

INVESTMENT EXPENDITURE IN HUMAN CAPACITY BUILDING: AN IMPETUS FOR SUSTAINABLE DEVELOPMENT IN AFRICA

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Abstract

The economic problems of third world countries are not, in their totality, uniform. But their basic characteristics transcend the boundaries of individual countries. These are the problems of a fundamental disequilibrium of the economy, with the attendant features of stilted economic growth, an adverse balance of payment problem, low capital formation, iniquitous distribution of income, price level instability, severe unemployment among others. The African continent is worst hit by underdevelopment, while sub-Saharan Africa is generally described as the poorest region of the world, one that is getting poorer in the face of sustained growth and significant improvement of living standards in the rest of the world. This paper attempts to highlight the ideal fiscal policy and private investment practices in Africa using some theories of private investment to provide fundamental basis for a growth oriented approach for African leaders. The idea is to highlight the significance of mobilizing mass investment on the development of the African labour force, by both governments and the private sectors. The private and public investment in human capital has been identified as a fundamental necessity for sustainable economic growth and development in the continent. The paper recommended that a clear-cut and formidable manpower development agenda should be put in place in the African continent to enable the creation of a generation of technocrats that is capable of galvanizing the required change in the various economies of the continent.

Keywords: fiscal policy, private investment, Africa, human capital, growth and development

INTRODUCTION

Vigorous and sustained economic growth, among other objectives, occupies the aspiration of policy makers globally (OECD, 2006). Private investment is essential for ensuring economic growth, sustainable development and poverty reduction (Curwen and Fowler, 1976). It increases the productive capacity of an economy, drives job creation, brings innovation & new technologies, and boosts income growth. Unfortunately, policymakers do not tend to give much practical attention to such a link between investment and socio-economic progress (Chhibber and Dailami, 1990; Sima, 2007). Thus, the amount of private investment, particularly in Africa and other developing economies, falls short of development needs and the benefits of investment in emerging and transition economies are much better reaped than those by the African Nations (United Nations Economics Commission for Africa, 1995; IMF; 2009).

The quality of investment policies in the sub-continent is so meager that it influences the decisions of all investors, be they small or large, domestic or foreign, in an undetermined way. According to the United Nations Economic Commission for Africa (1995), Policies being implemented or reconsidered, no matter how genuine, cannot revive the continent's ailing economies unless they accord investment in human capital the attention it deserves. Hence, these days it is agreed that public policies, among which fiscal policy is one, can play a significant role in the development endeavor of the private sector in budding economies. More recently, Hermes & Lensink (2001) show that fiscal policy can enhance the economic growth of a country if it aims at

influencing the quantity and quality of human capital stock in the economy. In general, government policies are critical in determining the rate of economic growth, the levels of private investment and the magnitude of credit to the private sector (Udah, 2010).

The economic problems of third world countries are not, in their totality, uniform. But their basic characteristics transcend the boundaries of individual countries (Ray, 1983). These are the problems of a fundamental disequilibrium of the economy, with the attendant features of stilted economic growth, an adverse balance of payment problem, low capital formation, iniquitous distribution of income, price level instability, severe unemployment, youth militia, Human trafficking, among others. Most African leaders have failed to provide their people with the basic necessities of life; some are still using the infrastructures inherited from their colonial masters. Ironically, corruption, embezzlement and mismanagement of public fund have become the order of the day, with the resultant effects of the continuous decay in infrastructure and manpower. The rich is getting richer, the poor, poorer, the growing mistrust and disaffection between those in governments and their subjects, is obviously no good scenario for a growing continent in need of growth and sustainable development. The African youth today is unsure, suspicious or even lost about the future; he is left with the options of seeking for greener pastures abroad, or staying back and hope.

This paper highlights the need for immense improvement in the fiscal measures taken by various Governments in Africa, trying to establish whether efforts made by the

government of African nations, with regard to their investment contributions are thwarting or fostering the private sector's incentive to invest. Ascertaining this relationship between these two fundamental elements is imperative for economic growth oriented public policy in the continent. Investment in Human Capital has been identified as the most logical expenditure for any country that wants to sustain its growth and development. The paper is divided into FIVE sections, beginning with the fundamental, the determinants of private investment in the sub-Saharan Africa, the second, dwells on the rationale for investment in Human Capital, The third, outlines some empirical evidences of the benefits or outcomes of investment across the world, and finally, the conclusion and recommendations.

