

Effects of Institutional Quality on Infrastructure Investment in SSA

[Writer]

[Date]

ABSTRACT

The aim of this study is to identify the effect of institutional quality on infrastructure development in Sub Saharan African. The macroeconomic variables are also investigated in this context including GDP per capita, savings, Foreign Direct Investment (FDI), inflation, exchange rate, real interest rate and grants. The research has followed a quantitative design. Correlation analysis has showed that institutional quality has a weak relationship with infrastructure development. However, from the regression analysis and GMM, it has been analysed that there is a significant impact of institutional quality on infrastructure development. It is recommended • Control of corruption is a necessary measure because most of the Sub-Saharan African regions have been ranked negatively so, it has been determined that the public power has to be used for public gain thus, reducing corruption. The regulatory quality is related to soundness of policies and the government should seek to craft sound, feasible and sustainable policies for improving institutional quality and ultimately the infrastructure development.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

This essay has been carried out in order to find out the nexus between the effects of institutional quality on infrastructure investment in the Sub-Saharan region. There are a number of determinants of macroeconomic stability which helps in the determination of infrastructure development in the context of Sub-Saharan Region. As for this essay the researcher has taken into account GDP per Capita, savings, FDI, inflation, exchange rate, domestic investment, interest rate grants, and Macro instability. These factors are used as the metrics to determine their influence on the infrastructure development of Sub-Saharan region. The major variables of this essay are institutional quality and infrastructure development of SSA. Through this essay, the researcher has shed light on both the above mentioned variables in order to provide useful insights for the ultimate purpose of policy making.

In order to fulfil the major aim of the study which is to find out the nexus between institution quality and investment in infrastructure in the region of Sub-Saharan region this essay has extracted relevant data regarding the above mentioned variables for 40 countries which belong from the Sub-Saharan African region. With the help of this essay, the researcher has contributed significantly to the very little literature which is available in this regard. For this essay, the researcher has used certain baseline papers and research articles for the purpose of benchmarking the results of this essay.

1.2 Contextual background

Most of the researches which have been carried out in this regard have focused on the economic growth in the SSA region because of infrastructure development. According to the research conducted by Kodongo and Ojah (2016) there is a significant impact of investment regarding infrastructure and increments in the infrastructure spending on the infrastructure

development with the economic growth of the Sub-Saharan countries. Moreover in this research the authors have also stated that there is also relationship of quality of infrastructure with the economic growth indirectly via the export diversification. It has been recommended by Kodongo and Ojah (2016) that the government and regulatory authorities to reduce the infrastructure gap and to improve the institutional quality for the purpose of ensuring that the economic growth and development of the countries is carried out in an efficient manner.

Institutional quality plays a vital role in terms of the infrastructure development of any country. Hence institutional quality is important to be considered in order to ensure that the economic development and growth takes place in the country. Francois and Manchin (2006) in their study related the concept of institutional quality with the export of goods and infrastructure. In their study as well, they have stressed on the importance of institutional quality in regard to infrastructure development. The results of this study show that institutional quality is greatly dependent on the infrastructure development of the country. The cumulative analysis of the literature shows that institutional quality has a direct relationship with the infrastructure development. In order to improve the infrastructure of any region it is extremely important for the government and other regulatory bodies to focus on the factors of institutional quality in order to ensure that the infrastructure development is impacted in a positive manner. There are also past researches which have focused on the impact of institutional quality in the infrastructure development with respect to the financial development. The empirical results in this regard show that because of poor institutional quality in the Sub-Saharan African region the financial development is impacted in a negative manner (Gries and Meierrieks, 2010).

There are also other researches which have been carried out by the researcher in specific regard to Sub-Saharan countries. For example the research conducted by Okoi, Benjamin and Bassey (2015) is carried out mainly on the country of Nigeria. The research

has concluded that there is an inverse relationship quality of institutions and the money which is spent on the infrastructure of Nigeria. This means that if the quality of institutions which work on the infrastructure projects is high it will result in less investment on the projects because of the increase in efficiency.

1.3 Problem Statement

From the analysis of economic data it is evident that the growth of most of the African countries has been slow since years which mean that due to certain factors and elements the countries are not able to perform in an efficient manner. The poor economic, social, political, and environmental conditions of the countries have created numerous problems for entire continent of Africa in terms of prosperity and even international trade. Lack of infrastructure development is one of the problems which are highly prominent in the articles, books, and journal articles are the lack of infrastructure which is prevalent majorly in the Sub-Saharan region. Impedance of economic growth is caused because of lack of infrastructure in these countries. These problems have been considered with great detail in the prior essay. The major problem of this essay is also related to the infrastructure development however it is connected with the institutional quality of the economic and political departments which are responsible for the infrastructure development of the country. There are different determinants of institutional quality which has been pointed by different researches. The cumulative institutional quality of most of the Sub-Saharan countries is quite low which is contributing negatively towards the infrastructure development. This essay has focused specifically on study and assessment of institutional quality in regard to the infrastructure development of Sub-Saharan countries.

1.4 Aim and Objectives

The major aim of this study is to determine the nexus between institutional quality and infrastructure investment in the Sub-Saharan African region. As this aim is quite broad hence the following objectives are also answered in this essay:

1. To identify and examine the determinants of institutional quality that contributes towards infrastructure development and financing in Sub-Saharan African countries.
2. To examine the effect of institutional quality on SSA infrastructure development.
3. To recommend institutions and governments regarding ways to improve management of institutions to positively steer the infrastructure development and financing in Sub-Saharan African countries.

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