Corruption, Political Instability and Development Nexus in Africa: A Call for Sequential Policies Reforms

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Abstract

The study examined the extent of the effect of control of corruption and political (in)stability on economic development in African countries. The study employed System General Method of Moment (GMM) framework on recent pooled of data from thirty-seven African countries over a period of 1996 and 2016.The study found evidence of political instability though not statistically significant and ineffective control of corruption in African countries. The study also found that simultaneous implementation of policies towards ensuring political stability and effective control of corruption are not complementary and has more negative impact on development in the region. Both policies are substitute in the context of African economy, and hence should be pursued through sequential reforms. This study also found that continuous implementation of the current policies towards having both political stability and effective corruption control may not have positive impact on development in Africa. The study strongly supports sequential policy reform in the region and also recommends review of the ongoing policies towards ensuring effective control of corruption in the region.

Keywords: Political instability; corruption; development; GMM; Africa

1. Introduction

The quest for good welfare and economic development for over fifty years had insignificant success in the African countries as lack of good health facilities and basic amenities, nutritional problems, coup d'états and bad governance, social and internal insecurity, religion and ethnicity crisis, civil wars, increase in poverty incidence, high level of unemployment, youth restiveness, increased corruption cases and political instability still dominate the continent. The level of economic development determines the level of corruption and extent of political instability as less developed countries tends to be more corrupt and political unstable compared to the developed countries (Helliwell, 1994; Mauro, 1995; Montinola & Jackman, 2002; Schumacher, 2013). There are wide spread of political instability and the problem of underdevelopment in the African countries which are not unconnected with the high rate of corruption as crave of politicians, political leaders and public servants illegally amass wealth in the process of using public office for private gain. Also, Political instability and violence reduce the security of property right, reduce capital formation, encourage capital flight and discourage foreign direct investment and capital inflow and therefore posed significant impediment to economic development on African economy. Although a body of literature have established that corruption hurts economic development (Gyimah-Brempong, 2002; Scheifer and Vishny, 1993) and determine political instability (Abu et al, 2014, Mauro, 2004), some researchers have argued that political instability accounted for high level of corruption found in many countries (Campbell and Saha, 2013; Zhang et al., 2009). Other researchers maintained that corruption may be desirable economically because of efficient provision of government services by by-passing inefficient regulation through greasing the wheels hypothesis to solve the problem of unnecessary bureaucratic delay and red tapism which constitute formidable barrier to productive investment which lead to economic development (Meon and Sekkat, 2005). It is has been posited that frequent government changes reduces development, low development may also increase the frequencies of a government change, hence the need to deal with the problem of endogeneity (Alesina et al., 1992).

Therefore, there are possibilities of reversal causality because of dynamic relationships among these variables of interest as one reinforces the other. An issue which is still calling for more research work is the issue of potential endogeneity problems that could arise due to the simultaneous bias that may arise as a result of omitted variables on both economic development and seemingly exogenous variables. To the best of my knowledge and having considered available literature, no recent papers have adequately taken this issue of reversal causality into consideration using Generalised Methods of Moment (GMM) estimator. Despite numerous reports of Transparency International (TI) that publishes the Corruption Perception Index (CPI) and the Political Risk Service International Country Risk Guide (ICGR) political risk rating which reflect the extent of political uncertainty, established that most African countries which still faced with problems of underdevelopment are corrupt and politically unstable. Hence, the sole objective of this paper is to investigate the nexus between the economic development, political instability and corruption in the twenty-seven sub-Saharan African countries over the period of 1996-2016 taking into consideration the ignored problem of simultaneity bias that may likely occur. The available statistics showed that the continent is acutely suffering from the problem of underdevelopment, political instability and high level of corruption yet research efforts towards this direction that incorporate potential problem of endogeneity are in tiny proportion and this is the area of contribution to the literature.

This study is limited to Africa because of the widespread perception that African countries are structurally different from the other countries of the world and they have the same political and economic historical background and development. Undoubtedly, findings from this study will be of immense value to policy analysts towards suggesting way forward to the lingering developmental problems in Africa.

2. Conceptual and Empirical Review

This section is comprised of conceptual analysis as well as summary reviewed of the recent and relevant empirical literature.

