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# Does Rent Seeking Behavior Impact On Economic Activities Growth In Nigeria? A Restructuring Perspective

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## ABSTRACT

This study empirically examines the effect of rent seeking activities on the Nigeria economy. It uses dynamic ordinary least square methodology on the variables (1985-2023) under study as specified on endogenous growth model framework. The result indicates that, Rent Seeking Activities (RSA) has inverse significant impact on economic activities growth in Nigeria. Based on this finding, we recommend that policy makers should encourage the evolution of frameworks that reduces rent-seeking opportunities and pave ways for sustainable equitable economic growth and development as it is vital for unlocking the nation's full potential to harness its resources for sustainable inclusive growth performance.

Keywords: Rent Seeking Activities, Polity and Economic Institutions, Economic Activities, Growth

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## 1. INTRODUCTION

Experiences of economic activities growth downturn in Nigeria necessitated the introduction of national "economic recovery and growth plan" in 2016. The growth plan was introduced in order to boost and propel the economy towards growth with development. This initiative though laudable, was necessary to identify the dynamics of recession and avoid them, but the outcome did not meet expectations. Several rent seeking activities (RSA) which frustrated productive policies of past government's administrations were not clearly identified, hence strategies for tackling these problems are often illusive. These unidentified RSA factors domiciled in institutions of polity, devise potentials to frustrate whatever policy measure is applied to revive the economic activities of the nation. It must be understood that for the Nigerian system to align and measure up in the next industrial order, it is necessary to address the basic issues of governance and bureaucratic institutions. These bureaucratic institutional frameworks are likened to pivots that drives growth of economic activities in emerging and developed economies.

Igbal and Daly (2013) explains that, “it is politics that drives economies, as changes in policies bring changes in commercial institutions”. Politics steers the wheel of the economic-engines that drives production activities. Consequently, modifications in institutions of polity results in direct or inverse change in institutions that governs economic activities which results in development advancement or retardation. Acemoglu and Robinson (2019), found that institutions of polity are grouped into two categories, the inclusive variants and the extractive variants.

The “inclusive political institutions” often generate “inclusive economic institutions”. As a corollary, the extractive political institutions creates and generates extractive economic institutions. Economies where political institutions are extractive typically generates rent-seeking activities which in turn leads to government and market failures (Murphy, Shleifer and Vishny, 1993). Rent Seeking Activities (RSA) are made up of individuals or groups of persons who are “politically empowered” to manipulate the system to redistribute incomes or obtain higher than normal rents without generating equivalent values or quid-pro-quo.

Consequently, the major economic cost of RS is reduction in productivity. Permissions to seek rents are often used to compensate “loyal party errand members”. Economists call such activities “rent-seeking” because it depresses productivity performance. These activities are economically “inverse investments” that promotes personal gains in administration. RS are real-time contractual policies with regard to revenue, tax collection, trade protection, and non-enforcement of trade laws (Khan, 2000).

Rent Seeking (RS) activities authorizes public administrators and civil servants access to information to have dominating tendencies on the process of resources redistribution to gain favours. RSA makes investments, properties and assets insecure. The Nigeria's environment displays persistently the invisible hands of RSA as it weaves through the nation's polity in pursuit of gains through manipulation of the polity and regulatory outfits in the economy. RSA poses a formidable challenge to sustainable economic growth. RS basically exhibit character of increasing returns to scale, thereby increasing seekers population which dwindles economic activities and performance.

In order for Nigeria to align itself on the growth path, it becomes imperative to investigate the connection between RSA and productive economic activities. This is mostly because the increase in the RS population has coincides with poor economic activities growth. For instance, the oil sector which is the cornerstone for GDP growth has been tainted by corruption, and regulatory misuse have thwarted innovation and diverted resources away from critical welfare needs. It is apparent for a complete restructuring of Nigerian economy to produce "inclusive economic institutions" (IEI) that will place the economy in line with the “Fourth Industrial Revolution”. Restructuring the economy will reduce extractive polity traditions and RSA. From above, this study, investigates how rent-seeking affects GDP growth and to provide insights and suggestions that can advance growth of productive activities and reduce RSA behaviours with greater equity, transparency, and real-time integrity.

