10th International Conference on Applied Research in
Management, Economics and Accounting

22 _ 24 August 2025

Oxford, United Kingdom

Growth Convergence in Africa: The Role of Capital and Institutional Quality

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Abstract

This paper investigates the relationship between various capital forms – human, natural and produced capital, as well as institutional quality in shaping growth convergence across 48 African countries between 2003 and 2022. The empirical evidence applies the modified Cobb Douglas production function and employs the generalised method of moments (GMM) estimation technique to examine β-convergence. Our results reveal a weak tendency towards unconditional and conditional β-convergence of 1.35% and 1.19% respectively. The speed of β-convergence is faster in resource-poor countries and in low and lower-middle income countries. The human-to-produced capital ratio (0.73) and institutional quality explains much of the cross-country variations in per capita GDP growth in Africa. Growth convergence in resource-rich countries is depended on produced capital and institutional quality, whereas human capital drives convergence in resource-poor countries. Natural capital is associated with lower per capita GDP growth. In terms of policy implications, low-income countries are converging in terms of per capita GDP growth, however, the economic growth is not translating to significant economic development due to inadequate and poor-quality infrastructure. In terms of policy recommendations, long-term growth policies in low-income countries must prioritise investments in produced capital and human capital, whereas resource-rich countries must prioritise domestic savings, especially earnings from their resource rents.

Keywords: growth convergence, capital, institutional quality, africa