CORRUPTION AND ECONOMIC DEVELOPMENT: EVIDENCE FROM NIGERIA

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Abstract
Corruption has affected many countries all over the world especially the developing countries. It has various implications for both the developed and developing economies. Corruption hampers development and thus raises the level of poverty in any economy that finds itself entrenched in corrupt practices. Corruption creates uncertainty and risk in the growth and development potential of any country. The study investigated the impact of corruption on economic development in Nigeria.

Secondary data were sourced from World Bank reports on Nigeria and corruption reports from transparency international on Nigeria. The data were analysed using the Ordinary Least Square (OLS) regression technique. Hypothesis tested with respect to Corruption Perception Index (CPI) was not accepted implying that the tests were statistically significant, meaning that Corruption Perception Index (CPI), a proxy for corruption in this research negatively affects economic development. On the other hand, the hypothesis tested on the Corruption Rank (CR) of Nigeria and Relative Corruption Ranking (RCR) of Nigeria among countries under review was not accepted meaning that the relative position of Nigeria among countries under review and Nigeria’s rank on corruption cadre is also statistically significant.

The findings show that corruption has a significant negative effect on economic growth and development. It is recommended that the Nigerian government should employ the strict application of anti-corruption codes as stipulated in the legislations that created the anti-corruption agency without prejudice or double standard irrespective of the culprit’s stature or position in the society. Transparency, accountability and the application of the rule of law in dealing with corrupt government officials and politicians can lead to improved CPI ranking, induce investment, and foster economic growth and development.

Keywords: Corruption Perception Index, Corruption Rank, Nigeria, Development and Relative Corruption Rank.
1. INTRODUCTION

Corruption has been identified as one major obstacle militating against rapid growth and development of the Nigerian economy. Nigeria is blessed with abundant natural and human resources to the extent that some of these natural resources have never been extracted or tapped by the government e.g. gold, some natural resources are neglected by the government since the discovery of oil well, such as cocoa, timber, etc, while only crude oil is enjoying the biggest attention and has been the largest source of revenue to the government for over forty years. Since 1996 when Nigeria first featured in the Corruption Perception Index (CPI), a research carried out by Transparency International (TI), a Non Governmental Organisation (NGO) that assesses the level of corruption in countries around the world. Nigeria have always been languishing in the bottom of the ranking among countries evaluated and have more than once ranked as the most corrupt country in the world. Despite having the world’s seventh largest reserve of crude oil coupled with other resources in Nigeria, poverty and underdevelopment still ravage the country, this can be seen from all indexes of development over the years. The major reason advanced for this is the prevalence of corruption in governance, public and private places. Nigerian government officials are well known for their self servicing style of governance.

Ogbeidi (2012), examined political leadership and corruption in Nigeria since 1960, he opined that it is an incontrovertible fact that corruption has been the bane of Nigeria’s development. Thus, without mincing words the phenomenon has ravaged the country and destroyed most of what is held as cherished national values. Unfortunately, the political class saddled with the responsibility of directing the affairs of the country have been the major culprit in perpetrating this act. Also Usman (1980) stated that pervasive corruption has remained a serious obstacle to economic development in Nigeria. Corruption inhibits human and social development. Public institutions are only public in name, because they are run, in fact, for the purpose of private accumulation of wealth. It is in the backdrop of the above assertions that this study has examined corruptions in Nigerian context and how corruption has hindered development in the country and provides some recommendations in order to accelerate growth and development of Nigerian economy.

1.1 Statement of the Problem

The state of corruption in Nigeria has been categorized as endemic. Corruption has also been identified as one major obstacle to national growth and development of the Nigerian economy. Research has shown that corrupt practices have been perpetrated in governance, public and private places since the pre-colonial era to the colonial period and through independence to present. Achebe (1984) wrote that “the Nigerian problem is the unwillingness or inability of its leaders to rise to their responsibility, to the challenge of personal example, which is the hallmark of true leadership”. In the same vein, Storey (1953) wrote that “before independence, there have been cases of official misuse of resources for personal enrichment”.

Ogbeidi (2012) opined that “widespread corruption, where government officials looted public fund with impunity and flaunt their wealth with reckless abandon provided the pretext for a group of young middle-rank army officers to sack the Nigerian First Republican
politicians from power through a coup d’état on 15th Jan. 1966. He further stated that the next thirteen years after Buhari’s regime saw no serious attempt to stop corruption, that corruption reached an alarming rate and became institutionalized during Babangida regime, leaders found guilty by tribunals under Muritala Muhammed and Mohammadu Buhari regimes found their way back to public life and recovered their seized properties. The magnitude of corruption has been increasing over the years and this has led to retarded growth and development in Nigeria. Though there has been lots of anti-corruption crusade in Nigeria over the years targeted to stem the spread of corruption in the country.

