

Trends of Corruption, Economic Growth and Political Instability in Nigeria-2002-2018

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Abstract

The nascent democracy in Nigeria since inception has faced corruption issues that have been a major political and economic challenge that hinder significantly the growth of the country. The expectation that democracy offers a potential route to dealing with our developmental bottleneck has led to a resurgence of interest in analysing the nexus between corruption, political instability and economic growth. The methodology adopted in the study was the library research method. Tables and charts were used to discuss and analyse the results. This study is an examination of the link between corruption, political instability and economic growth in Nigeria from 2002-2018 using trend and correlation analysis. The results from both trend and correlation matrix showed that corruption has negative relationship with economic growth and index of political stability. Based on the stylised fact that emanated from this study, it is, therefore, recommended that there is a critical need to achieve political stability by enhancing the quality of governance through intense institutional reform for better economic outcomes.

Keywords: Corruption, Economic growth, Political instability, Correlation Matrix

Introduction

The empirical literature is filled with robust relationship between indicators of economic development and the level of corruption (Trisman, 2007). Possible explanation for this relationship is that development cannot take place in the absence of good governance. In other words, economic development creates a demand for good institutions or good governance system (Paldam & Gundlach, 2008). Globally, the pursuit of good governance is predicated on the fact that it brings about higher level of economic development. It is not surprising that the expectation of higher average income lies at the heart of increasing pursuit of higher quality of living, including a less corrupt and more democratic society globally. The strong negative correlation between corruption and the level of economic development provides *prima facie* evidence of the negative impact corruption in the value creation of any country. While ample evidence has shown that the underlying causality between economic development and corruption is likely to run both ways, although, majority of scholars agree that it is primarily running from corruption to economic development rather than the other way round. Yet, the bi-directional relationship has all it takes to set in motion a virtuous circle of underdevelopment or otherwise. In other words, efforts at fighting corruption like privatisation, banking sector reform, aggressive anti-corruption campaigns and establishment of clear and transparent fiscal standards can strengthen the economy. Similarly, loss of output may occur due to misallocation of resources, distortions of incentives and other inefficiencies caused by corruption that represent real cost to society.

In recent years, corruption has become an issue of major economic and political significance in Nigeria and other African countries. Corruption scandals have taken the centre stage, since it has drawn widespread media attention. Newspapers frequently publish stories about illicit behaviour by politicians and public officials. In Nigeria and other African countries, fighting corruption has often times dominated electioneering. For instance, in Nigeria, anti-corruption campaign featured prominently in the 2015 and 2019 general elections. The reason corruption is of particular concern for developing countries is that, it undermines economic growth, discourages foreign investment and reduces the resources available for infrastructure, public services and anti-poverty programmes. The literature on the phenomenon of corruption in Nigeria is robust literature. In recent times, the issue of corruption has taken a crisis dimension as it affects all facets of the public sector. Institutional corruption is so endemic in Nigeria that its impact is felt in both public and private sectors; in other words, it is the major problem affecting developmental effort over the last few decades. Nigeria has a widespread reputation for corruption, for instance, according to Global Corruption Report by Transparency International, Nigeria ranked 144 least corrupt country out of 175.

In 2019, however, it ranks 146 out of 180. The corruption perception index is an indication of how corruption has penetrated the socio-economic and political fabric of Nigeria. Corruption in Nigeria manifests itself in different forms which include money laundering, bribery, tax evasion, forgery and perjury, aiding and abetting, ghost worker's payroll, ghost contract award, nepotism, electoral malpractices, embezzlement among others (Stephen, Alex, Kofo, Olaoluwa, Olajide & Emmanuel, 2020). Since the inception of democracy in Nigeria, corruption has been responsible for political instability as it causes dysfunctional state-society relation. Corruption undermines the legitimacy of the state, thereby, leading to wasteful public policies that do not support economic growth. The consequences of political instability, poor governance system and bureaucratic corruption on growth in Nigeria and its implication on rising insecurity has attracted discussion from scholars in recent time. This article adds to the small, but emerging literature on the role of governance in the growth process.

Conceptual Review

Corruption is derived from the Latin word *corruptus*, which means *corrupted* and in legal terms, the abuse of a trusted position in one of the branches of power (executive, legislative and judicial) or in political or other organisations with the intention of obtaining material benefit which is not legally justified for itself or for others (Sumah, 2018). Although, there is no single universally accepted definition of corruption, its meaning differs according to the context in which the word is used. According to UNDP (2008), cited in Adegboyega & Abdulkareem (2012), corruption is defined as the misuse of entrusted power for private gain, this definition extends beyond public officials with entrusted power, but also includes private sector staff and corruption that occurs between private firms and within civil society organisations. In addition, Aluko (2006) sees corruption as the act of illegally diverting resources (particularly financial resources) meant for the good of the citizenry in a defined geographical area by a privileged individual or a group, for personal use, presumably for self-aggrandisement. Also, Oyejide (2008) defines corruption as the abuse of public power for private benefits. In other words, corruption relates to the deliberate diversion of public financial resources for

personal or group use at the expense of the populace. The foregoing implies that corruption is the abuse of public office for private gains.

