

# **International Financial Reporting Standard (IFRS) Adoption and Economic Growth: A Study of Nigeria and Kenya**

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## **Authors' contributions**

*This work was carried out in collaboration with all the authors. Author OOC wrote the protocol, wrote the first draft of the manuscript drafted the entire work, including the discussion of findings, managed the literature searches. Author AAT designed the study, performed the statistical analysis. All other Authors read and approved the final manuscript.*

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## **ABSTRACT**

This study examines the effect of IFRS adoption on economic growth, using Nigeria and Kenya, for the period 2000-2016. The data which was utilized in this study, was gotten from National bureau of statistics. Descriptive statistics and paired sample t-test were used to analyze the data. Manufacturing sector Gross domestic product (GDP) was used to proxy Economic growth. However, the findings show that there is a significant difference in Economic growth of Nigeria and Kenya between pre and post IFRS adoption. Hence, the study recommends that government should ensure the fully adoption and implementation of IFRS in every possible sector in other to enjoy other benefits that accrue from it. Also, further studies on IFRS adoption and economic growth should employ other variables not used in the study.

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## **1. INTRODUCTION**

Economic growth is fundamental to the success of a nation. Countries that have consistent economic growth have had the capacity to cut down poverty, fortify their democratic belief system and political dependability, enhance the quality of their environment, and diminish war, crime and violence [1,2,3,4]. Over 40 years prior, Africa has been behind, compared to other continents in Gross domestic Product (GDP) and income per capita growth mostly in the 1970s. Like many developing countries in Africa, the Nigerian economy, has experienced a volatile growth history. For instance, during the period 1960-1970, the Gross Domestic Product noted a yearly growth rate of 3.1 per cent. Throughout the oil boom time (1970-78), the GDP developed emphatically by about 6.2 per cent every year. Then again, negative growth rates were experienced during the 1980s. Amid the period 1988-1997 which constituted the season of structural adjustment and economic revamp, the GDP increased at a positive rate of 4.0 percent [5]. The growth experience has been blamed essentially on the high inflation rate, an expanding fiscal deficit, expanding foreign debt and debt servicing, political instability, just as, among other driving forces, economic mismanagement and corruption. Nigeria's economic objectives have remained that of changing the structure of production and consumption patterns, varying the economic base and decreasing reliance on oil, with the intention of placing the economy on a way of sustainable, all-encompassing and non-inflationary growth [6].

World Bank discovered that 52% of the population in Kenya are living on an income below two dollars a day [7]. Republic of Kenya is the fourth leading economy in Sub-Saharan Africa (SSA), of which the capital city is Nairobi. The total gross domestic product (GDP) per capita of Kenya was \$1,700 in 2011 in purchasing power parity (PPP) terms. GDP per capita however, shows only national income (average). The economy of Kenya depends to a great extent on agriculture as well as tourism. It has a multiparty political structure [8].

Globalization, as well as innovation in the world have brought about drastic changes in the processes of businesses today, which will lead to a revolution in businesses. The rise in the growth

of worldwide business, and financial transactions across boundaries call for harmonization and standardization of diversified accounting practices, with the end goal of consistency just as equivalence of yearly reports, which will prompt an improvement in the investment capability of nations [9].

In achieving this harmonization and standardization, International guidelines were conveyed by the International Accounting Standards Committee (IASC), which was shaped in 1973 by the professional accounting bodies in France, Australia, Japan, Canada, Germany, Mexico, Netherlands, United Kingdom and Ireland, and United states of America (USA), which was inevitably renamed International Accounting standard board (IASB). Amid that time, the IASC's proclamations were referred to as International Accounting Standards (IAS). From April 2001 till date, this rulemaking capacity has been taken over by a recently established body, IASB [10]. There are numerous imminent advantages to be gotten from commonly known and esteemed international accounting standards. For example, the adoption of uniform standards cut the expense of doing business across borders by reducing the need for additional information. They make information more comparable, and in a way improving evaluation and analysis by users of financial statements [11]. With the information provided, Users grow more confident and apparently, this reduces uncertainty, promotes an efficient allocation of resources and cuts downs capital expenses [12]. International experts such as World Bank, International Monetary Fund (IMF), and International Organization of Securities Commissions (IOSCO) empowered the adoption of IFRS to improve the achievement of financial markets, which thus may boost the economic growth of adopting countries [13,14].

