

# Influence of Corruption on Economic Development in Nigeria

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## To cite this article:

Augustine Okon Jacob, Okon Joseph Umoh. Influence of Corruption on Economic Development in Nigeria. *Journal of Public Policy and Administration*. Vol. 1, No. 1, 2017, pp. 10-21. doi: 10.11648/j.jppa.20170101.12

**Received:** May 12, 2017; **Accepted:** May 27, 2017; **Published:** July 10, 2017

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**Abstract:** A vital aspect of economic analysis lies in its wealth of tools. These tools often enable economists to widen the frontiers of their analytical concerns to issues that have important economic implications, even though they may not be strictly economic in nature. Corruption is an example of such an issue. The effect or magnitude of corruption had varied among different societies and in different historical epochs. In recent times, this issue has assumed such a salient dimension as a social problem in some Less Developed Countries that discussion of it cannot be ignored in a paper of this nature. It is the writer's contentions that economics analysis is particularly well equipped to study the complicities of corruption because it can generate more comprehensive operational policy proposal for its solution. In this paper, therefore this study intend to define corruption, economic effects of corruption, corruption on development, Nature of corruption in Nigeria, causes of corruption, consequences of corruption, economic development, political and social development, the out of corruption.

**Keywords:** Corruption Rank, Economic Development, Economic Growth, Nigeria

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## 1. Introduction

Corruption is a worldwide phenomenon which exists in all countries. Corruption is a word used to cover a wide range of morally offensive or criminal acts, thus, its precise definition is not easy. Gray and Kaufman define corruption as the abuse of public offices for private gain. Thus, it refers to the use of position of power to seek personal advantage either by performing an act or omission of the expected performance/duty [1, 2], Dictionary definition of corruption refers to various offences by public officials including bribery, the sale of offices, granting of public contract to favored firms and individuals and granting of loan or franchise in return for monetary rewards. In the united states, for instance corruption economic practices is referred to as underground economy and in 1982, it was estimated to have accounted for about 14% of the Gross Domestic Product. More recently corrupt practices bordering on crime have been uncovered in large corporation like Enron tyco. There was report of corruption from the former soviet empire following the breakup of soviet empire in 1991, the transitional period to a liberalized economic system

witnessed many corrupt activities especially during the process of privatization [2, 3, 4]. In 2003, Nigeria was rated the second most corrupt by Transpiracy international, a berlin-based international Non-Governmental Organization (NGO). There are a lot of corrupt practices in Nigeria such money laundering, inflation of contracts by public holder, looting of treasury, stealing of government properties, vehicles, land, houses, collection of money before one is being explored. Since the inception of this administration, records shows that there has been contract approved and project not executed but money was paid. There are cases of people being placed on the payroll over the years who are not real workers both at local, states and federal settings. Now in Nigeria you cannot get employment, contract, admission in many offices and establishments without paying some money. These are corrupt practices that retards economic development caused by corruption. From all indication, the rate of corruption in Nigeria causes is consistently high compared to other developing and developed nation of the world.

## 2. Corruption

Corruption is one of many social pathologies ravaging Africa, is also one that is better described as it occurs than conceptually defined since its bounds and implications are not often adequately spelt out definitively. Most definitions however describe its scope to mean any organized, interdependent system in which part of the system is either not performing its duties as ethically expected or is performing them in an improper way, to the detriment of the system's original purpose [5]. In other words corruption covers a broad spectrum of activities ranging from fraud (theft through misrepresentation), embezzlement (misappropriation of corporate or public funds) to bribery (payment made in order to gain an advantage or avoid a disadvantage) [6].

Corruption according to [7] affects any polity in a negative manner, but their effects are particularly acute in emerging economies. Indeed, positive change and economic growth cannot occur in endemically corrupt polities.

Conceptually this social vice is universally decried and constitutes a phenomenon in its self. Invariable it is squarely a conglomeration of discrete failures, a failure of institutional controls over bureaucrats or a failure of the legal system that controls the behavior of bribe payers which consequently degrades bureaucratic decision-making and popular support for change.

[8] Advances that, it is the symptom of deep institutional weaknesses and leads to inefficient economic, social, and political outcomes. It reduces economic growth, retards long-term foreign and domestic investments, enhances inflation, depreciates national currency, reduces expenditure for education and health, increases military expenditure, misallocates talent to rent-seeking activities, pushes firms underground, distorts markets and the allocation of resources, increases child and infant mortality rates, distorts the fundamental role of the government (on enforcement of contracts and protection of property).

[8] Describes corruption or corrupt behavior as the violation of established rules for personal gains and profit. And still from a sociological viewpoint [9] considers it is a symptom of dysfunctionality of the relationship between the state and the people. Characterized by bribery, extortion and nepotism.

### 2.1. Economic Effects of Corruption

Corruption would not be considered a social problem worthy of analytical and policy attention if its effects on the economic system were neutral. This study will show presently, corruption significantly retards developing economies. Let us discuss some of these negative effects. [10].

#### 2.1.1. Increase in Economic Crime / Reduction in the Supply of Public Goods

The theoretical analysis relating demand for corruption to its net gains, costs of operation and expected punishment

offers a straightforward explanation for increase in criminal behavior. This is because an economically rational official who is corrupt will always undertake related criminal activities to minimize the costs or punishment arising from corrupt behavior. This goes towards explaining why some law enforcement agent's corrupt transactions, and murders committed to keep someone from revealing incriminating evidence. The economic costs of these related crimes, especially those of arson and murder, can be enormous if quantified.

Extensive corruption may lead to a reduction in the supply of public goods. Take the case of police protection as a typical example. Suppose corruption is allocated to permeate the rank and file of the police force. This would mean that innocent citizens would have no effective protection against crimes; therefore, murders extortionists, rapists, etc. would thrive.