## 2. LITERATURE REVIEW

### 2.1 Theoretical Literature

The quest for money by manipulation of the polity is designated “rent-seeking” (RS). It poses serious obstacles to GDP growth because it involves the use of resources to obtain economic advantages without producing valuable qualities that contribute to production. Tullock (1967) established the groundwork for rent-seeking studies. Khan (2000) used the term “rent-seeking” in reference to revenues greater than the worth or value of a product or service. To him, RSA are arranged through political channels, illicit cross-border transfers, monopoly profits, subsidies, and transfers. RSA is seen by Igbal and Daly (2013) as the usage of “government coercion” to pursue profits. In essence, RS has influences on organizations that drives economic growth.

### 2.2 Economic Institutional Framework

Theoretically, this framework examines how institutions of a political system influences economic behaviour through regulations. It asserts that gravity of RSA on economic activities growth performance of an economy, is determined by the nature of economic institutions of the country, (Aigbokhan, 2013). Acemoglu and Robinson, explained that inclusive economic institutions promotes economic activities growth by providing incentives for production, whereas extractive economic institutions facilitate rent-seeking resulting in growth stagnation. Strong institutions creates environment that enhances productive investments with growth prospects. More so, Khan (2000), elaborated this by showing that institutional reforms that enhance accountability reduces RSA and stimulate investment through fair competition. Ayoob (2015) study on the role of institutions and regulations on rent-seeking in Nigeria’s oil industry, indicates that weak legal frameworks, lacks of transparency, and inadequate enforcement mechanisms creates institutional environments conducive to RSA. Nigeria’s vast oil wealth has attracted both domestic and international players, leading to chances for RSA.

Favoritism in contracts and resource misallocations often emerge as prominent features in RS environment (Inegbedion and Ohonba, 2018). These actions erode the foundations of fair competition, alter market dynamics, and eventually obstruct long-term steady economic expansion. Additionally, Murphy, Shleifer, and Vishny (1993) contended that people avoid making productive investments when they engage in rent-seeking endeavors, which results in poorer economic performance. Further, the “resource curse” phenomenon as illustrated by Ayoob (2015) demonstrates that countries endowed with resources often experience slower growth owing to rampant rent-seeking behaviors that impede institutional development. This explains why institutional mediation on rent-seeking has gained significant attention.

### 2.3 Public Choice Theory

This theory illustrates political institutions’ perspective of RSA framework. It reveals that politicians and bureaucrats operations are ruled by self-interest. This frequently results in monopolies and subsidies to benefit particular groups. In elucidating this idea, Tullock (1967) highlighted that self-interest plays in political decision-making as bureaucrats prioritize their interests over public needs. Public choice theory show that organizations seek benefits that would benefit them individually, even when self-interest will adversely affect the society.

This causes bureaucrats to be incompetent in making optimal policies due to the influence of corruption and vested interests. Abubakar and Sadiq (2020) explained that political actors may manipulate policies to benefit themselves, select group against societal welfare in Nigeria. Understanding the incentives behind rent-seeking can clarify why certain policies favour entrenched interests. In the Nigerian context, this theory helps to clarify the means political actors prioritize individual advantage over policies that promote broader economic development. For this reason, rent-seeking behaviors have inverse significant implications. Rent-seeking manifests in different forms, such as exploitation and partiality in administrative contracts, the manipulation of regulatory environments and procurement gain.

These activities create inefficiencies by diverting productive resources away from development focused investments. As highlighted by Krueger (1974), rent-seeking results in significant inefficiencies by reallocating resources away from productive endeavours. Conclusively, polity institutions policies play crucial roles in generating rent-seeking activities that affects productive activities. The import of inclusive institutions theory variant is the economic institutions' regulations, which are the result of the political institutions. The framework summarizes this theory in the form that politics is what propels economic activities, hence shifts in polity institutions result in changes that are either "inclusive" or "extractive."

## 2.4 Empirical Literature

Theoretical perceptions are reinforced by position and empirical studies of scholars. For instance, Bardhan (2016) from his empirical study, observed that RSA effects, are particularly pronounced in less developed countries where expected quality institutions are weak, but countries with stronger institutions experience higher growth rates with low rates of RSA. The research of Hillman and Ursprung (2016), define rent seeking as undeserved benefit pursued through a quest of privilege to obtain political income. A political ward leader might ask a government official to offer him authority to collect rents from new project (construction) levies. Such privilege enhances rent-seeking.

