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Corruption and the Investment Climate in Nigeria

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Abstract

The poor and the rich engage in corruption for different reasons. Corruption reduces effectiveness of investment due to theft of public funds initially budgeted for achieving realistic economic growth. Corruption imposes additional costs on growth process as it diverts scarce resources away from viable investment. It increases the degree of uncertainty and risk associated with investment and drives away new investment. This study analysed the consequences of corruption on investment in Nigeria. Data on the study were analysed using the Ordinary Least Square technique. The study reveals 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. This study suggests application of anti-corruption policies on all and sundry to raise the degree of transparency and accountability in governance which in turn will lead to higher CPI ranking, higher degree of openness, higher investment and economic growth.

Keywords: Corruption, Investment, Economic Growth, Transparency International, Governance.

1. Introduction

Corruption takes many forms such that it is often difficult to define in order to meet universal acceptability (Shahabuddin 2002, and Moore 2007). Its definition and application vary with time, place and culture (Aluko 2005). Corruption is generally conceived to mean abuse of public office for private gain (Shleifer & Vishny 1993, Kaufmann 1997, and Bahmani-Oskooee & Nasir 2002). In scope, it is not limited to financial rewards as perceived by many people. It touches material possession, integrity, moral values and the society or the economy on the aggregate, and thus, encompasses both institutional and personal decadence. In its disaggregated form, elements of corruption include forgery, lateness to work, having no regard for rules and laws, bribery, embezzlement, laziness at work, sexual gratification, lobbying for unmerited status/favor, robbery, cultism, falsifying records, admission racketeering, assigning of grading of scripts to non-academics, absenteeism from seminars and meetings, and examination malpractices among others (Altas 1968, Ogundele 2005, Olusina-Daniel & Okunlola 2005), though some of these concepts have conflicting definitional problem. Corruption takes place when an individual adopts an unapproved and unfair method to obtain some benefits, whether as a taker or a giver, through socially and legally prohibited course of action(s). Every bad act or bad behavior is thus linked to and/or termed as corruption. Such approach looks rather general and vague because it will be practically difficult to capture the effect of every bad act particularly at the macroeconomic level. However, the effect of corruption can indeed be grave on the performance of business entities and the economy at large.

The literature on causes and effects of corruption is diverse on both global and country specific outlooks. Studies on the Nigerian economy include Aburime (2008, 2009), Dike (2005), Izeze (2009), Ribadu (2006), Folorunso (2007), Osoba (1996) and Aluko (2005). However, the number of studies on the impact of corruption on investment in Nigeria is scanty. Such studies used descriptive methodology. See Oladele (2005) and Obayelu (2007). This study corrected this anomaly by adopting a quantitative technique to investigate the impact of corruption on economic growth in Nigeria. It is proper to investigate the factors that account for the existence and persistence of corruption in Nigeria. Can its persistence, if any, be checked? Is there any hope that the tide of corruption in Nigeria will abate? What are the consequences of corruption on investment drive in Nigeria? This paper provides answers to these questions among others as it empirically analyses the impact of corruption on the Nigerian investment drive and performance. The rest of the paper is structured as follows. Section two dwells on literature review while section three investigates the reality of corruption in Nigeria. Methodology, analysis of data and results are included in section four while conclusion and recommendations are presented in section five.

2. The Literature

The difficulty or non-uniqueness in the definition of corruption has been attributed to the different forms that corruption can take. According to Transparency International, corruption is the misuse of public power for private benefits, such as the bribing of public officials, taking kickbacks in public procurement of goods and services or embezzling of public funds. Corruption is an illegitimate act that no culture or ethic endorses throughout the world. With civilization, the act of corruption takes place in secrecy and therefore cannot thrive in a highly transparent environment. It is responsible for the series of capital flight from the developing economies of the world. According to Genaux (2004), economic corruption refers to a public official who views his office as a private business.

