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This paper employs a two-stage analysis to test the efficacy of a quantitative Corruption Index theorized to double as poverty rate in Nigeria. The quantified corruption seems to peak with each democratic election cycle, singly explains 37.9% of variations in real gross domestic product (RGDP) for the economy and is statistically significant at 5 per cent level with expected negative signs. The analysis shows all the predictors are relevant to discriminating between the groups of years where development rates in the Nigerian economy (RGDP) indicate Nigerians are poor, very poor or in abject poverty with expenditure of the national assembly producing highest value $F$. 62.5% is the overall discriminant model fit and the model excels at identifying group1 (abject poverty) both in the original and cross-validated cases which report 100% correct classification. From the evidence, the dual face of poverty/corruption theorized by this paper for Nigeria may be considered on two fronts: as human beings are both agents and beneficiaries of development, human beings are also both agents and beneficiaries of corruption. Despite touted growth in the past decade, evidence indicates the well-being of a majority of Nigerians did not improve and we may assume that economic growth is not the only legitimate measure of development for Nigeria and that capturing the aspects of poverty/corruption is important. The theory’s explanation not only works in principle but also meets with some quantitative success and could serve as the basis for further empirical investigations of the corruption/poverty incidence in Nigeria. The paper therefore recommends government minimize general administrative expenditure and the expenditure of the national assembly to boost economic development and reduce the poverty/corruption incidence in Nigeria.

Key words: Poverty; Corruption; Theory; Public Expenditure; Discriminant Analysis

INTRODUCTION

The Unholy Trinity of Corruption, Poverty and Development

There are many contending definitions of poverty as well as the approaches to reducing poverty that have evolved over time in response to our deeper appreciation of the acknowledged complexity of what we call “development” or its multi dimensional constituents. As a result, we may consider poverty as a prevalent human malady that basically has many symptoms and several causal factors recognized over the years; the list of which is by no means exhaustive; but prominently features “corruption” which includes money laundering and illegal political finance.

“Poverty is pronounced deprivation in well-being with many dimensions including not only material deprivation (measured by an appropriate concept of income or consumption) and low levels of education and health but also vulnerability and exposure to risk—and voicelessness and powerlessness” (World Bank 1990, 1991, 2000).
Corruption on the other hand could be viewed as a vice that has to do with dishonesty, bribery, illegality, immorality, abuse of power and fraud; and not one single country anywhere in the world is corruption-free. Berlin based Transparency International (TI), which describes itself as “a global movement with a singular vision to rid the world of corruption” has developed the Corruption Perceptions Index (CPI). Countries and territories are ranked based on how corrupt their public sector is perceived to be on a scale from 0 (highly corrupt) to 100 (very clean).

Development on another hand could be viewed as a physical reality or as a state of mind for attaining a physical reality. Thus, the concept of development is now generally accepted as both a quantitative and qualitative measure and this brings expected challenges in defining and/or quantifying it. Consequently, there is a plethora of definitions, theories, interpretations and meanings attached to the idea of development and no consensus in sight. For instance, according to Todaro and Smith (2012), “Development is a multi dimensional process involving changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty” but according to the United Nations Development Programme (UNDP 2007, 2012, 2015), human development is “about expanding the choices people have to lead lives that they value”. The UNDP also defines sustainable development as “development that is likely to achieve lasting satisfaction of human needs and improvement of the quality of life”. Hence, different positions in development policies adopted by countries are based on differences in underlying definitions, theories, interpretations and meanings of what constitutes development.

The cycle of the unholy trinity of corruption leading to stunted development which then leads to poverty which may then lead back to corruption is the focus of this paper.

**Statement of the Problem**

A world Millennium Summit in September 2000 unanimously adopted the Millennium Declaration to achieve eight Millennium Development Goals (MDGs) related to global peace, security and sustainable human development. The adopted MDGs were the first collective steps taken worldwide “to create an environment—at the national and global levels alike—which is conducive to development and the elimination of poverty” (UNDP 2007). The world community considered that progress towards achieving the MDGs is progress towards human development. These MDGs and targets are interrelated but the topmost goal was Eradicate extreme poverty and hunger and the target date was 2015.

