

Corruption, Institutional Quality And Economic Performance In An Emerging Economy: Lessons From Nigeria.

Abstract

The need to promote and sustain a virile economy has continued to be a major concern of most governments worldwide, including Nigeria. The reason for this is not farfetched. For instance, a developed economy offers prospects for increased employment, greater efficiency and improved balance of payments and increased standard of living. But in Nigeria, improved economic performance has over the years been marred by social vices such as institutionalized corruption which hinders the capacity of institutions to efficiently deliver services necessary to grow the economy. This paper descriptively and quantitatively examines how corruption and institutional quality in Nigeria have impacted on economic performance. In the light of the above, it was found that corruption and institutional quality (measured by contract intensive money) have statistically significant effect on economic performance in Nigeria. Thus, it is recommended that aggressive re-orientation and education of the masses and other key decision makers on the need to desist from rent-seeking activities is necessary. Once the scourge of corruption is successfully tackled, institutional quality will be strengthened and the much desired people centered economic growth will be achieved.

JEL: D73, 011 and 012.

Key words: Corruption, Institutional quality, Economic Performance and Nigeria

1. Introduction

After almost four decades of various stabilization programmes (1970-2012) in Nigeria, macroeconomic aggregates are still not at the desired threshold. Various economic prescriptions have been implemented, anchoring on the theoretical arguments of the Classical, Keynesian schools and perhaps the Marxists in recent times. The Classical economists believe that capital accumulation, technological advancement and perfect competitive markets would improve economic performance through increased productivity. Whereas the Keynesians believe in short-run demand management, which involves direct and urgent government intervention in economic activities, the Marxists see the solution to economic problems to be a political one. The situation is no doubt complex. However, what is certain is that the Nigerian economy has experimented with all these theoretical prescriptions from direct government control of economic activities in the 1970s and early 1980s to greater reliance on the market forces to achieve efficient resource allocation in the mid 1980s and late 1990s and recently, the introduction of various political cum economic reforms in the form of comprehensive economic blueprint. Despite all these efforts, the country continues to experience poor economic performance.

Available statistics indicate that between 1970 to 1980, inflation rate, unemployment and GDP growth rates were at an average of 15 per cent, 5.4 per cent and 31.5 per cent respectively.

Between 1990 and 2000, inflation rate increased to an average of 20 per cent, unemployment rate stood at 5 per cent and GDP growth rate was at an average of 5.2 per cent in 1981-1991. The period of 2001-2012 witnessed a decline in GDP growth rate which stood at an average of 5.5 per cent with inflation still remaining in double digit average of 13.5 per cent and unemployment rate at 16.1 per cent (CBN, 2008, 2011). It must be noted that within these periods, the problem of primitive capitalist accumulation of wealth for selfish gain(s) had intensified. This primitive capitalist accumulation of wealth is manifest in the abuse/exploitation of offices of trust for economic rents. Perhaps, this may be an indication that capital accumulation/technological advancement and demand management measures are necessary but not sufficient conditions for improved economic performance. Rather, improved economic performance equally demands a high level of trust from custodians of public offices and efficient institutions.

Unfortunately, in Nigeria, economic rents perpetuated on the cover of ethnicity take precedence to productivity. The unbridled taste to promote corruption as means of redistributing wealth in favour of certain ethnic enclave and political groups is a “negative” manifestation of poor institutional quality in Nigeria. Those who occupy public offices see it as a privileged opportunity for them to partake corruptly in the consumption of the “national cake” and by this; they engage in activities for the benefit of their “ethnic nationalities” or political/economic associates. It is common to hear such an “irritating phrase” known as the “Nigerian factor”. This factor which arises from corruption simply implies that standards have been compromised by the basic institutions in service delivery. This factor has made nonsense of accountability in the country. According to Lawal (2007), this factor (Corruption) has worsened and weakened institutions, such as the legislative, executive and the judicial institutions where rule of law and adherence to formal rules are not rigorously observed, where political patronage is standard practice, where the independence and professionalism of the public sector has been eroded and where civil society lacks the means to bring public pressure to bear. Up till 2012, Nigeria has not been exonerated from the list of top ten leading countries on corruption and this is evident in Transparency International’s consistent rating of Nigeria as most corrupt country in the past two decades.

