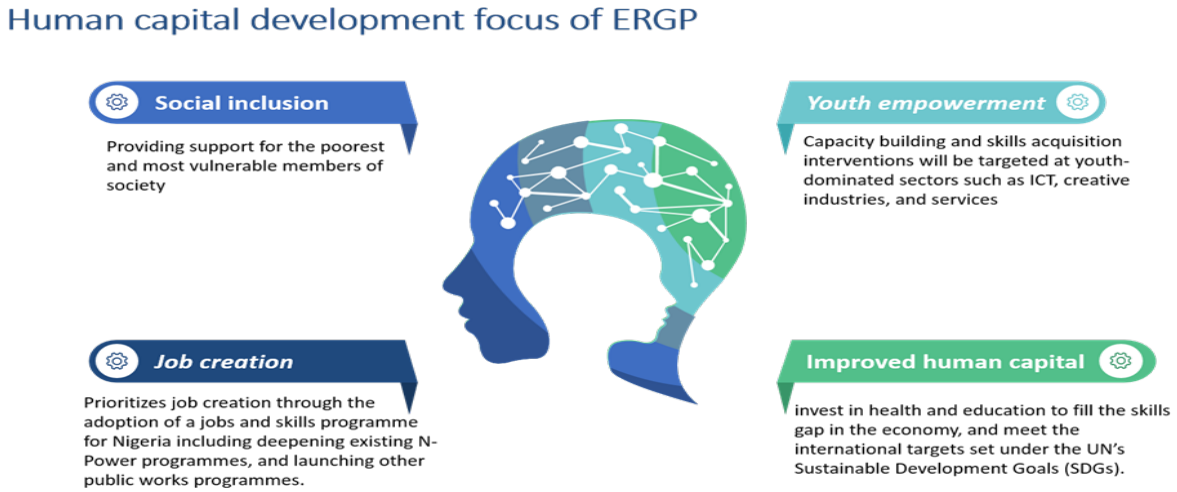
FIGURE 4.1: INFLATION RATE VS ERGP TARGET (IN PERCENTAGE)



	17Q3	Q4	18Q1	Q2	Q3	Q4	'19Q1	Q2	Q3	'20
Inflation rate Year on Year	15.98	15.37	13.34	11.23	11.28	11.44	11.25	11.22	11.24	
ERGP Forecast	15.74	15.74	12.42	12.42	12.42	12.42	13.39	13.39	13.39	9.9

Sources: (i) National Bureau of Statistics data on National Accounts, (ii) Ministry of Budget and National Planning (2017) Nigeria Economic Recovery & Growth Plan 2017 – 2020

FIGURE 4.2: ERGP'S CONCEPT OF 'INVESTING IN THE PEOPLE'



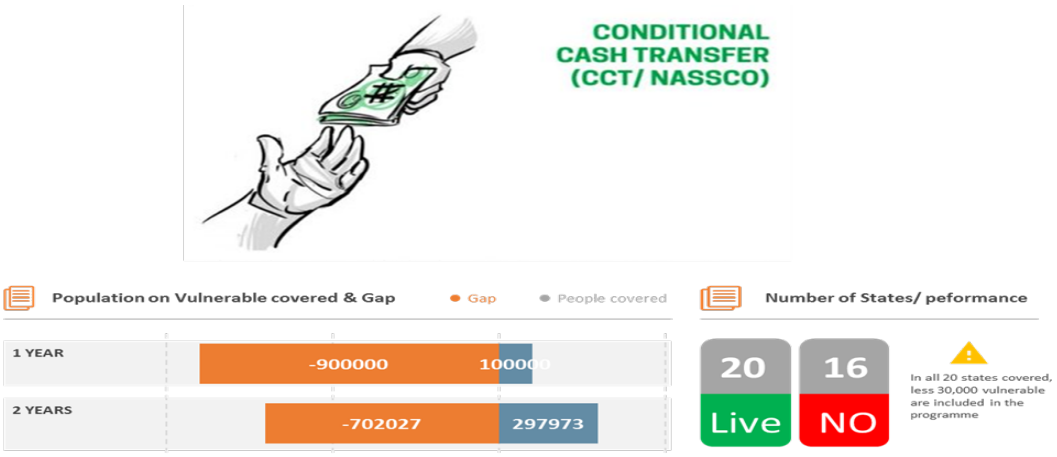
Sources: ***(i) Ministry of Budget and National Planning (2017); (ii)Nigeria Economic Recovery & Growth Plan 2017 – 2020***

