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Economic Growth Adjustment Rate to Financial Inflows Fluctuation, Case Study of Selected African Countries (1997-2016)

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Abstract
The purpose of this research paper was to investigate financial inflows on economic growth in eight (8) selected African countries. Data for the period: 1997-2016 from World Bank Data Indicator was used. This is necessitated by the doubts being raised as whether the huge inflows of foreign capital/finance in developing economies over the years have transmitted to real economic growth. To investigate the impact of financial inflows, logged values of foreign direct investment(FDI), foreign Portfolio investment (FPI), overseas development assistance(ODA), migrant remittances (MR), gross fixed capital formation (GFCF), openness to international trade (OPN) were used as proxies while the log value of gross domestic product per capita (GDPP) proxied for economic growth. The study employed a cross-section random effect model on the longitudinal data for the selected eight African countries, while the Solow growth model serves as the theoretical framework. Augmented Dickey Fuller and Philip Perron tests were used to test for non-stationarity of the variables, while all variables were integrated of order one with exception of INFDI and INFPI which were at level. In addition, Johansen Cointegration test was employed to determine whether or not the variables were cointegrated. Error correction model was employed to estimate short- run and long run relationship. The study found that INODA was the only variable significant at Short run, while with the random effect test, only FPI has a positive but no significant impact on GDPP of the eight countries. While the Granger causal test posit that all the variables has both directional and bi-directional causal effect on GDPP, with the exception of INOPN and INGFCF. An enabling environment should be created in these countries to encourage more financial inflows, as this will help in closing the savings-investment gap and encourage economic growth in these countries. The study signifies that financial inflows is indispensable in closing the investment-savings gap required for economic growth of developing countries.
Keywords: Financial Inflows, Afica, Panel Data, Conitegration, Granger Causalty And Ecm

1. Introduction

Financial inflows is the movement of financial resources into a country for the purpose of investment, trade or business production. This movement may be inform of money, capital or portfolio investment. It has significant role for every national economy, regardless of its level of development. For the developed countries, it is necessary to support sustainable development while for the developing economies, it aimed to increase accumulation and rate of investments to create conditions for accelerated economic growth. For the transition countries, it is useful to carry out the reforms necessary to cross to open economy (Edwards, 2004), to cross the past long term problems and to create conditions for stable and continuous growth of GDP (Razin, 2001). Conversely, to realize the potentials that exist in the developing countries, foreign capital is indispensable. Financial inflow can help developing countries in economic development by furnishing them with necessary money, capital and technology, which will be used to harness their local resources. Financial inflows contribute in filling the resource gap in countries where domestic savings are inadequate to finance the required investment. It also allow the recipient country to invest and consume more than it produces when the marginal productivity of capital within its borders is higher than in the capital-rich regions of the world. As the economy becomes more open and integrated with the rest of the world, financial inflows will contribute significantly to the transformation of the developing economy (Levine, 2001). Further to this, financial inflows are necessary for macroeconomic stability as they affect a wide range of macroeconomic variables such as exchange rates, interest rates, foreign exchange reserves, domestic monetary conditions as well as savings and investments.

The need for financial inflow to supplement domestic resources in the developing economies has been regarded by economist in time immemorial as not only sufficient but also a necessary condition for any nation's economic growth wills (Todaro & Smith, 2012), likewise, the growing of mismatch between their domestic capital stock and capital requirements has also lent support to this argument. This is evidenced by the attention given to the drive for financial inflow especially in developing countries. African countries and other emerging economies of the world need substantial inflow of capital and finance from influenced international bourgeoisie or financial institutions to fill their savings, investment and foreign exchange gaps, enhance capital accumulation and growth needed to overcome widespread poverty, lack of social amenities and infrastructure in these

countries. Financial inflow has been identified as a salient means for augmenting the supply of funds for domestic investment (Fosu and Magnus, 2006). Thus, the relative advantage of financial inflow as a productivity-enhancing package is now widely acknowledged especially since the recent global economies crises. Meanwhile, financial inflow as used in this paper may be synonymously submitted to mean capital inflow, foreign capital inflow or simply put, financial capital inflow, argument for this is that foreign intervention into a nation's domestic economic is majorly felt through such multinationals capital investment in the developing economies. Interestingly, economic development literature shows that there is a robust link between foreign financial (Capital) inflow and economic growth (Alfaro and Chanda, 2003; Borensztein et al., 1998; Levine, 2001).

Prasad (2003) envisaged that financial inflow- economic growth nexus could be explained in two distinguished channels namely; the direct and indirect channels. Direct channel of financial inflow-growth link is transmitted through lower cost of capital due to better risk allocation; transfer of technology; financial sector development of the domestic economy's capital market; and augmentation of domestic savings to aid more investment. The indirect channels' stand on the premise that financial inflow promotes specialization; induces better policies and enhances capital inflows by signaling better policies. Previous research has made us to realize that South Africa attracted the vast majority of the financial inflows being directed to Africa because of its proximity, sophistication and market size that have given it strong comparative advantage in the Southern Africa region, while West African sub-region received a minimal percentage. For instance, South Africa attracted an average of 54.4% of total foreign direct investment (FDI) inflow to Africa in 2005 while an average of about 45.6% was distributed among the other Sub-region and this pattern of distribution has not been altered till date (Orji et al. 2014).

In view of this, efforts are being made by different national authorities to attract more foreign capital to Africa, parts of these efforts are symbolized by successful integration of African countries in large regional economy blocs such as the Economic Community of West African States (ECOWAS), South Africa Development Community (SADC), The Common Market of East and Southern African (COMESA), Bourse Regional De Valeurs Mobilieres (BRVM) and West Africa Economic and Monetary Union (WAEMU) which is the first monetary integration in the ECOWAS controlled sub-region. The consolidation of these regional blocs combined with a relatively conducive investment environment has helped African countries to achieve greater integration with the global economy.

In the year 2000, the Union Economique et Monetaire Ouest Africaine (UEMOE) was established to serve as an additional monetary zone in the sub-region within ECOWAS when Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone signed the Accra declaration establishing the West African Monetary Zone (WAMZ). The objective of the WAMZ is to facilitate the monetary integration of the sub-region and to ensure the achievement of ECOWAS monetary cooperation programme through sound management of the economies and the establishment of a single currency for these countries. Nevertheless, there has been perceptible pattern of inflows to sub- Saharan Africa. The bulk of capital inflows go to South Africa whereas the West Africa sub-region is left with a limited amount of the inflows. Even, among the West Africa sub-region, Nigeria seem to receive substantial part of the financial inflows against other WAMZ countries. However, even as Nigeria looks more financially viable when compared to other WAMZ countries, its share of inflow is still incomparable to South Africa.