Corruption has both demand and supply sides. The receiving party would create the demand side of the equation while the supply side is represented by the giver of the corrupt act, say, bribe. These two parties form the economic agents of corruption. They exist in all spheres of the society. Agents engage in corruption for political, economic, bureaucratic, judicial and moral reasons but particularly for selfish interest which affect the performance of the organization and the economy in so many ways. Samanta and Pleskov (2009) opined that corruption on its own does not impede growth but leads to the distortion of market signals, and thus, causes misallocation of resources in the market. By implication, resources targeted for investment to achieve desired growth rate will be misallocated.

On the positive side, the act of corruption can cut or save costs with respect to time and money through the skipping of certain bureaucratic procedures to achieve an end. This phenomenon is common in the award of contracts, processing of licenses, fees, and business permit, students' admission, payment of taxes, rating/selection of candidates, applicants or contestants, and officiating over sport events among others as the giver 'buys' his way through and takes short-cuts to the desired goal. In this regard, corruption is said to facilitate growth. A school of thought including Leff (1964), Huntington (1968), Summers (1977), and Acemoglu and Verdier (1998) conclude that corruption introduces efficiency in the economy and affects economic growth positively as a result of bureaucratic inefficiencies and thereby make the process of project approval *more efficient*.

However, another school of thought views corruption as having detrimental effect on businesses, innovators and economic growth. Corruption introduces significant uncertainty into decision making process. Sincere businesses and innovators that possess significant growth prospect but lack the necessary cash to 'buy' the corrupt act usually have their chance eliminated. Scholars in this category include Murphy et al, (1993), United Nations (1990), Mauro (1995), Mo (2001), and Monte and Papagni (2001). Corruption increases costs of investment, delays decision making process as officials slow down their duties in expectation for bribes. It serves as additional tax, reduces expenditure on health and education, and increases public investment at the expense of private investment among others. Corruption thrives well in economies with larger public sector relative to the private sector (Rodriguez-Andres & Ramlogan-Dobson 2008).

From the foregoing, any efficiency that corruption may exert on business performance can only be temporal. The long-run effect could take the form of higher costs, project/investment failure, and diversion of investments culminating into growth stagnation as well as government and/or leadership failure. The positive school of thought on corruption fails to address what happens after project approval. Project implementation and re-evaluation have been major problems confronting many developing economies of the world. These stages of project cycle are vital to achieving continuous investment activities and economic growth. Again, corruption prevails in many developing economies and so falls into the many features of underdevelopment.

2.1 Theoretical Underpinning

Some notable theories on corruption in the literature are the theory of rent-seekers; and the economic theory of bribe. Krueger (1974), Tullock (1967, 1990) and Bhagwati (1982, 1983) developed the rent-seekers theory. This theory takes cue from the traditional theory of imperfect market structures in which a monopolist derives his rent-maximization at the expense of a reduction of the consumers' welfare. The act of the monopolist, in this manner, reduces the socio-economic welfare of the society or nation. Competitive market facilitates rent-seeking activities and several economic agents compete to obtain rent from other groups but only a few agents achieve their goal with the consequence of waste of economic resources like allocating highly talented human capital to unproductive economic activities. In a society where rent-seeking activities prevail, labor remuneration can be based on relative power of certain groups within society rather than labour productivity. From the standpoint of economic equity, income redistribution sponsored by rent-seeking activity may reward the power of influence, rather than merit and capacity. Corruption, in this form, creates cost and inefficiency.

The economic theory of bribe also known as political corruption was the work of Rose-Ackerman (1978). Graft and bribery are common features of bureaucratic and legal institutions. Inherent conflict exists between public goods and the market in the utility maximization process. A service provider will sell its work to any other agent as long as the sale is satisfactory while the buyer of a service will demand it from any agent if the exchange will bring the most welfare from private standpoint. Honest public agents simply maximize the social welfare function and provide society with public goods, in the most efficient way possible. Elements of dishonesty, however, transform impersonal assets into personal ones in the form of misappropriating third-party assets and funds. Public agents, especially politicians, take certain decisions attributable to market imperfections. Information is imperfect and at times skewed. In most economies, governments are large buyers of capital goods and infrastructure works. The vast sums of money involved in public works, which are handled by a small number of public and private agents pave way for corruption as the costs of public projects are overcharged with bribe funds.

