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**Conference Paper**

# Analysis of Oil Revenue and Economic Corruption in Nigeria

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**Abstract:** Corruption is a pressing issue in Nigeria. President Muhammadu Buhari launched an anti-corruption drive after taking office in May, 2015. Corruption affects public finances, business investment as well as standard of living. Recent corruption scandals have highlighted the large sums that have been stolen and/or misappropriated. But little has been done to explore the dynamic effects of corruption as it affect the long run capacity of the country to achieve its potential. Economic corruption is a challenge internationally. To deal with it, we must investigate its causes. To do this, data from Nigeria for the period 1974-2012. It is revealed in the study that oil revenue and economic corruption in Nigeria are related. The study show that a 1% increase in oil revenue increase bribery, embezzlement and forgery in Nigeria by 15-43%. The study policies implications will be to enhance ways of reducing corruption and poverty so that the level of economic growth can be encouraging. That is the activities of the anti-corruption agencies in Nigeria such as the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices and related Offences Commission (ICPC) should be strengthened.

**Keywords:** Nigerian Economy, Oil Revenue, Economic Corruption, Government Expenditure

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## 1. Introduction

Oil revenue has ever been one of the most influential factors in economies of oil exporting countries, Nigeria included. Due to its remarkable importance in world industrialization, crude oil can be one of the most important constituents of demand of developed countries. Most of oil producing countries share like characteristics that cause them to rely on oil revenue to finance their expenditures. First, they are not equipped for optimal usage utilization of this special product. Second, their governments are involved in considerable financial and economic corruption. Third, both public and private sectors, have relatively low saving and investment rates. Finally, some of them, including Nigeria, suffer from inefficient taxation systems. This study investigate the case of the Nigeria economy. This is much more meaningful when we remember the high income from oil since discovery of oil in Nigeria. The first oil extraction was done in 1956, although Nigeria has benefited from oil revenue ever since, Nigeria is gifted with other 37 natural resources but it lags behind other countries

that are devoid of natural resources. Accordingly, even after years of crude oil utilization, the economy has not yet developed. Economic corruption is a global problem, in which almost all countries are engaged (Khan, 2004; Deluca 2009). Corruption usually involves abusing the deployed power in order to maximize self interest in public and private sectors. The root of corruption is referred to the Latin word "romper" which means breaking, therefore, during corruption something will be broken – this may be formal law, moral law, social conventions etc. Nevertheless, the definition of corruption is not completely obvious (Jain, 2001; Vinod et al., 2000). Economic corruption causes waste of resources and leads to the efficiency decline in the whole economic system. The weight of corruption is on the increase in Nigeria. Some considerations here are appropriate. Firstly, other things being equal, increasing the openness of an economic system is a crucial factor in avoiding corruption. The more open the economic system is, the more transparent the government reports will be, the less will be economic corruption. Secondly, increasing the number of free press entities, independent

political parties, non-government organizations, and other social control devices, can lead to higher disclosure of a government's activities, leaving less room for economic corruption. Thirdly, after globalization, international organizations have extended both vertically and horizontally their anticorruption efforts. Fourthly, reliance on market forces in economic decision making can be helpful for highlighting the seriousness of corruption and recently, the fight against corruption by the government will go a long way to reduce corruption. Much more than 95% of public expenditures of Nigerian government are financed by oil revenues and over 85% of Nigerian foreign currencies earning come from oil revenue. On the other hand, the size of expenditures of the Nigerian government, especially under the past military administration, 1984 -1998, has increased, because, first, it misuses the economy, as the instrument for achieving its ideological goals. Second the increase in oil prices in the period in question were some of the reasons for analyze the economic corruption in Nigeria

The need to study corruption and economic growth in Nigeria has continued to generate passionate commentaries and academic interest due to the level of corruption in the country and its effect on economic growth. In Nigeria corruption is one of the reasons for many unresolved problems that have critically hobbled and reduce development (Ayobolu, 2006). It also remains a long-term major political and economic growth challenge for Nigeria (Sachs, 2007).

In Nigeria, the level of corruption, poor state of our electricity, transport sector, health sector, and education sector is the major problem for economic growth and it is a major handicap for doing business in the country. As part of fighting corruption and strengthening the economy, Nigeria government has over the years embark on series of economic growth reform through privatization, banking sector reform, anti-corruption campaigns and establishment of transparent fiscal standards such as ICPC, EFCC etc. The major aim of economic reform in Nigeria is to provide a conducive environment for private investors and FDI to flow (African economic outlook 2011). On fact mention above the board objective of this paper is to theoretically and empirically investigate the channel through which the natural resources might affect a country's economic growth that is through an increase in rent – seeking activities. Our specific research questions include: What factors determine the incidence of corruption and what role does the abundance of natural resources play in Nigeria? What factors determine the extent of corruption and how one can explain the stylized fact that resources rich economy tend to grow slower. What policies and strategies to eradicate bribery and corruption in Nigeria.

