



Corruption and Economic Development in Nigeria: A Theoretical Review

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ABSTRACT

Corruption has had severe negative consequences on the economic growth and development of Nigeria. This paper presents a review of corruption as it relates to the economic development of Nigeria. By using a theoretical method of analysis, the study reveals that corruption has been a deterrent to economic development in Nigeria. The paper is structured into six sections with the introduction as section. Section two discusses the theoretical and conceptual issues in corruption and economic development. Section three presents the nature and extent of corruption in Nigeria from 1960 – 2013. The effects of corruption on the Nigerian economy are identified and discussed in section four. In section five, the study proffers policy recommendations amongst which are seizure of electoral franchise from corrupt officials and motivation of ethical anti-corrupt practices by rewarding honest officials.

Keywords: Corruption, Economic Development, Government.

INTRODUCTION

All over the world corruption is a practice that is antithetical to the growth of economies and as such it is discouraged in all spheres of life. Corruption is not a contemporary affair because it has been going on for so long globally. It is indeed the bane of any nation and its malady cuts across every organized system like religious, political, economic, social, etc. It contaminates all strata of the socio-political and economic structures of any society. World Bank studies puts corruption at over \$1 trillion per year accounting for up to

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12% of the GDP of nations like Nigeria, Kenya and Venezuela. (Nwabuzo, 2005).

The upsurge of corruption in Nigeria is disturbing and has done a lot of damage to nation building activities. Unfortunately, all of government efforts at fighting corruption over the years have proved unsuccessful. It has defiled all treatments and is increasing and also spreading rapidly like wild fire. This cankerworm has eaten deep into the fabric of the nation and has stunted growth in various sectors of the economy. It has been the primary factor slowing down development in various sectors of the economy (ICPC, 2006).

This paper therefore investigates effects of corruption on economic development of Nigeria. The paper investigates and establishes the link between corruption and economic development in Nigeria. To achieve this purpose, the paper has been structured into six sections with the introduction as section one. Section two discusses the theoretical and conceptual issues in corruption and economic development. Section three presents the nature and extent of corruption in Nigeria. The effects or impacts of corruption on the Nigerian economy are identified and discussed in section four. Finally, sections five and six presents the policy recommendations and concluding remarks of the paper respectively.

Theoretical and conceptual review

Rodney (1972) posited that, “a society develops economically as its members increase jointly their capacity for dealing with the environment. This capacity is dependent on the extent to which they understand the laws of nature (science), and on the extent to which they put that understanding into practice by devising tools (technology) and on the manner in which work is organised.” While Jhinghan (2008) cited that, “economic growth means more output while economic development implies more output derived from greater amounts of inputs but also greater efficiency i.e. an increase in output per unit of input and in allocation of inputs by sectors (simply put as change). Economic development is the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy (Jhinghan, 2008). Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. economic development is a policy intervention endeavor with aims of economic and social well-being of people (Sen, 1983).

The term *corruption* covers a variety of human actions. In a bid to understand its effect on an economy or a political system, the term can be unbundled by identifying specific types of activities or transactions which might fall within it. The World Bank (1996) has established a usable and straight forward definition for corruption- the abuse of public office for

private gain. Public office is abused for private gain when an official accepts, solicits or extorts a bribe. It 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 revenues. While noting the existence of fraud and corruption in the private sector and the importance of controlling it, this paper is more concerned with corruption in the public sector. Public sector corruption is arguably a more serious problem in developing countries, and controlling it may be a prerequisite for controlling private sector corruption. In order to ensure that not only public corruption but also private corruption between individuals and businesses could be covered by the same simple definition, Transparency International (2008) defines corruption as the misuse of **entrusted** power (by heritage, education, marriage, election, appointment or whatever else) for private gain. This broader definition covers not only the politician and the public servant, but also the Chief Executive Officer (CEO) and Chief Executive Officer (CFO) of a company, the notary public, the team leader at a workplace, the administrator or admissions-officer to a private school or hospital, the coach of a football team, etcetera.

