Introduction

Asongu, Simplice

January 2018

A G D I Working Paper

WP/18/021

Introduction

Asongu S. (2018). Introduction. In: Efobi U., Asongu S. (eds) Financing Sustainable Development in Africa. Palgrave Macmillan, Cham, DOI : 10.1007/978-3-319-78843-2_1, pp. 1-9.

Simplice A. Asongu
African Governance and Development Institute,
P.O. Box 8413, Yaoundé.
E-mails: asongusimplice@yahoo.com,
asongus@afridev.org

Research Department

Introduction

Simplice A. Asongu

January 2018

Abstract

Sustainable development within the investigated context includes the ability of African countries to meet the present economic, social and environmental needs without compromising the ability of future generations to meet their own needs. A challenging contemporary policy syndrome is the lack of funding for adequate capacities and structures essential for the realisation of the post-2015 development agenda. This introductory chapter provides highlights on all chapters covered by the book in the direction of addressing the underlying policy syndrome.

Keywords: finance; sustainable development; Africa
JEL Classification: B17; B20; F35; F50; O10

1. Introduction

A relevant common denominator of contributors to this book is that the empirical findings are succinctly summarised to improve readability and accessibility by interested readers who may need more technical skills in reading and understanding the policy recommendations and empirical analyses. In essence, the book is richly-policy relevant and easy-to-read for both non-specialists and specialists.

At least two fundamental factors motivate the positioning of this book, notably: growing non-inclusive development in Africa on the one hand and on the other, the inherent and logical nexus between inclusiveness and sustainability. The factors are substantiated in chronological order.

First, recent stream of African inclusive development literature has essentially been underpinned by the fact that extreme poverty has been decreasing in all regions of the world with the exception of Africa (Asongu & Nwachukwu, 2017a, 2017b; Kuada, 2015). The fact motivating this strand of literature is further substantiated by a 2015 World Bank report of Millennium Development Goals (MDGs) which has concluded that close of half of countries in Sub-Saharan African (SSA) were substantially off-course from achieving the MDG extreme poverty target (Asongu & Kodila-Tedika, 2017). The tendency translates growing exclusive development because the sub-region has been enjoying more than two decades of growth resurgence which began in the mid-1990s (Fosu, 2015). The corresponding evidence of immiserizing growth is evidence of non-inclusive growth because output has been growing but yet a large proportion of the population has remained trapped in extreme poverty.

Second, the concept of sustainability underlying the book is consistent with recent inclusive development literature (Amavilah et al., 2017; Asongu et al., 2017, 2018). In accordance with the narrative, for sustained development to be sustainable it should be inclusive and for inclusive development to be sustainable, it must be sustained. In the light of the briefly discussed factors motivating this book, it is apparent that sustainable development, especially by means of inclusive policies is a substantial policy concern in the post-2015 development agenda.

Sustainable development includes the ability of African countries to meet the present economic, social and environmental needs without compromising the ability of future generations to meet their own needs. This implies that there must be a clear balance and prioritisation on what works best for development without further escalating other societal problems. The SDGs are focused on building adequate structures and productive capacity that will create a platform on which development can be sustained. Among the structures that are of interest are economic and environmental structures, which are also key features of the common African position on the post-2015 development agenda. In the light of the importance of sustaining African development and the economic welfare that can be accrued from this action, a recurring issue will be to understand the means and processes by which this agenda will be funded (Asongu & Nwachukwu, 2017a, 2017b).

In terms of finance, Africa has heavily relied on foreign capital inflow in the forms of foreign direct investment and aid, as well as remittances that are transferred from the Diaspora to indigenous recipients. These forms of capital have been argued to have their merits and some have also been heavily criticised as harming the economy of African countries (see Moyo, 2009 Easterly, 1999, 2008; Asongu, 2016). However, it will be fair to say that these forms of capital have to a large extent contributed their margins to the development experiences of African countries. For instance, with the benevolence of foreign aid, many African countries like (Rwanda) have improved their human capital in the forms of education, infrastructure and health. Also, foreign investment is seen as an important capital input that can be a big-push for the industrialisation outcome of African countries (Asiedu, 2002, 2006). This is complementary to the many other benefits that are derivable from such flows (Anyanwu, 2012). A similar trend is observed for remittances. Therefore, given this insight, it is policy-relevant to observe the re-invention of these forms of capital in driving sustainable development on the one hand, and the extent to which they complement other forms of domestic and indigenous capital, on the other.

