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To cite this version:
Rakotoarisoa Anjara, Lalaina Jocelyn. Corruption and economic growth in Madagascar. 2018. hal-01825000

HAL Id: hal-01825000
https://hal.science/hal-01825000
Preprint submitted on 27 Jun 2018

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Corruption and economic growth in Madagascar

Rakotoarisoa Anjara Lalaina Jocelyn

Abstract

In 2009, Amartya Sen, a Nobel prize winner, wrote that a lack of transparency in the global financial was among the main factor contributing to the financial crisis which began in 2008. Now, corruption is a preoccupant subject. This paper is offering an analysis of the relation between corruption and economic growth in Madagascar. For that, we’ve mobilized an empirical framework, by performing an econometric diagnosis. The resultat show that the corruption penalizes the growth promotion in Madagascar.

Keywords: Economic growth, Corruption, Madagascar, Econometric approach

Summary

This paper aims to study the relationship between corruption and economic growth in Madagascar. Using an econometric approach, this study stipulates a parallel link between the improvement in reducing corruption and economic growth.

Keywords: Economic growth, Corruption, Madagascar, Economic Approach
Introduction

Corruption is a universal phenomenon. Nothing is more common, yet nothing is more difficult to grasp than corruption. First, its contours are very variable. "Wherever you have massive corruption, development is lagging behind. Said Akinwimi Adesina, President of the African Development Bank (ADB).

A report issued by the General Accounting Office (GAO) in Washington, in 2016, stated that corruption seriously undermines Africa's long-term economic growth. In addition to this, research by the International Monetary Fund (IMF) has shown that investments made in corrupt countries are 5% lower than those made in relatively uncorrupted countries.

Corruption has become a concern. This is one reason why a diagnosis of the relationship between corruption and economic growth is needed. According to the World Bank, corruption can imply a decline in the rate of economic growth of 0.5 to 1 percentage point per year. A study conducted by Alberto Ades and Rafael Di Tella in 1995 also concluded that if per capita income rises by $4400, the ranking of a country concerned has its ranking, in terms of corruption perception index (CPI), improved by two points. Recall that the CPI is a standard index between 0 and 100. A zero CPI indicates that the country is totally corrupt and a CPI equal to 100 reflects that the country is entirely non-corrupt.

Madagascar is one of the most corrupt countries in particular. Its CPI score is 24/100, ranking it 155th out of 180 countries according to Transparency International. The generalization of corruption in Madagascar seems to penalize its economy. The situation discourages investment and public development aid.

It is to this end that we ask ourselves the question: how is the link between corruption and growth in Madagascar? And to provide an answer to this question, we used an econometric approach. This is the purpose of this document.
Analytical framework

Definitions and concepts of "corruption"

Alesina and Weder (2002) define corruption as the misuse of state property by an official for personal gain. This definition is close to that of Langseth (1997) defines corruption as an abuse of power given to obtain a personal benefit.

For Celentani and Gauza (2002) corruption is in the form of an exchange, a favor or a facility in the public service. Corruption is thus linked to the administrative activities of the state. It is "An act [...] results from an abuse of public power to obtain a private benefit. As Tanzi (1998) indicates.

Empirical studies of the link between corruption and growth

Several studies have been done on the link between corruption and growth. Corruption affects growth either directly or indirectly, either on human capital, on public spending, or on investment.

Lui (1974), Klitgaard (1988) and Rose-Ackerman (1989) reported the early work on this topic. But the first empirical evaluation was maintained by Mauro (1995). The harmful nature of corruption on investment and growth has been highlighted by these studies.

Tanzi and Davvodi (2000) did a study and these authors found that a negative relationship also exists. This idea follows the order of study of Mookherjee (1997) who considers that corruption is beneficial to the economy since it is the basis of incentive mechanism to work.

Corruption-growth relationship in Madagascar

Contexts of corruption and growth in Madagascar

Despite statements about the fight against corruption, Madagascar has declined in perception of corruption. If in 2016 its CPI was 26/100, the year 2017 recorded a CPI of 24/100, a decrease of two points. The most affected sectors are the Decentralized Territorial Communities, the Gendarmerie as well
as the National Police and Justice, the Land Service. The causes are attributed to poverty, abuse of power and thirst for money.

On the growth side, Madagascar achieves, on average, an economic growth rate of 2 to 3%. Extractive industry and tourism are the most promising sectors. Agriculture remains underdeveloped despite the fact that almost 85% of the population works in this sector.

**Corruption versus growth adjustment in Madagascar**

Our study uses the least squares method for diagnosis. It is an adjustment between Madagascar's CPI and its economic growth rate by drawing an equation of form:

\[ G_t = B + A \cdot IPC_t, \quad 0 \leq IPC_t \leq 100 \]

The data provided by Transparency International and the Ministry of Economy and Planning are the basis for estimating parameters A and B of the equation, which results in the following:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slope (coefficient A)</td>
<td>0.7695</td>
</tr>
<tr>
<td>Constant (B)</td>
<td>-21.6220</td>
</tr>
<tr>
<td>Correlation coefficient</td>
<td>0.5780</td>
</tr>
<tr>
<td>Determination coefficient (R(^2))</td>
<td>0.3341</td>
</tr>
<tr>
<td>Adjusted determination coefficient</td>
<td>0.2009</td>
</tr>
<tr>
<td>Standard error</td>
<td>3.3260</td>
</tr>
<tr>
<td>Observation</td>
<td>7</td>
</tr>
</tbody>
</table>

*The coefficient is significant at 95%

The positive correlation between the CPI and the growth rate reflects a positive relationship between these variables. The lower the level of corruption, the better the growth. Despite the fact that this relationship is statistically not significant enough, the influence of the perception of corruption on growth is not negligible.
Conclusion

Corruption is generally perceived as a bad thing. This is obvious according to the result of our study. This reflects a parallel link between the perception of corruption and economic growth in the case of Madagascar. Despite the fact that a relationship may exist as Mookherjee (1997) suggests, Mauro's perception is more valid in the situation in Madagascar. Given this state of affairs, the authorities should intensify the fight against corruption to allow economic growth to flourish.
References

- Transparency international, 2018, « Corruption perception Index ».