# Corruption an Enemy to Economic Development in Nigeria

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**Abstract**
The issue of corruption has raised a lot of concern as it continues to plague the nation. This paper examines the relationship between corruption and economic development using secondary sources of data from 1980-2011. The social development model was employed using multiple linear regression analysis to determine if a relationship indeed exists between corruption and economic development. The result gave an R2 value of 0.848 indicating that a significant relationship between corruption and economic development exists, thus the null hypothesis; Ho was rejected. The paper recommends amongst others that government should be sincere and transparent in their activities; sudden wealth by individuals be investigated and love of country should be embraced by all.
**Keywords**: Corruption, Economic Development, Transparency, Governance, Nigeria

## 1. Introduction

Corruption is one of the greatest challenges confronting modern society, with predominance in developing countries (Dike, 2000). It is an enigma to good governance as it leads to misappropriation of public funds, and limited growth of the economy. It also does not help the private sector any better, as it stiffens innovation, infrastructural development and investments. Corruption is a social phenomenon, which affects every sphere of the society in Nigeria today. It interferes with the political, social and economic lives of the people, with the poor bearing the brunt of it (Ogbeidi, 2012). World Bank, referred to corruption as “the single most important obstacle to development in developing countries”, thus defining it as the, “misuse of public office for private gains”. Corruption manipulates the market economy, by interfering with currency fluctuations and investment outflows and inflows. The concept of corruption is an ancient concept, where the definition of it is multifaceted and dependent on the situation, the players, laws and regulations governing a country.

In Nigeria it is mostly perceived as one of the most important ways to bring about wealth, thus leading to majority of the population seeking for public offices with the hope of accumulating wealth for themselves. A more inclusive definition would be one provided by Tanzi, (1998) as; “*the intentional noncompliance with arm’s length relationship aimed at deriving some advantage from this behaviour for oneself or for related individuals*”. Corruption here is defined outside monetary terms. It could involve workers deceptive stay outside work for holidaying purposes, public officers influencing development projects to be carried out in their states, and most often in the communities where they are from. Irrespective of how corruption is perceived its consequences are more negative than positive to the society where it is in existence. The Nigeria situation is one which leaves one baffled in amazement, a country endowed with natural and human resources. Still yet, it is absent from social infrastructures, and all round development. Poverty, unemployment, and living standards are below par. Policies generated seem to have failed the people which they are supposedly made for.

A classification of the types of corruption operational in the country will include; “bribery, favouritism and nepotism, embezzlement of funds, outright fraud, extortions, Political and electoral frauds”, Taylor, (2010). Government cum political office holders have no doubt made some effort in restoring transparency and minimizing the effects of corruption. This they have done through various corruption bills which have been passed and the establishment of some agencies to tackle corruption. Researchers however have observed that the programmes have been compromised and are such not living up to the purposes for which they were set up (Ovwasa, 2000; Adesopo, 2008 and Omotola, 2008). Corruption in Nigeria is getting worse, as indicated by Transparency International (TI) in its corruption perception report, (2013). It hinted that corruption has taken a nose dive, as the year’s ranking was worse than the previous (2012: 139th position, with a 27% score; 2013: 144th position out of 177). This doesn’t tell well for the nation. The consequences for the practice of corruption have taken a daunting image of the country internationally. Serious investors seemly find it difficult to invest in uncertainty, as there is no guarantee that given bribe at first instance will not be a continuum and policies may change as a result of political and social insecurities.

This paper intends to examine the relationship between corruption and economic development. It will provide an empirical interpretation of the effect corruption has on economic development. It is widely perceived that corruption slows down economic performance and growth, increases inflation; and has a negative effect on human development. This paper will place economic development variables under examination and establish a causal relationship between corruption and the variables. It is critical for Nigeria to fish out the enemy (corruption) so as to elope into economic development which it has the capacity to achieve. It is paramount that academicians, researchers and public interest groups alike carry out thorough investigation on corruption, which is the biggest challenge facing Nigeria today. So as to forge out ways to help Nigeria attain a minimized corrupt nation to say the least. This research intends to add voice and propel ways for Nigeria's economic development.

