AN ANALYSIS OF THE IMPACT OF CORRUPTION ON NIGERIAN ECONOMY

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ABSTRACT
This paper discusses and analyzes the impact of corruption on Nigerian economy. It observed that corruption is as old as the history of the world itself and that corruption has been ubiquitous in complex societies down to the present age. It is also observed that despite different strategies adopted by Nigeria to contend with corruption, the menace remains intractable. The work centers its discussion on the conceptual issues on corruption, typology and forms of corruption, causes, incentives, opportunities for and impacts of corruption in the economy. The paper, in its introduction section, discusses the country’s corruption standing, especially from the viewpoint of Transparency International ranking of the country on its corruption table for the ten-year period 1998 – 2007. It also outlines some initiatives and measures so far taken to curb the menace of corruption in the economy. Finally, it offers some recommendations on how corruption can be fought to a standstill. It concludes by optimistically expressing the view that serious and sincere commitments to counter corruption would involve comprehensive institutional and administrative reforms, and not using it as a tool to acquire political support and exercise political power.

Keywords: Corruption, Economic growth, Economic development, Nigerian Economy

Introduction
The history of corruption is as old as the history of the world as corruption has been ubiquitous in complex societies down to the present age. Corruption is also endemic in modern governments and it is not peculiar to any continent, religion, or ethnic group. Nigeria is noted as one of the most corrupt countries in the world, having held this record in the study by Transparency International and Goettingen university in 1996. Nigeria was in that study noted as the most corrupt country in the world. Corruption in Nigeria has become so disturbing that the former president, Chief Olusegun Obasanjo once said; “The truth is that, it is much tougher to fight corruption in a developing society than it is in the developed world” (Obasanjo, 2003). Different nations have adopted different strategies to contend with corruption, depending on its ramifications and depth. Whatever dimension may assume, it is certain that a nation with high incidence of corruption cannot grow or develop. This is because corruption is antithesis of growth and development, leaving in it trail negative social-economic consequences. Corruption malady had become so disturbing that the German-based non-governmental organization, Transparency International (TI) has taken it upon itself to carry out annual survey of corrupt countries all over the world. The survey has been conducted annually for about a decade. The organization ranked Nigeria as the second most corrupt nation in the world in its 1999, 2001, 2002 and 2003 surveys. The country was the most corrupt nation in the world in TI’s survey of 2000. Survey of 2004 was carried on 146 countries, and Nigeria was ranked third most corruption nation. In its 2005 survey carried out on 159 countries, Nigeria was ranked the sixth most corrupt nation in the world. The organization’s surveys of 2006 and 2007 carried out on 163 and 180 countries respectively ranked Nigeria as seventeenth and thirty-third most corrupt nation in the world (TI, 2006, 2007). The table below summaries Nigeria’s ranking for the ten-year period (1998 – 2007).
Corruption in Nigerian, especially at the centre, is traceable to the stupendous oil wealth, mismanagement and incompetence in government. Corruption and mismanagement swallowed about 40 per cent of Nigeria’s $20 billion annual income (Ribadu, 2007). At least, 100,000 barrels (4 per cent) of national export are stolen everyday (Reuters Report, 2007). Corruption has brought instability, insecurity and failure of institutions (Ribadu, 2005). Both the military and civilian administrations so far have not fared any better than each other. Military interventions were always predicated on corruption against the civilian administrations. But rather than remedy the situation, the military plundered the country’s resources to an unprecedented level. Thus, over the years, corruption became entrenched in government and the society. The status quo has become fashionable whereby politicians and public servants see government as a means of becoming rich over night. The immediate past administration outspokenly condemned and declared war against corruption, while the present administration has declared zero-tolerance for corruption. Whether or not the trend is going to be reversed, is a question of time.

Nigeria has been adjudged as corrupt and Nigerians are alleged to have unleashed on the world the “419 bug”. To some people, Nigeria is a “financial terrorist” nation given the volume of financial crimes that emanate from Nigeria. Corruption looms very large within the public and the private sectors in the areas of foreign exchange transactions, embezzlement, over-invoicing, over-valuation, currency counterfeiting, illegal capital transfer, illegal currency manipulation, large scale banking and insurance frauds (Ribadu, 2005). As at 2007, The EFCC had arrested about 500 suspects and confiscated $500 million in the 18 months of its activities for Internet e-mail scams and fraud (Ribadu, 2007). Corruption has so taken over the control of the nation that its influence has constituted the major problem that impedes the enforcement of any regulation relating to economic and financial crimes. It has manifestly been entrenched and institutionalized into our polity. It now rules our national, state and local lives, and has become the major consideration in the governance. Consequently, the rules of law has been substituted for by the rule of man, and while the relatively corruption-free nations progress, Nigeria stagnates or even retrogresses. Fraudsters and criminals have taken advantage of the situation. They operate freely and determine which regulation to enforce, how to enforce it and against whom. While they thrive on and benefit from corruption, they disregard the negative economic implications on the rest of the population.

Corruption hinders good governance, democracy, human rights, security and government’s ability to provide basic amenities. Corruption causes inequality and wide-spread poverty by diverting public funds into the pockets of a few individuals. It creates waves of economic, social and political unrest. It hinders poverty alleviation initiatives, foreign investment and development aids in-flow. It reduces public revenue and increases public spending, contributes to fiscal deficits and destabilizes sound fiscal, monetary and economic policies. On the aggregate, corruption distorts the effective and efficient allocation of economic resources and their market values.

