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## ANALYSIS OF TURKEY'S TOURISM BY TYPE OF EXPENDITURE: THE IMPACT OF COVID-19, RECOVERY PROCESS, AND GROWTH PERIOD)

Muammer Bezirgan\* |

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# ANALYSIS OF TURKEY'S TOURISM BY TYPE OF EXPENDITURE: THE IMPACT OF COVID-19, RECOVERY PROCESS, AND GROWTH PERIOD

Muammer Bezirgan\*

## ABSTRACT

The COVID-19 pandemic dealt a significant blow to the global tourism sector, leading to substantial losses in tourism incomes across countries. Due to travel restrictions, border closures, quarantine measures, and health concerns, the number of international tourists rapidly decreased. This situation deeply affected countries heavily dependent on tourism incomes. The recovery period, evwhich began in 2021, is still ongoing.

This study aims to examine Turkey's tourism incomes by spending categories, as it ranks among the top 5 countries in the world. Additionally, this study investigates how the global COVID-19 pandemic impacted Turkish tourism incomes and the recovery process that followed. Tourism incomes are analyzed according to 12 different spending categories. The data set used in the study covers the period from 2012 to 2023. The data was obtained from the "Exit Visitors Survey" published by the Turkish Statistical Institute. According to the analysis results, significant decreases in tourism spending categories were observed during and after the pandemic period. However, following the end of the pandemic's effects, the Turkish tourism sector rapidly recovered, breaking records in terms of tourist numbers and tourism incomes.

## KEY WORDS:

*Tourism Expenditures, Pandemic Recovery, International Tourist*

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## 1. INTRODUCTION

Throughout human history, there have been significant disruptions affecting all societies at different times (Karakaş, 2020, p. 545). Among these disruptions, epidemics have held an important place. Epidemics have been a phenomenon present since ancient times. The first epidemic recorded in historical sources is the Babylonian plague around 1200 BCE. To date, 282 epidemics, large and small, have occurred. Among these, the Black Death, which caused the most deaths (75-200 million people) during the 14th century, stands out. Looking at world history, it is evident that major epidemics have occurred approximately every 100 years (Ateş, 2021, p. 617). The most recent of these epidemics is the Novel Coronavirus (COVID-19) disease, which began to emerge in 2019 (Çoban, 2020, p. 45) and, although its effects began to wane by the end of 2022, continued to have an impact (Savaşkan, 2023, p. 27). These epidemics have both social and economic effects on societies.

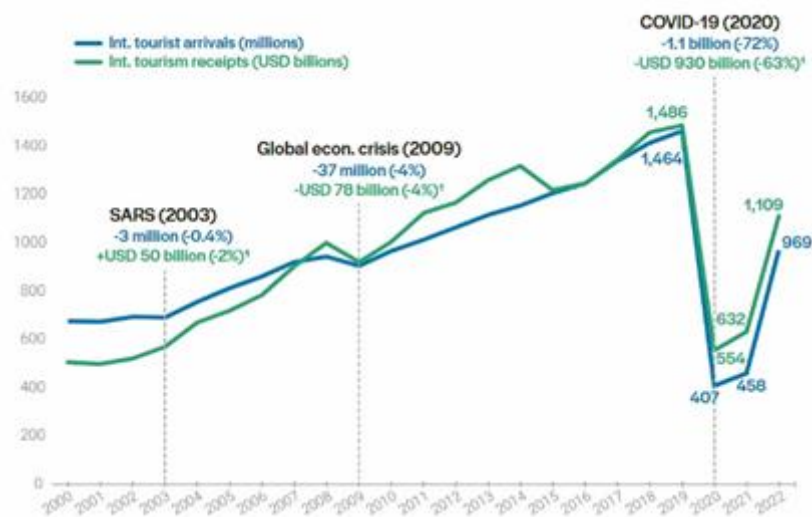
One of the sectors most affected by these epidemics is the tourism industry. Tourism activities, carried out through travel, are a triggering factor for the spread of viral infections among people. Therefore, crisis situations, such as epidemics, negatively affect the tourism sector. A crisis in the tourism sector is defined as an event that threatens the normal operations of tourism-related businesses, creates the impression that a tourist area is unsafe, and leads to a decline in tourism demand and expenditures in that region (Sönmez et al., 1994, p. 2). From this perspective, the global pandemic of 2019 represents a crisis that has caused unprecedented negative effects on the tourism sector.

The main objective of this study is to examine Turkey's tourism incomes by spending categories. The data set used in the study covers the period from 2012 to 2024. The data was obtained from the "Exit Visitors Survey" published by the Turkish Statistical Institute. In this context, the study utilizes data on various spending categories, including "tourism income", "individual expenditures", "package tour expenditures (share of Turkey)", "food and beverage", "accommodation", "health", "transportation (inside Turkey)", "sports, education, culture", "tour services", "international transportation by Turkish companies", "other goods and services", "clothes and shoes", "souvenirs", and "other expenditures".

## 2. THE IMPACT OF COVID-19 ON THE GLOBAL TRAVEL AND TOURISM MARKET

The COVID-19 pandemic has not only caused significant loss of life and health problems, but also inflicted severe damage on the global economy. Tourism has been one of the sectors most affected by the COVID-19 pandemic. Primarily, it has led to a health and economic crisis with devastating effects on developing countries, especially those that rely heavily on tourism for their economies. In an effort to protect their citizens from the pandemic, governments closed borders, imposed national and international travel bans, and implemented various lockdown measures. All these restrictions, with the focus on protecting public health, resulted in a severe contraction of the tourism sector, which is fundamentally based on people traveling from one place to another. In many cases, these measures led to the collapse of numerous tourism businesses (Boz, 2023, p. 5).

**Figure 1.** International Tourist Arrivals and Tourism Receipts, 2000-2022.



Source: TDG Network

The travel and tourism industries faced significant crises during the pandemic period. According to Statista's Mobility Market Insights, the global travel and tourism market experienced a contraction in revenue in 2020, witnessing a remarkable 55% decline compared to the previous year. International tourist arrivals, including overnight visitors, dropped from 1.5 billion in 2019 to only 400 million in 2020, representing an astonishing 72% decrease. This unprecedented drop translated into 1.1 billion fewer international tourists, making 2020 the worst year on record.

In 2020, both international tourism incomes and total export incomes from tourism, including passenger transport, experienced a significant 63% decline. The financial impact led to a loss of \$1.1 trillion. In 2020, international tourism



export incomes, including international tourism receipts and passenger transport fees, saw a major decline from \$1.7 trillion in 2019 to \$0.6 trillion in 2020. The cumulative loss in international tourism incomes for 2020, 2021, and 2022 is estimated to be \$2.5 trillion. Specifically, international tourism incomes excluding passenger transport fees followed a similar trend, falling from \$1.5 trillion in 2019 to \$0.6 trillion in 2020, reflecting a 63% decline. Incomes remained 60% below pre-pandemic levels in 2021 and 26% below in 2022 (Tdg Network, 2024).

According to the United Nations World Tourism Organization's World Tourism Barometer, the decline in international travel in 2020 resulted in an estimated loss of 1.3 trillion US dollars in export incomes, and it is also reported that between 100 to 120 million people working in the tourism sector lost their jobs. In 2021, the direct contribution of tourism to gross domestic product (GDP) was 1.9 trillion US dollars. While this represents an increase compared to 2020, it is still significantly lower when compared to pre-pandemic levels (Ekici & Büyükşalvarcı, 2023, p. 526).

### 3. LITERATURE REVIEW

In this section of the study, the literature on tourism expenditures and the impact of the pandemic on the tourism sector is summarized. The literature includes studies on the numerical effects of the pandemic on the tourism industry, as well as studies examining the impact of the pandemic at both national and international levels.

Korkmaz, Topbaş, and Uğuz (2018) investigated the seasonality of tourism expenditures. The empirical findings of the study revealed seasonal variations in tourism incomes, which generally exhibited stochastic and multiplicative characteristics depending on the type of expenditure. Thus, it was concluded that there are seasonal changes in the spending tendencies of the average visitor to Turkey, and this finding should be taken into account when designing tourism policies in Turkey.

Boz (2023) in his study stated that after the pandemic, tourist preferences would prioritize regions with less tourist congestion, where precautions have been taken, and areas less affected by the pandemic. Yavuz (2022), in his study, calculated the impact of the direct income loss caused by the decrease in the number of foreign tourists in 2020 due to the pandemic on the gross domestic product (GDP). As a result of the analyses, it was determined that the loss in GDP caused by foreign tourists not visiting Turkey due to the measures taken during the pandemic amounted to approximately 18 billion US dollars. Fotiadis et al. (2021) produced a 12-month forecast for international tourist arrivals. Their empirical findings indicated that the pandemic would set the growth of the sector



back by as much as 15 years.

Hoque et al. (2020) aimed to measure the impact of COVID-19 on the tourism sector in China. To achieve this, they utilized a secondary research methodology, collecting data from various sources such as literature, journal articles, research papers, theses, official documents, and others. They concluded that the restrictions imposed following the outbreak of the virus in Wuhan, China, and its rapid spread to other countries, could have a long-term impact on China's tourism sector and significantly affect the country's economy. Şahin, Doğan, and Çakır (2023) investigated the economic, social, and cultural effects of the COVID-19 crisis on travel agencies in Antalya. The analysis revealed that the COVID-19 crisis negatively impacted travel agencies in Antalya, and these agencies shifted toward isolated tourism activities.

In their 2022 study, Akkaşoğlu and Akyol examined the impact of the COVID-19 pandemic on the tourism industry, focusing on tourism incomes, tourist numbers, the share of tourism in Gross Domestic Product (GDP), and employment in tourism. The study concluded that the effects of the COVID-19 pandemic would last for a long time, and that the process would leave lasting damage to the tourism industry, tourism activities, and stakeholders. Özcan (2021) analyzed the activities of businesses operating in the transportation and tourism sectors in Borsa İstanbul (BIST). The study found that the COVID-19 pandemic had a negative impact on the business activities in both the transportation and tourism sectors. Karamahmutoğlu (2022) examined the effect of COVID-19 on the financial performance of transportation and tourism businesses. The study sample included businesses operating in the transportation and tourism sectors that are listed in the BIST Transportation and Tourism Index. The results of the study showed that COVID-19 had a significant impact on the financial ratios of transportation and tourism businesses, except for their liquidity ratios.

In their 2024 study, Tüysüz and Sarıışık aimed to identify the potential positive effects of the COVID-19 pandemic on the tourism industry. The research concluded that the economic effects of the COVID-19 pandemic were mostly viewed as negative, while the pandemic had positive effects in terms of improving the physical environment and social relations. In their 2024 article, Hu, Lang, Corbet, and Wang explored the dynamic behavior of volatility connectedness in Chinese tourism sub-sectors related to COVID-19 stock indices. The empirical results indicated that COVID-19 affected all six tourism sub-sectors examined, but the volatility transmissions between COVID-19 and each tourism sector were not uniform. In his 2024 study, Ramlall developed a Dynamic Stochastic General Equilibrium model to measure the negative effects

of COVID-19 on Mauritius' tourism sector and, consequently, its macroeconomy. The findings show that the tourism export shock caused by COVID-19 triggered stagnation in exports, imports, investment, and tax revenues, while government debt, inflation rates, and transfer income experienced upward momentum.

Chebby, Mmbaga, and Ngongolo (2024) state that the COVID-19 pandemic caused various negative impacts worldwide in terms of biological conservation, the tourism sector, and socio-economic welfare. Jafari, Özduran, and Saydam (2023) explain that the pandemic negatively affected the tourism sector in Famagusta, Northern Cyprus, and that the impacts, particularly regarding business and workplace closures, are still ongoing. The authors highlight that all tourism-dependent sectors, such as hotels, restaurants, travel agencies, and transportation, suffered significant damage due to the COVID-19 pandemic.

#### 4. TOURISM INCOMES OF TURKEY BY EXPENDITURE TYPES FOR THE PERIOD 2012-2023

Between 2012 and 2023, Turkey's tourism incomes have shown fluctuations. The major decline in tourism incomes occurred during the years affected by the 2016 Turkey-Russia aircraft crisis and the 2020 COVID-19 pandemic. Despite the significant losses experienced during the pandemic, Turkey's tourism sector quickly recovered and achieved great success in 2022-2023. Turkey's status as a popular global tourism destination continues to be strong, supported by its natural and cultural riches, developing infrastructure, and strategic location. Figure 2 shows Turkey's tourism incomes from 2012 to 2023.

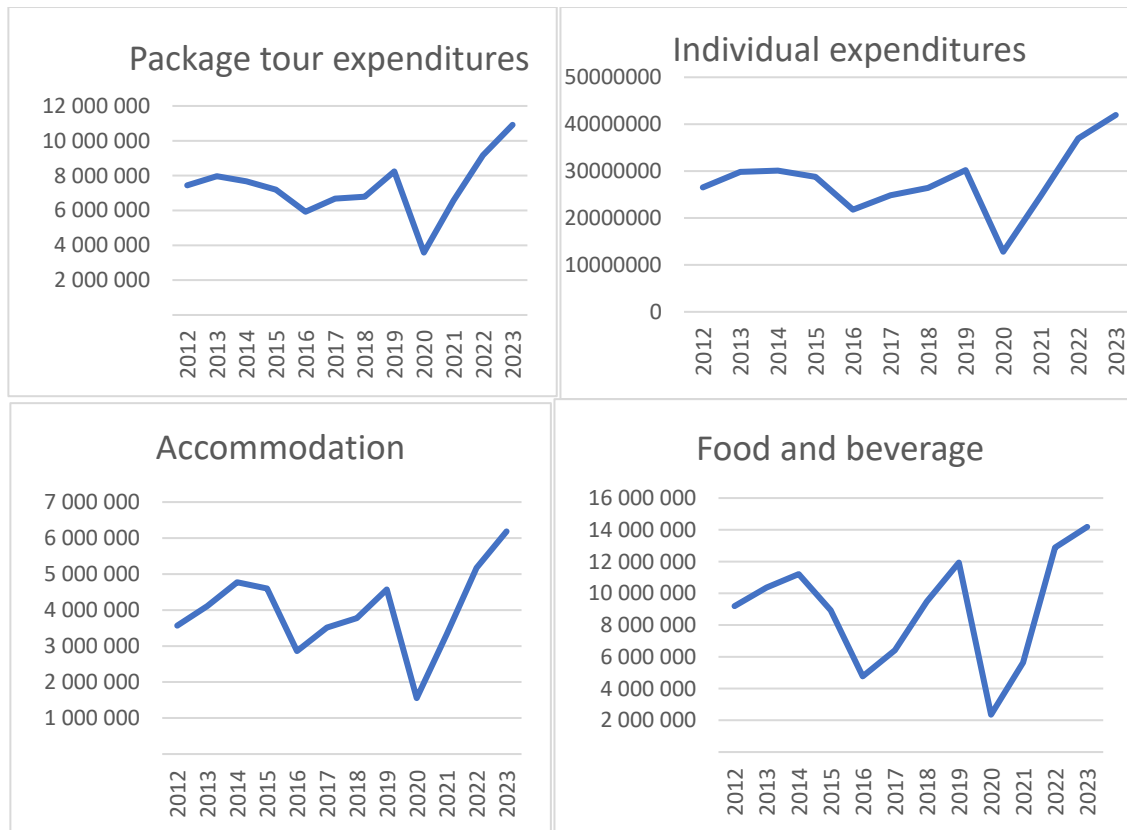
**Figure 2.** Turkey's Tourism Income (2012-2023)



**Source:** Turkish Statistical Institute, 2024

Turkey's tourism income have increased from 2012 to 2023. However, in 2016, when the air crisis occurred between Turkey and Russia, and in 2020, during the pandemic, Turkey's tourism incomes significantly decreased. The global pandemic in 2020 was the biggest crisis in Turkish tourism history. In 2020, the revenue from tourism decreased by more than 50% compared to the previous year.

