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Chapter

Corruption Dynamics and Economic Growth in Nigeria

Mathew Ekundayo Rotimi, Aishat Princess Umar and Mishelle Doorasamy

Abstract

Corruption is as old as man's existence. It manifests in various places, ways, extent and sphere to impede economic growth, including Nigeria. This chapter presents corruption dynamics and its impact on economic growth in Nigeria. Among other things, the chapter reviewed the Nigerian economy in context, with focus on cases and forms (embezzlement, favoritism, bribery, and extortion) of corruption in Nigeria. Other matters discussed are anti-corruption agencies and channels of corruption in Nigeria. Following the review and discussions therein, the chapter concludes that corruption occurs in diverse forms and it is an act that deviates from the extant law. The study further concludes that the persistence of corruption in an economy impedes economic growth. The Nigerian case has proven that the grease-the-wheel assumption cannot hold because the growth of Nigeria has been affected drastically through the existence of corruption. Considering the dimensions that corruption has taken in Nigeria, it has become difficult or even impossible to eradicate corruption in the country, but curbing this cancer worm and reducing it to the barest minimum are of great importance to achieve the level of growth needed and make Nigeria restore sustainable economic growth path.

Keywords: corruption, grease-the-wheel, dynamics, economic growth, embezzlement, Nigeria

1. Introduction

Corruption is global, not excluding Nigeria. It is inimical to economic growth, which serves as a bane to economic growth and development in Nigeria. It undermines government efforts and policies advanced to secure meaningful well-being for the citizenry. Undeniably, corruption is becoming a life pattern in Nigeria. It is prominent among public officers and private establishments. Indeed, several efforts by successive regimes to understand the dynamics of development in corruption and its challenges to economic growth in Nigeria have been confronted with various odds. As a result, it is necessary to understand corruption and why it has remained inflexibly endemic and intractable in the Nigerian economic fiber and fortitude. This study provides insights to this challenge by conceptualizing the concept, corruption, evaluating its evolution, causes and forms, and its impacts on the Nigerian economy.
The rest of this chapter is divided into nine sections. Section two explains overview of the Nigerian economy. Cases of corruption in Nigeria were presented in section three. While section four presents the forms of corruption, sections five, six, and seven respectively present causes, anti-corruption agencies, and disadvantages of corruption in Nigeria. In section eight, corruption and its consequences on economic growth were discussed, and section nine presents channels of corruption in Nigeria and finally, the conclusions were drawn in section ten.

2. Overview of the Nigerian economy

Recognized as one of the largest economies in Africa, Nigeria has been on the part of growth since the discovery of oil in commercial quantity. Nigeria has an abundance of crude oil and gas, which generates most of the revenue of the economy [1]. The oil sector averagely contributes, annually, about 10, 65, and 85% to gross domestic product (GDP), revenue and foreign exchange earnings, respectively [2]. Unfortunately, Nigeria has paid less attention to other important sectors of the economy such as the mining industry and agricultural industries among others since oil was discovered in commercial quantity. On the other hand, proceeds from crude oil sales have been characterized with corruption, diversion, and reckless spending.

In 2018, OPEC reports estimated the oil reserve of Nigeria to be 37.06 million barrels. With such reserve, the ability of the Nigerian economy to grow, moving on the wheels of crude oil remains very high. This report further stated that Nigeria still has the potential to discover and explore oil that indicates the possibility of an increase in the reserve of oil and also an increase in the exportation of oil. It is impossible to discuss the growth of the Nigerian economy without talking about the oil sector, which is the major source of the revenue of Nigeria. Nigeria is the largest oil producer in Africa, producing about 2.4 million barrel per day (mbd) [1].

Nigeria is also rich in human resources, and other mineral and natural resources, and has a population of over 180 million people [1]. The country is endowed with other resources such as gold, iron ore, limestone, coal, rich soils among several other resources upon which it can survive. Harnessing the oil resources and the natural resources that Nigeria possess will make Nigerian not just the Giant in Africa but a place of reference in the global village. Unfortunately, the sector has been characterized with corrupt practices.

