The Implication of Corruption on Economic Progress of Nigeria

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Abstract

The issue of corruption is a universal challenge and has denied many emerging economies good business opportunities. This study makes use of the position of Nigeria in the country corruption ranking captured by Transparency International and the rate of corruption prevailing in the country to assess the degree of influence corruption has on economic growth of the country. The study employs secondary form of data obtained from World Bank Development Indicators and Transparency International which cover a period from 2008 to 2018. The regression result indicates that the country corruption ranking has a significant negative influence on economic growth in Nigeria while the rate of corruption prevailing in the country has a significant positive impact on economic growth in the country. The two results are significant and so the study concludes that the image of the country has been tarnished globally due to the high level of corruption in Nigeria and as internationally perceived. As a result, important investment opportunities elude the country even though the economy is growing with the high rate of corruption prevailing in the country. The study thus, recommends among others that the religious leaders and non-governmental organizations should assist in curbing the menace of corruption by inculcating moral values in the young generation who should grow up to say no to corruption and its attractions. This will go a long way to salvage the future of this great nation.

Keywords: corruption, country corruption ranking, rate of corruption, economic growth, Nigeria

JEL Classification Codes: D73, O4, O47, O55

1. Introduction

According to Bardhan (1997) corruption refers to the utilization of government workplace for personal benefits or individual interest which is an intricate and complicated idea (AIdt, 2003). Corruption arises as individuals use affluence to purchase power, especially where there are insufficient pecuniary prospects, and when governmental influence is used to acquire riches (Danilo, Mladen & Dusan, 2016). Corruption takes the form of bribery and embezzlement by public office holders who are entrusted with resources to manage, but prefer to be fraudulent by manipulating information and using their public office for private aims, favoritism and extortion (Andvig & Fjeldstad, 2001). In other words, corruption is an action that violates institutional laws and regulations by government officials using their positions for selfish interest (Jain, 2001), or the sale of government property by government workers for private gain (Shleifer & Vishny, 1993).

According to Mehmet (2014), corruption is an indication of feeble legal framework and its possible consequences on economic growth of a nation could really be devastating. Khan (1996) submits that corruption is a conduct that strays from the official guidelines for behavior governing, the actions of someone using his or her affluence, authority, position or status in a wrong and selfish manner. Corruption is a business deal among those in the private and public sectors through which publicly owned properties are unlawfully transformed into personal belongings and be regarded as pay offs (Heidenheimer, Johnston & LeVine, 1989). Corruption by the highest political decision makers is known as political or grand corruption. Political corruption involves pretty huge bribes paid to influence policy formulation and major contract awards tailored towards private benefits (Swaleheen, 2011). There are also bureaucratic and judicial corruption which are corrupt practices by bureaucrats and judicial officials involved in effecting prevailing rules in their daily interface with the people of a nation.

Economic growth in a country can be attributed to many variables which are both positive and negative in nature (Ertimi, Dowa, Albisht & Oqab, 2016). World Bank (2005) defines economic growth as a quantifiable variation or increase in a nation's economy. As a matter of emphasis, World Bank (2005) maintained that economic growth is usually measured as the percentage increase in gross domestic product (GDP) or gross national product (GNP) in one fiscal year. According to Nafziger (2006) economic growth is an increase in a country's per capita output which implies that economic growth is the increase in the value of goods and services produced by an economy over a period of time. Generally, economic growth can be measured by Gross Domestic Product (GDP), Gross National Product (GNP), national income (National

Income) and Gross National Product (GDP) per capita and Per Capita Income (PCI), thus, the nature of economic growth is to guarantee the growth of both production output and production output per capita (Thach, Duong & Oanh, 2017).

Bardhan (1997) posits that corruption is a prehistoric challenge which policy makers and social scientists have contended with for ages. The countries with high profile of corruption usually have retarded economic growth report (Maria, Adeel & Khalid, 2013). Lack of proper leadership, transparency and accountability have remained the principal issues with corruption in Nigeria (Adegboyega, 2017). Considering the high rate of exploitation in Nigeria, it will be worthy to query the role of Anticorruption Agencies in curbing the menace of this virus which is detrimental to real economic growth in the country. The answer provided by Meagher and Voland (2006) is that Anti-graft agencies are not enough to repudiate corruption because corrupt practices are deep rooted and endorsed with lack of proper and active legal framework and political imbalances.

