The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.
EXTERNAL DEBT, CORRUPTION, AND ECONOMIC GROWTH IN SELECTED FIVE SUB-SAHARAN AFRICAN COUNTRIES

SHITTU WALIU OLAWALE

MASTER OF ECONOMICS

UNIVERSITI UTARA MALAYSIA

JUNE, 2017.
EXTERNAL DEBT, CORRUPTION, AND ECONOMIC GROWTH IN
SELECTED FIVE SUB-SAHARAN AFRICAN COUNTRIES

BY

SHITTU WALIU OLAWALE

Thesis submitted to

Othman Yeop Abdullah Graduate School of Business,
in Partial Fulfilment of the Requirements for Master Degree in Economics
PERAKUAN KERJA KERTAS PENYELIDIKAN
(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(i, the undersigned, certified that)

SHITTU WALIU OLAWALE (820058)

Calon untuk Ijazah Sarjana
(Candidate for the degree of)
MASTER OF ECONOMICS

telah mengemukakan kertas penyelidikan yang bertajuk
(has presented his/her research paper of the following title)

EXTERNAL DEBT CORRUPTION AND ECONOMIC GROWTH IN SELECTED FIVE SUB-SAHARAN AFRICAN COUNTRIES

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the dissertation).

Nama Penyelia
(Name of Supervisor)

Prof. Madya Dr. Sallahuddin Hassan

Tandatangan
(Signature)

19 Jun 2017
(Date)
PERMISSION TO USE

In presenting this research in partial fulfilment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the University library, Perpustakaan Sultanah Bahiyah, may make it freely available for inspections. I further agree that permission for copying this research paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor, or the Dean, Research and Innovation, College of Business, Universiti Utara Malaysia. It is understood that any copying or publication or use of this research paper or parts thereof for financial gain shall not be without written permission. It is also understood that due recognition shall be given to me and to the Universiti Utara Malaysia for any scholarly use, which may be made of any material from my thesis.

Requests for permission to copy or to make other use of materials in this research project, in whole or in part, should be addressed to:

The Dean of Othman Yeop Abdullah Graduate School of Business
College of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman
External Debt has become a serious issue of concern among the sub-Saharan African countries because of the rising burden of debt servicing. The main objective of this study is to examine the impact of external debt and corruption on economic growth of the selected five SSA countries from 1990 to 2015, using two-gap and the modified-Solow growth models. Panel Unit Root and Panel Cointegration tests were employed to test for stationarity of the series and the long run relationship respectively. FMOLS estimation technique was then employed to examine the long-run coefficients of the variables of the model, and panel granger causality test, in order to examine the direction of causality among the variables. The results indicate that there is negative relationship between external debt and economic growth, as well bi-directional causality between the two variables. The results also indicate a positive relationship between corruption and economic growth, as well as the existence of no causality between the two variables. The study therefore recommends that the governments should address the menace of the rising debt through the adoption of other sources of capital for investment, such as more openness of the economy for more capital, by easing the restrictions on genuine imports and exports of valuable goods and services. It also suggests that the issue of corruption be tackled head-on, by such penalties that tend to make corruption less attractive.

Keywords: external debt, SSA, corruption, FMOLS, economic growth

Kata kunci: hutang luaran, SSA, rasuah, FMOLS, pertumbuhan ekonomi
ACKNOWLEDGEMENTS

I thank Almighty Allaah (‘Azza wa Jalla) who has made my journey through master’s studies in UUM a success - Alhamdulillah! My heartfelt gratitude is extended to my supervisor and econometrics Professor, Assoc. Prof. Dr. Sallahuddin Bin Hassan, for his invaluable guidance, precious time, intellectual inputs, comments, suggestions and encouragement throughout the period of my studies. May Allaah bless you more and grant you the best. Aameen.

I am extremely grateful to my parents, Alhaji & Alhaja Shittu Arowojeka, for their ample support, unwavering encouragement; while also setting my paths to sustainable success. May Allaah bless you and grant you al-Jannatul Firdaos. Aameen. I am equally grateful to Mr & Mrs Maaruuf Hussein; you deserve more than this, and I pray Allaah reward you abundantly with the best you desire. Lots of thanks to Messrs & Mesdames Tajudeen Tijani, Idiat Shittu, Taofeek Shittu, Rofiat Salaudeen, Medinat Were, and Kafayat Oladoyin. May Allaah bless your families and make you successful.