3. Cases of corruption in Nigeria

Defined by the World Bank and Transparency International, corruption is an unlawful use of public offices for personal gain and it has been a problem that has hampered the growth of the Nigerian economy over the years [3]. According to Organization of Petroleum Exporting [4] and Raini et al. 5], corruption is as old as the creation of man. Man by its selfish nature struggles to meet his selfish desires and in the process engage in corrupt activities. Corruption exists in the public sector as well as the private sector of every economy be it a developed economy or a developing economy [6]. The evidence of the existence of corruption in Nigeria can be traced to the investigation on oil petroleum subsidy fraud, misuse of pension funds, and the recycling of items in previous budgets as a strategy to loot funds [6].

The history and existence of corruption in Nigeria dates back to the period before, during, and after colonization. Nigerian leaders and merchants during the
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pre-colonial period collected foreign products and gave able bodied men to the whites in exchange. As far back as that time, Nigerians preferred personal gains over life and so they could easily trade humans for foreign goods. Corruption has lived in Nigeria for this long because checking and curbing corruption is only possible through the use of corruption a situation that further destroys the system [6].

Another scenario that has been attributed to corruption in Nigeria was the forceful taking over of power by the military government [7]. Although the military-sized power with the cover-up story of maintaining peace and order, arguments have come up to fault this story as many believe that the military came into government for the sake of their own selfish interest. The military through the suspension of the constitution and the neglect of the rule of law looted public funds that were meant to facilitate the growth of Nigeria [3]. Consequently, corruption is strongly rooted in the military regime [7].

Considering the level at which corruption had grown in Nigeria, the return of Nigeria to civilian rule could not reduce the level of corruption but rather, it grew and became a thorn to the growth of the Nigerian economy. As at 2011, Transparency International ranked Nigeria as the 143th out of the 182 nations of the world experiencing corruption [3]. In 2018, Nigeria ranked 144th out of 180th with Somalia topping the list with the rank of 180th and in 2019, Nigeria ranked 146th out of 180 [1].

4. Forms of corruption in Nigeria

More precisely, corruption can be seen to be a deviation from the norms of the society. This definition goes beyond looting of funds but rather encompasses all activities that are against the rules that uphold a nation. Corruption therefore manifests in various forms which [8–10] pointed out the following:

i. Embezzlement: Most of the public office holders in Nigeria have been linked with embezzlement of funds. The term embezzlements refer to the diversion of public funds for personal and private gains.

ii. Favoritism: Another form of corruption in Nigeria is selecting people that may not have the required qualification for a position, simply because, they have offered gifts to the officer in charge or because they have been introduced by top-ranking personalities/politicians. This singular act affects a nation’s growth adversely. Public office holders in Nigeria have in a way or the other distributed funds in ways that are not justifiable because they choose to favor friends, families, well-wishers among other, justifying it on flimsy reasons.

iii. Bribery: This has become the other of the day in Nigeria. Bribery has affected all the sectors of the economy. It is the act of giving physical cash or gifts to people in positions to facilitate certain gains. Rotimi et al. [6] defined bribery as the act of giving money in cash or kind to cause public office holders to act in ways that are different from their oath of office.

iv. Extortion: It is no longer news that some public officers and law enforcement agents (Police, Customs, and Road Safety among others) are found of extorting money from citizens by force. They stand on high ways and stop vehicles with incomplete documents. Rather than taking the appropriate steps, they make
these motorists pay meager amounts and then allow them to go. This system has become a part of the society.

v. Another form of corruption that is popular in Nigeria is usually carried out by bureaucrats and politicians. They collaborate with international organizations to defraud the government in business transactions, for the purpose of personal gains and self-ratifications. This type of corruption according to Tanzi and Davoodi [3] is referred to as grand corruption.

5. Causes of corruption

A lot of factors can contribute to the level of corruption in a country. The human nature is selfish and at all times pursues personal gain [3]. But most precisely, the factors that can fuel corruption are, but not limited to:

a. **Greed**: Human wants are insatiable [3]. Man’s wants are always above what he earns and as a result, he begins to find alternative means to augment what he has. This factor has pushed lots of Nigerians into corruption of different forms. The inability of some office holders and citizens of the nation to be contented with their earnings has pushed several thousand of these people into corrupt practices such as embezzlement, extortions, among others [5, 8]. This is in line the Kpakpin model of Rotimi et al. [6].

