

**CORRUPTION, INSTITUTIONAL QUALITY AND ECONOMIC GROWTH IN
SELECTED WEST AFRICAN COUNTRIES (1995-2014)**

Emmanuel Kolawole OSABIYI

B.Sc. ED (ECONOMICS), IFE

SSP12/13/ H0782

**A THESIS SUBMITTED TO THE DEPARTMENT OF ECONOMICS, FACULTY OF
SOCIAL SCIENCES,**

OBAFEMI AWOLOWO UNIVERSITY, ILE-IFE, NIGERIA

**IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER OF SCIENCE IN ECONOMICS**

2015

CERTIFICATION

I certify that this research study was conducted by Emmanuel Kolawole OSABI YI
under my supervision in the Department of Economics, Obafemi Awolowo University, Ile-Ife,
Nigeria

.....
Dr. O. P. Oofin
(Supervisor)
Department of Economics,
Obafemi Awolowo University,
Ile-Ife, Nigeria

.....
Date

.....
Prof. P. A. Oomola
(Head)
Department of Economics,
Obafemi Awolowo University,
Ile-Ife, Nigeria

.....
Date

AUTHORIZATION TO COPY**OBAFEMI AWOLOWO UNIVERSITY, ILE-IFE, NIGERIA****HEZEKIAH OLUWASANMI LIBRARY****Postgraduate thesis Authorization to copy****AUTHOR:** Emmanuel Kolawole OSABIYI**TITLE:** Corruption, Institutional Quality and Economic Growth in selected West African countries (1995-2014)**DEGREE:** Master of Economics**YEAR:** 2015

I, **Emmanuel Kolawole OSABIYI**, hereby authorized the **Hezekiah Oluwasanmi Library**, **Obafemi Awolowo University, Ile-Ife, Nigeria** to copy my thesis in whole or part, in response to requests from individuals or organizations for the purpose of private study or research.

.....

Date

.....

Signature

DEDICATION

This thesis is dedicated to God Almighty for His Exceeding Grace, Excellence, Favour and Strength throughout the course of this study.

OBAFEMI AWOLOWO UNIVERSITY

ACKNOWLEDGEMENTS

My utmost thanks and profound gratitude go to the Almighty God, the giver of Wisdom, Knowledge, and Understanding who has been my provider, protector and my sustenance throughout this programme of study. May His name be exalted for ever more (Amen).

My appreciation goes to my supervisor, Dr. O.P. Olofin for his tutoring, mentoring and commitment in supervising me during the course of this research work.

I am also indebted to all my lecturers who had impacted on my academic skills in the course of this programme: Prof. P.A. Oomola, Prof. A.A. Adebayo, Prof. S.I. Oadeji, Dr. B.A. Folorunso. I am also grateful to Prof. L.M. Oayiwole, Prof. A.E. Akinlo, Dr. Ayegbusi, Dr. Olayeni, Dr. Obeinbe, Dr. Arawomo, Dr. Olayungbo, Dr. Ouwatosin, and Ms Araloyin for their supports and words of encouragement in the course of this study. Thank you all.

My sincere appreciation and love go to my family for their moral, financial supports, encouragement and prayers during my course of study- My father Mr A.J. Osabiye, Mr & Mrs J.B. Oawuni, Mr & Mrs Gadebo Adeneye, Mrs M.O. Sina- Adesodun, Mr & Mrs Femi Ouwasusi, Mrs Oufunke Mclean, Mr Osabiye Kehinde, and my beautiful wife Oufunmilola Osabiye (Evergreen).

I cannot, but express my profound gratitude to my friends and classmates who contributed in one way or the other to the success of this programme: Jemiluyi Oufunmilayo, Shariakin Akinwumi, Ajayi Omotola, Dada Temitope, Oyesola Ouwaseun, Aagbon Ougbenga, Adejugbe Bunmi, Femi Fagite, Awoleye Emmanuel, John Messiah, Nurse Hope (Bayelsa), and those special and unforgettable people who I cannot mention because of time and space in this acknowledgement who contributed in one way or the other to the success of my programme, May the Almighty God protect, guide, bless and prosper you in all your endeavour.

Emmanuel Kolawole OSABIYE

TABLE OF CONTENTS	PAGE
Title page	i
Certification	ii
Authorization	iii
Dedication	iv
Acknowledgements	v
Table of Contents	vi
List of Tables	ix
List of Figures	xi
Abstract	xii
 CHAPTER ONE: INTRODUCTION	
1.1 Background to the Study	1
1.2 Statement of the Research Problem	5
1.3 Research Questions	8
1.4 Objectives of the Study	8

1.5	Justification of the Study	8
1.6	Scope of the Study	11
1.7	Organization of the Study	11

CHAPTER TWO: LITERATURE REVIEW

2.1	Theoretical Literature Review	12
2.1.1	Grease the Wheels Hypothesis Argument	12
2.1.2	Sand in the Wheels Hypothesis Argument	14
2.1.3	Endogenous Growth Theory	18
2.1.4	Empirical Literature Review	19

