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## Economic Crimes and Economic Growth in Selected African Countries

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### Abstract

*Economic crime has become a major impediment to the process of economic growth in African Countries despite various efforts put in place by the governments across African countries and international organization to reduce it. Therefore, this study investigated the effect of economic crimes on economic growth in some selected African Countries between 1990 and 2020. Thirty sub-Saharan Africa countries were selected based on data availability. Data for the study was sourced from World Bank Development Indicator Online Data base, United Nations Development programme and Central Banks of the selected countries. The study employed Panel Autoregressive Distributive Lag as the estimation technique to capture the stated objective. The results of study revealed that economic crime and gini coefficient has significant negative relationship with real gross domestic product growth rate. The study therefore concluded that economic crime is detrimental to economic growth in the selected African countries. Based on the conclusion drawn from the major findings of the study, the study recommended that African countries governments should make more efforts to reduce or curb economic crime through adequate policies to reduce income inequality, unemployment rate and population growth rate and ensure means of improving per capita income. More so, policy aimed at improving transparency and more generally disseminating information that may ultimately lead to identification of leakages in the economy will be helpful in controlling economic crimes and creating the conditions for rapid economic growth.*

**Keywords:** *Economic crimes, economic growth*

### 1.0 Introduction

Economic crime is a cankerworm that has eaten deep into the moral fabric of several countries across globe particularly the developing nations. It has become axiomatic that economic crime is seen as ubiquitous phenomenon across societies. It is not restricted to any region in the world but a universal phenomenon that exists in small and large, poor and rich, developing and developed, and authoritarian and democratic societies. Economic crime is a complex and multifaceted phenomenon with multiple causes and effects; it takes on various forms and focuses in different contexts. It ranges from embezzlement of public funds, illegal accusation of wealth, cybercrimes, inflation of contracts; transfer of tangible resources (Andvig, 2000). Economic crime is a global problem and no country of the world is totally free of its menacing grip as observed by Chimakonam (2011). However, some countries face more detrimental consequences than others. There is a consensus that developed countries encounter few crime incidents because of better economic growth and good governance that engender good standard of living. Economic crime has affected many countries all over the world, most importantly developing countries (Nagari, 2013). Economic crimes inhibit economic growth and increases poverty rate. Not only this, economic crime affects equitable distribution of resources across the population, increasing income disparities with a skewed income distribution, undermining the effectiveness of social welfare programmes, and weakening effective demand in an economy and ultimately resulting in lower levels of investment, trade flows, government effectiveness and human capital development. This may undermine long-term sustainable development, economic growth and equality/transparency. High level of economic crime is detrimental to the economic growth in several

ways. For instance, when fund budgeted for the development of infrastructural facilities and economic growth is mismanaged, this will definitely reduce the level of investment and when investment reduces; production falls and attract high level of unemployment. Economic crimes which is an integral component of corruption and which has become a virus keep increasing in size, forms, dimension and magnitude. This virus has increased tremendously, globally and particularly in African nations. For instance, as at 2019, the estimated global cybercrime was around \$396 billion (World Bank, 2019) at the same time, the estimated global bribery is around \$1.1 trillion per year. This is an average of 3% of world income (World Bank, 2019). Also, the laundered money every year is estimated to be around 2.0 to 5.0 percent of Global Gross Domestic Product (IMF, 2004). From 1970 to 2018, the estimated illicit financial outflow (IFFS) is \$1.8 trillion (World Bank, 2018). \$6.2 trillion is taken illegally from African countries annually. This is evidence by series of corrupt practices by Military, civilian, and bureaucratic processes across African countries.

Rotimi & Obasaju, (2013) also pointed out that economic crimes modify government goals and divert resources from public to private purposes, thereby resulting in deadweight loss to the society. Besides, economic crime may also discourage private investment by raising the cost of public administration or by generating social discontent and political unrest, which in turn may slow down economic growth. Moreover, what is so worrisome and always call for the attention of the academic researchers has been that, despite the tremendous efforts put in place by various African governments through establishment of various anti-corruption agencies or other organs across African countries (such as EFCC and ICPC in Nigeria), to reduce and suppress various economic crimes, much is yet to be achieved in the area of economic crime reduction and economic growth. Against this backdrop, this study attempts to examine the impact of economic crime on economic growth in Africa.

The organisation of this paper is as follows: the next section reviews previous studies on economic crime and economic growth, followed by an analysis of the empirical methodology used and the sources and description of the selected data. The main empirical results of the study are presented and discussed in Section 4, while Section 5 concludes with the relevant policy implications

## **2.0 Literature Review**

This section deals with conceptual issues, theoretical literature and empirical literature on economic crime and economic growth.

