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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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1. Introduction

Infrastructural development is an emblematic representation of contemporary progress and an essential aspect of international relations (Emeka, Ogbuabor, Nwosu, 2024; Abdullahi and Sieng, 2023; van Noort, 2022; AfDB, 2021). Consequently, policymakers and governments in diverse economies have continued to develop policies aimed at augmenting investments in fundamental infrastructure as a means of bolstering long-term and sustainable economic performance. In Africa, the advancement of infrastructural development remains an essential aspect of the region's foreign and domestic policies. This commitment is manifest in Africa's establishment of various infrastructure financing entities within the region, such as the African Finance Corporation (AFC), as well as its active interactions with numerous global infrastructure development organizations, such as the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD),[1] to name a few. Furthermore, it is worth noting that in the last two decades, there has been a notable increase in infrastructure development initiatives in Africa, driven by emerging economic powers, most notably China and Russia. These emerging sources of infrastructure financing, particularly those extended by China, have boosted infrastructure in Africa.

As evident in existing studies (see, for example, Emeka, Asongu, Ngoungou, 2024; Mabey *et al*., 2020; Maconachie and Conteh, 2020), an economy has a range of strategies at its disposal when striving for sustainable economic development. Among these strategies is the efficient management and utilization of its abundant resources. This choice is particularly pertinent for the African continent, given its wealth of natural resources, encompassing extensive reserves of bauxite, iron and phosphates, as well as plentiful resources such as oil, gold and diamonds (Pickering, 2021; Ahmed *et al*., 2021; Musibau *et al*., 2022). As noted by the African Development Bank (AfDB, 2022), the export of these resource endowments has collectively led to a noteworthy average real GDP growth rate of 3.5% for the region in 2021, signifying a rapid economic recovery in the aftermath of the COVID-19 pandemic. Statistical evidence from the OPEC Annual Statistical Bulletin (OPEC, 2021) has further revealed that economies such as Nigeria, Gabon, Algeria and Egypt have benefited from crude oil exports, which account for 90% of their foreign exchange earnings and 80% of their budgetary financing. According to Gelb *et al*. (1988), resource endowment is expected to address the conventional economic development constraints of domestic saving, fiscal revenue and foreign exchange, considering its associated benefits. However, despite Africa's resource endowment, the region still lags in well-developed infrastructure compared to other regions, posing a major challenge to its economic performance. Thus, a pertinent question arises: How have Africa's resource endowments contributed to the region's infrastructural

1 These international organizations have frequently aided the region in the form of loans, with a focus on financing various infrastructure projects within the region (WB, 2022).