

**CONFERENCE
PROCEEDINGS 14(a)**



ATBU 2019

20TH MULTI-DISCIPLINARY
ACADEMIC CONFERENCE

B O O K O F PROCEEDINGS

THEME:
African Continent in the
Fast-moving World:
New Strategies and Approaches

VENUE:
1000 Capacity Hall, Abubakar Tafawa
Balewa University, Yelwa Campus,
ATBU, Bauchi, Bauchi State,
Nigeria.

12th September, 2019

BOOK OF PROCEEDINGS

FOR THE

THEME

**AFRICA CONTINENT IN THE FAST-MOVING WORLD:
NEW STRATEGIES AND APPROACHES.**

DATE:

12TH DECEMBER, 2019

VENUE:

**1000 CAPACITY HALL, ABUBAKAR TAFAWA BALEWA
UNIVERSITY, YALWA CAMPUS, ATBU, BAUCHI,
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and Approaches (Vol 20, No. 1) 12th December 2019, 100th Capacity Hall, Abubakar
Tafawa Balewa University, Yelwa Campus, ATRC, Bichi, Bichi State, Nigeria*

PROCEEDINGS

FOR THE

THEME
**AFRICA CONTINENT IN THE FAST-MOVING WORLD:
NEW STRATEGIES AND APPROACHES.**

SUB THEME:

- Pure and Applied Science
- Medical and Pharmaceutical Sciences
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- Management Science & Entrepreneurship

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THEME

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(THURSDAY 12TH DECEMBER, 2019)

**1000 CAPACITY HALL, ABUBAKAR TAFAWA BALEWA
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Time	Activities
08:00 - 10.00am	Registration
10:00 – 10:30am	Arrival of Guests
10:30 - 10:45am	Introduction and Recognition of Distinguished by
10:45 - 11:10am	The Master of Ceremony.
11:00 - 11:20am	Opening Prayer
11:21 - 11:31am	National Anthem
11:31 - 12:00noon	Address by Dr. M.B Nasir. Lead Paper presentation by Dr. D. O. Olukami
12:30 – 03:00pm	Plenary Session/Paper Presentation
03:00 - 03:15pm	Vote of thanks by Secretary LOC
03:15 - 03:30pm	National Anthem
03:30 – 03:45pm	Group Photograph

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PROGRAMME OF ACTIVITIES

Days	Time	Activities
Day 1: Wednesday, December 11, 2019		Arrival/Pre-conference Meeting
Day 1: Thursday, December 12, 2019	8.00-10.00am	Registration
	10.00-1.00pm	Opening Ceremony
	1.00-2.00pm	Launch/Break
	2.00-3.00pm	Plenary Section
	3.00-5.00pm	Paper presentation
	5.00-6.00pm	Certificates Presentation
Day 3: Saturday, December 13, 2019		Departure

REGISTRATION VENUE

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IMPACT OF ECONOMIC RECESSION ON THE GROWTH OF CONSTRUCTION FIRMS IN ABUJA, NIGERIA

EVANGELINE ONUIGBO AND ABDULLATEEF SHITTU

Department of Quantity Surveying, School of Environmental Technology, Federal University of Technology, Minna, Nigeria

Abstract:

Economic recession has badly affected the construction industry so much that there is hardly any new projects coming on stream. This has resulted into redundancy in Nigeria's construction industry while many construction firms have practically laid off their staff. The aim of the study was to assess the impact of economic recession on growth of construction firms in the Nigerian construction industry in Abuja, Nigeria. To achieve the aim, the study set out to: identify and assess the causes of economic recession; examine the effects of economic recession; and examine measures for preventing the reoccurrence of economic recession in the Nigerian construction industry. Questionnaire was used to collect data from 22 construction firms registered with Federation of Construction Industry (FOCI). Data were analysed using Relative Importance Index (RII). Findings from analysis revealed that the most important causes of economic recession are "Over dependent on oil" and "Wars" (RII = 0.88 and 0.85 respectively) out of the 28 causes identified. It was also shown that "Job Loss" is the most important effect of economic recession with RII of 0.89. 7 out of the 8 measures identified for preventing reoccurrence of economic recession, ranging from "Expansionary monetary policy – cutting interest rates" to "Higher Inflation Target" with RII ranging from 0.77 – 0.68 are very effective. It was therefore concluded that economic recession has a significant impact of on the growth of construction firms in Abuja. It was thus recommended that Government and construction firms should work out an implementable framework for the adoption of the measures for preventing the reoccurrence of economic recession in the Nigerian construction industry.