### **2.1 Conceptual Issues:**

#### **2.1.1 Concept of Economic Crimes**

Economic crime is defined as non-violent criminal and illicit activities committed with the objective of earning wealth illegally either individually or in a group or organized manner, thereby violating existing legislation governing economic activities of government and its administration and include any form of fraud, money laundering, smuggling, currency counterfeiting, tax evasion, corruption, embezzlement etc. These constitute the typologies of economic crimes (Uchen and Benedict, 2015).

The term economic crime refers broadly to any non-violent crime those results in a financial loss. These crimes comprise a broad range of illegal activities, including fraud, tax evasion, and money-laundering. The category of ‘economic crime’ is hard to define and its exact conceptualization remains a challenge. The task has been further complicated by rapid advances in technology, which provide a new opportunity for such crimes (Ahmed et al., 2012).

#### **2.1.2 Economic Growth**

Economic growth is the increase of the real output of an economy over time. It includes the physical ability of an economy to produce more goods and services, increase in the stock, an equality of its capital goods, an increase in quality and quantity of its natural resources, the level of aggregate demand and efficient use of factor inputs so as to maximize their contribution to the expansion of output through improved productivity just to mention a few. Olumade (1999), defines economic growth as a long-term change in an economy’s productive capacity. The productive capacity of the economy is the output that could be produced if all the economic resources were fully and efficiently employed (Ade, Babatunde and Awoniyi, 2016). Economists

from different parts of the world such as the Keynesian, Classical, the Neo-classical and the proponents of the New Growth Theory have developed interest and devoted much attention to the importance of economic growth.

According to Jhingan (2002), economic growth is the process whereby the real per capita–income of a country increases over a long period of time. He states that economic growth is measured by increase in the amount of goods and services produced in a country. A growing economy produces more goods and services in each successive time period. Thus, growth occurs when an economy’s productive capacity increases which in turn is used to produce more goods and services.

Todaro and Smith (2010) also defined economic growth of a country as a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology provides the pre-condition for continuous economic growth and to realize the potential for growth inherent in new technology, institutional and attitudinal adjustments must be made.

### **2.2.2 Theories of Crime**

Basically, there are four notable crime theories. They are Biological, sociological, social control, and right realism or rational choice theory.

There is no one cause of crime. Crime is a very complex phenomenon that changes across cultures and across time. Activities considered to be lawful in one country may be illegal in another country. Take for instance, in some parts of Nigeria; drinking of alcohol openly is legal, while in Saudi Arabia, it is a crime. Since culture is dynamic, behaviours that were not initially considered as criminal may eventually see it as illegal in later years.

#### **Biological crime theory**

This theory emphasizes that some people are born criminal, who are physiologically distinct from non-criminals. According Lombros (1972) criminals are atavistic essentially evolutionary throwbacks. He suggests that their brains are mal-developed or not fully developed. In his view of prisoner, he found that they shared a number of common physical attributes such as sloping foreheads and receding hairlines. He therefore, suggests that involvement in crime is a product of biological characteristics.

#### **Sociological Theory**

Sociological approach suggests that crime is shaped by factors external to the individual, their experiences within the neighborhood, the peer group and the family. This theory came up from study conducted by sociologists at the University of Chicago in the 1920th and 1930th. Its key proponents were Clifford, Shaw, Henry and McKay (1942) who used spatial mapping to examine the residential locations of juveniles referred to court. They found in their study that patterns of delinquency were higher in areas characterized by poor housing, poor health, socio-economic disadvantage and transient population. This led them to suggest that crime is a function of neighborhood dynamics and not due to individual actors and their actions.

#### **Social Control Theory**

According to this theory which was developed by (Godwin, 1966), people generally conform to social norms due to strong social bonds. Conversely, they engage in delinquent acts when these bonds are broken or weak. The key components of social bonds are;

**Attachment:** How strong or weak is an individual’s relationship with others? Do these others expect certain kinds of behaviour such as obeying the law from these individuals? The stronger the attachment and the stronger the expectations, the more likely it is that individual will conform.

**Commitment:** the more an individual commits his/her act to a particular lifestyle, (for example, being married, being a parent, having a job), the more he/she has to lose if he/she becomes involved in crime and so deviate from the lifestyle.

**Involvement:** this component comes down to time. The more the time the individual spends engaging in law abiding behaviour, the less time he/she has to engage in law breaking behaviour.

**Believe:** this relates to upbringing. If an individual has been brought up to be a law abiding, they are less likely to become involved in crime.

