THE RELATIONSHIP BETWEEN CORRUPTION AND UNEMPLOYMENT RATES IN KENYA

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Abstract

The main objective of this study was to determine the relationship between corruption and unemployment in Kenya from the year 2000 to 2017. Over the last two decades the rate of corruption in Kenya has been high as millions of Kenyan money is stolen by few individuals. Kenya has been eaten so deep by corruption as so many people have been implicated in corruption scandals. The fight against corruption has become difficult as the majority of those who engage in it are government officials. To fight this menace of corruption, many youths in Kenya have resorted to engage in unlawful activities such as theft and crime as most of them blame corrupt leaders to be the cause of their unemployment situation and they don't have hope of being employed even though they are well educated. On the hand Kenya is doing relatively better in Eastern Africa in terms of economic growth and development but reports by the Human Development Index (HDI) 2017 recorded 39.1 per cent unemployment rate in Kenya. This clearly indicates that Kenya has the highest number of unemployment rates in East Africa as countries like Ethiopia, Tanzania and Uganda recorded a lower rate of unemployment. The high rate of Unemployment in Kenya when its economy is relatively better shows that there are other serious factors which are affecting unemployment in Kenya. Corruption being one of the major factors that many Kenyan people see as a cause of unemployment was analysed in this study. The study established that corruption has a long term impact on unemployment in Kenya as on the long run an increase in corruption rate increases unemployment rates.

Key Words: Corruption, Unemployment, Economic Growth

KENYA'DA YOLSUZLUK VE İŞSİZLİK ORANLARI ARASINDAKI İLİŞKİLER

Özet

Bu çalışmanın temel amacı, 2000 yılından 2017 yılına kadar Kenya'daki yolsuzluk ve işsizlik arasındaki ilişkinin belirlenmesidir. Son yirmi yılda Kenya'daki yolsuzluk oranı milyonlarca Kenya parası birkaç kişi tarafından çalındığından yüksek olmuştur. Kenya, birçok insanın yolsuzluk skandallarına karıştığı için yolsuzlukla o kadar derinden yemiş. Yolsuzlukla mücadele, içinde görev yapanların çoğunluğu hükümet yetkilileri olduğu için zorlaştı. Bu yolsuzluk tehdidiyle mücadele etmek için Kenya'daki birçok genç hırsızlık ve suç gibi yasadışı faaliyetlerde bulunmaya karar vermiştir. Öte yandan Kenya, ekonomik büyüme ve gelişme açısından Doğu Afrika'da nispeten daha iyi bir performans gösteriyor ancak İnsani Gelişme Endeksi (İGE) 2017 raporları, Kenya'da yüzde 39,1 işsizlik oranı kaydettii. Bu açıkça, Kenya'nın Etiyopya, Tanzanya ve Uganda gibi ülkelerin daha düşük bir işsizlik oranı kaydettiği için Doğu Afrika'daki en yüksek işsizlik oranına sahip olduğunu göstermektedir. Kenya'daki ekonomisinin nispeten daha iyi olduğu yüksek işsizlik oranı, Kenya'da işsizliği etkileyen diğer ciddi faktörlerin olduğunu göstermektedir. Bu çalışmada, birçok Kenyalı insanın işsizlik nedeni olarak gördüğü en önemli etkenlerden biri olan yolsuzluk analiz edildi. Çalışma, yolsuzluk oranındaki bir artışın işsizlik oranlarını artırması nedeniyle yolsuzluğun Kenya'daki işsizlik üzerinde uzun vadeli bir etkisi olduğunu ortaya koydu.

Anahtar Kelimeler: Yolsuzluk, İşsizlik, Ekonomik büyüme

1. INTRODUCTION

Unemployment is an economic indicator of countries which show the number of people who are willing and able to work but are unable to get a job. Those who are not willing to work are therefore referred to as economically inactive and do not count towards unemployment figures. If a country has a high rate of unemployment it shows a struggling economy where the supply of labour outstrips demand for it. This means that the country is not managing its resources well and therefore effective policies need to be put in place to ensure efficiency.

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According to the Transparency International (IT) corruption can be defined as "the misuse of entrusted power for private gains". Corruption does not only affect developing countries like Kenya but it also affects developed countries, however, in is more rampant in African and Asian countries. In addition, this corruption menace does not only happen within a specific political system but it exist in all forms of political system.