In line with this, the Plan posited the achievement of its inclusive economic growth goals through the reduction in some health metrics as well as improvement in key educational metrics. Besides, the ERGP also restructured its concept of human capital development to include addressing the issue of unemployment. This was considered important given that unemployment reduces the contribution of human capital to economic development, which in turn, affects governance. In this regard, the actual performance of the government's human capital development programmesare compared with the ERGP projections, to assess the level of success in this regard The ERGP, by design, is expected to lead to an improvement in per capita income, reduction in unemployment and increase in net job creation. Hence, an assessment of the implementation of various components of this 'Investing in the People' concept would state how best these goals or performance indicators have been achieved.

Analysis of ERGP Towards Social Inclusion

Assessing the social inclusion metrics of the ERGP mainly focused on the performance of two social safety net programmes, namely the Conditional Cash Transfer (CCT) programme and the Home-Grown School Feeding (HGSF) programme. The other ones, which are the social programmes for the aged and physically challenged are yet to be launched. Besides, the performance of the CCT and the HGSF are below their set targets in the ERGP. The CCT programme, which provides N5, 000 (USD$14) to vulnerable persons /households per month covered only 297,973 people or 29.8% of the target population. It is also noteworthy that less than 30,000 persons were included in the scheme, across the 20 states where the programme has been activated (See Figure 4.3).

FIGURE 4.3: PERFORMANCE OF CCT PROGRAMME WITHIN ITS TWO YEARS OF OPERATION



Sources: *(i) Ministry of Budget and National Planning (2017), (ii)Nigeria Economic Recovery & Growth Plan 2017 – 2020*

TABLE 4.1: STATE LEVEL IMPLEMENTATION OF THE HGSF PROGRAMME

State	Running Expenditure (million naira)	Cooks Engaged	No. of Pupils Being Fed
Ogun	1042	2205	231660
Osun	1000	2863	151438
Anambra	693	1009	103742
Enugu	572	1276	108898
Kaduna	500	9857	835508
Oyo	490	1372	107983
Zamfara	402	1127	107347
Ebonyi	345	1453	163137
Benue	337	3344	240827
Delta	226	1364	141663
Bauchi	216	3261	307013
Platue	133	1418	95134
Abia	129	750	61316
Taraba	120	2596	171835
	6205	33895	2827501

Source: The Guardian Newspaper, (2017)
The limited reach of the CCT programme shows the poor implementation of a social safety net programme that is to provide the vulnerable with less than USD$1/day.

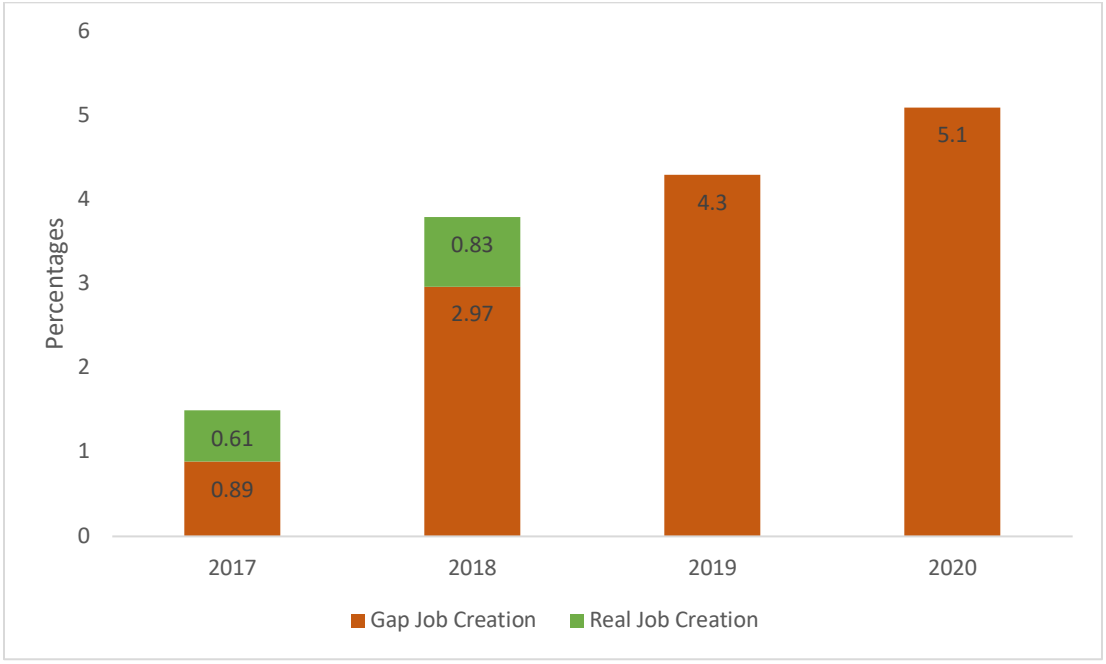
Analysis of ERGP on the Home-Grown School Feeding Programme