## 2. Overview of Impact of Oil Revenue on Economic Corruption in Nigeria

Oil among other mineral resources plays very significant role in the Nigerian economy due to foreign exchange earnings earned and employment generated by the sector. The sector

however has contributed to large scale stealing of government funds with total disregard for its consequences. To many individuals, the sector has remained a pain in the ass because there is nothing to show for it despite the environmental pollution being created by its exploitation. Rather the proceeds are diverted into private use at the expense of providing basic amenities while poverty persists in the midst of plenty. Corruption actually attained its peak in the oil boom era when there was a fourfold increase in international petroleum prices. Simultaneously, Nigeria's treasury according to Osoba (1996) was so enormous with petro-dollars that Gowon's Governor of the Central Bank openly declared that money was not Nigeria's problem, but how to spend it. These huge cash resources. Thus generated high incidence of corruption among various levels of government officials including Gowon himself accused of receiving 1Nigerian kobo on every barrel of the country's oil sold. Subsequently and because of dictatorial tendencies of Gowon administration and other military regimes, there was lack of budgetary control and financial accountability. The situation was so bad to the extent that Obasanjo administration indiscriminately borrowed from euro-dollar market at extremely high interest rate first at the very time when oil production was in excess of two million barrels per day in 1977. Based on government financial transactions, sales revenue from oil netted over US\$20 billion annually with consequent effect of inflating Nigeria's external debt stock from the modest level of US\$560 million in 1975 to US\$6.8 billion in 1979 (Okigbo 1986). In fact caution was thrown into the wind during Babangida administration to the extent that he could not account for US\$12.4 billion oil wind fall from the Iraq-American war. Following these series of corruption antecedents, large scale corruption was initiated, nurtured and sustained by the military. It is a puzzle that the country is still able to function despite its persistent drifting towards being classified as a failed state. With this trend of looting, it would be catastrophic if all the information about other looted funds were provided. For instance it is yet to be confirmed the total amount of the country's fund mismanaged under Obasanjo-led civilian administration. But it was confirmed that as a military head of states, he was unable to account for =N=2.8 billion crude oil proceeds with all subsequent administrations following same trend except for Buhari government. Obasanjo's role in Trade Fair Complex contract No.13/1731 left much to be desired. It was revealed that the contract was initially awarded for =N=45.27 million by Muritala Muhammad but was later reviewed upward twice by Obasanjo to =N=95.82 million and subsequently =N=116,253.90 million. From all indications it is doubtful whether these public officials could ever be good managers and be able to run their private businesses successfully. Perhaps, it showed that they were only feeding fat on government resources. The various Ministries also played significant role in perpetrating corruption. This is a re-confirmation that corruption is more prevalent in the Nigeria government than in the private sector. The total amount misappropriated by these various Ministries stood at =N=23,860,732,145.20 billion with Power and Steel topping the chart followed by the Works and Housing Ministries. This is one of the reasons why there has been epileptic electricity supply and

shortage of accommodation in the country. Office of the Accountant General (2001). Audited Report

According to Nwaobi, G. C. (2006) corruption is one of the greatest challenges of the contemporary world. It undermines good government, fundamentally distorts public policy, leads to the misallocation of resources, harms the private sector and particularly hurts the poor. Many aspect of bribery and corruption include accepting gratification, giving or accepting gratification through agent,

Fraudulent acquisition of property; fraudulent receipt of property. Offences committed through postal system, deliberate frustration of investigation, making false statement or returns gratification by and through agents, bribery of public officer; using office or position for gratification; bribery transactions; false or misleading statements to the commission and attempt (conspiracy) punishable as offences.

Corruption respects no national boundaries and it deeper poverty around the globe by distorting political, economic and social life.

Transparency international (TI) was born from the experience of people who witnessed firsthand the real threat to human liver posed by corruption. Today, corruption at the highest levels captures headlines everywhere, and people are becoming aware of its disastrous consequences.

Indeed, Nigeria is one of the poorest countries in the world (World Bank, 2003; united nations, 1999). Several factors contribute to the persistence of national poverty, and corruption is definitely one of them. Oil and Gas have brought wealth to Nigeria but these industries have historically provided opportunities for corruption on a massive scale. The corruption perceptions index (CPI) is a poll of polls, reflecting the perceptions of business people and country analysts, both resident and non-resident. The table below shows the relative performance of Nigeria's CPI (1980 –2002).