The global perception on corruption as the misuse of public power and resources for private benefit makes corruption to create negative effects on a country, its citizens and future opportunities. It creates citizen dissatisfaction on the political class and its agents in government establishments.

2.2 Causes and Determinants of Corruption

The causes and determinants of corruption are as diverse as the definitions on the concept of corruption. The degree of corruption among countries varies. Yearly indices on corruption as released by Transparent International show the degree of corruption ranging from 0 (most corrupt) to 10 (most clean). By implication, the determinants of corruption will also vary among countries depending on the existing socio-economic and political institutions. The determinants of corruption in developed and developing countries differ or are not similar (Khan 2006). Competition also affects the degree of corruption (Montinola & Jackman 2002). Saha (2009) traces determinants of corruption to level of economic development, level of democracy, and level of economic freedom.

Higher literacy rates and general education levels are usually positively correlated with economic development. According to Hauk and Saez-Marti (2002), education may help to generate moral values against corruption. If young people are educated to a moral attitude against corruption, low corruption level can be achieved which has the long-run effect of reducing corruption successfully. A high level of education fosters a sense of patriotism and civic responsibility in the citizenry and raises their awareness to their rights, responsibilities and duties in the society (Ali & Isse 2003). Thus, the lesser the number of the educated people in an economy, the greater the level of corruption and the degree to which people are not aware of their public entitlements. Ignorance will persist and consequently create greater opportunities for public officers to squander public fund and engage in all forms of corrupt practices without anyone challenging them and, thus, no fines for their corrupt actions. This phenomenon is prevalent in most developing countries. Level of education is seen as an important explanatory variable in explaining the variation in corruption across developed and developing nations (Saha & Gounder 2007).

Among the opportunities that come with education is the ability to earn higher income. Low literacy can imply high degree of poverty and high inequality of income. Income inequality can increase the level of corruption because with the increased inequality, the richer people have greater resources for paying bribes to buy public services both legally and illegally (Glaeser, et al. 2003). The poor are more vulnerable to extortion and less able to monitor corrupt leaders. The poor are weak in holding the rich and powerful political office holders accountable as inequality increases (You & Khagram 2005). A significant proportion of the citizenry would lack the basic public services, earn low income and would engage in some corrupt practices to upgrade their standard of living. Again, income inequality is high in developing countries.

The rates of unemployment and underemployment in developing countries are high, and are on the increase without any drastic measures to put an end to the trend. By definition, underemployment implies lower wages. Unemployment and underemployment further compound the problem of income inequality in these countries. Lower wage correlates positively with lower standard of living. People earning lower wages are more prone to corruption tendencies in order to raise their standard of living.

In contrast to autocratic systems of government, democracy is more transparent and spreads power of government to the grassroots. Democracy implies less corruption. Autocratic systems are characterized by the monopolization of power in the hands of the small elite. The small elite have little or no constraints on achieving their personal interest to amass public wealth for their selfish benefits. In ideal democracy, check and balances exist as the executive branch of government is balanced by elected parliament and independent judiciary. Open election, too, creates the opportunity to change political office holders. In effect, the level of corruption tends to decrease.

Democracy, on another hand, provides a strong check against the malfeasance of public and political office holders. The freedom of association and freedom of the press jointly enhance close monitoring of corrupt practices and meting out of punishment on the unjust and corrupt activities of such officers (Barro 1999). But some countries are more democratized than some others. In this regards, democracy has been categorized into narrow-democracy and broad democracy (Bollen 1990, Huntington 1991, and Barro 1999). Narrow-democracy was proxied by political rights, while broad-democracy was proxied by an aggregate index comprising political rights, civil liberties and press freedom. Most democratic governments in developing economies exert great degree of restriction on press freedom and civil liberties.

