The Impact of Corruption on External Debt in Nigeria: A Co-integration Approach (1996-2014)

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Abstract

The study assessed the impact of corruption on the external debt in Nigeria for the period 1996 to 2014. The empirical analysis carried out using the co-integration technique revealed that Corruption Perception Index (CPI) which was used as a proxy for corruption and public expenditure (PEX) have significant positive relationship with external debt in the long-run and conform to our apriori expectations. However, in conformity to our apriori expectation, exchange rate (EXR) has a negative relationship with external debt in the long-run. The Vector Error Coefficient of concern showed that about 34.1479% of the errors will be corrected in the long-run, while the Granger Causality test indicated no causal relationship between the variables. It is therefore ascertained that so long as corruption persists unabated in the economy, they will be high level of external debt in the economy. Hence, the government should focus on the economic determinants of corruption, especially the policy of economic freedom (free market economy) to control the perceived level of corruption and must stop paying lip-service to the issue of combating corruption and match her words and commitment with actions by bringing defaulters to book, seizure of ill gotten assets and other corruption combating strategies so as to savage the nation from this monster.

Key words: External Debt, Corruption, Public Expenditure, Co-integration

INTRODUCTION

Background to the Study
The constant need for external borrowing arises from the recognized role of capital in the developmental process of any nation. Soludo (2003) was of the opinion that countries borrow for two major reasons; the first is macro-economic intent that is, to bring about increased investment and human capital development while the other is to reduce budget constraint by financing fiscal and balance of payment deficits.

Nigeria has over the years acquired substantial amounts of external debt during the past two decades, which is posing serious problems to the nation's development. The country's debt servicing burden reached critical proportions as reflected in the high record number of debt rescheduling, the sharp rise in external payment arrears and continuous recourse to more credit facilities. The more we pay, the more we seem to owe doubtful deals, dud projects (white

elephants) and dubious debts. The genesis of Nigeria external debt crises dates back to 1978 after the fall in the world oil prices. Prior to the occurrence, Nigeria had incurred some minor debts from World Bank in 1958 with a loan of US$28 million for railway construction, and a loan of US$13.1from Paris club in 1964, for the construction of the Niger Dam. The first major borrowing of US$ 1 billion known as the " Jumbo Loan" was in 1978 from the international capital market (ICM), increasing the total external debt to US$2.2 billion (Adesola, 2009). The Nigerian external debt stock stood at US$28.35 billion in 2001, this was about 59.4% of GDP from US$8.5 billion in 1980 which was about 14.6% of GDP. In the year 2005, the Paris club of creditor nations forgave US$18 billion of US$30.85 billion debt owed by Nigeria. Despite the debt relief of US$8 billion received by Nigeria from Paris Club of creditors in 2005, the situation still remained the same (Bakare, 2010). Nigeria external debt stock rose to N1.03 trillion in December 2012 as against N896.85 billion in December 2011, and was at N1.63 trillion in December 2014. The severity of Nigeria's debt problem is forcefully demonstrated by movements in external debt service payments. At N27.85 billion in 1998, the external debt service payments rose to N238.23 billion in 2001 and fell to N141.34 billion in 2002. It rose again to N1.18 trillion in 2005 to N1.27 trillion in 2007 and fell significantly to N46.15 billion in 2012 and was N54.77 billion as at end of December, 2014 (CBN, 2014).

The huge external debt stock and debt service payments of Nigeria have prevented the country from embarking on larger volume of domestic investment, which would have enhance growth and development (Clements, et al 2003). According to Ishmael (2006), developing countries such as Nigeria have become over-dependent on external borrowing and they experience difficulties in servicing external debt due to huge debt burden.

