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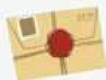

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CONTENTS

BULLION

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CBN BULLION: GUIDELINES FOR CONTRIBUTORS

Introduction

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The BULLION is committed to the dissemination of research findings and information about its research interests.

The ancillary purpose of this journal is to encourage discourse among persons working in various sectors and disciplines, as well as in other contexts. Consequently, our editorial policy promotes the submission of non-technical papers from diverse disciplinary perspectives. Our preference is for papers that are not loaded with econometrical tools and terminologies or complex economic models that would require specialized knowledge to decode and understand.

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GUIDELINES

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10. References for quotations or statement should be in parentheses in the text, not as notes. e.g. Mordi (2010:20) or Mu'azu (2014). where more than two authors are involved, cite senior author and use et al., for example. Johnson et all (1988).
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- The abstract should be italicized and in one paragraph and should summarize the pertinent results in a brief but understandable form, beginning with a clear statement of the objective and ending with the conclusions, with no references cited. Abbreviations in the abstract that are not standard abbreviations must be defined at first use. Data sources and range should be clearly stated.

We look forward to receiving your submissions.

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Crisis, Pressure, and Policy: Can Central Banks Set Boundaries?

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Abstract

Evolving from simple entities designed to issue national currencies and manage government debt to sophisticated institutions responsible for conducting monetary policy, central banks have had a fascinating journey that has shaped the functioning of modern economies. Today, they are involved in issues outside their original roles and beyond the scope of monetary policy, which may affect their credibility in the long run. This study submits that central bankers should learn to professionally resist attempts to get them to take on tasks that are outside their statutory functions. Admittedly, saying no may not be as easy as it sounds, but there is a strong need for it. Regardless of the sincerity of central banks' commitments to issues outside the reach of monetary policy, the failure that may follow will affect their credibility.

Key Words: Central Bank, Monetary Policy, Currency, Credibility

JEL Classification : E52, E58, G21

1.0 Introduction

The birth of central banking is undeniably a significant milestone in the history of finance and economic governance. Initially created to address the then-narrow economic challenges faced by societies and governments, the role has expanded over time, with limited instruments to achieve the multifaceted and often conflicting roles (Tommas, 1994; Michael, 2007; Omotunde, 2012; Mihailovici, 2015).

Various banking institutions existed before the advent of modern central banks, but none were as powerful and influential as today's central banks. Early financial institutions were often private banks or merchant ventures that played crucial roles in lending, issuing currency, and managing state finances.

In medieval Europe, private banks were established to manage money, facilitate trade, and lend to governments (Ugolini, 2018; First Utah Bank, 2024). Kings and monarchs often relied on these private banks to finance government activities and wars. This system provided some stability, but it limited the government's ability to control the money supply or conduct monetary policy.

The nonflexible nature of the gold standard was problematic primarily during times of war, economic crises, or financial instability. Thus, the system was inefficient and lacked the institutional capacity to stabilise the economy (Swmburne & Castello-Branco, 1991; Riet, 2016).

The creation of the Swedish Riksbank (SRB), the first issuing bank, in 1668 and the Bank of England (BoE) later in 1694 saw the birth of monetary policy formulation and implementation (Yaaba, 2016). Particularly, the BoE took over the responsibility of printing notes, backing them with gold, and striving to maintain the value of the printed notes vis-à-vis the gold standard.

This ensured cross-border trade with neighbouring countries that also used similar gold-backed currencies. Between 1870 and 1920, other industrialised countries established central banks, with the Federal Reserve, the last in the list, being created in 1913. Thereafter, as colonised countries regained independence, they established their central banks to achieve monetary autonomy in addition to political freedom (Selassie, 2024).

The 18th century marked the beginning of an understanding of the potential impact of interest rates on the economy as central banks started to position themselves as monetary policy managers and lenders of last resort (Lacker, 2023).

The understanding of the business cycle evolved gradually, leading to the development of theories on the relationship between interest rates and the business cycle among economists. Between the 18th century and the present era, central banking has evolved in various dimensions and assumed unforeseen responsibilities beyond the scope of monetary policy. They are actively involved in efforts to entrench fiscal sustainability and financial stability, address inequality, and mitigate climate change. According to critics, while it can be argued that, to a certain extent, central banks can contribute to these issues, not all of them have invariably or exclusively been statutorily their responsibility (BIS, 67th Annual Report), and accepting the task may overburden monetary policy and thus distract them from their primary responsibilities (Patrick, 2020; Skinner, 2020).

Others argued that the new roles are forced on central bankers (Hansen, 2022), who cannot object because independence or autonomy only exists on paper (Doga, 2020). This study aims to examine the evolutionary role of central banking and determine if additional roles are a consequence of central bankers' attempts to expand their territories and assume responsibilities not officially assigned to them or if they are imposed by fiscal authorities, with which they cannot disagree.

To achieve the above objective, the paper is structured into five sections, including this introduction. Section Two examines the evolution of central banking and monetary policy objectives, while Section Three highlights the two distinct types of monetary policy architecture. Section four discusses how the role of central banks and monetary policy goals changes over time with emphasis on global events such as economic crises, inequality, financial innovation, financial crises, COVID-19, and climate change, while the last section gives a concluding thought, providing evidence to support the need for central bankers to professionally turn down some of requests to take on responsibilities outside the purview of monetary policy and in some cases central banking.

2.0 The Evolution of Central Banking and Monetary Policy Goals

2.1 The Creation of the Bank of England in 1694

Although the Bank of England (BoE) is recognised as the first modern central bank, Sveriges Riksbank in Sweden, established in 1668, is considered the world's oldest central bank (Yaaba, 2016). It was initially founded as a private bank to manage the king's finances but was later authorised to issue currency and thus became the model for later central banks.

The Bank of England was founded in 1694, marking a significant shift in the management of government finances and the ability to direct and influence the level of economic activity.

The Bank of England (BoE) was established to raise capital to finance England's military efforts against France and manage the country's debt through the issuance of bonds, a relatively systematic approach compared to the ad hoc arrangements with private banks (Goodhart, 2023).

To centralise control over the nation's money supply, the Bank was also given an exclusive right to issue the country's currency, thereby halting the instability and confusion surrounding the process that arose from the existence of different currencies issued by various private banks (Bordo, 2007).

The Bank of England (BoE) soon became the model for central banking institutions worldwide, combining the roles of commercial banking (i.e., lending and deposit-taking) with the issuance of currency and the management of government debt. The control over currency issuance and money supply made it easier for the Bank to stabilise the economy, helping to mitigate inflationary pressures and strengthen the financial system.

2.2 Establishment of Banque de France in 1800

The emergence of other central banks began shortly after the creation of the Bank of England (BoE), aiming to manage state finances, control the country's currency, and stabilise the economy. Next on the list is the Banque de France, established in 1800 (Marielle, 2019), specifically aimed at stabilising the economy, controlling inflation, and managing government debt, which dominated the aftermath of the French Revolution (Vincent & Marc, 2018).

Before the Bank's creation, France faced severe economic and financial instability due to its substantial national debt, primarily attributed to the significant spending on wars, including the American Revolutionary War (Vincent & Marc, 2018). An attempt to manage the debt resulted in higher taxes and widespread economic hardship for the masses. The French Revolution exacerbated the already dire situation until 1799, when the monarchy became bankrupt, precipitating the abrupt collapse of the regime.

Furthermore, the issuance of paper currency (assignats) led to the massive devaluation of the country's currency, resulting in hyperinflation and a financial crisis. The establishment of the Banque de France marked a significant milestone in the history of the French financial system (Denis, 2023), as it signified the beginning of a crucial phase in the country's recovery following the turbulent revolutionary period. With centralised financial power, the Bank largely succeeded in playing its role of stabilising the gold-backed currency (Goulard, 2018) by issuing a unified and reliable national currency, effectively managing the monetary system, providing sufficient credit to support government and economic activities, and thereby enhancing financial stability.

The notable impact of the Bank extends beyond resolving domestic economic challenges (George, 2016) to serving as a model for other countries, influencing the creation of institutions such as the Bank of Italy and the Bank of Spain in the 19th century. This is in addition to its accolade as the foundation of modern financial systems worldwide.

2.3 The Birth of the National Bank of Belgium in 1850

With the separation of Belgium from Holland in 1830, the conduct of the existing banking institutions was deemed unsatisfactory to the rapidly industrialising nation (Buyst & Maes, 2008). This, coupled with the success stories of the duo of the Bank of England, established in 1694, and the Banque de France in 1800, influenced the establishment of the National Bank of Belgium in 1850, marking a pivotal moment in the country's financial history (Conant, 1910).

Belgium was overburdened with several challenges, including a fragmented banking system, a lack of unified monetary policy, and over-dependence on foreign banks to finance domestic economic activities (Patrick & Kurt, 2014). Besides, the establishment of the Bank was a response to the country's need for a central institution that could help stabilise the national currency, promote economic development, and manage monetary policy.

Before the creation of the National Bank of Belgium, private banks were responsible for issuing currencies, resulting in the issuance of different paper money backed by varying reserves. This resulted in chaos, distrust, a lack of economic cohesion, instability, and, consequently, frequent financial crises (Erik & Maes, 2008).

Like the case of England and France, the National Bank of Belgium was aimed at issuing and managing the country's official nationally unified currency (the Belgian Franc), managing the government debt (i.e., buying and selling of government bonds), stabilising the financial system (i.e., to reduce the associated risks of the fragmented banking system), and offering credit to foster economic development (Conant, 1910).

The creation of the Bank was a significant milestone in the development of Belgium, as it succeeded largely in stabilising the country's currency, unifying the banking system, creating strong and reliable institutions to manage public debt and economic policy as well as integrating the country into the global financial system (Quaden, 2005).

2.4 The Formation of the United States Federal Reserve System in 1913

The Federal Reserve System in the United States was established in 1913 to perform the functions of central banking in response to a multitude of banking crises, particularly the Panic of 1907. The panic exposed the inherent weaknesses in the US banking system, especially the lack of a central institution to intervene in times of crisis. Thus, the Fed was designed to act as a central authority to manage the money supply, stabilise the banking system, and avert future panics, marking a significant shift towards more active government intervention in economic management.

However, unlike the BoE, which was only statutorily mandated with government debt management and issuance of the country's currency, the Fed was assigned additional responsibilities, including regulating the money supply through open market operations, setting interest rates to control inflation and employment levels and acting as a lender of last resort to prevent bank failures.

2.5 The Establishment of the South African Reserve Bank in 1921

The development of central banking in Africa was significantly influenced by the activities of the colonial masters, who strove to keep Africa perpetually not only politically dependent but also economically subordinate. Thus, most African countries did not have central banks until the mid-twentieth century, when they gained political independence. Before independence, the central banks of the colonial powers were responsible for managing African economies, except in a few instances where currency boards were used to manage some.[1]

Therefore, with South Africa's independence in 1910 and the financial crisis of 1920, the need for a central monetary authority to manage the money supply and stabilise the South African economy became imminent. Hence, the creation of the South African Reserve Bank (SARB) in 1921 marked the beginning of central banking in Africa. Modelled after the Bank of England in structure and purpose, but unlike the Bank of England, the SARB is privately owned. The Bank began issuing the country's banknotes in 1922, following a request from commercial banks to relieve them of the obligation made at the Gold Conference in October 1919.

The South African Reserve Bank Act and its subsequent amendments placed the responsibility on the SARB to protect both the internal and external value of the Rand, act as a banker to the government, serve as a lender of last resort to commercial banks, and maintain price and financial stability.[2]

2.6 The Creation of the Bank of Ghana in 1957

The Bank of Ghana (BoG) was established in August 1957, immediately after the country's independence in March of the same year. Sighting the possibility of regaining independence from the colonial masters, the agitation for a central bank commenced, alluding that political freedom without economic independence would have no meaning. Proponents of establishing a central bank argued that it would function as a banker to the government, issuing and redeeming banknotes[3], coordinating the activities of commercial banks to provide effective banking services to the public, maintaining external reserves, and catering to the Indigenous sector of the economy[4]. With the revision and approval of the Trevor report, the grounds for the establishment of a central bank in Ghana were set. Although the BoG operates not without challenges, it has played a pivotal role in promoting the country's socioeconomic development.[5]

3.0 Polar Types of Monetary Policy Architecture (to be summarised into two pages)

The evolutionary era of central banking has witnessed three distinct types of monetary policy architecture, each with its polar characteristics. Each of them represents a discernible point on a continuous spectrum such that each jurisdiction can be fitted to a particular point on the spectrum.[6]

The starting point is the 'basic monetary policy architecture', in which case, the financial system was informal, with few formal banks. During this period, most central banks either embarked on an exchange rate peg or operated a currency board as a monetary policy management technique. Central banks, under this architecture, have near absolute control of the inflow of foreign exchange; thus, significant components of foreign reserves were required. The yearning for the independence of central banks was non-existent. There was no room for discretionary monetary policy, as central banks function virtually as counterparties to most foreign exchange transactions on behalf of the government.

The adjustment of money supply and demand, considering that the exchange rate was pegged mainly during this era, was through automatic adjustments via balance of payments (BOP) disequilibria and fiscal balances (Yeyati, 2013). The need for a monetary policy committee, as it is today, and the expert judgment of central bankers was minimal. This type of monetary policy architecture was prevalent among the colonised countries, which, although they had a separate currency, were controlled mainly by the monetary authorities of the colonial masters. Good cases of this architecture are found in the colonies of

[1] See https://www.bon.com.na/Learn/History/History-of-Central-Banking.aspx for more details.
[2] See https://www.resbank.co.za/en/home/about-us/history
[3] A function was then carried out by the West African Currency Board (WACB), established by the British in 1912, covering The Gambia, Nigeria, and Sierra Leone, to issue and redeem currencies for British colonies.
[4] See https://www.ghanaweb.com/person/Bank-of-Ghana-3532 for detail
[5] See https://www.bog.gov.gh/about-the-bank/
[6] See Cobham, 2010, for more details.

Belgium, Britain, France, and Portugal (Eichengreen & Sussman, 2001). Some of the colonies were politically independent without monetary autonomy. The price levels in these countries are automatically tied to those of the anchor countries, such that shocks in the anchor countries are easily transmitted to the colonies. The advantage of this strategy lies in its low operational cost and the stability of the domestic price level, which aligns with the prices of the anchor countries.

Second is the 'intermediate monetary policy architecture', in which the financial sector is more developed compared to the first polar type, allowing central banks to not only formulate monetary policy but also develop tools to control monetary aggregates. Financial innovations began largely under this architecture. Commercial banks are required to keep reserves with the central banks for the conduct of monetary policy, in addition to other instruments such as discount rates, credit policies, and moral suasion (Baliño, 1997). The demand for central bankers' expertise had risen with the increased incentive for discretionary monetary policy. The Reserve becomes an active instrument of monetary policy, deployed to achieve the desired macroeconomic objective of price and output stability through its impact on the exchange rate, monetary aggregates, and credit creation. This period saw the birth of multiple macroeconomic objectives for central banks (i.e. low and stable inflation, low level of unemployment, robust output growth, balance of payment equilibrium).

This type of monetary policy, characterised as polar, was mainly in vogue in developed countries from the era of the Bretton Woods system until the 1980s.

In comparison, some economies in transition adopted these techniques in the 1990s. The monetary set-up was quite ambiguous under this architecture. The de jure convertibility clause becomes a nebulous anchor for a de facto dollar standard (BIS, 67th Annual Report). Restraint pervaded the financial landscape due to a complex set of regulations imposed on the financial market.

The evolution of the 'modern monetary policy architecture' involves the increased sophistication of the financial system, particularly the banking sector. Here, the major tool of operation for central banks is the traditional interest rate. However, it is often complemented by other tools, such as exchange rate targeting, price targeting, and inflation targeting, as well as occasional intervention in the money market, primarily during times of crisis. However, there is an improvement in the efficiency of the interest rate tool due to the presence of a well-developed financial market. The channels of monetary policy transmission were highly effective, while fiscal activities related to borrowings largely shifted to the bond market, with minimal government presence in the banking system. Under this regime, central banks rely more on discretionary policy, with less emphasis on rules, to continuously react to developments in the domestic economy, including the external sector. The independence of central banks was optimal, as they were mostly nonpolitical, technically competent, and sufficiently flexible with effective mechanisms and channels of monetary policy transmission (CBN, 2021).

This modern polar type of monetary policy arrangement is considered the pinnacle of monetary policy management techniques, highly efficient and effective in delivering price and financial system stability while inducing output, at least in the short run. There is convergence in both the long-run and intermediate targets of central banks in this domain. It is common among industrialised countries, including the United States, the United Kingdom, the Euro Area, and some other Western European countries (Philippe et al., 2008; Chatham House, 2016).

Although intellectual discourse on monetary policy framework has been dominated for the past few decades by the underlying framework and principles of the 'intermediate monetary policy architecture' as most of the countries fall within the category (BIS, 2009; IMF, 2015; Yaaba, Mika'ilu, Sanda & Gulumbe, 2017; Massimo et al., 2019). While the economies of the central banks within this domain are characterised by fairly, and in most cases, fully liberalised financial markets, such that they can adequately position themselves to take advantage of the monetary policy posture of central banks, the central banks themselves are only partially independent. This partial independence, coupled with the inability of monetary policy operations to ensure the achievement of monetary targets[7], means that the presence of a nearly fully liberalised financial market provides an incentive for crises arising

[7]And/or intermediate targets of monetary policy

from speculative activities, particularly in a fixed exchange rate regime. The atmosphere was one of huge relaxation of constraints on monetary and financial expansion.

Thus, the embrace of fiat money to finance large fiscal imbalances and the surge in the pursuit of excessively ambitious macroeconomic objectives provided support for financial innovation and accelerated deregulation, setting the stage for systemic financial instability (BIS, 62nd and 67th Annual Reports). Notwithstanding this, there was an increasing quest by most economies in the intermediate monetary policy architecture to transition to the modern monetary policy architecture.

However, some observers argued that even if the transition is achieved, the problem cannot entirely be solved, contending that, despite the efficiency of the modern monetary policy architecture, the existence of 'stationary equilibrium' is still far from reality (Park, 1972; Yaaba, Mika'ilu, Sanda & Gulumbe, 2017). They cited the cases of the Asian financial crisis of the 1990s and the global financial crisis of 2008, which was ignited by the mortgage sector in the United States, claiming that these events cast some doubts on the effectiveness of even central banks in the domain of modern monetary policy architecture. Most observers attributed these crises not only to the proclaimed excessive risk-taking by financial institutions but also to the failure of central bankers (Sere-Ejembi et al., 2012).

4.0 The Changing Role of Central Banks

As it stands today, the changing role of central banks can be discussed from three perspectives, namely, monetary policy, prudential regulation and supervision, and oversight of payment and settlement systems (BIS, 67th Annual Report). Essentially, however, not all the activities within these three tasks associated with central banking are statutorily or directly the responsibility of central banks, even though it is a well-known fact that, from the outset, central banks have the mandate of price, monetary, and financial stability.

As highlighted earlier, the 19th century witnessed the expansion of central banks worldwide, and their roles in managing national economies became increasingly prominent. The challenges of managing financial and economic crises, climate change, and biodiversity loss, as well as the issuance of local currency, maintaining external reserves, and ensuring financial and price stability, have prompted central banks to assume new responsibilities.

This section examines the evolution of central banking roles from two perspectives: the monetary and financial spheres and across five key areas – the origin, financial crises, economic crises, climate change, and biodiversity loss. In each case, it examines how central bankers are either compelled to play specific roles by law or politically incentivised to participate in processes originally not associated with them or, in the pursuit of relevance, impose upon themselves additional roles within the process. The tail-end consequences of their involvement are, in some instances, highlighted, justifying the need for central bankers to say no in some cases professionally.

4.1 The Origin

The early objectives of monetary policy were to stabilise a nation's currency, manage public debt, and facilitate economic growth. The most fundamental purpose of monetary policy, at the early stage, was to unify the domestic currency and ensure its stability to build confidence in the money supply. This was critical, considering that, before the period, currencies were often subject to fluctuations due to excessive production, differentiated versions, and political instability (IMF, 2015; CBN, 2017).

To ensure the stability of the local currencies, central banks in the 19th century assumed the responsibility of printing local currencies, centralising their issuance with stringent measures to prevent counterfeiting. They also adopted the gold standard, which tied the value of the domestic currency to a fixed amount of gold, making the local currencies not only a reliable medium of exchange but also a stable one[8]. Moreover, the gold standard limited the ability of governments to issue money at will, thereby reducing inflationary pressures and promoting currency stability.

Early central banks, such as the BoE, were established to help manage public debt. Governments in the 17th and 18th centuries were

[8]Before the establishment of central banks, governments often relied on merchant banks or chartered banks to issue currency. These banks would back the currency they issued with assets such as gold, silver, or government bonds. Central banks, such as the Bank of England (founded in 1694), were established in part to consolidate control over currency issuance, ensuring that the government could maintain a stable currency supply.

deeply troubled by significant debt burdens resulting from wars, military campaigns, and national projects. Thus, central banks were quite helpful, acting as intermediaries in managing these debts and raising funds for wars. This was achieved through the issuance of government bonds and loans, which provided the government with liquidity (Bordo, 2007). This was particularly prominent during the Napoleonic Wars and the American Revolution when governments had to borrow large sums of money to finance their military efforts. Over time, this strategy proved ineffective in moderating public debt default, stabilising public finances and national economies, and thus providing an environment conducive to growth arising from inflation instability fueled by excessive money printing (John, 2012).

Recognising the importance of a stable and effective monetary system for trade and economic growth, central banks played a crucial role in creating an environment that fostered economic activity (Khou et al., 2015). The early monetary policy helped streamline payments, both domestically and internationally.

As trade grew between nations, the need for a stable and reliable currency that could facilitate cross-border transactions became increasingly important. Central banks played a critical role in stabilising exchange rates and ensuring that monetary systems were conducive to the movement of goods and services.

Shortly after their creation, they also acted as a lender of last resort to other banks in times of crisis (Bordo, 2007), thereby averting bank failures that could disrupt trade and economic activities. Central banks also played an early role in regulating other banks, particularly commercial banks, which facilitated the extension of credit to businesses and households. This credit expansion was vital for supporting entrepreneurship and industrialisation, which were key drivers of economic growth.