b. **Sentiments**: Lots of corrupt practices are associated with sentiments. When opportunities arrive, people tend to think of their family members, friends, well-wishers, and ethnic group rather than other people irrespective of the qualification. Ethnic sentiment has become the order of the day in Nigeria. Since Nigeria is an economy with diverse ethnic groups, people are concerned about the needs of their ethnic groups and less or outrightly unconcerned with that of other ethnic groups. Public office holders and even law makers lobby to ensure that important facilities such as good road networks, schools, portable water among others are established in their own regions without any form of consideration for the other regions of the same country [3].

c. **Poor incentives**: Incentives can be in form of cash (wages and salaries) or kinds. Public and office holders in Nigeria tend toward corrupt practices in order to meet up with their needs. This is evident in the salaries that they earn. The salaries are meager and cannot sustain these people. In order to augment, these people begin to accept bribes, loot public funds, and engage in unlawful practices [5, 8].

d. **Influence of Godfathers**: This is common among politicians in Nigeria. Tanzi and Davoodi [3] attributed the corruption in the Nigerian society to the influence of godfathers within the political circle. Having political godfathers who will pave the way for political success has become the norm in the political circle. Through the help of these political fathers, the political sons become victorious and, in most cases, become slaves to these political fathers. At the request of these political godfathers, they loot public funds and engage in favoritism.
6. Anti-corruption agencies in Nigeria

Following the history, the dynamism and manifestation of corruption in Nigeria, and the understanding that it is long-age phenomenon that requires systematic means to curb it, the government has put in place diverse machineries to achieve this goal. The establishment of certain agencies such as the Economic and Financial Crime Commission (EFCC), the Independent Corrupt Practices and other Related Offences Commission (ICPC), Code of Conduct Bureau (CCB), Nigeria Extractive Industries Transparency Initiative (NEITI), Budget Monitoring and Price Intelligence Unit (BMPIU) and Nigerian Investment Promotion Commission (NIPC) [6] were meant to curb the problem of corruption in Nigeria.

6.1 Economic and financial crime commission (EFCC)

This agency was created in 2003 during the administration of President Olusegun Obasanjo to curb all forms of financial and economic crimes in Nigeria. The Economic and Financial Act of 2004 backed the operations of the body [6]. The body has been charged with investigation and prosecution of people linked with financial and economic crimes in Nigeria such as advanced fee fraud (419) and money laundering.

6.1.1 Functions of EFCC

The EFCC mission it to deploy necessary legal means to free Nigerians from greed, vestiges, and all avarice of corrupt practices, and does promote accountability, integrity, and transparency in both private and public sectors in Nigeria. Consequently, among others, the agency is charged with the underlisted functions following its establishment in 2003 by the President Olusegun Obasanjo led administration.

a. Investigate financial and economic crime. Specifically, it investigates individuals in all sectors who believed to be living above their means.

b. Persecute criminals linked with advance fee fraud/laundry or who appear to live above their earnings.

c. Combat counter terrorism

d. Ensure healthy economic governance

6.1.2 Achievements of EFCC

The EFCC after its establishment has recorded success. For instance, it was able to persecute and investigate the issues of corruption in Nigeria and recovered the sum of 2.2 billion dollars after two years of its establishment [3]. In 2013, a recovery of more than 11 billion naira, 2 million dollars, and 45 thousand pounds sterling from corrupt-related crimes are found [3, 5]. The agency was also reported to have conducted more than 2,000 investigations and persecuted 485 in 2013. In that very year, 117 of the persecuted were convicted [6].
6.2 The independent corrupt practices and other related offences commission (ICPC)

ICPC was inaugurated in September 2000 after the recommendation of the ex-president of Nigeria, President Olusegun Obasanjo. The agency was to investigate reports connected to corrupt practices in Nigeria. The corrupt practices and other related offences Act 2000 backed the operation of the agency (ICPC, 2009). The agency was created with the aim of reducing or completely eradicating corruption in Nigeria.

6.2.1 Relationship with EFCC

The establishment of the Economic and Financial Crime Commission in 2003 which was a law enforcement body meant to investigate financial crimes. The goal of ICPC is to target corruption in the public sector such as bribery, misuse of power, diversion of public funds, among others. While the operation of the EFCC covers everybody suspected to be involved in illegal activities, that is people seen to be living above their earnings, people are linked to Internet fraud or advance fee fraud (419). ICPC only takes care of the corrupt practices in the public sector. Although there has been reasonable tension between both agencies because, it is believed that the creation of EFCC, an agency that performs similar functions with the already established ICPC, is nothing but a duplication of roles. The fact remains that both bodies have important roles to play judging from the wide spread of corruption in Nigeria.

