Trending a New Normal: Is Nigeria becoming a failed Nation?

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Abstract

Judging from every economic parameter, Nigeria will suggest being a failed nation. Not so long ago international investors identified Nigeria as one of the world's most promising investment opportunities, but things have changed drastically in the meantime. The slump in the price of crude oil has hit Nigerian economy hard, the twin curses of insecurity and corruption have not gone away either. The Nigerian currency - naira has also lost its value by 170% from its value in 2015. The question most analysts and citizens are now asking is if Nigeria will ever fulfil its potential. This study empirically analyses the current economic situation of Nigeria, and gives recommendations on what government should do in getting the country out of recession.

Keywords: Ease of doing business, Recession

JEL Classifications: *E26, E58, E6, O2*

Introduction

It is estimated that 112.5 million Nigerians live below poverty line (NBS, 2012); with the minimum wage still at ₦18000 (US$59), couple with corruption, high unemployment rate, and security challenges, many wonder how the society can escape this scourge. The negative side of poverty is very much obvious in Nigeria today, with people grabbing whatever they can from others forcefully, as a means to escape the circle of poverty. In economic terms, poverty can be described as a condition in which a community lacks financial resources and essentials to enjoy the minimum living standard. Some popular factors which are said to be responsible for poverty include: corruption, unemployment, absence of the economy diversification, and political stability. Ever since coming into power, the present administration has promised that one of its mandate will be to tackle poverty; hence the lunch of "Economic Growth and Recovery Plan", with an objective to guide the nation out of recession. In achieving this however, there are mountains of economic issues that need to be submerged. Nigeria's poverty rate has been on an

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upward trend, leaving the man on the street dissolute, pondering whether the fight against corruption will end poverty or if fight against poverty will end corruption. The poor macroeconomic policies and weak supervision of the government have played a significant role in the country's economy woes. Lack of business confidence due to delayed or poorly managed policy adjustment has led to double digits inflation – 19.3% (NBS, 2017), and has discouraged foreign investors from investing in the country; this is coupled with the regulatory and judicial barriers that they also face. Trade and investment flows are interfered through the government's import substitution policy. Bottleneck bureaucracy is also an impediment in setting up a new business, since the costs of licensing are now over four times the average annual income (See Table 1).

Table 1

Registration of Company

S/N	SUBJECT	FEES in Naira (₦)
1	Reservation of Name	₦500.00
2	Registration of private company with share capital of ₦1million or less	₦10,000.00
3	Registration of private company/Increase in Share Capital above ₦1million and up to ₦500million	₦5,000.00 for every ₦1million share capital or part thereof
4	Registration of private company/Increase in share capital above ₦500million	₦7,500.00 for every ₦1million share capital or part thereof
5	Registration of Public company/Increase in share capital	₦20,000.00 for the first ₦1million share capital or part thereof
6	Registration of Public Company/Increase in share capital above ₦1million and up to ₦500million	₦10,000.00 for every ₦1million share capital or part thereof
7	Registration of Public Company/increase in share capital above ₦500million	₦15,000.00 for every ₦1million share capital or part thereof

S/N	SUBJECT	FEES in Naira (₦)
8	Registration of Company not having a share capital	₦20,000.00
9	Filing of notice of exemption of foreign Companies from Registration	₦30,000.00
10	Re-instatement/Relisting of company name	₦25,000.00
11	Registration of charges for private company	₦10,000.00 for every ₦1million or part thereof
12	Filing of annual return for a small Company	₦2,000.00
13	Filing of annual return for Private company other than a small company	₦3,000.00
14	Filing of annual return for public company	₦5,000.00
15	Filing of annual return for company Limited by Guarantee	₦5,000.00
16	Filing of annual report by foreign companies	₦5,000.00
17	Filing of notice of merger/acquisition	₦50,000.00
18	Filing of other documents relating to merger	₦10,000.00
19	Filing of statutory declaration of solvency	₦5,000.00
20	Registration of appointment of liquidator	₦10,000.00
21	Registration of resolution for winding up	₦10,000.00
22	Filing of return of final meeting and account of liquidation	₦5,000.00