2.3 Empirical Review

Leff (1964) saw corruption as promoting economic growth through the forms it can take to relax the inefficient and rigid bureaucratic regulations of governments. Some other few authors such as Huntington (1968), Summers (1977), and Acemoglu and Verdier (1998) support this view of corruption having positive impact on investment and growth. In contrast, Corruption Perception Indices being released yearly by Transparent International have consistently negated such conclusion and have shown the most corrupt nations not to have experienced any significant development of their economies. Economic development is a long-run phenomenon. The short-run positive impact of corruption can only be short-lived.

The literature is saturated with studies on corruption in relation to causes, determinants, and (negative) effects of as well as how corruption affects major macroeconomic variables like national output/income, economic growth, employment, human capital, domestic investment, migration, legal and political institutions, budgetary distortion, public expenditure on health and education, as well as the inflow of foreign finance.

Public investment on education and health among others is indeed integral part of public expenditure. Studies have shown that countries with widespread corruption scale down education expenditure which negatively affects future income, and reinforces economic inequality (Mauro 1998, Tanzi 1998, and Delavallade 2006). Similar impact on the health sector negatively reduces quantity and quality of human capital as well as life expectancy.

Studies on corruption in relation to investment are scanty. The existing studies include Tanzi and Davoodi (2002), Toatu (2004), Croix and Delavallade (2007), Ndikumana (2007), and Baliamoune-Lutz and Ndikumana (2009). On the Nigerian economy, Oladele (2005) investigates corruption in relation to investment climate and economic development. He observes investment related forms of corruption in application for building permits, driver's licenses, smuggling, award of contracts, and the general inadequacy or lack of infrastructure in the country. Oladele (2005), like some other authors on corruption related studies on Nigeria, used qualitative methodology and analysis. This study adopts a quantitative technique to investigate the impact of corruption on economic growth.

Discussions of corruption and investment usually cut across private-domestic and foreign investments as well as public investment and, thus, public expenditure. Public investment arises from government intervention. Government intervention encourages corruption (Acemoglu & Verdier 2000). Corruption significantly affects both the quantity and quality of private and public investment. With government intervention, policy makers favor capital projects over recurrent projects because they find it easier to manipulate contract figures and receive kickbacks from road or other civil constructions than maneuver recurrent expenditures such as salaries though cases of ghost-workers are also prevalent in Nigeria. They tend to favor large new projects from which they stand to gain tremendously to the detriment of existing infrastructures requiring mere maintenance. Lower economic growth rate can be associated with higher public investment. Corrupt countries with greater proportion of the public sector tend to have positive correlation between corruption and the quantity of public investment but a negative correlation between corruption and the quality of public investment. The quality of investment matters for achieving realistic growth rate.

Larger public size of public expenditure is positively correlated with corruption (Samanta & Pleskov 2009). Contrarily, countries with a larger private sector are more open, and are less corrupt (Neeman, et al 2004). Since corruption serves as uncertain and unpredictable additional tax on costs of output, it discourages sincere and non-corrupt investors and consequently affects the degree of openness inversely. Nigeria, like other OPEC countries, is dominated by the oil industry that provides the bulk of foreign exchange earnings. The government of Nigeria allocates huge amount to the turn-around maintenance of the existing non-functional refineries. This measure also discourages private initiatives into the sector.

Ndikumana (2007) asserts that sincere investors cannot afford to delay their investments until the tide of corruption reduces, and therefore engage in commercial activities with short-term maturity such as trade and speculative ventures. The persistence of such investment climate deters domestic investment. In other instances, foreign investors could divert their investment activities to countries where the level of corruption is comparatively lower. In short, investment is discouraged.

Investment is necessary for economic growth through higher factor productivity and human capital development, and the attendant increased income and higher standard of living. The negative impact of corruption can exert greater multiplier effect on these major macroeconomic variables. Pelligrini and Gerlagh (2004) observe that a one standard deviation decrease in the corruption index raises private investment by as much as 2.5 percent and propels national output growth rate by about 0.34 percent. Mauro (1998) puts the effect on growth, through private investment, as accounting for about one third of the total growth effects.