Consequently, it is thought-provoking to undertake this study so that the myth surrounding the causes of this trend as the case may be unraveled and understand what actually determines the attraction of inflows to WAMZ countries, empirically elucidate what types of financial inflows foster more growth in specific WAMZ countries and how WAMZ countries can exploit the benefit of such inflows. These issues, among others, are the factors motivating this research.

The empirical work of an Harvard economist Hollis B. Chenery's two-gap structural change's model while lending support to the Rostow's pre-conditions for take-off into self-sustaining growth stage of development had acknowledged that capital inflow was needed to provide the required growth that would ignite economic take-off in developing countries (Chenery & Strout, 1966). This implies that the development of emerging economies is imbedded in their ability to embrace the global production web through financial inflow, which brings increase productivity, technology transfer, effective competition and economic growth. Hence, over the decades, private capital inflow had taken off, driven by a number of domestic and external factors that contributed towards enhancing the regions (ECOWAS) attractiveness for foreign investors. In April 2000, the WAMZ countries agreed to move towards monetary integration. Such proposal has been argued to provide much needed exchange rate and price stability in the WAMZ region. Above all, the agenda is expected to stimulate capital flows and investment that enhances growth and development in the WAMZ economies.

In spite of the possible benefits of the foreign financial inflow in the host economies, it is worrisome that African sub-region has not attracted sufficient dose of it that will launch them into what Rostow describe as the drive to maturity in his economic development stage outline.

Majorly in all African economies, domestic private financial investment has proven to be insufficient in giving the Africa regions the desired level of economic growth and development. This is borne out of the misalliance between these countries saving capacities and capital requirements. Financial inflow seems to be the logical and reasonable alternative source of savings to stimulate growth (Harrod Domar, 1950). This is expected to augment the domestic resources of the sub region, fast track her developmental strides and thus, raise the standard of living of her people. (Diao and Breisinger: 2010).

Statement of Research Problem

According to the Economic Commission for Africa (2010), African countries have continued to face a perennial shortage of resources to finance public and private investments. This phenomenon has downgraded the ability of governments to undertake public expenditure in infrastructure and social services needed to boost domestic demand, encourage private sector activity and sustain high level of growth for economic transformation. The chronic resource gaps arise from imbalances between exports and imports, between resource inflows and debt payments and between domestic savings and domestic investments. The Neo-classical and the Harrod-Domar both emphasized on the need for foreign savings as a means of generating growth in the domestic economy due to the inability of the domestic economy to generate the level of savings necessary to drive growth. The inflow of financial capital has experienced significant reduction due to policy summersault/inconsistency that obviously poses a threat to their investment. This problem is further deepened by the presence of capital control by the monetary authority. The African region economies are in dire need of foreign investment, but the instability of the exchange rate, declining foreign reserve, presence of capital control and the instability of the macroeconomic environment all serves as risk signals and thus further deter economic growth in the countries. The need for external financing is nowhere more pressing issue than in the Africa continent, where income levels of citizens are too low (sometimes below the poverty line) to generate adequate domestic resources for the attainment of even modest rates of encouraging savings, which might have led to further investment and eventually economic growth (Onuorah et.at. 2015). This phenomenon has negatively influenced the economic growth of this region, which was characterized by periods of low and volatile growths likewise, periods of economic stagnation. A fall out of the intermittent and slow growth pattern in the sub region is that their economies cannot permit an increase in the living condition of her people.

According to the IMF (2011), external sources of funding for investments and growth in the African region have undergone a noteworthy transformation in the last two decades Despite the increased flow in absolute terms of capital and investments to the continent, they are still characterized by low per-capita income, high unemployment rates, dwindling economies and low and falling growth rates of GDP; problems which foreign capital inflows and investments are theoretically supposed to solve. This scenario could be attributed to the fact that some of the investments were based on speculations and on short run basis. As soon as the profits are made, the funds are repatriated. According to the former governor of the Central Bank of Nigeria- Sanusi Lamido Sanusi, over $20 billion left the Nigerian economy via capital flight between year 2008 and 2009.There is no doubt that, capital flight has a damaging consequence on the growth of any economy. Again, it has been noted that capital inflows into the sub Saharan economies especially Nigeria, were not targeted at priority sectors such as agriculture and the manufacturing industries; Instead they were invested in service oriented industries like the banking sector. In absolute terms, so much money has been propelled into the economies of these African Countries overtime and yet there is still scarcity of funds. It is against this background that this study will seek to analyze how much of these inflows were actually attracted to the selected countries, the usage to which the inflows were put and the direction and significance of the impact of financial inflows on economic growth.

The central objective of this paper is to establish, both theoretically and empirically, the impact of financial inflows on economic growth in selected African countries.

The other objectives of the study are to:

- Analyze the long run relationship between financial inflows and the level of economic growth in the selected African countries jointly.
- To determine the adjustment mechanism rate to economic fluctuations in terms of the inflows and growth in the selected African countries jointly.
- Measure the causal relationship between financial inflows indicators and economic growth in the economies of the selected African countries.

The following hypotheses shall be tested to pronounce answers, unraveling of the stated cornerstones of this paper:

Ho_1: There is no long run relationship between financial inflow indicators and the level of economic growth in Selected African countries jointly.

Ho_2: The selected economies do not adjust to inflows fluctuations in the economics promptly

Ho_3: financial inflow indicators individually do not have any significant impact on the level of economic growth in Nigeria, Kenya, Ghana, Cameroon, Egypt, Togo, Morocco and South Africa.

Financial inflows and its impact on economic growth in selected African countries is actually a broad topic. This study will therefore limit its research light to only Eight (8) selected African countries namely: Nigeria, Kenya, Ghana, Cameroon, Egypt, Togo, Morocco and South Africa. Secondly the period of investigation is also demarcated, from 1997- 2016; a period of 20 (twenty) years.

2. Conceptual Review

Financial inflows is the inflows of items from one country (host/sending) to another country (origin/receiving), which may be in form of money, capital or investment. It comprises of different measuring indicators which will be dwelt into subsequently. These indicators are not limited to, Foreign Direct Investment (FDI), Foreign Private investment (FPI), Overseas Development Assistance (ODA), Migrants' Remittances (MR) and the likes.

