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ANALYSIS OF CORRUPTION AND ECONOMIC GROWTH IN NIGERIA

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ABSTRACT

This paper studied corruption and the Nigerian economic growth. In doing this, the study looked at historical overview of corruption in Nigeria and conceptual issues were also discussed. It also reviewed the causes and effects of corruption, without leaving out the dynamics of corruption. Also, the study looked at the relationship between corruption and the Nigerian economic growth. However, the study introduces a new perspective on the role of corruption in economic growth and provides quantitative estimates of the impact of corruption on the economic growth in Nigeria as well as their causal relationship. This study used the ordinary least squares (OLS) to determine the relationship between corruption and economy growth. The study applied the granger causality method to measure the causal relationship that exists between corruption and the gross domestic product (GDP). The results revealed that corruption impairs and impacts economic growth. It is on this basis, we draw our conclusion and suggest that Private Anti-Corruption Initiatives, Public anti-corruption initiatives and Public education campaign/programmes should be strengthened and motivated in to address the cause of corruption rather than its effects.

Key Words: Growth, Granger Causality, Corruption, Nigeria, Economic

1 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 also in the developed nations but predominant in the developing countries hence, it remains a symptom of a poorly functioning nation. In Nigeria it is evidenced from the ongoing probes on oil petroleum subsidy fraud in Nigeria, fraudulent misappropriation of pension funds, recycling of items in the 2012 Budget among others. Therefore, there is a growing worldwide concern over its spread due to so many factors. 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 infrastructure are notable and common features which are largely attributable to the high incidence of corruption which has reached a prevalent level.

The persistency of corruption erodes the social economic value of a nation. Therefore, reforming public institutions and government policies is essential but poverty, a product of corruption limits the available options. However, policy makers arrive at plausible solutions only after understanding corruption's effects on the efficiency and equity of an economic system (Nwaobi, 2004). Therefore, this study seeks to use ordinary least squares (OLS) estimations to estimate the impact of corruption on the economic output. In addition to this, the study employed the granger causality method to measure the causal relationship that exists between corruption and the economic output. The study relied on secondary data which have been sourced from the various series of the Central Bank of Nigeria statistical bulletin and Transparency International (1994-2005) "Corruption Index" publications. The paper is divided into five sections namely: section one introduced the study, section two is about evolution of corruption and conceptual framework, section three discusses materials and methodology used while section four presents the analyzed results and section five concludes with suggested policy issues.

2 Evolution of corruption

The genesis of corruption in Nigeria might not really be associated with a particular period. Nonetheless, Benjamin (2007) asserted that corruption in Nigeria can be traced back to the colonial era when Nigerians were bribed with different foreign goods in exchange for local products in exchange for slaves. Aside this, various regimes have also been associated with certain corrupt practice. The system has been such that corruption is used to check corruption by corrupting the system all the more. The illegitimate taking over of government by the various military regimes via coup d'état were often justified by pervasive corruption. This tends to use corruptly armed measures to check and making the economy worse off; abolition of the constitution by replacing it with decrees, abuse of fundamental human rights among others. Sowunmi (2010) opined that the history of corruption in Nigeria is strongly rooted in the over 29 years of the military rule, out of 46 years of her statehood since 1960. Ribadu (2006) claimed that successive military regimes subdued the rule of law, facilitated the wanton looting of the public treasury, decapitated public institutions and free speech and instituted a secret and opaque culture in the running of government business. Corruption became the dominant guiding principle for running affairs of state. The period witnessed a total reversal and destruction of every good thing in the country and indeed, the military took corruption to its highest levels ever.

2.2 Conceptual framework

The menace of corruption in Nigeria is endemic and on the increase despite several attempts even by successive governments to ameliorate the blight. The issue is global and it is without a uniform definition. In Nigeria, corruption has become the order of the day happening among the young and the old, the politician and the non-politician as well as military and the non-military. The unstoppable social economic scourge has suggested different meanings to different scholars from different schools of thought. Salisu (2000) simply defined corruption as the misapplication of public resources to private ends. This among others include the public officials collecting bribes for issuing permits licenses for authorizing passage of goods at sea/airport, passports or visa, for awarding contracts or for enacting regulations designed to create artificial scarcity, awarding undeserved score or grades to students after

exam, availing question papers to students before examination, and at times it may come in the form of sexual or other forms of gratifications. The World Bank (1996) defined corruption as “the abuse of public power for private benefit”. The Transparency International (2005) defined it as “the abuse of entrusted power for private gain”.

