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Drivers of Economic Growth in Sub-Saharan Africa: A Review

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ABSTRACT

An appraisal of the annual growth rate of the total GDP for Sub-Saharan Africa using 2010 US Dollar shows that between 1961 and 1975, sub-Saharan Africa was growing on the average of 4.62%, but between 1975 and 1993, the average growth dropped up to negative growth with an average growth rate of 1.59%. From 1994 to 2014, the growth rate increased again to an average of 4.50%. Unfortunately, in the last few years from 2015, the growth rate has dropped to an average growth of less than 2%. This could be attributed to global crisis starting from the low oil price of 2015, Ebola outbreak and COVID-19 pandemic. Most Sub Saharan African countries bore the large burden of the global slowdown. As such, in terms of economic performance, the sub-Saharan African region is among the weakest in the world. This obviously calls for attention to be focused on finding out the factors that determine economic growth in the region, which informs this study.

Keywords: Sub Saharan Africa, Economic Growth, Economy, Determinants, Development.

INTRODUCTION

There are scholarly works that imply that there exist differences between the developing and the developed countries; therefore, the factors that determine economic growth also differ across different regions of the world [1, 2, 3 ,4, 5]. In terms of economic performance, the sub-Saharan African region is among the weakest in the world [6, 7, 8]. Hence, it is obvious that attention needs to be focused on finding out the factors that determine economic growth in Sub-Saharan Africa (SSA) [9, 10, 11, 12, 13]. This has subsequently resulted in the development of several economic growth theories and pragmatic works. In terms of economic performance, the sub-Saharan Africa region is among the weakest in the world [14, 15, 16]. Out of the world's 28 poorest countries, 27 are in SSA all with poverty rate above 30 percent [2, 17, 18, 19, 20]. About 40.4 percent of SSA populations live on less than $1.90 a day (2018 estimate) as compared to 9.3 percent of the world population [3]. The GDP per capita is merely $1,485 (2020 estimate) as compared to $10,909 for the world average. Though life expectancy in SSA has improved from 50 years to 61 years (2018 estimate), it is still the lowest in the world as compared to 72.6 years (2018 estimate) for the world average [3]. Thus, it becomes clear that attention needs to be focused on finding out the factors that support economic growth in sub-Saharan Africa (SSA) [8, 10, 11].

A review of the annual growth rate of the total GDP for Sub-Saharan Africa using 2010 US Dollar shows that between 1961 and 1975, sub-Saharan Africa was growing on the average of 4.62%, but between 1975 and 1993, the average growth dropped up to negative growth with an average growth rate of 1.59%. From 1994 to 2014, the growth rate increased again to an average of 4.50%. Unfortunately, in the last few years from 2015, the growth rate has dropped to an average growth of less than 2% [3]. This could be attributed to global crisis starting from the low oil price of 2015, Ebola outbreak and COVID-19 pandemic. Most SSA countries bore the large burden of the global slowdown. The price of raw commodity was negatively affected and it inversely affected most SSA countries that depend highly on export of raw commodities [17, 18, 19, 20]. Notably, Nigeria which is Africa's largest economy (in terms of GPD), that

depends highly on crude oil export experienced a recession in 2016 its worst contraction since 1987 [4]. Despite some studies relating to this topic, generating sustained economic growth in Africa remains one of the most pressing challenges for global development, but little is known about the factors responsible for economic growth in the region [2].

Foreign Aid inflow

On average, sub-Saharan Africa is the highest recipient of foreign aid in the world, as a result of the low level of income, poverty and deprivation in the region. The region is also prone to different kinds of diseases such as Malaria, typhoid, Lasar Fever, Tuberculosis and so on. Some countries in this region have also experienced civil wars and conflicts. While some recently came out from civil war, others are battling with it. All these led to instability which translates to low income per capita in the region and therefore, attracts foreign aid in order for the people to survive.

Inflation Rate

Sub-Saharan Africa falls among the regions with the highest inflation rate in the world. In fact, the highest inflation rate recorded during this period was 11.42 percent which goes for SSA in 1995 followed by 11.27 percent for South Asia in 2009. On the average, SSA recorded about 5.91percent inflation rate between 1995 and 2018. The average of inflation rate for other regions are 6.4 percent for South Asia, 4.4 percent for Latin America and the Caribbean, 3.3 percent for Middle East and North Africa, 3.22 percent for Europe and Central Asia and 3.22 percent for East Asia and the Pacific.

Broad Money Supply (%GDP) from 1981 to 2020

[5] states that the broad money supply is generally low in developing countries because of financial repression and little access to credit for the citizens. Thus, the broad money supply is very high in East Asia and the Pacific followed by Middle East and North Africa. This could be associated with the fact that countries in the East Asia and Middle East are growing very rapidly and increasing the spending power of their citizens. They are among the fastest growing countries in the world.

Government Consumption Expenditure as a percentage of GDP: Available records indicate that South Asia has the lowest Government Expenditure as a percentage of GDP followed by SSA. Therefore, SSA is still among the countries with lowest government spending compared to other regions of the world.

