LONG RUN EFFECTS OF CORRUPTION ON NIGERIAN ECONOMY 1999 - 2021.

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Abstract

This study empirically investigates the long-run effect of corruption on the Nigerian economy for the period 1999-2021. Multiple regression analysis was employed in the research using Auto-Regressive Distributed Lag (ARDL) bound test and Granger causality test. The study used gross domestic product (GDP) as a proxy for state the economy and corruption index as a proxy of corruption in our analysis. Private Domestic investment and Foreign Direct investment were added as control variables. The study revealed that the level of corruption in Nigeria over the years has significant negative effect on the economy. They result implies that in the long-run any activity capable of raising corruption level by 1% will lower economic growth by 27% in Nigeria. It also implies that Nigerian economy cannot grow fast without zero tolerance in corruption. The study recommended the use of policies that will enhance reduction on corruption for the improvement in the level of economic growth. And that the activities of the anti-corruption agencies in Nigeria such as the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices and related Offences Commission (ICPC) should be strengthened especially by ensuring that their actions are not politically biased.

Keywords: Corruption, economic growth, Nigeria

Introduction

A significant number of political and economic debate concerning Nigerian economic poor performance have overtime concentrated on the level of corruption and the poor approaches towards cubing or at most reducing it. Corruption as a critical issue all over the globe has attracted a growing research interest all over the world concerning the impact and its spread due to political economic linkages amongst nations. Corruption in any nation negatively affects public finance planning and implementation as it is noticed in Nigeria and other developing countries According to Anyanwu (2002), Idomeh (2006) corruption manifest mostly through the behaviour of people especially the public officers. Corruption exists in politics, economics, markets, socio-cultural settings, private sectors etc. It is everywhere but more predominant in most developing countries

Despite the fact that there has been an increasing debate concerning the relationship between corruption and economic growth and plentiful researches done on the direct ramification of corruption on economic growth, there still has yet to be a single certain inference. Some controversies still exist as there is no consensus or unanimity in the results. For instance, remarkable studies by Mauro (1993), Blackburn, Bose, & Haque (2006), and other scholars displayed proof of the negative influence of corruption on economic growth. On the other hand, Méon & Weill (2010) and Kato & Sato (2015), and other investigators have done notable studies that contemporary evidence of auspicious significance of corruption which ratify the "greasing the wheels "hypothesis while arguing for the growth-enhancing impact of corruption.

In Nigeria, corruption is evidenced in so many dimensions, such as; police extortions and brutality, misappropriation of public fund, cyber crime, political manipulation of elections, instability, production and sale of sub-standard goods and lack of will to fight crimes etc. Some of the end results include high level of attacks on law enforcement agencies and public properties, growing level of insurgency, kidnaping to make wealth, increasing level of poverty, inflation decaying infrastructural facilities sale of substandard goods in market etc. According to Rotimi, Obasaju, Lawal and Iseolounkanmi (2013) persistence corruption in any institution causes erosion of political, institutional and economic values if not checked.

The need for this present study of corruption and economic growth is not merely for academic interest but it is mainly as a result of many unsettled problems that hinges on economy, politics and social structures despite the claim of being the giant of Africa. In a similar reasoning Benjamin (2007) was of the view that corruption as a problem has continued form the centre stage of most academic discussion in Nigeria because of the danger it posed in achieving meaningful development. For instance, with all the enormous human and natural resources of Nigeria most of her citizens are existing in abject poverty, inflation and unemployment on high pedestal and almost the highest in Africa. Also an acclaimed giant of Africa cannot contain or at least minimize the problem of Boko-Haram attacks, insurgency, and banditry kidnaping unknown gun men and other forms of attacks. All these are on the increase due to official corruption and lack of strong will due to sectional or tribal interest. According to Economic and Financial Crime Commission EFCC (2005) report corruption is a cankerworm that has reduced development in all the sectors of the nation. Transparency International report (2021) rate Nigeria 154th least corrupt nation out of 180 countries sampled. Also in 2020 Nigeria was rated very high in corruption index. Windsor and Getz (2000) as cited in Rotimi e tal (2013) broadly defined corruption as socially impermissible deviance from some public duty or more generally some ideal standard of conduct. Corruption also could be youth based among which includes cyber crime (yahoo yahoo),thuggery, behavioral permutation, pilfering, drug peddling, paid assassins, kidnaping, prostitution, militancy, Boko-haram and 419 syndromes, plagiarisms among others. The definitions of these authors commonly agreed that corruption manifests for personal gratification and therefore it is anti-economic, or political. It erodes the values system of the economy.

