Cost Implications of Peace Accounting on Economic Growth in Nigeria

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ABSTRACT

This paper examined the cost implications of peace accounting on economic growth in Nigeria. The specific objectives were (a) To examine the effect of cost of defence on the gross domestic product of Nigeria and (b) To examine the effect of cost of internal security on the gross domestic product of Nigeria. It utilized time series data from the Central Bank of Nigeria Statistical Bulletin for a period of 17 years (1999-2015). The study adopted ex-post facto research design and utilized Granger Causality tool to test the postulated hypotheses after application of some diagnostic tests. The study found that costs of internal security significantly and uni-directionally affect gross domestic products in Nigeria among others. The implication of this in that rising wave of violence of all types in Nigeria retards economic growth. The study concludes that while costs of internal security exert significant effect on gross domestic products in Nigeria, costs of defence do not. The paper recommended that Federal Government should do everything possible to enthrone good governance through the principles of overt fairness, indisputable equity and consistent justice in all spheres of life to reduce cases of ethno-religious conflicts in Nigeria.

Keywords: peace accounting, economic growth, internal security, defence, cost, conflict, Nigeria.

1.0 Introduction

Since after the Second World War, a new initiative emerged in international relations and diplomacy: the application of military resources for peace maintenance as opposed to prosecution of war. This initiative has been used in various magnitudes in both international and local peace-keeping operations.

Nigeria since 1960, when she first sent her troops to quell the crisis in Congo, has participated in more than 30 peace missions around the globe, some of which she actually initiated (Afaha, 2014). Some of these include Indo-Pakistan 1963 – 1965, Lebanon 1978 – 1981, Iran- Iraq 1988-1991, Somalia 1992-1994, Sudan 2004 – till date, Sierra Leone 1998 till date, (Gbor, 2004). This level of military utilization is seemingly significant for a country that has not had overt war with her neighbours apart from boundary agitations with Chad Republic and Cameroun which were expeditiously resolved. Ogah(2009) states that Nigeria's military doctrine has been based primarily on “Active Defence, Flexible Offensive” which
builds upon “Responsive Offensive Doctrine.” It is believed that to a large extent, the Nigeria military have remained consistent with this doctrine in pursuance of good neighbourliness and non-aggressiveness in its foreign policy. In the revered international diplomatic scene, this feat remains reputable and projects Nigeria as a big African brother to many countries of the world. Though, a laudable achievement that cannot be depressed or ignored in Nigeria's foreign policy, the feat must be acknowledged as pyric. It has inevitably induced opportunity costs with its attendant economic consequences on Nigeria especially when one realizes that Nigeria's involvement in peace keeping operations all over the world has been without any covert or latent economic interest.

Afaha(2014), states that Nigeria has no sub-imperial or hegemonic ambition towards its immediate neighbours and the West African sub-region. He asserts that the self-sacrificing Nigeria's peace-keeping supports in West African sub-region and Africabear no fruit of even national interest articulations. He concludes that such efforts have been largely altruistic. Unlike the interests that propel America and her ally participation, Nigeria and her companies end up like the hunting dog which ends up with bones from the game it laboured to catch (Pwanagba, 2013). America and its companies recoup dollarsthey spent on peace campaigns with contracts of rebuilding such nations. He recalls that in Liberia for instance, no Nigerian company was awarded of any sorts aside the supply of military hardware and training of personnel, the same story for Sierra Leone except a few corrupt military officers who took the opportunity to plunder item of value for their aggrandizement.

In the domestic scene, the initiative is also employed freely. Recall the deployment of the military to the Ogoni axis of the Niger Delta region some years ago, the use of the military to quell the incessant vandalism and bombing of oil installations by the Niger Delta militants, the recent degrading of Boko Haram insurgency in the North East and the forceful silencing of agitations for secession in the South East by the military. These are few examples of military involvement in peace process in the country.