Furthermore, corruption as Shihata (2000) posits occurs when a function, whether official or private, requires the allocation of benefits or the provision of a good or service. In all cases, a position of trust is being exploited to realize private gains beyond what the position holder is entitled to. Attempts to influence the position holder, through the payment of bribes or an exchange of benefits or favours, in order to receive a special gain or treatment not available to others is also a form of corruption, even if the gain involved is not illicit under applicable law. The absence of rules facilitates the process as much as the presence of cumbersome or excessive rules does. Corruption in this sense is not confined to the public sector and, in that sector, to administrative bureaucracies. It is not limited to the payment and receipt of bribes. It takes various forms and is practiced under all forms of government, including well-established democracies. It can be found in the legislative, judicial, and executive arms of government, as well as in all forms of private sector activities. It is not exclusively associated with any ethnic, racial, or religious group. However, its level, scope, and impact vary greatly from one country to another and may also vary, at least for a while, within the same country from one place to another.

Akindele (1990) and Babalola (1995) have made efforts to divide corruption into many forms. These are political, bureaucratic and electoral forms of corruption. While Babalola (1995) argued that corruption in politics occurs at two levels. The first level is at the law making level while the second is the law implementation level. According to his findings at the first level people try to influence law making and policy decisions while at the second level people try to pervert the course of justice and influence judgments. He notes that the perpetration of corruption in politics is done in

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the following ways; buying of votes and voters cards, conniving of officials with party agents and security officials to manipulate election results. A clear example was the 1983, 1999, 2003, 2007 elections when INEC officials connived with security forces and government officials to falsify election results (Olagunju, 2012). Another form of political corruption is identified as the use of incumbency power. There is an “iron law” of African politics which states that no government in power ever loses an election. Office holders therefore make use of all the available weapons at their disposal to suppress opposition and win elections at all cost.

Again, Babalola (1998) and Osaba (2002) have rightly observed that money bag politics which is practiced in Nigeria does not make political aspiration available to everybody because it is available only to the rich and powerful. Hence, credible citizens find it very difficult to contest for political positions because of the high rate of bribery and corruption. It is so unfortunate that elective posts usually go to the highest bidder. In the same light, Dike (2011) notes that political corruption is sometimes seen as similar to corruption of greed as it affects the manner in which decisions are made and it manipulates political institutions rules of procedure and also distorts government institutions. He categorizes corruption into bribery, fraud, embezzlement, extortion, favouritism and nepotism.

Furthermore, Babalola (2008) posits that bureaucratic corruption occurs in the public administration or implementation end of politics and this kind of corruption has been branded low level and street level. It refers to the type of corruption encountered on a daily basis by citizens in public places like hospitals, schools, police stations, tax revenue offices and many more. Bureaucratic corruption which is also seen as corruption of need occurs when business is obtained from the public sector through inappropriate procedure.

Finally, Onwusu (1995) views corruption as the sacrifices of the public for personal benefits and Nye (1967) view it as the influence to prevent the judgement of a person in a position of trust, nepotism and misappropriation while, Klitgaard (1996) uses this equation to summarize corruption; C (corruption) = M (monopoly) + D (discretion) - A (accountability).

The nature and extent of corruption in Nigeria

Corruption in Nigeria has become so barefaced and prevalent that it seems to have been legalized. Osemeke (2011) classified the forms in Nigeria to include; Money Transfer fraud, Advanced Fee Fraud, Falsification of Records, Impropriety, Foreign Exchange Malpractices and Fictitious Purchase. Unfortunately, the issue of corruption is not a twenty first century problem of Nigeria as a nation. Its manifestation started to surface shortly after the attainment of political independence from Britain in 1960. In 1962, the declaration of a state of emergency in the Western Region of the young country was attributed partly to the issue of corruption. It was followed by the suspension of the Action Group (AG) party and in its place, an interim