Marketing may be regarded as one of the means human being uses to get the co-operation of each other in solving their needs. It is against this backdrop that (Kotler & Keller 2009) defined marketing as a societal process by which individual and groups obtain what they need through creating, offering and exchanging products or services of required value with others. From the managerial perspective (Benneth 1995) define marketing as a managerial process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange for the satisfaction of individual and organizational objectives. Also, the chartered institute of marketing 2009 defined marketing as the management process responsible for identifying, anticipating and satisfying customers requirement profitably. With all these, it is observed that there is no unanimous definition of marketing but in nut-shell (Okpara 2012) states that marketing may be defined as the activities by individual or organization designed to create customer satisfaction and relationship by striving to make offers and acceptance mutually easier and favourable.

In the marketing sector, corruption is perceived as the performance of business activities that directs the flow of sub-standard goods and services from producers to consumers (McCartly 1968).But according to (Laczniak and Michie 1986) the definition was thrown overboard by American Marketing association due to its conceptual implication. It is pertinent to note that in corrupt environments the executions of the marketing functions are normally distorted. Corruption takes place whenever the delivery of value is abused for gains which are sometimes facilitated by use of power of the business sector or political sector.

Corruption may have been the major reason for poor performance of the transport sector, health sector, petroleum sector, electricity sector. It might have constituted the main impediment for local and foreign investors in the country. All attempts to fight corruption have failed as a result of weak institutions. The institutions are made weak due to some extant laws, for instance, a situation where attaining certain political position automatically makes such a person a Saint and above any form of trial no matter what. The institutions are marred by political interest and cleavages. African Economic outlook (2011) reported that economic and financial reform would provide a leeway for private investors and foreign direct investment to flow in but it is suspected that the poor implementation of the reforms might have been the problem.

The need for this present study of corruption and economic growth is not merely for academic interest but it is mainly as a result of many unsettled problems that hinges on economy, politics, social and market structures despite the claim of being the giant of Africa. The question then, is what nature of long-run relationship exists between corruption and Nigerian economy if any?

Literature Review

Theoretical Review

World Bank and Transparency International as cited in Rotimi (2021) defined corruption as an unlawful use of public office for personal gains which hamper growth where it exists. The English Dictionary of words defined it as dishonest or illegal behavior involving a person in a position or power like accepting money for doing something illegal or immoral. Transparency International (2022) report also defines corruption as abuse of entrusted power for private gain and that it erodes trust, weakens democracy, hampers economic development and as well exacerbate inequality, poverty, social division and environmental crisis. They contend that it can take any form like, bribery, misuse of public fund, granting public job or contracts to spouse, friends and other unqualified person. Ii can happen anywhere and can as well involve anybody. Nwankwo (2014) contends that corruption is an ancient practice that has been traced to pre-biblical era and manifested in the ancient civilization of developed and developing nations.

Some basic theories of corruption and economic growth as cited in Nwankwo (2014) that guided this present study include:

A Policy-Oriented Theory of Corruption

This theory was developed by Teveik, Albert and Charles in 1986, in an attempt to explain the role of government in fighting corruption. The theory states that despite the frequent occurrence of corruption, government involvement in corruption has undergone surprisingly with its effect of the growth of the economy which needs serious investigation. The theory opined that he high level of corruption in any country whether developed or developing countries will not allow the country's economy to grow and that if the field of administrative corruption is to become more theoretical and less descriptive, it must develop a framework and methodology that will help to measure its effect on economic growth.

