



Investment De-risking and the Renewed Quest for Nigeria's Industrialization

Abstract

The quest to industrialize Nigeria with a view to shaping her economic destiny towards an all-inclusive prosperity and in-country value addition has been a perennial one since independence. Nigeria's industrial sector is plagued by high political and regulatory risk, financial market gaps and lack of capital, infrastructure and operational constraint and insecurity. The objective of the study is aimed at critically reviewing the role of investment de-risking mechanisms in catalyzing Nigeria's renewed industrialization agenda. The study investigated that with Nigeria's large domestic market, abundant natural resources, and youthful population, industrialization has remained shallow and uneven. The paper explored how persistent investment risks: macroeconomic instability, policy uncertainty, weak institutions, infrastructural gaps, and security challenges continue to deter long term productive investment. Employing a literature-based methodology and grounded in structural transformation, the infant industry argument and the development state frameworks, the work draws from diverse scholarly works that signal a renewed commitment to industrialization. Findings reveal that while Nigeria adopted internationally recognized derisking investment models such as development finance institutions, special economic zones and sovereign guarantees, their impact had been constrained by weak institutional coordination and limited policy credibility. The study concluded that lack of mechanisms to mitigate these risks had consequently led to capital flight, deferred investments and stagnation in manufacturing growth.

Keywords: Industrialization, Institutional credibility, Investment de-risking, Investment financing

Abraham Apereseimokomo Alfred, PhD

Niger Delta University, Wilberforce
Island, Amassoma, Bayelsa State
Department of Philosophy

Phone Number: 08037115473

ORCID ID: 0009-0002-2165-6861

Jacobs Onoja, PhD

Department of Management
University of Nigeria, Nsukka

Phone Number: 08038627089

Email: crestedjakes@gmail.com

ORCID ID: 0009000141926673

Corresponding Author's Email:

triplea973@yahoo.com

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Introduction

Nigeria's industrialization trajectory has been shaped by shifting development paradigms and policy regimes since independence. In the immediate post-independence period, industrial policy

was largely state led, emphasizing import substitution, public enterprise development, and the use of oil revenues to finance industrial expansion. This era witnessed the establishment of basic manufacturing and heavy

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industries, supported by protective trade policies and direct government participation in production (Newman *et al.*, 2016; Ogundipe, 2022). However, inefficiencies, weak managerial capacity, and overreliance on oil rents limit the sustainability and competitiveness of these initiatives.

The adoption of the Structural Adjustment Programme (SAP) in the mid-1980s marked a decisive shift toward market-oriented reforms, including trade liberalization, privatization, and currency deregulation. While these reforms aimed to correct macroeconomic imbalances and enhance efficiency, they also exposed domestic industries to intense external competition without commensurate improvements in infrastructure, finance, or technological capability (Essien & Mozie, 2012; Nelson, 2025). As a result, Nigeria's manufacturing sector experienced stagnation and deindustrialization, with declining capacity utilization and a persistent dependence on imports of manufactured goods.

Investment derisking for Nigeria's industrialization aims to overcome chronic barriers namely, poor power infrastructure, forex instability, policy inconsistency, insecurity and high financing costs that stifle local production and FDI. It involves targeted government/ partner interventions to reduce financial losses and project failure, unlocking capital for sustainable growth. Derisking is necessary because Nigeria is viewed in the international scene as a high-risk destination where industrial projects require massive, long-term capital that is easily scared

off by instability and for the mere fact that many industries have collapsed due to mismanagement, lack of funds and external shocks. The aim of derisking is to transit from import dependency to local production, boosting GDP, job creation and foreign exchange earnings and reducing capital flights when local content survival is achieved. It is also about growing the environment to make industrial ventures viable rather than just providing funds.