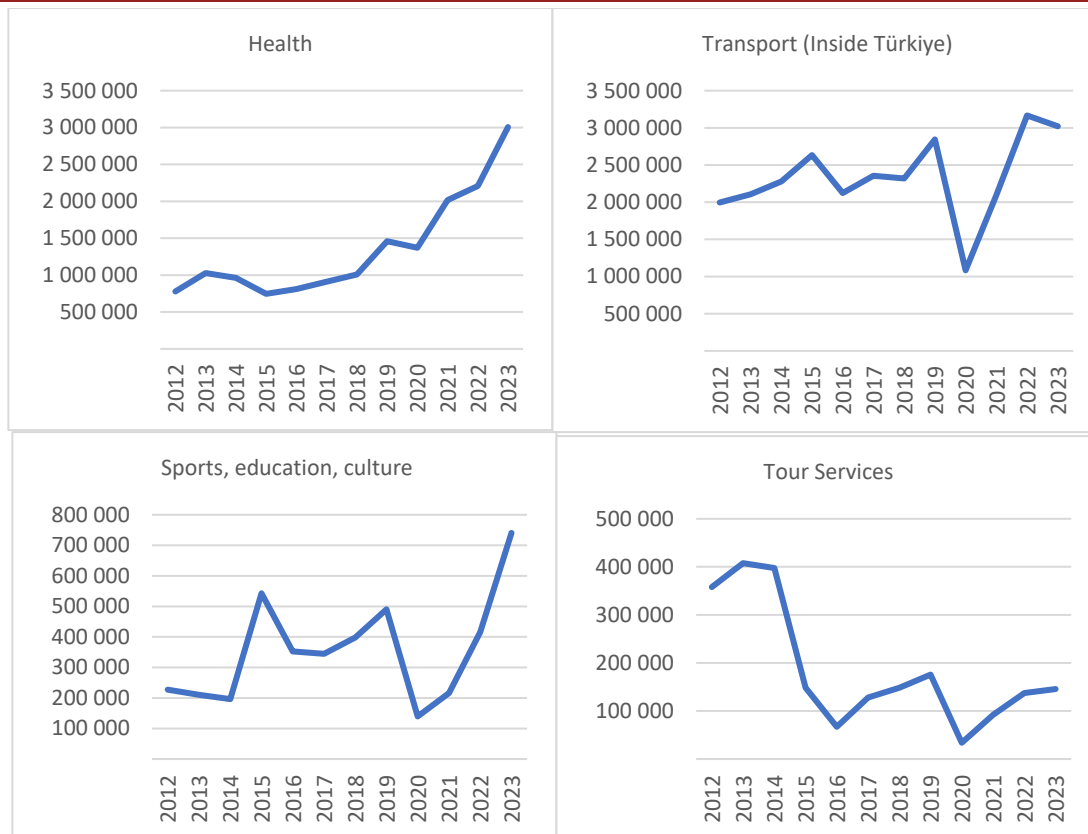
**Figure 3.** Tourism Expenditures of Tourists Visiting Turkey (2012-2023)



Source: Turkish Statistical Institute, 2024

Turkey's total tourism revenue is divided into two categories: package tour revenues and individual expenditures. In 2020, package tour expenditures decreased by 80% compared to the previous year, while individual expenditures decreased by 58% during the same period. Accommodation expenditures decreased by 66%, and food and beverage expenditures fell by 56%. By 2023, these four revenue groups had recovered from the negative impacts of the pandemic. In 2023, package tour expenditures, individual expenditures, accommodation expenditures, and food and beverage expenditures all reached historic records.

**Figure 4.** Tourism Expenditures of Tourists Visiting Turkey (2012-2023)



Source: Turkish Statistical Institute, 2024

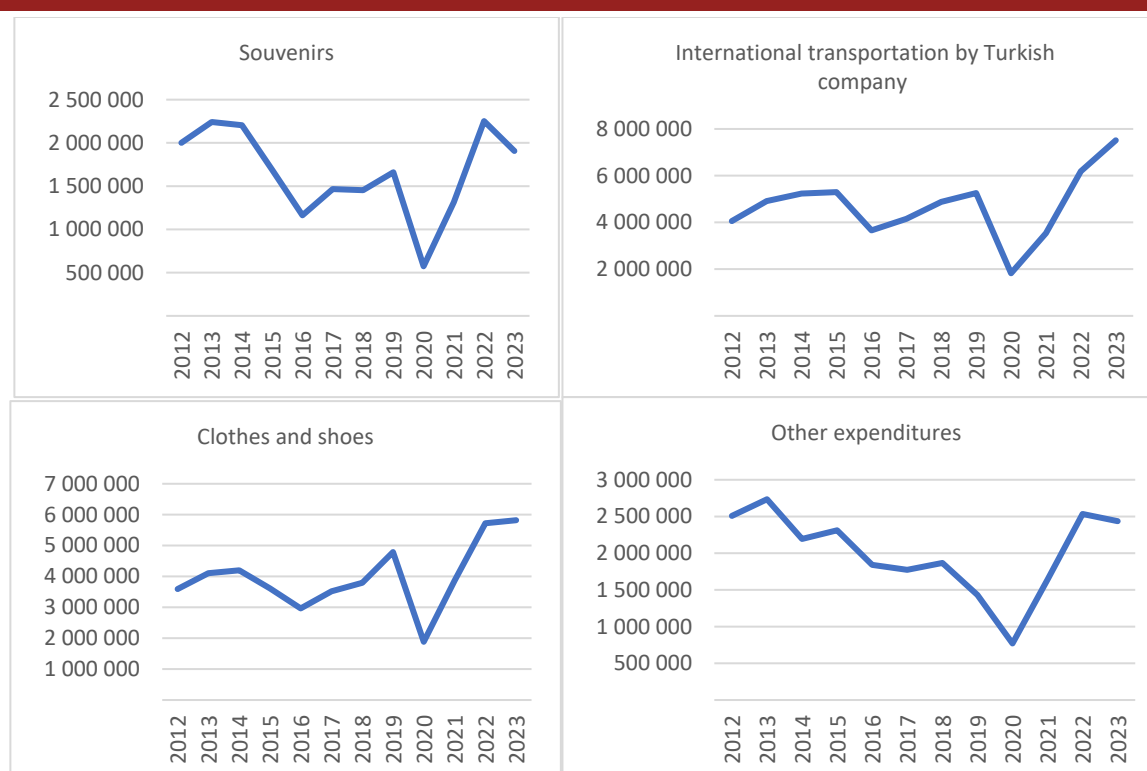
The types of expenditures made by tourists visiting Turkey vary. The graphs above provide information on health expenditures, transportation, sports, education, culture, and tourism services expenditures.

In 2020, the year of the pandemic, all expenditure types saw record drops except for health expenditures. The most notable aspect within these graphs is that health expenditures were only minimally affected by the pandemic. Transportation expenditures decreased by 42%, sports expenditures by 72%, and tourism services expenditures by 82% compared to the previous year. However, health expenditures, despite the extraordinary impact of the pandemic, only showed a 6% decline compared to the previous year.

By the end of 2023, significant increases were observed in these four categories. According to 2023 data, historic successes achieved before the pandemic were surpassed. However, only tourism services expenditures did not show a sufficient increase.

**Figure 5.** Tourism Expenditures of Tourists Visiting Turkey (2012-2023)





Source: Turkish Statistical Institute, 2024

The latest data on Turkey's tourism expenditures can be found in Figure 5. Gift items, international transportation expenditures, clothing expenditures, and other expenses were generally negatively affected in 2020. International transportation expenditures decreased by 65%, clothing and footwear by 60%, gift items by 65%, and other expenditures by 47%.

## 5. CONCLUSION

The pandemic period led to a significant contraction in the tourism sector for many countries around the world. In 2020, international travel became limited due to the spread of COVID-19, border closures, and quarantine measures were implemented. This resulted in a significant decline in global tourism incomes. Approximately 1.3 billion tourists were lost worldwide, and a decrease of 70-75% in tourism incomes was observed. The sector showed some recovery towards the end of 2021 with the initiation of vaccination processes, and by 2023, the sector had returned to its pre-pandemic levels with the complete end of the pandemic.

During the pandemic, significant declines were observed in major tourism countries around the world. In Spain, the number of tourists dropped from 83 million in 2019 to 19 million in 2020, resulting in a revenue loss of around 75%. France, which hosted 70 million tourists in 2019, saw the number fall to 40 million in 2020, leading to a decrease in tourism incomes of up to 60%. Similarly, Italy

experienced a drop of 55-60% in tourism incomes, with major cities like Rome and Venice seeing large gaps in tourist activity. The United States also suffered greatly from the pandemic, with a decrease of about 40% in tourism incomes in 2020. Thailand, a country that generates significant income per tourist, experienced a revenue loss of around 80% in 2020, while India saw a decline of approximately 50-60%. Greece, similarly, faced a decrease of up to 80% in tourism incomes due to the pandemic.

Turkey, like other countries competing in tourism incomes, experienced similar declines. In 2020, Turkey's tourism incomes dropped by 65%, with incomes of \$42.5 billion in 2019 falling to just \$15.1 billion in 2020. A detailed examination of tourism expenditures during the pandemic period in Turkey reveals interesting findings. In 2020, individual expenditures decreased from \$30.9 billion to \$12.8 billion. Package tour expenditures dropped from \$11.9 billion to \$2.3 billion. Food and beverage expenditures fell from \$8.2 billion to \$3.2 billion, accommodation expenditures from \$4.5 billion to \$1.5 billion, and transportation expenditures from \$2.8 billion to \$1 billion.

Among these types of expenditures, the largest decrease was observed in tour services expenditure with a decline of 82%, while the smallest decrease was in health-related expenditures, with a drop of just 6%. Turkey's successful performance in the health sector during the pandemic has continued to attract health tourists to the country, thus preventing a significant decline in this area. The situation as of 2023 is very encouraging. Turkey has continued the momentum it achieved in tourism incomes prior to the pandemic. In 2023, Turkey experienced a significant recovery in the tourism sector, approaching pre-pandemic levels and generating approximately 55 billion dollars in revenue. This success was supported by Turkey's popular tourist destinations, cultural riches, natural beauties, and the increasing number of international tourists. In particular, Turkey attracted attention during the summer of 2023 with a high influx of tourists, becoming one of the most preferred tourist destinations globally.

## **DISCLOSURE OF CONFLICT**

The author declare that no conflicts of interest exist

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## IMPACT OF THE ACTIVATION OF GENERAL ESCAPE CLAUSE DURING 2020-2023 ON THE FISCAL POSITION AND GDP GROWTH IN THE EU

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# IMPACT OF THE ACTIVATION OF GENERAL ESCAPE CLAUSE DURING 2020-2023 ON THE FISCAL POSITION AND GDP GROWTH IN THE EU

Andraž Konc\*

## ABSTRACT

This article examines the impact of the activation of the general escape clause on the fiscal position and GDP growth within the European Union. It aims to analyse how the general escape clause influenced public finances and economic performance of EU Member States. The research employs a qualitative and quantitative analysis of secondary data, including economic reports, statistical indicators, and professional literature. The study draws on comparative fiscal data and macroeconomic indicators from EU and international institutions to assess the effects of the general escape clause. The findings indicate that the activation of the general escape clause provided Member States with greater fiscal flexibility, which facilitated a faster economic recovery following the Covid-19 shock. However, this fiscal expansion also led to increased public debt levels and raised concerns about long-term fiscal sustainability and discipline. It highlights the trade-off between economic recovery and fiscal discipline, underscoring the need for a balanced reimplementation of fiscal rules that supports growth without compromising debt sustainability. The article contributes to current debates on EU fiscal governance by providing an analysis of the implications of the general escape clause and its role in shaping the future of the fiscal policy in EU. We recommend future studies assess the effectiveness of the reformed rules in promoting economic stability across EU Member States.

## KEY WORDS:

*Fiscal rules, General escape clause, Fiscal policy, public Finance sustainability*

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## 1. INTRODUCTION

The reintroduction of fiscal rules in the European Union (EU) is an important topic, as fiscal rules play a key role in ensuring fiscal sustainability and macroeconomic stability. In this piece, we discuss the impact of the pandemic on public finances in the EU, with particular emphasis on Slovenia, how the activation of the general escape clause has affected GDP, the fiscal position, and provide a concise overview of the reform of the EU's fiscal framework. The choice of the topic is based on the importance of the (re)enforcement of fiscal rules in the EU. Fiscal policy refers to the "application of government spending and tax policies to influence economic conditions, in particular macroeconomic conditions" (Hayes, 2023), and fiscal rules can be defined as an "institutional mechanism designed to support fiscal credibility and discipline, limit the size of government and ensure intergenerational equity" (Kumar et al., 2009, 6). It is in fact a mechanism that seeks to balance government budget revenues and expenditures over the medium term, with the aim of ensuring the long-term sustainability of public finances without excessive borrowing. An appropriate fiscal framework is essential for effective fiscal sustainability. According to Budina et al. (2012, 5), the rules aim to eliminate distorted incentives and limit excessive spending pressures, especially in good economic times, in order to ensure fiscal responsibility and debt sustainability.

At the time of pandemic, tackling the challenges of public finances had once again proved highly relevant. EU fiscal rules have been 'deactivated' through the use of a general escape clause in order to provide the necessary room for manoeuvre for expansionary policies. The Covid-19 pandemic caused a huge economic downturn, more severe than during the global financial crisis. The EU had to respond to the crisis swiftly, decisively and in a coordinated manner at all levels. Public finances suffered a significant blow and fiscal disparities between Member States widened. Budget deficits and public debts have risen sharply in all Member States, which European policy will need to address.

Empirical research (see for example Asatryan et al., 2015; Kraemer and Lehtimäki, 2023; and Leiner-Killinger and Nerlich, 2019) show that the pre-existing framework of fiscal rules in the euro area - notwithstanding inconsistencies in design, implementation and enforcement - has had a non-negligible effect on fiscal balances in the euro area, although the effects have varied by period and country due to differences in macroeconomic, fiscal governance and country regulatory frameworks (Marneffe et al., 2010, 22-23).

The new fiscal framework, adopted in 2024, foresees the Commission negotiating bilaterally with Member States a fiscal and structural framework with a minimum four-year horizon. It should ensure viable and sustainable public finances, provide adequate room for counter-cyclical policies, correct macroeconomic imbalances, while promoting sustainable and inclusive growth and job creation in all Member States through reforms and investment (European Council, 2024).

Despite the relevance of the topic, there is still a notable lack of comprehensive research that connects the activation of the general escape clause with medium-term macroeconomic outcomes, especially in the context of the EU's fiscal framework reform. The article begins with an overview of the Stability and Growth Pact and its reform, followed by an analysis of macroeconomic developments in the EU during the 2020–2023 period. This research contributes to the ongoing debate on how fiscal rules can be designed to support both stability and resilience in the face of economic shocks."

## **2. EU FISCAL FRAMEWORK: FROM THE STABILITY AND GROWTH PACT TO REFORM**

The Stability and Growth Pact (SGP) is the European Union's key tool for ensuring fiscal discipline among Member States. It was introduced in 1997 with the aim of preventing excessive budget deficits and public debt in euro area countries and ensuring the stability of the euro. Designed to ensure fiscal discipline in the Union, the SGP requires national governments to commit to certain budgetary and debt ceilings. In particular, the SGP requires Member State governments to limit budget deficits to 3% of their gross domestic product (GDP) and to keep public debt below 60% of GDP, is based on two main pillars: a preventive and a corrective arm. The European Commission has decided that it is time to reform the preventive arm of the Stability and Growth Pact to make the European Union's fiscal rules clearer, more flexible, better adapted to national circumstances and more investment friendly.