This explains why scholars of political economy have attributed the economic and socio-political disorganization of Nigeria to corruption and weak institutions. The extent of the interplay of these two issues (corruption and weak institutions) are pronounced where resources for distribution are involved, the disfavoured political/economic groups out of frustration/disillusionment begin to take actions that undermine overall economic performance. Such individuals or groups, having lost hope in the entire system, begin to cultivate either a radical or systematic withdrawal of their love/pride for the country. The implication of which is in two folds: firstly, there would be a geometric increase in corrupt activities by the favoured group(s) who superintend over the resource distribution as they corruptly cart away the nation’s resources for selfish gain(s). Secondly, the disfavoured group(s) would engage in unjust/corrupt activities by compromising standards for selfish short term gains (Agbor, 1999). With these

scenarios, corruption and other rent-seeking activities become “normal” economic activities. This adversely affects institutions in service delivery and by extension, economic performance. This is because it lowers fiscal revenues, hinders the building of infrastructures and industrial growth which would have improved economic performance (Sindzingre, 1998).

Therefore, the objective of this study is to demonstrate quantitatively how corruption and institutional quality impact on economic performance in Nigeria. In essence, this research intends re-emphasize the existence of a nexus between corruption, institutional quality and economic performance in Nigeria. It is an analysis that relies on the review of available data of the Nigerian economy to evaluate the interplay of corruption and institutional quality on economic performance. The study is informed by the high level of corruption and weak institutions in our polity despite the efforts by the Federal and States governments in combating the menace. The study is arranged in six sections. Following this introduction is section 2 which clarifies some empirical and theoretical issues as used in the paper. Section 3 attempts a geometric illustration of the effects of corruption, institutional quality on economic performance in Nigeria. Section 4 describes the model and data and section 5 presents and discusses the estimated results. Finally, section 6 concludes the paper with policy suggestion(s).

2. Empirical and theoretical issues.

This section attempts a review of the key concepts and other theoretical issues as used in this study.

2.1. Corruption

“Corruption” is a worldwide issue and that is why the control of corruption is one of the good governance indicators advocated by World Bank. But the level and types of corruption have changed between historical epochs and across countries. In recent times, its frequency, variance and sophistication have reached unprecedented levels, especially in less developed countries, hence, the attention it has attracted from scholars in different disciplines including economics, law, sociology, psychology and criminology. A clear cut definition of the word corruption is however difficult. This is because corruption covers a wide range of morally offensive or criminal acts; thus, its precise definition is not easy. Otite (1998) defined corruption as the perversion of integrity or state of affairs through bribery, favour or moral depravity. Corruption involves the injection of additional but improper transactions aimed at changing the normal course of events and altering judgments and positions of trust.

Gray and Kaufmann (1998) defined corruption as the use of public office for private gains. This includes bribery and extortion, which involves at least two parties, and that which public office holder can carry out alone including fraud and embezzlement. To economists, corruption may be referred to as ‘rent seeking’ activity. This is an activity that illegitimately yields income over and above what a factor needs for retention in a particular employment. Rent seeking is mostly associated with unfair exploitation of loopholes in official policies. Thus, smuggling, bunkering and black marketing are parts of rent seeking. There are so many

definitions of corruption but for lack of space, we will limit ourselves to these few. On a general note, corruption is simply the misuse of public resources for selfish gains.

Because of the ambivalence associated with corruption (i.e., the great deal of controversy concerning its desirability or otherwise) in many societies, a variety of terms are used in referring to corrupt acts in these societies. Thus frequently, one hears of such terms as ‘kick back’ and ‘side deals’. In Nigeria, corruption has been referred to by expressions such as ‘man know man’, giving of ‘kola’, “runs”, use of ‘long legs’ “language power” and “power point” etc. Corruption has been classified based on its causes to include political corruption, Moral corruption, economic corruption, bureaucratic corruption and judicial corruption (Umo, 2003). But it is not the place of this study to dwell much on these types of corruption.

