THE MODERATING ROLE OF IFRS ADOPTION SPEED IN THE RELATIONSHIP BETWEEN CAPITAL INFLOWS AND INCLUSIVE GROWTH IN SUB-SAHARIAN AFRICA

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ABSTRACT

Purpose: This study investigates how the speed of International Financial Reporting Standards (IFRS) adoption condition the capital inflows and inclusive growth nexus in Sub-Saharan Africa. While existing literature primarily examined IFRS impacts at the firm level, this study fills a significant gap by focusing on the macroeconomic effects of IFRS adoption speed, particularly its role in enhancing the benefits of capital inflows such as Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and Foreign Aid.

Methods: This study employs a dynamic panel data analysis using the Generalized Method of Moments (GMM) to examine how the speed of IFRS adoption impacts capital inflows and fosters inclusive growth across Sub-Saharan African countries. The study leveraged a dataset spanning from 2005 to 2019, covering 48 countries in the region. By analysing the relationship between IFRS adoption speed, capital inflows, and inclusive growth, the study offers new insights into the macroeconomic benefits of adopting IFRS.

Findings: Findings suggest that speedy IFRS adoption significantly enhances the positive impact of capital inflows on inclusive growth, underlining the importance of swift and effective implementation of IFRS for equitable economic development.

Implications: This study contributes to the existing literature by providing a macroeconomic perspective on IFRS adoption and highlighting the importance of financial reporting standards in achieving inclusive growth in Sub-Saharan Africa.

Originality: This study introduces a novel approach by examining how the speed of International Financial Reporting Standards (IFRS) adoption moderates the impact of capital inflows on inclusive growth in Sub-Saharan Africa. Bridging the gap in existing literature, it shifts the focus from firm-level effects of IFRS and direct impacts of capital inflows on economic growth to a nuanced exploration of how financial reporting standards’ adoption speed can enhance a country’s ability to utilize foreign investments for inclusive economic development. Unique in its regional focus, this research provides critical insights into the macroeconomic benefits of IFRS in Sub-Saharan Africa, offering valuable implications for policymakers and contributing significantly to the discourse on financial innovation, regulatory frameworks, and sustainable economic growth in emerging markets.

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O PAPEL MODERADOR DA VELOCIDADE DE ADOÇÃO DAS IFRS NA RELAÇÃO ENTRE ENTRADAS DE CAPITAL E CRESCIMENTO INCLUSIVO NA ÁFRICA SUBSAARIANA

RESUMO

Objetivo: Este estudo investiga como a velocidade de adoção das Normas Internacionais de Relato Financeiro (IFRS) condiciona os influxos de capital e a relação de crescimento inclusivo na África Subsaariana. Embora a literatura existente tenha examinado principalmente os impactos das IFRS a nível das empresas, este estudo preenche uma lacuna significativa, centrando-se nos efeitos macroeconômicos do ritmo de adoção das IFRS, em especial o seu papel no reforço dos benefícios de fluxos de capitais, como o investimento direto estrangeiro (IDE), o investimento de carteira estrangeiro (IPC) e a ajuda externa.

Métodos: Este estudo emprega um painel dinâmico de análise de dados usando o Método dos Momentos Generalizados (GMM) para examinar como a velocidade da adoção de IFRS impacta os fluxos de capital e promove o crescimento inclusivo em todos os países da África Subsaariana. O estudo aproveitou um conjunto de dados de 2005 a 2019, abrangendo 48 países da região. Analisando a relação entre a velocidade de adoção das IFRS, os fluxos de capital e o crescimento inclusivo, o estudo oferece novas perspectivas sobre os benefícios macroeconômicos da adoção das IFRS.

Conclusões: As conclusões sugerem que a rápida adoção das IFRS reforça significativamente o impacto positivo das entradas de capital no crescimento inclusivo, sublinhando a importância de uma aplicação rápida e eficaz das IFRS para um desenvolvimento econômico equitativo.

Implicações: Este estudo contribui para a literatura existente, fornecendo uma perspectiva macroeconômica sobre a adoção de IFRS e destacando a importância das normas de relato financeiro para alcançar o crescimento inclusivo na África Subsaariana.

Originalidade: Este estudo introduz uma nova abordagem, examinando como a velocidade de adoção das Normas Internacionais de Relato Financeiro (IFRS) modera o impacto dos fluxos de capital no crescimento inclusivo na África Subsaariana. Para colmatar a lacuna existente na literatura, transfeira o foco dos efeitos a nível das empresas das IFRS e dos impactos diretos dos fluxos de capital no crescimento econômico para uma exploração matizada de como o ritmo de adoção das normas de relato financeiro pode melhorar a capacidade de um país utilizar investimentos estrangeiros para o desenvolvimento econômico inclusivo. Exclusivo em seu enfoque regional, esta pesquisa fornece percepções críticas sobre os benefícios macroeconômicos das IFRS na África Subsaariana, oferecendo implicações valiosas para os formuladores de políticas e contribuindo significativamente para o discurso sobre inovação financeira, quadros regulatórios e crescimento econômico sustentável em mercados emergentes.

Palavras-chave: velocidade de adoção de IFRS, entradas de capital, crescimento inclusivo, teoria da inovação financeira, teoria da capacidade absorvente, áfrica subsaariana.
EL PAPEL MODERADOR DE LA VELOCIDAD DE ADOPCIÓN DE LAS NIIF EN LA RELACIÓN ENTRE LAS ENTRADAS DE CAPITAL Y EL CRECIMIENTO INCLUSIVO EN EL ÁFRICA SUBSAHARIANA

RESUMEN

Propósito: Este estudio investiga cómo la velocidad de adopción de las Normas Internacionales de Información Financiera (NIIF) condiciona las entradas de capital y el nexo de crecimiento inclusivo en el África subsahariana. Si bien la literatura existente examinó principalmente los impactos de las NIIF a nivel de las empresas, este estudio llena una brecha significativa al centrarse en los efectos macroeconómicos de la velocidad de adopción de las NIIF, particularmente su papel en la mejora de los beneficios de las entradas de capital como la inversión extranjera directa (IED), la inversión extranjera de cartera (FPI) y la ayuda extranjera.

Métodos: Este estudio emplea un análisis dinámico de datos de panel utilizando el Método Generalizado de Momentos (MMG) para examinar cómo la velocidad de adopción de las NIIF afecta los flujos de capital y fomenta el crecimiento inclusivo en los países del África subsahariana. El estudio aprovechó un conjunto de datos que abarcó de 2005 a 2019 y abarcó 48 países de la región. Al analizar la relación entre la velocidad de adopción de las NIIF, las entradas de capital y el crecimiento inclusivo, el estudio ofrece nuevos conocimientos sobre los beneficios macroeconómicos de la adopción de las NIIF.

Conclusiones: Los resultados sugieren que la rápida adopción de las NIIF mejora significativamente el impacto positivo de las entradas de capital en el crecimiento inclusivo, subrayando la importancia de una implementación rápida y efectiva de las NIIF para un desarrollo económico equitativo.

Implicaciones: Este estudio contribuye a la literatura existente al proporcionar una perspectiva macroeconómica sobre la adopción de las NIIF y resaltar la importancia de las normas de información financiera para lograr un crecimiento inclusivo en el África subsahariana.