Corruption also includes bribery, smuggling, fraud, illegal payments, money laundering, drug trafficking, falsification of documents and records, window dressing, false declaration, evasion, underpayment, deceit, forgery, concealment, aiding and abetting of any kind to the detriment of another person, community, society or nation. Khan (1996) defined corruption as an act which deviates from the formal rules of conduct governing the actions of someone in a position of public authority because of private - regarding - motive such as wealth, power or status. Otite (2000) defined corruption as perversion of integrity or state of affairs through bribery, favour or moral depravity” ... It takes place when at least two parties have interacted to change the structure or processes of society or the behaviour of functionaries in order to produce dishonest, unfaithful or defiled situations. In other words - corruption is a systematic vice in an individual, society or a nation which reflects favoritism, nepotism, tribalism, sectionalism, undue enrichment, amassing of wealth, abuse of office, power, position and derivation of undue gains and benefits. Windsor and Getz (2000) 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 cybercrime (yahoo-yahoo), thuggery, permutation, pilfering, drug peddling, paid assassins, kidnapping, prostitution, militancy, book-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.

Causes and Types of Corruption

For any serious progress to be made in an economy, the government must take proactive steps in the fight against corruption identified as the main cause of the crisis rocking the economy at the moment. Corruption be it any type or called by any name must be seriously identified, understood and tackled. Hence, the economy stands the possibility of stagnancy and retrogression. In understanding corruption,

Konie (2003) identified two types of corruption, these are: Vertical corruption, which involves managers and decision makers. This is more common in less developed countries and Horizontal corruption, which involves the entire official, informed, and laymen groups in the countries.

Several motives have been cited for the causes of corruption in Nigeria ranging from leadership type, cultural system, through to weak legal system. On account of weak and corrupt legal framework, Sowunmi *et al* (2010) opined that a weak enforcement mechanism (e.g. lack of judicial independence; weak prosecutorial institutions) is one of the major causes of corruption in Nigeria. The forces, which deter corruption, are often weak as some, if not most, of the law enforcement agencies are themselves corrupt. In addition, rulers, politicians and civil servants are highly corrupt, and professional organizations may be incapable of sanctioning their members. Also, literature reveals that economic situation causes corruption. Shleifer and Vishny (1993) and Ali and Isse (2003) argued that in a country where economic condition is poor, there is tendency for such country to experience high level of corrupt practices which further worsen the growth rates. They also buttressed their assertion that a country with good macroeconomic performance stands to experience low (if any) level of corruption and develops rapidly. This corroborates the conclusion of Benjamin (2007) that hindrance to economic performance stands to economic opportunity. This corrupt practice are glaringly notice on our high and express ways where law enforcement illegally blocks the high and express ways extorting money and other valuables form road users and also causing unsolicited accident for innocent souls. Johnston (1997) identified weak political competition as a strong factor that helps to sustain corrupt practices. He opined that this has generally played a role in sustaining most serious cases of entrenched political and bureaucratic corruption. Hence, he submitted that stronger political and economic competition could enhance accountability, open up alternatives to dealing with corrupt networks, and create incentives for political leaders to move against corruption. Unchecked awarding of white elephant projects, execution of second best projects and worst of it is abandoned project after huge sum of money would have been paid to the contractors are some of the corruptions resulting from the negligence of the government. In furthering the negligence and I-don't-care attitude of the people, Nwaobi (2004) posited that Nigeria must be one of the very few countries in the world where a man's source of wealth is of no concern to his neighbours, the public or the government. Wealthy people who are known to be corrupt are regularly courted and honoured by communities, religious bodies, social

clubs and other private organizations. This implies that people who benefit from the largesse of these corrupt people rarely ask questions. This corruptly decorated, celebrated and most times coroneted individuals further deepen and multiply the scope of corruption. Sociological and cultural factors such as customs, family pressures on government officials and ethnicity also constitute potential cause of corruption. This assertion validates the corruption model in fig 1. Table 1, shows the factors advocated by Rijckeghem and Weder (1997) influencing corruption.

