

The Made in Nigeria Recession 2000 - 2016: Growth without Development

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Abstract

This paper reviews the current economic recession in Nigeria and examines the root causes in the light of concurrent expensive democracy. Empirical evidence indicate the seeds for Nigeria's current recession were planted in 2004 and “faithfully” watered subsequently by continuous gross mismanagement of national resources as well as the application of economic/development sabotaging policies and that the Central Bank of Nigeria (CBN) bears significant responsibility for Nigeria's current recession. The paper therefore recommends the Law Reform Commission in their relevant law reviews to make provisions for Prudential Regulatory Authority type agency for Nigeria, make provisions to apply limits on percentage of profits made by multinationals that are repatriated out of Nigeria after the multinationals had fully repatriated their initial investments i.e. provide for the percentage of “made-in-Nigeria profits” that must be retained for re-investment in Nigeria. We also recommend urgent review of the excess autonomy granted the CBN by the last amendment of the CBN Act which allows the CBN to practically run like a private institution when the CBN is not privately owned but it is a Federal Government institution. It appears the current provisions for autonomy leaves the CBN itself with no effective supervisor or check and balances to ruinous national effects.

Keywords:

Economic growth,
Economic
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Background to the Study

Economic recession is generally defined as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product (RGDP), real income, employment, industrial production and wholesale-retail sales". More specifically, economic recession is defined as when businesses cease to expand, the GDP diminishes for two consecutive quarters, the rate of unemployment rises and housing prices decline. Combined factors may cause an economy to fall into a recession but the major reason for a recession is said to be inflation. Inflation refers to a general rise in the prices of goods and services over a period of time. As the rate of inflation increases, the quantity of goods and services that can be purchased with the same amount of money reduces. A variety of reasons including increased costs of production, higher energy costs and national debt are known to trigger inflation. In an inflationary environment, people tend to "cut their coat according to their cloth" in Nigerian parlance. Hence, overall spending especially leisure spending reduces and people begin to save more. But as individuals and businesses curtail expenditures in an effort to trim costs, this causes GDP to decline. The rate of unemployment may then rise because organizations lay off workers to cut costs.

On the other hand, the term economic development is often misunderstood and many times it is confused with the concept of economic growth. To further confuse the issue, there is no one roadmap for economic development that will discharge the needs of all constituencies as the success of any roadmap to economic development is often case specific. This is because the concept of development is now generally accepted as both a quantitative and qualitative measure with inherent challenges in defining and/or quantifying it, giving rise to a multitude of definitions, theories, interpretations and meanings attached to the idea of development and no consensus in sight (Ako 2016).

Hence, according to popular definitions, "Development is a multi dimensional process involving changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty" (Todaro and Smith 2012). Even the United Nations Development Programme (UNDP) has its own definition whereby it considers human development to be "about expanding the choices people have to lead lives that they value". UNDP also defines sustainable development as "development that is likely to achieve lasting satisfaction of human needs and improvement of the quality of life" (UNDP 2007, 2012, 2015).

Statement of the Problem

Nigeria's economic growth averaged about 6.0 percent peaking at about 6.8 percent in 2014 and was expected to average 5.7 percent over the 2015 through 2017 period (National Bureau of Statistics -NBS, 2011, 2015). However, during the same period, the country's poverty rate averaged 62 percent with 30 percent of the population in severe poverty (UNDP_HDR 2015) and Nigeria is categorized as one of the poorest countries in the world. Furthermore, despite quite recent statistics rating the country's economy as the largest in Africa and the 26th largest in the world (NBS, 2014), Nigeria in 2015 had a Human Development Index (HDI) of 0.51 ranking 152 out of 188 countries (UNDP_HDR 2015). Clearly Nigeria's economic growth did not yield prosperity. To worsen matters, rather than its projected growth of about 5.7

percent over the 2015 through 2017 period, the NBS declared Nigeria officially in a recession at the beginning of 2016 and Nigeria's touted position as Africa's largest economy became short-lived. Nigeria thus became a prime example of the many countries in our recent history that have achieved economic growth, while the well-being of a majority of their people did not improve.