The same effect could apply to the political system whose essential role is to legislate for the public good. A corrupt political leadership can saddle the nation with making anti-development legislation since their intention would be that of self-protection. Here political power becomes an instrument for reducing the cost and maximizing the gains from corruption [1, 11, and 12]

#### 2.1.2. Unemployment Effects / Increase Costs of Investment

Corruption can generate unemployment in several ways. Qualified people who are unable to offer bribes may remain unemployed if bribery is made a qualification for getting a job.

More directly, smuggling of foreign-made product into the country (through bribing customs officials) can ruin domestic industries and cause unemployment. The massive smuggling of textile goods into Nigeria in recent years has resulted in loss of jobs for textile workers. Similarly there was a reduction in staff cigarette manufacturing from 3,600 to 2,800 in 1982 owing to the smuggling of over 900 million cigarette into Nigeria that year. Such discouraging trends can prevent existing industries from undertaking expansion for fear of being undermined by smugglers.

Corruption can lead to a high cost of doing business in a country. Cost mark-ups can arise from several channels:

a. Filing the required official forms (like import forms) may necessitate having to bribe one's way at every stage of the process;

b. Award of contracts may be inflated. Suppose a project cost #2 billion. A 'corruption mark-up' of, say, 5%, would raise the cost this project by #100 million—an enormous cost that any rational investor will have to weigh carefully before undertaking the investment.

#### 2.1.3. Negative Impact on Economic Growth / Balance of Payments Deficit

Corruption adversely affects the level of both domestic and foreign investments through the channels describe above. It, therefore, eventually reduces economic growth and deepens poverty. Corrupt countries, in particular, find it difficult to

attract foreign investment because of the risks involved in such operations.

A country's balance of payment position may be seriously jeopardized by corruption. Foreign exchange drains caused by illegal importation, foreign currency deals, etc. often lead to a deficit in the country's external account. The balance of payment crises experienced by most African countries in recent years are partially caused by foreign exchange drains.

#### **2.1.4. Ineffective Economic Policy / Income Inequality**

Corruption constitutes a major hindrance to the effectiveness of economic policies. This happens in two respects. First, economic forecasts and statistical data on which rational policies are based are often rendered inaccurate by the unrecorded and unpredictable activities of corrupt economic agents. The central bank, for instance, may find it difficult to forecast foreign exchange requirements and hence take appropriate steps to meet it if it has no track record of foreign exchange transactions because of working with corrupt data. Second, corrupt economic agents often seek to benefit from certain loopholes in economic policies that run counter to their interests.

Thus, industrial tariff policy protection to promote indigenous industry is grossly undermined by the operation of smugglers. Similarly, the policy of foreign exchange conservation is undermined by illegal transactions in foreign currency by corrupt economic agents.

To the extent that corruption allows a few people to get rich, the masses are correspondingly worse off. In particular nation is deprived of the much needed resources for improving the living standards of the poor.

#### **2.1.5. Low Utilization of Manpower / Loss of Human Capital**

A corrupt socio-economic system tends to enthrone mediocrity in positions of leadership. Mediocre leaders in turn recruit sycophantic and incompetent assistants. The more competent and productive individuals, therefore, tend to be penalized, sidelined and underutilized. Thus, a classic situation similar to the operation of Gresham's economic law arises. Like Gresham's law, in which 'bad money (coins) drives out good money; bad people drive away good people by frustrating them. The net effect is that the can be economic stagnation in the country because the incomplete leadership and unnecessary bureaucracy.

The key role that highly trained and educated people play in contemporary development is widely acknowledged. Corrupt practices have led to substantial losses in such human capital, especially through brain drain.

Many deaths can be attributed to corruption in the form of neglect in some public health system. Some accidents that claim lives can be attributed to the fact that incompetent drivers obtain drivers' license through bribery, or a mechanically defective vehicle was approved as being road worthy by a corrupt official. Approval of buildings or structures which are below safety standards have resulted in tragic loss of lives when they collapse.

#### **2.1.6. Foreign Debt Burden / Capital Flight**

Most Africa countries are burdened with huge foreign debts. Most of this indebtedness occurs as a result of corrupt deals by public and private sector officials. It is now common knowledge that the debt burden has become a single most powerful drag on the development of African countries.

Africa is estimated to experience the highest rate of capital flight globally. One estimate puts Africa's flight capital at 39% of its Gross Domestic Product. This translates into about \$239 billion in 2001. Development progress would have gone far has this amount stayed within the continent. A good proportion of capital that has taken flight out of the continent has more to do with its corrupt accumulation and the associated effort at hiding it from any government.

#### **2.1.7. Diminished Inflow of Foreign Direct Investment / Political Instability**

Foreign direct investment (FDI) is the most important external finance for most developing countries. This arises from its strategic role in bringing in other complementary development like technology, technical skills, and employment, amongst others. Unfortunately Africa's share of FDI to developing countries dropped from 25% in the early 1970s to about 5% in 2000.

One of the most cited reasons for Africa's declining ability to important aspect of this risk is the pervasive corruption. The World Bank puts it succinctly by nothing that most investors regard Africa as a 'bad business address' hence the lack of interest. Thus, institutionalized corruption deprives the continent of the much needed external development input.

The prevalence of corruption in socio-political system has provided a rational for political instability as reflected in occasional riots and military coups d'état in some African countries. Corruption is almost always one of the rationalization for military take-over's. It is obvious that no economic progress can be made when the political climate is unstable.

