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# Effects of Corruption and Economic Reforms on Economic Growth and Development: Lessons from Nigeria

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**Abstract**

This paper gives an overview of the Nigeria's recent experience on corruption in the context of economic reforms programme. It discusses the possible causes and effects of corruption, which are seen to be rooted in socio-cultural practices and the political and economic situation of the country. Data were drawn chiefly from news stories, reports of tribunals and commissions of enquiry, interviews of Nigerians with relevant information, anecdotes, and personal knowledge of Nigeria. The results of the study show that there have been significant reductions in the level of corruption in the country through the introduction of government anti-corruption instruments. In addition, this study found a negative correlation between levels of corruption and economic growth thereby making it difficult for Nigeria to develop fast. In Nigeria, corruptions stifle economic growth; reduce economic efficiency and development despite the enormous resources in the country. Corruption creates negative national image and loss of much needed revenue. It devalues the quality of human life, robs schools, agricultural sectors, hospital and welfare services of funds. It discourages foreign investments leading to decrease in Foreign Direct Investment. It exacerbates inequality, desecrates the rule of law and undermines the legitimacy and stability of democratic regimes. It slows down administrative processes thereby making the implementation of government reforms policies ineffective. People engage in corrupt practices in Nigeria as a result of high level of poverty, high unemployment rate, under-remuneration of workers, financial hardship, persuasion by friends and colleagues in public offices, desire to please kinsmen, late payment of contractors by government, over-concentration of power and resources at the center, unregulated informal economy, nepotism, tribalism in the administration of justice and lack of honest leaders. The biggest challenge for the country therefore is not just to punish corrupt behaviour or go into bargaining plea. The country must reverse the prevailing culture in which corruption is viewed as permissible. People should be educated on the dangers of excessive materialism and the culture of 'get rich quick'. There is also the need for more job creation with better remuneration.

**Keywords:** corruption, economic reforms, economic growth, economic development and Nigeria.

## Section one: Theoretical and Conceptual underpinnings of Corruption and Economic Reforms

### 1.1 Background information

Corruption is efforts to secure wealth or power through illegal means for private gain at public expense; or a misuse of public power for private benefit. Corruption like cockroaches has co-existed with human society for a long time and remains as one of the problems in many of the world's developing economies with devastating consequences. Corruption as a phenomenon, is a global problem, and exists in varying degrees in different countries (Agbu, 2001). Corruption is not only found in democratic and dictatorial politics, but also in feudal, capitalist and socialist economies. Christian, Muslim, Hindu, and Buddhist cultures are equally bedeviled by corruption (Dike, 2005). Corrupt practices are not an issue that just begins today; but the history is as old as the world (Lipset and Lenz, 2000).

In Nigeria, it is one of the many unresolved problems (Ayobolu, 2006) that have critically hobbled and skewed development. It remains a long-term major political and economic challenge for Nigeria (Sachs, 2007). It is a canker worm that has eaten deep in the fabric of the nation. It ranges from petty corruption to political / bureaucratic corruption or Systemic corruption (International Center for Economic Growth, 1999). World Bank studies put corruption at over $1 trillion per year accounting for up to 12% of the Gross Domestic Product of nations like Nigeria, Kenya and Venezuela (Nwabuzor, 2005).

Corruption is endemic as well as an enemy within (Agbu, 2003). It is a canker worm that has eaten deep in the fabric of the country and had stunted growth in all sectors (Economic and Financial Crime Commission (EFCC), 2005). It has been the primary reason behind the country difficulties in developing fast (Independent Corrupt Practices Commission (ICPC), 2006). This is evident in Transparency International's has consistent rating of Nigeria as one of the top three most corrupt countries in the world (Ribadu, 2003).

As part of effort at fighting corruption and strengthening the economy, Nigeria embarked on an aggressive pursuit of economic reform that through privatization, banking sector reform, anti-corruption campaigns and establishment of clear and transparent fiscal standards since 1999. The major aim of the economic reforms in Nigeria is to provide a conducive environment for private investment (African economic outlook 2006). The reform process has the following key

pillars: improved macroeconomic management, reform of the financial sector, institutional reforms, privatisation and deregulation, and improvement of the infrastructure.

The importance of infrastructure for economic growth and development cannot be overemphasized. The poor state of electricity, transport and communications is a major handicap for doing business in Nigeria. The Federal Government of Nigeria through its Central Bank made progress in consolidation of the banking system which was prior to the reforms was highly fragmented, with many banks having very small and undiversified capitalisation. The reform stipulated a minimum paid-up capital of $188 million, up from $15 million, with a deadline for compliance at the end of December 2005. This resulted in a record number of bank mergers and acquisitions. As a result, the number of banks in Nigeria has shrunk from 89 in 2004 to 25 in December 2005.

The privatisation and deregulation programme is also a notable area of success of Nigeria economic reforms. The programme started in 1989 following the inauguration of the 11-member Technical Committee on Privatisation and Commercialisation (TCPC) on 27 August 1988. In the first round of privatisation, between 1989 and 1993, the TCPC privatised 55 firms. Offer for sale was the predominant mode of privatisation. The second round of privatisation, which began in 1999, aimed at full or partial divestment of government interest in 98 public enterprises in 14 sectors. At present, an approximately 45 public enterprises have been privatized in Nigeria.

The main objective of this paper is to analyse the effects of corruption on economic growth and development of Nigeria in the context of its economic reform programme since 1999 to date. Attempt at achieving this objective has led to the segmentation of the paper into three main sections. The first section talks about the introduction and theoretical underpinning of corruption and economic reforms, section two deals with causes, extent and challenges of corruption in Nigeria and the last section conclude the paper with some policies recommendations.