Keywords: Construction, Firms, Impact, Recession, Measures.

Introduction

A recession means a slowdown in Gross Domestic Product (GDP) or National outputs. A recession is typically characterized by high unemployment, falling

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average incomes, increased inequality and higher government borrowing (Tejvan, 2012). The price of oil has fallen from highs of about \$112 a barrel in 2014 to below \$50 at the moment. Prior to the drop in the global crude oil prices in 2015, Nigeria's economy relied heavily on crude oil earnings, with steady inflows of Foreign Portfolio Investment (FPI), and Foreign Direct Investment (FDI). In a report by National Bureau of Statistics (NBS), Nigeria received 95 per cent of its export earnings and 70 per cent of government revenue from the oil sector (BBC News, 2016).

One year after the official announcement of Nigeria's recession by the NBS (2012) in its quarterly GDP report, several discussions have continued to ensue over the cause of the economic downturn. Some people attribute the recession to the drop in the oil prices in the global market, while some believe the activity of the militants and pipeline vandals in the Niger Delta region of the country caused significant reduction in the volume of crude oil production which was responsible for the recession. The current economic situation in Nigeria was primarily caused by insufficient foreign exchange (forex) in the Central Bank of Nigeria (CBN) to fund imports. This with its enormous effects on the economy caused the recession. Apparently, the reason for the recession was not of the fall in oil prices or poor saving culture as many perceived, but by the lack of sound economic policy to create alternative foreign exchange earnings such as the non-oil exports (Oluwasegun, 2017).

In the case of Nigeria, the International Monetary Fund (IMF) and the CBN have all agreed that the Nigerian economy might regain stability in the early quarter of 2017 with low growth rate of 1.5% (Noko, 2016). These problems of recession can be solved with policies that make the market attractive to foreign investors. These policies could include: reducing port charges and other hidden import duties, boosting foreign exchange reserves, and promoting both local and foreign investments in the country. Once these actions are taken to provide a good economic environment, long-departed economic growth will come back again. This study is directed along this direction.

The impact of the global economic crisis in Nigeria was immediately felt by the banking sector as there was a withdrawal of credit lines by foreign banks thus resulting to paucity of funds in the economy (Gbeneye, 2014). Share prices on the stock exchange also nosedived and investors suffered heavy capital losses which eroded the value of their investments and also made it difficult for them to repay share purchase loans (Ngwube and Ogbuagu, 2014). Insufficient funds in the system reduced the productive capacity of firms leading to massive retrenchment

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and dramatic increase in unemployment levels. The construction industry was therefore not immune to the effects of the financial crisis (Ngwube and Oghsaga, 2014). Ajanlekoko (2016) noted that the recession has badly affected the construction industry so much that there is hardly any new projects coming on stream, cranes are lying idle throughout the country and many newly constructed facilities remain unoccupied.

Ugwu (2016) stated that the Federation of Construction Industry (FOCI) reported that the ongoing recession had caused redundancy in Nigeria's construction industry while many construction companies have practically laid off their staff. It added that the story is also that of uncertainty especially for the unions of artisans and concrete casters in the country. The unions include Association of Building Consultants and Artisans of Nigeria (ASBAN) and Association of Construction Workers of Nigeria (ACWN). Many construction workers, who were used to daily or weekly pay before now are waiting endlessly for works to come their way.

Liquidity management, especially at the wake of the global financial crisis, has become a major source of concern for contractors as bank loans are becoming too expensive to maintain as a result of tightening of both the local and international financial market and the reluctance of the public to invest in the share of companies sequel to the crash of the capital market (Owolabi and Obida, 2012). Without proper liquidity management in this era of economic recession, the result is breaks or gaps in the trading cycle due to lack of cash. This invariably affects contractor's profit and hence the growth rate of construction firms. The rate at which construction projects are being abandoned over the years within the industry due to contractor's bankruptcy has been on a steady increase due to certain factors that affect cash flow. However, it is not clear what the effects of economic recession on the growth of construction firms in Nigeria (Abubakar, 2015).