## 2. Causes of Corruption in Nigeria

Corruption has been called so many things in the Nigerian society. It is not a hidden social vice anymore. People do it without thinking. Upon the exposure and shaming they receive from mass and social media they still continue to indulge in it. Their appearance at public occasions is well received by people, and their loyalties and supporters shower praises and blessings on them. Corruption in Nigeria seem to have taken a systematic and institutional wave, as it can be found within the low, middle and upper classes in the society. To this end, one can say corruption has deadened the conscience of the people. Corruption within the Nigeria context appears in different forms: bribery, theft of public funds, coercion by superior powers or senior officers, examination malpractices, unwarranted Gifts (in forms of contracts, exotic cars, houses, and money), advanced fee fraud (alias 419), Illegal bunkering and mining, Smuggling and trafficking (drugs and humans), Dumping and environmental pollution, Forgery of certificates, currencies, invoices, Commodity hoarding, and Conversation of government properties for personal usage and forth. The list is endless however it does eat deep into the heart of the social, political and economic situations in the country (Adenike, 2013).

The causes of corruption in the Nigeria society are inclusive but not exclusive of the following:

### *2.1. Leadership*

Leadership from the conception in Nigeria has been an issue. It has been a major cause of corruption in the society. The leaders have not been able to control their drive for "greed of self". This has resulted into weak institutions (political, administrative and legal) and governance structures which aid the process of siphoning wealth from the coffers of government. It has also promoted bribery from the private sector/businesses prompting them to pay public officials to get their companies registered, get contract jobs, and monopolize certain markets. In the judiciary, government officials, top politicians, elites have been able to swindle court judgements in their favour after "brown envelops" have exchanged hands. The great Achebe, (1984) argued in his work "*The Trouble with Nigeria*" that the root causes of Nigeria is leadership and this is what he had to say:

> *"There is nothing basically wrong with the Nigerian character. There is nothing wrong with the Nigerian land, climate, water, air, or anything else. 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".*

### *2.2. Poverty*

The Nigeria Bureau of statistics, (2013) revealed that 122 million Nigerians are living below the poverty line. The World Bank report, ( 2013), further asserted that; "Poverty rates remain high in Nigeria, particularly in rural areas while the officially reported growth rates of GDP well exceed population growth in the country, the pace of poverty reduction does not; this implies that the number of poor Nigerians living below the poverty line has grown measurably". This pushes people to look for alternative means of survival, since government has been able to create and implement programmes which can ameliorate the sufferings of its people.

### *2.3. Public Perceptions*

A wealthy man in the society is a hero to someone already. The source of his/her wealth does not matter. What matters is that the person has acquired wealth and immediately gets instant admirers and followers, who are ready to beat the drum whenever they whistle. The law enforcement agents don't have a system where they can do a back ground check on how an individual acquires his or her wealth. The general perception of the population is that been wealthy means a successful individual. The amount of degrees you have does not matter, what matters most is the riches and wealth one is able to acquire.

### *2.4. Workers remunerations*

When workers find it difficult to meet their basic needs as a result of poor salaries, motivation and low incentives, it exposes them to the risk of collecting bribes and other forms of corrupt practices. It is further compounded if there are no effective systems to monitor corruption. It comes as no surprise that the Global Corruption Perception Index, (2013) ranks public servants very highly on the corruption scale.

*2.5. Sociological factors*

Nigeria is a country with over 350 ethnic groups, (CIA FactBook, 2013). The country has also had its fair share of ethnic and tribal wars. It has three major ethnic groups, which have rotated power amongst themselves since the independence; while other tribes are considered as minorities. This dichotomy has lead to ethnic ruler-ship, with a lot of infighting for the protection and development of tribes and regions with majority at the expense of others. Employments, contracts are given and awarded to their kinsmen and tribes men. Thus there is a huge dichotomy between majority tribes and minority tribes in the country.