### 1.2 Conceptual underpinnings of corruption and Economic reforms

It is very easy to talk about corruption, but like many other complex phenomena, it is difficult to define corruption in concise and concrete terms. Not surprising, there is often a consensus as to what exactly constitutes this concept. There is always a danger as well that several people may engage in a discussion about corruption while each is talking about a different thing completely. But in recent years there is a body of theoretical and empirical research on corruption (such as:

Elliot 1997; Rose-Ackerman 1999; Gill 1998; Girling 1997; Human Development Cooperation (HDC) 1999; Kaufmann and Sachs 1998; Mauro 1995; Guhan and Paul, 1997; Shleifer and Vishnay 1993; Stapenhurst and Kpundeh 1999; Vittal 1999; World Bank 1997 and the most recently, Farida and Ahmadi-Esfahani, 2007).

To avoid the confusion of definition of corruption, this paper gives an operational definition of corruption as conceptualized by some studies. Corruption is like cancer, retarding economic development. According to Eigen (2001) corruption is seen as a "daunting obstacle to sustainable development", a constraint on education, health care and poverty alleviation, and a great impediment to the Millennium Development Goal of reducing by half the number of people living in extreme poverty by 2015.

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).

In Asian Development Bank perspectives of corruption as cited by Agbu (2001), corruption is defined as the behaviour of public and private officers who improperly and unlawfully enrich themselves and/or those closely related to them, or induce others to do so, by misusing the position in which they are placed. Systemic corruption also referred to as entrenched corruption, occurs where bribery (money in cash or in kind) is taken or given in a corrupt relationship. These include kickbacks, pay-off, sweeteners, greasing palms, etc), on a large or small scale. It is regularly experienced when a license or a service is sought from government officials. It differs from petty corruption in that it is not as individualized. Systemic corruption is apparent whenever the administration itself transposes the expected purposes of the organizations; forcing participants to follow what otherwise would be termed unacceptable ways and punishing those

who resist and try to live up to the formal norms (International Center for Economic Growth, 1999).

In an elaborate analysis, Alatas (1990) divided corruption into seven distinct types: autogenic, defensive, extortive, investive, nepotistic, supportive, and transactive. Autogenic corruption is self-generating and typically involves only the perpetrator. A good example would be what happens in cases of insider trading. A person learns of some vital information that may influence stocks in a company and either quickly buys or gets rid of large amounts of stocks before the consequences arising from this information come to pass. Defensive corruption involves situations where a person needing a critical service is compelled to bribe in order to prevent unpleasant consequences being inflicted on his interests. For instance, a person who wants to travel abroad within a certain time frame needs a passport in order to undertake the journey but is made to pay bribes or forfeit the trip. This personal corruption is in self-defense. Extortive corruption is the behavior of a person demanding personal compensation in exchange for services. Investive corruption entails the offer of goods or services without a direct link to any particular favor at the present, but in anticipation of future situations when the favor may be required. Nepotistic corruption refers to the preferential treatment of, or unjustified appointment of friends or relations to public office, in violation of the accepted guidelines.

The supportive type usually does not involve money or immediate gains, but involves actions taken to protect or strengthen the existing corruption. For example, a corrupt regime or official may try to prevent the election or appointment of an honest person or government for fear that the individual or the regime might be probed by the successor(s). Finally, transactive corruption refers to situations where the two parties are mutual and willing participants in the corrupt practice to the advantage of both parties. For example, a corrupt businessperson may willingly bribe a corrupt government official in order to win a tender for a certain contract. The focus in this paper will be on the extortive, nepotistic, and transactive corruption, not only because they appear to be at the core of the corruption phenomenon, but also because the other forms appear to be the offshoot of these three fundamental types. There would be no defensive corruption in the absence of the extortive type.

### 1.3 Various vocabularies used to describe corruption and corruption typology in Nigeria

**Description:** There are different vocabularies used to describe corruption in Nigeria. Some of these are bribery, extortion (money and other resources extracted by the use of coercion, violence or threats), embezzlement (theft of public resources by public officials. It is when a state official steals from the public institution in which he/she is employed, betrayal of trust, unfair advantages, financial malpractices, egunje, dash, gratification, brown envelopes, tips, emoluments, greasing, softening the ground, inducements, sub-payments, side payments, irregular payments, payment under the table, undocumented extra payments, facilitation payments, mobilisation fees, "routine governmental action," revised estimates, padded contracts, over(under)-invoicing, cash commissions, kickbacks, payoffs, covert exchanges, shady deals, cover-ups, collusion, "10% rule" (bribe surcharge), "50% rule" (sharing bribe within the hierarchy), "let's keep our secret secret," "highly classified" transactions, customary gift-giving, tribute culture, nepotism(a special form of favoritism in which an office holder prefers his/her kinfolk and family members), etc.

**Typology:** Corruption manifests itself in Nigeria inform of abuse of positions and privileges, low levels of transparency and accountability, inflation of contracts, bribery/kickbacks, misappropriation or diversion of funds, under and over-invoicing, false declarations, advance fee fraud and other deceptive schemes known as "419", collection of illegal tolls, commodity hoarding, illicit smuggling of drugs and arm, human trafficking, child labour, illegal oil bunkering, illegal mining, tax evasion, foreign exchange malpractices including counterfeiting of currency, theft of intellectual property and piracy, open market abuse, dumping of toxic wastes, and prohibited goods" just to mention few.

**Government Efforts at combating Corruption in Nigeria:** Nigeria remains mired in corruption, crime, poverty, and violence despite the promulgation of several laws like in other countries as the principal mechanism for curbing corruption. The legal instruments used to fight corruption in Nigeria include the Criminal Code, Code of Conduct Bureau, the Recovery of Public Property Act of 1984 and the newly formed commissions (the EFCC and the ICPC). Prior to 1966, the Criminal Code was the primary source of law dealing with corruption in Nigeria. But due to the narrow nature in dealing with corruption such as only criminalizing the conduct of bribe-taking public servants leaving the private, it was replaced by Criminal Justice

(Miscellaneous provision) Decree in 1966. This however failed to stem the tide of corruption. The rules were confusing, thus leaving open the livelihood that guilty persons might escape punishment on technical grounds.