The main objective of this paper is to review the current economic recession in Nigeria and examine the root causes in the light of concurrent expensive democracy. Following this introduction, Section Two presents some pertinent literature review. Section three discusses the root causes of the recession while Section Four concludes with some policy recommendations.

Citizen Review of the Nigerian Recession

A current World Bank Country Survey FY 2016 Report for Nigeria highlights how Nigerians now regard general issues facing Nigeria. In this report, 56% of respondents indicated that Nigeria was headed in the right direction compared to 42% of respondents (mostly private sector, media and academia) three years ago in the FY 2013 Country Survey. Also, 16% of the respondents indicated that Nigeria was headed in the wrong direction in the FY 2016 Country Survey compared to 36% of respondents (mostly civil servants, trade unions and NGOs/CBOs) in the FY 2013 Country Survey while 28% of respondents were not sure where Nigeria was headed in the FY 2016 Country Survey compared to 23% of respondents (including the National Assembly and World Bank staff) in the FY 2013 Country Survey. In general therefore, significantly more Nigerians (33%) considered the country was headed in the right direction in 2016 but there was also a 22% increase in the number of people not sure where Nigeria was headed with the onset of the biting recession.

Also, Nigerians ranked their development priorities in the FY 2016 Report to be job creation/employment (44%) followed by education (32%) and energy (29%) whereas the priorities in the FY 2013 Report had education (46%), anti-corruption (26%) and both rural development and job creation/employment tying at 24% while the priorities in the FY 2007 Report had (economic growth (42%) followed by poverty reduction (27%) and eradicating corruption (27%). Job creation/employment which was number three on the FY 2013 priority list has moved to the top position while education moved down to the second position and energy which was number six in the previous priority list is now third priority. On the current FY 2016 priority list, Anti-corruption is now number nine while economic growth is a distant number ten priority. These reports show that Nigerians have consistently ranked job creation/employment a high priority in the past six years. It is also instructive that in the midst of the harsh recession in 2016, Nigerians re-ordered their priorities rightly; having learnt the bitter truth by experience that economic growth is not synonymous with development; especially when such celebrated growth turns out to be spurious.

Furthermore, whilst respondents in the FY 2007 Country Survey indicated that poverty reduction in Nigeria would be best tackled by agricultural development (47%), increasing employment (39%), and reducing corruption (36%), in the FY 2013 Country Survey, respondents indicated job creation/employment (36%), education (35%) and economic growth (31%) would most reduce poverty. The FY 2016 Country Report indicates the factors

which would most reduce poverty in Nigeria are job creation/employment (45%), agricultural development and economic growth jointly at 36% as well as education (33%). This World Bank (2016) report indicates that job creation/employment is currently most important to Nigerians and also that job creation/employment would be the best remedy for endemic poverty. The report could also imply Nigerians currently perceive agricultural development and economic growth to be synonymous given their joint ranking of 36%. Also, going by the FY 2016 report, Nigerians consider agricultural development and economic growth to be the second best remedy for endemic poverty after job creation/employment.

In addition, a whopping 83% of respondents consider the gap between the rich and poor in Nigeria a very big problem in 2016. This is in line with the findings of a study which showed for instance that the Nigerian national legislature expenditure (National Assembly consumption) was 67.62% of total resources required to eliminate absolute poverty in 2003-04 and 124.81% in 2009-2010. A single member of the Nigerian legislature on average expended ₦118.17 millions in 2003-04 and ₦533.58 millions in 2009-2010 whereas per capita household consumption expenditure for the same period was a paltry ₦4,029.70 and ₦7,212.30 respectively (Ako 2017). Ako's 2017 study also showed that a single member of the Nigerian legislature on average expended ₦10 millions monthly in 2003-04 and ₦44 millions monthly in 2009-2010 whereas monthly food poverty line was a paltry ₦1,694.61 and ₦3,245.63; monthly absolute poverty line a paltry ₦2,403.06 and ₦4,675.67 for the same period respectively. Furthermore, the number of the extreme poor increased by 26 % while the number of food poor increased by 24 % at a time each member of the national legislature was expending ₦44 millions monthly. On the whole, each poor Nigerian required only 0.01% of resources consumed by each member of the Nigerian legislature in 2003-04 and only 0.004 % in 2009-2010. Thus, the gap between the rich and poor in Nigeria has been greatly exacerbated with the onset of current democracy.