Here, the comparisons to the results from previous years should be based on the country's score, not its rank. A country's rank can change suggesting that now countries enter

the index and others dropout. A higher score suggests that respondents provided better ratings, while a lower score suggest that respondents revised their perception downwards.

However, year-to-year in a country's score can result not only from a changing way of a changing way of a country's performance but also from a changing sample and methodology. With differing respondents and slightly differing methods change in a country's score may also relate to the fact that different viewpoints have been collected and different questions being administered.

Table 1 Presents the CPI for 1980 – 1992.

*Table 1. CPI: 1980 – 1992 (RELATIVE REPORTS).*

COUNTRY	1980 –1985 score	1988 – 1992 score
NEW ZEALAND	43; 9	41; 8
FINLAND	14; 8	88; 8
NIGERIA (corrupt)	99; 0	63; 0

In the 1996 CPI report, the rank relates to the results drawn from a number of surveys and reflects only the perception of business people that participated in these surveys. Score' 96 relates to perceptions of the degree of corruption as seen by business people and a perfect 10.00 would be a totally corrupt-free country. Score '95 has to be interpreted similarly but fewer countries were include in the index and fewer surveys were drawn upon and thus the 1995 column is at best a rough comparison.

Conclusions with regard to historical trends should be based on the historical data as shown below. The variance indicates different results from different surveys: the greater the variance, the greater were the differences of perceptions of a country among the surveys used. For the number of surveys used, 10 surveys were used and at least four surveys were required for a country to be included in the list.

Table 2 presents the 1996 CPI while Table 3 presents the historical data.

*Table 2. CPI: 1996 [54 COUNTRY SAMPLE].*

Rank	Country	Score'96 (Max. 10)	Score'98 (Max. 10)	Variance In '96	Number Of Surveys Used
1st (clean)	NEW ZEALAND	9, 43	9, 55	0, 39	6
54th (corrupt)	NIGERIA	0, 69	----	6, 37	4

*Table 3. CPI: 1996 [HISTORICAL DATA].*

Rank'96	Country	Score 1993-1996 (Max. 10)	Number of Surveys Used	Score 1988-1992 (Max. 10)	Number of Surveys Used	Score 1980-1985 (Max. 10)	Number of Surveys Used
1st(clean)	New Zealand	9, 43	6	9, 30	3	8, 41	2
54th(Corrupt)	Nigeria	0, 69	4	0, 63	2	0, 99	2

Here, a lower score indicates a worse performance whereas a higher indicates a perception of improvements. The tables also present two figures for each period. The first is the average score and the trend is the more reliable the higher the difference between the respective periods, the more surveys are available and the lower the variance

The 1997 CPI was an improved index when compared to the

previous years. Its ranking system was designed so that countries that are perceived to be the least corrupt are given the highest scores out of ten. No country scored ten, but Denmark, Finland and Sweden emerged in top place with New Zealand slipping from its 1996 top scores. For another year running, Nigeria emerged in the lowest position and was thus perceived to be the most corrupt country of those analyzed for the 1997 index.

*Table 4. Presents the CPI table.*

Rank	Country	Score '96 (Max. 10)	Score '98 (Max. 10)	Variance In '96	Number of Surveys Used
1st (Clean)	New Zealand	9, 43	9, 55	0, 39	6
54th (corrupt)	Nigeria	1, 76	0, 69	4	0, 16

The rank relates solely to the results drawn from a number so surveys and reflects only the perceptions of business people that participated in these surveys score 1997 and score 1996 relate to perceptions of the degree of which corruption is seen by business people-a perfect 10.00 would be a totally corruption-free country. Variance indicates differences in the values to the sources for the 1997 index: the greater the variance, the greater the differences of perceptions of a country among the sources here. The number of surveys used had to be at least four for a country to be included in the CPI.

For the 1998 CPI, the rank relates solely to the results

drawn from a number of surveys and reflects the perceptions of business people that participated in these surveys. The score column relates to perceptions of the degree of which business people see corruption. Perfect 10.00 would be totally corruption-free country. Standard deviation indicates differences in values of the sources from the 1998 index: the greater the variance, the greater the differences of perceptions of the country among the sources. Again, the number of survey used had to be at least four for a country to be included in CPI. Table 5 presents CPU table.