Approximately 120 countries around the world currently use IFRS. Amid the 120 countries, roughly 13 countries have adopted IFRS in Africa, which includes Nigeria and Kenya.

The arrival of IFRS accompanied spotlight in Nigeria in July 28 2010, after the Nigeria Federal Executive council allowed first January 2012 as the commencement date for conjunction of standards of accounting, for example, International Financial Reporting Standards (IFRS) in Nigeria. The council later coordinated

the Nigeria Accounting Standard Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry to make further important move to offer impact to the council's endorsement.

Kenya set in place to adopt IFRS between January 2009 and 2011. All public listed entities were however, made to compulsorily adopt IFRS on 1st January, 2010 [15].

Accounting standards play a positive and essential role in the growth of the economy of a given country. Development of accounting standard contributes to the economic growth of a nation, whereas lack of development of quality accounting standards prevent the economic progress in developing countries especially in Nigeria and Kenya. [16].

Several nations have just adopted IFRS in a way to fulfil membership commitment of global bodies like World Trade Organization (WTO), global accounting bodies like the International Federation of Accountants (IFAC) just as directed by the World Bank (WB) and International Monetary Fund (IMF), without assessing its economic impacts in their areas. This anyway clarifies why the literature on the economic consequences of IFRS adoption is meagre, mostly in developing nations [17].

Hence, the primary objective of this study is to ascertain the impact of Adoption of IFRS on economic growth in Nigeria and Kenya.

## **2. LITERATURE REVIEW**

### **2.1 Conceptual Review**

#### **2.1.1 Concept of international financial reporting standard (IFRS)**

The International Financial Reporting Standard (IFRS), which was issued by the International Accounting Standard Board (IASB), a set up organization situated in the United Kingdom, is a worldwide Generally Accepted Accounting Principles (GAAP), setting principles-based and universally acknowledged standard to help those who embraced it with preparation and presentation of an ideal quality, transparent and comparable financial statements that will improve understanding. IFRS can likewise be characterized as a set of standards affirming how certain types of transactions and other systems should be captured in financial statements,

issued by the International Accounting Standards Committee (IASC), which was replaced with the International Accounting standards Board (IASB).

#### **2.1.2 IFRS adoption in Nigeria and Kenya**

IFRS adoption in Nigeria was set up by Senator Jubriel Martins-Kuye in September, 2010 [18]. The adoption started with significant public interest entities in 2012 and at 2014 year end, every party was expected to conform. Today, listed sectors have totally set out the practice of IFRS. The acquaintance of IFRS accompanied spotlight in Nigeria in July 28 2010, after the Nigeria Federal Executive council allowed first January 2012 as the commencement date for conjunction of accounting principles, for example, International Financial Reporting Standards (IFRS) in Nigeria. The council later coordinated the Nigeria Accounting Standard Board (NASB), under the supervision of the Nigerian Federal Ministry of Commerce and Industry to make further important move to offer impact to the council's endorsement. As at third September, the Nigerian Accounting Standard Board (NASB) announced an organized usage of IFRS as nitty-gritty: significant public interest entities and publicly listed entities are required to execute IFRS by 1<sup>st</sup> of January, 2012. Other public interest entities are required to actualize IFRS by 1<sup>st</sup> of January, 2013 while small and medium sized entities are required to execute IFRS by January 2014. This introduced execution illustrated by the NASB was allowed by the Federal Executive Council (FEC) on July 28, 2010 [19].

Kenya decided to adopt IFRS between January 2009 and 2011. All public listed entities were however, made to compulsorily adopt IFRS on 1st January, 2010.

#### **2.1.3 Economic growth**

Economic growth is characterized by a stable rise in output of products and services which is generally estimated in Gross National Product (GNP) or GNP per individual, which is otherwise known as per capita income. This fashioned the beginning of the thought of economics which is 'the troubling science'. While aggregate GDP demonstrates the size of the economy, if considered the bliss of a distinctive person in an economy we can take a glance at GDP (income per capita). On the off chance that the per capita is equally spread, this could mirror the exact joy of the general population, in spite of the fact

nations commonly have uneven income spread [20].