Corruption has been blamed by many people to be the source of a high level unemployment in Kenya. Corruption involves many cases, for example where there is biased selection of employees for jobs through illegal means like bribery, nepotism and favouritism. Corruption is not a new topic in Kenya but recently it has become rampant as people from all ranks are involved. Corruption issue became worse when even politicians who are entrusted with public offices became so greedy and they started looting money meant for public for their own private use. The president of Kenya throughout 2017 and 2018 gave tough warnings to corrupt officials and at the same case he has persuaded Kenyans to join hands towards the fight against corruption. In fact corruption has been declared as a national disaster in Kenya. Initially before the rampant spread of corruption, Kenya was East Africa's economic giant. However, recent reports by the international monetary fund (IMF) indicated that Ethiopia has overtaken Kenya as East Africa's economic giant. At the same time reports by the Human Development Index (HDI) 2017 indicated that Kenya recorded 39.1 per cent unemployment rate. Although not certain at this particular juncture, we can suggest that corruption might be a contributing factor to high unemployment rate in Kenya.

On October 2015 the president of Kenya Uhuru Kenyatta formed an anti- corruption graft committee to fight what he termed as "untameable beast". Most of the corruption cases in Kenya which are in court at least 70% of them are related to procurement while 20% are related to direct bribery. Therefore as part of turning spotlight on corruption the president formed a committee known as Ethics and Anti-Corruption Commission (EACC). However this commission has not done much as the looting of public resources is still very high. The president has even went ahead to sign treaties with countries like Switzerland for the return of money which have been stolen from Kenya by Kenyan officials and kept there. Towards the end of 2018, Nairobi governor Mike Mbuvi Sonko launched a fight against corruption in Nairobi County. He forcefully recovered public land which was on the hands of corrupt officials. In this process many houses which were standing on public land were demolished. Most of these building were housing businesses and their demolition rendered many people jobless.

Corruption in Kenya has also been evidenced in cases whereby the elites who have been elected to represent the mass embezzle funds which would have been used to develop marginalized areas and come up with economic facilities such as industrial sectors for instance tea processing plants, coffee factories, sugarcane factories and dairy processing plants. This would have been in turn created job opportunities for the youth in the marginalized areas and even in the rural areas. In addition to that sometimes the Kenya government disburse funds with the sole purpose of creating self-employment opportunities for the youth, for instance the Kenya Youth Funds. These funds aim at boosting young innovators and budding entrepreneurs. These funds are also supposed to be used to equip the youth with technical skills which will help them create employment opportunities instead of staying idle and scrambling for the few job opportunities due to the ever increasing population. However these funds have been squandered by the leaders for instance the National youth service funds[2]. The NYS funds were misused by the engaging in dirty deals involving tenders. Embezzled funds are used by the few leaders to run their cartels as they try to control everything so as to retain power.

It's worthy to mention that unemployment is not as dangerous as 'employment of unemployables'. That is the selection and appointment of unfit people to public office just because they belong to a certain family or related with recruiting officer is as worse as killing the economy. More deserving, intelligent and well equipped people loss chances of applying their skills to

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[2] Reports by the Daily nation of Kenya in 2016, showed that a special audit of the National Youth Service accounts by the Auditor General revealed an elaborate scheme to defraud taxpayers that led to the loss of Sh1.9 billion and an attempted theft of Sh695 million.

unqualified and dishonest people. This results to unemployment especially for the most qualified individuals. The employment of unfit people burdens the administration or even private enterprise and this leads to a continuous cycle of corruption.

Corrupt officials in the government focus solely on retaining power. They don't have any intent or motivation of helping people. For these corrupt officials to ensure they fully control people they make sure citizens are poor as they don't even think of creating job opportunities. Yes in developed countries there is corruption but in most cases they do care about the interest of their normal citizens and they do create employment opportunities for them. They understand the importance of equality and they have tried to eliminate poverty. In Kenya most politicians want to be worshipped as they want to own everything in whichever the means.

Corrupt governments often don't have any vision and they don't have any interest of listening to the problems of people or hearing conflicting points of view. They don't even have an economic model that should ensure eradication of unemployment as most people holding jobs are actually incapable of performing the tasks they have at the position they hold. Unemployment in Kenya is therefore due to the greediness and selfishness of government officials.

