

The corruption in nigerian public service economics essay



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There is a broad consensus that low government wages in developing countries result in a decline of public sector efficiency and productivity and create both incentives and opportunities for corruption and misuse of public resources. However, most studies also agree that increasing salaries without establishing effective control and monitoring systems as well as enforcement of appropriate sanctions is unlikely to have an impact on corruption.

Underpaid staffs develop a wide range of coping strategies to top up incomes, such as teaching, consulting for development agencies, or moonlighting in the private sector. One of the most frequent and effective strategies consists of concentrating on activities that benefit from donor funded per Diems and allowances. In addition to great potential for abuse, such practices have a number of undesirable side effects such as distorting the incentive structure of public servants, encouraging specific forms of corruption and patronage, creating situations favourable to conflicts of interest, competition for time and brain drain. Greater transparency and accountability are needed to address the perverse effects of such practices. Although the debate on these issues is still at an early stage, three major policy directions emerge from the literature, including the need to reform the public sector incentives' structure, harmonise donors' systems of allowances and establish more effective control mechanisms.

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Chapter one

1. 0 Introduction

It is not my father's work. Work or no work, I must collect my salary.

(Sefiya T. Ajayi, former Nigerian Civil Service Commissioner)

As a major instrument for implementing government policies, the civil service in Nigeria is expected to be professionally competent, loyal and efficient. Nonetheless, it is now denounced, as elsewhere in Africa, for being corrupt, poorly trained and poorly attuned to the needs of the poor.

Ironically, the civil service is expected to play the key role in managing and implementing reform programmes in the country. This has led to a number of complex agency problems, yet to be resolved. However, it is broadly acknowledged, and Nigerian experience attests to this, that when the incentive structures in the civil service remain poor, its efficiency as well as ability to effect policy, such as that directed toward reducing poverty, will remain very low.

The Nigeria's economic and political landscape is pervaded by corruption and abuse of office. The National Planning Commission has noted that: "Systemic corruption and low levels of transparency and accountability have been major sources of development failure. Illegal activities such as the advance fee-fraud (known as 419) and money laundering have torn the fabric of Nigerian society (National Planning Commission, 2005)".

Evolution of the Nigerian Civil Service

The Nigerian Civil Service evolved from the colonial service which was established by the British authorities as the administrative machinery for governing Nigeria. The amalgamation of the then Northern and Southern protectorates as Nigeria in 1914, under Lord Fredrick Lugard, led to the establishment, for the first time, of what seemed like a unified service. The upper echelon of the colonial service was dominated by Europeans on who were concentrated executive, judicial and legislative powers. Traditional rulers were also co-opted into the colonial power structure.

With the creation of three Regions, North, East and West in 1954, were three Regional Civil Services. A Public Service Commission was also established at the centre and in each of the three regions within the same period. The Federal and Regional Services thereafter nurtured a Career Civil Service within their respective domains. At Independence, the role of the Civil Service shifted from the colonial mould of maintaining law and order to that of facilitating the realization of the nation's development aspirations.

Consequently, the Civil Service became more visible and active both in the formulation and execution of development policies and programmes. With increased oil revenues in the 1970s, and the successful prosecution of the <https://assignbuster.com/the-corruption-in-nigerian-public-service-economics-essay/>

Nigerian Civil War (1967 – 1970), greater commitment to the expansion of the economy and the creation of States to replace the Regions, (12 in 1967, 36 plus FCT since 1996 to date), the Federal Civil Service and its State counterparts witnessed unprecedented growth to match the increased responsibilities of the Federal and State Civil Services. Military incursion into governance and their inexperience in governance especially between 1966 and 1975 allowed Permanent Secretaries to become more visible and powerful. Such visibility, however, created resentment for the Service by subsequent Administrations and the Service suffered for it.

