International Journal of Engineering Applied Sciences and Technology, 2020
Vol. 5, Issue 3, ISSN No. 2455-2143, Pages 39-44
Published Online July 2020 in IJEAST (http://www.ijeast.com)

IMPACT OF CORRUPTION ON NIGERIA'S ECONOMIC DEVELOPMENT

Nwabueze Prince OKENNA
Department of Economic Policy & Development
Gilgal Economic Foundation & Research Institute, Abuja Nigeria

Abstract— **This main purpose of this study is to investigate the impacts on how corruption and its related practices have consistently thwarted the economic growth, transformation, and development of most African nations with Nigeria at the epitome of its analysis. In Nigeria, corruption is one of the numerous unresolved issues and challenges that has significantly impeded the nation's development. It has also been named one of the major obstacles and roadblocks to the transformation of the Nigerian economy.**

In summary, it is a socio-economic state where state resources that are intended for the country's advancement are diverted and used for private projects and programs. It is displayed in numerous forms which range from misapplication and misappropriation of government positions, non-accountability, hike in contract costs, bribery, forgery of documents and contracts agreements, tax evasions, and many more.

In the course of this study, different types of corruption and practices were brought to light, its effects, and policy recommendations to During the research, various kinds/types of corruption were highlighted, its adverse effects, with policies recommended to fight this unnecessary evil in that, have caged the country's economic transition and development.

Keywords— **Corruption, Economic growth, Economic Development, Poverty, Nigeria.**

I. INTRODUCTION

Corruption is as aged as the existence of man. It exists in the public and private sectors, profit and non-profit as well as charitable organizations. It subsists both in the developing and in the developed nations but predominant in the developing countries hence, it remains a symptom of a poorly functioning nation (Rotimi, Obasaju, Barnabas, Lawal, IseOlorunkanmi, J (2013).

From an economic perspective, corruption is generally accounted for in the rent-seeking theory, which was originated with Tulloch (1980).

The World Bank defines corruption as the abuse of public office for private gains. Public office is abused through rent seeking activities for private gain when an official accepts, solicits, or extorts a bribe. Public office is also abused when private agents actively offer bribes to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal benefit even if no bribery occurs, through patronage and nepotism, the theft of state assets or the diversion of state resources (World Bank 1997).

A public official is corrupt if he accepts money for doing something that he is under duty to do or that he is under duty not to do. Corruption is a betrayal of trust resulting directly or indirectly from the subordination of public goals to those of the individual. Thus, a person who engages in nepotism has committed an act of corruption by putting his family interests over those of the larger society (Gire, 1999).

Highly corrupt nations are always perpetuated with vicious circle of poverty- low rate of saving which leads to low incomes and which in turn leads to low investment and productivity. Others may include high capital flight: the negative consequences of the prevalent corruption continue to hamper the growth and development of the economy, causes insecurity of lives and property of the citizenry as evident from several Boko Haram attacks, heightened level of poverty and unemployment. Decaying infrastructures This study aimed to analyse thoroughly the dangers and economic costs of corruption on the economy of developing countries with Nigeria at the centre of its investigations. Through this, recommendations will be proffered that when implemented by developing economies will put them in the right perspective towards their economic sustainability goals and objectives of the government.

II. RELATED WORK

Previous research and studies have been conducted on similar subject, but only few analysed its impact on economic development at the microeconomic level considering foreign investment, and industrial value contribution. A few of researchers discussed the level of corruption on economic development in both developed and developing countries. Such authors include Abiodum,

Elijah and Obayelu (2007) that use descriptive survey and content analysis to investigate the effect of corruption and economic reforms. Here, it was revealed that significant reductions in corruption levels can be achieved through introduction of the anti-corruption team or instruments.

Rotini, Obasaju, Lawal and Ise, (2013) used ordinary least square (OLS) and granger causality method to determine the relationship between corruption and economic growth in Nigeria, just as many other studies and research had.

This study will adopt a different approach by adopting an Ordinary Linear regression estimation technique through the incorporation of differenced time series data and parameters such as Government Expenditure (GOVt), Foreign Direct Investment (FDIt), Corruption Perception Index (CPIt), and Industry Value Added (IVAt) obtained through World Development Indicator (WDI), CBN Statistical bulletin, and Transparency International.