External debt became a burden to Nigeria because contracted loans were not optimally deployed; therefore returns on investments were not adequate to meet maturing obligations and did not leave a favourable balance to support economic growth. Aluko and Arowolo (2010) pointed out that the major cause of the debt crisis situation in Nigeria is the fact that these foreign loans are not being used for developmental purposes. Instead of using it to venture into capital projects that will better the economy, they are secretly shrouded. Corruption is known to flourish in any economy where there is high level of lack of transparency and accountability in government business and transactions. Such deficiencies are known to thrive more under dictatorial and non-democratic governance. Corruption is an age long ailment that has plagued mankind. Its effect cannot be over emphasized. During the World Bank's Annual Meeting back in 1996, corruption was identified as one of the crucial factors affecting growth in developing countries. Corruption reduces economic growth through its negative influence on human capital investment; while on the other hand, it has strong negative effects on economic growth by lowering the amount and quality of public infrastructure and services supplied to the nation as a whole. Once corruption is introduced at any degree, the efficiency of public expenditure would decrease. In Nigeria, long years of military dictatorship with its attendant lack of transparency and accountability multiplied the opportunity to graft. A lot of money was misappropriated by political leadership and corrupt government officials by exploitation of government's treasury, procurement and project execution procedures. This led to outrageously high project cost and encourages the over invoicing of import and under invoicing of exports, and other corrupt practices like indefensible inflation, contract costs or termination and re-awarding of the same contracts at will by public service officials.

Apart from the federal government, some state government are involved in external debt borrowing and sales of municipal bonds for the purpose of providing infrastructural facilities

like construction of good roads and bridges, good drinkable water, building of industries, schools etc. Most of these projects were either not carried out or abandoned half way and the money unaccounted for. Corruption therefore, kicks open the flood gate of artificial need for external assistance to the mismanagement/misappropriation of domestic resources.

It is therefore the aim of this study to assess the impact of corruption on the increasing external debt of the Nigerian economy for the period of 19years i.e. 1996-2014. This period was chosen to cover the period for which data on corruption by Transparency International is available; as the organization was established in 1995.

This paper is organized into five sections: section one comprises the introductory background of the study, statement of problems and objective. Section two covers the literature review and theoretical framework. Section three gives information about the research methodology while section four deals with presentation, interpretation and discussion of results. Section five covers the summary of findings, policy recommendations and conclusion.

LITERATURE REVIEW

Conceptual Review
External Debt: Meaning and Profile
Adepoju et al (2007) define external debt as that portion of a country's debt that is acquired from foreign sources such as foreign corporations, government or financial institutions. Arnone, Bandiera and Presbiterio (2005) sees external debt as that portion of a country's debt that is acquired from foreign sources such as foreign corporations, government or financial institutions. The servicing of external debt has to do with the series of payments of interest and principal required on a debt as it becomes due over a given period of time.

It is important to recognize that Nigeria has two major categories of external creditors; official and private creditors. Her official creditors include the International Fund for Agricultural Development (IFAD), African Development Fund (ADF), the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AFDB), Economic Community of West African States (ECOWAS) fund and the European Investment Bank. The above listed are Nigeria's multilateral creditors which also include the World Bank and International Monetary Fund (IMF) which were very active lenders in the 1970s/1980s. The bilateral creditors include the Paris Club and Non-Paris Club creditors. The Paris Club is an informal group of official creditors which was created to aid debtor countries going through payment difficulties by finding sustainable and lasting solutions. Nigeria's external indebtedness can be traced back to the pre-independence period when in 1958, a loan of US$28 million dollars was contracted from the World Bank for railway construction. This debt did not pose a serious burden to the economy reason being that it was acquired on soft terms i.e. with no interest or below market rate of interest. After this period, the need for external aid was relatively low until in 1977/1978 when there was a fall in world oil prices which in turn reduced the nation's oil receipts. Before this period, Nigeria was experiencing abundance in oil receipts especially with the oil boom in 1973-1976. After crude oil was first discovered in 1956, it became a major source of foreign exchange earnings and there was a gradual drift from agriculture which had been the dominant provider of export earnings, employment etc. to near total dependence on oil as the mainstay of the economy. Following the fall in oil prices, it became necessary for the government to correct balance of payment difficulties and finance projects. This led to the first major borrowing of US$1 billion which is referred to as the Jumbo Loan in 1978 from the International Capital Market (ICM) (AFRODAD. 2007).