In a democratic setting, corruption relates to how politics is financed and the attitude of political office holders. In other words, there is a thin line between political finance and political corruption. Investment in electoral politics can present a safe haven for corrupt persons in dire need of protection. Such individuals may invest their spoils in order to make profit of the power and of the purse; for protection, to dispense influence and to steal more (Ojo, 2008). For instance, government contractors, businessmen and women, serving or former military officers invest their ill-gotten wealth into politics as a means of money laundry. It is not surprising that some of these categories of people who are under the radar of the country’s money laundry watchdog end up having their cases waived. Duschinsky (2002) notes that the definition of political finance is inclusive of thirteen different things, which include: election campaign funds, political party funds, grant to elected officials, political organisation funds, pressure and interest group funds, political lobbying funds, litigation funds in politically relevant cases, partisan mass media fund, corrupt political funds, unofficial payment to elected officials, unofficial payment to elected officials, unofficial payment to civil servants, unofficial payment to the mass media, payment intended to improve the electoral process. The mechanism through which corruption affects economic growth and feed into political instability is depicted in Figure 1 below. From the flow chart, it is evident that official corruption, both in the private and public sectors, weakens institutions and governance system, which result to poor service delivery, misallocation of resources, it discourages foreign direct investment inflow as well as aid inflow from multilateral organisations; leads to poor infrastructure and high cost of doing business. These lead to poor economic performance with implication on rising poverty threshold and insecurity.

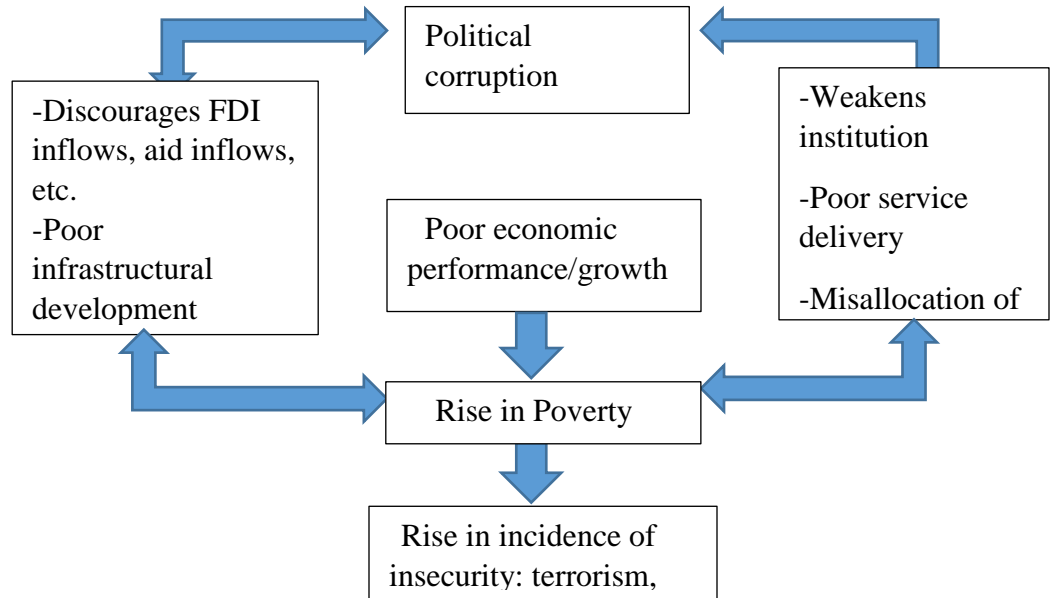


Figure 1: Flow chart showing the link between corruption, economic growth and political instability

Source: Authors’ Conceptualisation

Empirical Review

Conventionally, corruption is considered to be an impediment to investment and growth (Fisman & Svensson, 2007). Corruption affects the majority of both developed and developing countries through distortion of resource allocation, decrease in social welfare and capital accumulation, thereby, leading to lower growth and rising poverty. Also, corruption distorts development and sustainable priorities (Del Monte & Papagni, 2001; Aidt, Dutta & Sena, 2008; Angelopoulos, Philippopoulos & Vassilatos, 2009). Moorse (2006) tested the hypothesis regarding the detrimental impact of high levels of corruption on environmental sustainability, and finds that corruption stifles the indicators that necessitate environmental sustainability