III. METHODOLOGY

Time series data for this study were collected from secondary sources (Transparency International, National Bureau of statistics, and Central Bank of Nigeria). The ordinary least square estimation technique was used in the data analysis prior to which, the data were differenced and logged to prevent spurious results.
In a view at ensuring transparency and accurate statistical results, Unit Root Stationarity, Johansen's Cointegration,
T-Statistics, and F-Statistics test were conducted on the data collected as well as different level of differences and logging to confirm stationarity. The time series data collected covered the period between 1995 - 2016 and these are; Gross Domestic Product (GDPt) as a proxy to measure economic development, Government Expenditure (GOVt) as proxy to measure government's spending on Development Infrastructures, Foreign Direct Investment (FDIt) as a proxy to measure to measure foreign investors contributions on Economic development, Corruption Perception Index (CPIt) a proxy to measure the index of corruption, and Industry Value Added (IVAt) as a proxy to measure the contribution of the industrial sector to economic development. The Data collected were analyzed with the aid of EViews (Econometrics Views) software using the Ordinary Least Square estimation technique.

MODEL SPECIFIED

In line with studies by Mo (2001) and Pellegrini and Gerlagh (2004) in which they identified the direct and indirect effects of corruption on economic development and in line with Barro's model, this literature adopted the endogenous growth model because it permits the inclusion of more policy variables in economic development equation. Specifically, the model was modified to include Industry Value Added and government expenditure as one of its explanatory variables.

Three models were specified to understand the relationship between corruption some indicators.

GOV= f (CPI) -------------------------------------1.0
GOVt = β0+ β1CPIt + μt --------------------------1.1

Testing the hypothesis that:
H_0: Corruption does not have a significant influence on level of government expenditure in Nigeria
H_1: Corruption has a significant influence on level of government expenditure in Nigeria.

FDI = f (CPI) ---------------------------2.0
FDIt = β0+ β1CPIt + μt ---------------------------2.1

Testing the hypothesis that:
H_0: Corruption does not have a significant impact on foreign direct investment in Nigeria.
H_1: Corruption has a significant impact on foreign direct investment in Nigeria

IVA = F(CPI) --------------------------3.0
IVAt = β0+ β1CPIt + μt -----------------------3.1
Testing the hypothesis that:
H_0: Corruption does not have a significant impact on Industry Value Added in Nigeria.
H_1: Corruption has a significant impact on Industry Value Added in Nigeria.

Concurrently, the regressed model of all indicators is given as:

GDP = f(CPI, GOV, IVA, FDI)
where;

GDP= represents gross domestic product,
CPI = corruption perception index,
IVA = Industry Value Added (% of GDP)
GOV= Government Expenditure
FDI = foreign direct investment inflow
β_0 = the constant term,
β_1 = the parameter estimates of CPI
β_2 = the parameter estimates of GOV
β_3 = the parameter estimates of IVA
β_4 = the parameter estimates of FDI
μ_t = stochastic or error term (with usual properties of zero mean and non-serial correlation).

Upon its conversion to a time series variable we have:
$GDPt = \beta_0 + \beta_1(CPIt) + \beta_2(GOVt) + \beta_3(IVAt) + \beta_4(FDIt) + \mu_t$

STATISTICAL CRITERIA

This aims at the evaluation of the statistical reliability of the estimated parameters of the model.
In this case, the F-statistics. t-statistics, Co-efficient of determination (R^2) and the Adjusted R^2 are used.

THE COEFFICIENT OF DETERMINATION (R^2)

The square of the coefficient of determination (R^2) is used to judge the explanatory power of the explanatory variables on the dependent variables. The (R^2) denotes the percentage of variations in the dependent variable accounted for by the variations in the independent variables.
Thus, the higher the (R^2), the more the model can explain the changes in the dependent variable.

THE F – Test

The F-statistics is used to test whether, there is significant impact between the dependent and the independent variables. In the regression equation, if calculated F is greater than the tabulated F, then there is significant impact between the dependent and the independent variables in the regression equation and vice versa.

T-STATISTIC

This is used to determine the reliability or statistical significance of each variable coefficient. Here, the absolute t-value of each coefficient is compared with the tabular value, which is used to determine the acceptability of the statistical significance which can be used for inferences and possibly for forecasting.

TEST FOR AUTO-CORRELATION (DW)

This Durbin-Watson (DW) is appropriate for the test of first order autocorrelation and has the following criteria.

a. If d* is approximately equal to 2 (d*=2) we accept that there is no autocorrelation in the function
b. If d*=0, there exists perfect positive autocorrelation. Furthermore, if 0< d*<2, that is if d* is less than two but greater than zero, it denotes that there is some degree of positive autocorrelation, which is stronger, the closer d* is to zero.
c. If d* is equal to 4 (d*=4) there exists a perfect negative autocorrelation, while if d* is less than four but greater than two (2< d*<4), it mean that there exist some degree of negative autocorrelation, which is stronger than the higher value of d*.