Although, this loan was used to finance various medium and long term infrastructural projects, the returns obtained from these projects were not enough to amortize the nation's debts as many of the projects as included in the Fourth National Development Plans (1981-1985) involved mainly the use of imported materials. In 1979, there was a recovery in the oil market and oil was sold in Nigeria at US$39.00 per barrel which led to the belief that the economy was bouncing back. But due to the fact that there was excessive importation, it resulted in over-invoicing of imports and under-invoicing of exports and in 1982 when there was another collapse in world oil prices it caused severe strains and stresses on the economy. Foreign exchange was declining rapidly and there was large amount of deficits in government financing. In the face of drastic oil downturn and dwindling oil reserves, the rate of borrowings increased from the International Capital Market (ICM). At this point, the nation's debt profile had begun rising astronomically due to the increasing external debt service payments. In 1980, external debt stood at US$8.5 billion fall and by 1985 it nearly reached US$19 billion showing an increase of about 45.02%. The increasing debt service payment interests resulted in mounting of trade debts arrears. By 1997, the nation's debt stock stood at US$27.0878 billion; US$18.90804 billion Paris Club debt; US$4.3727 billion Non-Paris Bilateral debt. Due to the rise in external debt there was a corresponding increase in external debt servicing ratios; debt/GDP and debt/export earnings. As at December 31st 2001, the external debt stock stood at US$28.35 billion which was about 59.4% of GDP and 153.9% of export earnings. External debt had jumped to US$32.92 and $35.94 billion by 2003 and 2004 respectively. The increase has been attributed to the capitalization of unpaid interest and charges on Paris Club debt and partly to the depreciation of the dollar vis-à-vis the Euro and the Japanese Yen (CBN, 2004).

This debt stock has been on the increase above the World Bank debt stock to GDP 40% ratio established level before the external debt relief of Nigeria. Nigeria Debt Management Office (DMO, 2011) reported that Nigeria's external debt rose from N428 billion to N543 billion (US$3.62 billion) and then to N690 billion in 2007, 2009 and 2010 respectively. This is a pointer that the external debt is trending upward. Also, available statistics from the CBN shows that the county's external debt stock rose to N1.03 trillion in December 2012 as against N896.85 billion in December 2011, and was at N1.63 trillion in December 2014 (CBN, 2014).

Corruption
Corruption is the use of bribery to influence politicians, civil servants and other officials (John, 2003). Ishmael (2006) defined it to be illegal profiteering (i.e. misallocation and mismanagement of public funds) by a government official from his or her position as a representative of the government. The ranking of countries according to the extent to which corruption is believed to exist is referred to as Corruption Perception Index. The Corruption Perception Index was created in 1995 by Transparency International. It ranks almost 200 countries on the scale of zero to ten, with zero indicating high level of corruption and 10 indicating low levels (Investopedia, 2015).

Corruption has debilitating effects on any economy where it is pervasive. Elvin (2015), gives credence to this as he asserts that economies that are afflicted by a high level of corruption which involves the misuse of power, whether in the form of money or authority, in order to achieve certain goals in illegal, dishonest or unfair ways; are not capable of prospering as fully as those with a low level of corruption. Corrupted economies are just not able to function properly because corruption prevents the natural laws of the economy from functioning freely. As a result, corruption in the nation's political and economic operations causes its entire society to suffer. According to the World Bank, the average income countries with a high level

of corruption are about a third of that of countries with a low level of corruption. Also the infant mortality rate in such countries is about three times higher and the literacy rate is 25% lower. No country has been able to completely eliminate corruption, but studies show that the level of corruption in countries with emerging market economies is much higher than it is in developed countries.