6.2.2 Achievements of ICPC

Compared with the achievements of the EFCC, the ICPC has recorded little.

6.3 Code of Conduct Bureau and Tribunal Act

This was established to handle complaints of corruption by public servants. The aim and objective of the bureau is to maintain a high standard of morality in the conduct of government activities and to ensure that the actions and mode of conduct of public officers are in line with the highest standards of public morality and accountability (ccb.gov.ng).

6.3.1 Functions of the Bureau

a. Collect assets declarations by public officers in accordance with the provisions of the Act;

b. Examine the assets declarations and make sure that they comply with the requirements of this Act, and of any law for the time being in force;

c. Take and retain custody of such asset's declaration;

d. Collect complaints about non-compliance with or breach of this Act and where the Bureau considers it necessary to do so, refer such complaints to the Code of Conduct Tribunal (CCT) established by section 20 of this Act in accordance with the provisions of sections 20 to 25 of this Act stating that, “where the fellow concerned makes a written of such breach or non-compliance, no reference to the Tribunal shall be necessary.”
6.3.2 Advantage of corruption

Corruption is believed to be destructive by nature [3]. It affects the growth of every nation negatively [1]. As bad as corruption may be, studies have proven that it also has its advantages [1, 4, 11]. Their argument is situated within the context of "grease-the-wheel" theory. According to these studies, corruption especially in the area of bribery could enhance the performance of an economy based on the theory. Buttressing this argument, [3], using panel data of 54 developing nations examined the impact of corruption on the growth of these nations. The study revealed that, in countries with weak institutions, corruption plays a vital role in the growth of such nations. As such, corruption can be seen to be advantageous to such nations. Given a nation that is faced with political instability, inefficient government, and weak institutions that hinder growth, corruption especially bribery greases the wheels of growth through the creation of funds, which is termed as “speed money.” This “speed money” lubricates the economy and enhances growth.

In another view, giving a religious coloration, the holy book states in the book of Proverbs 18:16 that, “our gift will make room for us,” and in another version, “your gift will make room for you, to be happy, healthy and prosperous.” In this context, gift offers at any level could be positively infectious. This buttresses the grease-the-wheel theory or rubs the palm hypothesis that corruption helps things to go smoothly.

Nonetheless, the positive possible influence that corruption may have on other economies, it could be safe to conclude that corruption has affected the growth of the Nigerian economy overtime. Since Nigeria is a developing nation with weak institutions, and high rate of bribery, it therefore means that the existence of speed money has contributed to the growth that Nigeria has experienced over the years. Nonetheless, there could be to examine the economic gains and pains of corruption.

7. Disadvantage of corruption

Regardless of the benefits of corruption to a nation, the net outcome according to grease the wheels theory is negative [3]. The work of [12] established a negative relationship between corruption and investment, which results in a reduced level of growth in nations with the high rates of corruption. This by extension implies that, as corruption continues to increase, the GDP of such nations continues to fall resulting in a decreased level of growth. An argument that can be put forward against the grease the wheel theory is that, bribery can only affect the growth of a nation positively in the short run but may have a negative effect on growth in the long run. When public officials have opportunities to receive bribe, they may be tempted to change and twist rules in the ways that can continue to bring forth these bribes or “speed money” and by implication causing the inefficiency of the government to continue [6].

This also describes the Nigerian case of prolonged government inefficiency, weak institutions, political, economic and academic instabilities among other factors hindering the growth of the Nigerian economy. Corruption can be found in most of the sectors in the Nigerian economy [3]. Bribery has become the order of the day. Indeed, the existence of bribery has created speed money, which has enhanced growth in the face of weak institutions, and the truth also remains that it has made it easy for both public and private officials to boycott rules and regulations in order to create rooms to favor those who must have offered bribes. By doing that, the institution continues
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to be weaker, and the government continues to be inefficient and, on the whole, the general effect on the economy remains negative.