Corruption in Nigeria: Stylized facts
Table 1: Factors influencing corruption

S/N	FACTORS	DETAILS
1	Wage Consideration	* Inadequate pay * Fringe benefits and other financial incentives
2	Inefficient internal control	* Inadequate supervision and control systems * Lack of explicit standard of performance for employees and organizations. * Poor recruitment and selection procedures for personnel * Too few or too many (non-transparent) rules and procedures (red tape)
3	Insufficient external control	* Law and order tradition, checks and balances * Lack of information made available to the public and freedom of press * Mechanisms for citizens' participation and complaint * Difficulty of proving cases in courts) * High social acceptance of corruption
4	Statutory penalty rate	* Amount of fine, prison sentence * Administrative sanctions * Prohibition of being ever re-employed in the public sector * Penalties for relatives
5	Amount of distortions or opportunities in the economy	* Pervasive government regulations * High statutory tax rates, non-transparent tax regulations * Provision of government services short of demand (government monopolies)
6	Other factors	* cultural factors * Culture of bureaucratic elitism and education of civil servants * Leadership * Ethnic diversity

Source: Rijckeghem Van and Weder (1997)

Agencies established and Initiatives introduced by successive government to curb corruption

The unstoppable spread of corruption has necessitated anti corruption measures and strategies by successive governments to curb corruption at root. This includes the establishment of agencies, commissions and other bodies charged with the responsibility of curbing corruption. It also involves initiatives tailored at minimizing corruption to the barest minimum. These bodies and initiatives are as follows:

Bodies:

- i. Economic and Financial Crimes Commission (EFCC) was established in 2003 to complement the zero tolerance for corruption crusade of Obasanjo's administration. The anti-graft body was established by Economic and Financial Crimes Commission Establishment Act (2004). The Act mandates the EFCC to combat financial and economic crimes. The Commission is empowered to prevent, investigate, prosecute and penalise economic and financial crimes and is charged with the responsibility of enforcing the provisions of other laws and regulations relating to economic and financial crimes, including: Economic and Financial Crimes Commission Establishment Act (2004), The Money Laundering Act 1995, The Money Laundering (Prohibition) act 2004, The Advance Fee Fraud and Other Fraud Related Offences Act 1995, The Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act 1994, The Banks and other Financial Institutions Act 1991; and Miscellaneous Offences Act.
- ii. The Independent Corrupt Practices and Other Related Offences Commission (ICPC)
- iii. Code of Conduct Bureau (CCB)
- iv. Nigerian Extractive Industries Transparency Initiative (NEITI)
- v. Budget Monitoring and Price Intelligence Unit (BMPIU)
- vi. Nigerian Investment Promotion Commission (NIPC)

Programmes and Initiatives

- i. Ethical Re-orientation Campaign (ERC) of Shagari's Second Republic
- ii. War Against Indiscipline (WAI) of the Buhari/Idiagbon regime

- iii. Babangida's Committee on Corruption and other Economic Crimes (CCEC) and War Against (WAC) Corruption
- iv. War Against Indiscipline and Corruption (WAIC) of the Gen Sanni Abacha's regime
- v. Whistle-Blowing

Other efforts include setting up of probe panels, commission of enquiry and tribunal (e.g. Failed Bank Tribunal) to try corrupt individuals. By laws such as Money Laundering Act 2003, Advance Free Fraud and Fraud Related Offences Act of 1995, Foreign Exchange Act of 1995, Corrupt Practices and Other Related Offences Act of 2000 were also enacted to back probe panels and tribunals.