Private Investment Determinants in Sub-Saharan Africa

One of the few variables that are robustly correlated in economics is Gross Domestic Product (GDP) per capita and its growth in private investment. For example, Blomstrom et al (1996) shows that rapid growth of GDP per capita leads to higher capital formation. Similarly, Oshikoya (1994), using 18 years aggregate data for eight African countries indicates that private investment is positively related to the growth of real output. The relationship can be derived from a flexible-accelerator model with the assumption that the underlying production function has a fixed relationship between the desired capital stock and the level of real output. As cited in Oshikoya (1994), Green and Villanueva (1990) assert that countries with higher per capita income could devote more resources to domestic savings, which could be used to finance investment projects. The relationship may also be bi-directional. For example, Levine and Rebnelt (1992), using annual panel data for 119 countries for the period 1960-1989 and applying the extreme bounds analysis, shows that private investment is one of the very few variables that have a positive robust correlation with GDP per capita growth.

Iyoha (1998) investigated the macroeconomic issues important to stimulating investment behaviour in Nigeria. In particular, the estimated quotations using deterministic models for both aggregate and private investment. His finding showed that interest rate, marginal product of capital, foreign exchange, external debt to income ratio and inflation were key determinants of investment behaviour. His findings also revealed that the major determinants of private investment were public investment, return on investment, foreign exchange premium and a debt overhang variable

Keynes, in his "The general theory of employment, interest, and money" published in 1936, introduced the idea of an independent investment function in an economy. According to Keynes, investment depends on future marginal return to capital relative to the invested fund. He argued that investment decisions are made on uncertain basis making the returns to investment uncertain too. Thus, for Keynes, private investment is highly volatile because investment decisions are affected by the

pessimistic and/or optimistic behavior of investors, the so called 'animal spirit' of investors (Sima, 2007). According to the neoclassical growth models, such as the ones by Swan and Solow (1956), the share of government expenditure in output, or the composition of expenditure and revenue does not affect the long-run growth rate of an economy. In these models, tax and expenditure measures show that influence in the savings rate or the incentive to invest in physical or human capital ultimately affect the equilibrium factor ratios rather than the steady-state growth rate. The model indicates that growth is driven by exogenous factors- the dynamics of population and of technological progress; and fiscal policy can only affect the rate of growth during the transition to the steady state. Endogenous growth models state that the exact nature of the impact of fiscal policy on economic growth depends on the type of fiscal policy instruments used. Fiscal policy variables, or in other words-instruments, include elements such as taxes, public expenditures and budget deficits. In particular, growth effects of fiscal policy can be divided into productive & nonproductive expenditures, and distortionary & non distortionary taxes (Chhibber & Dailami, 1990).

Direct application of the models of investment, revised above, to the economies of the developing world would be illogical due to the scarcity of data on key variables of the analysis and the incompatibility of the institutional and structural setup of the developing world to the underlying assumptions of the models. Several studies, such as Oshikoya (1994), and Seyoum (2002), argue that data on variables such as wage rates, capital stock, real interest rates and stock market prices are hardly available; and assumptions of the basic models such as perfectly competitive markets, little or no government investment and absence of liquidity constraints are hardly acceptable in the context of developing countries making the models less relevant.

However, in spite of the abundance of investment models available, few are devoted to the study of private investment in Africa (Bakare, 2011). In developing economies generally, the impact of investment on economic development depends on the country's economic conditions and policies, the business policies and strategies, as well as the sector in which the company is located. Specifically aggregate private investment, in the sub-Saharan Africa context, is a function of variables such as Gross Domestic Product(GDP) per capita, GDP per capital growth, availability of credit, fiscal policy variables-such as government capital expenditure (public investment) and government revenue-debt burden, real exchange rate, and measures of irreversibility and uncertainty (Ndikumana, 2005; Sima, 2007).