**3. Literature Review**

There are opposing views on the relationship between corruption and economic growth and development. Studies carried out have divided the proponents into two schools of thought. The first schools of thought are often linked with the "*grease the wheel theory*", which supports corruption as an enhancement mechanism for economic gains. Its' modus operandi is based on the nexus of "*scratch my back and I scratch yours*", meaning you need to give something to get something else. Advocates of this school of thought have the inclination that corruption buttresses economic growth and improves on the efficiency in a country, (Huntington, 1968; Acemoglu & Verdier, 1998; Kaufmann & Wei, 2000; Uma & Eboh, 2013). Uma & Eboh, (2013) summaried all the schools of thoughts into five points as stated thus;

1. "An efficient resources allocation system that equates demand and supply. It is believed that efficient and cost effective managers willingly pay up bribe and get the needed services and goods from source points, thereby improving resources allocation;
2. People who are able to pay bribe escape from waste of time in obtaining goods and services in consideration of perceived advantages of such resources;
3. More competitiveness of monopolistic industry can be achieved through bribery by instilling of fundamentals of competition for better resources allocation;
4. With the aid of bribery, burdensome rules and regulations, inefficient organizational pattern and ineffective legal frame-work can be thwarted or evaded; and
5. More value is accorded to firms' resources due to their higher cost associated with corruption".

With this position corruption is a link cum intertwine for great economic achievements for nations. The other school of thought holds contrary to this view. They believe that corruption is an enigma, a parasite which stinks into the heart of the economy. That it deprives a nation of efficient allocation of resources into areas such as health, education, infrastructural development, and other social provisions. Krueger, 1974; Mauro, 1995 and Aliyu & Elijah, 2008; in their respective researches indicates that corruption interferes with market forces, thus leading to inefficient and ineffective tax rates due to the looseness of the public sector. Furthermore it leads to an elaborate government spending orchestrated by the greed of public servants, politicians, and leaders.

Corruption and Economic Development have been researched globally and in Nigeria. Researchers have come out with some empirical findings. Pioneer study on "the effect of corruption on growth rates per capital of sixteen countries from 1960-1985"[33] indicated that; "*one-standard deviation decline in the corruption index leads to an increase in annual growth rates of GDP per capital by 0.8 percent*". In another study, Mauro, (1995), asserted that corruption in public expenditure was more pervasive in areas where public attention is not focused on. This was done at the expense of expending funds on education and health. As a follow up study, "an investigation into the effects of corruption on the size and composition of public expenditure by Tanzi & Davoodi, (1995), multi-findings were derived as;

1. "Corruption tends to increase the size of public investment such that the items of the expenditure are easily manipulated by high level official to obtain bribe;
2. Corruption skews the composition of public expenditure away from needed operations and maintenance towards expenditure on new equipment;
3. Like the findings of Mauro (1997), corruption skews composition of public expenditure away from needed health and education funds;
4. Corruption reduces the productivity of public investment and that of the country's infrastructure".

In Africa, a study on "corruption, economic growth and income inequality in Africa", the dynamic panel estimator was used in analysing the data collected from different African countries. Findings indicated that "corruption reduces economic growth directly and indirectly through fall in investment in physical capital; increased corruption is positively correlated with income inequality and the combined effect implies that corruption adversely affects the poor more than the rich in African countries". Similarly, another report suggested that corruption in poor countries was detrimental and has great consequences on their economic

growth.
Nigerian studies most often than not have indicated that corruption is negative for the economy. Thus in a study by Obayelu, (2007) on the; "review of the effects of corruption and economic reforms on economic growth and development: lessons from Nigeria", it was asserted that corruption has reduced in the country and it was attributed to the corruption agencies (EFCC and ICPC) and the corruption bill which was passed. The findings showed a "negative correlation between the levels of corruption and economic growth". This was attributed to the slow rate of development in the country. Another study, Adit, (2009) inclined that the "grease the wheel theory" was not strong enough to show any correlation between the variables. Thus a "strong negative relationship between growth GDP per capita and corruption" was found. This indicated that corruption cannot lead to sustainable development. In the study by Ajie & Wokekoro, (2012) on "impact of corruption on sustainable economic growth and development in Nigeria", the ordinary least square method was employed. Its findings where centred on the causes of corruption which it termed systematic. The following where mentioned; "weak institution of government; dysfunctional legal system; lack of transparency; high poverty/unemployment rate and political interference on the operations of anti-corruption agencies constitute the major causes of systemic corruption in Nigeria". In another study; "democracy, corruption and economic development in Nigeria"39, lag model theory was used and it was unable to establish if any relationship exist between corruption and economic development.