In a nutshell, therefore, the objectives of central banking in the early stages were tensely, narrowly defined and simple, primarily centred on currency stability, public debt management, and economic growth through financial stability. Many economists and analysts argued that the country's currency link to gold limited the ability of central banks to direct and redirect the economy, particularly during downturns. The fluctuation in gold prices translates to instability, and the system propels environmental and cultural harms due to excessive gold mining, leading to a call for reform (Jeffrey, 2010).

4.2 Economic Crises and Central Banking

The expansion of central banking's objectives began gradually at the beginning of the 20th century, when they assumed responsibility for full employment, in addition to their roles in maintaining price and financial stability. This period witnessed the evolution of the complexities of modern economies, arising from the emergence and growth of Keynesian thought, as well as the subsequent focus on using monetary policy to manage inflation and unemployment[9].

At the beginning of the 20th century, central banks such as the Federal Reserve and the Bank of England (BoE) began to use interest rates to control inflation and stabilise the value of the currency, a direct lesson learned from the hyperinflationary episode triggered by the German Weimar Republic crisis of 1921-1923. Moreover, the Great Depression of 1929-1939 highlighted the need for an active monetary policy to combat unemployment and stimulate economic recovery. Keynesian theories, particularly during the 1930s and the post-World War II period, emphasised the importance of full employment as one of the key goals of monetary policy. Fiscal authorities initiated a campaign to incorporate monetary policy into their approach, complementing fiscal policy.

Towards the end of the 1970s, the most significant global economic issue was inflation. In 1981, the US experienced another period of double-digit inflation, with mortgage rates skyrocketing, the job market weak, unemployment alarmingly high, and the nation in crisis. The situation was attributed to the prolonged expansionary stance of the monetary policy of Arthur and Miller, who served as Fed chairs between 1970 and 1979. The fiscal authorities overlooked the colossal spending on Johnson's anti-poverty agenda and the war in

[9] The period was tagged as the shift toward economic management.

[10] Recall that with the collapse of the gold standard, the Bretton Woods system was devised in 1944 to stabilise global exchange rates. Thus, most countries, particularly those in the West, pegged their currency to the dollar. This led to the overvaluation of the US dollar against other currencies. When inflation in the US began to bite other countries hard due to the fall in the value of the US dollar, the campaign for dollar conversion to gold rose gradually, especially from West Germany, leading to the abandonment of the currency. Paul Volker advised the government to put a halt to "gold convertibility" for dollars (see Mathews, 2022 for details)

Vietnam during the period (Mathews, 2022), which continued into Nixon's administration, as well as Nixon's decision to end the system of "gold convertibility" for dollars[10]. The heightened energy prices due to the OPEC oil embargo, which was imposed in response to the Yom Kippur War, were also overlooked.

Volker implemented a chemotherapy-like strategy, squeezing the economy of funds and getting inflation under control, but at the cost of soaring unemployment and a debt crisis[11]. And recession, earning him an epithet – "Volcker shock". This era marked the beginning of the importance of central bank independence, and the long-standing belief in the political limitations of central banks' decisions on inflation was put into question. This also demonstrated that central banks need to act with determination and in line with their mandates to counter inflation. Without decisive action, restoring price stability is a challenging task. However, some scholars argue that Volcker's success in making such a tough decision was due to the heightened inflation, which resulted in a national crisis (Sebastian, 2016). Others argued that Volcker failed to get away with the decision. Unhappy with the situation – the increasing dominance of monetary policy, which was enormously unpopular among the US populace[12] - Nixon introduced what later became popularly known as the Reagan tax cuts (Richard, 2010) to neutralise the restrictive monetary policy stance of Paul Volcker. Two significant tax cuts occurred between 1981 and 1986. The first was the Economic Recovery Tax Act of 1981, and the second was the Tax Reform Act of 1986[13]. The consequences were a surge in the budget deficit and an uptick in national debt (Kessler, 2015; Tom, 2017). They further argued that both government officials and his colleagues in the Fed, appointed by Reagan, who came to power in 1981, revolted against his tight monetary policy stance to such an extent that he contemplated resignation (Sebastian, 2016).

Early instruments included discount rates and the issuance of currency. Still, these evolved into open market operations and interest rate policies in the mid-20th century, used to cool inflation and stimulate or dampen economic activity. This continued until the latter part of the century when non-conventional tools and quantitative easing were introduced.

On a nominal anchor, central banks initially adopted a currency peg, a framework that linked the domestic currency's value to that of another country's currency. Under this approach, the country's monetary policy is primarily dependent on that of the country to which the currency is pegged, thereby making the central bank less resilient to shocks in terms of trade, foreign interest rates, or exchange rate variations. This prompted a shift to flexible exchange rates that required another anchor. The target of monetary aggregates then comes to the fore, with proponents contending that central banks could effectively control the money supply in an era of the predominance of the Friedmanic proposition.

With the breakdown of the money-inflation relationship resulting from innovations in financial markets, the momentum behind monetary aggregate targeting began to wane. Then comes the idea of inflation targeting, in which the central bank forecasts and makes public the future path of inflation, compares it with the target inflation rate, and makes monetary policy decisions based on the gap. Central bankers believe that interest rates and inflation are adversely related, such that the actions of a central bank to raise or lower interest rates steer inflation in the opposite direction (Sarwat, 2012).

Advocates of inflation targeting contend that its strength over other frameworks is its hybrid nature – a combination of rules and discretion in the policy formulation process. The two distinct elements — a medium-term numerical inflation target and a short-term response to economic shocks — make it an appealing option to policymakers. Another strength of the framework, as argued by the proponents, is flexibility. The focus must not always be on achieving the target immediately but rather over a certain horizon, typically two to three years (medium term). Thus, other objectives, such as output smoothing, can be smuggled into monetary policy in the short run. To

[11] The Volcker shock led to a debt crisis in Latin America. For instance, high interest rates led to a ballooning Mexican debt, which ultimately resulted in a default in 1982.
[12] For instance, the Senate Majority Leader, Robert Byrd, states, "Attempting to control inflation or protect the dollar by throwing legions of people out of work and shutting down shifts in our factories and mines is a hopeless policy." Moreso, farmers were said to have protested by blocking all roads leading to the Fed headquarters with tractor dollars (see Mathews, 2022 for details).
[13] The Economic Recovery Tax Act of 1981 reduced the highest personal income tax (PIT) rate from 70% to 50% and the lowest from 14% to 11%, while the highest capital gains tax (CGT) rate was cut from 28% to 20%. The Tax Reform Act of 1986 reduced the highest personal income tax (PIT) rate from 50% to 38.5% and later to 28%, while the highest capital gains tax (CGT) rate was raised from 20% to 28%.
[14] However, some analysts believe that no central bank can be entirely independent, as they are accountable to the government. Proponents, however, advocate for at least instrument autonomy, such that fiscal considerations should not be able to dictate monetary policy actions.
[15] Central banks must be willing to focus solely on price stability objectives without considering other issues such as unemployment, exchange rates, and wages.

effectively implement inflation targeting, the case of central bank independence[14] and strict focus on inflation control[15] by monetary authorities came into focus.

The case of central bank independence largely becomes a political challenge in the context of inflation targeting. Fiscal dominance is a key feature of most economies, including those that are developed, emerging, and developing. Experiences in the implementation of inflation targeting are highly diffused, as far as central banks' independence is concerned, from early adopters such as the Reserve Bank of New Zealand, the Central Bank of Chile, and the Bank of Canada to the last wave of apologists including Central Banks of Brazil, Hungary, Polland, and Mexico.

For the earliest set of adopters, such as New Zealand, adoption followed strong support and directives on the implementation procedure from the country's legislature. The basic framework is contained in the Reserve Bank of New Zealand Act of 1989. The act allowed for a joint determination by the government and the Reserve Bank, not only for the inflation target but also for other objectives (Edward, 2005). Chile's experience was not too different, as the adoption in 1990 was preceded by new central bank legislation (Zelmer & Schaechter, 2000; Morande, 2001; Schmidt-Hebbel & Tapia, 2002). The announcement of inflation targeting in Canada in 1991 was a joint effort between the Governor of the Bank of Canada and the Ministry of Finance. In Britain, the Chancellor of the Exchequer not only announced the inflation goal when it was adopted in 1992 but also periodically set policy goals for the Bank of England.

According to Edward (2005), the cases of Sveriges Riksbank, the Reserve Bank of Australia, Norges Bank, and the European Central Bank (ECB) have recorded less explicit government involvement. Starting with Sveriges Riksbank, which adopted IT in 1993, the bank relied on existing government provisions that explicitly stated an overriding goal of inflation control. Using the earlier delegated authority, the Governor of the Reserve Bank of Australia, in 1993 (Malcolm, 2005), announced a migration to IT. Similarly, relying on the treaty establishing the European Community and the clear goal of price stability assigned to the ECB in the treaty, the bank opted for IT in 1998. In the same vein, the Czech National Bank and the Bank of Mexico independently adopted IT in 1998 and 2001, respectively, without government interference. Although legislation later emphasised price stability as the primary objective of central banking in the Czech Republic, no government effort in that direction was recorded for Mexico (Edward, 2005).

The case was also slightly different for the Central Bank of Brazil, Hungary, and Poland, which were established by either a presidential decree or parliamentary acts. Formally adopted in South Africa in 2000, with the role of target announcement assigned to the Minister of Finance, a committee comprising members from both the Reserve Bank and the National Treasury facilitates the implementation process, necessitating regular consultation between the two. This is despite the constitutional provision for the independence of the South African Reserve Bank. With the operational autonomy provided in the Bank of Ghana Act of 2002, the bank adopted IT in 2007 (Michael et al., 2018). It established a Monetary Policy Committee to decide the implementation of the new policy. The BoG and the government collectively set the medium-term inflation target, leaving the BoG with the responsibility of achieving it.

Overall, while the need for central bank independence has still been canvassed by many, the changing role of central banking often makes government involvement very important. Experience, however, shows that the level of government involvement varies from explicit guidance in New Zealand to a more flexible arrangement, as seen with the European Central Bank (ECB).

4.3 Inequality and Central Banking

The long-term rise in economic inequality, which began in the 1980s, is attributed to structural factors arising from deregulation and liberalisation programmes across the globe (World Inequality Report, 2022) and is largely considered beyond the reach of monetary policy. Some scholars argue that it is best addressed by fiscal and structural policies (BIS Annual Economic Report, 2021; World Inequality Report, 2022).

According to the World Inequality Report (2022): *"The richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it. On average, an individual from the top 10% of the global income* *distribution earns €87,200 (USD122,100) per year, whereas an individual from the poorest half of the global income distribution makes €2,800 (USD3,920) per year".*

"*Global wealth inequalities are even more pronounced than income inequalities. The poorest half of the global population owns barely any wealth, possessing just 2% of the total. In contrast, the richest 10% of the global population owns 76% of all wealth. On average, the poorest half of the population owns PPP €2,900 per adult, i.e. USD4,100 and the top 10% own €550,900 (or USD771,300) on average*".

The rise in wealth and income inequalities is not restricted to Emerging Markets and Developing Economies (EMDEs) but also affects most advanced economies. The increase is more pronounced in the US, among advanced economies, and in China, India, and Russia, among major emerging economies (World Economic Outlook, 2024).

Resolving the issue,[16] Some scholars argue that the outcome depends on how public policy responds to the causes, but most agree that it is highly likely to be solved by redistributive policies, such as taxes and transfers (Weisstanner & Armingeon, 2020; Campomanes, 2024). Others contend that a broader approach is required for pre-distribution. Inclusive growth and better market outcomes policies are necessary to enhance new opportunities for firms and workers. The proponents of the wider approach thus suggested that reforms should encompass a regulatory policy framework that fosters competition and inclusivity, boosts innovation, promotes the adoption of digital infrastructure, enhances digital literacy, and upskills and reskills workers. They also advocated labour market and social protection policy initiatives to ensure workers get a fair share of returns. An approach comprehensive enough to call for significant policy overhaul.

To achieve this policy overhaul, they call for the involvement of monetary policy to contribute to the process. At the outset, the campaign was centred on monetary policy, focusing on factors that cause inequality to rise, at least in the short run. They emphasised low & stable inflation and financial system stability, coinciding with the original role of central banking and monetary policy. Behold, this was expanded shortly to include macroeconomic stability, and more recently, they have called upon central banks to wear their "non-monetary hats", primarily implying a redistributive role for fiscal authorities.[17], in addition to their role in prudential regulation (BIS, 2021). Monetary policy is now expected to bear the brunt of macroeconomic stabilisation.

They argued that monetary policy possesses a distributional effect, particularly if it takes cognisance of household heterogeneity. This is in addition to its price-stabilising role that could aid in moderating inequality and unemployment. An interest rate cut, they argued, can redistribute income in favour of borrowers (Coeure, 2013; Baek, 2023). They also argued that an increase in wages arising from labour market tightness could be of immense benefit to non-Ricardian households (NRHs) (Ernst et al., 2022; Brunow et al., 2022).

Undoubtedly, central banks can contribute by focusing on achieving their primary objectives of taming inflation to protect the purchasing power of the people, preventing financial crises to safeguard the assets of low-income households, and avoiding recession to curb the further widening of income inequality. Outside these, additional roles signify an extra burden on an already over-loaded institution.

4.4 Financial Innovation, Financial Crises, and Central Banking

According to Gabriel and Ricardo (2008), although central banks are primarily concerned with stabilising the price level, in practice, they also attempt to avoid recessions and financial crises. If any such event occurs, central banks (CBs) are required to help restore normalcy, thereby preventing CBs from narrowly focusing on inflation without adequate attention to the financial system and the economy.

However, financial and economic stability might be viewed by some analysts as a secondary goal for central banks. The interconnectedness of both makes it inevitable for them to ignore any. Economic downturns, undesirable fluctuations, and financial instability can mutually exacerbate one another, creating uncertainties that can distort

[16] Wealth and income inequality between and within countries.
[17] Good examples abound worldwide during the COVID-19 crisis.

the decision-making processes of private agents, governments, and central banks. Therefore, a sound, stable, and well-developed financial system is a precursor for the efficacy of monetary policy (Truman, 2003).

To do this effectively requires full-time monitoring and immediate response to turbulent asset price movements to avoid bubbles bursting.

However, this is not a simple task. Detecting the existence of bubbles and their progression is a challenging task. It is difficult to pre-empt a potential financial crisis by taking proactive policy measures to avert it. [18]In minimal cases where central banks succeed, the more difficult thing becomes the choice of policy options to avoid worsening a bad situation. Thus, central banks prefer a reactive approach to soften the impact (Hanno, 2024).

There are various examples to support this assertion. Although the submission that central bankers saw the GFC coming was debatable, there are sketches of speculations with no response from central bankers. However, the Fed lowered the Fed Fund Rate (FFR) aggressively until it nearly touched zero in response to the GFC when it started in 2008.

Realising the inefficiencies of the instrument at that level, the Fed diverted effort to lowering yields at the end of the maturity spectrum by embarking on large-scale asset purchases. It began with mortgage purchases, followed by longer-term Treasury bonds in all rounds of quantitative easing (Hanno, 2024), with little or no regard for its primary responsibility of curtailing inflation. During this period, central banks played a crucial role in curtailing systemic risk, ultimately averting a global financial meltdown (Amando, 2020). Thus inflating the notion of the economic role[19] of central banks, culminating in additional responsibilities beyond the traditional scope of monetary policy. Indeed, Nikola (2017) suggested that the GFC has demonstrated that the threat of inflation[20] to the financial system and the overall economy is less than that of financial instability. Taken together, the resultant inflation experience in the aftermath of the GFC echoes the risk of monetary financing, thus reminding central bankers of the pitfalls of subjecting monetary policy to further burdens outside its primary responsibility.Moreover, fintech innovation, especially those related to payments, has also posed new challenges and often competes with the priority of stabilising prices (Dorothee & Jose, 2023).

As central banks strive to create an enabling environment[21] for fintech to thrive so that customers can enjoy the benefits of innovation, they also contend with their primary responsibility of stabilising the financial system to protect the same customers. This requires a comprehensive assessment and effective management of the potential risks associated with those innovations – an additional burden on the existing workload.

Worse still, central banks are beginning to worry about the potential loss of sovereignty of the payment system, arguing that a substantial part of the market is now controlled and managed outside their jurisdiction.[22], serving as an additional threat to financial system stability as failure could disrupt the payment market and, by extension, the economy (OMFIF & Earnst & Young, 2020; BIS & The World Bank Group, 2021). Some financial innovations are a deliberate effort to bypass regulation.

Even though some central banks still do not consider financial stability as exclusively within their authority (ECB, 2002; Ferguson, 2004), claiming that the task of covering all financial instability issues is beyond them,[23] they are still awake and constantly alert, monitoring and supervising financial markets to avert the burst of bubbles that could instigate financial crises or minimise the impact on the economy when it occurs, posing an additional burden to the existing one.

4.5 Covid-19, Ukraine War, and Central Banking

As the Covid pandemic struck in 2019, the global economy was profoundly impacted, shrinking by 3.4 per cent in 2020, the worst contraction since the Great Depression, triggering disruptions across various sectors. Many countries entered recessions, with industries such as travel,

[18]It is not astonishing for central banks to fail to prevent bubbles but rather to delay in responding to the burst when it occurred. Central banks need to act fast to restore the health of the financial system if the burst affects the balance sheet.
[19]That is the prevention, management, and resolution of financial crises.
[20]Except for hyperinflation.
[21]Some central banks have gone beyond providing an enabling environment in the national payments system; they are now involved in the retail payments market. A good example is the Central Bank Digital Currency.
[22]Virtual currencies are mostly outside the control of central banks.
[23]Even central banks with the best and most extensive supervisory powers hardly cover other financial corporations such as hedge funds, capital markets, insurance companies, etc.

hospitality, and retail experiencing severe contractions. Millions of jobs were lost as businesses shut down or downsized operations, and inequalities were exacerbated, with vulnerable groups, including informal workers and women, disproportionately impacted. Supply chains were disrupted as lockdowns caused production slowdowns in manufacturing hubs, particularly in Asia. Reduced shipping capacities, port delays, and shortages of raw materials strained global supply chains, driving up costs for goods (Congressional Research Service, 2021; Mian et al., 2021).

Governments' responses were extraordinary and swift, encompassing various unusual tools of unprecedented size and scope (Eric & David, 2024). Central bankers were not excluded from the game. They were not only co-opted but also gladly joined the effort to curtail the impact of COVID-19 on the economy by taking both balance-sheet and off-balance-sheet measures. Besides aggressive rate cuts, debt moratoria were offered, large asset purchases were facilitated, currency interventions and liquidity injections were humongous, and heavy direct income support measures were taken. All these events occur in the name of an event initially acknowledged to be transitory[24](Heaney et al., 2022; Joos et al., 2022). Central banks justified this action by claiming that it ensured a continuous flow of credit to households and businesses, thus preventing financial market disruptions from intensifying the economic damage (Eric & David, 2024).

Jerome Powell, the chair of the Fed, said in April 2020:

"We are deploying these lending powers to an unprecedented extent [and] … will continue to use these powers forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery."

Monetary policy indeed plays a crucial role in supporting the recovery (Constancio, 2017). However, the central bankers' colossal actions later created new risks, including skyrocketing global private and public debt levels that triggered another set of crises (World Development Report, 2022). Moreover, the measures succeeded in calming the financial markets, but they couldn't immediately steer growth to recovery.[25]

4.6 Climate Change, Biodiversity Loss, and Central Banking

Some scholars view environmental degradation as a threat to economic and financial stability (Carney 2015; 2019). The initial emphasis was on climate-related financial risk (CRFR), but it gradually expanded to include biodiversity-related financial risk (BRFR) (World Economic Forum, 2021). Market observers (Finance Watch, 2019; WWF, 2020), private sector players (Chandellier & Malacain, 2021), and academic scholars (Dasgupta 2021; Kedward et al., 2021) have lent their voices to the link between biodiversity loss and financial instability and therefore offered various policy proposals on the way out, including the active involvement of central banks (INSPIRE & NGFS, 2021; Romain et al., 2021) – circular monetary economics (Dafermos, Nikolaidi, & Galanis, 2017).), net zero central banking (WWF, 2022; Karen, 2023) and green central banking (Stefano et al., 2022). Thus, climate change and biodiversity loss are widely perceived as social and economic issues that require the attention of all policymakers, including monetary policy managers.

Following this call, government officials and academic scholars intensified their campaign for central bank intervention, contending that they have a significant role to play in mitigating the potential impact of climate change not only on financial stability but also on the overall economy (FSB, 2020; Weenink & Yoshinaga, 2024). Some, however, argued that CRFR and BRFR indeed exist but may not be within the purview of central banks (Skinner, 2020).

The voices of proponents of central banks' participation in curbing CRFR and BRFR are growing louder. They are of the view that central banks need to use their existing tools or develop another set to tackle climate change (Ainio, 2021; Chen et al., 2021; Njoroge, 2023; UNCTAD, 2023). According to Skinner (2020), some senators in the US have asked the Fed to "prepare its supervised institutions for the risks associated with climate change". Janet Louise Yellen, the 78th United States Secretary of the Treasury and sometimes chair of the Federal Reserve, has advocated for an aggressive approach to

[24](see Amando, 2020, for details).
[25]Remember the long-run neutrality of money.

addressing climate change. Christine Madeleine Odette Lagarde, the President of the European Central Bank (ECB), had at several times advised her constituents to begin immediate action on climate change. In the same vein, François Villeroy de Galhau, in his capacity as the Governor of the Banque de France, strongly supported the sentiment.

Other central bank leaders who share this sentiment include Mark Carney, the former Governor of the Bank of England; Andrew Bailey, the current Governor of the BoE; Mary C. Daly, the President of the Federal Reserve Bank of San Francisco; and many others[26]. The supporters have formed a Network for Greening the Financial System (NGFS) with over sixty-nine members.

Responding to the intense call for central banks to act, some policy proposals were made to utilise both on- and off-balance-sheet monetary policy tools, with the Swedish Central Bank taking the lead. According to Skinner (2020), "green quantitative easing" has been proposed, urging central banks to emphasise "green" designated corporate bonds. Similarly, increasing attention is advocated to what is now called "green criteria" for collateral eligibility for central bank facilities. There are proposals surrounding the capital structure of banks, a complex set of regulatory requirements that are gradually being popularised in the US.[27], believing that twisting the capital requirement towards green criteria could incentivise greener investment or at least serve as a disincentive to the acquisition of climate-unfriendly assets.