The study of Hillman (2015), indicates that most of the less developed economies operates partial or ineffective "rule of law", misuse of resources, and violation of regulations and hence promote rent seeking activities. Their study concludes that RSA distort the production by diverting wealth to units that do not create values. Fischer (2006) in his study, "institutions and reforms in Africa" found that RSA by individuals who hold key positions cause resistance to the implementation of growth enhancing renovations in economics institutions. Laut, Febrianti, and Sugiharti (2023) used the Partial Adjustment Model (PAM) approach, in their empirical study on rent-seeking towards economic growth in lower-middle-income countries, their result show that limiting rent-seeking have positive impact on economic growth in lower-middle-income countries significantly. They also discovered that the population of lower-middle-income nations, significantly affects economic growth.

Rent-seeking (RS) is harmful to investment expansion because it takes resources away from productive investments. The study of Murphy, Shleifer, and Vishny (1993) emphasized how RS behavior might result in misallocation of resources, hence inhibiting entrepreneurship and innovation. Mueller (2015) found that corruption being a major component of rent-seeking, hinders economic activities growth by stifling investment and decreasing the effectiveness of spending.

More so, study of Méon and Weill (2010) further reinforced the indirect correlation between economic growth and RSA. Their result reveals that RSA hinders economic activities growth significantly across countries. Paldam and Svendsen (2021) using panel data in their study, illustrated that rise in rent-seeking activities correlates with reduced economic performance, particularly in less developed nations. In, Vetter and Dittmann (2021) study, their “combined findings” from numerous studies, confirm that higher levels of RSA associates with slower economic development across various economies. Olken and Pande (2012), show that RSA impedes economic activities growth and results in major inefficiencies in public service delivery.

Given that Nigeria has enormous economic potentials due to of its youthful population with wealth of resources, the correlation between RSA and economic activities growth in the economy is intricate and multifaceted as the RSA challenges in the nation are enormous. Efforts to enhance equitable resources distribution are often met with multifaceted oppositions as public officers favour personal wealth. Personal wealth encourages foreign investments in stable secured nations shield from prosecution. Addressing causes of RSA will be crucial in unlocking the country's potential and ensuring that the gains of growth are shared more broadly among the population. The Transparency International (2022) in their “Corruption Perception Index” (CPI) report reflects Nigeria's challenges in governance and public service integrity, signifying thriving RSA environment.

For instance, fuel-subsidies and grants are frequently criticized for being used to divert resources away from critical infrastructures investment and civil welfare services (Worldbank, 2021). Fragile institutions and a deficiency of rule of law enable rent-seekers to proliferate, perpetuating a cycle of inefficiency and economic activities growth stagnation (Echono and Arinze, 2020). This makes it more challenging for policy makers to conduct sensible economic policies and support significant development. The media and civil society formations in Nigeria, are instrumental in promoting reforms and holding public servants responsible for RSA (Alemika, 2017).

Significant gaps exists in literature evaluated, majority of study did not concentrate on relationship between rent-seeking variables association with economic growth performance in Nigeria. To empirically identify policy recommendations that will reduce rent-seeking activities and contribute to Nigeria's economic activities growth with development, this paper investigates the impact of RSA on economic activities growth in Nigeria, using proxies such as the control of corruption (CCI), the rule of law (ROL), and government efficiency index (GEI). It is expected that RSA influences Nigeria's economic growth and development through a number of channels. Fostering a more sustainable and inclusive economic environment to enhance growth requires addressing rent-seeking behaviours. Generating policy solutions lessen RSA challenges and support Nigeria's economic growth and development, this paper studies the complex linkages between RSA and economic growth.

### 3. RESEARCH DESIGN

#### 3.1 Model Specification

The augmented Solow (1956) model, as modified by Igbal and Daly (2013) and earlier expanded by Mankiw, Romer, and Weils (1992), is applied in this study. Adapting Igbal and Daly, the model functional form could be specified as:  $GDP_r = f(CCI, GEI, HUI, PCI, ROL, PPG, u)$ .  $GDP_r$  is economic activities growth rate, proxy by real gross domestic product growth rate.  $HUC$  is human capital investment based on secondary school enrollment.  $PCI$  serves as a physical capital investment proxy by gross fixed capital formation.  $CCI$  is the index of control of corruption measure.  $ROL$  is a measure of "rule of Law" as proxy for democracy, while  $u$  is random disturbance term. The operational form could be specified as follows:

$$GDP_r = \beta_0 + \beta_1 GDP_r(-1) + \beta_2 CCI + \beta_3 GEI + \beta_4 HUI + \beta_5 PCI + \beta_6 ROL + \beta_7 PPG + u \quad (1)$$

The a priori expectations are summarized as:  $\beta_1 > 0$ ;  $\beta_2 > 0$ ;  $\beta_3 > 0$ ;  $\beta_4 > 0$ ;  $\beta_5 > 0$ ;  $\beta_6 > 0$ ;  $\beta_7 > 0$ .

