Financial Economics

The Nature and Benefits of Participating in Burial Society Stokvels in South Africa

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Abstract: This paper applied a quantitative research design to explore the nature of burial society stokvels in South Africa. Furthermore, the benefits accruing to members were examined. Prior studies have generally focused on mobilization of savings from households through stokvels. None have paid particular attention to the nature and benefits of participating in burial society stokvels as a conduit for savings mobilisation. This study attempts to fill this gap by using a self-administered research questionnaire on a sample of 386 respondents. Members of stokvels were surveyed from the cities of Pretoria and Johannesburg in the Gauteng province of South Africa. Data was analysed using descriptive statistics, exploratory factor and correlation analyses. The study found that more females than males participated in stokvels. Results show that burial society stokvels succeed due to their informal nature, which is characterised by a lack of lengthy and stringent formalities and low transaction costs when compared to formal financial institutions. The results also show that burial society's stokvels empower women through providing opportunities for savings. Bereaved members are able to give their deceased loved ones through the financial support obtained from the burial society stokvels. Disbursement of funds is quick due to lack of lengthy formalities found in formal insurance companies. The results show that household consumers of financial services such as funeral policies, seek speed and convenience when selecting service providers. Thus, the findings of this study have policy implications for formal financial institutions when designing products for the low end market.

Keywords: Stokvel; savings; burial society; households and South Africa

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1. Introduction

The Financial Mail (2015) reported that stokvels are growing in popularity as savings vehicles, despite official statistics indicating that South Africa has a very low saving rate. There is relatively little published academic research on burial society stokvels. Rotating credit and savings associations (RoSCAs) and burial societies are some of the most common informal financial institutions in the developing world. Research by Finscope estimates that burial societies and stokvels membership contributes between R25 and R44 billion to the national economy (South African Government, 2015). Research done by African Response in 2012 highlighted that stokvels are used by both male (42.6%) and female (57.4%) investors, with investment stokvels skewed towards males (53%), while grocery stokvel members comprised mainly women (86%). This research also indicated that stokvel members fall predominantly between the ages of 25 and 49 years (78.2%). Old Mutual's 2013 survey also showed that the number of youth aged 18 to 30 years using informal savings has increased – 63% of young people save through informal savings compared to 49% of the general population.

The latest Old Mutual Savings and Investment Monitor (OMSIM) confirms that 74% of black middle-class respondents have some form of informal savings such as stokvels, savings club or unbanked cash (Orange, 2017). The research from the 2017 OMSIM reveals that stokvels continue to grow, with 42% of black metropolitan South Africans who earn R40k+ per month belonging to more than one stokvel. Of those earning R20k+ per month, 44% belong to a stokvel and report that if they cannot meet expenses at the end of the month they will borrow from their stokvel (Orange, 2017).

The Premier of Gauteng province, David Makhura, stated at the Stokvel and Burial Society Indaba at the Soweto Theatre that research reveals that women are the main participants in stokvels, representing 61% of the total membership (South African Government, 2015). The majority of them happens to be those who are working, especially low-income workers and the elderly who benefit from social grants, although membership composition cuts across the almost entirely African working class, irrespective of their income. It is therefore important to consider savings and benefits from burial society stokvels.

As Arko-achemfuor (2012) observes, black South Africans are regarded as poor and financially excluded and are therefore unable to meet their financial commitments through formal means such as banks. Participating in burial society stokvels closes the finance gap in the South African market. The objective of this study is to gain an understanding of the attributes of funeral services offered by burial society stokvels in South Africa. The rest of the paper proceeds as follows. Section 2 presents the theoretical framework on which this paper was premised. Section 3 discusses the methodology applied. In section 4, the empirical results are presented and discussed. The conclusion and recommendations flowing from this study are presented in section 5.

2. Review of Related Literature

2.1. Theoretical Literature

James (2015) argues that, historically, black South African communities that were economically prevented from participating in mainstream economic activities turned to stokvels in the form of burial societies. Gichuki, Mutuku and Kinuthia (2015) observe that burial societies were formed by the poor for the poor, and would see members pool their money to pay the funeral costs of any member who died. This typology of insurance often takes the shape of rotating credit associations, which use customary patterns of cooperation, mutual help and communal responsibility to regulate the emergent activities. In the past, when people were relocating from their places of origin to Gauteng province in South Africa to seek employment, because funeral costs were expensive, a group of people in the community formed a burial society stokvel to provide for the cost of funeral on the death of a member or a dependant. Membership of burial society stokvels consisted of a small group of both females and males who would agree to the payment of a joining fee and a monthly subscription, a waiting period before becoming a full member and the amount to be paid on death of a member or dependant. Members of the burial society agree on the constitution, appointing an executive committee comprising a chairperson, a secretary and a treasurer, and setting the day and place for the meeting (Murdoch, 1999; Karlan, 2007; Verhoef, 2002). The executive committee opens a bank account with one of the financial institutions in the name of the burial society stokvel, and records are kept to avoid mismanagement of funds. Joining a burial society is voluntary, no credit checks are carried out and members trust one another.

According to Calvin and Coetzee (2010), in 1996 the South African Reserve Bank (SARB) published a green paper showing its position on stokvels and introducing legislation pertaining to stokvels. The definition of stokvels regards them as falling outside the sphere of commercial banks and thus the Bank Act of 1990 was accordingly amended. The government of South Africa together with SARB view stokvels as legal, as operating outside the regulations of banks and as self-governing entities. Stokvels are affiliated to the National Stokvel Association of South Africa (NASASA). The Permanent Building Society (Perm) was the first bank in South Africa to become involved with stokvels. In 1988, the Perm developed a stokvel account known as the Club Account. This account had the following features:

- When monthly savings contributions were made, they increased the balance by the rate of interest;
- Interest was capitalised monthly;
- Stokvels could withdraw all funds available in the account and no minimum balance was required;
- There were no bank charges;
- Stokvels were issued with a book as a record of their savings and withdrawal balances;
- There was no limit on the number of withdrawals;
- Members of the stokvel executive committee were the signatories on the account.

In 2009, the South African major banks (Absa, Standard Bank, First National Bank and Nedbank) offered customised savings accounts to stokvels; these included the Absa Club Account, the Society Scheme of Standard Bank, the First National Bank Stokvel Account, the Nedbank Club Account, Bakgotsi of Postbank and Club Save of Ithala Bank. This gives us the twentieth century background on the management of stokvels by financial institutions.

2.2. Empirical Literature

Thomson and Posel (2002) explored the ways in which burial society stokvels develop community and establish trust. In their study, they also investigated procedures developed by burial society stokvels based on trust for the management of their risks. Finally, it considered problems relating to the insurance of mortality risks in the burial society movement. These authors recommended that burial society stokvels should improve their ability to negotiate with undertakers, banks, insurers and government. Stokvels may also contribute to the development of skills and the dissemination of knowledge that is useful in the further development of their risk-management procedures. These findings suggest that the legal framework within which burial societies and funeral insurers operate should be reviewed.

The objective of Ramsay and Arcila's (2013) study was to establish a sound basis for determining both the premium and the waiting period for burial society stokvels. They developed a discounted expected utility model of consumption by members of such stokvels and used the model to determine the optimal premiums and waiting periods subject to solvency, lapse, and participation constraints. Their assumption that households face a single shock is another simplifying assumption that can be relaxed in future research. As low-income households often face many income shocks, their monthly net income is a stochastic process. For stochastic income, these researchers used an economic hypothesis to set household consumption levels.

Molobi (2006) explores the possible relationship between burial society stokvels and basic Christian communities in South Africa. Both burial societies and Christian communities are historical and there is a plan for the two to enter into. He found that burial society stokvels are small and cohesive, comprising members with shared rural and cultural roots. These stokvels adopt a humanist approach to social affliction and are therefore a haven for people in their own right. Semenya (2013) observed that stokvel members who are churchgoers are often absent on the last Sunday of the month, being committed to burial societies. His research found that members considered their contribution to the burial society stokvel to be more important than their tithing to church. Members of stokvels often belong to more than one burial society, and spend more money in order to receive greater support in the event of a death. Belonging to a burial society helps members to prepare for death, enables them to have a decent funeral and ensures that those who attend the funeral service do not go home hungry.

Van Wyk (2017) discusses the experience of a stokvel through an interpretive-narrative-based inquiry research paradigm. A purposive sampling method was employed in the selection of four rural women. The findings revealed that these women believed that participating in a stokvel helped them to be identified as part of a specific group. The stokvel created opportunities for belonging and was a means of sharing and socialising among members. Furthermore, specific circumstances beyond their control had forced the women in this study to become members and to participate in a stokvel as a desperate attempt at survival. It also surfaced that the stokvel played a critical role in financial support during tough times especially when a sudden bereavement strikes a family. Finally, the stokvel members in this study confirmed that a stokvel was a means of eradicating poverty and creating jobs in their respective communities. Using a literature-based research method, Mashigo and Kabir's (2016) study proposed a financial strategy that would improve access to financial services and develop poor households in South Africa. Their study recommended that village banks be established and supported adequately and used as a financial inclusion strategy for developing poor households in South Africa.

3. Research Methodology

3.1. Sampling Strategy

This study follows a survey research design using a quantitative research approach. Sampling is defined by Bryman and Bell (2007, p. 182) as the selection of a fragment of the population for the research process. A multi-stage sampling strategy was applied in this study in terms of which respondents to the study were randomly selected. In the first stage, Gauteng, one of South Africa's nine provinces, was selected because of its close proximity to the researcher and hence the low cost of travel. In the second stage, respondents were drawn from the cities of Pretoria and Johannesburg. In the third stage, primary research was conducted by self-administered research questionnaires to a sample of 400 stokvel members, of which 386 made up the final sample. Results show that of the 386 respondents, 45.15% were male and 52.3% female. This a fair representation of the sample. Table 1 below shows the gender distribution of the respondents.

Table 1. Characteristics of respondents

Total number of stokvels members	**386**
Male	45.1%
Female	52.3%

Source: Fieldwork 2016

This study adhered to all the principles of the University of South Africa (UNISA) Research Ethics as well as the main ethical considerations proposed by Babbie (2007). In order to comply with ethical considerations, the researcher applied and obtained ethical clearance from UNISA prior to carrying out the survey. Furthermore, prior to completing the questionnaires, respondents were provided with a consent form requesting the respondent's voluntary consent to complete the questionnaire (Creswell, 2003). The researcher ensured that the study posed no harm to the respondents (Flick, 2006), who were also not compelled to answer the questionnaire. Consistent with Cooper and Schindler (2011), all respondent information was kept strictly confidential.

3.2. Data Collection

Data was collected using a self-administered questionnaire that applied a five-point Likert scale. In order to ensure the validity and reliability of the data, the research instrument was subjected to a pilot test. Results of the pilot test confirmed the reliability of the research instrument with a Cronbach's alpha value greater than the threshold of 0.7. Using confirmatory factor analysis (CFA), the research instrument was found to be valid (see Figure 1 below). After confirming the reliability and validity of the research instrument, data was collected with the aid of four field workers who were trained by the researcher.

Reliability Statistics	
Cronbach's Alpha	N of Items
.892	4
.710	5

Figure 1. Cronbach's alpha

Inference: A Cronbach's alpha test was performed to check the reliability of questions. The above tables display several of the results obtained. However, since α of this questionnaire is far higher than 0.6, we can assume that it is reliable (Field, 2009). In addition, no question was removed from the construct.

Reliability testing: Cronbach's alpha is designed as a measure of internal consistency of items in a questionnaire, and ranges between zero (0) and one (1). The closer α is to one (1), the greater the internal consistency of the items in the questionnaire.

4. Results of the Research Question

4.1. Nature of Insurance Stokvels

This subsection presents and discusses the nature of the insurance provided by stokvels in Gauteng province, South Africa. Data was analysed using SPSS version 24.

4.1.1. Descriptive Statistics

Respondents were asked to indicate the type of organisation with which they have insurance cover from a range of service providers, namely, burial society, funeral parlour, and formal insurer with a further option stating that they were not insured. A summary of descriptive statistics for the responses is presented in Table 2 below.

Table 2. Mean and standard deviation: nature of insurance stokvels

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Burial society	212	1	5	4.35	.716
Funeral parlour	106	2	5	4.45	.692
Formal insurer	86	1	5	4.57	.952
Not insured	46	1	5	4.00	1.563
Valid N (listwise)	6				

Source: Fieldwork, 2016

Table 2 above shows the mean and standard deviation of the responses, indicating the extent to which the sampled respondents agreed or disagreed with the items in the questionnaire. The statistics reveal the mean of the variables in terms of the results for each statement. The highest mean related to "my insurance cover is with a formal insurer" with a numerical value of 4.57.

4.1.2 Funeral Parlour

The second highest mean related to "my insurance cover is with a funeral parlour" with a numerical value of 4.45. Accordingly, half the number (106) of respondents were insured with a funeral parlour compared to a burial society (212).

4.1.3 Burial Society

The third highest mean was in relation to "my insurance cover is with a burial society" with a numerical value of 4.35. This implies that the majority of the stokvel respondents agreed that they are members of a burial society stokvel. Wines (2004) argues that, in traditional African culture, death is a significant event that is treated with the utmost respect. The burial society stokvels were formed to assist in the event of death with expenses such as the cost of transporting the body of the deceased to their place of origin. This may prompt the bereaved to provide for food and care for people attending the funeral service. Before payment is made to the member, he or she should notify the secretary/treasurer of the stokvel of the death, who then checks whether payments are up to date. All necessary documents of the deceased should be provided and should correspond with information that have been provided to the members of the stokvel (Zungu, 2012). Payment will be made and members will assist with a helping hand; for example, preparing food for funeral. The lowest mean was found for the response "not insured" with a numerical value of 4.00. This result leads to the assumption that some respondents rely on relatives and friends for insurance, some of whom may reside outside Gauteng province.

4.2 Benefits of Participating In Burial Stokvels

The study asked respondents about the benefits that accrue to members of burial stokvels. The purpose of this question was to gain an understanding of the attributes of funeral services offered by stokvels. Descriptive and correlation analyses were performed and the results are presented below in Tables 3 and 4 respectively.

Table 3. Correlation matrix for extracted factors and benefits from burial stokvels

Correlations					
		Your burial society contributions are saved in a bank or Post Office	Members agree on number of dependants and amount paid	Proceeds fund burials for bereaved members	I get mutual support from members
Your burial society contributions are saved in a bank or Post Office	Pearson Correlation	1	.085	.140	.086
	Sig. (2-tailed)		.436	.343	.430
	N	163	86	48	87
Members agree on	Pearson Correlation	.085	1	.703**	.719**

number of dependants and amount paid	Sig. (2-tailed)	.436		.000	.000
	N	86	196	47	87
Proceeds fund burials for bereaved members	Pearson Correlation	.140	.703**	1	.609**
	Sig. (2-tailed)	.343	.000		.000
	N	48	47	87	48
I get mutual support from members	Pearson Correlation	.086	.719**	.609**	1
	Sig. (2-tailed)	.430	.000	.000	
	N	87	87	48	146
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Fieldwork (2016)

4.3. Benefits of Participating in Funeral Parlour Stokvels

Table 4 presents the mean results of the variables showing how each of the statements performed in terms of the responses. The highest mean was "benefits of participating in funeral parlour stokvels are proceeds fund burials for bereaved members" with a numerical value of 4.76. This implies that the stokvel respondents agreed that by participating in funeral parlour stokvels members are offered services according to their monthly contributions: a coffin, cost of graveside, tent and groceries. The second highest mean was "benefits of participating in funeral parlour stokvels are quick access to service" with a numerical value of 4.70. This implies that the majority of the respondents agreed that participating in funeral parlour stokvel gave them access to quick service. The third highest mean was "benefits of participating in funeral parlour stokvels are deceased is transported to the place of burial by the parlour" with a numerical value of 4.53. This implies that the majority of respondents agreed that by participating in funeral parlour stokvels, members' beneficiaries are transported to their place of choice by the funeral parlour. The fourth highest mean was "benefits of participating in funeral parlour stokvels are minimal formalities" with a numerical value of 4.43. This implies that the majority of respondents agreed that participating in funeral parlour stokvels is accompanied by minimal formalities. The lowest mean was "benefits of participating in funeral parlour stokvels are that you get a service according to the package/product you make payment for" with a numerical value of 4.33. This implies that the majority of the stokvels respondents agree that participating in funeral parlour stokvels member's benefits will be according to the package/product you make payment for.

Table 4. Descriptive statistics

Descriptive statistics					
	N	Minimum	Maximum	Mean	Std. deviation
You get service according to the package/product for which you make payment	202	1	5	4.33	.819
Deceased is transported to the place of burial by the parlour	148	2	5	4.53	.654
Quick access to service	138	3	5	4.70	.575
Minimal formalities	83	1	5	4.43	1.095
Proceeds fund burials for bereaved	110	1	5	4.76	.589
Valid N (listwise)	52				

Source: Fieldwork, 2016

4.4. Correlation Analysis

The items making up the construct "benefits of participating in funeral parlour stokvels" were subjected to Pearson's bivariate correlation analysis. Results show that all items are positively correlated. All correlations were observed to be significant at the 0.001 level (2-tailed) for the relationships between the variable "minimal formalities" and the variables "deceased is transported to the place of burial by the parlour" (r = 0.208) and "quick access" (r = 0.229). The correlation matrices are presented in Table 5 below.

Table 5. Correlation matrix for extracted factors and stokvel performance

Correlations						
		You get service according to the package/product you make payment for	Deceased is transported to the place of burial by the parlour	Quick access to service	Minimal formalities	Proceeds fund burials for bereaved member
You get service according to the package/product you make payment for	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	202				
Deceased is transported to the place of burial by the parlour	Pearson Correlation	.820**	1			
	Sig. (2-tailed)	.000				
	N	88	148			
Quick access to service	Pearson Correlation	.820**	.898**	1		
	Sig. (2-tailed)	.000	.000			
	N	88	88	138		
Minimal formalities	Pearson Correlation	.191	.208	.229	1	

	Sig. (2-tailed)	.170	.136	.099		
	N	53	53	53	83	
Proceeds fund burials for bereaved members	Pearson Correlation	.309**	.350**	.334**	.611**	1
	Sig. (2-tailed)	.005	.001	.002	.000	
	N	81	81	81	52	110
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Fieldwork (2016)

5. Conclusion and Recommendations

The purpose of the paper was to gain an understanding of the attributes and benefits of the burial services offered by stokvels in South Africa. The savings clubs or accounts that pay out on the death of the insured are the mechanism that has evolved in South Africa to help individuals save for funerals, thus assuring a proper burial in the member's homeland. Such mechanism includes membership in a burial society stokvel and the purchase of a funeral policy with a funeral parlour.

The findings of this study reveal that in South Africa, working-class and educated households were the most likely to participate in burial society stokvels, followed by the recipients of social grants. High participation in burial society stokvels could be of benefit to burial societies, which weekly or monthly payments contributions to the stokvels would be made to ensure the funeral expenses of the burial would be paid for; regardless of how long a person had been a member. Such stokvels require the payment of set weekly or monthly dues, as well as the names of the beneficiaries to be covered. Burial society stokvels can therefore serve as an intergenerational commitment device.

The study recommends that government policy makers, the SARB and financial institutions (funeral directors and funeral services providers) revise death or life insurance policies in order for financial institutions to assist black South African households with designing society/club accounts benefits that

accrue to members of burial stokvels. They should also design sustainable insurance harnessing policies as these would go a long way in promoting the development of the banking sector.

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Oil Exports, Socio-economic Underdevelopment and United States' Trade Relations with Nigeria

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Abstract: Trade has continually played a prominent role in the political economy of United States (U.S.)–Nigeria's relations. Conversely, extant literature is inconclusive on the role of Nigeria's oil exports to the U.S. in the socio-economic underdevelopment that is Nigeria. This study discussed the trajectory of the nexus between oil exports, socio-economic underdevelopment and United States' interactions with Nigeria. Data is obtained from primary and secondary sources. Using exploratory research method the resource curse thesis is adopted for the descriptive study. The results of the study indicate that U.S. excessive demand for energy prompted Nigeria's shift of attention to crude oil export. It establishes that the abandonment of the production and exportation of all other sources of foreign exchange for crude oil export to the U.S. is responsible for Nigeria's inconsolable poverty. To reverse the socio-economic palaver which bedevils Nigeria the study recommends inward looking diversification development planning.