The main function of the Nigerian civil service is to implement government policies. However, its ability to do this has depended crucially on the form of government of the day. As will be discussed in more detail later the traditional role of the civil service in Nigeria has been severely diluted by the politicisation of the civil service in recent years, undermining its credibility and integrity. Presidents or State Governors have tended to listen more to their close political supporters and advisers than to professional civil servants. As a result, sharp friction arises between the advisers (usually political appointees) and the civil servants (career administrators), with the advisers always getting the upper hand. The consequence of this has been the weakening of the civil service, with workers lacking motivation, since professional prospects are bound to diminish in a politicised civil service.

Laconic View of Factors Affecting the Civil Service

In a recent summary of the factors affecting the efficiency of the Nigerian civil service, Ajayi (1998) has noted the following: Over staffing and the closely related poor remuneration of employees in public service are key <https://assignbuster.com/the-corruption-in-nigerian-public-service-economics-essay/>

factors. Secondly, there are the issues of poor assessment of manpower needs and the use of wrong criteria to appraise staff performance. These two have led to poor recruitment procedures, inadequate training and ineffective supervision. There tends to be a lack of qualified technical support staff as opposed to the abundance of general staff. The failure to carry out periodic assessment of manpower needs of the various departments leads not only to uneconomic systems of compensation but also to inadequate job description and poor physical working conditions. There has also been considerable political interference in the process of personnel administration, leading to improper delegation of power, ineffective supervision and corruption. The resulting apathy has in turn led to unauthorized and unreasonable absenteeism, lateness and idleness and, notably, poor workmanship.

For the above problems, relating to what is now generally referred to in the country as the 'Nigerian factor', to be addressed, it is imperative that appropriate incentive structures to raise workers' morale be put in place. Although successive Nigerian governments attempted to address the above problems, it was ultimately not in their interest to tackle the 'Nigerian factor'. It was the means for their survival.

Civil Service Reforms

To actually keep a tight rein on and expunge relatively, some of the factors affecting the Nigerian Civil Service and consequently corruption, the Nigerian government has embarked on copious and plentiful reforms in the past decades with the aim of enhancing its efficiency and effectiveness. In fact, there have been no less than 10 major commissioned reports on the problems of the civil service in Nigeria.

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However, the bulk of these reports focused more on salaries, wages and conditions of service than on the more fundamental structural and attitudinal challenges of the civil service. Two commissions on the civil service, those led by Adebo and Udoji, deserve special mention here because they attempted to take a broader look at impediments to the performance of the civil service. Whilst the Adebo Commission recommended the setting up of a Public Service Review Commission to examine fundamental structural issues, the Udoji Commission focused primarily on the issues of increasing efficiency and effectiveness in the public service. The Udoji Commission recommended, among others, the introduction of an open reporting system for performance evaluation, as well as unified grading and salary structures covering all established posts in the civil services. To enhance policy coherence, the Commission also suggested the creation of a senior management group, comprising administrative and professional cadres.

While the recommendation of the Udoji Commission found easy passage, thanks to the oil bonanza of the 1970s, which raised government income substantially, the period after the boom proved more difficult. High public sector borrowing requirements coupled with a growing external debt had forced the government to embark on structural adjustment programmes, even as the civil service experienced an

Unprecedented rise in indiscipline and the rest of society witnessed a general increase in corruption and other crimes. It is worthy of note that one report or commission's shortcomings led to the formation of another commission or report to be put in place. Below is just a skeletal tabulated

format of some of the reviews/commissions that have been put in place for the efficiency and effectiveness of the Nigerian Civil Service:

