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Effect of Resource Rent on Infrastructural Development in Africa: Moderating Role of Governance Institutions

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Abstract

This study investigates the effect of resource rent on infrastructural development in Africa and how governance institutions moderate this relationship. The pooled OLS and the dynamic system GMM estimation techniques are adopted with a panel of 52 African economies over the period 2005–2022. We find that resource rent significantly hampers infrastructural development in Africa, thereby reflecting the prevalence of the "natural resource curse" phenomenon. We also find that the unconditional effects of governance institutions are mainly negative and significant, which aptly reflects the presence of weak institutions in Africa. Interestingly, our results also show that low institutional quality in the region intensifies the adverse effect of resource rent, while a higher level of institutional quality in the region moderates the adverse effect of resource rent. These findings remain consistent with components of resource rent, such as forest rent, oil rent and coal rent. Consequently, we emphasize the policy implications of these findings, which mainly underscore the need for policymakers and leaders in Africa to embrace institutional reforms that will ensure transparent resource management, increased infrastructural investment and sustainable infrastructural development on the continent.

Keywords: Resource rent, infrastructural development, governance institutions, system GMM, Africa

JEL Classification: M13, Q30, H54, C23, N20

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