Despite the establishment of anti-graft agencies, such as Independent Corrupt Practices and Other Related Offences Commission (ICPC) in 2000, and Economic and Financial Crimes Commission (EFCC) in 2003 after the Financial Action Task Force on Money Laundering (FATF) named Nigeria amongst the twenty three non-cooperative countries frustrating the effort of international community to fight money laundering (EFCC(Establishment) Act, 2002), corruption has continued to weaken institutions, discourages investment and retards economic development. Corruption has also led to diversion of developmental resources of the society to private or personal use. This has contributed to the leakage of capital from Nigeria for illegal deposits abroad.

Given the above problems, the main objective of the study is to examine the impact of corruption on the Nigerian economic growth and development. The study will provide answers to the following questions: (i) What is the magnitude of the impact of corruption on growth and development of the Nigerian economy? (ii) How can corruption be curbed in the Nigerian society?

The rest of the paper is organized as follows: section 2 is literature review, section 3 is the methodology adopted for this paper, section 4 is the presentation of findings and section 5 summarizes the findings, draw conclusions and also make some policy recommendations.

2. LITERATURE REVIEW

Literatures on the issue of corruption are abound because of its impact on economic development but there exist little research literatures on the concepts, determinants, severity and implications of corruption on economic development. The reason for this is not farfetched; it is because data are not readily available, particularly when the need to pin-point the size of corruption and the people that engaged in it arises. It is only recently that Transparency International started providing a measure of corruption in countries around the world which it started in 1995 and Nigeria started featuring a year later.

Nevertheless, some authors such as Joseph, Osunyikanmi (2009), Tolu – Ogunro(2012), Adewale(2011) among others have examined the issue of corruption, provided some definitions of corruption, and have also analysed the determinants and implications of corruption. According to Ngouo (2000) and the World Bank, corruption is the exploitation of public positions for private benefits. She also stated that the lack of any civil spirit among all categories of civil servants leads to corruption and misappropriation of public funds. Akindele (2005) sees corruption as behavior, which deviates from the formal rules of governing the actions of someone in a position of authority.
According to Osunyinkanmi (2009), the term corruption is synonymous to the terms fraud, bribery, settlement etc. In his explanation, the settlement in corruption perception parlance became a euphemism for bribery in Nigeria during the Babangida administration in 1989. Supporting the view of Osunyinkanmi is Abbas, in his response to Dr. Antonio Maria Costa’s submission that Chief Olusegun Obasanjo former president from 1999–2007 must be commended for championing the cause of corruption fight in the country, Dikko (2011) opined that Report so far, indicated from May 1999–mid 2006, the monies stolen within the period under review, was more than what our past leaders stole put together from independence to before handing over to his democratically elected government.

Adewale (2011) explained that corruption is an act of diverting the resources that should have been used for developmental purposes of the society to private or personal use. This accumulation of the nation’s economic resources for personal benefits had variously contributed to the leakage of capital from Nigeria for illegal deposits abroad. He further stated that corruption has a crowding out effect on the growth and development of the country. It’s contributing effects on poverty and poor infrastructural development is more worrying.

Some schools of thought have also highlighted the factors that are responsible for corrupt practices in a society. For example in 1995, USA secretary of state sees corruption from the cultural perspective. According to this school of thought, it is in the Nigerian culture to be corrupt. This argument is however disputed. For instance in the former USSR states of Kazakhstan, Uzbekistan, Russia, Ukraine and Azerbaijan, corruption is not a cultural phenomenon but rather a practice that supersedes culture and custom. They see corruption as a universal phenomenon. This view was corroborated by Akindele (1990) who stated that corruption exists everywhere, which means that corruption has no racial or regional boundary. Adewale (2011) further exerts that the most plausible arguments in this area would seem to be that corruption is intractably determined by the stage of development and the type of government that exists in a society or nation. In most of the highly corrupt countries like Nigeria, government bureaucracies create conducive atmosphere for corrupt practices. Authors like Rose (1990), Tanzi et al (2006) and Obadan (2001), have noted that governments of certain countries for political or other reasons create incentives for bribery and corruption and are sometimes directly involve in the corrupt practices. In some extreme cases, the government itself practices corruption in order to have their way through the legislative arms. This practice is quite common in Nigeria.