It should be noted that it is the aggregate negative effects of corruption, expressed through the foregoing factors that determine whether or not corruption can undermine economic growth. In some Less Developed Countries, this danger seems very real, especially since underdeveloped economies lack the mechanisms to lessen the negative impacts of corruption.

## **2.2. Impact of Corruption on Development**

It is easier for a developed country to weather through the storms of corruption than an emerging economy to do so. This is the reason why growth cannot be expected from African countries enmeshed in corruption. Orthodox economic theory teaches that lower investment rates lead the lower rate of economic growth. Development theorists similarly infer that foreign investment is critical either to finance technological innovation or to absorb excess labor capacity. As corruption engenders lower level of investment both domestic and foreign; growth is adversely affected

which in turn expresses itself in the mass poverty all over the Africa with poor who have no resources to influence the allocation of public resources at the primary victims.

Corruption impacts negatively on African economies in multifaceted kinds of ways. The world Bank Development Report (1997) lent credence to this fact when it reported that bribes are not only a disincentive to further investment because of the immediate costs, but also because they entangle businesses in a web of time consuming and economically unproductive relations which inform the fact that corruption undermines efficiency as time and money are wasted through corrupt activities at the expense of productive activities and which altogether discourages prospective investors. This weights on both Public Administrative and Private Enterprises. Public sector efficiency becomes compromised because corruption superimposes informal practices over the proper rules and procedures of government adding direct and indirect cost to the execution of programmes. Corruption undermines human and capital development in several ways.

Firstly, it distorts public spending and does so in a tripartite manner as follows:

1. Wherever corruption exists, distortions become more prevalent and the public goods is generally given secondary, (if any consideration) rather than primary consideration. In other word investments are shifted from more productive projects and to less productive ones which automatically forces growth to regress, (preference for capital intensive investments as opposed to labor intensive ventures).

2. By deflecting allocated resources away from their original purpose to where corrupt official and politicians personally gain the most at the expense of public good

3. By undermining the tax base of government. Tax evasion, weak tax administration and tax exemptions that favor the well – connected and wealth limit the scope for effective development policy.

Corruption fundamentally discourages investment and growth. While some investors might well conduct their business through bribes, the overall implication of a notoriously corrupt environment is that many potential investors avoid them. Incidences of corruption deter investment because higher bribes imply declining profitability on productive investment besides corrupt environments introduce risks of uncertainty that many investors are simply not willing to take. This also automatically increases the transaction costs of investment. As a result, other key economic objectives, such as job creation and the development of vibrant small and medium enterprises, suffer recession.

Corruption foster unaccountable government as the leadership crew strives to prevent the followership from getting to know exactly how much funds are acquired and how they are put to use. Information on resource allocations and the basis for such decisions are deliberately masked in obscurity. This and its attendant implication converge to erode the quality of governance and eventually to morbid distrust and hatred for the government. This creates apathy as

well as overt and subversive activities against the political system.

### ***2.3. Nature of Corruption in Nigeria***

The origin of corruption in Nigeria is traceable to the voracious character of a few among the players who fronted for the people as nationalists prior to independence. They rarely considered the aftermath of the roles they played or the widespread implication of tribal and ethnic oriented politics. As at independence morbid ethnocentrism mutated and created dividing lines among the various conglomerating tribes that constituted the country for no justifiable reason and to date the citizens are yet to find a basis for staying together. And to make matters worse, expectations over the years gone by, that the leadership would forge out modalities conducive and requisite for a common basis of unity has not come by. The leadership rather capitalizes on the disparities to unleash monumental levels of corruption since there exists no common front by which the people can protest. Hence, the country continues to incur social losses while forfeiting the gains accruable to an integrated homogenous society.

Today, majority of the citizens especially graduates, live amidst much poverty. Whereas in the 70s and early 80s jobs stood by for graduates to choose from, today poor planning and indeed absence of it altogether makes no room for the newly gradually became the focal point of so many unable to find jobs amidst absence of social security funds while billions of dollars accrue annually to the country in crude oil revenue.

Still noteworthy is the scale of progression of annual output of graduates all over the country. Aside school certificate holders who are unable to proceed to higher institutions due from lack of funds, graduates emerging from regular program, part time, distant education and sandwich education program from the country's universities, polytechnics and colleges of education which stands at over 200,000 annually in a country where have driven several companies away [13]. Hence, it can be expected that, with the progress of time, new perspectives in crime resulting from poverty would emerge as the number of those who are forced to sit at home continue to rise.

Corrupt practices in the country as a whole however began prior to independence and gradually matured into a lifestyle in the post second republican era while reaching unparalleled proportions during the subsequent military regimes that followed.

Today, the stands out unarguably as the heartland of systemic and all other forms of corruption which is why the choices of projects earmarked for execution are made not on the bases of their intrinsic economic worth, but on the opportunity for bribes and kickbacks the projects present. The vicious circle is not structurally inhibited, but rather occurs in all forms and at all levels, vertically and horizontally and quite deeply rooted that on virtually all sectors encounter with any public official naturally ends with one form to bribe or the other. If the situation involves a bureaucracy, all who are capable of saying no the bribe on

the bureaucratic chain all too simply get caught in the web. Where the crime becomes an open secret, prosecution is hung up along the line because all those capable of or in position to prosecute the crime get caught in the web or are instructed by some high rank member of any of the neo-patrimonial networks to hands off the matter. Anyone in the command chain who attempts to object to getting involved is coerced by an offer such a person cannot possibly refuse or by direct threat of life or threat of removal of such a person from the position he or she occupies or withdrawal of the benefit that legitimately accrues to the office the person occupies.