Incubating the recession in Nigeria

Costs of production

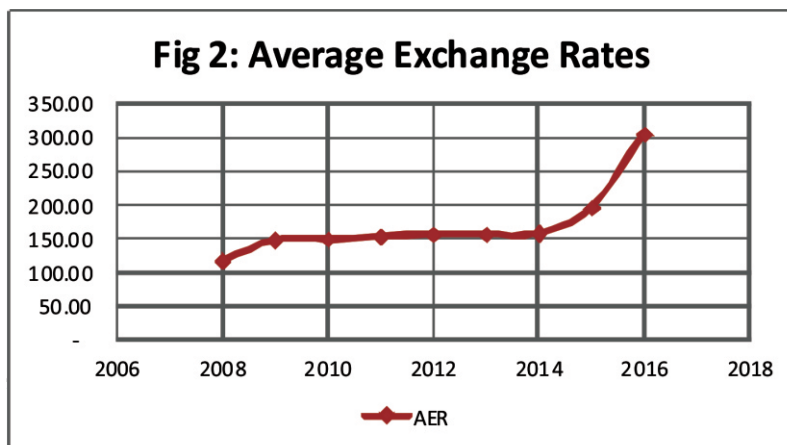
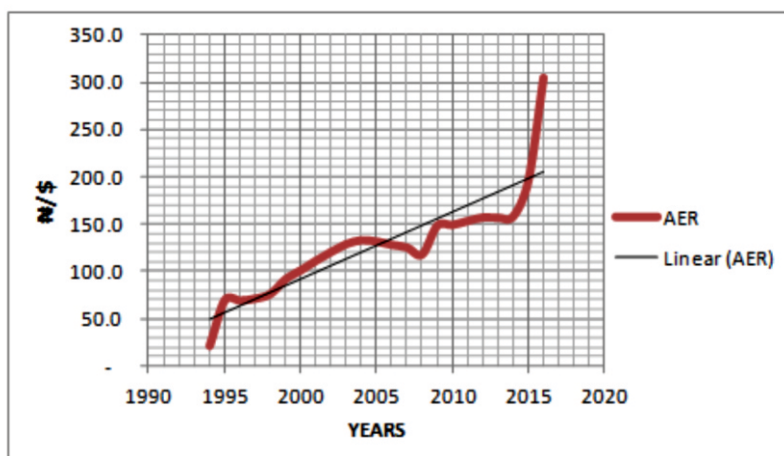
The costs of production refer to the various costs associated with manufacturing or acquiring goods and services; including explicit costs for raw materials, labor and general overhead as well as implicit opportunity costs of the factors of production and services. Of the explicit costs, the costs of raw materials have been significantly affected negatively by the vagaries of supply and demand and the convoluted government policies on exchange rates in the past fifteen years; since advent of the current democratic dispensation. Similarly affected negatively are the general overhead costs, all of which have led to a perpetuating cycle of:

1. Contraction in output of goods and services (i.e. falling supply),
2. Increased costs of produced goods and services,
3. Contraction in demand for goods and services (i.e. falling demand) which inevitably lead to further,
4. Contraction in output of goods and services (i.e. falling supply).