A-PRIORI EXPECTATION

An a priori expectation is a theoretical statement or criteria set by economic theory.
For this study, it is expected that the level of corruption proxied by Corruption Perception Index (CPI), Foreign Direct Investment (FDI), Government Expenditure (GOV) and Industry Value Added (IVA) to a large extent determined the level of economic Development in Nigeria.
Foreign direct investment Industry Value Added, and government expenditure are expected to be positively related to economic Development, while corruption perception index is expected to be negatively related to economic development proxy by GDP. The expected sign of the coefficient of the explanatory variable is: $\beta1 < 0$ for model one to three. In model 4, it is expected that signs of the coefficients of the explanatory variables are: $\beta1 < 0$, $\beta2 > 0$, $\beta3 > 0$, $\beta4 > 0$.

REGRESSION RESULT

The regression results of the models formulated are given below.

Variable	Coefficient	Std. error	t.value
Constant	5827.91	237689.1	0.025
CPI	45421.11	20523.95	2.213

Table 1.0 Regression result of model 1 (GOV= f (CPI)

Variable	Coefficient	Std. error	t.value
Constant	3.41E+09	6.99E+08	4.879890
CPI	98307057.28	60371903	1.628358

Table 1.1 Regression result of model 2 (FDI= f(CPI)

Variable	Coefficient	Std. error	t.value
Constant	40.05347	1.878881	21.31773
CPI	-0.619266	0.162237	-3.817036

Table 1.2 Regression result of model 3 (IVA= f(CPI)

Variable	Coefficient	Std. error	t.value	R^2	DW	F.Stat
Constant	31111.733	7768.62	4.005	0.95	1.51	77.56
CPI	-987.461	155.40	6.354			
GOV	-0.003565	0.001	-2.838			
IVA	-421.5424	171.21	-2.462			
FDI	4.1622	4.69E-07	8.870			

Table 1.3 Regression result of model 4 (GDP = f (CPI, GOV, IVA, FDI)

INTERPRETATION OF REGRESSION RESULT

The results of all the models regressed and the various tests will be analysed and interpreted below.

The result obtained from model 1 ($GOVt = \beta0+ \beta1CPIt + \mu t$) shows that there existed a positive relationship between corruption and Government Expenditure.

A unit increase in corruption in the country will lead to an increase in government expenditure by 45421.12 units. And a unit decrease in corruption will lead to a decrease in government expenditure by 45421.12units.

The result obtained from model 2 ($FDIt = \beta0+ \beta1CPIt + \mu t$) shows there exist a positive relationship also between Foreign Direct Investment and Corruption.

International Journal of Engineering Applied Sciences and Technology, 2020
Vol. 5, Issue 3, ISSN No. 2455-2143, Pages 39-44
Published Online July 2020 in IJEAST (http://www.ijeast.com)

A unit increase in corruption will lead to an increase in Foreign Direct Investment by 98307057units. And a Unit decrease in corruption will lead to a 98307057units decrease in Foreign Direct Investment.
The result obtained from model 3 ($IVAt = \beta0 + \beta1CPIt + \mu t$) shows there exist a negative relationship between Industry Value Added (IVA) and Corruption (CPI).

A Unit increase in corruption will lead a decrease in the Industry Valued Added of a country by -0.619266 units. And a Unit decrease in corruption will lead to an increase in Industry Value Added by 0.619266 Units.

The general regression result ($GDPt = \beta0 + \beta1(CPIt) + \beta2(GOVt) + \beta3(IVAt) + \beta4(FDIt) + \mu t$) showed that there existed a negative Relationship (inverse Relationship) between GDP (Gross Domestic Product), CPI (Corruption Perception Index), GOV (Government Expenditure) and IVA(Industry Value Added) respectively. While on the other hand there exist positive relationship between GDP and FDI (Foreign Direct Investment).

The R-Squared show that the model is a good fit with 0.95 (95%) change in GDP accounted for by change in the independent variables. This implies that 95percent of the change in GDP was explained by changes in the independent variables.

In addition, the F-statistic supports this position with its result showing that the model is significant and well specified

POLICIES IMPLICATION OF FINDINGS

The wide-ranging adverse effects of corruption on Nigeria society disclosed in the research call for effective policies to curb it urgently.