*Table 5. CPI: 1998 [85 COUNTRY SAMPLE].*

RANK	COUNTRY	SCORE	STANDARD DEVIATION	SURVEYS USED
1st (clean)	DENMARK	10.0	0.7	9
81st (corrupt)	NIGERIA	1.9	0.5	5

The 1999 CPI score relates to perceptions of the degree of corruption as seen by business people, risk analysts and the general public and ranges between 10 (highly clean) and 0 (highly corrupt). The surveys used refers to the number of surveys that assessed a country's performance seventeen surveys were used and at least three surveys were required for

a country to be included into the 1999 CPI. The standard deviation indicates difference in the values of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources. Table 6 presents the CPI table.

*Table 6. CPI: 1999 [99 COUNTRY SAMPLE].*

Rank	Country	SCORE	STANDARD DEVIATION	SURVEY USED
1st (CLEAN)	DENMARK	10.0	0.8	9
98th (Corrupt)	Nigeria	1.6	0.8	5

The 2000 CPI score relates to the perception of the degree of corruption as seen by people, risk analysts and the general public and ranges between 10 (high clean) and 0 (highly clean) and 0 (highly corrupt). The surveys used refer to the number of

surveys that assessed a country's performance. Sixteen surveys were used and at least three surveys were required for a country to be included in the CPI. Table 7 presents the CPI table.

*Table 7. CPI: 2000 [90 COUNTRY SAMPLE].*

Rank	Country	Score	Survey Used	Standard Deviation	High – Low Range
1st (Clean)	Finland	10.0	8	0.69	– 10.4
90 <sup>th</sup> (Corrupt)	Nigeria	1.2	4	0.6	0.6 – 2.1

The 2001 CPI score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (high clean) and 0 (highly corrupt) – The survey used reflects to the number of surveys that assessed a country's performance. Here, a total of fourteen surveys were required for a country to be included in the CPI.

The standard deviation indicates differences in the values of the sources: the differences of perceptions of a country among the highest and lowest values of the sources. Since each individual's sources have its am sealing system, scores are standardized around a common mean. Table 8 presents the 2001 CPI table.

*Table 8. C.P.I: 2001 [91 COUNTRY SAMPLE].*

Rank	Country	Score	Surveys Used	Standard Deviation	High – Low Range
1st (Clean)	Finland	9.9	7	0.6	9.2 – 10.6
90 <sup>th</sup> (Corrupt)	Nigeria	1.0	4	0.9	-0.1 – 2.0

The 2002 CPI score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupts). The surveys used refer to the number of surveys that

assessed a country's performance. Here, a total of fifteen surveys were used from nine independent institutions, and at least three surveys were required for a country to be included in CPI. The standard deviation indicates differences in the values

of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources. The

high –low range provides the highest and lowest values of the different sources. Table 9 presents the 2002 CPI table.

**Table 9. 2002 [102 COUNTRY SAMPLE.**

Rank	Country	Score	Surveys Used	Standard Deviation	High – Low Range
1st (Clean)	Finland	9.7	8	0.4	8.9
101 <sup>th</sup> (Corrupt)	Nigeria	1.6	6	0.6	10.0 – 2.5

The 2003 CPI score relates to perception of the degree of corruption as seen by business people, academics and risks analyst, and ranges between 10 (highly clean) and 0 (highly corrupt). A surveys used refers to the number of surveys that assessed a country's performance. A total of seventeen surveys were used from thirteen independent institutions, and at least three surveys were required for a country to be

included in the CPI.

The standard deviation indicates differences in the values of the sources: the greater the standard deviation, the greater the differences of perceptions of a country among the sources. The High low range provides the highest and the lowest values of the different sources. Table 10 presents the 2003 CPI table.

**Table 10. CPI: 2003 [133 COUNTRY SAMPLE].**

Rank	Country	Score	Surveys Used	Standard Deviation	High – Low Range
1st (Clean)	Finland	9.7	8	0.3	9.2 –10.0
132 <sup>th</sup> (Corrupt)	Nigeria	1.4	9	0.4	0.9 – 2.0

Indeed, the above corruption picture in Nigeria is highly alarming and consequently, we wish to trace the origin and scope of this problem.

### 3. Review of Related Literature

The issue of rising increase in corruption and its effect on economic growth has generated a lot of controversy and debate among academics, economists, bankers, policy makers, researchers and general public in recent times. The effects of corruption on economic growth are still an unresolved issue in both theoretically as well as empirically. This is because the theoretical positions on the corruption are quite diverse and the conventional wisdom is that a large level of corruption in the country is a source of economic instability or stagnation in Nigeria. Some empirical studies did not agree with the conventional wisdom. A few studies reported positive and significant relationship between corruption and economic growth while several others like Rotimi, Obasaju, Lawal, and Ise (2013) found no relationship between an increase in corruption and economic growth in real output.