3. Reality of Corruption in Nigeria

Corruption exists in every society. It takes different forms creating varying effects ranging from mild to grave. Corruption in Nigeria is not only real but can be felt in almost all spheres of the society including religious circles. It is rampant among the security agencies that even took oath to uphold justice and truth in the nation. Over time, politicians no longer see it as crime. They rather create conducive environment for corruption to thrive by engaging in fictitious project contracts, contracting false loan with abnormally high interest rates requiring huge servicing that deprives the citizens from enjoying the benefits of democracy and provision of basic social infrastructures.

Leiken (1997) reports that between 1988 and 1994, the International Forum for Democratic Studies estimates that, in oil-rich Nigeria, some $12.2 billion from government revenue was diverted to "Extra-Budgetary Accounts" for which there was no record of use of the funds. Sadly, in those years, Nigerians waited in mile-long queues for petroleum products. Some Nigerians even slept at gas stations in order to get the products in addition to several fire disasters that emanated from hoarding of petrol at homes. The problem was not addressed and culminated into Nigeria importing refined petroleum products. Loans from multilateral development banks, which were pocketed by government officials, only have traces of uncompleted pipelines and moribund refineries. Oil earnings are not channeled into sectors that could stimulate growth and check the problems of unemployment and poverty. Instead, the corrupt military rulers and their cohorts actively engage in illegal capital flight and money laundering.

Accordingly, public infrastructures are inadequate or lacking particularly in the non-state capital urban centers of the country. The legal institution is weak and inefficient to tackle cases relating to corruption. Dike (2005) observes that corruption in Nigeria facilitates traffic hold-ups on the highways, port congestion, business diversion to neighboring countries, international passport racketeering, ghost-workers syndrome, loss of tax revenue, election irregularities, and even ritual murders for money-making. Kidnapping of rich people or their relatives and expatriates is also traceable to effects of corruption in Nigeria. These features do not present a favorable climate for both domestic and foreign investments.

Commercial banks in Nigeria have been aiding corruption. Certain corrupt politician and some principal public office holders collude with some of the financial institutions by the way such financial institutions facilitate illegal capital flight overseas and flout the regulations of the Central Bank of Nigeria (CBN) with respect to foreign exchange dealings. In 2004, there were ninety-nine cases of contravening CBN's regulations and guidelines as committed by fifty-four banks (Leba 2007, and Aburime 2009).

Ribadu (2006) observes that the history of corruption in Nigeria is strongly rooted in the over twenty-nine years of military rule which subdued the rule of law and encouraged looting of the public treasury. General Sani Abacha, like other past Nigerian leaders staged several campaigns and instituted numerous reforms against street-level corruption but only to deflect public attention from his active corrupt practices (Smith, 2006). Ayittey (2002) compiled a list of corrupt African leaders in which Nigerian leaders topped the list in the first and third positions. General Sani Abacha embezzled as much as $20billion after President H. Boigny of Ivory Coast ($6 billion), and General Ibrahim Babangida of Nigeria ($5billion). These are colossal public funds that can be used for lasting developmental projects.

The emergence of democracy in 1999 in Nigeria, surprisingly and unfortunately, has not been able to reverse the trend. Governors of various states appropriate public funds and allowances (e.g. monthly ₦5 million as wardrobe allowance) to themselves which provide ample avenue for active money laundering. Some of these state governors have been found in law court to have committed electoral fraud and were consequently removed from office but without any confiscation of their properties or refund of the ill-gotten wealth. The senators appropriate huge money to themselves, continuously review upward their salaries and allowances, and belong to several sub-committee of the senate on one socio-economic issue or the other which serves as channels for wasting public funds in terms of over-bloated and spurious sitting allowances, claims and budgets. In the 2010 budget for the Presidential Villa (Aso Rock) in Nigeria, the senate has to reject the budget of ₦1.1billion for treatment of termites and other issues (Alli 2009) but requested for review of the estimates. The breakdown of the budget shows that ₦250million was for the treatment of termites at the Presidential Villa, ₦450million for vehicle maintenance allowance, ₦400million for miscellaneous, over ₦300million for the rehabilitation of the Banquet Hall, and the refurbishing of 10 houses at ₦200milion. Technically and structurally, for no reasons should the Aso Rock that was built with solid concretes from its foundation to the top be invaded by termites. Such budget requires no review but outright rejection and cancellation.

