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DOES FINANCIAL REPORTING REGULATION AFFECT ECONOMIC GROWTH OF THE SIGNATORIES TO THE AfCFTA?

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ABSTRACT:

This work looked at the effect of financial reporting regulation on the economic growth of the 54 signatories to the African Continental Free Trade Area (AfCFTA). Specifically, the study examined the effect of International Financial Reporting Standards (IFRS) adoption on the economic growth of the signatories to the AfCFTA. It used IFRS adoption as proxy for financial reporting regulation and real GDP as proxy for economic growth. Secondary data were collected from the database of IFRS foundation, International Monetary Fund, World Bank and other official documents for the period 2012-2021. Panel data regression was used to analyse the data. Findings show that IFRS adoption has a significant positive effect on the economic growth of the signatories to the AfCFTA. From the results of the analysis, it can be concluded that countries that have fully adopted IFRS experienced faster economic growth than countries that have not. Based on this conclusion, it is recommended that more emphasis should be placed on financial reporting regulation. Specifically, signatories to the AfCFTA are encouraged to fully adopt IFRS as the financial reporting standard for private organizations, this is because IFRS adoption has been shown to increase the rate of economic growth which will help the countries achieve the objectives of AfCFTA.

1. INTRODUCTION

The United Nations in 2015 adopted a set of global goals which it hopes to achieve in 2030. These goals became known as sustainable development goals (SDGs), which are measurable targets that would help to preserve humanity and planet, and slow the tide of environmental, social and economic catastrophe that is facing the world today. The SDGs are 17 and includes economic growth among others (UN Department of Economic and Social Affairs, n.d).The attainment of these SDGs is crucial especially in Africa that has been struggling to stand economically since the end of colonial rule. The continent which boasts of over 1.3 billion people with abundant natural and human resources, records the least rate of economic growth in the world and is only accountable for about 3% of the world economy (Coleman, 2020).

In order to take advantage of collective effort and achieve synergy to boost the economic growth of individual countries, the African Union in 2018 established the African Continental Free Trade Area (AfCFTA) - the largest trading bloc since the World Trade Organization, with aggregate gross domestic product of 2.5 trillion USD, 54 African countries and a population of 1.3 billion (Bengoa et al., 2021; Gachuiri; 2020). The African Continental Free Trade Area includes as part of its objectives the attainment of sustainable development in Africa through trade. (Kuhlman and Agutu, 2020). The AfCFTA is to facilitate trade among African countries and form a formidable trading bloc for more favourable negotiation with countries from other continents (United Nations Conference on Trade and Development (UNCTAD), 2021). For trade and commerce to more smoothly, financial reports which contains financial information is very essential for effective and efficient decision making by all parties to trade. However, none of the five protocols of the AfCFTA contains any guideline on financial reporting by the signatories. Each of the 54 signatories has different financial regulating jurisdiction. The article is divided into 5 sections, the introduction, literature review, materials and methods, results and discussion, and conclusion and recommendation.

1.1 Objective of the Study

This makes it imperative to determine if financial reporting regulation has any effect on the economic growth of the members. Specifically, the objective of this study is:

i. to find out the effect of International Financial Reporting Standards (IFRS) adoption on the economic growth of the signatories to the AfCFTA. ascertain the effect of environmental degradation on the livelihood of people of Niger Delta region of Nigeria.

The reason for this objective is based on the argument that IFRS adoption encourages cross border investments which spur economic growth – which is one of the goals of sustainable development - the main reason for the establishment of AfCFTA

1.2 Hypothesis

To achieve the objective of this study, the hypothesis of this study was stated in null form:

H_0: IFRS adoption has no significant effect on the economic growth of signatories to the AfCFTA.

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2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Financial Reporting and IFRS Adoption

Financial reporting is the traditional corporate report and has been in existence for a long period of time. It includes financial statements and accompanying notes that are prepared in accordance to generally accepted accounting practice (GAAP) (Cordos et al., 2020). One of the major financial reporting regulations in the world today is the IFRS. IFRSs are principle based financial accounting standards issued by the International Accounting Standards Board. The adoption of IFRS by countries is said to facilitate trade by increasing comparability, transparency, cross border investment and so on. Theses have been tested by research works such as Owusu et al. (2022), which studied 78 developing countries to find out if adopting IFRs has any effect on their economic growth and whether the institutional quality of the country plays any role in the relationship. After using two-step generalized methods of moment to analyse the panel data collect from the sample from 1996-2013. The study concluded that the economic experienced by IFRS adopting countries is better than those of non adopting countries.