2.1 Conceptual Review

2.1.1 Political Instability

The concept of political instability varies as employed in the numerous studies. It has been understood as the propensity of a change in the executive arm of government either by constitutional or unconstitutional means (Alesina et al., 1992). In 1995, the study of Mauro however noted that Italy had more than fifty changes in government between 1945 and 1995 and the country still remained relatively stable during the period and yet Italy is one of the developed countries of the world. Could therefore, high propensity of political instability among African countries responsible for their problems of underdevelopment among others? Another dimension is to define political instability as either a change in the existing political system or a challenge to it (Mbaku, 1992). Mbaku reinforced the argument of Morrison and Stevenson (1971) which defined and widen the scope of “change in the government” and "challenges to the government". Change in the government involved reshuffling of the cabinet, removal and subsequent replacement of the executive or head of state as well as change in political parties' representation after successfully election in any country while challenges to the government constitute all factors that can pose treat to the current regime of government such as attempted or unsuccessful coups and other forms of plot sponsored by the opposition party against the government.

Morrison and Stevenson (1971) understood political instability as a condition in political arrangements in which institutional structure of authority breakdown and the expected compliance to political authority is replaced by political violence. The study further stressed that political instability involved the understanding of differences between the power of the national elite that rule the country and that of non-elite and as a result, there are three types of political instability: elite, communal and mass political instability. Elite political instability is a situation in which individual or national elite who hold leadership position in the country's political system are forcefully removed from office usually through coups d'etat, attempted or unsuccessful coups and plots. These have been witnessed in African post independence and they are usually sponsored by military elites. Communal political instability is an attempt by the communal group to either form a union/coalition with another country or form their own political sovereignty with a view of capturing present government apparatus. This kind of political instability is manifested in civil wars, irredentism, rebellions, religion and ethnic violence. Mass political instability on the hand involves a situation in which members of the mass group or movement which are usually organised to pursue and maximize their well defined objectives, violently attack national elites. The most important characteristic of membership in a mass group is that they believe in the goals and objectives of the movement, though membership can be homogeneous with respect to class level, power, rank and status but they do not possess a common communal trait. Until the activities of this group such as riots, strikes, revolutions among others threaten the stability of government or national polity, they are not regarded as part of mass political instability. It should be noted however, strike embarked upon by labour union in the political process of demanding for improved standard of living cannot be attributed to mass political instability.

2.1.2 Corruption

Corruption is dishonest or illegal behavior especially by government officials. It is impairment of integrity, virtue or moral principle which involves departure from the original or from what is pure and correct. It is an inducement to wrong by improper or unlawful means such as bribery. Corruption is said to have manifested through fraud, embezzlement and misappropriation of public funds, sexual harassment inflation of contracts and others. World Bank (1998) defined corruption as the “use of public office for private gain” which include bribery and extortion between two parties. According to Nye (1967), corruption is that behavior which deviates from the formal duties of a public role because of private (gains) regarding personal, private clique, close family, pecuniary or state gain or corruption is that behavior which violates rule against the exercise of certain types of duties for private gains regarding influence and such behavior includes bribery, nepotism and misappropriation. Edame (2001) defined corruption as an anti-social behavior conferring improper benefits contrary to legal and moral norms which also undermines the authority to improve the living conditions of the people.

Corruption is the erosion of ethics and accountability. Ethics is concerned with the right and proper behavior of public officials, politicians as well as those in the private sector (Rasheed and Olowu, 1993). This is because the word “right or wrong”, “fair or unfair”, “proper or improper”, “just or unjust” behavior constitute a society’s standard. Accountability is synonymous with being answerable and this indicates that government must be accountable to the electorates most especially in a democratic societies. Therefore, in the absence of principle of accountability, corruption and other unethical behavior will thrive as the case in the most African countries. Corruption which is global problem is a social virus which has enveloped most African countries as its high incidence involves public servants and members of the public who are unlawfully seeking public services.