Keywords: International Trade; U.S. Energy Needs; Nigerian Political Economy

JEL Classifation: F43

1. Introduction

Nigeria is well endowed with vast human and material resources that can guarantee sustainable economic growth and development. It has large reserves of solid minerals including bitumen, topaz, lignite, coal, tin, columbite, iron ore, gypsum, barite and talc. The proven reserves of crude petroleum are well over 37 billion barrels, while reserves of natural gas stand at over 187trillion standard cubic feet. These abundant resources available to Nigeria should ordinarily aid the fulfillment of the nation's desire for sustainable development. Nigeria relies heavily on natural resources to fuel its economic development. Past and current production and consumption patterns have underpinned substantial growth in national income.

The nation's approach to the exploration of natural resources leaves its natural environment in a sorry state. Environmental problems associated with the extraction and processing of many materials and natural resources are becoming obvious in

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Nigeria. Concerns about the sustainability of these patterns are mounting, particularly regarding the implications related to resource use and over-use. The problem however is, available literature is yet to explicate the nexus between the U.S.–Nigeria's economic relations and crude oil export and the socio-economic underdevelopment which bedevils Nigeria. As such it is axiomatic to consider the role of oil which has for long been the lynchpin of global capitalism and military power. It is this problem that this study seeks to explore.

2. U.S.–Nigeria's Economic Relations and International Politics of Oil

After the Nigerian civil war, bilateral economic relations between Nigeria and the U.S. began to be cemented after the occurrence of the circumstances that are beyond the control of both parties. That circumstance was the Arab embargo on oil in the 1970s. Since the Arab countries (especially OPEC members) did not supply oil to the Western States (including the U.S.) Nigeria became the last resort for the Americans. Nigeria oil productions have to increase from 1 billion barrel per day to 2.3 billion barrel per day to meet such demands. Thus, between 1970 and 1983 Nigeria's economic relations with the U.S. shifted from aid essentially to trade and, to a lesser degree, investment linkages. This was due partly to the Gulf war. Nigeria became the second most important source of U.S. crude oil needs at a period of critical demand. This made Nigeria reach large trade surplus of $9 billion against the U.S. in 1980. With that Nigeria became precariously tied to the vicissitudes of the market and the uncertainties of Washington's foreign policy towards Nigeria being a member of OPEC.

In 1975, the U.S. imported 20 percent of its oil from Nigeria and 10 percent of its columbite. Between 1971 and 1981, the U.S steadily improved its position as Nigeria's economic partner, as a market for Nigeria's crude oil. The U.S. was set on the path of a leading importer of Nigeria's crude oil. By 1976 and 1980 there was increased food exports from the U.S. to Nigeria, increased penetration of American firms and awards of lucrative contracts to American firms in the construction and communications sectors by the Nigerian government. However, by 1976, Nigeria accounted for about 40 percent of total U.S. imports from Africa. American exports to Nigeria in the same year increased by 44 percent. Between 1973 and 1979 Nigeria exported 38-56 percent of its total oil exports (compared to 11 percent in 1965) to the U.S. crude imports (Ate, 1986, p. 71). With this, Nigeria became the second largest supplier of crude to the U.S.

Thus, oil export to the U.S. provided the major source of the foreign exchange reserves available to Nigeria in the period. The contribution of export earnings (from the U.S.) to Nigeria's Gross Domestic Product was very high. Nigeria was continually used as a market for U.S. products in sub-Sahara Africa, the trade balance between U.S. and Nigeria which earlier favoured the latter, progressively declined from $9 billion in 1980 to $7 billion in 1981, down to $5 billion in 1982. According to Terry Lynn Karl 'By fuelling inflation and dreams of quick wealth, oil revenue has withered African oil economies'. This role of foreign trade with the U.S. is a negative indicator of the Nigerian economy as it leads to a high level of sensitivity of Nigeria to American market trends, and this condition combined with the distorted structure of foreign trade. With the distorted structure of Nigeria's export to the U.S., the balance of payments and the general foreign exchange position of Nigeria became defenseless against the U.S. A large percentage of the domestic stock of investment in Nigeria was owned and controlled by entrepreneurs from the U.S. Most of this investment was done by American oil companies like Gulf, Mobil, Philips, Texas Overseas, and so on. The value of U.S. private investment was $549 million, representing 25 percent of all private foreign investment in Nigeria in 1971 (CBN, 1976, 15f.)

The entrepreneurs from the U.S. tend to own and control new investment and the most important sectors of Nigeria's economy, such as mining and agriculture, export and import trade, manufacturing and financial institutions. American Transnational Corporations (TNCs) were present in the strategic oil sector, where they dominate production through the monopoly of technology and know-how. All the contracts, leases and concessions that these American TNCs negotiated with Nigeria allowed a fairly unequal distribution of the benefits in favour of the U.S. This happened all the time in natural resource operations. Meanwhile, the exhaustible resources in question are Nigeria's only national economic asset. The natural resource contracts are a reflection of Nigeria's neo-colonial status in U.S.–Nigeria's economic relations. Through Americans' expropriating of most of the economic surplus of these sectors through profit repatriation, royalty and licenses' fees, American entrepreneurs sap most of the means of accumulation and development in Nigeria by and large, by establishing capital-intensive production in Nigeria, American investment contributes to unemployment. This also aggregate Nigeria's uneven distribution of income and displaces local entrepreneurship and local capital.

Nigeria's dependence on oil export to the U.S. made the nucleus of Nigeria's economy to fall apart. Dr. Chu Okongwu notes that.

The heavy dependence of the country (Nigeria) on oil and imported inputs rendered the economy highly vulnerable to external shocks. Consequently, with the collapse of the world oil market which started in mid-1981, an economic crisis emerged… [Also] the country's official foreign exchange reserves, which stood at about $8.50 billion at the end of May 1981, declined sharply to only about $2.85 billion by the end of December 1981 (Ogwumike, 1995, p. 5).

Consequently, the U.S. shifted its oil demands from Nigeria to Britain, Mexico, Canada and Saudi Arabia as Nigerian oil became over-priced in the American market. Thus, at a time when Nigeria's source of national revenue recklessly depends on American demands of its oil Nigeria was pushed from the second to the seventh position as a major supplier of oil to the U.S. President Shehu Shagari consequently began to beg President Ronald Reagan to mediate between Nigeria and the International Monetary Fund (IMF) to grant a $2 billion loan to adjust Nigeria's balance-of-payment deficit. The balance-of-payment deficit was the result of large-scale importation of basic food items like wheat and rice from the U.S.

But Nigeria refused to accept IMF conditions for the loan. Therefore when the Board of Management of IMF was to be reconstituted, the U.S. insisted that no Nigerian is allowed to be part of the Committees of the Board. Meanwhile, the stringent "conditionality" was meant to open up Nigeria for further penetration by countries like U.S. However General Ibrahim Babangida eventually adopted the American recommended Second-tier Foreign Exchange Market (SFEM) policy. With SFEM, the Naira was devalued between 66 and 75 percent. This milder option pleased Washington. Thus, Ambassador Princeton N. Lyman explains

The Structural Adjustment Programme…provided an economic framework that reflected Nigeria's true economic situation and gave promise that resources would henceforth be used in a more efficient manner. Changes in foreign exchange values and practices, incentives to agriculture, and reduction in restraints on market activity eliminated barriers that had virtually choked off any form of international cooperation … Once the new policies were in place, the fundamentals in our relationship would be engaged to generate solid support ... (Lyman, 1987, p. 3f.)

Working in concert with other capitalist interests, the U.S. lured Nigeria into taking the first loan of $1 billion. The loan came with inextricable conditions. The explanation was that the country needed the jumbo loan to build up investor confidence so that the American investors would come in and develop the country.

Though with its buoyant oil resources, Nigeria had earlier turned down previous offers of American financial assistance and had fought a civil war without external debts Nigeria accepted the spurious loan. Nigeria has since remained entrapped and has undergone many debt refinancing and rescheduling agreements with the Paris Club of Creditors. The agreements merely made the debt burden sustainable without any prospects of liquidating the total stock. As a matter of fact, the debt stock constantly grew due to interest, penalties and arrears capitalisation and compound.

Meanwhile, the immediate consequence of Nigeria's trade dependence on the U.S. is a sensitivity in trade relations vis-à-vis the U.S. with which a large junk of the trade is transacted (relational trade dependence). This relational trade dependence is the result of Nigeria's direct economic dependence on the U.S. It is a function of Nigeria's neo-colonial penetration and a manifestation of the dominant position and structural effects of American capital in the main sectors of Nigeria's economy. This dependence is intense due to the narrowness of Nigeria's internal market accompanied by monoculture syndrome of extensive single-natural resource export. Nigeria's trade dependence on the U.S. is strong and their effect dangerous because the domestic market and the number and variety of its export products are small, relative to that of the U.S.

The preferences strategy of AGOA may just be another means by which the U.S. seeks to maintain this relational trade dependence. The disadvantages from Nigeria's trade dependence on the U.S. are many. The U.S. determines, or at least influences the terms of exchange (such as the volume of trade, price relations and point of time) according to its interests and uses this dependence to exert pressure upon Nigeria when trying, for example through trading blackmail tactic, to influence Nigeria's foreign policy. The distribution of value added to the products traded between the U.S. and Nigeria was heavily weighted in favour of the former. Nigeria received only a minute fraction of the final price that the consumers in the U.S. paid for its export products. This is so because most U.S. bond Nigerian products are exported raw. Moreover, Nigeria is the weaker and poorer partner of the U.S.–Nigeria's economic system and therefore unable to exercise any significant control over the processing, shipping and marking of its exports.

In contrast, the U.S. was not in such a predicament. On the contrary, the U.S. used its economic resources and political and military power to control all the phases of products' production, export and distribution, often including its subsidiary companies within Nigeria, and to handle even local distribution of its products. Perhaps if Nigeria was able to exercise control over the production and distribution of its U.S. bond products to the same degree that the U.S. did, over its Nigerian bond exports, and if Nigeria had gotten back a similar proportion of the final consumer price, the U.S.–Nigeria's economic relations would have been different. Thus, Nigeria's crushing poverty was dialectically linked with U.S. opulent affluence.

Consequently, there was no actual wealth creation in Nigeria. Nigeria's oil exportation to the U.S. facilitated the entrenchment of "pirate" (Schatz, 1984, p. 45ff.) or "drone" capitalists. These people are famous for their 'consumerist and comprador proclivities' and their reluctance to embrace 'really productive activities as long as sufficient oil revenue can be siphoned off' (Joseph, 1983, p. 26). To worsen the situation, every kobo that accrues to the Nigerian government was shared on arrival as part of the excess crude oil account. Every such Kobo shared by the ruling elites came at the expense of public welfare. They were not used to mitigate any of the shortfalls in civil infrastructure but raked-in for the thieving ruling elites. There were indeed no plans to meet the socio-economic needs of the citizenry. Funny enough, the oil windfall was even barely ever enough to meet the material needs and to satisfy the worldly wants of the kleptomaniacal elites.

The ruling elite class, while being a tiny fraction of the Nigerian people, has an oversized influence on the direction of the society. They belief Nigeria belongs to them, and they have the discretion in using it as they deemed fit. This clique, stunted by ineptitude, distracted by power games and the pursuit of material comforts, was unwilling of improving Nigeria. What however united the ruling elite forces was the appropriation of state power for self-serving personal ends. The acquisitive tendencies of the elites personalised and supplanted the rule of law. Consequently, economic grandeur in Nigeria was hereditary but among the elite cohorts. Therefore, Nigeria was not poor; wealth was just lopsided. Consequently, as the Nigerian system stays rigged against Nigerians, and one set of rules exist for the elites and other for everyone else; the bonds that tied the Nigerian society remain weak and loose.

At another level, despite U.S.–Nigeria's trade relations over the years, Nigeria's human resource, and intellectual capital, had relatively stagnant conditions. This conduces for the prevalence of excruciating poverty and socio-economic backwardness in Africa's most populous country. The U.S.'s attention in Nigeria was focused on oil. But the crude oil economy (earnings from crude oil export constitute more than eighty percent of the government's total income) atrophies Nigeria. The imperative of oil exploitation and control corralled the agents of government into an alliance with American transnational economic actors against Nigerians. Aside from that, Nigeria's exportation of oil to the U.S. brought in more unearned revenue to government coffers which invariably allows government officials to stay in power without having to develop indigenous state institutions to raise taxes.

Thus, the incapacity of Nigeria was reinforced as U.S.–Nigeria's trade relations gave privileges to politicians and rulers but regards the interest of the people as incidental. With that, the government was able to continue constant alternation between gross indifference and callous brutality not only because it did not have to raise taxes, but most significantly because it did not need to levy them. It was not just that Nigeria failed to extend its rule and increase the number and variety of collective goods available through it; it was also that in reality there was no occasion to do so. This explains the undisguised contempt that Nigerian rulers have for "their" people. The state violated the socio-economic rights of the "citizens" with reckless abandon and impunity. This was done without any serious fiscal consequences. In other words, by putting more petrodollars in the hands of an already unaccountable state, U.S.–Nigeria's trade relations successfully made it even more unaccountable to society. Ultimately, the U.S. successfully takes away more resources than it paid the thieving elites in Nigeria for. This development stunts, or even obliterates, the economy of Nigeria. That explains why, the proceeds from agriculture, manufacturing, and other sectors of the economy was consistently low. Thus, the Nigerian economy encapsulated an apriori of imbalance: Nigeria's non-oil commodities supplied about seventy-five (75) percent of Gross Domestic Product; its government remained almost entirely dependent on hydrocarbon wealth, which, as mentioned earlier, accounts for roughly up to ninety percent of government revenues.

The foregoing discussion shows that the U.S. has contributed gravely to the dismal performance of socio-economic indicators in Nigeria. That explains the reason for the introduction of the African Growth and Opportunity Act (AGOA). Gone are the days when preferential trade agreements were produced to fight underdevelopment. Underdevelopments are produced in the world in order to sell preferential trade agreements. The other side of the discussion is that Nigeria's problem has been blamed on endemic corruption, political ineptitude and structure of governance. That is, those that should work for Nigeria's economic development profit immensely from its underdevelopment. Thus, achieving Nigeria's economic development in the strict sense of it will remain a tall dream for a long time to come because the leaders are *chichi-dodo* (a bird that eats maggot which grows in feaces but hates faeces).

Notwithstanding, Nigeria attempted to improve its trade relations with the U.S. through a variety of measures. The measures took on the shape of economic reforms. These reforms open up the economy to the U.S. They were largely in the form of neoliberal capitalist revolution. Such measures include: amendments to the Customs and Excise Management Act (CEMA) of 1990 to forestall trans-shipment of textiles and apparel; the establishment of national supplementation and advisory committee (2001–2003); appointment of a national adviser on AGOA (2003-2007); conduct of Market Surveys to develop product profiles from AGOA; sensitisation Workshops/Seminars to create awareness of AGOA opportunities; capacity building workshop in collaboration with the United States Trade Representative (USTR) in Nigeria; establishment of a Human Resource Centre in Lagos for skills acquisition in garment manufacturing; establishment of TIFA Council as well as Nigeria–U.S. Joint Economic Partnership Committee (JEPU); trade missions to several countries to promote active private sector participation; product adaptations programme for several agricultural products such as Shea butter, frozen shrimps, footwear, garments, dried fish, cashew nuts, etc. Additional measures were to improve the standards and quality of made in Nigeria products through the efforts of National Agency for Food and Drug Administration and Control (NAFDAC), Standard Organisation of Nigeria (SON), Federal Institute of Industrial Research, Oshodi (FIIRO).

Others were; production of an export manual by the NCS to ensure compliance and increase AGOA benefits; collaboration with the World Trade Organisation (WTO) to introduce Standards and Trade Development Facility (STDF) for some selected products such as Shea Butter and Sesame; the design of a new Trade Policy as part of efforts to clearly map out strategies to address various trade impediments in the country; the design of a new industrial master plan for Nigeria to increase the sector's contribution to Gross Domestic Product (GDP). In all these cases, Nigerians passed through fireworks and exerted mountains of social sacrifice.

In sum, the U.S.–Nigeria's trade relation did not help solve the mayor problems of the Nigerian side of the bilateral trade relations. U.S.–Nigeria's trade relations did not translate to substantial improvement in healthcare delivery, literacy level, calorie intake, life expectancy, infrastructure, respect for human and labour rights, reduction in corruption, and harmonised trade standards. No new hospitals or medical facilities were constructed. No new healthcare initiative was launched. No innovation or any reform to transform the decadent education system from its dilapidated physical and content structure towards a 21st century system of innovative learning. Death on the roads increased and persisted. Nigerians end up disappointed with unfulfilled hopes and expectations, unmet needs, increased poverty, hunger, anger, and hopelessness. U.S.–Nigeria's trade relations contributed less to nothing towards increasing the number of Nigerians who live in humane accommodation. The number of Nigerians who can afford to provide balanced meals for their households did not increase. The number of Nigerians who have access to quality health care did not increase. The type of transport system that majority of Nigerians travel by did not improve. The number of Nigerians who can send their children to the schools of their choice did not increase. The number of Nigerian public schools that have desks and chairs for pupils did not increase. Thus, U.S.–Nigeria's trade relations prior to AGOA was for waffling and shuffling without improving economic development in Nigeria. Perhaps the crisis of U.S.–Nigeria's trade relations was integral to the multidimensional crises of the Nigerian state. The leadership is rogue. Education is misaligned. The economy is junk. Society is dysfunctional. The state space is contested. Regarding democracy, the rule of law, the social distance between the rich and the poor, Nigeria is nothing to write home about. For the purpose of human security no social or economic policy for development was instituted, and so nothing seriously progressive took place in Nigeria. Rather, the nation retrogressed.

At the close of the 20th century, Nigeria's economy remained non-organised and riddled with a combination of high inflation and unemployment (stagflation). The result was increased discomfort suffered by most Nigerians, and the development index steadily remained below 0.5 indicating low human development. The precarious position of Nigeria in the global economy stems from some practices. In fact, the country had no political economy to sustain its social system. These practices conduced to inhibit and then prevent the development of a socio-economic structure. They largely help to retain the country in its peripheral space in the comity of civilised nations. For instance, throughout the period, export earnings from one single commodity – oil – consistently accounts for at least 75 percent of Nigeria's foreign exchange. Meanwhile, the oil earnings were simply shared between and among the ruling elites at the three (3) tiers of government (federal, state, and local) without any fiscal federalism to prompt economic development.

Nigeria retains its status as a middle-low-income developing country, a wretched compromise between abundant resources and extreme poverty. The nation remained an economic backwater. Socio-economic indicators did not record much positive development. Except for quantitative cosmetic changes here and there – Nigeria did not make much progress. Therefore, the questions on the lips of most people are: when would the socio-economic gains begin to trickle in for citizens of Nigeria? When is Nigeria going to have electricity without which the industries would not run, an input so vital without which the dreams of small and medium industries would remain a dream? When are Nigerians going to stop reading about megawatts without electricity? When is Nigeria going to have modern and efficient railways? Would the time ever come when a budding Nigerian entrepreneur would be able to access ready credit without the frustrating requirement of impossible collaterals?

While undeveloped human capital and poverty were overriding headache of Nigerians as the factories shut their gates and threw their employees into the labour market already bursting its seams; government luxuriated in a fictive agenda with promises in some distant moon. Nigeria's economic development suffered because the ruling elites (political, economic, and social) were money ravens and vultures of rotten carcass. The elites kept much of the proceeds of economic activities which ought to have been expended on infrastructure and other public works for themselves and became richer than the state. The elites are indeed a state within Nigeria. Only rarely did the elites work for the interest of the Nigerian state. They were indeed a heavy burden on the meagre resources of Nigeria. A great deal of Nigeria's economic activities was not embessled by the elites was squandered on white elephant projects of no socio-economic value. All these conduced to constrain the ability of Nigeria to make much progress in social and economic development. It is easy, therefore, to see why U.S.–Nigeria's trade relations prior to the creation of AGOA did not contribute to stimulating Nigeria's economic development. It is true Nigeria's economic development has not been, entirely, one long, unrelieved history of despair for Nigeria. Yes, there were a few bright spots. But they were too few to matter. There were some enterprising and bright institutions. But they were way too few to mention when one is looking at the big picture. Indeed, every so often something wonderful and encouraging and significant came out of Nigeria. But for the most part, nothing extraordinary came out of Nigeria's trade relations with the U.S. Therefore, more than any other time in Nigeria's contemporary history, the crucial national crises bedevilling the country's economic relations with the U.S. at the close of year 2000 border on socio-economic development.