Population Growth Rate

Data reveals that SSA has the highest growth rate for the past 5 decades 1970-2020. It has maintained a consistent growth rate of above 2.5%. The population growth rate of regions of the world such as Latin America and the Caribbean, South Asia and East Asia has drastically reduced from 2.5% to about 1%. The population growth rate of Middle East and North Africa has also reduced over this period. The population growth rate of Europe and the Central Asia has remained low below 1 percent over the last five decades. This depicts that the growth rate in SSA has remained high and it can either spur or deter economic growth depending on the threshold.

Empirical Review

There exist a plethora of empirical research on this topic using different methodologies and variables. Nevertheless, there is no consensus on the variables that are more important and the direction of the effect differs across studies. For instance, while some researchers found government consumption expenditure as a factor that promotes economic growth, others found it as a heavy burden with the argument that when the government imposes high taxes, it uses the revenue to maintain ineffective

government public program and a bloated bureaucracy. It distorts market activities and interferes negatively in the economy by assuming roles most appropriate for the private sector [6]. [7] pointed out that Africa started in a very low base. In 1960, the level of GDP per capita in Africa was about one half that of the rest of the world. Their empirical findings revealed that mining and initial primary education exerted positive and significant effect on African growth. Primary exports have negative but significant effect on economic growth in Africa. Chang & Mendy [3] revealed that trade openness and investment have positive and significant effect on economic growth in Africa. Foreign aid, gross national savings and investment have negative effect on economic growth. Ndambiri, Ritho, Ng'ang'a, Kubowon, Mairura, Nyangweso, Muiruri & Cherotwo [6] found that human capital development, physical capital formation and export have positive effect on GDP while foreign aid is found to have adverse effect on GDP. [8] findings revealed that private and public investment have significant effect on economic growth, but exchange rate regime and current account liberalisation do not exert a significant impact on economic growth. Mijiyawa [5] suggests that investment, private sector access to credit, government effectiveness, exports and the share of agriculture value added contributes to growth in GDP. Although, the statistical (descriptive) analysis, carried out by the researcher, invalidates the OLS result because it suggests that most of the five factors identified as significant variables have either slightly deteriorated or remained stagnant.

Anyanwu's [2] study revealed that domestic investment, net ODA inflows, education, government effectiveness, urban population and metal prices have a positive and significant effect on the economic growth of Africa. He found that initial real per capita income has a positive but insignificant coefficient. This means that there is no evidence of convergence during the period of study. [9] found that trade openness, domestic investment and government spending have positive and significant long run effect on economic growth. Oyebanjo, [7] examined the impact of export and import components on economic growth in 18 sub-Saharan African countries over the period 1996-2015. Fixed effect method of analysis was employed and the variables in the model are GDP, export components, import components, export concentration index, capital and labour force. The findings revealed that exports and imports contribute significantly to economic growth. Specifically, growth in raw material exports and not manufactured exports, is significantly associated with GDP growth, while growth in manufactured imports and not raw material imports is significantly associated with GDP growth.

In addition, the results find that capital formation has a more significant influence on economic growth than labour does. Kalu, [10] empirically investigated if geography is really a determinant of growth and development in Africa using a panel data of 20 SSA countries from 1991 to 2017. The study employed dynamic system Generalised Method of Moment. The variables included in the analysis are GDP index (the dependent variable), landlockedness, malaria, total factor productivity, human development index, government expenditure (% of GDP), electricity (infrastructure), resource boom, population growth rate, credit to the private sector, inflation rate, exchange rate, trade openness, external debt to GDP ratio and unemployment. Their findings revealed that total factor productivity, human development index and trade openness are positively related to GDP while others are negatively related to GDP. [1] offered some empirical evidence on macroeconomic determinant of economic growth among 21 African economies. The researchers employed Pooled Mean Group (PMG) estimator on the panel data. The long-run result revealed that exports, government expenditure and gross capital formation have positive effect on

economic growth and they are statistically significant. Meanwhile, the broad money is not statistically significant among the countries. However, the signs and significance differ across the African Countries in the short run. The study further employed Dumitrescu-Hurlin Granger causality test. The result of the causality test indicates bi-directional causality between growth in gross capital formation and economic growth among countries. Broad money, exports and government expenditure show no direction of causality with economic growth. Aladejare [1] studied macroeconomic and resource determinants of economic growth in COMESA and ECOWAS sub-regions. The researcher adopted unbalanced panel data set sourced from 16 COMESA and 14 ECOWAS countries. They employed the pool-mean group technique of analysis. They grouped the variables into two– macroeconomic variables and resource variables. Macroeconomic variables were proxied by Gross Fixed Capital Formation (GFCF), Inflation rate, exchange rate and Degree of Openness while resource variable is proxied by resource price only. They found out that exchange rate and degree of openness have positive and significant effect on GDP while resource price has negative and significant effect on GDP in COMESA region. Gross Capital Formation and exchange rate have positive and significant effect on GDP in ECOWAS region.

CONCLUSION AND RECOMMENDATIONS

The aim of this study was to examine the factors that drive economic growth in SSA. Thus, there is need for countries in the sub-Saharan region to improve on their fixed asset as this will boost economic growth. This can be achieved through greater allocation of annual budget to capital expenditure instead of recurrent expenditure. It is also advisable for the countries to maintain stable exchange rate and business friendly environment in order to attract more Foreign Direct Investment as this leads to higher economic growth.

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