Yet from another scale if some neutral personage or the media captures evidence of the act and makes such a public those involved do not blink. And if on any note such public official is ever arraigned the only explanation plausible is that one way or the other he would have offended someone in his web of neo-patrimonial network. The worse that however happens to such a criminal is that he is moved from one court adjournment to the other and soon enough the matter is hung up and the culprit walks freely into his ill-gotten fortune lending credence to the fact that the country is run by a web of neo-patrimonial moneybags.

This work veritably cannot exhaust the volume of literature on the character and depth of corruption in the country but it is plausible to note that the power brokers entrenchment of true democratic ideals is not to be expected as that would be squarely inimical to their very existence hence, their striving to sustain the status quo by continually circulating power within members of their network.

#### **2.4. Basic Causes of Corruption**

All economic agents are maximizing their individual utility, i.e. personal welfare (wealth). Accordingly, selfish interests of economic agents are the basic motive economic transactions between them. Resources are allocated to the activities that provide the greatest returns on investment (an allocation decision). In short, people in all conceivable conditions behave economically rationally.

As described earlier, rent is a factor of income above the competitive returns (opportunity costs) of the factor. Because of that, i.e. because rent appropriations will maximize individual utility (welfare), economic agents are engaged in the rent-seeking process, the process of creation and distribution (appropriation) of rent. Theoretically speaking, rent can be created in a few distinctive ways, but in reality the most significant rent generator is government intervention, i.e. violation of free market operations. A frequently used synonym for this type of government intervention is regulation. In order words, instead of enabling the free market to regulate relations and transactions among economic agents on the market, the government, whatever the motives may be, steps in and regulates these relations in a hands – on manner.

The majority of government intervention on the market is prohibitive, i.e. economic agents are precluded from doing something, unless the government explicitly empowers some of them to do so. A typical regulation of this kind is import

licensing. That will inevitably create shortage in the market; supply will not be formulated according to the marginal cost of the producer/importer, but by the administratively specified quantity. At that specified quantity, the price commanded by demand (i.e. the amount of money consumers are to pay for an additional unit of goods) will be substantially height than the costs of production/import. That difference is economic rent which will be disturbed, i.e. appropriated, at the end of the day. By paying a bribe to get an import license, a portion of rent is appropriated by the corruptor and the remaining portion is appropriated (in the form of bribe) by the corrupted. Needless to say, without introducing import license regulation there would be no rent and there would be no corruption. There are some cases of corruption not linked or rent, but the most significant, most common, and consequentially dangerous from of corruption are linked to rent seeking behavior.

Accordingly, more government regulation *ceteris paribus* (all other thing bring equal), result in fewer free – market operations, and therefore more corruption. Nonetheless, apart from the content of legislation that introduces government regulation, it is very important how these rules and the process of the enforcement are specified. As to the specification of the rules, for efficient enforcement the rule should be simple, clear, and easily understandable by anyone [14]. The more complicated, unclear, and ambiguous that rules, the more opportunity there is for corruption. A typical example of this occurs with a large variety of customs tariff rates in general and rather similar products in particular. If the customs tariff rate for one production is 3% and another similar product is 30% there are strong incentives for corruption aimed at misclassification of the goods and illegally reducing the level by applying the lower rate.

Furthermore, procedural legislation, which are rules regarding enforcement of rules and regulations, is very important for corruption. The complicated and non-transparent legislation specifying slow procedure (procedures with unspecified time limits or on binding deadlines), at the discretion of civil servants in the enforcement process, creates a tremendous opportunity for corruption. Not only does such legislation create incentives for corruption, but it also decreases the probability of detection, making threats to the corruptors and corrupted less credible.

The analysis of corruption factors is a prerequisite for an effective strategy for fighting corruption, as the strategy should take into account and address the main sources of corruption and the government intervention that creates rent is the most important factor of corruption, the crucial element for any effective strategy for fighting corruption is deregulation. Deregulation means abolishing government intervention that is prohibitive, thus allowing market forces to function effectively. Market forces on the free market will drive all the factors' returns to their competitive level and there will be no rent due to government intervention, hence there will be no source of corruption of that kind. There will be no shortage on the market, no queues for goods whose supply is limited, no black market and no rent generated and

appropriated from long queues and the black market.

From another perspective, deregulation will decrease and in some cases eliminate corruption due to the lack of discretionary power of civil servants. Then there will be no incentive for prevent parties to bribe civil servant, because civil servants will not be in a position to offer any favor to the corruptors. For example, there will be no import licenses because anyone can import whatever she likes in the quantity that she considers profitable or good for the business. There will be no barriers to entry that must be circumvented issued by a certificate issued civil servant, etc. Civil servant will lose their power to decisively influence the fortune of business people and citizens.

Deregulation and decreasing the role of government has its limits. The basic reason for government to exist is to provide the rule of law. For economic agents the most important aspect of the rule of law is protection of private property right through efficient contract enforcement. In the case of rule of law, government power should not diminished, on the contrary it should be enhanced there is no room for the government to withdraw from this area as the key element of anticorruption strategy. On the contrary, strict rule of law is one of element of an effective strategy for fighting corruption. Accordingly, all measures that improve the rule of law will definitely contributes to the fight against corruption. One of the crucial elements of strengthening the rule of law is the creation of simple, clear, and transparent rules that are understood by all the concerned parties. Such rule of the game – and the name of the game is market competition-will minimize disputes regarding their enforcement which will minimize the uncertainty of economic agents and substantially decrease any room for corruption.

Streamlining procedural legislation and making it simple and transparent is also important because it minimizes the uncertainty of economic agents, reduces the discretionary power of civil servants, and increases the visibility of corruption cases, i.e. situations in which procedural legislation is violated. Such a framework increases the probability of detecting corruption misdeeds and apprehending corrupted civil servants. The increased probability of apprehension punishment creates deterrent for civil servant to accept bribes, therefore decreasing incentives for corruption.