Originalidad: Este estudio introduce un enfoque novedoso al examinar cómo la velocidad de adopción de las Normas Internacionales de Información Financiera (NIIF) modera el impacto de las entradas de capital en el crecimiento inclusivo en el África subsahariana. Para cerrar la brecha en la literatura existente, se desplaza el enfoque de los efectos a nivel de empresa de las NIIF y los impactos directos de los flujos de capital en el crecimiento económico a una exploración matizada de cómo la velocidad de adopción de las normas de información financiera puede mejorar la capacidad de un país para utilizar las inversiones extranjeras para un desarrollo económico inclusivo. Esta investigación, única en su enfoque regional, proporciona información crítica sobre los beneficios macroeconómicos de las NIIF en el África subsahariana, ofreciendo implicaciones valiosas para los responsables de las políticas y contribuyendo significativamente al discurso sobre la innovación financiera, los marcos regulatorios y el crecimiento económico sostenible en los mercados emergentes.

Palabras clave: velocidad de adopción de las NIIF, entradas de capital, crecimiento inclusivo, teoría de la innovación financiera, teoría de la capacidad de absorción, áfrica subsahariana.

1 INTRODUCTION

Sub-Saharan Africa, a region with immense economic potential and challenges, has increasingly become a focal point for diverse types of capital inflows, including Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and Foreign Aid
These inflows are critical levers of economic growth, offering much-needed financial resources for infrastructure, corporate expansion, and socio-economic initiatives (Igan et al., 2020). FDI, characterised by direct investment in business ventures, brings not just capital but also technology transfer and management expertise (Duena & Tsegba, 2020). FPI involves investment in financial assets such as stocks and bonds and is crucial for the development of local capital markets (Maverick, 2022). Foreign aid, while often debated, plays a role in filling financing gaps for developmental projects (Rao et al., 2023). The effective harnessing of these inflows is pivotal for achieving inclusive growth—a growth paradigm that ensures the benefits of increased economic activity are widely shared across the population (i.e., a concept that transcends economic growth to encompass equitable distribution of wealth and poverty reduction).

However, the realisation of this potential is not automatic and is influenced by various factors, one of which is the region’s financial reporting environment. The adoption of International Financial Reporting Standards (IFRS) is seen as a key element in this environment, promising enhanced transparency, comparability and reliability of financial information across borders (Penela et al., 2022). The speed and extent of IFRS adoption in Sub-Saharan African countries have varied, reflecting different regulatory environments and institutional capacities (Fisseha, 2023). This inconsistent adoption has implications for investor confidence, as it affects the perceived risk and return of investments in the region. Particularly, the adoption of IFRS is posited to improve the investment climate by providing clearer insights into corporate financial health, thereby potentially influencing the magnitude and effectiveness of FDI, FPI, and foreign aid (Manawadu et al., 2019; Roy, 2021).

Despite the recognised importance of capital inflows and IFRS adoption in economic growth, there is a paucity of comprehensive research examining how the pace of adopting IFRS moderates the relationship between these capital inflows and inclusive growth in Sub-Saharan Africa. Previous studies have primarily focused on the direct effects of FDI, FPI, and foreign aid on economic growth (Gochero & Boopen, 2020; Igan et al., 2020; Rao et al., 2023; Sokang, 2018; Ugwu & Okoye, 2018), or studies on IFRS predominantly targeting its effects at the firm level, overlooking its wider economic implications (Mameche & Masood, 2021; Tawiah & Boolaky, 2019; Yousefinejad et al., 2018). However, the interplay between these factors, particularly the moderating role of
the speed of IFRS adoption, remains underexplored. This study aims to fill this gap by empirically examining how the speed of IFRS adoption in Sub-Saharan Africa influence the relationship between different types of capital inflows and inclusive growth.

This study offers insights for policymakers, investors, and international regulatory bodies. By providing a clearer understanding of how financial reporting standards can shape the economic impact of capital inflows, the findings could guide strategies to optimise these inflows for inclusive growth. Specifically, the study will shed light on whether rapid adoption of IFRS affects the efficacy of FDI, FPI, and foreign aid in promoting inclusive economic growth. Following this introduction, the paper will present a detailed literature review, methodology, analysis of findings, and a discussion on the practical and theoretical implications of the research.

The study employed panel data analytical frameworks. Panel regression offers some advantages over its time series and cross-sectional components. First, it offers greater degree of freedom, enabling advanced econometric analyses since it generates greater observations. However, due to the interconnected among the macroeconomic variables in the study, there can be issues of reverse-causality or endogeneity that can affect the efficiency of the estimates. To address such issues, we utilised the system GMM approach that have dynamic features which in turn helped in dealing with serial correlations and heteroskedasticity.

The results show that capital inflows in the forms of FDI, portfolio investment and aids induce inclusive growth in SSA. The growth enhancing effect of capital inflows is magnified for countries which were shift in adopting the IFRS. The implications is that the adoption of the IFRS facilitates standardized financial systems that induce foreign investment and technological transfer to promote inclusive growth.

The rest of the article is structure as follows. The literature review section is next and it analyses the theoretical foundations which culminated in the formulation of the hypothesis tested in the paper. The third section describes the methods used to gather and analyse data including the model specifications of the study. Section four presents and discusses the empirical results. The final part of the study concludes, offers recommendations and provides suggestions for further studies.
2 LITERATURE REVIEW

2.1 THEORETICAL FOUNDATIONS: LINKING IFRS ADOPTION SPEED WITH CAPITAL INFLOWS AND INCLUSIVE GROWTH THROUGH FINANCIAL INNOVATION AND ABSORPTIVE CAPACITY THEORIES

The theoretical foundation of this study on the moderating role of IFRS adoption speed in the relationship between capital inflows and inclusive growth in Sub-Saharan Africa is anchored in two pivotal theories: the financial innovation theory and the absorptive capacity theory. These theories provide a robust framework for analyzing how IFRS adoption speed can influence the economic landscape of Sub-Saharan Africa, particularly in terms of attracting capital inflows and promoting inclusive growth.

2.2 FINANCIAL INNOVATION THEORY

The financial innovation theory, as elaborated by Laeven et al. (2015), posits that financial innovations, including changes in financial reporting standards like IFRS, play a crucial role in enhancing the efficiency of financial markets. Such innovations improve the screening and monitoring capabilities of financial institutions, which in turn facilitates the allocation of capital to its most productive uses. The adoption of IFRS, considered as a financial innovation, is theorized to enhance transparency, reduce information asymmetry, and thereby attract more foreign direct investment (FDI) and other forms of capital inflows. This theory underscores the expectation that countries which adopt IFRS more speedily may experience a more significant improvement in their financial market's efficiency, leading to an enhanced ability to attract and optimally utilize capital inflows.

Furthermore, the financial innovation theory elucidates the critical role of capital inflows in spurring economic growth and mitigating inequality in host countries. It suggests that capital inflows contribute to the accumulation of physical capital, the diffusion of technological advancements, the creation of diverse employment opportunities, the development of human and managerial skills, and enhanced access to export markets. These factors are integral to boosting productivity and competitiveness, ultimately fostering inclusive growth characterized by decreased unemployment and reduced income disparity. The theory thereby underscores the premise that swift and
comprehensive adoption of IFRS not only serves to streamline financial reporting but also acts as a catalyst for economic activities conducive to equitable development.