CHAPTER THREE: METHODOLOGY

3.1	Theoretical Framework	28
3.2	Model Specification	30
3.3	Estimation Techniques	34
3.4	Measurement of Variables and Source of Data	34
3.5	Definition of Institutional Indicators	37

CHAPTER FOUR: PRESENTATI ON AND INTERPRETATI ON OF RESULTS

4.1.1	Trend analysis of corruption in selected West African countries	38
4.1.2	Trend analysis of economic growth in selected West African Countries	40
4.1.3	Statistical Properties of the Data	42
4.1.4	Panel Unit Root Tests	48
4.1.5	Lag length selection criteria	62
4.1.6	Panel Co-integration Test	64
4.2.1	Results and Discussion of impact of corruption on economic growth	65
4.2.2	Results of impulse Response	70
4.2.3	Results and Discussion of variance decomposition	73
4.3.1	Results and Discussion of interaction effect of corruption and institutional quality on economic growth	77
4.3.2	Results and Discussion of Impulse Response of Interaction effect of Corruption and Institutional Quality on Economic Growth	82
4.3.3	Results and Discussion of Variance Composition of Interaction effect Corruption and Institutional Quality on Growth	84

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATI ONS

5.1	Summary	87
5.2	Conclusion	88
5.3	Policy Recommendations	90
5.4	Contribution to Knowledge	91
REFERENCES		92
APPENDIX		101

LIST OF TABLES

Table 3.1:	Selected African Countries for the study	36
Table 4.1.1:	Descriptive Statistics of Variables (Raw values)	43
Table 4.1.2:	Descriptive Statistics of Variables (Log values)	45
Table 4.1.3:	Correlation of the Variables	47
Table 4.1.4:	Panel Unit Root Test (Levels and Dff.)	50
Table 4.1.5:	Panel Unit Root Test (Levels and Dff.)	54
Table 4.1.6:	Panel Unit Root Test (Levels and Dff.)	58
Table 4.1.7:	Lag length Selection Criteria	63
Table 4.1.8:	Kao Residual Co-integration Test	64
Table 4.2.1:	Results of impact of corruption on economic growth	69
Table 4.2.2:	Impulse Response Function	71
Table 4.2.3:	Results of Variance Decomposition	75
Table 4.3.1:	Results of Interaction effect of corruption and Institutional Quality on Growth	81

Table 4.3.2: Results of Impulse-Response of Interaction Effect of Corruption and Institutional Quality on Growth	83
--	----

Table 4.3.3: Results of Variance Decomposition of interaction effect of Corruption and Institutional quality on Growth	86
--	----

OBAFEMI AWOLOWO UNIVERSITY

LIST OF FIGURES

Figure 4.1.1: Trend of corruption in West African countries.	39
Figure 4.1.2: Trend of economic growth in West African countries.	41
Figure 4.1.3: Statistical Histogram in Raw Values	44
Figure 4.1.4: Statistical Histogram in Log Values	46
Figure 4.2.1: Graphs of Impulse response function	72

ABSTRACT

The study analysed the trend of corruption; and examined the impact of corruption on economic growth in selected West African Countries. It also examined the interaction effects of corruption and institutional quality on economic growth in the countries. These were with the view to determining the influence of corruption through institutional quality on economic growth in selected West African Countries.

Annual secondary data of 13 countries selected using data availability in selecting the countries covering the period from 1995 to 2014 were used. Data on corruption perception index, institutional quality which were measured by control of corruption, regulatory quality, government effectiveness, rule of law political stability and absence of violence, voice and accountability, and Gross Domestic Product (GDP) were sourced from the publications of Transparency International (TI); World Governance Indicators (WGI), while data on GDP were sourced from World Development Indicators (WDI) of the world Bank. Data collected were analysed using tables, graphs; and panel vector auto-regressive (PVAR) methods.

The results showed that the trend of corruption in selected West African Countries were not stable during the period of the study. For example, corruption was high in countries like Benin republic, Burkina Faso, Cameroon and Cape Verde between 1995 and 2005; it fluctuated downward in the year 2010 and later rising in 2011 through 2014. Trend of corruption rose at different rates in countries like Guinea, Liberia, Mauritius, Nigeria, Senegal, Sierra Leone, and Togo throughout the period of the study. The results also showed that there were negative impact of corruption through rule of law on economic growth ($t = -0.6897$, $p > 0.05$); positive impact of

corruption through regulatory quality on economic growth ($t = 0.3258$, $p > 0.05$); positive impact through control of corruption on economic growth

($t = 0.5560$, $p > 0.05$); negative impact through voice and accountability on economic growth ($t = -1.2137$, $p > 0.05$); negative impact through government effectiveness on economic growth ($t = -1.9825$, $p < 0.05$); and a positive impact through political stability and absence of violence on economic growth ($t = 2.2134$, $p < 0.05$) over the period of study. In these results, only government effectiveness and political stability and absence of violence were statistically significant while other variables were not statistically significant. This suggests that their impacts on economic growth were minimal. Furthermore, the overall results showed that corruption has a negative impact through institutional quality on economic growth over the period 1995 to 2014 by 1.12 percentage points.