There seem to be no consensus on the effect of corruption on economic performance. Some scholars (World Bank, 2009, Umo, 2003, Wei, 2000, Sachs and Warner, 1995 & 1997) have empirically shown that corruption increases transaction costs, lowers efficiency of public spending, hinders foreign private investment and undermines institutional quality. All these cumulatively, increases economic uncertainty which in the long run, slows down economic progress. However, Acemoglu and Verdier (1998), Leff, (1964) argued that corruption might be desirable as it may provide a leeway for entrepreneurs to bypass inefficient regulations and hence induce a more efficient provision of government services. Advocates of this view believe that corruption introduces efficiency in the economy and affects economic growth positively, as it helps to circumvent bureaucratic inefficiencies and rigidities. This is the ‘greasing the wheel’ argument. According to them, corruption helps to overcome inefficiencies in government regulations by acting as a way out of cumbersome policies. Thus, corruption allows entrepreneurs to avoid bureaucratic delays. Thus, corruption aids economic growth to some extent.

Theoretically, the Social control theory of corruption posits that without effective control measures, deviance becomes the norm (Weidman, 2007). According to this theory, humans rationalize on what is more rewarding and proceed to take action on that basis. Thus, in the absence of fear of penalty or sanctions, there is nothing to deter people from fraudulently enriching themselves at the expense of others. As this phenomenon snowballs, it actually becomes accepted as a norm, as is currently the case with some forms of corruption in many African countries including Nigeria.

2.2. The role of Institutions in Economic performance

A basic assumption of neoclassical growth theory stipulates that economic growth takes place by a combination and accumulation of capital and labour, each capable of being substituted for each other. More formally: $Y = A f(L, K)$. Where Y = economy’s output, K = capital, L = labour and A = the efficiency parameter called technical progress. It represents the efficiency with which capital and labour are utilized. Without technical progress, and given the assumption of diminishing marginal returns to capital, economic growth would eventually come to a halt in spite of credible government policies to alter the declining trend of growth. This is the

fundamental deficiency and critique of exogenous growth theory which has given way to the now popularized endogenous growth. The strength of the latter lies in the fact that even in the face of declining returns to labour and capital inputs, the presence of A (i.e. technical progress) would continuously push the production possibility curves of economics outward. But technical progress, it has been variously shown, depends on the strength of institutions. What then are institutions? North (2003) defines institutions as the formal and informal constraints on political, economic and social interactions. They are the rules, enforcement mechanisms and organizations. Institutions are the incentive systems that induce people to behave in certain ways; and if they are effective, they structure and provide incentives and also structure economic, political and social activity. They can make predictable our dealings with each other every day in all kinds of forms and shapes. They thereby, not only reduce uncertainty in the world but allow us to get on with everyday business and solve problems effectively. Institutions encompass “the public bodies through which the state discharges its most fundamental responsibilities, maintaining law and order, investing in essential infrastructure and raising taxes to finance such activities” (World Bank, 1997). The effectiveness of institutions is aptly seen in a market economy, where good institutions (in the absence of corrupt practices) can help transmit information, enforce property rights and contracts and manage competition in the market place. Broadly speaking, institutions are expected to facilitate the generation of ideas, stimulate innovations, lower transaction costs and correct government failure and by extension facilitate economic growth (Ajayi, 2003). Institutions establish incentives by establishing the rules by which the economic game is played. Incentives are a kind of reward abilities in legitimate economic processes in the hope that one will be rewarded first, and that such reward will ultimately be diffused for the benefit of the society/economy. Without the provision of such framework of incentives, such mechanisms, individual and society’s talents will lay dormant and waste. Incentives provided by institutions also mean that any worker will find it more rewarding to remain in his chosen field or career with the optimism that society will give him his due.

Incentives, however, are not enough. It is just one side of the prism through which an ideal society should be mirrored. Disincentives form the other side of the coin. Human nature untamed and unbridled by good institutions is a recipe for societal decay, economic collapse and moral misery. Disincentives are a set of restraint on our base human instincts which decries decency, civility and the lawful order. Self interest often translates to selfishness, greed, avarice and the rabid accumulation of wealth (corruption) often exceeding the moral boundary. A major role of institutions in the society is to reduce uncertainty. Institutional quality is weakened when as a result of corrupt practices, service delivery by institutions increase uncertainty. This is

perhaps what President Obama had in mind when he echoed to the rest of Africa from Ghana in 2010 that Africa does not need strong men but strong institutions. Strong institutions (devoid of corrupt practices) are the underlying superstructure which guarantees policy continuity and unfettered economic growth/development.