2.1.3 Economic Development

The concept of development - and the lack of it cut across African countries - simply means advancement in human and environmental condition. Economic development is not only about a mathematical and statistical increment in the Gross Domestic Products (GDPs) of a particular country but also include a fundamental progressive improvement in the standard of living of people and their environment. For the pace of development in any country to fully realized its goals and objectives, it must be sustainable. Sustainable development however, has been described as that development that meets the present needs without compromising the ability to meet their own needs of future generations but sustainable economic development is that economically sustainable system that is able to produce goods and services on a continuing basis, to maintain manageable levels of government and external debt and to avoid extreme sectoral imbalances which damage agriculture and industrial production (Harris, 2000). Therefore, the economic perspective of sustainability from neoclassical economic theory is the maximization of welfare over time. The impacts of sustainable economic development will be felt in African countries when the necessary governmental structures and policies that minimize corruption level and the rate of political instability are in existence and hence the importance of this study.

2.2 Empirical Review

The relevant literature on the political instability, corruption and economic development nexus are summarised in the Table 2.1.

3. Econometric issues and Data source

The dynamic behaviour of the relationships among political instability, corruption level and economic development being studied in African economy is achieved by estimating a dynamic panel regression model specified as follows:

$$g_{it} = \sigma g_{it-1} + \beta X'_{it} + \mu_i + v_{it} \quad \text{...(1)}$$

Where g_{it} represents the regressand for individual country, i, over period t; X_{it} is the exogenous regressors, country specific effects is μ_i while v_{it} is the remainder disturbance term. The theoretical application of GMM is justified by the introduction of lagged value of regressand as part of regressors which has led to the problem of autocorrelation. However, to overcome this econometric problem in the dynamic model, a number of empirical studies have suggested Arellano and Bond (1991) GMM estimator. Arellano and Bond (1991) GMM estimator differences the model in equation 1 purposely to get rid of the effects along with any time-invariant regressor as specified below:

$$g_{it} - g_{it-1} = \sigma(g_{it-1} - g_{it-2}) + \beta(X'_{it} - X'_{it-1}) + (v_{it} - v_{it-1}) \text{......................(2)}$$

And it is assumed that $v_{it} - v_{it-1}$ follow first order moving average process (MA(1)). A problem with this estimator is that lagged levels are poor instruments for first differences if the variables are close to a random walk and hence system GMM estimator. As a way out, system GMM developed by Arellano and Bover (1995) and Blundell and Bond (1998) have been suggested. Arellano and Bover (1995) system GMM proposes the use of orthogonal deviations to eliminate the potential endogeneity problem in the dynamic panel data model instead of first differencing suggested by Arellano and Bond (1991). The orthogonal deviations involves involve subtracting the average of all available future observations rather than subtracting the previous observation. Taking orthogonal deviations removes fixed effect just like differencing. This is because lagged observations of a variable do not enter the formula for the transformation, assuming no serial correlation, they remain orthogonal to the transformed errors and available as instruments. This procedure enabled the same lags of variables to be valid as instruments under the two transformations. On the other hand, in addition to lagged levels of variables as instruments for equations in first differences, Blundell and Bond (1998) System GMM brought to bear additional instruments to increase efficiency.

$$g_{it} = \sigma z'_{it} + \beta X'_{it} + \mu_i + v_{it} \text{ ; } i = 1,\ldots\ldots, n; \; t = 1,\ldots\ldots,T \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

Where z'_{it} is a vector of predetermined and endogenous covariates which may include the lag of g_{it} all of which may be correlated with the μ_{it}. An estimable model for the study is therefore specified as

$$ECD_{it} = \delta_0 + \delta_1 ECD_{it-1} + \delta_2 COI_{it} + \delta_3 POI_{it} + \mu_i + v_{it}$$

Where δ_0 is constant, δ_1………..δ_6 are slope coefficients, X_{it} are control variables: human capital proxies such secondary school enrolment rate and access to medical care, trade openness, population while other variables remained as described in table 2. Expressing the equation in a doubled-log format yield:

$$InECD_{it} = \delta_0 + \delta_1 InECD_{it-1} + \delta_2 InCOI_{it} + \delta_3 InPOI_{it} + \delta_k \sum_{k=4}^{n=6} InX_{it} + \mu_i + v_{it} \ldots\text{(Model 1)}$$