Error correction model could be specified as follows:

$$D(GDP_r) = \beta_0 + \beta_1 D(GDP_r(-1)) + \beta_2 D(CCI) + \beta_3 D(GEI) + \beta_4 D(HUI) + \beta_5 D(PCI) + \beta_6 D(ROL) + \beta_7 D(PPG) + ECM_{(-1)} \quad (2)$$

#### 3.2 Data Sources and Description of Variables

We choose sets of control variables and rent-seeking variables for a dynamic ordinary least square model for the period 1985 to 2023 in order to examine the impact of RSA on the growth of the Nigerian economy. Literatures reviewed so far, used various proxies to measure RSA, among these are control of corruption index; public sector employment; lobbying; and freedom from corruption. The set of variables used to proxy for RSA are: control of corruption index, government effectiveness indicator, and rule of law index. The degree to which official authority is used for private benefit is measured by the control of corruption index. These variables were sourced from Worldwide Governance Indicators (WGI) website.

The term "rule of law" (ROL) defines judiciary independence, the power of law in society and equally treatment. ROL is fore-runner for effective democracy and features a wide distribution of political rights. This index as a proxy for RSA represents the official features of democracy. It is measured by effectiveness of political participation and openness. Positions of power are not eliminated by democracy as they are made contestable, putting office holders at risk of losing their ability to collect and distribute rent.

#### 3.3 Estimation Technique and Procedure

First we examined the properties of the series to establish if unit root exists and their integration order, using the ADF test (Augmented Dickey Fuller test), five variables (such as CCI,  $GDP_r$ , GEI, PPG, ROL) under study were found integrated at first difference while two (HUI and PCI) were found integrated at levels. The estimated results are as shown below:

**TABLE 1: ADF Test Results**

Variable	At Level	1 <sup>st</sup> Difference	5% Crit. Level	Order of Integration
CCI	t-stat:-1.950 prob: 0.3065	t-stat: -5.94026 prob: 0.0000	-2.943427	I(1)
GDPR	t-stat:-2.3157 prob: 0.1726	t-stat: -11.2434 prob: 0.0000	-2.943427	I(1)
GEI	t-stat: -1.89829 prob: 0.3294	t-stat: -4.50321 prob: 0.0000	-2.943427	I(1)
HCI	t-stat: -3.36853 prob: 0.0185		-2.943427	I(0)
PCI	t-stat:-10.7471 prob: 0.0000		-2.943427	I(0)
PPG	t-stat:-0.877157 prob: 0.7815	t-stat:-3.034354 prob: 0.0438	-2.943427	I(1)
ROL	t-stat: -1.769438 prob: 0.3895	t-stat:-5.964448 prob: 0.0000	-2.943427	I(1)

**Regression output from Eviews 10**

The results obtained as presented above indicates that the coefficients of all variables are stationary either at level or at first difference. HCI and PCI are 'stationary at level' and 'integrated of order I(0)'. The other variables such as; CCI, GDPR, GEI, PPG and ROL are stationary at first difference and integrated at order I(1).

**TABLE 2: Result of long-run model**

Variable	Coef	Std_Erro	T_Statist	Prob_V
CCI	14.17917	2.809153	5.047489	0.0039
GEI	-239.189	52.13952	-4.58747	0.0059
HCI	0.803918	0.19577	4.106435	0.0093
PCI	-0.5924	0.243308	-2.43476	0.059
PPG	-48.8418	17.27946	-2.82658	0.0368
ROL	-23.2315	3.391879	-6.84914	0.001
C	116.4602	48.26442	2.412961	0.0606
R-squared	0.981075		Mean dept var	4.338149
Adj-R. Sqd	0.875098		S.D. depdt var	3.950872
S.E. of Reg	1.396299		AIC	3.294487
SumSq-resid	9.748252		SC	4.596383
Log likelihd	-27.0063		H-Q C.	3.738471
F-statistic	9.257367		DW stat	2.421863
Prob(F-stat)	0.010366			

**Regression output from Eviews 10**

The order of integration of the variables are not the same, for this reason, the study employs “Dynamic Ordinary Least Squares” (DOLS) method to determine relationships among the variables, because the estimator solves sample bias of ordinary least squares (OLS) caused by endogeneity. This alternative parametric approach uses lags and leads to resolve endogeneity bias of variables under study (Stock and Watson, 1993).