The economic consequences are that corruption leads to low investment and productivity which negatively impact on economic growth. The Anti-graft agencies in Nigeria such as Economic and Financial Crimes Commission (EFCC) and Independent and Corrupt Practices Commission (ICPC) have been under pressure and keep wondering whether corruption can be eradicated in Nigeria since the high level of lootings and embezzlement are perpetrated by renowned businessmen, public office holders and government officials. However, several studies on the effect of corruption on economic growth have shown significant positive influence (Damir & Petar, 2011; Ahmad, Ullah & Arfeen, 2012; Huang, 2012; Peev & Mueller, 2012) while some others studies revealed significant negative impact (Pulok, 2010; Diri, 2013; Maria *et al.,* 2013; Nguyen, Nguyen & Binh, 2014; Nwankwo, 2014; Trabelsi & Trabelsi, 2014; Eritimi *et al.* 2016; Adegboyega, 2017; Thach *et al.,* 2017). Based on this discrepancy, this study aims at determining the influence of corruption on Nigeria's fiscal progress.

2. Literature Review

2.1 Theoretical Framework

The theory underpinning this study is the Neoclassical Theory of economic growth advocated by Solow (1956) and Swan (1956). Solow (1956) and Swan (1956) characterized neoclassical theory which denotes that an economy can have a long term growth rate as exogenously provided from outside the economic system such as capital, technological progress and labor force. Neoclassical theory advocates that corruption influences economic growth and output (Farida & Esfahani, 2006). Neoclassical model of economic growth clearly includes the effects of corruption on economic growth which enables researchers to incorporate corruption in their model to be able to analyze the effect of corruption on economic growth. This model supersedes the approaches of previous studies that made use of models that did not consider the inherent and potential influences of corruption on economic growth. The Neoclassical economists identified three methods to counter the international dependence model which includes: the market-friendly method, the free market technique and the new political method. Using these methods, they argued that lack of development in the emerging economies are caused primarily by corruption, followed by lack of fairness in resource allocations by the government and other undue government interventions such as imposition of wrong taxes (Meier, 2000). The counter-revolution economists believe that industrialized nations and international organizations are not the cause of the problems of the developing countries, thus, scholars such as (Bauer, 1984; Lal, 1983; Johnson, 1971; Little, 1982) considered free markets operations, removal of subsidies and public ownership as a means of achieving efficiency in the public sector. Following the Neoclassical model, the emergence of two schools of thought that are connected to the effect of corruption on economic growth are identified in this study. One of the schools of thought embraces the fact that corruption leads to public sector efficiency and has a positive influence on economic growth because approval of projects are speedily given when bribes are paid to bureaucrats (Leff, 1964; Huntington, 1968; Summer, 1977; Acemoglu & Verdier, 1998). The second school of thought holds that corruption prevents economic growth, increases transaction costs and reduces profits in business (Gould & Amaro-Reyes, 1983; United Nations, 1990; Murphy, 1993; Mauro, 1995; Monte & Papagni, 2001).

2.2 Empirical Review

Adegboyega (2017) employed fully modified ordinary least squares (OLS) method to investigate the effect of corruption on Nigeria's economic growth using secondary data from 1982 to 2015. The findings revealed that corruption had a negative influence on economic growth in the long run. As a result, poverty level in the country has been on the increase while investment that could lead to job opportunities continues to reduce. Thach *et al.* (2017) used panel data of 19 Asian countries to analyze the impact of corruption on economic growth from 2004 to 2015 using DGMM data processing technique and quantile regression. The study found evidence that corruption was a hindrance to economic growth of the Asian countries covered by the study.

Danilo *et al.* (2016) used panel data of countries captured by the Transparency International and World Bank Development Indicators for corruption perception index (CPI) and gross domestic product (GDP) respectively. The data covered a period from 1995 to 2011 and were divided into three period zones to indicate short time impact, medium-term

impact and long term impact of corruption on GDP. The empirical result revealed that corruption impact on economic growth most in zone 2 period which is the medium term period. Eritimi *et al.* (2016) examined the impact of corruption on economic growth of 14 Organization of Islamic Cooperation (OIC) from 2003 to 2010. The study employed endogenous growth theory and economic freedom index for analysis. The findings revealed that corruption had a negative impact on economic growth of the selected OIC countries.