The spiraling costs of production have been attributed to the worsening exchange rates in the past fifteen years. The average exchange rates reported by the Central Bank of Nigeria (CBN) indicate a steady depreciation of the Naira in the past fifteen years (Figure 1) although some appreciation of the naira was briefly recorded for 2008. Figure 2 shows some threshold in the exchange rate of the naira was recorded between 2009 and 2014.

There is a common saying that “actions speak louder than words”. All available evidence squarely indicts the CBN for being largely responsible for the bastardization of the naira (and hence the Nigerian economy) through inappropriate and failed policies in the past fifteen years. For instance, within the past fifteen years, the CBN decided that “BIG” is beautiful while “SMALL” is undesirable and came up with policies that willy-nilly forced existing banks to merge in the name of “BANK CONSOLIDATION”. This was clearly a globalist agenda but globalization is also recognized to have unpleasant costs.

Fig 1: Average Exchange Rates -1995-2015



This Bank Consolidation policy created conglomerates in the banking sector in the name of universal banking whereby Nigerian banks effectively became traders (importers and exporters), insurers, registrars, brokers; bureau de changes (BDC) operators etc. Smaller banks that would ordinarily cater to smaller businesses were thus wiped out in Nigeria by CBN fiat. Even though in the so called developed world, one can still find full-fledged “small” banks that are not national but localized today, Nigeria's CBN would have none of that for Nigeria from 2004. It is very doubtful the CBN was interested in growing Nigeria from its bedrock of small businesses since the banking conglomerates it created could only cater to their “peers” the multinational companies operating with branches in Nigeria. By the time the

dust settled on the bank consolidation agenda, lending to production was substantially divorced from banking functions in Nigeria. To worsen the matter, at about the same time of the bank consolidation saga, the same CBN introduced the policy of selling foreign exchange directly to bureau de changes (BDC) in Nigeria. This was contrary to the very idea of bureau de changes and clearly an anti-production but pro-travelers policy. It was not the Nigerian economy that gained by this CBN policy but private individuals.

Also about the same time since 2004, the CBN introduced a curious item in the reported Federal Government expenditure accounts simply named “Transfers”. This particular “Transfers” has no explanatory notes unlike the immediately preceding accounts for recurrent and capital expenditures which themselves also contain expenditure items called “other transfers” in their explanatory notes. It is instructive that this unexplained/special “Transfers” rose from being 2.9% of actual total government expenditure (executive and legislature) in 2004 when it was introduced to peak at 9.6% in 2011 but was reported to be 6.6% in 2015 (see Table 3). It is equally instructive that the Systemic Leakages in the Nigerian economy amply represented by the Net Errors and Omissions (NEO) captured yearly in Nigeria's Balance of Payments (BOP) received a significant boost in 2004 and continued to grow astronomically to the extent Nigeria recorded about \$27 Billion income (since Nigeria was not borrowing then) as “lost” or unaccounted for in 2009 and again in 2013 (see NEO in Table 2).

Apparently related to the huge income lost yearly by Nigeria, the introduction and take off point of CBN's mysterious “Transfers” mentioned above for 2014 was also the take off point of the astronomical increases in incomes unaccounted for in Nigeria's BOP (see Table 2 & Figure3). As a matter of fact, as Nigeria continued to lose tens of billions of dollars yearly to unscrupulous persons, the loss was matched by growth in the mysterious “Transfers” to the extent the mysterious “Transfers” out-grew real gross domestic product (RGDP) by 2011 and continued to maintain this superior growth up till the official declaration of economic recession in Nigeria (see Table 2 & Figure3). It is also noteworthy that in that same 2004, miscellaneous loans as a percentage of total loans of commercial banks shot up to 63% and continued to rise peaking at 75% of total loans in 2007 (see Table 1). These miscellaneous loans were established to belong to a network of crowding out channels and round tripping affecting economic growth in Nigeria which help explain the current economic recession (Ako 2017).