3. Nigeria's Constitution and Socio-economic Development

The mechanistic theory as postulated by Thomas Hobbes (1558-1679) describes government as the agency by which men sought self-preservation from the warlike state of nature. Contemporary scholars are yet to refute the fact that the protection and preservation of life and properties were not only the motivation for the establishment of government, but the primary end of government once established. According to Omoweh (2002).

Because the state is central to the accumulative process, and will remain so for a long time to come, it needs to reorient itself across all the various groups that it encompasses. This orientation should be one that makes people, instead of wealth, the centre-piece of development; one that places a high priority on the need to develop local productive forces rather than promoting an exchange economy; and one that encourages local private capital to engage in real production, not in merchandising (Omoweh, 2002, p. 12)

It is for this reason that the 1999 Nigerian Constitution (as amended) states in section 16 that, the State shall:

Control the national economy in such a manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice, equality of status and opportunity; without prejudice to its right to generate or participate in areas of the economy, other than the major sectors of the economy, manage and operate the major sectors of the economy; the State shall direct its policy towards ensuring: the promotion of a planned and balanced economic development and that the material resources of the community are harnessed and distributed as best as possible to serve the common good.

Economic, social and environmental developments are embedded in many parts of the Constitution. As the policy and legal basis of socio-economic, the Constitution, in particular, states that the Federal Republic of Nigeria is “a State based on the principles of democracy and social justice”. The Constitution prescribes a capitalist economy for Nigeria. Chapter II of the Constitution, fundamental objectives and directive principle of state policy, provides in section 16 (d) that “without prejudice to the right of any person to participate in areas of the economy within the major sector of the economy, protect the right of every citizen to engage in any economic activities outside the major sectors of the economy”. Therefore, the Constitution promises to all Nigerian citizens’ justice encompassing the social, economic, political, equality of status, opportunity and the dignity of the individual.

According to Article 1 (sub-section 2) of the Constitution, the State shall (a) harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self-reliant economy; (b) control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity; (c) without prejudice to its right to operate or participate in areas of the economy, other than the major sectors of the economy, manage and operate the major sectors of the economy; and (d) without prejudice to the right of any person to participate in areas of the economy within the major sector of the economy, protect the right of every citizen to engage in any economic activities outside the major sectors of the economy. To do this effectively, the State shall direct its policy towards ensuring: (a) the promotion of a planned and balanced economic development; (b) that the material resources of the nation are harnessed and distributed as best as possible to serve the common good; (c) that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or of a group; and (d) that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions, and unemployment, sick benefits and welfare of the disabled are provided for all citizens.

Article 17 (sub-section 2) in particular emphasises a "State social order is founded on ideals of Freedom, Equality and Justice' in which (a) every citizen shall have equality of rights, obligations and opportunities before the law; (b) the sanctity of the human person shall be recognized and human dignity shall be maintained and enhanced; (c) governmental actions shall be humane; (d) exploitation of human or natural resources in any form whatsoever for reasons, other than the good of the community, shall be prevented; and (e) the independence, impartiality and integrity of courts of law, and easy accessibility thereto shall be secured and maintained.

4. Oil: The Resource Curse of Nigeria

Since the discovery of oil Nigeria has become a chronic exporter of energy products, the lynchpin of global capitalism and military power. Oil was thus responsible for a large increase in Nigeria's income. This reasons for this has to do with the increase in crude oil export. There was also skyrocketing of oil price at the global market. At the same time global oil demand peak and talk of a post petroleum economy begun in earnest. But, how did oil become a curse for Nigeria?

Oil windfalls hurt other sectors of the economy by pushing up the real exchange rate of the currency and thereby making most other exports noncompetitive. Called the "Dutch Disease", it is more pronounced when the boom that started the problem reverses itself. In Nigeria, the lull in the oil sector which led to a fall in revenue between 1980 and 1986 and between 2012 and 2015 left the economy bare, with an unsustainable import and capital intensive production structure. This led many farm workers to migrate to urban sector in search of higher nominal (temporary) wages. The long-term price deflation and price volatility of the international primary commodities market are disruptive of economic development. This has been prevalent since 1970 when oil prices were twice as variable as those of other commodities. This volatility puts negative influence on investment, income distribution and poverty alleviation. The enclave nature of the oil industry together with its capital intensity fosters weak linkages to the broader economy and does not create much employment. As the world's most capital intensive industry fewer jobs are created per unit of capital invested, and the skills required by these jobs usually do not fit the profile of the unemployed.

Countries that are dependent on oil exports are usually susceptible to policy failure. This is due to the weakness of pre-existing institutions where oil export is found, their frequently authoritarian character and the transformative power of the export sector. The education sector also suffers neglect in countries that are dependent an oil resources. The nonchalant attitude towards the development of their human resources due to inadequate attention and low expenditure, affects future prospects for growth. Consequently, the educational system in Nigeria has experienced deep crises. Most countries have accelerated sustainable socio-economic transformation largely with the use of her vast human and natural resources to alleviate poverty and to harness the potentials of the citizens for self-actualisation and to ensure promotion and protection of their individual welfare. It is obvious that the readily available mechanism for this mission and fighting poverty is education. African Peer Review Mechanism reports that education received low priority in the 1980s and a fall in budgetary allocation (Omotola, 2008, 9). This has led to the present state characterised by: Decayed and crumbling infrastructure, an inappropriate educational curricullum at all levels, funding constraints, gender gaps, poorly trained teachers and low staff motivation (APRM, 2008, p. 12ff).

5. Oil Revenue and Underdevelopment in Nigeria

The socio-economic history of the world demonstrates that there is nothing innate or culturally specific about 'development,' or 'underdevelopment' for that matter. Instead elite agency can work either to salvage a thoroughly hopeless situation or to snatch defeat from the jaws of possible victory (Cartwright, 1983, p. 8; Southall/Melber, 2006, p. 67; Kirk-Green, 1991, p. 10). In the meantime Nigeria's reliance on natural resources destabilises conventional understanding of the relationship between infrastructure and revenue, and the role of revenue in the socio-economic development of the state and the improvement of its infrastructure. Levi (1988) summarises the traditionally argument on the rule of revenue thus:

One major limitation on rule is revenue of the government. The greater the revenue of the state, the more possible it is to extend rule. Revenue enhances the ability of rulers to elaborate the institution of the state, to bring more people within the domain of those institutions, and to increase the number and variety of the collective goods provided through the state (Levi, 1988, p. 23).

The evidence from Nigeria negates this proposition. It is just that greater revenue has not automatically led to the state extending its rule. In Nigeria, the domain of the state has actually shrunk, which makes it doubly ironic that many state bureaucracies have actually "swollen" in inverse proportion to the diminishing of actual state capacity (Diamond, 1987, p. 17). Indeed, the (physical and symbolic) reach of the Nigerian state over society has drastically contracted even as the state has accumulated such income as to allow it to project and extend itself.

The collective goods which Levi talked about are things that people cannot provide individually. The list of collective goods and services include: security, public roads, schools, hospitals and control on epidemic diseases; a functioning and effective judicial and police/penal system; efforts to encourage people to invest in productive assets and enterprise; measures to combat domestic violence, cash transfer programmes for the poor, limits on emissions etc. and all those many other ways in which "public authorities" (people who have authority to act on behalf of collectives) try to make the society more livable and on the long run, generally more developed. Rather than bring more people within the domain of the state institutions, Nigeria has actually managed to alienate more people, and the 'variety of the collective goods provided through the state' has certainly not increased. Indeed, more often than not, it is not only welfare schemes that are lacking but any visible sign of government presence besides the coercive personnel.

Nigerian leaders are hardly bothered by the socio-economic stagnation that their irresponsibility inevitably produces. By contrast, socio-economic hardship actually makes their regulating of political society easier. With their hands firmly on the spigot (Cooper's metaphor couldn't be more apt), the rulers basically determine when to turn on the faucet of socio-economic opportunity, and for whom. And since this cannot possibly be done according to any transparent set of rules, a situation is created in which 'political means of access to resources' are more important than merited access, and whatever surplus that actually accrues from economic activity is directed at creating or enforcing social relations "rather than to produce or acquire the means of production per se" (Berry, 1984, p. 5).

6. Socio-economic Development in Nigeria

According to the World Bank (2005) socio-economic indicators are indicators used in determining the extent of socio-economic development and the good quality of life of a people in a given society or country. Some of the key socio-economic indicators are: rate of poverty; life expectancy at birth; adult illiteracy; access to health care services; access safe water; access to sanitation; infant mortality rate; maternal rate; prevalence of malnutrition, population estimates; Gross National Product (GNP) per capital; aggregate net resources flow; net better terms of trade; consumer price inflation; and total external public debt.

(i) Rate of poverty: Apart from the use of GNP per capital income in determining the rate of poverty in a particular country, the percentage of people living on less than $1 (US dollar) a day (PPP) at 1995 international (purchasing power parity) prices is also used. That is a person is said to be poor if he or she lives in a household whose total income or consumption per capital is less than $1 (US dollar) i.e. he/she lives below poverty line.

(ii) Life Expectancy at Birth: This is the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to be the same throughout his life.

(iii) Adult Illiteracy: This is the proportion of adults age 15 and above who cannot read and write a short simple statement on their everyday life.

(iv) Access to Health Care Services: This is measured by the share of the population for whom treatment of common diseases and injuries including essential drugs on the national list is available within one-hour work or travel.

(v) Access to Safe Water: This shows the percentage of the population with reasonable access to adequate amounts of safe water (including treated surface waters or untreated but uncontaminated water from sources such as springs, sanitary wells, protected boreholes and taps). In urban and rural areas a source must not be more than 200 meters away and members of the household do not have to spend a disproportionate part of the day fetching water.

(vi) Infant Mortality Rate: This is the number of deaths of infant under 1 year of age per thousand live births in a given year.

(vii) Maternal Mortality Rate: This is the number female deaths that occur in pregnancy and immediately after childbirth per 100,000 live births.

(viii) Gross National Product (GNP) Per Capital: It is the ratio of the country's total population to the national income, converted to US dollar using the World Bank's Atlas methods.

(ix) Average Annual Inflation: This is measured by the rate of change in the GDP implicit deflator. The implicit deflator is calculated by dividing annual GDP at constant prices both in national currency. The GDP implicit deflator in the broadest-based measure of inflation, showing price movement for all goods and services produced in the economy.

(x) Net Present Value of External Debt: This is the value of short-term debt plus the discounted sum of existing loans at current prices.

Thus socio-economic development is determined by the availability of social infrastructural services (such as portable water, sanitation services, health care services, etc.) and the peoples' accessibility to these services and the growth of a nation's GDP. While World Bank (2005) expressed good quality of life while Ijaiya (2012, 12ff.) includes (i) material well-being which is often expressed as having enough (material well-being comprises of bodily well-being, which include being strong, well and looking good); (ii) social well-being, which include caring for and settling children; (iii) having self-respect, peace and good relations in the family and community; (iv) having security, which include civil peace, a safe and secured environment, personal physical security and confidence in the future; and (v) having freedom of choice and action, which include being able to help other people in the community.

Shortly after independence, Nigeria enjoyed economic boom that was however short-lived. In the 60s and 70s, Nigeria's economy was very stable and was hinged on agriculture. Nigeria was the world's largest producer of groundnut, rubber, palm oil and kernel, soya beans, beni-seed and also a major producer of cotton, 2^{nd} world producer of cocoa. Solid minerals such as coal, tin and columbite, were mined in economic quantities and Nigeria was known to be a major world player in the production of these minerals. The buoyancy of the economy was further boosted with the discovery of oil (black gold) and gradually, emphasis shifted from agriculture to petroleum - the mainstay of the Nigerian economy. Nigeria was well served by road, rail, sea and air transport. During this period, there were over 95,000km of tarred roads; over 3,200 km of one-metre gauge railway and Nigeria had just two international airports at Kano and Lagos. Both the northern and southern parts of the country attracted significant investments in infrastructural and human capital development and then Nigeria Airways was the pride of West-Africa.

Since then the quest for socio-economic effervescence in Nigeria remained a herculean peregrination, pipe dream and a mirage. Within this period even the modest goal of stopping the traumatic march of poverty eluded Nigeria. By the threshold of the twenty-first century the country was confronted with entrenched socio-economic maladies evident in high level of poverty, inflation, foreign debt overhang, closure of industries, epileptic power supply, budget deficit, absolute lack of good governance at the grass root, environmental degradation and high unemployment. The indices of the failure of the Nigerian state were apparent in the pervasive cases of hunger, inflation, budget deficits, debt overhang, street begging, prostitution, frauds, high crime rates in major cities, collapse of manufacturing industries, corruption in public service and stagnation in entrepreneurial development. Scholars cannot but wonder at the paradoxes of gross socio-economic inadequacies bedevilling Nigeria and the abundant resources the country is blessed with.

7. Poverty in Nigeria

Statistical data from the Federal Office of Statistics (FOS) indicate that by 1960 poverty covered about 15% of the population of Nigeria and by 1980, it grew to 28.1%. By 1985, the extent of poverty was about 46.3% and then dropped to 42.7% by 1992. By 2017, poverty incidence in Nigeria was estimated to be about 65.6% in a total population of about 160.3 million. According to the United Nations Reports (2017), Nigeria's Human Poverty Index (HPI) was only 41.6%, which places the country among the 25 poorest nations in the world (FOS 2018). Additional data from the FOS (2018) further indicate that life expectancy for Nigeria was 51 years, literacy rate was 56% and 70% of the rural population do not have access to potable water, healthcare facilities and electricity.

Based on the data from the FOS, the State-by-State poverty incidence in Nigeria between 2008 and 2017 clearly indicate high and varying poverty levels among the states of the Federation. The data further shows that poverty in Nigeria increased sharply both between 2015 and 2017. Furthermore, by 2007, only 10 States have more than half of their population in poverty, but by 2017, all States except Bayelsa have more than half of their population in poverty. As at 2017, the incidence of poverty rose to 70 percent at the national level. The increasing incidence of poverty, both within and among locations, was in spite of various resources and efforts, exerted on poverty alleviation related programmes and schemes in the country, thus suggesting that the programmes and schemes were ineffective and ineffectual. On zonal basis, the actual incident of poverty in the South-South is about 35.06%, South-East 26.74%, South-West 43.01% while North-Central, North-East and North-West is 66.97%, 72.16% and 71.17% respectively (CBN, 2017, 6ff).

The above analysis reveals the status of poverty in the six geopolitical zones of Nigeria. It shows that half of the people in the South of the geo-political zones are relatively better than their Northern counterpart. Ironically, political leaders from the North have been in power more than their Southern counterpart, but with little impact on the wellbeing of their people. The emergence of militant groups and youth restiveness in some parts of the country are part of the products of years of neglect of the people by their governments. In the 2008 World Bank Atlas, Nigeria ranked as the 12th poorest country in the world with a GNP per capita of #300.00 as at 2006. Using the World Bank Atlas method, it therefore means that Nigeria with a per capita income of #300.00 falls within the category of absolute poverty. The foregoing conclusion on poverty situation in Nigeria might not be out of place as the 2000 World Bank World Development Report had stated that any person whose income fell below three hundred and seventy dollars ($370) is poor. The World Bank Report had earlier on drawn up a cut-off living standard below which a person is classified poor.

The FOS in its publication: Socio- Economic Profile of Nigeria 1999 was definite in categorizing the causes of poverty in Nigeria into problems of access and endowments such as: Inadequate access to employment opportunities for the poor: This is often caused by the stunted growth of economic activities or growth with labour saving device; lack or inadequate access to assets such as land capital by the poor: this is often attributed to the absence of land reform and minimal opportunities for small-credit; inadequate access to the means of fostering rural development in poor regions: the preference for high potential areas and the strong urban bias in the design of development programmes is often assumed to be its primary cause; inadequate access to markets for the goods and services that the poor can sell: this is caused by their remote geographic location or other factors; inadequate access to education, health, sanitation and water services. The multidimensional nature of poverty is obvious in the above causes.

Thus, in terms of potential and possibilities, Nigeria is the most disappointing country of the 20th century. The agenda to renew the state by bringing back the social contract is annulled by the catastrophic recession of governance, the tyranny of unproductive institutions presided over by full time crooks as well as the restructuring of top heavy and over-centralised federation. Nigeria's economic and political elite get what they can get, can what they get, and seat on the can. The citizens are so debased and dehumanised that many have no inkling of how bad things are. By the year 2015 Nigeria has become a country where poverty, in all its dimensions and ramifications, is the new normal. Surprisingly the development challenges are well-known and documented. It is indeed remarkable to note the consistency at which the major economic development issues often feature at different national and international fora.

The most unfortunate effect of the failure of socio-economic development on Nigeria is not just its estrangement from the rest of society, but more importantly the almost complete erosion of its credibility as the vehicle of change and prosperity. Evidence abounds of diminishing control, repression and extraction, resilience of traditional authority patterns, corrupt and inefficient administration, enormous waste, poor performance, debt and infrastructure crises, curtailment of capacities, endemic political instability, and societal resistance and withdrawal (Callaghy 1988, p. 3). The Nigerian state is become too remote to manage the problems of daily life and too constrained to confront the global problems that affect it. Whether it is a question of the traditional functions of sovereignty, like defense or justice, or of economic competence, the nation appears increasingly like a straitjacket, poorly adapted to the growing integration of the world.

8. Recommendations and Concluding Remarks

Fatton has long informed us that;

The African state, however molded it may be by extra-continental agents, is above all a domestic structure of repression through which indigenous ruling classes organise their dominance. Thus, while dependence is real, extensive and constraining, it is neither absolute nor unilateral. The ruling classes of Africa have demonstrated Machiavellian imagination and statecraft in maneuvering the terms and conditions of dependence to their own corporate advantage (Fatton, 1989, p. 183).

Consequently, Nigeria is at a crossroads because it neither organises a major development effort nor serves to mobilise the people's energies in any significant international cause; nor does it function to render a "nation" of the great diversity of peoples living within (its) borders (Clark, 1998, 109ff).

Therefore, to ensure effective socio-economic development in Nigeria the nation should develop; 1. a political system that secures effective citizen participation, 2. an economic system that is able to generate surpluses and technical knowledge on a self-reliant basis, 3. A social system that provides for solutions for tensions arising from disharmonious development, 4. a production system that respects the obligation to preserve the ecological base for development, 5. a technological system that can search continuously for new solutions, 6. an international system that fosters sustainable patterns of trade and finance, and an administrative system that is flexible and has the capacity for self-correction.

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Panel Cointegration and Granger Causality Approach to Foreign Direct Investment and Economic Growth in BRICS Countries.

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Abstract: The aim of this study is to investigate the relationship between foreign direct investment and economic growth in BRICS countries. *Past empirical studies have failed to examine the long run relationship between FDI, growth rate and economic growth in these countries, which has created a gap in the literature.* Data was collected from the United Nations Conference on Trade and Development and World Bank Indicator from 1990– 2017 and the *Johansen Fisher Panel Cointegration and Pairwise Dumitrescu Hurlin Panel Causality Tests* were employed to estimate the model. In the model, RGDP is used to proxy economic growth meanwhile Foreign Direct Investment and the Growth Rate as proxies for other macroeconomic variables. Consequently, the empirical results show that foreign direct investment, growth rate and economic growth *have a long run equilibrium relationship. Also, there is an existence of unidirectional causality which runs from FDI to economic growth*. Based on these findings, this paper recommends that *the policy makers in BRICS countries should embark on more foreign investment oriented policies that would boost further attraction of FDI inflows into their economies. This will in the long run ensure the sustainable growth rate of BRICS economies*.

