

Poverty and Unemployment and Corruption in Nigerian Public Sector

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Abstract

This study is on the effect of corruption on poverty and unemployment in Nigeria. Secondary sources of data were utilized for the study and were obtained from National Bureau of Statistics (NBS) and Transparency International (TI), while the data were analyzed using EViews8's ordinary least square (OLS) regression technique. From the statistical analysis, the study concluded that there is an insignificant positive relationship between corruption, and unemployment and poverty in Nigeria. Consequently, it recommended that for corruption to be reduced to its barest minimum in Nigerian public sector the government must take urgent steps to reduce unemployment and poverty, which may include the creation of industry specific university programmes that will reduce unemployment and poverty, creation of entrepreneurship friendly environment, and the strengthening of the existing anti-corruption laws so as to effectively prosecute corrupt cases.

Keyword: Corruption, Unemployment, Poverty, Public Sector, Nigeria.

1. Introduction

In recent times, great emphasis is gradually tilting from public enlightenment on issues about corruption, to understanding the nature of corruption and its effects on the socio-political and economic fabric of the society. Corruption is considered the greatest threat to societal development and is a gargantuan evil that pervades all segments of a society, while it is considered to be deeply rooted in developing economies, not because of the physiological peculiarity of its citizens but because the various institutions of government create fertile grounds for it to thrive. (Okoi-Uyouyo, 2008 and African Centre for Economic Growth [ACEG], 2000).

Corruption entails the willful violation and abuse of one's position or office for personal gainful ends, and it is considered a universal disease which every country in the world including Nigeria is making efforts to reduce to its barest minimum. In year 2000, Nigeria was reported as the most corrupt country in the world by the Transparency International (TI) (Owolabi 2009). It refers to situations where people amass wealth or privileges illegally and in so doing deprive other members of the society the benefit accruable from the common wealth of the society (Okoi-Uyouyo, 2008).

The abundance of wealth and natural resources in Nigeria have not impacted positively on the

living standard of the vast majority of its citizens largely due to corruption that is deeply entrenched in the various sectors of the economy both in the public and private sectors. Consequently, majority of its citizens are unemployed and poor, while the country is ranked among the poorest countries in the world (Onimajesin 2010), hence Omonona (2009) described the situation as a paradox because the country is rich but the people are poor, with the poverty experienced by Nigerians being pervasive, multifaceted and chronic, affecting the lives of large proportion of the populace. There is no doubt that corruption benefits a few individuals but one of the net effects and cost of corruption in an economy is that it tend to increase the poverty level and encourages the concentration of the wealth of a nation in the hands of a few individuals. ACEG (2000) noted that the critical link between corruption and inequality is that corruption undermines development in the most sudden and debilitating ways and it exacerbates the level of poverty, unemployment and economic inequality.

1.1. Research problem

According to Okoi- Uyouyo (2008), the desire to engage in corrupt practices is ingrained in the subconscious and runs through the veins of an average Nigerian, and the cue from the existing public institutions and systems of operation encourages corruption to thrive. And it is generally believed that corruption permeates every segment of the Nigeria society, which presupposes that vast majority of its populace engage in it, and they consider it as an opportunity to amass wealth and privileges illegally. Chetwynd, Chetwynd and Spector (2003) noted a positive relationship between corruption and poverty when they asserted that countries experiencing chronic poverty are seen as natural breeding grounds for systemic corruption due to social and income inequalities and perverse economic incentives. This was also supported by the view of Rotimi, Obasaju, Lawal, and Iseolorunkanmi (2013) who opined that corruption impedes economic growth and development thereby increasing the unemployment and poverty level in Nigeria.