Economic Growth Theory

This theory was propounded in reactions to the deficiencies in the Solow-Swan growth theory or model by Arrow (1962); Lucas (1988); and Romer (1990). This theory as propounded lay more emphasis on the long-run growth rate of an economy and on the basis of endogenous factors rather than exogenous factors of the neoclassical growth theory. The Solow-Swan model explains that the long-run growth rate of output is based on two basic exogenous variables such as population growth rate and level of corruption in the country. The growth theory emphasizes on technical progress resulting from the rate of capital stock, human capital development, reduction in corruption and investment rate.

Policy Implications of the theory

This theories, believes that economic growth is linked with improvement in productivity and reduction in corruption which ultimately result to a faster pace of innovation and extra investment in human capital. The theory predicted that externalities and spill over on corruption fight from developed countries will help to develop and maintain a competitive advantage in economic growth in Nigeria.

Empirical Review

Ade, Babatude and Awoniyi (2011) in the study of Corruption, foreign direct investment and Economic growth in Nigeria: used Ordinary Least Square Method in testing the effect of FDI inflow, corruption index, Exchange rate, and Inflation rate on GDP in their mode The OLS result reveals that there is an inverse relationship between FDI inflow and corruption. This means that a large volume of FDI inflow is associated with a low level of corruption in the host countries. Exchange rate depreciation and inflation rate are significant determinants of FDI inflow in Nigeria. Also Adewale, (2011) investigated the crowding out effects of corruption in Nigeria using parsimonious error correction mechanism (ECM) and employed experimental research design approach for the data analysis and the result revealed that there is a negative relationship between corruption and output growth in Nigeria. The implication of this is that Nigeria government should introduce a national re-orientation program to help stem the level of corruption.

Sharama and Mitra (2019) in the study conducted within 103 countries from 1986 -2015 revealed that control of corruption and improved regulatory quality are associated with high economic growth In a similar studies by Grunder and Potrafko (2019) used data from Transparancy International data from 2012-2018 to study the effect of corruption on economic growth and the result revealed that increase in the level of corruption index is on the average associated with a 10% decrease in per capital GDP in the short-run.and a decrease of 17% in the long-run

However some researchers found the positive influence of corruption on economic development. For instance, the study conducted by Khan et al (2020), to ascertain the relationship between corruption and economic growth from 2002-2017 using Fixed Effect Model (FEM), Random Effect Model (REM), and robust least square method. Empirical findings revealed that in developing South Asian countries corruption is working like grease and enhancing economic growth. Also Ekone and Amaghionyeodiwe (2020), investigated the effect of corruption on economic output employing error correction and the Granger causality tests. The findings showed the presence of a long-run relationship amid the level of sleaze and economic progression. Further, corruption has a positive but not statistically significant effect on the economic growth of Nigeria during the study period. Likewise, Chakravorty (2019) studied corruption and economic growth. The result displayed that corruption exerts a positive but small impact on economic growth.

Abdikarim (2021) conducted an empirical study on the influence of corruption on economic growth of East African countries from 2013-2017 using panel data obtained with the countries studied. The result revealed that there is a negative effect of corruption on economic growth and development.

Methodology

The study employed unit-root test, ARDL Test and Granger causality test in the analysis of the data. The data were obtained from CBN statistical bulletin 2020 and 2021 and World Governance Indicator 2021.