2.3 ABSORPTIVE CAPACITY THEORY

The absorptive capacity theory, initially conceptualized by Cohen and Levinthal, emphasizes an entity's ability to recognize the value of new information, assimilate it, and apply it for commercial ends. In the context of IFRS adoption, this theory suggests that the speed and extent to which a country adopts these international standards reflect its absorptive capacity. A higher absorptive capacity, indicated by rapid and comprehensive IFRS adoption, enables a country to better integrate and leverage new financial information and practices. This improved integration and leveraging are critical for utilizing capital inflows effectively, thereby ensuring that such inflows contribute to sustainable and inclusive economic growth. Countries with higher absorptive capacities are posited to more effectively translate the benefits of financial innovations and capital inflows into inclusive growth outcomes, such as job creation, poverty reduction, and equitable wealth distribution.

2.4 SYNTHESIS, APPLICATION TO SUB-SAHARAN AFRICA AND FORMULATION OF HYPOTHESES

Applying these theories to Sub-Saharan Africa, the speedy adoption of IFRS is seen as a financial innovation that could significantly impact the region's ability to attract capital inflows. The financial innovation theory provides a lens through which to view IFRS adoption speed as a mechanism for improving market efficiency and investment attractiveness. Concurrently, the absorptive capacity theory offers insights into how the speed of adopting these standards may influence a country's ability to harness these inflows for inclusive growth.

This theoretical framework suggests that Sub-Saharan African countries that quickly embrace IFRS standards may not only see an increase in capital inflows due to enhanced financial transparency and reduced information asymmetry but also be better positioned to utilize these inflows in a manner that promotes inclusive economic growth. When viewed through the lens of absorptive capacity theory, the speed of IFRS adoption
in a country can be considered a measure of its absorptive capacity. This is because rapid and effective adoption of IFRS indicates a country's ability to recognize the value of this financial innovation, assimilate it within its existing financial system, and apply it to improve financial transparency and decision-making. This enhanced absorptive capacity, in turn, allows countries to more effectively utilize capital inflows such as FDI, FPI, and foreign aid, ensuring that these resources contribute to inclusive growth.

The absorptive capacity provided by swift IFRS adoption could be critical in ensuring that capital inflows are not just absorbed into the economy but are also directed towards initiatives that promote inclusive growth. This includes investments in sectors that create jobs, reduce income inequality, and contribute to sustainable economic development. The theory implies that without sufficient absorptive capacity, capital inflows might not translate into inclusive growth, as countries may lack the necessary framework to efficiently allocate these resources.

Based on the integration of the financial innovation and absorptive capacity theories, the study proposes two hypotheses:

**Hypothesis 1:** Capital inflows positively influence inclusive growth in Sub-Saharan Africa, underpinned by the financial innovation theory. This theory delineates how capital inflows, driven by advancements in financial reporting standards like IFRS, underpin economic activities that contribute to equitable development by fostering job creation, technology diffusion, and human capital enhancement.

**Hypothesis 2:** The speed of IFRS adoption moderates the relationship between capital inflows and inclusive growth in Sub-Saharan Africa, enhancing the positive impact of capital inflows on inclusive growth. This hypothesis draws from the absorptive capacity theory, suggesting that a rapid adoption of IFRS reflects a country's ability to effectively assimilate and apply financial innovations. This, in turn, enables the country to better leverage capital inflows to achieve inclusive growth.

### 2.5 EMPIRICAL REVIEW OF LITERATURE

This empirical review explores the impact of IFRS adoption speed on capital inflows and inclusive growth in Sub-Saharan Africa, leveraging Laeven et al.’s financial innovation theory and Cohen and Levinthal’s absorptive capacity theory to understand the adoption dynamics. Highlighting the study by El-Helaly et al., (2020) which identifies
governance quality and legal frameworks as key drivers of IFRS adoption and its positive effects on economic growth and foreign investment, this review aims to further dissect how the speedy adoption of IFRS influences the attraction of capital inflows and fosters economic growth that benefits the broader society. It seeks to bridge the gap in literature by focusing on the moderating role of IFRS adoption speed in the relationship between capital inflows—such as FDI and portfolio investments—and the achievement of inclusive growth. Through synthesizing existing studies, this review will provide insights into how IFRS adoption can be strategically utilized to enhance economic equity and growth in Sub-Saharan Africa.

El-Helaly et al. (2020) through their exploration of the influence of national corruption on IFRS adoption, reveal a nuanced understanding of how governance quality and legal frameworks serve as both facilitators and barriers to the adoption process. Their findings reveal how national corruption inversely affects the speed and scope of IFRS adoption, indicating that countries with more robust corruption controls tend to embrace IFRS more speedily and comprehensively. Similarly, Elmghaamez (2023) extends this dialogue by demonstrating how factors such as cultural affinity to Anglo-Saxon legal traditions and educational attainment influence the adoption speed of IFRS, thereby affecting economic indicators like GDP growth and FDI inflows. These studies collectively highlight the critical role of national characteristics in determining the trajectory of IFRS adoption and its economic consequences.

The relationship between IFRS adoption and economic growth is further elaborated upon by studies focusing on FDI and other forms of capital inflows. Akisik and Mangaliso (2020), and Gu & Prah (2020) explore the nexus between IFRS adoption and the FDI-economic growth link, both concluding that IFRS adoption positively modulates the impact of FDI on economic growth. This body of work emphasizes the role of robust financial reporting standards in enhancing the effectiveness of foreign investments. Complementing these findings, Sokang (2018) and Awad (2021) examine the broader implications of FDI in Cambodia and selected low-income countries in Sub-Saharan Africa, respectively, reinforcing the notion that FDI serves as a significant driver of economic growth, a potential that is magnified by the adoption of IFRS.

Ehigiamusoe and Lean (2019) delve into the impacts of different types of capital inflows in Nigeria, uncovering a complex landscape where portfolio investments positively influence growth, whereas loans exhibit a negative effect. This differentiation
highlights the multifaceted nature of capital inflows and highlights the importance of the type and quality of these inflows in determining their economic outcomes. Such findings underscore the complexity inherent in aligning capital inflows with inclusive growth objectives, a complexity that the adoption of IFRS may help to mitigate by ensuring transparency and consistency in financial reporting.

Despite the wealth of empirical evidence on the economic benefits of IFRS adoption, a significant research gap exists in directly linking IFRS adoption speed to inclusive growth outcomes at the country level. This gap is particularly pronounced in the context of Sub-Saharan Africa, where the socio-economic benefits of enhanced capital inflows and economic growth facilitated by IFRS adoption remain underexplored. The novelty of this study lies in its targeted focus on bridging this gap by meticulously examining the moderating role of IFRS adoption speed on the relationship between capital inflows and inclusive growth in Sub-Saharan Africa. By doing so, it not only ventures into a scarcely explored area but also offers a compelling rationale for why understanding this relationship is paramount. The investigation into the speed of IFRS adoption as a potential catalyst for inclusive growth is predicated on theoretical and empirical evidence that suggests enhanced financial transparency and international investment appeal can lead to more equitable economic development outcomes. This study, therefore, positions itself as a pioneering effort to untangle the complex web of factors that facilitate or hinder the realisation of inclusive growth through the lens of IFRS adoption speed, setting a foundation for future research and policy formulation aimed at leveraging financial reporting standards for sustainable development in the region.