Economic growth is the attainment of yearly rise in the production of products and services. It is known to have happened in countries when its GNP turn out to be more than what it was. Total Gross Domestic Product (GDP) and GNP measure the aggregate output and income of an economy at any given time [21].

Business Dictionary characterized economic growth as an expansion in a nation's productive capability, which is estimated by contrasting GNP of one year with the GNP in the earlier year. Moreover, Economies Online portrays economic growth as an increase in the goods which an economy produces at a given period, for at least two successive quarters. It further stated that growth happens when the economy has particular as well as all the accompanying: utilizes division of work, utilizes new innovation permitting specialization, increases its labour force, employs new production methods and discovers new raw materials.

## **2.2 Theoretical Review**

The theoretical framework for this study is the Endogenous Growth Theory which was postulated by Uzawa in his work in 1965. The theory states that Economic growth is obtained from a structure due to internal processes. It further stated that, innovation, knowledge and human capital enhancement will result to growth as methods of improvement of new types of technology and proficient and viable methods of creation. Endogenous growth is long run economic growth driven by inner powers to the economic structure generally those administering advancement and technological knowhow. The long run economic growth as regards hinge per individual hinge on the growth of total factor productivity (TFP) which is dogged by rate of advancement in innovation. The study was based on this due to endogenous growth theory, which looks at growth as a component innovation advancement which is in IFRS adoption. It is reassuring of IFRS acceptance can forever build the rate of growth through innovation exchange, dissemination and overflows impacts, which are seen in endogenous regions as a catalyst for economic growth [22].

## **2.3 Empirical Review**

Quite a few number of research have been conducted on IFRS adoption and economic

growth in Nigeria and Kenya. Most research has been conducted on the impact of IFRS adoption on financial statement.

Okoye et al.:[23] studied the effect of Adoption of IFRS on stock market development in Nigerian corporate organization. They found out that the selection of IFRS in Nigeria will improve sound financial statements that will likewise give a premise to the quality of a corporate entity in capital market thus is an appreciated advancement in Nigerian economy. [15] did an investigation on International financial reporting standard (IFRS) and economic growth of developing Countries. It was found that IFRS adoption ended up having significance and positive effect on economic growth of developing countries. Additionally, there's a positive relationship between increments in the stream of foreign direct investment and IFRS adoption in developing nations. [18] studied the adoption of IFRS and financial statements impact: the apparent ramification on FDI and Nigeria economy. It was seen that IFRS has been embraced in Nigeria however just portion of organizations has actualized with due date for the others to go along. It was likewise seen that IFRS implementation will advance FDI inflows and economic growth. It was prescribed that all stakeholders should attempt to have full execution to receive rewards of the global GAAP and principle - based standards. [24] studied the Effect of Foreign Direct Investment on Economic Growth, Post IFRS Adoption in Selected Sub-Saharan African Countries (1999-2015). It was found anyway that FDI had positive effect on the GDP of Nigeria and Ghana just as a negative impact in South Africa. On the other hand, amid the post adoption of IFRS, Nigeria had huge decline in the effect of FDI on GDP while South Africa and Ghana did not have any huge contrast in the effect of FDI on GDP amid those periods. Likewise, it was noted that FDI inflows had huge impact on external reserve of Ghana but did not have any critical effect in Nigeria. The effect on External Reserve of South Africa was negative, although insignificant. In any case, there were no significant contrast in the impact of FDI on external reserve of South Africa, Ghana and Nigeria amid the pre and post adoption of IFRS period.

## **3. METHODOLOGY**

This study examined the relationship between IFRS adoption and Economic growth in Nigeria and Kenya for the period 2007-2017.

Manufacturing sector GDP was utilized in this study gotten from National bureau of statistics. The pre-estimation analysis was done in two-folds: the first provides descriptive statistics for all the variables employed in this study; the second shows the significant difference in economic growth pre and post IFRS adoption, using a paired sample t-test. IFRS was adopted in 2012 for Nigeria and 2010 for Kenya [14].