Increasing wages of civil servant is another important segment of the strategy for fighting corruption. Nonetheless, this element of the strategy should be considered within the framework of the deterrent, i.e. punishment for corruption should be expulsion of the civil servant from the job that provides higher wages than those on the labor market, i.e. wages in the private sector. In this sense, high wages of civil servants [higher than in the private sector] can provide incentive to not accept bribes only if there is a substantial risk of apprehension and punishment that includes a decrease in their future [expected] incomes.

Accordingly, the wage scheme as a segment of an anticorruption strategy should always be considered along

with the probability of apprehension. Furthermore, excessively high wages in the public sector can have an adverse effect on the allocation of the labor force as talent is moved away from the private, value adding sector.

Nonetheless, the most important prerequisite for effective anticorruption strategies is strong and unconstrained political will. Such a will can be generated by identifying the most significant consequence of corruption. If such a will exists, government must send an unequivocal and credible signal to all the concern parties that it is committed to fighting corruption. Strong words are necessary, but not sufficient for credibility. These words must be followed by actions and accomplishments in the area of policy and institutional reform along the suggested lines as well as action in the area of criminal prosecution of corruption.

### ***2.5. Consequences of Corruption***

As to the consequences of corruption, it should be recognized that the bribe itself is nothing but a redistribution of income. In other words, the bribe itself is not a welfare loss – the scale of social welfare does not change, only its distribution. Although strictly speaking this is true, emphasizing only distributional aspects of corruption is one of the major fallacies of corruption research. The first reason is the existence of huge transaction costs from corruption. As it has been pointed out, corruption is an illegal contract, and therefore its transaction costs are massive. And transaction costs are real costs: the opportunity costs of resources engaged in transaction activities. According to some estimates [15], senior managers in countries with widespread corruption spend about 20% of their working time negotiating corruption and enforcing corruption contracts; this is the amount of transaction costs in terms of the opportunity costs of highly skilled labor [15].

There is rather widespread notion that the corruption income of corrupted civil servants provides compensation for their lower wages. Hence there is no need for a wage increase and no need for increasing the tax burden. In order words, the corruption burden is its own kind of a ‘tax burden’ that according to this approach, enables the proper tax burden to be decreased. However, proper taxation (together with efficiency tax administration) decreases uncertainty a transaction costs. Hence, corruption ‘taxation’ is inferior in terms of economic efficiency.

Furthermore, it was demonstrated that rent – seeking activities are closely related to corruption. The origin of rent – seeking activities is public policies that boost government intervention and disable free market operation. These public policy can deliberately pursued specifically because they create rent, i.e. these polices can be influenced (irrespective of whether it is done by the legitimate lobbying or illegitimate ‘state capture’ corruption) by interest group with a vested interest in creating and appropriating rents. Although these public police are in favor of those interest groups, they are completely wrong regarding maximization of economic efficiency and social welfare, i.e. they are in favor of the public interest.

Corruption violates the rule of law, and the rule of law is prerequisite for the market economy. If there is no rule of law there is no protection of private property rights and contract enforcement. There is poor exchange between agents because there are not incentive for exchange due to poor protection of property rights and inadequate support of contract enforcement because of poor exchange between firms, all forms produce the majority of inputs internally, instead of the purchasing these inputs on the market. In other words, there is no social division of labor and no prerequisite for specialization, a significant source of increasing economic efficiency is absent. This is the indirect way in which corruption reduces economic efficiency and consequently social welfare. Corruption increases basic business uncertainty, particularly regarding protection of property rights. This kind of uncertainty decreases the expected profit rate for potential investors. Investors, making their decision based on expected profit rate (returns), are less likely to invest when lower returns are expected. This particularly true for the foreign direct investors who compare expected return, i.e. expected cash flow for investments in various countries and decide to invest their capital in the country with the highest expected returns. Since corruption decreases expected returns, corrupt countries receive less foreign direct investment and consequently record lower growth rates.

There is another reason that countries with widespread corruption cannot expect high growth rates that is directly related to entrepreneurship and innovations. As suggested by [16], entrepreneurship is a resource that can be alternatively allocated to productive activities or unproductive and destructive activities. It will go to the activity that enable the entrepreneur the highest possible returns on his activity. Corruption is definitely an unproductive and sometimes even a destructive activity. If corruption is widespread, i.e. if the higher possible returns are in area of corruption, entrepreneur, instead of focusing on the productive, wealth creating activities will focus on the corruption, redistributing activities and allocating their talents to it. As a consequence, other resources will be also be allocated to redistributing activities. Innovation that are as a result of entrepreneurship will be allocated to redistribution and corruption. New methods of corruption will be introduced instead of new products and new methods of production.

This is a crucial dilemma for every nation: will the available resources for engaged in creating wealth or merely in its redistribution? Widespread corruption is a symptom of severely ill society with a majority of resources and innovation allocated to the area of redistribution. Corruption is not about any amount of money changing hands or about 'grease in the wheels of business.' It is about the future of nation. And it is the nation that must make some difficult decisions regarding to it.

## **2.6. Economic Development**

The effect of corruption is equally devastating. One of the most damaging effect of corruption of economic growth and development is the promotion of inefficiency and greed.