Foreign direct investment (FDI)

In the words of Caves (1996), FDI is the investment made by a company outside its home country. It is the flow of long-term capital based on long-term profit consideration involved in international production. Carves definition may sound perfect, but rather not complete as the salient functions of control and management are not entrenched in it. International investment can take two forms; it could be either portfolio investment like through the stock exchange, where the investors buy some non-controlling portion of the stock, bond or any other financial security, or direct investment where the investor participates in the control and management of such business venture. This is the type of investment by multinational companies and it tends to contribute more to economic growth than the portfolio investment. It should be put in mind that some cases of direct investment which ought to be contributing more to economic growth has not been recently.it has been discovered that some international shopping outlet in the country has not ploughing back their money into the host countries, but rather they redeploy there capital back to their domestic economy by importing most of their stall resources not limited to livestock, whereby they just make the host economy as market and they increase the production of these stocks in their home economies, which invariably led to capital flight.

Robert E. Lipsey (1999) said internationalized production arises from foreign direct investment. According to him, this investment involves some degree of control of the acquired or created firm, which is in any other country apart from the investors' country. This involvement in the control of the investment is the main feature that distinguishes FDI from portfolio investment. FDI could be horizontal, Vertical or Platform. It is horizontal, when a firm duplicates its home country-based activities ate the same value chain in a host county, meanwhile, when a firm moves upstream or downstream in different values chain in a host country, it is said to be vertical. Platform is when a firm export to a third country through a second country from its source country.

Effects of Foreign Direct Investment

Many researchers have shown that the contribution of FDI to growth is positive. Using different data and methodologies, many researchers have concluded that FDI has positive impact on growth. Among these researchers are Loungani and Razin (2001), they based their research using three indicators of capital inflows namely: FDI, portfolio investment and primary bank loans, at their submission, they concluded that FDI was discovered to be the most robust during the global financial crises from 1997-1998 and during the Latin American financial crises in the 1980s. Likewise, three Nigerian researchers, Anthony, Uche and Ilori (2014) using four major indicators of capital inflows namely: FDI, Official Development assistance (ODA), Foreign Private Investment(FPI) and Remittances (REM) to measure the output growth of the West Africa Monetary Zone (WAMZ) economies from 1980-2010 submitted that Nigeria and Gambia favoured from FDI compared to Ghana and sierra Leone Liberia where FDI favoured them Some research works agree that the FDI contribution to growth is positive but depends on some factors in the host country. Alfaro (2003) concluded that the contribution of FDI to growth depends on the sector of the economy where the FDI operates. He claimed that FDI inflow to the manufacturing sector has a positive effect on growth whereas FDI inflow to the primary sector tends to have a negative effect on growth. For the service sector, the effect of FDI inflow is not so clear. However, an economy with a well-developed financial sector gains more from FDI (Alfaro et al, 2003). The impact of FDI on growth also depends on the local condition of the host country. Chowdhury and Mavrotas (2003) said FDI's contribution to growth depends on factors such as human capital base in the host country and the degree of openness in the economy, and even when FDI is contributing to the economy, its impact might not be easily noticed in the short run. Lall (2002) even said that FDI inflow affects many factors in the economy and these factors in turn affects economic growth. Therefore, the impact of FDI on growth cannot be measured directly since the impact is through its contributions to these other factors.

Countries with high growth can attract FDI better than countries where the economy is not in. Furthermore, in poor countries the direction seemed to be running from growth to FDI in an equal number of cases as from FDI to growth. This conclusion is similar to that of Hansen and Rand (2004), which said that foreign direct

investment and growth have a positive relationship, but the direction of causality is not clear. In addition, knowing this direction of causality is very important for the formulation of economic policy. Although the contribution of FDI to growth might be positive, Ray (2005) does not think it helps to develop the local industries in the host country. Hence, the multinational companies can be flourishing in the host country while the local firms are not developing. This type of contribution is not good for the economy in the long-run.

Foreign Direct Investment (FDI) and African Countries

Most developing countries were not so receptive of FDI before now. They were more comfortable with local investors who have no influence of the western world. After decades of cynicism, international events reshaped the attitude of developing countries towards FDI as the debt crises affected most of them in the 80s and access to credit and portfolio investment was very difficult for most of the countries (Alfaro 2003). Now, almost every countries want FDI to supplement local investments and this has increased the activities of MNEs in interfering in the developing countries' economies growth tremendously.

It should be noted that the influence of MNEs in the world economic growth in recent years could not be underestimated, although, recently, the impact of digital MNEs on host countries is less directly visible in physical investment, and job creation, but there investments have important indirect and productivity effects and contribute to only digital development. The United Nations Conference on Trade and Development (UNCTAD) reported that following a surge in FDI in 2015, global FDI flows fell 2% to $1.75 trillion amid weak economic growth, while a fall in inflows to developing economies was partly offset by modest growth in developed countries and a sizeable increase in transition economies. Although, glow FDI flows are expected to increase by about 5% in 2017 to almost $1.8 trillion (UNCTAD 2017).

Another thing that has contributed to the increase in FDI inflow to developing countries is favourable policies by the host country towards MNEs. The growth of FDI has been facilitated by positive policies by the governments of the host countries and by the efforts of multinational companies to utilize the opportunities created by the favourable policies. MNEs are likely to get cheaper labour in the developing countries and this can reduce the total cost of production.

African countries, like other developing countries, are trying to attract FDI because of its perceived importance. According to Ntwala Mwilima (2003), all African countries are keen on attracting FDI. They have different reasons for attracting FDI, but the reasons are like those of other developing countries and can be summarized as follows:

- Trying to overcome scarcities of resources such as capital, entrepreneurship;
- Access to foreign markets;
- Technological transfer and innovation;
- Employment generation; and
- Efficient managerial techniques.

These benefits of FDI to African countries are difficult to assess but will differ from sector to sector depending on the capabilities of workers, firm size and the level of competitiveness of domestic industries. Most African countries now have Investment Promotion Agencies (IPAs). The roles of these IPAs include attracting FDI and protecting MNEs that come to invest. Agencies like this, if given the right tool to operate can actually increase FDI inflow to developing countries by creating a good image of the countries to potential international investors.