The code of Conduct was thereafter formed in the 1979 Nigeria constitution where complaints on corrupt practices are referred to Code of Conduct Bureau Tribunal. The Bureau forbids public officers from simultaneously receiving remuneration of two public offices and from engaging in private practices while in the employment of government, the code bar public servants from accepting gifts or benefits in kind for themselves or any other person on account of anything done or omitted to be done in the discharge of their duties. It prohibits public officers from maintaining or operating foreign bank accounts. Public officers are required to declare their assets and those of their families immediately after taking office, at the end of every four years in office, and at the end of their terms. Due to the non inclusion of the private sector which are also corrupt in all these laws, In year 2000, the Independent Corrupt Practices and Other related Offences Act was promulgated which eventually gave birth to the ICPC and the EFCC charged with the responsibility of investigating, arresting and charging any offenders with corrupt practices either economic or financial crimes in Nigeria to court

**Section Two: Causes, Extent, and Challenges of corruption in Nigeria**

**2.1 Can corruption be measured?**

Yes, corruption can be measured. This is evidenced by several studies in literature where several different approaches have been used in modeling corruption (see table 1). Although the old myth that corruption by its "intrinsic nature" is impossible to measure delayed the emergence of serious empirical analysis of corruption (Kaufman, 1997). In the past, there was a consensus that real magnitude of corruption cannot be measured. But the obvious difficulties in measuring corruption have not kept a number of entrepreneurs, multilateral development banks, and academics from attempting to do so (Farida and Ahmadi-Esfahani, 2007). Conceptually, it is often difficult to accept the many limitations of the various measures of corruption. All widely used 'scientific' methods in the field of corruption evaluation hold value in achieving the goal, that is, to estimate the spread and map the structure of corruption. First, the general perception is regularly used as a sensitive core indicator to measure corruption through the feeling such as 'lack of justice' in public transactions (Akerlof 1985). On the other hand, the incidence-based

approach is more independent from media agenda, and the general sense of society and the most cited and probably respected cross-country comparison of the "Transparency International Framework", corruption is primarily based on expert evaluation. The approach taken now is to transform the computation of corruption perception index (CPI) as a common index derived from different general polls and expert interviews (Knack 1995, Murphy 1993, Bardhan 1997, and Mandapaka 1995).

In general, experience-based indicators appear to offer the greatest potential for comparability, since they avoid some of the problems associated with perception-based indicators. Corruption is often modelled as a principal – agent problem. A principal delegate some decision power to an agent, where the principal's rules of preference in exercising the power are known to the agent. The principal's problem is that the agent may serve his/her own interests rather than the principal's (Bardhan 1997).

The influence of corruption on economic growth has been modelled using economic growth models (Krueger 1974; Murphy 1993; Mandapaka 1995; Mauro 1995). In addition, corruption has been modelled using the game theoretic approach with three players: principle, agent, and hidden principal (Andvig 1990; Laffont 1991; Basu 1992; Mookherjee 1995; Acemoglu 2000). In addition, SWARM (as programming language) has also been widely used method (Turnovsky 1995; Jain 1998; Stapenhurst 1999) to simulate corruption models, and analyse the dynamic and evolutionary process of corruption on various parameters. Falling short of empirical evidence and profound experience, there is not even a theory available that may potentially assist in putting the various approaches into comparative perspective. Every approach as indicated in table 1 has strengths and weaknesses. Different models (Lucas type, Keynesian, Agent-based ...) and methods (Ordinary Least Square (OLS), 2 stage LS, Maximum Likelihood Estimator (MLE) etc) have been used. Only few who used the economic growth approach were able to empirically support the negative relationship between corruption and growth. This may be due to the endogeneity bias, subjective surveys and sample size sensitivity. On the other hand, although utilizing the game theory yields some useful insights into the notion of corruption, this approach ignores government involvement, models only the demand side of corruption, and involves one stage game while corruption occurs in continuing relationships. As for the MIMIC (Multiple Indicators Multiple Causes), the output is a time-series index that can be used to construct ordinal and cardinal time series of corruption, this model lacks structural interdependence in

addition to co-linearity between indicators. Finally, simulation models show the strength of the cause-effect relationship between corruption and growth, but cannot detect unstable equilibrium, and the total convergence cannot be achieved in finite time.

**Table 1: Previous Models of corruption**

| Approach | Scholars | Models | Methods | Limitations | Findings |
|---|---|---|---|---|---|
| Economic growth: It explores the relationship between corruption and economic growth. | (Murphy 1993) (Mandapaka 1995) (Triole 1996) (Mauro 1997) (Bardhan 1997) (Hellman 2000) | Lucas type Rent seeking Keynesian Neoclassical | OLS<br><br>2 stage LS | Subjective surveys<br><br>Endogeneity bias<br><br>Sample size sensitivity | Only few were able to empirically prove the negative relationship between corruption and growth. |
| Game theory: It identifies the conditions that are necessary for corruption and those that are conducive to it. | (Andvig 1990) (Laffont 1991) (Basu 1992) (Mookherjee 1995) (Dixit 1997) (Elliot 1997) (Acemoglu 2000) | Principle / Agent<br><br>Heterogeneous bureaucrats (Agent) | One stage game | Models the demand side<br><br>Ignores the government involvement<br><br>Corruption occurs in continuing relationships | This approach yields some useful insights into the notion of corruption. |
| Multiple indicators Multiple causes: It considers observable data on potential indicators to predict values for unobservable (corruption) | (Weck 1983) (Frey 1984) (Balasa1985) (Salvatore 1991) (Greenaway 1994) (Loayza 1996) (Schneider 1997) Giles 1999) | LISREL MIMIC | MLE | Co-linearity between indicators<br><br>Weak estimation techniques<br><br>Lack structural interdependence | The output of this model is a time series index that can be used to construct ordinal and cardinal time series of corruption. |
| Simulation: It tests the effectiveness of some proposed solutions to combat corruption. | (Turnovsky 1995) (Jain 1998) (Stapenhurst 1999) (Hammond 2000) (Luna 2002) (Situngkir 2003) | Agent-based | SWARM<br><br>STELLA | No way to detect unstable equilibrium<br><br>Total convergence is not achieved in finite time | Many showed the strength of the cause-effect relationship between corruption and growth. |

Source: Farida, M and Ahmadi-Esfahani, F. (2007). Modelling Corruption in a Cobb-Douglas Production Function Framework" Australian Agricultural and Resource Economics society, 51 st Annual Conference. February 13, 2007.