S/N	SUBJECT	FEES in Naira (₦)
23	Filing of notice of change of company name	₦10,000.00
24	Filing of notice of alteration of memorandum and articles of association	₦5,000.00
25	Filing of notice of changes in particulars of directors	₦2,000.00
26	Filing of return of allotment and or notice of change in shareholding	₦2,000.00
27	Filing of notice of change in registered address	₦2,000.00
28	Filing of notice of appointment of receiver	₦10,000.00
29	Other filings (miscellaneous)	₦2,000.00
30	Certified true copy of certificate of registration	₦10,000.00
31	Certified true copies of memorandum and articles of association	₦3,000.00
32	Electronic Search	₦1,000.00per company
33	Manual Search by customers	₦2,000.00 per company file
34	Manual Search Report prepared by officers of the Commission	₦5,000.00
35	Certified true copies of other documents	₦2,000.00 per document
36	Consent for Restricted Names	₦5,000.00

Source: (CAC, 2017)

The above table shows only the legal money that needs to be paid at federal level. Other taxes and levies are required to be paid at state and local government level, this includes what (Stober, 2016) called the Economic cost of getting the job done – giving bribe for your file to be processed. Part of the requirement that is not in (table 1) is the signing of the declaration of compliance (Form CAC 4) before a commissioner for oaths; this most times will only get done by using the service of a notary public which cost ₦4000 - ₦5000 depending on the area. Section 74 of the Companies and Allied Matters Act (CAMA) also requires every company to have a common seal. This will cost ₦4,000 - ₦6,000. It is also required to register business premises in some states such as Lagos State; the levy attached to this registration in Lagos is ₦10,000 for the first year in the urban area, ₦5,000 per annum as renewal registration fees in the subsequent years. For rural areas, the business premises registration fees is ₦2,000 for the first year of registration, and ₦1,000 per annum as registration renewal fees for the subsequently years (The World Bank, 2017).
For Nigeria entrepreneurs that are bold enough to invest in the country, the present economy situation has shown that the rich also cry, as Africa's richest person, Aliko Dangote has lost 32% of his wealth, an equivalent of $4.9 billion to the combined effect of falling oil prices and the June 2016 devaluation of the naira (Nigeria's currency) which pushed him to the position of No.112 from the position of the 46th world richest person in June 2016, hereby leaving him with only $10.4 billion (Metcalf & Witzig, 2016).

Literature Review

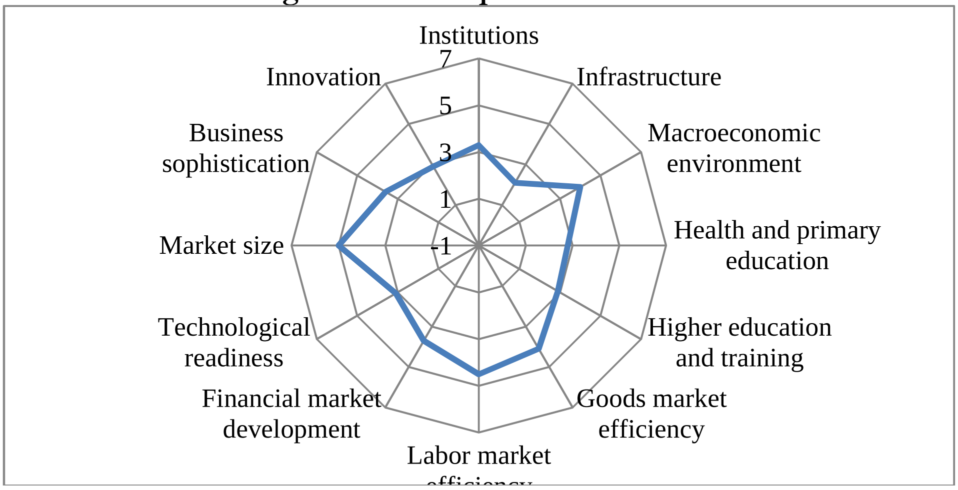
A general slowdown in economic activity is a catalyst for a snowball effect that will lead to contraction of business cycle, hence recession. In macroeconomic terms, a country is considered to be in recession following two consecutive quarters of negative economic growth (Shiskin, 1974). Recession is usually triggered by financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble. As a result of these macroeconomic indicators, unemployment rate is said to be on 12 months upward trend by 1.5-2 percentage points (Eslake, 2008). All these indicators have characterized Nigeria's economy situation since the second quarter of 2015.
This current situation has drawn the attention of both scholars and economic analysts, in trying to explain recession as a concept, how Nigeria got here, its implications, and finding an answer to how to get out of the recession (CBN, 2014; Farayibi, 2016; LCCI Research, 2016; Rewane, 2016; RTC Advisory Services Ltd., 2016). Many of these authors have suggested some solutions, such as structural reforms (Agri, et al., 2017), expansionary fiscal policy (Hashemi, 2016), and the protection of the domestic industries (Emir Sanusi, 2016), which can be achieved