Stemming from the U.S. subprime mortgage meltdown, Nigeria has inevitably been affected by the global economic crisis. Nigeria's economic performance is bound to be severely affected. As the performance of the construction industry is likely to follow suit, Nigerian contractors have to get ready for a prolonged recession cycle if urgent action is not taken. Therefore, it is crucial for contractors to learn from previous experience of survival strategies so as to formulate successful ones that can help them to survive under the sluggish economy.

The problem identified above necessitated a study of the impact of economic recession on growth of construction firms in the Nigerian construction industry using Abuja as the study area. In order to achieve this, the study set out the following objectives:

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- i. To identify and assess the causes of economic recession in the Nigerian construction industry.
- ii. To examine the effects of economic recession in the Nigerian construction industry.
- iii. To examine measures for preventing the reoccurrence of economic recession in the Nigerian construction industry.

REVIEW OF RELATED LITERATURE

In order to address the research objectives and to place the study in its proper context, this section reviewed issues related to the themes related to the study.

Causes of economic recession in Nigerian construction industry

Cash flow is critical for the success of any construction project. Investors lose confidence in economy and capitalisation of construction firms decline as a result of divestment during economic recession (Bhagatkar *et al.*, 2015). Economic recession is a business cycle contraction, and it relates to a general downswing in economic activity in a country for two successive quarters. In the year 2008 to 2009, the annual growth rate of Nigeria has dropped from over 9% to 6.7% as a result of economic recession. Economic recession can be caused by two broad factors: internal (endogenous) and external (exogenous) factors. The former is usually a result of conflict of ideas, misapplication of economic theory and regulatory negligence or policy inconsistency. The external causes of recession have to do with factors that are exogenous to the economy over which policy makers have little or no control.

Factors like natural disaster, climate change, revolution and wars (CBN, 2012). The reasons for the emergence of the current economic recession in Nigeria, can be linked to the above aforementioned factors to include; legacy factors, policy factors and political/security factors. The legacy factors involve; over dependence on oil production for government revenue, low sovereign savings, political risk and fiscal leakages and official corruption. The negative demand-side shocks that affect the aggregate demand in Nigeria work through a global economic slowdown that impacts major trading partners of a country. When there is economic slowdown in the U.S., China, India and EU, it could have negative impact on the demand of Nigerian crude oil from these countries (CBN, 2012). As a result, the price of crude oil which was sold for over \$100 per barrel went as low as below \$50 per barrel. Government's revenue will rise, disposable income will

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impacting the production of goods and services in the economy. These developments consequently result into economic recession. From the foregoing, it is clear that Nigeria's GDP is quite diversified, so the problem is not the structure of domestic production. The issue is undiversified structure of government revenue and export revenue. Nigeria's foreign reserves down to \$30billion at 2015 from over \$65billion in 2007. This fund is intended to safeguard the economy against budgetary deficits. It would be a last resort from which government may withdraw annually to meet shortfalls in the budget brought about by falls in oil prices or other budgetary constraints (Agri *et al.*, 2017).

The policy factors involve the lack of clarity over economic policy, wrong policy choices and no strategy for private capital. A major contributor to the current economic recession in Nigeria was the denial and policy incoherence over forex policy. The ban on 41 items in a market-based forex market perpetuates multiple exchange rates. Manufacturers who rely on some of these imports will have to buy from the parallel market at a very high rate, leading to high cost of production and a rise in the general price level (inflation). Also the inconsistencies between monetary policy which pursued monetary tightening through treasury single account (TSA), raising cash reserve requirement (CRR) and monetary policy rate (MPR) further worsen the economic samity (Noko, 2016).

Furthermore, the budget relies exclusively on borrowing for fiscal stimulus in the absence of private capital strategy. And the big gap in policy is the lack of a strategy to leverage and optimize private capital. From the preceding, the consequence of policy factors has resulted in low investment and market confidence from both domestic and foreign investors and has impacted forex flows, foreign direct investment (FDI), new domestic investment, capital markets, employment and economic growth negatively (Oludapo, 2016). The political security factors involves the impact of Niger-Delta militancy on oil production, impact of herdsmen farmers conflicts on agricultural production across the country, but particularly in the North-Central and the continuing (though reduced) impact of Boko Haram activity on agricultural output and trade in North-East and impact of grave internally displaced persons (IDPs) situation in the region has contributed to the current economic recession in Nigeria (Oludapo, 2016).

