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CHAPTER 2: LITERATURE REVIEW

2.1 Sub-Saharan African region infrastructure development and financing

Over the past decades there has been significant improvement in the social and economic aspects. Different reports and articles show that the countries have invested in the infrastructure development. In 2015, it has been estimated that the overall GDP in the region of Africa has been 4.5% annually (Policy Brief, 2015). However it is important here to note that the increment in the growth rate is not significant enough to bring about significant changes in the economic and social segments. The infrastructure development in most of the Sub-Saharan African region is inadequate which is causing problems in the overall economy of the country. The infrastructure deficit of the sub-Saharan countries both in the soft and hard form has been undermining the efforts made towards the sustainable development and structural transformation in Africa.

In regard to the financing of the infrastructure development in the Sub-Saharan region it has been found that the financing has been inadequate. This gap in the infrastructure financing has resulted in several social and economic conditions of the countries in this region. The government has constantly been searching for different ways to bring in funds for the infrastructure development. Because of the massive infrastructure gap in the Sub-Saharan countries which is \$94 billion per year the government and other regulatory bodies have been focusing on determining and assessing different sources of finances for the infrastructure development (Sy, 2017).

According to Sy (2017) the government of Africa has been utilizing different sources for the purpose of infrastructure development in order to ensure that the deficit gap is fulfilled and economic and social development takes place in the countries. A senior fellow of Africa Growth Initiative, the government should focus on utilizing the pension funds for

the purpose of reduction in infrastructure development keeping in mind the changing demographics of Sub-Saharan African region. It is consensus of the policy makers of Africa that the economy of the Sub-Saharan African countries is impacted in a negative manner because of limited infrastructure.

In the entire region of Africa, the deficit in terms of infrastructure development can be found in the Sub-Saharan African region. There are various economists and analysts according to whom if the investment for the infrastructure development is increased it is going to benefit the economic and social conditions of the Sub-Saharan countries (Golubski, 2017). Improvement in the irrigation, roads, transport, and telecom of the sub-Saharan countries the international trade conditions will also get better. Overall, from the analysis of journal articles, books, and past researches it can be found that the financing in the infrastructure development is low which has led to increased infrastructure gap.

2.2 Institutional quality in infrastructure development and financing in Sub-Saharan African Region

There are different definitions of institution which can be found in the form of secondary resources however the gist behind all the different definitions is that institutions refers to the collection of beliefs, rules, values, and organisations which comes together for the purpose of encouragement of proper behaviour by the individuals of the society. It has been defined by Levchenko (2006) that the institutions refer to different structures which tend to impact the economic outcomes. In regard to the infrastructure development, institutional quality refers to the quality of institutions which works for the purpose of development and improvement in infrastructure.

The above part of the literature has already established the fact the financing and development in the infrastructure department of Sub-Saharan African countries is below par which is causing problems for the countries in social, economic, and environmental terms. Most of the studies which have been carried out in this regard show that there is a significant impact of quality of the institutions which work for infrastructure development on the infrastructure of the companies. The empirical results of the research in this regard show that if the institutions are strong it results in better economic growth. The same thing goes for the institutions which are responsible for infrastructure development in the region of Sub-Saharan African countries.

The determinants of the institutional quality in the region of Sub-Saharan African Countries which has been used for this research are: control of corruption, government effectiveness, and political stability, rule of law, regulatory quality, and accountability.

2.3 Type of Institutions for infrastructure development in Sub-Saharan African Region

There are different institutions which are responsible for infrastructure development; they can be either political or economic. However it should be noted that the institutions and their quality is of great importance and significance for the efficiency of infrastructure development. There are also certain financial institutions which are working towards decreasing the deficit in the infrastructure development by providing new ways and financing sources with the help of which the gap in financing can be reduced in order to ensure that the infrastructure of Sub-Saharan countries is developed in an efficient and effective manner. The Development Finance Institution (DFI) in Africa tends to fill the gap in the infrastructure development by focusing on mobilising the private investment. This institution ensures that their activities and operations are carried out in such a manner that it helps the infrastructure development of SSA region in a rather positive manner.

In order to ensure the quality of the institution to contribute positively towards the infrastructure development the financial institutions should not only focus on the quantity of the funds they are generating but they should also provide a persistent focus on the quality of the funds. Overall, in the context of Sub-Saharan African region the financial institutions are playing their part for the purpose of collecting funds and even exploring new ways to finance the infrastructure development. Although the impact of the funds in terms of infrastructure is positive however still the institutional quality of the financial institution is not up to the mark as enhancement is still required for the purpose infrastructure development in the region of Sub-Saharan African countries.