Other proposals cover direct control, such as setting a threshold for asset classes with climate or carbon exposure. Other scholars, such as Oman (2019), advocated for the integration of climate risk analytics into the collateral frameworks, central bank portfolio management, and green quantitative easing. Astonishingly, there is a blatant discriminatory proposal calling for easier and possibly cheaper access to funding for banks that invest in low-carbon projects, ignoring the convention that requires central banks as lenders of last resort to ensure liquidity support first to banks with high liquidity collaterals (Nikola, 2017).[28] Oman (2019) further submitted that instruments of financial policy could be designed within the context of "green supporting" and "brown penalising" in banks' minimum capital requirements.

In practice, the Fed is already into it but with a high degree of caution. Jerome Powell, speaking to Congress as the Fed chair in 2019, acknowledged the importance of climate change but argued that it is principally not the responsibility of the Fed (Skinner 2020). Worse still, the Fed has agreed to the membership of NGFS and has conducted various studies on the subject but has not taken concrete action; hence, it has elicited criticisms for holding back not only from academics but also from foreign partners (Skinner, 2020).

Defending the central bank's reluctance, Parick (2020) and Mario et al. (2024) attributed it to either of these three reasons: the fear of altercation with government officials and politicians who might harbour a conflicting goal; the thinking, in some climes, that the distributional and environmental efficacy of monetary policy, in this case, might have been exaggerated; and lack of legal jurisdiction or explicit mandate[29] (Tucker, 2019; Roser & Ricard, 2021), to adapt the monetary policy to that course or design a policy mix to meet the objective, thereby pausing some serious legal and ethical concerns (Mario et al., 2024). Additionally, there is concern about the potential loss of independence and the possibility of distraction from their primary objective by central bankers in emerging markets and developing economies (EMDEs).

The argument for violating market neutrality has also gained popularity in recent times. The critics believe that central banks' involvement could dichotomise the market, making capital cheaper for some players and costlier for others, thereby violating the concept of neutrality. They also submitted that the question of how and where production should take place is the sole responsibility of the private sector. For efficiency, the market mechanism should be allowed to allocate resources optimally. They are also of the view that the public sector should steer clear of microeconomic allocation. If it must, due to market inefficiency or failure arising from information asymmetry, then it should be the responsibility of fiscal authorities, not central banks. More so,

[26] See Skinner (2020) for details.
[27] The Fed is the least vocal on this topic. The Fed remained largely silent until 2021. See Cullen (2023) for details.
[28] The central bank accommodates low-quality collaterals, particularly during crisis (see Nikola, 2107 for more detail)
[29] Although Paul and Luke (2021) argued that the ECB's secondary mandate covers this area.

central banks' involvement in allocation, distribution, or redistribution might attract additional pressure for intervention in other areas outside their core functions and perhaps result in the politicisation of central banking and consequently undermine not only the achievement of their primary objective but also affect their integrity and independence (Paul & Luke, 2021).

Furthermore, there is no doubt that central banks can effectively contribute to addressing these issues, but taking on these responsibilities head-on can overburden monetary policy, thereby hindering their ability to deliver on their primary mandate effectively.

5.0 Concluding Remarks and Options for Central Bankers

The historical evolution of central banking is a fascinating journey that has shaped the functioning of modern economies today. Central banks have evolved from simple entities designed to manage government debt and currency issuance to sophisticated institutions that oversee national monetary policy, financial stability, and, in many cases, macroeconomic management. Four significant phenomena shaped the evolution of central banking: the stagflation of the early 1970s, the colossal transformation of the financial system arising from economic liberalisation and innovations that gained momentum from the 1980s, the global financial crisis which occurred due largely to principal-agency conflict, excessive risk-taking and poor regulatory oversight, and climate destruction & biodiversity loss.

Although monetary policy remains conservative mainly, it is still evolving. The knowledge of monetary policy managers has improved significantly over the years, resulting in the emergence of a consensus on what monetary policy can and cannot achieve. Therefore, there is a need for central bankers to be bold enough to say no to demands outside the reach of monetary policy. In other words, central banks should set boundaries for boundaries not to cross despite crisis and pressure. This is necessary to avoid the loss of credibility that has been gained over time through pronounced commitments and realisation. Regardless of the sincerity of central banks' commitments to issues outside the reach of monetary policy, the ultimate failure that may follow will remarkably affect their credibility (Blinder et al., 2008; Peter, 2002; Bordo, 2014; Borio, 2014; Par, 2023). The close correlation between performance and credibility, well-documented in the existing literature (Papadamou et al., 2014; Levieuge et al., 2018; Cem & Selva, 2020), has placed a premium on consistent performance. Admittedly, saying no or setting boundaries and remaining strictly within the boundary may not be as easy as it sounds for not only political and social realities (political or social pressures) but also economic dilemmas (during economic crises where immediate relief might be more pressing than long-term stability), risk of economic fallouts (during economic recessions or depressions such as unemployment, falling GDP, and market panic), and the dilemma of accountability (when their decisions lead to economic hardship).

This notwithstanding, there is a strong case for setting boundaries and "saying no," which includes but is not limited to the necessity of tough decisions, historical precedents, economic trade-offs, and public trust and credibility. In certain situations, central bankers must take an unpopular stance without fear of the consequences.

The case of Paul Volcker's stance against inflation in the 1980s is a notable example. The need to prioritise long-term economic health over short-term political considerations, as well as the maintenance of monetary policy's credibility and effectiveness in the long run, is too critical to overlook.

The primary challenge is to adapt monetary policy to a rapidly changing environment, thereby sustaining monetary, financial, and price stability. The Market and market players are expanding, becoming more complex, sophisticated, and heterogeneous, and transactions are getting faster, making the transmission of shocks brisker and thus complicating the task of central banking.

As confirmed by recent experience, the best approach for central bankers is a sincere political mandate to focus on price stability, accompanied by autonomy in policy design and implementation and accountability for achieving this objective.

I align myself with Donald (2001)[30]As I am also a

[30] At least in the meantime, until more evidence emerged.

central banker, I understand the significant role central banks play in the economy. Monetary policy can help stabilise the domestic currency and prices, providing a conducive environment for sustainable growth that leads to increased employment, as well as income and wealth redistribution. But one thing must be clear in our minds: central bankers should be viewed like the judiciary, which requires independence to operate optimally but can not, in the long run, single-handedly achieve the desired objectives.

Moreso and most importantly, taking on issues outside the scope of monetary policy may jeopardise central banks' independence. For instance, President Donald Trump has begun to criticise the Fed, claiming to have a right to detect what interest rates should be. He claimed in his address at Davos that he would "demand that interest rates drop immediately" and insist that interest rates should come down worldwide (Curran, 2025).

Not only President Trump but also Recep Tayyip Erdogan of Turkey, who has also consistently criticised and intervened in the Central Bank of Turkey (BBC 2019; AlJazeera, 2021). The governments of Thailand and India have made several efforts to increase their influence over their central banks, sometimes blaming them for the poor performances of their economies (Curran, 2025).

Therefore, the threat to central bank independence is growing globally, mainly due to their involvement in issues outside the purview of monetary policy.

One important specific reason advanced by critics, particularly concerning their roles in the GFC, is that central banks' actions enhanced inequality[31], leading to massive gains in financial markets and the housing sector that benefited only asset owners at the expense of others.

Their response to the COVID-19 crisis also made a significant contribution.

Outside the political spectrum are critics who are not comfortable with the participation of central banks in roles other than those initially intended for them. Downey (2025), a research fellow at the University of Cambridge, in her recent book: "Our Money: Monetary Policy as if democracy matters" has demonstrated her discomfort with central banks' independence, contending the need for the money creation process and monetary policy formulation to be more democratic (Curran, 2025).

Downey submitted that central bank independence had generated concern among the public, hence questioning the confidence in their expertise and authorities.

According to Curran (2025), Downey's concern is not so much about central bank independence but rather about striking the right balance between allowing central bankers to do their jobs and ensuring effective democratic oversight. She argued that the least democratic forms of economic policymaking cannot become the caped crusaders of the global economy and the most influential in all facets of the economy.

If central bankers do not set boundaries and learn not to cross them[32], they are highly likely to become not only victims of their downfall but also of their success. Either way, they will lose in the long run.

[31] A role imposed on themselves

[32] Central bankers can say "No" through the process of dialogue. This can be done by providing strong justifications at specially organised meetings. It should not be done through print and electronic media so that such action is not interpreted as confrontational. This recommendation is peculiar to developing economies, including Nigeria.

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Competition and Financial Performance of Insurance Companies in Nigeria

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Abstract

Competition among Nigerian insurance companies has intensified due to the consolidation exercise, which aims to strengthen the industry and enhance its performance. Nonetheless, the capacity of insurance companies in Nigeria to compete effectively remains challenging. Hence, this study analysed the impact of competition on the financial performance of insurance companies in Nigeria. Secondary data were employed and sourced from the companies' financial reports using the OLS regression technique for the analysis. The findings indicated that competition has a significant influence on the performance of insurance companies. Consequently, the study recommended that regulatory authorities and insurance companies implement measures to foster healthy competition.

Keywords: Competition, Concentration, ROA, OLS, Insurance companies

JEL Code(s): G18, G22, G28, G34.

1.0 Introduction

Globalisation, technological innovation, and rapid global changes are altering the demands and expectations of businesses today.

Experts predict that these factors will prompt enterprises across various sectors to make some adjustments and variations in their products, services, and survival strategies. These variations and adjustments are the most crucial element in providing a competitive advantage, which innovation enables.

Thus, companies must focus on innovations to stay ahead of the competition and gain market share in the increasingly competitive market (Erdoğan, 2011). Typically, companies face varying degrees of market rivalry.

Globalisation has made businesses in underdeveloped countries highly competitive. While some have exited the market, the majority now grapple with dwindling market share (Owusu & Owusu, 2023). Likewise, Nigerian insurance businesses had grown more competitive following Nigeria's 2003, 2005, and 2009 insurance market reforms and consolidation.

This restructuring and consolidation have made access challenging while shielding established companies from competitive pressure from new competitors. In the long term, it might result in a concentrated industry or market (Ajide & Ajileye, 2015).

Nevertheless, the number of companies and market share concentration have become significant factors influencing competitive behaviour in the insurance sector (Murat et al., 2002).

Through financial reforms, improvements in communication and information technology, the globalisation of financial services, and economic development, the insurance sector in Nigeria has experienced a sequence of developments. In the insurance sector, these developments have significantly impacted efficiency, productivity, market structure, and performance (Epetimehin, 2011).

Some of the reasons for the reforms are to improve the diversification of underwriting and investment risks and to increase competition (Cummins &

Rubio-Misas, 2006). The impact of competition on financial organisations varies slightly. A competitive atmosphere may help reduce the prices of goods and services, as well as manufacturing expenses.

Furthermore, it might inspire the creation of innovative ideas and effective technology (Casu & Girardone, 2009). However, companies sometimes engage in rivalry to achieve the highest profit and the largest market share.

In this regard, the company's financial performance serves as the yardstick to indicate whether it has successfully achieved its market goals (Mihaela, 2016). Consequently, evaluating financial performance and arranging the businesses based on this standard is crucial.

Not only does financial performance indicate whether the business has met its goals, but it also helps companies enhance their solvency status and is crucial in convincing policyholders and shareholders to invest in insurance companies. Therefore, achieving profit is a primary goal of insurance company management, as it is a fundamental requirement for the operation of any company (Oladele & Akinwumi, 2024; Oladele & Sanni, 2022).

Likewise, the primary concern for insurers should be business profitability; they should analyse how competitive elements affect profitability (Lee, 2014). The extent to which robust competition benefits insurance firms is a topic of debate. Therefore, the study investigates the influence of financial performance on insurance businesses in Nigeria through the lens of competition, concentration, risks, innovation, and management efficiency.

Studies examining the link between competitiveness, market concentration, and company performance, both within and outside the nation, have been growing (Mihaela, 2016; Nebo & Okolo, 2016; Neale & Peterson, 2005; Todorov, 2016; Epetimehin, 2011; Busani, 2018). Given its relevance in performance evaluation, financial performance has recently garnered more attention in both theoretical and empirical studies.

However, the insurance sector in developing nations or emerging markets has received relatively little attention. The situation is more challenging in Nigeria as greater emphasis is placed on the banking sector over other financial sectors of the economy. It is not surprising that Nigeria's financial sector is often referred to as a 'bank-based' economy.

This study, therefore, expands on prior evidence and contributes to the existing research on competitiveness and financial performance. Insurance companies were considered because they play a crucial role in economic growth and resource allocation. We chose the past decade to investigate how competition has affected the financial situation of insurance firms.

This study will contribute to the existing body of knowledge, assist scholars in enhancing their work and research and lay the groundwork for future investigations.

2.0 Literature Review

Boss (2006) defined competition as a condition whereby some companies strive to be more successful than others engaged in the same industry or a dynamic process whereby different opportunities are accessible to satisfy the needs of potential consumers. Competitive tactics can be understood as pursuing a favourable competitive position within a particular sector. Competition is a mechanism that allows consumers to access multiple options. Interest in the insurance sector has come from competitiveness among companies (Cummins, Rubio-Misas, & DevVencappa, 2012; Murat, Tonkin, & Jüttner, 2002; and Bikker & Gorter, 2008). The success of every insurance company depends on its analysis of rivals and competitive position.

The number of market players frequently determines the degree of competition, which in turn affects the insurance price, the quality of insurance coverage, and the accompanying services. Low market competitiveness leads to significant concentration, which drives high earnings. Studies reveal that insurers have a higher likelihood of generating substantial profits in markets with low competitiveness (Bikker & Gorter, 2008).

Joseph Schumpeter's Schumpeterian theory, one of the theories reviewed for the study, posits that innovation encompasses both an end and a process. A marketing innovation refers to a novel marketing strategy that involves significant alterations in product positioning, description, pricing, or design and packaging. Organisations' competitiveness is determined not only by their capacity to change pricing but also by providing a great variety of goods and services. Similarly, Michael Porter's Five Forces framework emphasises the critical role of competition in a firm's performance.

Porters emphasise the power of buyers and suppliers and the intensity of competition among established firms. Porter believes that the five forces can determine a firm's competitive advantage in the market and its ability to improve its profit margin. Likewise, the Resource-Based View (RBV) theory is another critical theory that emphasises the important role competition plays in shaping the financial performance of firms.

RBV established that competition impacts performance based on how well firms leverage their unique resources and capabilities. In competitive markets, firms with unique products or services can achieve superior performance by differentiating themselves or achieving cost advantages, while firms lacking such resources may struggle to compete.

Boone's 2008 proposal of the Boone indicator illustrates how competition, through the efficiency channel, influences a company's soundness as a function of efficiency. It begins the computation of the Boone indicator by using the average cost of a company as a percentage of total income. The costs cover human expenses, administrative and other running costs, and interest. Income comes from commission and trade income, interest income, fee income, and other operations income (Leuvensteijn, 2009; Boone, 2008).

Herfindahl and Hirschman's Herfindahl Hirschman Index (HHI) also has roots in industrial organisation theory and essentially gauges industry concentration; a high HHI denotes more concentration and less industry competitiveness.

HHI is expressed as the total of squared market shares. Sales data alone do not always show a company's relative performance to its rivals. Variations in sales may reflect market size or economic conditions. The proportion of the market the company can capture will help determine its performance in relation to its rivals.

2.1 Empirical Review

Based on statistics from the European Union (EU) life insurance sector, Cummins et al. (2012) found that while competition makes the EU life insurance markets more sound, it drives EU life insurers to retain less capital. According to Mihaela (2016), companies running in the London metropolitan area depend on intense competition. Todorov (2016) established that the Bulgarian insurance industry is far from being competitive and may need additional policies to support its competitive growth. Similarly, Al-Rfou (2012) and Almajali and Al-Soub (2012) relied on data from insurance businesses to demonstrate that competitiveness is at its all-time high in Jordan due to the attractive investment environment of the Jordanian market, and management competency also plays a vital part in financial performance.

Shieh et al. (2022) found that age, business freedom, and corruption significantly influence managerial performance, as evidenced by a comparison of life insurance efficiency in China and Taiwan. Liu et al. (2022) highlighted that, particularly in China, the performance of companies depends on healthy competition.

Although both companies are profitable, Abdou, Ali, and Lister (2014) compared Takaful and conventional insurance in Malaysia and found that the growth of conventional insurance companies has a noteworthy and favourable link with macroeconomic conditions, unlike that of Takaful insurance companies.

Al-Arif and Firmansyah's (2022) results demonstrate that market structure has a significant and favourable influence on Islamic performance in Indonesia.

Data from Nigeria helped Ajisafe and Ajide (2014), Ajisafe and Akinlo (2014), and Yusuf and Dansu (2014) prove that competition is the main factor influencing company performance. Yahaya et al. (2015) found that while healthy competition is essential for the Nigerian banking industry, the regulatory body should direct its efforts to guide against unhealthy competition, as it has the potential to negatively affect bank performance. Fali et al. (2020) found that insurance companies in Nigeria will have low profitability if technical provision and risk underwriting increase.

Olaiya et al. (2021) found that risk management systems have a significant influence on the financial situation of Nigerian insurance firms. Fali et al. (2020) found that insurance company performance in Nigeria suffers negatively and

significantly from financial risks.
Data from insurance companies in Ghana helped Owusu and Owusu (2023) demonstrate that risk identification, risk analysis, and risk control are not the primary drivers of insurance company profitability in Ghana.

Particularly in developing markets, Ofori-Boateng et al. (2022) found that effective structure is a main determinant of insurance company performance.

According to Abel and Marire (2021), the insurance sector in Zimbabwe shows healthy rivalry. Achieng (2018) examined the dynamism and competitive capacity of Kenyan insurance firms and concluded that a more dynamic insurance company has a competitive edge over a more conventional one.

According to Kariuki (2023), risk-averse insurance firms tend to have a higher proportion of women on their boards. This relates to the financial performance and risk profile of the businesses.

According to Kakiri (2023), insurance businesses with robust corporate governance outperform those without it, particularly in Kenya.

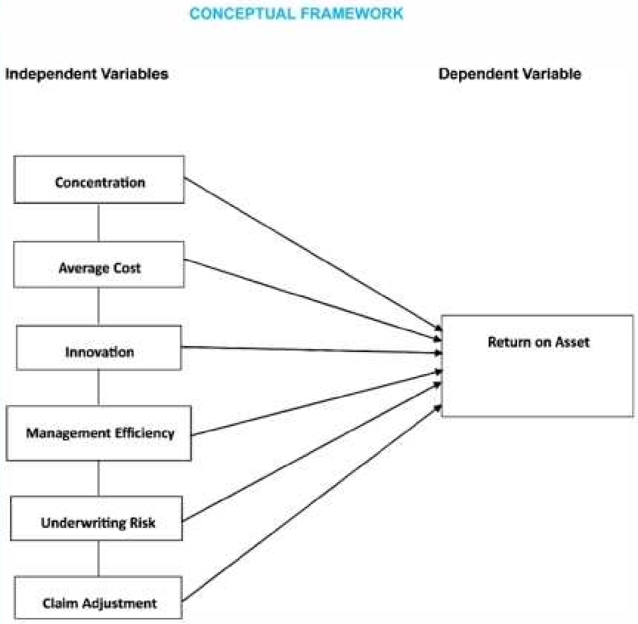
According to Odhiambo and Njuguna (2019), Kenyan insurance firms with creative and healthy competitive strategies show more notable financial success than their counterparts without such strategies.

Thus, the research concluded that competition primarily drives the success of insurance businesses.

Kamanda and Sibindi (2021) investigated the main factors influencing insurance company performance in Kenya.

The results revealed that size, age, and leverage are the main factors influencing the financial performance of insurance businesses.

According to Kiptoo et al. (2021), the financial performance of Kenyan insurance firms depends critically on a competent risk management system.



Source: Author's Conceptualisation (2024).

3.0 Methodology

The study is anchored on the Schumpeterian, Porter's five forces and the Resource Based theories. The theories emphasise how a firm with a competitive advantage can leverage that to improve its financial performance. The theory aligns with the study, as it focuses on competition.

A competitive drive within an organisation leads to the introduction of new products and services to retain existing customers and attract new ones. The competitive drive within the insurance industry has led to the introduction of innovative products and services to attract and retain customers.

3.1 Model Specification

The Model was adapted from Yahaya et al. (2015), and the original Model is stated as follows:

$$ROA_{it} = \alpha + \beta_1 CONC_{it} + \beta_2 RISK_{it} + \beta_3 LOAN_{it} + _{it}$$

Where: ROA_{it} = Return on assets; $CONC_{it}$ = Concentration; $RISK_{it}$ = Bank risk; $LOAN_{it}$ = Loan default risk; α = constant; $\beta_1 - \beta_6$ = Regression Parameters; ε_{it} = component unobserved error term.
The Model was modified to align with the study's objectives. The modification was made to concentrate on investigating if competition affects the performance of insurance companies in Nigeria. Consequently, loan and bank risk were excluded as they were utilised to assess the impact of loan losses and risk within the banking sector, which may not be relevant to this study. The persistence of profit and innovation was

incorporated to assess competition. At the same time, claim adjustments and underwriting risk were included to capture additional competitive factors within the industry, as these elements have been theoretically established to influence financial performance.

Thus, the modified Model is presented as follows:
$ROA_{it}=\alpha+\beta_1 CONC_{it}+\beta_2\ AVC_{it}+\beta_3 INV_{it}+\beta_4\ MGQL_{it}+\beta_5 CLM_{it}+\beta_6\ UDR_{it}+\varepsilon_{it}$
Where:
ROA_{it} = Return on asset measured as the ratio of profit after tax to total assets
$CONC_{it}$= Industry concentration measured using the Herfindahl Hirschman Index
AVC_{it} = Average cost measured using Boone Indicator.
INV_{it} = Innovation measured as the ratio of net trademarks registered to total industry trademarks registered.
MGL = Managerial efficiency measured as the ratio of operating expenses to operating income
CLM = Claims adjustment measured as the ratio of net claim expenses to gross premium
UDR = Underwriting Risk measured as the ratio of Underwriting expenses to gross premium
α = constant
$\beta_1 - \beta_6$= Regression Parameters
ε_{it}= unobserved error term
An ex-post facto research design was employed for the study, while the population consisted of all the 27 insurance companies categorised as general insurers. However, due to data availability, the eventual sample was restricted to 20 of the 27 listed insurance companies categorised as general insurers.

The data for the study are secondary, obtained from the audited financial statements of the sampled companies covering a period of eleven years (2013-2023).

The sampled years were based on data availability and the need to capture the variables considered for the study.