The rising cost of internal policing to promote good neighbourliness among various communities, combating crimes and criminalities are of great costs. The cattle rustling in the north, kidnapping prevalent in the south, general armed robbery as well as communal crises like the Ezza/Ezilo and Herdsmen/ farmers clashes are some of the internal issues confronting our security agencies with its associated costs. There is no gainsaying that huge resources (both human and material) that would have had alternative uses were lavishly expended to achieve peace in those regions and enforce peace locally.

Certain questions that beg for answers include:
To what extent did the regions involved in the crisis that necessitated military option pursue the doctrine of good neighbourliness and non-aggressiveness in settling the disputes prior to the break out of the hostilities? Why do ethnic groups and communities resort to violence, massacre of innocent people and wanton destruction of property at the slightest disagreement not even provocation in a country whose one of its cardinal objectives in foreign policy is good neighbourliness and non-aggressiveness? This presents a peace paradox.

Against this backdrop, it is generally suspected that budgets for defence, internal security and high level insecurity have contributed significantly to influence Nigeria's rating in the global peace index even when Nigeria is not in any obvious war state. The Institute for Economic and Peace (IEP) (2016) in its peace rating of countries, rated Nigeria 149 with very low peace index, out of 163 countries of the world. More worrisome is the fact that Nigeria was rated 40 out of 44 in Africa just above Democratic Republic of Congo (41) Central Africa Republic ( 42) Somalia ( 43) and South Sudan (44) by the same Institute. The rating of Nigeria next to some of these notably war-ravaged countries in Africa even when Nigeria is presumed to be at peace is mind-bugging. This is because with increasing cost of striving to maintain internal security, it is most likely that vital areas of human needs would be neglected. Little wonder therefore, Nigerians contend that poverty, unbridled hunger and skyrocketing prices of essential commodities are pervasive in the country. Many scholars now wonder about the effect of this situation on economic growth of Nigeria. Specifically, the authors have structured this paper to examine the
cost implications of the peace accounting on economic growth of Nigeria.

1.1. Statement of the problem
With increasing threats of tribal, sectional or religious agitations and/or violence, Nigerian government will continue to vote more money for defense and internal security. Reasonable proportion of this money is spent on purchase of sophisticated military equipment that government uses to suppress such agitations and give impression that government is in control of the situation.

The use of military options to suppress agitations often results in depletion of human capital which is the most valuable asset of any nation. Unlike other assets, human capital replacement process stretches into many years; sometimes with difficulty of a perfect replacement. There is no gainsaying that this affects economic growth of the country. Furthermore, inevitable increases in budget for some sectors like defence, etc will tend to affect other sectors. This may affect budgetary provisions for health, basic necessities of life such as water, electricity, roads, etc. Inadequate budgeting in these basic sectors of the economy will have adverse effect on the gross domestic product.

1.2. Objectives of the study
The general objective of this study is to examine the cost implications of peace accounting on economic growth in Nigeria. However, the specific objectives are:
(a) To examine the effect of cost of defence on the gross domestic product of Nigeria.
(b) To examine the effect of cost of internal security on the gross domestic product of Nigeria.

2.0 Literature Review

2.1. Conceptual framework
The concept of peace, like many other concepts, has undergone changes from primordialism to modernism. This perhaps, explains why what used to be seen as absolute peace is now only an aspect of the term. In the years past, peace was seen as simply the absence of violence and war. Many researchers accepted the concept and held the same opinion. Today, due to rapidly changing world dynamics relative to peace, the concept has been expanded to include nuances of sustainable social system. The result of this is that the concept of peace has gone beyond mere absence of violence and war, and this has made its assessment considerably more difficult. Ibeanu (2005), states that peace is a process involving activities that are linked to increasing development and reducing conflicts. He understands it to be justice and development, respect and tolerance between people, harmony with the ecosystem, tranquility or inner peace, wholeness and making whole, and absence of war.