The Home-Grown School Feeding (HGSF) programme is aimed at providing a meal a day to at least 6 million primary school children nationwide as well as provide support to the agricultural sector. By 2019, the HGSF programme was activated in 14 (or 39%) of the 36 states of the federation. Since 2016, the total number of pupils being fed through the programme was estimated at 2.8 million, or 47% of the targeted level of performance. The level of implementation of the programme at the states is shown in Table 4.1 below.

Analysis of ERGP towards Job Creation and Employment

Job creation is a key indicator in the assessment of the level of performance of the ERGP. Comparing the ERGP job creation projections with the actual figures show that there is a huge gap to be filled in this regard. For example, in 2017, about 650,000 new jobs (or 41% of total job creation targets) were created. In 2018, when the economic and business environment became tighter, the pace of job creation declined with more Nigerians becoming unemployed, thus, raising questions about the effectiveness of the ERGP in addressing the country's unemployment problem. The situation appears to be worsening. Figure 4.4 below shows the gaps in job creation vis-a-vis the projections of the ERGP.

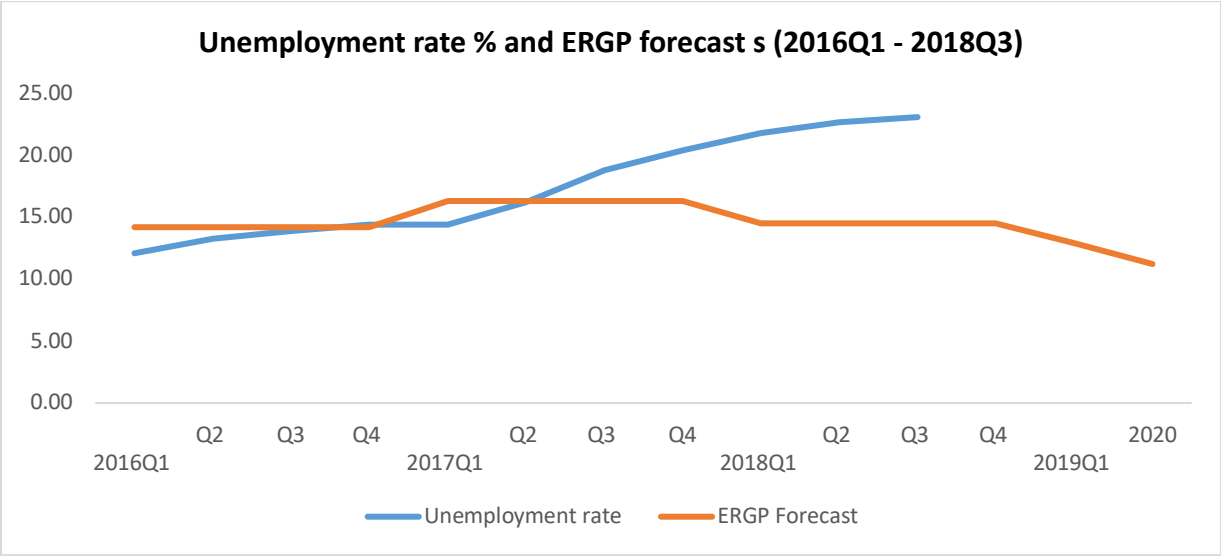
FIGURE 4.4: GAPS IN JOB CREATION VIS – A – VIS THE ERGP PROJECTIONS



Source: ***Ministry of Budget and National Planning (2017), Nigeria Economic Recovery & Growth Plan 2017 – 2020, NBS Job Reports, Authors' Computations***

