THE EFFECTS OF CORRUPTION AND POLITICAL INSTABILITY ON
SAVINGS: THE CASE OF ECONOMIC COMMUNITY OF WEST
AFRICAN STATES

By

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy
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ABSTRACT

Despite the abundant research on savings and its determinants, little has been done to examine the effects of corruption and political instability on savings, particularly in the Economic Community of West African States (ECOWAS), one of the most corrupt and politically unstable regions in the world. The objectives of this study include investigating the effects of corruption and political instability on savings, in addition to examining whether the effects of corruption and political instability on savings depend on income levels in the ECOWAS from 1996 to 2012. Using the Panel Corrected Standard Error (PCSE) and the Two Stage Least Squares (TSLS) instrumental variables techniques that take into account random effects, the results indicate that lesser corruption and higher political stability have a significant and positive effect on savings, and the effects of corruption and political instability on savings depend on income levels. These suggest that at high income levels, the negative impact of corruption and political instability on savings is lower, but at low income levels, the negative impact of corruption and political instability on savings is higher in the ECOWAS. In addition, income level, income growth, real interest rate and inflation rate have positive and significant effects on savings. However, the percentage share of agriculture in Gross Domestic Product (GDP) has a negative effect on savings. The study recommends policies to reduce corruption and political instability to raise savings. In addition, raising incomes would reduce the adverse effects of corruption and political instability on savings and also raise savings in the ECOWAS.

Keywords: savings, corruption, political instability, ECOWAS
ABSTRAK


Kata kunci: tabungan, rasuah, ketidakstabilan politik, ECOWAS
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LIST OF ABBREVIATIONS

ACC  Anti Corruption Commission
ADB  African Development Bank
AGR  Agricultural Share in GDP
AIT  Absolute Income Theory
ARDL Autoregressive Distributed Lag Model
ARM  African Renaissance Monument
AU  African Union
BBC  British Broadcasting Corporation
BOPs  Balance of Payments
CBN  Central Bank of Nigeria
CEEC Central and Eastern European Countries
CEOs  Chief Executive Officers
COR  Corruption
CPI  Corruption Perception Index
DEP  Age Dependency
EAP  East Asia and Pacific
ECA  Europe and Central Asia
ECM  Error Correction Model
ECOMOG ECOWAS Peace Monitoring Group
ECOWAS Economic Community of West African States
ECPF ECOWAS Conflict Prevention Framework
ECT  Error Correction Technique
EFCC Economic and Financial Crimes Commission
EOCO Economic and Organised Crime Office
EPF  Employees Provident Fund
EU  European Union
FE  Fixed Effects
FEVD Forecast Error Variance Decomposition
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<td>Organization for Economic Cooperation and Development</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of Study

Savings plays an important role in economic development of a country (Lucas, 1988; McKinnon, 1973; Romer, 1986; Shaw, 1973; Solow, 1956). Savings is also an important macroeconomic variable which impacts on capital accumulation, productivity, economic growth, and the dependency or otherwise of a country on external resources (Adam & Agba, 2006). In addition, savings mobilization is very crucial for most developing countries in long term economic growth (Kohsaka, 1998). It is not surprising therefore, that the recent decline in savings rates and widening saving-investment gap in both developed and developing countries, has rekindled the interest of authors to investigate the determinants of savings particularly in developing countries (Athukorala & Sen, 2001).

Despite the importance of higher savings rates, the World Bank’s World Development Indicators (WDI) reveal that developing regions such as East Asia and Pacific (EAP), Middle East and North Africa (MENA), Latin America and Caribbean (LAC), Europe and Central Asia (ECA), including the 15 countries that make up the Economic Community of West African States (ECOWAS), have continued to experience fluctuations in their savings rates. It is more worrisome that the ECOWAS region (comprising of Benin, Burkina Faso, Cape Verde, Cote D’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria,
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