Keywords; FDI; GDP; Growth Rate; Long Run Relationship

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1. Introduction

In the last three decades, the world has undergone various economic, political and social metamorphosis. Various countries have come together to form alliance and coalition in order to pursue economic prosperity, political affiliation and social interaction. This scenario has given birth to several economic blocks like the European Union, ASEAN, ECOWAS, AU, etc.

Meanwhile, the advent of sporadic inflows of FDI into some distinctive emerging economies in the last two decades made the 'Goldman Sachs Investment Bank' to carve out Brazil, Russia, India, China as BRIC Economic Block (Wilson & Purushothaman, 2003). The outstanding performance of South African Economy in the African continent orchestrated the emergency of South Africa in 2010 to become part of the newly carved economic block called BRICS economies.

However, several factors have been identified in the literature as the catalyst that facilitates continuous FDI inflows in these economies. Apart from South Africa, the BRICS countries possess huge population that creates competitive domestic market. It is paramount to state here that a well-developed financial institution, low labour cost, efficient energy and transport facilities, effective communication and network, and uncompromising legal system alongside massive infrastructural development and efficient distribution of goods and services have made BRICS countries to be the prominent FDI inflows destination in the world. Other important variable that worth mentioning is the rate at which these economies are growing.

Table 1. Annual GDP growth rate in emerging economies in the last decade

Year/Country	China	India	Brazil	South Africa	Russia
2007	14.2	9.8	6.1	5.4	8.2
2008	9.7	3.7	5.1	3.2	5.2
2009	9.4	8.5	-0.1	-1.5	-7.8
2010	10.6	10.3	7.5	3.0	4.5
2011	9.5	6.6	4.0	3.3	5.3
2012	7.9	5.5	1.9	2.2	3.7
2013	7.8	6.4	3.0	2.5	1.8
2014	7.3	7.4	0.5	1.8	0.7
2015	6.9	8.2	-3.5	1.3	-2.8
2016	6.7	7.1	-3.5	0.6	-0.2
2017	6.3	6.6	1.0	1.3	1.5
Average	8.8	7.3	2.0	2.1	1.8

Source: World Development Indicator, 2018

The average growth rate of China and India in the last ten years has been reported to surpass those of developed countries. Among these countries, China has stood out in terms of growth rate of its GDP and FDI inflows. Currently, China is the second largest economy and second highest recipient of FDI inflows in the world simultaneously. Prior 1985, Brazilian economy happened to be the major player in FDI inflows among BRICS economies. In the same vein, India, Russia and South Africa have been attracting small but constant quantum of world percentage of FDI inflows since early 1990. In 2000s, Chinese low labour cost and large domestic market have motivated a large number of Multinational enterprises to relocate their operational activities to China. The unconditional liberalization of Brazilian, Russian and South African economies have made these countries to attract cross border capital in the recent time.

Consequently, the indispensable role in which FDI inflows is playing in the BRICS countries has drawn the attention of scholars and policy makers in different quarters to embark on various empirical investigations about the linkage between FDI inflows and economic growth in these countries. Despite the fact that there are several empirical studies in the past about FDI inflows in BRICS countries. Bulk of these studies focus on the determinants of FDI inflows into these countries. See Nonnenberg and Mendonca (2004), Sahoo (2006), Jadhav (2012), Vijayakumar et al. (2010), Jadhav and Katti (2012). These studies have failed to examine the long run relationship between FDI inflows and economic growth in BRICS countries. Therefore, this study will move the frontiers of knowledge in that regard.

2. Literature Review

This section provides the account of recent studies on FDI and economic growth in developed, emerging and developing countries. Hudea and Stancu (2012) utilize a panel data analysis to examine the link between foreign direct investments, technology transfer and economic growth in seven East European countries between 1993 and 2009. The results that emerged from the study posited that FDI has a positive impact on economic growth in both short run and long run in the countries under investigation. In the same vein, Acaravci and Ozturk (2012) estimate the nexus between FDI, export and economic growth in new European Union countries using ARDL bounds testing approach. It was discovered that a long-run relationship exists among the variables of interest. Also both long-run and short-run causal relationship exists between export, FDI and economic growth in four out of the ten countries the study considered.

Tiwari (2011) investigates the effectiveness of foreign aid, foreign direct investment, and economic freedom in 28 Asian economies. The author concludes that a rise in the financial freedom, fiscal freedom and domestic capital stock are the significant factors that directly affect growth of the economy. Meanwhile, freedom from corruption, FDI inflows and foreign aid are identified as the significant factors that inversely affect economic growth.

Similarly, Azman-Saini, Baharumshah, and Law (2010) evaluates the systemic nexus between foreign direct investment, economic freedom and economic growth. The findings from the study show that foreign direct investment has indirect positive effect on economic growth, but the impact of FDI is contingent on the level of economic freedom in the host nations. This implies that the countries with higher level of economic freedom get higher benefits from the inflows of cross border capital.

Consequently, Broadman and Recanatini (2001), Pradhan (2009) and Zafar (2013) independently examine the impact of market size, education level, local investment, cost of labour, transportation and infrastructure variables on the regional and total FDI in Russia, BRICS countries and India, Pakistan and Bangladesh. All the studies submit that a strong and direct relationship exists between FDI inflows and economic growth.

In the same vein, Janicki and Wunnava (2004) discovers that economic growth, political risk, trade openness and labor cost are the major variables that caused FDI inflows to Central and Eastern European nations.

While investigating the determinants of FDI inflows in both developing and developed countries, Kyrkilis and Pantelidis (2003) discover that effective exchange rate, real GNP, and human capital were the key determinants of FDI flows in those countries. However, Mahmood et al., (2010) examines the relationship between economic freedom and economic growth in SAARC Member Countries. The authors discover that government size has an inverse correlation with growth, but financial, trade, investment, business, property rights, and freedom from corruption show a positive relationship with growth. Similarly, Pearson et. al. (2012) critically examine the link between economic freedom, state growth and FDI of fifty states in the United States of America with the aid of panel data analysis. It was discovered by the researchers that both economic freedom and growth rate of the each state have positive and significant impact on the inflow of FDI. Also, Vijayakumar et al. (2010), adopts panel analysis to examine the factors propelling FDI inflows to BRICS countries. The researchers find out among others that market size, labor cost, infrastructure, and gross capital formation are the significant positive variables that are causing FDI inflows in BRICS countries, while trade openness and inflation are identified to be insignificant.

While investigating institutional and political determinants of foreign direct investment in BRICS countries, Jadhav (2012) concludes that openness to trade, market size, and rule of law play strategic roles in attracting FDI to BRICS economies, but the availability of natural resouces show an inverse effect. This implies that the flows of FDI to BRICS countries is largely market-oriented. Furthermore, Jadhav and Katti (2012), assert that efficient governance and quality of regulatory show a positive impact on FDI inflow in BRICS economies, but the reverse is the case for political instability, voice, accountability, and control of corruption.

While conducting a study about the factors that determine FDI inflows in United States of America from period of 1977 to 1982, Loree and Guisinger (1995) submit that the policy of host economy and infrastructure are significant factors that determine the FDI inflows in the US economy. However, Sahoo (2006) employs a panel co-integration test to confirm the market size, the growth of labour force, infrastructure index, and openness of economies as the key determinants of FDI inflows in South Asian countries. Also, Sing and Jun (1995) submit that there exists a direct relationship between taxes payment on international transactions and flows of FDI to developing nations with aid of a qualitative economic variables. Similarly, Nunes et al (2006) conclude that the degree of openness of the economy, infrastructural facilities, macroeconomic stability, size of the economy, wages, human capital and availability of natural resources are the key determinants of FDI flows in Latin America between 1991 to 1998.

In the same vein, Duran (1999) combines Panel data and time series data to estimate the factors that drive FDI inflows in Latin America between 1970 and 1995. The study finds out that the major determinants of FDI inflows in the economy are: trade openness, domestic savings, the size of economy, macroeconomic stability, growth and solvency of country.

Furthermore, Lucas (1993) uses a model of traditional derived-factor of a multiple product monopolist to argue that the determining factors of FDI inflows in some selected East and South Asian countries during the period of 1960 to1987 show higher degree of responsiveness to aggregate demand of exports than domestic exports, and similarly higher degree of responsiveness to interest rate than wages.

Conversely, Aguilar and Vallejo (2002) conduct a study with the aid of gravity model in order to establish the driving force behind the bilateral FDI as a result of the regional integration agreement in Latin America. The finding from the study establishes that the principal determinants of FDI inflows in this region are development of domestic and foreign economies, common language existence and the size of the economies.

While employing fixed effect panel model, Asiedu (2004), establishes that infrastructural development, natural resources, human capital, market size, host countries' investment policies, reliability of legal system and stability of political climate promote FDI flows in Africa, but reverse is the case for corruption, political instability.

In addition, Asiedu and Lien (2011) use GMM estimator; and regression technique to estimate the nexus between democracy and FDI, and if availability of natural resources has an impact on relationship of the host countries. The finding of the paper concludes among others that democracy promotes FDI inflows if the percentage of the country`s oil and minerals in the total exports is less than its critical value. Chakraborty and Basu (2002) adopt a structural cointegration model alongside with vector error correction mechanism to investigate the relationship between FDI and Growth in India. The authors submit that a unidirectional causality runs from GDP to FDI

In summary, from the empirical literature reviewed, it is clear that there was no consensus regarding the way FDI inflows affect economic growth in all countries of the world. Hence, the relevance of this study.

3. Data and Methodology

This study utilizes secondary data of BRICS countries from 1990 to 2017. Data on FDI were extracted from UNCTAD database published by World Bank. Meanwhile data on GDP and growth were sourced from World Bank Indicator. E-Views software was employed for the running of the data.

3.1. Model Specification

The model for this study can be specified in the general form as follows:

In order to examine the long run equilibrium relationship among the variables, the study follows Johansen and Juselius (1990) whose Trace statistics and Maximum eigenvalue statistics can be estimated from the eigenvalues of the coefficient matrix. The null hypothesis of the Trace statistics is that there are at most r cointegrating vectors while the alternative is that there are more than r cointegrating vectors, and the maximum eigenvalue statistics test the null that there are r coingegrating vectors against the alternative that there are r +1 cointegration relationship.

However, in order to examine the causal relationship between the variables, this paper adopts a recently-developed panel causality test; called Dumitrescu and Hurlin (DH) causality test. This test was pioneered by Dumitrescu and Hurlin (2012). The linear panel causality equation can be modified thus:

$$GDP_{it} = \alpha_0 + \sum_{i=0}^{p} \alpha_1 FDI_{it-1} + \sum_{i=0}^{p} \alpha_2 GRT_{it-1} + \sum_{i=0}^{p} \alpha_3 GDP_{it-1} + \varepsilon_{1it} \text{-- } 1$$

$$FDI_{it} = \beta_0 + \sum_{i=0}^{p} \beta_1 FDI_{it-1} + \sum_{i=0}^{p} \beta_2 GRT_{it-1} + \sum_{i=0}^{p} \beta_3 GDP_{it-1} + \varepsilon_{2it} \text{--- } 2$$

$$GRT_{it} = \gamma_0 + \sum_{i=0}^{p} \gamma_1 FDI_{it-1} + \sum_{i=0}^{p} \gamma_2 GRT_{it-1} + \sum_{i=0}^{p} \gamma_3 GDP_{it-1} + \varepsilon_{3it} \text{---- } 3$$

Where GDP , GRTt and FDI_t are the stationary time series for GDP, GRT and FDI concurrently. ε_{1t}, ε_{2t} and ε_{1t} denote error terms. p is the lag length. While i =1….5 and t = 1990……..2107.

Explicitly, GDP is used to proxy economic growth, FDI connotes foreign direct investment and GRT represents the growth rate of the economy. 5 BRICS countries namely Brazil, Russia, India China and South Africa were sampled in the study between 1990 and 2017.

4. Results and Discussion

Table 2. Panel Unit Root Test

Variables	Panel ADF Test			Panel PP Test		
	@Level	@First Difference	Remarks	@Level	@First Difference	Remarks
LRGDP	2.4011	0.80671	I (1)	4.9006	31.4736	I (1)
GRT Rate	26.8089	-------	I (0)	32.9402	-----	I (0)
LFDI	1.73270	63.2555	I (1)	1.34597	113.525	I (1)

Source: Authour`s Computatio, 2018

The table 2 shows the results of panel unit root test of GDP, growth rate and FDI. Both GDP and FDI possessed unit roots using both Panel Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. The variables are said to be I (1) variables, but became stationary after first differencing. Meanwhile, growth rate did not possess a unit root. In order to examine the long run equilibrium relationship between these variables, cointegration test was performed.

Table 3. Johansen Fisher Panel Cointegration Test

Unrestricted Cointegration Rank Test (Trace and Maximum Eigenvalue)

Hypothesized No. of CE(s)	Fisher Stat.* (from trace test)	Prob.	Fisher Stat.* (from max-eigen test)	Prob.
None	150.4	0.0000	92.10	0.0000
At most 1	21.72	0.0166	25.19	0.0050
At most 2	2.853	0.9847	2.853	0.9847

* Probabilities are computed using asymptotic Chi-square distribution.

Individual cross section results

Cross Section	Trace Test Statistics	Prob.**	Max-Eign Test Statistics	Prob.**
Hypothesis of no cointegration				
1	116.5576	0.0000	103.5352	0.0001
2	116.5576	0.0000	103.5352	0.0001
3	116.5576	0.0000	103.5352	0.0001
4	116.5576	0.0000	103.5352	0.0001
5	116.5576	0.0000	103.5352	0.0001
Hypothesis of at most 1 cointegration relationship				
1	13.0224	0.1140	12.9223	0.0806
2	13.0224	0.1140	12.9223	0.0806
3	13.0224	0.1140	12.9223	0.0806
4	13.0224	0.1140	12.9223	0.0806
5	13.0224	0.1140	12.9223	0.0806
Hypothesis of at most 2 cointegration relationship				
1	0.1001	0.7518	0.1001	0.7518
2	0.1001	0.7518	0.1001	0.7518
3	0.1001	0.7518	0.1001	0.7518
4	0.1001	0.7518	0.1001	0.7518
5	0.1001	0.7518	0.1001	0.7518

**MacKinnon-Haug-Michelis (1999) p-values

Source: Authors` Computation, (2018)

The panel multivariate cointegration mechanism put forward by Johansen Fisher (1990) was adopted to examine the long run equilibrium relationships between the variables of FDI, GDP and growth rate, since FDI and GDP variables in the systems were I(1), and it is possible they have some kind of a long run equilibrium relationship. The panel test results reported in tables 3 indicates the existence of two cointegrating vectors in the systems. From the trace statistics, it could be established from the results that there are two cointegrating vectors in the model (at a lag interval of 1 to 1. In the same vein, the maximal eigenvalue statistics in the above table shows the existence of two cointegrating vectors. Consequently, this proves that the variables in the system have a long run equilibrium relationship with one another, and perhaps adjust to short run disequilibrium through the same channel. This study confirmed the submission of Gaurav (2015), Hudea and Stancu (2012) despite the fact that different methodology was adopted.

Table 4. Pairwise Dumitrescu Hurlin Panel Causality Tests

Sample: 1990 2017
Lags: 2

Null Hypothesis:	W-Stat.	Zbar-Stat.	Prob.
DFDI does not homogeneously cause DRGDP	5.42077	2.92174	0.0035
DRGDP does not homogeneously cause DFDI	1.88679	-0.29464	0.7683
GRT_RATE does not homogeneously cause DRGDP	8.57347	5.79111	7.0009
DRGDP does not homogeneously cause GRT_RATE	7.11276	4.46168	8.0006
GRT_RATE does not homogeneously cause DFDI	36.4965	31.2048	0.0000
DFDI does not homogeneously cause GRT_RATE	2.87940	0.60877	0.5427

Source: Authors` computation (2018)

The panel Granger causality test was carried out with a view to determining the direction of causality among FDI, growth rate and economic growth in BRICS countries, the above table shows that causality runs from FDI to economic growth with Zbar-Stat value of 2.92174 and p-value of 0.0035, thus the null hypothesis of no causality was rejected, while economic growth does not granger cause FDI, This implies there is an existence of unidirectional causality from FDI inflows to economic growth. This study upheld the propositions of Harrod-Domar and Solow growth models, which both submitted that investment is necessary condition for economic growth in any economy. However, this finding contradicts the submission of Chakraborty and Basu (2002) who posited that a unidirectional causality runs from GDP to FDI in India and Hudea and Stancu (2012) who discovered a bi-directional causality between GDP and FDI in Eastern European countries. Similarly, there is one way causality that runs from growth rate of economy to FDI inflows. However, the results from the above table shows that there is no field back relationship between growth rate and economic growth.

5. Conclusion and Recommendation

This paper examined the long run equilibrium relationship between FDI, growth rate and economic growth in BRICS countries over the period of 1990 to 2017 with the adoption of Johansen Fisher Panel Cointegration and Pairwise Dumitrescu Hurlin Panel Causality Tests. The study herby establishes among others, that long run equilibrium relationship exists among FDI, growth rate of economy and economic growth in BRICS countries within the studied period. This implies that these three important economic variables have the high propensity to converge in the nearest future. FDI inflows have catalyzed the expansion of productive sectors of the BRICS economies in particular and economic growth in general over time. Similarly, the growth rate of the BRICS economies is the principal factor that is causing the sporadic inflows of FDI in the past two decades As FDI is growing in these countries, the rate of growth expands and consequently leads to overall economic growth in the long run. In addition, there is an existence of unidirectional causality running from FDI to economic growth, and there is one way feedback effect from growth rate of economy to FDI inflows. The implication of this result is that when economic growth is the target of policy makers, manipulating the rate of economic growth will induce an increase in FDI inflows, and FDI will propel economic growth in the long run.

However, it is important to draw a vital policy recommendations for policy makers, investors, financial institutions regulators and future researchers from the findings that emerged in this study.

The paper suggests that policy makers in BRICS countries should come up with adequate strategic policy that will ensure a sustainable growth rate of the economies. Also, conducive business environment that would boost further attraction of FDI inflows into all sectors of their economies should be embarked upon: Some of the policies suggested include:

1. The government should possess a political goodwill to sustain the growth rate of the economy

2. The policies that will create a conducive environment for foreign investment to thrive should be vigorously put in place. This will encourage foreign investors to invest in these countries.

3. Foreign policies that will create a platform for these countries to have a diplomatic relations with the rest of the world should be implemented.

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Overview of the Financial Reporting and Auditing Regime in South Eastern European Countries

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Abstract: Since companies nowdays are going more and more cross border and becoming multinational, the adoption and implementation of International Financial Reporting (IFRS) and Auditing Standards (ISA) are as a result of globalization that has become a very important part of our world. In this regard lately, the accounting and auditing profession has undergone through major changes and developments. As part of these transformations were no different developing countries, since they are part of globalization as well. In this study, we present an outline of the financial reporting and auditing regime of countries in South Eastern Europe where as well we outline challenges faced by developing countries in adopting and implementing IFRSs and IASs. South Eastern European Countries such as Ex Yugoslavia countries face similar challenges and opportunities as part of their route to integrate and harmonize their financial and economic system with those of European Union, as a result of the same and unique characteristics of old and ex Yugoslavian system.Thus this study can help readers to have an overview of regulatory framework in these countries and to understand the similar and different challenges and opportunities, as well as it can serve as a base for a future research of the accounting and auditing professional developments in these countries. In this study, we present conclusions on why developing countries such as those that are part of this study choose to adopt international standards, and as well conclusions are drawn about the future of these standards for developing countries. Ongoing with the economic transition reforms undertaken within this region, financial reporting and auditing systems have been altered to converge with International Financial Reporting Standards, International Standards on Auditing, and towards a new emphasis on quality assurance for audit and external oversight mechanisms, to support the convergence process.

Keywords: International Financial Reporting Standards (IFRS); International Auditing Standards (IAS); Generaly Accepting Accounting Principles (GAAP); Financial reporting and auditing; European Union Directives, South Eastern European Countries

JEL Classification: M41; M42

1. Introduction

The internationalization of accounting and auditing profession has started since 1966 when a professional accounting bodies have begun to work on the road to set

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a globalized accounting standards. This was mostly a result of the financial global capital markets needs to greatly rely on "transparent, comparable and consistent financial information" in order to make ideal investment decisions.