As the 2015 target date for achieving the MDGs drew near and upon series of review of progress by the United Nations (UN-HDR 2005, GSDR 2015), a follow-up Sustainable Development Summit was held in September 2015 for the adoption of 17 Sustainable Development Goals (SDGs) and 169 associated targets to be achieved by the year 2030 - the Agenda 2030. The UN’s Global Sustainable Development Report (GSDR) 2015 and Human Development Report (HDR) 2015 flesh out the details of this Agenda 2030. Again the topmost SDG is “End poverty in all its forms everywhere” while SDG2 is “End hunger, achieve food security and improved nutrition and promote sustainable agriculture”. Hence the issue of development being tied to poverty eradication is now a stable agenda item worldwide.

Furthermore, Transparency International (2014; 2015) indicates more than 6 billion people live in countries with a serious corruption problem threatening economic growth for all with more than two-thirds of countries worldwide scoring below 50 on a scale of 100. In this respect, Nigeria was rated one of two most corrupt countries worldwide on several occasions in the last fifteen years.
and in 2015, Nigeria is ranked 136 out of 168 countries with a score of 26 on a scale of 100. Hence, Nigeria continues to be considered a very corrupt country. However, we note that perception as a measure could be rather qualitative or subjective; hence attempts to develop some quantitative/objective measure of corruption for Nigeria given national antecedents.

In addition, a World Bank Country Survey FY 2013 Report for Nigeria indicates that eradication of poverty and corruption are of equal importance to Nigerians and that reducing corruption would reduce poverty. This could imply Nigerians perceive poverty and corruption to be different names for the same malady given their joint ranking of the two issues at 27% in the World Bank (2013) report.

This study thus employs a peculiar yardstick for measuring corruption and/or poverty in Nigeria and the impact on economic development in an era of what appears to be expensive democratic dispensation. This peculiar approach to deprivation is expected to enable a better characterization of the poverty/corruption incidence in Nigeria and increase our understanding of its causes. This deeper understanding in turn should bring up more policy and action areas for the poverty/corruption reduction agenda in Nigeria.

**Main Objectives & Contributions of the Paper**

These are to: (a) develop an appropriate index for corruption/poverty in Nigeria; (b) test efficacy of such index on growth and development in Nigeria and (c) examine the nature of the ensuing empirical relationships. The contributions of the paper include providing a novel method of studying poverty and corruption incidence especially in the Nigerian economy. Secondly, the analysis contributes to a broad and growing literature on poverty and corruption. Thirdly, the analysis develops a Nigerian corruption/poverty index. Following this introduction, Section Two presents some literature review. Section three presents the methods and materials while Section Four discusses the results. Section Five concludes with some policy recommendations.

**REVIEW OF LITERATURE**

**Theoretical Ideas of the Paper**

The hypotheses tested are that: (a) corruption is synonymous to poverty in Nigeria and that it directly mirrors the poverty incidence; (b) Nigerian poverty incidence is closely tied to fiscal expenditure and the expenditure of the national assembly; (c) Nigerian development is closely tied to the poverty incidence aka corruption incidence in this paper; and (d) Corruption in Nigeria can be measured by the ratio of government recurrent expenditure to total expenditure.

The theoretical reasoning for these hypotheses is that Nigeria is still largely an extractive (primary) economy and any disproportional growth in recurrent expenditure and/or the expenditure of the national assembly capable of growing the service (tertiary) sector which has little value addition hampers growth in production by making funding and its usage along the production chain scarce and more costly. Because production requires capital, production must decline along with capital. Hence, output falls as productive inputs fall. The output contraction induces a rise in poverty incidence failing any remedial measures. Furthermore, growth in the service sector with little value addition fed by disproportional recurrent expenditure and/or the expenditure of the national assembly breeds corruption since the underlying fundamentals for this growth is non-creative or non-productive. Thus, positive co-movement of recurrent expenditure...
and/or the expenditure of the national assembly with poverty incidence occurs in response to capital price shocks.

**Poverty Studies**

Classic study of poverty is based on household income and expenditure surveys and conceives poverty to be low consumption and low achievement in education and health. This concept emphasizes the income perspective and associate poverty with income-deficiency thereby defining poverty as the deprivation of financial resources. Thus, poverty reduction from this viewpoint is understood as income-boosting and economic growth.