Penela, Estevão and Morais (2022), went further to examine if IFRS adoption has any impact on business climate from the perspective of investors and creditors. The findings showed that the adoption of IFRS could result in a better business climate since it would increase comparability, FDI and boost trust which will improve international trade. Li, Siciliano and Chalam (2021), also found that firms that use IFRS in financial reporting experienced enhanced market liquidity and reduced information asymmetry than firms that do not.

2.2 Empirical Review

This view is also supported by Gu and Prah (2020), who found that IFRS adoption has a significant effect on economic gowth and that it also amplifies the effect of foreign direct investment (FDI) on economic growth. This was found after studying 12 highest FDI recipients in Africa between 1996-2018.

Boolaky et al. (2020) investigated the institutional drivers of IFRS adoption in Africa. The study focused on all 54 African countries; data was based on the World Bank’s Report on Observance of Standards and Codes; and ordered logit regression was used for analysis. The findings support the prediction that coercive mimetic and normative isomorphism influence on IFRS adoption in Africa. Specifically, IMF and World Bank, presence of global audit firms, years of membership on IFAC, countries with a more structured and active professional accountancy organization were found to affect the adoption of IFRS in Africa; IFRS is primarily driven by social and political dimension than the economic dimension.

Ezenwoke and Tion, (2020) conducted abiblometric analysis on the state of IFRS research in Africa based on Scopus database. The findings showed that IFRS research in Africa is less than 1% of global research output.

Tawiah (2019) appraised existing literature on IFRS in Africa and found that even though the level of adoption is high, implementation of IFRS is low, due to lack of skill. The study also found that adoption of IFRS has made local accountancy professional bodies less attractive to ACCA and the Big 4 firms more competitive than local accounting firms.

Awinburgri and Wotortsi (2019) determined the correlation between IFRS adoption and earnings quality of 16 listed firms in Ghana. Logistic regression was used to analyse the data. The findings showed that the adoption of IFRS prevents manipulation of earning and leads to high quality accounting information and transparency after using logistic regression on 16 firms for pre-adoption and post- adoption analysis.

Agénor, Gambacorta, Kharroubi and Silva (2018) determined the effect of prudential regulation, financial development and financial openness on economic growth of 64 advanced and developing economies. Data was collected from World Bank development indicators database for the period 1990-2014. Panel regression was used to analyse the data. The findings showed that prudential policies affect growth; financial openness reduces the effect of growth benefit of the policies.

Randriamiarana (2015) analysed the general context of IFRS adoption in West Africa and its contribution to countries' economic development. The study employed explorative and qualitative design. Sample included the francophone countries in West Africa. Two-stage survey was also used. The study found that shifting from other regulatory systems to IFRS was difficult, training was needed for effective implementation and that IFRS will contribute to the development of African countries.

Zaidi and Huerta (2014) assessed the impact of IFRS adoption on the economic growth of adopting countries taking into consideration the level of enforcement. Three years average GDP of the selected countries was used in the study with a sample of 5 adopting countries and 5 non-adopting countries.

OLS and two-stage least square regression were used for analysis. It was found that the interaction between IFRS and enforcement is positive and significant. The findings also suggested that the level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of the country.

Jalilian, Kirkpatrick and Parker (2006) explored the impact of state regulation on economic growth of developing countries using an econometric model. Secondary data was sourced from World Bank regulation indicators and World Bank Development Indicators. Cross-sectional analysis of information from World Bank Development Indicators for 1980 – 1999 and fixed effect technique to the panel data were used for analysis. The findings suggest a strong causal link between regulatory quality and economic performance and that good reputation is associated with higher economic growth in lower –income economies.

As can be seen from the works mentioned above the effect on IFRS on the economic growth of the 54 signatories to the AfCFTA have not been fully explored. This work contributed to existing knowledge by examining the effect of financial reporting regulation on the economic growth of the signatories to the African continental free trade area.

3. MATERIAL AND METHOD

The study adopted the *ex post facto* research design. The population of study included the 54 countries that are signatories to the AfCFTA. However, all the countries that make up the population were used in the study except Sahrawi Arab Democratic Republic; this is because no data was found for the country. Secondary data were collected from the database of IFRS foundation, International Monetary Fund and other official documents for the period 2012-2021. This period was chosen because 2012 was the year Nigeria, which is the base country of the researchers, adopted IFRS and also due to the availability of 2012-2021 data at the time of carrying out this research.

The independent variable is the extent of IFRS adoption as obtained from the IFRS Foundation database. The study adapted the coding system used in Roekhudin (2020) and assigned codes according to the level of adoption of IFRS by a country.

0 was assigned to countries that have neither permitted nor adopted IFRS

1 was assigned to countries that permitted IFRS together with their national GAAP

2 was assigned to countries that adopted IFRS for some organizations but permitted for others

3 was assigned to countries that had full adoption of IFRS.