2.3. Conceptualizing Economic Performance

Economic performance as used here simply implies economic development. Seer (1969) as cited by Obayelu (2007) perhaps best posed the basic questions about the meaning of economic development by asserting that: “the questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to inequality? What has been happening to unemployment? If all the three have declined over time from high levels, then beyond doubts, this can be a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result development, even if per capita income doubles”. However, Obayelu (2007) emphasized that the dearth of reliable statistical data on the key variables highlighted above usually poses stumbling block on the use of these variables, especially in developing countries including Nigeria. Moreover, economic growth is much easier to measure by looking at the Gross Domestic Product (GDP). The concept of economic growth refers to sustained increase in the per capita output or income of a country over a specific period of time. Economic growth is unimpressive if the increase in per capita output is not sustained. The question that may readily come to mind is why economic growth is a widely held macroeconomic goal? The answer is not farfetched. The growth of total output relative to population means a higher standard of living. A higher standard of living on the other hand depends on the equitable distribution of output without any prejudice. This is only made possible through efficient service delivery by institutions manned by selfless Nigerians. In which case, “the quality of institutions and honesty of persons” (who are detribalized) have a role to play in ensuring economic development as emphasized by Seers (1969).

3. Geometric illustration of the effects of corruption, institutional quality on economic performance in Nigeria.

Several empirical studies have shown a negative relationship between corruption and economic growth. It is well acknowledged by scholars that corruption diverts resources from the poor to the rich; increases the cost of running businesses, distorts public expenditures and deters foreign investment necessary for improved economic performance (Mauro, 1997 and Alesina and Weder, 1999). The level of corruption is all time high in Nigeria owing to the co-existence of multi-ethnic groups within the same geographical territory with each ethnic group struggling to be in a position to allocate national resources. This has had severe negative consequences on institutions and economic growth vis-a-vis development of Nigeria. Even where improper

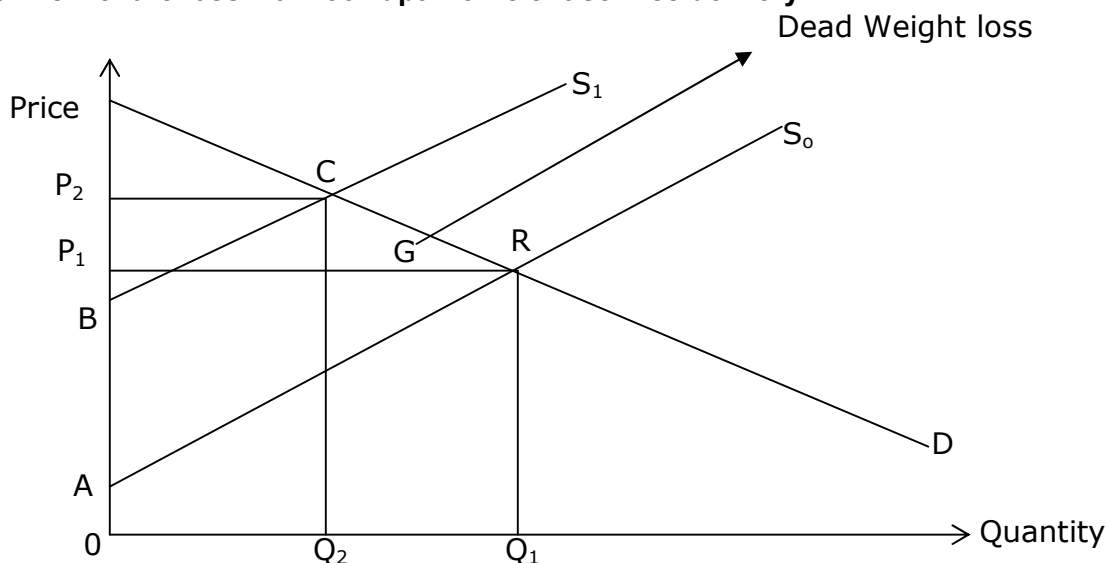
conduct, such as fraud and bribery, does not directly involve government, the public effects are severe. Corruption has negatively affected governance and the larger social structure (institutions) in Nigeria.