#### 3.1. Empirical Review

A few of researchers has discussed the level of corruption on economic growth in both developed and developing countries. Such authors include Abiodun, Elijah and Obayelu (2007) that use descriptive survey and content analysis to investigate the effect of corruption and economic reforms on economic growth and development in Nigeria. It was revealed that there have been significant reductions in the level of corruption in Nigeria through the introduction of the anti-corruption team or instruments. But the study also found negative relationship between the levels of corruption and economic growth, thereby making it difficult for Nigeria to develop fast. This means that corruption in Nigeria reduces economic growth, efficiency and development despite the huge resources in the country. This is also because corruption

reduces or create negative image in a nation and as well losses much needed revenue.

Rotimi, Obasaju, Lawal and Ise, (2013) used ordinary least square (OLS) and granger causality method to determine the relationship between corruption and economic growth in Nigeria. The study observed that corruption impairs and impacts economic growth. The study fails to establish the level of impact of corruption on economic growth by stating whether it is positive or negative.

Adewale, (2011) investigated the crowding out effects of corruption in Nigeria using parsimonious error correction mechanism and employed experimental research design approach for the data analysis and revealed that there is a negative relationship between corruption and output growth in Nigeria. The implication of this is that Nigeria government should introduce a national re-orientation program to educate people on the crucial need to eradicate corruption in all sectors of Nigeria economy and socio-political system.

Akinpelu, Ogunseye, Bada, and Agbayangi (2013) examined the Socio- Economic Determinants of corruption in Nigeria using co-integration test and vector error correction model. The study discovered that there is a long-run relationship between conception and the social economic variables in Nigeria. This study falls to establish the level of relationship like whether significant positive or negative relationship which has policy implication in the short and long run.

Mnhuda (2013) investigating the relationship between corruption, poverty and economic growth in Nigeria. The study employed regression analysis and granger causality test, it was discovered that there is an existence of co- integration chance tanging a long run causality relationship between corruption, poverty and economic growth in Nigeria.

Ade, Babatude and Awoniyi (2011) in the study of Corruption, foreign direct investment and Economic growth in Nigeria: An empirical investigation employing granger causality test and Ordinary Least Square Method in testing

FDI inflow, corruption index, Exchange rate, Inflation rate, GDP for model one. For two, the variables are Gross Domestic Product, Government Expenditure, FDI and Gross fixed capital formation. The OLS result reveals that there is an inverse relationship between FDI inflow and corruption. This means that a large volume of FDI inflow is associated with a low level of corruption in the host countries. Exchange rate depreciation and inflation rate are significant determinations of FDI inflow in Nigeria. Also, there is a significant position.

### 3.2 Theoretical Framework

#### 3.2.1. Theories of Corruption and Economic Growth

This section highlights some basic theories that have been used to support the effects of corruption on economic growth. Such theories amongst others are:

#### 3.2.2. A Policy-Oriented Theory of Corruption

This theory was developed by Teveik, Albert and Charles in 1986, in explaining the role of government in fighting corruption. They states that despite corruption frequent occurrence, government involvement in corruption has undergone surprisingly with its effect of the growth of the economy which needs serious investigation. The theory opine that he high level of corruption in any country whether developed or developing countries will not allow the country's economy to grow and that if the field of administrative corruption is to become more theoretical and less descriptive, it must develop a framework and methodology that will help to measure its effect on economic growth.

#### 3.2.3. Economic Growth Theory

This theory was propounded in reactions to the deficiencies in the Solow-Swan growth theory or model by Arrow (1962); Lucas (1988); and Romer (1990). This theory as propounded lay more emphasis on the long-run growth rate of an economy and on the basis of endogenous factors rather than exogenous factors of the neoclassical growth theory. The Solow-Swan model explains that the long-run growth rate of output is based on two basic exogenous variables such as population growth rate and level of corruption in the country. The growth theory emphasizes on technical progress resulting from the rate of capital stock, human capital development, reduction in corruption and investment rate.

#### 3.2.4. Policy Implications of the Theory

This theories, believes that economic growth is linked with improvement in productivity and reduction in corruption which ultimately result to a faster pace of innovation and extra investment in human capital. The theory predicted that externalities and spill over on corruption fight from developed countries will help to develop and maintain a competitive advantage in economic growth in Nigeria. Paying attention to some basic realities of the structure of the Nigerian economy is helpful at the beginning of this section. One reality is that the Nigerian economy suffers from the lack of a well-developed taxation system. Accordingly, public expenditures are financed by oil revenues. The ratio of tax revenue to GDP in Nigeria as put forward by the Minister of

Finance, Mrs. Kemi Adeosun, is six per cent, the country is rated one of the lowest in the world. Secondly, lack of adequate infrastructural is crowding out the private sector. The government even use financial sector as an instrument for achieving its ambitious goals. Thirdly, the oil revenue is monopolized by the government, and finally there is a big bureaucratic system involved in oil revenues. So it is expected to have a meaningful relation between economic corruption and oil revenue in Nigeria.