The above views were different from that of Sundell (2012), Huntington, (1973); Acemoglu and Verdier, (1998); and Mo, (2001) who noted that some level of corruption is often desirable in an economy, for some reasons given that it is like a piece-rate reward for government officials that encourages a more effective and efficient provision of government services, thereby offering entrepreneurs an opportunity to evade inefficient rules, regulations and excessive red-tapism that clogs the wheel of economic growth in an economy. In this regard, corruption is seen as a variable that enhances and ensures efficient operation and invariably increases the economic development of the entire economy. The above view was also corroborated by Shera, Dosti, and Grabova (2014) who opined that corruption acts like a tax or rate that different people or entities pay to bureaucrats which makes government services more efficient and acts as a lubricant that smoothes government operations and so increases the efficiency of an economy.

It is against this backdrop that this study seeks to answer the following questions

1. what is the relationship between corruption and unemployment rate in Nigeria?
2. What is the relationship between corruption and poverty level in Nigeria?
3. Does the previous year's corruption level have any impact on that of successive year in Nigeria?

1.2. Research Objectives

The objective of this study is to examine the relationship between poverty, unemployment and corruption in Nigeria. The specific objectives are to:

1. ascertain if there is a significant positive relationship between unemployment and

corruption in Nigeria.

2. ascertain if there is a significant positive relationship between poverty and corruption in Nigeria.
3. ascertain if previous year's corruption level impact on that of subsequent year in Nigeria.

1.3. Research Hypotheses

Ho1: There is no significant positive relationship between corruption and unemployment in Nigeria.

Ho2: There is no significant positive relationship between corruption and poverty rate in Nigeria.

Ho3: The level of corruption in prior year has no impact on that of subsequent year in Nigeria.

2. Literature Review

2.1. The Concept of Corruption

The Economic and financial crimes commission (EFCC) Act in Nigeria, 2004 defined corrupt actions as those that involve, the non-violent criminal and illicit activities committed with the objective of earning wealth illegally either individually or in a group or organized manner, thereby violating existing legislations governing the economic activities of government and its administration and would include, bribery, fraud, money laundering, and so on.

According to Huntington (1968) corruption refers to the attitude of public officials which deviates from accepted norms in order to serve private ends. It is a measure of the absence of effective state institutions, where public officials subordinate their institutional roles to exogenous demands.

It exists in all societies, but it is more common in some societies than in others and more common at some times in the evolution of a society than at other times, Huntington (1968). Onimajesin (2010) saw corruption from the prism of the public sector, and noted that it refers to transaction(s) between two parties (one state agent and one civilian), where the state agent circumvents the extant law and regulations for the purpose of securing for himself private gains. It is the private wealth-seeking attitude of an agent of the state to the detriment of a segment or the whole society. He described corruption as a curable mechanical fault in the societal structure, and further described the society as a machine where the breakdown of any of its functioning parts will adversely affect the functioning of the whole system.

Onukwufor (2006) opined that etymologically the word corruption came from a Latin word "corrumpere", which means; to taint, or destroy the purity of someone or an institution; to pervert, to debase, or to spoil someone. He further stated that there is no generally acceptable definition of the concept of corruption because corruption assumes different forms, which have different features among countries of the world, and its evolving nature. While AECG (2000) categorized corruption into three, namely, petty corruption, grand corruption and looting. Petty corruption involves relatively minor amounts of money or gifts changing hands where one of the parties is themselves relatively junior officials in an organisation or system within which the transaction takes place. It may involve a situation in which public employees take bribes in exchange for services that ought to be free or the bribing of a policeman to ignore the fact that your vehicle documents has expired.

Grand corruption most often involves businessmen and government officials of senior rank and the amount involved are usually significant. Examples of these are kick-backs paid to officials

for rigging the contracts award process.

While looting is described as large-scale economic crime, which usually involves huge amounts that have negative macroeconomic implications, and can cause banks to collapse, inflation to rise, and the exchange rate to decline. And is sadly prevalent in those developing countries where institutions of governance are particularly weak. It often involves, the printing of currency to fund fictitious projects, using public revenues to award enormous contracts to individuals who never supply the goods or the services. And it is usually done with the connivance of important political players in a given country, whose kickbacks can be as high as 100 percent and most of the cash goes to the higher-ups for the purpose of funding election campaigns and pay for private militias for dubious purpose, (AECG 2000).