Obayelu (2007) pointed out that corruption has crippled the state's (Nigeria's) ability to deliver for its citizen's enjoyment of even the minimum social and economic rights including health and education. This generally has lead to a retardation of economic development and to the deterioration of whatever public infrastructure that has been put in place. Critically, it has been observed that in Nigeria, uncontrolled and extreme corruption has led to bad governance. Corruption and institutional failures swallowed about 40 percent of Nigeria's \$20 billion annual oil income (Ribadu2004). Corruption also stunts international trade and diminishes the inherent benefits. Other specific negative consequences of corruption in Nigeria are: loss of much needed revenue; decrease in the level of Foreign Direct Investment and loss of viable businesses by Nigerians. Corruption diminishes national prestige and respect, leads to brain drain, civil unrest, business failure and unemployment, absence of law and order and above all, poor economic performance (Ribadu, 2003).

Ribadu (2006) opined that, corruption is worse than terrorism because it is responsible for perpetual collapse of infrastructures and institutions in Nigeria; it is the cause of the endemic poverty and underdevelopment and cyclical failure of democracy to take root. Corruption has stifled businesses/institutions that are unwilling to engage in this nefarious activity in Nigeria. Ironically, it also eventually destroys the institutions that yield to this practice, thus halting or at least slowing down considerably, the march towards improved economic performance and ultimately sustained economic development (Gire1999). The current wave of unbridled oil theft (which amounts to an average of U.S \$750Million to \$1.5billion annually) is facilitated by corrupt political leaders (corrupt ethnic zealots) who conspire and hide to commit this crime against the Nigerian state knowing that they may be protected from prosecution because of the fact that they belong to a particular cabal and by this act, they are taking their share of "the national cake". Thus, Oil theft or bunkering is a major revenue loss to Nigeria as well as a serious challenge to Nigeria's economic development because 85 per cent of total revenue receipts of government come from the oil sector.

In the light of these various levels of corruption in different public offices/institutions, it becomes very glaring why most institutions fail woefully in the delivery of efficient services necessary for economic growth. As a matter of emphasis, institutional failure in Nigeria, which most often than not is a negative manifestation of corruption has reduced drastically Nigeria's ability to plan and execute developments projects to change the structure of the economy and to efficiently reallocate resources. The implication on the economy is that it leads to welfare loss arising from a drastic reduction in output and services production. This exists as the consumer/producer surplus is lost. This is more or less due to restriction imposed on output by external factors (see figure 1 below).

Figure 1: **The welfare loss from corrupt inefficient service delivery.**



Let us consider an industry with the standard shapes of the demand and supply curves. The supply of output by the firm is based on the production function that combines capital, labour, and other institutional services (e.g. electricity, security, good governance etc). The impact of poor and unreliable supply of these services arising from corruption would be an increase in the production cost of the firm either through the higher cost incurred in the substitution of private for public supply of those services or through output losses from shutdown by those who cannot effectively find substitutes because they cannot afford to bear the additional cost burden. The effect of this situation is to shift the supply curve to the left (see Figure 1 above) implying that the producer is only willing to supply each previous level of output at higher price. The higher market price of the product reduces both the consumers and producers surplus. Generally, the inadequate and inefficient service delivery by institutions where corruption has been institutionalized in Nigeria, such as Power Holding Company of Nigeria (PHCN) etc is a major impediment to industrial production and overall economic performance. Some dimension of the loss to the economy can be captured in terms of the deadweight loss (the reduction of consumers and producers surplus). The size of the deadweight loss can be measured by the area ABCR in Figure 1 above.

