

Rent Extraction and Corruption in The Nigerian Public

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Abstract: This study examined Rent Extraction and Corruption in the Nigerian Public sector. The research designed adopted was ex-post and descriptive survey. Questionnaire was administered to a sample size of 305 respondents with knowledge of underhand payment in the public sector in Nigeria. The study made use of both primary and secondary data. Primary data were collected through the use of questionnaire while the secondary data were obtained from government publications and the World Bank. Validity and Reliability of the secondary data were based on the reports of external auditors and other regulatory agencies. A Cronbach alpha of 0.823 was obtained for the validity and reliability of the questionnaire used to collect the primary data. The data were analyzed using descriptive and inferential statistical methods.

The results obtained showed that there is a statistical significant relationship between and Rent Extraction and Corruption in the Nigerian Public Sector ($t = 0.3855, p < 0.05$).

RENTEXT (F 1, 304) = 14.860. The P-value associated with this F-value as shown in the significant column is 0.000, this is less than 0.05 indicating that there was significant relationship between the RENT EXTRACTION and CORRUPTION in the public sector in Nigeria. The correlation between the two variables, $R = 0.216$ while the $Adj R^2 = 0.043$ the beta co-efficient of the independent variable, Corruption was 0.279 ($\beta = 0.279$). The *t-value* was 3.855 with a significant value of 0.0000 showing that there is a significant relationship between Rent Extraction and Corruption in the Nigerian Public Sector RENTEXT.

Keywords: Corruption, Rent Extraction, Public Sector, Fraud, Bribery

I. INTRODUCTION

One of the major constraints to economic growth and development in Nigeria is the level of corruption in the Public Sector. In spite of various anti-corruption Institutions established by the government, Nigeria continues to be one of the most corrupt nations in the world. Consequences of corruption in the country include low level of industrialization, high and rising level of unemployment, high and rising level of inflation and poverty and high level of insecurity. It is in the light of these that this study focused on Rent Extraction and Corruption in Nigeria.

Objective of the study

To examine the effect of Corruption on Rent Extraction (bribery) in the Public Sector in Nigeria

Research Questions

What is the effect of corruption on Rent Extraction in the Public Sector in Nigeria?

Hypothesis

Corruption has no significant effect on Rent Extraction in the Public Sector in Nigeria.

II. LITERATURE REVIEW

Theoretical Framework

This study adopted principal-agent theory of corruption. According to the theory, Principal-agent problem occurs when a bureaucrat or an 'agent' uses his/her public authority and access to information about a public good or a scarce commodity to extract rent from the 'principal' by whom the agent is employed to deliver a public service or good Bardhan (1997). The theory argues that it is the monitoring costs that allow the agent, who is entrusted with a particular public duty, to engage in malfeasance.

(Bardhan, 1997). An agent may be entrusted with the allocation of a public good or service (licence, permit, official approval, public property, funds etc.) demanded by the principal. If the principal is constrained in his/her capacity to hold the agent accountable (i.e., if monitoring the agent is costly), the latter can extract rents, leading to higher transaction costs, inefficiencies in the allocation of resources, and higher risks for innovators and investors. This type of corruption is referred to in literature as bureaucratic corruption.

III. EMPIRICAL REVIEW

Corruption and Rent Extraction

Rent extraction refers to such corrupt practices like; bribery, frauds, grafts, embezzlement, nepotism extortion etc (Boris, etal, 2008). It implies actions of individuals or interest groups on changing the public policy so that the income would directly or indirectly be distributed to their benefit (Prascevic, 2012). Rent seeking emerges in any uncompensated transfer of value—notably with respect to gifts or bequests among persons (Buchanan, 1983). Rent seeking is mainly used to describe the effects of attempts by groups to achieve profit through government restrictions on entry (Buchanan, 1980). Rent extraction retards economic growth (Igbal, 2013). According to Mitchel (2012), economic growth is slower in countries where there are more rent-seeking activities. Many

developing countries of the world including Nigeria, beset with dysfunctional public institutions, lack of transparency and accountability in the public sector are characterized by low rate of economic growth (Aidt, Toke, Dutta, Jayasri, and Sena, Vania, 2008). When corruption increases in an economy, rent-seeking becomes more profitable than investment, this deters entrepreneurship and economic growth (Pasour, 1983). Public money is diverted to private use through various types of corrupt practices in the country (Shleifer and Vishny 1993).

Aidt et al. (2008) focusing on incentives for political leaders and political accountability, demonstrated that politician's pursuit of rent is designed to respond to the quality of political institutions and the level of political accountability. Elected politicians or dictators extract rent from citizens by charging a fee for entry into the formal sector of the economy under conditions of asymmetric information. At one end, political institutions are so dysfunctional that political leaders are effectively free to extract as much rent as they like from the economy. In response to this, citizens leave the formal sector of the economy and seek refuge in the informal sector. The net result is low growth or stagnation.