Main aim is to guarantee that fiscal policy is implemented in a manner that promotes sustainable public finances throughout the short, medium, and long term. It mandates Member States to attain their medium-term fiscal objective (MTO). This is established in structural terms, cyclically adjusted, and excluding one-off and other transitory initiatives. Member States failing to meet their MTO must identify and propose a suitable adjustment trajectory towards the MTO. Compliance with the requirements of the preventive arm is assessed using a two-pillar approach (EC-DG ECFIN, 2019, 6). The assessment of the structural balance, which constitutes pillar one, is complemented by an analysis of the growth rate of expenditure net of discretionary revenue measures (i.e.



compliance with the expenditure benchmark), which constitutes pillar two. The Commission monitors and assesses Member States' budgetary plans and makes recommendations for fiscal policy corrections, if necessary. The MTO is country-specific and revised every three years under Regulation (EC) No 1466/97. The required annual fiscal effort—the change in the structural balance needed to meet the MTO—depends on each country's situation. Flexibility is allowed during crises (e.g. financial crisis 2008, Covid-19), including activation of an escape clause. The expenditure benchmark limits public spending growth in line with long-term economic potential, adjusted for one-offs, to prevent overheating and imbalances. The main legal basis for the corrective arm of the Stability and Growth Pact is Article 126 TFEU, which requires Member States to avoid excessive deficits and establishes budgetary accountability in terms of adherence with limits on the level of government deficits and debt (EC-DG ECFIN, 2019). It ensures that Member States take appropriate policies or measures to correct excessive deficits (or debt) through the Excessive Deficit Procedure. If a Member State exceeds the reference value of 3% of GDP for the budget deficit or 60% of GDP for the government debt, a procedure can be triggered requiring the Member State to take measures to reduce its deficit and debt. Countries under the excessive deficit procedure have then certain period to comply with the recommendations, which provide them with a concrete path to correct the excessive deficit within a set timeframe. Non-compliance may result in financial sanctions, such as non-interest-bearing deposits, which are returned once compliance is achieved. In practice, however, the debt rule has never landed countries in the Excessive Deficit Procedure, as the mechanism is not automatic.

The previous fiscal rules helped limit deficits and debt but did not prevent them and often led to procyclical policies (Arnold et al., 2022; Feás, 2023). The EU fiscal framework reform aims for sustainable public finances, room for counter-cyclical policies, macroeconomic balance, and inclusive growth (European Council, 2024). The main innovation under the reform is the adoption of a differentiated approach towards each Member State, taking into account the heterogeneity of the EU's fiscal positions, public debt and economic challenges (Council of the EU, 2023). The basic indicator for setting fiscal paths is a single operational indicator, namely net primary expenditure growth, which considers all elements of public expenditure under the direct control of the government, excluding discretionary measures on the revenue side and excluding interest and cyclical unemployment expenditure (Höflmayr, 2024, 4). Member States will follow a 4-year fiscal-structural plan, extendable up to 7 years with reform commitments, with expenditure paths ensuring debt and deficit targets.

Reforming fiscal rules is also essential to restructure our economies, as significant public investment will be needed to stimulate and complement the private investment that is essential for the digital and green transition.

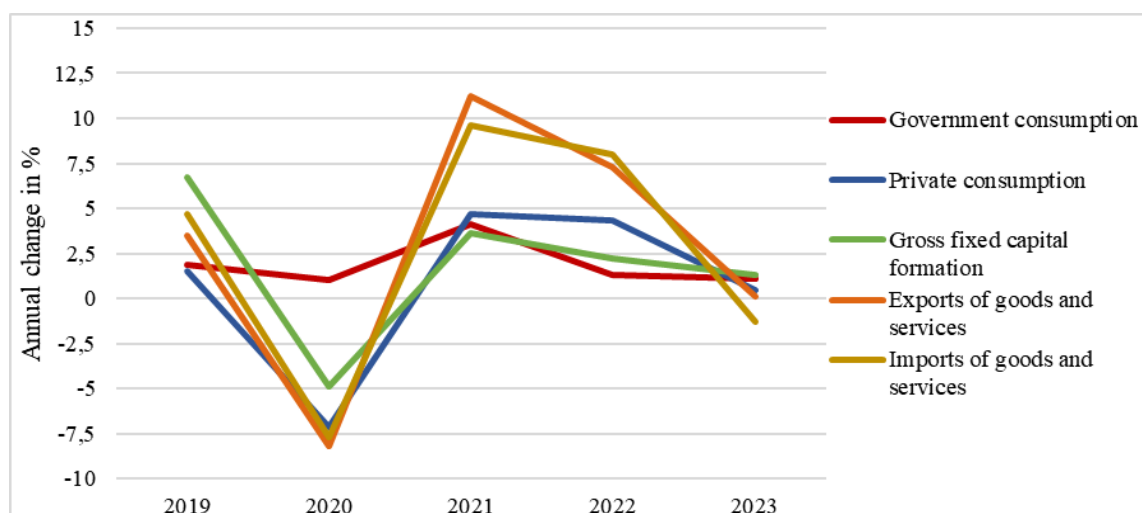
### 3. PERIOD OF EXCEPTIONAL ECONOMIC CIRCUMSTANCES

#### 3.1. Macroeconomic Trends in the EU

In the wake of the Covid-19 pandemic, real GDP in the EU contracted by 13.1% year-on-year in the second quarter of 2020, and by 11.2% in Slovenia (Eurostat, n.d.). The fall in economic activity was severe due to a sudden drop in domestic demand as a consequence of the restrictive measures taken to cope with the pandemic, and spill-over effects from measures in other countries that affected external demand.

In Slovenia and the EU (as can also be seen in Figure 1), private consumption fell sharply in the wake of the Covid-19 pandemic. This is primarily due to a series of austerity measures taken and, with the increase in uncertainty, also to a rise in precautionary savings - the household savings rate rose from 12.6% in 2019 to 21.7% in 2020 (Eurostat, n. d.). Thereafter, this rate declined as gross disposable household income strengthened. Investment also contracted sharply in 2020, and imports and exports fell in the face of weakening foreign demand. After a fall in 2020, all expenditure components of GDP returned to growth the following year (except government consumption, which was also positive in 2020). In Slovenia, government consumption contracted in 2022, while investment grew strongly, also due to the floods in August 2023. However, investment in the EU had a lower average growth rate than Slovenia over the period 2021-2023. Throughout the observation period, Slovenia had higher growth in private consumption compared to the EU, with the exception of 2023. Imports and exports grew strongly in Slovenia and on average in the EU for the next two years after 2020, but then declined sharply, especially in Slovenia.

**Fig. 1.** Real GDP by expenditure components in the EU 2019-2023



Source: Prepared by the author using AMECO Database.

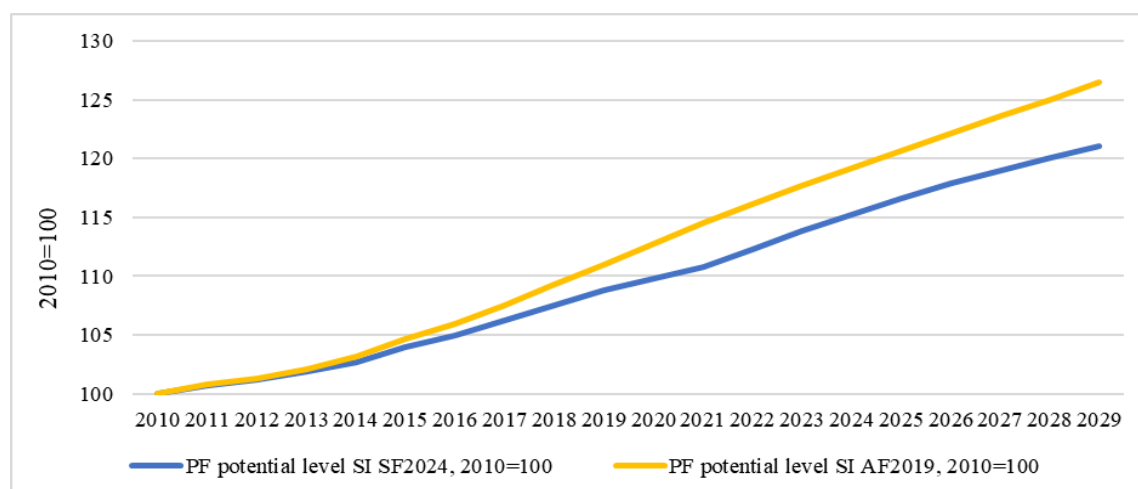
Before the pandemic, Slovenia had slightly fewer total hours worked per person employed (1601) compared to the EU average (1623), as can be seen from the AMECO Database. In the year of the most intense crisis of the pandemic, we see a large drop in the number of hours worked in the EU and Slovenia, due to the closure of economies, restrictions on movement and various government schemes in the labour field, such as the 'waiting for work' measure. In 2020, the number of hours worked per employee fell by 5.6% on average in the EU and by 4.3% in Slovenia, so that the number of hours worked per employee in 2020 in Slovenia was roughly at the same level as in the EU average. In 2021 and 2022, the number of hours worked started to increase as European economies entered the recovery and adjustment phase of Covid-19. At EU level, even in 2023, they have not yet reached 2019 levels, which may also be due to the changing lifestyle habits of the working population. Slovenia, however, reached 1616 hours in 2023, above the EU average (1605). This may indicate better adaptation and perhaps less dependence on external shocks, or more likely a more limited labour pool. In the year before the coronavirus, inflation was low, below 2% in the European Union and Slovenia, in line with the ECB's objective of price stability, according to the AMECO Database. In 2020, inflation remained low. The Covid-19 pandemic had an impact on demand and supply, but this has not yet led to a significant increase in prices. However, inflation rebounded sharply in 2021 and 2022, both in the European Union and in Slovenia. This period was marked by a rapid economic recovery from the pandemic, which brought increased demand, together with disruptions in supply chains. Slovenia's inflation rate (9.3%) was still slightly higher than in the EU (9.2%). Inflation peaked in 2022, with prices continuing to rise. The energy crisis triggered by the war in Ukraine had a strong impact on energy prices, further

fuelling inflation. Slovenia again slightly outperformed the EU average, reflecting the country's stronger price pressures - greater import dependence as a small country and large fiscal stimulus. In 2023, price growth started to moderate, but remained at a significantly higher level compared to the pre-pandemic period.

The EC Autumn Forecast 2019, issued before the Covid-19 pandemic and the energy crisis, foresaw a stable and rather optimistic increase in the level of potential GDP in the EU average (Figure 2) and Slovenia. However, according to the European Commission's Spring 2024 forecast, the estimated level of potential GDP from 2020 onwards is much lower, both in Slovenia and in the EU average. This points to the permanent effects of the Covid-19 crisis and the energy crisis on Slovenia's and the EU's economic potential. One of the reasons for this is the reduction in the TFP contribution. The pandemic has had a negative impact on R&D and innovation processes due to limited financial resources (Carpinelli et al., 2025), which may be the reason for the downward revision of the estimates of factor productivity growth (TFP), which is significant for Slovenia. Additional reasons for the lower TFP growth estimates after the pandemic may relate to disruptions in work processes (Fernald et al., 2025), the shift to teleworking, reduced interactions between employees and a consequently less productive workforce. Many people have also left the labour market due to closures, health problems or retirement, and not all have returned to the labour market even after the closures have been lifted, reducing the potential labour force and thus potential GDP in the short term (2020-2021). The energy crisis, which has hit Europe hard, has increased energy costs, especially for energy-intensive firms, affecting production costs and reducing the competitiveness of European firms, which could also explain the fall in productivity growth. The estimate of Slovenia's potential GDP based on the EC's Spring 2024 forecast deviates relatively less from the estimate in the EC's Autumn 2019 forecast than the estimate of the potential GDP of the EU average, suggesting a smaller effect of the so-called hysteresis hypothesis. The hysteresis hypothesis refers to the possibility that economic crises have a negative impact on economic potential, not only on real economic activity (Mourougane, 2017).



**Fig. 2.** Estimated average EU potential GDP level based on the EC Autumn 2019 and EC Spring 2024 forecasts



**Source:** Prepared by the author's own calculations based on data from EC Forecast 2019, 2024 and AMECO Database.

### 3.2. Fiscal developments in the EU and the use of general escape clause

In 2019, the EU had a budget balance close to its 2017-2019 average of -0.6% of GDP (Eurostat, n.d.). In 2020, all Member States experienced a significant deterioration in their budget balances as a result of the Covid-19 pandemic, with Slovenia recording a larger deterioration than the EU average. The budgetary impact was significant due to automatic stabilizers - namely, a decline in tax collections and an escalation in cyclical expenditures such as unemployment benefits - alongside the discretionary actions required to address the crisis. By 2021, budgetary balances had improved, with Slovenia catching up with the EU average, but with deficits well above the 3% of GDP reference limit (around 4.7% of GDP) for both Slovenia and the EU average. In 2022, the average budget deficit in the EU countries declined to 3.4% of GDP, before rising slightly again in 2023 (to 3.5% of GDP). In Slovenia, however, the deficit reached 3% of GDP in 2022, before declining by a further 0.5 percentage points in 2023. Public debt as a percentage of GDP rises sharply in 2020 due to higher budget deficits resulting from pandemic-related expenditure. In Slovenia, it rose from 65.4% of GDP in 2019 to 79.6% of GDP in 2020, and from 77.8% to 90.0% on average in the EU (Eurostat, n.d.). High nominal GDP growth due to inflation helped stabilise debt, though debt servicing costs will rise (DG ECFIN, 2023). Between 2021 and 2023, public debt in Slovenia and the EU started to decline slightly, indicating a gradual stabilisation after the pandemic. In 2023, it reached 69.2% of GDP in Slovenia and 81.7% of GDP on average in the EU.

In the wake of the sharp downturn in economic activity following the outbreak of

the Covid-19 pandemic at EU level (Gbohoui and Medas, 2020), the European Commission has activated the general escape clause freezing fiscal rules in the EU, which allows Member States to take budgetary measures to adequately cope with a severe economic downturn under the preventive and corrective procedures of the Stability and Growth Pact. The general escape clause offers enhanced flexibility in the implementation of the preventive and corrective components of the Stability and Growth Pact during "periods of severe economic downturn in the euro area or the Union as a whole" (Council Regulation 1467/97). This flexibility to deviate from Member States' fiscal policies is allowed "provided that this does not jeopardise medium-term fiscal sustainability". The EU decided to activate the general escape clause also because of the negative experience of a too slow stimulative fiscal response during the 2008 crisis and too high fiscal consolidation during the recovery from the financial crisis, which led to hysteresis - a fall in potential GDP in the EU as a consequence of the crisis. In response to the Covid-19 crisis, as the energy crisis, countries have taken significant discretionary measures. The IMF (2020) believes that fiscal policy has been at the forefront of the fight against the pandemic. The majority of Member States' fiscal councils also consider that a strongly expansionary fiscal policy was key in 2020. In 2020, fiscal policy was markedly expansionary. Across all EU Member States combined, policy measures averaged around 5% of GDP in 2020 and 4% of GDP in 2021 (European Fiscal Monitor - EFM, 2021). As response to the crisis, the European Commission adopted the Recovery and Resilience Facility (RRF), temporary instrument and part of NextGenerationEU, through which the Commission raises funds by borrowing on the capital markets, which are then made available to Member States to implement reforms and investments. The RRF is expected to cumulatively contribute to economic growth of around 1.2% of the European Union's 2019 GDP over the period 2021-22 (EFM, 2021). There are significant differences in the fiscal response to the crisis between countries, with Greece having the relatively largest amount of fiscal measures taken in 2020 (around 13% of GDP), the countries with the smallest amounts of fiscal measures were Romania and Slovakia at 2 percent (EFM 2021). Many national fiscal authorities (20 out of 32 in the EFM - a further six national fiscal authorities did not report) consider that the government fiscal measures taken in response to the pandemic were adequate. Regarding the fiscal stance, the majority of National fiscal institutions (21 out of 32 surveyed) consider that the expansionary fiscal stance was also appropriate for economic and budgetary stability in 2021. Most EU countries maintained expansionary policies in 2021, but governments shifted from financing emergency first aid to supporting economic recovery. EU Member States' fiscal responses to the

Covid-19 pandemic have been heterogeneous. Common measures included tax deferrals, temporary VAT cuts, and reduced social contributions to support liquidity and employment (Karpova et al., 2020). The least common measure, taken only by Austria, helped to reduce tax liabilities for individuals and increase disposable income. Temporary tax breaks have been widely used, as they were introduced to reduce the tax burden on businesses and individuals during the crisis.