A recession impacts on every sector but none more so than the construction industry as it relies on large capital expenditure for its lifeblood. This results in a reduction in the number of projects along with an increase in the cost of borrowing to repay loans and pay wages (Ren & Liu, 1996). RICS (2009) reported recently on their website that tender prices for new construction work will not rise until 2011 and

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that pre-recession levels won't be seen in the next five years. It was noted that if public spending was cut it would have a detrimental effect on the construction industry.

The recession is a period of reducing economic activities, defined as a contraction or reduction in the GDP for two consecutive quarters or longer, marked by high unemployment, stagnant wages, and fall in retail sales. A recession does not last longer than one year and is much milder than depression. John, *et al.*, (2010) defined a recession as where "output in the economy declined: in other words, growth becomes negative" and that it is associated with low-level consumer spending. Lipsey and Chrystal (2011), sees it as "a fall in real GDP for two-quarter in succession. Although recessions are considered a normal part of a capitalist economy, there is no unanimity of economists on its causes.

According to Noko (2016), quoting from the National Bureau of Economic Research (NBER) a recession is "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in a real gross domestic product (GDP), real income, employment, industrial production and wholesale-retail sales." Fapohunda (2012) also defined recession as a period of economic slowdown featuring low output, illiquidity and unemployment. It is characterised by its length, abnormal increases in unemployment, falls in the availability of credit, shrinking output and investment, numerous bankruptcies, reduced amounts of trade and commerce, as well as highly volatile relative currency value fluctuations, mostly devaluations, financial crises and bank failure. Noko (2016) identified some of the major causes of economic recession in the construction industry and in any given economy in Nigeria to include: Inflation; Accumulation of debt; High-interest rates; Fall in aggregate demand; fall in wages/income; Mass unemployment and general loss of confidence on the government; Decline in government revenue; Job losses; Decline in income and profits reported by businesses; and Social Problems such as bribery and corruption.

Effects of economic recession in Nigeria

Telvan (2012) gives the following as the effects of economic recession:

1. **Unemployment:** A fall in GDP will cause a rise in unemployment. Some firms will go bankrupt. Meaning most workers will lose their jobs.
2. **Lower wages:** firms will also try to reduce costs by keeping wages low. Many workers will see substantial fall in effective income.
3. **Government spending:** Rising government's spending on welfare payments, such as unemployment benefits and income support.

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4. **Budget deficit:** because of falling in tax revenue and rising welfare payments (automatic fiscal stabilizer) a recession tends to cause an increase in the budget deficit and total government debt.
5. **Taxation:** government will see a fall in tax revenue as a result of a recession since most companies will fold up and most workers will be dismissed.
6. **Rising bond yield:** usually, during recession, government bond yields will fall.

In addition, Enejeta (2016) also identified "Job loss", "Lifestyles change", "Credit" and "Debts" as the major effects of economic recession on the common man:

Strategies for preventing reoccurrence of economic recession

Tejvan (2017) identified eight (8) major strategies for preventing economic recession. These are:

1. **Expansionary monetary policy – cutting interest rates:** Cutting interest rates should help to boost aggregate demand. Amongst other things, lower interest rates reduce mortgage interest payments, giving consumers more disposable income. Lower interest rates also encourage firms and consumers to spend rather than save.
2. **Quantitative easing:** If interest rates are already zero, then the Central Bank may have to pursue unconventional monetary policies. Quantitative easing involves the Central Bank electronically creating money and using this money to buy long-dated securities. This increases bank reserves and should help encourage bank lending. Also, it reduces interest rates on bonds which should help encourage spending and investment.
3. **Helicopter money:** Helicopter money is a policy to increase the money supply and give money directly to consumers. This is effective in a period of deflation – where consumers are reluctant to spend and banks are reluctant to lend money.
4. **Expansionary fiscal policy:** Expansionary fiscal policy involves increasing government spending and/or cutting taxes. This injection into the circular flow is financed by government borrowing. If the government cut income tax or VAT, it increases disposable income and therefore increases spending.
5. **Ensure financial stability:** In the credit crunch of 2008, there was a danger that savers would lose confidence in bank deposits. Customers were queuing up to withdraw savings. If people lose confidence in the banking system, it could cause bank closures, rapid fall in confidence and decline in money supply (like

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the US in 1932). Therefore, Central Bank/government acts as lender of last resort – guaranteeing savings.

