ABSTRACT

AN EMPIRICAL ANALYSIS ON THE ROLE OF INFRASTRUCTURE CAPITAL AND FINANCIAL EFFICIENCY ON ECONOMIC GROWTH AND DEVELOPMENT IN SUB-SAHARAN AFRICA

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Sub-Saharan Africa has historically experienced low economic growth and development. Countries in this region either have no financial markets and intermediaries, or they are underdeveloped and inefficient. Furthermore, the region has poor infrastructure that is unreliable and unmaintained, thus continuing to hinder countries in this region from achieving their full economic potential.

While a sizable empirical literature dealing with the economic performance of Sub-Saharan countries exists, it suffers from several shortcomings. Most of the literature treats growth as development, thus not providing a clear distinction between the two. On the other hand, those that do, fail to consider the interplay between growth and development. Additionally, the few studies on the interaction between economic growth and development use inappropriate econometric techniques. Furthermore, limited studies consider the role of financial development and infrastructure capital and their interaction in the growth and development process.

My research remedies the deficiency of the existing literature by focusing on the effect of infrastructure capital and financial development and the interaction between them on economic growth and development. I also take into account the interplay between economic growth and economic development. I use an annual panel covering the period, 1991-2016 and four alternative econometric methods for estimating panel data models.

My findings suggest that economic growth and development reinforce each other. Furthermore, infrastructure capital and financial development exert a significant positive effect on economic growth in the single-equations and multiple-equation models. The effect of the two variables on economic development is negative and statistically significant in both models. I also estimate the interaction between infrastructure capital and financial development and its effect on economic growth and development. My findings show that as financial development increases, the effect of infrastructure capital on economic growth decreases in the single-equation model but the effect increases in the multiple equation models. Similarly, an increase in the level of infrastructure capital results in an increase in financial development's effect on economic growth. When it comes to economic development, I find that as financial development rises, the effect of infrastructure on economic development declines. Likewise, the effect of financial development on economic development decreases as infrastructure capital increases.