Table 1: Miscellaneous Loans & Total Loans

YEARS	TLoans	MiscL	MiscL%
2004	1519.2	957	63
2005	1976.7	1377.2	69.67
2006	2524.3	1724.9	68.33
2007	4813.5	3619.1	75.19
2008	7799.4	2622.1	33.62

Source: CBN Annual Statistical Bulletin

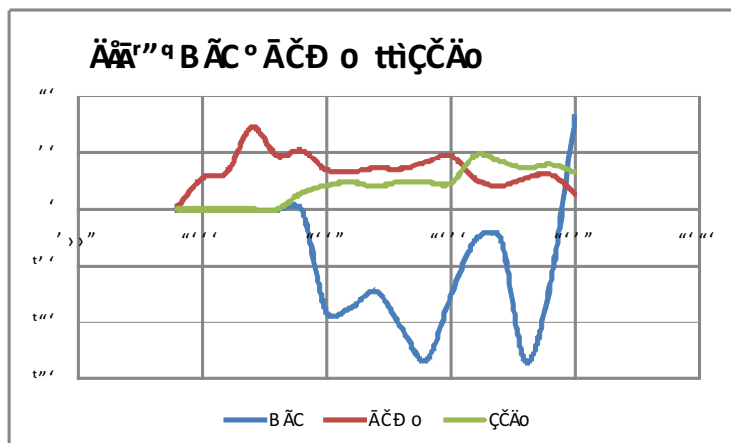
Table 2: Systemic Leakages & Growth

YEARS	NEO	RGDP	GRW%
1999	-0.07	22,449.40	0.52
2000	-0.08	23,688.30	5.52
2001	-0.06	25,267.50	6.67
2002	-0.08	28,957.70	14.6
2003	-0.08	31,709.40	9.5
2004	-0.13	35,020.50	10.44
2005	-18.2	37,474.90	7.01
2006	-17.3	39,995.50	6.73
2007	-14.5	42,922.40	7.32
2008	-20.9	46,012.50	7.2
2009	-26.7	49,856.10	8.35
2010	-15.3	54,612.30	9.54
2011	-5.3	57,511.00	5.31
2012	-5.1	59,929.90	4.21
2013	-26.9	63,218.70	5.49
2014	-13.2	67,152.80	6.22
2015	16.5	69,023.90	2.79

Table 3: Unexplained “Transfers”

YEAR	TGOVX	TRNSFRS	TRF%
1999	953.7	0	0
2000	709.6	0	0
2001	1037.8	0	0
2002	1034.4	0	0
2003	1248.4	0	0
2004	1457.6	42.20	2.9
2005	1854.4	78.90	4.25
2006	1973.5	95.41	4.83
2007	2513.7	102.30	4.07
2008	3309.5	162.57	4.91
2009	3,559.40	172.22	4.83
2010	4344.3	201.32	4.63
2011	4992.1	479.00	9.6
2012	4756.1	405.40	8.52
2013	5,336.00	387.87	7.27
2014	4728.8	377.37	7.97
2015	5139.56	338.55	6.59

Source: CBN Annual Statistical Bulletin Volume 26



Thus, from every indication, 2004 was the year of the planting of the recession seeds and the continued watering and even fertilizing of such seeds by successive administrations is largely responsible for Nigeria's current recession. The CBN has no choice but to now admit failure of some monetary and fiscal policies such as the \$66b of Nigeria's foreign reserves it frittered away at an average of about \$6billion per annum funding BDCs between 2005 -2016 (Clara Nwachukwu, The Guardian Newspaper 19 September 2016). The CBN governors (past and present) ought to accept substantial responsibility for plunging Nigeria into avoidable recession with detrimental policies and to refrain from their current “holier than thou”

posturing and diversion of blaming the recession on “global crisis in the sense that we've seen commodity prices dropping, we've seen geopolitical tensions all around the world,” (Clara Nwachukwu, The Guardian Newspaper 19 September 2016).