by creating a levelled playing field between the infant and the big players in the industries.
This analysis looks at other indicators that Nigeria has failed at, in the ease of doing business, thus discouraging both local entrepreneurs and foreign investors to invest in Nigeria.

Empirical Situation Analysis
Although many Nigerians felt proud once again to be called the giant of Africa after the country's Gross Domestic Product (GDP) was rebased in 2014, even though the result of the GDP rebasing did not translate to higher economic wellbeing or job creation, two year down the rail, South Africa took back the number one position as Nigeria's economic growth follows a negative trend. This new reality was not unexpected as the president and his economic team always finds excuses for the country's economy woes, rather than seeking solutions and formulating policies that will make the country stand among league of developed nations. Because of the action and inaction of the policy makers, degrowth economy has become a "New Normal" for the country. Nigeria, which is competing with South Africa for the mantle of Africa's biggest economy, is now battling a consistent rise in inflation rate, reaching 11 years high of 19.3% in April 2017 (NBS, 2017), as prices continued to rise for housing, electricity and food.
Job creation has been impeded by bureaucratic rigidity and corruption in the economy, causing increased frustration among underemployed youth. With the judicial system susceptible to political interference, the rule of law has become weak. The Economic Freedom Status is considered to be mostly unfree, as the country is ranked 115th in the global ranking, and 16th in Sub-Saharan Africa, standing immediately behind Madagascar, Tanzania, Gabon, Mali, and Benin respectively (The Heritage Foundation, 2017).
The Global Competitiveness Index (GCI) as revealed in (figure 1), shows Nigeria possesses very weak economic foundations. The country is ranked 127th out of 138 economies (World Economic Forum, 2016), falling three places as a result of its weaker macroeconomic environment which is down by 27 places; and financial sector which is down by 10 places. Although this might still be considered to be relatively low, the government deficit is however twice as much that of 2015 and national savings has significantly suffered, therefore worsening the current account position. Banks are less solid, reducing the credit availability; even though the central bank claimed to have unpegged the currency, it still retained the restrictions on access to the interbank market; meaning access to finance will remain difficult for interbank market, and thus making it impossible for businesses to access finance.

Figure 1

Nigeria in the 12 pillars of the GCI



Source: (World Economic Forum, 2016)