These days, it is a common belief that firms in developing countries have limited access to credit. This, according to Ibekilo and Ekiesiobi (2010), is a classical reflection of sub-Saharan Africa which is worst hit by underfunding from the financial sector. Thus, it is sensible to incorporate availability of credit to the private sector as a determinant of private investment in developing countries

instead of relying only on interest rates which are administratively controlled (Sima, 2007; Bakare, 2011). The direct impact of credit availability on private investment is confirmed in several studies. For example, Oshikoya (1994), using ordinary least square method on aggregate data of eight African countries for the period 1970-1988, shows that changes in volume of Bank credit to the private sector have positive impact on private investment activity among African countries. Unlike the well-established firms in developed countries, the paper further indicates that bank credit remains the most important source of investment financing among private enterprises in developing countries. According to the findings of this work, in sub-Saharan African countries, where financial markets are generally repressed, credit policy affects investment directly through the stock of credit available to firms that have access to preferential interest rates rather than through the indirect interest channel.

Rationale for Investment in Human Capital

The belief that human capital as an engine of growth rests on the implementation of quality and quantity of resources devoted to that sector in the economy, as it stands out as generally acclaimed impetus for the actualization of sustainable growth and development in an economy. The developed nations and a few Asian countries have, for long realized the importance of human capital as a strategic catalyst for sustainable development and have been investing hugely in that area (Owolabi and Okwu, 2010). More than half a century ago has witnessed an unprecedented growth and development in human capital in both the developed and developing countries, while in most measures they have improved more dramatically in developing countries. As a result of that, there has been some international convergence in these measures (Todaro and Smith, 2009). Some of the generally agreed causal factors responsible for the impressive growth of the economy of most developed and the newly industrializing countries are significant commitment to human capital formation (Adedeji and Bamidele, 2003; World Bank, 1995). This was largely achieved through increased knowledge, skills and capabilities acquired through education and health by all the people of these countries. Hence it is important to assign greater emphasis on the role of human capital as a major contributor to sustainable economic growth and development in the African economies. However what is debatable is, what factors should be considered as human capital development.

Human capital development can be seen as 'the process of acquiring and increasing the number of persons who have the skills, education and experience that are critical for economic growth and development of a country' (Okojie, 1995). Human development, on the other hand, is a process of enlarging people's choices, including living a long and healthy life, being educated, and having access to resources that are essential to achieving decent standard of living (Human Development Report, 1990). One of the early researchers in the area of the relevance of Human capital resource in growth process was Shultz (1961). He

identified five ways by which Human resource can be developed to include: Health facilities; broadly conceived to include all expenditure that affects the life – expectancy, strength and stamina, and the vigour and vitality of the people; On-the-job training, formally organized education at the elementary, secondary and tertiary levels; Study programmes for adults that are not organized by firms, including extension programmes, notably in agriculture and migration of individual families to adjust to changing job opportunities. This view is corroborated by the (United Nations Economic Commission for Africa, 1988) and (Awopegba, 2002) when they argued that human capital is the knowledge, skills, attitudes, physical and managerial effort required to manipulate capital, technology, land and materials to produce goods and services for human consumption.

This human capital is often conceptualized as an aggregate function including both health and education (Todaro and Smith, 2003). As Lawanson (2009) had pointed out, health and education are two closely related human (resource) capital components that work together to make the individual more productive. Hence taking one component as more important than the other is unrealistic, as a more educated individual, who is ill, could be as inefficient as an illiterate. Government expenditure on health and education raises the productivity of labour and increase the growth of national output.

Some Empirical Evidences of Investment in Human Capital

Human capital theory is concerned with finding ways to measure human capital and the rate of return on investment in human capital, both to the individual and to the economy as a whole. The quality of the labour force, or investment in human capital, can be measured in different ways. One way is to measure expenditure on education and training. Since the overall health of workers also affects productivity, investment in medical care are sometimes considered human capital expenditure.