6. **Devaluation:** Devaluation in the exchange rate can cause a boost in aggregate demand. A fall in the value of the dollar makes exports cheaper and imports more expensive increasing domestic demand. In the great depression, when the UK left the Gold Standard in 1932, the Pound devalued and this helped the UK economy recover more quickly than other countries.
7. **Higher Inflation Target:** This is a conscious decision to target growth rather than inflation. The argument is that if the economy gets stuck in a period of low inflation, this causes lower economic growth. Targeting higher inflation rate helps to break out of a deflationary spiral.
8. **A government bailout of major firms:** In 2009, the Obama administration agreed to bail out the US car industry as it was undergoing financial difficulties. The argument was that if car industry closed down, it would exacerbate the recession, cause more unemployment and a big negative multiplier effect. The bailout saved jobs and minimised the economic downturn.

RESEARCH METHODOLOGY

The study's population and method of data collection and analysis. The total population of the study includes the professionals of construction firms operating in Abuja registered with the Federation of Construction Industry (FOCI) such as Architects, Builders, Engineers and Quantity Surveyors. The register of FOCI contains 22 number of construction firms operating in Abuja. The population size for the questionnaire administered is therefore 88. That is four professionals were issued a copy of questionnaire each in each construction firm.

Data for the research work was gathered with the aid of questionnaire. The questionnaire was designed on the Likert's Scale consisting of five response. Data collected were analysed with the use of Relative Important Index (RII). RII was therefore used to achieve the objectives of the study. The decision rule adopted for the RII analysis is summarised in Table 1:

Table 1: Decision Rule for RII

SCALE	CUT-OFF POINTS	DECISION
5	0.81 - 1.00	Most Important
4	0.61 - 0.80	Very Important
3	0.41 - 0.60	Important

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2	0.21 - 0.40	Less Important
1	0.00 - 0.20	Least Important

Source: Adapted and Modified from Shittu et al. (2015)

RESULT AND DISCUSSIONS

Questionnaire was administered to 88 professionals and all the respondents filled and returned the questionnaire. This section presents the profile of respondents, results of analysis undertaken and discusses the results of the analysis carried out for the study.

Results on the assessment of the causes of economic recession

The RII results of the identified causes of economic recession in the Nigerian construction industry is given in Table 2.

Table 2: RII result for causes of economic recession

S/No	Causes of Economic Recession	RII	Rank	Decision
1	Over dependent on oil	0.88	1st	Most Important
2	Wars	0.85	2nd	Most Important
3	Poor economic planning	0.80	3rd	Very Important
4	Wrong Policy Choices	0.77	4th	Very Important
5	Fall in wages and income	0.76	5th	Very Important
6	No strategy for private capital	0.75	6th	Very Important
7	Accumulation of debt servicing especially foreign debts	0.75	6th	Very Important
8	Denial and Policy incoherence over forex policy	0.74	8th	Very Important
9	Bankrupt on key sectors of the economy (manufacturing, financial sector and insurance)	0.74	8th	Very Important
10	Low sovereign saving	0.73	10th	Very Important
11	Decline in income and profit in businesses	0.73	10th	Very Important
12	High interest rate	0.72	12th	Very Important
13	Decline in government revenue	0.72	12th	Very Important
14	oil spillage	0.71	14th	Very Important
15	political risk	0.71	14th	Very Important
16	fiscal leakage	0.69	16th	Very Important
17	Lack of Clarity over economic policy	0.68	18th	Very Important
18	Fall in aggregate demand	0.68	18th	Very Important
19	High inflation rate	0.68	18th	Very Important

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20	High taxation	0.66	20th	Very Important
21	Policy conflict	0.66	20th	Very Important
22	High interest rate	0.63	22nd	Very Important
23	Flooding	0.60	23rd	Fairly Important
24	Job losses	0.55	24th	Fairly Important
25	landslides	0.40	25th	Less Important
26	coastal erosion	0.37	26th	Less Important
27	locust/insect infestations	0.37	26th	Less Important
28	Drought	0.37	26th	Less Important
29	Inflation	0.34	29th	Less Important
30	Earthquakes	0.32	30th	Less Important
31	sand-storms	0.30	31st	Less Important
32	tidal waves	0.22	32nd	Less Important
	<i>Average RII</i>	<i>0.62</i>		<i>Very Important</i>