Much attention should be paid to the role of anticorruption in the resourceful regions. The various independent anticorruption commissions such as ICPC, EFCC etc. needs to be strengthened and empowered to handle and prosecute all corruption related offenses and cases without intervention from the government or any other third party. Rigorous anti-corruption measures need to be carried out for a long period to control corruption in areas where corruption is pandemic especially in the civil and public service.

RESULTS AND DISCUSSION

From the regression result above, a unit increase in economic development (GDP- proxy used to measure economic development), will result to Specifically, the regression analysis conducted showed that corruption has a negative impact on economic development, which is statistically significant. Thus, the study examined the effects of corruption on the Nigeria economy

From the previous arguments in this paper and from the empirical investigations, it is clear that corruption is a locust that has eaten deep into the nigerian economy; it has stolen the wealth of resource-rich nations like nigeria thereby making people to be trapped in poverty. even while thinking of some firms/people as if better off through payment of a bribe by most people, the overall effect of corruption on economic development still remains negative; the more corrupt a country is, the slower it economic growth rate.

Corruption is a stigma that destroys the reputation of the affected country. It lowers investment thereby lowering economic growth of the country. Since it has entered the system, Nigeria ‘s administrative and social lexicon regressed unto an era of ethical breakdown. It is found that although corruption is a universal phenomenon, its magnitude and effects are more severe and deep-seated in Nigeria.

This paper equally found that all forms of corruption manifested in bribery, frauds, embezzlement, election rigging, examination malpractice etc. are noticeable in Nigeria. It was discovered that corruption has caused decay and neglect within the infrastructure of government and the society, in physical, social, and human terms and this has negatively affected economic development of the Nation. It is opined that corruption has been responsible for the instability of successive governments and it has contributed immensely to unbridle looting most especially in public offices. Again, this has virtually turned Nigeria into the land of starvation and a debtor nation despite the nation’s enormous resources.

POLICY RECOMMEDATIONS

The Nigerian government’s effort in tackling corruption over the years had been channelled only into the establishment of anti-corruption agencies. This study suggests not a single action in tackling corruption but rather a combination of various actions in tackling this monster that is so deeply rooted in the Nigerian economy. Thus, based on the findings of this study, the following policy recommendations are considered appropriate.

1. The activities and programmes of the anti-corruption agencies in Nigeria such as the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices and other related Offences Commission (ICPC) should be strengthened. The government should strengthen the ability of these agencies and at best make them independent from the influence of political elites and the government so that these agencies will be able to perform their functions without the influence of government and will not be seen as a witch hunting agencies of the government anymore. Also, the government should increase its political will to eradicate corruption in the system, the present efforts already yielding good results should be

strengthened and expanded in scope. The Economic and Financial Crime Commission (EFCC), for instance should be given more legal backing, manpower and financial resources to improve its performance now and in the future.

2. There should be free and fair election in Nigeria so that the honest individuals who would serve as role models will be elected into leadership positions to minimize the negative impact of corruption on economic growth in Nigeria.
3. The public should be educated about the problems that corrupt practices create for the economy and the society at large and be discouraged from participating in corrupt practices. Thus, the general population should be re-orientated to a better value system; this is because Nigerians have for long been living on the survival of the fittest and grab-whatever-comes-your-way mentality. The re-orientation of the youth in Nigeria to a good value system could help in the war against corruption. That is, the need for enlightenment in discouraging excessive materialism and the culture of 'get rich quick'.
4. The government should be ready to take a bold step to serve as an example by practicing good governance, transparency, accountability with economic issues so that Nigerians will begin to believe in the system of government. Unnecessary government spending on duplications of offices, and bureaucracies should be reduced to its bearable minimum. The fund should be used for developmental purposes to foster equal distribution of incomes, and the execution of developmental capital projects, etc.
5. The government should also intensify its efforts at re-orientating the society against ills of corruption by establishing high ethical standards to which all and sundry must adhere. Thus, more stringent measures should be put in place to reduce the possibility of diverting public funds into private pockets. For instance, independent auditing and consulting firms can be involved to critically examine the records and projects being carried out by the government officials to ascertain whether they are executed as planned and also put in place, transparency devices, technological know-how and electronic strategies that can detect and prevent corruption in all areas, cameras in public places and electronic voting system will also work in this direction. Prevention is better than cure.
6. Stiffer sanctions must be imposed on those found guilty of corrupt practices; this will serve as deterrent to others. Since corruption is a relationship of 'give and take', both the giver and the receiver must be prosecuted as well. This should be enforced right from the top to the bottom. Perhaps, it is time to enact a decree for this purpose.
7. The government should also introduce an equitable wages and incentive system and improve other conditions of work so that the level of poverty can be reduced and the quality of life improved. This will inevitably reduce people's vulnerability and susceptibility to corruption. This study also suggests that Monitoring and Evaluating (M&E) agencies should be set up to monitor that the federal capital expenditure approved in the budget yearly are judiciously and effectively used for the advancement of the Nigerian economy instead of being siphoned for private gains.