The EU's decision to adpopt IFRSs for the consolidated statements of listed companies since 2005, was followed by Australia in that year and Canada in 2011. China and Japan have also converged their financial reporting systems IFRSs.

In 2008, the US Securities and Exchange Commission (SEC) announced that it was considering adopting the IFRS from 2014 onwards. The US as a state which has so far rejected the adoption of the IFRS, since 2013 has begun the project for the harmonization and convergence of IFRS with American GAAP, thus affecting the spreading out of the use of IFRS throughout the world. In most cases (eg the EU and Australia), there are mechanisms to convert IFRSs (and its changes) into local legal requirements.

Based on international developments, this paper will give an overview the Regulatory Framework for financial reporting and auditing required by law in some of the countries including Montenegro, Macedonia, Serbia, Bosnia and Herzegovina, Kosovo and Albania.

Based on the data provided by member states of the Compliance Program of International Federation of Accountants (IFAC) and World Bank ROSC Report reviews for each country, we identify the key elements of the current reform efforts, outlining possible solutions, which may be relevant to these countries.

Overall, the weaknesses of state institutions are a characteristic of the transition economies of Central and South - Eastern Europe. (Bailey, 1995; Hegarty et al., 2004). In this way, "self-managed management" (Harding, 2000) for the accounting profession provides an appropriate policy choice for countries candidate for EU membership.

2. Literature Review

The literature review has highlighted the weaknesses of the efforts of the ex-socialist economies of Central and South-Eastern Europe during the implementation of the reforms, designed to stimulate economic development by creating an environment based on capital market, including requirements for reliable financial statements prepared in accordance with international standards. In this study we have reviewed the findings and reccomandations given by World Bank ROSC Report[1] as well taking into consideration the cultural factors, language barriers, historical development of the countries, wich of course have played a significant

[1] http://www.imf.org/external/NP/rosc/rosc.aspx.

role when walking towards the reforming of the systems with the best international practices. One of the most significant element of the above research is the lack of understanding of nature and the implementation of global standards. This is something that has been proven during these countries evolution of their path to the European system of market economies.

Another stream in the accounting literature examines issues of accounting harmonization. Models classifying countries (Nobes, 1992) or countries in transition, such as the extent of harmonization of a country's accounting standards, play a very important role in educating policy makers in different countries, but are far less important from the point of view of resolving the practical issues they face in countries that are committed to the implementation of the EU *Acquis Communitaire*. In a way, the Acquis has solved the problems with the choice of systems to be imported, but so far limiting choices for policy makers in existing EU countries.

While the international standards setting boards and committees take into consideration the needs of developed countries such as European countries, developing countries also have special needs that usualy are not considered by these boards, as is the case in the South Eastern European countries, that many of them have faced similar challenges during the transformation and harmonizing faze of their financial reporting and auditing systems with the requirements of European directives. However, even though a developing countries or countries in transition, their financial reporting and auditing systems are part of the international reporting frameworks and in these countries the implementation of international standards could serve as a bridge between local and foreign companies and at the same time will be a factor for attracting investors as mentioned in the literature review.

These studies describe the potential benefits and costs for investors from the implementation of IFRSs in Europe. Effectively, a country with low investor protection, legal enforcement, and low institution alignment with IFRSs may exhibit a higher level of profit management coupled with low relevance of IFRSs information compared to information according to local standards.

Consistent with these views, preliminary literature fails to consistently find significant market responses associated with previous efforts to harmonize financial reporting (eg, Joos & Lang 1994, Comprix et al., 2003). Në mënyrë konsistente me këto pikëpamje dualiste, literatura paraprake dështon që vazhdimisht të gjejë reagime signifikante të tregut të asociuara me përpjekjet e mëparshme për harmonizimin e raportimit financiar (for example Joos dhe Lang 1994, Comprix et al., 2003).

Choi and Levich (1991) argument that a single set of accounting and financial reporting standards enables comparison of financial statements between countries. Thus, potential investors are able to compare financial reports that are prepared according to the same standards (Larson, 1993). Tyrrall et. al. (2007) argue that the only set of accounting and financial reporting standards allow positive capital movements across borders and also lowers the cost of preparing financial statements.

Ashraf and Ghani (2005) emphasize that the adoption and implementation of IFRS in developing countries will improve the quality of standards as well as reduce the costs and timing of preparing financial statements. They also argue that adopting and implementing international standards will increase the efficiency of financial statements in stock markets, as the items in the financial statements will become more understandable to their users.

Since our study presents the financial reporting and auditing regime in many of the South Eastern European countries being part of ex Yugosllavian system, in the literature other studies are consistent with our topic of concern by studying former European Socialist countries that are in transition to the market economies of the Western countries.

For example, Bailey (1995) has found some mistakes in what policy makers take as assumptions, which explains why most countries have imported, amended, and adopted laws regarding the application of IFRSs to all types of enterprises:

• *Rearrangement of existing accounting regulations would have been sufficient;*

• *International Accounting Standards and European Union Directives are regulations;*

• *Accounting is practiced similarly in the developed world.*

The emphasis placed on other accounting and auditing studies in the South Eastern Europe region is the description of ways of evolving practices, regulatory mechanisms and occupations since the beginning of the transition period.

Daniel and others (2001) focused on Slovakia. Seal and others (1996) have explored the development of accounting profession in the Czech Republic, Brody and others (2005) provided a detailed description of recent accounting profession in Poland, and Sucher (2001) examines the issues that have to do with developing the concept of auditor independence in Russia.These studies reveal a typical evolution, beginning with the importation of standards and practices from EU countries, in most cases with donor assistance, translation difficulties, adoption in their current form of IFAC Codes and Standards and of the IASB, the impact of the achievement of the “Big 4 Firms” versus the background of the existing profession consisting of accountants who, in fact, were simply accountants under the previous regime.

Petrovic and Turk (1995) provide only a detailed description of the evolution of accounting practices and profession in Yugoslavia for the period up to 1992. An abbreviated version of this description is also compiled in the descriptive summary of Garrod and Turk (1995) concerning the developments in accounting regulations in Slovenia for the period from 1994.

3. International Standards - A Common Language for Setting and Harmonazing Financial Reporting and Auditing Frameworks

In the world of financial reporting and auditing, there is a debate over which country does not have the best standards, but finding ways in which alternative elements can be developed into a set of rigorous standards that reach international acceptance.

There are professionals and authors who question this approach and say that convergence is nothing more than negotiating and the final product of the convergence process is not technically the best standard but the product is a reflection of the negotiating powers of the parties in this process.

It is also shown that many states are not fully involved in the process and there is an imbalance of decision-making powers to influence the substantial part of the standards between the countries themselves. The other argument is that agreements can be reached on theoretical basis of accounting and auditing regulatory framework but convergence or negotiation is not needed. Overall, the process of convergence is a great challenge and its success is a result of a continuous compromise between the two powerful accounting boards - Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB).

In general, among the various authors, it is also concluded that the other important factor is the cultural impact to explain changes in the regulation of different countries. Accounting professionals and academics have studied and tried to explain how and to what extent the aspects of culture affect accounting and financial reporting regulations.

Although the above-mentioned factors have been significant in the past to explain the possible changes in the regulations, these differences recently fading from the ever-growing world economy needs. This is particularly true for multinational companies, for which it is a lot of hard work, difficult and costly to prepare financial statements for different countries where they have branches or they do operate.Consequently, a common language of financial reporting and auditing will impact on business facilities and reliable and comparable reports for companies that make cross-border businesses and of course for their partners.

In order for international capital markets to operate efficiently and effectively, international standards are essential. The entire business community and users of accounting information should be able to communicate effectively and without any barriers.

4. Developments in European Union in Relation to IFRSs, based on Acuis Communautaire's Requirements and Relevant EUdirectives

International requirements for financial reporting and auditing have become more complex and rigorous recently, while at the same time the EU *Acquis Communautaire* has significantly evolved, especially in recent years.

In such an international regulatory environment so dynamic, the national financial reporting and auditing requirements can be made very quickly non-compliant with the acquis requirements. Particularly the following issues need to be addressed by the policy makers in developing countries of South Eastern Europe: preparation of management reports, half-yearly reporting for listed companies, electronic publication of financial statements, approval and registration of audit firms, and preparation of consolidated financial statements.

In Accounting and Auditing field, the main elements of the acquis are the Fourth, Seventh and Eighth Companies Directive, the European Commission Regulation on the Implementation of IFRSs for Registered Entities and the Recommendations on Audit Quality Assurance.

When the EC adopted IFRSs for listed companies within the European Union, at the same time, it established a process of supporting the standard setting within the Commission, whereby the Commission could support the "approval" of IFRSs to be used in the EU. To date, the EU has adopted most of the IFRSs, with the exception of paragraphs of a small number of IFRSs that relate to financial instruments.

Beginning from January 1, 2005, all European Union (EU) companies, which have shares listed on the stock exchange, are required to prepare consolidated PFs in accordance with IFRS. Companies that have issued debt securities but not equity stocks have been allowed to not prepare their FS with IFRS since 2005, but such a thing has been demanded from 2007 onwards.

In addition to the consolidated statements of publicly traded companies governed by EU law, each EU country has the right to allow or require other companies to prepare their consolidated and / or annual financial statements in accordance with IFRS. In order to strengthen and extend the use of IFRS in most EU countries, in 2003 the Committee of European Securities Regulators (CESR) issued two standards that should be implemented by the European Union's regulators.

The first CESR standard sets out 21 basic principles in order to be applicable to the publication of financial information by listed companies.

The second CESR standard aims to coordinate implementation activities across the European Union. This includes the exchange of information on various issues and a database of decisions taken by the standard readers and empowerers of the member states.

The effect of the transition to IFRS has changed from country to country and from one company to another. Local standards in many European countries have been developed to serve or assist reporting for other tax regulatory purposes and thus the principles differ from country to country.

5. Financial Reporting and Auditing Regime in Eastern European Countries

Differences between accounting, financial reporting and auditing standards between different countries are caused by economic and political changes (Nobes, 1998). Moreover, other studies show that cultural differences, based on the Hofstede model, are the main reasons for the changes in the above-mentioned standards (Salter & Niswander, 1995; Chanchani & Willett, 2004). In addition, Chamisa (2000) points out that the needs and requirements for accounting and financial reporting of countries are the main drivers for the establishment of accounting standards in different countries, so it points out that emerging economies have a greater variety of economic factors and social than developed countries.

For example, Zeghal and Mhedhbi (2006) show that education is one of the important factors affecting accounting and financial reporting standards. They show that many developing countries base their education system in accounting and auditing in one of the developed countries like the United Kingdom and the United States.

Moreover, Yapa (2003) shows that most developing countries such as Malaysia and Indonesia have invasion of education systems from developed countries, which are often unable to produce adequate capacity to meet their accounting needs and financial reporting of these countries.

Perera (1989a) argues that information produced by the accounting and financial reporting standards of developed countries will not provide useful information to make decisions in developing countries.

Below we present a summary of a financial reporting and auditing system in some of the South Eastern European Countries such as Montenegro, Bosnia & Hercegovina, Serbia, Macedonia, Albania and Kosovo.

5.1. Financial Reporting and Auditing System in Montenegro

The accounting, auditing, and financial reporting framework for legal entities within Montenegro is defined by the Law on Business Organization of 2002, the Law on Accounting No. 052 of 2016, and the Law on Auditing No. 001 of 2017. The Accounting and Auditing Law requires all companies to prepare and publish financial statements in accordance with IFRS six months after the end of the financial year. The Decree No. 33/10 recognizes the Institute of Certified Accountants of Montenegro (ICAM) as the competent authority for accounting and auditing activities.

The law included a list of specific IFRSs and envisaged that Institute of Certified Accountants of Montenegro (ICAM) will approve and publish the subsequent IFRSs. The law has included an exemption option for entities with a turnover of less than € 500,000 which may use accrual accounting or cash based accounting. The law “delegated” to the ICAM regulatory authority the following public duties: to develop additional accounting standards and guidelines; develop model forms of financial statements for legal entities (in accordance with IAS); to issue simplified accounting regulations for SMEs; approve and publish the ISA; to determine the education and work experience for certification of accountants, accountants and auditors; and provide training for accountants and auditors and maintain a register of accountants and auditors.

Instead of referring to ICAM as a body with delegated regulatory powers, the new law is referred to as a “competent body”which will adopt and publish the IFRS. Consequently, the existing regulatory structure lacks the basic “IFRS" fundamentals for the preparation of financial statements. In practice, the Serbian-language translation of IFRSs is widely used (Pervan, Horak & Vasilj, 2010).

The new law requires that all legal entities (around 14,400 entities) in Montenegro use IFRSs for preparing annual financial statements. It was also envisaged official approval and publication of properly translated ISAs to complete the regulatory structure.

5.2. Financial Reporting and Auditing System in Bosnia and Herzegovina

Since 2004, Bosnia and Herzegovina have adopted a mechanism for harmonizing laws and accounting and auditing regulations, through the adoption of the Legal Accounting and Auditing Structure and the parallel approval of the Accounting and Auditing Laws by the Governments of both countries.The BiH Law No. 42/04 requires application of IFRS or IFRS for SMEs, based on entity size, for the preparation of financial statements.

In Federation of BiH, the Law on Accounting and Auditing of the FBiH of 2009 (FBiH A&A Law 2009) establishes the requirements for accounting and auditing. According to the 2009 Legal Framework: Accounting Standards for use in Bosnia and Herzegovina are IFRSs and IASs issued by the International Accounting Standards Board (IASB), including the implementation guide and interpretations. Audit Standards for use are ISAs issued by the International Bureau for Auditing and Security Standards (BNSAS). In addition to small enterprises, all enterprises are required to be audited, including companies that have listed securities on the stock exchange, banks and insurance companies. Small companies may choose to audit their financial statements, but this is not mandatory.

5.3. Financial Reporting and Auditing System in Macedonia

In Macedonia substantial efforts have been made since 2003 to reform the legal framework for accounting and auditing. The government has made reforms that are in line with best international practices and acquis communautaire. Major changes in accounting since 2003 include: adoption of a bill on accounting services; the adoption of relatively recent versions of the IFRS; for the presentation of the IFRS for SMEs; improved mechanisms for presenting financial statements; and increased transparency through the availability of data in the Central Registry.

Additional audit reforms include: adopting a new audit law; establishment of a professional institution for statutory auditors; preparation of the agreed certification curriculum; replacing old audit standards with new versions, and establishing quality

The Trade Companies Law of 2004 establishes the fundamental requirements of financial reporting and auditing, applicable to all companies in Macedonia. Large and public-sized companies apply IFRSs and all small business organizations in Macedonia, including micro-enterprises, are required to apply IFRS for SMEs.

FYR Macedonia is in the early stages of putting in place a modern disclosure regime that is complied with by the listed sector. IFRS is now required for listed companies, but evidence suggests that many companies are only beginning their transition[1].

Another legal framework is The Audit Law of 2010 which recognized the Council for Advancement and Oversight of Auditing (CAOA) with a mandate to perform independent public oversight of the audit profession.

The principal duties of CAOA detailed in Article 8 of the Audit Law of 2010 include: (i) issuing licenses to practice auditing; (ii) overseeing the work of the Institute of Certified Auditors of Republic of Macedonia (ICARM); and (iii) may investigate and discipline auditors where necessary.

Companies, with the exception of small and micro-enterprises, should audit from an external auditor the entity's annual financial statements and the consolidated financial statements.

5.4. Financial Reporting and Auditing System in Serbia

In 2013 Serbia have introduced the new legislation to improve the accounting, auditing, and financial reporting framework in order to be in line with the relevant EU Directives. The Law on Accounting of 2013 stipulates the requirements for the

[1] http://documents.worldbank.org/curated/en/779541468271519505/pdf/350990MK0REV0Corporate0ROSC1CG1FYRM.pdf.

preparation of financial statements, including applicable accounting standards and financial reporting thresholds.This law applies to all enterprises, banks, insurance companies, and other financial organizations as well as sole proprietorships. The law requires that all enterprises, ranging from the largest listed company to the only smaller ownership, should comply with IFRSs.

The Law on Auditing of 2013 defines the scope of the entities subject to mandatory audit requirements, and establishes the Audit Public Oversight Board of Serbia.

Under the Law on Auditing, all large and medium-sized entities, financial institutions, public entities established under the Capital Markets Law, and sole proprietors that generate income in excess of €4.4 million in the previous financial year must have an audit of the financial statements[1].

This law requires statutory audits to be conducted in accordance with the ISA, and the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC).

This law as well regulates the profession in Serbia, where only auditors are regulated at the state level under the Law on Auditing of 2013. The profession is regulated by the Chamber of Authorized Auditors of Serbia (KoR) under oversight of the Ministry of Finance (MoF) and the Audit Public Oversight Board (APOB).

5.5. Financial Reporting and Auditing System in Albania

After the '90s, the accounting/audit laws in Albania were drafted and adopted, taking into account in the first instance the requirements of Western legislation and the experiences of other Eastern European countries, similar to Albania, which were also going through a transition stage.

One of the most important and early steps in the reform of the accounting and auditing profession was the adoption in 1993 of the "Accounting Law", in which the general obligations, accounting principles and rules, preparation and presentation of financial statements for the time the first were defined in detail (Shkurti & Leka, 2010).

Law No. 9228 of 2004 on Accounting and Financial Statements determines the financial reporting requirements applicable in Albania.

Listed enterprises and public interest entities such as banks, insurance companies, securities funds when they are not listed on a stock exchange apply to the IFRS. Other companies use National Accounting Standards.

The audit profession is regulated by the 2009 Law which was updated in 2016 on Legal Auditing, the organization of the profession of registered accounting expert

[1] https://www.ifac.org/about-ifac/membership/country/serbia-republic.

and approved accountant. The amendments to the Law No. 10091 introduced in 2016 reviewed some of the requirements related to the audit profession and the role of the Professional Accounting Organisation of statutory auditors. This Law states the requirements to enter the audit profession and to register auditors and audit firms and requires the adoption of ISA as translated in Albanian.

The Law on Business Organizations defines annual audit requirements for all companies except small ones.

5.6. Financial Reporting and Auditing System in Kosovo

Initially Regulation 2001/30 on the Establishment of the Kosovo Financial Reporting Standards Board (BKSRF) and then the Law on Accounting, Financial Reporting and Auditing - Law no. 06/L-032 on Accounting, Financial Reporting and Auditing, which was published in 2018 and which repeals the previous law - Law no. 04/l-014 on Accounting, Financial Reporting and Auditing, established the regulatory framework for accounting, financial reporting and auditing in Kosovo. Current law aims to implement the EU acquis communautaire in accounting and auditing, and provides a legal basis for the implementation of EU directives.

According to the World Bank's ROSC report, the structure is appropriate but is not functioning effectively. Thus, limited technical and financial resources have emerged, and institutional weaknesses in some areas. The proposed changes to the laws are aimed at improving the existing framework by strengthening oversight of the accounting and auditing profession and clarifying the roles and responsibilities of regulatory institutions.Kosovo Financial Reporting Council under the Ministry of Finance is the regulatory oversight body overseeing the accounting and auditing profession but also the reporting of businesses.

Until September 2011 financial reporting framework in Kosovo for business entities excluding financial institutions has included the national standards-Kosovo Accounting Standards issued by KBSFR, the predecessor of the KCFR. The Law on Accounting, Financial Reporting and Auditing replaced KAS with IAS/IFRS. KCFR also issued Administrative Instructions on "Implementations of IFRS for Small and Medium Enterprise" to be applied for reporting periods beginning on 01 January 2015. Article 5 of the Law on Accounting, Financial Reporting and Audit requires large, medium & small business organizations in Kosovo registered as limited liability companies or shareholder companies, to apply IASs/IFRSs as well as interpretations, recommendations and necessary guidance as issued by International Accounting Standard Board.

So, IFRSs are the reporting framework for large and public interest entities, while small and medium-sized enterprises should report to IFRS for SMEs, whereas microenterprises report under the framework established by the Kosovo Financial Reporting Council. Based on the Law KCFR adopts all standards and pronouncements issued by the IAASB relating to audits of historical financial information (financial statements). According to the requirements of the law statutory audit according to ISAs is required for large and medium-sized enterprises.