The empirical findings of the above studies employed different methodologies in their research which was beneficial to this paper. However, the literature cited studies which portrayed corruption as somewhat unhealthy for the global economy as well as for the Nigerian economy.

## 4. Theoretical Framework

Theories on economic development have seen a progression from classical liberals to the neo-classical. The theoretical framework takes a look on some theories of economic development linkages; Classical theory, social theories of development; structural theories and neo-classical theory.

The "*classical theory"* developed by early economists. A general understanding on the theory lies in the works of Adam Smith, David Ricardo, and Robert Malthus. Early theorists based their understanding of development, on "capital formulation" and "economic growth". Much importance placed on "foreign aid loans" and "massive infrastructural projects". At the conception of this theory, developing countries where conceived as developed countries of old;

The "*Social Theory of Development"* is the theoretical and methodological build up for this paper. It focuses on "human capital in development". A shift from growth rates into a wider consideration of variables such as poverty, inequality, urbanization, inflation, health, education, fertility and so forth. Ever since the proponents of this theory were able to convincingly proof the efficiency of the theory; economic growth as a measure of economy has come under serious questioning. This paper perceives that this theory will aid the society in understanding the cause and effect relationship of happenings in the society. Corruption being a social construct and almost a society norm in Nigeria; this theory best fits to explain the social changes corruption has on the general economic development landscape.

The *"Structural Theories"* origin is rooted in Chile with early pioneer named Raul Prebisch, 1950. The theory is more emphatic towards third world countries. Proposing that experience garnered from Europe can be replicated in former colonies in Africa. However, some proponents of this school of thought believe that developing countries can achieve development if they drive industrialization and make less trade with developed countries; while advancing trade more with developing countries. This theory is "shifted towards "import substitution", "high tariff" and "government protectionism". A follow up theory to this is the "dependency theory" which intertwines with the "Neo-Marxism" and "World Systems Theory". Economists are sceptical about the theory, because raw materials from developing countries will be used to fuel development in developed countries.

The "*Neo-classical Theories*" is the domineering theory for main stream economics; microeconomics. Its combination with the Keynesian economics confirms its dominance. It is also linked to many schools of thoughts. The theory was first mentioned in the article, "Preconception of Economic Science" by Thorstein Veblen. There is not a complete assumption of the theory because of its linkages to many other theories. However the central assumptions of the theory are that; "*People have rational preferences among outcomes that can be identified and associated with a value; Individuals maximize utility and firms maximize profits; People act independently on the basis of full and relevant information"*.

The assumptions have been challenged and have led to some criticisms; humans acting rationally may have ignored the versatility of the human being, and limited humans only on economic gains. Another criticism is the standard model bias which the theory is based on; with this actual economics are not explainable.

## 5. Method

This paper examines the effect of corruption on economic growth in Nigeria. Data from secondary sources are employed in this work. The sources are the Time series data for the period of 32 years (1980-2011) is covered here. Corruption is the dependent variable while Gross Domestic Product; Unemployment Rate; Debt Stock and Government Expenditure. Excel spreadsheet is used for the multi-regression analysis and scatter plot. The model for this paper is represented by a simple model as;

$$CPI= f\,(GDP, UER, DBS, GE)$$

**CPI:** Corruption Perception Index
**GDP:** Gross Domestic Product
**UER:** Unemployment Rate
**DBS:** Debt Stock
**GE:** Government Expenditure

### 5.1. Results and Discussions

To test the desirability of the model so as to determine its usefulness or otherwise, there was need to conduct a simultaneous test to see if all of our coefficient values are zero. As such, we will have the following hypothesis:

$$Ho: \beta1 = \beta2 = B3 = \beta4 = \beta5 = 0$$
$$H1: \text{At least one of the } \beta i \text{ is not zero}$$

Our ANOVA table, ***see table 2*** shows an F statistics of 37.792 with a corresponding P-value of 1.078 X 10-10 which is less than our 5% significant level. As such, we *reject our Ho hypothesis, (that there is no relationship between corruption and economic development)*. In view of this, we can conclude that at least the chosen predictors have a relationship with the dependent variable – CPI.