In sum, this empirical review not only synthesizes existing contributions to the literature but also critically identifies the unexplored linkage between IFRS adoption speed, capital inflows, and inclusive growth. It articulates a compelling rationale for investigating these dynamics within Sub-Saharan Africa, offering novel insights into how countries in the region can strategically leverage IFRS adoption to enhance economic equity and growth. Through this comprehensive analysis, the study aims to contribute significantly to the international accounting and development economics literature, highlighting the strategic importance of IFRS adoption in fostering a more inclusive and equitable economic landscape in Sub-Saharan Africa.
2.6 SELECTION OF CONTROL VARIABLES

In this study, the selection of control variables, including inflation, trade openness, and financial development, is meticulously justified due to their significant influence on capital inflows and inclusive growth. Inflation, as Barnes (2021) defines, is the overall increase in prices that diminishes the purchasing power of money, indicating macroeconomic instability. This economic parameter, measured by changes in the consumer price index, affects the attractiveness of a country to foreign investors due to the increased uncertainty and risk it introduces, as Alpago (2021) and others have noted. Consequently, it can deter investment and lead to capital flight, impacting both capital inflows and the equitable distribution of economic gains.

Trade openness, which reflects a country's level of engagement with the global trade system, indicates a nation's adaptability and openness to foreign investors (Gupta, Kaur, & Sarva, 2020). Higher levels of trade openness are associated with attracting more capital inflows due to the perceived economic activity and market accessibility it signifies. This can contribute to inclusive growth by creating employment opportunities and improving income distribution, as countries with open trade policies are seen as more attractive destinations for foreign investments.

Financial development, reflecting the efficiency and growth of financial institutions and markets, plays a pivotal role in mobilizing domestic resources and attracting foreign capital. As Altay and Topcu (2017) elucidate, a well-developed financial system enhances access to credit, reduces transaction costs, and provides a secure environment for investment. This not only attracts capital inflows but also supports inclusive growth by facilitating investments in sectors critical for broad-based economic development.

Together, these control variables encapsulate the broader economic environment within which the dynamic interplay of IFRS adoption speed, capital inflows, and inclusive growth unfolds. By integrating these variables into the analysis, the study ensures a holistic examination of the factors affecting capital inflows and their implications for inclusive growth. The inclusion of inflation, trade openness, and financial development as control variables is grounded in empirical evidence, underscoring their significance in shaping the conditions under which financial reporting standards can influence inclusive growth in Sub-Saharan Africa.
3 RESEARCH METHOD

3.1 DATA AND DATA SOURCES

This study delves into the nexus between IFRS adoption speed and capital inflows, and their collective impact on inclusive growth in Sub-Saharan Africa from 2005 to 2019, leveraging secondary data from authoritative sources like the World Development Indicators (WDI), Organisation for Economic Co-operation and Development (OECD), IFRS Foundation, Transparency International, and UNESCO. Guided by Saunders et al. (2019) and recommendations by Dechartaigh (2012), the study meticulously assessed the reliability and validity of these sources through criteria such as the credibility of the data-providing organization, copyright statements, and the availability of corroborating published documents. The choice of the 2005-2019 timeframe is rooted in the significant global uptake of IFRS post-2005, with 2019 marking the latest year comprehensive data were available, ensuring methodological rigor and addressing the research gap by exploring the moderating role of IFRS adoption speed on capital inflows and inclusive growth in a region marked by unique socio-economic dynamics.

3.2 DATA PROCESSING AND ANALYSIS

To analyze the impact of IFRS adoption speed on capital inflows and inclusive growth in Sub-Saharan Africa, this study meticulously organized collected data into a panel format using Microsoft Excel. A checklist based on specific measurement criteria was established for each variable to ensure systematic data handling. The empirical strategy centered on deploying the Generalized Method of Moments (GMM) for its robustness in addressing panel data’s unique challenges, particularly endogeneity, dynamic dependence, and heteroscedasticity.

Prior to the main analysis, the suitability of panel over ordinary least squares (OLS) techniques was verified through the Breusch-Pagan Lagrange Multiplier (LM) test, confirming the appropriateness of the panel data approach. The choice of the GMM, particularly its dynamic variants as developed by Arellano and Bond (1991), Arellano and Bover (1995), and Blundell and Bond (1998), was informed by its demonstrated
superiority in handling models with potential endogeneity and its flexibility in incorporating lagged variables to capture the dynamic nature of the dependent variables.

The study employed both the difference and system GMM estimators, with a focus on the latter due to its efficiency in unbalanced panels and its innovative approach to minimizing data loss by utilizing orthogonal deviations. This method proved essential for our panel, comprising 48 Sub-Saharan African countries over a 15-year span (2005-2020), fitting the GMM's prerequisites for fewer time periods relative to the cross-sectional dimension and addressing concerns like fixed effects and autocorrelation.

Instrument validity was rigorously tested using the Hansen J and Sargan tests, and the model's specifications were carefully designed to mitigate risks of specification error and potential researcher bias. The GMM's application was further justified by its capacity to control for endogeneity of lagged dependent variables, omitted variables bias, unobserved panel heterogeneity, and measurement errors, crucial for the longitudinal study's objectives.

Despite the advantages, the GMM technique's limitations, including its complexity and the challenges in selecting appropriate instruments, were acknowledged. However, its application was deemed optimal for exploring the dynamic relationships central to this study, underlining the innovative nature of this study in filling a significant gap in the literature on IFRS adoption's economic implications in Sub-Saharan Africa.
### Table 1

**Variables Description, Measurement and Data Sources**

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<th>VARIABLE</th>
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<td>Economic Growth</td>
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<td>Employment to population ratios (% of 15+)</td>
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<td>Employment to population ratios (% of 15-24)</td>
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<td>Public health expenditure (% of GDP)</td>
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<td>Ratio of female to male secondary enrolment (%)</td>
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<td>Environment</td>
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<td>Public spending on education (% of total)</td>
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<td>IFRS Adoption</td>
<td></td>
<td>Age of adoption/Base Age</td>
<td></td>
</tr>
<tr>
<td>Control:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td></td>
<td>Changes in consumer price index (annual %)</td>
<td>WDI</td>
</tr>
<tr>
<td>Trade openness</td>
<td></td>
<td>(Exports +imports)/GDP</td>
<td>WDI</td>
</tr>
<tr>
<td>Financial development</td>
<td></td>
<td>Domestic credit to private sector/GDP</td>
<td>WDI</td>
</tr>
</tbody>
</table>
3.3 MEASURING IFRS ADOPTION SPEED

IFRS adoption speed refers to the pace at which a country aligns its accounting practices with the International Financial Reporting Standards (IFRS) following the reference point adoption by the European Union (EU) in 2005. IFRS adoption speed is measured as the age of adoption/the base age. Considering the year of adoption to be one year, we have a total of fifteen years (15yrs) between 2005 to 2019. Hence, the speed of adoption was estimated as age of adoption of each country divided by the total number of years (15 yrs.) as the base age. This implies that, countries that adopted in the same year as the EU will reach a perfection of one (1) while countries that adopted earlier than the EU will be expected to have an index greater than 1 as at 2019.

This measurement was informed by the financial innovation theory, where Laeven et al. (2015) constructed a measure to assess the speed at which each country implemented a specific method for enhancing the screening of entrepreneurs. They examine whether the pace of financial innovation affects the rate at which an economy converges toward the growth trajectory of the leading economy. The information on IFRS adoption speed was retrieved from the IFRS official website via its jurisdiction profile.