The legal framework has been weak overtime. The anti-corruption reforms and agencies instituted in the nation are weak and not omni-directional in the way apprehended corrupt officers are dealt with. The agencies have, more or less, turn out to be weapon of vengeance to silence oppositions that had past corrupt cases, and corrupt officers, who are no longer in the good book of the ruling party, seeking re-election into offices. It is in Nigeria that a corrupt governor that was removed from office for committing electoral fraud still seeks for election into the senate or the presidency or is appointed as a minister or the likes.

In 2000, the Independent Corrupt Practices and Other related Offences Act was promulgated which lead to establishment of two agencies to deal with fraud and corrupt cases in Nigeria. These agencies are the Independent Corrupt Practices Commission (ICPC), and the Economic and Financial Crime Commission (EFCC). These agencies were charged with the responsibility of investigating, arresting and charging any offenders with corrupt practices to court. The commissions found many prominent Nigerian political office holders fraudulent. The list include past military leaders, a senate president, judges, ministers, state governors, and an Inspector General of Police among others (Okonjo-Iweala & Osafo-Kwaako 2007, ICPC 2009; and EFCC 2009). Consequently, billions of naira and millions of dollar have been recovered into government coffers. The feat achieved by these commissions is historic and unprecedented in Nigeria. Such reforms and actions on corrupt public office holders caused some improvements in the corruption ranking index of Nigeria by Transparent International. However, the search-lights of the agencies have not been directed on all and sundry in Nigeria. Again, the existing legal framework is weak to the extent of treating some people as sacred cows. Some of the people dealt with by these agencies are political victims who the ruling party, at the time of their trial and investigation, no longer wants them to continue in office. The case of Olabode George, a former boss at the Nigerian Port Authority, is special but annoying. Olabode George could be regarded as a national symbol of corruption. He was initially accused of 168 charges on corrupt practices which were later scaled down to 68 charges. He was sentenced to about 16 months' prison term. On his exit from prison at the end of his prison term, he threw up a big welcome-party that was well attended by many bigwigs in the country. The public reacted and termed the welcome-party as celebration of corruption.

The extent of the effect and magnitude of corruption in Nigeria is apparent to the world. Corruption Perception Index on Nigeria being released yearly by Transparent International since 1996 has consistently ranked Nigeria among the most corrupt nations of the world (Transparent International, various years). Nigeria ranked as the last in the list of countries and thus the *most corrupt* country in the used sample of countries in 1996, 1997, and 2000. In 1999, 2001, 2002, and 2003, Nigeria just managed to move a step up the ranking as the second corrupt economy in the sample of countries. The meagre improvement in the ranking may be due to inclusion of new countries; else Nigeria could still remain the most corrupt nation in the world for a long time, given the leadership style of the ruling People's Democratic Party. Table 1 portrays a dirty picture of Nigeria in the Sub-Saharan Africa. The rankings on Ghana and South Africa are comparatively better than Nigeria's which to a large extent, create greater challenges for the Nigerian economy to improve year-after-year. Nothing happens by chance.

