

Chapter 9

Financing Sustainable Development in Africa: Taking Stock and Looking Forward

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ABSTRACT

Actualizing sustainable development in Africa will require enormous economic resources. This implies that there must be a clear balance of prioritization of financing options on what works best for development in this region without further escalating other societal problems. The authors argue in the chapter that though there has been some benefit from the traditional means of financing development in Africa, some drawbacks still exist considering the rising rate of inequality and poverty head-count in the region. On this note, this present study examines financing options that have previously been advocated for in financing development in the African region (i.e., taking stock), such as development assistance and foreign investment, by considering its implication on development outcomes like poverty, inequality, and aggregate human development indicator in the region.

INTRODUCTION

Sustainable development in Africa, which includes the ability to meet present economic, social and environmental needs without compromising the capacity of future generations to meet their own prevailing needs, will require enormous economic resources to fund it. This implies that there must be a clear balance of prioritization of financing options on what works best for development in this region without further escalating other societal problems. The vast majority of the literature has focused on traditional financing means such as development aids (Alesina and Dollar, 2000), Foreign Direct Investment (Velde, 2006), even remittances from migrants (Maphosa, 2007; Osabuohien and Efobi, 2013; 2014; Efobi et al, 2015), and to a large extent, foreign debt from bilateral and multilateral institutions (Chipumbu, 1993; Omotola and Saliu, 2009).

The puzzle in this chapter is not that the current means have not favored African development – because it has, but that a significant fraction of these funds has not been channeled for development structures that will facilitate sustainability. For instance, Kharas (2007) notes that despite the magnanimous flow of foreign aid to developing countries, a significant number of them channel these funds to debt forgiveness and other unprecedented natural occurrences, leaving out issues like infrastructural development and even education and health care development. Also, Safiq, Mansoon & Rafique (2013) observed that apart from national debts and inflation that continuously threatens the gross domestic product (GDP) of developing economies, foreign direct investment negatively affects economic performance. The limiting prospects of foreign funds for financing sustainable development is largely hampered by government instability, internal and external conflict, corruption and ethnic tensions, bureaucracies, unresponsiveness and unaccountability of government (Busse & Hefeker, 2007)

This chapter, therefore, sets out findings from an examination of the traditional funding options that African countries have relied on overtime, and then discuss new funding options by taking cases on how they have worked in specific African countries. For instance, issues like empowering cooperative societies and mutual support networks, agricultural cooperatives, crowdfunding, fiscal responsibility, other forms of informal banking alternatives, were considered for sustainability in Africa. These issues are essential considering that the set-up of African countries is unique and the specific structures are different from countries in other regions (Asiedu, 2002; Nkume, 2018; Akinyemi, et al, 2019), and policies that work in other regions may not be adaptable for this region because the circumstances and informal institutions (i.e. the foundations on which policies thrive) differ so much.

The remainder of the chapter is distributed as follows: the next section discusses the trends in traditional means of financing development in Africa, which is followed by the linkage between these means of financing development and key indicators of human development. The fourth section discusses some relevant case studies of other financing option that can fit the development trajectories of African countries, while the fifth section concludes the paper with policy recommendations.

Trends in Traditional Financing Option for African Countries

The level and composition of this alternative financing means has changed markedly over time, which implies development, which will be discussed subsequently. Despite the increasing flow of finances to the African region, there is still the need for alternative financing means considering the issues surrounding these traditional means of financing, which will be discussed later. This section, therefore, presents the traditional finance means based on a historical perspective, and compares the trend with other regions of

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