

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

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SAVINGS: THE CASE OF ECONOMIC COMMUNITY OF WEST
AFRICAN STATES**

By

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Othman Yeop Abdullah Graduate School of Business,
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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

Walaupun terdapat banyak kajian tentang tabungan dan penentunya, namun tidak banyak kajian yang melihat kesan rasuah dan ketidakstabilan politik ke atas tabungan terutamanya yang melibatkan Negara Komuniti Ekonomi Afrika Barat (ECOWAS) yang sememangnya menghadapi banyak masalah rasuah dan ketidakstabilan politik. Oleh itu, objektif kajian ini adalah untuk mengkaji kesan rasuah dan ketidakstabilan politik ke atas tabungan di ECOWAS di antara tahun 1996 hingga 2012. Di samping itu, kajian ini menilai sama ada kesan rasuah dan ketidakstabilan politik ke atas tabungan di ECOWAS bergantung kepada tingkat pendapatan. Dengan menggunakan teknik panel pembetulan ralat piawai (PCSE) dan kaedah pembolehubah instrument kuasa dua terkecil dua peringkat (TSLS) yang mengambilkira kesan rawak, keputusan kajian menunjukkan bahawa rasuah yang rendah dan kestabilan politik yang tinggi mempunyai kesan yang positif dan signifikan ke atas tabungan, dan kesan rasuah dan ketidakstabilan politik terhadap tabungan adalah bergantung kepada tahap pendapatan. Hal ini menunjukkan pada tahap pendapatan tinggi, kesan negatif rasuah dan ketidakstabilan politik ke atas tabungan adalah rendah manakala pada tahap pendapatan yang rendah, kesan negatif rasuah dan ketidakstabilan politik ke atas tabungan adalah lebih besar di ECOWAS. Di samping itu, tingkat pendapatan, pertumbuhan pendapatan, kadar faedah sebenar dan kadar inflasi mempunyai kesan yang positif dan signifikan ke atas tabungan. Bagaimanapun, peratusan sumbangan pertanian dalam Keluaran Dalam Negara Kasar (KDNK) mempunyai kesan yang negatif ke atas tabungan. Kajian ini mencadangkan polisi untuk mengurangkan rasuah dan ketidakstabilan politik bagi meningkatkan tabungan. Sebagai tambahan, peningkatan dalam pendapatan akan mengurangkan kesan negatif rasuah dan ketidakstabilan politik ke atas tabungan di samping meningkatkan tabungan di ECOWAS.

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

FGLS	Feasible Generalized Least Squares
GDP	Gross Domestic Product
GDPR	GDP Growth Rate
GFI	Global Financial Integrity
GIR	Gross Investment Rates
GLS	Generalized Least Squares
GMM	Generalized Method of Moments
GPCY	Income Growth
GRA	Gambia Revenue Authority
GSR	Gross Savings Rates
G7	Group of Seven Developed Countries
HMO	Cingranelli-Richards Human Rights Database and Political Terror Scale
ICRG	International Country Risk Guide
IMF	International Monetary Fund
INF	Inflation Rate
IV	Instrumental Variable
LAC	Latin America and Caribbean
LCT	Life Cycle Theory
MCC	Millenium Challenge Corporation Compact
MDAs	Ministries, Departments and Agencies
MENA	Middle East and North Africa
MNCs	Multinational Corporations
M2	Broad Money Supply
NDC	National Democratic Congress
NIA	National Investment Agency
NOCAL	National Oil Company
NYEP	National Youth Employment Programme
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
PCSE	Panel Corrected Standard Error

PCY	Income Per Capita
PIT	Permanent Income Theory
POL	Political Instability
PRR	Political Risk Rating
PRS	Political Risk Service Group
PV	Present Value
RE	Random Effects
RE	Ricardian Equivalence
RIR	Real Interest Rate
RIT	Relative Income Theory
SFP	School Feeding Programme
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SUR	Seemingly Unrelated Regression
TI	Transparency International
TOT	Terms of Trade
TSCS	Time Series Cross Sectional data
UN	United Nations
US	United States
VAR	Vector Auto Regressive Model
VECM	Vector Error Correction Model
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WMO	Global Insight Business Conditions and Risk

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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