The economic growth approach has the ability to test the relationship between economic growth and corruption, but its main limitation lies in using the correct index of corruption in the objective function. Most of indices of corruption that had been used (Mauro 1995, Knack 1995, Murphy 1993, Bardhan 1997, and Mandapaka 1995) were based on surveys. These indices reflect either the general perception of the people on the level of corruption present in the country or the expertise perception, and they fail to reflect the actual level of corruption present in the country. The current literature on the impact of corruption lacks a theoretical framework that incorporates the potential effect of corruption on output through its impact on the arguments to the production function. Nor does it address the effect of corruption through its impact on economic growth and development. The literature to date, has only examined the hypothesised influences separately, ignoring the larger potential aggregate impact of corruption on output. To overcome the shortcomings in the theoretical reviews, neoclassical model of economic growth that explicitly includes human capital accumulation and the direct and indirect effects of corruption on economic growth have been developed. This approach is superior to previous studies employing a variety of approaches that ignore the potential indirect effect of corruption on economic growth and development. Our theoretical model suggests that output and growth are influenced by the level of corruption. if one of the physical inputs in the production function suffers a quality loss in the presence of corruption, then this will also affect growth and the steady state level (Farida and Ahmadi-Esfahani, 2007). None of these models have been adopted in the analysis of corruption in Nigeria. This is largely due to want of data on corruption.

**2.2 Causes of corruption in Nigeria**

A number of factors have been identified as instrumental to enthroning corrupt practices in Nigeria. These include, briefly, the nature of Nigeria's political economy, the weak institutions of government, and a dysfunctional legal system. Absence of clear rules and codes of ethics leads to abuse of discretionary power make most Nigerian vulnerable to corrupt practices. The country also has a culture of affluent and ostentatious living that expects much from "big men," extended family pressures (Maduagwe, 1996), village/ethnic loyalties, and competitive ethnicity. The country is also 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. Once a man is able to dole out money, the churches, the Mosques pray for him, he collects chieftaincy titles and hobnobs with

those who govern. The message to those who have not made it is clear: just be rich, the ways and means are irrelevant (Ubeku, 1991).

Low civil service salaries and poor working conditions, with few incentives and rewards for efficient and effective performance, are strong incentives for corruption in Nigeria. Other factors are: less effective government works with slow budget procedures, lack of transparency, inadequate strategic vision and weak monitoring mechanisms make Nigeria a fertile the environment for corrupt practice.

The overall culture of governance has also played an important role. Most of Nigeria leaders and top bureaucrats are setting bad examples of self-enrichment or ambiguity over public ethics thereby promoting the lower level officials and members of the public into corrupt practices. Informal rules are found to supercede formal ones, thereby making stringent legal principles and procedures to loose their authority. Hence, bribery and corruption are taken by many Nigerians as norm even in the face of anti-corruption crusades intended to support clean governance.

### 2.3 Extent of corruption in Nigeria

To say that corruption is rampant in Nigeria is to roverflog the obvious. Corruption in Nigeria, as it presently manifests can be appropriately termed endemic or systemic. What is unique about Nigeria is her persistence in corruption, though statistically non-significant position within the bottom five surveyed nations every year since 1996. Corruption has not only permeated the government and oil fields of Nigeria, it has attacked the entire nation (Hadi, 1999). Corruption and inefficiency are characteristics of service delivery in Nigeria, although private companies seem to perform more efficiently and less corruptly than public enterprises (Amadi, 2004). Corruption has become so blatant and widespread that it appears as if it has been legalized in Nigeria ( Gire 1999). As Goodling (2003) notes, "since 1996, Nigeria was labeled the most corrupt nation three times: 1996, 1997, and 2000: and placed in the bottom five four more times: fourth from the bottom in 1998 and second in 1999, 2001, 2002 and 2003".The 1996 Study of Corruption by Transparency International and Goettingen University ranked Nigeria as the most corrupt nation, among 54 nations listed in the study, with Pakistan as the second highest (Moore 1997). As this was not too bad enough, the 1998 Transparency International corruption perception index (CPI) of 85 countries, Nigeria was 81 out of the 85 countries pooled (Table 2); (Lipset and Lenz, 2000). In 1999 Transparency International (TI) released its annual Corruption

Perceptions Index (CPI) ranking 99 countries in order of their perceived levels of corruption with number one being the least corrupt, Nigeria at number 98, was only one rank above its neighbour Cameroon. In the 2001 corruption perception index (CPI), the position of remained unchanged as the second corrupt nation in the World (ranked 90, out of 91 countries pooled) with Bangladesh coming first. In October 2003 reports released in London, Nigeria at number 132 was still only one rank above Bangladesh – even though the number of countries in the latter poll had increased to 133 countries.

The 2004 Corruption Perceptions Index, released by Transparency International (TI), the watchdog on global corruption again ranks Nigeria as the third most corrupt country in the world. Up till June 2007 Nigeria has not been exonerated from the list of the top ten leading countries on corruption.

On sectoral distribution, the nationwide corruption survey in the Nigeria Corruption Index (NCI) 2007 identified the Nigerian Police as the most corrupt organization in the country, closely followed by the Power Holding Company of Nigeria (PHCN). Corruption in the Education Ministry was found to have increased from 63 per cent in 2005 to 74 per cent in 2007, as against 96 per cent to 99 per cent for the Police in the corresponding period. The Independent National Electoral Commission (INEC), was the only new organisation identified as corrupt among the 16 organisations on a list which included Joint Admission Matriculation Board, the Presidency, and the Nigerian National Petroleum Commission (NNPC).While the Federal Road Safety Commission (FRSC) and the Nigerian Railway Corporation (NRC) have been identified as the least corrupt organizations with respect to bribe taking from the populace as at June 2007 (Abimbola, 2007).