Model Specification

The model for this present work is derived from policy implication theory which states that economic growth is a function of increased productivity and corruption reduction which implies that increase in corruption will have detrimental effect on growth. The model is stated as thus;

Yt = COR +INFR……………………….........….1

Y_{t} = Gross Domestic Product

COR = Corruption index

PDI = Private domestic investment

FDI = Foreign Direct investment

Considering the functional notation, the models are specified as follow

Yt = F(COR + PDI + FDI)……………........…..2

However, the linear function of the above notation is stated as

$Yt = o + {}_1COR + {}_2PDI + {}_3FDI + Ut$ ……………...….3

While the log function of the above model is written as

$Log(Yt) = o + {}_1COR + {}_2PDI + {}_3 FDI + Ut$

However, the variables are converted to log form except corruption index which are already in rate

Results

AUGMENTED DICKEY-FULLER UNIT ROOT TEST RESULT

Variable	Pv @ Level	Pv @ 1^{st} diff	Pv @ 2^{nd} diff	Rank	Remark
LYt	0.3162	0.1254	0.0000	Stationary	I(2)
LPDI	0.2744	0.0394	-	Stationary	I(1)
LFDI	0.0102	-	-	Stationary	I(0)
COR	1008	0.0000	-	Stationary	I(1)

Source: Researcher's computation from E-view 9.0 version

The unit root tests on the variables using Agumented Dickey- Fuller unit root test as presented using the above table shows that economic growth which GDP is used as its proxy (LYt) is integrated of order two while, corruption COR measure and private domestic investment (LPDI) are integrated of order one. The Foreign direct investment (LFDI) is integrated of order zero. It is observed that there is a mixed order of integration amongst the variables employed in the study. The linear combination of series integrated of the different order calls for the use of Auto-Regressive Distributed Lag Model Bound Test. The level of their integrations indicates the number of time series have to be differenced before their stationarity is induced

Null Hypothesis: Nolong-run relationships exits

Test Statistic	Value	K
F-statistic	11.22786	3

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: : Researcher's computation from E-view 9.0 version

The bound test was conducted to determine whether there is significant Long-run relationship amongst the variables in the specified model..Using the Bounds test result at 5% level of significance the null hypothesis of no long-run relationship is rejected since the value of the F-statistic 11.22786 is greater than the upper critical Bound of 4.35. Therefore the study concludes that there is evidence of Long-run relation amongst the variables utilized in the model.

Short-run and Long-run Form Result

Co integrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(COR)	0.000315	0.002783	0.113352	0.9113
D(LPDI)	0.014763	0.031091	0.474835	0.6417
D(LFDI)	0.008288	0.007112	1.165424	0.2620
D(LFDI(-1))	-0.014019	0.008718	-1.607992	0.1287
CointEq(-1)	-0.279411	0.088860	-3.144403	0.0067

Cointeq = LYT - (-0.0363*COR + 0.3599*LPDI + 0.1670*LFDI + 8.0655)

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
COR	-0.036321	0.016188	-2.243736	0.0404
LPDI	0.359874	0.050657	7.104164	0.0000
LFDI	0.166979	0.072836	2.292525	0.0368
C	8.065463	0.297526	27.108436	0.0000

Source: Researcher's computation from E-view 9.0 version

The coefficient of the short-run form result revealed that corruption has insignificant positive effect on gross domestic product which was used as the measure of the economy. However in the long-run corruption has a coefficient -0.036321, T-statistic value -2.243736 and the probability value0.0404 indicating that corruption has negative and significant effect on the economy. The ECT coefficient value -0.279411,T-statistic value -3.144403 and the P-value 0.0067 shows that the speed of adjustment from short-run deviation to long-run equilibrium relation is 27% annually. It is equally observed that the ECT result is negative, fractional and statistically significant showing that the required econometric techniques are fulfilled.