Chan, Dang & Li (2019) examined the evolution of corruption and development in transitional economies using panel provincial data of China from 1995 to 2014 on prosecuted cases of corruption, their results showed that during the early phase of China's economic reforms, a positive short-run relationship is indeed observed. However, there is a robust negative long-run co-integration relationship between corruption and per-capita income. Acemoglu, Johnson & Robinson (2001) argued that since good institutions set the rules and incentives for the economy, it implies that they constitute an important determinant of development. Bait, Jayachandran, Malesky & Olken (2017) argued that having better and less corrupt institutions enhance development. According to Cooray & Dzhumashev (2018), corruption negatively affects economic growth through its impact on labour supply. Similarly, evidence from China according to a study by Xu & Yano (2017) showed that anti-corruption effort has a positive impact on financing and investment in innovation. By weakening the enforcement of property rights, corruption inhibits the growth-inducing effect of financial development by re-directing credit to wasteful investment (Ghirmay, 2004; Arcand, Berkes & Panizza, 2015; Ahlin & Pang, 2008). Through all these mechanisms, corruption will affect the level of financial development hence, economic growth. Tran, Walle & Herwartz (2020) examined the effects of province-level financial development and corruption on the performance of Vietnamese firms in terms of the growth rates of sales, investment and sales per worker by employing firm-level dataset of more than 40,000 firms for the period 2009–2013 and applying a heteroskedasticity-based identification strategy. Their result showed that province-level financial development promotes firm growth, while corruption hinders it. Furthermore, the marginal effect of financial development on firm growth depends negatively on the level of corruption. Also, financial development aggravates the growth-impeding effect of corruption. Empirical studies from the growth-corruption literature are generally mixed. While some studies document that corruption hinders economic development because it weakens central governments and creates economic distortions (Rand & Tarp, 2012; Batabyal & Chowdhury, 2015). Other studies such Wang & You (2012) showed that corruption may foster growth by alleviating the distortions of inefficient governance institutions. Wang & You (2012) used Chinese firm-level data and found that both corruption and financial development enhance the growth of firms.

Song, Chang & Gong (2020) used panel co-integration and panel error correction models from 2002-2016 to investigate the long-run relationship among corruption, economic growth and financial development for 142 developing and developed countries 142 sub-sample. The results confirm that between economic growth (GDP), corruption (COR) and financial development (BM), a long-term co-integration relationship exists in both samples for developing countries. The VECM shows that causal relationships exist

between economic growth to financial development and corruption to financial development in the long run. But for developed countries the causalities are absent. The policy implication is that, for developing countries, boosting economic growth can help promote financial development, but curbing corruption has adverse effects on financial development.

Methodology

The researcher adopted the descriptive statistics and used tables and charts to analyse its results. The researcher adopted some number of indicators for the assessment of corruption and political instability. The governance indicator used in this paper was control of corruption CORR and political stability and absence of violence measure PINST. The estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance) and the data were obtained from World Wide Governance Indicator of the World Bank from 2002 to 2018. The data for economic growth (growth rate of GDP in %) were obtained from World Development Indicator (WDI) and it covers the period 2002 to 2018.

Analysis and Discussion

As evident in Fig. 2, corruption in Nigeria compared to Africa and global average top the chart all through the study period. Notably, it peaked in 2003 and 2004, afterwards, it declined insignificantly, but remained highest compared to Africa and global average.