The unemployment figure released by the National Bureau of Statistics, NBS for 2018shows the job creation situation appears to be getting worse. The unemployment rate moved from 18% in the first quarter of the year to 23% in the third quarter given that the public sector had become saturated while the capacity of the private sector to create jobs has been largely diminished by developments in the macroeconomy. Figure 4.5 shows a great divergence between the actual unemployment rate and the ERGP projections for the period.

FIGURE 4.7: ACTUAL UNEMPLOYMENT RATE VIS-À-VIS ERGP PROJECTIONS (2016Q1 - 2018Q3)



Source: Nigeria Bureau of Statistics report on unemployment for third quarter 2018

This implies that in spite of the implementation of the Plan for over two years, since 2017, the unemployment situation has worsened. At this rate of deterioration, there are fears that the country's unemployment rate may exceed 30% by 2020 and beyond, which is cause for great security concern, particularly since the country has assumed the unenviable status of the poverty capital of the world (World Bank, 2018). This sorry state has led to a very high prevalence rate of crimes and criminality, including mass murders, insurgency, militancy, armed robbery, kidnappings and drug abuse, among others. The increase in unemployment rates can directly be attributed to the fragility of the economy despite its exit from recession `on 2017. By consequence, the growth of the economy, post-recession has been largely fragile and thus not strong enough to provide the needed level of job creation and employment level.

Stakeholders Assessment of the ERGP's effort towards Poverty Reduction

Table 4.2 revealed the stakeholders' perspective on how the quality of life has improved with the implementation of the ERGP. From the responses to the questions posed, it became obvious that the majority of the respondents or 48.1% disagreed that more doctors are now available in government hospitals while 30.4% stated otherwise with 12.9% stating that they are unaware if more doctors are now available in government hospitals or not. 8.6% of the stakeholders said that nothing changed.

Table 4.2, also revealed that majority of the interviewed stakeholders 53.6% are of the view that some drugs in most government hospitals are not free while 21.1% agreed to some drugs in most government hospitals are now free. On the improvement in the quality of life over the period, the majority of 53.2% of the stakeholders believe that charges at general hospitals have not reduced while 22.8% while disagreed. However, 15.7% expressed ignorance of any changes in the charges.

The majority of the respondents or 43.1% stated that there are no free basic health care services to children and aged people in their area while 31.3% of the respondents indicated otherwise with another 16.4% claiming not to be aware. On the National Health Insurance Scheme (NHIS), a few of the respondents or 30.6% stated that the NHIS gives holders of the policy access to free medical services while majority or 41.4% of the respondents disagreed. Another 17% of the respondents said they are unaware of the free health policy scheme of the NHIS.

The majority of the respondents (51.1%) do not agree that new government health centres were built in their area of residence over the period while 30.1% agreed. Another 12.7% said they are unaware. From the survey, 55.9% or the majority of the respondents indicated that they find it difficult to pay for the fees of their children at both primary and/or secondary school

levels during the period of the implementation of the ERGPwhile 22.8% said that this does not reflect their experience. 15.9% of the respondents expressed indifference.

On the availability of free internet services, 58.4% or the majority of the respondents disagree that free internet services are available in their schools or places of domicile while 24% stated otherwise. On the other hand, 9.8% are unaware of any change. On the prices of textbooks, 56.9% or the majority of the respondents stated that textbooks forprimary and secondary schools are expensive over the period while 25% disagreed. However, 11.6% of the respondents are unaware of any price difference. On government assisting in the payment for public examinations, 46.8% or the majority of the respondent