Investment Climate and Risk Perception in Nigeria

Nigeria's investment climate is characterized by elevated risk perceptions that continue to constrain long-term industrial investment. Macroeconomic volatility manifested in exchange rate instability, inflationary pressures, and fiscal uncertainty has undermined planning horizons for both domestic and foreign investors (Aregbeshola & Adekunle, 2025). Frequent policy reversals and inconsistent implementation further weaken confidence the predictability of the business environment. According to Newman *et al.*, "Infrastructure deficits, particularly in power supply, transport networks, and logistics systems, impose high operating costs on manufacturers and erode competitiveness. These constraints are compounded by governance and regulatory challenges, including bureaucratic inefficiencies, overlapping mandates among public agencies, and uneven enforcement of rules and contracts" (Newman *et al.*, 2016). Institutional weaknesses thus translate into heightened transaction costs and uncertainty for industrial investors.

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The authors cited below hold the view that Security concerns and broader political economy dynamics also shape investment risk perceptions. Regional insecurity, social unrest, and contestations over resource control increase operational risks and influence capital allocation decisions, especially for long-gestation industrial projects (Blair *et al.*, 2021; Jelilov *et al.*, 2018; Omodero, 2023; Osuma *et al.*, 2024). Together, these factors contribute to a risk environment that discourages patient capital essential for industrialization.

The Concept of Investment De-risking

Investment derisking refers to deliberate policy, financial, and institutional interventions designed to reduce or redistribute risks associated with private investment in productive sectors. Rooted in development economics and institutional theory, derisking recognizes that markets alone may underprovide long-term industrial finance in high-risk environments due to information asymmetries, coordination failures, and uncertainty (Johnson & Toledano, 2023). Within development finance and industrial policy literature, derisking is conceptualized as a means of crowding in private capital by improving the risk return profile of investments. Instruments such as guarantees, concessional finance, blended finance structures, and regulatory reforms are commonly employed to mitigate macroeconomic, policy, and project-level risks (Cull *et al.*, 2024; Seema & Kibuuka, 2017).

The state plays a central role in setting credible policy signals and providing

foundational public goods, while multilateral development institutions offer risk-sharing mechanisms and technical expertise. Private capital, in turn, responds to improved certainty and aligned incentives. In this sense, investment derisking emerges as a critical bridge between Nigeria's renewed industrial ambitions and the mobilization of sustained, large-scale investment necessary for structural transformation ("Coordinating Innovation and Industrial Policy: Nigeria's Experience," 2015; Iarossi *et al.*, 2009; Maliki, 2025; Newman *et al.*, 2016; Ninyio, 2024; Odey, 2018).

Objectives of the Study

The objectives of the study are to:

- i. Examine the nature and sources of investment risk affecting Nigeria's industrial sector
- ii. Review existing derisking instruments deployed in Nigeria and comparable economies
- iii. Assess the effectiveness of institutional, financial, and policy-led derisking approaches
- iv. Identify gaps and constraints in Nigeria's current derisking architecture
- v. Propose strategic pathways for aligning derisking with sustainable industrial development

Literature Review

This study integrates classical and contemporary theories of industrialization with investment risk and development finance literature. Together, these perspectives illuminate how derisking mechanisms can catalyze long-term capital mobilization and reinvigorate Nigeria's industrialization

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drive. Structural transformation theory provides a foundational lens for understanding industrialization as the reallocation of labor and capital from low-productivity sectors, particularly agriculture and informal services, into higher-productivity manufacturing and modern services (Dabla-Norris *et al.*, 2013; Gollin & Kaboski, 2023; Herrendorf *et al.*, 2013). The theory emphasizes productivity gains, learning-by-doing, and technological upgrading as central to sustained economic growth. In the Nigerian context, weak industrial absorption capacity and capital flight constrain this transformation, underscoring the importance of investment conditions that support scale, efficiency, and long-term commitment (Chang *et al.*, 2016; Effiom *et al.*, 2019, 2021).

The infant industry argument (Aghion *et al.*, 2012; Juhász & Lane, 2024; Melitz, 2004; Thaker, 2018) further justifies targeted state intervention to nurture emerging industries that are initially unable to compete with established foreign firms. Protection, subsidies, and preferential financing are viewed as temporary measures to enable domestic firms to achieve economies of scale and technological competence. However, the effectiveness of such interventions depends on credible policy implementation and the mitigation of investment risks that discourage private participation in early-stage industrial ventures (Juhász & Lane, 2024; Melitz, 2004; Ravikumar *et al.*, 2022).