The dependent variables is economic growth and the proxy for economic growth is the real GDP obtained from IMF Data mapper. The control variables used in the model are Control of Corruption and Regulatory Quality data obtained from the World Bank Governance Indicators for the period under study.

In view of the dependent, independent and control variables of the study, the following model was developed to examine the relationship between the independent variables, dependent variables and control variables. This approach is in line with Hair, Black, Babin, Anderson, and Tatham (2006).

N_GDP = f (IFRS, CC, RQ)………………………………..……… Eqn 1.

$N\_GDP_{it} = \eta_0 + \eta_1 IFRS_{it} + \eta_3 CC_{it} + \eta_4 RQ_{it} + + \sum_t$………………… Eqn2.

N_GDP_{it} = Log transformed value of Real Gross domestic product of country *i* at time *t*..

CC = Control of corruption: Estimate

RQ = Regulation quality: Estimate

IFRS = International financial reporting standard adoption

t = Time dimension of the variables

η_0 = Constant or Intercept.

η_{1-4} = Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (a priori expectations) are such that η_1, η_2 and $\eta_3 > 0$; while, $\eta_4 < 0$

4. RESULT AND DISCUSSIONS

4.1 Test of Hypothesis

H_0: IFRS adoption has no significant effect on the economic growth of signatories to the AfCFTA.

Table 1: Fixed Effect Regression

Dependent Variable: N_GDP

Method: Panel Least Squares

Date: 06/23/23 Time: 20:11

Sample: 2012 2021

Periods included: 10

Cross-sections included: 53

Total panel (balanced) observations: 530

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.522022	0.024567	61.95405	0.0000
IFRS	0.052472	0.004748	11.05118	0.0000
CC	0.002843	0.028701	0.099041	0.9211
RQ	0.100186	0.024955	4.014728	0.0001
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.990822	Mean dependent var		1.530188
Adjusted R-squared	0.989757	S.D. dependent var		0.699304
S.E. of regression	0.070776	Akaike info criterion		-2.358943
Sum squared resid	2.374380	Schwarz criterion		-1.907469
Log likelihood	681.1198	Hannan-Quinn criter.		-2.182229
F-statistic	930.3555	Durbin-Watson stat		0.432472
Prob(F-statistic)	0.000000			

Source: E-views 9.0

The fixed effect regression model shown in table 4.10 with one independent variable (IV) and two control variables (CVs), as follows: IFRS adoption, control of corruption and Regulation quality. In model validation, the following are considered: F-statistics and the overall R^2 are used. The overall R-squared is 0.990822 and the adjusted R-squared, 0.990564. The *p*-value of the F-statistics is (0.0000). That is, less than .05 which confirms the statistical significance of the model.

Specifically, IFRS adoption is the variable of interest for hypothesis one. The *coefficient* of the variable of interest: IFRS was (0.052472) and *t-statistic* (11.05118) positive and statistically significant as P-value = 0.0000 (p-value < 0.05).

4.1.1 Decision: Accept the null hypothesis if p-value is greater than 0.08, otherwise reject and accept the alternate hypothesis. Since p-value (0.0000) is less than 0.05, the null hypothesis is rejected and alternate, accepted that IFRS adoption has significant positive effect on the economic growth of signatories to the AfCFTA.

The result of the test of hypothesis one agrees with the findings of Owusu et al. (2022), Gu and Prah (2020) and Zaidi and Huerta (2014) who found that IFRS adoption has a significant positive effect on economic growth. Adoption of IFRS enhances transparency and understanding of the financial reports which engenders trust. This trust encourages investments across jurisdictions and international trade, which increases productive efficiency in a country and result in improved GDP.

CONCLUSION AND RECOMMENDATIONS

This work looked at the effect of financial reporting regulation on the economic growth of the signatories to the African Continental Free Trade Area. It used IFRS adoption as proxy for financial reporting regulation and real GDP as proxy for economic growth. It is also pertinent to recall that the need for this study was born out of the dearth of studies to provide empirical evidence to support the attainment of AfCFTA which is sustainable development. From the results of the analysis, it can be concluded that financial reporting regulation effects the economic growth of the signatories to the AfCFTA; countries that have fully adopted IFRS experienced faster economic growth than countries that have not.

Based on this conclusion, it is recommended that more emphasis should be placed on financial reporting regulation. Specifically, signatories to the AfCFTA are encouraged to fully adopt IFRS as the financial reporting standard for private organizations, this is because IFRS adoption has been shown to increase the rate of economic growth which will help the countries achieve the objectives of AfCFTA.

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