government was appointed, headed by Chief M. A. Majekodunmi. Subsequently, a commission of inquiry (the Coker Commission) found Chief Awolowo guilty of misuse of Western Regional funds (Osaghae, 2011). Specifically, he diverted funds from the regional government-owned National Investment and Properties Corporation totalling N4.4 million in cash and N1.3 million in overdraft from the national bank to finance the AG and publish newspapers supporting the party (Osaghae, 2011). The statistics in Human Rights Watch (2007) reveal that between 1960 and 1999, the Nigerian ruling elite could not account for about \$400 billion of national revenues.

Corruption in Nigeria has been correctly summarized in Ndiese (2003) as the biggest and fastest growing industry in Nigeria. While petroleum is the largest revenue earner (accounting for between 90-95% of national wealth, corruption is the largest consumer of the revenue. Unfortunately, its consumption is into the hands of a few individuals and corporate persons while the nation wallops in abject poverty, hunger disease and debt. The extent of corruption in Nigeria is envisaged in various incidents that have occurred over the years. For instance, the federal audit report of the federal ministries and parastatals was made public for the first time ever by Vincent Azie the acting Auditor-General of the federation. This audit report revealed that more than N23 billion was lost in ten major ministries in 2001 (Newswatch, 2003). Also in 2003, Dr. Okonjo-Iweala resigned her appointment as Nigeria's minister of finance barely 24 hours after she was sworn in. This was as a result of her immediate disagreement with the leadership style of Obasanjo's government. She was particularly uncomfortable with the level of transparency in the system amongst other things (Nwaobi, 2004). Again in August 2003, the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC) called on the nation to ask the presidency about what happened to N35 billion meant for local governments monthly. The chairman of RMAFC Engr Tukur reported that the allocation was regularly collected but was not getting to the intended beneficiaries. With this trend of events, it is not shocking that in 2004, Transparency International in its Corruption Perception Index that covered ninety countries world-wide rated Nigeria as the second most corrupt country in the world (Chinye, 2005).

The Socio-Economic Rights and Accountability Project (SERAP) was created in 2004 and registered as a non-governmental, non-profit organization under Nigerian laws. In 2007, SERAP filed a case before the ECOWAS court of justice in Abuja arguing that massive corruption in the Universal Basic Education Commission (UBEC) amounted to a denial of the right to free, quality and compulsory education for Nigerian children. The initiative led to a discovery by Independent Corrupt Practices Commission (ICPC) of over N3 billion misappropriated by top officials of the UBEC (SERAP, 2013). In 2009, SERAP sued the Nigerian government to court again over the failure to effectively tackle corruption in the power sector

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which resulted in the theft of \$16 billion meant for power projects (SERAP, 2013). The following year, SERAP and five other NGOs filed another suit against the federal government seeking an official publication of reports on missing \$12.4 billion oil windfall. Unfortunately, the case was dismissed by Justice Kolawole in November 2012 but SERAP is in the process of challenging the decision before the Court of Appeal (SERAP, 2013). SERAP also sued the Central Bank of Nigeria (CBN) in 2012 over failure to disclose authorization of spending government subsidy for 2011. The information being sought relates to the spending on fuel subsidy in 2011 and in particular the authorization of N1.26 trillion paid by the CBN (SERAP, 2013). Several similar cases of corruption are pending before the court.