Corruption and Economic growth in Nigeria

As mentioned above corruption is as aged as the existence of the economy itself. Corruption and economic growth have been inversely relating with each other, causing undue arousal or doom among the people. Corruption gives room for diversion of the limited public funds, undermines economic progress and impedes policy changes required for development. On the whole, corruption impedes growth and also erodes the already established economic value systems in Nigeria. This devastated effect of continuous corrupt practices in Nigeria has gone so bad and it is worrisome as several but unsuccessful measures have been put in place to halt the menace. It is therefore not an understatement that Achebe (1988) concluded that corruption has permeated the African society and anyone who can say that corruption in Africa has not yet become alarming is either a fool, a crook or else does not live in this continent. As mentioned above, evidence from Gbenga (2007) validated the fact that the drive to a perfect solution to corruption is still ongoing bearing in minds that previous effort to curb it is unsuccessful. It is a re-occurring issue and it impedes growth without clear solution. As efforts are put in place to eradicate it, it keeps multiplying and spreading like wild fire. To buttress the doubt and widespread of the phenomenon, Benjamin (2007) asserted that the issue of corruption keeps reoccurring in every academic and formal discussion in Nigeria simply because of its danger towards meaningful development and it seems there is no way to this ugly phenomenon while Mbaku (1996) observed that most cleanup programs on corruption in Africa have been unsuccessful. Hence, this paper is of essence.

Effects of Corruption

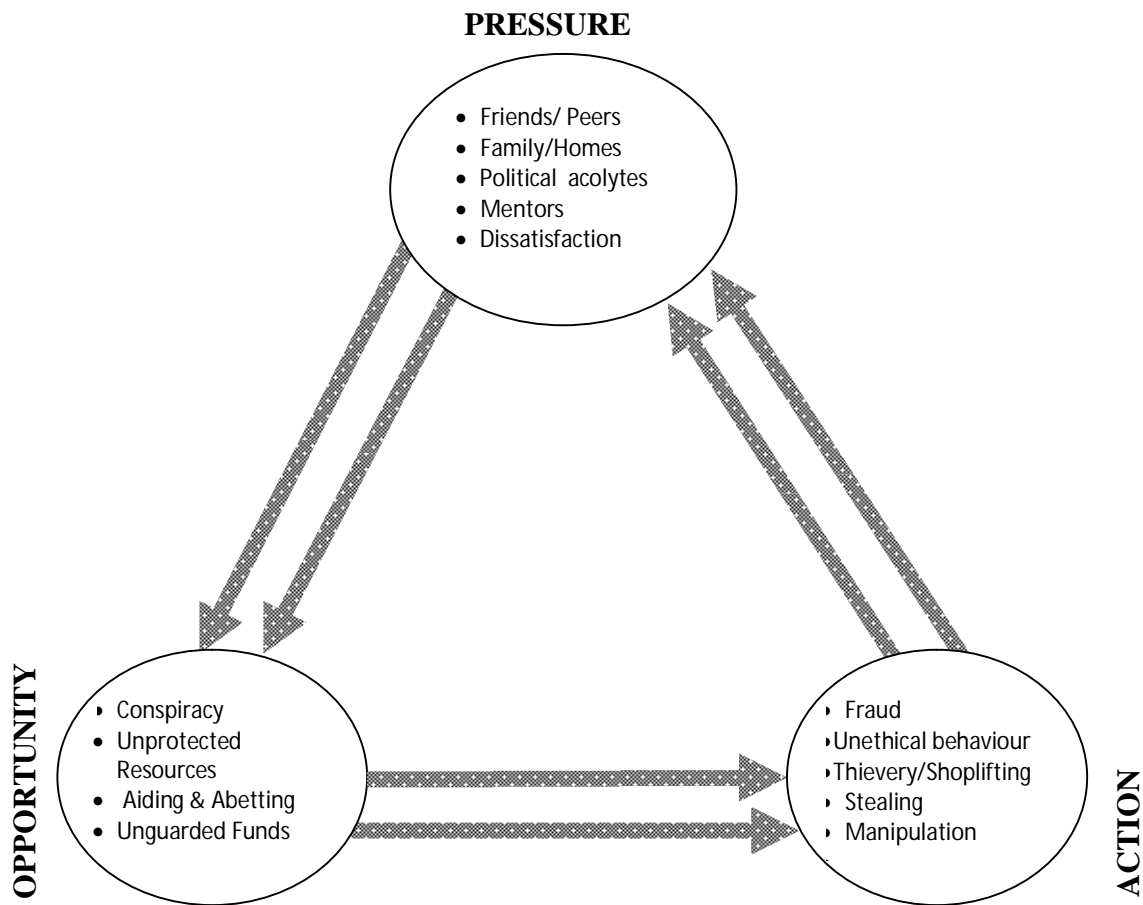
Corruption is a widespread phenomenon and its effects are immeasurable. It leaves an economy with an untold hardship. However, the effects of corruption are felt in the economic, political and social spheres either directly or indirectly. Although the direct costs of corruption may be high in terms of lost revenue or funds diverted from their intended use, the indirect costs in terms of the economic distortions; inefficiencies and waste resulting from corrupt practices are more problematic over the long-term and thus make it more difficult to address. (Gbenga 2007)