The Russian aggression on Ukraine contributed to a rapid reassessment of the economic outlook and risks, leading to a sharp increase in inflation and downside risks to economic activity. Given the rapid rise in energy and food prices, new discretionary fiscal measures to mitigate the impact amount to around 1.8% of euro area GDP in 2023 (1.9% of GDP in 2022), falling sharply to 0.5% of GDP in 2024 (Checherita-Westphal and Dorrucchi, 2023). Overall, the national fiscal institutions consider the fiscal response to the increase in inflation to be appropriate and realistic. The ECB considers (Bonam et al., 2024, 11) that, in the context of an independent monetary policy aimed at returning inflation to target in a timely manner, it is still possible to design fiscal policy in a way that protects vulnerable segments of society from the costs of high inflation, without affecting the central bank's efforts to tame inflation. This is more likely if fiscal measures are targeted and transient. In February 2022, the Russian invasion of Ukraine brought drastic changes to the EU energy sector. Before the war, the EU was meeting more than half of its gas needs with imports from Russia. Since the war, energy prices have risen sharply and security of supply has become a serious problem. The EU was therefore forced to act quickly to reduce its dependence on Russian gas, oil and coal and to ensure the stability of its energy supply. The introduction of the AggregateEU platform was important, contributing to the diversification of energy sources and increased security of supply in 2023 and 2024. Over a period of two years, the EU's dependence on Russian gas has been significantly reduced. In 2021, the EU imported 150 billion cubic metres (bcm) of gas from Russia, accounting for 45% of total imports (EC-DG ENER, 2024). By 2023, this share had fallen to 15%, as Russian gas imports fell to 43 bcm. An important step in this direction was the REPowerEU plan launched by the European Commission in May 2022 to save energy, accelerate the transition to clean energy and diversify energy sources. Diversification of energy sources has become a key strategy for the EU. Increasing LNG imports and reliable supplies through pipelines from countries such as Norway and the US have reduced the risks of supply disruptions. In 2023, Norway and the US became the EU's main gas suppliers, with a 30% and 19% share of total gas imports respectively (EC-DG ENER, 2024). The EU set up the EU Energy

Platform in 2022 to coordinate demand pooling or joint gas purchasing. In 2023, the AggregateEU platform was launched to allow aggregated gas demand from energy companies and contracting with international suppliers. Slovenian nationally taken measures included capped energy prices, offered €1 billion in subsidies, and promoted solar power expansion (MOPE, 2024).

The validity of the general escape clause was extended due to the consequences of the outbreak of war in Ukraine but was finally deactivated at the end of 2023 (European Parliament, 2024). The Commission's Communication on the European Semester 2022 of May 2022 stated that the conditions for the deactivation of the general escape clause would be considered fulfilled as of 2024. European economy has recovered above pre-pandemic levels and survived the dangerous shock phase of rising energy prices caused by the Russia-Ukraine war, although geopolitical uncertainty remains high (EC, 2023). This underscores the necessity for fiscal regulations to possess sufficient flexibility to address unforeseen economic or significant geopolitical disruptions. It is especially significant for extraordinary occurrences that can exert substantial fiscal and economic impacts, such as the Covid-19 pandemic. However, the use of escape clauses should everywhere involve a well-defined and transparent process in order to preserve the credibility of the fiscal framework, which must strike the right balance between a sustainable fiscal position and sustainable growth.

### **3.3. Fiscal effort and economic recovery**

Empirical findings on the impact of fiscal policy on economic activity or on the effectiveness of the stabilising role of fiscal policy are mixed. For example, Tanchev and Mose (2023) link a 1% increase in government spending to an increase in real GDP of around 0.14%, as aggregate demand increases through government consumption. However, other studies, such as Stoilova and Todorov (2021) and Hodžić, Demirović and Bečić (2020), show that government consumption expenditure in CEE countries does not have a significant impact on economic growth. Jemec et al. (2013) find that an increase in public spending in Slovenia has significantly positive effects on output in the short run (a 1% increase in government expenditure results in an instantaneous increase in GDP of 1.61%), but that they cancel out in the long run. Even positive tax shocks have a significant negative effect on output only in the short run. The authors therefore conclude that fiscal multipliers are significant only at the event and that government measures on the expenditure side have a larger effect.

Slovenia pursued a very expansionary fiscal policy in 2020 in the wake of the Covid-19 pandemic, which helped to cushion the economic downturn. The European Union also reacted with expansionary policies, but to a lesser extent

compared to Slovenia. The largest divergence in fiscal policy stance between Slovenia and the EU can be observed in 2021, when the EU pursued a still somewhat counter-cyclical expansionary fiscal policy, while Slovenia took a more counter-cyclical restrictive stance. The data below – Table 1, do not show a tangible correlation between higher fiscal effort, i.e. annual changes in the structural balance, and (faster) economic growth in the following years. The fiscal effort is the change in the structural budget balance. The structural balance was not stripped of significant crisis measures during the period under review, as is usually the case, due to the activation of the general escape clause at EU level. In principle, countries that take larger fiscal measures have a larger economic rebound, measured as economic growth in the following year. The correlation between average fiscal effort and average economic growth over the 2020-2023 period for the EU is -0.089. The insignificant correlation suggests that there is no significant linear relationship between average fiscal effort and average economic growth for the observed sample. The correlation between fiscal effort and economic growth in 2020 among EU countries is 0.416, indicating that, in principle, countries with higher economic downturns have also increased their structural deficit more. The correlation between the fiscal effort in 2020 and average economic growth in 2021 is weak for EU countries (below 0.4), at -0.163, suggesting that there is no statistically significant link between a higher accumulation of structural deficit, also as a consequence of a higher severity of crisis measures in a given country, in 2020 and a higher real GDP growth in 2021 (which implies faster economic rebound). The negative sign suggests that countries with a higher structural balance decline in 2020 (also as a result of the anti-crisis measures) did not experience a faster recovery in 2021, as measured by real GDP growth in 2021.

The appropriateness of fiscal policies is also judged against the results achieved over the medium term, as it is nominal deficits that are key to the accumulation of public debt and ultimately matter for fiscal sustainability. Fiscal adjustment in the EU will need to be implemented over the medium term to achieve long-term objectives such as adequate economic growth and increasing social welfare, while avoiding fiscal vulnerabilities such as the accumulation of public debt. The general government deficit ratio is projected to fall below the 3% deficit reference value in most countries by 2026, driven by higher tax and social security revenues stemming from GDP growth, employment and inflation (EC, 2024). The expiry of the emergency measures to mitigate the impact of higher inflation has also contributed to the improved outlook.

**Table 1.** Comparison Of Annual Fiscal Effort And Economic Growth for EU Member States 2020-2023



FISCAL EFFORT (change in structural balance in o. t. of potential GDP)					ECONOMIC GROWTH (%)			
	2020	2021	2022	2023	2020	2021	2022	2023
<b>EU average</b>	-2.6	-0.6	0.4	0.4	-5.6	6.1	3.4	0.4
<b>Slovenia</b>	-5.2	0.4	1.6	1.6	-4.2	8.2	2.5	1.6
Belgium	-2.8	0.8	0.9	-0.3	-5.3	6.9	3.0	1.4
Bulgaria	-4.1	-1.6	0.6	1.1	-4.0	7.7	3.9	1.8
Czechia	-3.2	-0.5	1.5	0.4	-5.3	4.0	2.8	-0.1
Denmark	-1.3	1.2	-0.9	-0.1	-1.8	7.4	1.5	2.5
Germany	-3.6	-0.4	0.6	0.4	-3.8	3.2	1.8	-0.2
Estonia	-3.5	-0.1	3.3	-0.2	-1.0	7.2	-0.5	-3.0
Ireland	-5.4	-1.6	0.9	4.1	7.2	16.3	8.6	-5.5
Greece	-6.1	-1.5	2.2	0.9	-9.3	8.4	5.6	2.0
Spain	0.0	-0.2	-0.4	0.7	-11.2	6.4	5.8	2.5
France	-2.0	-0.8	1.0	-0.5	-7.4	6.9	2.6	0.9
Croatia	-0.7	1.5	0.6	-2.5	-8.5	13.0	7.0	3.1
Italia	-2.9	-3.8	-1.2	1.3	-9.0	8.3	4.0	0.9
Cyprus	-4.2	0.8	3.8	1.2	-3.4	9.9	5.1	2.5
Latvia	-2.0	-4.3	2.2	3.2	-3.5	6.7	3.0	-0.3
Lithuania	-5.4	4.5	0.8	1.2	0.0	6.3	2.4	-0.3
Luxembourg	-4.2	1.8	-0.6	0.4	-0.9	7.2	1.4	-1.1
Hungary	-2.3	-1.0	0.1	0.9	-4.5	7.1	4.6	-0.9
Malta	-4.0	-1.8	1.5	0.4	-8.2	12.5	8.1	5.7
Netherlands	-2.0	-0.9	0.8	0.3	-3.9	6.3	5.0	0.1
Austria	-4.3	0.5	0.4	1.7	-6.6	4.2	4.8	-0.8
Poland	-3.7	3.4	-2.3	0.1	-2.0	6.9	5.6	0.2
Portugal	-0.6	0.1	0.5	1.8	-8.3	5.7	6.8	2.3
Romania	-2.9	1.2	0.4	-0.1	-3.7	5.7	4.1	2.1
Slovakia	-5.2	0.4	1.6	1.6	-3.3	4.8	1.9	1.6
Finland	-2.3	-1.0	3.4	-2.8	-2.4	2.8	1.3	-1.2
Sweden	-2.7	1.5	2.4	-1.1	-2.0	5.9	1.5	-0.2

Source: Prepared by the author's own calculations based on data AMECO Database.

#### 4. DISCUSSION AND CONCLUSIONS

This article examines the impact of the general escape clause on the fiscal position and economic growth of EU Member States in the aftermath of the Covid-19 pandemic. The results do not clearly show that the escape clause was instrumental in allowing countries the flexibility to implement fiscal policies, which would contribute to a faster economic recovery. Despite the positive effects on short-term economic growth, it highlights the risk of long-term fiscal unsustainability, mainly due to increased public debts. As part of our research, we have presented the fiscal rules of the European Union and analysed macroeconomic trends in the EU over the period 2019-2023. The research

shows that while fiscal flexibility supported economic resilience, it also exposed structural weaknesses in EU fiscal governance, particularly regarding debt accumulation and inconsistent enforcement of fiscal rules. This observation is consistent with previous studies (e.g. Arnold et al., 2022; Larch et al., 2020), which criticize the procyclical tendencies and rigidity of earlier frameworks. In response to the pandemic and, later, to the energy crisis, countries and the EU have had to help households and the economy with hefty fiscal measures.

All Member States experienced a significant deterioration in budgetary balances as a result of the large fiscal measures, with Slovenia recording a larger deterioration than the EU average. By 2021, budgetary balances had improved, with Slovenia catching up with the EU average. In the EU, they were still above the 3% of GDP reference threshold in 2023. Higher budget deficits led to a rise in public debt from 77.8% to 90.0% of GDP in the EU, which, although mitigated by a period of elevated inflation through higher nominal GDP growth, was not the case in 2023. Our findings suggest that the correlation between fiscal effort and (post)-crisis economic growth was not statistically significant across Member States, highlighting country-specific dynamics and policy contexts. In next years, Slovenia and the EU are expected to have a more restrictive fiscal policy.

Going forward, it will be crucial to monitor how Member States react to the reintroduction of fiscal rules and what the long-term effects of these policies will be on public finances and economic growth. In particular, it will be important to assess whether the reformed fiscal rules will succeed in striking a balance between the need for economic recovery and ensuring sustainable fiscal policy, which the previous rules failed to do. A key limitation of this research lies in the relatively short observation period (2020–2023), which may not fully capture the medium- and long-term impacts of the fiscal measures taken during the crisis. Further research should monitor the implementation and effectiveness of these reformed rules, with particular attention to their impact on public debt trajectories, investment, and economic convergence in the EU.

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## DISCLOSURE OF CONFLICT

The author declare that no conflicts of interest exist

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## THE ROLE OF HUMANITARIAN CASH AND VOUCHER ASSISTANCE (CVA) OF NON-GOVERNMENTAL ORGANIZATIONS (NGO) IN DRIVING FINANCIAL INCLUSION IN NIGERI

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# THE ROLE OF HUMANITARIAN CASH AND VOUCHER ASSISTANCE (CVA) OF NON-GOVERNMENTAL ORGANIZATIONS (NGO) IN DRIVING FINANCIAL INCLUSION IN NIGERIA

Omoniyi Yemi Ogunrinde \*

## ABSTRACT

This research investigates the impact of humanitarian cash and voucher assistance (CVA) on financial inclusion in Nigeria, a developing country grappling with numerous humanitarian crises. The study highlights the shift from traditional in-kind aid to CVA, emphasizing how this approach aids recipients' autonomy and dignity. Through a quantitative research approach involving a survey with 13 NGOs operating in Nigeria, the research examines the role of CVA in enhancing economic empowerment and financial inclusion among affected populations. Findings suggest that CVA significantly contributes to financial inclusion by allowing recipients to prioritize their needs, thereby improving their economic and social welfare. The study underscores the importance of NGO involvement in implementing CVA programs effectively. Limitations include a narrow sample scope and the inability to employ mixed-method approaches due to time constraints. Future research should expand the sample size and explore the long-term impacts of CVA on economic empowerment and financial inclusion.

## KEY WORDS:

Financial inclusion, Economic empowerment, Humanitarian aid, Nigeria

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## 1. INTRODUCTION

Developing countries face significant social and economic challenges that greatly impact the standard of living. According to Vogel et al. (2022), providing aid to people affected by various issues, including disasters, is an effective and humane approach to humanitarian assistance. This aid ensures that people can access basic necessities during their most challenging times while maintaining the dignity that supports their recovery. Humanitarian assistance is delivered through various approaches, all aimed at ensuring that those in need receive the necessary support.

The term "humanitarian cash and voucher assistance" (CVA) refers to all programs involving cash transfers and vouchers for services and goods directly provided to aid recipients. Humanitarian non-governmental organizations use this approach to deliver needed cash or cash vouchers to those in need. CVA grants recipients' freedom and autonomy, allowing them to obtain necessary services or goods through these programs. Since people's needs vary, CVA enables them to prioritize and satisfy their most vital needs first. This system is expected to replace in-kind distribution, such as food or product distribution, which was previously the norm (Lawson-McDowall et al., 2021). With evolving humanitarian aid systems and greater consideration for the needs of those requiring assistance, there has been a significant shift towards humanitarian CVA. This change is seen as a major improvement, particularly in developing financial aid systems in developing nations and contributing to financial inclusion, ultimately improving the situation of people during disasters or those in need of aid.

Nigeria is a developing country that has received extensive humanitarian aid in recent years. The evolving models of humanitarian aid necessitate increased transparency and integrity in the use of funds. Nigeria has been significantly affected by conflicts, particularly in the northern regions, due to insurgent groups (Vogel et al., 2022). Additionally, the country faces other humanitarian crises, such as floods, highlighting the urgent need for aid.

Enhancing financial inclusion in Nigeria requires careful consideration of how humanitarian cash and voucher assistance (CVA) from non-governmental organizations (NGOs) impact economic prospects. This research aims to examine the role of humanitarian CVA from NGOs in driving financial inclusion in Nigeria, assessing its significant influence on the country's economic development and the overall financial inclusion of the population.

Humanitarian assistance has been crucial in helping developing countries cope with natural disasters and humanitarian crises. Nigeria, in particular, faces extensive humanitarian challenges, especially in the northeastern region, which has been severely impacted by conflicts. According to Furdova et al. (2017), humanitarian assistance has evolved significantly, with new models now focusing on cash and voucher assistance (CVA) for affected communities. Burton (2020) highlights the convenience, enhanced autonomy, and independence this model offers in distributing aid across developing nations.

Despite its advantages, there has been limited research on humanitarian CVA and its application in modern humanitarian aid schemes. The significance of CVA is under-researched, particularly with the shift towards providing non-material aid and allowing for greater autonomy in assistance, which promotes financial inclusion and equity among affected communities, especially in Nigeria. Existing research has primarily focused on humanitarian CVA, with less emphasis on its contribution to improving the financial status of affected communities in developing countries, particularly Nigeria.