This paper discusses the analysis of the impact of corruption on Nigerian economy. For the purpose of clarity, the work is divided into eight sections. The first section is an introduction. The second section presents some conceptual issues on corruption, while the third takes a cursory look at the causes of corruption. Section four presents the incentives and opportunities for corruption, while section five discusses the impact of corruption on the Nigerian economy. Section six outlines some initiatives and measures put in place so far to fight corruption. Section seven proffers some recommendations on how to possibly curb the menace of corruption in Nigeria, and last section is the concluding remarks.

**Conceptual Issues on Corruption Definition and Meaning of Corruption**
A corrupt act requires at least two individuals to either exchange or to promise the exchange of money or services at a particular place; typically secret, the pact benefits the duo to the detriment of everyone else. Corruption has been variously defined. The meaning ascribed to corruption varies just as the definition varies. Each definition or meaning depends on the context in which it is used. It could denote depravity and perversion of integrity through bribery or favour. It could equally denote “a conscious and well-planned act by a person or group of persons to appropriate, by unlawful means, the wealth of another person or group of persons” (Aluko, 2006).

Specifically, corruption involves the violation of established rules for personal gain and ready profit.

This paper identifies with some of the various definitions of corruption by some scholars and authors. These include: Shehu (1991), defines corruption as “the diversion of resources from the betterment of the community to the gain of individuals at the expense of the community”. Corruption involves efforts to secure wealth or power through illegal means for private gain at public expense; or misuse of public power for private benefit (Lipset and Lenz, 2000). Osoba (1996) is of the opinion that corruption is an anti-social behaviour conferring improper benefits contrary to legal and moral norms, which undermine the authorities to improve the living conditions of the people. In thre view, Windsor and Getz (2000), defined corruption as socially impermissible deviance from some public duty or, more generally, some ideal standard of conduct. In this sense corruption means the use of public resources for the achievement of personal ends (Aluko, 2006). The International Monetary Fund (IMF) defines corruption as “abuse of authority or trust for private benefit: and is a temptation indulged in not only by public officials but also by those in positions of trust or authority in private enterprises or non-profit organizations” (IMF, 2000).

However, in 2002, the United Nations Convention Against Corruption (UNCAC), opines that defining corruption involves mentioning the specific acts of corruption. This approach is adopted in the Independent Corrupt Practices Commission (ICPC) Act where corruption is merely stated to include bribery, fraud and other related offences. Nevertheless, Justice Emmanuel Olayinka Ayoola, Chairman, ICPC, observes that “the commonest form of corruption in Nigeria used to be bribery but in recent years this has been overtaken in level of prevalence by embezzlement and theft from public funds, extortion, abuse of discretion, abuse of public office or institutions for private gain, favouritism and nepotism, conflict of interest, extortion and illegal political party financing” (Ayoola, 2005).

For operational definition, the paper views corruption as a phenomenon within the wider socio-economic and political context aimed at selfish gains at the expense of the rest of the people. Current revelations about the immediate past civilian administration and $5 - $10 billion spent on the power sector without anything to show for it (Tell, July 21, 2008), discoveries of stolen public funds run into billions of US Dollars [2 - $5 billion Abacha loots] and Nigeria’s Naira and a host of others, make these definitions very adequate and appropriate (Dike, 2005). The use of political offices, authority, uniforms, etc, by some people to intimidate a subdue others further lends credence to the definitions. Corruption is probably the quickest means to accumulate wealth in Nigeria. It occurs in different forms and has contributed significantly to the poverty and misery states of a larger proportion of Nigeria’s population (Dike, 2005). Money and other resources meant for meaningful economic projects are diverted into private or a group’s pockets, as in the case of the power sector that has left the nation groping in darkness, crippled economic activities in the real sector and slowed down growth and development of the economy, even after “gulping” $5 -10 billion US Dollars.

**Typology of Corruption**

In the discussion of corruption, a good number of studies have taken a broader and holistic approach by classifying it into types and forms.

1. **Political Corruption**

   This occurs at the various levels of political authority. It is mainly perpetuated by political office holders and their collaborators who aspire to acquire or retain political power. Political, economic or social power is the means of perpetuation. Ideals and values of the polity feel the devastating impact. It occurs when the politicians and political decision-makers entitled to formulate, establish and implement laws on behalf of the people are themselves corrupt. It also takes place when policies formulated and legislated are tailored to benefit politicians and legislators. It thus, breeds increasing trend towards “clientelism”, i.e. public
office holders focusing on serving particular client groups linked to them by ethnic, geographical, etc; especially business ties and even religion “or other ties” (Shah and Shacter, 2004). The primary motivation is to acquire or retain political power through vote-buying, illegal act directed towards the election or defeat of a particular candidate or the illegitimate patronage of civil service appointments (Aluko, 2006).

In fact, it is being genuinely feared that businessmen have taken over governance because of their overt and covert financial contributions to political candidates and parties (Ishola, 2005). Aside, political corruption is getting more rooted in Nigeria because of the private sector-led economic development policies that the West and multi-lateral institutions want and have forced on the country (Ishola, 2005).