Mehmet (2014) used meta-analysis tool to examine the effect of corruption on per capita GDP growth from 29 primary studies. The findings revealed that the effect of corruption on per capita GDP growth was more adverse in studies that employed low-income-country data only than studies that made use of the International County Risk Guide corruption perception index. Nguyen *et al.* (2014) estimated the direct and indirect effects of corruption on GDP growth rate in Vietnam and generally confirmed that corruption had a negative correlation with economic growth in Vietnam. Nwankwo (2014) used granger causality and regression techniques to examine the impact of corruption on Nigeria's economic growth and found that corruption had a significant negative impact on economic growth in Nigeria. Trabelsi and Trabelsi (2014) investigated the impact of corruption on economic growth of 88 countries from 1984-2011. The study found evidence that, both high and low corruption levels could decrease economic growth.

Diri (2013) employed channel methodology to assess the effect of corruption and found that the negative effect of corruption on economic growth could be observed from the rate of political instability and low level of human capital development. Maria *et al.* (2013) assessed the relationship between corruption and economic growth in Pakistan from 1985-2010. The regression result indicated among others that corruption had a negative impact on per capita income in Pakistan.

Ahmad *et al.* (2012) studied the effect of corruption on economic growth using panel data from the International Country Risk Guide corruption index, institutional quality and political stability indices and several state variables for advanced and emerging countries. The findings revealed that corruption increases economic growth rate in an inverted U-shaped way. The Huang (2012) carried out a study on 10 Asian Countries comprising China, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam for a period covering 1995 to 2010. The findings revealed that corruption had a significant positive impact on economic growth, suggesting that economic growth of these countries is a function of corruption.

Using economic freedom as proxy for corruption, Peev and Mueller (2012) assessed the relationship between democracy and the growth rate of corruption in 24 post-communist economies from 1990 to 2007. The study established that high economic freedom index emanated from democratic institutions. The findings equally revealed that economic freedom led to growth in investment which resulted to high economic growth in the countries covered by the study.

Damir & Petar (2011) investigated the impact of corruption on economic growth in Croatia and 10 transition EU member countries. The study on Croatia covered a period from 1999 to 2009 while from 1995 to 2009 were covered for the ten transition EU member countries. The study found that the impact of corruption on economic growth takes place without a significant time delay. The implication of this finding is that the existence of corruption in these countries is such that when bribe is given, certain rules are relaxed and rooms are created for quick business transactions in the country, as a result the economy is growing with it.

Swaleheen (2011) examined the effect of corruption on the rate of economic growth using a panel data of countries fro1984 to 2007. The findings revealed that corruption had a significant effect on the growth rate of real per capita income. Pulok (2010) evaluated the impact of corruption on economic growth of Bangladesh from 1984 to 2008 using Auto-regressive Distributed Lag (ARDL) bound test method. The study found the existence of a long run relationship among corruption, GDP per capita and other factors that determine GDP over the period used for the study. The findings also revealed that corruption had a direct negative impact on per capita GDP (proxy for economic development) in Bangladesh.

2.3 Research Gap

Several studies have been appraised and the outcomes indicate that corruption has both negative influence on economic growth (Ahmad *et al.,* 2012; Huang, 2012; Peev & Mueller, 2012) as well as positive effects (Maria *et al.*, 2013; Nwankwo, 2014; Pulok, 2016; Thach *et al.,* 2017) among others. Damir and Petar (2011) confirmed that corruption relaxes legal restrictions in business and as a result, the economy grows with it. This current study is planned to intercept these divergent views by establishing the consequences of corruption on economic growth of Nigeria for a period covering 2008 to 2018.

3. Methodology

The study employed a descriptive research design which describes the kind of association existing between the independent variables and the dependent variable in a certain area of research. This choice is motivated by the fact that all

the variables are quantitative in nature and are numerically gathered for statistical analysis. Descriptive research design allows the researcher to statistically measure and analyze data in order to draw an empirical evidence from a study. The study is on the impact of corruption on economic growth in Nigeria. The dependent variable is the annual GDP growth rate while the independent variables are the Country Corruption Ranking (CCR) and the Rate of Corruption (ROC) in Nigeria. The Corruption Perception Index (CPI) captured by the Transparency International shows that the CPI is based on a 10-point scale in which a score of 10 specifies a very slight corruption and a score of 0 shows a very corrupt government. In scoring freedom from corruption, the *Index* translates the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10. For example, if a country's raw CPI data score is 5.5, its overall freedom from corruption score is 55 (Heritage Organization, 2019). Based on this background, the ROC of corruption in Nigeria used in this study is arrived at by multiplying the Nigeria CPI data by 100 to get the Nigeria's degree of freedom from corruption. The values obtained were subtracted from 100 to arrive at the actual Rate of Corruption (ROC) in Nigeria. The data for the GDP growth rate were collected from the World Bank Development Indicators while the CPI data used before conversion to ROC were obtained from the Transparency International. All the data for the variables were collected from 2008 to 2018 and were all expressed in logarithm form for uniformity and ease of analysis.