Source: Researchers' Analysis of Data (2019)

Table 2 revealed 32 causes of economic recession. It was shown that "Over dependent on oil" and "Wars" are the most important causes with RII of 0.88 and 0.85 respectively. Twenty other causes are also shown to have very significant importance. These range from "Poor economic planning" to "High interest rate" (RII = 0.80 – 0.63). "Flooding" and "Job losses" were found to be of fairly important significance with RII of 0.66 and 0.55 respectively. The last eight (8) causes were found to be of less important significance. These range between "Landslides" and "Tidal waves" (RII = 0.40 – 0.22). On the average the causes of economic recession identified are of very significant importance (Average RII = 0.62).

Results on the examination of the effects of economic recession

Table 3 gives a presentation of the results of identified effects of economic recession in the Nigerian construction industry.

Table 3: RII result for effect of economic recession

S/NO	Effects of Economic Recession	RII	Rank	Decision
1	Job loss	0.89	1st	Most Important
2	Unemployment	0.80	2nd	Very Important
3	Lower wages	0.80	2nd	Very Important
4	Lifestyles change	0.79	4th	Very Important

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5	Taxation	0.78	5th	Very Important
6	Budget deficit	0.73	6th	Very Important
7	Credit and debts	0.69	7th	Very Important
8	Rising bond yield	0.68	8th	Very Important
9	Government spending	0.65	9th	Very Important
	Average RII	0.76		Very Important

Source: *Researchers' Analysis of Data (2019)*

It was revealed from Table 3 that "Job Loss" is the most important effect of economic recession with RII of 0.89 while the other eight (8) identified effects are of very important significance, ranging from "Unemployment" with RII of 0.89 to "Government spending" with RII of 0.65. On the average, all the identified causes are found to be of very significant importance with average RII of 0.76.

Results on examination of measures for preventing reoccurrence economic recession

The RII results for the analysis on the examination of measures for preventing the reoccurrence of economic recession in the Nigerian construction industry is presented in Table 4.

Table 4: RII results for measures for preventing the reoccurrence of economic recession

S/NO	Measures for Preventing the Reoccurrence of Economic Recession	RII	Rank	Decision
1	Expansionary monetary policy – cutting interest rates	0.77	1st	Very Important
2	A government bailout of major firms	0.76	2nd	Very Important
3	Ensure financial stability	0.73	3rd	Very Important
4	Expansionary fiscal policy	0.72	4th	Very Important
5	Quantitative easing	0.69	5th	Very Important
6	Devaluation	0.68	6th	Very Important
7	Higher Inflation Target	0.68	6th	Very Important
8	Helicopter money	0.30	8th	Less Important
	Average RII	0.67		Very Important

Source: *Researchers' Analysis of Data (2019)*

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Table 4 shows the eight (8) identified measures for preventing the reoccurrence of economic recession. All the identified measures except the last one, ranging from "Expansionary monetary policy – cutting interest rates" to "Higher Inflation Target" with RII ranging from 0.77 – 0.68 are of very significant importance. The eighth (8th) measure identified was "Helicopter money" with RII of 0.30 and it is of less important significance. On the average, the measures for preventing the reoccurrence of economic recession are of very significant importance.

CONCLUSION AND RECOMMENDATIONS

It can be concluded from the findings of the study that the causes of economic recession are of significant importance, while the effects of economic recession very severe in the Nigerian construction industry. In addition, the identified measures for preventing the reoccurrence of economic recession in the Nigerian construction industry are very effective. Economic recession therefore has a significant impact of on the growth of construction firms in Abuja.

The following recommendations were made based on the research conclusions:

- i. The Government should not be over-dependent on oil so as to create other sources of income (foreign trade) in order to prevent reoccurrence of economic recession.
- ii. Government and construction firms should try to create more jobs and increase the wages paid to workers in order to guarantee job sustenance and security in order to minimise the effect of economic recession.
- iii. Government and construction firms should work out an implementable framework and mechanism for the adoption of the identified measures for preventing the reoccurrence of economic recession in the Nigerian construction industry.

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