Another area in which corruption has manifested itself in Nigeria is in the area of project execution. For instance, Ajaokuta, a steel mill in Nigeria, has been under construction for the past seventeen years and throughout that period of time has consumed seven billion dollars. It has produced no steel. The mill is a white monolith of steel and concrete, epitomizing the inefficiency of corruption. Another example is Alscon upper block (an aluminum plant in Nigeria) which has consumed three billion dollars over the past five years. The project was to produce 190,000 tons of aluminum, but, like its predecessor, Ajaokuta, has not produced any aluminum to date.

**Table 2: Corruption Perception Index (The top 10 and bottom 10 countries)**

| 1998 | | 2001 | | 2003 | |
|---|---|---|---|---|---|
| Country | Rank | Country | Rank | Country | Rank |
| Denmark | 1 | Finland | 1 | Finland | 1 |
| Finland | 2 | Denmark | 2 | Iceland | 2 |
| Sweden | 3 | New Zealand | 3 | Denmark | 3 |
| New Zealand | 4 | Iceland | 4 | New Zealand | 4 |
| Iceland | 5 | Singapore | 5 | Singapore | 5 |
| Canada | 6 | Sweden | 6 | Sweden | 6 |
| Singapore | 7 | Canada | 7 | Netherlands | 7 |
| The Netherlands | 8 | The Netherlands | 8 | Australia | 8 |
| Norway | 9 | Luxembourg | 9 | Norway | 9 |
| Switzerland | 10 | Norway | 10 | Switzerland | 10 |
| | | | | | |
| Vietnam | 75 | Russia | | Angola | 124 |
| Russia | 76 | Tanzania | 82 | Azerbaijan | |
| Ecuador | 77 | Ukraine | 83 | Cameroon | |
| Venezuela | 78 | Azerbaijan | 84 | Georgia | |
| Colombia | 79 | Bolivia | | Tajikistan | |
| Indonesia | 80 | Cameroon | | Myanmar | |
| **Nigeria** | **81** | Kenya | | Paraguay | |
| Tanzania | 82 | Indonesia | 88 | Haiti | 131 |
| Honduras | 83 | Uganda | | **Nigeria** | **132** |
| Paraguay | 84 | **Nigeria** | **90** | Bangladesh | 133 |
| Cameroon | 85 | Bangladesh | 91 | | |

**Sources:** 1. The Transparency International Corruption Index, 1998;

2. Lipset, Seymour and Salman Lenz, "Corruption, Culture, and Markets," (2000), In Culture Matters, Harrission and Huntington (eds.), 2000, p.113

3. The Transparency International Corruption Index, 2001; pp. 234-236

## 2.4 Positive consequences of Economic reforms and the use of anti-corruption instruments in Nigeria

**Effects of economic reforms:** The major goal of the Nigeria economic reform is to set the economy on a path of sustainable development, to create an economy that can compete with others (Okonjo-Iweala, 2005).Efforts towards tapping the country's potential with various forms

of reforms since 1999 saw the economy grow at an impressive rate of about 7.1 percent annually for the period 2003 to 2006 as against 2.3% in the 1990s. Growth in non-oil sectors of the economy also accelerated, reaching 8.2 per cent in 2005. In the same period, agricultural output increased by 7per cent, up from 6.2per cent in 2004 (CBN, 2006a), reflecting both favourable weather conditions and government efforts to increase farmers' access to credit and fertilizers. Inflation declined from what it used to be before the reform from 39.3% to 21.88 percent in 2003 to 10 percent in 2004 but increased slightly to 12.2 percent at the end of 2006 (see table 2). The Naira has now appreciated against international currencies. Similarly, interest rates, although relatively high, are gradually declining: prime lending rates have declined from about 21.33 percent at the end of 1999 to 17.66 percent at the end of 2005. Foreign reserves have grown from $4 billion in 1999 to $43.5 billion as at December 2006, even after paying $14 billion to the Paris and London club. Construction was estimated by the government to grow by 10 per cent in 2005 as a result of booming real-estate development. Consolidation in the banking sector from 89 to 25 banks and enforcement of higher capitalization requirements has led to greater stability and increased consumer confidence in the financial sector. Nigeria's telecommunications sector grew by 12per cent following its accelerated liberalization and privatisation, which has led to the introduction and rapid spread of the global system for mobile communications (GSM) services. The number of mobile phone lines increased from 230 000 in 2001 to 8.3 million in 2004 while fixed land lines increased by an average of 20 per cent annually, from 600 000 to 1.03 million during the same period. Thus, the deregulation of the telecommunications industry has greatly improved access to telecommunications services. Similarly, the deregulation of downstream petroleum has been accompanied by reductions of subsidies on petroleum products; saving $1 billion. Growth in the manufacturing sector, at 8 per cent in 2005, is lower than the 10 per cent recorded in 2004. The unemployment rate declined from 18% in the 1990s to 5.3% in 2006. The percentage of the population living below poverty line moved down from 70% in the 1990s to 54% in 2004.The incidence of poverty still remain very high in Nigeria (see table 3).Capital inflow has been doubling every two years and stood at about $4 billion in 2006. On the sectoral, Telecommunications and Post as the fastest growing part of overall GDP grew by 32.5%. However, there has been a huge cut in jobs in telecommunications as a result of the privatisation of NITEL. In the 1980s the manufacturing sector constituted 17% of overall GDP, but by 2006 it had fallen to 3% of GDP. The

manufacturing industries as at 2006 operate at 22% of its installed capacity. GDP per capita of Nigeria in 1980 was 938 Units (US$ per person), but by 2005 it had fallen to 560 and by December 2006 to 450.