The issue of identifying, reconfiguring and reinventing financial flows to African countries for efficient provision of structures that can aid in the sustenance of development is an important issue for finance and development. This book also appreciates new and innovative financing schemes that can be leveraged upon for sustainable development. For instance, with the growth of religious movements in most African countries, the strength of pool-funding is manifest with the rise of human capital and investment schemes that are advanced by these organisations. Also, the recent initiative put forward by the International Food and Agricultural Development to encourage the engagement of migrant workers in sustained economic development of their home countries through investment in agriculture, is another case in point of innovative financing that has been explored in this book.

Apart from the sources of funding Africa's development, the book focuses on institutional and public management issues that can enhance the effectiveness of funding in Africa (whether external or internal). Issues surrounding institutional constraints that can constitute a major hindrance to the use of finance for public interest are looked into in this volume. Most importantly, case studies that relate to effective management of public funds for development are considered.

In this introduction, we present an overview of chapters that are covered in the current book. Such coverage strives to provide a comprehensive insight of the engaged mechanisms and policy suggestions on how sustainable development can be financed in Africa in the post-2015 development agenda. In what follows, a summary to the fifteen chapters the book comprises is not in order of importance.

In Chapter 1, using ethnographic evidence of agro-pastoral communities in Eastern Ethiopia, Getachew Endris, Paul Kibwika, Bernard Obaa and Jemal Hassan investigate whether the implementation of social safety net intervention influences indigenous social capital in view of coping with livelihood shocks. The authors recommend better community targeting because whereas the provision and development of formal safety nets are essential in ameliorating adaptation capacity and risk-coping ability of the poor, pre-existing informal safety nets should not be crowded in the process. The recommendation builds on the evidence that households' willingness to cooperate and participate in informal networks required for coping with uncertainties, diminishes in research sites where poor targeting performance is associated with safety net programs.

Issues pertaining to sustainable development in the light of the environment-income nexus are investigated by Adejumo Oluwabunmi in Chapter 2 within the context of Nigeria. The study essentially seeks to assess whether economic wealth accruing from heightened economic activities have affected the demand for environmental-friendly standards by citizens of the country. Upon investigating the Environmental Kuznets Curve (EKC) hypothesis, the study concludes that the desire to spend in ensuring and/or financing environmental sustainability in Nigeria is low.

In Chapter 3, James Peprah examines the relationships between micro-credit, child education and health outcomes with a case study from Ghana. The author investigates the impact of parental borrowing of micro-credit on health and education outcomes of children in the two Districts in the Central and Western regions of the country. The findings show that compared to non-clients, the children of clients are healthier and more regular in school. Based on these results, the author recommends that traditional microfinance programmes should integrate products related to the health and education of children with specific emphasis on low income households, in view of promoting inclusive human development.

The question as to whether state fragility matters in the process of sustainability is examined by Temitope Laniran from capital flows and economic connections in Nigeria in Chapter 4. In essence, the study aims to assess the significance of state fragility in economic growth by introducing state fragility into an economic growth model. The results which are engaged in the light post-2015 challenges to sustainable development are of vital policy relevance to other African countries because state fragility remains a major policy syndrome in the continent.

Emmanuel Maliti surveys the changing patterns of Official Development Assistance (ODA) in Sub-Saharan Africa (SSA) in Chapter 5. He discloses six principal patterns through which ODA has evolved over the past decade. Some of the observed patterns are as follows. While ODA in the sub-region has been increasing, its rate of increase is lower compared to other competing regions. Relative to traditional ODA members, ODA from non-DAC countries is increasing at a faster rate. In the same vein, comparative small and merging DAC members are considerably boosting their ODA to the sub-region in relation to traditional and large DAC countries. Other sources are crowding-out the relevance of ODA as a dominant financial source. The increasing importance of ODA to the production and economic sectors far outweighs ODA being directed to the social sector.