TABLE 1

CIVIL SERVICE REFORMS IN NIGERIA 1934 – 1994

Commission

Year

Hunts Commission

1934

Harragin Commission

1945

Foot Commission

1948

Philipson-Adebo Commission

1954

Gorsuch Commission

1954

Mbanefo Commission

1959

Morgan Commission

1963

Elwood Commission

1966

Adebo Commission

1971

Udoji Commission

1972

Dotun Philips

1985

Decree No. 43

1988

Ayida Review Panel

1994

Source: Ikejiani-Clark (1997), Williams (1997)

chapter two

2. 1 Wage Attrition and Political Sponsorship

As stated earlier, the successive civil service reforms in Nigeria had one common objective: to enhance the effectiveness and efficiency of the civil service. This became necessary, particularly since the mid-1980s, when the civil service was expected to play an important role in the implementation of structural adjustment and other reforms, introduced by the government. Among others, the reforms tried to address economic growth, wage and employment issues, as well as training and human capital development.

Civil service wages and salaries in Nigeria are not only low, but have also declined in real terms in the past two decades. With the exception of the oil boom period of the 1970s, real wages declined on average by 14 per cent during the period 1970-1992 and 34 per cent during the 1980s (Table 2). Much of this decline was on account of the high rates of inflation that the

economy was experiencing. Although successive wage and salary reviews have tried to reverse these trends, it has been on the whole difficult to protect wages from serious attrition.

TABLE 2

Real Wages (trends, annual % change)

And Inflation Rates (period average %) 1970 – 1997

1970 - 1979

1980 - 1992

1970 - 1992

1992 - 1997

Real Wages

5. 25

-14. 12

-34. 17

n. a.

Inflation

Maximum

Minimum

14. 36

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29. 17

3. 40

19. 79

44. 00

5. 56

17. 29

43. 15

3. 40

36. 22

72. 81

7. 36

Source: National Salaries, Incomes and Wages Commission of Nigeria, Revised and Harmonised Public Service Salary structure and Allowances for the Federal Public Service, various years; Federal Office of Statistics of Nigeria, Annual Abstract of Statistics, various years. The trend in real wages was estimated by regressing the logarithm of real wages against a time trend over the different sub-periods.

Civil servants are the least paid group of workers in Nigeria. Wages in private manufacturing are, for example, much higher than those in the public sector.

Although there are no comparative data by grade level, anecdotal evidence suggests that public sector wages in Nigeria are lower than private sector wages. Clearly, there is a need to make the salary structure of the civil service more competitive in order to correct the image of the civil service. A demoralised and disgruntled worker whose image has been unduly tarnished cannot be an effective instrument of change. Recently, there have been two successive attempts to increase the public sector minimum wage in Nigeria. The first was introduced by the military regime of General Abdulsalami Abubakar in 1998 when the minimum wage was increased dramatically from US\$1. 20 to US\$41. 77 per month (using a parallel market rate of 83. 8 Naira to a \$1).

The second attempt at raising the national minimum wage was undertaken in May 2000 by the new democratically elected administration of President Olusegun Obasanjo. The public sector minimum monthly wage was raised to US\$53. 91 (at the parallel market rate of N102. 02 = \$1. 00), that is by about 30 per cent in nominal terms, but without compensating sufficiently for the wage erosion of the past decade. Not only did minimum wages continue to be fixed, and thus quickly eroded by inflation, but were sometimes beyond the budgets of state governments. The latter were thus unable to pay workers, at the new minimum wage, resulting in conflict between labour and state governments. What was meant as an incentive to public sector workers, in a bid to enhance productivity, thus became an impediment to the performance of state governments. (Salisu, 2001)

Political sponsorship is an important factor in the incentive environment of the public sector in Nigeria. Civil service appointments often tend to reflect <https://assignbuster.com/the-corruption-in-nigerian-public-service-economics-essay/>

this in larger measure than the skills and professional qualifications of the individuals appointed. This has turned the Nigerian civil service into a highly politicised institution. The changes in Nigerian leadership in the past decades have also led to disruptive shifts within the civil service. Given this erratic nature of the institution over the years, constructing workable incentive structures, based on better training, wages, promotion and increased responsibility, has been next to impossible. The civil service, in spite of possessing a highly trained cadre of officers, has tended to drift along, overwhelmed by the expectations placed on it by the government and the general population, and yet having to meet its own daily survival.

