Chapter 1
Introduction to Studies on Economic Development and Growth in Selected African Countries

Almas Heshmati

Abstract A major policy challenge facing Africa is how to sustain a high rate of economic growth that is both socially inclusive and environmentally sustainable. Growth and its sustainability influence many other challenges facing the continent. This volume is a collection of selected empirical studies on economic development and growth in Africa. The papers were presented at the second conference on Recent Trends in Economic Development, Finance and Management Research in Eastern Africa, Kigali, Rwanda, June 20-22, 2016. The studies are grouped into domains influencing economic development and growth in Africa.

Keywords Economic Development · Economic Growth · Sustainable Growth · Determinants of Growth · Governance and Institutions · African Countries

1.1 Background

The major policy challenges facing Africa are how to sustain a high rate of economic growth that is both socially inclusive and environmentally sustainable. Population aging, population growth, rapid urbanization, infrastructure for providing services, facilitating production expansion, the need to reverse declined economic growth after the 2008 global financial crisis, corruption, inefficiency, and responding to climate change are among the other challenges facing Africa. In this background, Jönköping International Business School and the University of Rwanda organize a conference on economic development in the region every year. This volume is a collection of selected empirical studies on economic development and growth in Africa. The papers were selected from a set of more than 90 papers presented at the second conference on *Recent Trends in Economic Development, Finance and Management Research in Eastern Africa*, Kigali, Rwanda, June

A. Heshmati (✉)
Jönköping International Business School, Jönköping University, Jönköping, Sweden
e-mail: almas.heshmati@gmail.com

A. Heshmati
Department of Economics, Sogang University, Seoul, South Korea

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20–22, 2016. Following a process of review and revisions, 15 papers were accepted for publication in this edited volume on economic development and growth.

The studies are grouped into domains influencing economic development and growth in Africa. The core argument for using a multiple approach perspective is the need to account for different approaches for enhancing growth and development. The aim is not to identify specific determinants of growth and development and to apply them to a set of countries assuming that every country is affected in the same way and by the same factors. This volume realizes that the countries have different initial and factor endowment conditions, and as such, they respond differently to development and growth policies. Together, the chapters included in the volume provide a comprehensive picture of the state of development and growth and their country-specific determinants and policies. Heterogeneity of countries and efficient policies and practices in growth and their distribution on selected parts of the African continent as a whole and also in selected countries mainly in Eastern Africa are considered. Development and growth represent a major challenge for governments and organizations whose aim is development and alleviating poverty.

This volume contains a collection of empirical studies on the level of development and growth, and their variations and determinants in Africa. The first chapter is an introduction/summary written by the volume's Editor. The remaining 15 chapters are inter-related studies that are grouped into five domains which influence the level, variations, and developments on the African continent as a whole and also in individual countries. The results can have strong implications for the development and policies in Africa.

1.2 Summary of Individual Studies

This edited volume is a collection of studies on economic development and growth in selected African countries. The volume consists of 16 chapters including an introduction/summary and 15 inter-related empirical studies. The studies are largely grouped into five research areas: women's empowerment and demand for health care; the impact of institutions, aid, inflation, and FDI on economic growth; capital structure and bank loan growth effects; trade, mineral exports, and exchange rate; and growth, productivity, and efficiency in various industries. The studies provide a comprehensive picture of the state of economic development and growth in most parts of the African continent. Though several studies cover major parts of the continent, the main focus of the edited volume is on economic development and growth in Ethiopia and Rwanda—two countries on the path of rapid economic and social development.

Africa is developing rapidly. Among the aspects of development in the region are region-wise formations of groups of countries cooperating to establish economic integration, a currency union, trade zones, and sustainability of growth. The chapters investigate in single and comparative cases factors such as gender equality, health care, the quality of the institutions, and their effectiveness along with the effect of institutions on growth and development in the nations on the continent. The chapters also investigate other factors of importance for the industry, service, and agricultural sectors. Among the factors that are explored are those that influence production and flows of factors including inflation rate, foreign direct investment, sources of finance, and trade and exchange rate. These issues have not been well researched so far. With contributions from African professionals in the field, this book attempts to shed light on the importance and effects of various determinants of economic development and growth. Hence, it will help fill existing gaps in the region-specific literature and also provide necessary policy tools for decision makers.

Part A. Women's Empowerment and Demand for Health care

Part A covers two important development areas—women's empowerment and demand for health care—in Rwanda.

The first study (Chap. 2), *Measuring Women's Empowerment in Rwanda*, by Abdou MUSONERA and Almas HESHMATI, examines the determinants of women's empowerment in Rwanda using demographic and health survey data. It uses a regression analysis to investigate the association between women's empowerment and its covariates. The study also uses a multinomial logistic regression to assess what determines households' decision making and attitudes toward physical abuse of spouses. It finds that education and media exposure are positively associated, while residence and the age at first marriage are negatively associated with women's empowerment. Strengthening regulations and public support improves women's empowerment.

