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# AN EXAMINATION OF CORRUPTION IN NIGERIA AND ITS EFFECT ON ECONOMIC GROWTH

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Abstract

This study examined the effect of corruption on the growth of Nigeria economy from 1999 to 2015. The data was sourced from Central Bank of Nigeria Statistical Bulletin and Transparency International Report. Ordinary Least Square and Granger Causality test were used as the estimation techniques. The findings revealed that corruption perception index (CPI) has an indirect effect on economic growth. It was also revealed that there is uni-directional relationship between CPI and GDP, that corruption perception index granger cause gross domestic product which is significant at 10% level. The study then concluded that corruption does have a negative effect on the growth of the Nigeria economy. However, it wasrecommended that more stringent policies should be implemented to tackle the problem of corruption in Nigeria.

**Keywords: Corruption Perception Index, Corruption, Nigeria, CBN and Economic Growth.**

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## 1. INTRODUCTION

Corruption has been identified as a hindrance that might affect economic development or growth of any country, particularly developing economies like Nigeria. Nigeria is blessed with numerous natural resources and human resources assisted by its large population. The natural resources have been largely ignored since the discovery of oil well for more than forty years now. This oil discovery has also brought corruption on different scale and type into the country. The Corruption Perception Index (CPI) which assesses the corruption level of countries around the world was first launched in 1995 and Nigeria first participated in 1996. Ever since then, Nigeria has regularly been ranked in the bottom among countries evaluated and has more than once (1996, 1997 and 2000) ranked as the most corrupt country in the world. In 2014, Nigeria ranked 136$^{th}$ out of 175 countries evaluated and ranked 3$^{rd}$ most corrupt country in West Africa after Guinea and Guinea Bissau (World Bank 2015).

Nageri, Gunu, and Abdul (2013) observed that despite Nigeria having the seventh largest reserve of crude oil among the world, low growth and low per capita-income still exist in the country. The prevalence of corruption in governance, as well as corruption in the public and private sector are major contributors to this low growth. Ogbeidi (2012), investigated political leadership and corruption in Nigeria since 1960, and he concluded that corruption has been a catalyst causing slow Nigeria's development and hindered most national values. Political leaders who are meant to be responsible for coordinating the affairs of the nation are seen to be the major culprits guilty of committing this crime. Persistent corruption has been a grave impediment to economic development in Nigeria and it needs to be checked and curbed.

From the review of past researches, it can be seen that corruption has no doubt been embedded into the Nigerian system and has stemmed evil roots in the political culture and behavior of the citizenry as well as the economy as a whole. Until recently, Government seems to be quiet about corruption, that is, there seem to be little or no punishment for corrupt politicians. Most political office holders guilty of looting public funds have gone free or, in recent effort led by the President since 2015, made to pay back the looted funds but face no capital punishment.

Price Water Coopers (2016), reports that corruption in Nigeria could cost up to 37% of GDP by 2030, if it is not dealt with immediately. Aluko (2002) opined that, corruption in Nigeria had found its way into the Nigerian culture and values, and that; the corrupt practices now appear as obvious norms. Corruption in Nigeria is deeply rooted, and to give bribes, pay civil servants before files are treated or attended to in public offices, or payments to secure jobs in the public sector, and payments to police in order to cover up a crime has become everyday practices.

Sukanmi and Ishola (2014) further confirm the existing arguments that the level of corruption in a country is a relevant determinant of the level of economic growth. Aluko (2002) went further to analyze corruption in Nigeria by saying that, corruption has spread into the new generations while the elderly re-socialize and begin to conform to corruption. The successive generations see corruption as part and parcel of the social order and normative system. In line with the above, this paper aims to examine the effect of corruption on the economic growth of Nigeria particularly in recent times where effort are being made by the current government of Nigeria and seek to provide recommendations to curb the growing corruption cases in Nigeria. This study will examine corruption in Nigeria and its effect on economic growth by using recent quantitative data and statistics as well as Ordinary Least Square and Granger Causality method to draw conclusions and proffer recommendations.

## 2. LITERATURE REVIEW

Corruption has been defined by a number of different scholars. According to Ngouo (2000), corruption is the exploitation of public positions for private benefits. She also viewed that the lack of any civil spirit among all categories of civil servants leads to corruption and misappropriation of public funds. In the view of Akindele (1990), corruption is a behavior, which deviates from the formal rules of governing the actions of someone in a position of authority. Corruption is defined and perceived across a spectrum of illegal transactions and payments such as bribes, embezzlement, and money laundering among others (PWC 2016). Osunyikanmi (2009) is of the opinion that corruption is synonymous to the terms fraud, bribery, settlement among others. it was also stated that anti-corruption institutions such as Economic and Financial Crime Commission (EFCC), Independent Corrupt practices and other Related Offenses Commission (ICPC), War Against Indiscipline (WAI) that were established to fight against corruption have not achieve their set goals. Gibbons and Rowat (1976), viewed corruption exclusively in political terms and defined political corruption as the use of a public office in a manner that neglects public interest, measured in terms of the opinion of the masses, elites or both, in order to achieve personal advantage at the expense of public interest. Olu-Adeyemi and Obamuyi (2010) also observed that the absence of public accountability has also increased the chances of corrupt practices by both the political appointees and civil servants.