3.2 Estimation Techniques

The study utilised descriptive and inferential statistics. Mean, minimum, maximum, and standard deviation were employed for the descriptive statistics. A static panel estimate was used for the inferential statistics.

The study relied on the pooled OLS/fixed and random effects. The Breusch-Pagan Lagrangian Multiplier (BPLM) test was conducted to determine the most appropriate estimate between pooled OLS/fixed and random effects.

The result suggests acceptance of the null hypothesis, indicating that the variance of the random effect is zero as the p-value is greater than 0.05. Based on the result, the pooled OLS is appropriate for the study.

Data Presentation and Interpretation of Results

Table: 1: Descriptive Statistic

Variable	Mean	Min	Max	SD	Obs
ROA	0.06	-0.58	0.56	0.20	220
CONC	0.26	0.01	0.67	0.15	220
AVC	0.68	0.28	5.06	1.96	220
INV	0.06	0.04	1.65	0.33	220
MGL	0.34	0.02	0.60	0.04	220
CLM	0.78	0.1	1.48	0.81	220
UDR	0.09	0.04	0.52	0.11	220

Source: *Author's Computation (2024)*

Table 1 shows that the mean for ROA CONC, AVC, INV, MGL, CLM and UDR are 0.06, 0.26, 0.68, 0.055, 0.34, 0.78 and 0.09, respectively, with CLM having the highest means value among the independent variable while INV has the least mean.

The mean for ROA (dependent variable) is 0.06, while the standard deviation is 0.2, showing the level of variation in the financial performance of the companies.

The minimum and maximum values (-0.58, 0.56) indicate that while some of the insurance companies considered are profitable, others recorded losses during the period under consideration.

The managerial efficiency (MGL) mean is 0.34, indicating that the companies are generally efficient in their operations.

The maximum and minimum managerial efficiency were 0.60 and 0.02, respectively.

Average cost (AVC) has a mean value of 0.68, with a minimum value of 0.28 and a maximum value of 5.06.

The significant difference between the minimum and maximum values indicates that the operating costs of insurance companies are not evenly distributed.
The mean value of CLM is 0.78. at the same time, the maximum and minimum values were 1.48 and 0.1, respectively.

A standard deviation of 0.81 indicates that Nigerian insurance companies are hazardous because they incur an average of 81% of claims from a single naira of premium earned.

The maximum and minimum values were 1.48 and 0.1, respectively.

The CONC average is 26%, while the standard deviation is 0.15. The maximum concentration was 67%, and the minimum was 1.33%.

The margin between the minimum and the maximum value is relatively high, indicating an uneven distribution.

Multicollinearity Test
Table 2: Variance Inflation Factor

Variable	VIF
ROA	2.94
CONC	2.59
AVC	1.94
INV	4.88
MGQL	1.52
CLM	3.37
UDR	1.01
VIF Mean	2.61

Source: Author's computation (2024)

An additional examination of the potential existence of multicollinearity among the independent variable is conducted utilising the variance inflation factor (VIF).

The findings of the inquiry are displayed in Table 2. The general assumption is that a variable with a VIF over 10 is considered strongly collinear and conversely.

The VIF results presented in Table 2 demonstrate that the independent variables exhibit minimal collinearity.

Result of Regression Analysis

Table 3. Competition and Financial Performance

	Exp. Sign	Coefficient	Std. Error	t –Stat	Prob.
Intercept	-	-12383.3	7359.962	-1.68	0.0887
CONC	+	0.0986	0.052742	1.869	0.000*
AVC	+	-0.3439	-0.310540	-1.107	0.173
INV	+	1.1663	0.800419	1.457	0.001*
MGL	+	0.0745	0.058405	1.276	0.001*
CLM	-	-1.0891	-0.494330	-2.203	0.010**
UDR	+/-	-1.1706	-6.3307	-1.843	0.000*

Observations	220
R Square	0.792
Adjusted R Square	0.729
F-statistic	27.054
Prob (F-statistic)	0.005

*, ** and *** indicates the statistical significance at 1%, 5% and 10% respectively.

'*Source: Author's Computation (2024)*.

Table 3, which contains the OLS estimate, illustrates the outcome of the regression tests. We used the adjusted R-squared as a statistical metric to assess how well the independent variables explained the fluctuations of the dependent variable.

The value of the adjusted R-squared for the regression model is 0.729, which indicates that the independent variables in this study collectively explain approximately 73% of the dependent variable.

The error component in the Model captures about 28 per cent of the systematic variation in ROA that the Model failed to account for. This is a relatively small amount. As a result, the combination of these independent variables serves as an excellent indicator of the financial performance of insurance businesses in Nigeria.

Furthermore, we provided the F-statistics (27.054) to measure the overall significance of the Model. The low p-value of 0.005 led to the rejection of the null hypothesis. At the 1%, 5%, and 10% levels of significance, the Model is therefore highly suitable for the study.

The OLS estimate indicates that managerial efficiency (MGL) has a positive and statistically significant impact on the financial performance of companies.

This suggests that as the management of insurance companies improves, their financial performance also increases. This is expected as efficient management is expected to reduce financial leakages and block loopholes where resources may have been used for an unprofitable venture.

The finding is consistent with that of Shieh et al. (2022) and Ofori-Boateng et al. (2022), which indicate that efficiency, including management efficiency, is a major driver of insurance companies' performance.

Average cost (AVC) has an insignificant effect on the financial performance of insurance companies in Nigeria. This implies that a change in the average cost of insurance companies would not affect their profitability. The finding, however, contradicts that of Kariuki (2023) and Owusu and Owusu (2023), who established that risk-taking behaviour can influence insurance companies' performance.

Industry Concentration (CONC) has a positive and significant effect on the financial performance of insurance companies. These findings show that insurance companies would benefit more from mergers and acquisitions than operating in smaller units.

This is attributed to the ability of larger insurance companies to attract larger clients and also charge higher premiums from larger organisations. Thus, as concentration increases in Nigeria, the financial performance of insurance companies also increases.

The findings are consistent with prior evidence from Abel and Marire (2021), Achieng (2018), and Austine and Njuguna (2019), who have all established that competition is a major driver of insurance companies' performance.

Furthermore, innovation (INV) has a positive and significant effect on the financial performance of insurance companies. The results indicated that insurance companies that invest more in innovative products and services tend to increase their profitability. This can be attributed to their ability to attract new customers while also retaining existing ones.

Thus, insurance companies that invest in innovative ideas have a higher chance of improving their financial performance. The findings align with those of Liu et al. (2022), who report that product market competition combined with innovation has a positive and significant impact on the financial performance of insurance companies.

For claim adjustment (CLM), the result also shows a negative and statistically significant relationship with the financial performance of insurance companies in Nigeria.

As claim adjustment increases, the financial performance of insurance companies decreases. Since claim adjustment is measured as the ratio of net claim expenses to gross premium, it may be safe to assume that a fair value adjustment of claims increases the claim expenses, reducing the premium attributable to the insurance companies.

A reduction in premiums attributable to the insurance companies implies a decline in their financial performance. Similarly, underwriting risk equally has a negative and significant effect on the financial performance of insurance companies in Nigeria.

The result implies that insurance companies' management needs to focus more on underwriting risks, as these risks have the potential to affect their respective companies' financial performance negatively.

Consequently, an increase in underwriting risk shall further deplete the profitability of the insurance companies in Nigeria.

This finding aligns with that of Fali et al. (2020), who state that insurance companies' specific risks can influence their financial performance depending on how they are appropriately managed.

4.0 Conclusion and Recommendations

Motivated by the need to investigate whether competition is a significant driver of the financial performance of insurance companies in Nigeria, this study examined the impact of competition on the performance of insurance companies in Nigeria.

Based on the findings, the study concluded that competition, innovation, and efficient management of insurance-specific risks are the main drivers of the financial performance of insurance companies in Nigeria.

Claim adjustment may have a further impact on the financial performance of insurance companies. In contrast, average cost does not affect the financial performance of insurance companies in Nigeria.

Consequently, the study recommended that greater effort should be put into innovation. That is, introducing a new product or service to existing and prospective customers can retain existing customers while also attracting new ones.

Similarly, the regulatory authority should implement measures to promote healthy competition among insurance companies. While there may be a need for mergers and acquisitions at some point, the regulatory authority should put measures in place to guard against monopolistic tendencies.

Finally, efficient management of the companies is key to the survival of the insurance companies in Nigeria.

Hence, every insurance company in Nigeria should be encouraged to adopt corporate governance practices, and the regulatory authority should continue to conduct periodic and on-site assessments to ensure that companies operate in line with global best practices in corporate governance.

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Making Markets Work for Rural Women: Exploring Barriers and Policy Options

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Abstract

Rural Women are the backbone of small-scale agriculture in Nigeria, yet their connections to formal markets are minimal, which undermines the achievement of Sustainable Development Goal 5. This study identifies the barriers inhibiting rural women's market participation and explores strategies for sustaining women's economic empowerment programmes.

A survey approach and desk review methods were applied for the analysis. The findings revealed that poor representation in producer organisations, strict cultural norms, limited access to credits and inadequate infrastructure are the major barriers. This suggests that policies and reforms are crucial for addressing gender-based constraints and enhancing the market participation of rural women.

Keywords: *Agricultural Markets, Economic Empowerment, Women*

JEL Classification: B54, Q13, Q14, Q15

1.0 Introduction

The significance of women's economic empowerment (WEE) in closing the gender gap in the agricultural sector cannot be overstated. Women, who make up half of the world's population, account for nearly 43% of the agricultural labour force. Similarly, in Sub-Saharan Africa, women produce approximately 70% of the total crop production, and only about 30% of them are employed in the formal sector (World Bank, 2023). Furthermore, the male-female wage differential remains the highest when compared to other continents, with women earning approximately 70% of men's incomes for similar roles (United Nations Development Programme [UNDP], 2023).

The significant gender gap in the agricultural sector constitutes a substantial impediment to agricultural productivity and economic growth (Ball, 2020). For example, in Nigeria, a significant productivity gap exists in agriculture, with women farmers producing 30% less per capita than their male counterparts.

Additionally, a substantial portion of the female population, specifically 70%, are identified as extremely poor. This disparity in productivity between men and women suggests that women are disproportionately affected.

Over the years, gender-based interventions have been recognised as a crucial strategy for empowering women economically. Consequently, in Nigeria, various policies and programmes have been implemented to address gender inequality, for example, in the area of education, the Women's Education Blueprint of 1986, the Family Support Basic Education Program of 1994, and the Universal Basic Education (UBE) of 1999, the Education for All Fast Track Initiative in 2002, and the UBE Act of 2004. Also, the National Policy on Women was introduced in 2001, and the National Gender Policy in Agriculture (NGPA) was launched in 2019.

More recently, the market-oriented strategy for WEE, focusing on economic independence and access to resources, is gaining popularity because it offers a practical and sustainable approach to achieving gender equality and broader social development. The advocates of the market-oriented strategy argue that integrating rural women farmers into markets can enhance their income level and well-being. Accordingly, in

Nigeria, various projects and strategies have been implemented to facilitate women's access to the market, including the AGRA value 4Her Nigeria initiative, which aimed to improve women's financial management, scale up their businesses, and access new markets.

Additionally, the Nigeria for Women Project (NFWP) is a strategic, long-term engagement between the World Bank and the Nigerian government aimed at supporting the government's goal of ensuring gender equality and improving the livelihoods of women in targeted communities. In addition, the Trade Hub projects aim to empower women by providing them with access to training, resources, and networks, ultimately enhancing their participation in trade and export. Similarly, the International Budget Partnership (IBP) aims to help smallholder women farmers secure investments in the agricultural sector. The Business Women Connect (BWC) seeks to improve women's access to savings and banking services.

Despite these laudable projects, a noticeable wide gap still exists in female-male market participation rates in rural areas. Should this persist, it will decelerate progress in gender equality in the country. Therefore, this study investigates the factors that hinder rural women's access to markets in Nigeria. Although there are a handful of studies (Ma et al., 2024; Dey & Singh, 2023; Lee et al., 2022; Mulgenta, 2021; Hlatshwayo et al., 2021; Okoye et al., 2021) on the women's market participation and empowerment, however, this study differs from the existing studies as it focusses not only in investigating the barriers to linking rural women to market but also examines the measures that have worked elsewhere though a review of strategies and experience in the context of current debates and frameworks for informed policy making.

Policymakers and other stakeholders will find this research useful in helping them effectively fine-tune implementation strategies and formulate policies to address the challenges of linking rural women farmers to markets, fostering economic opportunities, increased productivity, and overall growth.

The remainder of the paper is structured as follows: The next section reviews the relevant literature on the topic. The third section provides the materials and methods employed. The fourth section provides the results and discussion of the study. Section 5 includes the conclusion and policy implications.

2.0 Literature Review

Gender Inequality and RWEE

Green et al. (2009) observe that the high rate of poverty among women farmers in developing countries could be due to vast gender inequality. International organisations and development initiatives aim to promote women's participation in agribusiness, improving income, reducing poverty, and fostering overall growth in Africa.

The implications of women's poverty extend across generations and have a detrimental impact on the well-being of children. For example, Attanasio et al. (2022) argued that children from low-income backgrounds are likely to grow up lacking stimulation and basic investments, which may affect their educational development.

This suggests that the inequitable distribution of income and resources within a given society can contribute to poverty. Green et al. (2024) note that gender-based discrimination hinders women's access to employment opportunities and critical resources. Gender inequality has negative consequences, including slowing economic progress, limiting opportunities and perpetuating poverty among women.

Female-headed households often bear a more substantial dependency load in comparison to other household structures, and this is significantly associated with poverty. The presence of a high dependency burden escalates both the existing and prospective poverty levels of households (Mustapha, 2019). This elevation occurs as mothers and children must expend additional labour in their efforts to attain a particular consumption threshold.

The necessity to trade leisure for work to achieve a certain standard of living within female-headed households signifies the perpetuation of poverty in the succeeding generation. The poverty rates are notably higher among female-headed households, and this phenomenon is intrinsically linked to deficiencies in education and the lack of income-generating opportunities (Mustapha, 2015, 2019).

The prevalence of households led by women is sometimes regarded as an indicator of the feminisation of poverty, although this is not a universal characterisation. Given that women, on average, earn less than men, it is evident that households headed by women are predisposed to experiencing greater poverty levels than those headed by men.

Okoye et al. (2021) explored market participation by gender and the decision to participate in the market among farmers in Nigeria, using the Market Participation Index (MPI) and a logit model.

They found that education, marketing experience and market orientation were positively related to market participation for both males and females, while household transportation cost and gender were negatively associated. In a similar study in Nigeria, Akinwale and Oyeyemi (2021) assessed the benefits of smallholder farmers' linkage to formal markets, finding that this linkage is constrained by poor infrastructure and inadequate credit.

However, the connection between rural farmers' input suppliers and other agricultural development organisations had a significant influence on the adoption of modern technology. Okoye et al. (2021) explored gender differences in smallholder market participation in Nigeria, finding that the decision to participate in the market is influenced by the level of education, market information, and farm size for both male and female farmers.

Gebre et al. (2021) analysed the factors that contributed to gender gaps in market participation in Ethiopia. They found that the gap between males and females in market participation is more apparent,t, and this was attributed to unequal access to productive resources. This led to a call for policies that promote equal access to agricultural inputs, build women's capacity, and increase returns.

Njuki et al. (2011) stress the importance of forming farmers' associations or groups for efficient learning, receiving external support, and achieving economies of scale, accompanied by incentives to participate in markets. Barrett and Swallow (2006) report that access to reliable market information influenced the extent of market engagement among smallholder farmers.

Enete and Igbokwe (2009) explore the decision-making process of cassava market producers in market participation and found that the price of the commodity influences the extent of farmers' involvement in the cassava market.

This finding aligns with economic theory, which posits that price serves as a key determinant that encourages increased supply and participation in markets. Omiti et al. (2009) investigated the determinants of small-scale farmers' market participation rate in Kenya. They report that output prices, information, household size, and non-farm income have a strong influence on market participation.

Ohen et al. (2013) investigation revealed that low levels of education negatively influence rice farmers' market participation decisions in Nigeria; most of the farmers were found to have attained secondary school education as the highest level of education.

The level of education plays a pivotal role in fostering a positive attitude toward the adoption of modern farming practices. The educational level of the household head is closely linked to their human capital and their capacity to engage in contemporary farming decision-making processes.

This implied that individuals with higher levels of education are likely better equipped to interpret agricultural information.

Similarly, Adeoti et al. (2014), in their research on the determinants of market participation among maise producers in Nigeria, report that more than half of the agricultural labour force was female.

However, their market participation rate was still significantly less than that of their male counterparts. Additionally, the gender gap in access to agricultural resources is substantial.

Hlongwane et al. (2014) examined factors affecting maise farmers' participation in the market. The results revealed that 44% of the sampled farmers produced on less than a hectare, 30% produced on 1-2 hectares, and 26% made on 4 hectares of land.

In the analysis of the factors influencing smallholder farmer's decision to participate in rice marketing in the Ahero irrigation scheme in Kenya, Apind et al. (2015) found that the average farm size was 2.15 acres.

This suggests that farmers with larger farm sizes are more likely to produce more for household and commercial purposes, resulting in higher income and improved livelihoods compared to those with smaller farm sizes, and vice versa.

Benjamin (2015) examines the participation of groundnut producers in formal markets in Ghana, revealing that the mean household size was approximately 10 people, with a range of 2 to 32 members. Another study by Adeoti et al. (2014) reported an average household size of eight persons per household.

Zamasiya et al. (2014) reported that the mean household size for market participants was 5.33, with a standard deviation of 3.16. This suggests that household sizes in the study area are comparable to those in the Zimbabwean study, with both regions demonstrating variations in household composition and sizes among smallholder farmers.

Women Producer Organisations and RWEE

Kaaria et al. (2016) documented factors that inhibit women's participation in farmers' producer organisations using a review approach which was motivated by the critical roles producer organisations played in enhancing rural women's social and economic empowerment.

They identified several factors, including socio-cultural norms, the women's double burden, previous membership in organisations, access to assets and resources, organisations' rules of entry, and the legal and policy environment, as significant barriers. The study suggests that promoting rural women's active participation in producer association strategies to ensure that the structures and governance mechanisms are more gender-sensitive.

Mukherjee et al. (2020) explored the success factors of three rural farmers'-based farmers producer organisations. In India, the report states that although all the organisations varied in operations and magnitude, they have helped bring financial independence to rural women and enhance their productivity, thereby promoting economic empowerment.

The study also emphasised that producer organisations, cooperatives, and other economic and social enterprises have demonstrated their distinct benefits in improving women's social and financial capacities. The study also highlighted that through farmer organisations, rural women have also been able to enhance the well-being of their families, communities, and nations.

In another study, also conducted in India, Jhansi et al. (2023) report that numerous women's producer organisations are founded and run by women to support women in advancing their status and help them break their reliance on intermediaries for inputs, credit, and financial services.

They found that the strategy enabled them to provide better access to market services, inputs, and technical and networking services to its members. The study also suggests that the establishment of WPOs enhances their visibility and recognition, and now financial institutions have a potential avenue for financing Farmers' producer organisations while minimising the risk of default. In addition, equitable participation enhances the dream of rural women of doubling their income through collective action.

Access to Finance and RWEE

"Access to financial capital is widely recognised as one of the most pressing challenges faced by women entrepreneurs" (OECD/EU, 2018; cited by OECD, 2021, p. 102). A gender disparity in access to credit is reported. Rural women face many challenges in accessing credit, including gender bias, a lack of collateral, limited mobility and other challenges.

For example, the financial inclusion project in rural settings in Sub-Saharan Africa faces challenges, such as a lack of infrastructural facilities, including electricity, transport, and communication systems, in the rural areas of SSA countries, as well as constraints that hinder financial institutions from providing services (Mustapha, 2023).

Asiseh et al. (2024) investigated the factors responsible for gender disparities in access to agricultural credit in five Sub-Saharan African countries (Ivory Coast, Mozambique, Nigeria, Tanzania, and Uganda). The study was motivated by the persistent gender discrimination worldwide, and access to credit is crucial for small-scale farmers. The analysis was based on the Oaxaca-Blinder probit decomposition model, and the study's findings revealed that socio-economic, institutional, and location-specific factors contributed to disparities in access to credit between female households and their male counterparts in these countries. The study found that, on average, 10. 36% of the male household heads are more likely to access agricultural credit than female household heads across all the countries.

The study revealed that the gap was considerably large in the case of Nigeria, which was about 19.7%, while the Ivory Coast exhibited the smallest gap (2.15%). In addition, the study suggests that about 87.6% of the gender gap is from unexplained sources, stressing the significant structural barriers faced by women. Similarly, Peter and Orser (2024) examined the factors that led women entrepreneurs in rural Nigeria to rely on informal credit schemes rather than formal sources of capital for loans.

They found that flexible terms, autonomy, self-reliance, trust, and limited financial knowledge of formal sources of finance are the major factors influencing their decision to patronise community-based credit schemes.

Income Diversification and Skills Development

Ajani and Igbokwe (2013) emphasised the importance of rural women diversifying their occupations in SSA to enable them to acquire additional income to cater for themselves during off-season periods, as farming in most parts of the continent is rain-fed and, therefore, seasonal.

The study also reports that the negative implications of engaging in other income-generating activities lead to the withdrawal of critical labour from the family farm, which inevitably results in low agricultural output.

Similarly, the study conducted by Sultana et al. (2015) aimed to investigate the impact of income diversification on the well-being of rural households in the Rajshahi district of Bangladesh, utilising a multiple regression model for data analysis. The study revealed that positive relationships exist between income diversification and households' well-being; however, the extent of income diversification was extremely low in the district.

Therefore, engaging in other income-generating activities would greatly augment rural women's income. The government needs to create opportunities for rural households through interest rate reduction, tax holidays and other incentives for private enterprises in rural areas. This is often necessary for rural families whose economy is agriculture-based and highly susceptible to various types of risks, such as climate change, crop diseases, and price shocks, which lead to reduced agricultural output and, consequently, low income, thereby exacerbating their poverty.

Andriamahery and Qamruzzaman (2020) investigated how women's financial literacy, access to finance and technical know-how contribute to RWEE through women's entrepreneurial development.

The study employed structural equation modelling and multivariate regression analysis, and it found a positive, statistically significant relationship between women's entrepreneurship and access to credit, financial literacy, and technical know-how.

In other words, access to credit facilities facilitates income diversification. At the same time, financial literacy and technical know-how enhance skills development, and advanced technology and applications contribute to operational efficiency, thereby supporting women's entrepreneurial development and, thus, RWEE.