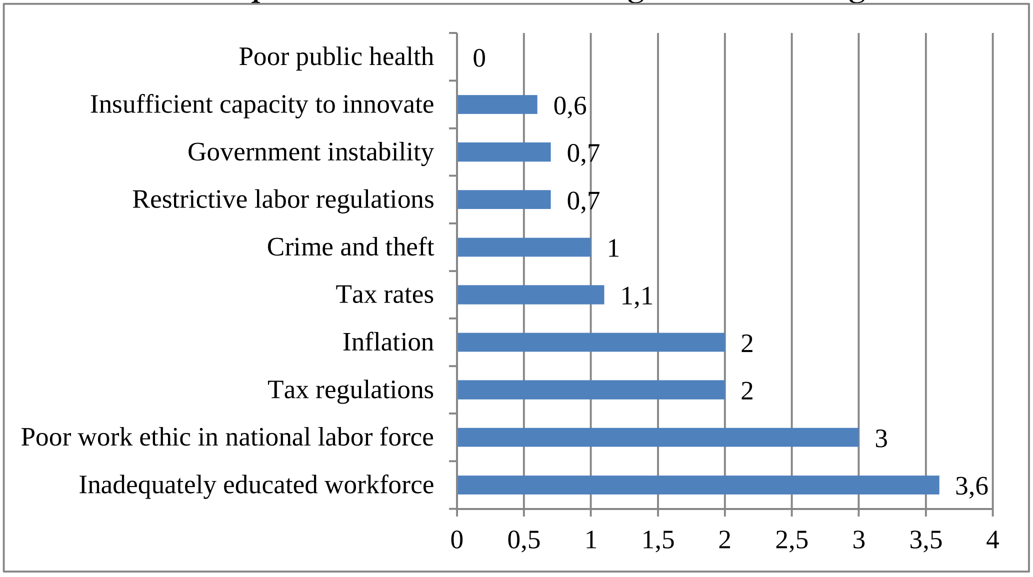
Figure 2 shows other factors that are holding Nigeria back from its competitiveness. Among these factors, underdeveloped infrastructure in which Nigeria is ranked 132nd of 138[2], is the country's most problematic factor for doing business; with only 63% of children enrolled in primary school, insufficient health and primary education (138th) is considered to be another factor holding the country back; and when it comes to training, the poor quality and the quantity of higher education and training (125th) becomes another worrying factor holding Nigeria back from fulfilling its potential. The country also declined by 3% in the Inclusive Growth and Development Index to be ranked 71st out of 79 countries (World Economic Forum, 2017)[3].

[2] Values are on a scale of 1-to-7 (1 is most problematic) unless indicated otherwise. Trend lines depict evolution in values since the 2012-2013 edition (or earliest edition available). For detailed definitions, sources, and periods, consult the interactive Country/Economy Profiles and Rankings at http://gcr.weforum.org/

[3] From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Figure 2

The most problematic factors for doing business in Nigeria

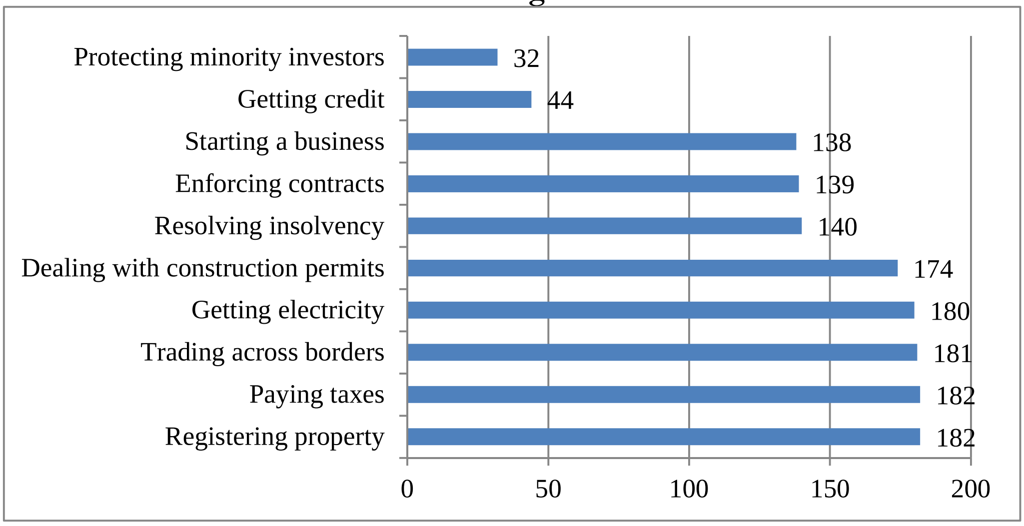


Source: (World Economic Forum, 2017)

From another point of view, in comparing business regulation for domestic firms in 190 economies, (The World Bank, 2017) ranked Nigeria 169th out of 190 countries in the Ease of Doing Business. These regulations are measured using 10 indicators of which Nigeria is at the bottom of 8 of the 10 indexes as revealed in figure 3.