Huntington (1968) opined the impressionistic evidence which suggests a positive relationship between corruption and rapid social and economic development. He noted that it is not a coincidence that the high point of corruption in British and American public life coincided with the period of the industrial revolution, the development of new sources of wealth and power, and the appearance of new classes making new demands on government. This implies that modernization breeds corruption, which is most prevalent during the most intense phases of modernization.

Okafor (2011) noted that corruption has permeated the entire social structure of Nigeria and robbed the country of developing a vibrant economic base. While funds meant for development projects have been misappropriated, diverted, or embezzled and stashed away in foreign banks. This was also supported by Aidelunuoghene (2014) who opined that corruption in Nigeria almost passes for a state policy, and has been institutionalized such that the machinery of government cannot function without it, which has grossly diminished productivity in the public and private sectors of the economy.

2.2. Poverty

Adebayo (2013) referred to poverty as an enemy of man and a multi-dimensional phenomenon that affects many aspects of human conditions ranging from the physical, moral to the psychological, and humiliates and dehumanizes its victim. It is a state of being deficient in money or means of basic subsistence such as safe water, sanitation, solid waste collection, healthcare, schools and security.

The World Bank (2003) described poverty as denial of choices and opportunities, a violation of human dignity, lack of basic capacity to participate effectively in society, not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living and not having access to credit, insecurity, powerlessness and exclusion of individuals, households and communities, susceptibility to violence, and living on marginal or fragile environments, without access to clean water or sanitation.

The National Policy on Poverty Eradication in Nigeria (2000) enumerates the attributes of poverty as follows: not having enough food to eat, poor nutrition, unfit housing, high rate of infant mortality, low life expectancy, inadequate health care, lack of productive assets, lack of economic infrastructure. Aidelunuoghene (2014) opined that poverty has been a major challenge to more than 50% of the Nigerian population in the last 10 years, while Omonona (2009) noted that on the average, the incidence of poverty in Nigeria has been on the increase since 1980, that

a major sharp increase was witnessed between 1980 and 1985 (from 28.1 percent to 46.3 percent) and between 1992 and 1996 (from 42.7 percent to 65.6 percent) though there were slight decline between 1985 and 1992 (from 46.3 percent to 42.7 percent) and between 1996 and 2004 (from 65.6 percent to 54.4 percent). And despite the reduction in poverty incidence between the two periods, the absolute number of the poor in Nigeria has been on the rise. Essentially, poverty is a rural phenomenon, as the majority of those in poverty are disproportionately located in the rural areas, where they are primarily engaged in agricultural production and allied activities. He therefore concluded that rural poverty incidence, therefore, was higher than urban poverty between 1980 and 2004.

Olowa (2012) noted a relationship between the poverty line below which an individual is poor and the average incomes of the population of a society. And that there exist an inverse relationship between poverty level and average income of the population of a society, where poverty rate decreases/ (increase) as the average income level of the population increases/(decreases).

Corbett (2007) as cited in (Oriahi and Aitufe, 2010) categorized poverty into extreme poverty and relative poverty. He described extreme poverty as that which threatens people's health or lives, and is also known as destitution or absolute poverty, and it is described as a condition of having an annual income that is less than half of the officially stipulated poverty line. While relative poverty is the condition of having fewer resources or less income than others within a society or country, or compared to worldwide averages.

Aidelunuoghene (2014) and Oriahi and Aitufe (2010) noted the main causes of poverty to include income inequality, political instability, long-term ethnic conflict and civil unrest, lack of good governance, poor management of economic resources, low productive capacity, unemployment and corruption. They further opined that the causes and effects of poverty interact, such that the variables that make people poor also create conditions that keep them poor.

2.3. Unemployment

Aiyedogbon and Ohwofasa (2012) referred to unemployment as situations where people who are willing and capable to work are unable to find suitable paid employment. The International Labor Organization (ILO) as cited in Okafor (2011) defined the unemployed as numbers of economically active population who are without work but available for and seeking work, including people who have lost their jobs and those who have voluntarily left work.