Political corruption is sometimes seen as similar to corruption of greed, as it affects the manner in which decisions are made. It manipulates public institutions, rules of procedure, and distorts the institutions of government. This manifested itself in the circumvention of legal processes in the appropriation and release of funds for the power sector projects (1999 – 2007), routine and massive inflation of projects costs (up to 1000 per cent), low performance level after some years of commencement of projects, contractors collecting billions of naira and abandoning projects, overpricing as in the case of 1000 per cent overpricing of National Power Integration Project(NPIP) distribution contracts., (Tell, July 21, 2008). The wave of [political] corruption and culture of impunity, perhaps fuelled by the use of presidential waivers, spreads across government agencies [so far excluding anti-corruption agencies] and parastatals, (Tell, July 21, 2008). Further, political corrupt practices in Nigeria include the use of public resources for campaigns, illegal donations by organizations and individuals and vote buying. Of the biggest problem is the financing of political parties. The more money political candidates and parties need to win elections, the more difficult it will be to minimize political corrupt practices (Ishola,2005).

2. Economic or Commercial Corruption
According to Aluko (2006), economic/commercial corruption covers acts that are largely perpetrated by businessmen and contractors who are directly motivated by financial gains not only for themselves, but also to enrich their political allies, military sponsors, or the civil service facilitators who help them to get the contracts. Thus, this type of corruption is largely perpetrated by businessmen, contractors and consultants who make “unearned profits” at the expense of generality of tax payers and other citizens. The enabling instruments of perpetration are economic power and socio-political connections.

3. Bureaucratic Petty Corruption
This is seen as corruption of need, and it occurs in the public administration or implementation end of policies. It also referred to as low level and street-level corruption. The citizens encounter this kind of corruption daily at places like hospitals, schools, local licensing offices, police, tax offices, and so on (Dike, 2005).

4. Electoral Corruption
This includes buying of votes with money, promises of office or special favours, coercion, intimidation, and interference with freedom of election. This type is prevalent in Nigeria where votes are bought, people are killed or maimed during campaigns and election processes; losers become winners in elections, and votes turn up in areas where votes are not cast (Dike, 2005). Electoral corruption may as well involve sale of legislative votes, administrative or judicial decision (as in the case of alleged judicial scandal in some States (The News Magazine; July, 2008), or government appointments. Other aspects, include disguised payments in the form of gifts, legal fees, employment, favours to relatives, social influence or any relationship that sacrifice policy interest and welfare, with or without the implied payment of the money.

5. Administrative or Professional Corruption
Aluko (2006) describes this as causal but deliberate and large criminal acts by top administrative and professional personnel for private material and sociopolitical gain. Such acts include falsified accounts, embezzlement of corporate or government funds, padded, mileage and related false claims, fraudulent tax returns, and actions which cover up professional misdeeds. Administration / Professional corruption expends to indirect (or even, sometimes brazen) demand for inducement to perform legally bound obligations.
6. **Working Class Corruption**

This type of corruption is similar in almost all aspects to the administrative / professional type, except for the status of the perpetrators – artisans, messengers, accounts clerks, market – women, and the like (Aluko, 2006).

7. **Enumeration Corruption**

This includes population and all forms of illegal manipulations during population census aimed at gaining undue political advantage. Enumerators and other population commission officers perpetuate this type of corruption. It ranges from outright sales of enumeration materials (as allegedly reported in national dailies in the 2006 population census) to inflation of population figures in some regions or states.

8. **Academic Corruption**

This is prevalent in the academic circles of academia. It is in various forms ranging from “extortion” to abuse of office, sexual harassment, awarding of unmerited grades and plagiarism.

**Forms of Corruption**

Perpetration of corruption assumes different forms. These include:

1. **Bribery**

Bribery involves payment (in cash or kind) given or taken in a corrupt relationship. It includes kickbacks, gratifications, pay-off, sweeteners, greasing palm, ground watering, brown envelope, “Ghana must go bag”, and etc. Acts of bribery are passive in that their voluntary acceptance of bribe offers an assurance of personal advantage, but misuse of public responsibility. Bribery endures as one of the most pervasive forms of corruption. Nigeria or nations try their utmost to prohibit it and punish perpetrators and participants, yet the practice persists despite the fact that addressing it is relatively straightforward. Many unsuccessful anti-bribery campaigns have addressed the symptoms rather than the underlying institutional pathology.

2. **Pillaging of State Assets**

The pillaging or theft state asset, like bribery, is one of the more straightforward decimating forms of corruption. Pillaging includes spontaneous “privatization” of public assets by government appointed persons or officials; the petty theft of items such as office equipment and stationary, vehicles, and fuel. Perpetrators are usually middle- and lower-level officials who in some cases try to compensate for inadequate salaries. Pillaging also includes theft of government financial resources such as tax revenues or fees: stolen cash from treasuries: personal advances that are never repaid, or payments drawn for fictitious “ghost” workers (World Bank 1997).

3. **Distortion of Government Expenditure**

This type of corruption occurs when government spending decision are made in order to maximize the personal benefit of decision-makers instead of the public welfare. A normal plan for developing a nation’s economy centers around a strategic vision, and spending decisions are made to realize a set of public policy goals. These goals might centre around cultivating national resources, from human capital to infrastructure, or delivering basic services such as clean water, electricity, and sanitation. Distortion of government expenditure becomes unrelated to any national vision for strategic development (even where strategic vision exists). Thus, government spending becomes a function of private rather than public interest.