For instance, the World Bank (1990) presented a two-part strategy for poverty reduction on a framework for action derived from its concept of poverty, its analysis of the causes of poverty, the experience of the 1970s and 1980s, and the state of the world economy at the end of the 1980s. The World Bank viewed poverty as low consumption and low achievement in education and health and presented as key to reducing poverty a labor-intensive growth pattern and investment in the human capital of the poor. The contrasting experience in the 1970s and 1980s of East Asia, where poverty had fallen sharply, and of Africa, Latin America, and South Asia, where poverty had declined less or even risen was behind this two-part strategy for poverty reduction. The World Bank had determined that Indonesia outperformed Brazil in the 1970s and 1980s in reducing income and non-income (education and health) poverty by means of labor-intensive growth and broad provision of social services—the two-part strategy (World Bank 1991, 1993). The Bank’s approach to reducing poverty continues to evolve and given the changed global context, the World Bank (2001) proposed a follow up strategy for alleviating poverty in three ways: promoting opportunity, facilitating empowerment, and enhancing security.

In addition, given the changed global context, significant academic effort has been applied to improve the definition of poverty and to search for more appropriate measurements giving rise to studies that explore the multidimensionality of poverty (Ravallion 1996, Bourguignon and Chakravarty 2003, Ghosh 2010). In this respect, the most prominent approaches to defining multidimensional poverty are the basic needs approach and capability approach discussed below.

**Basic Needs Perspective of Poverty**

This approach defines poverty as deprivation of consumptions and advocates adequate access to consumptions as its strategy for poverty reduction. It promotes subsistence policies aiming to make public services more reachable for the poor that can be applied generally but regional diversities are accommodated. The philosophy of this approach is that people should achieve minimum subsistence and the approach focuses on identifying a package of basic consumption and evaluates whether the people have sufficient access to it. Such package of basic consumption is considered essential to guarantee a person’s subsistence. If a person has insufficient access to the commodities of the package, then he/she is considered as poor, and vice versa. However, there are no universal agreements on what the package of basic consumption should precisely contain (Streeten1979).

**Capabilities Perspective of Poverty**

This approach defines poverty as deprivation of opportunities and advocates equal opportunity to make choices as its strategy for poverty reduction. It promotes empowerment policies aiming to
reduce inequalities in capabilities rather than the reduction of monetary inequalities. The application of this approach is on multiple levels but emphasis is on local diversities.

The capability approach reinvented the concept of poverty by integrating it into the wider issues of human development, rather than behind a subjective poverty line. The philosophy of this approach is that people should have equal freedom to choose their valued ways of life and the approach evaluates whether the people are sufficiently empowered. With this approach, people are seen as “Change Agents” who should be given the opportunity to shape their own destiny in the development process. If a person has insufficient empowerment, then he/she is considered as poor, and vice versa.

The capability approach has two main elements: ‘functionings’ (what people want to do and what they aspire to be) and freedom with the broad idea that people should achieve valuable functionings and also have the freedom to pursue those values. The well-being of an individual is seen as an evaluation of the functionings achieved by that individual (Sen 1999; Alkire 2002; Robeyns 2005; Alkire 2005). The emergence of this approach in the 1980s substantially guided the advent of the United Nations Development Programme – UNDP’s first Human Development Report in 1990 introducing the concept of Human Development Index (HDI).

**Models of Human Development**

Historically, the focus of development was on industrialization and investments as means of achieving growth, while the role of people in change was undervalued. However, in our recent history, many countries have achieved economic growth, although the well-being of a majority of their people did not improve and Nigeria is a prime example.

For instance, Nigerian economic growth averaged about 6.0 percent in the past decade peaking at about 6.8 percent in 2014 and is expected to average 5.7 percent over the 2015 through 2017 period according to the National Bureau of Statistics (NBS, 2011, 2015). However, the country’s poverty rate averaged 62 percent with 30 percent of the population in severe poverty over the same period (UNDP_HDR 2015) and Nigeria is categorized as one of the poorest countries in the world.