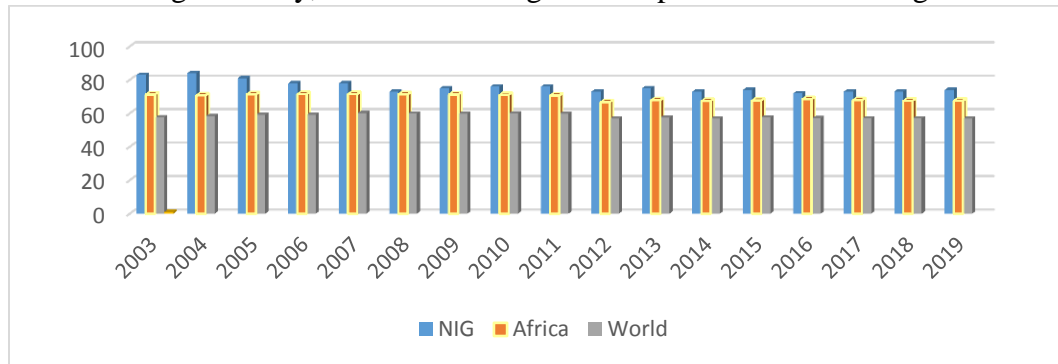


Figure 2: Trends of Corruption in Nigeria, Africa and the World Average

Source: Transparency International

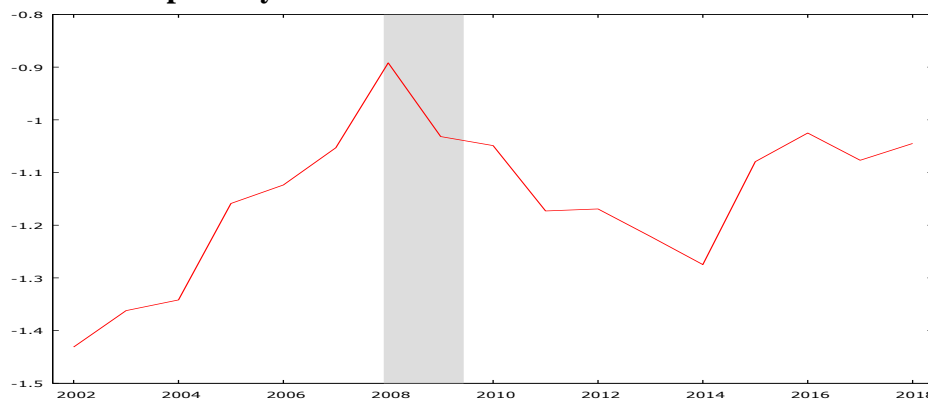




Figure 3: Trends of Corruption, Economic Growth and Political Instability in Nigeria (2002-2018)

Sources: Corruption and Index of Political Stability (WGI), GDP growth rate (WDI)

The top panel of Figure 3 is based on the estimate of World Governance Indicator (WGI); it shows that corruption was on the rise from 2002 and peaked in 2008 and fell drastically up till 2014 and rose again. However, the corruption index fell marginally between 2016 and 2017 and rose all through 2018. Compared to development in the growth trajectory (Panel 2), careful inspection of the two trends (corruption index and economic growth) showed that they move in opposite direction. This shows that higher level of corruption is inimical to economic growth. The bottom panel shows the index of political instability; it shows high negative relationship with economic growth and corruption, indicating that corruption causes political instability which has implication for economic growth.

Table 1: Descriptive Statistics and Correlation Matrix

| | CORR | GDP | PINST |
|-----------|-----------|-----------|-----------|
| Mean | -1.147478 | 5.889474 | -1.941445 |
| Median | -1.123634 | 6.438517 | -1.995072 |
| Maximum | -0.891883 | 15.32916 | -1.625118 |
| Minimum | -1.431231 | -1.616869 | -2.211123 |
| Std. Dev. | 0.141490 | 3.753098 | 0.183527 |

| | | | |
|--------------|-----------|----------|----------|
| Skewness | -0.430101 | 0.302955 | 0.425506 |
| Kurtosis | 2.539491 | 4.123113 | 2.173399 |
| Jarque-Bera | 0.674346 | 1.153528 | 0.996973 |
| Probability | 0.713785 | 0.561713 | 0.607449 |
| Observations | 17 | 17 | 17 |

Correlation Analysis

| | CORR | GDP | PINST |
|-------|-----------|----------|----------|
| CORR | 1.000000 | | |
| GDP | -0.572563 | 1.000000 | |
| PINST | -0.480654 | 0.387524 | 1.000000 |

The researcher further explored the descriptive statistics of the variables of interest by specifically considering the measures of central tendencies, variation and symmetric distribution of the series as presented in table 1. The kurtosis that measures the peakedness or flatness of the series distribution is greater than 3 in *GDP* among the series, which is suggestive that one out of the three series peaked to the surface or leptokurtic relative to the normal distribution. The Jarque-Bera normality test statistics for all the variables are statistically insignificant indicating normality of the distribution. The standard deviation indicates the variation of the series in terms of the amount by which they deviate from their mean value. The standard deviation of the series is high, indicating that it is far away from its mean value. The correlation statistics show a high negative connection between corruption (*CORR*) and economic growth (*GDP*), as well as between corruption (*CORR*) and political instability (*PINST*). The result is not surprising as corruption is of particular concern for a developing country like Nigeria because it undermines economic growth, discourages foreign investment, it reduces the resources available for infrastructure, public services and social programmes that have direct impact on the poor and vulnerable people in the society, it is inimical to sustainable development, poverty reduction and good governance. Corruption undermines political institutions by weakening the legitimacy and accountability of governments. All these put together can cause political upheavals due to massive discontentment by citizens and the quest for good governance.

Conclusion and Recommendation

Corruption is a complex and multifaceted phenomenon. The analysis from both trend and correlation matrix shows that corruption has negative relationship with economic growth and index of political stability. An environment of weak governance and high level of corruption discourages foreign investment, reduces the resources available for infrastructure, public services and social programmes that have direct impact on the poor and vulnerable people in the society; these undermine sustainable development effort with implication on economic growth and political instability. Based on the stylised fact that emanated from this study, it is, therefore, recommended that there is a critical need to achieve political stability by enhancing the quality of governance through intense institutional reform for better economic outcomes.

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