Despite the effort of policymakers in Africa, the continent is not attracting FDI as is supposed to be. Africa's share of FDI to developing countries has been declining over time, from about 19 percent in the 1979s to 9 percent in the 1980s and to almost 3 percent in the 1990s (Chowdhury and Mavrotas, 2003) and the rate at which it is declining is high, which can be linked to the security threats in most of the African countries, like the Boko Haram and Niger Delta Militants in Nigeria, the Al Shabaab militant group in Somalia and so on.

The reasons why the African share of the world's FDI is not increasing include, but is not limited to, political instabilities and inconsistent policies in most of the countries. Any MNEs will want to operate under a lesser level of uncertainty but this cannot be guaranteed in some African countries.

Remittances and Economic Growth

The World Bank (2006) defines migrants' remittances as cross-border transfers by migrants, compensation of employment and workers remittance. IMF (2006) describes workers remittance as the private transfers from migrant workers who reside in the host country for more than a year to people in their home country. Several studies have used panel data to investigate the impact of remittances on economic growth. Pradhan et al. (2008) used standard growth model to estimate the impact of workers' remittances on economic growth in a sample of 39 developing countries. The study used panel data for the period 1980-2004. Real per capita is the dependent variable while investment, openness, polity and remittances are the independent variables. They found that the proportion of worker's remittances that was used for investment enhanced economic growth. Their results shows

that a 10% increase in the rate of investment led to 24.3% increases in per capita output.

A recent study conducted by Andy Okwu (2016) using cross-section random effect model on panel data for selected twelve (12) African countries to examine migrants' remittances-economic growth nexus in Africa during the 1994-2015 periods. He carried out the research using gross domestic product per capita (GDPPC) as the explained variable in proxy for economic growth, and migrants' remittances (MREM), official exchange rate (OEXR) of domestic currency, gross fixed capital formation (GFCF), school enrolment rate (SER), domestic nominal interest rate (DNIR) and domestic inflation rate (DNIFR) as the explanatory variables. He submitted that at the 0.01 level of significant, MREM, OEXR and SER had significant positive effects on growth of economies in the Continent. GFCF and DINFR had positive but no significant effects while the effect of DNIR was negative and significant. The variables jointly had significant effect on growth at the 0.01 level. His conclusion was that migrants 'remittances significantly spurred growth of African economies during the period of interest, and recommended allocation of remittances to productive key sectors in order to engender sustainable growth and development of the countries and the Continent.

Nsiah and Fayissa (2008) employed a linear Cobb-Douglas production function to investigate panel data for 37 African countries for the period 1980-2004. They explored the contribution of remittances to economic growth relative to other factors that influence growth such as FDI, foreign aid, human and physical capital, openness of a country, polity and lagged income. They establish that remittances influence on economic growth was positive and significant. Their research depicts that a 10% increase in remittances led to 0.3% increase in GDP per capita.

Ziesemer (2011) also analyzed the impact of remittances on growth of GDP per capita, savings, public expenditure on education, tax revenue and emigration. He limited his research with data for 52 countries on GDP less than USD 1200 (Base year 2000). The outcomes indicated that remittances have a strong positive relationship with levels of GDP per capita, rate of savings and public expenditure on education. Increase in remittances also reduced tax revenue and emigration that has a direct effect of reducing labor force growth.

Channels of Remittance that influence Economic growth

Channels through which remittances affect economic growth have been enumerated by different researchers. Remittances can influence growth through consumption. Stahl and Arnold (1986) analyzed the use of international remittances over the period 1980-1985 in Bangladesh, India, Pakistan, Philippine, Sri Lanka and Thailand. The results showed that in all the six countries, a huge proportion of remittances were going to consumption of basic needs, which promoted local industries. The increased effective demand led to expansion of domestic production, but this has been countered by a field survey conducted by an online media where most of this resulted in capital flight or even sometimes endangers the local firms**.** Furthermore, when remittances proceeds are invested in health and education, they improve human capital that enhances economic growth for a country in the long-run as shown by Olaniyan and Okemakinde (2008).

Lartey (2011) used data for the period 1990-2008 to analyze remittances, investment and growth in 36 Sub-Sahara African countries (SSA). Using generalized method of moment (GMM), the study tested the relationship between remittances and economic growth. The study also tested whether the impact was through capital accumulation or other mechanisms. The results indicate a positive relationship between remittances and growth and a positive interaction effect between remittances and financial depth on growth. The finding also revealed threshold values for two indicators of financial development, above which the total effect of remittances on growth was positive. He established two channels in which remittances influenced growth; direct channel of investment and indirect channel of smoothing consumption, which led to a stable macroeconomic environment.

Overseas Development Assistance and Economic Growth

There were a few attempts to relate foreign aid to capital formation in developing countries.

Hansen and Tarp (2000) looked at the effects of foreign aid on savings, investment and growth. They classified 131 regression results into two groups. In the first group, with 104 regressions, the explanatory variables included a clearly identified measure of aid (A), roughly equivalent to the Development Assistance Committee (DAC) concept of Official Development Assistance (ODA). The remaining 27 studies, in which aid could not be separated from the various aggregate financial inflow measures, were placed in a second group (F). The number of regressions in which the impact of either A or F on respectively savings (S), investment (I) and growth (G) was analyzed. It added up to 41, 18, and 72 respectively. They finally recorded the number of significantly positive (+), insignificant (0), and significantly negative (-) relations between the explained and explanatory variables. Their results showed that most of the studies have a significant positive effect of foreign aid and foreign resource inflows on economic growth and investment. In case of savings, most of the empirical studies showed a negative effect of foreign aid and foreign resource inflows on domestic savings.

Three basic theories have evolved in explaining the concepts of Overseas Development Assistance.

- **Donor Oriented Theory:** The main thrust of the donor-oriented theory stipulates that donors have

other objectives besides the promotion of economic development in the developing countries. While the developing countries might be interested in long-term development and political stability with the hope of getting integrated into the world economy, on the principles of comparative advantage, the developed countries do not perceive their own interests in these terms. Initially, foreign aid was generally directed at import substitution rather than export promotion.

- **Supplemental Theories:** This maintain that as the economy grows and incomes increases, a country can afford to set aside an increasing proportion of its income in the form of savings. Eventually, the economy will reach the point at which savings are sufficient to finance the volume of investment needed to maintain the desired state of economic growth without further requirements for foreign aid. .
- **Theory of Sustainable Development:** The idea of sustainable development emerged in 1972 out of the deep concern of the threat to the natural environment posed by economic growth and industrial pollution.