The result as shown in the table above indicates that CCI exerts negative influence on growth with a negative coefficient of -14.179. The CCI coefficient is significant at 5%. This suggests that a unit change (increase) in CCI results in 14.179 units inverse (negative) economic growth of Nigeria economy. By implication CCI creates room to engage in RSA for individual wealth creation. Toke and Hillman (2008) in their study titled “Enduring Rents” discovered that CCI could bring growth through individuals involved in control of corruption. In other words, CCI supports personal gains through RSA in the process of controlling corruption. This result indicates that corruption control activities in Nigeria are not yielding positive results due to RSA. This is contrary to a priori expectations of the model under consideration. This finding is consistent with the findings of Makar, Ngutsav, Ijirshar and Ayaga (2023) found a negative association between corruption perception index and economic activities growth in Nigeria.

Coefficient of GEI suggest that RSA is very prominent within the administration as it indicates a significant coefficient of -239.1885 units. This implies that an increase (decrease) in government efficiency indicator brings a reduction in growth performance at the long run. This is contrary to a priori expectations of GEI in the model. By implication it implies that government agencies encourage diverting of productive resources to other areas in the bid to secure personal wealth at the expense of economic activities growth performance.

The result indicates that coefficients of both HCI and PCI indices as factors influencing growth of real GDP are both direct and inverse respectively. The coefficients of both variables are significant at 5% level. From the regression output a unit increase in HCI leads to 0.803918 units direct increase in real GDP growth. Also, a unit increase in PCI brings about an inverse reduction on real GDP growth by 0.59234 units. The result indicate that HCI have positive influence on real growth. This points to the fact that investments in physical capital is inadequate and hence, impacts on economic activities growth of Nigeria economy negatively.

Estimated PPG coefficient of -48.84178 is significant at five percent (5%) level, indicating that a unit change in population growth rate leads to reduction in economic activities growth rate by 48.84 units. So long as RSA basically exhibit increasing returns to scale of personal gains, seekers population which dwindles economic activities will always increase. Nigerian population increase in recent times, could be traced to poverty and instability in neighbouring countries. This increase is surely enhancing RSA. More so, from the results output, the index of democracy as proxy by rule of law (ROL) indicates that democracy influences the growth of real GDP inversely. A unit change in ROL brought about a change in real GDP growth by -23.23145 units within the period under study. Though this is significant at 5% level, it is at variance with theoretical a priori expectations and findings of Igbal and Daly (2013).



However, empirical results from literature reviewed so far, are mixed. For instance, the results of Mueller (2015) showed that democracy caused and retarded growth in most communists' countries. This result is at variance with the a priori expectations. We expect that democracy as practiced in developed economics allows citizens periodically to impeach or remove out of office, politicians who exhibit extractive tendencies. More so, in the private sector, democracy is expected to facilitate elimination of monopoly through market competition. However, our result indices points out the extent of democratic strength of the Nigerian Economy. The result of Mohtad and Toe (2003) show that under weak democracy the effect of RSA on economic activities growth is statistically insignificant. Conclusively, the coefficient of determination ( $R^2$ ) of 0.875098 indicates that in the long-run, over 87.51% variation in the growth of real GDP could be explained by variations in exogenous variables under study. The Prob (F-Statistic) value of 0.010366 is significant and indicates that the coefficient of determinate is significant in explaining variations in the dependent variable. More so, the Durbin-Watson statistics of 2.4218 indicate that there are no serial correlations.