Figure 3

Ease of Doing Business

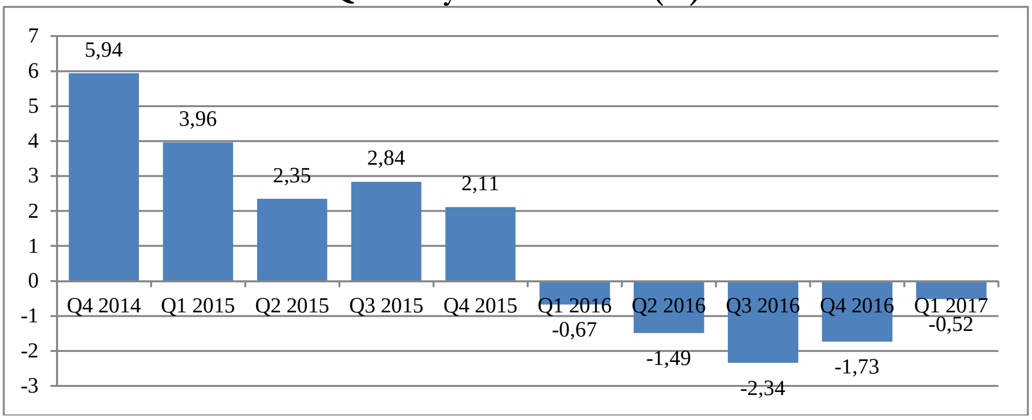


Source: (The World Bank, 2017)

The three places downgrade of Nigeria in the GCI can be justified by the negative growth of the GDP (see figure 3). The shrinking of the economy is largely due to the over dependence on the oil sector which shrunk by 11.64% year-on-year in Q1 2017. This represents a decline of 4.81% relative to the rate registered in the corresponding quarter of 2016. The crude oil production also shrank by 10.63% to reach 1.83 million barrel per day, following a 5.45% decline in 2015, as a result of the low oil price and several militants' attacks on oil and gas pipelines in the Niger Delta region; Consequently, the contribution of the oil sector to the GDP reduced year-on-year by 1.12 percentage points to reach 8.9% in Q1 2017. Meanwhile, the contribution of the manufacturing sector also continues to decrease as companies are relocating to other profitable countries, hereby causing the sector to shrink by 4.32% (NBS, 2017). At the end of 2016, Nigeria recorded an annual GDP of -1.56%; this is a year-on-year decrease of 4.37 percentage points.

Figure 4

Quarterly GDP Growth (%)

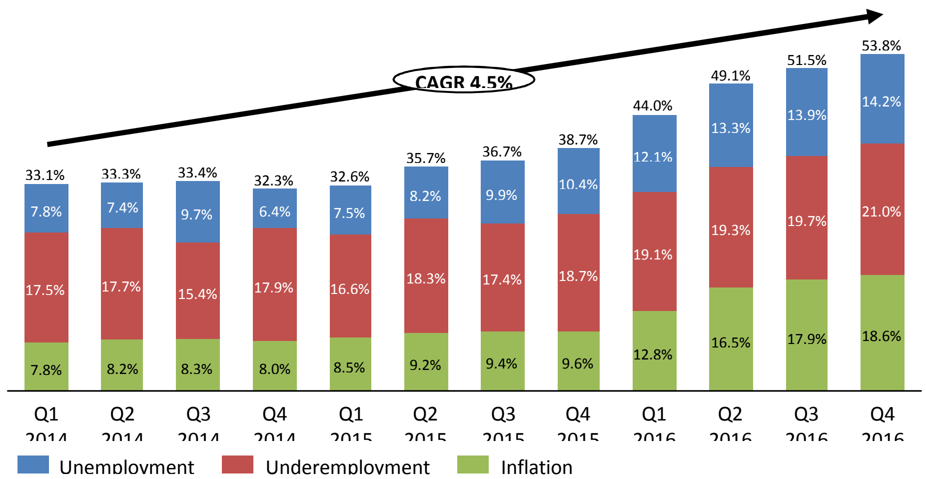


Source: (NBS, 2017)