The ranking of effects of corruption varies from nations to nations. While the degree is high in some nations, it is found to be low in some countries depending on their corruption check and balancing mechanism. Nigeria is ranked among the most corrupt countries of the world Transparency International (2005). Ades and DiTella (1996) and Gupta et al (1998), Rose-Ackerman (1999), Della-Porta (2000) and Adsera et al (2003) observe that corruption portends negative effects on democracy in terms of decreasing government effectiveness and political legitimacy and increase in stability. Mauro (1997a) observed that corruption affects investment. Corruption also affects the quality of life of man. Dike (2005) observed that corruption occurs in many forms and it has contributed immensely to the poverty and misery of a large segment of the Nigeria's population. Mauro (1997b) and Johnston observed that high rate of corruption creates a situation where investment returns are difficult to predict. Their conclusion showed that the effects of corruption are to limit investment, which is critical to the long-run sustainable economic growth. They further argue that corrupt behaviors have the tendency of scaring away foreign and local investors with significant adverse effect on the economy. On the whole, the adverse effects of corruption if any is negligible compared with positive effects which this study will reveal. Corruption wastes the limited resources of an economy, increases the costs of doing business thus signaling inflation, hence radically reduce revenues accruing to the state. It also results in poor service delivery, "moonlighting" or multiple concurrent sources of employment and refusal to perform normal functions without additional payment. Gbenga (2007) asserted that corruption deepens poverty and makes it difficult for ordinary people to get ahead as the result of their own efforts. There is increasing evidence that the social and economic cost of corruption disproportionately affects the poor, who not only suffer from the lack of services and efficient

government, but who are also powerless to resist the demands of corrupt officials. Different arguments have been put forward to explain the pervasiveness of corruption in Africa; these include poverty, the personalization of public office, the political culture and the inability of leaders to overcome their colonial mentality in respect of their perception of public office. (Lawal and Tobi 2001).

Figure 1.

KPAKPIN CORRUPTION MODEL



Source: Developed by the Authors

Figure 1 presents kpakpin corruption model comprising the trio (Pressure, Opportunity and Action). The nexus within the trio is the channel through which fraud or corruption practices manifests. For any form of corruption or corrupt practice to manifest, the trio channel must come to being and be realized. These components could be internal or external (i.e. from within and outside) and sometimes, it could