Okafor (2011) then described unemployment as a condition of people with diverse background who are willing and able to work but are unable to find a job. And the situation usually results when the supply of labor outstrips the demand for labor at a particular time in a society.

Unemployment is a global menace, but is grossly predominant in developing countries of the world, with its attendant macroeconomic consequences. Hence every responsible government is expected to monitor the rate in the economy. The higher the unemployment rate in an economy the higher would be the poverty level and associated welfare challenges. (Akwaru, Akwaru, Enwuchola, Adekunle, & Udaw, 2013, and Okafor 2011).

In Nigeria, Okafor (2011) noted that the largest army of the unemployed is the secondary school leavers, 40% of the unemployment rate are among urban youth, and educated unemployed male are the majority of the unemployed. While he mentioned corruption as a major cause of

unemployment in Nigeria, he enumerated other causes of corruption in Nigeria to include rural-urban migration, population growth, outdated school curricular and lack of employable skills, rapid increase in the supply of educated manpower above the corresponding capacity that the real sector can absorb. This view was also supported by Obumneke (2012) who noted that statistics of Nigerian unemployment consists of the highly educated persons judging by the European and American standard, who are supposed to form the core of the productive vanguard in a developing country like Nigeria. He then enumerated factors responsible for unemployment to include poor economic growth rate, adoption of untimely economic policy measures, wrong impression about technical and vocational studies, the neglect of the agricultural sector, and poor enabling environment.

2.4. The Nexus between Poverty and Unemployment, and Corruption in Nigeria

As can be observed from the above, corruption is an evil that breeds poverty and unemployment. Corruption accounts for the root cause of the poor facilities we have and other anomalies eminent in the Nigerian polity and any nation where corruption thrives cannot escape the trap of poverty and high unemployment rate, Adebayo (2013) and Aidelunuoghene (2014).

Chetwynd, et al (2003), Gupta, Davoodi, and Alonso-Terme(2002), Ucha (2010) and Ajayi (2010) noted that corruption, by itself does not directly produce poverty and unemployment. Rather, corruption has direct consequence that negatively affects the macroeconomic indices of a nation, which then results in poverty and unemployment, hence an indirect relationship between unemployment, poverty and corruption. While, N'zue and N'guessan (2006) from their empirical study opined that there is no relationship whatsoever between corruption and poverty.

It creeps into the system when those who are saddled with the responsibility of running the affairs of this country become greedy and self-centered. In a situation where money budgeted for development purposes are embezzled by a few people, and majority of the citizens are shortchanged in terms of opportunities, high poverty and unemployment rates are inevitable, (Adebayo 2013).

Corruption is the consuming fire that eats up funds that would have otherwise been used to rescue a lot of people from the pains and pangs of want. Corruption remains the biggest barrier to ending extreme poverty and stand in the way of progress of reducing unemployment.

Despite the vast natural resources that abound in Nigeria, majority of its citizens still wallow in abject poverty as the collective resources of the nation are diverted into private pockets of government official and their collaborators, hence corruption, unemployment and poverty go hand-in-hand in the society.

3. Methodology

The study employed evaluative research design to determine the effect of poverty and unemployment on corruption in Nigeria within the study period which ranges from 1996- 2012. Secondary sources of data were utilized for the study and these data were obtained from National Bureau of Statistics (NBS) at www.nigerianstat.gov.ng, Transparency International (TI) at <http://www.transparency.org>, and obumneke (2012); while the data were analyzed using EViews8 ordinary least square (OLS) regression technique.