IV. CONCLUSION

From the analysis of this research, corruption impacts negatively on economic development as evident from the analysis conducted. This enormously costs the economy to an extent that development will be slowed if not restricted.

Nigeria has the potential to build a prosperous economy, reduce poverty significantly and provide the health, education, and infrastructure services its population needs. However, available evidence indicates that these resources have not been judiciously used to meet the need of the population in terms of human capital development because of high level of her corruption.

The study employed ordinary least square (OLS) method, unit root test and co-integration test. The implication of this finding is that economy cannot grow fast without zero tolerance in corruption. Despite the presence of abundant resources in the country, corruption has made it impossible for the government to translate the presence of the abundant resources to improved standard of living in Nigeria which has led to increasing poverty level in Nigeria. Corruption have caused lack of public infrastructures, it has increased the level of poverty in the country despite the nation's enormous resources, less respect for fundamental human right, and it shows that no matter the efforts of government to improve the economy and the presence of other developmental indices, when corruption is not reduced to its bearable minimum, economic growth and development will be very difficult to sustain in Nigeria. There is a clear-cut correlation between corruption and economic development and if stringent measure is not taken about it, the development of the affected country would be impaired. Corrupt regimes always yield disastrous results. The more corrupt a country is, the slower its development rate. Corruption is a stigma that destroys the reputation of a country.

In conclusion, no matter the magnitude of natural resources present, the size of the foreign exchange earnings, technological know-how, the efficiency of labour and the availability of basic infrastructure, economic development cannot be sustained in Nigeria until corruption is eradicated.

V. ACKNOWLEDGMENT

All gratitude and thanks to God for the grace and knowledge He bestowed on me. It is a great privilege to share my thoughts and contributions to existing knowledge out there through this medium

VI. REFERENCE

[1] Abiodun, Elijah and Obayelu, 2007. Effects of Corruption and Economic Reforms on Economic Growth and Development: Lessons from Nigeria.

[2] Ade, A., Babatunde H, Awoniyi M (2011). Corruption, Foreign Direct Investment and Economic Growth in Nigeria: An Empirical Investigation.J. Res. Intl. Bus. Manage.1(9):278 –292.

[3] Bardhan, P. & Mookherjee, D. (2005). Decentralization, corruption and government accountability. In S. Rose-Ackerman (Ed.), International Handbook on the Economics of Corruption (pp. 161–188).

[4] Barro, R., 2000. Inequality and Growth Model in a Panel of Countries. Journal of Economic Growth 5, (Pg.5-32).

[5] Central Bank of Nigeria statistical bullentin; https://www.cbn.gov.ng/documents/Statbulletin.asp

[6] Fredriksson, G. and Svensson, J., 2003. Political Instability, Corruption and Policy Formation: The Case of Environmental Policy. Journal of Public Economics 87, (Pg. 1383-1405).

[7] Gire, J.T, (1999). A Psychological Analysis of Corruption in Nigeria. Journal of Sustainable Development.

[8] Osunyikanmi, P. O. (2007). “Development Implication of Nigeria's Economic Crisis”. Journal of Development Perspective. 2(1): (Pg. 34-59).

[9] Pellegrini, L. and Gerlagh, R., 2004. Corruption's Effect on Growth and its Transmission Channels. Kyklos 57, (Pg.429-456).

[10] Rotimi, E. M, Obasaju, Barnabas, Lawal, A and IseOlorunkanmi J(2013): Analysis Of Corruption And Economic Growth In Nigeria Afro Asian Journal of Social Sciences Volume 4, No. 4.2 Quarter II.

[11] Transparency International (1994-2016).“Corruption Index”, various series.

[12] Tulloch, 1980. What Have We Learned About the Causes of Corruption from Ten Years of CrossNational Empirical Research? Annual Review of Political Science 10, (Pg. 211–244).

[13] World Bank, 2005. Anticorruption in Transition: A Contribution to the Policy Debate. World Bank Publication. Washington.

[14] Wrong, 2009. Corruption and the Transition from Socialism in China. Journal of Law and society 23, (Pg.149-169).