In the light of Africa's huge natural resource capacities, it is relevant for policy to understand how gains from such resources can be maximised, especially in the light of the sustainable development agenda. Building on the evidence of how some frontier countries have managed natural resources for economic and sustainable development, Seedwell Hove and Gladys Gamariel in Chapter 6, argue that if good strategies are implemented, natural resources can substantially boost economic development. According to the authors, these strategies should be implemented throughout the value chain of natural resources, notably: from when natural resources are discovered to when they are extracted and their proceeds from exportation managed. The narrative further articulates that such management entails the consolidation of institutions required for, *inter alia*: the effective and efficient exploitation of the underlying resources, appropriate fiscal measures and establishment of wealth funds such as sovereign wealth funds. Moreover, at the continental level, economic development policies should factor-in such cross-country availability of natural resources.

The relationship between financial inclusion and the economic prosperity of non-farm enterprises is investigated by Isaac Koomson and Muazu Ibrahim in Ghana. The findings of the corresponding Chapter 7 show that enhancement of non-farm entrepreneurs' level of financial inclusion increases the growth of attendant enterprises, with a comparatively higher beneficial effect in urban compared to rural areas. Ultimately, policies designed to enhance financial inclusion will go beyond spurring firms' growth to expanding non-farm enterprises and by extension, tax income from a corresponding increase in economic activity.

In Chapter 8, Ishmael Ackah provides trends and strategies on financing sustainable energy with oil revenues in SSA. Given the decreasing financial support from development partners, the author discusses how governments in oil-producing countries in the sub-region can leverage on their comparatively better financial resources to finance their quotas on investments in energy access in order to ensure universal access across the continent by 2030. It is important to clarify that, just about half of the population in SSA has access to energy, with the population in rural areas characterised with a relatively lower rate of access, notably: 18 percent. Moreover, an estimated 24 billion USD is needed to ensure universal access by 2030. The current investments show that a financing gap of between 10 billion to 18 billion USD is still apparent and governments are anticipated to commit approximately 5.4 billion USD on an annual basis, which represents about 13% of total revenues accruing from the oil sector in 2014.

The impact of business regulation on foreign direct investment inflows (FDI) is assessed by Ben Katoka and Huck-ju Kwon in SSA in Chapter 9. The authors establish that FDI is sensitive to variations in starting a business, protection of investors and trading across borders, when a number of factors are considered in the analysis notably: inflation, government effectiveness, natural resources, income levels and population size. Building on the results, the study recommends regulatory reform in view of improving the doing business environment in order to sustainably boost the inflow of FDI into SSA.

An internal financing mechanism by which industrialisation in African can be boosted is in the role of cooperative organisations. Using the example of the Tanzanian Development Vision of 2025 in Chapter 10, Mangasini Katundu argues that the country has a good network of cooperatives that can ease the coordination and implementation of the country's industrialisation agenda. The argument builds on an underlying assumption that cooperatives are institutions which can translate industrial policies of governments into action. The article discloses how cooperatives can be leveraged for rural industrialisation, partly because their flexibility and conjunction with responsive governance can repair structural imbalances and eliminate cross-sectoral and regional differences. In summary, the article addresses two fundamental issues: on the one hand, existing cooperatives can be used for industrialisation and on the other, how leveraging on such cooperatives is sustainable in the long term. Given that most African countries already have well implanted cooperatives, the suggested financing mechanism can be considered by other African governments in the financing of sustainable development.

Alternative financing mechanisms that African governments can pursue in financing sustainable development is covered by Nomahlubi Nkume in Chapter 11. The study critically assesses financing methods for sustainable development in Africa, traditional mechanisms of financing that have been employed in the region as well as the apparent challenges constraining these channels in the light of the evolving global context. The study also explores solutions to the financing of sustainable development models that have worked in different nations of the continent and further articulates the relevance of local governments in ensuring the sustainability of such financial mechanisms. The author also presents its model of finance and how the proposed model can be leveraged upon for achieving sustainable financing. It is important to note that the discourse of local models is broadly consistent with the narrative on local cooperatives from the preceding chapter on financing Africa's industrialisation.

In Chapter 12, Murat Yülek and Mete Yağmur extend the discourse by exploring how the textile and clothing sector can be industrialized in SSA. Several factors are established to provide an enabling environment for the development is this sector in the sub region, *inter alia*: logistical advantages, cotton production and low wages. The suggestions of how the fashion industry in Africa can be consolidated in light of the growing African fashion industry will ultimately increase fiscal performance owing to the economic prosperity of the promoted industry.