The Institute for Economics and Peace (IEP) (2016) sees the absence of violence or fear of violence as a negative peace. The import of this is that mere absence of violence or fear of it cannot guarantee a sustainable social system capable of impacting on the economic growth. In the corollary, IEP (2016) defines positive peace as the presence of structures, institutions and attitudes that guarantee a sustainable social system and freedom from all forms of violence. According to the institute, positive peace is not merely the absence of violence; it includes the presence of structures, institutions and attitudes that have the capacity to create and sustain peaceful societies.

Even in the primordial sense, the Boko Haram activities in the North East, the Niger-Delta militancy and the agitations for sovereignty by the members of Independent People of Biafra (IPOB) in the South East are clear evidences that Nigeria is yet to have peace. These regions are still enmeshed in violent conflicts for diverse reasons. Lubeck, Michael and Lipschutz (2007) observe that there are not just pervasive conflicts, violence and insecurity but a breakdown of social and political order and an increasing ungovernability in these regions. Thomas (2008) in Oghoghomeh and Ironkwe (2012) sees insecurity as the presence of and/or apprehension of those tendencies which could undermine internal cohesion and corporate existence of the nation and its ability to maintain its vital institutions for the promotion of its core values and socio – political objectives, as well as meet the legitimate aspirations of the people. He argues that insecurity in these regions has undoubtedly created a general apprehension of danger to life and property and has limited the desire for economic investment.
The IEP (2016) in its avowed determination to expand the concept of peace, identified eight key domains or pillars of peace thus:

1. Sound business environment.
2. Good relations with neighbours
3. High level of human capital
4. Acceptance of the rights of others
5. Low level of corruption
6. Well functioning government
7. Free flow of information
8. Equitable distribution of resources.

These are the adjudged pillars upon which positive peace stands. However, an acursory examination of the pillars of peace reveal that apart from high level of human capital which we can boast of, Nigeria is still battling to put other pillars in place. This implies that positive peace is still far-fetched in Nigeria.

Peace accounting according to Okoro and Amaechi (2016) is the process of recording, analyzing and providing information that relates to cost of curtailing violence or cost associated with peace-keeping. They assert that these pieces of information are so important that they solve the agency problem that may erupt between the government and the citizens. One of the major problems in peace accounting, according to them, is the failure of the agent (government) to meet disclosure requirements concerning utilization of state's resources in prosecuting different peace-keeping operations. The government is also reluctant in disclosing destruction of assets (especially human capital assets) of the state. Perhaps, the agent engages in this act in order not to instill fear and panic into the citizenry without consideration of the consequences such distortions pose to the accounting process. To that effect, Stiglitz and Bilmes (2012) argue that the only way to mitigate the agency problem is through transparency. Peace accounting, therefore provides the necessary platform through provision of information for the required transparency.

We see peace accounting as being pervasive. It goes beyond recording, analyzing, summarizing and interpreting costs associated with curtailing violence or peace-keeping. It includes costs of negotiations, compromises and sacrifices made by government and groups of people to ensure the existence of positive peace in a locality. From this standpoint, we define peace accounting as the art of recording, analyzing, summarizing, interpreting and communicating costs associated with prevention of violence, peace-keeping, negotiations and compromises made towards institution and maintenance of positive peace in a locality.

2.2 Theoretical foundation:

The two commonly applied theories in peace accounting are the accounting and economic theories. The accounting theory in the views of Jurgen and Paul (2010) is concerned with the total value of damaged assets such as physical, human and social capital in a fiscal period. On the other hand, Stiglitz and Bilmes (2012) state that economic theory deals with macro-economic implications coming from the amount of money spent on domestic investment due to violence. In as much as these theories capture significant aspects of peace accounting, they paid little or no attention to the causes and preventive measures of conflicts.

This paper also examined two other theories; the Marxist Political Approach Theory developed by Marx and Engels in 1977 which considers the common causes of conflicts and the Ury, Brett and Goldberg’s Theory (1993) that advocates reduction in cost of preventing, managing and settling disputes.