**TABLE 3: The Short-Run Model Result**

VAR	Coef	Std_Error	T_Stat	PV.
D(GDPR(-1))	-0.208855	0.228903	-0.912417	0.3693
D(CCI(-1))	-1.076998	3.748974	-0.287278	0.776
D(GEI(-1))	-40.65273	52.79532	-0.770006	0.4477
D(HCI(-1))	-0.1112	0.132541	-0.838988	0.4086
D(PCI(-1))	-0.015283	0.033938	-0.450316	0.656
D(PPG(-1))	26.20192	114.1916	0.229456	0.8202
D(ROL(-1))	-0.292772	3.938896	-0.074328	0.9413
ECM(-1)	-0.677051	0.339851	-1.992201	0.0056
C	0.22123	0.939098	0.235577	0.8155
R-squared	0.607286	Mean Dept Var		0.705656
Adj R-Sqd	0.517939	S.D. Dept Var		4.278258
S.E. of reg	3.734753	AIC		5.681013
SSqd resd	390.5546	SC		6.072858
Log likeld	-96.09875	H-QC.		5.819157
F-stat	2.405039	D-WS		2.010136
Prb(F-stat)	0.040917			

Regression output from Eviews 10

The ECM indicates the speed of adjustment of the model to long-run equilibrium and captures short-run level changes in the variables under study. The ECM of  $-0.677$  indicates the rate and speed of model adjusting to long run equilibrium. DW statistics of  $2.010136$  indicates serial correlation absence in the model.

Finally the result show that beside population growth, all the variables such as CCI, GEI, ROI enhances rent seeking activities (RSA). As they increase the more they bring inverse effect on real GDP. For instance, an increase in ROL the proxy for democracy brings about an inverse change on real GDP by  $-0.2927$  units.

### Stability Test

The Cusum of Squares stability test show that the model is stable at 5% level of significance as shown below:

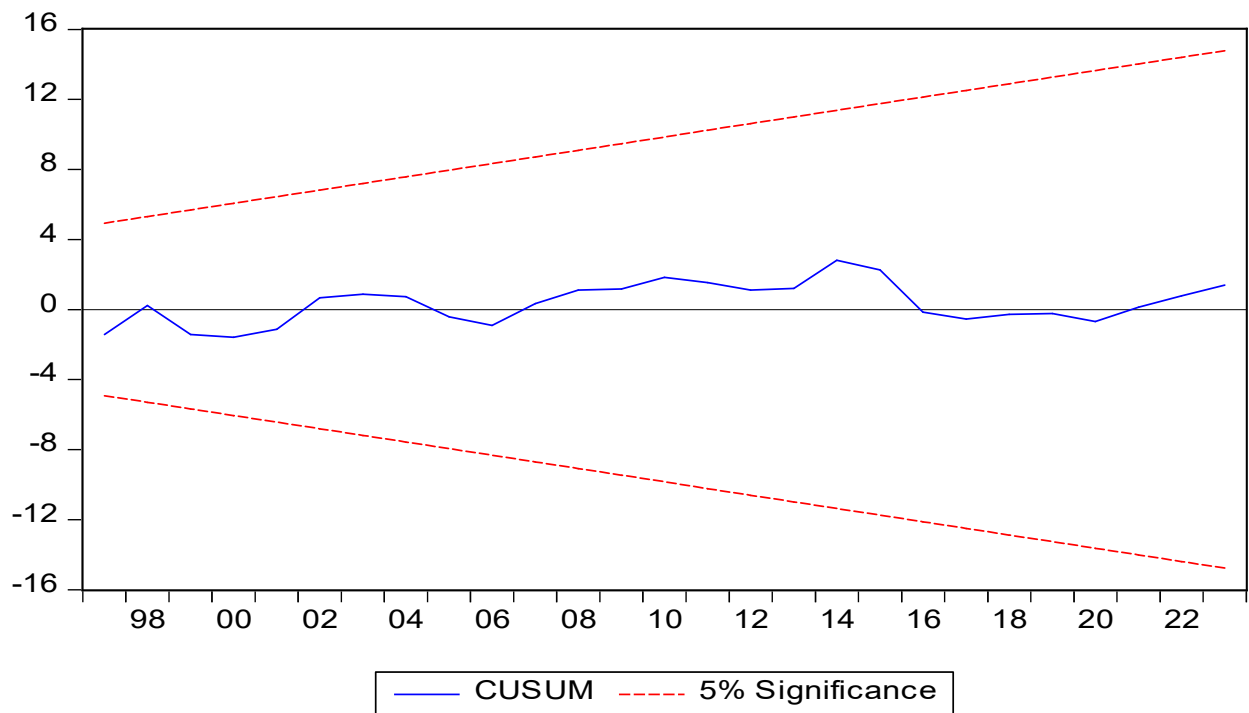
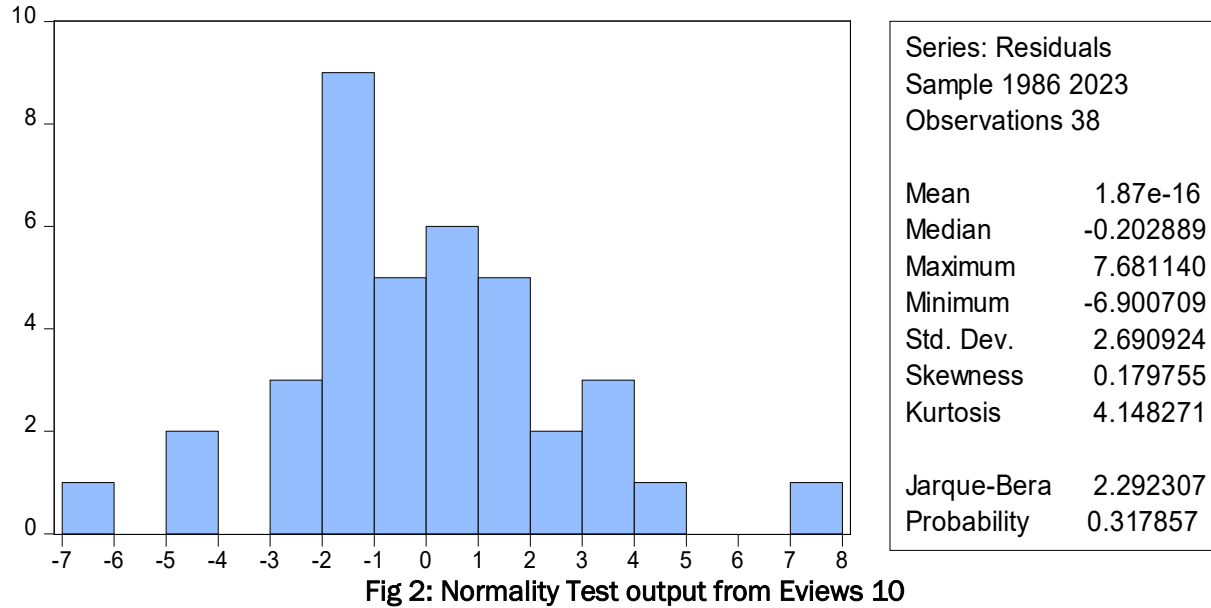