Corruption in Kenya has become a global issue as many people especially scholars from different parts of the world have tried to discuss the causes and impact of this menace. For the purpose of this study the relationship between corruption and unemployment in Kenya will be analysed.

This paper therefore tries to answer two main questions

1. What is the relationship between corruption and unemployment in Kenya?
2. What policies can be put on place to ensure that the rates of unemployment are low in Kenya?

2. Literature Review

According to Lipset and Lenz (2000) corruption did not just start now since it has existed even in the past. Even in the ancient society corruption was unlawful and it spoiled every sector of the economy. They went ahead and said that corruption does not choose the colour, continent, age, sex or gender but it has its own consequences to each and every government. Corruption brings by money lovers either as government employees or nominated members to the government. This high profile people and nominated members misuse their powers and bring either their family members or their friends to government posts which they are not even qualified for. Consequently those individuals who don't have family members in powerful positions remain unemployed even if they have all the qualifications for a particular job.

Brooks (1909) stated that corruption is intentional misuse of government powers for private gain as those government officials entrusted with public offices know their duties but they neglect it for their own reasons which are not intended by the state. According to Akinseye (2000) corruption which can simply be described as a mother of all crimes is included in four major parts which are nepotism, bribery, prebendalism and graft.

Corruption does exist in every country but its magnitude on unemployment differs from one country to another (Orwell, 1978). It's believed that some countries have more corruption than others and the economic potential of a country dictates the rate of corruption that is likely to be there. Lowly performing economies are expected to have a high rate of corruption whereas strong economies where job opportunities are high are likely to have low corruption rates. In more corrupt countries individuals in power use their powers to employ their dear ones or those people who they are related to, broking equality in employment sector hence these countries' unemployment rate goes up. Corruption hence leads to cronyism. Cronyism plays a crucial part in unemployment as having a job in countries like Kenya doesn't depend on what you know but it all depends on who you know. In short corruption can be described as illegal extra benefit that is sought by selfish, unethical and dishonest public officials at

the detriment of public. Its "illegal extra benefit" because anything one acquires through corruption is not legally entitled to him/her.

Corruption in terms of bribery, nepotism, favouritism, commercial bribery and unlawful allowed favours are positively correlated with unemployment (Dwivendi 1967). In Kenya before joining any sector, giving a bribe has become a norm although it is prohibited. Most people are trying to use the back door to enter into employment. The problem is for the young people who are educated but unfortunately come from poor background. Their appealing certificates don't matter since bribery and nepotism will always take the day. Therefore most educated young people in developing countries especially Kenya are unemployed and are facing every kind of problem and criticism from the society.

The concept of corruption in terms of nepotism and favouritism was further studied by Amundsen. According to (Amundsen, 1999), favouritism is a situation where one uses state given power to give favours to friends, and anybody close enough to him/her. Nepotism on the other hand involves favours which are directed towards family members without taking into consideration their qualification. The high and the mighty have mastered this art and they are doing anything possible to better their own without minding the larger societal impact.

According to (Sen, 1999), sound and good situations can become bad and chaotic if illegal means are involved. This is because those individuals who are corrupt are involved in the violation of already established rules and laws for their own selfish benefits. Even religious faiths like Christianity, Islamic and Hindus among others have classified corruption as a violation of human rights. So whether we look at corruption from employment point of view or human rights point of view it's bad and unacceptable.

Nye (1967) stated that corruption and unemployment are related. According to Nye those people who are in employment engage in corrupt activities for personal gains which is a deviation from the formal duties of the office the hold. During recruitment/ employment selection the corrupt people use this chance to do dishonest selection for their own financial gains violating the basic principles and rules of employment. Through this, intelligent minds which would have changed the economy if given a chance stay unemployed and poor forever.

Bayart et al. (1997) stated that the tendency of giving money to gain unnecessary advantage when it comes to employment is done in many ways. They include tips, payment of money, bungs, backhanders, greasing palms among others. Sometimes these people who give money become victims of fraud. They give money but the corrupt officials disappear with the money and they don't offer them employment opportunities. Due to loose systems of employment especially in Kenya those people who get jobs are those who in most cases belong to rich families. As long as you come from poor family and you don't have any connection the chances of getting a job are almost equal to none.