Related to these lapses is the CBN's laxity in banking supervision. For instance, there are several Local Government Areas in Nigeria such as Kwande Local Government Area (LGA) of Benue State that have been without any bank for over twenty years. The citizens of Kwande LGA are forced to travel two LGAs away for banking business when forced to do so by CBN's frenzied drive for a cashless society in Nigeria; because even the neighboring LGA (Oshongo) has no bank located there. The additional economic costs of production and the needless wasting of lives on dilapidated roads the people of Kwande LGA and others in similar situation all over Nigeria have to bear are better imagined. What is more, there is even not a single automated teller machine (ATM) point in these affected LGAs. This is despite the fact many banks are located in the State Capitals and regularly receive the monthly revenue allocations of the affected LGAs from the Federation Accounts and yet the banks have no presence in the LGAs whose accounts they maintain and from whence the LGA staff salaries are paid through other staff bank accounts. Yet, the CBN “banking supervision” in obvious collusion with such “fraudulent” banks has let them be for decades. This gross and unacceptable negligence of the CBN and its failures in banking supervision have also given rise to collusions between the “fraudulent” banks and unsavory characters who set up “shylock schemes” to fleece the people in the affected LGAs whereby money can be obtained by the “bankless” and hapless citizens via point-of-sale (POS) machines at exorbitant “opportunity costs” if it is not convenient to travel two LGAs away to the nearest bank. Again the economic costs of production involved and their multiplier effects nationally are better imagined.

It is highly inconceivable that there are only 774 LGAs in Nigeria, yet the CBN's “banking supervision” has failed to ensure each LGA is served banking facilities for more than twenty years despite the CBN's copious demonstrations of overzealousness in wanting to join the global financial rat race; even at the cost of Nigeria's economic development. This is but one unsavory practical example of the many economic losses in Nigeria over a long time due to policy failures and dereliction of duty that has accumulated to result in the current economic recession. The ineptitude of the CBN's directorate of banking supervision is so “gross” that Dr. Olisa Agbakoba - former president of the Nigeria Bar Association (NBA) has recommended the UK model of the Bank of England for Nigeria to create a special bank supervision agency whose only job will be prudential bank regulation like the Prudential Regulatory Authority in UK. Dr. Agbakoba also called for a law compelling banks to do banking work, not trading. (The Sun Newspaper 11 September 2016). This paper is in complete support of Dr. Agbakoba's call.

Energy Costs

Energy costs are considered here in terms of electricity and petroleum costs. In this respect, electricity and petroleum are items that are critical to economic development in Nigeria. However, companies in Nigeria face severe challenges in accessing reliable energy, most especially electricity.

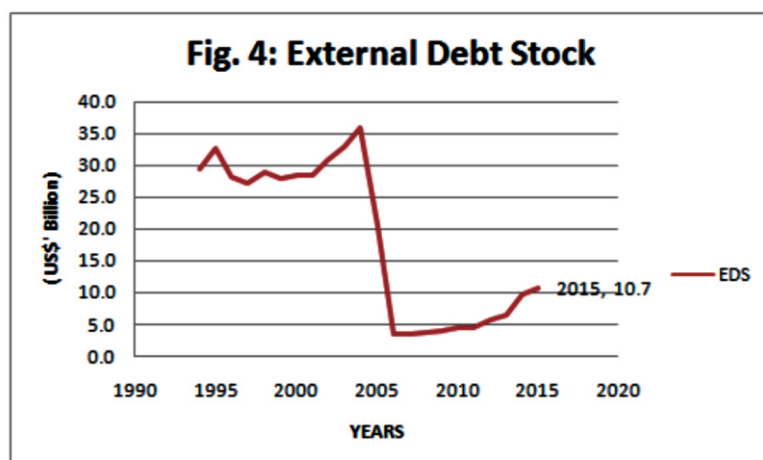
In this respect, a study published by the World Bank on the investment climate in Nigeria after a survey of 3,000 Nigerian businesses in 26 States indicate the biggest challenge to be unreliable power supply. Businesses reported that they experienced average power outages of 8 hours per day. Hence, 88% of retail and manufacturing businesses reported owning private generators and the manufacturing businesses also reported approximately 69% of their total electricity usage was produced by private generators. The businesses further reported expenses incurred running their private generators cost the equivalent of more than 4% of sales. This World Bank study estimates only 48% of Nigerians have access to electricity and concludes Access to electricity in Nigeria remains low and the country is unable to produce enough electricity to meet demand (World Bank 2011). Another study similarly indicate fully 90% of exporters identified electricity as a major or very severe constraint, and 80% identified it as the single most important constraint they face.