Fig 1: CUSUM stability test of the model under study at 5% level of significance show that the model is stable as shown in the graphs above.

### Normality Test Result.



From the residual diagnostic normality test result, the probability value of 31.789% is greater than 5%. Hence, we conclude that residual is normally distributed and desirable.

#### 4. SUMMARY, CONCLUSIONS AND RECOMMENDATION

This study investigated the influence of RSA on the economic activities growth in the Nigeria economy. Having reviewed theorems of RSA as they relate to growth through institutions of the economy, the study was premised on MRW model as adapted by Igbal and Daly (2013). RSA was proxy by CCI index and Rule of Law. Having applied the econometric preliminary procedures of unit-root and integration tests. We employed the dynamic OLS and ECM Techniques. From the results, all variable were either integrated of first order or at levels. The results obtained indicates that the RSA variables have an inverse impact on the growth of economic activities in Nigeria.

In all, short-run result showed RSA to having inverse impact on the Nigerian Economy. In other to enhance growth of the economy, we recommend improvements on the polity through: creation of inclusive political institutions; rule of law; and reduction in RSA through control of corruption. From the empirical evidence of the regression output the study recommends the followings to minimize effects of rent-seeking on economic activities growth. It is expected that policymakers must focus on strengthening institutional frameworks to enhance accountability in other to significantly reduce opportunities for rent-seeking activities. This is in consonance with Khan (2000), who suggested regulatory reforms and improved public sector efficiency in India. Also based on the coefficient of GEI we recommend the need for policy makers to enhance governance efficiency by improving bureaucratic reliability, as this will reduce opportunities for RSA and foster conducive environment for economic activities growth.

We recommend also that policy-makers must focus on restructuring and implementing reforms targeted at enhancing CCI, ROL and Effective governance in a bid to reduce RSA. These reforms initiatives must include the restructuring of anti-RSA supervisory agencies, effective legislative reforms on ROL and enhancement of transparent integrity. This will automatically encourage the evolution of frameworks that reduces rent-seeking chances and pave ways for equitable and sustainable economic activities growth with development. Reducing RSA is vital for unlocking the nation's full economic potential to harness its resources for sustainable inclusive growth and development.

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