Several authors who studied corruption have concluded that corruption has negative impacts on the growth and development of any nation. According to Ekpo and Egenedo (1985), Obadan (2001) and Adewale (2011), corrupt practices inherently introduce distortions in the economic system; it impairs hard work, diligence and efficiency. It is capable of diverting resources meant for the development of the society to private or personal use. They maintain that corruption does not give room for honest selection processes and also distort prices.

Adewale (2011) discovered a strong significant negative relationship between corruption and output growth in Nigeria. He undertook an empirical investigation of the relationship between a number of key variables in Nigeria. After carrying out a test of stationary and co integration properties on the variables, he further estimated the econometric parameters of the variables which included Gross Domestic Product (GDP) as the dependent
variable and Gross Capital Formation (CAPL), Money Supply (MS), Public Domestic Investment (PINV), Corruption Perception Index (CPI) External Debt (EXTD) and Unemployment Rate (UNEMPL) as the explanatory variables, corruption index external debt and unemployment is negative implying that it is consistent with the hypothesis that corruption retards growth. He argued that, corruption retards economic growth in Nigeria. In order words it has a crowding-out effect on growth.

2.1 Types of Corruption
Corrupt practices can take many dimensions. Tolu and ogunro (2012) identified four types of corruptions as follows:
1. Moral Corruption: This is exhibited in sexual pervasiveness, greed especially in interpersonal relationships, loose tongue i.e. uncontrollable tongue such that leaks secrets or slanders or busy-body, indecent dressing or appearance etc.
2. Economic Corruption: e.g. manufacturing fake drugs, adulteration of drinks, piracy i.e. copying another person’s intellectual work to illegally enrich oneself (Plagiarism), fraud at all levels etc.
3. Political and Bureaucratic corruption: It is illegal, unethical and unauthorized exploitation of one’s political or official position for personal gain. It has to do with public affairs – goods, fortunes, agencies and resources. It is therefore corruption against the state or its agencies by a person holding an official position in pursuit of private or personal profit.
4. Electoral Corruption: This has to do with electoral frauds such as election rigging, manipulations, ballot stuffing, registration of under age, and many others.
The above mentioned types of corruption does not exhaust what is in literature, there are still other types of corruptions such as educational corruption, religious corruption, family corruption, etc.

Empirical studies on corruption
Adewale (2011) investigates the crowding-out effects of corruption in Nigeria, covering the periods from 1996 to 2009, he uses simulation approach to investigate the economic implications of corruption in Nigeria, employs Error Correction Mechanism (ECM) to overcome the problem of spurious regression, to ascertain the degree of stationary of variables employed in the study and the co-integrating properties of the data; the Augmented Dickey-Fuller (ADF) test was employed. He founds that all the econometric test applied in the study show statistically significant relationship between the model, thus, he concluded that corruption retards economic growth in Nigeria, that is corruption has a crowding-out effect on growth.

Fabayo et al (2011), in their study analyzed the consequences of corruption on investment in Nigeria using the Ordinary Least Square technique. They use the annual corruption perception index between the period 1996 and 2010. Their study revealed that low Corruption Perception Index ranking on Nigeria, which implies high level of corruption, leads to low investment and thus low economic growth in Nigeria.

In another related study which focuses on the relationship between corruption and development Akindele (2005), undertook an empirical investigation of the relationship between a number of key variables in Nigeria. Estimating a modified production function
including labour, capital and political instability, corruption index is negative implying that corruption retards growth. He found that there exist a strong significant negative relationship between corruption and development. He concludes that, corruption in whatever form is inimical to the development of any society.

3. METHODOLOGY
In this study, the Ordinary Least Square (OLS) regression technique was adopted. Secondary data were employed and divided into dependent and independent variables. The dependent variable is the Nigerian economic development represented by the GDP of Nigerian economy in dollar denomination while the independent variable is the Corruption Perception Index, and in the same vein the Corruption Rank and the Relative Corruption Rank were also used as independent variables.

The study period covers corruption and economic development in Nigeria from 1996 – 2012 which is a period of seventeen years. The choice of 1996 is that data for corruption proxy is only available from this period while the choice of end year of 2012 was because data to be assessed were only available to this year.

Model Specification
The model formulated for this work in its functional form can be expressed as follows:

\[ \text{GDP} = F(\text{CPI}) \]
\[ \text{GDP} = F(\text{CR} + \text{RCR}) \]

Where GDP=Gross Domestic Product, CPI=Corruption Perception Index, CR=Corruption Rank, RCR=Relative Corruption Rank.