4. ** Patronage**

This is also referred to as clientelism. It is a form and instrument of corruption through which political power is acquired and maintained by granting economic advantages to backers in exchange for political support. These economic advantages may include employment in bureaucracies or state-owned outfits, access to public goods and services, property rights, and even the right to participate in market system (may be, through commercialization and privatization). This type of corruption undermines the formal rationality of the technical order, making it difficult for business to access that order for economic calculations.

5. **Cronyism**

This form of corruption undermines and supplants traditional government institutions such that personal relations, rather than formal institutions, laws, or procedures serve as the basis of economic and social relations. In addition to being an extreme form of corruption, cронизм is, in fact, a “discrete economic system”. In which the allocation of rents to elites is a function of their loyalty to individuals in power (Root, 1996). Corruption in this extreme form closes legitimate channels of political access and accountability while creating (and concealing) new ones (Johnston, 1997).
differs from patronage by its heightened degree of personalization, centralization, or domination of rent distribution activity by an individual ruler or ruling party.

6. Extortion
This is a corrupt practice whereby money and/or other resources are extorted by the use of coercion, violence, threats or force. It is often referred to as “extraction from below” Windsor and Getz (2000), explain that extortion is aggressive in its demand for something of value under threat for non-cooperation. The police, custom officers (and academics) are the main culprits in Nigeria (Dike, 2005).

7. Fraud
This form of corruption involves some kind of trickery, swindle, deceit, counterfeiting, racketeering, smuggling and forgery. Many Nigeria youths (yahoo yahoo boys) now extensively explore the Internet and its facilities in this variant of corruption. In spite of enabling laws and the relevant institutions to administer them, fraudulent activities still thrive in the economy (Ribadu, 2004). In about 18 months of its operation, the EFCC arrested about 500 suspects and confiscated $500 million for Internet e-mail scams and fraud (Ribadu, 2007).

8. Embezzlement
This is a form of corruption whereby public officials steal public valuables. It occurs when a state official steals from the public institution or government parastatal in which he/she is employed. In Nigeria, perhaps owing to inadequate strict regulatory system, embezzlement of public funds is one of the most common means of economic accumulation for personal benefits (Dike, 2005).

9. Favouritism
This manifests in the mechanism of power abuse in the distribution of state resources. It tends towards natural human proclivity to favour friends, family and anybody close and [assumed] trusted (Dike, 2005). It is common in places of employment and or appointment.

10. Nepotism
This is a special version of favouritism whereby an officeholder prefers his/her kinsmen and family members. Dike, (2005), citing North American Aerospace Defense Command [NORAD] (2000); Amundsen (1997); Girling (1997) and Fairbanks Jr. (1999), opines that; “Nepotism [common in Nigeria] occurs when one is exempted from the application of certain laws or regulation or given undue preference in the allocation of scarce resources”.

11. Money Laundering
This is a corrupt practice through which money from illegitimate activities is “cleansed” and transformed into a legitimate money. To benefit from their crime, corrupt officials and other Criminals must be able to make their money appear legitimately earned. It corrupts the banking sector which facilitates the process. Further, it over inflates the money supply and provides further capital for criminal to conduct their activities (Daley, 1996).

CAUSES OF CORRUPTION
Corruption appears to be a viable and veritable enterprise in many countries, Nigeria inclusive (Dike, 2005). The big question is “why is corruption a viable enterprise in Nigeria and many other countries? Several variables are responsible for and cause corruption in Nigeria like other developing and developed countries. Such factors are myriad and have political, social and cultural inclinations. By implication, the fundamental determinants of corruption vary across countries, mixing national policies, bureaucratic traditions, political development, and social history. Various schools of thought have focused on cultural or ethical causes such as the decline in religious beliefs, or in public morality, or the existence of norms and values that emphasize family or group loyalties above adherence to abstract ethical codes. Yet, other schools of thought point to the value conflict in post-colonial settings where the standards and practices embedded within traditional relationship may differ from the institutions left behind by the departed colonial power.

According to this view, corruption arises when standards of appropriate behaviour are uncertain. Specifically, some evidence points to a link between corruption and social diversity, ethno-linguistic fractionalization, and the proportions of country’s population adhering to different religious traditions (Lipset and Lenz, 2000). Other studies note also that corruption is wide spread in most non-democratic countries, and particularly, in countries that have been branded neo- patrimonial, kleptocratic and
prebendal (NORAD, 2000). Thus, to a reasonable extent, the political system and the culture of a society could make the citizens more prone to corrupt activities. Causes of corruption in Nigeria cannot deviate significantly, if at all, from most of those factors which have featured prominently in the literature and debate on corruption (Dike, 2005). The focus here is on the fundamental factors that engender corrupt practices in Nigeria as a developing economy. Thus, the following are identified:

1. **Affluence and Undue Glorification**
   The brazen display of wealth by public officials, sources of which they are unable to explain, points to the high level of corruption which has reached in the society. Many of these officials, before being elected or appointed into offices, have had little or modest income. But while in office, they are owners of many properties around the world. Many decorate themselves with countless traditional titles. Obsession with materialism, compulsion for shortcut to affluence, glorification and approbation (of ill-gotten wealth) by the general public, are among the reasons for the persistence of corruption in Nigeria (Ndiulor, 1999). One of the popular, but unfortunate, indices of “good life” in Nigeria is flamboyant affluence/conspicuous consumption. Public reaction to such affluence include: “He has made it” or “he has arrived” or he has received his breakthrough, etc. No consideration to the means of “making it”, “arriving” or “breaking through”. For this, people engage in dubious and abominable activities, including committing ritual murder for money making. This abominable process has become a daily occurrence in many parts of Nigeria.