Bouzid (2016) empirically examined the relationship that exists between corruption and unemployment using the albeit youth unemployment. In his study he indicates that practices of corruption by government officials when hiring employees increases unemployment rates among educated workers and the youth, and it results to more corruption as those people seeking for jobs tend to pay bribes to officials so that they can secure jobs.

Lacko (2004) examined indirectly how corruption and unemployment relate. From the study there was a clear indication that if both tax labour and corruption are high in a country then unemployment is likely to increase.

3. Methodology

The study employed correlational research design to determine the relationship between corruption and unemployment in Kenya within the study period which ranges from 2000- 2017. The study used secondary data and the sources of the data were obtained from Kenya National Bureau of Statistics (KNBS), Transparency International (TI) at http://www.transparency.org, and world bank indicators.

3.1 Empirical Setup

For the purpose of this study, unemployment (UNP) is used as a dependent variable whereas Corruption Perception Index (CPR), inflation (INF) and growth in foreign direct investment (FDI) are used as explanatory variables. The above variables can be represented as a function as shown below.

Unemployment= f(Corruption perception Index, inflation, growth in foreign direct investment).

Econometrically the above equation can be represented as below:

$UNP_t = \beta_0 + \beta_1 CPR_{t-1} + \beta_2 INF_{t-1} + \beta_3 FDI_{t-1} + \beta_4 UNP_{t-1} + \varepsilon_t$ ……………equation 1

Where:

UNP_t = Unemployment rate in time t.

CPR_t = Corruption rank in time t.

INF_{t-1} = Inflation rate in time t-1.

FDI_{t-1}=Foreign Direct Investment in time t-1

UNPt-1 = unemployment in time t-1 (that is, unemployment in the preceding year or one lag of population rate).

ε_t = Error term in time t.

$\beta_0, \beta_1, \beta_2, \beta_4$ = Regression coefficients.

3.2 Method of Analysis

In this study Vector Error Correlation Method (VECM) was used to determine the nexus of corruption on unemployment in Kenya. According to (Rahmaddi & Ichihashi, 2012), the information on the long run relationship among the variables will be provided by the co-integration analysis while the short run relationship among the variable will be provided by granger causality test. E-views 8 analysis software was used to analyse data herein generating a regression model of the variables. After data analysis the result were presented in form of equations, graphs and tables.

3.3 Model Estimation

Expressing equation 1 as a VAR model;

$X_t = A_0 + \beta_1 X_{t-1} + \beta_2 X_{t-2} + \beta_3 X_{t-3} + \ldots\ldots + \beta_q X_{t-k} + \varepsilon_t$**…………**equation 2

Where

X_t = (UNP CPR INF FDI)

The parameters β_1 to β_q represents the coefficient of explanatory variables while ε_t is the stochastic error term.

Expressing equation 2 as a VECM model

$\Delta X_t = \alpha_0 + \lambda X_{t-1} + \sum_{j=1}^{w} Z j \Delta X_{t-j} + \varepsilon_t$……………………………equation 3

Where Δ represents variable stationarity at first difference, X is a 4x1 – dimensional vector of non-stationary I(1) variables , α is the constant and w is the dimensional vector of the stochastic error term normally distributed with white noise properties N(0,F2). λ is the long run matrix that determines

long run co-integrating relationship. Z is the vector of parameters that represents the short term relationship.

3.4 Pre- Estimation Tests

3.4.1 Testing for Stationarity

Time series data used in this study might be associated with the shortcoming of non-stationarity which is lack of independence of observation across time. This shortcoming usually leads to either inconsistent or spurious regression problems. Before using time series data therefore stationarity has to be tested and if the data tested is non-stationary it must be converted to stationary series. Stationary series are useful since they have a constant variance, which experience transitory deviation from the regression mean and it always tend to return to its mean in the long term. That is to say this research aims to use data with constant mean and variance. (Engle & Granger, 1987) stated that the order of integration of non-stationary data determines the number of times it has to be differentiated to achieve stationarity. Stationarity of this data will be tested by the use of Augmented Dickey-Fuller (ADF) unit root test.