4. The Model and Data

The period of analysis covers 1970-2012. This is the longest period for which numerical data is available and accessible. The econometric approach is based on a time series data regression. The model specification is consistent with the endogenous growth theory briefly reviewed in section 2.1 above. The original endogenous production function is thus:

$$Y = AK^{\alpha} L^{1-\alpha} K^B \quad (1)$$

Where

303 Y = real GDP per capita at time t

304 A = total factor productivity

305 K = Capital stock

306 L = Labour

307 For simplicity, it is assumed that each productive unit will use the same level of capital and
308 labour. Then, the aggregate production function becomes

$$309 Y = AK^\alpha L^\beta \quad (2)$$

310 Where α & β are elasticity coefficients.

311 It is assumed that the impact of corruption and institutions on economic performance
312 possibly operates through total factor productivity (TFP) or technical efficiency (A). David
313 (1997) had argued the role institutions play in increasing technical efficiency. Thus the level of
314 technical efficiency is affected by corruption and the quality of institutions. This in turn affects
315 the efficiency of investment and economic performance. Since the paper intends to demonstrate
316 quantitatively how corruption and institutional quality impact on economic performance in
317 Nigeria, it is assumed therefore, that TFP is a function of corruption (measured by corruption
318 index) and quality of institutions (measured by a proxy, contract intensive money). Thus:

$$319 A = f(\text{corr and cim}) \quad (3)$$

320 Where:

321 CORR = Corruption

322 CIM = Contract Intensive Money calculated by Broad money supply minus currency in
323 circulation divided by broad money supply. Used as an indicator of property rights and property
324 right measures trust, the degree to which a country's law protect private property.

325 Combining equations 2 and 3,

$$326 Y = f(\text{CORR, CIM, K, L}) \quad (4)$$

327 From equation 4 an explicit estimation function is specified, after taking the natural logs of both
328 sides as follows:

$$329 \text{Log}Y = a_0 + a_1\text{CORR} + a_2\text{CIM} + a_3K + a_4L + E_t \quad (5)$$

330 Where all the variables are as previously defined and E_t is the error term. The sign of all the
331 elasticity coefficients are expected to be positive except for corruption that is expected to be
332 negative.

333 This paper adopted the co-integration and error correction paradigms to investigate the
334 relationship between economic performance, corruption and institutional quality from 1970 to
335 2012. Given data instability in Nigeria occasioned by policy instability cum economic
336 disruptions etc, it becomes increasingly useful to test the time series property of the variables
337 included in regression analysis for meaningful economic results. The paper adopts the general to
338 specific approach to arrive at the parsimonious estimate by eliminating jointly insignificant
339 variables. The error correction term shows the speed of adjustment to restore equilibrium in the
340 dynamic model. In particular, the ECM coefficient shows how quickly variables converge to
341 equilibrium and the ECM term is expected to have a negative sign (Udah, 2010).

A time series data set was obtained from different sources. The data on economic performance (measured by real GDP), capital (captured by gross fixed capital formation, K) and institutional quality (measured by CIM) were obtained from the Central Bank of Nigeria Statistical bulletin, (2012) while the data on corruption (CORR) was obtained from transparency international corruption index, 2012. The data on labour force (LF) was obtained from National Bureau of Statistics, 2012).

5. Presentation and Discussion of Results

The first step involved in the estimation of a linear relationship is the comprehensive pre-testing procedure to investigate the characteristics of the time series variables. Using the augmented Dickey-Fuller tests, the results as presented in Table 1 below shows that all the series (variables) are stationary at first difference. That is, the result indicates that the variables GDP, CIM, CORR, K, and LF are integrated of order one – 1(1). Therefore, a co-integration test was carried out to confirm and determine the existence of a long-run relationship among the variables in the equation.

Table 1

Variables	ADF Statistics (Computed)		5% Critical Value		Remark
	Level	1 st Difference	Level	1 st difference	
GDP	-1.985917	-3.9588401	-2.9378	-2.9399	1(1)
CORR	-1.935202	-3.952768	-2.9378	-2.9399	1(1)
CIM	-1.085054	-2.616292	-2.9378	-2.9399	1(1)
K	-2.119791	-3.742901	-2.9378	-2.9399	1(1)
LF	-1.87344	-3.16174	-2.9378	-2.9399	1(1)

Source: Computed by authors using E-views

The Johansen co-integration test (table 2) reveals that there is a long-run relationship between gross domestic products (GDP) and other variables captured in the model. The result indicates one co-integrating equation(s) at 5 per cent level. The conclusion drawn from the result is that there exists a unique long-run relationship between LOG(GDP), LOG(CIM), LOG(CORR), LOG(K) and LOG(LF). Since there is one co-integrating equation, an economic interpretation of the long-run on gross domestic product in Nigeria can be obtained by normalizing the estimates of the unconstrained co-integrating equation on gross domestic product. The identified co-integrating equation can then be used as an error correction term (ECM) in the error correction model. This series will form the error correction variable, similar to the residuals generated when using the Engle-Granger two-stage method.