Misusing oil revenue can cause distortions in socioeconomic systems both by increasing the government expenditure, and by dichotomizing the government and private sectors. Government may rely on oil revenue instead of tax, and therefore needs no tax payer citizens. Thus people become the servants of the government, which plays the role of a master. In usual circumstances people pay taxes for financing the government expenditures, thus they are the master of a government in principle. Major symptom of corruption in Nigerian economy are increasing embezzlement, bribery, and other fraudulent cases. Of course, when we rely on official reports on embezzlement, bribery and other fraud cases as indicators of corruption, our study may easily underestimate the real corruption, because some crimes are been reported officially. Nevertheless, even basing on the available data, the relationship between oil revenue and corruption is relevant

## 4. Model Specification

In order to empirically test the relationship between oil revenue and corruption in the Nigeria economy, the study adopt the model use by Yadollah Dadgar1 and Rouhollah Nazar (2012) in their study of Iran, which analyze the behavior of the following variables: economic corruption as a dependent variable, oil revenue, GDP (without oil revenue), consumer price index (as proxy of inflation rate), and openness of economy, urbanization level, government expenditure and Gini-coefficient. We believe that, in addition to oil revenue, there is some relationship between corruption and each of the above variables as well. Our dependent variable (corruption) is based on the number of terminated and closed corruption cases including bribery, embezzlement etc). Thus we are going to propose the following model:

$$LCORR_t = \beta_0 + \beta_1 LOILR_t + \beta_2 LYR_t + \beta_3 LCPI_t + \beta_4 LOPEN_t + \beta_5 DU_t + \beta_6 LINDUST_t + \beta_7 LGR_t + \beta_8 LGINI_t + \beta_9 U_t \quad (1)$$

Where:

LCORR<sub>t</sub> is the logarithm of economic corruption variable,  $\beta_0$  is intercept, LOILR<sub>t</sub> is the logarithm of oil revenue, (2004=100)<sup>3</sup>, LYR<sub>t</sub> is, the logarithm of gross domestic product (without petroleum), LCPI<sub>t</sub> is the logarithm of consumer price index (as proxy of inflation rate), LOPEN<sub>t</sub> is openness degree of the economy (ratio of combination of export and import on GDP), DU<sub>t</sub> is the degree of urbanization, LINDUST<sub>t</sub> is industrial value added, LGR<sub>t</sub> is government expenditure, and LGINI<sub>t</sub> is Ginicoefficient (as proxy of inequality).

In analyzing the model we consider the following points: Firstly, the standard of living of public and private staff concerned, the higher the inflation rate is, the more uncertainty will be in their future and, possibly, the more involvement in economic corruption (bribery, forge, embezzlement etc). Thus, controlling the inflation rate can secure the standard of living as such, and reduce the economic corruption. Secondly, the degree of urbanization in our model,  $DU_t$ , can be calculated as:

$$DU_t = \frac{POP_t}{TPOP_t}$$

Where  $POP_t$  is the urban population and  $TPOP_t$  is the total population. Generally speaking, the more urbanization, the more bureaucracy and, potentially, the more ground for economic corruption will be provided. Thirdly, as launching industrial units require government permit, economic and business units, to get permission (given the big size and inefficient bureaucracy in Nigeria), engage in economic corruption. Donating banking facilities, subsidies, granting

government owned lands and the like can be enumerated among other government rents that could be given to. We use the value added of industries as a proxy for industrialization in our model. Finally, government expenditure is one of our key variables here. This indicator is made of ratio of total government expenditures to GDP which reflexes the size of government as well. Meanwhile, the data for developing paper are mainly provided by the Central Bank of Nigeria (CBN) and yearbooks of the Nigeria Bureau of Statistics (NBS). Of course, some further data from independent research centers (CPI) have been used as well.