3.4 MEASURING INCLUSIVE GROWTH

Inclusive growth is measured by a five-component index developed by Hakimian in a working paper for the African Development Bank (AfDB) in 2016. The index covers a wide range of economic, social, spatial, political, and environmental issues that explain both the majority's participation in the economic growth process and the even distribution of economic growth. This dimension is expanded to include eight broad components, as shown in Table 2. The study chose this measure of inclusive growth because it reflects the African geographical context of the concept of inclusive growth.

3.5 AGGREGATION, WEIGHTING AND SCORING BASED ON DIFFERENT INDICATORS

Additive or multiplicative aggregation methods have been extensively studied and widely employed in the literature to construct inclusive growth index (Garriga & Foguet,
The multiplicative method calculates an all-inclusive score for each country based on the geometric mean of its various indicators, whereas the additive method considers the arithmetic mean. Following the lead of Hakimian (2016), this study computes the inclusive growth index using the arithmetic mean method. The arithmetic mean approach is computed by averaging the sum of the normalized values of each indicator in Sj County i with each component and indicator within that component being weighted equally.

\[ IG_i = \sum_{i=1}^{m} W_j * S_{ji} \]  

(1)

where:

- \( i=1…, m \): country \( i \) included in the dataset
- \( j=1…, n \): indicator \( j \) included in the data set

and \( S_{ji} \) is the standardized score computed for each indicator \( j \) and country \( i \) as:

\[ S_{ji} = 100 \times \left( \frac{m_j-r_j}{m_j-1} \right) \]  

(2)

In the computation of the standardized scores, \( m_j \) reflects the number of countries with available data on the indicator, and \( r_j \) represents the countries' rank with respect to a specific indicator in descending order.

After aggregating based on equation 1, the maximum score for an index is 100. The closer the outcome is to 100, the greater the inclusiveness of economic growth. Using the additive method, the composite index is calculated using a weighted average score between 0 and 100 based on the performance of a country on each of its component measures. Each of the eight components receives 12.5 percent of the total score (as shown in Table 2). 12.0% of the total is dispersed among components with multiple indicators.
Table 2

Aggregation methods based on different indicator weights

<table>
<thead>
<tr>
<th>Components</th>
<th>Individual indicator(s)</th>
<th>Weights (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Real per capita GDP growth.</td>
<td>12.5</td>
</tr>
<tr>
<td>Labour Force &amp; Employment</td>
<td>Wages and salaries (% of total employment).</td>
<td>4.17</td>
</tr>
<tr>
<td>Health &amp; demographics</td>
<td>Mortality rate Under-5 (per 1,000)</td>
<td>4.17</td>
</tr>
<tr>
<td>Education</td>
<td>Ratio of female to male secondary enrolment (%)</td>
<td>6.25</td>
</tr>
<tr>
<td>Gender &amp; Inequality</td>
<td>Gender inequality index</td>
<td>12.5</td>
</tr>
<tr>
<td>Environment</td>
<td>Environmental performance index</td>
<td>12.5</td>
</tr>
<tr>
<td>Inequality &amp; poverty</td>
<td>Gini index</td>
<td>6.25</td>
</tr>
<tr>
<td>Governance</td>
<td>Corruption perception index</td>
<td>12.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

3.6 CONSTRUCTION OF INCLUSIVE GROWTH COMPOSITE INDEX

According to the AfDB (2016), certain criteria should guide the construction of the composite index including comparability, accuracy, flexibility, transparency, and completeness of data used in constructing the index.

The AfDB, following the prescription by the OECD on the steps required in constructing a composite index, outline the steps in constructing the index. They stipulate sound theoretical framework that will ensure that the indicators marked for aggregation pass 'the fitness-for-purpose principle' (Nardo et al, 2005). For the sake of appropriateness of data, certain concerns to address include measurability, coverage of country, significance of the data to the phenomenon being measured, and the relationship to each other. The steps are as follows:

1) Ensuring that the concept is clear to provide evidence of sound basis for the selection of indicators for the index construction;
2) Selecting relevant data that would help build a sound composite index;
3) Carrying out an exploratory analysis of data to examine the structure of the indicators, the suitability of the data set, and explanation of the method chosen such as aggregation and weighting;
4) Addressing missing values;
5) Normalising data to ensure compatibility of indicators;
6) Carefully deciding on the weighting and aggregation method; and
7) Carrying out robustness check and sensitivity analysis to examine the relevance of each sub-component as well as each indicator in the overall performance of country.

These criteria were followed in the construction of the inclusive growth composite index for the current study.

3.7 BASIC PANEL ESTIMATION MODEL OF THE STUDY

In the context of examining the relationship between capital inflows and inclusive growth, this study employs a panel data model that integrates moderating variables and control variables to provide a comprehensive understanding of the underlying dynamics. The model seeks to explore the relationships between capital inflows and inclusive growth, and how these relationships are moderated by IFRS adoption speed. The basic panel model is specified as follows:

\[
IG_{it} = \alpha + \beta_1 CAPI_{it} + \Sigma \gamma_k X_{kit} + \mu_i + \lambda_t + \varepsilon_{it}
\]  

Where:

\( IG_{it} \): The dependent variable representing inclusive growth for country \( i \) at time \( t \).

\( CAPI_{it} \): Vector of capital inflows variables, including FDI inflows, FPI inflows, and Foreign Aid for country \( i \) at time \( t \).

\( X_{it} \): Control variables that might affect inclusive growth.

\( \mu_{it} \): Unobserved individual (country) effect.

\( \lambda_{it} \): Unobserved time effect.

\( \varepsilon_{it} \): Error term.

The above basic model aims to capture the direct effect of capital inflows on inclusive growth, controlling for other relevant factors. To understand how the relationship between capital inflows, and inclusive growth is influenced by IFRS adoption speed, the study extends the basic model to incorporate the moderating variable as follows:

\[
IG_{it} = \beta_1 CAPI_{it} + \beta_2 IFRS_{it} + \Sigma \gamma_k X_{kit} + \delta_1 (CAPI \ast IFRS)_{it} + \mu_i + \lambda_t + \varepsilon_{it}
\]  

(4)
Where:

$IFRS_{it}$: IFRS adoption speed in country $i$ at time $t$.

$INST_{it}$: Composite index of governance indicators for country $i$ at time $t$.

$(CAPI \ast IFRS)_{it}$: Interaction term to assess the moderating effects of IFRS adoption speed on the relationships between capital inflows and inclusive growth.

$\beta$ Coefficients: Reflect the direct effect of capital inflows on inclusive growth.

$\delta$ Coefficients: Indicate how the relationship between capital inflows and inclusive growth is influenced by IFRS adoption speed.

$\gamma$ Coefficients: Assess the impact of control variables on inclusive growth.

3.8 MODEL SPECIFICATION

The model specifications for testing the hypotheses of study was developed based on the theories underpinning the study. The model addresses the objective that examines the influence of IFRS adoption speed on the link between capital inflows and inclusive growth in SSA. According to the financial innovation theory, capital inflows foster economic growth and subsequently lessen inequality in the host countries by increasing physical capital, diffusion technology, creating jobs, developing human capital, management skills, and opening up export markets (Akpan et al., 2017; Laeven et al., 2015). The theory thus, proposes a direct linear relationship between capital inflows and inclusive growth. The absorptive capacity theory explains the interaction of IFRS adoption speed in the relationship between capital inflows and inclusive growth, suggesting that the presence of quality financial reporting standards that signify the quality of a country’s accounting system, enhances the impacts that capital inflows have on inclusive growth. The model is thus specified below:

\[
\Delta IG_{it} = \Delta IG_{it-1} + \Delta \beta CAPI_{it} + \Delta \beta IFRS_{it} + \Delta \delta (CAPI \ast IFRS)_{it} + \Delta X_{it} + \Delta \mu_{it}
\]

(5)

Where:

IG means inclusive growth.