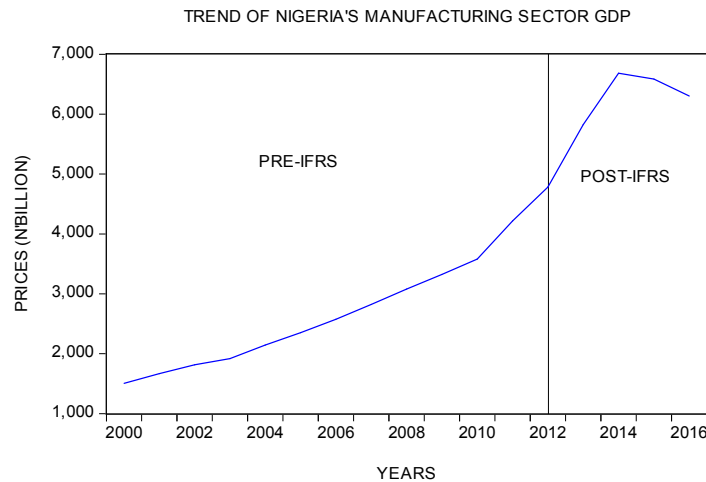
For Nigeria, The pre-IFRS adoption period was 2000 to 2011  
 The post-IFRS adoption period was 2012 to 2016.  
 For Kenya, the pre-adoption period was 2002 to 2009

The post-IFRS adoption period 2010 to 2016. The paired sample T-test checks the differences in mean of a related data set.

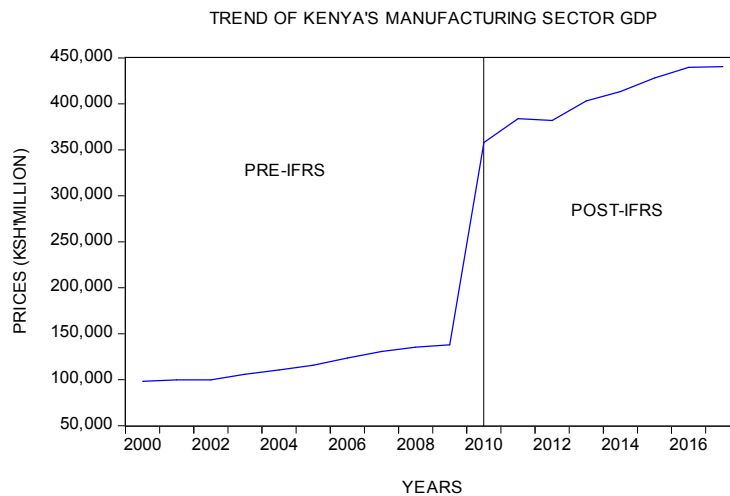
**4. DATA ANALYSIS AND PRESENTATION**

**4.1 Descriptive Statistics**

Examining the trend of manufacturing sector GDP in Nigeria, it can be seen that there was a steady rise in GDP from 2000 to 2011. After adoption of IFRS, there was a large rise in GDP from 2012 to 2016. Although, the manufacturing sector GDP dropped in 2015 and 2016.



**Fig. 1. Trend analysis of manufacturing sector GDP in Nigeria**  
 Source: Authors Computation (2019)



**Fig. 2. Trend analysis of manufacturing sector GDP in Kenya**  
 Source: Authors Computation (2019)

**5. RESULTS**

Examining the trend of manufacturing sector GDP in Kenya, it can be seen that during the pre-IFRS period, GDP grew but at a very slow rate between 2000 and 2008. Between 2009 and 2010 there was a drastic increase in GDP. After adoption of IFRS, there was a rise in GDP between 2010 and 2012. Although, GDP dropped between 2011 and 2012. Nonetheless, there was a notable rise in GDP between 2013 and 2015 but GDP was steady in 2016.

**5.1 Inferential Statistics**

**Hypothesis One (H<sub>0</sub>):** there is no significant difference in the economic growth of Nigeria and Kenya before and after adoption of IFRS.

Table 1 shows the mean and the standard deviation of manufacturing sector GDP Pre and Post IFRS for Nigeria. It can be seen that mean

for Post-IFRS era for Nigeria is higher than that of the Pre-IFRS and the variance is large. This implies that the economic growth in Nigeria is better after the adoption of IFRS in Nigeria.

The T-test was carried out using data on Manufacturing Sector Gross domestic product (GDP) from 2000-2011 and 2012-2016 as the pre and post IFRS adoption years respectively. The test was carried out at a significant level of 5%. The results indicate that there is a significant difference in manufacturing sector GDP pre and post IFRS.