370

371 Table 2: Johansen Co-integration test

Series: GDP CORR CIM K LF

Lags interval: 1 to 1

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
0.554103	77.76278	68.52	76.07	None **
0.427096	46.26377	47.21	54.46	At most 1
0.274209	24.53931	29.68	35.65	At most 2
0.222494	12.04006	15.41	20.04	At most 3
0.055458	2.225149	3.76	6.65	At most 4

372 *(**) denotes rejection of the hypothesis at 5%(1%) significance level.

373 L.R. test indicates 1 cointegrating equation(s) at 5% significance level

374 Source: Authors' computation.

375 Having established the extent and form of co-integrating relationships between the
 376 variables of the model, an over parameterized error correction model as shown in appendix 1 was
 377 estimated. At this level, the over parameterized model is difficult to interpret in any meaningful
 378 way: its main function is to allow us to identify the main dynamic patterns in the model. But this
 379 study will be concerned with the parsimonious model that is more interpretable. Table 3 shows
 380 the result of the parsimonious model.

381 Table 3: Parsimonious model

Dependent Variable: LOG(GDP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(GDP(-1)))	0.715224	0.131996	5.418534	0.0000
D(LOG(CORR))	-0.632818	0.269300	-3.493198	0.0005
D(LOG(CORR(-1)))	-0.543471	0.240152	1.430225	0.1630
D(LOG(CIM))	0.373143	1.137825	-2.642309	0.0056
D(LOG(CIM(-1)))	0.279207	1.427585	-1.279787	0.2516
D(LOG(K))	0.055714	0.127119	-2.438283	0.0003
D(LOG(LF))	0.790230	0.702479	2.124916	0.0005
ECM	-0.541031	0.022793	-4.800128	0.0009
C	0.859511	1.219388	2.704871	0.0063
R-squared	0.843242			
Adjusted R-squared	0.801707			
F-statistic	70.13036			
Durbin-Watson stat	1.969827			

382 Source: Authors' computation.

From Table 3, the lagged value of gross domestic product (GDP) is positive and conforms to economic theory. This implies that a 1 per cent increase in last year's GDP will lead to 0.715224 per cent increase in economic growth (the GDP) of the current or present year, *ceteris paribus*. Also, the coefficient of the lagged GDP is statistically significant at 5 per cent level.

Also, the current value of corruption has a negative sign that is in line with economic theoretical expectation. The coefficient of corruption is statistically significant at 5 per cent level. The implication of this result is that a 1 per cent rise in the current level of corruption will lead to 0.632818 per cent decrease in the current level of gross domestic product (economic growth) in Nigeria, all things being equal. This result further supports the study by Wei, (2000) and Shera (2011) that independently examined the effect of corruption on economic activities in different developing economies respectively and discovered that corruption was a major hindrance to economic growth and development.

The lagged value of corruption has a negative sign that is in line with economic theoretical expectation. The coefficient of corruption is statistically insignificant at 5 per cent level. The implication of this result is that last year's level of corruption does not have a significant effect on the current level of economic growth even though a 1 per cent rise in the current level of corruption will lead to 0.543471 per cent decrease in the current level of gross domestic product (economic growth), all things being equal.

In the same table, the value of institution quality (as measured by contract intensive money) and its one year lagged value are contemporaneously positive but only the current value of institution is statistically significant at 5 per cent level while the one year lagged value is not. This means that an improvement in institutional quality over the years would definitely lead to increase in economic growth in Nigeria. Thus, low level of corruption and improved institutional quality is necessary for enhanced and sustained economic growth in Nigeria.