Fisman and Miguel (2007) concluded that corruption is a cultural phenomenon in that, the tendency to engage in bribery is a function of where the individual grew up. Akindele (1990) went further to define corruption as any form of reciprocal behavior or transaction where both the power/office holder can respectively initiate the inducement of each other by some rewards to grant illegal preferential treatment or favor against the principles and interest of specific organization within the society. According to Tolu and Ogunro (2012), there are four major types of corruption. There is Political and Bureaucratic Corruption, which reflects illegal exploitation of political office for personal gains. There also exists Moral Corruption which reflects greed in interpersonal relationship. Another type of corruption is Electoral Corruption which relates to electoral. Economic Corruption such as piracy, fake manufacturing, and fraud is another form of corruption. Other types of corruption identified include religious corruption, educational corruption, and family corruption among others.

Odi (2014) investigates the impact of corruption on the growth of Nigerian economy using granger causality and regression techniques. The study used gross domestic product (GDP) as a proxy of economic growth and corruption index as a proxy of corruption in the analysis. The study revealed that the level of corruption in Nigeria over the years has significant negative impact on economic growth in Nigeria. The implication of this study is that economy cannot grow fast without zero tolerance in corruption. According to Adewale (2011), in investigating the crowding-out effects of corruption in Nigeria, concluded that the accumulation of the nation's economic resources for personal benefits, had contributed mainly to capital leakages from Nigeria for illegal deposits abroad. He further pointed out that the contributing effects of corruption on poverty and poor infrastructural development is more worrying.

Ola, Muhammed and Audi (2014) gave an overview of possible causes and effects of corruption. Using data drawn chiefly from news stories and interviews of Nigerians with relevant information, the study found a negative correlation between levels of corruption and economic growth thereby making it difficult for Nigeria to develop fast. Fabayo, Posu and Obisanya (2011), tested the effects corruption has on investment in Nigeria, and discovered that the low CPI ranking on Nigeria which indicates high level of corruption, brings about low investment and ultimately, low economic growth in Nigeria. This was supported by Nageri, Guru and Abdul (2013), who investigated the impact of corruption on economic development in Nigeria also using the OLS regression technique. The results show that Corruption Perception Index (CPI) a proxy for corruption in the research; have a negative impact on economic development. It was recommended that the Nigerian government should make use of strict anti-corruption codes as stipulated in the legislation irrespective of the culprit's position in the society. Aluko (2002) also examined the different ways through which corruption had become institutionalized in Nigeria and the impact it has on the political culture and behavior. It was observed that, institutionalization of corruption leads to an overall change in the value system and norms of behavior in a society. It also looked at the sociological perspective that all behavior is socially generated and concluded that corruption should be seen largely as a social problem and not as emanating from individual disposition. Omololu (2007) pointed out that the Nigerian state is a victim of high level of corruption, political instability, and bad governance, which has led to a retarded national development and an uncertain political environment. Matthew, Barnabas, Isola and Joseph (2013) studied into corruption and Nigeria economic growth and applied the granger causality method to measure the causal relationship that exists between corruption and the gross domestic product (GDP). The results revealed that corruption impairs and impacts economic growth. Ajie and Oyegun (2015) investigated the impact of corruption on economic growth in Nigeria for the period 1996 – 2013 using regression analysis and the result shows that there is a negative relationship between the dependent variable (GDP) and corruption level in Nigeria. Ilufoye (2009) also concluded that, there is need to demystify ethnicity and address the problem of citizenship in order to alter in a positive way, the average citizen's psycho-political conception of the Nigerian state and thus, reduce corrupt tendencies. This study will aim to examine current effect of corruption on Nigeria Economic growth particularly since the new Nigeria government has intensified its fight against corruption since May 2015.

## 3. RESEARCH METHODOLOGY

In order to measure the effect corruption has on the Nigerian economic development, this study employed the Ordinary Least Square (OLS) regression technique where the Nigerian Economy was proxy by the Gross Domestic Product (GDP) which is the dependent variable while corruption was proxy by the Corruption Perception Index (CPI) as the independent variable. Control variables were Foreign Direct Investment (FDI), Debt Service Payments (DSP) and Government Expenditure (GEX). The study period covers corruption and economic development in Nigeria from 1999 – 2015

The model formulated for this study is a modified model premised on previous studies such as Ajie and Oyegun (2015). Its functional form can be expressed as follows:

GDP = f (CPI, DSP, FDI, GEX)

$$GDP_t = \Omega_0 + \Omega_1 CPI_t + \Omega_2 DSP_t + \Omega_3 FDI_t + \Omega_4 GEX_t + \mu$$

*a priori* expectation $\Omega_1 < 0$, $\Omega_2 > 0$, $\Omega_3 < 0$, $\Omega_4 > 0$

The hypothesis is stated in null form thus;

$H_0$: Corruption has no significant effect on the Nigeria economic growth.