A 1998 survey of 12 developed countries indicated that investment in human capital accounted for at least 10 percent of national income in most countries. This includes public and private expenditure on initial education as well as spending on training after school. Policy issues related to level of expenditure include what volume of spending would be appropriate, how resources should be allocated among different types of human capital investments, and what part of the cost should be borne by companies, individuals, and government agencies. Badawi (2000) examined the issues of complementarity and substitutability of state capital to private sector investment activities in a neoclassical growth framework. By employing a co-integrated vector autoregressive model to account for potential endogeneity and non-stationary problems, his results suggest that both private and public capitals spending have stimulated economic growth in Sudan over the period 1970-98. Dow (1974) reduced Wagner's law to this; As a society becomes more and more affluent, the pressure for social progress and the ensuring changes in the relative

importance of the private and public spheres of the economy will result in ever-increasing governmental taxing and spending. In other words, both government expenditures and tax revenues will rise as a percentage of Gross National Product as the public sector of the economy grows relative to the private sector. Thus fiscal expansion is less favourable to investment and is said to crowd-out private investment (Musgrave and Musgrave, 1989).

In a study on government spending on health as a percentage of GDP embarked for selected countries, it was ascertained that Nigeria devotes the least percentage of her total expenditure on health when assessed with other selected African countries. For instance in 1997, Nigeria devoted only 2.8 percent of total spending of her GDP to health sector financing. The figure in 1999, rose to 3.0 percent, while a further increase of 3.4 percent was noticed in the year 2000. Cote D'ivore and Ghana, within the same periods of 1997 and 1999 devoted 6.2 and 4.1 percent respectively to health sector financing. This financing on health for Cote D'ivore was sustained throughout the years up till 2000. Ghana was reported to have increased her budgetary spending for health from 4.1 percent in 1997 to 4.7 in the year 2000 (WHO, 2004).

CONCLUSION AND RECOMMENDATION

It is a common fact that most African economies are caught with excess debt burden whose repayment exerts extraordinary effect on the investment environment of the economies. Since the debt crisis in the early 1980s, inclusion of debt burden as a key restraint of private investment is a common practice in the analysis of private investment in developing nations. High debt-service payments related to large external debt may reduce the available funds for investment since they divert foreign exchange away from the import of capital and intermediate goods. Furthermore, the debt burden imposes a sort of marginal tax by reducing expected return on investment; and finally, it affects the credit worthiness of the country by imposing restrictions to its access to future foreign credit to finance investment trade, or provide its manpower with the fundamental and competitive skills

Since 1980s, extensive efforts have been directed at generating economic recovery in Africa through the Structural Adjustment Program (SAP) and other similar programmes. However, little (or only recently) attention has been given to the need to promote private investment, although investment is essential in every country for a number of economic reasons, especially in investment in human capital. Policy makers have not tended to give practical attention to the link between private investment and socio-economic progress. The Structural Adjustment Program of the World Bank and the International Monetary Fund aiming at addressing the problems of poverty and declining private investment, emphasize the need to reduce government budget deficits. The paper thus makes the following recommendations;

(i) African governments should adopt policies that provide opportunities for private investment that would develop both the investors and citizens.

(ii) Private-sector led economies tend to perform better in the face of growing corruption and mismanagement in public sectors. It is pertinent that African leaders begin a gradual dis engagement from the hitherto total dominance in the economic activities of their people and provide a framework that would enhance people.

(iii) A clear-cut and formidable manpower development agenda should be put in place in the African continent to enable the creation of a generation of technocrats that is capable of galvanizing the required change in the various economies.

(iv) Budgetary allocations by both private and governments must be articulated, mobilized and implemented carefully, with strict supervision to ensure total compliance by all the stakeholders in the various economies

(v) Monetary policy can also be used to reduce focus on price stability and pay greater attention to securing low-cost finance for investment in Human Capital to boost real productive capacity.

(vi) African governments should aim at maintaining mildly expansionist macroeconomic conditions domestically, while trying to contain external disruptions.

(vii) African leaders should attempt to evolve an import-substitution strategy, that would change the status-quo; that is, adopt a 'made in Africa by Africans' policy declaration, challenging the various economies to create a new, articulate and internationally competitive environment for the actualization of the African dream. A new Africa where everything works.

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