Furthermore, despite recent statistics rating the country’s economy as the largest in Africa and the 26th largest in the world (NBS, 2014), Nigeria in 2015 had a Human Development Index (HDI) of 0.51 ranking 152 out of 188 countries (UNDP_HDR 2015) as depicted in Figure 1 below. Clearly Nigeria’s economic growth does not yield prosperity.
Hence, the emphasis on growth in development theories based on the assumption that its benefits will automatically “trickle down” to the poor is being reviewed increasingly. Development thinkers now question the legitimacy of economic growth as the only measure of development having realized over the years of history that the economic growth paradigm does not capture some aspects of development now seen to be important. The trickle down growth paradigm is being challenged on the basis that poverty is not purely a deprivation of income or basic needs but that it is a human development problem since human beings are both agents and beneficiaries of development. This study aligns with the current thinking.

**METHODS AND MATERIALS**

A two-stage analytical method is employed.

**Stage1 Methodology**

*Definition of Variables*

The variables are defined and specified as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>RGDP</td>
<td>Real Gross Domestic Product (Economy)</td>
</tr>
<tr>
<td>TOX</td>
<td>Total Public Expenditure</td>
</tr>
<tr>
<td>REX</td>
<td>Total Recurrent Expenditure</td>
</tr>
<tr>
<td>NAX</td>
<td>Total National Assembly Expenditure</td>
</tr>
<tr>
<td>GCI</td>
<td>General Corruption-Poverty Index</td>
</tr>
<tr>
<td>CID</td>
<td>Dummy of 3 Categories for GCI; 3 (Poor) if below 50%; 2 (Very Poor) if 50%-70% and 1 (Abject Poverty) if above 70%</td>
</tr>
<tr>
<td>DRG2</td>
<td>Dummy of 3 Categories for RGDP; 1 (Abject Poverty) if &lt;20% of TOX; 2 (Very Poor) if 20-40% of TOX and 3 (Poor) for &gt;40% of TOX</td>
</tr>
<tr>
<td>DTOX</td>
<td>Dummy for TOX; 1 if below calculated mean and 2 otherwise</td>
</tr>
<tr>
<td>DNAX</td>
<td>Dummy for NAX; 1 if below calculated mean and 2 otherwise</td>
</tr>
</tbody>
</table>
Developing the Poverty-Corruption Index

Based on the key ideas of the theory, an index for measuring corruption/poverty in terms of public expenditure pattern is developed as follows:

\[ GCI = \frac{REX}{TOX} \times 100 \]  

(1)

This index is computed and tested as a dummy of three categories as defined above to investigate the double edged effect of corruption and poverty on growth and development in Nigeria.

Specification of OLS Regression Models

To measure the relationship between corruption/poverty, other explanatory variables and their impact on growth and development, a time-series linear equation regression analysis is adopted and the functional forms of the growth model estimated is as follows:

\[ RGDP = \alpha + \beta_1 CID + \varepsilon \]  

(2)

\[ RGDP = \alpha + \beta_1 CID + \beta_2 TOX + \varepsilon \]  

(3)

\[ RGDP = \alpha + \beta_1 CID + \beta_2 NAX + \varepsilon \]  

(4)

Stage 2 Methodology

In the second stage, descriptive discriminant analysis is conducted to identify the independent variables in Stage1 that have a strong relationship to group membership in the categories of the dependent variable and to deriving the discriminant functions using computer software IBM SPSS 20.

Specification of Discriminant Models

The Equations above are re-specified as discriminant functions and estimated as follows:

\[ Z_{DRC2} = \alpha + \omega_1 CID \]  

(5)

\[ Z_{DRC2} = \alpha + \omega_1 CID + \omega_2 DNAX + \omega_3 DTOX \]  

(6)

Where:

- \( Z \) = Discriminant (Predicted) Z score of discriminant function for DV.
- \( \alpha \) = Intercept or constant.
- \( \omega_i \) = Discriminant coefficient or weight for the Independent variables.

Data

Secondary data is obtained from the Central Bank of Nigeria; National Bureau of Statistics, UNDP, Transparency International and pertinent derivatives there from. The data is for the period 1999 when democracy was restored to 2015.
RESULTS AND DISCUSSIONS

Stage 1 Results

Figure 2 below portray trends in the indexed corruption in Nigeria as computed. The results show the quantified corruption seems to peak immediately following restoration of democracy in 1999 and thereafter, with each democratic election cycle except the 2007 election cycle. Results also show Corruption/Poverty incidence averaged about 66.25% since restoration of democracy. This is about 4-6% higher than standard estimates of NBS & HDR.