#### **Right Realism/Rational Choice Theory**

This theory which was developed by George (1953) sees individual as rational actor, individuals are capable of making their own choices, which includes choosing to commit crime. In any course of action, individuals weigh up the likely benefits and disadvantages of each

### 2.3 Empirical literature

Bitlerhout and Simo-Kengne (2020) employed GMM to investigate the relationship between corruption and economic growth between 1996 and 2018 in some selected developing countries. The study was able to establish that corruption and economic growth have direct and significant relationship. The finding from the study revealed that various corrupt practices in the selected African countries have negatively impacted investment in the region and that corruption is detrimental to economic growth. Gabriel. (2014) also investigated influence of corruption on investment in African countries using panel co-integration and error correction to empirically carry out the study. Result obtained from this study revealed that corruption is detrimental to investment during the study period. Olorunsola (2015) investigated the connection between corruption and economic growth in sub-Saharan Africa between 1985 and 2013 using panel co-integration as estimation technique. The study found that corruption as a result of poor governance is inimical to the process of economic growth in developing countries. Yon, (2019) used panel co-integration to investigate relationship between economic growth and corruption a comparative study of developed and developing economies. Results obtained from the study revealed that corruption is not good for any economy, but more deadly in developing economies.

Pak hung (2001) used ordinary least square to empirically investigate the relationship between economic performance and corruption in some selected African countries. The study discovered that a unit increase in corruption brings about 72% declines in economic growth during the study period. In the same line of study, Ade, Babatunde and Awoniyi (2011) investigated the connection among corruption, foreign direct investment and economic growth in Nigeria between 1990 and 2009. The study made use of OLS and Granger Causality Test as estimation techniques. Finding from the study revealed that there is inverse relationship between FDI inflow and corruption while uni-directional connection was discovered between FDI and corruption during the study period. Hendrika, (1998) and Johnson (1998) examined the distributional effects of corruption and tax evasion on poverty, employing ordinary least square method as estimation technique. Findings of the study showed that tax evasion is not good for economic and also promote income inequality.

Also, Wei (2000) used ECM to investigate the relationship between corruption and investment in some selected African countries. Finding from the study revealed that corruption retards the inflow of FDI to the developing countries during the study period. Samson, (2011) studied good governance as an antidote to corruption in Africa. The study found that corrupt practices have become and household name mostly in developing countries. Ighodaro and Igbinedion (2020) studied the connection between corruption and economic growth in West Africa between 2000 and 2018 using Panel co-integration as estimation technique. In this study, it was found that corruption retards economic growth.

Also, Mo (2001) investigated the influence of corruption on economic growth between 1970 and 1985 in Hong-Kong. In the study, ordinary least square and two stage least squares were used as estimation techniques. The study discovered that corruption is a great enemy of economic growth as it reduces human capital as well as share of private investment. In the same line of study, Ahmed, Ullah and Arfeen (2012) used random effect model and the General Method Moment (GMM) to investigate the relationship between corruption and economic growth in some selected developing countries. The study found that corruption is highly inimical to the process of economic growth in those selected developing countries. Amin, Ahmed and Zyman, (2013) used co-integration and error correction model to establish the relationship between economic growth and corruption in Pakistan. The study found that corruption negatively impacted economic growth in Pakistan during the period under investigation.

To complement studies on the interaction between economic growth and corruption (Olu, Mohammed & Audi, 2014) studied the effect of corruption on economic development in Nigeria using descriptive statistics. The authors discovered that various anti-corruption policies established in Nigeria have made corruption to relatively reduce. In the view of, Mikaeleson and Sull (2014) where the authors investigated the connection between corruption and economics growth in some selected developing countries. It was discovered that corruption have negative effect on economic growth. Also Damico (2015) used GMM as estimation technique to study the relationship between corruption and economic growth in China. The study found that corruption negatively impacted all the variables used in the analysis. Thuch, Duony and Oanh (2017) used dynamic general method of moment to investigate the influence of corruption on economic growth in some selected countries in Asia. The authors found that corruption has inverse impact on economic growth in those selected countries. (Ondo, 2017) examined the connection between economic growth and corruption in selected developing countries. This study discovered that corruption has negative influence on civil liberty, human capital and public spending. Recently, Grundler and Potrufke (2022) examined the connection between corruption and economic growth in 175 developing countries between 2012 and 2018 using GMM as estimation technique. They discovered that corruption together with it lag value continuously possess negative influence on economic growth during the study period. Also, Hoinuru, Buda, Borlea Vaidean and Achim (2020) employed Panel co-integration to study the relationship between economic growth and corruption in 185 developing countries. Finding from the study showed that corruption in developing countries has negative influence on their economy.