Moreover, results of interaction of corruption with institutional quality showed that there is negative relationship between control of corruption and economic growth ($t = -0.1851$, $p > 0.05$); regulatory quality has a negative relationship with economic growth ($t = -1.2360$, $p > 0.05$); while a positive relationship exist between political stability and economic growth ($t = 3.8939$, $p < 0.05$). Finally, the aggregate results of interaction effect of corruption and institutional quality on economic growth showed that corruption has a negative effect on economic growth by 0.14 percentage points over the period 1995 to 2014.

The study found that corruption has a negative influence through institutional quality on economic growth in selected West African Countries.

CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

Corruption has been defined by several authors in different ways. According to Macrae (1982), corruption is defined as an arrangement that involves an exchange between two parties (the demander and the supplier) which has an influence on the allocation of resources either immediately or in the future; and involves the use or abuse of public or collective responsibility for private ends.

Corruption exists in virtually all sectors of the economy. It is also found in every society, among the rich, the poor, the high and the low, the religious organizations and political scene all over the world (West African Countries included). Some researchers who studied corruption-growth relationship have shown that corruption can hinder growth. For example, studies such as Mauro (1995); Wei (1997); and Mb (2001), have shown that corruption creates social-political instability that creates uncertainty which lowers productivity and economic growth. In contrast, some other studies pose that corruption can spur growth (see Leff, 1964; Huntington, 1968 and Becker and Maher, 1986). These studies argued that those criticizing corruption often failed to have in mind bureaucracies that are working to promote economic development. But if governments are primarily interested in reaching other goals such as staying in control and self-enrichment, a re-evaluation of the effects of corruption may be warranted. Bribery then allows entrepreneurs to gain influence on the decision-making process which fosters economic growth by reducing uncertainty and supporting the innovative activities of entrepreneurs.

Since Acemoglu, Johnson and Robinson's (AJR, 2001) seminal paper supporting the link between institutions and development, the debate over the role of institutions on economic growth has spurred more researches. Those who are critics of institutionalism are perhaps better

represented by Jeffrey Sachs (2003), who has emphasized the prevalence of ecology and geography over institutions in economic development. Nevertheless, following Diamond (1997), one could propose what Acemoglu, Johnson and Robinson (2002a) call a “sophisticated geography hypothesis” which claims that geography matters but in a time varying way. According to North (1990, p. 3), “Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.” He goes on to emphasize the key implications of institutions since, “In consequence they structure incentives in human exchange, whether political, social, or economic.”

Broadly viewed, corruption in governance especially in Africa is manifested by the long list of dictatorial leaders, non-free media, and undemocratic elections. According to Jespersen (1992), Africa performed well in the early years of its independence, but failed to perform as expected beyond 1973 as the region is now characterized by low growth rates, declining agricultural production, stagnating manufacturing rising imports, and rapidly expanding external debts.

Additionally, the region has had many coups, civil unrests, ethnic violence; and widespread bureaucratic corruption alongside administrative inefficiency, and institutional ineptitude. Corruption has been identified as one of the biggest obstacles to Africa’s social, economic and political development due to its negative effects on the continent’s stability. In a report presented in September (2002), the African Union (AU) estimated that corruption costs African economies in excess of US\$148 billion a year; both direct and indirect costs of corruption not only represent 25 percent of Africa’s GDP but also increase the cost of goods by as much as 20 percent. It is in recognition of these facts that the AU Assembly of Heads of State and Government, in July 2003, adopted the AU Convention on preventing and combating

corruption which principally aims at establishing effective measures and actions that prevent, detect, punish and eradicate corruption and related offences in Africa. Also, the New Partnership for Africa's Development (NEPAD) Action Plan, which calls for setting up a coordinated mechanism to combat corruption in Africa, is examined. However, efforts made to combat corruption are not successful because corruption is increasing on yearly basis in African Countries.

The general consensus among economists and policy analysts at the World Bank, the International Monetary Fund (IMF), and other international agencies is that corruption is a universal problem but with more debilitating effects felt in emerging and developing countries, such as those found in West African Countries. Policy experts and other international agencies rank public sector corruption or the use of public office for personal gain, as a major constraint that has hindered Africa's economic, political, and social development [see Klitgaard (1998), Gray and Kaufmann (1998), Muro (1998, 1995), and Vogl (1998, 2004)].

According to Transparency International (TI), corruption in Africa has been estimated to siphon about 20 to 30 percentage of funding from basic service provision. Additionally, many foreign newspapers and studies have reported that African leaders extract billions of dollars every year from their economically strapped countries (Oyedoyin, 2012). In 1991, United Nations estimated that the ruling elites drained more than \$200 billion out of Africa. Ayittey (2002) and La wal (2007) agreed that this sum was more than half of African foreign debt, and that it exceeded the amount of foreign aid to Africa. They also argued that African leaders were self-aggrandizers and self-perpetuators who subvert and debauch every key institution of government to serve their needs and not that of their people.

Not only does corruption lead to unnecessary misallocation of their scarce resources, but it is also a persistent problem for the region. For example, in a test of 27 Sub-Saharan countries from 1984 to 2006, Bessessar (2009) found that the percentage of countries in the

OBAFEMI AWOLOWO UNIVERSITY