An unbiased examination of various conflicts in different regions of Nigeria will find an explanation in the Marxist Political Approach Theory. The theory as cited in Asuquo, Dickson, Enechebe and Uduma (2015) believes in the existence of class conflicts in every human society. Marx and Engels (1977) opine that class struggle often results in marginalization or exploitation of one group or the other. They contend that whenever such a group realizes the stress their members bear in a bid to actualize their potentials and maximize available opportunities, they do everything possible to extricate themselves from such deprivation and subjugation. The Niger-Delta and the common people in the North East of Nigeria are presumed to have incontrovertibly suffered from a long period of exploitation from government while the South Eastern people are passing through excruciating pains under available subjugation in their bid to become independent.
On the other hand, Ury, Brett and Goldberg's theory (1993) expressed in Asuquo, et al (2016) canvasses for reduction in the cost of preventing, managing and settling disputes. Specifically, they examined power, right and interest based methods of dispute resolution. They assert that in the power-based method of conflicts resolution, the parties resort to the use of coercion. They see this option as a first-line measure where one of the parties is considered an underdog. Unfortunately, one of the major limitations of this option is that it may succeed in suppressing an agitated group temporarily but it does not produce a permanent resolution of conflicts.

Again, Ury, et al (1993) contend that whenever parties in a conflict seek resolution through the application of rules, rights and principles, the right-based method is in vogue. Sometimes, rights referred to in this case could be those reached by collective agreement or through a legislature procedure. Lastly, they identified interest-based method as a joint problem solving technique that combines facilitation and mediation. They believe that this method is less cost-effective as it is more robust than other methods. They are however, of the opinion that a hybrid of interest and right-based methods will produce a more acceptable dispute resolution results.

In our own view, none of the above theories is adequate to comprehensively address peace accounting in an evolving society like ours. We therefore, advocate an integrative peace accounting theory that combines costs associated with prevention of conflicts and the accounting theory. While the accounting theory takes care of total value of assets damaged during violence, the preventive theory captures all expenses and sacrifices made by various federating units to give them a sense of belonging to the national entity and consequently prevent agitation. As a result of the above, this paper is anchored on the integrative peace accounting theory.

2.3 Empirical Studies
Some works that are related to the topic under discussion are dealt with in this section. Jurgen and Paul (2010) in their work on the cost of violence and the benefits of peace in Africa stated that it has enormous negative effects on their economies in the form of misallocation of resources, opportunity costs associated with non-realized GDP and trillions of dollars from untapped business opportunities. They observed that the cost of violence could be direct on the general state of affairs of specific countries engulfed in the violence or indirect on near-by countries.

Fidelis and Egbe (2013) in studying the effect of the cost of militancy and unrest or peace accounting on the productivity of private organization in Nigeria, utilized ordinary least square method of analysis. They found that peacekeeping cost has a negative significant influence on productivity and economic growth in Nigeria.

Abubakar (2015) examined the cost and benefits of Nigeria's peace mission in Sierra Leone with the aid of descriptive statistics. One of the cost implications of the study showed that Nigeria's GDP dropped from 8.2% in 1991 to 1% in 1994. The study however, highlighted that Nigeria's involvement in the peace mission also had its good side. For instance, it helped to re-establish Nigeria as a giant of Africa while solidifying the country's bilateral affiliations with those countries, among others.

Stiglitz and Bilmes (2012) in their work, estimating the costs of war: methodological issues, with applications to Iraq and Afghanistan opined that wars have both micro and macro-economic cost implications.

They argued that while micro economic costs of war include costs suffered by particular individuals and firms, macro-economic costs exert effects on the aggregate economy. This therefore, implies that wars ravage economy from two distinct perspectives and invariably retard growth and development of countries involved in it.