2. **Wide Inequality in Income and Wealth Distribution**
   The social-economic divide between the rich and the poor occasioned by wide disparity in income and wealth distribution has engendered corrupt activities, especially among the youth, in an attempt to escape poverty and impoverishment and get to the “next level”. Inequality results in hindrance to economic opportunities, lack of skills acquisition, capital, material and other resources (Lipset and Lenz, 2000). This breeds a neglect of the rule of the game (societal norms and ethical standards) and innovation of criminal tendencies to make ends meet (Dike, 2005). Inequality undermines economic success and strongly restricts access to legitimate opportunities. Corrupt activities are aggravated as the deprived attempt to cut corners. This probably explains the high incidence of corrupt behaviours in Nigeria. Many Nigerians are substantially achievement-oriented but have relatively low access to legitimate economic opportunities.

3. **Negligence of Ethical Standards**
   The negligence in ethical standards throughout the agencies of government and business organizations in Nigeria is a serious drawback to corrupt-free environment. The issue of ethics in public (and in private life) encompasses a broad range, including a stress on obedience to authority, on the necessity of logic in moral reasoning, and on the necessity of putting moral judgment into practice. Many public office-holders in Nigeria (appointed or elected) do not, unfortunately, have clear conceptions of the ethical demands of their position. Little attention, if any, is being paid to this ideal, even as corrupt practices are escalating.

4. **Weakness of Social and Government Mechanisms**
   Some cultural and institutional factors lead to corruption. The strength of social and government mechanisms translate to the feeling of obligation. In his work, Klitgaard (1988) demonstrates the relationship between culture and corruption. His means-ends scheme shows that corruption is at times a motivated behaviour responding to social pressure to violate the norms, so as to meet the set goals and objectives of a social system. The attendant corrupt activities are aggravated by the lukewarm attitude of those who are supposed to enforce the laws of the land (the police, and public officials). This usually lead to people engaging in more corrupt behaviour, knowing fully well that they would get away with it.

5. **Inappropriate Policies and Ineffective taxing System**
   According to Edward (2002), bad rules and ineffective taxing system which make it difficult to tract down people’s financial activities, breed corruption. Ineffective tax system is another serious problem for Nigeria. The present taxing system does not make the individual to explain his or her sources of income, may be through end-of-the-year income tax filing.

6. **Peer Community and Extended Family Pressures**
   Onalaja and Onalaja (1997), observe that peer community and extended family pressures, and polygamous household are other reasons for corrupt practices. The influence of extended family system and pressure to meet family obligation are more in less developed societies. In this regard, Harrison (1985) acknowledges that the extended family system is an effective institution for survival, but noted that it poses a big obstacle for development. As shown by the work of Edward (1958), a strong relationship exists between corruption and strong family orientation. The study, which helped to explain high levels of corruption in
Southern Italy and Sicily, notes that corruption is linked to the strong family values involving intense feelings of obligation. That was the case with the Mafia in Italy where some people were seen to have the attitude of anything goes that advances the interest of oneself and family.

Incentives and Opportunities for Corruption

Economic approaches have addressed the incentives for an official to behave corruptly. Current efforts have utilized social science models and approaches to identify and analyze motives that induce corruption. One of such approaches is the principle-agent-client model (Klitgaard, 1988). Economic approaches model the corrupt employees as a rational actor who decides whether or not to engage in corrupt activity by balancing the potential benefits against potential costs and consequences. According to the principal-agent-client model, policies that increase the consequences of engaging in corruption by severity of punishment and likelihood of detection will lower corrupt activity. In this regard, it has been argued that the frequency of corruption in a society will change the balance of this equation model in as much as it affects the marginal costs and benefits of corruption for an official.

In addition, other important characteristics that might affect the incentives for corruption have been identified to include the predictability of the judiciary, the ratio of civil service wages to manufacturing (industry) wages, and the presence of merit-based recruitment and promotion. However, political scientists and experts in public administration have focused on institutional factors as the systemic roots of corruption. In this regard, an important characteristic of a system-enabling corruption is a divergence between the formal and informal rules governing behaviour in the public sector. Hence, World Bank (1997) observes that vast majority, if not all, of countries have rules against corruption (although not all countries have all the rules they may need), but in case of systemic corruption, formal rules become subordinate to informal rules. The Bank further explains that in some countries, the divergence between formal and informal rules results from the manner in which political authority is exercised and maintained. In other cases, the root cause may reside in weak public management systems and inappropriate policies. In both situations, re-establishing formal rules requires institutional strengthening (World Bank 1997). Political science analysts equally addresses the opportunity for corruption within institutions. In this model, Klitgaard Robert (1988) captures the opportunity for corruption as follows:

\[ C = (M + D - A) \]

Where; C is Corruption,
M is Management,
D is Discretion, and
A is Accountability.

According to this model, the opportunity for corruption (C) is a function of the size of the rents under a public officials control (M), the discretion that the official has in allocating those rents(D), and the accountability that official faces for his or her decisions (A). Yet, other lines of research suggest a mixture of cause factors drawn from both political and economic sources. For instance, empirical study by Daniel Kaufmann and Jeffrey Sachs (1997), suggests that the determinants of corruption are complex. Poor institutions (including the rule of law and safeguards for property rights), civil liberties, governance (including the level of professionalization of the civil service), and economic policies as well as other characteristics (including a larger country size) all seem to play an enabling role for corruption.