The linear form of the model is expressed as:

\[ \text{GDP} = \beta_1 + \beta_2 \text{CPI} \]
\[ \text{GDP} = \beta_1 + \beta_2 \text{CR} + \beta_3 \text{RCR} \]

The econometric form of the model that includes the error term is expressed as:

\[ \text{GDP} = \alpha_1 + \alpha_2 \text{CR} + \alpha_3 \text{RCR} + \mu \]

Where \( \mu \) is the error term.

The parameters for estimation are \( \beta_2, \alpha_2, \alpha_3 \).

The A priori Expectation.
An a priori expectation is a theoretical statement or criteria set by economic theory. For this study, it is expected that the level of corruption proxied by Corruption Perception Index (CPI), Corruption Rank (CR), and Relative Corruption Rank (RCR) are expected to be negatively related to economic development proxy by GDP.

\[ \beta_2 < 0, \alpha_2 < 0, \alpha_3 < 0 \]

4. DISCUSSIONS OF FINDINGS
The following are the data used for this study:

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>CPI</th>
<th>CR</th>
<th>RCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>28.11</td>
<td>0.96</td>
<td>1</td>
<td>54</td>
</tr>
</tbody>
</table>
1997  35.3  1.76  1   52  
1998  36.23  1.9  5   81  
1999  32.143  1.6  2   98  
2000  34.77  1.2  1   90  
2001  45.98  1   2   90  
2002  47.99  1.6  2   101  
2003  59.11  1.4  2   132  
2004  67.65  1.6  3   144  
2005  87.84  1.9  6   152  
2006  112.24  2.2  14  142  
2007  145.42  2.2  32  147  
2008  165.92  2.7  49  121  
2009  207.11  2.5  43  130  
2010  168.59  2.4  37  134  
2011  228.64  2.4  33  143  
2012  243.98  2.7  34  139  

Source: Transparency international and World Bank report on Nigeria.

GDP= Gross Domestic Product in billion dollars, CPI= corruption Perception Index, CR= Corruption Rank, RCR= Relative Corruption Rank.

Table 1  Dependent Variable: GDP
Method: Least Squares
Date: 05/26/13   Time: 20:43
Sample: 1996 2012
Included observations: 17

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>116.2820</td>
<td>17.26344</td>
<td>6.735739</td>
<td>0.0000</td>
</tr>
<tr>
<td>C</td>
<td>-116.2545</td>
<td>33.84722</td>
<td>-3.434685</td>
<td>0.0037</td>
</tr>
</tbody>
</table>

R-squared  0.751533  Mean dependent var  102.7661
Adjusted R-squared  0.734969  S.D. dependent var  75.27192
S.E. of regression  38.75089  Akaike info criterion  10.26232
Sum squared resid  22524.48  Schwarz criterion  10.36034
Log likelihood  -85.22968  F-statistic  45.37018
Durbin-Watson stat  1.325325  Prob(F-statistic)  0.000007

From table 1 which is the regression result of GDP against CPI, it indicates that the R\(^2\) value is 0.75 and the adjusted R\(^2\) is 0.73 meaning that 75% and 73% variation in GDP is explained by the impact of corruption, this points to the fact that corruption has seriously affected Nigeria polity. The ‘F’ value is 45.37018 which is a test of the appropriateness of the model and with a ‘P’ value of 0.000007 means that corruption can be used to measure economic development in a country. The coefficient of CPI is 116.282 suggesting that a reduction in CPI for Nigeria which translates into increase in corruption
leads to a reduction in the GDP by $116.28 billion on the average. Testing for the statistical significance of this estimate, the ‘t’ value is 6.735739 and with a ‘p’ value of 0.0000 which is the exact probability of committing a type 1 error and it means that CPI has a statistically significant negative effect on the GDP of Nigeria. The intercept value is negative, which have no viable economic interpretation.

Table 2  Dependent Variable: GDP

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>3.316778</td>
<td>0.484377</td>
<td>6.847512</td>
<td>0.0000</td>
</tr>
<tr>
<td>RCR</td>
<td>0.578929</td>
<td>0.263602</td>
<td>2.196227</td>
<td>0.0454</td>
</tr>
<tr>
<td>C</td>
<td>-15.73347</td>
<td>27.96578</td>
<td>-0.562597</td>
<td>0.5826</td>
</tr>
</tbody>
</table>

R-squared   0.868701 Mean dependent var  102.7661
Adjusted R-squared  0.849944 S.D. dependent var  75.27192
S.E. of regression   29.15817 Akaike info criterion  9.742132
Sum squared resid    11902.78 Schwarz criterion  9.889170
Log likelihood -79.80812 F-statistic  46.31330
Durbin-Watson stat  0.917915 Prob(F-statistic)  0.000001