Mercy (2014) in a study entitled the economic cost of conflict and the benefits of peace: efforts of farmer-pastoralist conflict in Nigeria's middle belt on state, sector and national economies expressed consequences of conflicts in these areas in terms of opportunity costs in tax revenue. The study specifically stated that Plateau, Nasarawa, Benue, and Kaduna states lost 75%, 45%, 44%, and 22% of their state revenues respectively as a result of clashes between farmers and pastoralists. The actual and potential effects of revenue loss of that
magnitude on the overall development of the region are not only significant but indeed stifling.


From the foregoing, there is no study, known to the authors that examined cost implications of peace accounting on economic growth in Nigeria. This is a gap in knowledge which this study desires to fill.

3.0 Methodology

The study employed ex-post facto research design in its methodology while it extracted secondary data from Central Bank of Nigeria (CBN) Statistical Bulletin (2016) for a period of 15 years. The Augmented Dickey-Fuller (ADF) unit root test was employed to test for the order of integration of the variables. Thereafter, cointegration test was conducted using Johansen cointegration test to assess for long run relationship among the variables. We then employed Error Correction Model to check for the speed of adjustment of the variables. Lastly, Granger causality tool was utilized to test the hypotheses and determine the direction of causality between the dependent and independent variables.

While peace accounting costs were proxied by costs of defence and internal security, Gross Domestic Product stood for economic growth in Nigeria.

4.0 The results of different tests performed in the course of this study are presented below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>ADF test statistic</th>
<th>Critical values at 5%</th>
<th>P. value</th>
<th>Order of integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange</td>
<td>3.273818</td>
<td>3.273818</td>
<td>0.0354</td>
<td>1(1)</td>
</tr>
<tr>
<td>Defence internal</td>
<td>3.497916</td>
<td>3.081002</td>
<td>0.0235</td>
<td>1(1)</td>
</tr>
<tr>
<td>second RGDP</td>
<td>6.382576</td>
<td>3.098896</td>
<td>0.0002</td>
<td>1(1)</td>
</tr>
<tr>
<td></td>
<td>4.195821</td>
<td>3.959148</td>
<td>0.0065</td>
<td>1(1)</td>
</tr>
</tbody>
</table>

Source: Authors’ Computation, 2017.

The ADF result in table 1 above shows that all our variables are integrated in order one.

Consequently, the variables are tested for co-integration and the result is shown in table 2 below.

<table>
<thead>
<tr>
<th>Hypothesized No of CE(s)</th>
<th>Eigen value</th>
<th>Trace statistic</th>
<th>0.05 critical value</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>r=0</td>
<td>0.950403</td>
<td>45.05734</td>
<td>27.58434</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>0.696490</td>
<td>17.88511</td>
<td>21.13162</td>
<td>0.1342</td>
</tr>
<tr>
<td></td>
<td>0.533586</td>
<td>11.44111</td>
<td>15.49471</td>
<td>0.1858</td>
</tr>
<tr>
<td></td>
<td>6.00E-05</td>
<td>0.000899</td>
<td>3.841466</td>
<td>0.9768</td>
</tr>
</tbody>
</table>

Sources: Authors’ Computation, 2017.

The trace test shows I co integrating equation at the 0.05 level.

<table>
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<tr>
<th>Null hypotheses</th>
<th>Obs.F.statisticProb</th>
<th>Decision</th>
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</thead>
<tbody>
<tr>
<td>RGDP does not Granger cause defence</td>
<td>2.01416</td>
<td>0.1841</td>
</tr>
<tr>
<td>Defence does not Granger cause RGDP</td>
<td>7.74889</td>
<td>0.0093</td>
</tr>
</tbody>
</table>

Source: Authors Computation, 2017.

The result in table 3 indicates that the coefficient of the error correction term of RGDP carries the correct sign(-) with a speed of convergence to equilibrium of 21 percent.

Test of hypotheses

The stated hypotheses were tested using Granger Causality test.

<table>
<thead>
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Source: Authors Computation, 2017.