6. Conclusion

At international level, standards improve transparency. They identify the weak points, the prevention and avoidance of which can contribute to economic and financial development. They enhance market efficiency and discipline. At national level, standards offer benchmarks to identify the weak points in question and guide policy makers for necessary policy reforms. To better serve these two objectives effectively, the purpose and implementation of such standards should be assessed from the context of the overall economic environment, development and a country's strategy and thus should be adjusted to the individual circumstances of the countries environment, especially for developing countries where there are no necessary resources available to implement and adopt high quality and costly standards.

In this regard, (Berkowitz et al., 2003) suggests that only the application of high quality financial reporting standards such as IFRSs is not sufficient to improve the quality of accounting and financial reporting information, while there are no state and institutional mechanisms that empower the implementation of IFRSs and while companies themselves have no benefits and incentives that exceed costs to provide high quality information to the stakeholders.

Such as (Ball et al, 2003; Berkowitz et al., 2003; Ball, 2001), which suggest that only the adoption of high quality financial reporting standards such as IFRSs is not sufficient to improve the quality of accounting and financial reporting information, while there are no state and institutional mechanisms that empower the implementation of IFRSs and while companies themselves have no benefits and incentives that exceed costs to provide high quality information to the stakeholders.

This phenomenon is of great importance also to those countries which we have analyzed in this study, because all of them in one way or another faces a lower level of institutional oversight for the proper implementation of the international standards.

The key and common part of the economies of the South and Eastern European countries is that their legal frameworks do include international standards, but they are not applied fully, and in some cases the requirements of these standards are very scarce to be implemented (from the aspect of financial resources, human resources, training resources, and other additional costs) from all of these countries.

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Formal Education and Forensic Accounting Development in Nigeria

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Abstract: This study examined formal education and forensic accounting development in Nigeria with a cross-sectional survey design as its research strategy. Questionnaire was used as the research instrument for data collection. Pearson product moment correlation (PPMC) and multiple regression were employed as analytical techniques. PPMC showed that significant relationship exists between formal educations, methods (traditional, classical and modern) of integrating forensic accounting into accounting curriculum and forensic accounting development in Nigeria with 0.625, 0.618, 0.639 and 0.521(P-value<0.05) respectively. Also, there is a significant effect of formal education and methods (traditional, classical and modern) of integrating forensic accounting into accounting curriculum of 43.6%, 8.1%, 49.5% and 14.7% (p-value<0.05) respectively on forensic accounting development in Nigeria. Formal education is vital to the development of forensic accounting practices in Nigeria. Academicians and practitioners should regularly update their knowledge on forensic accounting in terms of research and developmental courses so as to ensure continual development of forensic accounting practices in the country. Classical methods should be used by academic institutions in the introduction of forensic accounting into academic curriculums as it indicated the highest impact on forensic accounting development among the three methods of integrating a course into the curriculum.

Keywords: Formal education; forensic accounting; forensic accounting integrating methods; fraud

JEL Classification: M40; M41; M42

1. Introduction

The loss of confidence in the true and fair view of financial reports by users arose as a result of the corporate failure that ravaged the corporate world in the twenty-first century which put to test the significance of qualitative physiognomies of financial reports, accounting standards, accountability, and auditing. This failure in the

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corporate world is not an alien to any country, ranges from country to country, continent to continent, developing to developing countries. Madan (2013) gave an inexhaustible list which is Harris Scarfe and One. Tel (Australia), Global Crossing (Bermuda), Nortel Networks (Canada), Zhengzhou Baiwen, Shandong Bohai, Jinzhou Port, Kelon (China), Vivendi Universal (France), ComRoad, Phenomedia, MLP, Hugo Boss, Nici, Zapf Creation (Germany), Dynamic Life, Ipirotiki Software (Greece), Parmalat, Freedomland, Finmatica (Italy), Elan (Ireland), JVG Group of companies, UTI, Global Trust Bank, Citibank, Wipro, Satyam (India), IHI, Sanyo Electric (Japan), Baan Company, Ahold NV, LCI Computer, Landis (Netherlands), Gescartera, Bafisa, Afinsa and Forum Filatelico (Spain), ABB, Skandia, Prosolvia (Sweden), Adecco International (Switzerland), Barings Bank Equitable Life, Wiggins, Versailles (UK), and Adelphia Communication, IBM, Enron, Xerox, Madoff Securities, Lehman Brothers (U.S.).

In Nigeria, the rate of fraudulent activities both in the public and private sector is perturbing and incited. Ogbi (2013) observed that corruption happens to have enveloped all sectors of the Nigerian society, ministries, and agencies of government. The Nigerian society is filled with stories of wrong practices such as stories of ghost workers on the payroll of ministries, extra-ministerial departments and setting ablaze of offices burning sensitive documents and corruption in the public sector (Okwoli (2004) while earning manipulation and other unethical financial and non-financial issues in the private sector. In response to these corporate reporting crises and failure evolved forensic accounting which is a tripartite practice of utilizing accounting, auditing and investigative skills to assist in legal matters (Modugu & Anyaduba, 2013).

Forensic accounting is an accounting field that has drawn a significant attention of regulators, academicians and accounting practitioners especially in the developed world in which many universities have integrated forensic accounting courses into their accounting curriculum in order to meet up industry demand for forensic accountants (Ozkul & Pamukcu, 2012). The increase in calls for forensic accounting education by accounting professionals and educators started after the much celebrated financial reporting scandals that rocked the earlier part of this century (Carozza, 2002; Melancon, 2002). This increase in demand of forensic accountants reinforces the argument that the educational institutions play a major role in constructing, interpreting and reinforcing societal values through knowledge dissemination and transfer that takes place within them (Rezaee & Burton, 1997).

The societal urge for forensic accounting is a response to corporate societal ills which could be confronted via increasing education on the causes and potential remedies. Nonetheless, there has not been an adequate emphasis, especially survey evidence on how forensic accounting development and education can help curb financial crimes beyond the several anecdotal views that abound. In support of this proposition, Efiong (2012) disclosed that there is a very low level of awareness on forensic accounting among undergraduate students in Nigeria and contend that adoption of forensic accounting into the universities accounting curriculum has a huge potential to enhance students skills and competencies and could be used as a veritable resources from which fraud could be mitigated. Bonita (2003) argued that the dearth of forensic accounting education in the accounting curriculum of universities and colleges are as a result of; misunderstanding the extent of fraud problem by educators and lack of room in the accounting curriculum

Majority of extant literature on forensic accounting either concentrated on the impact of forensic accounting in organizations, theoretical analysis of forensic accountants' roles or conceptual review of forensic accounting techniques**,** with a little focus on the implication of education on forensic accounting development. This study is distinct from extant literature as it focused on the effect of formal education and methods of integrating forensic accounting into the accounting curriculum on forensic accounting development in Nigeria.

2. Literature Review

2.1.1. Conceptual Review

Forensic accounting is an indispensable practice in fraud detection and control. Okoye and Gbegi (2013) stated that it is an investigative style of accounting used to determine whether an individual or organization has engaged in any illegal financial activities. They also observed that it is a rapidly growing field of accounting that describes the engagement that results from actual or anticipated dispute or litigations. Forensic means suitable for use in a court of law. Coewen (2005) stated that forensic accounting involves the application of accounting concepts and techniques. It demands reportable where the accountability report is considered as evidence in the proceedings (Joshi, 2003). It provides an accounting analysis that is suitable to the court which will form the basis of discussion, debate and ultimately dispute resolution (Zysman, 2004). Forensic accounting is the tripartite practice of utilizing accounting, auditing, and investigative skills to assist in legal matters. It is a specialized field of accounting that describes engagements that result from actual or anticipated disputes or litigation. Forensic accounting can, therefore, be seen as an aspect of accounting that is suitable for legal review and offering the highest level of assurance (Apostolou, Hassell & Webber, 2000).

Degboro and Olofinsola (2007) noted that forensic investigation is about the determination and establishment of fact in support of the legal case. That is, to use forensic techniques to detect and investigate a crime is to expose all its attending features and identify the culprits. In the view of Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing and presenting complex financial issues clearly, succinctly and factually often in a court of law as an expert. It is concerned with the use of accounting discipline to help determine issues of facts in business litigation (Okunbor & Obaretin, 2010). Forensic accounting is a discipline that has its own models and methodologies of investigative procedures that search for assurance, attestation and advisory perspective to produce legal evidence. It is concerned with the evidentiary nature of accounting data, and as a practical field concerned with accounting fraud and forensic auditing; compliance, due diligence and risk assessment; detection of financial misrepresentation and financial statement fraud (Skousen & Wright, 2008); tax evasion; bankruptcy and valuation studies; violation of accounting regulation (Dhar & Sarkar, 2010).

Formal education corresponds to a systematic, organized education model, structured and administered according to a given set of laws and norms, presenting a rather rigid curriculum as regards objectives, content, and methodology (Melnic & Botez, 2014). It is a systemized form of education guided by a curriculum. In relation to forensic accounting, there is no uniformity in the methods to be adopted in integrating forensic accounting into academic institutions' curriculum, Rezaee, Crumbley and Elmore (2004) identified two integrating methods which are accounting and auditing method in which forensic accounting is taught as a subject in accounting and auditing and the direct method in which forensic accounting is recognized as a course in higher academic institutions. Smith and Crumbley (2009) suggested three methods which are auditing approach whereby fraud instruction are presented within the accounting curriculum; fraud examination approach and forensics approach using a broader view of forensic accounting techniques. In respect to this, Johnson-Rokosu (2015) summed it up to; traditional auditing approach which incorporates forensic accounting via accounting/ auditing courses, that is offered as a stand-alone forensic accounting course, classical fraud examination approach which incorporate forensic accounting by placing much emphasis on fraud, that is offer forensic accounting modules into a second auditing course and modern forensics approach which incorporates forensic accounting as a direct courses, that is a distinct FFA courses at either the undergraduate or graduate level. The Johnson-Rokosu (2015) approach will be adopted as operative in Nigeria.

Forensic accounting education is of advantage to both the society and students. The society benefits from forensic accounting as the conventional auditors rarely discover fraud and owing to the contemporary period's high rate of employee and management fraud, embezzlement and other financial crimes, apt forensic accounting training and skills is needed by accounting and auditing professionals so as to recognize those crimes (Bonita, Micheal & Georgiy, 2016; Houck, Kranacher, Morris, Riley, Robertson, & Wells, 2006). Students who acquire forensic accounting training and skills have enhanced hiring potentials, as the demand for forensic accountants remains strong today and continues to grow (Cohn, 2014; Tysiac, 2012; Mounce & Frazier, 2002), increase take-home pay than their contemporaries who studied traditional accounting, wider employment opportunities in both the public and private sectors such as internal revenue service, law enforcement agencies, internal audit, intelligence agencies, consultancy (Bonita et al., 2016).

2.2. Empirical Reviews

There is no gainsaying that there is little empirical evidence on education and forensic accounting in both developed and developing economies. Existing literature such as Rezaee and Wang (2018) indicated that Big Data/data analytics and forensic accounting should be integrated into the business curriculum and some attributes and techniques of Big Data are essential to the improvement of forensic accounting education and practice. Bonita, *et al.,* (2016) disclosed that educators and practitioners agreed that forensic accounting should be offered as a separate course or degree at both the graduate and undergraduate levels, and that the contents should cover more of experimental learning component than the traditional accounting. Seda and Peterson-Kramer (2014) disclosed that 97 out of 422 universities and colleges offering forensic accounting courses in the USA provides forensic accounting programmes. Rezaee, Crumbley and Elmore (2004) disclosed expected increase in the demand for and interest in forensic accounting, forensic accounting education as being relevant and beneficial to accounting students and that some significant differences exist regarding topical coverage of forensic accounting between academicians and practitioners. Abdullah and Sutan (2014) found that curriculum and faculty are the major obstacles of the accounting department in universities across Bahrain. Ananto (2015) concluded that forensic accounting is an important subject to be included into accounting curriculum at the undergraduate level in the universities in Indonesia. Lee, Cefaratti, and Rose-Green (2015) found out that those students of forensic accounting course exhibited higher levels of creativity than students' non-forensic accounting courses, and there is an increase in the creative ability of students after participating in a forensic accounting course in Midwestern State University, Texas. Johnson-Rokosu (2015) revealed that respondents indicated interest in the integration of fraud and forensic accounting into existing accounting curriculum in Nigeria tertiary institution and that its inclusion will increase student expertise, skepticism and fraud judgment.

Other existing studies also focused on the impact of forensic accounting on organization such as, Madan (2013) revealed that as part of the governance committee, forensic accountants can make significant contributions in the area of corporate governance, fraud prevention, and investigation, creating a positive work environment, establishing effective lines of communication and vigilant oversight. In Nigeria, Efiong (2012) Using mixed research methods, content analysis and quantitative method of data analysis, found that there is a very low level of awareness on forensic accounting among undergraduate students and contend that adoption of forensic accounting into the universities accounting curriculum has a huge potential to enhance students skills and competencies and could be used as a veritable resources from which fraud could be mitigated. Enofe, Okpako and Atube (2013) using ordinary least square (OLS) regression and Chi-square indicated that the application of forensic accounting services on firms affects the level of fraudulent activities. Akenbor (2014) indicated that forensic auditing techniques (proactive and reactive) have a negative significant relationship with fraudulent practices in Nigerian public institutions. Aduwo (2016) concluded that forensic accountants' activities are important for the fight against corruption in Nigeria. Nwosu (2015) disclosed that effectiveness of forensic auditing impact fraud control, financial reporting, and internal control quality. Alao (2016) study indicated that a forensic audit has a significant effect on financial fraud control in Nigerian deposit money banks. This is in agreement with the findings of Oladejo and Yinus (2015) that forensic accounting is significant on performance, fraud control and reduction in the Nigerian banking industry.

3. Research Method

3.1. Research Design and Data Source

The research work embraced the use of cross-sectional survey design as its research strategy. Data were collected from primary sources using a five-point Likert scale structured questionnaire administered on 200 level, 300 level, and 400 level accounting department undergraduates of ten public and private universities in southwest Nigeria. The basis for using undergraduates in the second, third and fourth year was as a result of their availability to participate in the study unlike 100 level students, who are new to the university environment, busy with their registration and adapting to the changes educational style.

3.2. Model Specification

The model stated below was based on the functional relationship between forensic accounting development, formal education and methods of integrating forensic accounting to curriculum

Forensic Accounting Development-FAD= *f* (formal education, methods of integrating forensic accounting to curriculum)

$$FODEV = \beta + a_1 \, FEDU + a_2 \, TRADM + a_3 \, CLASM + a_4 \, MODM + \mu$$

Whereby; FODEV represents forensic accounting development, FEDU represents formal education, TRADM, CLASM and MODM represents traditional, classical and modern methods of integrating forensic accounting to the curriculum. β represents the constant, while a_1, a_2, a3, a_4 represents the shift parameters and μ represents the error term

A priori Expectation: It is expected that formal education and methods of integrating forensic accounting to curriculum should have a positive significant impact on forensic accounting development in Nigeria.

3.3. Estimating Technique

Data collected from the Questionnaire was analysed using multiple regression and Pearson product moment correlation.

4. Empirical Results and Discussion of Findings

Table 1. Relationship between Education and Forensic Accounting Development

Correlations

		FODEV	EDU	TRADM	CLASM	MODM
Pearson Correlation	FODEV	1.000	.625	.618	.639	.521
	FEDU	.625	1.000	.549	.330	.423
	TRADM	.618	.549	1.000	.682	.474
	CLASM	.639	.330	.682	1.000	.515
	MODM	.521	.423	.474	.515	1.000
Sig. (1-tailed)	FODEV	.	.000	.000	.000	.000
	FEDU	.000	.	.000	.000	.000
	TRADM	.000	.000	.	.000	.000
	CLASM	.000	.000	.000	.	.000
	MODM	.000	.000	.000	.000	.
N	FODEV	1050	1050	1050	1050	1050
	FEDU	1050	1050	1050	1050	1050
	TRADM	1050	1050	1050	1050	1050
	CLASM	1050	1050	1050	1050	1050
	MODM	1050	1050	1050	1050	1050

Source: Authors' computation, 2018

The results as presented in table 1 revealed that there is 0.625 (p=0.000) a significant correlation between formal education-EDU and forensic accounting development-FODEV in Nigeria which implies that the growth of forensic accounting practices in the country is aided by the quality of the formal education. The methods of integrating forensic accounting into the curriculum of the Nigerian education system are significantly related to the rate of development in forensic accounting in the country by 0.618, 0.639 and 0.521(P-value<0.05) respectively.

Table 2. Regression Analysis on Education and Forensic Accounting Development

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3.057	.476		-6.420	.000		
	FEDU	.436	.025	.409	17.102	.000	.650	1.538
	TRADM	.081	.035	.069	2.292	.022	.416	2.401
	CLASM	.495	.034	.401	14.353	.000	.477	2.096
	MODM	.147	.032	.108	4.561	.000	.660	1.515

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.782[a]	.611	.609	2.12583	.611	409.965	4	1045	.000

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7410.800	4	1852.700	409.965	.000[b]
	Residual	4722.534	1045	4.519		
	Total	12133.333	1049			

a. Dependent Variable: FODEV

b. Predictors: (Constant), MODM, FEDU, CLASM, TRADM

Source: Authors' computation, 2018

In the table 2, it could be inferred that if the explanatory variables (FEDU, TRADM, CLASM, MODM) are held constant, the development of forensic accounting in Nigeria will be negatively affected by -3.057unit, which implies that in a situation where there is no formal education and integration of forensic accounting into curriculum, forensic accounting practices will be adversely affected. This signifies the importance of formal education and proper integration of forensic accounting to the eradication of fraud through the development of forensic accounting, which is in tandem with Crumbley and Elmore (2004), Ananto (2015) & Johnson-Rokosu (2015) on the importance of forensic accounting education and curriculum of forensic accounting on the performance of forensic accounting practices.

The effect of Formal education-FEDU on forensic accounting practice in Nigeria is 0.436 (S.E = 0.25, t= 17.02 and $p<0.05$). This depicts that an increase in the spread of formal education of forensic accounting will results to 43.5% significant effect on forensic accounting practice in the country, which is in tandem with Crumbley and Elmore (2004) that disclosed that the expected growth in the demand for and interest in forensic accounting is as a result of forensic accounting education. The result also revealed that the method of integrating forensic accounting education into the curriculum significantly affect the practice of forensic accounting in Nigeria with 0.081, 0.495 and 0.147 (p-value<0.05) for traditional-TRADM, classical-CLASM and modern- MODM methods respectively, which agrees with the findings of Ananto (2015) that concluded that forensic accounting is an important subject to be included into accounting curriculum at undergraduate level; Lee, *et al.* (2015) that found out that those students of forensic accounting course exhibited higher levels of creativity than students non-forensic accounting courses, and there is increase in creative ability of students after participating in a forensic accounting course and Johnson-Rokosu (2015) that the interest in the integration of fraud and forensic accounting into existing accounting curriculum in Nigeria tertiary institution and that its inclusion increase student expertise, skeptism and fraud judgement.

The diagnostic test, which is variance inflation factor (VIF) that ensures reliability and validity of the above results showed that all the explanatory variables have a VIF less than 10, which suggests they are not highly correlated with each other and thus indicates the absence of multicollinearity in model. In addition, the model summary shows that there is 78.2% relationship existed between education, methods of integrating forensic accounting and forensic accounting development in Nigeria. The adjusted R^2 shows that the FEDU, TRADM, CLASM and MODM explain 0.609 variations in the development of forensic accounting practices in Nigeria. The F-Stat signifies the fitness of the specified model as its p-value < 0.05.

5. Concluding Remarks

5.1. Conclusion and Recommendation

Formal education is vital to the development of forensic accounting practices in Nigeria. Methods of integrating forensic accounting into the curriculum are critical to the development of the forensic accounting profession in the country. Due to the significant impact of formal education on forensic accounting development, academicians and practitioners should regularly update their knowledge on forensic accounting in terms of research and developmental courses so as to ensure continual development of forensic accounting practices in the country, as what academicians taught influence the knowledge of forensic accounting students. Classical fraud examination method which places much emphasis on frauds should be used by academic institutions in the introduction of forensic accounting into academic curriculums as it indicated the highest impact on forensic accounting development among the three methods of integrating a course into the curriculum.