Finland and Denmark are nations with corruption indices as the *most clean* countries in the reports of Transparent International since 1995. Finland ranked 1st for five consecutive years between 2000 and 2004, and thereafter, in 2006 and 2007. Similarly, Denmark ranked 1st for three consecutive years between 1997 and 1999, and thereafter, in 2007, 2008, and 2010. Finland has a record of being ranked 1st seven times and Denmark has been ranked 1st for six times. These two countries had a tie on the 1st top ranking in 2007 with 9.4 points each. Table 1 displays the trend in the CPI for the selected countries. Nigeria seems to be improving except for the years 2000 and 2001 but have not attained the take-off point of 3.3 by Ghana in 1998. While Ghana has average point of 3.6 over the years, Nigeria just has 1.8. South Africa started with the CPI of 5.62 but has been scoring below average for most part of the past decade. Table 2 presents a comprehensive analysis on the tide of corruption in the countries enumerated.

4. Analysis of Result

4.1 Methodology and Model Specification

Aggregate investment in Nigeria is the sum of private and public investment. Private investment comprises both domestic and foreign investment. The main focus on public investment is public expenditure on education and health as used by previous authors in related studies (Reinikka & Svensson 2004). Relevant variables used in this study include openness which is the sum of exports and imports as a percentage of GDP; macroeconomic instability proxied by real exchange rate instability (Bleaney & Greenaway 2001); minimum wage as a measure of personal income and determinants of saving, investment, and attitude towards corruption (Van Rijckeghem & Weder 2001); and level of foreign reserves from exports for which crude oil takes the lion share (Elhiraika & Ndikumana 2007). The major sources of these data are the Statistical Bulletin of Central Bank of Nigeria (2008) and the Annual Abstract of Statistics and Economic Review of the National Bureau of Statistics (2008). The main data on corruption are from Transparency International. Data on Corruption Perception Index are available on Nigeria between 1996 and 2010. Accordingly, data on other variables in this study fall within the same range.

The model of this study is similar to Tanzi and Davoodi (2002), and Baliamoune-Lutz and Ndikumana (2009) which is specified as

$$INV_I = \alpha_0 + \omega_1 CPI_i + \psi_2 X_i + \lambda_3 DUM_i + \mu_i$$

INV_i is the total yearly investment in the economy and CPI_i being the corruption index. X_i represents a vector of control variables that include some determinants of investment and/or corruption while DUM_i is a dummy to capture the degree of transparency and accountability of government. μ_i is the stochastic element of the model. α, ω, ψ, and λ are parameters. Theoretically, a_0 should be positive. Low level of corruption which is high value of CPI should stimulate investment. More openness (Opness) of an economy encourages increased inflow of investment and equally implies lower level of corruption. Increasing exchange rate (ExRate) poses greater challenge on production in Nigeria because the manufacturing sector depends heavily on imported inputs and machinery. Like minimum wage (MinWage), large foreign reserve (fResrv) tends to be positively correlated with investment but may have uncertain effect on corruption depending on the degree of transparency and accountability of the government in power.

4.2 Discussion of Results

Two models from the main equation are estimated and the summary of the results are as displayed in Table 3. Aggregate investment is the dependent variable. Model II excludes foreign reserve in the set of the explanatory variables. Both the R^2 and adjusted R^2 show strong explanatory ability of the independent variables in the two models. Except for foreign reserve and the dummy on the degree of transparency and accountability of government in Model I, the signs of the parameters comply with the theoretical expectations. The non-conformity of the two variables is connected with the non-transparency and lack of accountability in governance in the country over the period covered by the study.

The study shows that CPI is positively related to investment in Nigeria. Higher CPI ranking will promote investment in general. But the rankings on Nigeria have been very low; the lowest in comparison to Ghana and South Africa (see Table 1). Low CPI ranking is an indication of high level of corruption. In essence, corruption deters investment and thus hinders economic growth in Nigeria. Model I shows that with a mere increase of 4.7 percent in CPI ranking, aggregate investment will rise by as much as 10 percent. Similarly, a 200 percent increase in the ranking will boost investment by as much as 100 percent as revealed by Model II.