3.2 Data and sources

This study is based on dynamic panel data model covering the period of 1996 to 2016 on 37 African countries which made up for 740 total number of observations. Table 4.1 below shows the variables employed for the estimation of the analysis and its corresponding sources. The regressand is the real GDP per capital and the regressors are control of corruption, political instability index. From the specification above, the a priori theoretical expectation is that δ_2 is expected to be positive and statistically significant in relation to economic development process and if otherwise, it implies that the control of corruption is ineffective in the region. Political stability has been measured government stability, internal conflict, external conflict and ethnic tensions in the region. Likewise δ_3 is expected to be positive and statistically significant in relation to economic development and will be an indication that there is political stability in the region and its impact is positive on economic development. If otherwise, there exists political instability which is detrimental to the development process in African countries. The equation 1 and 2 above, test the validity of the sole objective of this study as the coefficients, δ_2 and δ_3 as well as their signs determine the magnitudes and the direction of relationship or effect of both the control of corruption and political (in)stability on the economic development in the African countries.

The study of Rajan and Zingales (2003) have argued the issue of simultaneous reforms agenda. This is a situation where two policies are simultaneously pursued to measure its impacts on the regressand. This paper also examined the effectiveness of simultaneous policy reform efforts in the African countries by interacting the two governance measures and adopt cross partial derivative to measure its impact on economic development. Expectation from the analysis is for the coefficient of interactive term, δ_4, to either have positive or negative sign. In the case of positive value, this is an indication that the two policies are complementary and can be simultaneously implemented and if it is negative, this indicates that the two policies variable are substitute and as a result the reform efforts need to be sequential in line with Mckinnon (1991) gradual and sequential order. Also, the coefficient δ_4 is expected to be statistically significant which suggest policy effectiveness and if otherwise, it indicates policy ineffectiveness within the region.

$$InECD_{it} = \delta_0 + \delta_1 InECD_{it-1} + \delta_2 InCOI_{it} + \delta_3 InPOI_{it} + \delta_4 (InCOI * InPOI)_{it} + \delta_k \sum_{k=5}^{n=7} InX_{it} + \mu_i + v_{it} \quad \text{……………………….….(Model 2)}$$

Further examination of the effect of the simultaneous policy reforms of the two indicators was carried out by introducing partial derivatives of the growth rate with respect to each of the two governance indicator and this will only be carried out where the coefficient δ_4 is significant. This study introduced partial derivatives of development with respect to each of the governance of the indicator to assess the short-run effect of control of corruption and political (in)stability. This is with a view of testing the marginal effect of governance indicators on the economic development in African countries.

$$\frac{\Delta InECD_{it}}{\Delta InCOI_{it}} = \delta_2 + \delta_4 InPOI_{it}$$

$$\frac{\Delta InECD_{it}}{\Delta InPOI_{it}} = \delta_3 + \delta_4 InCOI_{it}$$

Continuous implementation of both good governance indicator is theoretically expected to have strong impact on the development process of the African countries however, this is not automatic as many of the countries still suffering from the problem of underdevelopment despite their long time efforts in fighting against corruption and perpetration of criminal and other violence activities despite establishment of various institutions. This study is of the view that alternative approach to corruption and other governance problems may be particularly useful to low income countries and interestingly all the countries are from the same region. Thus, the study tries to test this hypothesis rather than imposing it and the intuition is, does the region benefits from current approach to corruption and other political problems?

$$InECD_{it} = \delta_0 + \delta_1 InECD_{it-1} + \delta_2 InCOI_{it} + \delta_3 InPOI_{it} + \delta_k \sum_{k=4}^{n=6} InX_{it} + \delta_7 InCOI_{it}^2 + \delta_8 InPOI_{it}^2 + \mu_i$$

$$+ v_{it} \text{.............................(Model 3)}$$

The partial derivative of the regressand with respect to each of the governance variable is:

$$\frac{\Delta InECD_{it}}{\Delta InCOI_{it}} = \delta_2 + 2\delta_7 InCOI_{it}$$

$$\frac{\Delta InECD_{it}}{\Delta InPOI_{it}} = \delta_3 + 2\delta_8 InPOI_{it}$$