The effect of corruption in its purest form, firsts aggravates capital shortage problems in the economy by making less, money available for developmental purposes. In contrast, it fuels capital flight with political and other elites competing for private accumulation of public capital meant for welfare and developmental purposes which is often deposited in overseas banks where they are deemed to be safe. Such monies are thus, unavailable for capital formation purposes.

Corruption cripples the value system of the society by placing emphasis on wealth accumulation, irrespective of the method and process, as an index of success. Therefore dignity, labour and diligence become a myth. This begets a younger generation that adopts inappropriate methods for attaining success in life.

When public wealth is misappropriated by a few via the instrumentality of corruption, the resultant effect is the escalation of poverty level of the masses that becomes puppets for political and other personal purposes of the leadership. This evolves into a vicious circle of more corruption and worsens poverty.

Empirical Literature Review

Ishmael (2006) carried out a study on the relationship between foreign debts, corruption and infrastructural development in the Nigerian economy using annual time series data of 1980 to 2000. The empirical analysis was carried out using the Ordinary Least Square (OLS) to run a multiple regression model. The study identified corruption as the major factor which undermines infrastructural development through its negative influence on investment, and its ability to lower the amount and quality of public infrastructure supplied to the nation as a whole. It was also found that corruption distorts the economy through waste, misallocation and misappropriation of resources, thereby contributing to the debt problem in Nigeria.

Craig, et al (2006) studied the impact of corruption on a country's creditworthiness (that is, a country's willingness and ability to repay its sovereign debts). They employed the benchmark estimate, using data of 57 countries between 1995 and 2003. It revealed that a one standard deviation decrease in corruption improves sovereign credit ratings by almost a full rating category. They found that on the long term, foreign currency denominated debt, translates into annual savings of roughly $10,100 for every $1 million of debt.

Alberto and Beatrice (1999) examined the subject "Do corrupt government receive less foreign aid?" using time series data from 1970-1995. The regression equation was estimated using econometric techniques of Ordinary Least Square (OLS) and the TOBIT estimate. The paper documents that there is no evidence that less corrupt governments received more aid. Also, the result puts it that, there was no evidence that an increase in foreign aid reduces corruption. The study concludes that the minimalist summary would simply be that, the answer to the question posed in the title is NO!!

Axel and Thomas (2005) analysed the economic cost of corruption and estimated the effect of corruption on economic growth and GDP per capita as well as on six possible transmission

channels using cross-sectional data from 1975-2001. The empirical investigation was conducted using the Three Stage Least Square (3SLS) and Ordinary Least Square (OLS). They found that an increase in corruption by one index point reduces GDP growth by 0.13% points and GDP per capita by $425.

Mauro (1998),in his study on Corruption and the composition of government expenditure using cross sectional data of over 100 countries from 1982-1995 and the OLS and IV Techniques revealed that Corruption is found to reduce government spending on education in a cross section of countries.

Gupta et al, (2001) in a panel data estimation of 120 countries using time series of 1985-1998, studied the relationship between corruption and military spending as a share of GDP, as well as its arm procurement in relationship to GDP and total government spending, was investigated by using cross section and panel regression technique. The results opined that corruption is associated with high military spending as a share of GDP and total government expenditure and with, a large procurement outlay in relationship to both GDP and total government expenditure.

In their period of study, Arusha and Friedrich (2013) analyzed the relationship between corruption and public debt in 106 countries with data covering 1996-2012 period. The estimation was carried out using OLS, panel fixed effects, and the System General Method (GMM). Results suggested that corruption leads to an increase in public debt.

Luigi et al, (2015) in An empirical investigation of the relationship between corruption and public debt using a panel of 166 countries over the period of 1995-2013 revealed that, corruption in public sector increases government debt. In addition they disentangled the direct and indirect effect of corruption, the former operating via increased public expense and the latter via negative impact on GDP.