The developmental state framework situates industrialization within a broader political economy perspective, emphasizing the strategic role of the

state in coordinating markets, guiding capital allocation, and disciplining rent-seeking behavior (Caldentey, 2008; Ricz, 2020; Routley, 2012; Vázquez & Prego, 2020). Successful developmental states leverage institutional capacity, policy coherence, and public-private collaboration to steer industrial outcomes. Within this framework, derisking emerges as a key instrument through which the state lowers entry barriers for private capital while retaining strategic oversight of industrial priorities (Gabor & Sylla, 2023).

Risk return theory posits that investors demand higher expected returns to compensate for increased risk (Chepkoech, 2017; Schoenmaker & Schramade, 2023; Shefrin, 2001). In environments characterized by macroeconomic volatility, policy uncertainty, and weak infrastructure, required risk premiums often exceed what productive industrial investments can sustain. Consequently, capital flows gravitate toward short-term, speculative, or extractive activities rather than long-term manufacturing. Derisking mechanisms seek to alter this calculus by reducing perceived and actual risks, thereby realigning risk-adjusted returns in favor of industrial investment.

Insights from institutional economics and transaction cost theory highlight how weak regulatory frameworks, contract enforcement challenges, and information asymmetries elevate the cost of doing business (Ekel *et al.*, 2022; Gundelach, 2021; Makhmadshoev *et al.*, 2015). These institutional frictions disproportionately affect capital-intensive industrial projects with long

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gestation periods. Effective derisking therefore extends beyond financial instruments to include regulatory reforms, credible institutions, and predictable policy environments that lower transaction costs and enhance investor confidence.

Public-private risk-sharing models provide a practical framework for mobilizing private capital by reallocating risks to actors best positioned to manage them. Through instruments such as public guarantees, first-loss capital, and co-investment structures, the state and development finance institutions absorb systemic and political risks, enabling private investors to focus on operational and market risks (Hutchinson *et al.*, 2021; OECD, 2021). Such models are increasingly central to industrial financing strategies in emerging economies.

Blended finance and catalytic capital approaches conceptualize derisking as a means of crowding in private investment using concessional or patient capital from public and philanthropic sources (Choi & Laxton, 2023; Flammer *et al.*, 2024; Louman *et al.*, 2020). By strategically deploying subsidies, junior equity, or concessional loans, governments and development partners can unlock multiples of private capital for priority industrial sectors. The catalytic effect lies not merely in financing volume but in signaling long-term commitment to industrial development.

Guarantees, insurance, and credit enhancement mechanisms directly address specific risk categories such as political risk, currency volatility, and credit default (Ray & Bisbey, 2020;

Thierie & Moor, 2018; Walter, 2016). When credibly designed and transparently administered, these instruments lower financing costs and extend investment tenors, making industrial projects more bankable. However, their effectiveness depends on institutional credibility and fiscal sustainability. Policy credibility and signaling effects play a critical but often underappreciated role in derisking. Consistent industrial policies, enforceable contracts, and transparent governance structures signal seriousness of intent to investors, reducing uncertainty beyond what financial instruments alone can achieve (Hausmann *et al.*, 2008; Zoogah *et al.*, 2023). In this sense, derisking functions both as a technical intervention and a reputational strategy within Nigeria's broader industrialization agenda.

Methodology

Study Design

This study adopts a desk-based review and qualitative synthesis approach to examine the role of investment derisking in advancing Nigeria's renewed industrialization agenda. The design relies on secondary sources, the study integrates diverse perspectives on investment risk, derisking instruments, and industrial outcomes, enabling a holistic understanding of how policy and institutional arrangements shape industrial investment dynamics in Nigeria.

Data Sources

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Data for the review were drawn from multiple secondary sources to ensure breadth and analytical depth. These include peer-reviewed academic literature addressing industrialization, investment risk, and development finance policy documents and government reports related to Nigeria's industrial, trade, and investment frameworks. Again, multilateral development bank publications provided evidence on derisking instruments, blended finance, and private sector mobilization in developing economies. This is in addition to investment climate assessments and industry reports offering practitioner-oriented insights into investor perceptions, constraints, and sectoral risks in Nigeria and comparable economies.