The Aggregate Relationship between Financial Inflows and Domestic Investment.

A number of studies have analyzed the impact of financial inflows on domestic investment. Feldstein (1994) found that a dollar of financial inflows or outflows tends to be associated, respectively, with a one-dollar rise or fall in domestic investment. Borensztein, De Gregorio, and Lee (1998) find, in fact, that a dollar of FDI may be linked to an increase in domestic investment of more than a dollar, although their findings are sensitive to the choice of variables used to explain investment. Bosworth and Collins (1999) carefully analyze the relationship between various types of private capital flows and both investment and saving, focusing on the variation over time within countries rather than the variation across countries. They find that capital flows have a strong impact on domestic investment. This is especially so for FDI and bank lending; in contrast, portfolio flows have a positive but statistically insignificant impact on domestic investment.

The Volatility of Financial Inflows

When financial markets are well integrated and functioning smoothly, access to foreign capital flows should reduce the volatility of growth, not increase it. During an economic downturn or following an external shock, access to financial capital should cushion the fall in consumption and reduce the damage and depreciation of the country's infrastructure. In practice, however, the opposite has happened: private capital flows have been bounteous in good times and scarce in bad times. Such volatility can impose significant costs, in not only the form of periodic crises but also, the evidence suggests, through a reduction in long-run growth. This outcome reflects, in part, the imperfect integration of developing economies into world financial markets and informational asymmetries-hence the sometimes-herd like behavior of foreign investors (Calvo and Mendoza 1999). However, the pro-cyclical nature of financial flows also reflects volatility induced by a country's own actions-and inactions-through uncertain government policies and, especially, the underdeveloped state of its own financial markets.

Thus, although opening up domestic financial markets to international competition has attracted more capital to developing countries and has augmented growth in some, the larger volume of capital market transactions has also contributed to a more volatile climate. Where capital flows are large, any sudden effort by investors to withdraw from a country can precipitate or deepen a crisis, a good illustration of this is the recent shocks cause by the BREXIT syndrome, leading to emergency withdrawal of funds by British nationals. As the abundant literature on the Asian crisis has also shown, rapid reforms to liberalize the financial sector and to remove barriers to the entry of financial inflow often proceeded without the development of the institutions or practices that characterize a mature financial market. Without these foundations, financial inflows have often powered over-investment and speculative booms. Eichengreen (1999) has described the mingling of foreign capital flows in a fragile financial sector as an "explosive mix."

Empirical Review

The role of financial inflows on economic growth and development continue to be a contentious issue in economics literature. Some studies prove that it has its positive impact on the economic development empirically, while others substantiated that the reverse is the case. Here we reviewed the works of some of these scholars and the corresponding findings made in each case.

Aurangeb and Haq, (2012) investigated the impact of foreign capital inflows on economic growth of Pakistan. The data used in this study were collected from the period of 1981 to 2010. Unit root test was used to confirm the stationary of all variables at first difference. Multiple regression analysis technique was used to identify the significance of different factors. Results indicate that the all three independent variables used have positive and significant relationship with economic growth (GDP). The Granger-Causality test confirms the bi-directional relationship between remittances and external debt, gross domestic product and external debt, foreign direct investment and external debt, and foreign direct investment and remittances. On the other side, the study found unidirectional relationship from gross domestic product to foreign direct investment. It is concluded that

the foreign capital inflows are very important for the growth of any economy.

Narayan (2013) examined the casual relationship between foreign capital inflows and economic growth in India. Using the pair-wise Granger causality test (1969), he specifically examines causal relationship between foreign capital inflows and economic growth in India. The important observations emerge from pair-wise Granger causality test, which shows there is the long-run equilibrium relationships exist between the following pairs of variables viz., economic growth and Foreign Direct Investment (FDI), economic growth and Foreign Portfolio Investment (FPI).

Obiechina and Ukeje (2013) examined the impact of capital flows (foreign direct investment), exchange rate, export and trade openness on economic growth of Nigeria as well as the causal long-run relationship among the variables, using time series data from 1970 – 2010. The unit root test confirmed the series to be stationary at I (1), while the Johansen Co-integration test suggested the existence of at least one Co-integration vector among the variables. Using Engle-Granger 2-Step procedure, it was observed that all the variables, except the FDI are statistically significant and influence economic growth in the short-run dynamic equilibrium model. Exogeneity test confirmed that foreign Direct Investment (FDI) has weak exogeneity with economic growth. In addition, the Pairwise Granger causality revealed the existence of uni-directional causality between economic growth and FDI, and uni-directional and bi-directional causality among some of the variables.

Olusanya (2013) looks at the impact of Foreign Direct Investment inflow and economic growth in a pre and post deregulated Nigerian economy, a Granger causality test was used to estimate the data spanning through 1970 - 2010. However, the analysis de-aggregates the economy into three period; 1970 to 1986, 1986 to 2010 and 1970 to 2010, to test the causality between Foreign Direct Investment inflow (FDI) and economic growth (GDP). However, the result of the causality test shows that there is causality relationship in the pre-deregulation era that is (1970-1986) from economic growth (GDP) to foreign direct investment inflow (FDI) which means GDP causes FDI, but there is no causality relationship in the post-deregulation era that is (1986-2010) between economic growth (GDP) and foreign direct investment inflow (FDI) which means GDP causes FDI. However, between 1970 to 2010 it shows that is causality relationship between economic growth (GDP) and foreign direct investment inflow (FDI) that is economic growth drive foreign direct investment inflow into the country and vice versa.

Umoh, Jacob and Chuku, (2012) proposed that there is endogeniety i.e., bi-directional relationship between FDI and economic growth in Nigeria. Single and simultaneous equation systems are employed to examine if there is any sort of feedback relationship between FDI and economic growth in Nigeria. The results obtained show that FDI and economic growth are jointly determined in Nigeria and there is positive feedback from FDI to growth and from growth to FDI.

In 2013, Fambon captured the impact of foreign capital inflows (which include foreign aid and foreign direct investment) on economic growth in Cameroon. Using the Autoregressive Distributive Lag (ARDL) approach to Co-integration and time-series data for the period 1980–2008, the results of the study indicate that the domestic capital stock and foreign direct investment have positive and significant impacts on economic growth in the short and long terms, while the impact of the labour force on growth was significantly negative in both terms, a result that may be attributable to the fact that Cameroon is a developing country with an unlimited supply of labour whose increase has a detrimental effect on the country's growth.