However, it was observed that from the coefficient table; ***see table 3*** there is t-test statistics for each of our independent variables. Recall that whenever the coefficient values are standardized, they will follow a student-t distribution. To test if there is a significant relationship between each of our independent variables and the dependent variable, we need to conduct a t-test by comparing their test statistics values to 5% significant value. As such, the paper came up with the following hypothesis:

$$H0: \beta i = 0$$
$$H1: \beta i \neq 0$$

Comparing all their test statistics values to 5% significant value shows that all the values is greater than 0.05 exception of -0.134, representing the test statistics value for intercept. As such, we can say that all our independent variables have no significant relationship with our dependent variable – CPI. In view of this, the paper can conclude that all the predictors are not significantly related to CPI.

Similarly, the regression table, ***see table 4*** shows the R2 value of 0.848 indicates that 84.8% of the variation in the CPI can be predicted by a linear relationship with our predictors – GDP, UER, DBS and GE. This result shows that the independent variables significantly explained the variations in CPI.

## 6. Conclusion and Recommendation

Corruption is an enemy to every society and nation at large. It cripples economic activities and reduces the relevance and image of a nation as well as its people. Foreign Direct Investment is on a low rise because investors are sceptical about their investments in the country. Nigeria so endowed in natural resources, yet so poor. Nigeria is a wonder in a sense, as its continuous economic growth cannot match up with its economic development. The reason is not far-fetched; Corruption. The greed of politicians and leaders in the nation from historical times up until now have not been able to keep their pens, and brains from meddling with the economic fortunes of the nation. They have used the privilege of being at the helm of affairs to enrich themselves, their families and friends alike. As poverty begins to take hold of majority of its population, some of the peoples look for alternative means of survival and rely on fraudulent activities to hold their own for themselves and families. Corruption is almost becoming a national theme in the country as people become less inclined to persecute people who have gotten wealthy through illicit means. Successive governments have failed to clap down corruption, thus the enemy (corruption) continues to be a legal residence in the country.

In line with the findings from this paper; corruption has an effect on the economic development in the country. It is therefore recommended that government should be sincere in itself and transparent in its activities in other to create an enabling environment. An effort should be made to check mate the sudden wealth gotten by individual's in the society. In other words, record of citizens' activities and businesses should be known by the government and proper investigations should be carried out on claims made by members of the society. Independent organizations, in the likes of transparency international should be established in the country, to sensitise and reorient the people on the ills of corruption, this role should be independent of the government so as not to be influenced by government stakes. There is no doubt that the EFCC has yielded some fruits, they will require independence in the real sense of the word to be more useful and rid themselves of government and the elite interferences. Furthermore, government should monitor its economic gains by ensuring that the benefits of development are measured by all and sundry. Also implementation of development projects should be properly monitored and investigated to avoid duplication in other areas where others have none, and ensure an even spread. It is essential for citizens to have the love of the country, it is their nation, their people and the greatest weapon this paper recommends is love for country.

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## APPENDICES

Table 1: **Presentation of the Corruption Index and Other Economic Development indexes**