As the development in the Sub-Saharan African countries is very slow and sluggish hence the institutional framework in this region is quite weak. This weak form of institutional framework has contributed negatively towards the infrastructure development and economic growth (Gutman, Sy, and Chattopadhyay, 2015). In the political regard, the institutions in the Sub-Saharan African region are also weak and are not performing with maximum efficiency because of which the countries are experiencing poor infrastructure and increased infrastructure deficit (Allence, 2004, p. 163). Weak policy formulation, ineffective public administration, and corruption in the political institutions of Sub-Saharan countries tend to negatively impact the development in the infrastructure.

From the review of literature and assessment of different report and past researches the consensus is found that because of dysfunctional political institutions in the region of Sub-Saharan African region most of the infrastructure development strategies fail (van de Walle, 2001). From this the importance of both economic and political institutions can be established in regard to infrastructure development. According to Policy Brief (2015) in order to improve the institutional framework and architecture of Sub-Saharan African countries the African leaders has implemented Programme for infrastructure development in Africa

(PIDA). One of the major reason for forming this institution is to strengthen the coordination and collaboration among the member states, Regional economic communities and institutions and lastly the key stakeholders.

2.4 Impact of institutional quality on infrastructure development financing in SSA

It has been established by the review of literature and results of empirical studies that institutional quality plays an important role in the infrastructure development of the country. However now it is important to discuss how the institutional quality impacts the financing of infrastructure development specifically in the context of Sub-Saharan African countries. If the institutions which are responsible for infrastructure development are working in an efficient manner the development of infrastructure will take place in a rather effective manner. The efficiency of this development encourages and brings in influx of sources of finance for the SSA countries. Through increased amount of sources of finance and funding for infrastructure development the deficit or gap which is of \$93 billion will eventually reduce (Sy, 2017).

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

In the current context it can be said that the institutional context is very weak in majority of the Sub-Saharan African countries because of which the financing for infrastructure development is insufficient. The institutional architecture helps the country to

formulate and implement efficient strategy in order to increase the infrastructure development so that the growth and economy of the country is impacted in a positive manner. As the institutional framework both in regard to political institutions and economic institutions is quite weak because of which the policies and strategies to extract finances and funds for infrastructure development is also not done in an effective manner (Ndulu, 2006, p. 212). Ultimately, it has led to increased infrastructure gap. In this situation, the government is liable to take necessary step to improve the institutional quality and reduce the instability and corruption in the economic and political context for the purpose increasing funding and financing for infrastructure development.

2.5 Research Gap

In order to carry out this essay, the researcher has extensively and comprehensively studied the literature which is available in regard to the institutional quality and infrastructure development. From the analysis of literature it is found that separately there is information which is available regarding the variables of the research. Moreover the past researches has provided a detailed focus on the economic and growth aspect of infrastructure development and institutional quality (Claderon and Serven, 2010, p. 13). The past researches shows that 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 (Claderon and Serven, 2008). 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. There are no researches which have focused on the role of institutional quality in regard to infrastructure financing in the Sub-Saharan African region. In order to bridge this gap, this essay has focused specifically on study and assessment of institutional quality in regard to the infrastructure development of Sub-Saharan countries.

2.6 Theoretical Framework

As this essay discusses the investment and financing of the infrastructure development in the Sub-Saharan African region hence it is significant assess different theoretical aspects and frameworks which are related in this regard. One of the models or frameworks which is relevant to be discussed is the “Accelerator model of investment”. Investment or capital accumulation is of great importance and significance for the purpose of raising income at both firm level and national level (Christen and Dib, 2008, p. 155). The accelerator framework suggests that when income and consumption of people increases it brings about a positive change in the investment. It can be said that with the increase in people’s income they demand more goods and in order to fulfil this demand more production is required and hence more investment. In regard to the infrastructural development in the Sub-Saharan region it should be noted that the demand for better infrastructure has increased over the time which means that the with the increment in the income level and consumption level of people residing in Sub-Saharan African region the people are now demanding for improvements and developments in the infrastructure. However due to the poor quality of institutions working for the infrastructure development in this region they are not able to raise enough funds for efficient infrastructure development.

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