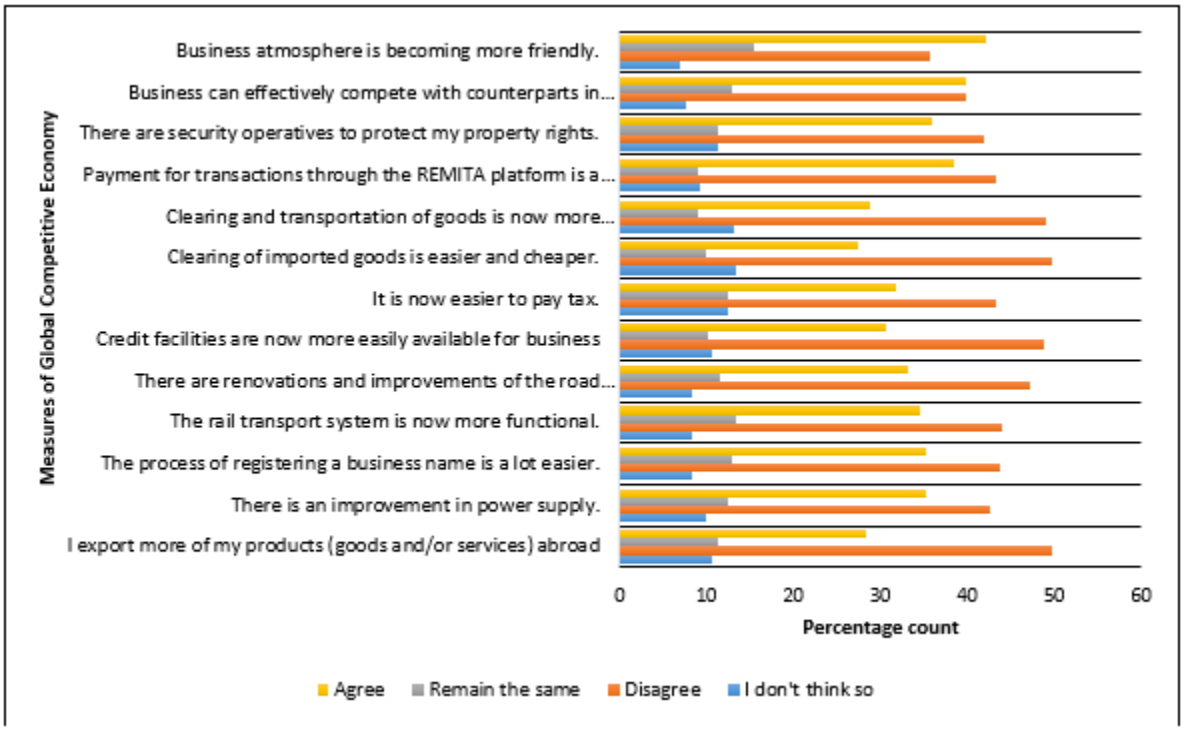
TABLE 4.2: EXTENT OF ERGP'S IMPLEMENTATION ON IMPROVING THE QUALITY OF LIFE

	Responses in Percentages				Descriptive Statistics				
Statements	**IDK**	**D**	**RTS**	**A**	**Mean**	**Mode**	**Std**	**Skew**	**Kurt**
More doctors are now available in government hospitals.	12.9	48.1	8.6	30.4	4.132	3	2.11	0.28	-1.29
Some drugs in most government hospitals are now free	15.3	53.6	10	21.1	3.738	3	1.96	0.55	-0.77
The charges at general hospitals have reduced.	15.7	53.2	8.3	22.8	3.764	3	2.01	0.54	-0.86
I have more income to settle my hospital bills.	12.3	51.5	11.3	24.9	3.976	3	2.00	0.42	-1.03
There are free basic health care services to children and aged people in my area.	16.4	43.1	9.2	31.3	4.106	3	2.19	0.20	-1.36
National Healthcare Insurance Scheme (NHIS) gives holders of the policy access to free medical services.	17	41.4	11	30.6	4.103	3	2.19	0.18	-1.35
New government health centres are been built in my area of residence.	12.7	51.1	6.1	30.1	4.072	3	2.10	0.35	-1.25
I easily pay my children's school fees at the primary and/or secondary school levels.	13.3	55.9	8.1	22.8	3.806	3	1.96	0.57	-0.81
Free internet services exist in my school or work place.	9.8	58.4	7.8	24	3.922	3	1.92	0.59	-0.86
Textbooks for Primary and/or Secondary schools are cheaper.	11.6	56.9	6.5	25	3.900	3	1.98	0.56	-0.93
Government pays for NECO/WAEC fees for students.	13.7	46.8	7.6	31.8	4.151	3	2.15	0.24	-1.35
There is a functional Library in my school/area of residence.	9.8	53	7.2	30	4.149	3	2.04	0.37	-1.24
Government skill acquisition centres are available at no cost.	13	44.1	8.6	34.2	4.281	3	2.17	0.14	-1.42
Averages	**13.3**	**50.5**	**8.5**	**27.6**	**4.008**				