Corruption and Rent-Seeking in Nigeria: An Investigation

Introduction

The simplest definition of corruption is that it is the misapplication of public resources to private ends. In a broader sense, however, corruption can be defined as “ an arrangement that involves an exchange between two parties (the demander and the supplier) which (i) has an influence on the allocation of resources either immediately or in the future; and (ii) involves the use or abuse of public or collective responsibility for private ends” (Macrae, 1982, p. 678).

Mismanagement and corruption are major problems in Nigeria and many African countries, adversely affecting the effectiveness and efficiency of the civil service. The phenomenon of corruption poses a number of questions, not necessarily confined to the civil service. What are its socioeconomic

determinants? Is it a culture-bound phenomenon? Has economics, as a discipline, anything to offer in explaining it?

Corruption in Nigeria can be analysed in terms of the forces of supply and demand. There is usually a supply, as well as demand price for corruption. It is often argued that bureaucratic interference in the market mechanism is one of the principal causes of corruption. What sorts of interventions raise the demand-price of corruption by bureaucrats and under what circumstance will the citizens increase their supply price of corruption? Are the demand and supply forces much more different in Nigeria and other developing countries than in developed countries? Do dictatorships such as those, which, until recently ruled Nigeria, increase the demand price of corruption? Equally interesting questions arise in the context of the impact of corruption. Some amount of corruption, it is said, is necessary for the smooth functioning of governance. It oils the wheels of the administration.

The Financial Times (1993) has argued that Nigerians see nothing wrong with “ using public funds to disperse favours to a cousin or to build a well for one’s village, as it is an informal means of redistributing wealth.” Such an act is considered as a lubricant or a positive sum game of “ give and take” which is widely practised in employment offers, award of contracts, import licences and even in obtaining admission to institutions of higher education. The visible riches of the corrupt and the greedy spur the poor to imitate their life styles and modes of wealth acquisition.

Causes of Corruption and Rent-Seeking: An Overview

The literature on rent-seeking and directly unproductive profit-seeking economic activities provides some insight into the questions raised above. Policy-induced sources of corruption arise when pervasive regulations exist and government officials have discretion in applying them. Private parties may be willing to pay bribes to government officials in order to obtain some of the rents generated by the regulations. As Tanzi (1994) argues, the problem becomes worse when regulations lack simplicity and transparency. The following are some of the government-induced sources of corruption that have been identified in the literature (see Mauro 1995, 1997): trade restrictions; government subsidies; multiple exchange rate practices and foreign exchange allocation; and low wages in the civil service relative to private sector wages or per capita GDP. Table 3 shows these and other determinants of corruption, many of which fit Nigeria and many other African countries.

Table 3

Determinants of Corruption

1. Wage Incentives

a. Inadequate pay

b. Fringe benefits and other financial incentives

2. Inefficient Internal Control

a. Inadequate supervision and control systems

- b. Lack of explicit standard of performance for employees and organizations
- c. Poor Recruitment and selection procedures for personnel
- d. Too few or too many (non-transparent) rules and procedures (red tape)

3. Insufficient External Control

- a. Law and order traditions, checks and balances
- b. Lack of information made available to the public and freedom of press
- c. Mechanisms of citizen's participation and complaint
- d. Difficulty in proving cases in courts
- d. High social acceptance of corruption

4. Statutory Penalty Rate

- a. Amount of fine, prison sentence
- b. Administrative sanctions
- c. Prohibition of being ever re-employed in the public sector
- d. Penalties for relatives

5. Amount of Distortions

- a. Pervasive government regulations
- b. High statutory tax-rates, non-transparent tax regulations

c. Provision of government service short of demand (government monopolies)

6. Other Factors

a. Cultural factors

b. Culture of bureaucratic elitism and education of civil servants

c. Leadership

d. Ethnic diversity

Source: Van Rijckeghem and Weder (1997)

Low Salaries and Corruption

There is a growing consensus that low government wages combined with weak monitoring systems are breeding grounds for corruption and misuse of public resources. In the past two decades, public service wages have been declining at rapid pace in Nigeria as a consequence of fiscal adjustment policies in stabilisation programmes. Evidence further indicates a common trend of growing wage differentials between the public and the private sector over substantial periods of time.