**Table 3: Some selected economic indicators of Nigeria before and after the 1999 economic reforms**

| | 1992-1998 (avg.) | 1999-2001 (avg.) | 2002 | 2003 | 2004 | 2005 | 2006 (est.) |
|---|---|---|---|---|---|---|---|
| (Annual percentage change; unless otherwise specified) | | | | | | | |
| Real GDP (at 990 factor cost) | 1.8 | 3.5 | 1.4 | 10.99 | 6.1 | 6.2 | 5.1 |
| Oil GDP | 0.9 | 2.9 | -11.66 | 26.5 | 3.5 | 2.6 | -11.6 |
| Non-oil GDP | 2.4 | 3.8 | 8.0 | 4.4 | 7.4 | 8.2 | 8.2 |
| Inflation rate year-on-year | 39.33 | 10.4 | 12.22 | 21.88 | 10.00 | 11.66 | 12.22 |
| Money supply (MM2) % change) | - | 35.00 | 21.66 | 24.1 | 14.0 | 16.0 | - |
| Exchange rate (IFEM/DAS) N/US$, average) | - | 102.3 | 121.3 | 129.5 | 133.5 | 131.8 | 126.5 |
| External reserves US$ billion) | 3.6 | 8.4 | 7.7 | 7.5 | 17.00 | 28.3 | 46.5 |

Source: CBN, 2006b; Federal Ministry of Finance (Nigeria), and IMF (2001; 2003; 2005)

**Effects of Anti –corruption instruments:** The introduction of two institutions (the EFCC and ICPC)) to tackle corruption has yielded positive results in curbing corruption in Nigeria. There have been a number of high profile convictions since it inception. Many advance fee fraud ("419")kingpins have been detained, two judges have been sacked and two others suspended, several legislators (including a past Senate president) have lost their legislative posts and are being prosecuted, three ministers have been dismissed, a former Inspector General of Police, the top law enforcement official in the country has been tried, convicted and jailed for corruption with some state governors impeached by their state assemblies for corruption (Okonjo-Iweala and Osafo-Kwaako 2007).Through the government anti-corruption crusade, about N84 billion was recovered from the family of the late Head of State, Sani Abacha as at 2001. Between May 2003 and June 2004, the EFCC in Nigeria recovered money and assets from crime of over $700 million, as well as recovering of £3 million through the British Government. The commission prosecuted a fraud case involving $242 million arising from a bank fraud in Brazil in 2005. Overall, about 350 EFCC cases are at an advanced stage of prosecution. About 5,000 people

have been arrested over the past three years. There have been about 91 convictions for various corruption crimes and assets worth over $55 billion have been seized, confiscated and refunded to he state and various victims of crime (EFCC Report 2006). The body has increased the revenue profile of the nation by about 20% due to its activities in the federal Inland Revenue service and the seaports, recovered billions to government in respect of failed government contracts, curbed oil bunkering in the Niger Delta, from about 300,000 –500,000 daily to less than 50,000 barrels with the Prosecution of over 20 persons involved in the vandalisation of oil pipelines (Imohe 2005). Recent survey data from Kaufman et al (2005), indicate that there has been a reduction in the perception of corruption by Nigerian firms in obtaining trade permits, in paying taxes, in procurement, in the judiciary, in the leakage of public funds, and in money laundering (see figures 1, 2 and 3 below). However, the recent reports by the World Bank and Transparency international 2007 identified Nigeria Police as the most corruption-riddled organization in the country, followed by the Power Holding Company Limited (PHCL). Investigation has shown that Nigerian police has scaled up roadside bribery from ₦20 to ₦50. That is to say, whenever any driver was pulled over at a checkpoint for any reason whatsoever, he or she would be expected to shell out N50.00 as bribe. This amounts to a hundred and fifty percent increases from the amount that was recently paid as bribes to the "Nigerian department of police roadblock". This ritual is repeated at every ten or twenty miles when a commercial vehicle driver confronts a different squad of police