| Years | CPI | GDP | UER | DBS | GE |
|---|---|---|---|---|---|
| 1980 | 0 | 49,632.30 | 7.8 | 1866.8 | 14,968.50 |
| 1981 | 0 | 47,619.70 | 6.5 | 2331.2 | 11,413.70 |
| 1982 | 0 | 49,069.30 | 4.2 | 8819.4 | 11,923.20 |
| 1983 | 0 | 53,107.40 | 3.4 | 10577.7 | 9,636.50 |
| 1984 | 0 | 59,622.50 | 7.3 | 14808.7 | 9,927.60 |
| 1985 | 0 | 67,908.60 | 6.1 | 17300.6 | 13,041.10 |
| 1986 | 0 | 69,147.00 | 5.3 | 51452.4 | 16,223.70 |
| 1987 | 0 | 105,222.80 | 7 | 100789.1 | 22,018.70 |
| 1988 | 0 | 139,085.30 | 5.1 | 133956.3 | 27,749.50 |
| 1989 | 0 | 216,797.50 | 4.5 | 240339.4 | 41,028.30 |
| 1990 | 0 | 267,550.00 | 3.5 | 298614.4 | 60,268.20 |
| 1991 | 0 | 312,139.70 | 3.1 | 328054.3 | 66,584.40 |
| 1992 | 0 | 532,613.80 | 3.5 | 544264.1 | 92,797.40 |
| 1993 | 0 | 683,869.80 | 3.4 | 633144.4 | 233,806.50 |
| 1994 | 0 | 899,863.20 | 3.2 | 648813 | 160,893.20 |
| 1995 | 0 | 1,933,211.60 | 1.9 | 716865.6 | 248,768.10 |
| 1996 | 0 | 2,702,719.10 | 2.8 | 617320 | 337,217.60 |
| 1997 | 1 | 2,801,972.60 | 3.4 | 595931.4 | 428,215.20 |
| 1998 | 1.9 | 2,708,430.90 | 3.5 | 633017 | 487,113.40 |
| 1999 | 1.6 | 3,194,015.00 | 17.5 | 257738.3 | 947,690.00 |
| 2000 | 1.2 | 4,582,127.30 | 13.1 | 312172.6 | 701,059.40 |
| 2001 | 1 | 4,725,086.00 | 13.6 | 3176291 | 1,018,025.60 |
| 2002 | 1.6 | 6,912,381.30 | 12.6 | 3932884.8 | 1,018,155.80 |
| 2003 | 1.4 | 8,487,031.60 | 14.8 | 4478329.3 | 1,225,965.90 |
| 2004 | 1.6 | 11,411,066.90 | 13.4 | 4890296.6 | 1,426,201.30 |
| 2005 | 1.9 | 14,572,239.10 | 11.9 | 2695072.2 | 1,822,100.00 |
| 2006 | 2.2 | 18,564,594.70 | 12.3 | 451461.9 | 1,938,002.50 |
| 2007 | 2.2 | 20,657,317.70 | 12.7 | 431,079.80 | 2,450,896.70 |
| 2008 | 2.7 | 24,296,329.30 | 14.9 | 493,180.20 | 3,240,818.50 |
| 2009 | 2.5 | 24,712,669.90 | 19.7 | 590,441.10 | 3,456,925.40 |
| 2010 | 2.4 | 25,454,050.00 | 20.3 | 608,154.30 | 3,560,633.16 |
| 2011 | 2.4 | 26,217,671.50 | 20.9 | 626398.9 | 3,667,452.15 |

Table 2: **Summary Output of ANOVA**

ANOVA

| | *Df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 4 | 26.502 | 6.625 | 37.792 | 1.078E-10 |
| Residual | 27 | 4.733 | 0.175 | | |
| Total | 31 | 31.235 | | | |

Source: Excel spreadsheet

Table 3: **Summary Output of Coefficients, STD Error, T-Stat, and P-values**

| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
|---|---|---|---|---|
| Intercept | -0.0220 | 0.164 | -0.134 | 0.894 |
| GDP | 0.0000 | 0.000 | 0.595 | 0.557 |
| UER | 0.0279 | 0.030 | 0.934 | 0.358 |
| DBS | 0.0000 | 0.000 | 1.573 | 0.127 |
| GE | 0.0000 | 0.000 | 0.601 | 0.553 |

Source: Excel spreadsheet

Table 4: **Summary Output of Regression Statistics**

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.921 |
| R Square | 0.848 |
| Adjusted R Square | 0.826 |
| Standard Error | 0.419 |
| Observations | 32 |

**Source: Excel spreadsheet**

Figure 1: **Interrelationship between all data variables**