even be both. Pressure within is endogenous, in built, intuitional, deliberate and premeditated in nature. Most time, pressure within is attributable to undue development appetite for reckless or spendthrift life style which might necessitate uncontrollable spending that the available or expected income stream cannot accommodate or satisfy without dearth. Meanwhile, external pressure is exogenous; it includes pressure emanating from the environment outside the reach of an individual. This includes but not limited to pressures from friends, relatives, political acolytes, religious group members and community group members. In most instances, this manifestation is as a result of trying to meet the expectations, yearnings and aspiration of the above mentioned groups rather than self-aggrandizement. In doing this, the journeys to search for corrupt opportunities or openings commence. Of course such corrupt searches are always born out of crookedness, dishonesty and wantonness. It is treachery and executed using every available means to satisfy the corrupt appetite which most time could be socially inclined. When an opportunity is established, **action** is struck which is the third and the last of the above model. At this stage all the components have being fully practiced towards accomplishing the hydra-headed monster eroding the value system of the economy. Corruption occurs as a result of uncontrollable pressure giving room for opportunity for the purpose of an action to be struck for the accomplishment of fake fame. An instance of this is the noticeable nefarious acts of some law enforcement agents who illegitimately block the high and express ways extorting money and other valuables form road users and also causing unsolicited accidents for innocent souls. In this situation, pressure emanates from boss, family needs, peers and even undue envy from colleagues at work. Next, they scout for opportunity operations (Illegal road block, illegal task force among others). This is then complemented with action. In addition, pressures evolve from homes sometimes due to poor remuneration or careless management of resources making their resources insufficient to cater for their necessary needs while some other individuals, it could be due to unsolicited boost of egos.

3 Materials and Methods

Various definitions of corruption in the literature clearly have it that corruption does the wrong things instead of the right things. This validates the popular assertion that wrong things cannot bring forth good things, hence the effect of corruption is assumed to be negative in most discussion in the economic literature although, some other authors are of the opinion that corruption is positively

correlated with some macroeconomic variables through some linkages. Consequent upon this in- conclusion of the impact of corruption on the economic growth and other variables, this study employs simple econometric model to examine the impact of corruption on economic growth. In doing this, it is assumed that corruption negatively impacts economic growth as stated in our apriori. This implies that a higher growth level of corruption will result into a decline in the economic growth.

$$\ln Y_t = \beta_0 + \beta_1 \ln \text{COR}_t - \beta_2 \ln \text{COR}_{t-1} + \sum_t \dots\dots\dots 1.1$$

Also, in order to further the study, it employs the Granger causality tests suggested by Granger (1969, 1986) to examine and also measure the causal effects of the variables of the model on each other. Therefore, assuming the integration of order I(1) and cointegration between the logarithm of levels of economic growth proxy by gross domestic product (Y_t), corruption (COR_t) and previous degree of corruption (COR_{t-1}) proxy with corruption perception index (CPI) for different regimes and time in the past. The lagged variables of corruption (COR_{t-1}) are introduced to capture the effect of the earlier corruption on the present situation of corruption. The following ECM, according to Engel, Johansen and Granger (1987), are formulated to carry out a standard Granger causality test:

$$\Delta \log Y_t = \alpha_0 - \sum_{j=n}^{p-1} \delta_j \Delta \log \text{COR}_{t-j} - \sum_{j=n}^{p-1} \zeta_j \Delta \ln \text{COR}_{t-1} + \phi \text{ECM}_{t-i} \dots\dots\dots 1.2$$

Inversely,

$$\Delta \log \text{COR}_t = \alpha_0 - \sum_{j=n}^{n-1} \delta_j \Delta \log Y_t - \sum_{j=n}^{m-1} \zeta_j \Delta \ln Y_{t-1} + \phi \text{ECM}_{t-i} \dots\dots\dots 1.3$$

From equation 1.1, Δ indicates difference operator, $\ln Y$ represents the dependent variable, \square_t implies non-zero, serially independent random error term, α is the intercept and ECM_{t-i} is the error correction mechanism obtained from the long-run cointegration regression. δ and ζ are the coefficients of explanatory and the lag variables under study. Consequently, the same thing applies to equations 1.2. The short run which is inevitable to achieve the long run equilibrium can be provided by the causal relationship between the variables (Granger, 1986). For example, considering equation 1.2, GDP is said to Granger cause corruption not only if δ and ζ are jointly significant but also if ϕ is significant. The ECM also permits distinction between ‘short run’ and ‘long run’ Granger causality.