**Figure 1: Nigeria: Perceptions on Money Laundering (2002-5)**

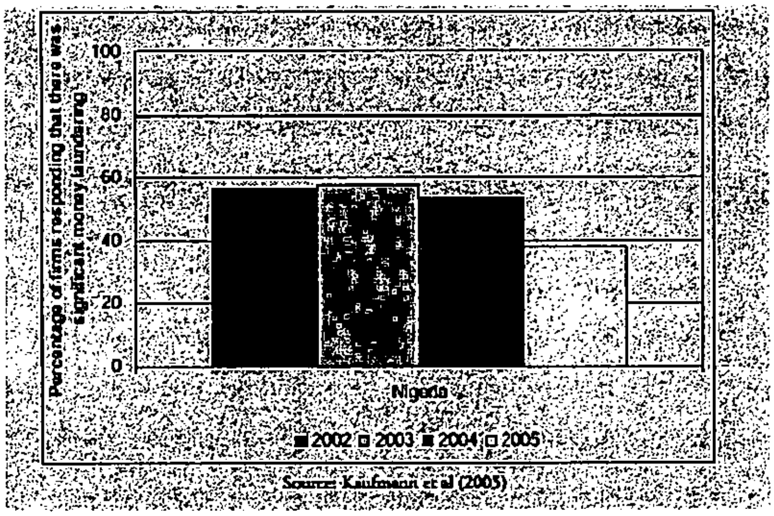



**Figure 2 Nigeria: Leakage of Public Funds**

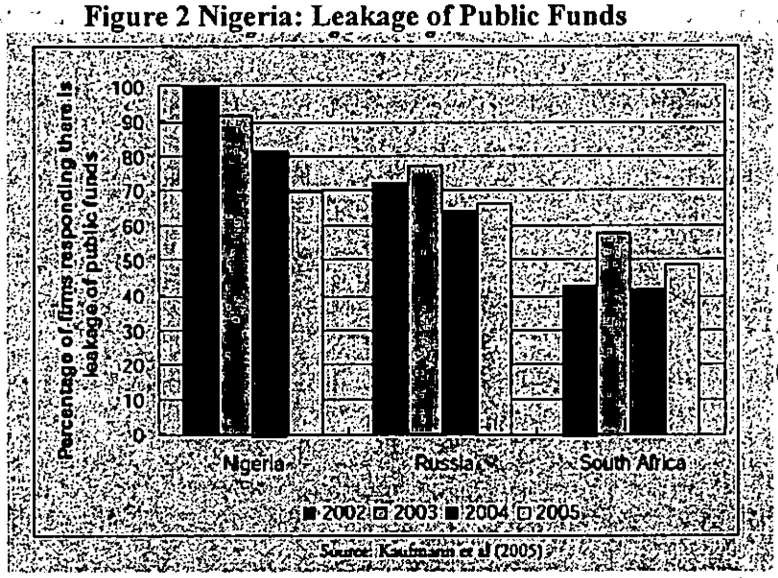
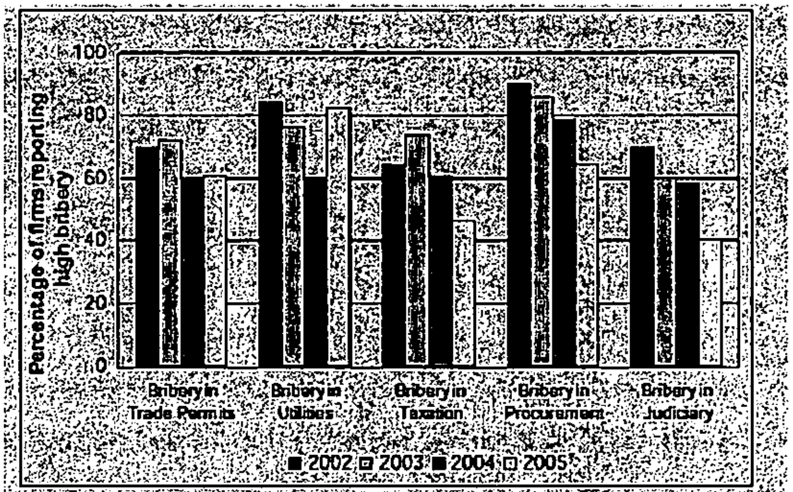



**Figure 3: Nigeria: Bribery in Selected Sectors**



Source: Kaufmann et al (2005)

**2.3 Negative consequences of Economic reforms and anti-corruption instruments in Nigeria**

Corruption is a plague, a disease, spreading itself throughout developing nations, and the world needs to inoculate these nations against this infection Corruption is a tool of evil wielded by the wealthy and powerful of developing nations in order to make themselves richer, and even more powerful. These are the only people benefited by this disease. The lower classes in developing nations are hard hit by the excessive bribes and loss of infrastructure.

Several empirical studies have shown a negative relationship between corruption and economic growth (Mauro, 1995). Corruption diverts resources from the poor to the rich; increases the cost of running businesses, distorts public expenditures, and deters foreign investment (Mauro, 1997; Wei, 1997 and Alesina, 1999). Corruption saps a country's economy by hampering tax collection and undermining the enforcement of important regulation. Corruption also creates loss of tax revenues and monetary problems leading to adverse budgetary consequences (Murphy, 1993), and is likely to produce certain composition of capital flows that makes a country more vulnerable to shifts in international investors' sentiments and expectations (Lambsdorff, 2000 and 2005). In addition corruption has an adverse effect on human development, and increases the cost of basic social services (Kaufman, 1998).

Corruption has had severe negative consequences on economic growth and development of Nigeria. Even where improper conduct, such as fraud and bribery, does not directly involve government, the public effects are severe. Corruption has adversely affected governance and the larger social structure. It has crippled the state's ability to deliver for its citizen's enjoyment of

even the minimum social and economic rights, including health and education. This generally leads to a retardation of economic development and to the deterioration of whatever public infrastructure has been put in place.

Critically, it has been observed that in Nigeria, unbridled corruption has led to bad governance. Corruption and mismanagement swallow about 40 percent of Nigeria's $20 billion annual oil income (Ribadu 2004).Corruption disrupts the capital flow throughout entire developing nations. Tax income is generally far below what the government requires in order carrying out basic services in corrupt nations. Corruption also stunts international trade. The World Trade Organization (WTO) increases impediments on trade if a country maintains an "out-of-control" level of corruption, or extortion. If a developing nation attempts to deal with these problems, the WTO will decrease the impediments, giving the nation incentive to reduce skyrocketing corruption levels. The anti –corruption crusade of Nigeria might then be one of the reasons while the country is enjoying the support of the international communities.

Other specific negative consequences of corruption in Nigeria are: loss of much needed revenue; decrease in the level of Foreign Direct Investment and loss of viable businesses by Nigerian banks. Corruption diminishes national prestige and respect, leads to brain drain, civil arrest, business failure and unemployment, election rigging, absence of law and order, and failure of government institution (Ribadu, 2003).

Most Nigerians are treated with suspicion in most business dealings thereby making some honest Nigerians to suffer the stigma of corruption due to stereotyping. Ribadu (2006) opined that, corruption is worse than terrorism because it is responsible for perpetual collapse of infrastructure and institutions in Nigeria; it is the cause of the endemic poverty (table 4) and underdevelopment and cyclical failure of democracy to take root. Poverty is found to persists in Nigeria because of the mismanagement of resources and corruption, found particularly not only in the public sector (Ayua, 2001). Corruption stifles businesses that are unwilling to engage in this nefarious activity; ironically, it also eventually destroys the companies that yield to this practice, thus halting or at least delaying considerably, the march toward economic progress and ultimately sustained development (Gire 1999).

**Table 4: The incidence of poverty in some selected states of Nigeria 2006**

| 10 states with highest incidence of poverty (all in North) | 10 states with lowest incidence of poverty (all in South) |
|---|---|

| States | Incidence of poverty | states | Incidence of poverty |
|---|---|---|---|
| Jigawa | 95.0 | Bayelsa | 20.0 |
| Kebbi | 89.7 | Anambra | 20.1 |
| Kogi | 88.6 | Abia | 22.3 |
| Bauchi | 86.3 | Oyo | 24.1 |
| Kwara | 85.2 | Imo | 27.4 |
| Yobe | 83.3 | Rivers | 29.1 |
| Zamfara | 80.9 | Enugu | 31.1 |
| Gombe | 77.0 | Ogun | 31.7 |
| Sokoto | 76.8 | Osun | 32.4 |
| Adamawa | 71.7 | Edo | 33.1 |

Sources: computed from (i) CBN (2006).