Analytical Approach

Policy and institutional mapping is used to examine the alignment, coherence, and effectiveness of Nigeria's derisking architecture, including the roles of state institutions, development finance actors, and regulatory frameworks in shaping the industrial investment landscape.

Findings and Discussion

The findings of the study reveal that while Nigeria adopted internationally recognized derisking investment models such as development finance institutions, special economic zones and sovereign guarantees, their impact had been constrained by weak institutional coordination and limited policy credibility. This section discusses these outcomes in relation to existing scholarships and the theoretical frameworks of structural transformation,

the infant industry argument and the development state.

The De-risking Imperative: Interplay between Investor Confidence and Industrial Scale-Up Investor confidence is the bedrock of industrial investment. Without a credible framework to mitigate perceived and actual risks, private capital remains scarce, costly, and short-term, preventing firms from achieving the scale and efficiency required to drive structural transformation. The primary function of a derisking strategy is, therefore, to create an environment where the risk-adjusted returns on long-term industrial projects are attractive enough to mobilize domestic and foreign capital. In Nigeria, a multifaceted web of risks systematically undermines this confidence through:

- **Insecurity and Political Instability:** A significant impediment to investment is the prevalence of insecurity and political volatility. Omodero (2023) argues that terrorism, insurgency, and political unrest directly undermine investor confidence, creating a tumultuous environment that dissuades both international and domestic investors and impedes Foreign Direct Investment (FDI) inflows.
- **Policy and Regulatory Uncertainty:** The lack of predictable and stable policy is a critical deterrent. Research by Babatunde *et al.* (2021) identifies a lack of "Government Policy Continuity" as a significant factor that negatively affects the return on investment (ROI) for Nigerian

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businesses. This uncertainty makes it difficult for firms to engage in long-term planning and capital-intensive projects.

- **Infrastructure and Operational Deficits:** The operational environment for manufacturing is severely constrained by infrastructural deficiencies. Studies by Orjiakor (2022) and Adenikinju (2003) highlight the deplorable state of infrastructure, particularly the poor power supply, which forces many firms to spend between 20 to 30 percent of their initial investment on costly self-generation of electricity. This imposes a significant cost burden that erodes competitiveness.
- **Macroeconomic Volatility:** Broader macroeconomic instability, evidenced by issues such as capital flight, further discourages long-term investment commitments. Effiom *et al.* (2019) find that capital flight has a detrimental impact on domestic investment, reflecting an environment where investors are hesitant to commit capital due to unpredictable economic conditions.

These factors are mutually reinforcing: policy uncertainty and political instability exacerbate macroeconomic volatility, which in turn deepens investor aversion to making the long-term commitments needed to overcome Nigeria's significant infrastructure deficits. These interconnected risks are fundamentally rooted in the nation's

political economy and the perceived credibility of its governing institutions.

Political Economy and the Challenge of Institutional Credibility: Effective derisking is not merely a technical or financial exercise; it is deeply embedded in the political economy of a nation. The credibility of institutions, which according to North (Makhmadshoev *et al.*, 2015). Without trust in the state's ability to enforce contracts, maintain policy stability, and provide essential public goods, specific incentives and guarantees will fail to attract sustained, transformative investment.

This legacy of mismanagement and corruption, as detailed by Nelson (Babatunde *et al.*, 2021; Orjiakor, 2022). The period before the Structural Adjustment Programme (SAP) was characterized by state-owned enterprises (SOEs) plagued by gross incompetence and mismanagement, which took a heavy toll on the national economy. In response, the Nigerian government has made efforts to rebuild institutional credibility. As noted by Ninyio (2024), the establishment of the Nigerian Investment Promotion Commission (NIPC) as a one-stop agency for investors and the formulation of strategic frameworks like the Economic Recovery and Growth Plan (ERGP) are designed to improve the business environment and signal a commitment to a more stable and attractive investment climate. For these reforms to be truly effective, however, they must be aligned with a clear and compelling vision for an inclusive and sustainable industrial strategy.