This research aims to fill that gap by evaluating the application of humanitarian CVA in Nigeria. It will provide a contextual analysis of how this model of humanitarian assistance can enhance and improve the overall welfare of affected communities through financial inclusion.

The study aimed to determine the role of humanitarian cash and voucher assistance (CVA) in promoting financial inclusion by influencing key economic aspects of humanitarian aid in developing countries, with a specific focus on Nigeria. The research sought to understand the different perspectives of various NGOs on the application of humanitarian CVA and how it significantly enhances the autonomy and financial independence of those in need. Additionally, the study analyzed how humanitarian CVA impacts financial inclusion in Nigeria and other developing countries.

The research questions were crucial in guiding the progress and development of the study. These questions provided a critical framework for the overall research. The following research questions, focused on the study's subject, were formulated:

1. What is the impact of humanitarian cash and voucher assistance (CVA) on improving financial inclusion among affected Nigerians?
2. What role do NGOs play in facilitating humanitarian CVA to enhance economic empowerment through financial inclusion in Nigeria?

The primary objectives of the research focused on evaluating the role of humanitarian cash and voucher assistance (CVA) provided by non-

governmental organizations in improving the economic welfare of the underprivileged and those facing humanitarian crises in Nigeria. The main objectives guiding the research were:

1. To determine the role of humanitarian CVA programs in Nigeria in promoting financial inclusion and economic empowerment among those in need.
2. To identify the main CVA practices undertaken in Nigeria and their connection to financial inclusion.
3. To assess the importance and impact of humanitarian CVA on individual and socio-economic development in Nigeria.

This research makes an important contribution to knowledge, particularly in terms of how humanitarian Cash and Voucher Assistance (CVA) influences various aspects of humanitarian aid (Adeakin et al., 2021). The primary objective of the study is to provide extensive insight into the significance of humanitarian CVA in promoting financial inclusion among affected communities in need of humanitarian aid. Numerous NGOs from different parts of Nigeria offer extensive humanitarian aid. With an estimated 40% of the world's non-governmental organizations (NGOs) providing humanitarian aid to African countries, including Nigeria, it is critical to understand the model of humanitarian aid that can be pivotal not only in addressing emergency situations but also in assisting communities in Nigeria (Burton, 2020).

This research highlights a crucial knowledge gap by exploring the provision of humanitarian aid through CVA, particularly its implications for developing financial inclusion structures. In addressing the needs of those in crisis, it is essential for NGOs and other stakeholders to understand how the humanitarian CVA model works and how it can enhance the financial autonomy of individuals. This, in turn, can empower them to make financial decisions that positively impact their social lives and improve their standard of living in the long term.

The research was significant and critical in providing crucial insights regarding the research objectives. However, the study faced limitations, including time constraints, especially given the need for extensive monitoring and analysis of how the humanitarian Cash and Voucher Assistance (CVA) model applies in real-time situations. While important data was obtained in line with the research objectives and questions, additional time would have been beneficial for more extensive observational and empirical data collection.

Another limitation was the lack of adequate foundational studies on the application of the humanitarian CVA model to enhance financial inclusion among Nigeria's affected communities. The existing studies on this subject were insufficient, affecting the overall conceptual analysis of the data. To ensure more



effective research, future studies should focus on quantitatively understanding the correlation between the CVA model and financial inclusion, utilizing expansive data.

Additionally, this study was limited to Nigeria, so future research should examine the geographical application of the CVA model in developing countries globally to gain a broader scope and understanding of the correlation.

## **2. LITERATURE REVIEW**

### **2.1. The Dynamic Concept of Humanitarian Aid**

One critical area of study in the humanitarian aid system is the concept of financial inclusion, which has become a growing concern for developing countries, particularly Nigeria. Humanitarian aid significantly improves the welfare of people in Nigeria who are affected by various disasters and the ongoing conflict that has displaced many families. This study conducts a critical literature review to better understand the concept of humanitarian cash and voucher assistance (CVA) and its positive impact on financial inclusion among those affected.

Humanitarian CVA is a modern concept that has found extensive application among NGOs and humanitarian organizations. It is seen as an effective approach to providing aid to those in need without compromising their financial priorities or objectives (Vogel et al., 2022). The concept of humanitarian aid has been highly dynamic due to the evolving methods used by non-governmental organizations (NGOs) to assist those in need.

There has been a shift in the perspective of humanitarian aid in developing countries toward a more sustainable approach that better supports those in need. This change in how humanitarian aid is administered reflects evolving priorities and the needs of the people. Traditionally, aid has focused on addressing basic needs, but there is now an increased emphasis on developing more tangible and lasting solutions. This evolution in humanitarian aid is important because it also promotes financial inclusion and enhances the lives of those affected by disasters worldwide. By focusing on these aspects, humanitarian aid is becoming more effective and better suited to address both immediate and long-term needs.

### **2.2 Humanitarian Aid in Nigeria**

In Nigeria, numerous non-governmental organizations provide aid, particularly in response to the conflict in the northeastern regions that has persisted for several years. This conflict, marked by attacks from insurgent groups, has significantly impacted the local populations. It is estimated that about 8.5 million

people have been displaced by the ongoing violence in the northeast, prompting extensive efforts to provide humanitarian aid to sustain those affected. Additionally, there are approximately 2.2 million internally displaced persons in Nigeria, along with another 1.5 million returnees who have gone back to their displaced regions but still lack essential basic amenities, affecting their livelihoods.

According to Adeakin et al. (2021), there is a lack of effective efforts to establish a workable system of aid provision in Nigeria. Issues such as lack of transparency and corruption have deterred many NGOs from offering the critical aid needed by displaced Nigerians. Furthermore, there is a growing concern that humanitarian aid should be based on a model that aligns with the economic capabilities of individuals and is prioritized according to their most urgent needs. According to Abdulazeez Malefakis (2022), improving lives through humanitarian aid based on cash and voucher assistance (CVA) aims to elevate living standards by empowering recipients to use the provided cash or vouchers as they see fit. This approach allows individuals to address their most pressing needs according to their unique circumstances. However, in Nigeria, the situation is further complicated by a lack of understanding of the recipients' priorities, making it challenging to provide effective services or goods-based aid (Adeakin et al., 2021). A crucial aspect of effective aid is accurately identifying and addressing the immediate needs of those receiving assistance. Despite the current challenges, implementing a support-based approach to humanitarian CVA, which prioritizes the welfare and autonomy of the recipients, is more effective. This approach allows individuals to determine and satisfy their most urgent needs, adhering to the principles of enhancing autonomy and prioritizing recipient-determined needs.

### **2.3 Financial Inclusion and the Concept of Humanitarian CVA**

Extensive research has been conducted on humanitarian cash and voucher assistance (CVA), particularly regarding its use by humanitarian organizations in developing countries and regions in need. According to Vogel et al. (2022), financial inclusion involves providing banking or financial services to individuals, aiming to ensure that everyone in society can access financial aid and related financial services. Financial inclusion is crucial because it fosters social growth by making banking and financial services accessible to all individuals, regardless of their social class or status.

However, it is important to recognize that humanitarian aid focuses primarily on helping people and establishing support systems for those in need. The goal of NGOs promoting financial inclusion is to ensure that populations receive

financial assistance, thereby promoting economic growth among the underprivileged. This approach ultimately contributes to economic development by improving the financial status of disadvantaged communities.

The primary objectives of enhancing financial inclusion for those in need and requiring humanitarian aid are based on factors specific to the situations faced by these individuals. In Nigeria, the main challenges affecting communities include population displacements and a lack of basic commodities such as food and shelter. However, modern humanitarian aid perspectives have shifted, particularly in how humanitarian issues are approached and whether aid should be limited to the provision of basic needs in the form of goods and services (Lawson-McDowall et al., 2021).

The concept of humanitarian cash and voucher assistance (CVA) has gained prominence in modern humanitarian aid. Many organizations adopt this approach because it is associated with improving the economic situations of the underprivileged and those in need. According to Vogel et al. (2022), the utilization of humanitarian CVA is founded on a critical consideration of the economic welfare of populations in dire need of assistance. Its application in developing countries has transformed the administration of humanitarian aid, leading to improved programs that foster the growth and development of communities affected by various disasters and conflicts, especially across Africa.

## **2.4 Humanitarian Aid and the Inclusion of CVA in Aid Assistance in Nigeria**

The role of cash and voucher assistance (CVA) for the vulnerable Nigerian population is crucial. However, it is essential to clearly define the roles of the organizations providing this assistance to ensure seamless operations within the country (OCHA, 2021). Defining these roles enhances coordination and cooperation among NGOs, which is critical given the involvement of multiple organizations with often intertwined functions. Effective coordination helps create order and prevents the unnecessary duplication of roles and activities (Vogel et al., 2022).

As of February 20, 2021, the United Nations CERF support program has been involved with the CVA program globally. This task is assigned to several UN agencies, including UNHCR, FAO, IOM, and UNICEF, all classified as UN aid organizations. Therefore, it is the responsibility of the Nigerian government to establish priority areas for these agencies to focus on. It is also important to note that the approach of the government and these humanitarian agencies has shifted significantly from merely providing supplies to offering cash and voucher

assistance. This approach aims to ensure food security, provide shelter, and supply water, among other necessities (OCHA, 2021).

In several states in Nigeria, including Borno and Taraba, the population faces significant humanitarian challenges, with urgent needs such as inadequate food and shelter. To assist those affected, governmental and non-governmental agencies collaborate with local vendors and shop owners to provide food items, materials to improve shelter, and non-food items like farming equipment (Vogel et al., 2022). It is important to recognize that humanitarian aid is intended as a temporary measure to alleviate crises. Therefore, agencies must help the affected population gradually achieve food security whenever possible. This is often accomplished through training in sustainable agricultural methods specific to the area.

For communities primarily composed of crop farmers, aid includes commodities such as seeds, fertilizers, and other farming inputs. For communities of animal herders, aid includes providing animal breeds that are resistant to harsh climatic conditions. NGOs also offer multi-purpose cash to affected individuals, especially in areas where trade is still feasible. For example, trade often remains active in refugee camps, allowing the population to use cash to purchase the items and commodities they need for daily activities. Modern methods of disbursing these funds have been employed in several Nigerian states, including the distribution of electronic vouchers, or "e-vouchers," to the needy population (Ali & OCHA, 2018).

This arrangement with local traders creates a multifaceted approach to addressing the challenges arising from humanitarian crises. For instance, Boko Haram has destabilized the livelihoods of many individuals in the states it has attacked. Cash and voucher assistance allows affected individuals to access basic needs such as food, clothing, and shelter while simultaneously supporting local traders who were on the verge of closing their businesses. This approach enables communities to recover and sustain their livelihoods during difficult times.

According to OCHA's CERF Support Program for 2021, inadequate clean water and sanitation will significantly impact individuals facing humanitarian crises in Nigeria. Those affected by humanitarian crises face a substantially increased risk of illness (Lawson-McDowall et al., 2021). Cash and voucher assistance enable individuals and households to obtain clean water for daily consumption and domestic activities such as cooking (Crossley et al., 2021).

Lack of access to clean water predisposes individuals to diseases, with children particularly at risk of diarrheal diseases, which can be fatal if not promptly treated. Cash and voucher assistance facilitate coordination with local hospitals

and dispensaries to provide primary health care (Lawson-McDowall et al., 2021). In areas where this solution is impractical, CVA programs provide resources for mobile clinics and health outreaches. Additionally, CVA programs enable community members to access health services despite the locational distance between health facilities in many Nigerian states, especially in those with large geographical areas.

The challenges to sanitation in refugee camps and areas affected by natural and human-caused calamities, such as wars and clashes, cannot be understated. Cash and voucher assistance (CVA) programs, in collaboration with the affected local communities, prioritize sanitary and hygienic needs (Abdulazeez Malefakis, 2022). For instance, the availability of CVA enables coordination with locals to construct safe latrines in their villages, significantly improving overall community sanitation. Additionally, CVA supports community activism to promote awareness and discourage behaviors that negatively impact the community (Ali & OCHA, 2018).

Humanitarian crises in Nigeria and globally disproportionately affect women and children. Women, especially young girls, face significant challenges during their monthly periods. This often leads them to use unsanitary methods and makes them vulnerable to exploitation (Nnam et al., 2018). According to the International Federation of Red Cross and Red Crescent Societies (ICFC), cash and voucher assistance aims to provide humanitarian responses that help affected individuals maintain dignity in their daily lives. Cash and voucher assistance enable women and girls to acquire sanitary products and equip them with knowledge about more hygienic methods.

In the face of humanitarian crises, individuals are either subjected to harm and other vices perpetuated by perpetrators of conflict, or opportunistic individuals seek to profit from the calamities that have befallen the vulnerable population (Lawson-McDowall et al., 2021). For instance, in the wake of the COVID-19 pandemic, reports of misuse and misappropriation of funds arose in Nigeria. These funds were meant to mitigate the effects of the pandemic, but success rates were significantly low due to improper utilization. Cash and voucher assistance aim to protect the population directly affected by such pandemics. In Nigeria, the pandemic caused significant losses in livelihoods, leading to poverty and the inability to access basic needs. In response, significant efforts by the government and non-governmental organizations were initiated to assist the affected population with cash and voucher assistance, enabling them to acquire food and other basic commodities, which proved largely successful (Obaro-Akporo & OCHA, 2018).

In the same vein, cases of gender-based violence significantly increase due to

the stressful conditions people endure during humanitarian crises. However, regardless of the presence or absence of such crises, instances of gender-based violence in Nigeria are on the rise (Adejumo et al., 2021). The data on violence against women and children paints a grim picture of a dire situation that requires immediate action. While not all cases can be directly attributed to humanitarian crises, the hardships they bring significantly exacerbate gender-based violence within Nigerian households (Paul, 2022). Therefore, the most practical approach is to empower women in Nigerian households. Cash and voucher assistance aim to alleviate the financial and logistical difficulties people face during crises (Lawson-McDowall et al., 2021).

Cash and voucher assistance also play a significant role in child protection. Children are severely affected by the impacts of humanitarian crises, becoming more susceptible to illnesses due to poor nutrition. Malnutrition predisposes children to conditions like marasmus and protein-energy malnutrition, further deteriorating their health and increasing their mortality rates. Cash and voucher assistance enables parents to provide their children with nutritious meals and access to clean water, essential for their growth and development (Abdulazeez Malefakis, 2022).

Importantly, children in Nigerian states like Borno and its bordering towns like Yobe are prone to child trafficking. As the war instigated by armed groups like Boko Haram rages on, children are taken from their parents to serve as child soldiers in the illegal forces, and young girls are especially taken as sex slaves (Abdulazeez Malefakis, 2022). It is disheartening to note that, while they are usually taken forcibly, their families or friends willingly join these groups to escape hopeless and difficult economic conditions back home, under the manipulated and deluded belief that by trading some, they will have a better life. Cash and voucher assistance programs aim to minimize the economic burdens on Nigerian households residing in the most affected states of the country. Also, in collaboration with locals in the villages, the resources are used to create safe shelters for those children who are likely to be exploited to abet these heinous vices (Nnam et al., 2019).

Cash and voucher assistance primarily aims to empower communities to cope with challenging humanitarian conditions. Education plays a significant role in overall community empowerment efforts, prompting governmental and non-governmental agencies to focus on educating the population, particularly at the primary level (Abdulazeez Malefakis, 2022). Literacy significantly enhances community well-being.

In collaboration with local partners, cash and voucher assistance programs aim to provide basic education to women and children as a specific cohort group.



These programs allocate resources to teach basic knowledge and skills, emphasizing proper hygiene and the preparation of nutritious meals using locally available ingredients. By incorporating these healthy practices into daily routines, the overall health of the community is improved in the long term (Vogel et al., 2022).

