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# Oil rent and the quality of institutions in Sub-Saharan African countries: Evidence using the dynamic panel threshold model

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**Abstract**

This paper aims to determine the optimal level of oil rent having a positive effect on the quality of institutions in Sub-Saharan Africa. The study covers the period 1995 to 2016, for a sample of 12 countries. To achieve this objective, we used the threshold effect model of the DF-GMM estimator inspired by Seo and Shin (2016), put into practice by Seo et al. (2019) in stata. To do this, we used three (03) measures of the quality of institutions namely balance of power, control of corruption and government efficiency. The results of the study show that: i) *The direct effect of oil rents on the quality of institutions is negative, supporting the political resource curse hypothesis*. ii) *The relationship between oil rent and the quality of institutions is positive for a high level of oil rent. In particular, above the threshold of 29.935, 22.526 and 18.263*. For the robustness analysis, we conduct a sensitivity analysis using the fixed-effect dynamic threshold model of Couttenier (2012). The results of the analysis confirm those found by the DF-GMM model of Séo and Shin (2016).

## 1. Introduction

The World Bank in its classification of countries taken as its clientele specified that more than 50 countries are dependent on natural resources (Barma et al., 2011). In addition, natural resources occupy a central place in the economy of most of these countries and play an important role in governance and the quality level of institutions. To do this, the presence of the natural resource curse influences the need for a real quality of institutions in its relation to the richness of these resources (Wiens, 2014).

Moreover, with regard to the oil-exporting countries of Sub-Saharan Africa (SSA), they most often have very poor quality institutions and poor government practice (Ross, 2001; 2015). According to World Bank data (2020), relating to Sub-Saharan African countries with the best quality institutions and policies, all oil exporting countries except South Africa have poor quality institutions. In addition, according to data from Central African countries, oil represents 70% of exports (Moudjaré & Nourou, 2020). As for other countries, like Nigeria and Angola, oil accounts for more than 80% of exports. While South Africa, Niger, Ivory Coast and DRC each have less than 50% of petroleum products in their total export. It is therefore easy to see that an endowment in petroleum resources can lead to poor quality institutions. This situation may be accelerated by the existence of already poor quality political institutions and questionable governance mechanisms (James, 2019). However, countries like Norway and South Africa have better quality institutions and a significant amount of oil.

Regarding the economic literature, there is still a debate on the effects of natural resources on the quality of institutions (Mehlum et al., 2006; Brunnschweiler, 2008; Avom and Carmignani, 2010; Chang, 2020; Shadabi and Adkisson, 2021; Ertimi et al.,2021). It is in this perspective that a current of research will be born focusing on the effects of so-called “peak” resources like oil and minerals on the quality of institutions (Barro, 1999;

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