The nominal year-on-year growth rate of trade in Q1 2017 stood at 9.58%. This is a year-on-year decline of 3.92%, and quarter-on-quarter decline by 4.99%. In real term, trade recorded a negative growth of (-3.08%), which is 5.10 percentage points decrease year-on-year, and 1.64 percentage points decrease quarter-on-quarter. This sector is largely dependent on household spending, which has been weakened by unemployment and high inflation. With such a record, it is safe to say that Nigerians are now living a miserable life, and government is not making any effort in making the life of its citizens less miserable. From Q1 2014 to Q4 2016, Nigeria's misery index grew at 4.5% compound annual growth rate.

Figure 5

Nigerian's Misery Index



Source: (NBS, 2017)

Figure 5 reveals the worstening misery index[4] following a upward trend for eight consecutive quarters. Thus Nigerians should expect their situation to be worse-off if the movement persists as 53.8% of the country's populace could be considered miserable. This climbing index implies declining economic activity and reduction in consumption, as a result of the underutilization of unemployed people and rising prices which discourages rational consumers from spending.
This new normal that Nigeria has found itself did not happen overnight, policy makers were not just paying proper attention. But as history changes and presents us with new reality, human institutions must change. And it has come to the time when good men and women must stand up for their nation. Therefore it is time for Nigerians to wake up from their slumber and take their destiny in their hands.

Conclusion and Policy Recommendation

This paper reviews the current economic situation and the ease of doing business in Nigeria. It highlights the implication of the current fiscal and monetary policies.
As a result of some politically correct arguments, it becomes necessary to clearly stress out the difference between not understanding and misunderstanding, since the man that does not understand can be taught, but when it comes to misunderstanding, the person has to be first debriefed in order to bring him to understanding. The latter is the case of Nigeria's policy makers. They seem to be living in a confusing terrain. Nigeria's economy has gone into contraction due to the protectionist approach towards the management of the economy.
The current economic situation reveals that it is not enough to throw money at problems, thus Nigeria's policy makers need to make a complete overhaul of the system. The Central Bank of Nigeria - CBN has continually defended the naira with weekly sales of dollars to commercial banks and Bureau de Change, has made an effort to make the parallel market exchange rate to be at par or at least 5% higher than the interbank exchange rate. This effort has crashed the parallel market exchange rate from ₦520 to $1 in February 2017 to ₦381 in May 19th 2017 (abokiFX, 2017). The problem with such an intervention is that the CBN can only draw the country's foreign reserve to a bearable limit, at which point it will have to come up with another policy – and the circle of somersaulting strategy and policy inconsistency will continue.
Due to the exchange rate misalignment, and nontransparent foreign exchange market, it has therefore become clear to even ordinary Nigerians that the

[4] The index helps determine how the average citizen is doing economically and it is calculated by adding the seasonally adjusted unemployment rate to inflation rate. A higher ranking on the index indicates a worsening economic climate. Underemployment is included in my calculation because a large number of those considered to be underemployed are university graduates, the job they are engaged in is not guarantee for the next day.

government policies (both monetary and fiscal) since the beginning of 2016 are failed policies. For Nigeria to get into positive growth, the country needs to employ resources in order to get a stimulus and move on the path of real recovery where there will be an increase of more than 2% economic growth. This will only happen when there is an increase in aggregate consumption, capital expenditures, and investment flows into Nigeria. The monetary authority needs to begin to move towards an accommodative monetary policy stance, and adapt a much more transparent managed floating exchange rate, and also begin to monitor M1 money supply growth, so that it does not fuel another round of inflation.

Nigeria's narrative needs to be more competitive than protectionist. The role of government at this point is to stabilize the macroeconomic environment, and allow the invisible hand of the market to self-adjust the market fundamental. Increasing productivity needs to be at the core of the policy agendas. In order to increase the ease of doing business, government needs to put infrastructures in place, ensure energy sufficiency, strengthen institutions, streamline government bureaucracy and promote e-governance in order to increase transparency, and curb corruption.

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