Corruption makes it possible for many grossly inefficient public enterprises to remain in operation at the expense of public subsidy. Bureaucrats can intentionally distort public policies in a bid to create opportunities for graft. For example, a government commissioned report of a probe into the performance of the now disbanded Nigeria airways revealed the existence of rapacious corruption in the airline. According to [17]; Insurance premiums were being paid on non – operational aircraft in foreign currency. At one point, although Nigeria airways limited had only two operational airplanes. Insurance premiums limited had only two operation airplanes, insurance premiums were being paid for 26 aircraft. Worse still the report found that annual premiums ranging from \$18 million to \$ 22million were paid out as insurance cover whereas in every case only \$6 million which the prescribed premiums got to the underwriters was. For sure, there, are similar sordid tales of corruption in tens of hundreds of other Nigeria public firms, agencies and branches of government. This single example clearly illustrates the detrimental effect that unbridled corruption has on economic growth and development in African countries.

In addition to the promotion of inefficiency at the macro level, corruption also encourages inefficiency at the micro level. Public servants who extra-legal income adopt a devil may care attitude to their work. They do as little work as possible but make incomes far excess of what their position and status would legally entitle them. Through bribery, extortion, embezzlement, and contract kickbacks, many public officials can live an easy life with limited productive work, which is detrimental to the productive process [18, 19].

Another negative effect of corruption on economic development is that the cost of supporting the public service is significantly increased. For example, the costs of public projects are usually inflated in order to generate kickbacks for members of the tender's board, based on a predetermined percentage of the contract value. Even worse, a lot of public projects, for which costs have been wholly or partially paid in advance, are either abandoned or project cost revalued, usually always upwards [20, 21]. In many African countries, some public projects are known to have been awarded two or even three times to the same firm, its parent company or a different contractor anew. In some terribly bad cases, the project remains uncompleted. Meanwhile, millions or billions of dollars of public funds would have gone down the drains, without a commensurate tangible result. The various steel projects in Nigeria, for example, are cases in point, where the Nigerian governments have reportedly spent billions of dollars in the past thirty days on construction of steel plants and have nothing to show for it.

Capital – intensive technologies appear to be more prone to corruption. This accounts for the 'cemetery of white elephants' or 'cathedrals in the desert' abandoned super highways, uneconomic dams, industrial plants – that litter the African landscape, many of these projects were never completed or operate at installed or required capacity, or were grounded due to wrong technology, all promoted through corruption. For example, Nigeria has four completed

and once functioning oil refineries, but due to negligence and lack of maintained, those refineries have either been abandoned or operate at minimum capacity, such that the country, the sixth largest oil exporter, imports refined petroleum products. In effect, scarce resources, whose allocation should have been guided by development priorities, are wasted on projects, which contribute little or nothing to the development process because of the narrow selfish interests of the decision makers.

Contract awards for public projects are one of the most important conduit for siphoning of public funds. When kickback percentages are as high as 20 per cent, or even more, in some cases, these percentages are added to the costs paid by the country concerned. While the extra value goes to line private pockets, it is a loss to the public and overall development. Government tenders boards, whether at local, state, or national level, like the customs department, the passport office of the immigration department, import license division of the ministry of finance, the foreign exchange division of the central bank, to name a few, are some of the agencies or branches of government that are considered 'juicy' ostensibly because of the opportunities they provide for the generation of large extra-legal income [22, 23]. Because of this attraction, in the 1980s, many Nigerian university students including those graduating in medicine, pharmacy, law, architecture, and engineering, preferred to work in the department of customs and excise than in their chosen professions. This predilection speaks volumes not only about the pre-eminence that material acquisition, whether by legitimate or corrupt means, enjoys in society but also the state of national consciousness.

Besides imposing significant costs on public projects, corruption also imposes extra costs on ordinary citizens. For example, where corruption is very prevalent, it is not uncommon for government hospitals and health centers to demand bribes from patients before services are rendered. First, public health service, including the compensation of health care workers, are subsidized from taxes/public funds; and second, those seeking health services are charge bribes, for oftentimes poor quality service. In effect, the people are subjected to a 'double jeopardy'. In some cases, prescription drugs and other essential medical supplies, which are intended for government-run hospitals, are diverted to private clinics and pharmacies. Consequently, these corrupt activities severely limit the quality of health care services that can be provided. While corruption generates benefits for the elites, it imposes needless costs on society, and can have divesting effects on development [20].

Clearly, corruption increases the cost to African countries of doing business. Fraud, theft, kickbacks, illegal commissions, embezzlement, and other forms of graft simply inflate the final costs of contracts, equipment, supplies and service. The further implication is that these corrupt practices not only increase government expenditures without commensurate tangible results, but scares funds are siphoned off, eventually leading to the need to increase revenues through higher taxes or by borrowing or by scaling down, or

even abandoning, otherwise important development projects [15].

## **2.7. Political / Social Development**

Corruption affects political development and stability in various ways. First, in countries where corruption is systemic, political repression and suppression, particularly of political opposition and regime critics, becomes the most characteristic features of political life, and domination and subordination the main political relationship [25, 26]. Second, corruption also affects political stability because it leads to military interventions in the political process, oftentimes resulting in the overthrow of not only authoritarian regimes but also democratically elected governments. It is on record that corruption is the most frequently cited reason for coup d'etat in Africa. Third, the impairment of political development and stability is directly related to socioeconomic growth and development. National development is handicapped in an atmosphere of political instability, with the result that effective long term planning is jeopardized [27].

The social impact of corruption is the creation of an atmosphere of tension, dishonesty, and weak and/or selective law enforcement, which, in turn, breeds cynicism and erosion of faith in the political and administrative system. For example, the misallocation of resources rewards the indolent and those with right connections, resulting in a disconnection between reward and effort [15]. But most importantly, in countries where corruption is pervasive, coupled with weak law enforcement or engendered encourages the perception that corruption is not only numeral but a survival strategy or the means to get ahead.