Cash and voucher assistance (CVA) programs recognize the significant role men play in their communities, especially in an African context like Nigeria. In Nigeria, men are primarily the heads of households and the main breadwinners (Maghsoudi et al., 2019). When men's economic capabilities are threatened by natural events such as the COVID-19 pandemic or human conflicts like wars in certain Nigerian states, the economic well-being of the entire family is impacted (Babatunde & Olagunju, 2020). Therefore, CVA helps families meet their basic needs during difficult times.

Importantly, CVA aims to educate men on how to adapt to and cope with prevailing hardships. This is achieved by providing them with the knowledge and skills needed to make a living under challenging conditions. For instance, offering farmers inputs and implements such as seeds and fertilizer is highly beneficial. Coupled with practical training on modern, more efficient farming methods, these initiatives enable affected individuals to sustain their livelihoods, albeit on a smaller scale (Adelaja & George, 2019).

## **2.5 Significance of Establishing Functional Humanitarian CVA Models**

Various studies have analyzed the dynamics of humanitarian aid using cash and voucher assistance (CVA), revealing diverse opinions from both academic scholars and stakeholders, primarily NGOs involved in this effort (Okunade & Ogunnubi, 2020). The economic development of individuals affected or in need depends on the type of assistance they receive. As global assistance programs have evolved, ongoing research highlights a modernized approach to utilizing CVA, making it more relevant given the changing systems of humanitarian aid and the priorities of those affected. It is important to note that humanitarian aid systems are dynamic and evolving, with more organizations considering both the short-term and long-term aspects of the assistance provided to affected populations.

According to Chehade et al. (2020), humanitarian assistance using the cash and voucher assistance (CVA) approach is a critical mechanism that not only fosters the growth and development of essential functional systems but also creates a model that can significantly improve the economic and social conditions of those affected. The use of CVA is linked to substantial contributions, particularly in

enhancing financial inclusion for the recipients and their families. It is crucial to balance enabling affected families to improve their lifestyle with giving them the autonomy to choose what will benefit them most.

As models of assistance evolve globally, CVA is increasingly seen as essential for promoting financial inclusion among affected families. Holloway et al. (2021) note that while various systems can be applied, the novel approach of CVA ensures that affected populations can achieve a higher degree of autonomy regarding the use of the financial aid they receive. Despite challenges in implementing this approach, such as issues of mismanagement and lack of transparency in fund disbursement, Okunade & Ogunnubi (2020) highlight that these problems critically impact the efficacy of CVA. Additionally, there are concerns with the internal systems that ensure CVA is effectively executed, both at the organizational level and on the ground where the affected populations are located.

Despite significant challenges, the importance of the cash and voucher assistance (CVA) approach cannot be overstated. Its effectiveness and relatively low logistical demands make it a vital component of modern aid strategies. Traditional methods of providing basic needs, such as services and products, are often more cumbersome and costly (Lawson-McDowall et al., 2021). Additionally, there are differing opinions on the long-term sustainability of CVA, particularly in aid programs.

However, despite some drawbacks, the CVA approach has several positive aspects. It enhances financial inclusion and contributes to the economic growth of recipient families. This model also increases autonomy, allowing families to prioritize their immediate and future needs. In the long run, CVA is viewed as an effective aid approach, especially for delivering humanitarian assistance. It focuses on individual needs rather than generalized basic needs, which may not address the actual situations faced by those in need (Okunade & Ogunnubi, 2020).

### **3. METHODOLOGY**

The research method was essential in guiding the progression of the study. The methodological criteria, which were based on the research questions, were critical to the overall development of the research. The following section outlines the various methodological approaches, including the philosophy that shaped the research methodology.

#### **3.1. Research Approach**

The research approach adopted for this study was a quantitative methodology, utilizing a survey questionnaire distributed to NGOs operating in Nigeria. The

survey questionnaire was used to obtain initial primary data from the participants, which included the NGOs in Nigeria. This initial data was essential for understanding the study's topic and addressing the research questions.

The quantitative approach was preferred because it allowed for easy comparison of the variables in the questionnaire. These variables were crucial to the research, and their analysis—particularly in relation to humanitarian CVA and financial inclusion—was necessary to establish correlations from the research data. Additionally, the demographic data obtained were evaluated quantitatively to understand various parameters that would inform the research foundation, particularly regarding the study topic.

Quantitative research provided strong empirical evidence, especially given that the data were collected primarily through a survey questionnaire. The format of the questionnaire and the survey methodology are described in subsequent sections. Obtaining relevant data was important for providing substantial information to answer the key research questions. According to research conducted in 2020, using quantitative data analysis as the primary approach improves overall results and establishes important variable analyses substantiated by quantified data.

Thus, the research approach for this study was a quantitative survey aimed at understanding the significance of humanitarian CVA and its contribution to overall financial inclusion in Nigeria, a developing nation in Africa.

### **3.2 Research Philosophy**

This research adopted an interpretivist philosophy, which considers the social and cultural influences on individuals. This approach emphasizes the ideologies of people and how their thoughts shape their social and cultural contexts. Crucially, the interpretivist approach guided the development of this thesis, emphasizing the thoughts, meanings, and actions of participants to enhance understanding of the application of CVA as a key element for promoting financial inclusion in Nigeria's humanitarian assistance efforts.

Individuals in a social context play a vital role, particularly in shaping social cohesion. They influence ideologies through their lifestyles and their social, economic, and political development. By understanding how people form their orientations and perspectives on significant community issues, this research employed an interpretivist philosophy to accurately address the cultural challenges people face, especially concerning humanitarian CVA. Additionally, it explores how financial inclusion can be achieved through modernized practices that support growth and economic development at both individual and societal levels.

### 3.3 Research Design and Sampling

The research employed a quantitative design, collecting data through a survey questionnaire. This questionnaire was designed to maximize responses from participants. The sampling process utilized a stratified sampling approach, focusing on clusters of selected organizations, primarily NGOs operating in Nigeria. The study critically assessed their opinions and perceptions regarding the concept of CVA, with Nigeria as the core case study.

Primary data were collected through the questionnaire, while the key themes were informed by emerging themes identified in the literature review, which involved secondary studies on humanitarian CVA and its impact on financial inclusion and related aspects in developing countries. The sample size consisted of 15 NGOs operating in Nigeria. This sample size was considered sufficient to provide valuable data that could be effectively generalized and used for analysis.

### 3.4 Survey Questionnaire Format

The survey questionnaire included both closed-ended and open-ended questions. The closed-ended questions aimed to elicit maximum responses from participants, while the open-ended questions encouraged diverse opinions and perspectives on the study's subject. The questions were arranged thematically to ensure clarity and comprehension for participants.

The survey covered a range of topics, from demographic questions to the key themes identified during the research. It also featured extensive questions, allowing participants to provide in-depth responses on various aspects of the study. Participants had two weeks to complete the questionnaire, after which they were to email it back to the researcher electronically. This approach was designed to ensure convenience in the data collection process.

### 3.5 Data Collection and Analysis

Data was collected electronically, with participants required to email their responses back to the researcher. A survey questionnaire was sent to participants along with an information sheet and a consent form, which had to be signed before participation. The questionnaire was emailed directly to the participants, and hard copies were also available upon request. Participants were asked to complete and return the survey questionnaire as promptly as possible.

A qualitative analysis was conducted using SPSS software, presenting the analyzed data through tables and other analytical methods. The data was then analyzed to identify correlations using statistical analysis via SPSS. This analysis revealed various correlations, illustrating how humanitarian CVA relates

to the enhancement of financial inclusion in communities affected by crises in Nigeria. The analysis was conducted incrementally, guided by the research questions, which formed the basis for understanding various aspects and determining whether the research questions were answered.

### **3.6 Ethical Considerations**

The ethical considerations for the research involved having participants complete an informed consent form before participating. The information sheet and consent form were essential in ensuring compliance with research ethics. Participants were informed about the purpose of the research and all relevant requirements. They were expected to provide honest responses and maintain professionalism in answering the questions, which was crucial for obtaining reliable and accurate data.

Participation in the study was entirely voluntary, with no monetary compensation offered for participants' time. Participants had the right to withdraw from the study at any time, ensuring that no one was coerced into participating.

To ensure anonymity and confidentiality, no personally identifiable information was attached to the data. Any personal information collected was kept confidential, enhancing data privacy. Additionally, the research avoided questions that could expose participants' individual or private information, ensuring that their personal details remained protected.

The questionnaire was distributed online to collect primary data, ensuring privacy for each participant. A secure link was provided for participants to download the questionnaire, safeguarding the security of the collected data. Once respondents completed the questionnaire, the forms were collected and reviewed to ensure no personally identifiable information was included. Participants also returned a fully signed consent form with their responses, indicating their agreement to participate in the research.

Both electronic and physical libraries were used to gather and store secondary data. Relevant data were collected from appropriate journals, publications, books, and experiments based on their relevance to the research. This secondary data was crucial in informing the research progression. Additionally, the collected data was encrypted to ensure security, and access to unanalyzed data was restricted.

## **4. DATA ANALYSIS AND FINDINGS**

The data obtained was analyzed using a quantitative approach. Microsoft Excel and SPSS were utilized to understand various variables within the specific data sample of the research. It is important to note that different statistical tests were performed on the provided data.

### 4.1 Data collection

From a sampled population of 15 NGOs operating in Nigeria, 13 responses were received. This significant data could be easily generalized to address the key hypotheses and objectives of the study. These 13 responses, based on research themes presented as part of the study's objectives, proved critical in providing primary data for significant analysis to understand humanitarian CVA and its applicability, particularly in relation to NGOs.

Additionally, the secondary data provided a basis for analyzing the primary data. Previous studies on humanitarian CVA and its application offered important themes and findings that were compared with the data findings in this section. A discussion of the correlation between these findings revealed important research gaps that this current research aims to significantly address.

### 4.2 Descriptive Statistics

The data from the 13 Nigerian NGOs was analyzed. Descriptive statistics revealed the mean and standard deviation for each response. Notably, the community's approval of humanitarian CVA exhibited the highest standard deviation at 0.277, whereas the modalities used in CVA utilization had the lowest standard deviation at 0.801, as shown in Table 1.

**Table 1: Descriptive statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Is your organization involved in humanitarian aid programs and do you understand the meaning of humanitarian cash and voucher assistance (CVA).	13	1	1	1	0
Does your organization implement one or more cash-based intervention projects or programmes between 2018 and 2020?	13	1	2	1.46	0.519
Which of these modalities does your organization use for humanitarian CVA between 2018 and 2020?	13	1	3	1.85	0.801
Access to a transaction account is the first step toward broader financial inclusion according to World Bank Group. How does your organization mainstream this first step into your cash transfer programming over that period of 3 years?	13	1	3	1.69	0.63
What is the 2 number of beneficiaries your organization was able to reach through your CVA since 2019?	13	1	2	1.23	0.439
Do you believe that CVA models critically impact on financial inclusion?	13	1	1	1	0
Does the affected population approve and take positively the contribution of humanitarian aids to their social and economic inclusion?	13	1	2	1.08	0.277



Considering the number of beneficiaries reached through CVA between 2018 and 2022, how will you rate your organization's CVA projects or programmes to the expansion of financial inclusion in Nigeria?	13	1	2	1.46	0.519
Is your NGO implementing one or more cash-based intervention projects or programmes in the current year (2022)?	13	1	1	1	0
Has the outbreak of the COVID-19 pandemic contributed toward increased use of CVA in reaching beneficiaries as against in-kind modality	13	1	2	1.38	0.506
Valid N (listwise)	13				

### 4.3 Correlation

The correlation was also determined. The findings revealed an overall positive Pearson correlation of 0.417. This was based on the two significant correlations between humanitarian CVA and the financial inclusion aspect among the affected populations in Nigeria.

**Table 2: Correlation between cash-based intervention project and financial inclusion**

		Does your organization implement one or more cash-based intervention projects or programmes between 2018 and 2020?	Considering the number of beneficiaries reached through CVA between 2018 and 2022, how will you rate your organization's CVA projects or programmes to the expansion of financial inclusion in Nigeria?
Does your organization implement one or more cash-based intervention projects or programmes between 2018 and 2020?	Pearson Correlation	1	0.417
	Sig. (2-tailed)		0.157
	N	13	13
Considering the number of beneficiaries reached through CVA between 2018 and 2022, how will you rate your organization's CVA projects or programmes to the expansion of financial inclusion in Nigeria?	Pearson Correlation	0.417	1
	Sig. (2-tailed)	0.157	
	N	13	13

### 4.4 T-Test

One-sample statistics were conducted for all the data to understand the various means, standard deviations, and standard error means. Additionally, effect tests were performed to comprehend the confidence levels, whether lower or higher, with a standard 95% confidence level. The posted questions and obtained data were analyzed to determine the effect sizes and confidence levels, providing crucial insights into the key research question.

**Table 3: One-Sample Effect Sizes for T-Test**

	Standardizer <sup>a</sup>	Point Estimate	95% Confidence Interval	
			Lower	Upper

Does your organization implement one or more cash-based intervention projects or programmes between 2018 and 2020?	Cohen's d	0.519	2.817	1.568	4.044
	Hedges' correction	0.554	2.636	1.468	3.785
Which of these modalities does your organization use for humanitarian CVA between 2018 and 2020?	Cohen's d	0.801	2.306	1.233	3.354
	Hedges' correction	0.855	2.158	1.154	3.139
Access to a transaction account is the first step toward broader financial inclusion according to World Bank Group. How does your organization mainstream this first step into your cash transfer programming over that period of 3 years?	Cohen's d	0.63	2.684	1.482	3.864
	Hedges' correction	0.674	2.512	1.387	3.617
Does the affected population approve and take positively the contribution of humanitarian aids to their social and economic inclusion?	Cohen's d	0.277	3.883	2.249	5.5
	Hedges' correction	0.296	3.634	2.105	5.148
What is the 2 number of beneficiaries your organization was able to reach through your CVA since 2019?	Cohen's d	0.439	2.807	1.561	4.03
	Hedges' correction	0.469	2.627	1.461	3.772
Has the outbreak of the COVID-19 pandemic contributed toward increased use of CVA in reaching beneficiaries as against in-kind modality	Cohen's d	0.506	2.734	1.515	3.932
	Hedges' correction	0.541	2.559	1.417	3.68
Considering the number of beneficiaries reached through CVA between 2018 and 2022, how will you rate your organization's CVA projects or programmes to the expansion of financial inclusion in Nigeria?	Cohen's d	0.519	2.817	1.568	4.044
	Hedges' correction	0.554	2.636	1.468	3.785

a. The denominator used in estimating the effect sizes.

Cohen's d uses the sample standard deviation.

Hedges' correction uses the sample standard deviation, plus a correction factor.

## 4.5 Reliability Test

Reliability is determined by the consistency of results across different testing occasions, test editions, and scoring raters who evaluate the obtained responses. Based on the data collected, all cases were deemed valid, and the case processing summary is provided from the reliability test. The Cronbach's alpha was found to be 0.330 from a sample of 13 items.

**Table 4: Reliability Case Processing Summary**

Case Processing Summary			
		N	%
Cases	Valid	13	11.5
	Excluded	100	88.5
	Total	113	100

a. Listwise deletion based on all variables in the procedure.

### Reliability Statistics

Cronbach's Alpha	N of Items
0.33	10

#### 4.6 Research Objectives and Interpretations

The key research objectives provided essential guidelines for analyzing the collected data. From this analysis, critical aspects and interpretations were identified and linked to the objectives.

*Research Objective 1:* To determine the role of humanitarian CVA programs in Nigeria in promoting financial inclusion and economic empowerment.

This objective was crucial for understanding financial inclusion and economic empowerment in Nigeria. The findings evaluated this element in relation to the objective. The analysis revealed that nearly all organizations in Nigeria participated in humanitarian CVA programs. The focus was on their contribution to financial inclusion, particularly through the CVA model for humanitarian aid. Burton (2020) emphasizes that accessibility of humanitarian aid via CVA is a critical factor in assessing financial inclusion in affected communities. The results analyzed access to transaction accounts, which is the first step toward broader financial inclusion. Bank accounts and mobile money were the preferred methods for accessing financial benefits, with 38.5% and 53.8% usage, respectively. All NGOs involved in the study agreed that CVA models improve financial inclusion. Additionally, 92.3% of the communities perceived CVA models positively in terms of social and economic inclusion, while 7.7% moderately approved their contribution.