(ii) National Bureau of Statistics, 2005

**2.5 The Challenge of curbing corruption and implementation of economic reforms programmes the Nigeria**

Some human ailments could require many doses of medicines to be treated. Similarly, the menace of corruption, which has eaten deep into the fabric of Nigeria, would require all the necessary antidotesto effectively control it. In other words, no single and simple remedy will achieve it; and the problem cannot be solved corruption has been ingrained into the fabric of the society (Dike, 2005). Nigeria has, in theory, the solutions in the book to tackle corruption; but like poverty bedeviling the nation, implementations of the laws are the Achilles heel (a vulnerable point) of the society (The Guardian, July 10, 2002). In the name of turning Nigeria into a corruption-free society, the nation has experimented with many strategies, programmes and policies. It has tried the judicial commissions of enquiry, the Code of Conduct Bureau. It had wrestled with the Public Complaints Commission to no avail. Also it fiddled with the Mass Mobilization for Social Justice and Economic Recovery (MAMSER), and the National Open Apprenticeship (NOA), War Against Indiscipline Council (WAIC), National Drug Law Enforcement Agency (NDLEA) in 1989, money laundering Act of 1995 re-enacted 2004, advance fee fraud (419) and fraud related offences Act of 1995, prosecution and conviction of

high ranking administration officials, tracing, seizing and confiscation of all proceeds of crime, privatization of failing public institutions, creation of an enabling environment for effective private-public partnerships, failed banks Act of 1996, banks and other financial institutions Act of 1991, foreign exchange Act of 1995 etc. But corruption instead blossomed. Obasanjo in year 2000 also instituted an Anti-Corruption Commission (ICPC) under the Independent Corrupt Practices Related Offences Act of 2000, established the Economic and Financial Crimes Commission (EFCC) in 2003 through external pressure from the G8 Financial Action Task Force (FATF). Other institutional approaches includes, the establishment of the Budget Monitoring and Price Intelligence Unit (BMPIU) otherwise known as "Due Process" , monthly publication of distributable revenue from the Federation Account to the different tiers of government.

But assessment of corruption in Nigeria indicates some reasons why corruption still thrives in the country. According to Osoba, (1996), all measures against corruption have not been fruitful in Nigeria because they have operated at a level of mere symbolism. Those wagging the corruption-wars are themselves corrupt. Some of the corrupt leaders still find it difficult to change the moral tone of the country. Government domination of the economic sphere significantly enhances opportunities and ability to seek rents. Civil society also still accepts or tolerates corruption. Other reason while attempt at curbing corruption still failed in Nigeria hinges on the fact of the entrenched and institutionalized phenomenon of the country, the failure of law enforcement agencies/workforce, constitutional constraints (i.e. some provisions of our constitution seem to give immunity to some set of people), and attitude of defense lawyers using delay tactics to stall or forestall trials, thus resulting in congestion and slow pace of our court proceedings.

## Section Three: Conclusion and Recommendations

### 3.1 Conclusions

There is a clear-cut correlation between corruption and economic growth, and if stringent measure is not taken about it, the development of the affected country would be impaired. Corrupt regimes always yield disastrous results. Corruption which is equal to monopoly plus discretion, minus accountability has serious impediment to sustainable development especially in developing countries. 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 affected country. It lowers investment thereby lowering economic growth of the country.

Despite the existing challenges facing Nigeria after the establishment of the two major anti-graft institutions (ICPC and the EFCC) by the government in 2000 and 2003 respectively, the reforms have yielded some concrete results with a reduction of corruption levels when compared with the pre-reform periods when Criminal Code and Code of conduct Bureau were used to check corrupt practices on public office holders only. It is in the rules and practices of governance that the foundations of sustainable development are shaped or undermined. The very basis of development becomes compromised when these rules and practices are not effectively monitored and applied. Development suffers where the rules of governance allow arbitrary resource allocations and the diversion of public resources in defiance of the public good and to the exclusive benefit of corrupt officials, politicians and their collaborators.

### 3.2 Recommendations

Every country has to determine it own priorities on the war against corruption. To tame the surge of corruption in Nigeria as Dike 1999 and 2002 pointed out, 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. There is the need for enlightenment in discouraging excessive materialism and the culture of 'get rich quick', employment for the teeming youths and incorporation of human rights and development perspectives into anti-corruption work.

In order for Nigeria to successfully combat corruption, there is the need for a mechanism that will transform dramatically the culture and legacy of corruption. Positive transformation of Nigeria can only occur through addressing the root causes of corruption and through effectively implementing the legal mechanisms already in place. Nigeria has introduced economic reforms through privatization, deregulation, removal of market restrictions, and civil service reform with the aim at promoting the integrity of public service. These measures are all very important in the fight against corruption, but the key factor to galvanize and orchestrate these measures is having

honest leaders with the political will to tackle corruption. There is the need for enlightenment in discouraging excessive materialism and the culture of 'get rich quick', employment for the teeming youths and incorporation of human rights and development perspectives into anti-corruption work. Provision of appropriate punishment for corruption in and of itself is not sufficient to eliminate Corruption. The phenomenon of corruption has multiple causes, and is determined by more than just seeing people go unpunished for engaging in corrupt behavior. It is recommended that in addition to other measures being taken to reduce corruption, the leadership must demonstrate the willingness to track and punish corrupt officials and citizens as well as create a conducive economic climate that would raise the standard of living of the citizenry. Programs such as social safetynet should be instituted among the non-working class in order to reduce the worry about basic survival in the face of growing insecurity about the job situation. Finally, there is the need for the provision of adequate resources anti-corruption agencies and non-interference of government on the mandate given to the anti –corruption agencies so as to make them effective. Unless the government is willing to commit adequate resources to fund and operate the agencies, and making them truly independent, the anti-corruption might not be able to withstand the opposing forces of the corrupt elements in the country.

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