The multi-regression analysis was carried out with the aid of e-views version 9. The significance level is at 5% level of significance.

The model specified for the study is stated as follows:

LOGGDP = $\propto + \beta_1(LOGCCR) + \beta_2(LOGROC) + \varepsilon$

Where,

GDP	=	Annual Growth Rate of Gross Domestic Product
CCR	=	Country Corruption Ranking
ROC	=	Rate of Corruption
$\dot\alpha$	=	Constant
β_1-β_2	=	Regression Coefficients
ε	=	Error term

A Priori economic expectation:

β_1, β_2 <   0

The a priori economic expectation is that CCR and ROC should be less than zero indicating negative effect of corruption on economic growth rate in Nigeria.

4. Data Analysis and Interpretations
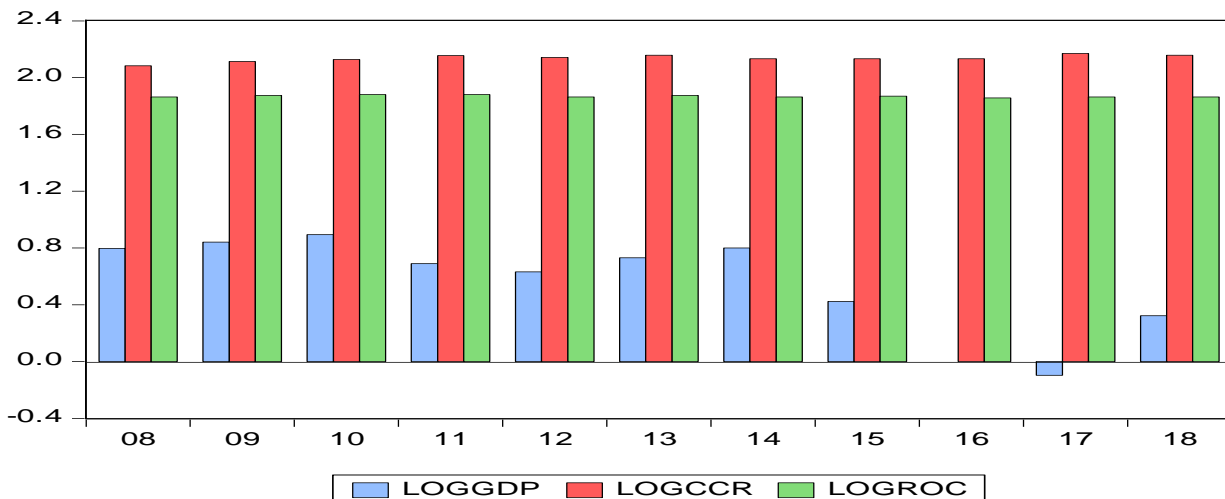
4.1 Graphical Presentation of Trend of Data

Figure 1. Trend of data from 2008-2018

Source of Data: World Bank Development Indicators and Transparency International

Figure 1 above shows the trend of the data values of the variables from 2008 to 2018. From the figure above, the rate of corruption is high in each of the years as well as the ranking of Nigeria as a corrupt country. The implication is that the

whole economy has been integrated with corruption as though they are inseparable. A closer observation on this graph indicates that the economy is not really at its best with the scenario, however, the regression result below has a better explanation in this regard.