Null Hypothesis:	Obs	F-Statistic	Prob.
COR does not Granger Cause LYT	24	1.60628	0.2267
LYT does not Granger Cause COR		3.66091	0.0452

: Source: Researcher's computation from E-view 9.0 version

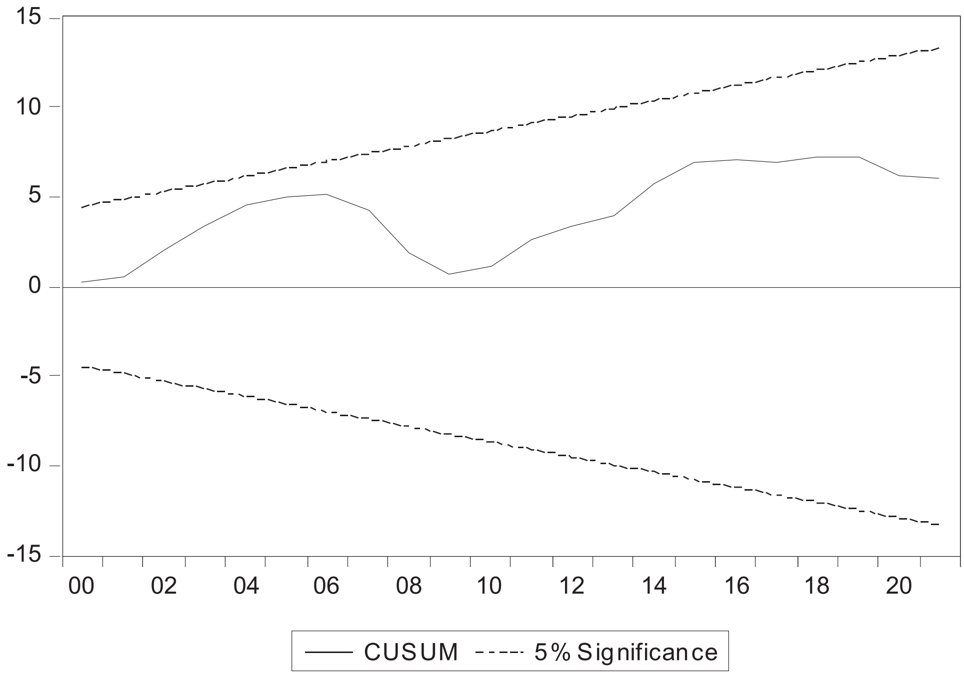
Considering the result of Granger Causality test and using 2 and 24 degree of freedom, the F-tabulated value at 5% level of significance it is observed from the pair-wise relationship between COR and LYT that the F-statistics is 1.60628 while the value for LYT and COR is 0.82907. The estimate shows that the P-value 0.2267 is greater than 5% critical value while the p-value 0.0452 is less than 5% critical value hence, we reject that COR does not granger cause LYT It is rather noted from the p-value 0.0452 that LYT Granger cause COR. This implies that there is one-way causation between GDP and COR because LYT granger cause corruption but corruption does not granger cause economic improvement as measured by GDP.

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.027733	Prob. F(2,13)	0.9727
Obs*R-squared	0.101965	Prob. Chi-Square(2)	0.9503

Source; Researcher's computation from E-view 9.0 version

The serial correlation test (LM Test) conducted to verify or confirm the Durbin-Watson result indicates that the F-statistic value is 0.027733, the Probability value is 0.9727, whereas the Obs* R-square value is 0.101965 and the probability Chi-square value is 0.9503. The result shows that the P-values are individually greater than the 5 percent critical value and the researchers conclude that there is no presence of serial auto-correlation in the model.



The CUSUM test of stability as presented with the graph above shows that the green line is in between the upper and lower critical bounds. Hence we conclude that those parameters used are stable

Conclusion

This study empirically investigated the impact of corruption on Nigerian economy from 1999-2021. In order to conduct effective research on the issue the growth of Nigerian economy which gross domestic product (GDP) was used as explained variable while Nigerian corruption index rating was used as the explanatory variable. Private domestic investment and Foreign direct investment were added to serve as the control variables.

The ARDL test result revealed that there is a significant negative impact of corruption on the economy within the period under review. Based on the result the researchers recommended that government should strengthen the institutions that are established to fight corruption for the economy to have better performance in its growth path. Also there is a great need to monitor the public office holders entrusted with the implementation of government policies to ensure transparency in their conduct.

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