

Institutions, Investment and Economic Growth: Evidence from Sub-Saharan Africa

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Sub Saharan African countries experience low private investment compared to other developing countries in the world. For instance, private investment in the region averaged 15% of GDP from 2010 to 2016, as compared to 22%, 18%, and 17% for developing countries in Asia, Europe, and Latin America respectively. This low investment level constrained the region's ability to grow and improve social outcomes such as; increase in real wages and poverty reduction. Low-quality institutions could explain this phenomenon. Therefore, this study aimed to examine the effect of institutions on investment and economic growth of 37 SSA countries from 1996 to 2017 using a dynamic panel data model. The data were retrieved from Worldwide Governance Indicators, World Development Indicators and the Chinn-Ito index. System Generalized Method of Moments was used to estimate the result. The key findings generated by the study confirmed that these measures of institutional variables and their interaction with investment yield a positive and statistically significant result. Indicating that strengthening the quality of these institutions could positively affect investment and economic growth of the region. For instance, a unit increase in controlling corruption increases investment by 1.4%. Furthermore, there is evidence showing financial development slows investment growth, which can be attributed to the weak institutional arrangements, as the coefficient of financial development is negative and statistically significant. The study recommended that SSA countries should pay greater attention to institutional reforms particularly; control of corruption and political stability to drive meaningful growth and development in the region.

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