Chaudhary (2017) examines skills development through various training programmes for women's economic empowerment in India and reports that skills development for women would bridge the gender inequality gap in labour market participation.

It is also critical to improving their productivity, employability, and income, which invariably enhance their well-being.

The study also highlights that rural women have different skill needs than their male counterparts, considering the various roles they play.

3. 0 Materials and Methods

3.1 Theoretical Framework

Several theories exist in the literature that aim to link women's market participation with their empowerment. However, this study used the liberal feminist and the inclusive market system theory as the theoretical framework to guide this study because liberal feminism advocates for a level playing field for both men and women in all aspects of life, including participation in institutions, leadership within the industry, agriculture, services and other types of activity.

Although women in agricultural leadership positions have made significant progress, there are still areas for improvement, including land ownership, access to capital, and credit.

The proponents of liberal feminist theory include Mary Wollstonecraft (1792) and Betty Friedan (1963), both of whom advocated for women's rights. The former argued that women should have the same educational opportunities as men, while the latter claimed that women should be trapped in unfulfilling roles as homemakers and childcare providers.

The liberal feminist theory believes that women are not distinctively less talented or less hardworking than men but are denied opportunities simply because of their sex. The Liberal feminist doctrines lie behind much of the legislation on anti-gender discrimination and gender equality.

The feminist theory accepts the neoclassical economics view that discrimination distorts market mechanisms and produces undesirable outcomes while disagreeing with the neoclassical assumption that discrimination is an uncommon incidence. Liberal feminism views wage discrimination and occupational segregation in the labour market as a deliberate attempt to exclude women from the labour market. Generally, liberal feminist theory emphasises the systemic inequality women face and its consequences for women's social and economic advancement.

The theory of agricultural market intervention argues that collective action, such as government intervention in rural-urban terms of trade, can address market failures and improve market access and income for smallholder producers. The theory emphasises that linking rural women farmers to the market can enable them to achieve economic independence and enhance their bargaining power in decision-making within society. The theory argues that inclusive market systems help women to have equal access to resources and decision-making power.

This can lead to reduced gender equality and more opportunities for women. The relevance of the market-based theory to this study lies in its focus on marginalised groups, such as small-scale farmers, women entrepreneurs, and people living in remote areas.

3.2 Data and Analytical Techniques

3.2.1 The Study Area

The study area is Damasak, the headquarters of the Mobbar Local Government Area (LGA) in Borno State, northeast Nigeria. Geographically, the study area is positioned between latitudes 13o 06' N and longitudes 12o 30'E, covering an approximate land area of 2,790 square kilometres. The population of the area is approximately 164,092, with 77,692 females (European Commission Joint Research Centre [ECJRC], 2015).

Average temperatures of 33°C characterise the prevailing climate in the area. The LGA is a major producer of pepper and other crops like onions and rice. The local government shares a border with the Niger Republic from the north. The major economic activity of the people is farming; they sell their produce in the village markets, which are connected to the larger markets in the neighbourhood.

The town was purposively selected because it is relatively free from attacks by Boko Haram insurgents and serves as a host community to the rest of the communities. The target population are women. The women in the study area are known for their active involvement in agricultural activities. The study randomly selected one hundred and eighty-two (182).

3.2.2 Sources of Data

The study used a survey design and desk review. The primary data were collected using structured questionnaires. The survey data covered diverse aspects, including the social, economic and demographic characteristics of rural women in agriculture. The secondary information was obtained using desk review. The desk review utilises current literature from high-quality applied research journals, international organisation reports, and policy briefs.

3.2.3 Method of Analysis

The study employed descriptive statistics and a desk review approach. The descriptive statistics, including frequencies and percentages, were used to describe the socio-economic characteristics of the respondents and the factors that constitute a problem in linking rural women to the market in the study area. A desk review was used to explore the way forward for the strategies and policy options.

4.0 Results and Discussion

4.1 Socio-economic Characteristics of Rural Women Farmers

Table 1 shows the socio-demographic characteristics of the respondents in the study area. The results show that 23% of the women farmers are between the ages of 30 to 39 years, 45% are between 40 to 49 years, and 31% are above 50 years.

This indicates that the majority of them were intensely active. The results also reveal that approximately 67% of the women farmers are married, suggesting that they face time constraints.

Table 1: Socio-demographic characteristics of respondents n = 182

Variables	Frequency	Percentage (%)	Mean
Age (in Years)			
30-39	43	23.63	
40-49	82	45.11	
50 and above	57	31.26	
Marital Status			
Single	61	33.52	
Married	121	66.48	
Education			
Primary	43	23.68	
Secondary	44	24.29	
Informal	95	52.03	
Household Size			
1-5 members	54	29.82	
6-10 members	90	49.18	
11-15 and above	38	21.00	
Experience			
1-5	91	50.10	
6-10	62	34.25	
11 and above	29	16.00	
Total	**182**	**100.0**	

Source: Field Survey, 2024

The results also show that 23.68% attained primary education, 24.29% attained secondary education, and 52% attended informal education. This indicates that half of the respondents had some basic education.

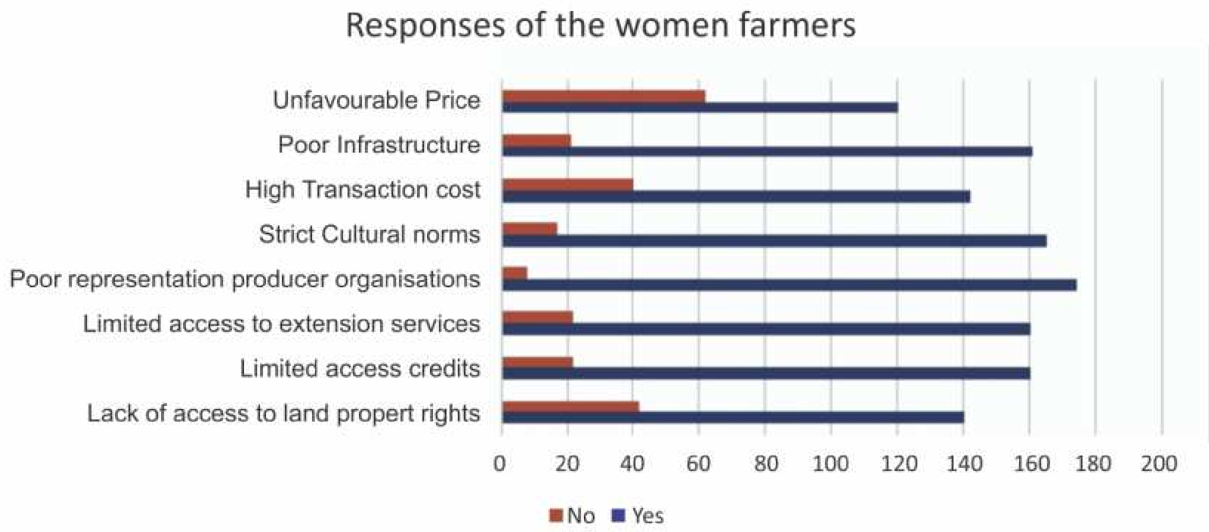
The results also show that half of the respondents had large household sizes. This implies that respondents rarely save for future investments due to the high cost of family upkeep. On the other hand, a large household indicates that more members participate in the farm, which leads to an increase in output.

4.2 Results of the Survey

The results in Fig. 1 show that 77% of the respondents agreed that a lack of access to land contributed to their inability to expand output, and this largely contributed to low market participation rates. This implies a significant gender gap. Slavchevska et al. (2021) report that Gender inequalities in land ownership, property and assets remain pervasive in Africa. The results of this research provide a wealth of information. Secure land tenure is fundamental for women's empowerment in agriculture.

Yet, women often face legal and cultural obstacles that impede their land ownership and inheritance rights. For instance, traditional practices and population pressures exacerbate women's insecurity of land tenure in many regions (Ndiaye et al., 2020). Access to and control over land are significant determinants of socio-cultural and economic development for both families and individuals within them.

Land is a property that generates direct economic benefits through renting, selling, and serving as collateral for credit. In particular, given the insecure position of women in rural society, land ownership has the potential to enhance their social status, livelihood options and psychological well-being.



Source: Field survey, 2024

Fig 1. Distributions of Women Farmers' Responses

The results in Fig. 1 show that 87% of the respondents indicated they could not access credits due to a lack of collateral, which has significantly affected the volume of output they produce.

The quantity of the production directed by rural women is significant, and they prefer to sell it on the farm, with some being used for personal consumption. In addition, Gani and Adeoti (2011) reported that only 2.83% of the farmers had access to credits. Similarly, a study by Hlongwane et al. (2014) on factors affecting the market participation of maise farmers in the greater Giyani municipality of Limpopo Province reported that the majority (60%) of the farmers do not have access to credit.

The results in Fig 1 show that 88% of the respondents have no access to training and extension services in the study area. Studies have shown that gender bias in the provision of extension services restricts women's access to agricultural training, resulting in lower productivity (Farnworth et al., 2018). Access to training and extension services can provide women farmers with the knowledge, skills, and support they need to be successful (Nelson et al., 2012). Investments in agricultural training are expected to enhance women's knowledge and technical skills in agriculture, resulting in increased productivity and higher income levels.

This corroborates the findings of Green et al. (2024), who conclude that the success of women farmers depends mainly on their ability to create or leverage their educational opportunities. The improvements can contribute to household food security and economic growth.

However, challenges such as limited funding and infrastructure gaps may hinder the implementation of these programs, necessitating ongoing support and innovative solutions to address these issues. The results show that about 95% of the respondents are not registered members of cooperatives. This implies that males predominantly lead agricultural cooperatives in the study area. This could be due to the low level of education and information on the benefits of belonging to a cooperative union.

The study also shows that none of the few registered members hold any leadership role in the association, which suggests that they are grossly under-representative. Previous studies (such as Dupo, 2012; Mwambi et al., 2021; Addai et al., 2022) have reported that women smallholder farmers tend to be excluded from participation in cooperative organisations, which significantly challenges their access to the organisation's resources and services.

Women's leadership roles in farmer organisations would help rural women farmers gain access to agricultural inputs and credits, as the distribution of fertilisers and other inputs from the government is often done in collaboration with farmers' associations. The results show that socio-cultural socio-cultural norms are among the significant barriers to women's access to markets. The study revealed that women still face strong resistance from their families to travel outside the village to engage in market activities. This corroborates a study (Lee, 2022; Balayar & Mazur, 2022) in Nepal, which reports that women continue to struggle with overcoming traditional gender roles and stereotypes that limit their ability to travel outside their village. Similarly, Ma et al. (2024) emphasise that women's participation in domestic and international markets provides smallholder farmers with greater opportunities to sell their produce at market prices, thereby increasing production.

The results show that approximately 78% of the respondents believed that transportation costs and a lack of information limited their participation in markets. Similarly, Jari and Fraser (2009) found that higher transaction costs, such as difficulty in obtaining information about prices, markets, and trading partners, have adversely affected farmer's market participation in Rife Valley, Eastern Cape Province, South Africa.

In addition, Makhura et al. (2001) investigated the effects of transaction costs on smallholders' market participation; they found that smallholders' decision to engage in the market is determined by farm distance to market; farmers in extremely remote locations pay higher transport costs thereby driving their price wedge between farm gate and market prices. 88.4% of the respondents stated that the road linking farms to markets is in deplorable condition, and they find it difficult to transport their produce to markets. Mustapha et al. (2018) posit that good roads linking rural areas to markets significantly impact the market participation of smallholder farmers, as the high cost of transportation leads to increased production costs.

The long distance from farms to large markets, combined with poor rural roads, is evident in most rural communities. This corroborates Key et al. (2000), who argue that distance to the market had a detrimental impact on farmers' decisions to engage in marketplaces. This suggests that the likelihood of participating drops off as the distance to the market increases by one unit.

Farmers who live in proximity to markets are more likely than those who live farther away to participate in marketing activities. Their produce can be transported more easily due to its proximity, which increases its convenience.

The results show that 66% of the respondents indicate that the price of the commodity at the community markets also influences their market participation. This is consistent with Jaleta et al. (2009), who report that favourable prices had a beneficial impact on market participation.

Similarly, Enete and Igbokwe (2009) and Omiti et al. (2009) found that price had a significant impact on farmers' participation in the market. They report that improved output prices and easier access to markets are the two main drivers of smallholders' market participation. The results show that high demand for the product in the market discourages rural farmers from selling from selling at large markets. For example, during bumper harvests, the prices of agricultural commodities are expected to fall, leading to an increase in demand in rural areas. This will now encourage businesses to relocate to rural areas to purchase these goods directly from farmers. This corroborates the finding

4.3. Strategies for the sustainability of linking rural women farmers to market

Based on the empirical study and the desk reviews carried out, the following actionable solutions for improving rural women's participation in the market are provided: first, limited access to land and property rights is one the serious barriers, which can be addressed by Implementing legal reforms and awareness programs to help women claim their rights, promoting joint land titling to increase shared ownership, creating land redistribution schemes prioritising women and establishing community land trusts to ensure collective ownership.

Agricultural training and extension services are critical for enhancing women's productivity and market participation. However, women frequently encounter barriers such as lower levels of schooling and disparities in access to extension services. Gender-sensitive training programs can bridge these gaps by designing women-focused agricultural training modules, incorporating childcare facilities to enable women's participation, training extension officers to address gender-specific needs, utilising digital tools to make training accessible in remote areas, and encouraging public-private partnerships to fund women's training initiatives.

Providing access to inputs and technology can significantly enhance women's productivity, enabling them to adopt modern agricultural practices. This can result in increased yields, better-quality produce, and higher incomes. However, women's limited mobility and financial resources may pose challenges, necessitating targeted interventions to ensure equitable distribution and accessibility. Access to quality inputs and technology is essential for agricultural success. However, systemic inequities often limit women's access to these resources.

Addressing this gap involves Offering subsidies or credit facilities for purchasing inputs, establishing local input distribution centres that target women farmers, conducting technology demonstration programs tailored to women's needs, promoting women's cooperatives for bulk purchasing and shared resources, and ensuring gender-inclusive policies in government agricultural schemes.

Increasing women's participation in leadership can lead to more inclusive and equitable agricultural policies and practices. It also fosters greater community development and empowerment.

However, achieving this goal requires addressing societal biases and providing consistent support for women's leadership initiatives. Active participation in leadership roles within agricultural cooperatives and community organisations empowers women and amplifies their voices in the decision-making process. Enhancing women's participation requires Conducting leadership training programs for women, establishing gender quotas in agricultural organisations, creating mentorship networks that connect experienced women leaders with emerging ones, promoting gender-sensitive governance practices within cooperatives, and raising awareness about the benefits of inclusive leadership structures.

Addressing gender-based constraints can create a more enabling environment for women to participate effectively in agricultural markets. As societal attitudes shift, women are likely to experience increased mobility, access to markets, and decision-making power. However, such changes require sustained efforts and partnerships with local and national stakeholders. Gender-based constraints, including discriminatory cultural norms and limited mobility, further restrict women's market participation. These challenges are deeply rooted in societal structures and require comprehensive strategies to overcome.

Key interventions include Implementing community sensitisation programs to address cultural biases, developing safe and affordable transportation options for women farmers, introducing mobile marketplaces to reduce mobility constraints, advocating for shared household responsibilities to free up women's time, and providing gender-awareness training for policymakers and local leaders.

5.0 Conclusion

The study examined the barriers to market participation faced by rural women farmers in Nigeria. Additionally, it explores strategies for sustainability. The study demonstrates that connecting rural women farmers to markets is crucial for enhancing the economic empowerment of women, increasing household income, reducing poverty, and stimulating the local economy. However, limited access to land and property rights, as well as credit, poor participation in agricultural cooperatives, inadequate road networks, and restricted access to agricultural extension agents, along with restrictive cultural norms, hinder rural women's market participation in Nigeria.

The study suggests that the effective implementation of gender mainstreaming policies and strategies in rural areas is crucial to addressing the structural and systemic barriers that hinder rural women's market participation. However, effective implementation requires engaging local communities and leaders, as well as establishing a strong monitoring and evaluation mechanism to track progress and address challenges. Challenges such as resistance to cultural change and enforcement of new laws must be addressed through persistent advocacy and awareness campaigns.

Additionally, prioritising rural road construction and maintenance to address the poor road network in rural areas could reduce transportation costs and thus increase rural women's market participation. In addition, training more women in rural areas as agricultural extensionists can help address gender inequalities.

There is a need to create awareness and provide targeted education and training to promote increased participation by rural women and ensure accessible leadership roles in farmers' cooperative unions. Additionally, designing a financial inclusion policy can help improve rural women's access to financial services and credit.

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Assessment of Nigeria's Sectoral Gross Domestic Product (GDP) Performance using the Three-Stage Model

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Abstract

Nigeria's economic structure has undergone an atypical transformation, resulting in a lack of sustainable growth. It has been deduced that developed countries move from an agriculture-dominant economy to an industrial-dominant economy and finally to a service-dominant economy. This shift can be seen through the lens of the three-stage model; this paper investigates if Nigeria's Gross Domestic Product (GDP) follows the model. Motivated by this anomaly, the study examines the pattern and implications of Nigeria's sectoral transformation, utilising the Three-Stage Growth Model as a theoretical framework. The analysis employs trend and descriptive methods to examine sectoral contributions to GDP and structural shifts between 2010 and 2024. Findings reveal that the services sector has become the leading driver of GDP. The study attributes this pattern to infrastructural deficits, policy inconsistency, limited access to finance, and an unfavourable business environment. Based on these findings, the study recommends, among others, the implementation of a coherent industrial policy framework and investment in infrastructure (especially energy and transport). These measures are essential for achieving structural balance and sustainable economic development in Nigeria.

Keywords: Structural transformation, sectoral imbalances, Nigeria, Three-Stage Growth Model, economic development, industrialisation, services sector

JEL Codes: O14, O47, L16, F43

1.0 Introduction

The Gross Domestic Product (GDP) is a basic measure of the total economic performance. This represents the market value of all goods and services produced within a designated area over a year, and it is positively correlated with the standard of living.

GDP is the most widely used variable for measuring economic growth; it is either calculated quarterly or annually, depending on the economy's discretion. This means that a point of the GDP can be used to measure another point of the GDP, indicating whether the economy is growing or not.

GDP is used to measure and compare economic development worldwide. GDP can also be used by investors to determine which economy is suitable for investment and to adjust their asset allocations accordingly. The GDP is comprised of various sectors, including agriculture, industry, and services. It is also important to note that Information on the current economic activity in a state is crucial for policymaking, as an appropriate policy stance relies on updated knowledge of the macroeconomic framework (Roberto and Giuseppe, 2004).

Countries like the Netherlands, the United Kingdom, the United States, Japan, and South Korea are characterised by the three-stage model of growth, which is from an agricultural-based economy to an industrialised economy and then a service economy. This played a crucial role in shaping the nature and strength of their service sector, which makes them distinct from most underdeveloped economies, of which Nigeria is a part. Therefore, knowing if Nigeria follows this model or not is crucial.

The service sector of Nigeria, which comprises telecommunications, financial services, trade, education, and real estate, is the major contributor to Nigeria's GDP. This dominance of the service sector underscores the need for economic diversification, particularly in light of external shocks, fluctuating oil prices, and the urgent demand for job creation to accommodate a rapidly expanding workforce (Adediran & Obasan, 2020).

Nigeria's economic trajectory has a unique history of the three-stage growth model, which may be the reason why Nigeria is not achieving sustainable growth. Conventionally, nations progress in a sequential stage, with industrialisation serving as a bridge between agriculture and services. Nigeria's economic trajectory has deviated from this pattern, which warrants further study to inform policies that will drive growth.

Employment and GDP were driven solely by agriculture in the early post-independence era in Nigeria. Although the service sector expanded rapidly, by 2022, it accounted for approximately 44.04% of Nigeria's GDP. The service sector, therefore, surpassed both agriculture and industry, which contributed about 23.69% and 30.78%, respectively.

This made the service sector the driving force behind Nigeria's economic growth, leading to a structural transformation. The industrial sector, which encompasses both manufacturing and construction, has not experienced significant growth. During the third quarter of 2024, the service sector expanded by 5.37% year-over-year, outpacing the industrial sector's 2.00% growth. This research aims to shed more light on and assess the sectoral growth of Nigeria's GDP.

It is crucial to understand the implications of these structural shifts by the federal government, aiming to foster sustainable development. Therefore, a sectoral analysis of the gross domestic product should be initiated despite the increasing contribution of the service sector.

This analysis can inform strategies for addressing this imbalance and provide insights to strengthen the sectors of Nigeria's GDP, thereby achieving resilient and inclusive growth. This study was motivated by the need to critically evaluate Nigeria's structural economic transformation using the Three-Stage Growth Model, particularly given that it deviates from the typical trajectory observed in advanced economies. Nigeria is lagging in sustainable growth; this needs to be analysed using the three-stage growth model to determine if Nigeria follows it or not. Based on this, a policy would be established to address this economic anomaly.

This paper is structured as such: following this introduction is the literature review, which comprises the theoretical literature and empirical literature, then section 3 is the methodology, section 4 is the analysis, which includes trend and descriptive study, section 5 is the conclusion and section 6 which is the last section is the policy recommendations.

2.0 Theoretical Literature

The three-stage growth model is used to explain the structural changes that economies undergo for development. In the first stage of development, subsistence farming and resource extraction are what drive growth. The second stage of development, which is industrialisation, is characterised by manufacturing, urbanisation, and an increase in infrastructure. Ultimately, the third stage witnesses a transition to a service-based economy, with knowledge-driven industries, technology, and finance emerging as the main engines of expansion (Clark, 1940; Fourastié, 1949).

With the shift from primary to secondary and ultimately to tertiary sector dominance, this model illustrates how economies change over time. We reviewed three growth theories: Rostow's growth stage theory, Solow's, and the augmented Solow theory of growth.

Gustafsson (1961) is of the view that Rostow divides economic development into five different stages. The traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass consumption.

We can use his division of the five different stages into the three-stage model of agriculture, industry, and services. A traditional society can be at the agricultural stage.

At the same time, the preconditions for takeoff can be the industrial stage, and the takeoff can be the service stage of development, which will lead to the age of high mass consumption, driving growth and development.

Solow (1988) defined economic growth by reviewing the works of the Harrod-Domar model. He added the aspect of technology to the Harrod-Domar model. He held the view that the permanent growth rate of output per unit of labour input is solely independent of the savings and investment rate and depends entirely on the level of technological progress.