5.2. Contribution to Knowledge

This study has contributed to the existing body of knowledge on the development of forensic accounting in Nigeria. Notably, the study established among other things that formal education and methods of integrating forensic accounting into the curriculum of universities in Nigeria significantly influences forensic accounting development in Nigeria. This is study however suggest that further investigation on forensic accounting development should cover other geographical areas of Nigeria.

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Determinants and Analysis of Domestic Debt in Nigeria: 1970-2015

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Abstract: The problem of debt overhang is becoming intractable in Nigeria. It is believed that the rising trend of domestic debt is determined by some factors. The paper empirically investigates the variables influencing domestic debt. Prior literature on debt had focused on external debt. Literature on domestic debt had just examined its impact on economic growth. Multivariate vector error correction framework was used to analyze data obtained from Central Bank of Nigeria, World Bank National Accounts Data and Debt Management Office between 1970 and 2015. Domestic debt investor base swings between the deposit money bank and the non-bank public. Lagged values of budget deficit, external debt and GDP growth rate explains current domestic debt in the short run. There exist bi-directional granger causalities between domestic debt and budget deficit, domestic debt and external debt and domestic debt and GDP growth rate. The study recommends reasonable budget cut, redirection of fiscal deficit into productive capital expenditure, eliminating recurrent fiscal financing and thereby utilizing rising domestic debt. The study contributes to existing knowledge on domestic debt and affirmed that budget deficit, financial deepening of an economy, external debt, interest rate and GDP growth rate has a long run relationship with domestic debt in Nigeria.

Keywords: Domestic debt; Budget deficit; External debt; Gross domestic product growth rate; Interest rate.

JEL Clasiffication: H6; H63

1. Introduction

Public debt has raised major concerns among international financial institutions and bilateral lenders, resulting in several initiatives from international financial institutions to ease the debt burden that was threatening to cripple the Nigerian economy. The initiatives range from measures to ease the debt burden through debt rescheduling to outright debt forgiveness. These initiatives, however, have concentrated on addressing the external debt burden and also led to the substitution

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(partial) of external debt with domestic debt. It would be recalled that after the exit from the Paris and London Club debts, there was a strategic imperative to develop the domestic debt market for a number of benefits: to establish an alternative source of funding for government to avoid compelling dependence on only external sources and to develop a complete capital market (FMoF, 2014).

However, domestic debt remains one of the fundamental economic issues confronting the Nigerian economy. An escalating debt profile presents serious obstacles to a nation's path to economic growth and development. The cost of servicing public debt (domestic and external) may expand beyond the capacity of the economy to cope, thereby impacting negatively on the ability to achieve the desired fiscal and monetary policy objectives (Sanusi, 2003).

The Federal Ministry of Finance earlier in the year 2014 reported that a sharp rise in government domestic borrowing occurred in 2010 when borrowing rose to N1.36 trillion (from about N524 billion in 2009) to finance salary increases. Also saying that the rise in domestic debt stock was directly attributable to the growth in the annual fiscal deficits, which grew explosively between 2007 and 2012.

With all these remarks, it is a known fact that the debt profile of Nigeria has been experiencing what could be called a partial shift from external debt to domestic debt and most recently it has been on the increase. Domestic debt profile has been rising astronomically and if not controlled could create some unfavorable consequences as crowding out private sector investment, poor GDP growth etc, Okonjo- Iweala, (2011) as cited in Onyeiwu (2012).

In spite of the attendant effects of domestic debt, literature on domestic debt in Nigeria is still relatively scanty, with the vast literature on debt mostly focused on external debt. The available ones have focused on motivations of domestic debt, its costs, and extensively on its impact on economic growth: Aminu, Ahmadu & Salihu (2013), Okon, Maji & Denies (2013). Literature on public debt has neglected domestic debt based on but not limited to the fact that domestic debt only transfers resources within the country. Whereas when these resources are left idle without productive activity, meaningful results in terms of growth and development might not showcase. One objective of borrowing is revenue gap, but in Nigeria's case, where oil price has been increasing and the revenue profile is also rising and at the same time, public borrowing is going on unabated, there is a need for investigation.

The objective of the study is to analyze Nigeria's domestic debt while examining the trend and pattern of domestic debt and its relationship with external debt, the composition of domestic debt in terms of its sources and instruments and the determinants of rising domestic debt.

The rest of the paper is structured into five sections; section two looks into the concepts, review of theoretical and empirical literature. Section three covers the trend of domestic debt profile, composition of domestic debt in terms of sources and instruments. Section four entails modelling, result presentation and discussion. Section five and six contains the findings and recommendations respectively.

2. Literature Review

2.1. Conceptual Issues

Likita (2000) cited in Aminu et al (2013) defined debt as a contractual obligation of owing or accumulated borrowing with a promise to payback at a future date. Domestic debt is defined as debt denominated in local currency. There are some factors that evolve around and determine the conceptualization of domestic debt. First, currency in which the debt is issued. Second, the residence of the creditor. Third, place of issuance and the legislation that regulates the debt contract (Panizza, 2008).

Some of the reasons often advanced for government domestic debt include: budget deficit financing, monetary policy implementation and to deepen the financial sector (Alison, 2003). Monetary policy has also been influenced by the open market operations such as the sales of treasury bills of the government. In deepening the financial sector, there needs to be a steady supply and range of financial instruments to be traded. Financial market deepening can be achieved by offering longer dated instrument with different interest rate structures, that is, fixed and floating rate (DRI, 2001).

Increasing domestic debt could crowd out private investment because government will tend to struggle with the private sector for the limited resource that should be available for investment, thereby reducing investment. When issuing domestic debt, governments tap into domestic private savings that would otherwise have been available to the private sector. This is normally followed by an increase in domestic interest rates if these are flexible, adversely affecting private investment (Christensen, 2004). Even where interest rates are controlled, domestic borrowing can lead to credit rationing and crowding out of private sector investment (Easterly & Fischer, 1990 as cited in Christensen, 2004). An investor base that is dominated by commercial banks may worsen the abovementioned effect. The crowding out effect may, therefore, be more pronounced in the absence of nonbank investors, such as pension funds and retirement funds, to which the government could sell its debt without necessarily crowding out private sector credit (Christensen, 2004). Hence, a diverse investor base prevents excessive reliance on commercial bank funds and thereby reduces the risk of crowding out (World Bank and IMF, 2001as cited in Christensen, 2004).

Incessant increase of domestic debt can have serious effect on the economy. Domestic debt service can consume a significant part of government revenues, especially given that domestic interest rates are higher than foreign ones. The interest cost of domestic borrowing can rise quickly along with increases in the outstanding stock of debt, especially in shallow financial markets (Christensen, 2004).

2.2. Theoretical Literature

2.2.1. Liquidity Constraint Hypothesis

The liquidity constraint is captured as a "crowding out" effect, by which the requirement to service debt reduces funds available for investment and growth. A reduction in the current debt service should, therefore, lead to an increase in current investment for any given level of future indebtedness (Cohen, 1993 as cited in Okon et al., 2013). Theoretically, the process of crowding-out arises from the fact that once the government borrows heavily from the domestic market, a shortage of funds arises prompted by increased demand for investible funds which drives interest rates up leading to the reduction of private borrowing and hence limiting private investment (Maana, Owino & Mutai, 2008).

2.2.2. Profligacy Theory

The profligacy thesis attempts to correct the weakness of growth – cum debt theory by focusing on the institutional arrangement under which a loan was contracted. The profligacy thesis, a component of the system stability theory, recognizes that the debt crisis arose from weak institutions and policies that have wasted resources through unbridled official corruption and damaged living standards and development. These policies led to distortions in relative prices and encouraged capital flights – as seen in substantial external liquid funds of private citizens of debtor countries in foreign banks (Nyong, 2005).

2.3. Empirical Literature

Christensen (2004) estimated a single panel data model regressing private sector lending on domestic debt (both variables were in percent of broad money) for 27 sub-Saharan countries including Nigeria over the period 1980–2000. The results from the regression found significant support for the crowding out hypothesis; on average across countries; an expansion in domestic debt of 1 percent relative to broad money causes the ratio of lending to the private sector to broad money to decline by 0.15 percent.

Maana et al. (2008) analyzed the economic impact of domestic debt on Kenya's economy. The authors examine the impacts of domestic debt on private sector lending by applying ordinary least square technique using annual data over the period 1996 to 2007. Their model was specified as $pi = \alpha + \beta Di + \varepsilon$. The study finds that domestic debt does not crowd out private sector lending in Kenya during the period due to substantial level of financial development in Kenya. The study also examines the effects of domestic debt on real output by using a modified Barro growth regression model. The results indicate that increase in domestic debt has a positive but insignificant effect on economic growth during the period. The study suggests that government should employ wider reforms that promote investment in treasury bonds and encourage institutional investors.

Adofu and Abula (2009) investigated the effects of rising domestic debt on the Nigerian economy by applying OLS technique using time series data from 1986-2005. The findings of the study revealed that several factors responsible for rising domestic debt in Nigeria are high budget deficit, low output level, increased government expenditures, high inflation rate and narrow revenue base. The analysis shows that domestic debt has negatively affected the growth of the economy and recommends that government should made efforts to resolve the outstanding domestic debt.

Abbas and Christensen (2007) examined the role of domestic debt markets in economic growth: an empirical investigation for low-income countries and emerging markets using panel econometric techniques to examine the endogeneity of domestic debt and its impact on growth with a view to obtaining a sense of the optimal size and quality of domestic debt. They found the following, among others: higher private savings increase the scope for domestic debt issuance while a larger supply of domestic debt instruments provides incentives to increase private savings. But, financial depth had a surprisingly weak causal contribution to income and the growth contribution of domestic debt is higher if it is marketable, bears positive real interest rates and is held outside the banking system.

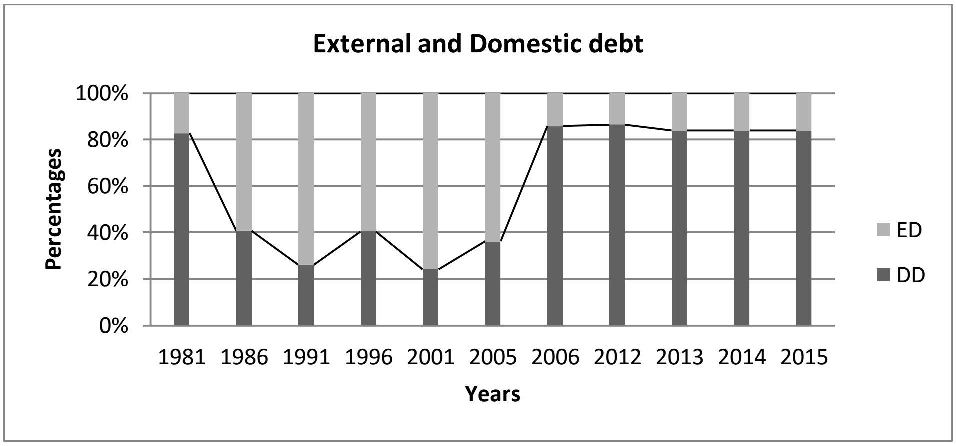
Asogwa (2005) employing risk measures for domestic debt instrument investigated the effect of domestic debt on economic growth concluded that domestic government debt in Nigeria has continued to suffer some form of confidence crisis as market participants have consistently shown greater unwillingness to hold longer maturities. The government has only been able to issue more of short term debt instrument.

Oshadami (2006) cited in Adofu and Abula (2009), concluded that the growth of domestic debt has affected negatively the growth of the economy. This situation is premised on the fact that majority of the market participant are unwilling to hold longer maturity and as a result the government has been able to issue more of short term debt instruments. This has affected the proper conduct of monetary policy and affected other macroeconomic variables like inflation, which makes proper prediction in the economy difficult.

Putunoi (2013) investigated the effects of domestic debt on economic growth in Kenya using quarterly data spanning 2000 to 2010. Augmented Dickey-fuller, Johannes Cointegration and error correction model were used. The study shows that domestic debt expansion in Kenya has a positive and significant effect on economic growth.

3. Nigeria Domestic Debt Profile

Figure 1. Percentage Distribution of public Debt in Nigeria for some selected years



Source: Underlying data were obtained from the CBN Statistical Bulletin, 2012 and 2015

The year 2006 all through 2015 saw a great shift from excessive reliance on external debt to domestic debt, rising over 80percent leaving less than 20percent for external debt. The change in the structure may be due to the debt forgiveness or stringent conditionalities attached to foreign debt.

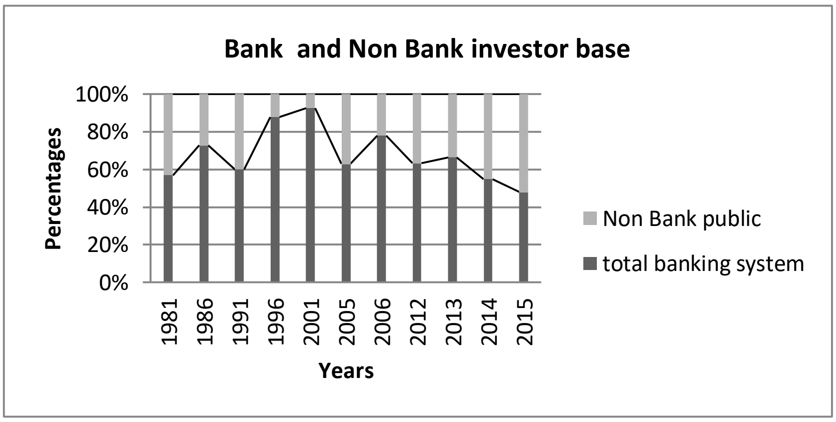


Figure 2. Percentage Distribution of bank and non-bank debt source for some selected year

Source: Underlying data were obtained from the CBN Statistical Bulletin 2012 and 2015

Categorizing the investor base into banking system and non- banking system, it was discovered that throughout the selected years except 2015, total banking system investor held more than fifty percent of the domestic debt instrument.

The figure below shows the composition of domestic debt by instruments. The instruments are development stocks, treasury bonds, Federal government of Nigeria (FGN) bonds, treasury bills, treasury certificates and /or promissory notes. For this study and this figure, development stocks, treasury bonds, FGN bonds and treasury bills were used. It was discovered that FGN bonds had the largest share of the component of domestic debt throughout the selected years. It was also observed that FGN bonds and treasury bills were crowding out treasury bonds, which has been reducing in percentage. Development stock is infinitesimal with its impact not even showing on the figure, meaning it is not up to 1%.

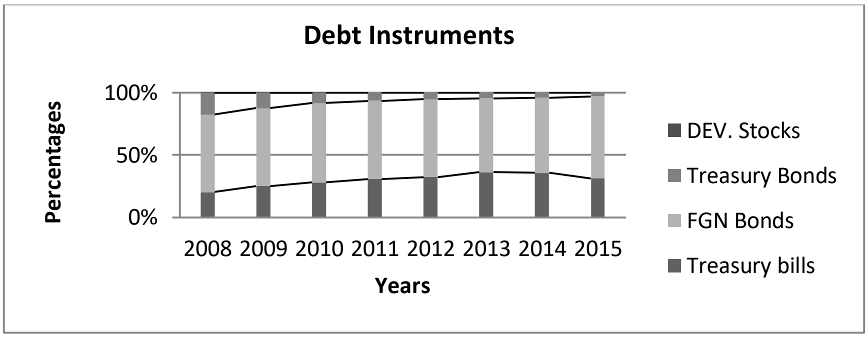


Figure III. Percentage Distribution of domestic debt by instruments (selected years)

Source: Underlying data were obtained from CBN Statistical Bulletin 2012 and 2015

4. Model, Result Presentation and Discussion

The study employed time series data ranging from 1970 to 2015 obtained from Central Bank of Nigeria Statistical Bulletin various issues, World Bank National Accounts Data and OECD National Account Data files. Philip Perron unit root tests were used to establish the stationarity and order of integration of the series. Johansen co-integration procedure was applied to determine whether a long-run equilibrium relationship exist amongst the variables after testing for stationarity. Vector error correction estimate and granger causality test were also employed so as to draw meaningful deductions from the series.

4.1. Model Specification

Adopting Cuddington (1996) and Jibao, Schoeman & Naraidoo (2012) model,

$$B_t = B_{t-1} + I_t B_{t-1} - P_S \qquad 4.0$$

Where; B_t denotes current debt of government in time t

B_{t-1} denotes outstanding debt at period t-1

I_t denotes domestic interest rate in period t

P_S denotes primary surplus

The above model is modified to accommodate for some factors (budget deficit, financial deepening, external debt, interest rate and economic growth) that have been advanced to explain the burgeoning domestic debt profile in Nigeria from empirical literature. The regression model is therefore specified as follows:

DD= f (BD, FD, ED, IR, GR) i)

Where;

DD= Domestic Debt stock at time t

BD= Budget Deficit/surplus at time t

FD= Ratio of credit to private sector to GDP proxy for financial deepening

ED= External Debt stock at time t

IR= Interest rate at time t

GR= Gross Domestic Product growth rate at time t

In econometric form,

$$DD = \alpha_0 + \varphi BD + \delta FD + \theta ED + \gamma IR + \omega GR + U_t \qquad \text{ii)}$$

Where α_0 is an intercept. φ, δ, θ, $\gamma$and ω are coefficients to be estimated. μ_t is the error term.

A prior expectations are φ >0, δ>0, θ <0, γ>0 and ω<0.

The vector error correction model is specified below:

$$\Delta DD_t = \alpha_1 + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + ECT_{t-i} + U_{1t} \qquad \text{(iii)}$$

$$\Delta BD_t = \alpha_2 + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + ECT_{t-i} + U_{2t} \qquad \text{(iv)}$$

$$\Delta FD_t = \alpha_3 + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + ECT_{t-i} + U_{3t} \qquad \text{(v)}$$

$$\Delta ED_t = \alpha_4 + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + ECT_{t-i} + U_{4t} \qquad \text{(vi)}$$

$$\Delta IR_t = \alpha_5 + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + ECT_{t-1} + U_{5t} \quad .(vii)$$

$$\Delta GR_t = \alpha_6 + \sum_{i=1}^{n} \omega_i \Delta GR_{t=i} + \sum_{i=1}^{n} \gamma_i \Delta IR_{t-i} + \sum_{i=1}^{n} \theta_i \Delta ED_{t-i} + \sum_{i=1}^{n} \beta_i \Delta DD_{t-i} + \sum_{i=1}^{n} \delta_i \Delta FD_{t-i} + \sum_{i=1}^{n} \varphi_i \Delta BD_{t-i} + ECT_{t-i} + U_{6t} \quad (viii)$$

Δ is the difference operator and ECT is the error correction term. Equation (iii) was used to determine the determinants of domestic debt and was used to test causation of the independent variables to domestic debt.

Table 1. Unit Root Test for Variables

Variables	Test	t-statistic	Prob	Order of Integration
DD	PP	-7.714952	0.0000	I(1)
BD	PP	-15.46269	0.0000	I(1)
FD	PP	-6.668745	0.0000	I(1)
ED	PP	-16.38866	0.0000	I(1)
IR	PP	-9.549667	0.0000	I(1)
GR	PP	-14.29980	0.0000	I(1)

Source: Authors Computation, 2017

From the table above, Philip Perron unit root test shows that all the variables are stationary at first difference. For getting optimal lag length for Cointegration, Akaike information criterion suggested we use leg length of 3.