3.1. Model specification

For the purpose of this study corruption proxied by Corruption rank (CR) is seen as a function of

unemployment rate (UNR), poverty rate (PVR) as well as corruption itself. The function is thus represented as follows.

$$\text{Corruption} = f(\text{Unemployment rate, Poverty, Corruption})$$

This however is represented econometrically as follows:

$$CR_t = \beta_0 + \beta_1 UNR_t + \beta_2 PVR_{t-1} + \beta_3 CR_{t-1} + \mu_t$$

Where:

CR_t = Corruption rank in time t.

UNR_t = Unemployment rate in time t.

PVR_{t-1} = Poverty rate in time t-1 (that is one lag of poverty rate).

CR_{t-1} = Corruption rank in time t-1 (that is, corruption rank in the preceding year or one lag of corruption rank).

μ_t = Error term in time t.

β_0, \dots, β_3 = Regression coefficients.

3.1.1. A priori expectation

Since a priori expectation is a theoretical statement or criteria set to determine what the probable result would be. It is expected, for the purpose of this study therefore, that unemployment rate (UNR), poverty rate (PVR), and corruption proxied by Corruption rank in the preceding year (CR_{t-1}) are expected to be positively related to corruption proxied by Corruption rank (CR). These expectations are mathematically represented below.

$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0.$$

4. Data Analyses and Interpretation

The data used for this study as well as the regression output are presented in their various tables in the appendix section of this paper. Table 1 shows the data used for the study, while table 2 shows the regression result. The equation below shows the substituted coefficients of the model specified above.

$$CR = 18.62957 + 0.192799 * UNR + 0.116139 * PVR_{t-1} + 0.789553 * CR_{t-1}$$

The regression of Nigeria's corruption rank (CR) against its Unemployment rate (UNR), Poverty rate (PVR) as well as Corruption rank of prior year shows that the coefficient of determination (R-squared) value is 0.821432 and the adjusted coefficient of determination (Adjusted R-squared) value is 0.783167, an indication that 82.14% and 78.32% of corruption as proxied by Corruption rank (CR) is explained by the independent variables. This is a pointer to the fact that unemployment, poverty as well as the way and manner offenders get away with corrupt act in the preceding has affected the level of corruption in Nigeria. The F-statistics being a test of appropriateness with a value of 21.46714 and a p-value of 0.000017 means that unemployment, poverty and the prior year corruption level can be used to measure the level of corruption in a country.

Unemployment rate (UNR) coefficient of 0.192799 is suggesting that a reduction in the level of Nigeria's unemployment would lead to an improvement in corruption rank (CR) position, indicating a decline in the level of corruption (Note that corruption ranking by the Transparency International are in direct order such that the country with *Rank 1* position is the least corrupt and the country with highest rank position is the most corrupt). The t-statistics value of 0.223060 and

a p-value of 0.8267 at 5% significant level also suggest an insignificant positive relationship between corruption and unemployment. We therefore accept the null hypothesis that says there is no significant positive relationship between corruption and unemployment in Nigeria. Poverty rate (PVR_{t-1}) coefficient of 0.116139 suggests that a reduction in the percentage population of Nigerians living in poverty would as well lead to an improvement in corruption rank (CR) position indicating a decline in the level of corruption. The t-statistics value of 0.164075 and a p-value of 0.8720 at 5% significant level also suggest an insignificant positive relationship between corruption and poverty. We therefore accept the null hypothesis that says there is no significant positive relationship between corruption and poverty rate in Nigeria.

These findings are in agreement with the findings and or observations of, Rotimi, Obasaju, Lawal, and Iseolorunkanmi (2013), Onukwufor (2006), Chetwynd, Chetwynd and Spector (2003), Gupta and Alonso-Terme (2002), Aidelunuoghene (2014), Adedayo (2013), and Ucha (2010), and in disagreement with the findings of N'zue and N'guessan (2006), Sundell (2012), Huntington, (1973); Acemoglu and Verdier, (1998); and Mo, (2001) which find no relationship between unemployment, poverty and corruption. It is however in agreement with the joint relationship between corruption, poverty and growth. The Corruption rank (CR_{t-1}) coefficient of 0.789553 suggests that a change in preceding year corruption rank position would lead to a corresponding change in subsequent year's corruption rank position, implying that the level of corruption and the rate at which offenders get away with corrupt act in the previous year would grossly affect the level of corruption in subsequent year. The t-statistics value of 5.138495 and a p-value of 0.0002 at 5% significant level also suggest a significant positive relationship between present year level of corruption and the level of corruption in the past. We therefore reject the null hypothesis that says the level of corruption in prior year has no impact on that of subsequent year in Nigeria. The Durbin-watson statistics value of 1.938372 shows that there is no problem of serial correlation in the result, implying that the model is economically viable.