3.4.2 Testing for Co-integration

Co-integration is use to test for the long term relationship between the dependent and independent variable. Deviations are expected to be corrected in the long run leading to a constant differences between the variables used.

4. Empirical Findings

This section represents the empirical results and analysis of the study where descriptive tests are carried out and VECM results are discussed.

4.1 Descriptive Tests

The relationship between unemployment and corruption can be represented as shown in the graph 1 below.

Graph 1: Graph showing relationship between unemployment and corruption
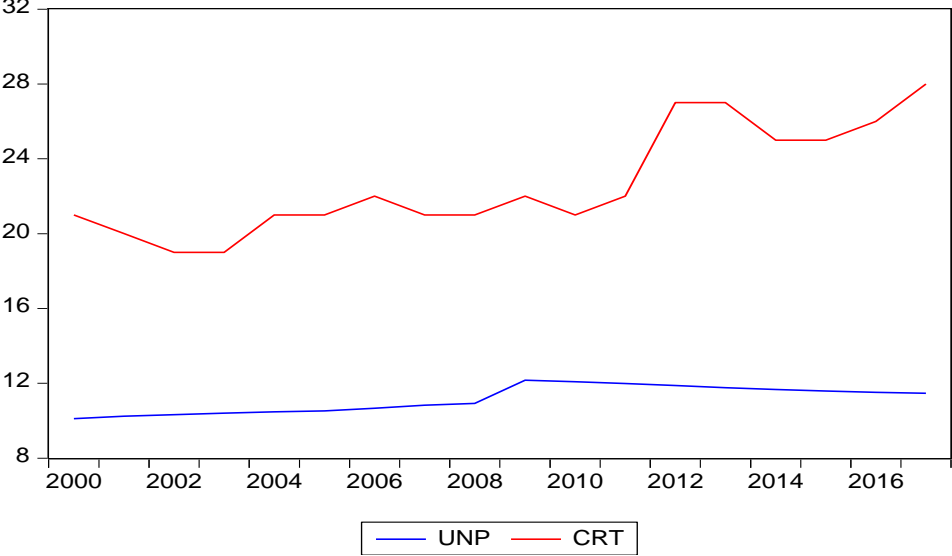
Source: Author's computation based on data from World Bank Indicators and KNBS

The graph shows does not give a clear picture of the relationship between unemployment and corruption. To understand the relationship between the two variables econometric analysis is therefore carried out.

4.2 Stationary Test

Stationarity means that the variables have no unit root or they are integrated at level. If unit root exist it means that our regression will be spurious and our forecasting will be wrong. Augmented Dickey Fuller Test was used to test for stationarity. The test results are as presented in table 4 below.

Table 1: Test of stationarity in level and first order

Variable	Test Statistic at Order Zero	5% Critical	Test Statistic at Level	5% Critical
UNP	0.948639	0.9008	-3.545365	0.0015
INF	-0.318277	0.5536	-5.570537	0.0000
CRT	0.986535	0.9065	-3.305675	0.0026
FDI	0.554559	0.8257	-3.306791	0.0026

Source: Author's computation based on data from World Bank Indicators and KNBS

Results from table 1 shows that all variables are non-stationary at level but they are stationary at first difference. Since all variables shows stationarity at first differencing order we will use VECM to determine how unemployment relate with corruption. First co-integration test has to be carried out to determine whether there is a long term relationship between unemployment and corruption.

4.3 Co-integration mechanism

Johansen test of co-integration is used to test for the co integration between the variables under study. Co-integration of variables is done if there is a constant long-run linear relationship among variables under consideration. (Granger, 1986) stated that a test for co-integration is a pre-test carried out to avoid spurious regression situations. Since the variables under review integrate at order 1 co-integration test therefore can be carried out. The testing hypothesis used in this study is the null of no co-integration against the alternative hypothesis of co-integration using the Johansen test of co-integration in E-views.

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.806048	58.68448	47.85613	0.0035
At most 1 *	0.715771	32.44216	29.79707	0.0242
At most 2	0.423139	12.31456	15.49471	0.1425
At most 3	0.197084	3.512091	3.841466	0.0609

Trace test indicates 2 co-integrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

Source: *Author's computation*

By the use of Trace statistic the table 2 above indicates that there are two co-integrating equations. This therefore means that a long term relationship might exist between unemployment and corruption.