As underpaid civil servants are forced to develop individual coping strategies to compensate for their declining purchasing power, it is generally agreed that low wages provides incentives for corruption. For example, a 2007 experimental analysis of the cause of corruption looking at variables such as the ease of hiding corrupt gains, officials' wages and selection methods for

law enforcement officers suggests that increasing government wages and increasing the difficulty to hide corrupt gains are both likely to reduce corruption.

However, a number of other empirical studies have also challenged this assumption and evidence remains largely inconclusive on the magnitude of the impact that government wage policies may have on corruption. For example, an often cited study by Rauch and Evan in 2000 looking at wage measures of higher officials compared to those of private sector managers with similar training and responsibilities for 35 developing countries reports insignificant effects of wages on corruption, as measured by perceptions of corruption in government data from the International Country Risk Guide.

A further study by Van Rijckeghem and Weder based on pay data for 28 countries suggests that while the empirical evidence points to a negative relationship between corruption and wages across developing countries, relative pay does not seem to have significant effect on corruption in “within country” regressions, suggesting that pay may not have a contemporaneous effect on corruption and that changes in salary scales may not be systematically associated with changes in corruption.

A more recent 2009 study looked at incentives of state actors in charge of implementing policies – as opposed to those of actors taking policy decisions – and analysed an original data set from a survey answered by 520 experts from 52 countries. The findings suggest that, while bureaucratic factors such as meritocratic recruitment tend to reduce corruption, other allegedly

relevant features such as public employees' competitive salaries, career stability or internal promotions do not appear to have a significant impact.

Other studies looking at pay levels in relations to per capita income find contradictory results in terms of their correlation to corruption levels. A study by Swamy et al finds no significant relation between pay and corruption, while a study by La Porta et al even suggests more severe corruption where the pay is higher. (The World Bank's thematic page on ineffective monetary incentives). Some other studies, not only challenge the effectiveness of increasing wages as an anticorruption measure, but also conclude that anticorruption policies designed to increase wages and net income of potentially corrupt agents may be both ineffective and encourage corruption.

However, empirical evidence may be inconclusive on the link between wages and corruption because of methodological challenges involved in cross country analysis of pay and corruption. There are general measurement problems and limitations in both corruption and pay data, as well as challenges in identifying appropriate benchmarks for comparisons.

A paper looking at the link between wage cuts and budget deficits confirms that in many countries where there is evidence of important salary differentials between the private and public sectors, wage reductions have coincide with a decline in the efficiency of the public sector and the quality of public output. In addition, underpaid staff is more likely to spend a considerable amount of office time on rent seeking activities, further reducing the overall public service productivity. The combination of these

factors is creating working conditions that are conducive to various forms of bureaucratic corruption and misappropriation of public resources.

However, according to the World Bank, while brain drain of skilled and experienced civil servants to the private sector has occurred to a certain extent, many civil servants have preferred to stay in the public sector, especially in countries with high unemployment rates, because of other in-kind, monetary or more intangible incentives such as health insurance, housing, job security, social privileges, prestige of the position, trips abroad, training opportunities, etc. It is therefore important to consider the full range of incentives embedded within a specific pay system to assess its adequacy and potential to deter corruption. Similarly, studies looking at other forms of misuse of public resources such as absenteeism in health and education sectors also challenge the importance of higher pay as an incentive to reduce absenteeism among public servants, arguing that other factors also play an important role in deterring corruption. Factors that seemed more important determinants of absenteeism included more frequent inspections; improved working environment and conditions and measures to increase accessibility such as nearby housing or good transportation.