At the other end of the spectrum, however, political institutions – like voting - allow the citizens of the formal sector to reduce corruption by threatening to replace the incumbent who extracts rent too greedily. The politicians/rulers are willing to reduce current corruption to avoid being replaced and loss of future rent. Therefore, such democratic institutions have a discipline effect on political behaviour and allow the formal economy to grow, which means that the resource base from which politicians can extract rents expands over time. Therefore, institutions that reduce monitoring costs (i.e. cost of 'firing' the political leaders when bureaucratic corruption is high) create a good feedback loop between economic growth and corruption. Corruption causes a general misallocation of public expenditures in favour of projects which has the capacity to generate bribes. In addition, Hillman (2004), Mauro (2004) and Tanzi and Davoodi(1997) demonstrated that corruption leads to higher public spending on goods whose value is difficult to establish and monitor. Procurement of high technology and military equipment is therefore favoured by corrupt officials because it is easier to extract rent from them. Corruption and rent extraction takes diverse form. Empirical studies show that corrupt regimes in developing countries prefer to spend a greater part of their budgets on expensive items whose costs are not readily apparent, and which are considered to serve some high national priority concern so that they have to be undertaken in a discreet and secretive way.

According to Mauro (2004) and Tanzi and Davoodi(1997) , purchase of military hardware meets these requirements. Large and expensive construction projects whose costs are hard to determine, but with huge potential for kickbacks and economic rent are also good items for corrupt deals and hence

for inclusion in the national budget. On the other hand, not much money can be made by spending on civil servants and teachers' salaries and in buying school textbooks. For this reason not so much is spent on these areas by the government, Myint(2000). This means a positive relationship between government capital expenditure and corruption

Ugur and Dasgupta (2011) viewed corruption from the perspective of Principal and Agent relationship. The agent (public officials/political actors) are appointed to provide public service to the principal (the general public), who are unable to hold the agents accountable due to high monitoring costs Ugur and Dasgupta (2011) said further that corruption is more pronounced in the public sector, since it is there that the opportunities for it are most extensive and the public administration creates the opportunities for corruption in the private sector by creating the necessary institutional and market conditions (Myint, 2000). In both public and private sectors, corruption can be viewed as an example of the Principal-Agent problem where the core difficulty lies in the mechanism to monitor the actions of those to whom authority is delegated (Bayer, 2003). Examples of corrupt behavior include: the sale of government property by public officials, embezzlement of public funds, patronage, bribery, extortion, fraud, embezzlement, nepotism, cronyism, appropriation of public assets and property for private use, and influence peddling (Boris, etal, 2008). In this list of corrupt behaviour, activities such as fraud and embezzlement can be undertaken by an official alone and without involvement of a second party. While others such as bribery, extortion and influence peddling involve two parties, the giver and taker in a corrupt deal (Myint, 2000). The two party type of corruption can arise under a variety of circumstances. Myint (2000) identified the following circumstances:

Government contracts: bribes can influence who gets the contract, the terms of the contract, as well as terms of subcontracts when the project is implemented. Government benefits: bribes can influence the allocation of monetary benefits such as credit subsidies and favoured prices and exchange rates where price controls and multiple exchange rates exist. Bribes can also be important in obtaining licenses and permits to engage in lucrative economic activities such as importing certain goods in high demand and in short supply. Moreover, bribes can be employed to acquire in-kind benefits such as access to privileged schools, subsidized medical care, subsidized housing and real estate, and attractive ownership stakes in enterprises that are being privatized.

Government revenue: bribes can be used to reduce the amount of taxes, fees, dues, custom duties, and electricity and other public utility charges collected from business firms and private individuals. Time savings and regulatory avoidance: bribes can speed up the granting of permission, licenses and permits to carry out activities that are perfectly legal. This is the so-called "grease money" to turn the wheels of bureaucracy more smoothly, speedily and hopefully in the right direction. It is also not difficult to see situation where

rules and regulations, and the way they are applied, are so complex and burdensome that the only way left to get things done is to pay money to avoid them. Influencing outcomes of legal and regulatory processes: bribes can be used to provide incentives to regulatory authorities to refrain from taking action, and to look the other way, when private parties engage in activities that are in violation of existing laws, rules and regulations such as those relating to controlling pollution, preventing health hazards, or promoting public safety as in the case of building codes and traffic regulations. Similarly, bribes can be given to favour one party over another in court cases or in other legal and regulatory proceeding.

Corruption can be a major obstacle in the process of economic development and in modernizing a country. Many now feel that it should receive priority attention in a country's development agenda. This greater recognition that corruption can have a serious adverse impact on development has been a cause for concern among developing countries (Myint, 2000). It was for this reason that this study focused on the significance of corruption on rent extraction and how it affects the economy.