Ekeocha, Malaolu and Oduh, (2012) ascertained the long run determinants of foreign portfolio investment (FPI) in Nigeria such that appropriate policies will be pursued to attract same in the long run. FPI has grown recently in proportion relative to other types of capital inflows to Nigeria before the wake of global financial crisis. Incidentally, there is no empirical regularity regarding the determinants of FPI. This study tries to add to the stock of knowledge by modelling the long-run determinants of FPI in Nigeria over the period of 1981-2010 converted into quarterly series. The variables considered are, market capitalization, real exchange rate, real interest rate, real gross domestic product and trade openness. The study applies time series analysis specifically the finite distributed lag model and discovers that FPI has a positive long-run relationship with market capitalization, and trade openness in Nigeria.

Ezeabasili, Isu and Mojekwu (2011) investigated the relationship between Nigeria's external debt and economic growth, between 1975 and 2006. The choice of period was guided by data availability and the escalation of Nigeria's external debt. He found that external debt has negative relationship with economic growth in Nigeria. For example, a one per cent increase in external debt resulted in a decrease of 0.027 per cent in Gross Domestic Product, while a 1 per cent increase in total debt service resulted to 0.034 per cent (decrease) in Gross Domestic Product. These relationships were both found to be significant at the ten per cent level. In addition, the pairwise Granger Causality test revealed that uni-directional causality exists between external debt service payment and economic growth at the 10 percent level of significance. In addition, external debt was found to granger cause external debt service payment at the 1 percent level of significance, while statistical interdependence was however found between external debt and economic growth.

Theoretical Framework

Economic growth has been an area of study for economists over many decades and one of the first to study development economics was Adam Smith. He outlined that by increasing the inputs of labour, the productivity capacity and economic growth will be enhanced. Ricardo later developed a theory of comparative advantages and specialization, implying that successful international production should be allocated where most productive (Case, Fare et.al, 1999). This hypothesis was expounded by Heckscher-Ohlin, by linking comparative advantages to factor endowments in order to fully utilize countries relative abundance of input factors in production. In the mid 1940's Harrod and Domar developed a model in where a nation's growth rate is determined by the savings rate and the capital-output ratio. Hence, in order to achieve economic growth, the nation must save and invest a significant proportion of their GDP. The difference between required investments and domestic savings is termed the financing gap and since developing countries are assumed not able to fill this gap themselves, they are dependent upon financial or capital inflows in terms of FDI, FPI or ODA. The Harrod Domar or AK model has been widely criticized, but it is s still being used by IMF and the World Bank to measure foreign resource requirements to allocate aid efficiently to majority of the developing nations. Subsequently, Solow questioned Harrod and Domar's model of fixed proportions in input-factors and therefore extended their model into a new theory where savings and investments were still the basics to achieve economic progress, but also included the important aspect of factor productivity. Furthermore, the Solow model states that high savings are equal to a large capital stock and output and the other way around; low savings leads to diminutive capital stock and output (Mankiw, 2003).

Solow's Growth Accounting

A central part of economic theory is the growth accounting equation, a technique developed by Solow in 1957 in order to examine the individual contribution of each of the factors of production in explaining economic growth (Clunies-Ross, 2009). The growth rate of Gross Domestic Product (GDP) is broken down into different components associated with changes in factor inputs; capital and labour. The growth in output is thus illustrated by the weighted average of the growth rates of inputs (Mankiw, 2003, Barro & Sala-i-Martin, 2004). The Solow's Growth Accounting production function is presented thus:

$$\frac{\Delta Y}{Y} = \propto \frac{\Delta K}{K} + (1-\propto)\frac{\Delta L}{L} + \frac{\Delta A}{A}(\text{FDI, FPI, MR, ODA, OPN, GCFC}) \quad \text{.....1}$$

The first factor on the right-hand side (RHS) of equation 1 (i.e. $\frac{\Delta k}{k}$) represents capital's contribution to economic growth where α equals capital's share of total output. The second factor ($\frac{\Delta L}{L}$) is labour's contribution to growth and labour's share of output is illustrated by (1- α) in the equation. Likewise, output is influenced by the current level of technology in the country, represented by the third factor ($\frac{\Delta A}{A}$) in the growth accounting equation. Moreover, in addition to the key conditioning variables in explaining economic growth, the model also display the contribution of various shift variables, such as openness to trade, education, political freedom etc. (Rao & Rao, 2005). In this study, we want to know the contribution and effect of financial inflows on economic growth in the selected African economies. As a result, FDI, FPI, MR, OPN and ODA will be used as shift variables, since they affect all the key variables of inputs in the production function through not only higher propensity to save and invest but also through the transfer of new technology as well as improved human capital.

3. Methodology

Quantitative research techniques based on Panel data sets will be employed in this paper, which is based on the data sets that encompassed published measurable quantitative discrete data spanning through a period of 20 years, i.e. 1997-2016, to investigate the impact of financial inflows across the economies of eight selected African countries, in terms of recipient of financial inflows and economy size as ranked by the world development indicators database of the world bank. The data were analysed using the Augmented Dickey-Fuller and Philip-Perron unit root test to ensure the stationarity of data, in addition to these, Johansen Co-integration was employed for confirming the existence of long-run equilibrium relationship in the exogenous series, while Granger Causality detected the direction of causality in the variables. The rate at which the dependent variables adjust to changes in the independent variables were evaluated using the Error Correction Model (ECM) mechanism and the Fixed and Random Effect model were carried out, while Hausman test was used to know which model is suitable to accept between the Fixed and Random effect.

Model Specification

This paper adapted the model format used by Ziesemer (2011), Siddique et al. (2012), Ikechi, and Anayochukwu (2013), likely Chigbu and Promise (2015) in their study. In addition, a simple double log linear Cobb-Douglas production function used by them was adopted. However, for the explicitly, this research makes use of inclusive economic growth proxied by Gross Domestic Product Per Capita (GDPP for economic growth). GFCF was

included because economic theory identifies it as a key determinant of economic growth (Harrod, 1939 and Domar, 1946).