CAPI refers to vector of capital inflows variables comprising FDI inflows, FPI inflows and Foreign Aid.

IFRS represents IFRS adoption speed measured as age of adoption/base year.
X is vector of control variables comprising inflation, trade openness, and financial development

$$\Delta \mu_{it}$$ is the disturbance term.

4 EMPIRICAL RESULTS AND DISCUSSION

Table 3

Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGa</td>
<td>705</td>
<td>23.602</td>
<td>9.607</td>
<td>6.303</td>
<td>60.188</td>
</tr>
<tr>
<td>FDI</td>
<td>693</td>
<td>4.918</td>
<td>8.606</td>
<td>-11.199</td>
<td>103.337</td>
</tr>
<tr>
<td>FPI</td>
<td>553</td>
<td>4.07</td>
<td>8.733</td>
<td>-80.337</td>
<td>105.199</td>
</tr>
<tr>
<td>Aid</td>
<td>415</td>
<td>4.114</td>
<td>4.512</td>
<td>.024</td>
<td>28.141</td>
</tr>
<tr>
<td>Speed</td>
<td>720</td>
<td>.187</td>
<td>.328</td>
<td>0</td>
<td>1.5</td>
</tr>
<tr>
<td>Trade</td>
<td>644</td>
<td>71.395</td>
<td>34.231</td>
<td>1.219</td>
<td>225.023</td>
</tr>
<tr>
<td>INF</td>
<td>668</td>
<td>8.569</td>
<td>20.608</td>
<td>-8.975</td>
<td>380</td>
</tr>
<tr>
<td>FD</td>
<td>641</td>
<td>20.631</td>
<td>22.616</td>
<td>.498</td>
<td>142.422</td>
</tr>
</tbody>
</table>

Note: FDI represents Foreign Direct Investment net Inflows; FPI means Foreign Portfolio Investment net Inflows; Aid represents Foreign Aid; Speed refers to the Speed at which countries adopt IFRS; LOA represents Level of Adoption; PSE means Presence of Stock Exchange; LS means Legal Support for IFRS; INST represents Institutional Quality computed as an average of six governance indicators; Trade means Trade Openness; INF represents Inflation; FD means Financial Development; and GDPG represents Gross Domestic Product Per Capita Growth

Table 3 presents the descriptive statistics of the variables used in analysing the objective empirically. It can be observed from the table that inflows of capital to the region ranges between a minimum of approximately 0.41% and 5% of GDP, with FDI being the highest and FPI being the lowest, and these vary across the countries. This provides an insight into the low level of capital inflows within the region for the period under the study. Table 3 also discloses that the average inclusive growth within the region is approximately 24% which is very low, with significant variations among the nations. Table 3 further indicates that the average speed at which countries within the region adopted the standards was about 18.7% which is an indication that countries within the region on average, did not adopt early.

Table 4 provides pairwise correlation of the variables employed in the study. This gives a quick overview of the pairwise relationships between the variables used in the study and, also, gives a way to determine whether the regression model may have multicollinearity problems, the presence of which can skew the regression estimates. Given that the magnitude of the correlations between the independent variables do not surpass 0.8, a value Kennedy (2008) indicated to raise suspicion of potential multicollinearity difficulties, the relationship between the independent variables does not
reveal multicollinearity problems. Table 4 also demonstrates that the pairwise correlation between each of capital inflows, speed of adoption, and institutional structures are either insignificant or negative, even though insignificant associations do not denote no associations.

### Table 4

**Pairwise Correlation**

<table>
<thead>
<tr>
<th>Variables</th>
<th>(IGa)</th>
<th>L.IGa</th>
<th>(INDUS)</th>
<th>(FDI)</th>
<th>(FPI)</th>
<th>(Aid)</th>
<th>(Speed)</th>
<th>(INST)</th>
<th>(Trade)</th>
<th>(INF)</th>
<th>(FD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGa</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>L.IGa</td>
<td>0.946***</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDUS</td>
<td>0.034</td>
<td>0.026</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>0.039</td>
<td>0.038</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FPI</td>
<td>0.092**</td>
<td>0.065</td>
<td>0.024</td>
<td>0.002</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aid</td>
<td>-0.106**</td>
<td>-0.098**</td>
<td>-</td>
<td>0.324***</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speed</td>
<td>0.212***</td>
<td>0.253***</td>
<td>0.069</td>
<td>-</td>
<td>0.009</td>
<td>-0.063</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INST</td>
<td>0.180***</td>
<td>0.169***</td>
<td>-0.068*</td>
<td>0.027</td>
<td>0.034</td>
<td>-0.089*</td>
<td>-</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>0.313***</td>
<td>0.305***</td>
<td>0.052</td>
<td>0.429***</td>
<td>0.050</td>
<td>0.055</td>
<td>-0.004</td>
<td>0.075*</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INF</td>
<td>-</td>
<td>-</td>
<td>-0.663</td>
<td>0.016</td>
<td>-</td>
<td>0.034</td>
<td>0.130**</td>
<td>-</td>
<td>-0.073*</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>FD</td>
<td>0.131***</td>
<td>0.117***</td>
<td>-0.063</td>
<td>0.010</td>
<td>-</td>
<td>0.034</td>
<td>0.130**</td>
<td>0.073*</td>
<td>0.153***</td>
<td>-</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** p<0.01, ** p<0.05, * p<0.1

Note: FDI represents Foreign Direct Investment net Inflows; FPI means Foreign Portfolio Investment net Inflows; Aid represents Foreign Aid; Speed refers to the Speed at which countries adopt IFRS; INDU means Industrialisation; INST represents Institutional Quality computed using a principal component analysis of the six governance indicators; Trade means Trade Openness; INF represents Inflation; FD means Financial Development proxied Domestic Credit to Private Sector; and GDPG represents Gross Domestic Product Per Capita Growth.
Table 5

System GMM Estimates of the Effect of IFRS Adoption Speed on Capital Inflows and Inclusive Growth