Aligning De-risking with Local Value Chains: The purpose of a derisking

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strategy is as important as its practice. To be genuinely developmental, derisking interventions in Nigeria must be intentionally designed to foster the integration of local value chains, promote inclusive growth, and align with the global transition toward a green economy. Merely attracting capital is insufficient; the goal is to channel that capital in ways that build domestic capacity and distribute benefits broadly across society.

Integrating Local Value Chains and Ensuring Inclusivity: Historically, Nigeria's development efforts have been critiqued for failing to achieve transformation through "internal resource utilization and capacity building," with a consensus that development must be inclusive to be sustainable (Essien and Mozie, 2012). An effective industrial strategy must therefore prioritize linkages with the domestic economy. In key sectors like agriculture, this can be achieved through models such as smallholder aggregation within landscape approaches, which organize local stakeholders to address complex issues and connect them to larger value chains (International Monetary Fund, 2024). In this context, Nigeria's innovative use of digital tools to scale up social safety nets demonstrates a potential capacity that could be leveraged for broader inclusive development programs.

The Frontier of Green Industrialization: This imperative for inclusive growth finds a powerful new pathway in the global energy transition, which presents a frontier for industrial policy that can simultaneously address infrastructure deficits and create new value chains.

The "derisking developmentalism" model, as applied to Namibia's green hydrogen sector, provides a powerful conceptual framework for how a state can strategically position itself to attract investment in green technologies (Gabor and Sylla, 2023). For Nigeria, the massive deployment of renewable energy represents a significant opportunity to attract private investment, provided the right enabling environment is structured (Hutchinson et al., 2021). Innovative financial instruments, such as green bonds, can play a critical role in mobilizing capital for these projects. However, a significant challenge remains in generating a pipeline of "good quality and scalable projects" that are attractive to investors (Bas et al., 2020). Successfully aligning derisking with these strategic goals requires a practical and coherent policy architecture to translate vision into action. To be effective, Nigeria must move beyond ad-hoc incentives to a deliberately architected derisking framework. Such a framework must ensure policy coherence across government, strategically target key sectors, and skillfully leverage development finance to mobilize private capital. Its design should be guided by principles of strategic collaboration and evidence-based targeting.

Strengthening Institutional Coordination and Coherence: Drawing on the model suggested by Hausmann *et al.* (2008), a more coherent approach to industrial policy requires new institutional arrangements designed for collaboration and information discovery.

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- i. **Establish Strategic Collaboration Platforms:** A critical step is to create formal institutions that facilitate an "ongoing conversation" between government and the private sector. The experience of Singapore's Economic Strategies Committee, co-chaired by a minister and a business leader, provides a useful example of a high-level body designed to formulate and guide economic strategy (Lin and Vu, 2015).
- ii. **Develop Demand-Driven Public Inputs:** Industrial growth is often constrained by the lack of highly specific public inputs, such as targeted infrastructure, specialized training, or bespoke regulations. A powerful mechanism to address this is the creation of a central fund that finances these inputs based on proposals solicited directly from the private sector, thereby ensuring that public resources are directed toward solving real-world business constraints.

Designing Sector-Specific De-risking Frameworks: The Case of SEZs: The success of zones, as seen in the case of the Lusaka MFEZ in Zambia, depends on a few key determinants: high-quality zone infrastructure, a stable and predictable regulatory environment, and effective zone management (Government of the Republic of Zambia et al., 2020). To maximize their impact, SEZ strategies should be guided by the principle, identified by Aghion *et al.*, (2012) that industrial policies are most effective not when 'picking winners' in uncompetitive sectors, but when they are designed to be competition-friendly either by supporting sectors where competition is already present or by

allocating support in a way that preserves or increases competitive pressures.

Leveraging Development Finance to Crowd-In Private Capital: A central pillar of modern derisking is the use of "blended finance." This involves the strategic use of development or concessional finance to mobilize private capital for projects with high developmental impact but perceived high risk (Hutchinson *et al.*, 2021). Blended finance mechanisms are designed to improve an investment's risk-adjusted returns by having public or philanthropic funds absorb first losses, provide technical assistance grants, or offer guarantees (Bas *et al.*, 2020). This approach directly addresses the primary barrier preventing private investment in crucial sectors by altering the risk-return calculation for commercial investors. Even a well-designed framework, however, must be capable of continuous adaptation to remain effective in a dynamic environment.