## 5. Analysis of the Results and Discussions.

Stationary was perform on data, using DF and Augmented DF and also Phillips Peron tests. The results show the existence of unit root, with no "spurious regression" (Table 11 see below results). We also test the Granger casualty of the variables basing on the following models:

**Table 11.** DF/ADF and Phillips Peron tests for unit roots and time trend (At levels and at first differences).

Variables	Phillips-Peron				ADF tests			
	Level		First differenced		Level		First differenced	
	With intercept	With intercept and trend	With intercept	With intercept and trend	With intercept	With intercept and trend	With intercept	With intercept and trend
LCORR	-1.43	-0.66	-3.18**	-3.51**	-1.57	-0.44	-3.09**	-3.51
LOILR	-1.52	-2.17	-4.93*	-4.88*	-1.37	-1.97	-4.93*	-4.90*
LYR	-0.32	-1.76	-2.55**	-2.54**	-0.34	-0.99	-2.46**	-2.53**
LCPI	-1.54	-0.69	-3.00**	-3.55**	-2.15	-1.40	-2.91**	-3.53**
LOPEN	-1.24	-2.55	-4.04*	-3.92**	0.69	-2.74	-4.09*	-3.98**
DU	0.82	-1.07	-4.47*	-4.36**	-0.38	-2.07	-4.47*	-4.36**
LINDUST	-0.014	-2.38	-3.37**	-4.19*	-1.25	-2.08	-3.32**	-3.71**
LGR	-0.23	-3.26	-4.06*	-4.17*	-0.09	-3.16	-4.18*	-4.09**
LGINI	-2.55	-2.57	-6.81*	-7.82*	-2.52	-2.46	-6.74*	-6.93*

Notes: \*, \*\* mean to reject the null hypothesis of a unit root at 1% and 5% critical value respectively. The selection of the lags is based on the Akaike's information criterion (AIC) and Schwarz information criterion (SIC)

$$LCORR_t = \sum_{i=1}^n \alpha_i LOILR_{t-i} + \sum_{j=1}^n \beta_j LCORR_{t-j} + \varepsilon_{1t} \quad (2)$$

$$LCORR_t = \sum_{i=1}^n \lambda_i LOILR_{t-i} + \sum_{j=1}^n \delta_j LCORR_{t-j} + \varepsilon_{2t} \quad (3)$$

**Table 12.** Granger causality test for variables of the model.

X	Y	Statistic F	Probability	Hypothesis of zero
LCORR	LOILR	3.74	0.068	Rejected
LOILR	LCORR	14.57	0.004	Accept

Hypothesis of zero: X is not Granger causality Y.

As Table 12 shows, oil revenue in Nigeria is Granger causality of economic corruption in this country. The results of the estimated model is shown in Table 13. As we see, all variables are significant and relevant at 95% (except government size which is relevant at 90%). The specification

coefficients of models in question imply that independent variables explain 98% to 99% of the economic corruption changes. The oil revenue coefficient is positively significant, accordingly; there is a positive relationship between oil revenue and economic corruption in Nigeria for the period in question. The more the oil revenue is, the more economic corruption would be. In other words, 1% increase in oil revenue leads to between 15%-43% increase in bribery, embezzlement and forging cases. The negative coefficient of GDP without petroleum indicates that the higher the GDP without petroleum is, the less economic corruption would be. This result, in turn, reinforces our main hypothesis. The negative coefficient of openness variable also proves that the more open the economy is, the less corruption it would have.

**Table 13.** Estimated Models (Dependent Variable: Corruption Index).

Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
C	15.45 (5.24)*	13.74 (5.32)*	6.43 (5.24)*	17.78 (5.12)*	11.77 (9.18)*	11.05 (1.52)
IOILR	0.20 (2.29)**	0.43 (5.59)*	0.41 (4.02)*	0.15 (1.47)	0.39 (3.62)*	-
IYR	-1.03 (-2.68)**	-0.65 (-1.87)***	1.89 (-3.05)*	2.05 (-3.88)*	-	0.81 (-2.06)**

Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
ICPI	1.06 (9.43) *	1.05 (10.79) *	-	-	1.07 (10.66) *	-
IOPEN	-	-0.84 (-3.68) *	-	-	-0.75 (3.19) *	-
DU	-	-	0.30 (6.93) *	-	-	-
LINDUST	-	-	-	0.99 (8.57) *	-	-
LGR	-	-	-	-	-0.55 (-2.39) *	-
LGINI	-	-	-	-	-	3.30 (9.34) *
ARMA	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(0,1)	ARMA(1,1)
R-squared	0.95	0.96	0.95	0.95	0.96	0.96
Durbin- Watson stat	1.42	1.88	1.64	1.43	1.61	2.19
F-statistic	366.8	433.8	236.8	274.7 2	356.9	511.8

The t-statistics are given in parentheses. \*, \*\*, \*\*\* refer to 1%, 5% and 10% levels of significance. ARMA terms introduced to control problems of serial correlation are not listed

