ABSTRACT

This paper examines the effect of "country Institutional Business Environment" on firms' value-added output and productivity in six African countries over 1993-95 periods. Using a human-capital-augmented Cobb-Douglas production function adjusted for correction of specification, the effects of institutional and country business environment conditions on firms value-added output and productivity are estimated. Country institutional and business environment conditions are measured by a vector of indicators over 1985 to 1995 periods for Kenya, Tanzania, Cameroon, Ghana, Zambia and Zimbabwe. After controlling for country differences, industry and firm-location heterogeneity, the results suggest that *freedom to trade internationally, legal structure and security of property rights* and growth of money supply in retrospect relative to real GDP growth had positive statistically and economically significant effects on firms output and productivity. The Fraser Institute indicator of "Freedom to Trade Internationally" is based on five country indicators: (i) Taxes on international trade, (ii) Regulatory Trade Barriers, (iii) Size of the trade Sectors, (iv) Differences between official and black market exchange rates (v) International capital market controls. Based on these indicators the countries are ranked on a scale of 0-10, with higher score representing "better" situation to trade internationally. The robust iterated random effects results suggest that a one-point increase in the index for extent of country *freedom to trade internationally* implies an 8.0 percentage-point increase in the average firm's output and productivity. The measure of "*Legal Structure and Security of Property Rights*" is similarly ranked based on five other country indicators. The results suggest that a one-point increase in the index for legal structure and security of property rights implies an 8.5 percentage-point increase in the productivity of an average firm. In addition, the results indicate that a one-point increase index for country annual growth of money supply relative to real GDP growth in retrospect implies a 5.4 percentage-point increase in the productivity of an average firm, other factors ceteris paribus. Thus, I do not fail to reject the null hypothesis that institutional and country business environment conditions have no significant impact on firms value-added output and productivity.

Key Words: *Firms value-added output; human-capital-augmented Cobb-Douglas, Country Business Environment*