Table 2 shows the mean and the standard deviation of Pre and Post IFRS for Kenya. It can be seen that mean for Post-IFRS era for Kenya is higher than that of the Pre-IFRS and the variance is large. This implies that the economic growth of Kenya is better after the adoption of IFRS in Kenya.

**Table 1. Paired sample test for manufacturing sector GDP in Nigeria**

Paired samples statistics					
		Mean	N	Std. deviation	Std. error mean
Pair 1	Pre	3404.1620	5	533.66440	238.66197
	Post	6036.6180	5	775.65335	346.88272

*Source: Author's Computation (2019)*

Paired samples correlations				
		N	Correlation	Sig.
Pair 1	Pre & Post	5	.637	.247

Paired samples test									
		Paired differences				T	Df	Sig. (2-tailed)	
		Mean	Std. deviation	Std. Error mean	95% confidence interval of the difference				
					Lower				Upper
Pair 1	Pre - Post	-2632.45600	599.02092	267.89030	-3376.23871	1888.67329	9.827	.001	

*Source: Author's Computation (2019)*

**Table 2. Paired sample test for manufacturing sector GDP in Kenya**

Paired samples statistics					
		Mean	N	Std. deviation	Std. error mean
Pair 1	Pre	119939.2500	8	14140.44315	4999.40162
	Post	406050.1250	8	29864.33271	10558.63609

*Source: Author's Computation (2019)*

Paired samples correlations				
		N	Correlation	Sig.
Pair 1	Pre & Post	8	.987	.000

Paired samples test							
	Mean	Std. deviation	Paired differences		t	Df Sig. (2-tailed)	
			Std. error mean	95% confidence interval of the difference			
				Lower			Upper
Pair 1	Pre - -	16068.68723	5681.13885	-	-	7 .000	
	Post 286110.87500			299544.63371	272677.11629	50.362	

Source: Author's Computation (2019)

## 6. DISCUSSION

The T-test was carried out using Manufacturing Gross domestic product (GDP) of Nigeria and Kenya from 2010-2016 as the pre and post IFRS adoption years. The test was carried out at a significant level of 5%. The results indicate that there is a significant difference in the manufacturing sector GDP pre and post IFRS.

Examining the findings revealed from the analysis of the effect of IFRS adoption on economic growth of Kenya and Nigeria, it can be seen that adoption of IFRS improves the economic growth of both countries significantly. This means that IFRS adoption has brought about improved GDP in the manufacturing sector GDP of both countries. This posits that for emerging countries to enjoy improved economic growth, they have to properly adopt the notions of IFRS in their financial statement preparations and presentation so as to enjoy the full benefits.

## 7. CONCLUSION AND SUGGESTION

The objective of this study was to determine the relationship between IFRS adoption and economic growth using Nigeria and Kenya from the period 2000-2016. Hence this study utilized the paired sample t-test to achieve its objective. However, the findings show that:

1. There is a significant difference in Economic growth of Nigeria between pre and post IFRS adoption. This can be depicted from the analysis carried out which shows that the mean is higher in post IFRS Adoption period in Nigeria. Also, it is significant at 5% level.
2. There is a significant difference in Economic growth of Kenya between pre and post IFRS adoption. This can be depicted from the analysis carried out which shows that the mean is higher in post IFRS Adoption period in Kenya. Also, it is significant at 5% level.

This means that IFRS adoption brings about improvement or increase in the manufacturing

sector Gross Domestic Product of a country. This could be achieved through attracting foreign direct investment to a country.

Therefore, for a country to experience a rise or growth in the economy, it has to fully adopt and implement IFRS in other to enjoy the full benefit it offers, which is not limited to economic growth.

Pertaining to the findings, the study suggested the following:

1. Government should ensure the fully adoption and implementation of IFRS in every possible sector of a nation in other to enjoy other benefits that accrue from it.
2. Further studies on IFRS adoption and economic growth should employ other variables to measure economic growth, which was not used in the study.

## 8. LIMITATION

This study was carried out, using two African countries, Nigeria and Kenya, for the period of 2000-2016. The study also used the manufacturing sector GDP as a proxy to measure Economic growth.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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