Nicholas and Dan, (2013) used data for Romania spanning the period 2000-2011 to investigate the relationship between the legal structure with respect to corruption, the public deficit, and the public debt. The result confirm the importance of the group of institutional variables. The presence of bi-directional causality between the public deficit and all institutional variables is validated.

Theoretical Framework
Although, several theoretical contributions have been made as to the subject of external debt and corruption, this research will adopt the Ricardo theory of public debt as its theoretical framework.

In his Principles, Ricardo premised the treatment of public debts by a statement that the ordinary and extra-ordinary expenditures of the State were chiefly payments made to sustain unproductive labourers and he pointed out that any saving from the expenses of the Government would be added to the income, if not to the capital, of the contributors. So convinced was Ricardo of the wastefulness or misappropriation and mismanagement (in other words, corruption) of public expenditure that, in a letter to McCulloch in 1816, he showed great concern lest his writings should be understood as giving encouragement to ministers (as well as other government official) to be profuse in the public expenditure .

Ricardo's theory of public loans then was based on an emphasis of the fact that the primary burden to the community was derived from the wasteful nature due to misappropriation or mismanagement of public expenditure itself, rather than from the methods adopted to finance such expenditure. Regarding the question of financing public expenditure his view was that the requisite funds would ultimately have to be drawn from the liquid resources of the community and that "in point of economy" it would make no great difference whether such funds were raised by taxes or by loans.

RESEARCH METHODOLOGY
Types and Sources of Data
This study makes use of secondary data covering a period from 1996 to 2014, (i.e 19 years) obtained from Statistical Bulletin and Annual Report and Statement of Account of the Central Bank of Nigeria (CBN), World Bank Database (WDI) as well as the Annual Abstracts of Statistics (Various Issues) published by the National Bureau of Statistics (NBS), and Transparency International, 2014.

Model Specification
In other to facilitate the analysis of this work, the model below is drawn to show the relationship between corruption and external debt. The model is specified of the functional form:

EDS = ʃ(CPI, PEX, EXR) …………………………………..3.1

Where:

EDS = External Debt Stock

CPI= Corruption Perception Index

PEX = Total Public Expenditure

EXR = Exchange Rate

Equation one can be transformed into a mathematical model

EDS = β0 +β1CPI + β2PEX + β3EXR …………………... 3.2

Equation two can be transformed into the econometric model with the introduction of random variable (μ) and it is thus, specified of its stochastic form:

EDS = β0 +β1CPI + β2PEX + β 3EXR + μ……………….. 3.3

Where:

β0 = intercept term

β1, β 2, and β 3 = parameter estimate of CPI, PEX and EXR respectively

μ= Error Term

ESTIMATION TECHNIQUE
Time series data covering a period of 19 years was estimated using Co-integration technique of analysis which is an improvement on the Classical Ordinary Least Square technique (OLS). This technique was chosen because it depicts long-run economic growth. The following techniques of estimation are employed in carrying out the co-integration analysis:

Unit Root Test
This is the pre Co-integration test. It is used to determine the order of integration of a variable, that is how many times it has to be differenced or not to become stationary. It is to check for the presence of a unit root in the variable i.e whether the variable is stationary or not. The null hypothesis is that there is unit root. This test is carried out using the Augmented Dickey Fuller (ADF) technique of estimation.

Co-integration
This test is used to check if long run relationship exists among the variables in the model. This was carried out using the Johansen technique.

The Vector Error Correction Model (VECM)
The VECM was used to test the speed of adjustment from short-run to long-run equilibrium. The apriori expectation is that the VECM coefficient must be negative and significant for errors to be corrected in the long-run. The higher the VECM, the higher would be the speed of adjustment.

Causality Test
This is used to check for causality between two variables. In this case our aim is to test for a causal relationship between external debt and corruption. The rule states that if the probability value is between 0 and 0.05 there is a causal relationship.