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.IGa</td>
<td>0.496***</td>
<td>0.507***</td>
<td>0.548***</td>
<td>0.467***</td>
</tr>
<tr>
<td></td>
<td>(0.0224)</td>
<td>(0.0644)</td>
<td>(0.0528)</td>
<td>(0.0339)</td>
</tr>
<tr>
<td>FDI</td>
<td>0.303***</td>
<td>0.423***</td>
<td>0.291***</td>
<td>-0.321**</td>
</tr>
<tr>
<td></td>
<td>(0.0518)</td>
<td>(0.0696)</td>
<td>(0.0544)</td>
<td>(0.117)</td>
</tr>
<tr>
<td>FPI</td>
<td>0.00391*</td>
<td>0.00637</td>
<td>0.565***</td>
<td>0.00921***</td>
</tr>
<tr>
<td></td>
<td>(0.00223)</td>
<td>(0.00657)</td>
<td>(0.124)</td>
<td>(0.00170)</td>
</tr>
<tr>
<td>Aid</td>
<td>0.443***</td>
<td>0.369***</td>
<td>0.461***</td>
<td>0.806***</td>
</tr>
<tr>
<td></td>
<td>(0.0889)</td>
<td>(0.0795)</td>
<td>(0.110)</td>
<td>(0.108)</td>
</tr>
<tr>
<td>Speed</td>
<td>0.510</td>
<td>1.771</td>
<td>0.619</td>
<td>-0.304</td>
</tr>
<tr>
<td></td>
<td>(0.994)</td>
<td>(1.091)</td>
<td>(0.917)</td>
<td>(1.300)</td>
</tr>
<tr>
<td>Trade</td>
<td>-0.0750**</td>
<td>-0.0748**</td>
<td>-0.0554</td>
<td>-0.0277</td>
</tr>
<tr>
<td></td>
<td>(0.0271)</td>
<td>(0.0291)</td>
<td>(0.0374)</td>
<td>(0.0224)</td>
</tr>
<tr>
<td>INF</td>
<td>-0.00640</td>
<td>-0.00804</td>
<td>-0.00354</td>
<td>0.0150***</td>
</tr>
<tr>
<td></td>
<td>(0.00895)</td>
<td>(0.0117)</td>
<td>(0.0157)</td>
<td>(0.00475)</td>
</tr>
<tr>
<td>FD</td>
<td>0.186***</td>
<td>0.188***</td>
<td>0.182***</td>
<td>0.136***</td>
</tr>
<tr>
<td></td>
<td>(0.0109)</td>
<td>(0.00955)</td>
<td>(0.0202)</td>
<td>(0.0277)</td>
</tr>
<tr>
<td>c.FDI#c.Speed</td>
<td>-0.499**</td>
<td>(0.217)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.FPI#c.Speed</td>
<td>-0.690***</td>
<td>(0.156)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c.Aid#c.Speed</td>
<td>-0.775***</td>
<td>(0.143)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>_cons</td>
<td>12.69***</td>
<td>11.99***</td>
<td>9.822***</td>
<td>-14.48***</td>
</tr>
<tr>
<td></td>
<td>(2.394)</td>
<td>(3.602)</td>
<td>(3.467)</td>
<td>(3.645)</td>
</tr>
<tr>
<td>Observations</td>
<td>148</td>
<td>148</td>
<td>148</td>
<td>148</td>
</tr>
<tr>
<td>No. of instruments</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>34</td>
</tr>
<tr>
<td>No of cross-sections</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>AR1 (p-value)</td>
<td>0.00499</td>
<td>0.00558</td>
<td>0.00201</td>
<td>0.00479</td>
</tr>
<tr>
<td>AR2 (p-value)</td>
<td>0.366</td>
<td>0.417</td>
<td>0.215</td>
<td>0.710</td>
</tr>
<tr>
<td>Hansen-J (p-value)</td>
<td>0.982</td>
<td>0.973</td>
<td>0.984</td>
<td>0.921</td>
</tr>
<tr>
<td>Sargan(p-value)</td>
<td>0.0101</td>
<td>0.0119</td>
<td>0.0796</td>
<td>0.0583</td>
</tr>
</tbody>
</table>

Standard errors in parentheses * p<0.10, ** p<0.05, *** p<0.010

Note: FDI represents Foreign Direct Investment Net Inflows; FPI means Foreign Portfolio Investment net Inflows; Aid represents Foreign Aid; Speed refers to the Speed at which countries adopt IFRS; INDU means Industrialisation; INST represents Institutional Quality computed using a principal component analysis of the six governance indicators; Trade means Trade Openness; INF represents Inflation; FD means Financial Development; and GDPG represents Gross Domestic Product Per Capita Growth
4.1 FINDINGS OF THE TWO-STEP SYSTEM GMM ESTIMATES

Table 5 presents the results of the two-step System GMM of the direct and conditional impact of capital inflows on inclusive growth in Sub-Saharan Africa. Model 1 shows the direct effect of capital inflows on inclusive growth while Models 2 to 4 report on the moderating effect of IFRS adoption speed on the relationship between capital inflows and inclusive growth. The results from Model 1 discloses that the coefficients of FDI, FPI, and Aid are positive and significant at 1%, 10% and 1% respectively.

The results in Model 1 also reveals a positive and significant coefficient of financial development (FD), a negative and significant coefficient of trade openness (trade), and negative but insignificant relationship between inflation (INFL) and inclusive growth. This means that the level of a country’s financial development greatly impacts positively on inclusive growth. It also denotes that trade openness can greatly reduce the level of inclusive growth (this can be explained by the fact that, countries in the region do not have the knack for better competitive and winning pricing in the international market, have balance of payments deficits. Besides, expatriates repatriate their profits back to their home countries).

Models 2 to 4 report the results of the interaction terms between IFRS adoption speed and capital inflows on inclusive growth. For all the results, the net effect of the interactions was determined by differentiating with respect to each category of capital inflows. From Model 2, the net effect of the interaction between FDI and speed of IFRS adoption report a positive and significant coefficient (0.423-0.499*0.187=0.330). It is also observed from Model 3 that the interactive term yielded a positive and significant net effect (0.565-0.690*0.187=0.436). Moreover, Model 4 discloses that the net effect of the interaction between foreign aid (Aid) and IFRS adoption speed is positive and significant (0.806-0.775*.187=0.661). The results from Models 2 to 4 denotes that the speed at which a country adopts IFRS enhances its attraction of capital inflows and simultaneously improves their efficacy to foster inclusive growth.

4.2 DIAGNOSTICS OF THE MODEL

A standard GMM estimate is said to be persistent if and only if the coefficient of the lag dependent variable is statistically significant and the absolute value of the
coefficient is between 0 and 1 (Asongu & Acha-Anyi, 2019; Asongu & Nnanna, 2019). In Models 1–4 the lagged estimate for inclusive growth agrees with the insight that inclusive growth is persistent which provide further justification for the adoption of a dynamic modelling approach. The validity of instruments was tested using the Hansen J test and the result for all the models show that p>0.1 which implies that the Hansen test for the models is insignificant. Consequently, the study fails to reject the null hypothesis that the instruments are valid. In the same vein the AR2 test provide that p-values are more than 0.1, therefore the study fails to reject the null hypothesis that there is no serial/autocorrelation. In the absence of instrument proliferation and serial/autocorrelation, the reliability of the findings can be established.

4.3 DISCUSSION OF THE EMPIRICAL FINDINGS

Two hypotheses were developed to meet objective two of the study. The first hypothesis tested that “There is significant positive impact of capital inflows on inclusive growth in Sub-Saharan Africa”. The test was carried out using the two-step system GMM estimation technique. Findings of the test shows a significant positive influence of all the three categories of capital inflows on inclusive growth. This implies that both private and public capital inflows impact positively on inclusive growth. The results thus affirm the study’s prediction that capital inflows significantly impact on inclusive growth. The findings also affirm the stipulation of the financial innovation theory that capital inflows are catalysts for inclusive growth. This can be explained by the fact that inflows of foreign private capital enhance physical capital accumulation, diffusion of technological progress, job creation, human capital development, availability of managerial expertise and access to exports markets (Akpan et al., 2017; Laeven et al., 2015).

The advancement of technology and the accumulation of capital are two essential elements for expanding the economy and fostering inclusive growth. For example, managerial skills and technology diffusion increase the efficiency and effectiveness of production strategies, resulting in higher levels of output productivity and quality that meet international competitive standards. This results is consistent with the findings of several empirical studies (Awad, 2021; Munyanyi, 2017; Sokang, 2018; ). For instance, the findings are in line with the outcome of a study by Munyanyi (2017) who used the
Autoregressive Distributed Lag (ARDL) co-integrated technique on data spanning from 1975 to 2007 and discovered that FDI had a favourable impact on economic expansion.