8. Corruption and its consequences on economic growth

Economic growth may simply be referred to as a process by which a nation’s productive capability increases or an expansion in the gross nation products. A rise in the GDP signifies growth. Given the potential of Nigeria, achieving significant economic growth is feasible. Studies have attempted to understand the effect of corruption on economic growth. While some studies believe that corruption greases the wheels of growth [3], others believe that corruption sands the wheels of growth [3]. Lemke [13] asserts that corruption has a negative impact on economic growth and development of nations at the macro-level.

9. Channels through which corruption affects the growth of a nation

Based on the works of Lemke [13] and Tanzi and Davoodi [3], corruption can affect the growth of any nation through the following ways:

a. It hinders incentives and market forces causing wrong allocation of resources

b. It re-directs resources (including human resources) into other activities such as rent-seeking activities rather than productive activities.

c. It acts as an ineffective tax on business and lowers the profitability of businesses

d. There is the possibility of a decrease in the profitability of investments through the reduction in the quality of resources

e. Rent-seeking behavior can result in inefficiencies, fueling waste resources, and undermines the efficiency of public expenditure.

Furthermore, cross-country data indicate that corruption is at all times negatively associated with the growth of countries, GDP per capita, economic equality and encourages lower human capital development [6, 14].

In Nigeria, several studies such as [1, 3, 6] and the report of Nevin of Partner West Market Area [1] have described the relationship between corruption and the economic growth of Nigeria to be negative. This means that as corruption continues to increase in Nigeria, the growth of the Nigerian economy will be affected negatively. Particularly, Rotimi et al. [1] in his report said that Nigeria may lose about 37% of GDP by 2030 if the level of corruption in Nigeria is not dealt with. This loss is equated to 1000 USD per person in 2014 and nearly 2000 USD per person by 2030.

Corruption is a serious issue in Nigeria and has affected public finances, business investment as well as the people’s standard of living. Corruption according to the report of Rotimi et al. [1] had great effects on the economy of Nigeria. Corruption was said to have effects on government effectiveness through smaller tax base and inefficient government expenditure. Corruption also has effects on the human capital of Nigeria. According to the report of Organization of Petroleum Exporting [4], most
people who have no means of bribing their way through find it difficult to access the
basic necessities of life-like education, sound health care, and portable water and
other important social amenities. Corruption is always and everywhere a bad thing
[3]. Take for instance, to go to school, people need to sponsor them or get a scholar-
ship. The poor cannot sponsor themselves, hence, the need to access the available
scholarships. But because they do not have the needed finance to bribe the govern-
ment officials in charge of government scholarships, they lose these scholarships and
end up as illiterate who may fail to give back to their nations in the future. Corruption
also weakens the institutions of a nation and lead to inefficiency. To this end, the
assumption of Tanzi and Davoodi [3] that, corruption is always and everywhere a bad
thing cannot be over looked.

Looking at the effect the high level of corruption has had on the Nigerian economy,
the study of Organization of Petroleum Exporting [4] and Raimi et al. [5] revealed that
the relationship between economic growth and corruption is negative and this rela-
tionship extends beyond the short run. The negative association between the economic
growth of Nigeria and corruption based on the study also holds in the long run. The
study was conducted using the Solo-swan model that asserts that economic growth is
achieved when the level of corruption is minimal.

10. Conclusions

Corruption has been seen to occur globally and manifesting in diverse forms such
as bribery, favouritism, extortion, embezzlement, and other forms of acts that devi-
ate from the law. With the persistent existence of corruption in an economy, growth
will be difficult to achieve. The Nigerian case has proven that the grease-the-wheel
assumption cannot hold because the growth of Nigeria has been affected drastically
through the existence of corruption as studies like [1, 3, 6] have proven that corrup-
tion affects the growth of the Nigerian economy negatively. Considering the dimen-
sions that corruption has taken in Nigeria, it has become difficult or even impossible
to eradicate corruption in the country, but curbing this cancer worm and reducing it
to the barest minimum are of great importance in order to achieve the level of growth
needed and make Nigeria remain the giant of Africa and self-sufficient.

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Author details
Mathew Ekundayo Rotimi\textsuperscript{1*}, Aishat Princess Umar\textsuperscript{1} and Mishelle Doorasamy\textsuperscript{2}

1 Department of Economics, Federal University Lokoja, Kogi State, Nigeria
2 School of Accounting, Economics and Finance, University of KwaZulu Natal, Durban, South Africa

*Address all correspondence to: mathew.rotimi@fulokoja.edu.ng

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