Descriptive Statistics:

Analysis of corruption variables and Rent Extraction revealed that one of the ways by which corrupt practices affect economy is through rent extraction which includes bribe, frauds, grafts etc. In the descriptive table, 164 or 53.6 % of the respondents strongly agreed that rent extraction in the public sector in Nigeria is very high. The next 124 of the respondents which represent 40.5% agreed that rent extraction is very high, 12 or 3.9% slightly agreed and 2 or 0.7% slightly disagreed, no respondent disagreed, the remaining 4 of them or 1.3% strongly disagreed.

In the same table, 106 of the respondents representing 34.6% strongly agreed that rent extraction is associated with big projects while 126 or 41.2% of the respondents agreed to this statement, 30 or 9.8% slightly agreed, 24 or 7.8% slightly disagreed, 12 or 3.9% disagreed and 8 or 2.6% strongly disagreed. The mean for this

question is 4.6 indicating that big projects are associated with corrupt practices. On the

size of government expenditure lost to corrupt practices through rent extraction, 166 respondents representing 54.2% of the total respondents strongly agreed that a greater percentage of government expenditure is lost to rent extraction, 92 or 30% agreed while 36 or 11.8% slightly agreed. From this analysis it is quite obvious that almost all the respondents agreed that a lot of money is lost by the government through this corruption channel, 294 or 96%

of the respondents are in this category. For the remaining 12 or 4% of the respondents, 6 or 2% slightly disagreed while the remaining 6 or 2% disagreed. No respondent strongly disagreed. The mean figure obtained for this is 5.3%

indicating a strong relationship between rent extractions and loss of government expenditure.

Information obtained from the respondents in the same table indicated that the so much money lost by the government through big projects to rent extraction curtailed significantly the development of infrastructures in Nigeria. In the table, 112 or 36.6% of the respondents strongly agreed to this statement, 134 or 43.8% agreed, 36 or 11.8% slightly agreed, 12 or 3.9% slightly disagreed, 8 or 2.6% disagreed while 4 or 1.3% strongly

The poor development of infrastructures, increases the cost of doing business in Nigeria and discourage investment, 198 or 64.7% of the respondents strongly agreed to this, 70 or 22.9% agreed, 20 or 6.5% slightly agreed, 10 or 3.3% slightly disagreed, 4 or 1.3% disagreed and the remaining 4 or 1.3% respondents strongly disagreed.

Finally in the table, 166 respondents representing 54.2% of the total respondents strongly agreed that the low level of investment resulting from poor infrastructural development reduced the rate of economic growth. This was also agreed to by 104 or 34% of the respondents, 26 or 8.5% slightly agreed, 2 or 0.7% slightly disagreed, 4 or 1.3% disagreed while the remaining 4 or 1.3% strongly disagreed.

IV. REGRESSION MODEL AND RESULTS

$Y = f(X)$

$Y = \text{RENT EXTRATION (BRIBE COLLECTED)}$

$X = \text{CORRUPTION (ABUSE OF AUTHORITY)}$

$\text{RENTTEXT} = f(\text{CORRUPTION})$

$Y = \alpha + \beta X + \epsilon$

RENT EXTRACTION

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the estimate	Durbin-Watson
1	0.216	0.047	0.043	0.97	1.86

ANOVA

Model	Sum of Squares	Df	Mean Squares	F	Sig.
• Regression	14.110	1	14.110	14.860	0.000
Residual	288.661	304	0.950		
Total	302.771	305			

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.949	0.387		10.206	.000
CORRUPTION	0.279	0.07	0.216	3.855	.000

V. FINDINGS

In the regression model summary table, R which is the correlation between Rent Extraction and Corruption in the public sector is 0.216. The two variables are positively correlated, that is they move in the same direction even though the relationship is weak. R^2 , which measures the strength of the relationship between Rent Extraction and Corruption in the public sector, is 0.047 that is a 4.7% increase in Rent Extraction is explained by the level of Corruption in the public sector in Nigeria. In the ANOVA table, F-value which is the Mean Square Regression (14.110) divided by the Mean Square Residual (0.950) is 14.860, the P-value associated with the F-value as shown in the significance column is 0.000, this is less than 0.05 indicating fitness of the model to the hypothesis. The P-value shows that there is a significant relationship between the predictor and the dependent variables that is Rent Extraction and Corruption.

In the co-efficient table, the value of constant is 3.949 representing the value of rent extraction when Corruption is zero. Coefficient of the independent variable Corruption, that is β is 0.272. This shows

that when Corruption increases by 27.2% Rent Extraction will increase by 100%. The P value is less than 0.05 showing that the independent variable is a good predictor of the dependent variable. The model for this corruption variable can be restated as follows;

$$Y = 3.949 + 0.279x + 0.07$$

VI. CONCLUSION

This result revealed that Corruption in the Public Sector in Nigeria is a strong determinant of Rent Extraction (Bribery). The extracted rent reduces government revenue and

expenditure which ultimately reduce the provision of public goods and services by the government.

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