## 4. Analysis and Presentation of Result

**Table 1 Correlation Matrix**

| | GDP | CPI | DSP | FDI | GEX |
|---|---|---|---|---|---|
| GDP | 1.000000 | | | | |
| CPI | -0.278366 | | | | |
| DSP | 0.090375 | 0.128435 | | | |
| FDI | -0.508279 | 0.172736 | 0.174823 | | |
| GX | 0.265868 | -0.224963 | -0.316861 | 0.212089 | 1.000000 |

**Source: Researcher's Computation, 2017**

The table above shows the correlation matrix for the macroeconomic variables employed in this study. A correlation above 0.7 or 70 percent indicates evidence of multicollinearity. Based on that, statistical evidence from the correlation in Table 1 shows the absence of multicollinearity among variables under study since the correlation values are less 70%.

The result revealed that there is a negative relationship between corruption index and gross domestic product. Also, it was revealed that debt service payment has a positive relationship with gross domestic product while foreign direct investment has a negative relationship with gross domestic product. Finally, it was revealed that government expenditure has a positive impact on gross domestic product

**Table 2 Regression Results**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| LOG(CPI) | -0.024775 | 0.503931 | -0.049164 | 0.9616 |
| LOG(DSP) | 0.155858 | 0.081348 | 1.915948 | 0.0795 |
| LOG(FDI) | -0.235410 | 0.154493 | -1.523753 | 0.1535 |
| LOG(GX) | 1.867436 | 0.257674 | 7.247274 | 0.0000 |
| C | 18.14158 | 3.592936 | 5.049235 | 0.0003 |

| | | | |
|---|---|---|---|
| R-squared | 0.963801 | Mean dependent var | 30.68579 |
| Adjusted R-squared | 0.951735 | S.D. dependent var | 1.122848 |
| S.E. of regression | 0.246682 | Akaike info criterion | 0.278498 |
| Sum squared resid | 0.730226 | Schwarz criterion | 0.523561 |
| Log likelihood | 2.632763 | Hannan-Quinn criter. | 0.302858 |
| F-statistic | 79.87544 | Durbin-Watson stat | 2.476105 |
| Prob(F-statistic) | 0.000000 | | |

**Source: E-views 9**

The table above presents the regression result between the dependent variable GDP and the explanatory variable CPI, DSP, FDI and GEX. It was revealed that corruption perception index (CPI) has an indirect relationship with GDP, such that a percentage increase in CPI will result in 2% decrease in GDP which is in line with the a priori expectation and revealed the undesirable effect of corruption on the Nigerian economy. Also, it was revealed that debt service payment (DSP) has a positive impact on gross domestic product such as 1% increase in debt service payment will bring about 15% rises in GDP which is not in line with theoretical expectation.

Also, it was revealed that there an indirect relationship between foreign direct investment and gross domestic product which implies that 1% percentage increase foreign direct investment will lead to 23% fall in gross domestic product. Finally, it was revealed that there is direct relationship between government expenditure and GDP and an increase in government spending in the economy leads to rises in GDP.

The Adjusted R-squared of 0.951735 or 95% implies that 95% of variation in gross domestic product is accounted for by the explanatory variables captured in the model in the economy and it also indicates that the model is nicely fit. Finally, the F-statics which measures the joint influence of the explanatory variables on the dependent variable give a value of 79.87544 which is highly significant at 5% level of significant with P value of 0.000000 which is less than 5%. It is thus, concluded that corruption has a significant impact on the Nigerian economy which resulted in the rejection of null hypothesis