The second study (Chap. 3), *Determinants of Demand for Outpatient Health care in Rwanda*, by Charles M. RUHARA and Urbanus M. KIOKO, examines the factors that influence the demand for outpatient care in Rwanda using the household living conditions survey. It estimates a structural model of demand for health care to measure the healthcare demand effects of covariates. The findings indicate that health insurance is a significant determinant of outpatient medical care. In addition, the price of health care and household income are among the main drivers of the utilization of health care. The study recommends that the government should reduce out-of-pocket health care expenditure through subsidies and reduce the premium for community-based health insurance schemes to increase coverage rates.

Part B. The Impact of Institutions, Aid, Inflation, and FDI on Economic Growth

This part analyses the impact of institutional quality, provision of aid, inflation, and foreign direct investment on economic growth in a large number of African countries.

The first study (Chap. 4), *Economic Growth and the Impact of Institutions*, by Kokeb G. GIORGIS, discusses the effect that institutional variables have on economic growth. It empirically investigates the impact of institutional quality proxied by control of corruption, government effectiveness, and protection of property rights on economic growth in 21 sub-Saharan African countries during the sample period 1996–2012. The results indicate that improving institutional quality and specifically protecting property rights will contribute positively to growth in output per capita.

The second study (Chap. 5), *Fiscal Effects of Aid in Rwanda*, by Thomas BWIRE, Caleb TAMWESIGIRE and Pascal MUNYANKINDI, analyses the dynamic relationship between foreign aid and domestic fiscal variables in Rwanda. The hypothesis of aid exogeneity is not statistically supported. The anticipated aid appears to have been taken into account in budget planning. Aid is associated with increased tax efforts and public spending and lower domestic borrowings. In terms of policy, continued efforts by donors to coordinate aid delivery systems, making aid more transparent, and supporting improvements in government fiscal statistics are contributing to improving fiscal planning in Rwanda. Estimation results show that aid has contributed to Rwanda's improved fiscal performance.

The third study (Chap. 6), *Exploring the Relationship between Inflation and Real Economic Growth in Rwanda*, by Ferdinand NKIKABAHIZI, Joseph NDAGIJIMANA and Edouard MUSABANGANJI, examines the impact that economic stability measures of inflation and unemployment rates have had on real GDP in Rwanda. The study concludes that inflation and unemployment have a long-run negative and significant relationship with real GDP. Real GDP increases when inflation and unemployment decrease. The effect of the shock reduces by 19.32% in each of the four quarters, ending after a five-year period. The study also finds a weak relationship between real GDP and inflation and unemployment rates.

The fourth research (Chap. 7), *Macroeconomic, Political and Institutional Determinants of FDI Inflows to Ethiopia: An ARDL Approach*, by Addis YIMER, investigates the various determinants of FDI inflows to Ethiopia. Using the time series methodology, it finds that political and institutional factors are crucial both in the long and in the short run for FDI inflows to the country. On the one hand, market size, availability of natural resources, and openness to trade and exchange rate depreciation affect FDI inflows positively. On the other hand, macroeconomic instability affects FDI inflows negatively. In addition, political stability, the absence of violence, and the effectiveness of the government in formulating and implementing sound development policies are found to affect FDI inflows positively.

Part C. Capital Structure and Bank Loan Growth Effects

Part C discusses the insurance companies' capital structure and manufacturing firms' bank loans income distribution and growth effects in Ethiopia.

Using the panel data methodology, the first study (Chap. 8), *Firm-specific Determinants of Insurance Companies' Capital Structures in Ethiopia*, by Yitbarek TAKELE and Daniel BESHIR, examines the impact that a firm's characteristics have on decisions about the capital structure in the Ethiopian insurance industry. A number of tests are conducted to validate the results. It finds that pecking order, static trade-off, and agency cost theories are the most important in explaining decisions on the capital structure of insurance companies, though pecking order appears to be dominant. Profitability, asset tangibility, growth, and liquidity play a significant role in shaping the insurance industry's financing decisions, while business risk and size of the firm do not.

The second study (Chap. 9), *Income Distribution and Economic Growth*, by Atnafu GEBREMESKEL, links access to bank loans and income distribution to productivity growth of firms. Using Ethiopian manufacturing firm-level data, the study examines how functional income distribution can influence the evolution of productivity, thereby promoting economic growth. It employs an evolutionary economic framework and econometric approach for the analysis. The results show lack of strong evidence of intra-industry selection for fostering productivity growth and structural change. The key policy lesson is that access to bank loans is of great importance to firms for their structural transformation.

Part D. Trade, Mineral Exports, and Exchange Rate

Part D covers German SMEs' trade with sub-Saharan Africa, contributions of mineral exports to Rwanda's trade, and the relationship between economic growth and real exchange rate in low- and middle-income countries.

The first paper (Chap. 10), *SME Trade with sub-Saharan Africa: The secret of German companies*' success, by Johannes O. BOCKMANN, evaluates the degree to which internal, micro- and macro-environmental variables explain how some SMEs based in Germany export more successfully to sub-Saharan Africa than others in the same category. The econometric methodology is used for identifying the determinants of export performance. Estimation results indicate that sub-Saharan Africa has specific requirements for successful exports. Knowledge about these particular characteristics of the market enables managers and policy-makers to improve trade relations. By focusing on the export performance of German SMEs in SSA, this study fills a research gap since no previous study has dealt with this specific aspect.