4. PRESENTATION AND INTERPRETATION OF RESULTS

4.1 Stationarity Test

Table 1 Augmented Dickey-Fuller Test Results (At Levels)

Variables (At levels)	ADF test Statistics	Critical Values			Integrated At 5%
		1%	5%	10%	
LOGGDP	-3.9138	-4.0113	-3.1003	-2.6927	I ₀
LOGCOR _t	-4.0402	-4.0113	-3.1003	-2.6927	I ₀
LOGCOR _{t-1}	-3.6558	-4.0113	-3.1003	-2.6927	I ₀

Source: Computed by the authors; Level of significance 1%, 5% and 10% are Mackinnon critical values for rejection of a hypothesis of a unit root; LOG preceding a variable denotes logarithm

Table 2 Phillips Perron Test Results (At Levels)

Variables (At levels)	ADF test Statistics	Critical Values			Integrated At 5%
		1%	5%	10%	
LOGGDP	-4.9498	-3.9635	-3.0818	-2.6829	I ₀
LOGCOR _t	-4.0773	-3.9635	-3.0818	-2.6829	I ₀
LOGCOR _{t-1}	-3.93823	-3.9635	-3.0818	-2.6829	I ₀

Source: Computed by the authors; Level of significance 1%, 5% and 10% are Mackinnon critical values for rejection of a hypothesis of a unit root; LOG preceding a variable denotes logarithm

The results generated from the stationarity test of the variables conducted using the Augmented Dickey-Fuller test (ADFT) and Phillips Perron test (PPT) show that the variables under study are stationary at their first differences (I₁) and at 5% level of significance. Therefore, our decision rule to accept the null hypothesis (H₀) means that there is no stationary if the t-calculated is more than t-tabulated is less than the t-calculated. Otherwise reject H₀ and accept H₁, the alternative hypothesis. We therefore, proceed by examining the pairwise Granger causality test. The test, in respect of one lag length, is presented in table 3 below:

4.2 Pair Wise Granger Causality Test

Table 4

Null Hypothesis	Observ.	F-Statistic	Prob
LOGCOR _t does not granger cause LOGCOR _{t-1}	15	5.7E+31	0.00000
LOGCOR _{t-1} does not granger cause LOGCOR _t	15	1.09908	0.31512
LOGGDP does not granger cause LOGCOR _{t-1}	15	3.81435	0.07453
LOGCOR _{t-1} does not granger cause LOGGDP	15	1.82131	0.20207
LOGGDP does not granger cause LOGCOR _t	15	3.63623	0.08076
LOGCOR _t does not granger cause LOGGDP	15	0.73234	0.04889

Source: Computed by the Authors

Table 4 above presents that COR_tgranger causes COR_{t-1}.This is explained within the context of rational expectation. Therefore, it implies and suggests that the fear of manifestation of corruption in the future in an unpredicted degree and unascertained time as well as impact could promptcorruption in the recent time. Inversely, the results show that COR_{t-1}does not granger cause COR_t the future possibility of corruption is not explained by the previous corruption. This further suggests that those corruption control measures adopted to attend to corruption are probably effective in discouraging and halting the scourge of corruption in the society. Similarly, the result validates the assertion that when corruption is properly tackled, the possibility of future rise of corruption is minimized. This is because a successful corrupt practice that was probably not checkmated or corrected has the tendency and speed to trigger and also encourage more and even higher level of corruptionin the future just as shown in the revolution and trio of the kpakpin model of corruption; the circle is continuous and it grows from lower to a higher degree subject to a successive action. This level will only decline when it is obstructed by policies.

Similarly, the results validate the submission of the study that corruption affects the quality of life of man and also that corruption occurs in many forms and it has contributed immensely to the poverty and misery of a large segment of the Nigeria’s population.

On the association between GDP and COR_t the result shows that the level of GDP does not cause corruption. On the contrary, COR_t impacts on GDP. It causes distortion to economic activities,

causing diversion of resources from their appropriate channels to personal or corrupt channels. On the whole, this will result in affecting the quality of life.