Table 2. Optimal Lag Order Criteria

Lag	Log L	LR	FPE	AIC	SC	HQ
0	-2341.776	NA	1.07e+40	109.1989	109.4446	109.2895
1	-2238.046	173.6874	4.67e+38	106.0486	107.7689	106.6830
2	-2152.240	119.7286*	5.08e+37	103.7321	106.9268*	104.9102*
3	-2110.206	46.92142	5.06e+37*	103.4515*	108.1207	105.1733

* indicates lag order selected by the criterion. LR: Sequential modified LR test statistic, FPE: Final prediction error, AIC: Akaike information criterion, SC: Schwarz information criterion, HQ: Hannan-Quinn information criterion

Table 3. Result of Johansen co-integration Value

Hypothesized No of Cointegrating Equations	Trace Statistic	Trace Statistic 5% Critical Value	Prob
None*	204.9239	95.75366	0.0000
At Most 1*	114.1871	69.81889	0.0000
At Most 2*	57.06931	47.85613	0.0054
At Most 3*	33.27045	29.79707	0.0191
At Most 4	12.18605	15.49471	0.1482
At Most 5*	4.953929	3.841466	0.0260

Source: Authors Computation, 2017

Trace statistics indicate 4 cointegrating equations at 5% significant level which implies that long run relationship exist among the variables. The cointegrating equation from the normalized cointegrating coefficient is:

Table 4. Normalized cointegrating coefficients table: Domestic Debt (DD) dependent variable

DD	BD	FD	ED	IR	GR
1.000000	25.62430	306874.6	-0.552572	871.6793	424653.4
	(4.14207)	(41707.8)	(0.17185)	(22086.3)	(47958.8)

Source: Authors computation, 2017

From the cointegrating equation, BD, FD, GR and IR which represents budget deficit, ratio of credit to private sector to GDP proxy for financial deepening, GDP growth rate and interest rate are positively related with DD in the long run while ED which represents external debt is negatively related with Domestic Debt in the long run. All the variables are in consonance with aprior expectation except GDP growth rate.

4.2. Vector Error Correction Method

This was used to establish short run equilibrium relationship among the variables after testing for the existence of long run equilibrium relationship. It was also used to cover for the lagged values of the dependent and independent variables. It was discovered from the VECM and Wald test that there is a short run causality running from lagged values of budget deficit, external debt and GDP growth rate to domestic debt. With the error correction term negative and significant coefficient, the VECM affirmed long run causality running from all the independent variables to domestic debt. The coefficient of the error correction term of domestic debt variable carries negative sign and it is statistically significant at 5 % with the speed of convergence to equilibrium of 62%. Thus in the short run, domestic debt adjusted by 62% of the past year's deviation from equilibrium.

Table 5. Summary Results from VECM

	ΔDD	ΔBD	ΔFD	ΔED	ΔIR	ΔGR
Constant	-215195.7	68859.76	-0.215565	-478043.1	2.744125	7.832798
	(-1.486805)	(1.77524)*	(-0.147944)	(-1.473042)	(1.254603)	(2.473883)**
ECT	-0.626240	-0.061043	3.92E-06	-0.297727	2.11E-06	-3.52E-06
	(2.440039)**	(-0.887383)	(1.516548)	(-0.517371)	(0.544302)	(-0.627188)
R^2	0.967639	0.919845	0.786441	0.957705	0.501039	0.783747
Adjusted R^2	0.930168	0.827035	0.539163	0.908732	-0.076705	0.533348
SE of Regression	303514.8	81350.74	3.055494	680537.7	4.586672	6.639541
F-stat	25.82370	9.910996	3.180385	19.55576	0.867234	3.129997

( ): t-statistic, ***: 1% significance level, **: 5% significance level, *:10% significance level

Source: Authors computation, 2017

4.3. Granger Causality

In order to analyse the short run causal relationship among the variables for each equation in the VECM, the granger causality test was examined. Budget deficit, external debt and gross domestic product growth rate causes domestic debt. It was discovered that domestic debt causes budget deficit, external debt and GDP growth rate. Therefore, there exist bi-directional granger causalities between domestic debt and budget deficit, domestic debt and external debt and domestic debt and GDP growth rate.

Table 6. Summary Results from VEC Granger Causality Test

Dependent Variable: D(DD)			
Excluded	**Chi-sq**	**df**	**Prob**
D(BD)	20.45609	3	0.0001
D(FD)	2.539801	3	0.4681
D(ED)	12.14031	3	0.0069
D(IR)	5.074245	3	0.1664
D(GR)	16.95700	3	0.0007
ALL	**215.5715**	**15**	**0.0000**
Dependent Variable: D(BD)			
Excluded	**Chi-sq**	**df**	**Prob**
D(DD)	40.66970	3	0.0000
Dependent Variable: D(ED)			
Excluded	**Chi-sq**	**df**	**Prob**
D(DD)	24.51265	3	0.0000
Dependent Variable: D(GR)			
Excluded	**Chi-sq**	**df**	**Prob**
D(DD)	13.84251	3	0.0031

Source: Authors computation, 2017

5. Findings

i. Nigerian government has been incurring more domestic debt than external debt after the external debt forgiveness of 2005;

ii. Domestic Debt investment base has not seen much diversity as it has been swinging between the deposit money banks and non-bank public. The provision for sinking fund has not been robust;

iii. FGN bonds are the most patronize debt instrument amidst the domestic debt instruments;

iv. Long run relationship exists among domestic debt, budget deficit, financial deepening indicator, external debt, interest rate and GDP growth rate;

v. Lagged values of budget deficit, external debt and GDP growth rate explain variations in current domestic debt in the short run;

vi. Lagged value of domestic debt explains variations in budget deficit, external debt and GDP growth rate in the short run;

vii. There exist bi-directional granger causalities between domestic debt and budget deficit, domestic debt and external debt and domestic debt and GDP growth rate.

6. Recommendations

i. Increasing domestic debt should be redirected into productive capital expenditure, thereby eliminating recurrent fiscal financing;

ii. Other long term maturity structure debt instruments like treasury bonds and development stock should also be made attractive for investors by reducing their maturity period which is averagely longer than FGN bonds, the most patronize instrument;

iii. Instituting reasonable budget cut that will not hamper economic growth;

iv. Since all the variables explained the variations in domestic debt in the long run, they should all be held in considerable amount so as to checkmate the rising domestic debt profile.

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Do Accountancy Skills of Management Influence the Attainment of Key Financial Objectives in Selected South African Fast Moving Consumer Goods Small, Medium and Micro Enterprises?

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Abstract: In a South African dispensation SMMEs play an important socio-economic role as they add much needed value to the national economy. Unfortunately as much as 75 per cent of these business entities fail after being in operation for less than four years – a failure rate that is regarded to be among the worst in the world. In order for SMMEs to remain in operation key financial objectives need to be achieved and it is believed that the lack of skills (among other factors) may adversely affect the latter. Thus, for this study, the primary objective was to ascertain whether accountancy skills of members of management, of selected South African fast moving consumer goods (FMCG) Small, Medium and Micro Enterprises (SMMEs) had any influence over the attainment of their respective business entities' key financial objectives. Descriptive research was performed through the deployment of quantitative research methods whereby a survey was disseminated to 500 members of management of FMCG SMMEs. Stemming from the results, it became apparent that accountancy skills did have a positive statistically significant influence over sampled South African SMMEs' attainment of key financial objectives, but only to a marginal extent.

Keywords: Accountancy skills; SMMEs; South Africa; Financial objectives

JEL Classification: J24; M41

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1. Introduction

According to a report by the Wholesale and Resale Sector Education Training Authority (W&R SETA) the significance of Small Medium and Micro Enterprises (SMMEs) is widely accepted around the globe (ILDP, 2014). In South Africa, these business entities are viewed as separate and distinct business entities, including co-operative enterprises and non-governmental organisations, managed by one or more owner which, including its branches or subsidiaries, are predominantly carried on in any sector or subsector of the national economy (South Africa, 1996). Moreover, prior research (Nemaenzhe, 2010) found that South African SMMEs are legally charged with the attainment of three core-socio economic objectives, namely that of poverty alleviation, the reduction of unemployment and the boosting of the national economy. While taking into account that 90 per cent of all business entities in South Africa are classified as SMMEs (Mouloungui, 2012), it is not surprising that South African SMMEs provide employment opportunities to approximately 60 per cent of the national workforce while simultaneously contributing an estimated 50 per cent to the national Gross Domestic Product (GDP) (Naicker et al., 2017; Bruwer, 2016).

Notwithstanding the foregoing, the failure rate of South African SMMEs is disconcerting as is reported that 75 per cent of these business entities fail after being in existence for less than four years (Wiese, 2014; Ayandibu & Houghton, 2017). Otherwise stated, in recent times, more and more South African SMMEs have been failing on a monthly basis since the early-2000s (Biyase, 2009; Bruwer & Van Den Berg, 2017). This high failure rate is believed to be mainly caused by three factors, namely: 1) resources and opportunities (e.g. financial resources, human resources, etc.), 2) business management expertise (e.g. skills, knowledge, etc.), and 3) multiple origins of failure (e.g. strategic risk factors, operational risk factors, etc.) (Smit, 2012; Sin & Ng, 2013; Petersen et al., 2018; Masama & Bruwer, 2018).

According to a previous study (UWC, 2013) African SMMEs that placed emphasis on reducing the adverse influence of the risk category “business management expertise” increased their chances to remain in operation by 40 per cent. Alternatively stated, based on the aforementioned study, an enhancement of skills and knowledge of management resulted in better sustainability for African SMMEs. When taking into account the findings of a local study that an array of business skills were lacking both in South African SMME management (Bruwer & Smith, 2018), clear tangent planes emerge as to (probably) why South African SMMEs may have such high failure rates.

While government has made attempts at improving the sustainability of South African SMMEs, it has failed to include skills development as one of its strategies. According to the Department of Trade and Industry (DTI) Report an Integrated Strategy for Small Business Development (DTI, 2005) the South African government has acknowledged the role it should play in providing favourable conditions to enable the growth of small business undertakings. One of the key features in this report is the issue of creating a conducive legislative framework that reduces red tape. These enabling environments illustrated in the DTI Report were further supported by the White Paper on National Strategy on the Development and Promotion of small business in South Africa. However, more than a decade after its implementation, much is still left to be desired in relation to the enhancement of South African SMME sustainability.

Throughout the remainder of this paper, discussion takes place under the following main headings: 1) conceptual framework, 2) research design, research methodology, research methods and ethical considerations, 3) results and discussion, 4) recommendation, and 5) conclusion and avenues for further research.

2. Conceptual Framework

Taking into account that this study made use of linear regression analysis, for the remainder of this section, applicable terms which were measured during the results and discussion section are clearly conceptualised. Relevant discussion for the remainder of this section takes place under the following headings: 1) financial objectives, and 2) accountancy skills.

2.1. Financial Objectives

Financial objectives can be regarded as monetary targets which will allow an organisation to remain in existence for the foreseeable future (Beck et al., 2016). Without clear objectives working towards sound financial indicators, a business is almost destined to fail. This is specifically supported by the notion that lenders and investors scrutinise the financial indicators of a business before providing credit or investing in it (Kotane & Kuzima-Merlino, 2012). While SMMEs might not have the same modern or advanced accounting services as their larger counterparts, they are expected to have at least the basic skill of bookkeeping (Petkovič & Rac, 2009). In core, the three main financial targets which should be achieved pertain to that of profitability (whether income is larger than expenses), solvency (whether assets are larger than liabilities) and liquidity (whether adequate cash is on hand to allow for business operations to continue as normal) (Petkovič & Rac, 2009; Ngary et al., 2014).

According to a study conducted by Bruwer & Coetzee (2017) South African SMMEs are not achieving their financial objectives. This may be directly associated with the phenomenon that these small business entities fail after being in existence for less than 36 months (Mwangi & Gachunga, 2014; Masama & Bruwer, 2018). Since one can only manage what one measures (Drucker, 1954) it may be that South African SMME management is not actively managing the attainment of their respective business entities' financial objectives as they are not actively (or clearly) measuring it. The foregoing is highly probable as South Africa faces a scarce skills challenge that negatively impacts on the sustainability of SMMEs – one of which is that of accountancy skills which can be taught and learned (Bruwer & Smith, 2018).

2.2. Accountancy Skills

Accountancy skills should allow an individual to provide relevant business stakeholders with useful financial information in order for them to make the best economic business decisions (Bruwer, 2010; Mewse, 2011; Kamyabi & Devi, 2012). Otherwise stated accountancy skills pertain to a collection of accounting skills, business management skills, financial management skills and management skills. Each of these skills is briefly elaborated below as per the conceptualised definitions of Bruwer & Smith (2018):

- Accounting skills: Those competencies required to perform functions regarding the recording of transactions, reporting of the financial situation of an organsiation and the providing of recommendations to enhance the financial situation of an organisation;
- Business management skills: Those competencies related to the holistic planning,-, organising-, leading- and controlling activities in a business;
- Financial management skills: Those competencies required to efficiently and effectively manage money in such a manner to accomplish financial objectives of a business entity;
- Management skills: Those competencies related to problem-solving, decision making, planning, delegation, communication and time management.

In a study by Abor and Quartey (2010) critical business skills are lacking in South African SMMEs; strongly related to that of accountancy skills. This view is supported by Bruwer (2010) where it was found that South African SMME management does not have sufficient accountancy skills (themselves and/or internally) in order to make informed business decisions. The latter dispensation has not changed over the course of almost a decade as accountancy skills are regarded by most SMME management to be irrelevant (Bruwer & Smith, 2018).

3. Research Design, Research Methodology, Research Methods and Ethical Considerations

This study was both descriptive and quantitative in nature, and survey research was conducted. A five-point Likert scale was used in the design of the questionnaire.

The questionnaire was administered to a total of 500 respondents (sample) through means of a non-probability sampling method – purposive sampling. This sampling method was ideal as the researchers did not know the size of the population. All 500 respondents positively responded to the survey, constituting a 100 per cent response rate. In order for responses to be regarded as valid, each respondent had to satisfy the following set of delineation criteria:

- Each respondent had to be the owner and/or manager of his/her South African SMME;
- Each respondent had to have decision making power in his/her South African SMME;
- Each respondent had to be older than 18 years;
- Each respondent had to be a South African citizen;
- Each respondent had to be actively involved in the business operations of his/her South African SMME;
- Each respondent's South African SMME had to adhere to the definition of a SMME as per the National Small Business Act No. 102 of 1996;
- Each respondent's South African SMME had to be classified as either a sole trader, partnership of a close corporation;
- Each respondent's South African SMME had to be regarded as a non-franchised business entity;
- Each respondent's South African SMME had to employ between 0 and 50 full-time employees;
- Each respondent's South African SMME had to operate within the fast moving consumer goods industry;
- Each respondent's South African SMME had to be in existence for at least 1 year.

Ethical guidelines were adhered to in the collection of data from the respondents. During the study all respondents were safeguarded from physical harm, and all respondents voluntarily took part in the study (and could withdraw from it at any point in time without being discriminated against). The information collected from all respondents during the survey was treated with confidentiality and all of the respondents were assured of anonymity.

4. Results and Discussion

For the remainder of this section, discussion takes place under the following headings: 1) descriptive statistics, 2) factor analysis and model specification, and 3) linear regression analysis.

4.1. Descriptive Statistics

Respondents were asked an array of demographical questions pertaining to themselves and their respective SMMEs. A summary of these results are shown in Table 1 and Table 2.

Table 1. Summary of demographical results of sampled SMMEs

Demographical aspect	Summary
Type of business	"Sole trader" = 77.4%, "Partnership" = 8.8%, "Close Corporation" = 13.8%
Non-franchised	"Yes" = 100%
Full-time employees employed	"0 – 5" = 80.2%, "6 – 10" = 12.2%, "11 – 50" = 7.6%
Years in operation	"1 – 5" = 39.6%, "6 – 10" = 29.0%, "10+" = 31.4%

Table 2. Summary of demographical results of respondents

Demographical aspect	Summary
Position	"Owner" = 35.8%, "Manager" = 32.4%, "Owner and manager" = 31.8%
Years' experience in position	"1 – 5" = 53.6%, "6 – 10" = 34.2%, "10+" = 12.2%
South African	"Yes" = 100%
Highest qualification	"Primary education" = 30.2%, "Secondary education" = 41.6%, "Tertiary education" = 28.2%
Decision making power	"Yes" = 100%

In addition to the above, respondents were asked to rate their agreement on three statements pertaining to their respective SMMEs' financial objectives. From the results, the following was evident:

- When asked whether income is more than expenses, 74.8 per cent agreed, 19.4 per cent were unsure and 5.8 per cent disagreed;
- When asked whether assets are more than liabilities, 75.4 per cent agreed, 17.8 per cent were unsure and 6.2 per cent disagreed;
- When asked whether sufficient cash was on hand, 78.2 per cent agreed, 15.2 per cent were unsure and 6.2 per cent disagreed.

4.2. Factor Analysis and Model Specification

In order to ascertain whether there existed a relationship between the accountancy skills of members of management of South African SMMEs and the attainment of their respective SMMEs' financial objectives, applicable factor analysis was first conducted through principal access factoring. The reason for the latter was to optimally reduce the number of independent variables (from seven items to two factors). When performing factor analysis, a legitimate factor can be recognised if it has a KMO test score of at least 0.600 and a Cronbach Alpha score of at least 0.600 (Field, 2009; Cohen & Sayag, 2010). A summary of the results from the factor analysis performed is shown in Table 3.

Thus, in order to help determine whether there existed a statistically significant relationship between the accountancy skills of members of management of South African SMMEs and the attainment of their respective SMMEs' financial objectives, one regression model[1] was developed:

$$FINOBJECT = \alpha + \beta 1 ACCSKILLS + \varepsilon.$$

All variables that were applied in the model above, including their measurements are described in Table 4.

Table 3. Summary of reliability tests on variables

Factor tested	Item name	Factor loading	Cronbach's Alpha	KMO test score
ACCSKILLS	Accounting skills	0.694	0.713	0.618
	Business Management skills	0.831		
	Financial Management Skills	0.764		
	Management Skills	0.699		
FINOBJECT	Profitability	0.822	0.822	0.618
	Solvency	0.666		
	Liquidity	0.799		

Table 4. Description and measurement of variables used in this study

Variable	Description	Measurement
FINOBJECT (dependent)	Key financial objectives	It measures the attainment of SMMEs key financial objectives. It assumes a value between 1 and 5, where 1 indicates "strongly disagree" and 5 indicates "strongly agree".
ACCSKILLS (independent)	Accountancy skills (factor)	It shows whether SMME members of management had relevant accountancy skills. It assumes a value between 1 and 5, where 1 indicates "strongly disagree" and 5 indicates "strongly agree".

4.3. Linear Regression Analysis

From the linear regression analysis performed, a R^2 of 3 per cent was calculated. This means that despite possible statistically significant results, the dependent variable is not solely influenced by the tested independent variable(s) – as represented by "α" and "ε" in the regression model. Regardless of the

[1] Symbols "α" and "ε" represent the constant(s) and error(s) in each model.

aforementioned, there was a weak statistically significant relationship between ACCSKILLS and FINOBJECT at the 1 per cent-level – refer to Table 5.

Table 5. Summary of linear regression analysis performed

		FINOBJECT
Independent variables	R^2	0.030
	F	15.623
	Sig	0.000
ACCSKILLS	Std β	0.174***
	Sig.	0.000

Using the results in Table 5 as a basis, the statistically significant prediction can be made that with 99 per cent confidence, if ACCSKILLS improve, it will result in the better attainment of FINOBJECT ($\beta = 0.174$)

5. Recommendation

Using the results of this study as basis, it is strongly recommended that relevant stakeholders of South African SMMEs operating in the fast moving consumer goods industry are afforded the opportunity to attend free (accredited) skill developed programmes on, inter alia, ACCSKILLS which, in turn, are funded through the Wholesale and Retail Sector Education Training Authority (W&RSETA). Upon completion of such programmes, participants should receive certificates of competence.

6. Conclusion

Taking into account the socio-economic importance of South African SMMEs, it is of no surprise that these business entities receive much attention from government and researchers alike. Unfortunately scholarly literature suggests that South African SMMEs have one of the worst failure rates in the world. Among the major contributors to the latter dispensation is the lack of skills – particularly those basic business skills which are not developed within SMME management.

Stemming from the results of this study, the importance of skill development was justified as ACCSKILLS, in particular, has a statistically significant influence on the attainment of sampled South African SMMEs' key financial objectives. In addition, the attainment of these key objectives has a knock-on effect on the overall existence of these business entities in the foreseeable future.

Avenues for further research include, among other, the influence of ACCSKILLS on the existence of South African SMMEs and the extent to which the ACCSKILLS of South African SMME stakeholders are developed.

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