Another argument found in the literature is that there is a greater public tolerance for corrupt practices when civil servants' incomes are insufficient for living and their relative level are low or perceived as unfair in comparison to private sector salaries. Informal payments are perceived as a subsistence strategy that compensate for inequitable working conditions and economic hardships make it less reprehensible to demand or accept bribes for poorly paid staff as a survival coping strategy. Theoretically, higher salaries make <https://assignbuster.com/the-corruption-in-nigerian-public-service-economics-essay/>

corruption potentially more costly, as corrupt behaviours increase the risks of losing a highly rewarding job instead of a low paying one. In other words, highly paid officials have in principle less incentive to indulge in corruption and have more to lose if they are caught. However, there is a growing consensus that this argument does not directly predict the impact of increasing salary rates on reducing corruption, as other variables are important to consider, such as risks of detection, severity of sanctions and level of enforcement. In countries with weak monitoring systems, risks of detection and punishment are minimal. Under such circumstances, the prospect of losing a highly paid job is unlikely to have a deterrent impact on corruption.

An often cited study on the role of wages and auditing during a corruption crackdown in Buenos Aires comes to a similar conclusion. Looking at the effect of bureaucratic wages on corruption and procurement efficiency, the study concludes that there is a negative and well defined effect of wages on both corruption and procurement efficiency when there is a positive perceived probability of detection and punishment, suggesting that audit intensity is crucial for the effectiveness of anti-corruption wage policies.

Wage Supplementation Practices and Corruption

2. 4. 1 Individual Coping Strategies

In a generalised context of under resourced public services across the country, many civil servants resort to individual coping strategies to top up their salary and bring their income closer to their expectations. A 2002 paper looking at individual top up strategies of health personnel reports that in

some studies, such strategies more than doubled the median income of health managers, increasing it from 20% to 42 % of that of an individual in full time private practice.

Top up strategies include demanding bribes or informal payments for services that are supposed to be free of charge or misusing public resources for private gains. But not all coping strategies are predatory in nature. Some public officials may turn to teaching, consulting for development agencies or “ moonlighting” in private practices, while other prefer to concentrate their activities on interventions – especially capacity building projects – that benefit from donor funded per diems and allowances.

Practices of Government and Development Partners

Per diems and daily allowance provided by development partners constitute one of the most popular coping strategies for compensating for low public sector wages in the developing world. Per Diems refer to daily payments made by organisations to cover their employees’ accommodation, travel, food and other expenses incurred by work related activities. It is a common practice in donor funded projects to pay local officials generous per diems in the form of “ daily subsistence”, “ out-of station” or “ sitting” allowances, for attending meetings, workshops and conferences. Often based on government regulation, the daily rates may vary according to the position of the participant and the location of the event.

For underpaid qualified staff, consulting with international organisations bring in considerable amount of income, often out of proportion to official public service salaries, and offers unique career development opportunities

and perspectives, which can provide further incentives to stay in the public service. As a result, such practices may have a positive impact on under resourced public services in developing countries, by mobilising additional resources to retain qualified staff and support the realisation of their professional goals. But there is also a need to recognise both the dimension of the phenomenon and the potential side effects of such practices on the public sector's workforce of most developing countries.

Such practices also provide many opportunities for fraud and abuse. Entire workshops can be faked, attendance lists can be falsified, fake receipts can be submitted, records can be falsified to inflate the volume of entitlements, allowances and per diems can be paid at a rate below what is reported and budgeted, etc. The generous donors' per diem and allowance regime makes donor funded projects very attractive for civil servants. For example, besides making meetings unnecessarily expensive, the practice of "sitting allowances" creates powerful incentives for higher ranking officials to hijack participation in training events at the expenses of lower level civil servants who would benefit more from the interventions and mi