Such studies further amplify the regular lamentations of the Manufacturers Association of Nigeria (MAN) that power alone gulp 40 per cent of production cost of its members. To compound the situation, there have been frequent huge increases in electricity tariffs in the past ten years especially within the past five years, whereby electricity tariffs have been increased sometimes 2-3 times within a year without any improvement in electricity supply. The pump price of petrol and diesel have equally followed similar trend.

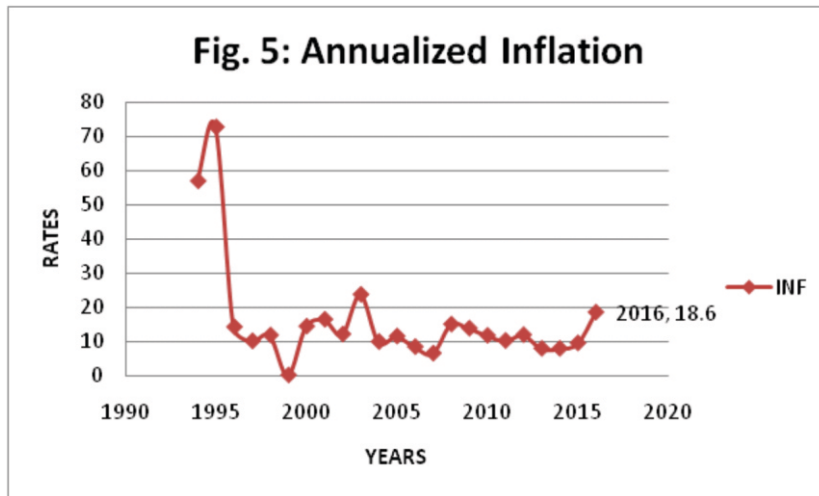
Decrying such trend, The Guardian Newspaper in an editorial (14 January 2016) stated “It is immoral for government to embark on frequent increase in electricity tariff without ensuring a corresponding increase in power supply. Asking people to pay more for services hardly rendered is fraudulent.” Considering such frequent hikes in prices further, the paper recommends government “should take cognizance of the social and economic realities in Nigeria” and not blindly “adopt the model used for such in developed industrialized economies”. The Newspaper firmly believes government “ought to subsidize electricity for now to grow the economy, create jobs and sustain development before passing the cost on to consumers”. This paper is also in complete agreement.

National Debt

Using the barometer of external debt stock, the national debt which was minimized by 2006 started creeping back up in 2007 and stood at \$10.7 Billion at the end of 2015 (see Figure 4). However, the status of this factor is not considered a significant contributor to the current recession in Nigeria.