The second study (Chap. 11), *An Assessment of the Contribution of Mineral Exports to Rwanda's Total Exports*, by Emmanuel MUSHIMIYIMANA, is an assessment of the mineral industry's contribution to Rwanda's growing mineral exports. Mineral exports can be a means of increasing exports for agrarian and low- and middle-income countries. The results, based on the econometric methodology, show that mineral exports are the main contributor in increasing Rwanda's total exports. This implies that the Government of Rwanda needs to introduce significant reforms in the mining sector and take Botswana and Namibia as its role models in developing its mineral industry which can play a role in the industrialization of the country.

The third study (Chap. 12), *Testing the External Balassa Hypothesis in Low- and Middle-Income Countries*, by Fentahun BAYLIE, analyzes the long-run relationship between economic growth and the real exchange rate for 15 low- and middle-income countries. It establishes a co-integration relationship between growth and exchange rate by controlling for heterogeneity and cross-sectional dependence. It implies that the productivity effect is estimated consistently and without any bias. Moreover, the results indicate that the effect of the Balassa term depends more on income levels than on the rate of economic growth. In general, the power of the effect is stronger for higher income countries in the long run. However, in the short run, fiscal policy and exchange rate volatility clearly explain the variations in the real exchange rate.

Part E. Growth, Productivity, and Efficiency in Various Industries

Part E deals with tax-growth responsiveness, productivity, and efficiency in agriculture, manufacturing, and services in select African countries.

The first study (Chap. 13), *Agricultural Tax Responsiveness and Economic Growth in Ethiopia*, by Hassen AZIME, Gollagari RAMAKRISHNA, and Melesse ASFAW, looks at the pattern of tax revenues and its nexus with economic growth in developing countries. Since tax revenue is one of the important sources of government revenue, tax policy assumes significance as a viable and long-term source of revenue and economic growth. Similarly, economic growth has augmenting effects on tax revenues. The relationship between the two is essential for formulating fiscal policy. The study suggests policy interventions for improving tax revenue structures.

The second study (Chap. 14), *Improving Agricultural Productivity in sub-Saharan Africa*, by Olaide R. AKANDE, Hephzibah O. OBEKPA and Djomo-Raoul FANI, looks at improved agricultural productivity which is central to achieving inclusive development, reducing poverty, and enhancing the living standards of most people in sub-Saharan Africa. The study seeks answers to questions of whether agro-processing activities and export of raw agricultural materials have a backward linkages' effect on agricultural production activities. The estimation results indicate that while agro-processing activities have a positive effect on agricultural productivity, increased exports of agricultural raw materials negatively influence productivity growth in agriculture.

The third study (Chap. 15), *Determinants of Service Sector Firms' Growth in Rwanda*, by Eric UWITONZE and Almas HESHMATI, views the service sector as an avenue for economic transformation. It discusses the role that services can play in the economic growth of African economies leading to their transformation into service-based economies. Services are considered as an alternative to manufacturing-led development. This research attempts to study the development of the service sector and investigates the factors behind the development of this sector in Rwanda. It specifies and estimates models to assess the factors contributing to sales growth, innovation, and turnover of service firms in speeding up the shift from a low-income to a middle-income development state.

The last study (Chap. 16), *Labor-use Efficiency in Kenyan Manufacturing and Service Industries*, by Masoomeh RASHIDGHALAM, estimates the efficiency in the use of labor in Kenyan manufacturing and service industries at the firm level. The study provides evidence of efficiency in the use of labor in the country. It identifies the determinants of labor-use efficiency and estimates their effects. Labor-use efficiency is important for firms' competitiveness in both the domestic and international labor and goods markets. It makes a number of recommendations for promoting higher labor-use efficiency at the firm level and also through public labor market and industrial policies.

1.3 Final Words

The primary market for this edited book includes undergraduate and graduate students, lecturers, researchers, public and private institutions, NGOs, international aid agencies, and decision makers. This book can serve as complementary reading to texts on economic growth, development, welfare, inequality, and poverty analyses in Africa. The organizers of the annual conference on economic development in East Africa will market the book at their annual East Africa conferences. There are many books on growth and development in Africa, but they rarely cover such diversity in approaches and their country specificity character and policy recommendations.

This edited book is authored by African experts in the field who employ diverse up-to-date methods to provide robust empirical results based on representative disaggregate data at the household and firm levels and aggregate data covering individual or multiple countries on the continent. It contains a wealth of empirical evidence, deep analyses, and sound recommendations for policymakers and researchers for designing and implementing effective economic policies and strategies to achieve rapid and higher levels of development. As such, the book is a useful resource for policymakers and researchers involved in development- and growth-related tasks. It will also appeal to a broader audience interested in economic development, resources, policies, economic welfare, and inclusive growth.

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