Note: *IDK = I don't Know; D = Disagree; RTS = Remain the same; A = Agree; Minimum value = 1, Maximum Value = 7, In SPSS coding, 1 = I don't know; 3 = Disagree; 5 = Remain the same; 7 = Agree*

Source: Construct from Field Survey, 2019

FIG. 4.8: EXTENT OF ERGP'S IMPLEMENTATION ON IMPROVING THE QUALITY OF LIFE



Source: Construct from Field Survey, 2019

disagreed that the government pays for NECO/WAEC fees for students while 31.8% stated otherwise with 13.7% expressing indifference in this regard.

On availability of functional libraries, 53% of the respondentsstated that there is no functional library in their school/area of residence while a few or 30% of the respondents, indicated otherwise. However, 9.8% expressed indifference. On skills acquisition, 44.1% of the respondent disagreed that government skill acquisition centres are available at no cost while a few others (34.2%) stated otherwise. About 13% stated that they are unaware of any difference.

TABLE 4.3: ONE-SAMPLE T- TEST ON STAKEHOLDERS' PERCEPTION ABOUT THE PERFORMANCE OF ERGP TOWARDS POVERTY REDUCTION

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Stakeholders' perception of ERGP in government improving quality of life	137.455	706	.000	2.92438	2.8826	2.9662

Predetermined Population Mean each for the 3 categories = 7 (Agreeing that ERGP enhanced quality of life respectively).
Sources: Construct form field Survey, 2019

Table 4.3 test for the possibility of having a statistically significant mean difference of 2.92 from the predetermined mean of 7. The null hypothesis of the one-sample t-tests are that the mean differences of 2.92438 is statistically insignificant and as such, the sample mean 2.92 holds implying that the average opinion of the stakeholders is not statistically significant. the result shows that we reject the null hypothesis and accept the alternative and we conclude that the opinion of the stakeholders is valid

and upheld. Thus, we conclude that the average opinion of the stakeholders that the ERGP has not done sufficiently enough to reduce poverty through improvement in the quality of life is significant and upheld.

Due to poor working conditions, poor medical infrastructure and facilities as well as the poor structure of remunerations in the health sector in recent years, there has been a mass exit of professional doctors from Nigeria, With the country's population projected at about 200million persons, the doctor to patient ratio of 1 doctor per 5000 persons in Nigeria is far below the World Health Organisation (WHO) recommendation of one doctor per 600 persons. Political instability, corruption, limited institutional capacity and an unstable economy are major factors responsible for the poor development of health services in Nigeria. Households and individuals in Nigeria bear the burden of a dysfunctional and inequitable health system –with delayed service provision or a preponderance of people having to pay out of pocket for health care services that are not affordable.

The plethora of challenges faced in the educational sector over the period gradually crippled the sector in Nigeria. The quality of education in the country appears to be gradually dwindling as the government is paying little or no attention to the sector. Over time, there has been a decline in the amount of funds allocated to the sector, leading to a prevalence of unconducive learning environment for both pupils and teachers and the decline in the number of technical skills acquisition centres to cater for the growing youth population. There are also reported little availability of free internet services and adequacy of community libraries.

CONCLUSION AND POLICY RECOMMENDATION

This paper assesses the mid-term performance of the Economic Recovery and Growth Plan towards poverty reduction. The study conducted survey with relevant stakeholders in understanding their perspective on the performance of the ERGP towards poverty reduction.Regarding the second ERGP major broad objective of investing in the people, the government appears not to have achieved much, particularly on social inclusion and improvement of quality of life, as evidenced by the stakeholders' perspectives survey.