The relevance of fiscal performance and institutions in the sustainability of the Economic Community of West African States (ECOWAS) is the concern of Ibukun Beecroft, Evans Osabuohien and Isaiah Olurinola in Chapter 13. The authors establish that there is a significant nexus between institutions and fiscal performance in the sub-region. Among the governance dynamics, regulatory quality has the most significant relevance. Given the prevalence of weak institutions in the sub-region in particular and Africa in general, the study recommends the support for fiscal discipline policies that anchor on a strong institutional framework, which is needed for, *inter alia*: financing sustainable development by means of enhanced fiscal performance and attraction of foreign investment.

Foreign market participation is used as an example of foreign investment to extend the narrative in Chapter 14 by Efobi Uchenna, Orkoh Emmanuel and Atata Scholastica. Given that good institutions are essential for financial inclusion, the study explores the effect of financial inclusion on the export capacity of manufacturing firms in Nigeria. The findings suggest that access to financial services increase the export capacity of firms with the effect contingent on the firm's location.

Along the same line of improving financial access, existing deficiencies to increasing financial services by means of broadening financial intermediation in Africa are considered by Murat Yülek and Vivien Yeda. The review which proposes a blueprint for reforms recommends the relevance of integrating more segments for the long term financing of Africa's development, notably: development banks and capital makers.

References

Amavilah, A., Asongu, S. A., & Andrés, A. R., (2017). "Effects of globalization on peace and stability: Implications for governance and the knowledge economy of African countries", *Technological Forecasting and Social Change*, 122(C), pp. 91-103.

Anyanwu, J., (2012). "Why Does Foreign Direct Investment Go Where It Goes?: New Evidence From African Countries", *Annals of Economics and Finance*, 13(2), pp. 425-462.

Asiedu, E., (2002). "On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?" *World Development*, 30(1), pp. 107–119.

Asiedu, E., (2006). “Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability”. *The World Economy*, 29(1), pp. 63–77.

Asongu, S. A., (2016). “Reinventing Foreign Aid for Inclusive and Sustainable Development: Kuznets, Piketty and the Great Policy Reversal”, *Journal of Economic Surveys*, 30(4), pp. 736–755.

Asongu, S. A., & Kodila-Tedika, O., (2017). “ Institutions and Poverty: A Critical Comment Based on Evolving Currents and Debates”, *Social Indicators Research*, DOI: 10.1007/s11205-017-1709-y.

Asongu, S. A., Le Roux, S., & Biekpe, N., (2017). “Environmental degradation, ICT and inclusive development in Sub-Saharan Africa”, *Energy Policy*, 111(December), pp. 353-361.

Asongu, S. A., Le Roux, S., & Biekpe, N., (2018). “Enhancing ICT for environmental sustainability in sub-Saharan Africa”, *Technological Forecasting and Social Change*, 127(February), pp. 209-216.

Asongu, S. A., & Nwachukwu, J. C., (2017a). “Foreign Aid and Inclusive Development: Updated Evidence from Africa, 2005–2012”, *Social Sciences Quarterly*, 98(1), pp. 282–298.

Asongu, S. A., & Nwachukwu, J. C., (2017b). “The Comparative Inclusive Human Development of Globalisation in Africa”, *Social Indicators Research*, 134(3), pp. 1027–1050.

Easterly, W., (1999). “The Ghost of Financing Gap: Testing the Growth Model Used in the International Financial Institutions”, *Journal of Development Economics*, 60(2), pp. 423-438.

Easterly, W., (2008). Reinventing Foreign Aid, The MIT Press: Massachusetts.

Fosu A. K. (2015), ‘Growth, Inequality and Poverty in Sub-Saharan Africa: Recent Progress in a Global Context’, *Oxford Development Studies*, 43(1), 44-59.

Kuada, J. (2015). Private Enterprise-Led Economic Development in Sub-Saharan Africa: The Human Side of Growth, First edition by Kuada, J, Palgrave Macmillan, New York.

Moyo, D. (2009). Dead Aid: Why Aid Is Not Working and How There is Another Way for Africa. New York: Farrar, Straus and Giroux.

Quintyn, M., and Verdier, G., (2010). African Finance in the 21st Century, Palgrave Macmillan, United Kingdom.