Financial Inflows Model

In this study, we employed the Ordinary Least Square (OLS) method to develop a longitudinal data Model on the relationship between financial inflows and economic growth of the selected African countries. The functional and parametric financial inflows models is as stated below:

$$GDPP_{it}=f(FDI_{it},FPI_{it},ODA_{it},MR_{it},OPN_{it}) \quad \ldots\ldots 2$$

Equation 3.2.1 shows the effect of the indicators used for financial inflows on GDPP holding the effects of other independent variables constant. Because the effects of independent variables in 3.2.1 are likely to be non-linear, a Cobb-Douglas production function of the following form was adopted:

$$GDPP_{it}=^{\beta 0}FDI_{it}{}^{\beta 1}FPI_{it}{}^{\beta 2}ODA_{it}{}^{\beta 3}MR_{it}{}^{\beta 4}OPN_{it}{}^{\beta 5}GFCF_{it}{}^{\beta 6}\varepsilon_t \quad \ldots\ldots 3$$

Taking the log of equation 3

$$LogGDPP_{i,t-1}=\beta_0+\beta_1\sum_{i=1}^{n} logFDI_{i,t-1}+\beta 2\sum_{i=1}^{n} logFPI_{i,t-1}+\beta_3\sum_{i=1}^{n} logODA_{i,t-1}+\beta_4\sum_{i=1}^{n} logMR_{i,t1}+\beta_5\sum_{i=1}^{n} logOPN_{i,t-1}+\beta_6\sum_{i=1}^{n} logGFCF_{i,t-1}+ecm_{-1}+u_{it} \quad \ldots\ldots 4$$

where $GDPP_{it}$ is gross domestic product per capita, β_0 is the constant value of gross domestic product per capita, β_1-β_4 are the coefficients of the explanatory variables, FDI_{it} is foreign direct investment, FPI_{it} is foreign portfolio investment, ODA_{it} is Overseas Development Assistance, MR_{it} is migrants 'remittances, n is number of years, OPN_{it} is the degree of Trade Openness to the outside world, $GFCF_{it}$ is gross capital formation, ε is the stochastic term, Σ is summation, log is natural logarithm, *i t* represents countries and time periods respectively.

hypothesis.

These are adjudged as some of the macro-economic determinants of economic growth in any nation. Their inputs usually influence positively on the economic growth of any nation. Therefore, their respective coefficients β_1, β_2, β_3, β_4 β_5 and β_6 are expected to be positive i.e. β_1, β_2, β_3, β_4, β_5 and $\beta_6 > 0$, which serves as our basis for the above a prior expectation.

4. Presentation and Discussion of Results

In analysing financial inflows and economic growth in the eight (8) selected African countries, this study would make use of two stages of econometric procedure. The first stage being the panel data unit root test that will be undertaken to ascertain the order of integration of the variables. The second stage procedure would emanate from the result of the first stage unit root procedure.

Augmented Dickey-Fuller and Philip Perron Panel unit root test

It has shown in econometric studies that most macroeconomic time series are non-stationary at levels (Engle and Granger, 1987). This implies that most ordinary least squares (OLS) regressions that are carried out at levels may not be reliable. Giving this knowledge, testing for stationarity of variables to obtain a more reliable result becomes very essential. Augmented Dickey-Fuller unit root (ADF) and Philip Perron test were used to examine the properties of the panel data. The test revealed that at 5% critical values, the logs of Gross Domestic Product Per Capita (GDPP), Overseas Development Assistance (ODA), Migrant Remittances (MR), and Gross Fixed Capital Formation (GFCF) were all stationary at first differencing with probabilities of 0.0000, 0.0000, 0.0000, and 0.0000 respectively, while Foreign Direct Investment (FDI), Foreign Private Investment (FPI) and Openness to Trade (OPN) were stationary at level with 0.0171, 0.0004, 0.0165 respectively using the ADF approach. With the aid of PP approach, GDPP, GDPP, GFCF, OPN, ODA were stationary at first differencing, with 0.0000, 0.0000, 0.0000, 0.0000 probabilities respectively, while only FDI and FPI were stationary at Level with 0.0006 and 0.0009 probabilities respectively as shown in Table 1

Table 1

Variable	Statistics values		Sig.	Order of integration
InFDI	ADF	30.1772	0.0171	I(0)
	Philip Perron	40.6236	0.0006	I(0)
InFPI	ADF	39.0660	0.0004	I(0)
	Philip Perron	36.5891	0.0009	I(0)
InGDPP	ADF	58.1029	0.0000	I(1)
	Philip Perron	58.9540	0.0000	I(1)
InMR	ADF	119.327	0.0000	I(I)
	Philip Perron	121.514	0.0000	1(1)
InGCFC	ADF	90.6944	0.0000	1(1)
	Philip Perron	180.357	0.0000	1(1)
InOPN	ADF	30.3051	0.0165	1(0)
	Philip Perron	143.342	0.0000	1(1)
InODA	ADF	102.541	0.0000	1(1)
	Philip Perron	112.531	0.0000	1(1)

Source: Authors' computation using E-view 9

Johansen Co-integration test

When a linear combination of variables that are I (1) produces a stationary series, then the variables may be co-integrated. This means that a long-run relationship may exist among them, which connotes that they may wander from one another in the short-run but in the long-run they will move together (Pesaran and Smith 2001). To establish whether long-run relationship exists among the endogenous series, Co-integration test using Kao Residual Cointegration test method was employed.

Table 2: Kao Residual Cointergration Test

Kao Residual Cointegration Test
Series: INGDPP INFDI INFPI INMR INODA INOPN INGFCF

	t-Statistic	Prob.
ADF	-4.584370	0.0000
Residual variance	0.017125	
HAC variance	0.026088	

E- View 9 output

Table 2 showed the kao resisdual Cointegration test result, since the result depicts a probability of 0.000 that is less than 5% significant level, the null hypothesis is hereby rejected, giving room for the acceptance of the alternative hypothesis. We hereby conclude that the variables has a long run relationship using the kao residual method, therefore, we accept our alternate hypothesis one i.e. $\mathbf{H_{11}}$.