Effects of corruption on the Nigerian economy

The consequences of corruption are universal although there are variations in the state and other levels of the economy. Massive and extensive corruption in Nigeria has depleted the stock of capital requisite for development just as it does in any other political economy. Corruption has had severe negative consequences on the economic growth and development of Nigeria. Where improper conducts such as fraud and bribery are prevalent, the public effects are severe. Corruption has adversely affected governance and the larger social structure. It has crippled the nation's ability to deliver for its citizen's welfare of even their minimum social and economic rights. This generally has led to a retardation of economic development and deterioration of whatever public infrastructure has been put in place. These effects are further identified and elaborated as follows:

- i. **Corruption promotes poverty:** A very good example of this is corruption in the management of pension funds in Nigeria. The findings by Obi (2010) identified delays in payment of meagre gratuities and pensions, bribery/financial demand for service, risky and distant travels, overcrowded and noisy venues as corrupt practices in Nigeria's retirement and pension scheme. The theft of pension funds implies that retired Nigerians would not have access to their pensions as at when due. Majority of these pensioners and their dependents live in abject poverty because of this deprivation. Some even die prematurely considering that the average Nigerians health is deteriorating and these people are forced to stand for long hours on queues. Despite the hues and cries, our senior citizens continue to suffer and wallow in abject poverty, on a daily basis. The plight of Nigerian pensioners has been a thing of concern for many years now. The picture of haggard-looking pensioners collapsing on queues for their meagre pensions during verification exercises is no longer new. Another example is found in the civil service. Civil servants serve for 8 years or more without promotion while they are expected to be promoted within

an interval of 3 years. This occurs because there are a lot of people interested in embezzling the national funds. If the government cannot be fair to its citizens, how can they enforce fairness in the private sector? Delayed promotions will lead to a larger population of low income earners with an ever widening gap between the rich and poor. This low income translates to low savings and investment. The inevitable result will be higher rates of poverty, hunger, disease, etc. which stagnates the economic development of the country. This inequitable distribution of income explains why Nigeria has the highest real GDP of \$510.9 billion in Africa as recently announced by the National Bureau of Statistics (NBS) but still remains amongst the underdeveloped countries of the world (ThisDay, 2014)

- ii. **The effect of corruption is felt in the inadequacy of infrastructure and social amenities:** A high number of infrastructural facilities are substandard and are not well constructed. Newly constructed roads transform to an appalling condition within a short period of completion. Within 2007 and 2008, an annual average of 8,153 crashes was recorded with 5,084 annual deaths and an average fatality rate of 5 per 100,000 population (FRSC, 2012). This reduces the productive labour force of the nation. Pipe borne water is conspicuously absent in most states and the rate of power supply is not any better. Hospitals, schools and other medical centres are overcrowded and lack facilities as a result of corruptive finance that has been embezzled instead of channelled into the improvement and provision of these much needed facilities. Sadly, the activities of these a few greedy people have led to the death of many people travelling on substandard roads or who do not have access to basic facilities and amenities. The presence of infrastructural and social amenities is a prerequisite to economic development. As established by the proponents of unbalanced growth theories, key sectors like electricity, portable water and transportation have the capacity of influencing the contribution of other sectors.
- iii. **Violation of laws and regulations:** In any society there are laws and regulations to serve social objectives and also meant to protect the interest of the public for example, traffic laws, building codes, environmental maintenance laws, etc. Violation of these laws for economic gain through corrupt means can cause serious social harm. For example, corrupt contractor's compromise building standards by using below par building materials which has led to the collapse of many buildings and loss of innocent lives and properties which would have contributed to the economic development of the country.
- iv. **Corruption is antidevelopment:** This is to the extent to which it reduces the amount of funds available to be used for developmental purposes. Developmental projects are often made to look complex in Nigeria. This is usually in order to justify the huge revenue allocated to them. Several roads and buildings are said to be constructed with outrageous amounts

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and the bulk of these sums are siphoned into private bank accounts. These funds were meant for the development of education, health and other sectors in need. Government officials shift developmental funds from those sectors to sectors where they can easily collect bribe. These activities lead to low capital formation and drainage of resources meant for executing developmental projects.