The coefficient of capital investment (K) is correctly signed and statistically significant at 5 per cent level. This means that we are 95 per cent confident that an increase in the volume/value of capital investment will enhance the rise in economic performance (GDP) by 0.055714 per cent, *ceteris paribus*. On this basis, capital is an important factor for continual ebb and flow of business/economic activities in Nigeria. In the same vein, the coefficient of labour force (LF) is positive and in line with economic theoretical expectations. The labour force coefficient is statistically significant at 5 per cent level. Thus, there is 95 per cent confidence level that a 1 per cent increase in labour force would engender a 0.790230 per cent improvement in economic performance in Nigeria, all things being equal. This is not surprising given that within the period under study, the Nigerian government has invested significantly in human capital development.

The strong significance of the coefficient of the error correction mechanism (ECM) supports our earlier argument that the variables are indeed cointegrated. The ECM shows a relatively high speed of adjustment (54 per cent) of the short-run and long-run equilibrium behavior of gross domestic product (economic performance) and its explanatory variables.

The adjusted R^2 shows that about 80 per cent of the total variation in economic performance (measured by gross domestic product) is determined by changes in the explanatory variables. Thus, it is a good fit. The F-statistics (70.13) indicates that all the variables are jointly statistically significant at 5 per cent level. The Durbin Watson statistics of 1.9 reveals that it is within the acceptable bounds, thus it is good for policy analysis.

6. Concluding Remarks

In this study, it is established that there exist a link between corruption, institutional quality and economic performance in Nigeria. The existence of this relationship has been and continues to be antithesis to economic progress in Nigeria. At present, due to corruption which has grossly undermined institutional quality, almost all economic cum political activities in Nigeria have rent-seeking undertone with serious negative consequences on economic performance. As noted in this paper, as long as the economics of corruption continues to play a greater role in economic/political transactions in terms of resource allocation and utilization, it will be difficult to achieve even distribution of national resources for the benefit of all irrespective of ethnic affiliation. In view of this ugly trend, the government should embark on aggressive re-orientation/education of the populace (specifically, the elites who are the key decision makers) on the need to desist from rent-seeking activities which impedes long term economic growth. Also, there is the need to mete out stiffer penalties (like forfeiture of all wealth acquired whether legitimately or otherwise and life jail) to public office holders who have been found guilty of corruption irrespective ethnic affiliations. Once the scourge of corruption is successfully tackled, institutional quality will greatly improve and this would have a positive ripple effect on economic performance in Nigeria.

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522 APPENDIX 1: OVERPARAMETERISED RESULT

Dependent Variable: LOG(GDP)

Method: Least Squares

Date: 03/14/14 Time: 09:49

Sample(adjusted): 1972 2009

Included observations: 38 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOG(GDP(-1)))	0.900314	0.209452	4.298430	0.0003
D(LOG(GDP(-2)))	0.298318	0.220676	-1.351840	0.1902

D(LOG(CORR))	-0.402386	0.333564	2.007152	0.0044
D(LOG(CORR(-1)))	-0.251030	0.346923	3.723591	0.0009
D(LOG(CORR(-2)))	0.146101	0.301094	0.485232	0.6323
D(LOG(CIM))	0.093599	2.581838	-2.927091	0.0039
D(LOG(CIM(-1)))	0.029453	4.130616	4.781833	0.0000
D(LOG(CIM(-2)))	2.256239	2.906896	-0.776168	0.4459
D(LOG(K))	0.046112	0.156530	-2.294588	0.0011
D(LOG(K(-1)))	0.044404	0.147891	-0.300247	0.7668
D(LOG(K(-2)))	0.053311	0.140553	-0.379297	0.7081
D(LOG(LF))	3.234309	3.344333	-2.967101	0.0040
D(LOG(LF(-1)))	5.613492	3.438395	1.632591	0.1168
D(LOG(LF(-2)))	1.122738	1.273399	-0.881686	0.3875
ECM	-0.063628	0.077255	2.823610	0.0003
C	1.137432	1.780960	0.638662	0.5296
R-squared	0.650255	Mean dependent var	12.24099	
Adjusted R-squared	0.616338	S.D. dependent var	1.170474	
S.E. of regression	0.338552	Akaike info criterion	0.967286	
Sum squared resid	2.521591	Schwarz criterion	1.656796	
Log likelihood	-2.378440	F-statistic	28.01705	
Durbin-Watson stat	2.160579	Prob(F-statistic)	0.000000	