Likewise, the result is consistent with the findings of Awad (2021) who utilised the dynamic least squares and modified ordinary least squares techniques to discover that trade and aid as capital inflows impact positively on growth rate of income per capita, indicating a positive effect on economic growth. The result also affirms the study by Sokang (2018), who found that FDI positively influence economic growth in Cambodia. Moreover, the findings corroborate that of Nyang’oro, (2017) who employed the Generalized Method of Moment (GMM) estimation techniques on panel data from 1980 to 2011 and found that portfolio equity has a favourable effect on economic growth.

The second hypothesis tested that “IFRS adoption speed strongly influence the effect of capital inflows on inclusive growth”. The test was performed using the two-step system GMM. The net result of the interaction term indicates that when a country adopts IFRS early, it magnifies the potential of capital inflows to impact on inclusive growth. The results can be explained by the reason that IFRS require detailed disclosure of financial information that assist investors to assess the reporting entities and consequently make informed decision of investment. The result is consistent with the prediction of the study that IFRS adoption significantly impact on the relationship between capital inflows and inclusive growth.

The findings also confirm the notion of the absorptive capacity theory that the spillover benefits associated with capital inflows will only be realised if there are some underlying factors in the host country that support proper assimilation or integration of those spillovers. Thus, the quality of a country’s financial infrastructure of which financial reporting standards is central does not only provide signal to attract capital inflows, but also facilitates or engenders the proper assimilation of their spillover benefits to enhance inclusive growth. This is achieved by ensuring that management prepare transparent and comparable financial reports that promote accountability and credibility, which resultantly reduce the problem of information asymmetry and enhance investor confidence. (This is because, early adopters become more experienced with its applicability and thus earn the confidence of investors).

The results agree with the findings of Ndiweni and Bonga-Bonga, (2021) who discovered that once a specific level of absorptive capacity is reached, capital inflows have a significant positive influence on economic growth. They however proxied their
absorptive capacity generically by ‘quality of institutions’. Similarly, the finding is in line with the findings of Ogundipe et al. (2020) who utilised the system GMM estimator and data covering the period 1995-2017 to discover that even though FDI wield influence on growth, it is not as significant as when the relationship is moderated by physical infrastructure as an absorptive capacity. This gives a clear indication that when the underlying fundamentals such quality financial reporting system, quality institutions and physical infrastructure are in place, foreign capital inflows can significantly enhance inclusive growth as postulated by the absorptive capacity theory.

Likewise, the results agree with the findings of Agbloyor et al. (2014) who revealed that in the absence of financial market, which serves as an absorptive capacity, there is rather a negative impact of FDI, FPI and Private Debt on economic growth. In the same vein the findings are consistent with that of Akisik and Mangaliso (2020) who employed the generalized method of moments (GMM) estimation techniques to provide evidence that IFRS wield significant influence in the relationship between FDI inflows and economic growth. Furthermore, the results correspond to the findings of Gu & Prah (2020 who revealed a positive impact of IFRS adoption on FDI inflows as well as a joint positive effect of IFRS and FDI on economic growth by using the OLS and GLS methods.

The findings are however inconsistent with that of Ugwu and Okoye (2018) who found that in the post-IFRS adoption period, FDI had a lower impact on economic growth of Nigeria, whereas no significant differences were seen in Ghana or South Africa. Their study however employed the Dummy Variable Regression model which is less rigorous than the dynamic panel model employed in the current study.

5 CONCLUSION

The purpose of the current study was to provide some evidence of the macro-economic effect of IFRS adoption speed in Sub-Saharan Africa. The study specifically provides new evidence of the moderating role of the speed of IFRS adoption in the relationship between capital inflows and inclusive growth in Sub-Saharan Africa. While prior studies have acknowledged the positive impact of capital inflows on economic growth, most studies these studies fail to acknowledge the implication of capital inflows on inclusive growth. In addition, the scanty studies on the macro-economic impact of IFRS adoption did not focus on the implication of the speed of IFRS adoption in
enhancing the effect of capital inflows on inclusive growth. The study fills these gaps in literature by assessing the moderating role of IFRS adoption speed in the relationship between capital inflows and inclusive growth in Sub-Saharan Africa.

The study developed two hypotheses for testing towards the achievement of the above research objective. The first hypothesis tested the unconditional influence of capital inflows on inclusive growth while the second hypothesis tested the conditioning of the relationship by the speed of IFRS adoption. Findings of the study presented a significant positive coefficient of all categories of capital inflows indicating a positive significant impact on inclusive growth. Furthermore, the findings showed a positive significant effect of the interaction term between IFRS adoption speed and capital inflows on inclusive growth.

The panel study design was used since the study employed a combination of both cross-sectional and time series data set to meet its objective. The study area was Sub-Saharan Africa; the region’s forty-eight countries served as the study’s population. Data type was secondary and was sourced from credible sources after ensuring that all the necessary rubrics have been followed satisfy validity and reliability of the dataset. The two-step system GMM estimation technique was utilised to analyse data.

The findings from this study illuminate the substantial role that the speed of IFRS adoption plays in amplifying the impact of capital inflows on inclusive growth within Sub-Saharan Africa. By delineating a clear link between rapid IFRS adoption and enhanced economic inclusivity, this research not only validates its foundational hypothesis but also significantly contributes to the broader discourse on financial reporting standards and economic development. The investigation extends the theoretical framework of absorptive capacity by incorporating the adoption speed of IFRS as a critical determinant, offering a novel perspective on how financial innovation can be leveraged to foster inclusive growth.

5.1 IMPLICATIONS FOR POLICYMAKERS AND FINANCIAL REGULATORS

The empirical evidence presented underscores the need for policymakers and financial regulators in Sub-Saharan Africa to prioritize the swift adoption of IFRS. By doing so, they can harness the full potential of capital inflows to achieve broader economic objectives, particularly inclusive growth. This strategic focus on enhancing
financial reporting standards can serve as a cornerstone for economic policies aimed at attracting sustainable investments and ensuring that the benefits of economic growth are equitably distributed across all sectors of society.

5.2 LIMITATIONS

This study acknowledges certain limitations, including the focus on Sub-Saharan Africa which may limit the generalizability of the findings to other contexts. Additionally, the reliance on publicly available data and the inherent challenges in measuring the qualitative aspects of inclusive growth present additional areas for methodological refinement in future studies.

5.3 FUTURE RESEARCH DIRECTIONS

While this study sheds light on the critical relationship between IFRS adoption speed, capital inflows, and inclusive growth, it also opens avenues for future research. Subsequent studies could explore the sector-specific impacts of IFRS adoption speed on inclusive growth, the role of other institutional factors in mediating this relationship, or comparative analyses between Sub-Saharan African countries and other regions. Such investigations would further enrich our understanding of the dynamics at play and inform targeted economic strategies.

In summary, this study marks a significant step forward in understanding how the speed of IFRS adoption influences the pathway from capital inflows to inclusive growth in Sub-Saharan Africa. By highlighting the importance of quality financial reporting systems and providing empirical support for targeted reforms, this research not only advances theoretical knowledge but also offers practical insights for enhancing economic equity and sustainability in the region.
REFERENCES