5. Conclusion and Recommendation

We have been able to empirically establish a relationship between poverty, unemployment and corruption. From our analyses and findings, increase in the land has insignificantly led to increase in corruption in the Nigeria public sector, that is, poverty among the larger population will result to some level of free cash flow in the hands of the political and administrative leaders which may result in grand corruption, while the pressure on poor public officers would thereby result to petty corruption. This finding which is in tandem with the findings of Onukwufor (2006), Gupta and Alonso-Terme (2002), Aidelunuoghene (2014), Adedayo (2013), and Ucha (2010) has further the literature on the relationship. It was also found that increase in unemployment slightly increases corruption in the Nigerian public sector. The study has been able to offer evident that high rate unemployment also would increase the free cash flow in the hands of the political and administrative leaders, as well as increase the pressure on the unemployed to involve in act of corruption. As it was also shown that, the near institutionalization of corruption has increased corruption in the Nigerian public sector. It is therefore advised that this study results should be considered carefully as the issue is subject to analysis.

For corruption to be reduced to its barest minimum in the Nigerian public sector, the Federal Government of Nigeria must take urgent steps to reduce unemployment and poverty. Such steps may perhaps include the creation of industry tailored university programmes, creation of

enabling environment for entrepreneurship (specifically small scale) to thrive, increase in access to agricultural and other business loan at a reduced interest rate, and strengthening the existing anti-corruption law, enforcement and prosecution process, ensure that offenders gets commensurate punishment.

6. References

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7. TABLES

Year	Corruption rank (CR)	Unemployment rate (UNR)	Poverty rate (PVR)
1996	54	8.9	65.6
1997	52	8.6	65.6
1998	81	7.7	65.6
1999	98	17.5	65.6
2000	90	13.9	65.6
2001	90	13.6	65.6
2002	101	12.6	65.6
2003	132	14.8	65.6
2004	144	13.4	54.4
2005	152	11.9	54.4
2006	142	12.3	54.4
2007	147	12.7	54.4
2008	121	14.9	54.4
2009	130	19.7	54.4
2010	134	21.5	69.0
2011	143	23.9	69.0
2012	139	24.3	69.0
2013	144	24.9	69.0
2014	136	24.5	69.0

1. Regression data, **Source:**

Corruption Rank =

<http://www.transparency.org>; Poverty

Rate = www.nigerianstat.gov.ng;

Unemployment Rate = Obumneke (2012),

www.nigerianstat.gov.ng.

Dependent Variable: CR

Method: Least Squares

Date: 24/09/15 Time: 00:00

Sample (adjusted): 1997 2014

Included observations: 18 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18.62957	48.83445	0.381484	0.7086
UNR	0.192799	0.864339	0.223060	0.8267
PVR(-1)	0.116139	0.707844	0.164075	0.8720
CR(-1)	0.789553	0.153654	5.138495	0.0002

R-squared	0.821432	Mean dependent var	120.8889
Adjusted R-squared	0.783167	S.D. dependent var	28.44166
S.E. of regression	13.24395	Akaike info criterion	8.198088
Sum squared resid	2455.630	Schwarz criterion	8.395949

Log likelihood	-69.78280	Hannan-Quinn criter.	8.225371
F-statistic	21.46714	Durbin-Watson stat	1.938372
Prob(F-statistic)	0.000017		

2. Source: Researcher's computation (2015) using EViews8.