Equally, I express my sincere gratitude and prayers to Mr & Mrs Lawal, and my dearest Saidat Lawal, for their motivation and support throughout my study period. I extend the words of thanks to all my brothers, colleagues and friends in UUM: Dr Luqman Afolabi, Dr Salau Malik, Hamid Musibau, Atif Nawaz, Yusuf Agboola, Ibraheem Saleh, Putri Khairani, Faida Abdalla Ali; and others. May Allaah grant your wishes. Aameen. I also extend many thanks to UUM for providing enabling environments for studies. I pray to see the University in top world rankings, In Shaa Allaah!
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>TITLE</td>
<td></td>
</tr>
<tr>
<td>CERTIFICATION OF RESEARCH PROJECT</td>
<td>ii</td>
</tr>
<tr>
<td>PERMISSION TO USE</td>
<td>iii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>v</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>vi</td>
</tr>
<tr>
<td>TABLE OF CONTENT</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xii</td>
</tr>
</tbody>
</table>

## CHAPTER ONE INTRODUCTION

1.0 Overview of Sub-Saharan African Countries
1.1 Background of the Study
1.2 Statement of Problem
1.3 Research Questions
1.4 Research Objectives
1.5 Significance of the Study
1.6 Scope of the Study
1.7 Organisation of the Study

## CHAPTER TWO REVIEW OF RELATED LITERATURE

2.1 Introduction
2.2 Review of Theoretical Literature
   2.2.1 External Debt and Economic Growth
   2.2.2 Corruption and Economic Growth
2.3 Review of Empirical Literature
   2.3.1 External Debt and Economic Growth 24
   2.3.2 Corruption and Economic Growth 27
2.4 Literature Gap 29
2.5 Conclusion 30

CHAPTER THREE METHODOLOGY
3.1 Introduction 31
3.2 Theoretical Framework and Model Specification 31
   3.2.1 Hollis Chenery’s Two-Gap Theory 31
   3.2.2 The modified-Solow Growth Model 34
3.3 Justification of Variables 37
   3.3.1 Economic Growth 37
   3.3.2 External Debt 37
   3.3.3 Interest on External Debt 38
   3.3.4 Corruption 38
3.4 Source of Data 38
3.5 Method of Estimation 39
   3.5.1 Panel Unit Root Test 39
   3.5.2 Panel Cointegration Test 41
   3.5.3 Estimation of the Long-Run Relationship 44
   3.5.4 Panel Granger Causality Test 46
3.6 Conclusion 48

CHAPTER FOUR DISCUSSION OF RESULTS
4.1 Introduction 49
4.2 Descriptive Statistics 49
4.3 Correlation Analysis 50
4.4 Panel Unit Root Analysis 51
### CHAPTER FIVE CONCLUSION AND POLICY IMPLICATIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Introduction</td>
<td>59</td>
</tr>
<tr>
<td>5.2</td>
<td>Summary of Findings</td>
<td>59</td>
</tr>
<tr>
<td>5.3</td>
<td>Policy Implications</td>
<td>60</td>
</tr>
<tr>
<td>5.4</td>
<td>Limitations and Recommendations for Further Studies</td>
<td>62</td>
</tr>
<tr>
<td>5.5</td>
<td>Conclusion</td>
<td>62</td>
</tr>
</tbody>
</table>

### REFERENCES

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
</tr>
</tbody>
</table>
LIST OF TABLES

Table 1.1  Changes in the Selected SSA Countries’ External Debt Stock (2010-2015)  5
Table 1.2  External Debt and Interest Payment by SSA Countries (USD billion)  7
Table 4.1  Descriptive Statistics  49
Table 4.2  Correlation Analysis  50
Table 4.3  Panel Unit Root Analysis  51
Table 4.4  Panel Cointegration Analysis (Pedroni Test)  52
Table 4.5  FMOLS Regression Results  53
Table 4.6  Pairwise Granger Causality Analysis  57
LIST OF FIGURES

Figure 1.1 Map of SSA Showing the Selected Countries 1

Figure 1.2 Trends in External Debt Stock and Interest Payment in Each of the Selected SSA Countries 8

Figure 1.3 Corruption and Economic Growth in the Selected SSA Countries 13
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMOLS</td>
<td>Fully Modified Ordinary Least Squares</td>
</tr>
<tr>
<td>GLS</td>
<td>Generalised Least Squares</td>
</tr>
<tr>
<td>IDS</td>
<td>International Debt Statistics</td>
</tr>
<tr>
<td>ICRG</td>
<td>International Country Risk Guide</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>WDI</td>
<td>World Development Indicators</td>
</tr>
</tbody>
</table>
1.0 Overview of the Sub-Saharan African Countries

The United Nations describes the sub-Saharan Africa (SSA) countries as all African countries located on the south of the Sahara, fully or partially. The region comprises 46 out of the 54 countries in Africa (United Nations Development Programme, 2016). The SSA countries chosen are shown in the map in Figure 1.1, and described thereafter.

Figure 1.1
Map of SSA Showing the Selected Countries
Source: Google Map
The contents of the thesis is for internal user only
REFERENCE


indicators.