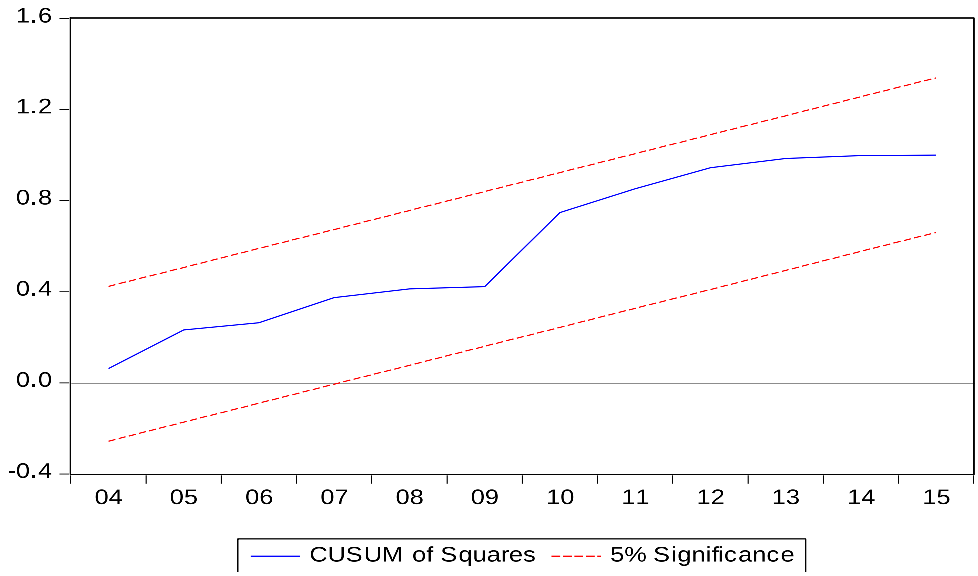
**Table 3 Diagnostics Test**

| **Diagnostics test** | **Observed value** | **P-value (Chi-sqaure)** |
|---|---|---|
| Normality Test | 0.600492 | 0.740636 |
| Breusch-Godfrey LM test for autocorrelation | 5.728543 | 0.0570 |
| Heteroskedasticity Test: Breusch-Pagan-Godfrey | 10.83338 | 0.0285 |

**Source: Researcher's Computation, 2017**

The table above presents the results of residuals diagnostics test for the model. The Jarque-Bera normality test revealed that the residuals of the model is not normally distributed since the P value is highly significant at 5% level of significant, thus the null hypothesis of normality is therefore accepted for the model which implies that the model is normally distributed . Also, Breusch-Godfrey Lagranger Multiplier test (LM) revealed that the regression model is not serially correlated since the p-value of 0.0570 is significant at 5% conventional level which leads to the acceptance of null hypothesis of no serially correlation. The result of Breusch-pegan test was conducted to check the presence of heterosecedaticity in the model and it was revealed that there is no heterosecedaticity in the regression model and implies that the model is homosecedatic.

**Stability Test**




The result above presents the stability graph for the model and it is revealed that regression model is relatively stable and nicely fit since the blue line is within the acceptance region and thus the hypothesis of stability is accepted for the model

**Table 4 Granger Casualty Test**

| Null Hypothesis: | Obs | F-Statistic | Prob. |
|---|---|---|---|
| CPI does not Granger Cause GDP | 15 | 3.33053 | 0.0779 |
| GDP does not Granger Cause CPI | | 0.62831 | 0.5533 |
| DSP does not Granger Cause GDP | 15 | 0.38725 | 0.6887 |
| GDP does not Granger Cause DSP | | 0.44712 | 0.6516 |
| FDI does not Granger Cause GDP | 15 | 4.16222 | 0.0484 |
| GDP does not Granger Cause FDI | | 4.43415 | 0.0418 |
| GEX does not Granger Cause GDP | 15 | 8.33024 | 0.0074 |
| GDP does not Granger Cause GEX | | 6.86227 | 0.0133 |

**Source: E-views 9**

The table above presents the result of the granger casualty test in other to test for the direction of the relationship between the dependent variable (measure as Gross Domestic Product) and the independent variables (corruption perception index, debt service payment, foreign direct investment and government expenditure). It was revealed that there is uni-directional relationship between CPI and GDP and that corruption perception index granger cause gross domestic product which is significant at 10% level. Also, it was revealed that there is bi-directional relationship between DSP and GDP at 5%, 10% and 1% critical value. FDI and GDP was found to have a bilateral association-ship which is significant at 5% critical value implying that FDI granger cause GDP and the relationship runs from GDP to FDI. Finally, the result of the granger casualty test revealed that there exist bilateral relationships between GEX and GDP which is highly significant at 5%, 10% and 1%. This implies that government expenditure granger cause gross domestic product and vice versa.

## 5. SUMMARY AND CONCLUSION

The study has been able to establish the fact that corruption has a negative effect on the economic growth of Nigeria to the extent of losing about $250 billion dollars in her GDP. This is in support of various literatures which also identified corruption as a major factor affecting the economic development of Nigeria. The looting of public funds by government officials and carting those funds to foreign countries has to a large extent increased poverty level in Nigeria. As these funds could have been used to increase the standard of living by creating jobs or providing social amenities that could reduce poverty in the economy.

It is therefore recommended that the government should take a lead and make functional all anti-corruption agencies giving them ample room to perform their duties. Also, government should ensure that those guilty of corruption at whatever level do not go unpunished as this would deter others for doing same. Orientation campaign to enlighten the public should also be intensified to mitigate the spread of corrupt practices.

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