Result in table 4 shows that the null hypothesis one is accepted while two is rejected.
5.0 Discussion:
To check for stationarity of data, unit root test was performed using Augmented Dickey- Fuller (ADF) approach. The result in table 1 indicates that all the variables under consideration are integrated in order one.

This suggests co-integration or long term relationship among the variables. This is in agreement with the views of Dickey and Fuller (1979, 1981). This implies that there are other strong variables that play significant role in maintaining the long term relationship among the variables.

To establish or prove otherwise the long run relationship among the variables, a co-integration(Trace) test was done. The result of the Trace test shows cointegrating equation at 0.05 level (Table 2). This indicates that there is still a long run relationship among the variables. This is in consonance with the submissions of Johansen and Juselius (1990).

Since the cointegration test indicted a long term relationship among the variables, vector error correction model was applied in line with the views of Campbell and Perren (1991).

The coefficient of the error correction term of RGDP in table 3 carries the correct sign( - ) with a speed of convergence to equilibrium of 21 percent. This implies that in the short run, RGDP is adjusted by 21 percent of the past year's deviation from equilibrium. Furthermore, the table shows that the equilibrium error term of other variables do not have the correct sign(-) and this indicates that they do not return to equilibrium.

Table 4 shows a p- value of 0.18 which is greater than 0.05 for hypothesis one. This leads to the acceptance of the null hypothesis. This implies that cost of defence does not Granger cause RGDP on the one hand while RGDP does not also granger cause cost of defence on the other hand. This finding is at variance with the result of Fidelis and Egbere (2013) in which they found that peace-keeping cost has a negative significant influence on productivity and economic growth.

In addition, table 4 depicts ap- value of 0.0093. Since 0.0093 is less than 0.05, null hypothesis two is rejected. This indicates that the cost of internal security does granger cause RGDP on the one hand. However, since second component of null hypothesis two (internal security does not granger cause RGDP) has a 0.49 which is greater than 0.05, it means there in only a uni–directional relationship between internal security and RGDP. In other words, while cost of internal security has a significant effect on RGDP, the reverse cannot be said to be true. Contrary to the finding on cost of defence, this finding validates the result of Fidelis and Egbere (2013). The difference in our findings can be justified by the intention behind the two classes of cost incurred in peace accounting. While cost on defence relate to peace accounting outside Nigeria or towards preserving the country's territorial integrity, cost of internal security concern strategies for quelling ethnic or religious insurgencies in the country. Since Nigeria is not at war with any country now it is not surprising that cost of defence does not significantly affect RGDP. Suffice it to say that with increasing ethno–religious conflicts in the country, Federal government will not rest on its oars in trying to find lasting solutions to these conflicts. Efforts in that direction will include consultations, negotiations, settlement of displaced people, use of force and consequent loss of human capital. These factors weigh significantly on economic growth of the country.

6.0 Conclusion and Recommendations:
This study which investigated cost implications of peace accounting on the economic growth in Nigeria concludes that the cost of defence does not significantly affect gross domestic product while cost of internal security does. However, the cost of internal security only has a unidirectional relationship with the gross domestic product.

Consequent upon the finding and the conclusion, the following recommendation were proffered:

(1) That Nigerian government should continue to pursue the doctrine of good neighbourliness and non-aggressiveness in its foreign policy since it has saved the country from war with other nations. Furthermore, Nigeria's non-involvement in external war has helped economic growth.

(2) That since cost of internal security has significant effect on gross domestic product, Nigerian government should do everything
within its power to ensure ethno-religions conflicts are reduced to the doldrums. This can be facilitated by enthronement of good governance through the principles of overt fairness, undisputable equity and consistent justice in all spheres of life.

7.0 Suggestions for further studies
Dearth of literature on various aspects of peace accounting in Nigeria is a direct invitation for more work in this field. Again, comparative work on peace accounting especially in the war-ravaged African countries is recommended.

References