## **2.8. Great Need to Curb Corruption in Africa**

In the past four decades, corruption is probably the only "industry" in post-independence Africa that has maintained steady growth. Economic, political, and social development have either stagnated or degenerated into crises management.

The litany of woes that has bedeviled Africa disease, famine, illiteracy, poverty, ethnic rivalry, assassination of political opponents, political instability, and wars have been orchestrated by the ruling elites, in their unbridled pursuit of self-aggrandizement and monopoly of state power.

Weak institutional structures adopted at independence, which gave public official almost unlimited powers to intervene in private economic activities and politicize public resource allocation, have facilitated the emergence of corruption as a lucrative growth industry.

Corruption and other forms of malfeasance have thrived partly because most post-independence African states were unable to develop and sustain independent law enforcement and judicial institutions that germane to the maintenance of the rule of law [28]. In many countries, even law enforcement agencies and the judiciary systems that are supposed to implement the law have been tainted by corruption.



As intractable as the corruption pestilence seems, is all hope lost in stemming the tide? And what should be done? As the mass of poor and deprived African look forward to a better future, the need for the reorganization of the neocolonial state through institutional reforms becomes imperative [29]. The appropriate foundation for a fundamental reconstruction of institutional structures hinges on the number of factors:

A well designed set of rules through democratic processes. Democracy, however defined, must be based on popular participation, the rule of law, accountability, and transparency in governance.

An environment that encourages free economic exchange and creation of wealth, proper and equitable allocation of public resources, and alleviation of mass poverty and deprivation.

Creating a climate that makes engagement in corrupt practices difficult. Hence, imposing stiff punishment for corrupt conduct; one of the most effective ways of dealing with corruption.

And equally important is a functional independent judiciary in the battle against corruption. It is pertinent to mention that, in many African countries, some half-hearted attempts have been made to combat corrupt practices and unethical violations. In this regard, some countries have enacted laws and established institutional mechanisms to enforce ethical conduct [30, 31, and 32].

For example, in 1975, Nigeria established a public complaints commission to investigate complaints of administrative wrong doing by public officials [33, 34]. In the same year, a decree establishing the code of conduct Bureau which was enacted and later incorporated into the 1979 and 1989 constitutions, respectively. Today, another agency, the Economic and Financial Crime Commission (EFCC) has as its mandate to curb the menace of corruption, project national and foreign investments in the country, and identify illegally acquired wealth and confiscate it.

Ethiopia and Ivory Coast have established similar bodies with provisions governing the receipt of ill-gotten gains, misuse or wastes of public property, corrupt practices and acceptance of undue advantages. And the ombudsman system, designed to curb ethical violations, has been experimented with in a number of African countries, including Ghana, Namibia, Nigeria, Sudan, Tanzania, Zambia and Zimbabwe [35].

However, in spite of these initiatives, corruption remains unabated, and the failure of these attempts clearly illustrate that there are no quick fixes for minimizing, let alone eradicating, corruption. They also illustrate that what is at stake in African politics and public services is not just power but wealth, and that corruption is intertwined with the broader politics of power and accumulation. Some of these initiatives have either been partially successful for number of reasons:

1. Much of large scale corruption has largely involved politicians themselves and senior bureaucrats who are part and parcel of the governments in power. Obviously, the will

and commitment to expose or stamp out corruption is lacking.

2. Inducements from foreign enterprises seeking business opportunities are oftentimes too enticing to resist for the elites who make decisions on those matters.

3. The nature of governance has basically remained undemocratic, unaccountable and patrimonial. It is futile to complain bitterly about corruption and skill keep intact the very system that breeds it.

This is not to suggest that corrupt practices do not exist in democratic systems. Today, many governments Africa South of the Sahara underwent the electoral process but are, nonetheless, reportedly rife with corruption and political patronage [36]. It can be argued that although these governments were democratically elected, they were essentially patrimonial and unaccountable. In a system where patronage is well entrenched, it would be difficult to expect measures against unethical conduct to be forced with and degree of seriousness. Thus, while corruption occurs in both democratic and non-democratic systems of governance is a sine qua non for any meaningful efforts to effectively combat corruption on a sustained basis.

In addition, a proactive agenda designed to discourage corruption and entrench ethical standards and accountability in public service in Africa should include the following measures:

1. Fostering and promoting enabling conditions of service to enhance professional and ethical standards
2. Implementing sound policies on recruitment, training and public personnel management.
3. Institutionalization of professional values
4. Promoting a psychology of service in public and political life
5. Upholding the integrity of public institutions of accountability
6. fostering popular participation to ensure the accountability of govern
7. Urgent need to enforce ethical behavior at the international level if grand scale corruption resulting from international business transactions in developing countries, including Africa is to be curtailed [18].

### 3. The Way out of Corruption

Corruption everywhere is usually frowned upon as immoral and criminal. Public condemnation in Nigeria, for instance, dates back to the colonial era. In its civil service General orders, the colonial government stipulated that any employee found guilty of corruption would be dismissed [36]. The Nigerian criminal code treats corruption as a criminal offence punishable under the law. When the late general Murtala Mohammed took over power in 1975, he purged the country's public service of 'corrupt' officials through mass dismissals.

As a follow up, the code of conduct and public complaints commission was set up with branches throughout all the states of the federation to fight corruption. the 1979 and 1999

constitutions of Nigeria make it mandatory for public office holders to declare their assets before taking up of office and at the end of their tenure, in 1982, President Shehu Shagari set up the Ethical Reorientation Committee to study the problem of a drastic fall in ethical standards among Nigeria in order to usher in an ethical revolution.