Fig.2: Computed General Corruption Index for Nigeria

![GCI Chart]

Source: Author's computations

Tables 4 below summarize details of the growth model estimations. The results show all the estimations are highly significant and the corruption-poverty index is found to singly explain 37.9% of variations in real gross domestic product for the economy (Model 1; equation 2).

Table 4: Model Summaries of OLS Regression Results

<table>
<thead>
<tr>
<th>Model</th>
<th>DVs</th>
<th>R² %</th>
<th>IVs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>CID</td>
<td>TOX</td>
</tr>
<tr>
<td>1</td>
<td>RGDP</td>
<td>37.9</td>
<td>-177.3* (.011)**</td>
<td>NA</td>
</tr>
<tr>
<td>2</td>
<td>RGDP</td>
<td>90.6</td>
<td>-59.1* (.056)**</td>
<td>0.09* (.000)***</td>
</tr>
<tr>
<td>3</td>
<td>RGDP</td>
<td>56.0</td>
<td>-122.8* (.054)***</td>
<td>NA</td>
</tr>
</tbody>
</table>

Notes:
*** Sig values; * B Coefficients  NA Not Applicable

Model 2 (equation 3) estimates indicate corruption (CID) and total public expenditure (TOX) account for 90.6% of variations in the real gross domestic product for the economy (RGDP). The results of Model 3 (equation 4) show that corruption index together with national assembly expenditure (NAX) account for 56.0% of variations in the real gross domestic product (RGDP).
Moreover, all the results show poverty/corruption is still endemic going by the level of statistical significance and indicates that despite touted growth in the past decade, the well-being of a majority of Nigerians did not improve. Hence, we may assume from the results that economic growth is not the only legitimate measure of development for Nigeria and that capturing the aspects of poverty/corruption are important.

### Table 5: Correlations

<table>
<thead>
<tr>
<th></th>
<th>RGDP</th>
<th>TOX</th>
<th>NAX</th>
<th>CID</th>
</tr>
</thead>
<tbody>
<tr>
<td>RGDP</td>
<td>1.000</td>
<td>.935</td>
<td>.639</td>
<td>-.616</td>
</tr>
<tr>
<td>TOX</td>
<td>.935</td>
<td>1.000</td>
<td>NA</td>
<td>-.493</td>
</tr>
<tr>
<td>NAX</td>
<td>.639</td>
<td>NA</td>
<td>1.000</td>
<td>-.407</td>
</tr>
<tr>
<td>CID</td>
<td>-.616</td>
<td>-.493</td>
<td>-.407</td>
<td>1.000</td>
</tr>
</tbody>
</table>

**Notes:** NA Not Applicable

The following sets of correlations are observed from Table 5 above:

1. The theorized corruption/poverty index has a negative relationship with all the other variables whether dependent or explanatory. The first relationships from the correlations table are normal and expected by our theory but the negative co-movement between total public expenditure, the expenditure of the national assembly and the theorized corruption/poverty index is baffling.

2. It is expected by our theory that an increase in corruption would naturally lead to stunted development by decreasing real gross domestic product for the economy since fewer resources are channeled to production generally.

3. Furthermore, it is expected that an increase in total public expenditure would naturally increase corruption by our theory due to the disproportional increase in the recurrent expenditure component and there should be positive co-movement. However, a situation where there is negative co-movement between corruption and total public expenditure could indicate that when it comes to total public expenditure, the index is more of a poverty index and less of a corruption index. It could be that as total public expenditure increases, it’s likely a trickledown effect in poverty alleviation occurs. This may indicate some evidence of the dual face of the index theorized by this paper and could support the World Bank (2013) country report for Nigeria implying poverty and corruption may be different sides of the same coin.