Error Correction Model (ECM)

The ECM is presented below

Table 3

Variable	Coefficient	Standard error	T-Stat	Prob.
C	0.083981	0.162144	0.517938	0.6053
INFDI	0.005404	0.003288	1.643632	0.1024
INFPI	0.001100	0.001188	0.925712	0.3561
D(INODA)	0.058001	0.025912	2.238402	0.0267
D(INMR)	0.010634	0.011046	0.962761	0.3373
INOPN	0.030375	0.036972	0.821581	0.4127
D(INGFCF)	0.050726	0.089365	0.567630	0.5712
U(-1)	-0.046784	0.019222	-2.433904	0.0162
R^2= 0.091457 Adjusted R^2 =0.047291 D-Watson = 1.787406				

Source: Author's computation using E-view 9

The estimated ECM:

INGDPP=0.084+0.005INFDI+0.001INFPI+0.058INODA+0.01INMR+0.030INOPN+0.050INGFCF-0.047U

(-1)…… 5

in the above estimated ECM, all the coefficient of our parameters (i.e. 0.005, 0.001, 0.058, 0.01, 0.030, 0.050) denotes a short run coefficient, while 0.058 with probability of 2.67% is significance at 5%, we can therefore assert that at first difference, INODA is significance variables at short run to explain the dependent variable (INGDPP), while the remaining five (5) variables are not significant at short run to explain INGDPP. Likewise, the ECM coefficient of 4.7% means that the error correction term actually corrects the disequilibrium of the selected African countries, the reason for this is that the speed at which the error correction corrects disequilibrium in the selected African countries is at the rate of 4.3% annually, and i.e. it adjusts the previous period disequilibrium at the rate of 4.3%. Due to the negative sign of the ECM, and its significance (1.62% < 5%), it gives the validity that financial inflow and economic growth in the selected variables has long run relationship. From the above table, we can also deduce that since the R^2 < D-Watson coefficient (i.e. 0.089145<1.7874056) we can hereby conclude that ECM is not a spurious model. Based on this, we accept $\mathbf{H_{12}}$

Granger Causality Test

To measure the causal relationship between financial inflows and economic growth in the selected African economies, we employ the granger causality test approach, the result is presented and discussed below:

Table 7

Null Hypothesis	F-statistics	Prob.
INFDI does not Granger Cause INGDPP	1.22871	0.0187
INGDPP does not Granger Cause INFDI	4.42925	0.0137
INFPI does not Granger Cause INGDPP	2.46824	0.0334
INGDPP does not Granger Cause INFPI	0.15104	0.0600
INODA does not Granger Cause INGDPP	2.14695	0.0156
INGDPP does not Granger Cause INODA	1.24202	0.0220
INMR does not Granger Cause INGDPP	2.57236	0.0148
INGDPP does not Granger Cause INMR	5.11463	0.0072
INOPN does not Granger Cause INGDPP	1.48543	0.2300
INGDPP does not Granger Cause INOPN	0.93239	0.3961
INGFCF does not Granger Cause INGDPP	2.09197	0.1273
INGDPP does not Granger Cause INGFCF	0.27276	0.7617

Source: Authors' computation from E-view 9

Table 7 shows the granger causal of each of our indicators on INGDPP (proxy for economic growth). From the table, it can be deduced that INFDI, INFPI, INODA and INMR has causal relationship with INGDPP with 1.8%, 3.34%, 1.56% and 1.48% respectively, while INOPN and INGFCF do not have any causal relationship with INGDPP i.e. they are not significant at 5% level due to their probability value of 23.00% and 12.73% respectively. Likewise, the result depicts not only directional causal relationship; it also highlights bi-directional causal relationship between INGDPP, INFDI, INFPI, INODA and INMR. Since it is only two out of the six financial inflow indicators used that has no causal relationship with the INGDPP, we can therefore admit that financial inflows has causal relationship with the economic growth of selected African countries of Cameroon, Egypt, Ghana, Kenya, Morocco, Nigeria, Togo and South Africa. Given this assertion, we hereby accept our alternate hypothesis i.e. $\mathbf{H_{13}}$

Discussion of Result

The significant and positive relationship of foreign direct and portfolio investments, overseas development assistance, migrant remittances, trade openness and gross capital formation in Cameron, Egypt, Kenya, Ghana, Morocco, Togo, Nigeria and South Africa has shown in table 4.6 above is in line with the *a priori* expectation of this study as it is supported by the previous reports of Ogundipe and Aworinde (2011), Rachidi and Saidi (2011) and Tiwari and Mutascu (2011). Chigbu (2015). This finding is typically true as there are evidences of huge foreign investment in the oil and gas sector, communication sector among others by renowned multinationals in these African countries

Citizens of many developing economies leave the shore of their home countries to foreign countries in search of greener pastures, which they may not find domestically. They engage in different kinds of business and labours to make a living and repatriate others to home countries, which are always invested in education, trade, real estate, equity portfolios etc. These is obviously in connection with the findings of this study as well as Newland and Patrick (2004), as migrants' remittances were found to be positively and significantly related to the respective economic growth of the eight countries. Specifically this finding supports the claim that African countries economy depends largely on the earnings from labour capital that is exported to the rest of the world.

Lastly, governments gets aids, grants and loans from the international financial institutions or NGOs to

finance her economic activities, infrastructural development and budget deficit especially when there is savings-investment deficit in the domestic market. This study revealed that overseas development assistance in terms of aids and grants positively influenced the economic growth of Egypt, Cameroon, Togo, Kenya, Nigeria, Ghana, South Africa, and Morocco.

5. Recommendations

So far, the results suggest that developing economies depend so much on financial inflows for their growth at the expense of their local opportunities as seen in the findings above. A country like Nigeria where the economic growth have been induced by foreign investment have not given good account of herself since this growth have not been noticed on the real sector of the economy as high rate of unemployment, poor standard of living, poor quality of education, inequality, high mortality rate as well as infrastructural decay still dominate the economy (Chigbu Ezeji et.al 2015). At the same time, economic diversification as well as a better enabling environment for foreign investment to thrive is also inevitable. Going by the findings of this study, the following recommendations were made to improve the contribution of financial inflows in economic growth of Cameroon, Egypt, Kenya, Ghana, Morocco, Togo, South Africa and Nigeria:

- These countries should encourage migrant remittances inflow by way of complementing what the domestic economy generate ;
- The selected should attract more foreign direct and portfolio investment inflows and borrow more to aid economic growth
- The government of these countries should make relevant fiscal and monetary policies that will make local investment to thrive so as to complement
- Assistance gotten from international financial institutions like IMF and World bank, should be channeled to productive sectors to aids rapid and sustainable economic growth

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