- v. **Corruption promotes the existence of illegal activities in a thriving economy:** Bribes are easily greasing many hands and weakening the stance of security systems within the country. In addition, we have many counterfeit, adulterated and substandard products in circulation especially drugs. The problems of fake drug proliferation in Nigeria have affected the credibility of the healthcare system and can exert very harmful effects on the consumer resulting to illness, disability and even death. This has resulted in the loss of useful human resources that would have enhanced economic development in Nigeria. The Nigerian supply of meningitis vaccines to Niger in 1995 during an epidemic resulted in about 2500 deaths after vaccination. China, Nigeria and the former soviet republics are singled out regularly as centre of drug counterfeit production (Health system trust 2008). These illegal activities are worth billions of naira and the government does not benefit from their taxes and taxation is meant to serve as a source of income for economic development. In addition, the masses suffer the consequences of using adulterated products. The human capital of a nation is its greatest asset and these corrupt activities threaten the well being of the populace who are agents of development.
- vi. **Corruption creates conditions for political instability:** When a few influential Nigerians have political interests, they generate political turmoil to disrupt the peace in order to sabotage a particular government. Unfortunately, innocent citizens are usually victims of their schemes and conspiracy. Public funds are looted by politically ambitious individuals to buy votes that will keep them in their position of power. Economic development can only thrive in an atmosphere of peace and political stability. When economic activities are disrupted due to these instabilities, the rate of development will definitely be affected.
- vii. **Corruption has led to an increase in criminal activities of individuals and groups:** Fraudulent activities like cybercrime (yahoo-yahoo, internet/computer fraud), advance fee fraud (419), prostitution etc. are by-products of corruption. The convenience associated with IT and the internet is now being exploited to serve criminal purposes. Cybercrime covers internet fraud not just online 419 - the use of computers and or the internet to commit crime. Computer-assisted crime includes e-mail scams, hacking, distribution of hostile software (viruses and worms), denial of service attacks, theft of data, extortion, fraud and impersonation. The loss suffered by consumers and investors creates serious credibility and image problems for the country. Foreign investors are threatened by

this trend and this limits the influx of much needed capital for economic development.

It is disheartening to note that the revenue generated from our God given resources have not been used in developing our economy because of the enemy called corruption.

POLICY RECOMMENDATIONS

The detrimental effects of corruption on Nigeria make it extremely necessary to proffer solutions to this moral, social and economic monstrosity. In this light, the following remedies are recommended.

- i.** Seizure of electoral franchise- The trend whereby public officials convicted for corrupt practices are allowed to contest for other offices in the future must be stopped. Once an individual is arrested, tried and found guilty of corruption he/she should not be allowed to vote or be voted for into any office. The sentence should include a permanent seizure of electoral franchise.
- ii.** The fight against corruption is a societal responsibility. For corruption to be fought and tackled effectively, our religious leaders and family heads have a huge responsibility to perform. What are parents and guardians teaching their children? Are they held accountable when they fail? Do parents set a good example at home for their wards? In our religious gatherings is the truth being taught? What are the masses made to believe about the consequences and repercussions of their actions? Generally, there should be public awareness and campaign against corruption.
- iii.** The judiciary should be adequately equipped to fight corrupt cases. Relevant and applicable laws should be put in place to hasten the trial and judgement of corruption cases.
- iv.** Prompt and adequate remuneration to workers should be enforced by the enforcement agencies. If workers are being paid adequately and timely, the seeds of corruption will not be planted in them. Most corrupt officials aspired for the opportunity to embezzle due to these bottlenecks faced by honest workers.
- v.** The government should make effort to close the gap between the rich and poor by providing employment opportunities.
- vi.** In addition to setting punitive measures for corrupt officials, the government and society at large should motivate ethical practices by rewarding honest officials. For instance, such individuals should be given higher responsibilities and honoured publicly.

CONCLUSION

Nigeria is labelled a rich country with poor people because corruption has eaten into the fibre of the economy. When corruption is successfully uprooted, the nation will finally soar to great heights of economic development. The policy recommendations that have been put forward in this paper will serve as channels to achieving the vision of translating the current economic growth in the economy to economic development.

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