4. It is also expected that a disproportionate increase in the expenditures of the national assembly would naturally increase corruption by our theory and there should be positive co-movement. However, a situation where there is negative co-movement between corruption and the expenditures of the national assembly could indicate that when it comes to the expenditures of the national assembly, the index is also more of a poverty index and less of a corruption index. It could be that similar to total public expenditure, as the expenditures of the national assembly increases, it’s likely a trickledown effect in poverty alleviation occurs.

5. Evidence of the dual face of this theorized corruption/poverty index may therefore be considered on two fronts as indicated by the trickledown effects in poverty alleviation (i.e. the negative co-movements of total public expenditure and the expenditure of the national assembly with corruption/poverty index). As human beings are both agents and
beneficiaries of development, human beings are also both agents and beneficiaries of corruption.

**Stage 2 Results**

**Model 4 (Equation 5) Results**

This is the semi-full model. From this model, the poverty-corruption index alone is relevant to discriminating between the groups of years where development rates in the Nigerian economy (RGDP) indicate Nigerians are poor, very poor or in abject poverty with a discriminating power of \( p < .073 \). The function1 singly explains 33.2% of the variation in the grouping variables (Table 6).

Moreover, the model is very good at identifying group1 (abject poverty) both in the original and cross-validated cases which report 80% correct classification. The classification matrix for this model reports 62.5% correct classification of original grouped cases and 56.3% accuracy rate is the overall model fit.

<table>
<thead>
<tr>
<th>Table 6: Tests of Equality of Group Means</th>
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<tbody>
<tr>
<td>Wilks' Lambda</td>
</tr>
<tr>
<td>----------------</td>
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<tr>
<td>CID</td>
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</table>

**Model 5 (Equation 6) Results**

Table 7 shows that there is a statistically significant difference in dependent variable groups (poor, very poor and abject poverty) for all the three variables included in the discriminant analysis for this full model. This show all the predictors are relevant to discriminating between the groups of years where development rates in the Nigerian economy (RGDP) indicate Nigerians are poor, very poor or in abject poverty with expenditure of the national assembly producing highest value F. The function1 has significant discriminating power (\( p < .001 \)) and only 16.6% of the variation in the grouping variables is not explained (Table 8).

The accuracy rate for the cross-validated cases (62.5%) is the overall model fit. The model excels at identifying group1 (abject poverty) both in the original and cross-validated cases which report 100% correct classification.

<table>
<thead>
<tr>
<th>Table 7: Tests of Equality of Group Means</th>
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<tbody>
<tr>
<td>Wilks' Lambda</td>
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<table>
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<tr>
<th>Table 8: Wilks' Lambda</th>
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<tr>
<td>Test of Function(s)</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>1 through 2</td>
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<tr>
<td>2</td>
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CONCLUSIONS AND POLICY RECOMMENDATIONS

Conclusions

This paper employs a new theory to investigate the poverty/corruption incidence in Nigeria and develops an index for measuring corruption/poverty in terms of government recurrent expenditure and based on knowledge of the Nigerian economy.

The results show the theorized Corruption Index singly explains 37.9% of variations in RGDP and the Index is statistically significant at 5 per cent level with expected negative signs. Corruption is still significant when other predictor variables - total public expenditure and the expenditure of the national assembly are added to the growth model. The results also show poverty/corruption is still endemic indicating that despite touted growth in the past decade, the well-being of a majority of Nigerians did not improve. Hence, we may assume that economic growth is not the only legitimate measure of development for Nigeria and that capturing the aspects of poverty/corruption is important. Moreover, the results show standard measurements may underreport poverty/corruption in Nigeria.

There is some evidence indicating the dual face of poverty/corruption theorized by this paper and this could support the World Bank (2013) country report for Nigeria implying poverty and corruption may be different sides of the same coin. Evidence of the dual face of this theorized corruption/poverty index may be considered on two fronts as indicated by the trickledown effects in poverty alleviation. As human beings are both agents and beneficiaries of development, human beings are also both agents and beneficiaries of corruption.

Policy Recommendations

The theory’s explanation not only works in principle but also meets with some quantitative success and could serve as the basis of further empirical investigations of the corruption/poverty relationship in Nigeria. The paper therefore recommends government minimize general administrative expenditure and the expenditure of the national assembly to boost economic development and reduce the poverty/corruption incidence in Nigeria.

REFERENCES