Embedding Adaptive Governance: Monitoring, Accountability, and Learning: In a volatile global economic landscape, a static industrial policy is destined to fail. A successful derisking strategy must be a dynamic, iterative process, incorporating robust mechanisms for monitoring performance, ensuring accountability, and fostering institutional learning. The goal is to create a policy environment that can adapt to new information and correct course when initiatives underperform. The experience of successful developmental states offers a stark contrast to Nigeria's historical challenges. Successful Asian economies

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have been described as "great learners" who embraced a "pragmatic, problem-driven and iterative approach" based on trial-and-error (Ricz, 2020). South Korea, in particular, built its industrial transformation on a model of "regular strategizing, re-strategizing due to monitoring and evaluation" (Uma et al., 2019). This contrasts sharply with the conclusion of scholars like Ekpo, who found that Nigeria's past industrial policies have been largely ineffective, suggesting a systemic failure in learning and adaptation (cited in Uma et al., 2019).

To build a more effective system, Nigeria's derisking framework should embed principles of adaptive governance, as outlined by Hausmann *et al.* (2008). This requires creating institutions with the capacity and authority to perform three critical functions:

- i. **Continuous Evaluation:** The institutions overseeing industrial policy must have the technical ability to "recognize new venture's mistakes as they occur."
- ii. **Corrective Action:** They must be empowered to "orchestrate their correction" by working with private sector partners to solve emerging problems.
- iii. **Disciplined Exit:** Crucially, they must possess the authority and political independence to "pull the plug" on initiatives and firms that are failing to meet clear, pre-defined performance benchmarks, ensuring that public support is not wasted on unviable projects.

The implementation of such an adaptive governance model is the ultimate test of political will for Nigeria's industrial transformation.

Derisking investment for Nigeria's industrialization is not a matter of adopting isolated incentives but requires a comprehensive, integrated strategy grounded in a modern understanding of state-market collaboration. This assessment has argued that such a strategy must be built on four essential pillars. First, it requires a concerted effort to rebuild institutional credibility, which is the ultimate currency of investor confidence. Second, industrial policy must be aligned with the broader developmental objectives of inclusive growth, local value chain integration, and green industrialization, ensuring that growth is both sustainable and broadly shared. Third, this vision must be operationalized through a coherent architected framework that enhances institutional coordination, provides targeted support to competitive sectors, and leverages development finance to mobilize private capital. Finally, the entire system must be underpinned by adaptive governance, with robust mechanisms for monitoring, learning, and accountability that allow policy to evolve based on evidence and results. Charting this path forward has profound implications for policy formulation and development planning in Nigeria, demanding a shift from static plans to dynamic, problem-solving partnerships between the state and the private sector, aimed at unlocking the nation's immense industrial potential and positioning Nigeria not merely as a follower of established development

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models, but as a potential architect of a new paradigm for African industrialization in the 21st century

Conclusion

The study has critically and analytically shown the role of investment derisking within Nigeria's industrialization agenda and has found that persistent macroeconomic volatility, policy uncertainty, infrastructure deficits, and security risks continue to undermine the mobilization of long-term productive capital. The findings and discussion reveal that While Nigeria has adopted internationally recognized derisking instrument such as development finance institutions, special economic zones, and sovereign guarantees, their impact has been constrained by weak institutional coordination and limited policy credibility. The evidence shows that derisking, as currently practiced, remains insufficient to drive structural transformation. The theoretical frameworks of structural transformation, the infant industry argument and the development state provide tools for the emergence of derisking as a key instrument through which the state lowers key entry barriers for private capital while retaining strategic oversight of industrial practices. Adopting this comprehensive and adaptive derisking framework has significant implications for policy reform and future research. If effectively implemented, it offers Nigeria a viable pathway to overcome long-standing investment constraints, catalyze industrial upgrading, and contribute to the emergence of a resilient model of industrialization relevant not only for Nigeria but for other African economies

in the context of 21st-century development challenges.

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