In 1999, the government set up the independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crime Commission (EFCC) to combat corruption. It is a matter of concern that despite these attempted solutions, corruption is perceived to be the increase in Nigeria. Indeed, "corruption paradox" whereby its incidence varies with anti-corruption measures seems to hold sway [16]. Most people agree that it poses a fundamental threat to the survival of the Nigerian economy. This view may not be far from the truth if corruption is found to be endemic or systemic.

One of the reasons for the failure of existing policies is the lack of economic focus. Corruption is seen mainly in moralistic and legalistic terms, hence the proposed solution are morally and/or legally oriented. Theoretical analysis, however, suggests that corruption is essentially an economic problem and consequently, effective solutions must be looked for in the economic realm. Besides the extant solution approaches tend to treat the symptoms rather than the fundamental cause of corruption. Success is tackling corruption needs to be both preventive and therapeutic. In economic parlance it must be addressed supply and demand strategies. Let's us consider some of these.

### **3.1. Reduction of Net Gains to Corruption**

Since net gains are what lure people into corruption, these can be reduced or completely eliminated by stepping up the cost of corruption. Such costs should include the public condemnation of ill-gotten wealth and the plugging of legal loopholes that corrupt officials tend to exploit. A non-police intelligence network comprising proven patriots can help in checking corrupt officials. To encourage efficiency, such patriot's volunteers should be rewarded by government through a "whistle blowing" program. Thus, whoever 'blows the whistle' to alert authorities of corruption deals can be rewarded handsomely.

More resources should be given to law enforcement agents to enable them to improve their efficiency in apprehending and punishing corrupt official. The higher the probability of getting caught and punished, the lower will be the incidence of corruption. In particular, stiff penalties should always be meted out to the corrupt official as deterrent.

Incentives for corruption can be eliminated or minimized in the economic system through less administrative controls of market process. Where such controls are inevitable, efficient administrative machinery should be set up in order to prevent the operation of the 'underground economy'. There is a need to review the system of subsidies to eliminate those that encourage corruption.

### **3.2. Fighting Poverty / Education**

Since corruption thrives on absolute poverty, one of the solutions lies in the reduction of poverty. The most effective way of doing this is to adopt the basic needs approach to development. This strategy ensures that basic human needs like adequate food, water, shelter, medical facilities, etc. are provided for masses. This will render them less susceptible to the corrupting influence of the rich or corrupt politicians. A market---based approach to ensuring provision of basic needs is to promote productive employment described below.

Efforts should be made to raise the literacy rate to enable citizens to gain knowledge about their right in society. The basic school curricula should include moral instruction, ethics and civil right. Corruption should be a subject in the curricula of schools with emphasis on accountability.

### **3.3. Private Provision of Public Goods**

Experience has shown that governments' efforts to provide public goods are often prone to corruption. This can be avoided by contracting the provision of public goods like electricity, water supply, roads, etc., to private limited liability companies. Corruption would be minimized under this arrangement because of their relative efficiency compared to the government. To avoid exploitation of the public by these private monopolies, an effective regulatory mechanism should, however, be put in place.

### **3.4. Promoting Productive Employment**

Productive employment means getting a job or means of livelihood that yields sustainable income streams for meeting people's basic needs. A high rate of unemployment, unemployment or low-wage employment tends to exacerbate corruption. A program for promoting job creation or self-employment should receive the priority attention of governments. Having a legitimate means of livelihood will tend to enlist support of the public for the fight against corruption. This is because productively employed/ engaged people have a stake in living in a corruption---free environment.

### **3.5. Efficient Bureaucracy and Economic Management**

Improvement in bureaucratic efficiency as well as general management efficiency will tend to eliminate corruption. This is because merit and productivity would be the yardsticks for reward. Improvement in productive efficiency, especially of the industrial system, can indirectly reduce the incentives to smuggling since product quality would be enhanced and the prices reduced.

### **3.6. Reduction in Income and Wealth Inequality**

Measures to reduce distributional inequality, such as taxation and income transfer program to the poor, would minimize corruption. If the income gap is drastically reduced, the urge to get rich by corrupt means can be minimized correspondingly.

### 3.7. Monitoring Corruption

Agents set up by government to monitor corruption face many problems that have undermined their effectiveness. If/When government is serious about fighting corruption, agencies such as ICPC, EFCC, etc., should not only be staffed with highly dedicated and motivating professionals but should be adequately funded resourced. They in turn should fight corruption not only through the demand (therapeutic) but through the supply strategies. From the supply perspective, its focus should be on undertaking rigorous research probing the fundamental causes of corruption and setting up appropriate internal corruption monitoring mechanism. Such a monitoring system can highlight the shortcoming of an externally located monitoring such as Transparency International. It would also contribute to enriching the perspective of TICI findings.

## 4. Conclusion

Corruption has been known to exist in various forms in both developed and developing societies as well as in all ideological system. Government agencies set up to monitor corruption face many problems that have undermined their effectiveness. If/When government is serious about fighting corruption, agencies such as ICPC, EFCC, etc., should not only be staffed with highly dedicated and motivated professionals but should be adequately funded and resourced. They in turn should fight corruption not only through the demand (therapeutic) but through the supply strategies. From the supply perspective its focus should be on undertaking rigorous research probing the fundamental causes of corruption and setting up appropriate internal corruption monitoring mechanism.

The economic approaches worth considering include reduction in net gain of corruption by increasing its cost of operation, increasing in probability and severity of punishment, elimination of corrupt incentive in the socio-bureaucratize system; fighting absolute poverty by provision of basic needs to the masses; provision of mass education to increase awareness to social right; promotion of productive employment; efficient economic and bureaucratic management; reduction in income inequality; instituting a system of shaming corrupt people like posting their names in the internet and setting up effective corruption monitoring mechanisms.

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