*Research Objective 2:* To identify the main CVA practices in Nigeria and their link to financial inclusion.

The analysis focused on understanding various CVA models and their impact on financial inclusion. Questions were posed to NGOs to determine their use of different CVA modalities. The main practices identified were:

- Cash transfers through mobile money agents at distribution sites (38.5%)
- E-vouchers redeemable at selected retailers (38.5%)
- Direct transfers to beneficiaries' bank accounts (23.1%)

No NGOs reported using prepaid cards for humanitarian CVA between 2018 and 2020. From 2018 onwards, 53.8% of NGOs frequently used cash-based interventions, while 46.2% used them moderately. This study highlights that the primary CVA practices in Nigeria are cash transfers via mobile money agents and e-vouchers for store redemption.

#### 4.7 Summary of Findings

The research findings were closely aligned with the key objectives and research

questions. The analysis showed that nearly all organizations participated in humanitarian cash and voucher assistance (CVA) programs. Specifically, 53.8% of NGOs implemented CVA extensively, while 46.2% did so moderately, with no organizations abstaining from CVA use.

According to Adeakin et al. (2021), inclusive access to transaction-based financial systems is essential for financial inclusion. Beneficiaries emphasized the importance of transaction access through bank accounts and prepaid card accounts, with 53.8% favoring prepaid cards and 38.5% favoring bank accounts. Most NGOs reached over 20,000 beneficiaries, with only 15.4% reaching fewer than 10,000. All organizations agreed that CVA models positively impacted financial inclusion: 46.2% reported an average impact, and 53.8% reported a significant impact. Additionally, the adoption of CVA models was influenced by COVID-19, with 61.5% of NGOs noting a significant impact and 38.8% being unsure.

## **5. CONCLUSION AND RECOMMENDATIONS**

Research into the humanitarian application of Cash and Voucher Assistance (CVA) is a crucial and contemporary area that requires further academic exploration and understanding. This study makes a significant contribution to the body of knowledge, especially regarding the practice of humanitarian CVA by NGOs in Nigeria.

The first section offers a comprehensive introduction to the topic and an in-depth analysis of the study's background. The identified research problem is the lack of sufficient studies on the application of CVA models in humanitarian assistance programs. This issue is particularly relevant in the developing world, where NGOs frequently provide humanitarian aid.

The research aimed to determine whether the modern application of humanitarian CVA, especially in developing nations like Nigeria, positively impacts financial inclusion. The primary objective was to ascertain the role of humanitarian CVA in enhancing financial inclusion within affected communities through the implementation of applicable CVA models.

Section 2 provided an extensive literature review to understand various aspects and concepts related to humanitarian cash and voucher assistance (CVA). The review discussed clear theoretical perspectives, including the evolution of humanitarian assistance models. Foundational aspects were addressed, emphasizing that financial inclusion remains a key component of the study, particularly for affected communities in Nigeria. It was evident that many communities in Nigeria are impacted by the ongoing conflict in the Northeast between militant groups and the government, leading to widespread

displacement.

The analysis of humanitarian CVA models highlighted financial inclusion as a crucial factor for enabling self-sufficiency in affected communities. While the provision of basic essentials has traditionally been an important form of aid, current literature suggests a need to explore different modalities of humanitarian assistance programs. Consequently, the CVA model has emerged as a critical concept in the literature. Despite the considerable attention given to CVA models and related concepts, there is still limited knowledge providing a clear analysis of these models and their role in improving financial equity and inclusion in Nigeria and other developing nations, particularly in Africa.

Section 3 extensively details the research methodology to ensure the collection of crucial data and its effective application. The methodology followed a quantitative research approach, utilizing survey questionnaires sent to various NGOs operating in Nigeria. Adhering to ethical research principles, this approach was deemed the most effective for maximizing responses from participants. Data and findings were collected from the NGOs and analyzed using SPSS, with the results clearly presented in Section 4.

The examination of humanitarian CVA models revealed their significant impact on financial inclusion. Their adoption by NGOs in Nigeria has been widespread. The findings indicate that NGOs, by employing humanitarian CVA practices, recognized the model's convenience and its contribution to improved humanitarian welfare among affected populations. Consequently, the humanitarian CVA model is perceived as a relevant practice in modern humanitarian assistance programs, enhancing the social and financial welfare of affected communities while ensuring they have increased autonomy in addressing their immediate needs.

The research questions served as an essential guide for the progression of the study, significantly influencing the research methodology. The questions aimed to understand the impact of humanitarian CVA practices on financial inclusion among affected individuals in Nigeria. Data analysis and findings demonstrated the extensive benefits of utilizing humanitarian CVA models, particularly in enhancing financial inclusion among affected populations in Nigeria.

Additionally, the findings related to the second research question highlighted the crucial role of NGOs in the effective implementation of CVA models. NGOs play a vital role in promoting financial inclusivity by ensuring financial inclusion among affected communities and empowering them financially. This empowerment helps enhance their lifestyles and significantly improves the performance of the CVA models applied.

The research significantly contributed to new knowledge by establishing a foundation for exploring the concept of humanitarian CVA and its link to financial inclusion. Key themes emerged regarding the varying levels of needs among affected communities, questioning whether these needs warrant basic community assistance or require enhanced autonomy for individuals to choose which needs to fulfill, thereby improving their economic welfare. This critical insight underscored the relevance of humanitarian CVA in enhancing the overall economic empowerment of affected communities in Nigeria.

Additionally, the research indicated that most NGOs were engaged in CVA programs within their organizations. This involvement suggests that the application of humanitarian CVA is considered an effective model for positively impacting the economic and financial inclusion of affected communities in Nigeria.

The research provided valuable insights and information on the topic of study. While the findings were substantial, they successfully addressed the research questions and achieved the primary objectives. However, further recommendations are necessary for future studies on this topic and related subjects.

Future research should employ a broader sample scope in its methodology, gathering key perceptions and perspectives from a wider population. This approach will enable generalizations based on majority observations, enhance financial outcomes, and enhance understanding of the research objectives. Additionally, future studies should adopt agile methodologies, incorporating mixed methods and other statistical sampling techniques, to improve the research's validity.

Finally, it is recommended that future studies focus on financial inclusion and explore modalities that can be used alongside CVA models to ensure long-term economic empowerment and sustained financial inclusion.

## **DISCLOSURE OF CONFLICT**

The author declare that no conflicts of interest exist.

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## MACROECONOMIC IMPACTS OF FDI INFLOWS: AN EMPIRICAL ANALYSIS FROM SOUTH AFRICA

Ahmed Oluwatobi Adekunle\* |

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# MACROECONOMIC IMPACTS OF FDI INFLOWS: AN EMPIRICAL ANALYSIS FROM SOUTH AFRICA

Ahmed Oluwatobi Adekunle\*

## ABSTRACT

This study evaluates macroeconomic impacts of FDI inflows on South Africa (SA) economy. The study employed Johansen cointegration test, block exogeneity test and Vector Error Correction Model (VECM) to evaluate the variables spanning over 1986-2021. It has been demonstrated that there is a unidirectional causal relationship between export and economic growth, an increase in exports (EXP) causes a rise in SA's economic growth. Economic growth and REXR were found to be causally related, indicating that higher Real Exchange Rate (REXR) values correspond to higher economic growth. Moreover, there is no correlation between FDI inflows and economic expansion. On the other hand, looking at the non-significant levels between External debt (EXTD) and CGDP indicates that the stock of external debt does not drive growth in SA. The study recommends a standardized export agency should be established to oversee the exportable units, their quality, and the standardization of goods and services, necessitating the implementation of an efficient export policies.

## KEY WORDS:

*Foreign Direct Investment (FDI), Economic Growth, Exports*

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## 1. INTRODUCTION

As financial and economic cooperation between rich and developing nations has grown, foreign direct investment (FDI) has become more and more significant in global industry. Since FDI flows are thought to have a favorable effect on a number of macroeconomic factors, including exports and GDP, they are a preferred type of foreign investment for developing nations over foreign portfolio investments. However, a spike or reversal in FDI inflow can make managing the macroeconomic system or an economy's foundations more difficult. Additionally, this could create economic and financial problems for the host nation (Al-Delawi et al., 2023; Dang & Nguyen, 2021; Joo & Shawl, 2023; Mohanty et al., 2024; Sunde, 2023; Khan & Wyrwa, 2025; Moreau & Aligishiev, 2024). A spike may cause the currency rate to rise or fall and/or reduce the competitiveness of the domestic market, which could have long-term consequences (with major negative implications in case of a quick reversal).

Research on developing nations demonstrates that foreign direct investment (FDI) is essential to the nation's long-term economic growth because it increases the availability of capital, fortifies infrastructure, transfers technology, and creates new job opportunities, all of which increase productivity and the competitiveness of the home economy. (Bhasin & Gupta, 2017; Iwasaki & Tokunaga, 2014; Alfaro et al., 2004; Balasubramanyam et al., 1996; Basu et al., 2003; Bhasin, 2012; Bhasin, 2016; Chowdhury & Mavrotas, 2005; Hansen & Rand, 2006; Jajri, 2009; Kumar & Pradhan, 2002; Makki & Somwaru, 2004; Nair-Reichert & Weinhold, 2001; Zhang, 2001). In the meanwhile, there is a chance that it will degrade local capabilities, take advantage of the resources of host countries, or even behave in a neutral manner. ((Chenaf-Nicet & Rougier, 2016) Carkovic & Levine, 2002; De Mello, 1999; De Mello & Fukasaku, 2000; Haddad & Harrison, 1993; Johnson, 2006).

While the host country's FDI drivers are now widely recognized, little research has been done on the country's macroeconomic features. Even though this issue is undoubtedly of great relevance for developing nations whose external balance of trade and financing of growth substantially rely on foreign capital inflows, there has not been much research done on how sensitive foreign direct investment (FDI) is to uncertainty in the source country. Numerous studies have attempted to use aggregate indices of global instability to explain aggregate FDI inflows or outflows (Albuquerque et al., 2005; (Bhasin & Gupta, 2017; Méon & Sekkat, 2012; Awad, 2020; Cahyadin & Sarmidi, 2019; Skare & Cvek, 2020).

However, the macroeconomic features of the source nation, which could influence FDI, cannot be addressed by employing such aggregate measurements. In fact, relatively few studies have attempted to discuss how the macroeconomic circumstances of the source nation affect bilateral flows. By calculating a gravity model of bilateral foreign direct investment flows between OECD countries from 1985 to 2007. According to Cavallari and D'Addona (2013), FDI has a tendency to rise in source countries with higher production volatility. With an emphasis on North-South FDI, Lysandrou et al. (2016) estimated a gravity model and discovered that FDI originating in the US and Europe tended to be countercyclical with regard to the cycles of interest rates and output in the source nation. The authors claim that the tendency of FDI outflows and local investment to shift in opposing directions during cycles in the US and Europe can be explained by investor arbitrage among various investment possibilities. It is evident that FDI sensitivity to the business cycle and production instability of a source country are two crucial factors for anyone wishing to comprehend FDI instability. As far as we are aware, there has never been any testing done on the conditioning effect of trade integration on the link between macroeconomic volatility and foreign direct investment.

Given the perceived significance of foreign direct investment (FDI) inflows to emerging economies such as South Africa, it is even more critical to determine whether the increasing FDI inflows are genuinely given stated apriori expectation on key macroeconomic indicators such as rate of change in gross domestic product (CGDP), export (EXP) and real exchange rate (REXR). In this research, the study employed robust vector error correction model (VECM) technique to revisit the link amid significant macroeconomic indicators, including CGDP, EXP, REXR, and the inflows of FDI into SA throughout the period of 1986-2021."

## 2. LITERATURE REVIEW

The effects and factors that influence economic investments are discussed in a number of theoretical models. Nevertheless, there are not many theoretical underpinnings that debate how FDI affects economic expansion. Wang and Swain (1997) investigated the connection between China's export performance and foreign direct investment. The findings demonstrated that FDI benefited China's exports, especially when it came to export volume and product variety. According to the study, FDI was essential to China's industrial structure modernization and increased export competitiveness. Using panel data on manufacturing exports, Pain and Wakelin (1998) investigated the impact of foreign direct investment (FDI) on export performance across 11 OECD nations between 1971 and 1992. The findings showed that inward foreign direct



investment (FDI) improves export performance, but outbound FDI reduces export market share. Bengoa and Sanchez-Robles (2003) examined the effect of foreign direct investment (FDI) on export performance in a sample of 69 developing nations. The study discovered a strong and favorable correlation between export growth and FDI inflows. The results showed that FDI fosters knowledge spillovers, human capital development, and technological advancement, all of which support export growth.

Researchers have discovered that FDI inflows tend to increase significantly in countries with robust legal systems, superior governance infrastructure, and high rankings on a variety of macroeconomic metrics. Some of these investigations are discussed in depth (Globerman et al., 2002). examined how governance affected foreign direct investment in 144 developed and developing countries between 1995 and 1997. They came to the conclusion that the governance infrastructure—which includes political, legal, and economic growth—has a major impact on FDI inflows and outflows (Jakobsen et al., 2006). studied the impact of democracy on foreign direct investment inflows into a sample of 98 developing countries between 1984 and 2004.

Okechukwu et al. (2018) investigated the long-term effects of foreign direct investment (FDI) on Nigerian exports using the autoregressive distributed lag (ARDL) model. The findings demonstrated that, over time, FDI significantly boosts total exports. An autoregressive distributed lag limits cointegration test was estimated by Mukhtarov et al. (2019) to investigate the effect of foreign direct investment on exports in Jordan between 1980 and 2018. According to the study, FDI and export have a strong, positive long-term link. The findings indicated that exports improve by 0.13% for every 1% increase in FDI. Basilgan and Akman (2019) used the ARDL technique to examine how foreign direct investment (FDI) affected Turkey's exports between 2005 and 2019. The findings demonstrated that FDI had a positive and statistically significant impact on exports, with a 1% increase in FDI leading to a 39% long-term increase in exports. Many research, including Prasanna (2010), Njong and Tichakounté (2011), and Haq (2012), also showed evidence of a positive association between FDI and export growth. These studies revealed that FDI had a beneficial impact on export performance in their respective countries. However, a generalized method strategy was used in a previous work by Carkovic and Levine (2002) to analyze the link between FDI and export from 1960 to 1995. According to the study, FDI has a detrimental impact on growth. Studies like Saqib et al. (2013) in Pakistan reported similar results, while Nguyen et al. (2012) concluded that FDI had no effect on export performance. Using an autoregressive distributed lag (ARDL) technique, Musti and Mallum (2020)

investigated the link between foreign direct investment (FDI) and export performance in Nigeria and discovered that FDI has no discernible direct impact on exports.

An ARDL model was generated in a recent work by Gebremariam and Ying (2022) to investigate the empirical relationship between FDI and Ethiopia's export performance from 1992 to 2018. The findings showed that there was no significant correlation between FDI and export success. The nonlinear autoregressive distributed lag was used in a recent study by Matekenya and Moyo (2023) to investigate how foreign direct divestments (FDD) affected South Africa's growth from 1991 to 2019. The findings showed that overseas divestitures have a negative impact on economic development and growth. Additionally, the results showed that overseas investments have more beneficial spillover effects than foreign divestitures. It is important to remember that the results showing a negative impact of FDI on growth and exports are incompatible with economic theory because FDI is supposed to bring new technologies, business know-how or skills transfer, and improved production techniques, all of which would boost output growth and eventually exports.

### 3. METHODS

This report includes the most important factors that are impacted by inflows of foreign direct investment and affect foreign investors' choices to participate in South African markets. Consequently, the study examines the relationship between FDI inflows, CGDP, EXP, EXTD, and REXR between 1986 and 2021. The variables utilized were sourced from the World Development Indicator Database (WDI, 2021). The study examines the link between variables using the more recent and trustworthy VECM and the Granger Causality Test. Johansen and Juselius (1990) employed the conventional cointegration approach, which computes long-term relationships within the context of an equation system.