Along these interdisciplinary lines the World Bank (1997) points to both institutional and economic policy factors which create a nourishing environment for corruption. Corruption thrives where distortions in the policy and regulation provide scope for it and where institutions of restraints are weak. The problem of corruption lies at the interface of the public and the private sectors. It is a two-way street. Private interests, domestic and external, wield their influence through illegal means to take advantage of opportunities for corruption and rent seeking and public institutions succumb to these and other sources of corruption in the absence of creditable restraint (World Bank, 1997).

Opportunities and incentives for corrupt behaviour prosper whenever public officials have broad discretion in performing the tasks of their position and little accountability for their actions (Amanda, 1998). For example, policies that create an artificial gap between supply and demand create opportunities for
opportunistic middlemen and the probability for being caught and punished affects the degree to which those opportunities are seized (World Bank, 1997). In summary, the importance of identifying the specific determinants of corruption in a country targeted for reform has been stressed. Understanding the root causes of corruption is a crucial first step in developing policies that address the problem rather than its symptoms.

Impact of corruption on Nigerian Economy

Corruption has taught Nigerians a dangerous and wrong lesson that it does not pay to be honest, hardworking and law-abiding. Through corrupt means, many political office holders acquire wealth and properties in and outside Nigeria; and many display their ill-gotten wealth with reckless abandon. Many studies have been conducted that show the evils or consequences of corruption. In his study, Johnston Michael (1997) showed that corruption undermines competitive processes, focusing on short run benefit in place of sustainable, broad-based development. A study by Gunnar (1964) points out that corruption creates incentives for officials to erect additional bureaucratic obstacles to enhance bribe opportunities. One of the key questions being addressed by recent empirical studies is the effect of corruption on an economy, specifically on economic development. Economic impact of corruption in the Nigerian economy includes, but not limited to, the following:

1. **Aggravation of Poverty and Economic Backwardness**

Corruption aggravates poverty and economic backwardness because the money that should have been accumulated for sustainable growth and development of the economy finds itself lining the pockets of corrupt individuals. The process is that such money is not legally available for use in production, distribution and consumption processes. This increases the level of unemployment, further destroys initiatives, promotes illiteracy, disincentive to work and saps away scarce resources from economic development. The outcomes are aggravation of poverty and economic backwardness. This impact has been on the increase in Nigerian where we see severe macroeconomic distortions that interferes with the economy’s responsiveness to market indicators and undermines its capacity for change in a crisis situation. Money and other resources meant for meaningful economic projects are diverted into private or a group people’s pockets, as in the case of the power sector that has left the nation groping in darkness, crippled economic activities in the real sector and slowed down growth and development of the economy, even after “gulping” 5 - 10 billion US Dollars (Tell, July 2008). Identifying with this, the ex-president of World Bank (Paul Wolfowitz) says: “Poor governance and corruption is a cancer on the global development process … Over 300 million 12 people, around half of the population of African Sub-continent, live in extreme poverty. This 300 million is about twice the number of extreme poverty twenty ago in Africa”.

2. **Distraction from Development**

Corruption distracts from development, which World Bank defines as “a sustainable qualitative improvement in living standards accompanied with equitable distribution, social justice, good health and environmental protection”. Johnston (1996) and World Bank (1997) concur that corruption undermines competitive processes, focusing on short-run benefits in place of sustainable, broad-based development. This distracts from meaningful development.

3. **Aggravation of Income and Wealth Inequalities**

Corruption aggravates income and wealth disparities in the society, and renders equitable income and wealth distribution mechanism ineffective. This is not unexpected since the authority for policy formulation and implementation of such mechanism resides with the same corrupt individuals. Such beneficiaries constitute themselves into financial empires and can acquire wealth and property of unimaginable magnitude within and outside Nigeria. A striking example is the EFCC investigation which has shown that the ex-governor of Delta State, James Ibori bought into several companies in Nigeria and overseas (Tell, July 2007). Imposition of Heavy Burden on Small and Medium-Scale Enterprises corruption imposes a heavy burden on small and medium-sized enterprises, and tend to shift government spending away from socially beneficial investment such health, education, roads, communications, power, etc, towards irrelevant projects (Owolabi, 2007). The essence is usually for selfish gains at the expense of the society.

4. **Distortion in Contracts Awards**

Corruption has had many direct and indirect negative consequences on the Nigerian economy in the medium and long-run. Expectations of bribe have distorted the number and types of contracts placed for bidding, the method used to award contracts, and the speed or efficiency with which public officials do
their work in the absence of bribes. Regrettably, the gains from such bribery are accessible only to certain firms and public officials. In the opportunity for corruption model \[C = (M + D - A)\], the higher the management and discretionary authority, with less accountability, on the part an official in charge of awarding contracts, the greater the tendency for corruption, and vice versa. For instance, according the Punch Newspaper, the EFCC found out that N361 million contract then Alao Akala (Oyo State Governor) awarded to a publishing firm for the supply of textbooks to the State was inflated by N488 million. Another contract for the supply of textbook awarded to the same company for N631 million was also inflated by N395 million (The Punch, July 2008).