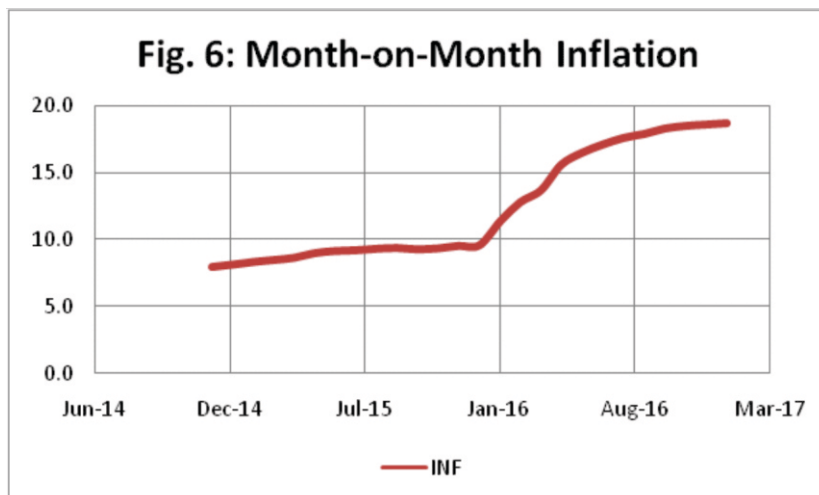


Inflation



Inflation refers to the change in prices of goods and services over a period of time. It is measured as a rate; being the percentage difference between the consumer price index (CPI) of one month in a preceding year over the CPI of the same month in the current year. The CPI itself measures the average change in cost of acquiring a basket of goods and services over time.

Copious literature exist that establish direct relationship between inflation rate and price hikes (energy etc) as well as currency depreciation (Arinze (2011), Nwosu (2009), Bobai F. D. (2012) etc) all of which impact negatively on production costs and thereby produce the adverse effects discussed above. Figures 5-6 display inflationary trends in Nigeria in the past twenty years which show mixed performance with frequent swings in and out of single digits.



However, since the onset of the recession in first quarter (Q1) of 2016, both the annual inflation and the month-on-month inflation have been on the increase and remain in double digits. Figure 6 shows straight monthly increases for the last twelve months since the onset of the recession indicating presence of stagflation. Hence, available evidence indicate higher energy costs, a constantly depreciated naira and increased costs of goods and services are responsible for triggering the galloping inflation in Nigeria.

Conclusions

Whereas economic development is more applicable to measure improvement and quality of life in developing nations, economic growth is a more pertinent metric for progress in developed countries. The measure of economic growth is widely used in all countries because growth is often considered a necessary condition for development. However, economic growth is a necessary but not sufficient condition of economic development and focusing on the growth statistics alone leads to a false sense of security. Economic growth can indeed take place without development and Nigeria is a modern day example as indicated by current recession.

Moreover, it has become fashionable for all and sundry to profess the fall in global oil prices since 2014 is the principal cause of Nigeria's current recession but such assertion is not factual. Empirical evidence indicate the seeds for Nigeria's current recession were planted in 2004 and "faithfully" watered subsequently by continuous gross mismanagement of national resources and the CBN bears significant responsibility for Nigeria's current recession.

Recommendations

We strongly identify with the earlier recommendations of Dr. Olisa Agbakoba and urge the Nigerian Law Reform Commission to consider a review of the extant banking laws as well as prevailing exchange regulations as part of its routine responsibilities. Specifically, we urge the Law Reform Commission in their relevant law reviews to make provisions for Prudential Regulatory Authority type agency for Nigeria, make provisions to apply limits on percentage of profits made by multinationals that are repatriated out of Nigeria after the multinationals had fully repatriated their initial investments i.e. provide for the percentage of "made-in-Nigeria profits" that MUST be retained for re-investment in Nigeria. We recommend a minimum retained profit of 50% that must not be repatriated by multinationals.

We also recommend urgent review of the excess autonomy granted the CBN by the last amendment of the CBN Act. For the umpteenth time, the CBN is not privately owned like the Federal Reserve in USA but it is a Federal Government (public) institution and the CBN governor must not be allowed by law to practically run the CBN like a private institution; when the Funds of CBN are actually public funds and belong to the people. A situation whereby a CBN governor is in a position to pursue policies capable of wrecking the economy without checks all in the name of autonomy is not in the best interest of Nigeria. It appears the current provisions for autonomy leaves the CBN itself with no effective supervisor or check and balances; which inadvertently grant the CBN governors' undue leeway to play kingpins with the national hegemony by making the good of the economy insubordinate to their personal pet projects and/or self interests to ruinous national effects.

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