The VECM technique uses a single reduced form of the problem. Determining whether the underlying regressors are pure  $I(0)$ , pure  $I(1)$ , or a combination of the two is also essential because this approach includes pre-testing variables. When using VECM, care must be taken because variables of type  $I(2)$  should not be utilized as this could lead to inaccurate results.

Additionally, the VECM model removes the need for extensive specification on the number of exogenous and endogenous variables (if any), the handling of deterministic elements, and the optimal order in which to use lags. More importantly, it has been demonstrated that the VECM approach produces more reliable and consistent results when utilizing predictable sample sizes.

$$CGDP = f(EXTD, EXP, FDI, REXR) \quad (1)$$

Where

CGDP	=	Change in gross domestic product
EXTD	=	External debt stocks, total (DOD, current US\$)
EXP	=	Export
FDI	=	Foreign direct investment net inflow
REXR	=	Real exchange rate

The econometric specification of the model is specified below:

$$CGDP = EXTD + EXP + FDI + REXR \quad (2)$$

$$CGDP = \beta_0 + \beta_1 EXTD + \beta_2 EXP + \beta_3 FDI + \beta_4 REXR \quad (3)$$

$$CGDP = \beta_0 + \beta_1 EXTD + \beta_2 EXP + \beta_3 FDI + \beta_4 REXR + \kappa \quad (4)$$

$$CGDP = \beta_0 + \beta_1 EXTD + \beta_2 EXP + \beta_3 FDI + \beta_4 REXR + \hat{e} \quad (5)$$

CGDP is the endogenous variable while REXR, FDI, EXP and EXTD are the exogenous variables. Equation (5) is modelled to show the connection amid CGDP and other specified variables in South Africa (SA).  $\beta_0 - \beta_4$  are the parameters to be estimated in the model..

### 3.1. Findings and Discussion

Table 1 below presents the unit root test which denotes  $I(0)$  and  $I(1)$  which serve as indicator for applicability of VECM for the study; the Schwarz information criteria is used to determine the optimal lag selection, which is based at 2 (see Table 2).

**Table 1: Unit root**

		DF Null ( $H_0$ ): Non-stationary				ADF Null ( $H_0$ ): Non-stationary			
		$\tau_{\mu}$	1%	5%	Prob.	$\tau_{\tau}$	1%	5%	Prob.
Intercept without Time Trend	<i>CGDP</i>	3.65	2.63	1.95	0.00	4.26	3.63	2.94	0.00
	<i>EXP</i>	1.97	2.63	1.95	0.00	2.02	3.63	2.95	0.27
	<i>EXTD</i>	1.40	2.63	1.95	0.17	1.37	3.63	2.95	0.99
	<i>RER</i>	2.20	2.63	1.95	0.03	4.15	3.63	2.95	0.00
	<i>FDI</i>	2.64	2.63	1.95	0.00	2.41	3.64	2.95	0.14
	$\Delta CGDP$	4.08	3.77	3.19	0.00	10.92	3.63	2.95	0.00
	$\Delta EXP$	2.22	3.77	3.19	0.00	6.66	3.63	2.95	0.00
	$\Delta EXTD$	0.42	3.77	3.19	0.67	4.38	3.63	2.95	0.00
	$\Delta RER$	1.40	2.63	1.95	0.16	7.09	3.63	2.95	0.00
	$\Delta FDI$	7.60	2.64	1.95	0.00	7.88	3.66	2.96	0.00
Intercept	<i>CGDP</i>	9.31	2.63	1.95	0.00	4.21	4.24	3.54	0.00
	<i>EXP</i>	4.54	2.63	1.95	0.00	1.86	4.24	3.54	0.65

<i>EXTD</i>	4.02	2.63	1.95	0.00	0.29	4.24	3.54	0.99
<i>RER</i>	3.05	3.77	3.19	0.00	4.08	4.24	3.54	0.01
<i>FDI</i>	2.98	3.77	1.95	0.00	2.58	4.61	3.71	0.29
$\Delta CGDP$	10.83	3.77	3.19	0.00	10.81	4.25	3.54	0.00
$\Delta EXP$	6.25	3.77	3.19	0.00	6.91	4.25	3.54	0.00
$\Delta EXTD$	4.74	3.77	3.19	0.00	4.94	4.25	3.54	0.00
$\Delta RER$	4.55	3.77	3.19	0.00	6.86	4.25	3.54	0.00
$\Delta FDI$	8.05	3.77	3.19	0.00	7.98	4.25	3.54	0.00

Source: Author' s Compilation,2024

**Table 2:** Lags Determination

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-428.5006	NA	402119.1	27.09379	27.32281	27.16970
1	-349.6976	128.0548*	14245.05*	23.73110*	25.10523*	24.18659*
2	-325.8637	31.28207	17335.00	23.80398	26.32321	24.63903
3	-301.9155	23.94821	26196.81	23.86972	27.53406	25.08434
4	-280.2746	14.87808	72385.56	24.07966	28.88911	25.67386

Source: Author' s Compilation,2024

### 3.2. Cointegration Test

Johansen Cointegration Test (JCT) is used in the analysis to assess the long-term association amid the variables. The JCT (1999) technique is simple to register for such frameworks and provides the best likelihood of robust application of VECM. Table 3 shows the JCT resultst.

**Table 3:** Test of Unrestricted Cointegration (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.688897	79.77153	69.81889	0.0065
At most 1*	0.542505	40.07206	47.85613	0.0199
At most 2	0.191770	13.48445	29.79707	0.8682
At most 3	0.096152	6.245566	15.49471	0.6665
At most 4	0.079279	2.808356	3.841466	0.0938

\* Indicates cointegration among the variables

Source: Autho' s Compilation,2024

The short-run relationship that is, to check whether the variables have a meaningful relationship in the short run which can be found using the Error Correction Model (ECM). However, the long-run adjustment shows whether the model can adapt to a long-run equilibrium following a shock. To find a relationship between the cointegrated variables, the VECM has been used in the study.

The fact that the ECM is negative and significant indicates that a long-term adjustment will be feasible. The rate of adjustment towards equilibrium is shown

by the coefficient of ECM, which is 0.32 (Table 5). This indicates a 32% speed of adjustment. The long-term link between the variables in this study was determined by using the VECM to determine the significance of the error correction term and the coefficients of each independent variable.

**Table 5:** Vector Error Correction Model (VECM)

Cointegrating Eq:	CointEq1				
CGDP(-1)	1.000000				
EXP01(-1)	-0.717089 (0.11038) [-6.49641]				
EXTD(-1)	0.037781 (0.13051) [ 0.28948]				
FDI(-1)	-3.031760 (0.34086) [-8.89448]				
REXR(-1)	0.015696 (0.01947) [ 0.80608]				
C	3.002918				
Error Correction:	D(CGDP)	D(EXP01)	D(EXTD)	D(FDI)	D(REXR)
CointEq1	-0.322869 (0.41447) [-0.77899]	0.914348 (1.14372) [ 0.79945]	0.103314 (0.22445) [ 0.46029]	0.882422 (0.24310) [ 3.62984]	-0.054028 (1.20456) [-0.04485]
D(CGDP(-1))	0.050841 (0.49131) [ 0.10348]	0.100355 (1.35578) [ 0.07402]	-0.386748 (0.26607) [-1.45356]	-0.868007 (0.28817) [-3.01209]	0.959593 (1.42789) [ 0.67203]
D(CGDP(-2))	0.857417 (0.47429) [ 1.80780]	1.002699 (1.30879) [ 0.76613]	-0.322823 (0.25685) [-1.25686]	0.271557 (0.27819) [ 0.97616]	-0.628489 (1.37841) [-0.45595]
D(EXP(-1))	-0.233955 (0.25531) [-0.91636]	-0.414000 (0.70452) [-0.58763]	0.069357 (0.13826) [ 0.50164]	0.468599 (0.14975) [ 3.12924]	-0.644042 (0.74200) [-0.86799]
D(EXP(-2))	-0.306929 (0.16836) [-1.82309]	-0.463597 (0.46458) [-0.99789]	0.020357 (0.09117) [ 0.22328]	0.060818 (0.09875) [ 0.61589]	-0.111816 (0.48929) [-0.22853]
D(EXTD(-1))	1.367823 (0.43827) [ 3.12094]	2.402688 (1.20941) [ 1.98666]	0.014728 (0.23735) [ 0.06205]	0.510146 (0.25706) [ 1.98451]	1.103288 (1.27374) [ 0.86618]
D(EXTD(-2))	-0.170269 (0.46959) [-0.36259]	-0.238341 (1.29583) [-0.18393]	0.022442 (0.25431) [ 0.08825]	0.322359 (0.27543) [ 1.17037]	-0.513630 (1.36476) [-0.37635]

D(FDI(-1))	-1.460700 (0.99684) [-1.46533]	0.571400 (2.75077) [ 0.20772]	0.497503 (0.53983) [ 0.92158]	0.826540 (0.58468) [ 1.41365]	-2.095152 (2.89709) [-0.72319]
D(FDI(-2))	-1.326772 (0.59713) [-2.22190]	-0.552327 (1.64778) [-0.33519]	0.261911 (0.32338) [ 0.80993]	-0.068528 (0.35024) [-0.19566]	0.774270 (1.73543) [ 0.44615]
D(REXR(-1))	-0.061118 (0.08613) [-0.70964]	0.044890 (0.23766) [ 0.18888]	-0.035167 (0.04664) [-0.75399]	-0.228914 (0.05052) [-4.53153]	0.235865 (0.25030) [ 0.94232]
D(REXR(-2))	0.189414 (0.10262) [ 1.84576]	0.184574 (0.28318) [ 0.65178]	-0.017448 (0.05557) [-0.31396]	-0.042471 (0.06019) [-0.70559]	0.046900 (0.29825) [ 0.15725]
C	0.229831 (0.43484) [ 0.52854]	0.238141 (1.19994) [ 0.19846]	-0.070865 (0.23549) [-0.30093]	0.013976 (0.25505) [ 0.05480]	-0.921360 (1.26377) [-0.72906]
R-squared	0.557463	0.573450	0.470371	0.725613	0.517786
Adj. R-squared	0.325658	0.350019	0.192946	0.581886	0.265198
Sum sq. resids	112.4358	856.1711	32.97425	38.68093	949.6781
S.E. equation	2.313889	6.385143	1.253077	1.357184	6.724788
F-statistic	2.404879	2.566563	1.695487	5.048566	2.049920
Log likelihood	-67.05190	-100.5484	-46.81209	-49.44582	-102.2586
Akaike AIC	4.791024	6.821112	3.564369	3.723989	6.924765
Schwarz SC	5.335209	7.365297	4.108554	4.268173	7.468950
Mean dependent	0.091327	0.027871	0.039411	0.288654	-1.301455
S.D. dependent	2.817750	7.919910	1.394847	2.098900	7.845006

Source: Author's Compilation, 2024

### 3.3. Granger Causality Test

The relationship between the macroeconomic effects of FDI and economic growth in South Africa, as well as the direction of causality, are investigated in this paper using the block exogeneity test. All the factors used in this investigation are shown in the results in Table 6. Given that the probability is negligible at 11%, the null hypothesis which holds that there is no causal connection amid exogenous variables and SA economic growth cannot be rejected at 5%. The hypothesis is directed from the stock of external debt to economic growth. Additionally, it is possible to reject the null hypothesis that there is no causal association between REXR and CGDP at 5%, with a negligible likelihood of 17%. For the time span covered by the analysis, there is essentially a unidirectional causal relationship between EXP and economic growth, going from export to growth. This means that when exports rise, the GDP grows and attracts more foreign direct investment into the country. Given that the likelihood is negligible at 18%, the null hypothesis which states that there is no causal association between FDI inflows and economic growth cannot be rejected at 5%. Furthermore, the likelihood of 9%, which is marginally significant, means



that the null hypothesis that there is no causal association between CGDP and EXP cannot be rejected at 5%. As a result, the CGDP and EXP have no causal link.

Given that the likelihood is extremely small at 8%, the null hypothesis that there is no causal association between EXTD and CGDP cannot be rejected at 5%. Furthermore, the probability accounting for 6%, which is marginally significant, means that the null hypothesis that there is no causal association between FDI and CGDP cannot be rejected at 5%. Therefore, there is no causal connection between the CGDP and FDI inflows. On the other hand, based on the relevant levels, which span from REXR to CGDP, it can be concluded that South Africa's growth rate is determined by the real exchange rate. It is considered that there is a unidirectional causal relationship between REXR and CGDP. Essentially, there are unidirectional causalities among the variables.

**Table 6:** Block Exogeneity Test

Dependent variable: D(CGDP)			
Excluded	Chi-sq	df	Prob.
D(EXP)	4.379088	2	0.1120
D(EXTD)	11.70992	2	0.0029
D(FDI)	5.209997	2	0.0739
D(REXR)	4.873877	2	0.0874
All	17.75062	8	0.0232
Dependent variable: D(EXP)			
Excluded	Chi-sq	df	Prob.
D(CGDP)	0.750154	2	0.6872
D(EXTD)	4.844922	2	0.0887
D(FDI)	0.743186	2	0.6896
D(REXR)	0.425513	2	0.8084
All	7.433482	8	0.4907
Dependent variable: D(EXTD)			
Excluded	Chi-sq	df	Prob.
D(CGDP)	2.426770	2	0.2972
D(EXP01)	0.362842	2	0.8341
D(FDI)	0.863837	2	0.6493
D(REXR)	0.585143	2	0.7463
All	8.548862	8	0.3818
Dependent variable: D(FDI)			
Excluded	Chi-sq	df	Prob.
D(CGDP)	18.64706	2	0.0001

D(EXP01)	21.67758	2	0.0000
D(EXTD)	10.26307	2	0.0059
D(REXR)	20.73280	2	0.0000

All	40.61355	8	0.0000
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Dependent variable: D(REXR)

Excluded	Chi-sq	df	Prob.
D(CGDP)	1.399132	2	0.4968
D(EXP01)	1.483979	2	0.4762
D(EXTD)	0.755193	2	0.6855
D(FDI)	3.447974	2	0.1784

All	8.673046	8	0.3706
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Source: Author's Compilation, 2024

#### 4. CONCLUSION

Several inferences about the connection among the macroeconomic effects of FDI inflows and the economy of South Africa may be made based on the research findings. First, stationarity is tested using the ADF and DF unit root test before the approaches are selected. It was determined that the variables were integrated of orders  $I(1)$  and  $I(0)$ . The study used the Akaike Information Criterion (AIC) to determine the best lag selection. The Johansen cointegration test was used to examine the long-term connection between the variables, while the VECM helped to determine the short-term association.

To determine whether there is a causal relationship between the variables, the block exogeneity test was employed. It has been demonstrated that there is a unidirectional causal relationship between export and economic growth, i.e., an increase in EXP causes a rise in SA's CGDP. Economic growth and REXR were found to be causally related, indicating that higher REXR values correspond to higher economic growth. Moreover, there is no correlation between FDI inflows and economic expansion. On the other hand, looking at the non-significant levels between EXTD and CGDP indicates that the stock of external debt does not drive growth in SA. The results of this work validate some of the previous research on the macroeconomic effects of foreign direct investment inflows and economic growth (Bhasin et al. 2017; Alfaro et al. 2004; Bhasin et al. 2012). Therefore, it can be concluded that EXTD increase is not the major macroeconomic factors of SA economic growth and development.

Numerous empirical data indicate that there is a noteworthy and causal connection among EXP and CGDP. Export growth is positively impacted by export promotion, supporting the benefits of an ELG strategy for South Africa. On the other hand, export growth has been sluggish over time. A standardized

institution regulating exports should be established to oversee the exportable units, the standardization of commodities, necessitating the implementation of an efficient export policy.

The industries that make up a sizable portion of the export basket should have their FDI restrictions raised, according to policymakers. To sum up, to reap the intended benefits of FDI inflows, SA must create a framework for FDI policies that is open, permissive, and effective while also bolstering institutional and human resources.

## DISCLOSURE OF CONFLICT

The author declare that no conflicts of interest exist

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