However, in later years, he recognised that his model treated technology as external to the system, and he welcomed the move towards endogenising technology in newer growth models.

Augmented Solow's theory of growth, as stated by Hamilton and Monteagudo (1998), were of the view that Mankiw, Romer, and Weil defined economic growth as being driven not only by labour force growth, capital accumulation and technological progress (as stated in the Solow model), but this theory included human capital accumulation into the model. This paper will adopt the Rostow growth stage theory because it has a direct relationship with the three-stage model.

2.1 Empirical Literature

Nigeria's economic trajectory has deviated from the conventional three-stage growth model; instead, the trajectory of Nigeria's GDP has shifted from an agro-based to a service-based economy.

The movement of the growth model in Nigeria, characterised by unbalanced structural change, weak sectoral ties, and early deindustrialisation, has given rise to numerous studies. Ebomuche et al. (2023) employed the ARDL cointegration model and utilised a trend spanning from 1981 to 2018 to examine the sectoral economic restructuring in Nigeria. They discovered that the economy has shifted from being agriculturally centred to a service-centred one. Making the industrial sector stagnant and less significant in the economy, manufacturing accounts for less than 10% of the economy's GDP.

This is because Nigeria avoided prominent industrial development, which brought about an early dependence on services without the foundation of industrialisation.

Another thorough study by Chete et al. (2016) found that the manufacturing sector is the most productive despite the service sector currently being the engine of the economy. They utilised data from the World Bank and the International Labour Organisation, focusing their analysis on the underdevelopment of the industrial sector despite the growth of the service sector. This was used to evaluate trends in sectoral income and employment shares in Nigeria.

The relationship between Nigerian unemployment and agricultural growth was investigated by Ayinde et al. (2013). Their empirical analysis showed that changes in government spending have a major impact on unemployment rates. They recommended that a strategic investment in industries other than agriculture can promote job creation and diversify the economy.

Similarly, Antai et al. (2016) used Pairwise Granger Causality and VAR models to analyse sectoral linkages and growth prospects in Nigeria from 1960 to 2013. Their results demonstrate how the service sector dominates the economy and how poorly it integrates with industry and agriculture, limiting overall productivity. The Dutch disease and resource misallocation have made the manufacturing sector still underdeveloped.

Due to this shift in transition from an agro-based to a service-based economy, their study, therefore, supports the argument that the country's structural transformation is inconsistent and undermines the traditional transition model.

Sanusi (2010), from 1960 to 2010, used qualitative policy to evaluate historical GDP trends; they identified three distinctive phases: 1960s and 1970s, when the economy was agro-based in the 1980s and 1990s when industrial stagnation resulted from reliance on oil, and the 2000s and above when the service sector was more prominent than the manufacturing, this result showed how the economy had been affected by premature deindustrialisation.

It is worth noting that numerous studies have also examined the contributions of industries and services, both individually and collectively, to Nigeria's economic growth. Ishola and Olusoji (2020) employed OLS regression and Johansen cointegration techniques to examine the industrial contributions and the performance of the service sector from 2010 to 2016.

Their research further shows that both sectors made a concrete contribution to GDP; However, the poor performance of specific service subsectors, such as technical and public administration, lessened the overall performance. Their study suggests that manufacturing growth was flat at around 9%, and the industrial sector remained largely reliant on oil and construction. Additionally, the study indicated that without a robust industrial base, service-led growth is insufficient.

Oluwatoyese et al. (2013) employed OLS regression and a unit root test to investigate the impacts of services, manufacturing, and agriculture from 1980 to 2011, shedding light on Nigeria's economic structure. Their results showed that although the service sector and agricultural sector contributed more to GDP than the industrial sector, the manufacturing sector tended to be below 10%, indicating that policies have not been successful in encouraging industrialisation.

The results of their study further show that the industrial sector was not very responsive to investment due to its weak growth elasticity. These results imply that Nigeria has not adhered to the structured transition path that traditional growth models suggest. The sectoral interactions and difficulties in shifting from an industrial to a service-based economy have also been the subject of numerous studies.

Adeyinka and Vollrath (2013) used the growth decomposition model from 1996 to 2009 to examine Nigeria's structural transformation. They found out that labour shifted from agriculture to services and bypassed industry. It was noted that 20 per cent of the total labour shift was accounted for by structural change.

However, many substantial productive gains were not realised due to poor infrastructure, sectoral imbalances, and skills mismatches that constrained industrial growth. This confirms that Nigeria's early deindustrialisation made the shift to manufacturing incomplete. Korgbeelo and Deekor (2021) employed a time series analysis spanning from 1981 to 2019 to examine economic growth and industrial sector performance. They found that utilities and construction have little to no impact on GDP, whereas manufacturing and mining have a positive effect on GDP.

Despite its long-term statistical significance, the industrial sector has a small overall impact on economic growth. Their study further highlights the importance of targeted productivity policies in enhancing industrial performance and promoting sustainable economic growth. These studies have shown that Nigeria diverged from the three-stage growth model, providing empirical proof.

The lack of empirical research on Nigeria's sectoral transition using the three-stage growth model and its effects on long-term economic growth is a gap in the literature. While existing studies have examined sectoral contributions to GDP, few have explicitly analysed the consequences of Nigeria's structural imbalance using a historical and comparative perspective.

Additionally, most studies on structural transformation in Nigeria have focused on either the decline of agriculture or the challenges facing the manufacturing sector in isolation without adequately addressing the inter-sectoral dynamics that define economic growth. Based on this drawback, this study tends to reevaluate Nigeria's GDP structure through the lens of the three-stage growth model. This is because no study has analysed that.

3.0 Methodology

This paper presents a descriptive study that utilises GDP sectoral balances from Q1 2010 to Q3 2024. This data was adjusted from 2018 Q1 to 2024 Q3 to examine the short-term volatility in the series, enabling us to conduct our analysis. This data was sourced from the Central Bank of Nigeria (CBN) data warehouse and the National Bureau of Statistics (NBS). Therefore, if we assume that the Rostow stage of growth for traditional societies can be the agricultural stage, the preconditions for take-off can be the industrial stage, and the take-off can be the service stage of development, which will lead to the age of high mass consumption that drives growth and development.

Then development can be said to be the addition of Agriculture, industry and services, which means our simple functional relationship will be;

$$Y=f(Agric, Industry, services) \qquad (1)$$

Equation (1) could be converted into a mathematical form, which can be expressed as;

$$Y=(Agric_1 + Industry_2 + services_3)\ldots \qquad (2)$$

When 'y' is used to proxy growth, we have agriculture, industry, and services. This paper will use trend analysis and descriptive analysis to achieve the objective of using the three-stage model to assess Nigeria's sectoral gross domestic product.

4.0 Analysis

The work employs trend analysis and descriptive analysis to assess Nigeria's Sectoral Gross Domestic Product (GDP) Performance using the Three-Stage Model. These methods help portray the pace and direction of growth in key sectors, which are agriculture, industry, and services, under the Three-Stage Model of development. By observing sectoral shifts and patterns, we can analyse which sectors are driving or lagging in economic performance, providing a strong foundation for policy options and economic planning.

4.1. Trend Analysis

The trend analysis utilises a range of time series from 2010 Q1 to 2024 Q3 to analyse the composition of Nigerian GDP, sectoral GDP growth, and the decomposition of sectoral contributions to GDP growth. From Figure 1, it can be seen that the combined contributions of Nigeria's three main economic sectors — agriculture, industry, and services — total the country's GDP.

Agriculture was the primary engine of economic activity in the early stages of the nation's development, with a particular emphasis on cash crop exports, including cocoa, cotton, rubber, and groundnuts.

The majority of the population, however, continued to farm at a subsistence level, employing outdated techniques that limited productivity. As a result, domestic consumption rather than large-scale commercial production was the primary focus of agricultural output.

The oil boom that followed Nigeria's independence led to a significant shift from an economy centred on agriculture to one that is largely dependent on petroleum.

Agriculture and other non-oil sectors received less investment, and oil revenues became the primary source of government income. Due to factory closures, low local demand, and competition from lower-priced Chinese imports, the manufacturing sector was facing severe difficulties by the 1990s.

The development and competitiveness of domestic industries were hindered by this, as well as the ongoing reliance on oil revenue.

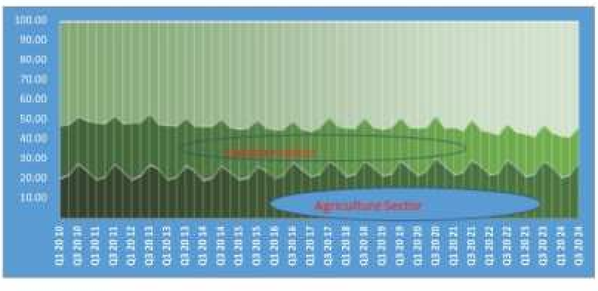

Figure 1: Composition of Nigeria's GDP

Figure 2 illustrates the growth of telecommunications, trade, and the financial sector, which contributed to the increasing significance of the services sector over time through increased financial inclusion and online transactions. This change was hastened by the COVID-19 pandemic, which increased internet activity and strengthened the industry's position as a significant engine of Nigeria's economy.

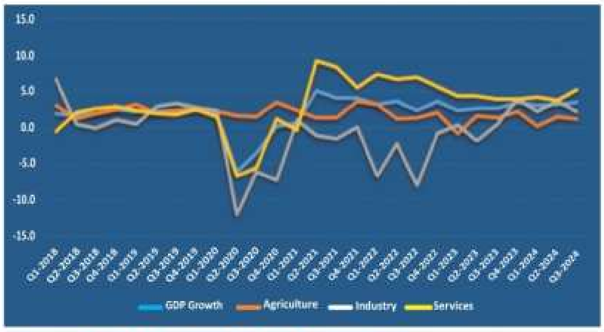

Figure 2: Sectoral GDP Growth

Figure 3 illustrates that the services sector, particularly through digital expansion, played a vital role in Nigeria's economic recovery despite the setbacks caused by the COVID-19 pandemic. With the help of new financial services and the Central Bank's recapitalisation initiatives, the Financial and Insurance subsector has experienced rapid growth in recent years. These programs aim to enhance the financial sector's contribution to economic growth and support the financing of major projects.

Figure 3: Decomposition of Sectoral Contribution to GDP Growth

4.2 Descriptive analysis

The descriptive analysis would be used to analyse the characteristics of the dataset to understand the structural shifts in the GDP sectoral sectors by examining the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, and Jarque-Bera.

Table1: Descriptive statistics

Variable	Gdp growth	Agriculture	Industry	Services
Mean	2.11	0.46	-0.12	1.77
Median	2.45	0.43	0.09	2.14
Maximum	5.01	0.96	1.51	4.96
Minimum	-6.10	-0.20	-2.81	-3.65
Std. deviation	2.26	0.23	0.92	1.89
Skewness	-2.29	-0.40	-1.15	-1.06
Kurtosis	8.58	4.27	4.24	4.43
Jarque-berra	60.95	2.64	7.95	7.64

Source: Authors' Computation Using Eviews 10

The summary statistics showed that Nigeria's GDP growth rate (GDP_gr) fluctuated significantly, with periods of both contraction and expansion in the economy. The results showed a mean of 2.11%, a standard deviation of 2.26%, skewness of -2.29, and kurtosis of 8.58, indicating that GDP growth is highly asymmetrical and vulnerable to significant adverse shocks.

Agriculture was found to have a 0.46% contribution to GDP growth, with a standard deviation of 0.23, indicating that it is relatively stable. The minimum value of -0.20% suggests that agricultural output may fall due to the effects of low or no mechanisation, climate-related shocks, and insufficient infrastructure.

The skewness of -0.40 and kurtosis of 4.27 indicate a comparatively normal distribution with sporadic shocks. Numerous sectors of the economy rely on agriculture for employment, food security, and as a source of raw materials for industries such as food processing and textiles. An increase in agricultural production can be used to reduce food imports through irrigation, mechanisation, and value-chain enhancements. The industrial sector exhibited greater volatility, with a mean growth rate of -0.12% and a standard deviation of 0.92%. The industry showed a minimum value of -2.81, which emphasises its instability. This may be due to erratic energy supplies, inadequate infrastructure, and foreign exchange restrictions that impact the manufacturing and extractive sectors.

Skewness of -1.15 and kurtosis of 4.24 highlighted the sector's structural weaknesses, which showed a propensity for adverse shocks. The industrial sector is crucial for economic transformation because it can generate high-value jobs, enhance productivity, and drive technological advancements. It is worth noting that its poor performance in Nigeria underscores the need for industrialisation-promoting policies, industrial clusters, power supply investments, and favourable credit policies to boost manufacturing and value-added production.

The most dynamic sector is the service sector, which has shown stronger and steady growth, with a maximum value of 4.96% and a mean of 1.77%. The standard deviation of 1.89 can be attributed to recurring variations that may be linked to exchange rate fluctuations, macroeconomic instability, and regulatory uncertainty.

The distribution exhibits sporadic, severe downturns but remains the most robust of the three sectors, with a skewness of -1.06 and a kurtosis of 4.43. Economic diversification has been significantly supported by the growth of the service sector, particularly in areas such as finance, trade, and telecommunications.

The sector's rapid expansion underscores its strength in fintech, e-commerce, and digital transformation, all of which can contribute to sustainable economic growth if managed effectively.

5.0 Conclusion

Nigeria's economic growth has been characterised by structural imbalances across the three major sectors: agriculture, industry, and services. It would be beneficial to gain a better understanding of how these sectors contribute to Nigeria's development through the lens of the three-stage growth model—adopting the Rostow stages of development and substituting the Nigerian growth trajectory of Agriculture, industry, and services.

We analysed the data using the trend and descriptive analysis. The analysis reveals that, although the services sector has been a key driver of GDP growth, the industrial sector continues to underperform.

Despite the stability of the agricultural sector, it still needs to be modernised. The shift from growth in agriculture to services contrasts with traditional economic theory, which proposes a gradual transition from an economy centred on agriculture to industrialisation and then to a service-driven economy. Given the economy's weak industrial base and low level of value-added production, this unconventional pattern raises questions about the sustainability of economic growth, job creation, and long-term productivity. Premature deindustrialisation, a phenomenon that has been extensively discussed in emerging economies but is still not fully understood, is suggested by the dominance of the services sector without a solid manufacturing foundation.

A more balanced growth trend that prioritises both industrialisation and a thriving agricultural sector is necessary to achieve sustainable development. Nigeria's economy will become more stable and diversified if industrial policies are adequate.

6.0 Policy Recommendations

Within the parameters of the three-stage growth model, targeted policies must be established to promote industrialisation while maintaining a balanced economic structure to manage the industrial sector's poor performance. The vital link between the agrarian economy and a service-driven economy is the industrial sector, which brings about value addition, economic diversification, and job creation.

What has hindered its expansion are poor infrastructure, limited foreign exchange, low local production capacity, and inconsistent policies. The following essential policy pillars should guide the foundation of any sustainable industrialisation strategy:

Infrastructure Development and Energy Security:

The industrial sector's productivity is reduced because of an insufficient transportation network, unstable power supplies, and poor infrastructure. The government's priorities should be the development of industrial parks with reliable transport connections and power, the expansion of renewable energy sources, and investments in electricity generation and distribution.

Access to Finance and Credit Support for Manufacturing:

The limited availability of reasonably priced credit remains a significant barrier to industrial growth. Local production will be promoted by bolstering development finance organisations, such as the Bank of Industry (BOI), to offer manufacturers low-interest financing.

The inclusion of tax breaks and credit guarantee programs for small and medium-sized businesses (SMEs) will expand industry competitiveness and participation.

Technology and Innovation-Driven Industrialization:

Industrialisation in Nigeria must be in tandem with global technological development. Promoting research and development (R&D) through government-private sector partnerships will increase innovation and promote industrial efficiency. Policies that encourage skills development, technology transfer, and digital transformation in manufacturing will improve productivity and ensure that local industries remain competitive.

Import Substitution and Local Content Development:

The industrial sector in Nigeria needs to be developed by reducing its dependence on imports. Domestic production will be enhanced by a firm local content policy that supports businesses in sourcing raw materials locally and by implementing tariffs to discourage the excessive importation of completed goods.

To establish a backwards relationship with the agricultural and extractive industries, the government should promote value chain development in sectors such as agro-processing, steel production, and pharmaceuticals.

Export Diversification and Trade Facilitation:

If tactically positioned, Nigeria's industrial sector can be a prominent contributor to its export revenue. Importance should be given to policies that promote non-oil exports, especially in the manufacturing sector.

Nigeria's inclusion in regional and international trade markets will be enhanced by streamlining customs processes, promoting port productivity, and negotiating advantageous trade agreements.

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The Economic Imperatives of Ensuring Accessible University Education in Nigeria

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Abstract

This study examined the economic imperatives of enhancing access to university education for Nigerians. It submits that university education is the most important factor for technological and innovative breakthroughs, as it equips graduates with receptive minds for the complex reasoning that innovation requires. The study employed critical discourse analysis, focusing on the association between the attainment of a university education and the increased high income of its recipients. The study recommends that the government should intensify funding university education to complement private sector initiatives. It also recommends that university authorities in Nigeria should tap into the vast endowment and embrace grant opportunities for funding.

Keywords: University Education, Economic Importance, Accessibility, Endowment Funds

JEL Classification: H52, I25

1.0 Introduction

Modern nation-states are built on knowledge, technology, and innovation that come through focused education of the citizenry. According to Al-Shuaibi (2014), education equips recipients with knowledge and skills in both specialised and general fields, enabling them to perform tasks with relative expertise, which improves as education levels increase. Scholars have long stressed the importance of education in driving economic growth and shaping individual minds.

Einstein (1931) emphasised the value of education in terms of the learning and mental/critical thinking abilities that it equips recipients with rather than the disciplines or courses themselves. Hall and Soskice (2001) deduced that the acquisition of suitable skills for workers in modern capitalism rests on the provision of education and vocational training.

Higher education, particularly university education, has been found to play a significant role in transforming the production process, directing investments, and driving the economic growth of the Asian Tigers (Wade, 1990). A nation's economic development, which is essentially the improvement in real domestic production per capita that leads to advanced industrial, high-tech, and financial prosperity among its citizens, is broadly attributed to higher educational attainment (Rich, 1974).

In the words of Trudeau (2016), education facilitates learning, thinking and adaptation. In highlighting the importance of university education, Ekwo (2007) opined that the progress of any country is contingent upon the level of advancement and development of its highest-level workforce. The human desire for self-fulfilment, improved financial stability to meet obligations, as well as increased career growth opportunities are some of the motivations for young people to pursue university education (Fullarton & Duquette, 2016).

For a long time, pundits have argued that the acquisition of a university education is not a requirement for all. Those who hold this opinion contend that general vocational education and artisanship are suitable for developing economies, such as Nigeria, since funding for university degrees is typically not accessible to average citizens despite their desire, and government spending on education is taking a huge toll on the resources of the government in the face of the increasing population of the country. As the opinion becomes dominant in the discussion space, several arguments have been presented suggesting that the government's efforts in raising critical manpower at the university level to power the country's economy should be reassigned to vocational education.

This study addresses the need to make university education accessible to as many young Nigerians as possible at an affordable cost, thereby generating the necessary impact on the country's economic growth.

2.0 Literature Review

2.1 Importance of University Education

The debate on the importance of university education in society has raged for years. The discussion spans multiple jurisdictions and boundaries. Across the world, experts have weighed in on the continued relevance of university education, wondering if the skills acquired in today's schools can meet the current challenges. Collini (cited in Catcheside, 2012) questioned if universities should consider students as consumers to be produced only to get jobs.

According to Asongu (2015), the knowledge economy comprises four components, as classified by the World Bank, namely education, innovation, information, and communication technology. It also includes economic stimulants, as well as more established mechanisms. As a result, a university education enables the holder to possess the required flexibility to navigate and switch careers across multiple professions throughout their lifetime.

While university functions are the same worldwide, the institutions themselves differ in their mission, vision, and stages of development. The most advanced institutions and the highest-ranked universities in Europe and America have existed for over two to three centuries. These institutions operate on a foundation of hundreds of years of research backed by substantial endowments for innovation and research and development (R&D) from well-established alumni.

This is not, by any means, an excuse for not being competitive. Still, it does indicate that universities in advanced countries have built massive repositories on which new knowledge is built. It would thus be easier for a university with hundreds of years of research efforts to attract more research grants and be ranked above relatively new ones despite the best efforts. For example, Harvard, Oxford, and Cambridge were established in 1636, 1249, and 1209, respectively.

According to Cohen (2023), sub-Saharan Africa has the lowest enrolment rates for higher education in the world. As such, higher education, which is directly linked to a country's gross domestic product growth, is unable to make a significant impact on the required innovation at the level essential for GDP growth. In the current economic climate, Cohen (2023) has established a direct correlation between artificial intelligence (AI) and the economic growth of countries with high university attainment. Therefore, this finding urges sub-Saharan African governments to prioritise university education, which is a key determinant of economic growth, in contrast to the prevailing advice from international financial organisations for Africans to deemphasise university education in favour of primary and secondary education for the youth.

2.2 Endowment Funds

The American Council on Education (2024) described endowment funds as the totality of gifts and donations from alumni and well-intentioned members of the community that institutions invest to finance their activities over a long-term horizon. Endowments, therefore, ensure that some major activities in educational institutions continue to run smoothly, especially in terms of funding. Research activities could run smoothly until the conclusion. Again, faculty positions or workforce needs of the institutions are met with the secured financing. Similarly, research materials and equipment would also be taken care of as long as sufficient funds are available. Pillar and Gokum (2024) asserted that endowment funds serve as a viable alternative to the funding problem of universities in Nigeria, which could be sustainable.

The scholars proposed that Nigerian universities should consider encouraging endowment initiatives from corporations, high-net-worth individuals and various not-for-profit organisations to finance their specific research and academic needs.

Filosa (2025) opined that endowments are generally used to augment the funding of universities from other sources, such as student enrolment fees and government subventions. Still, they are essential in making education accessible and affordable for students by enhancing funding assistance and lowering tuition.

According to Kolek (2024), endowment funding, being an autonomous source of finance for non-profit institutions, can ensure the independence and sustainability of the funds' usage.

2.3 Debate on the Relevance of University Education in Nigeria.

In the case of Nigeria, Odia and Odia (2020) found that securing admission to Nigerian universities for eligible candidates is highly challenging due to the limited number of available university admission spaces. Accordingly, Nigeria requires twice the number of current universities to absorb the volume of applicants yearly, arising from the policy of massive enrollment at the primary school level, as mandated by the Universal Basic Education.