RESULTS AND DISCUSSION

Unit Root Test
The a priori expectation when using the ADF test is that a variable is stationary when the value of the ADF test statistic is greater than the critical value a 5%. The ADF is carried out using E-views software package and the results from the test are tabulated below:

Table 4.1: Test for Stationarity

Variable	Augmented Dickey Fuller statistic	Critical Value	Probability	Order of integration	Level of significance %
EDS	-12.80648	-3.212696	0.0000	1 (1)	5
CPI	-4.419831	-3.052169	0.0035	1 (1)	5
PEX	-4.386450	-3.052169	0.0037	1 (1)	5
EXR	-4.075419	-3.052169	0.0069	1 (1)	5

Source: Author's Computation from Unit Root Test (ADF)

From the test results above, none of the variables (EDS, CPI, PEX and EXR) met the apriori expectation at levels as they were all non-stationary (NS), but were all stationary after the first difference. The null hypothesis of the presence of unit root in the series was rejected as indicated by their probability values which were less than 0.05 and the values of their calculated ADF (in absolute terms) statistics which were higher than their critical values. In this direction, we say that their series are integrated of the order one, that is 1(1).

Co-integration Test
The co-integration test was carried out using Johansen technique of E-views software package and it produced the following results:

Johansen Co-integration Using Trace Statistics

Hypothesized No. of CE (s)	Eigen Value	Trace Statistic	5% Critical Value
None **	0.860228	64.08880	47.21
At most 1 *	0.639930	30.63713	29.68
At most 2	0.450021	13.27238	15.41
At most 3	0.167110	3.108510	3.76

Source: Author's Compilation from E-views 4.

From the table above, the trace statistic indicates two co-integrating equation at 5% level.

Table 4.2.2: Test for Johansen Co-integration Using Max-Eigen Statistics

Hypothesized No. of CE(s)	Eigen Value	Max-Eigen Statistic	5 % Critical Value
None **	0.860228	33.45166	27.07
At most 1	0.639930	17.36475	20.97
At most 2	0.450021	10.16387	14.07
At most 3	0.167110	3.108510	3.76

Source: Author's compilation from E-views 4.

From the above table, the Max-Eigen value indicates one co-integrating equation at 5 percent level. Based on the above table, we reject the null hypothesis of no co-integrating equations and conclude that there is long-run relationship between the dependent variable (EDS) and the explanatory variables (CPI, PEX and EXR).

The co-integrating equation chosen from the Normalized co-integrating coefficients is;

Table 4.2.3: Long run Normalized Co-integration Estimate

EDS	CPI	PEX	EXR
1.000000	1066.538	0.802254	-45.60795
	(461.316)	(0.15124)	(3.44432)
	[2.31195]	[5.30451]	[-13.2415]

Source: Authors Compilation from Eviews4
Note: Standard Error and t-statistic are stated in parenthesis ( ) and [ ]

The results above show that there exists a positive relationship between CPI and EDS conforming to our apriori expectation. This means that a unit increase in CPI will result to 1066.538 units increase in EDS. There exists also a positive relationship PEX and EDS. A unit increase in PEX leads to 0.802254 units increase in EDS. This result conforms to our apriori expectation. However, EXR in conformity with our apriori expectation has a negative relationship with EDS. If EXR increases by one unit, EDS decreases by 45.60795units.

As a rule of thumb for test of individual significance of parameter estimates, if t-statistics is greater than 2, the parameter estimate is significant. The t-statistical value for CPI, PEX and EXR of 2.31195, 5.30451 and -13.2415 respectively are greater than 2 in absolute terms. This implies that CPI, PEX and EXR all have significant relationship with EDS in the long-run.

Vector Error Correction Model

Table 4.3: Table Showing Vector Error Correction Estimates

Error Correction:	D(EDS)	D(CPI)	D(PEX)	D(EXR)
CointEq1	-0.341479	1.88E-05	-0.324789	0.004528
	(0.38476)	(0.00012)	(0.10966)	(0.00658)
	[-0.88751]	[0.15416]	[-2.96176]	[0.68816]

Source: Author's Computation from E-views 4.1.