Positive relationship between inflation, urbanization and industrialization with Nigerian economic corruption are to be expected as well. Nevertheless, due to some structural shortcomings in the economic performance of Nigeria, as a whole, we can justify some ambiguities in the estimated values regarding government expenditure. Consequently, it can be conclude, and believe, that downsizing the government is only one factor in reducing corruption, alongside with other factors. Meanwhile, we analyzed the situation of good governance in Nigeria for period in question. Our study indicates there is a meaningful relationship between oil revenue and good governance. Although there is a positive relationship between corruption and oil revenue in Nigeria in the whole period we examined (1974-2012), the period of the military administration, 1984-1998, is witness the worst burden on the economy and has led to creating the most disordered fluctuations in that period.

## 6. Conclusion

Corruption has become rampant almost in every sphere of life in Nigeria. The country is listed as one of the most corrupt counties in the world in various rankings of corruption. It is widely discussed that corruption is hurting economic progress of the country to a large extent.

Much theoretical reasoning and empirical evidence suggests that possession of natural resources such as oil, can confer negative effects on a country economic performance, along with the benefits. While this study results therefore confirm the common held belief that oil rents are associated with corruption and a worsening of political rights, the study reject the hypothesis that oil rents are a direct threat to state stability and identify five ways whereby natural resources might possibly have negative effects on economic performance. The first, oil price volatility is high, which imposes risk and transactions costs.

Specialization in oil can be detrimental to growth if it crowds out the manufacturing sector and the latter is the locus of positive externalities. Oil riches can lead to civil war, which is an obstacle to development.

Endowments of “point source” commodities (oil and minerals and some crops) can lead to poor institutions, such as corruption, inequality, class structure, chronic power struggles,

and absence of rule of law and property rights.

Natural resource wealth can also inhibit the development of democracy, though there is not good evidence that democracy per se (as opposed to openness, economic freedom, decentralization of decision-making, and political stability) leads to economic growth.

The Dutch Disease, resulting from a commodity boom, entails real appreciation of the currency and increased government spending, both of which expand non-traded goods and service sectors such as housing and render uncompetitive non-commodity export sectors such as manufactures. If and when world commodity prices go back down, adjustment is difficult due to the legacy of bloated government spending and debt and a shrunken manufacturing sector.

## Recommendations

In view of the findings of the study, it is recommended, first among equal is the institutional measures of ensuring financial probity and accountability through strict adherence to budgetary allocations. Experiences have shown that extra-budgetary expenses especially through consolidation revenue account tolerated weird and extravagant spending most especially during military administrations.

It is essential that provisions should be made for improved infrastructures especially electricity and transportation for the system to function effectively. In line with this, affordable accommodation, qualitative education and adequate health accessibility must be provided.

Another measure towards mitigating corruption among public officers is to legalize the previously prohibited or controlled activities. Though for some reasons in Nigeria, the import duty free for example, created another source of extortion for customs through their agents at various ports in the country. Where an importer refuses to accede to their demands, the ‘port rats’ are engaged to pilfer or destroy such importer’s merchandise.

Arising from above is the provision of better conditions of service including impressive salary packages. In terms of welfare packages, bonuses and allowances should be granted to deserving officers frequently. The provision for credit facilities, insurance benefits and various post service opportunities should be extended to all public officers in

accordance with their grades.

Agencies and commissions saddled with monitoring corrupt practices must be motivated and encouraged. This will amount to strictly enforcing due process and the rule of law in the public administration where corruption is at the highest level. Also, in fighting against corruption, measures and strategies should comprise of Private Anti-Corruption Initiatives, Public anti-corruption initiatives and Public education campaign/programmes. If this is achieved, it will create a long lasting impression in the mind of those that may further want to engage in corruption and with time, this will gradually correct damages caused to the economy in such a way that those effects on the economy will be insignificantly noticeable.

Finally, diversification of Nigerian economy is most imperative given the economic recession in the country now. To ensure that the country closes the gap between shrinking revenue and expenditure, policy makers must diversify the economy and cut waste in governance. The country should diversify its export revenue base as a means of reducing reliance on crude oil revenue. This will further shield the economy from the impact of oil revenue on economic corruption, and thus prevent the economic corruption. With this government should allocate more funds to capital expenditure. It is a usual trend in Nigeria that recurrent expenditure takes a chunk of the budget which goes into salaries and allowances. Capital projects will create more jobs and reduce the unemployment rate. Also important is the cutting of overhead costs. Unless drastic reforms such as downsizing personnel and sharp cuts in overhead costs occur in the public sector, Nigeria will continue to plunge much money into recurrent expenditure.

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