Odegaard (2018) suggested that the Nigerian government should desist from subsidising university education and instead make basic, technical, and vocational education, as well as training, available for free in Nigeria. Consequently, expensive subsidies for training university students, such as medical doctors, should be allocated to providing access at the primary, secondary, and vocational levels. In contrast, higher degrees, including professional training like medical degrees, should be paid for by the recipients.

Similarly, Abah (2018a) posited that university education in Nigeria should be commercialised to attain higher global ratings. A deliberate policy of the government should be encouraged to segregate universities into a few "elite" universities and others. Additionally, policies should be designed for these elite universities to charge high tuition fees, enabling them to finance research and compete favourably with institutions in other countries, especially developed nations. In arguing that a few universities should be purposely chosen for the "elite" treatment, Abah (2018b) submitted that the remaining universities would be challenged to "sit up" as a result of the competition that the segregation would engender.

This thinking is not unconnected to the current unemployment situation in the country, which is reported at 33.3 per cent by the National Bureau of Statistics (NBS, 2021), with youth unemployment at 45.9 per cent for the year 2020. However, the subject of higher education and standards is not entirely straightforward (simplistic) as these opinions suggest.

From the foregoing, it is essential to critically examine the issues and proffer answers to the question: Does Nigeria currently have too many university graduates?

3.0 Methodology

The methodology employed in this paper is critical discourse analysis, as outlined by Van Dijk (2001). The discursive approach focuses on the issue of the usefulness of making university education attainable for a large portion of Nigerian youths, as against the generally growing belief among social commentators and public analysts that concentration of resources on technical/ vocational/apprentice training would serve Nigeria's development purposes better than large production of university graduates. It involves presenting the contextual substance of the subject under review, gathering verifiable details for analysis, and providing real-life context for the study for the period from 1973 to 2023.

The study employed secondary data from electronic sources and Internet files as well as archival documents and online publications by organisations and multinational institutions – the sources include the National Youth Service Corps (NYSC), Central Bank of Nigeria (CBN), Nigeria Medical Association (NMA) and the Council for the Regulation of Engineering in Nigeria. Focus group discussion transcripts from both traditional and social media (such as X, formerly Twitter) feeds, as well as Internet discussions of opinion leaders and policy wonks, were included.

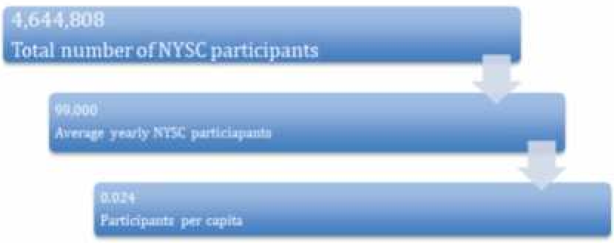
4.0 Discussion

4.1 Inadequate University Graduates

The notion that there are too many universities in Nigeria producing an excessive number of graduates each year without job prospects is not supported by the data. Although the argument is honest in the face of growing graduate unemployment in the country, available data does not support the logic of a reduced need for university-trained workers in Nigeria, favouring artisanship and vocational studies. Given the country's large population, estimated at approximately 193 million as of 2016 (CBN, 2021), the number of trained university graduates is insufficient.

Data from the National Youth Service Corps scheme showed that the number of participants in the service is below expectations.

The NYSC scheme is a mandatory one-year service for Nigerian graduates. Participants engaged in para-military activities and community services within the period. This data serves as a good proxy for the number of university-educated Nigerians in the context of the discussion theme. It should be noted that participation in the NYSC scheme is not exclusive to Nigerian university graduates; youths who have completed their higher education at polytechnics and monotechnics also participate in the scheme annually. This makes it more concerning as the figure for total university graduate participants reduces when non-university participants are subtracted.



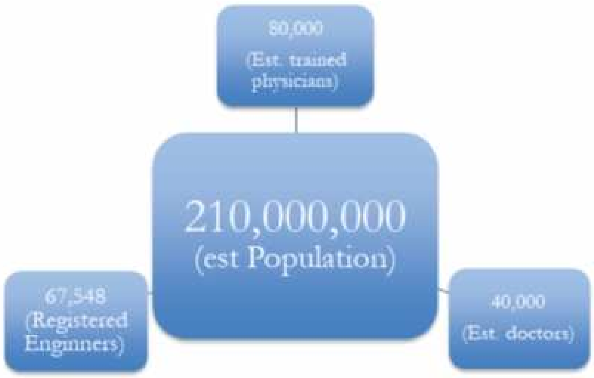
Source: NYSC (2019)

Figure 1: NYSC Participation 1973-2019

Figure 1 above presents the data from the National Youth Service Corps (NYSC, 2019). It reveals that the total number of Nigerians who have participated in the National Youth Service Scheme since its inception in 1973 until 2019 is 4,644,808. This indicates that the number of participants per capita is approximately 0.024, meaning that out of every 1,000 Nigerians, only 24 have gone through the NYSC scheme since its establishment in 2019. In terms of the annual number of participants in the scheme, an average of approximately 99,000 Nigerians have participated in the programme. Nevertheless, the number is grim already. It is clear that Nigeria currently lacks sufficient skilled manpower to manage its economy. These statistics could be more worrisome, considering that the people who graduated between 1973 and 1989 are well past the mandatory retirement age of 60 years or 35 years spent in service from the date of appointment. As a consequence, the current active workforce would comprise those who graduated from the universities between 1990 and the present. Among this demographic, a significant number have relocated abroad as economic migrants seeking a better life, thereby transferring the skills they acquired in Nigeria to develop their host countries.

4.2 Critical Professional Workforce

The economic importance of university education is more underscored when considered in relation to the production of a professional workforce that is crucial to the socio-economic success of a developing country. As noted by Curie (1970), the output of well-trained manpower in the fields of medicine, engineering, teaching and others is a core requirement for the attainment of economic development. The well-being of any nation depends largely on the health of the citizens, which consists of the physical health, emotional balance and psychological state of the people (Organisation for Economic Co-operation and Development [OECD], 2001).



Source: CBN (2023), NMA (2021), COREN (2020)

Figure 2: Population vs Available Number of Experts in Selected Profession

The grave situation is manifested in the number of professionals being produced in the country compared to the population and the amount of tasks that need to be done. Figure 2 above presents data from the Council for the Regulation of Engineering in Nigeria (COREN, 2020), which shows that the total number of registered engineers in Nigeria is 67,548 - since registration began in 1960. Considering the number of bridges to be designed and built, the number of technological breakthroughs to solve peculiar national problems, and the number of kilometres of roads to be constructed, among other required technological and engineering works, this number is grossly inadequate.

Also, Figure 2 presents the reports from the

Nigerian Medical Association (NMA, 2021), which showed an estimated 80,000 (eighty thousand) medical doctors have been trained in Nigeria, out of which about 40,000 (forty thousand) are left in the country. This translates to a doctor-patient ratio of approximately 1:4825 in a country facing serious healthcare challenges that require the attention of experts. Nigeria is ranked 147 out of 194 countries in life expectancy per physician per 10,000, according to the World Life Expectancy (2020). A grimmer picture is that many healthcare professionals are leaving the country in large numbers; approximately 2,000 medical doctors exit the country each year, according to a study by The Guardian (2018).

It is not only in the health and engineering sectors that the country needs to produce more graduates. There is a need for more university training for the youths in virtually all human endeavours. Experts have rightly emphasised the importance of acquiring massive skills in the STEM fields for obvious reasons. Scholars have also emphasised the need to focus on the marketability of various courses, given the current employment situation, not only in the country but also globally. However, although Nigerian-trained professionals, who constitute the middle class, have been leaving the country for greener pastures, the experience has been a mixed blessing for the country, as they have formed the primary source of foreign earnings through remittances to the government. The International Monetary Fund (IMF, 2019) estimates that diaspora remittances to Nigeria in 2019 were US$21b.

Most migrants from Nigeria are highly educated, which enables them to assimilate more easily and earn higher incomes in their adopted countries. Indeed, a report by the New American Economy Research Fund (2018) found that Nigerians are a significant number of immigrants from sub-Saharan Africa, with higher levels of educational attainment than the United States average and with degrees in the STEM (i.e., science, technology, engineering, and mathematics) sectors. There is certainly a compelling argument to invest in STEM. However, there is a need to devote resources to reforming the minds that would innovate and use the technology. In other words, science and technology should align with the values and mindsets of the users. The university system is designed to enable students to easily transition into leadership positions in the industry, government, and society at large.

Nigeria is also deficient in skilled manpower in other sectors. The country needs comprehensive reforms and a fresh start in nation-building, given the numerous challenges it faces. The civil service, education, manufacturing, military, arts and culture, broadcasting and all sectors need to be reformed.

For these reforms to be effective, there must be well-trained minds for all these sectors, the type of which only the university system is equipped to handle. For instance, many resources are being lost to the activities of youths engaged in unwholesome activities due to the dwindling value system. Enormous financial resources are lost to the activities of fraudsters. At the same time, Nigeria's image has been largely defined by the actions of its youths on the Internet, some of which are undesirable.

4.3 Labour Market Earnings

According to the World Bank (2014), the most compelling economic advantages derived from education are labour market earnings. Each additional year of schooling increases the global private rate of return to education by 10 per cent. Consequently, the Bank noted that the average earnings of university graduates are 84 per cent higher than those of individuals who finished only secondary school, while those with post-secondary school qualifications but not university education earn 16 per cent more than secondary school leavers. Ogwumike et al. (2006) found that the level of education is a significant determinant of workers' income and a key factor in inequality in Nigeria.

Furthermore, Giuponni and Machin (2024) found that the disparity between the income levels of university-educated workers and non-university-trained workers was wider in the UK before 2010 when there was a reported surge in university graduations. This suggests that a large pool of university-trained manpower is essential to reducing inequality in society. Nigeria and other developing countries are achieving socio-economic progress by producing more, not less, university graduates. Additionally, the government's fiscal plans are likely to benefit from increased earnings by citizens, as higher incomes translate to more revenue for the government through income taxes. Accordingly, higher income taxes are associated with increased economic growth for the country (Tosun & Abizadeh, 2005; Egbunike et al., 2018). Similarly, savings and investment will be positively impacted by higher income.

According to the IMF (1990), in developing countries, such as Nigeria, savings serve as the primary source of investment. A higher income level is positively correlated with national savings, which is directly linked to capital formation; therefore, investment receives a boost and growth is enhanced in the country. It is for these essential benefits to Nigeria's economy that efforts should be intensified to make the system of acquiring university education more accessible to the youth. The financial commitment to training students through graduation is an investment that yields tremendous returns to the economy when the recipients are actively engaged in the production sector after receiving their education.

4.4 Innovation, Research and Development

The importance of innovation to a nation's development is emphasised in much of the economics and financial literature. Risk-taking entrepreneurs drive innovation by deriving value from knowledge, which involves improving existing products, producing entirely new products and services, and devising cost-effective means of making the same goods through the creation of new systems (Gault & Zhang, 2010).

Accordingly, innovation develops from systematic procedures, such as university research outputs and R&D, traditional environmental knowledge, or previous experiences on how things work. In developing countries such as Nigeria, the role of the university system in producing quality entrepreneurs who take the risks of innovating to solve society's myriad problems is crucial.

In the era of information and communication technology (ICT), innovation in the services sector has played a crucial role in the emergence of new industries and the enhancement of existing ones in Nigeria's economic landscape. This transformation is most evident in the electronic payment system, also known as FinTech, which has revolutionised the previously stagnant financial system, resulting in improvements in financial inclusion and the transfer and receipt of money by the underbanked populace.

Researchers from the McKinsey Global Institute projected that increased usage by a larger portion of the population would significantly impact the gross national output of developing economies by 6 per cent ($3.7 trillion) by 2025 (Zaidy, 2022). It is essential to emphasise that this level of high productivity necessitates quality university training to comprehend the theoretical underpinnings, as well as the ethical and technical considerations, of the socio-economic implications of expanding financial inclusion.

5.0 Conclusion And Recommendations

This paper considers the vital importance of university education in Nigeria, particularly in light of the current clamour by pundits that access to university education should be restricted to facilitate easier funding by the government. The study concludes that for the country to achieve economic progress, it must have highly skilled manpower to run its critical sectors, including healthcare professionals, engineers, social workers, environmentalists, real estate professionals, government administrators, scientists, innovators, academics, and others. Furthermore, the study concludes that university training equips the mind to assimilate and innovate in the given circumstances of life quickly.
Countries typically direct policies to meet their peculiar needs and exigencies. The study, therefore, recommends that;

I) The Nigerian government should intensify funding of public universities to complement private initiatives to ensure unfettered access.

ii) Authorities and faculties should take advantage of and apply for available research grants.

iii) Pursuing standards and instituting global best practices in designing curricula for the universities in Nigeria should continue.

iv) Regulations should be strict by the National Universities Commission and various professional bodies through rigorous accreditation exercises. The most effective mechanism should be to strengthen existing rules on curriculum development, the appointment of lecturers and administrators, as well as continuous training programmes for the lecturers.

v) Universities in Nigeria should be incentivised to focus on providing solutions to the myriad problems facing the country through cutting-edge yet homegrown innovations.

vi) Universities in Nigeria should foster collaboration with other countries for research and innovation.

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Assessment of Development Traps in Nigeria: 1985–2021

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Abstract

This article conceptually and theoretically examined the phenomenon of development traps in Nigeria by adopting stylised facts and a trend analysis approach. Essentially, the findings revealed that the Nigerian economy is ensnared in governance, poverty, and corruption traps. Thus, the poverty trap persists due to many years of persistent poor governance and its impact, while corruption has a persistent, domineering, and predictive power on Nigerians. Therefore, the Nigerian elites, especially the political elites, must rise to become the Patriots of Development. Additionally, the Nigerian government should further empower the anti-corruption agencies so that they become effective rather than merely bark.

Keywords: *Anti-corruption agencies; Corruption trap; Development traps; Stylised facts; Sukuk; Trend analysis; Nigeria*

JEL Classification Codes: D73, G32, H54, O11

1.0 Introduction

Nigeria is considered the most populous black nation in the world and the largest economy in Africa due to its natural, mineral, and human resource endowments, as well as its positive gross domestic product (GDP) growth rate, especially in recent times. Again, Nigeria is often described as "the Giant and Powerhouse of Africa" (Mustafa, Mamman, Ibrahim, & Alhassan, 2024a; African Development Bank – AfDB, 2023).

Interestingly, Nigeria is the 11th largest producer of crude oil in the world, the eighth largest exporter of crude oil and the 10th largest owner of proven oil reserves globally. Nigeria also prides itself on having the largest pool of highly educated and trained workforce on the continent of Africa, particularly in terms of human capital development. Indeed, Nigeria is among the three (3) big emerging economies (BEEs) in Africa (World Bank, 2022; Alhassan & Mustafa, 2021; Aluthge, Adam & Musa, 2021).

Naturally, this, combined with her large population, presents the largest market for investors in Africa and globally. A comparative analysis of Nigeria by Desai (2002:9) observed that "Nigeria and Malaysia had very similar incomes in 1960. They were similar in terms of factors such as multi-ethnic composition, natural resource orientation, colonial past, and colonial economy. Now, the difference between the economy of Nigeria and Malaysia is beyond belief".

Also, the World Bank (2022), Mustafa and Solarin (2015) and Golif (2013) noted that in the 1970s, Nigeria, which was one of the wealthiest 50 countries with 15% poverty rate, has now seriously descended and retrogressed at the threshold of the 20th century to become one of the 25 poorest countries, owing to social and economic factors like corruption and poor governance.

Disturbingly, unprecedented corruption, extreme poverty, and poor governance by Nigerian elites have continued to be the major developmental predicaments of Nigeria, which have led the country to become a victim of development traps.

Therefore, development traps refer to those macroeconomic phenomena that serve as obstacles or hindrances to the progress of developing nations, thereby impeding their growth and development despite their resource endowments, as is the case with Nigeria.

According to Collier (2006, 2021), development traps encompass the poverty trap, the corruption trap, the debt trap, and the conflict trap. Again, Collier (2021) identifies that a poverty trap is composed of one or a combination of the following traps, i.e., conflict, being landlocked with bad neighbours, reliance on natural resources, and poor governance that degenerates into corruption and poverty traps.

It is, therefore, instructive to note that poor governance in Nigeria has gradually fostered the seeds of corruption, poverty, unemployment, a soaring debt profile, and overreliance on the proceeds from natural resources, such as oil and gas, without commensurate development of these resources and the economy as a whole.

Hence, Nigeria is currently experiencing poor governance due to deficient leadership and governing style, characterised as a country of excessive wealth and prodigality, pervasive poverty, a high rate of unemployment, insecurity, and unprecedented corruption, among other issues, in its more than six decades of nationhood.

For instance, the wealthiest man in Africa's largest economy earns about 150,000 times more than the poorest Nigerians, and it would take him 46 years to exhaust his wealth at the rate of US$1m per day (Alhassan & Mustafa, 2021; Hallum & Obeng, 2019).

Due to the persistent and extreme poverty in the country, Nigeria was declared the headquarters of poverty in the world in 2018 by the World Poverty Clock, thus confirming that Nigeria is poverty-trapped (Alhassan & Mustafa, 2021; Umar, Aliero, & Abubakar, 2021).

Furthermore, Nigeria is struggling with the burden of debts incurred by past administrations, which has placed the country on a path of debt trap as debt servicing has continued to increase (Alhassan & Mustafa, 2021; Golif, 2013).

For instance, in the 2024 Fiscal year budget, the Federal government has budgeted over N8 trillion for debt servicing, as compared to N6.55 trillion in 2023 (Mustafa, Mamman, Ibrahim, & Alhassan, 2024b).

Against this background, this article conceptually and theoretically examined the phenomenon of development traps (with particular interest in the poverty and corruption traps) in Nigeria from 1985 to 2021.

2.0 Conceptual Framework

2.1 Development Traps

According to Collier (2007), one of the significant insights in development economics is that developing economies can fall into traps, which can lead to their failure to catch up with developed/advanced economies. As such, if the prosperity of a country's inhabitants does not improve relative to its performance and if its economic growth falls behind national and EU averages, then such a country is suffering from development traps.

Therefore, development traps are considered macroeconomic mechanisms and phenomena that hinder countries from achieving their desired growth and development despite their natural resources and endowments, as is the case in many African countries, such as Nigeria.

As noted by Collier (2006), such traps include the poverty trap, the corruption trap, the debt trap, and the conflict trap. In this regard, poverty traps, underdevelopment, and debt traps are all products of poor governance, as postulated by Collier (2021). It is a self-perpetuating condition in which a country becomes trapped in a vicious circle of poverty, suffering from persistent underdevelopment.

Additionally, it refers to a mechanism that makes it difficult for people to escape poverty. Moreover, a poverty trap exists when an economy requires a substantial amount of capital to escape poverty or when individuals lack the necessary capital and cannot easily acquire it.

Thus creating a self–reinforcing circle of poverty. A debt trap, on the other hand, is an economic scenario in which the debtor is led into a cycle of re-borrowing or rolling over loan payments because they are unable to afford the scheduled payments on the principal. It also implies a circumstance in which it is difficult or impossible for a borrower to pay back money borrowed to the creditor (Dike, 2011; Collier, 2006).

Therefore, a situation where the borrower can only afford the payment of interest and not the principal suggests that the debt remains outstanding, as making payments on the interest alone will not lead to any reduction in the principal amount of the loan.

Thus, the debt trap emanates due to high interest rates and short terms, which represent a hallmark of predatory lending. Again, the debt trap is linked to corruption because the debts incurred are diverted from productive use to unproductive use or squandered, as is the case with many African countries, such as Nigeria (Mustafa, 2012; Collier, 2006).

Similarly, corruption as a product of bad governance (which is one dimension of the development trap) connotes a situation where a country is deep-knee in corrupt practices due to deficient leadership and poor governance as well as governing style, which provides an enabling environment for large scale corruption without adequate consequences for corrupt actions (Mustafa et al., 2024b; Aluthge et al., 2021; Aliyu & Elijah, 2008). In this connection, Dike (2011) did not mince words when he posits that the price of corruption is poverty, and wherever there is corruption, there must be poverty.

Corruption as a product of bad governance (which is one dimension of the development trap) is a more devastating economic phenomenon because it breeds multiple problems like persistent poverty, unemployment, inequality, and insecurity and could also lead a nation to be debt-ridden and thus, debt trapped as in many developing economies as the case in Nigeria.

Importantly, several studies have examined the impact of corruption on the African economy, particularly the Nigerian economy, as seen in works by Mustafa et al. (2014) and Aliyu and Elijah (2008), among others. Their findings established that corruption has significant and direct impacts on Nigeria.

Additionally, it indirectly impacts growth through government capital expenditure (GCE), human capital development, and total employment. Again, their studies found that approximately 20% of the increase in GCE ends up in the private pockets of government officials and contractors.

This group of elites who squandered development resources is what Meidan (2006) named elite gangsters/kleptocratic elites, and they are all over African countries, particularly Nigeria. For instance, N900 million was budgeted by nine federal agencies to buy newspapers in 2024. Additionally, the Economic and Financial Crimes Commission (EFCC) has discovered that a former Governor of the Central Bank of Nigeria (CBN) owns 753 duplexes in Abuja (Mustafa et al., 2024b).

3.0 Theoretical Framework

3.1 Theory of Poverty Trap

According to Collier (2007), in his book "The Bottom Billion", he discovers that the living standard of the world's bottom billion have stagnated over the past 40 to 50 years. He attributes the extreme poverty of the 58 countries that harbour the poorest billion individuals to one or a combination of four traps.

The four traps/factors that can inhibit economic development and trap countries in poverty are:
I.) Conflict Trap – Nations that are characterised by conflict are more likely to remain poor because violence and instability shall undermine their growth and development process; ii.) Natural Resource Reliance Trap – Countries that rely heavily on their natural resources for exports, such as oil or minerals, are prone to difficulties in diversifying their economies.

As such, they can be trapped in poverty if prices of export fall or if the resources are depleted; iii.) Landlocked with Bad Neighbours Trap – This connotes that poor or conflict-ridden countries surround landlocked nations and, as such, may find it difficult to access markets, thereby being trapped in poverty.