5. Reduction in Domestic and Foreign Investment and Stimulation of Capital Flights

Corruption reduces domestic and foreign investment and stimulates capital flight, as it weakens domestic banking system. Pervasive corruption often discourages donors from providing more aids and grants. This hampers opportunity for economic growth and development (Owolabi, 2007). Results of recent empirical studies have shown that corruption has a strong negative correlation with the level of development in a country, especially when measured by the level of income per capital (currently put at $2000). Mauro (1997), presents evidence of negative effect of corruption on development, pointing out that corruption can slow down development through a number of channels, among which is investment. The evidence suggests that much of effects of corruption on growth transmit through its effects on investment. Since investment drives development, this is relevant in the Nigerian case. Public and political officials stock away their ill-gotten wealth in foreign bank accounts. This constitutes a drain on financial resources available for investment in the domestic economy. The net effect is a decrease in aggregate saving and investment, which further slows down development.

6. Sub-Optimal Utilization of Talents

Murphy, Shleifer, and Vishny (1991), argue that situations in which rent seeking provides more lucrative opportunities than productive work create suboptimal allocation (underutilization) of talents. Talented and highly educated individuals will be more likely to pursue rents than work productively thus, adversely affecting their country’s growth rate. This is the situation in the present day Nigeria where corruption and other criminal acts have permeated the bone, marrow and brain of talented young Nigerians who would have otherwise, utilized their talents in more general productive, legal and dignifying ventures than advance fee fraud (419), money doubling (now old-fashioned), swindling, internet crimes (Yahoo Yahoo boys) and other criminal activities.

7. Distortion of Government Revenue

Corruption has led to loss of tax and other revenues by the government. Tax revenue loss is associated with tax evasion or improper use of discretionary tax exemptions. Other revenue loss may result from capital flight stimulated by corruption. Government revenue is further lost through corrupt activities like over-invoicing, over-valuation and inflation of contracts costs, kickbacks (10 percent), etc. All these are very rampant in the Nigerian economy and those at the corridors of power and their cohorts are the chief perpetrators. In fact, businesses, especially in the domain of governments (all-tiers), are characterized by these corrupt practices.

8. Neglect of Education Section and Human Capacity Development Level

A study by Hines (1995) reveals that corruption is correlated with lower levels of spending on education. This impedes on human capacity development. This is an important finding in the light of the evidence that education attainment is an important determinant of economic growth. Despite its role as an important determinant of economic growth and development, low levels of budgetary allocations to education have been the case in Nigeria for several decades. This attendant consequences include under funding of the sector, instability in academic calendar occasioned by frequent strikes (ASUU, SSANU, NUT, etc), falling standards of education, turning out of half-baked (now, possibly quarter-baked) unemployable graduates, further retardation of growth and development and insecure economic, social and political future of Nigeria and Nigerians. One interpretation of the shift away from educational expenditure is that it is less lucrative industry for collecting bureaucratic bribes and perpetuation of public sector corruption. The list of implication of corruption in the Nigerian economy is long and cannot be exhausted by a discourse of this magnitude. However, the points above illustrate some of the implications of corruption on the Nigerian economy. It is noteworthy that public sector corruption is the most severe obstacle to economic growth and development. Vested financial interests and corruption constitute a key reason for the lack of sufficient progress in the economy and economic reforms-growth and development.

Some of the Initiatives and Measures put in place to Curb Corruption in Nigeria.
An impressive body of laws has been made in Nigeria, especially during the era of military government, to checkmate corruption. Criminal and penal codes existed for trying corrupt officials. In addition, certain initiatives were taken to intensify the war against corruption. Such laws include:

- Banks and Other Financial Institutions Act, 1990.
- The Failed Banks (Recovery of Debts) and Financial Malpractices Act No. 18 of 1994.
- Failed Banks Act No. 16 of 1996.
- Advanced Fee Fraud and Other Related Offences Act No. 13 of 1995. This was intended to combat the menace of “Fraud Letters” or 419.

All these laws and codes predate the enthronement of democracy in 1999. Despite this bunch of anti-corruption legal apparatus, corruption and corrupt practices thrived. Perhaps, this was why the international community saw Nigerian laws as grossly inadequate in dealing with the corruption and crimes (Owolabi, 2007). To Odozi (2002), the laws lacked diligence in implementation for the following reasons:

i. Inadequate resources for designing and implementing various anti-crime measures;
ii. Impediments imposed by the laws on banks secrecy which shielded the criminals and/or allowed them to frustrate prosecution;
iii. Large and growing unregulated informal sector with varying degrees of opacity and criminality,
iv. Fragmentation of legal provisions and arbitrage opportunities for criminals;
v. Poverty in the country which makes excuse, if not justification, for various forms of economic crimes [corruption];
vi. Cross-border porosity and protection for criminals;
vii. Lack of political will to resolutely implement tough anti-crime measures.

Consequently, only very few offenders have been successfully prosecuted and tried for corruption as the technicalities of the laws were exploited by defense lawyers to their great advantage. Furthermore, most of the agencies charged with enforcing the laws were not faithful in keeping abreast of the dynamics and challenges of modern society, especially the intrigues of corrupt people and their accomplices. All these formed the background to the former President Obasanjo administration’s determination to combat corruption head-on from 29th May, 1999 (Owolabi, 2007).

The Independent Corrupt Practices Commission (ICPC), Economic and Financial Crimes Commission (EFCC) and Other Agencies

On enthronement of democracy in 1999, the former President Olusegun Obasanjo declared thus on corruption:

“Corruption, the greatest single bane of our society today will be tackled head-on at all levels. Corruption is incipient in human societies and in most human activities. But it must not be condoned. No society can achieve anything near the full-blown cancer it has become in Nigeria; the rampant corruption in the public service and the cynical contempt for integrity that pervades every level of bureaucracy will be stamped out”.