The field survey conducted indicated that more people are getting poorer relative to the few people that are getting richer. The survey indicates that the majority of the stakeholders feel that the government's policies have not been able to lift the majority of the populace out of poverty but that majority of the populace has become poorer. The stakeholders revealed that they have not witnessed any significant improvement in their quality of life as they have not experienced or observed any reduction in the kidnapping, rape cases, extra-judicial killing. They also reported that their chances of getting jobs in the public sector had become slimmer over the period. This finding tends to confirm that the widely held notion that the conditional cash transfer and home-grown school feeding programmes have not produced the optimally desirable outcomes in the quest to enhance the investment in the people. In further support of these assertions, the Human Development Index (HDI) ranking for Nigeria of 158 out of 189 countries in 2018, according to the UNDP Human Development Report, has classified the country as very poor. Not surprisingly, in 2018, Nigeria was declared by the World Bank and the World Economic Forum as the poverty capital of the world.

The field study further corroborates the assertions that there has been a decline in both the health services and education sectors in Nigeria. The survey revealed that there are shortages of medical doctors in the country, the dearth of free drugs in government hospitals as well as a lack of free basic health care services to children and the aged. The patients in most cases would have to pay for some of the drugs or injections even as the National Health Insurance Scheme (NHIS) has not been able to cover all the medical bills in most cases. This has mounted more burdens on most poor people as they do not have enough income to cover their medical bills. Besides, the government has not been building more public hospitals despite the increase in population. Also, on education, most persons interviewed in the study report that many parents and guardians generally find it difficult to cover the education bills of their children and wards at primary, secondary and tertiary levels.

Going forward it is pertinent that the government takes an appropriate survey of the society to tailor its policies in such a way that it will suit the larger populace, bolster inclusive growth and propel an increase in human capital development.

REFERENCES

Dethier, J.,&Effenberger, A. (2011). Agriculture and development, a brief review of literature. *WorldBank policy researchworking paper* No. 5553. Washington DC, World Bank.

Elumilade, D.O., Asaolu, T.O., &Adereti, S.A. (2006). Appraising the institutional framework for poverty alleviation programmes in Nigeria. *International Research Journal of Finance and Economics*, 3(1), 66 – 77.

Majid, U. (2018). Research fundamentals: Study design, population and sample Size. *Undergraduate Research in Natural and Clinical Science and Technology (URNCST) Journal*, 2(1), 1-7. Available at: https://urncst.com/index.php/urncst/article/view/16/7. Accessed 5 December 2020

Ngara, C.O., Esebonu, E.N., Ogoh, A.O., &Orokpo, O.F.E. (2014). Poverty, Inequality and the Challenges of Democratic Consolidation in Nigeria's Fourth Republic. *Journal of Good Governance and Sustainable Development in Africa*, 2(1), 48 – 60.

N-SIP (2018) N-Power Annual Report for 2017.

Obadan .M.I. (2001). Poverty Reduction In Nigeria, The Way Forward. Available at http://mustaphamuktar.blogspot.com/2011/01/poverty-alleviationas-machinery-for.html

World Bank, (2021). World development indicators 2021. Available at https://databank.worldbank.org/source/world-development-indicators#

Otinche, I.S. (2018). Economic recovery and growth plan and nation building in Nigeria: Matters arising. Available at SSRN: https://ssrn.com/abstract=3225997 or http://dx.doi.org/10.2139/ssrn.3225997.

Solomon, B.A., & Fidelis, M.A. (2018). An appraisal of the Nigeria economic recovery and growth plan, 2017 – 2020. *African Research Review*, 12(3), 25 – 37.

Uche, E. (2019). Development plans and policies in Nigeria: Observed impediments and practical best alternatives. *International Journal of Research and Scientific Innovation*, 6(7), 27 – 36.

Woodhall, M. (1997). Human capital: Educational aspects. *International Encyclopedia of the Social &Behavioural Sciences*.

Yamane, T. (1967). *Statistics, an introductory analysis* (2nd ed.). New York: Harper and Row

Yin, R. K. (2003). *Case study research, design and methods*. (3rd ed.). Publications, Thousand Oaks