A good example often cited is that Niger will never prosper unless Nigeria does; and iv.) Bad Governance Trap – It means that countries with corrupt or ineffective governments are likely to struggle to attract investments, especially foreign direct investment (FDI) and hence, be trapped in poverty.

He argues that these four traps highlight the complex and interconnected factors that can contribute to poverty and underdevelopment, and they provide a framework for understanding the challenges that countries (like African countries, especially Nigeria) face in breaking out of poverty and achieving economic growth. Perhaps these four poverty traps explain why Nigeria has continued to struggle to develop since independence. Thus, Nigeria will take seven (7) steps forward and multiple steps (like 35) backwards as a result of unpatriotic leadership and bad governance, which allows the presence and perpetuation of poverty, debt, corruption, the resource curse and conflicts, among others.

It is therefore not surprising that Nigeria was declared the world headquarters of poverty in 2018 by the World Poverty Clock and also one of the most corrupt countries in the world.

3.2 False Paradigm Model

According to Mustafa (2012) and Todaro and Smith (2011), the false paradigm model (FPM) is a model of international-dependence approach to development, which predicates underdevelopment and bad governance in countries like Nigeria to faulty and inappropriate economic advice and prescriptions provided by well-meaning but often uninformed, biased and ethnocentric international expert advisers from developed country's agencies and multinational donor organisations such as IMF, World Bank and OECD, among others.

In the same vein, leading university intellectuals, trade unionists, and high-level government officials, among others, who received their training in developed countries are often seen as puppets and promoters of Western models of development without consideration for their relevance to local environments.

There is no gainsaying that one of the major obstacles to African development is the desire and adoption of solutions from Western countries and developed economies without consideration for national peculiarities and development realities, e.g., IPPIS for the university system.

There is no doubt, therefore, that its adoption is indeed a major contributor to the underdevelopment of the African continent, especially Nigeria, where the political elites have become copycats and, to some extent, stooges of the West.

Perhaps this is one of the norms and culture of governance in many African countries like contemporary Nigeria, which is gradually leading the government to "catastrophic governance", as posited by Okene (2011:43). In this regard if Nigerian leaders seek genuine growth and sustainable development for the country, there is the urgent need for attitudinal change starting with the elites more particularly the political elites and bureaucrats.

As such, positive attitudes such as patriotism, sacrifice, honesty, visionary leadership, responsibility, responsiveness, equity, selflessness, transparency, accountability, moderation, creativity, and integrity, among others, should be inculcated and internalised by Nigerian citizens, especially the political elite.

4.0 Methodology

This article utilised secondary data on the Nigerian economy from 1985 to 2021. It employed content analysis, incorporating historical and stylised facts, along with trend analysis for data interpretation on variables of interest such as poverty, corruption, debt, and governance, among others. The data for governance (GOV-2017) was completed up to 2021 by adopting the autoregressive moving average (ARMA) method of interpolation for the missing data points.

The adoption of ARIMA was based on its efficiency in terms of wide-ranging applications in the fields of time series forecasting, particularly in filling data gaps in the dataset, compared to the spline method of interpolation (Lujan, 2023).

5.0 Stylised Facts and Trend Analysis on Selected Macroeconomic Variables

5.1 Stylised Facts on Selected Macroeconomic Variables in Nigeria

According to the World Bank (2022) and Mustafa (2009), Nigeria, which was one of the wealthiest 50 countries in the early 1970s, has experienced significant decline and retrogression, becoming one of the 25 poorest countries by the threshold of the 21st century.

It is, however, interesting to note that Nigeria's GDP grew from \$61.1 billion to \$405 billion between 1985 and 2016. Additionally, within the same period, 90.4 million people were recorded as poor and living below the poverty line.

In 2018, Nigeria was declared the world headquarters of poverty by the World Poverty Clock, which shows that Nigeria has overtaken India as the country with the highest poverty rate in the world, despite its abundant material and human endowments, including oil and gas, arable land, and numerous mineral resources.

Table 1: StylisedStylised Facts on Selected Macroeconomic Variables

Year	GOV	UNM	POV	HD	D GDP	COR	GDP G r
1985	17.33	6 1	46.30	00 298	25.6528	14.00	5 91303
1990	19 00	3 5	44 00	0 242	65 4147	14 00	11 7769
1995	25 83	1 8	60 00	0 452	81 484	15 00	-0 0727
2000	23.50	13 1	74.00	0.462	52.9445	12.00	5 01593
2005	21 84	11 9	54 40	0 465	17 8778	19 00	6 43852
2010	22.13	21 4	69.00	0.482	5.47545	24.00	8 00566
2015	21.92	25 7	60.08	0.526	6.73078	26.00	2 65269
2020	21.55	24 58	59.73	0.533	12.6502	24.00	2.20843
2021	21.42	24 42	59.75	0.534	12.6502	24.00	2.20843

Source: Adopted from Mustafa (2023).

In this direction, Mustafa et al. (2024b) and Alhassan and Mustafa (2021) asserted that Nigeria appears to be in what economists call a "poverty trap" (i.e., a vicious circle of poverty) that shall require hard work, discipline, institutional quality and massive investment to break the circle.

This assertion is supported by the statistics presented in Table 1, which show a poverty rate of 46.3% in 1985, compared to 59.75% in 2021.

Additionally, the 2015 corruption perception index was the highest, at 26%, which dropped insignificantly to 24% in 2021 (Transparency International, 2022).

Yet, it is still not good for the country, especially in the wake of startling and perturbing revelations of corruption in 2022 and 2023.

According to Mobolaji (2012), corruption at the macroeconomic level can be greed–induced or need–induced, depending on the corrupt individuals.

Through greed–induced corruption, political and administrative leaders often abuse public office due to their greedy tendencies, despite having more than enough to satisfy their necessities of life.

Table 2: Types of Corrupt Officials at the Macroeconomic Level

Type	The Economic Agent	The Major Causes	Social and Economic Loss to the Nation	The Expectation of Punishment	The Incidence of Corruption	The Effect on the Agent
Need–induced	Poor but morally bankrupt citizens	Social insecurity and poverty	Small	High	Citizens and the economy	High
Greed–induced	Nigerian elites, especially political leaders	Political insecurity	High	Low	Citizens and the economy	Low

Source: Adapted from Mobolaji (2012).

On the other hand, need–induced corruption is often carried–out by poor and poverty-ridden individuals who lack the necessities of life and are constantly struggling to make ends meet. Table 2 provides more details on these macroeconomic level categorisation categorisation of corruption. Furthermore, Nigeria's indebtedness, which began as early as 1958, totalled $28 million in borrowed funds.

This debt exceeded $40 billion in 2005, and as of Q3 2022, the debt stock was calculated to be $39.66 billion. The breakdown of the debts revealed that approximately 46.69% is owed to multilateral creditors, including the International Monetary Fund (IMF), the African Development Bank (AfDB), and the Islamic Development Bank (IDB), among others.

Additionally, 12.24% is owed to bilateral creditors, including the Exim Bank of China and the Japan International Cooperation Agency, while 39.38% is owed to commercial creditors, such as Eurobonds and Diaspora bonds. Additionally, approximately 80.6% of Nigeria's revenue was allocated to servicing debt in 2022 (African Development Bank, 2023; World Bank, 2022). Furthermore, in the 2023 budget, approximately N6.55 trillion was allocated for debt servicing, compared to over N8 trillion in the 2024 budget. Hence, Nigeria can be said to be debt-trapped (Mustafa et al., 2024b).

5.2 Trend Analysis of Selected Macroeconomic Variables in Nigeria

Essentially, the trend analysis utilised time series data, which proxied economic growth by the real gross domestic product growth rate (GDP-Gr). Public debt was measured by the ratio of debt to GDP (D/GDP), and human capital development (HCD) was measured by the Human Development Index (HDI) (World Bank, 2022). Additionally, data on unemployment and poverty were obtained from the National Bureau of Statistics (NBS, 2022), while data on corruption were sourced from the Corruption Perception Index (CPI). Data for governance (GOV-2017) was completed up to 2021 by adopting the autoregressive moving average (ARMA) method of interpolation to fill in the missing data points.

5.2.1 Poverty and Corruption

The high level of poverty in the country has been identified as one of the responsible factors inducing corruption and corrupt practices, and vice-versa in the country. For instance, between 1985 and 1990, when the poverty rate was stable at 46% and even declined from 46% in 1985 to 44% in 1990, the corruption index for Nigeria remained at 14% index during the period.

That is, when the corruption index for Nigeria remained stable at 14% between 1985 and 1990, the poverty rate was stable and even fell from 46% in 1985 to 44% in 1990, as shown in Table 1 and

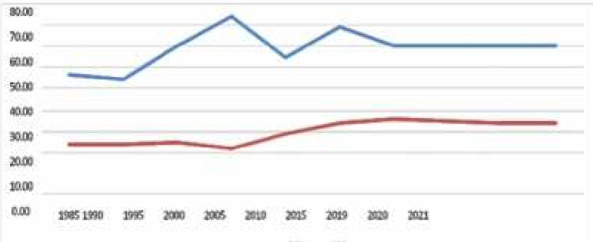
Fig. 1. However, rising poverty rate from 54% in 2005 to 69% in 2010 led to a corresponding rise in the corrupt practices from 19% index in 2005 to 24% index in 2010 in the country. This implies that bidirectional causality exists between corruption and poverty in Nigeria. Therefore, poverty-ridden individuals with no legal means to fend for themselves could easily result in illegal means that include bribery in the course of getting their ends meet.

According to the restricted theory of poverty, poverty is defined as a lack of opportunities. This is because low-income individuals often lack suitable and relatively abundant access to economic opportunities (Fashina, 2022; Umar et al., 2021; Mustafa et al., 2014).

Since poverty is often a result of inaccessibility to economic opportunities (such as gainful employment, high-quality education, effective and efficient healthcare, and safe communities), it, therefore, suggests that proactive efforts to combat corruption will free up many economic opportunities (Fashina, 2022).

Importantly, corruption breeds poverty at a prolonged rate. For instance, a programme like the National Poverty Eradication Programme (NAPEP), which was designed and launched to keep the poverty rate in Nigeria to a single digit, could not achieve the said objective because the fund's earmarks for the project were diverted mainly and mismanaged, as similar to the case of COVID-19 palliatives.

Hence, when the government is effective and efficient in controlling corruption, especially ensuring strict adherence to the rule of law, incentives for more people to be corrupt shall be eliminated. Through this development, the available resources will be better managed and utilised to create a secure and progressive Nigeria, benefiting the shared prosperity of every Nigerian.



Source: Authors' computation (2024).

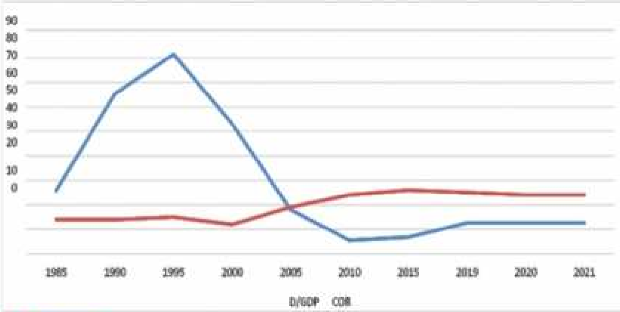
Fig. 1: Poverty and Corruption

5.2.2 Pubic Debt and Corruption

The nature of the relationship between public debt and corruption has taken on a unidirectional pattern, as a rise in public debt sometimes leads to an increase in the corruption rate. In contrast, a fall in public debt does not necessarily result in a decline in the corruption rate in Nigeria.

This is because an established lifestyle of corrupt practices among corrupt individuals, combined with the state of public debt, makes it difficult for them to curb their corrupt tendencies even if the level of public debt declines. For instance, the rise in public debt from 25.653% of GDP in 1985 to 81.48% of GDP in 1995 could be responsible for the corruption index increasing from 14% in 1985 to 15% in 1995, as presented in Fig. 2. Also, falls in the level of public debt from 81.48 (% of GDP) in 1995 to 52.95 (% of GDP) in 2000 led to the corresponding falls in corruption index for Nigeria from 15% in 1995 to 12% index in 2000.

However, further falls in the level of public debt from 52.95 (% of GDP) in 2000 to 5.48 (% of GDP) in 2010 could not translate to a fall in corruption level in Nigeria, instead causing corruption to worsen by increasing the corruption rate from 12% in 2000 to 24% corruption index in 2021.



Source: Authors' computation (2024).

Fig. 2: Public Debt and Corruption

6.0 Tackling the Challenges of Development Traps in Nigeria

6.1 Good Governance for Sustainable Growth and Development

Good governance is at the centre of sustainable development, fiscal responsibility and poverty alleviation, which are particularly good for economic growth in developing economies (Abdullahi, 2009).

Dollar and Levin (2006) emphasised that economic governance plays a key role in providing the enabling atmosphere and environment for growth and poverty reduction, as well as for the effectiveness of foreign aid, such as external borrowing. In this connection, Kasekende (2008) identifies the concept of governance in the general sense as a significant factor in explaining the resource curse in commodity boom countries such as Sudan, the DRC, Angola, Chad, Nigeria, and several others.

This is because good governance is central and paramount to the development process, especially in African nations with significant development prospects, such as Nigeria.

Importantly, good governance (GG) is expected to encompass five categories of essential political goods, as identified by the Ibrahim Index of African Governance, which are: i.) Safety and Security; ii.) Rule of Law, Transparency and Corruption; iii.) Participation and Human Rights; iv.) Sustainable Economic Development; and v.) Human Development (Africa Focus Bulletin, 2007).

Therefore, the worsening state of governance in Nigeria is evident in the rise of governance indices from 17.33 in 1985 to 23.50 in 2000, accompanied by a marginal increase in human capital development (HCD) from 0.30 in 1985 to 0.46 in 2000. However, falls in governance indices from 23.50 in 2000 to 21.92 in 2015 suggests improvement in the governance system in Nigeria, and this led the HCD to improve from 0.46 in 2000 to 0.54 in 2015more so, further decline in governance indices from 21.92 in 2015 to 21.42 led to improvement in HCD as the index rises further from 0.526 in 2015 to 0.534 in 2021.

This implies that the funds and resources allocated for the enhancement of HCD, such as education and health, were either inadequate or diverted to private pockets by the officers in charge, a trend noted in a study by Aliyu and Elijah (2008) among MDAs. Thus, when human capital is of high quality, it will have a substantial impact on reducing poverty, unemployment, and insecurity and also enhance the country's governance culture. Indeed, Nigeria prides itself on having the largest pool of highly educated and trained manpower in Africa, particularly in Human-Centered Design (HCD). However, alas!, Nigeria suffers greatly from brain drain because of bad governance and political naivety of the Nigerian elites, especially the political elites and bureaucrats, considering the persistent deterioration and inadequate funding of the educational system in the country, more particularly the university sub-sector, which provides the highest manpower needs for national development.

In this direction, the submission of the former Prime Minister, Dr. Mohamad Mahathir, is very instructive to be noted by Nigerian leaders: "In our drive to move vigorously ahead, nothing is more important than the development of human resources. ...Our people are our ultimate resource. Without a doubt, in the 1990s and beyond, Malaysia must give the fullest emphasis possible to the development of this ultimate resource" (Mustafa, 2012). Therefore, Nigeria needs good and patriotic leaders to transform the country into a politically stable and economically prosperous nation, given its natural, mineral, and human endowments. In this regard, Rotberg (2006) suggests that the African continent is experiencing poor growth due to poor governance and deficient leadership.

In contrast, at the beginning of independence, a large number of African leaders were responsible leaders, "but now there are only a few African nations with long traditions of good governance and effective leadership" (p. 11).

According to Mustafa and Solarin (2015) and Desai (2002), Nigeria is greatly endowed; however, the phenomena of deficient leadership, poor governance, and political naivety have become fundamental developmental challenges confronting the country.

6.2 Mobilizing Resources for National Development: The Case of Sukuk

It is instructive to state that no nation, including Nigeria, can grow or develop without adequate resources. Therefore, there is an urgent need to harness scarce resources and manage them judiciously.

Additionally, there is a need to diversify for the proper exploitation of resources, particularly for optimal utilisation and development of Nigeria.
Significantly, Nigeria suffers from inadequate exploitation and poor management of resources, as well as insufficient mobilisation of prospective resources for nation-building. In this connection, Nigeria now has alternative resources that can be mobilised for development, as applicable to other developing nations, such as Malaysia.

According to Mustafa et al. (2024a), the institutions and instruments of Islamic economics and finance (like Zakah, Islamic banks, Waqf – Endowment/Foundation, Islamic cooperatives, Islamic microfinance, Sukuk – Islamic bonds and Qardul-hasan – Benevolent loan, among others) are viable and potent development instruments that are rooted in philanthropism, redistribution and real sectors development, especially sukuk, which could be efficiently mobilised to develop infrastructure and real sectors of the Nigerian economy. Thus, Sukuk (i.e., a strategic fund mobiliser for economic development and a modern growth driver) has continued to benefit and profit various economies worldwide.

Among the Islamic development finance instruments, sukuk has remained the most significant and highest mobiliser of funds for investment and real sector development, particularly in developing economies such as Malaysia, Indonesia, Qatar, Turkey, and even South Africa, among others. Therefore, the major objectives of sukuk issuance by various countries, as noted by Baita and Mustafa (2019) and Desai (2016), include acceleration of infrastructural development, enhancing public services, empowerment of local industries and government investment, diversifying state budget financing, enhancing Islamic financial market and improving transparency of government services. In this regard, countries such as Malaysia, Saudi Arabia, and Indonesia, among others, consider sukuk issuance as a means of financing infrastructure development.

The studies have shown that Malaysia remains the leading and biggest sukuk issuer, with Saudi Arabia coming next. Again, several African countries, like South Africa, Senegal and Mauritania, considered sukuk issuance as a means of financing large infrastructural deficit and filling the fiscal gap (Baita & Mustafa, 2019; Desai, 2016).

Source: FGN Sukuk III Prospectus (2020).

Fig. 3: Abuja-Kaduna-Kano Road financed from Sukuk Funds

In this connection, FGN Sukuk III Prospectus (2020) and Baita and Mustafa (2019) reported that sukuk has continued to contribute to the Nigerian infrastructural development starting with the Osun sukuk issuance of 2013 (N11.6b) by the Osun State Government, which was later followed by the Federal Government of Nigeria (FGN) sukuk issuance of 2017 of N100b specifically for roads reconstruction in various parts of the country.

Similarly, in 2020, the FGN sukuk issuance of N150 billion for road reconstruction was over-subscribed by the public. On this note, Sovereign sukuk (Government sukuk) has continued to remain the leading growth driver in the sukuk market.

Fig. 3 presents one of the major contributions of Sukuk to infrastructural development through financing road construction and rehabilitation across the six (6) geo-political zones of Nigeria. Desai (2016) suggested that Islamic social finance, such as Sukuk, could play a pivotal role in achieving the twin development objectives of eradicating global extreme poverty by 2030 and promoting shared prosperity, provided it is given the enabling environment.

6.3 The Need for Patriots of Development

According to the Rostowian stages of economic growth, developing nations require the emergence of a group of individuals with integrity who are committed to the country's development, particularly in monitoring and ensuring that necessary actions are taken to facilitate development (Todaro & Smith, 2011; Mustafa, 2009). This group of people/individuals is what this article named the "Patriots/Champions of Development or Police of Development". A classic example is the former Prime Minister and architect of Modern Malaysia, who can be described as an Exemplary Patriot of Development – Dr. Mahathir Mohamad. He can be described as a patriot and champion of Development, per excellence, considering his leadership and governance contributions to the development of Malaysian society over the past 30 years.

In Nigeria, the likes of the Governor of Borno State, Professor Babagana Umara Zulum, are particularly noteworthy, given his significant developmental strides in the state, considering the havoc and destruction caused by Boko Haram. The same could be said of the Governor of Cross River State, Professor Bem Ayande. Similarly, the title of the architect of modern Lagos State should go to President Bola Ahmed Tinubu for laying the foundation and providing a blueprint for the state's sustainable growth and development, upon which other successive Governors have continued to build over the last two decades. Undoubtedly, Nigeria is in dire need of many of these great leaders who are, indeed, great managers of resources and genuine nation builders, and they deserve to be called "Patriots of Development".

7.0 Conclusion and Recommendations

This article provides a conceptually and theoretically grounded understanding of development traps in the context of the Nigerian economy and society, utilising a dataset from 1985 to 2021. It adopted content and historical analysis as well as stylised facts and trend analysis approaches to achieve its objective.

It is perturbing that Nigeria, which was one of the most promising nations at independence in the 1960s, as noted by many writers and scholars, has seriously declined to become one of the 25th poorest and most corrupt countries at the threshold of the 21st century. Therefore, it has become clear that Nigeria is undoubtedly a victim of both poverty and corruption traps.This is because of many years of poverty prevalence and persistence and its extreme impact on the people, which eventually led the World Poverty Clock to declare Nigeria as the poverty headquarters of the world in 2018.

Similarly, corruption has a profound and pervasive impact on the Nigerian economy and society, considering its magnitude and scope, as well as Nigeria's annual ranking by Transparency International as one of the most corrupt countries in the world. Indeed, the rate and extent of corruption are unprecedented in Nigeria's history. In this direction, the submission of Desai (2002:9) lends credence to this position when he posited that "Nigeria and Malaysia had very similar incomes in 1960.

They were similar in terms of factors such as multi-ethnic composition, natural resource orientation, colonial past, and colonial economy. Now, the difference between the economy of Nigeria and Malaysia is beyond belief". As rightly observed in some quarters, there is nothing wrong with Nigeria as a country of abundantly blessed natural and human endowments except the trouble of deficient leadership and bad governance at all levels (Mustafa et al., 2024b).

No wonder Meidan (2006) referred to this class of elites as kleptocratic/gangster elites. Importantly, therefore, Nigeria needs patriotic elites, particularly the political and bureaucratic classes, to rise and provide Nigerians with exemplary leadership and the dividends of good governance, which is regarded as the hallmark of authentic leadership that is urgently needed to bring about a secure, progressive, and prosperous Nigeria.

Against this background, this article recommends that Nigerian elites, especially the political elites, wake–up from their governance ineptitude and deficient leadership to become the Patriots/Champions of Development by doing the needful to salvage the country from a time bomb that might not spare anyone of its devastating consequences as the case with persistent insecurity in the country.

Furthermore, the Federal Government of Nigeria should strengthen and further empower the anti-corruption agencies in the country so that they can stop becoming agencies that can only bark but cannot bite due to inadequate institutional support and framework.

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