The apriori for the vector error correction coefficient (alpha) is that it must be negative. The alpha meets this expectation and this implies that 34.1479% of the errors are corrected in the long-run and as such there is a convergence. This indicates a high speed of adjustment, i.e. the speed at which the deviation from long-run equilibrium is adjusted slowly in which 34.1479% of the disequilibrium is removed each period.

Granger Causality Test

The result of Pairwise Granger's causality between the variables under study is provided below.

Table 4.4: Result of the Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Probability
CPI does not Granger Cause EDS	23	0.36373	0.70248
EDS does not Granger Cause CPI		1.46091	0.27049
PEX does not Granger Cause EDS	23	1.39874	0.28442
EDS does not Granger Cause PEX		1.01611	0.39114
EXR does not Granger Cause EDS	23	0.80101	0.47148
EDS does not Granger Cause EXR		0.53238	0.60046

Source: Author's Computation from E-views 4.1.

The rule of thumb states that the probability of the f-statistic must be less than 0.05 to show causal relationship. The probability of our causal variables, CPI and EDS are greater than 0.05. Therefore, we accept the null hypothesis and conclude that no causal relationship exist between corruption and external debt in Nigeria. The results also show that they exists no causal relationship between PEX and EDS, and EXR and EDS.

Implication of Findings

It has been revealed from findings of the study that corruption and public expenditure have positive relationship with external debt in the long-run. It is an implication that so long as corruption persists unabated in the economy, they will be high level of external debt in the economy. Corruption reduces the ability of the government to maintain a sustainable level of external debt as public funds are misappropriated and embezzled in the economy. This puts an upward pressure on public expenditure and hence results to high external debt burden of the economy. Also it has been revealed that exchange rate has a negative relationship with external debt in the long-run. This implies that high exchange rate discourages external borrowing in the economy. The Vector Error Coefficient of concern showed that about 34.1479% of the errors will be corrected in the long-run. Also, the implication of the result of the Granger Causality test is that there is no causal relationship between the variables.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

The study assessed the impact of corruption on the external debt in Nigeria. This was done by examining the long-run effects of corruption on external debt in Nigeria. The empirical analysis carried out using the co-integration technique revealed that Corruption Perception Index (CPI) which was used as a proxy for corruption and public expenditure (PEX) have significant positive relationship with external debt in the long-run and conform to our apriori expectations. However, in conformity to our apriori expectation, exchange rate (EXR) has a negative relationship with external debt in the long-run. The Vector Error Coefficient of concern showed that about 34.1479% of the errors will be corrected in the long-run, while the Granger Causality test indicated no causal relationship between the variables.

Conclusion

Based on the findings of this study, it is ascertained that so long as corruption persists unabated in the economy, they will be high level of external debt in the economy. Corruption reduces the ability of the government to maintain a sustainable level of external debt as public funds are misappropriated and embezzled in the economy. This puts an upward pressure on public expenditure and hence results to high external debt burden of the economy. It is also concluded that exchange rate discourages external borrowing in the economy.

Recommendations

i. The government should focus on the economic determinants of corruption, especially the policy of economic freedom (free market economy) to control the perceived level of corruption.

ii. The government must stop paying lip-service to the issue of combating corruption and match her words and commitment with actions by bringing defaulters to book, seizure of ill gotten assets and other corruption combating strategies so as to savage the nation from this monster.

iii. Projects to be financed with external loans must be properly appraised to ascertain its desirability, feasibility and viability. Therefore, the public sector must be accountable by publishing their audited annual account in sincere figures on quarterly basis. This would lead to financial discipline, minimize the waste and mismanagement of funds and provide updated data necessary for meaningful policy discussion and efficient external debt management.

iv. The leaders should be made accountable in its entirety.

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