4. Discussion of Empirical Result

The sources and definition of each variable employed in this study are provided in Table II. The sample period and summary statistics which provide information about the mean and standard deviation and the countries for which these variables available are contained in Table III. The correlation matrix between the explanatory variables is also provided in Table IV. All tables are revealed in the appendix. From Table III as shown in the appendix, for the period of study, there exist ineffective control of corruption and political instability as this reveals an average of the -0.42 and -0.27 respectively in the region. This suggests that at an average the region is still suffering from governance crisis which is characterized by weak structure and this has its impacts on the growth and development in the region. Table IV displayed the correlation matrix. The correlation matrix shows the correlation between the independent variables which should be low degree or moderate degree to suggest the absence of multicolinearity between independent variables. As suggested by Bryman and Cramer (1997), the correlation between each pair of independent variable should not exceed 0.8; otherwise, the variables may be suspected of exhibiting multicolinearity. Multicolinearity is usually regarded as a problem because it means those regression coefficients may be unstable. The result of this matrix showed that all possible combinations of the explanatory variables had correlation coefficients, whether negative or positive, were very low, weak and even less than 0.9. If the correlation coefficient between two variables is one, the variables are perfect substitute for each other and the two cannot be included in a particular model for analysis.

MODEL I

This model is contained in the Table V. The model reveals that the fight against corruption is not effective in the region as the control of corruption negatively correlated with economic development. It suggests that one unit change in control of corruption would lead to -0.0209 unit change in the rate of economic development in these countries. The coefficient of control of corruption is negative and statistically insignificant at all convectional levels. This is contrary to the a priori expectation as numerous studies have established negative effect of corruption of on the economic activities in these countries (Anoruo and Braha, 2005; Okafor et al. 2014). It is expected that the various measure put in place to control corruption should have had positive impact on the growth and development in these countries. The negative magnitude of impact of corruption control showed the degree of impotency of anti-corruption policies in African countries. This model also reveals that, there exists political instability in the region though not statistically significant. It suggests that one unit change in the political stability index would lead to -0.0106 unit change in the rate of economic development in these countries. This is in line with the a priori expectation as numerous studies have reported that there is lack of political stability in the African countries (Mbaku, 1988; Fosu 2002; Aisen and Veiga 2013). The lagged dependent variable has an estimated coefficient of 0.76, with standard error of 0.02; this indicates a strong evidence of considerable persistence in the variable. It however indicates slow speed of adjustment to shock and this is in consonance with the findings of Baltagi et al. (2007).

MODEL II

This model is summarised in the Table V and it is the model with interactive terms. The estimate of the interaction term is negative and statistically significant at all convectional levels. This indicates that efforts towards improving the quality of both variables, control of corruption and political stability, simultaneously could have more negative impacts on the economic development in the African countries. This is contrary to the a priori expectation. This also indicates that the two measures are substitute and that simultaneous implementation of both policies would be at detriment to the economies of the African countries. Hence, this study advocated for sequential policy reform in relation to process of ensuring an effective control of corruption and political stability in the African countries.

MODEL III

Table V also displayed model Model III. This model is a quadratic specification of the two governance indicators. The two measures are negative and statistically insignificant at all convectional levels. This may suggest that continuous implementation of both policies may impact negatively on the economic development in the region. It may also indicate that the developmental effect cannot be reaped with continuous or consistent application of current policy in relation to control of corruption and efforts put in place to have stable governance in African countries.

5. Conclusion and Policy Recommendation

The debate on the corruption, political instability and development nexus is still ongoing. The destabilizing effect of political instability is relatively settled in the empirical literature but the effect of corruption on development have remained polarized. This is because some studies have maintained that corruption stifles development and others have contended that in some circumstances, corruption may be economically desirable simply because it provides a solution to inefficient regulation, bureaucratic delay and bottlenecks which may lead to ineffectiveness in governance. This study investigates empirically the relationship between corruption, political instability and development in the African countries in a System Generalized Methods of Moment (GMM). The study found existence of political instability and ineffective control of corruption in the region. The study also found that simultaneous implementation of policies of ensuring political stability and effective control of corruption are not complementary and has more negative impact on development in the region. The implication of this is that both policies are substitute, and hence should be pursued through sequential reforms. Findings from the study also reveals that continuous implementation of the current policies towards having both political stability and effective corruption control may not have positive impact on development within the continent.

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