4.4 Long run relationship between unemployment and corruption

$$UNP = 7.863287 + 0.359746CRT - 0.178664FDI + 0.025375INF$$

$$(0.09778) \quad (0.07098) \quad (0.05339)$$

$$[-3.67917] \quad [\ 2.51702] \quad [-0.47527]$$

The co-integration equation above shows how corruption, foreign direct investment and inflation relate with unemployment. From the equation a one percentage increase in corruption will leads to a 0.359746 percentage increase in unemployment. For foreign direct investment a percentage increase leads to a 0.17866 decrease in unemployment. Inflation increase in one percentage in Kenya leads to a 0.02537 increase in unemployment. Taking emphasis on our variable of interest that is corruption, the equation indicates that it is directly proportional to unemployment.

4.5 Vector Error Correlation Method (VECM)

VECM is used for estimating whether there is short term or long term relation that exists between different variable over a period of time. It also estimates directly the speed at which a dependent variable returns to equilibrium after a change in other variables. Table 4 below shows the summary of VECM estimate.

Table 3: Summary of VECM Estimate

D(UNP) = C(1)*(UNP(-1) - 0.0253745508642*INF(-1) + 0.178663945752

         *FDI(-1) - 0.359746382135*CRT(-1) - 7.86328723784) +
C(2)*D(UNP(

         -1)) + C(3)*D(INF(-1)) + C(4)*D(FDI(-1)) + C(5)*D(CRT(-1)) +
C(6)

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.223048	0.097156	-2.295761	0.0446
C(2)	0.469715	0.206664	2.272847	0.0463
C(3)	0.029527	0.009347	3.158968	0.0102
C(4)	0.053170	0.042194	1.260137	0.2362
C(5)	-0.036746	0.036872	-0.996604	0.3425
C(6)	0.030714	0.062732	0.489601	0.6350

R-squared	0.694845	Mean dependent var	0.076875
Adjusted R-squared	0.542267	S.D. dependent var	0.325222
S.E. of regression	0.220032	Akaike info criterion	0.089911
Sum squared resid	0.484142	Schwarz criterion	0.379632
Log likelihood	5.280712	Hannan-Quinn criter.	0.104747
Durbin-Watson stat	2.488888		

Source: *Author's computation*

Taking into emphasis our explanatory variable which is corruption the results shows that it affects unemployment in the long terms since ECT is negative and significant. This means that corruption has a long term effect on unemployment in Kenya. However there is no short term relationship between corruption and unemployment. However both inflation and lag of unemployment have a short term effect on unemployment in Kenya. The ECT coefficient has a value of -0.223048 which implies that the system of unemployment in the long term will correct its disequilibrium at an adjustment speed of 22.3 % per year in case there is exogenous shock in the system. The error correction term is negative which indicates that the system will move back to equilibrium. If the error term was to be positive and significant this could have indicated that the system will be moving away from the equilibrium and therefore no possibility whatsoever of causation between the dependent and explanatory variable.

R-square is 69.6% which means that a large percentage of our variables have been explained by our model.

5. CONCLUSION AND RECOMMENDATION

The objective of this paper was to establish the relationship between corruption and unemployment in Kenya. The study established that corruption and unemployment do not have any relation in the short run. However, in the long term increase in corruption leads to an increase in the rate of unemployment. This might be due to the fact that when corruption persists unemployed qualified people no longer want to seek for job opportunities because they have lost hope in the

system. They resolve to embark on unlawful activities as they believe that there is no chance for them to have jobs as they have been reserved for the rich and those who are well-connected in the society.

The study will like to urge all the Kenyan government officials to understand that corruption is not benefiting our economy. If employment opportunities were equally given and there is openness and transparency in hiring process the Kenyan economy could have become much better. If young people believe in the system they will become more involved in useful activities in the society as they wait for their time to get a job.

In addition the Kenyan government should introduce national programmes to create awareness on the need to eradicate corruption. Leaders should lead by example by being honest and transparent. Although "Kenya National Ethics Commission" has been formed for this purpose much has not been done.

The study will also like to recommend Kenyan people to vote politicians based on their qualities and not because of what one owns. Over the last 3 decades money has been used as an influence in politics. This behaviour must be discouraged and people should vote for person's characters and qualities rather than money.

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