The Obasanjo administration enacted the Corrupt Practices and Other Related Offences Act 2000 under the umbrella of Independent Corrupt Practices and Other Offences Commission (ICPC), and the Economic and
Financial Crimes Commission (EFCC) Act of 2002. As well, the Money Laundering ac was thoroughly revised and updated. In the Acts, the tools for identifying, investigating and convicting offenders are enhanced. “The use of presumptions, the reversal in the burden of proof, the seizing of assets or freezing of accounts and the establishment of specialized autonomous anti-corruption agencies apart from police are included in the Anti-corruption Acts” (Ajibola, 2006). The responsibility of the ICPC include receiving petitions and investigating them, and inappropriate cases, prosecute the offenders; studying systems and practices of government and where they aid corruption, and fraud, to advise government on how to avoid and change procedures and systems; to educate the public and foster their support against corruption. The EFCC Act was passed in 2002, which created the EFCC with the single establishment purpose of fighting crimes including Advance Fee Fraud, money laundering, fraud, and bank-related malpractices. This Act was amended by the EFCC (Establishment) Act of 2004. Other agencies in the anti-corruption crusade include the Code of Conduct Bureau, National Food and Drug Administration and Control (NAFDAC), Standard Organization of Nigeria (SON), the Budget Monitoring and Price Intelligent Unit, otherwise known as “Due Process”, which enforces strict adherence to probity in the award and execution of contracts.

Recommendations for Curbing Corruption in Nigeria

Once the type of corruption and its determinants as well as incentives and opportunities have been identified for a specific situation, anti-corruption measures and reform become a two stage process. The first stage is that policies must be developed and fine-tuned to address the fundamental causes of corruption, not just the symptoms. The second stage is that political-will must be created to implement measures and reforms. For example, one of the main causes and origin of corruption in Nigeria, and supposedly other developing countries, resides in the domain of wealth distribution and income inequality. Thus, the government should fine-tune policies, evolve and sustain the political will to address the issue of wealth distribution and income in equality. Such policies should genuinely consider the provision of social overheads to cushion the negative impact and pains of income and wealth inequality on the populace. As a matter of urgency, payment of subsistence wages to the civil servants should be discouraged. Punitive measures should be defined and taken against corrupt officials. In addition, more enabling environment should be created to empower greater proportion of the Nigerian population to participate more actively in economically viable ventures. These would certainly reduce wealth and income inequality, and ultimately inequality-induced corruption.

Similarly, other forms of corruption can be curbed once their causes, determinants, incentives and opportunities are identified. Political will must complement each relevant combatant policy reform. This calls for genuine anti-corruption campaigns by legislating more stringent laws and stricter enforcement of existing laws; institutional reforms such as wage increases for civil servants and bureaucrats. Policies focused on imbibing these three ideals would form the basis of a comprehensive strategy for anti-corruption campaign.

Recently, there has been a change in the leadership of the EFCC. While we await the anti-graft’s next course of action with greater enthusiasm, and its collaborative relationship with the ICPC, we further recommend that Nigeria incorporates the following strategy developed by the World Bank in its Development Report (1997) to comprehensively address corruption:

i. Establishment of a rule-based bureaucracy with a pay structure that rewards civil servants for honest efforts. Merit-based recruitment and promotion systems to put in place to insulate civil servants from political intervention. Credible financial controls should be created to disallow the arbitrary use of public resources.

ii. Reducing their discretionary authority should curb opportunities for officials to act corruptly. In general, any reform that increases the competitiveness of the economy will reduce the incentives and opportunities for corrupt behaviour. Policies that lower controls on foreign trade, remove entry barriers to private industry, and privatize state firms in a way that ensures competition are all effective when correctly administered. If price controls are lifted, for example, market prices will reflect scarcity values, not the payment of bribe.

iii. Strengthening monitoring and punishment mechanisms should enforce the accountability of government officials. Criminal law and oversight by formal institutions and ordinary citizens can be effectively utilized.
To these, we add that the academic and academia should shift emphasis to developing empirical studies to broaden the understanding of corruption, its causes, consequences and solutions.

**Conclusion**

This paper has discussed some of the impacts of corruption on Nigerian economy. The devastating effects in the economy are undeniable. Despite government’s anti-corruption policies and campaigns, corruption virus is intensifying its hold on the Nigerian state. Our discussion centres on the areas of conceptual issues, causes, incentives, opportunities, and economic impacts. On the basis of the discussions, recommendations have been made and, in conclusion, therefore, it is our humble view that serious and sincere commitments to counter corruption involve comprehensive institutional and administrative reforms: reform of economic policies, legal and judicial reforms particularly in the extreme cases of patronage and cronynism, of high-level corruption among corrupt government officials. This task requires genuine intention and urgent attention in Nigeria of today where corruption is used as a tool to acquire political support and exercise political power. Strengthening institutions and weak legal and public management systems, and reforming policies which create discretion and opportunity for corruption are, and should be, important components of any anti-corruption policy and strategy. These measures can help realign the incentives that rule the behaviour of political and bureaucratic officials, create a government and a people with the will and capacities to implement public policies in place of corrupt deals.

**REFERENCES**