4.2 Regression Result

Table 1. Regression Result

Dependent Variable: LOGGDP

Method: Least Squares

Date: 02/21/19 Time: 17:02

Sample: 2008 2018

Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGCCR	-7.430183	2.956483	-2.513183	0.0362
LOGROC	26.95647	8.989903	2.998528	0.0171
C	-33.94301	17.60508	-1.928024	0.0900
R-squared	0.644278	Mean dependent var		0.548477
Adjusted R-squared	0.555347	S.D. dependent var		0.342734
S.E. of regression	0.228543	Akaike info criterion		0.112816
Sum squared resid	0.417855	Schwarz criterion		0.221333
Log likelihood	2.379511	Hannan-Quinn criter.		0.044411
F-statistic	7.244731	Durbin-Watson stat		1.348700
Prob(F-statistic)	0.016012			

Source: Author's Computation, 2019

Table 1 above indicates the regression result of this study. From table 1 above, the R value is 80.3% (square root of R-squared). This is an indication that the association between economic growth in Nigeria and corruption is very strong. In the same manner the R-squared has the value of 64.4% which implies that the rate of corruption and the position of Nigeria in the country ranking explain up to 64.4% of the changes in economic growth in Nigeria while the remaining 35.6% is attributable to other variables that are not included in the model. The Durbin-Watson is within the limit that does not give cause for concern. The value of the F-statistic is 7.244731 with the p-value of $0.01 < 0.05$. The p-value shows that the result is statistically significant and the model is suitable for the study. The result also signifies that the rate of corruption and the Country's position in the ranking jointly affect the economic growth of Nigeria.

The t-statistic shows the individual performance of the independent variables and the degree of influence each is having on economic growth of the country. From table 1 above, CCR t-statistic is -2.513183 while the p-value is $0.03 < 0.05$ level of significance. This result shows that the position of Nigeria in the ranking of corrupt countries has a significant negative influence on economic growth of Nigeria. On the contrast, ROC t-statistic is 2.998528 while the p-value is $0.01 < 0.05$ level of significance. This result implies that the rate of corruption in Nigeria has a significant positive impact on economic growth of the country. This result agrees with the findings of (Damir & Petar, 2011; Ahmad, Ullah & Arfeen, 2012; Huang, 2012; Peev & Mueller, 2012) but conflicts with the studies of (Pulok, 2010; Diri, 2013; Maria *et al.,* 2013; Nguyen, Nguyen & Binh, 2014; Nwankwo, 2014; Trabelsi & Trabelsi, 2014; Eritimi *et al.* 2016; Adegboyega, 2017; Thach *et al.,* 2017) who found that corruption influences economic growth negatively.

5. Conclusion and Recommendations

5.1 Conclusion

The study examines the impact of corruption on economic growth of Nigeria using the country corruption ranking and the rate of corruption in Nigeria to assess the degree of influences corruption has on growth in the country. The significant negative impact of CCR on GDP growth rate met the a priori expectation while the ROC did not meet the economic a priori expectation. The country corruption ranking captured by Transparency International has a global implication on the economic growth of the country. It shows how the global investment community will perceive Nigeria and other countries

in terms of investment considerations. The reason is that corruption increases the transaction costs of an investor and reduces the investment returns or profits. In this regard, a risk averse investor will not like to take such risk. Secondly, a country's global reputation when it comes to business transactions is very key in determining whether to do business in that country or not. Based on this background, the study concludes that the position of Nigeria as one of the highest corrupt countries in the world has actually affected economic growth of the country negatively. Certain technological inflows through foreign direct investments have eluded ~~the~~ Nigeria due to the high level of corruption in the country being viewed globally. On the contrary, the result also shows that the rate of corruption prevailing in Nigeria's economic system and in the political sphere is so pronounced that the economy is even excelling with it. This means that Nigeria is a place where bribery prevails when it comes to business. In other words, there is less regard for rules and institutional qualities, rather bribe makes businesses to move faster and the economy is growing. This is an ugly scenario and should be condemned by all standards.

5.2 Recommendations

- The study suggests a total overhauling of the Nigeria's legal system which has to do with good leadership in place. The need for good leadership is paramount in achieving this goal because without good governance there will be no better Nigeria.

- The efforts of the Anticorruption agencies have to be supplemented by religious leaders and non-governmental organizations who have the opportunity to teach the citizens the need for moral values. When moral values are inculcated in people especially the young generation, it goes a long way to help them resist the attractions and pressures of corrupt practices emanating from their peers and associates.

- The government should encourage people to insist on getting things done in the right manner, that is following due process. Citizens should shun bribe and stand on their right to obtain whatever they need for their businesses, studies and other transactions as long as the official requirements are met.

- Whistle blowing is highly recommended and should be strongly encouraged, that is, citizens should be adequately supported to report all corrupt practices in all public offices without putting their lives at risk.

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