Table 2 is the regression result of GDP against CR and RCR, it shows that the $R^2$ value is 0.89 and the adjusted $R^2$ is 0.85 meaning that 89% and 85% variation in GDP is explained by the variation in CR and RCR, this points to the fact that Nigeria’s corruption rankings determined to a large extent the extent of economic growth and development. The ‘F’ value is 46.3133 which is a test of the significance of the independent variable in the model has a ‘P’ value of 0.000007. This leads to the rejection of the $H_0$ hypothesis, that CR and RCR have significant effect on economic growth and development. The coefficient of CR is 3.316778 and the coefficient of RCR is 0.578929 suggest that a non-favourable corruption ranking for Nigeria which translates into increase in corrupt practices leads to a reduction in the GDP by $3.317 billion and $0.568 billion on the average respectively. Testing for the statistical significance of the CR and RCR estimates, the ‘t’ values are 6.847512 and 2.196227 with their ‘p’ values at 0.0000 and 0.05 respectively. The ‘p’ value which is the exact probability of rejecting the true hypothesis indicates that CR and RCR have a statistically significant negative effect on the GDP of Nigeria. The intercept value is also negative and has no viable economic interpretation.

In conclusion, since the entire econometric tests conducted and discussed in the study are all statistically significant in explaining the relationship between the dependent and the independent variables, thus, the null hypothesis which states that: corruption do not hamper economic growth and development is not accepted, while the alternative hypothesis that:
corruption hamper economic growth and development is accepted. Therefore corruption has a negative effect on Nigeria’s economic growth and development.

5. SUMMARY AND CONCLUSIONS.

This study has established the fact that corruption has seriously affected the polity of Nigeria and it is seriously affecting the potential growth ability of the country to the extent that over $100Billion in GDP is lost. This study has perused various literatures and all the literatures pointed to the fact that corruption abound in governance, public and private business and corporate environment in Nigeria. Despite the presence of abundant resources in the country, corruption has made it impossible for the government to translate the presence of the abundant resources to improved standard of living in Nigeria which has led to increasing poverty level in Nigeria. The study examined the magnitude of the impact of corruption on Nigeria economy and found that Corruption Perception Index the proxy for corruption has been hampering development proxy by the Nigeria’s GDP to the tune of over $116billion reduction in GDP on average, also the rank of Nigeria on the corruption cadre has also negatively affected growth and development in Nigeria to the tune of more than $1billion reduction in GDP on the average.

It is thereby concluded that corruption has negatively affected economic growth and development in Nigeria. Corruption of many folds such as bribery, fraudulent acts, embezzlement of public and private funds and property, election rigging and ballot stuffing, money laundering, examination malpractices in schools of privately and publicly owned, are some forms of corrupt practices perpetrated in Nigeria. Corruption have caused lack of public infrastructures, it has increased the level of poverty in the country despite the nation’s enormous resources, less respect for fundamental human right, and it shows that no matter the efforts of government to improve the economy and the presence of other developmental indices, when corruption is not reduced to its bearable minimum, economic growth and development will be very difficult to sustain in Nigeria.

Based on the findings of the study, the following policy recommendations are considered appropriate:

The first step is for the government to strengthen the ability of the anti-graft agencies and at best make them independent from the influence of political elites and the government so that these agencies will be able to perform their functions without the influence of government and will not be seen as a witch hunting agencies of the government anymore.

The public should be educated about the problems that corrupt practices create for the economy and the society at large, and be discouraged from participating in corrupt practices. The media and civil society groups have an important role to play here, the government should encourage full freedom of press and information and not do this by simply signing laws but put it into practice.

The anti-graft agencies should be equipped technologically with the data base information of Nigerians which can always be updated in order to encourage accountability of earnings and spending of Nigerians.
The government should be ready to take a bold step to serve as an example by practicing good governance, transparency, accountability with economic issues so that Nigerians will begin to believe in the system of government. Unnecessary government spending on duplications of offices, and bureaucracies should be reduced to its bearable minimum. The fund should be used for developmental purposes to foster equal distribution of incomes, and the execution of developmental capital projects, etc.

New law that specifically deals with corrupt practices in all its facets should be enacted to stem the tide of judgment that were perceived too lenient, and be followed strictly when prosecuting corrupt offenders irrespective of their caliber or position in the society, double standard should be discouraged when dealing with the rich or the poor.

REFERENCES


