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Finance–growth nexus and sustainable development in West Africa

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Abstract

Purpose – With the rising global emphasis on sustainable development (SD) and the attendant race to attain the sustainable development goals (SDGs), this study empirically examines the effect of the finance–economic growth nexus on SD in West Africa for the period 1970 to 2020.
Design/methodology/approach – The study adopted the panel autoregressive distributive lag (PARDL) and rests on the estimates of the pooled mean group (PMG) model in line with the outcome of the Hausman test.
Findings – The result indicates that financial development reinforces the positive influence of economic growth on SD in addition to the direct incremental impact they wield on SD. This suggests that financial development is one of the "influencing factors" and is positioned to potentially improve the relationship between economic growth and SD in West Africa. Findings further reveal that foreign direct investment (FDI) enhances the achievement of SD in West Africa whereas carbon dioxide (CO_2) emissions and natural resource rent (NRR) are found to exert a deteriorating impact.
Practical implications – Since financial development is found to enhance the growth–SD relationship, it is crucial to pursue domesticated, inclusive and self-sustaining growth policies as well as promote financial inclusion, remove bottlenecks and inefficiencies in the financial system and adopt the principles of the 3 Rs - "reduce, reuse and recycle."
Originality/value – Compared to previous studies that examined the effect of financial development and growth on SD separately, the present study interacted both to see how financial development can influence the economic growth–SD nexus.

Keywords Financial development, Economic growth, Sustainable development, SDGs, West Africa, Panel autoregressive distributive lag
Paper type Research paper

1. Introduction

With the contemporary global emphasis on sustainable development (SD) and the race to achieve the sustainable development goals (SDGs), it has become a major policy concern to ascertain if economies are operating sustainably. Sustainability in this regard becomes twofold – whether economic activities are conducted sustainably and whether economic growth is consistent with the principles of sustainability. This is critical to the attainment of SDGs, whose deadline is fast approaching given the notion that economic growth and SD are at variance, especially in developing economies (Kurniawan and Managi, 2018; Olubusoye and Musa, 2020). Costanza *et al.* (2014) argued that the pursuit of economic growth generally leads developing nations to reckless depletion of natural and environmental resources and higher levels of carbon dioxide (CO_2) emissions (Cheng *et al.*, 2018). This situation is further compounded by stifled growth if the economy is highly dependent on natural resources (Kurniawan and Managi, 2017) and a vicious cycle sets in naturally.

However, several West African countries are dependent on fossil fuels which impacts SD, particularly in a country like Nigeria where exports are largely based on fossil fuels. Expectedly, the country contributed a whopping 50% of the total greenhouse gas (GHG) emissions of the region in 2014. Likewise, the energy demand is increasing, which puts

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