Openness to international trade and minimum wage separately has a positive effect on investment. Policy directed to increase the magnitude of these variables will propel greater growth-inducing investment. In Nigeria, increase in minimum wage has lead to increase in the number of small scale businesses, expenditure on education, residential investment in housing, and the acquisition of automobiles – cars and bikes. Exchange rate volatility has a negative and significant effect on investment. This finding is consistent with the theoretical prediction that macroeconomic instability discourages investment. The negative role of foreign reserve on investment in Nigeria has to do with the relatively large public sector of the economy and the high level of corruption in the public sector in terms of infrastructure investments and poor maintenance culture which, more or less, lead to decay of infrastructure and unsustainable growth of the economy. Due to corruption, significant proportion of the foreign reserve budgeted for investments are not invested in the provision and production of public goods. The negative sign of the dummy variable in Model I buttressed this point as an indication of lack of transparency and accountability in governance.

5. Conclusion

Corruption is indeed a macroeconomic phenomenon and a great threat to viable investment and sustainable economic growth and development. It is varied in definitional scope and prevalent virtually in all the developed and developing economies of the world. The level of corruption in Nigeria has been consistently high as the by-product of the persistent political instability overtime until the last decade. The CPI rankings on Nigeria by Transparent International attest to this assertion. This study has empirically established that corruption suppressed investment and economic growth. Vigorous anti-corruption policies are required to checkmate corruption practices particularly in the public sector to prune the annual huge public expenditures and the various investment approval procedures. This measure is expected to lead to higher CPI ranking for the country, higher degree of openness, higher investment and economic growth.

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Table 1: Corruption Perception Indices for Nigeria and some Selected Countries

Year	Nigeria	Ghana	S. Africa	Finland	Denmark
1995	-	-	5.62	9.12	9.32
1996	0.69	-	5.68	9.05	9.33
1997	1.76	-	4.95	9.48	9.94
1998	1.9	3.3	5.2	9.6	10.0
1999	1.6	3.3	5.0	9.8	10
2000	1.2	3.5	5.0	10.0	9.8
2001	1.0	3.4	4.8	9.9	9.5
2002	1.6	3.9	4.8	9.7	9.5

2003	1.4	3.3	4.4	9.7	9.5
2004	1.6	3.6	4.6	9.7	9.5
2005	1.9	3.5	4.5	9.6	9.5
2006	2.2	3.3	4.6	9.6	9.5
2007	2.2	3.7	5.1	9.4	9.4
2008	2.7	3.9	4.9	9.0	9.3
2009	2.5	3.9	4.7	8.9	9.3
2010	2.4	4.1	4.5	9.2	9.3

Source: Transparent International, (various years)

Table 2: CPI: Selected Country-Evaluation.

Country	**First Country Survey**				**2010 Survey (178 Countries)**		**Highest Score**			
	Year	Score	Ranking	Countries	Score	Ranking	Score	Ranking	Countries	Year
Nigeria	1996	0.69	54th	54	2.4	134th	2.7	121st	180	2008
Ghana	1998	3.3	55th	85	4.1	62nd	4.1	62nd	178	2010
S. Africa	1995	5.6	21st	41	4.5	54th	5.68	23rd	54	1996
Finland	1995	9.12	4th	41	9.2	4th	10..0	1st	90	2000
Denmark	1995	9.32	2nd	41	9.3	1st	10..0	1st	85; 99	1998; 1999

Sources: Transparent International, (various years); Authors' compilation

Table 3: The Regression Results (Dependent Variable: Inv)

Variable	**Model I**		**Model II**	
	Coefficient	**t-statistic**	**Coefficient**	**t-statistic**
C	52.147***	(7.603)	28.807**	(2.334)
CPI	0.469***	(3.98)	2.003**	(2.25)

Opness	40.853	(0.863)	5.796**	(2.858)
ExRate	-18.632**	(-2.091)	-3.381**	(-2.626)
MinWage	6.307	(1.092)	9.762***	(5.844)
fResrv	-15.376**	(-2.542)		
Dum	-3.642*	(-1.987)	45.418**	(2.853)
R^2	0.89046		0.9238	
Adj. R^2	0.67343		0.7495	
DW stat	2.394		1.911	

****, (**), {*} significance at 1%, (5%), and {10%} level, respectively*