On the relationship between GDP and COR_{t-1} , the result agrees as with GDP and COR_t that the level of GDP does not cause corruption but COR_t causes and impairs GDP by way of causing distortion into the wellbeing of the people and the economy at large. This in returns hinders investment and economic growth.

4.3 OLS RESULTS

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	15.0887	0.23280	64.8133	0.0000
COR_t	1.07738	0.53745	2.00459	0.0466
COR_{t-1}	0.81237	0.54128	2.50081	0.04573
R-squared	0.81358		Mean dependent var	15.874
Adjusted R-squared	0.75413		S.D. dependent var	0.9290
S.E. of regression	0.62033		Akaike info criterion	2.0502
Sum squared residual	5.00267		Schwarz criterion	2.1951
Log likelihood	-13.4020		F-statistic	10.321
Durbin-Watson stat	2.68530		Prob(F-statistic)	0.0020

Source: Computed by the Authors

The above OLS result presents the effect of corruption on economic growth and GDP. The corruption levels are both significant at 5% level of significance suggesting that they have strong effects on the performance and growth of the economy. The result suggests that a 1% increase in corruption index each for COR_t and COR_{t-1} will respectively reduce the economic growth by 108% and 81%. These results are significant at their 5% level and they show that corruption highly impairs growth. The R^2 and adjusted R^2 show strong relationship that exists between economic growth and corruption. The relationships are respectively approximated as 81% and 75% for R-squared and adjusted R-squared. The F-statistic and Prob (F-statistic) are well behaved while the probability of F-statistic is statistically significant even at a value below 5%. Other statistical criteria validate the reliability of the model.

5. CONCLUSION

We find that corruption impacts negatively on economic growth as evidenced from our analysis. This may cost the economy so much that development will be slowed down if not restricted. The causal relationship of the variables also shows that corruption impairs economic growth and that its consequences and effects are also on the increase. Therefore, it is obvious that in a bid to minimize corruption in order to restore the fame and dignity of the economy making it an environment for rapid economic growth, the identified issues and problems of corruption setting back the economy over time must be seriously identified and tackled.

To this end, we suggest that existing reforms and policies on corruption be sincerely reviewed and strengthened to ruthlessly address the causes of corruption rather than its effects. In doing this, the roles of the agencies and commissions saddled with monitoring corrupt practices must be motivated and encouraged. This will amount to strictly enforcing due process and the rule of law in the public administration where corruption is at the highest level. Also, in fighting against corruption, measures and strategies should comprise of Private Anti-Corruption Initiatives, Public anti-corruption initiatives and Public education campaign/programmes. If this is achieved, it will create a long lasting impression in the mind of those that may further want to engage in corruption and with time, this will gradually correct damages caused to the economy in such a way that those effects on the economy will be insignificantly noticeable. Besides this, it will make corruption further hard and more hazardous to engage in. In addition to these measures, we conclude that punitive measures should be put in place to ensure transparency, monitoring, and accountability through a working fair and just system. This is because some people will engage in corrupt practice simply because of the belief and understanding that they can go scot free. The economy also requires that the political arena develop a firm and uncorrupt legal monitoring system that will establish and ensure that corruption will not occur in the planning and execution of public sector budgets while social and internal control mechanisms are required for civil society and autonomous state auditing agencies.

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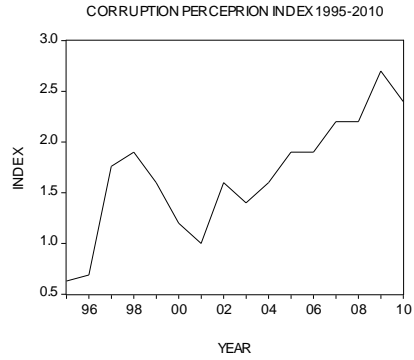
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Appendix



OBS	COR1
1995	0.990000
1996	0.630000
1997	0.690000
1998	1.760000
1999	1.900000
2000	1.600000
2001	1.200000
2002	1.000000
2003	1.600000
2004	1.400000
2005	1.600000
2006	1.900000
2007	1.900000
2008	2.200000
2009	2.200000
2010	2.700000