Stonenes (2016) investigated the causal relationship between economic crimes and poverty in developed countries using Panel granger causality as estimation technique. The study found bi-directional relationship between economic crimes and poverty during the study period. James (2014) examined economic crimes and income inequality in Germany using VAR as estimation technique. The study discovered that the shocks emanated from income inequality did not produce insignificant positive reaction from poverty. To contribute to this, Yanuff (2019) studied poverty, income inequality and corruption in some selected developed economies using GMM as estimation technique. Finding from the study showed that corruption has negative influence on the growth of the selected economies during the study period.

### 3.0 Methodology

#### Model Specification

This study adapted the first model used by Ojog (2014) that specified economic growth as a function total crime as presented below:

$$GDPgr_{it} = k_0 + k_1Tc_{it} \text{ ----- } 3.1$$

This study therefore modified equation 3.1 by replacing total crime with economic crime and then adding some set of control variables including household consumption, net export, gross fixed capital formation, poverty level and gini coefficient as shown in equation 3.2

$$RGDPgr_{it} = \vartheta_0 + \vartheta_1Ecr_{it} + \vartheta_2Hcon_{it} + \vartheta_3Nx_{it} + \vartheta_4Gcfc_{it} + \vartheta_5Pyl_{it} + \vartheta_6Gc_{it} + u_t \text{ ... } 3.2$$

Where:

*RGDPgr* = Real gross domestic product

*Ecr* = Economic crime

*Hcon* = Household consumption expenditure

*Nx* = Net export

*Gfef* = Gross fixed capital formation

$Pvl = Poverty\ level$

$Ge = Gini\ coefficient$

$u_t = Error\ Term$

**Source of Data**

This study employed secondary time series data extracted from the World Development Indicators edition of 2023, and Central Bank of Nigeria statistical Bulletin over the period of thirty-one years spanning from 1990 -2020.

**4.0 Results and Discussion**

**Table 4.1: Panel Unit Root Test Result**

Variables	Test at level			Test at First Difference			REMARK
	LLC	IPS	FISHER	LLC	IPS	FISHER	
lnRGDPgr	-10.5822*	-11.2000*	211.668*	--	--	--	I(0)
lnECR	-1.75692**	-1.52274	51.1865	-23.3426*	-21.5319*	396.085*	I(1)
lnPVL	1.72243	3.79505	8.21605	-18.4090*	-15.8088*	222.487*	I(1)
lnHCON	0.25176	2.26423	59.6993*	-10.5992*	-16.2867*	300.979*	I(1)
lnGFCF	1.24057	-2.89454	83.5874	-11.2714*	-17.6513*	339.065*	I(1)
lnGC	0.88052	1.55539	20.5794	-13.4015*	-12.6383*	171.401*	I(1)
lnNX	3.44178	1.42514	29.4015	-6.93321*	-11.2599*	190.812*	I(1)

**Note:** (\*) connote rejection of unit root hypothesis at (5%) level of significance level

**Source:** Author’s Computation, (2023).

The result in table 4.1 showed that all the variables are stationary at first difference which integration of order one i.e I (1) except real gross domestic product growth rate that is stationary at levels which integration of order zero i.e I (0). This prompted the study to apply Panel ARDL Estimates as technique to capture the objective of the study.

**Table 4.2: Panel Estimation Result (Effect of Economic Crime on Economic Growth)**

*Dependent Variable: lnRGDPgr*

LONG RUN ESTIMATES					
PMG ESTIMATION			MG ESTIMATION		
Variable	Coefficient	Probability	Variable	Coefficient	Probability
lnECR	-.6257428	0.006	lnECR	-.5882835	0.435
lnHCON	.1202473	0.504	lnHCON	-.8287298	0.430
lnNX	-.9.34e-06	0.999	lnNX	-.0165817	0.346
lnGFCF	.2131521	0.125	lnGFCF	-.0443874	0.872
lnPVL	.2371845*	0.009	lnPVL	.7091816	0.458
lnGC	-.8860034*	0.026	lnGC	-.7908321	0.748
SHORT RUN ESTIMATES					
Variable	Coefficient	Probability	Variable	Coefficient	Probability
ECT	-.7496824*	0.000	ECT	-1.089866	0.000
C	.5692642*	0.004	C	2.489798	0.858
D(lnECR)	.6866189	0.239	D(lnECR)	.8572991	0.202
D(lnHCON)	.2073873	0.792	D(lnHCON)	.356575	0.735
D(lnNX)	-.0057277	0.505	D(lnNX)	.0024517	0.821
D(lnGFCF)	.1364583	0.659	D(lnGFCF)	.2058785	0.590
D(lnPVL)	-.9130076	0.245	D(lnPVL)	-.4191149	0.514
D(lnGC)	3.485282	0.246	D(lnGC)	4.041956	0.218
Hausman 1978 Test: 2.60 (p=0.8572 > 0.05)					

**Note:** PMG= Pooled mean Group estimation, and MG=Mean group Estimation

(\*) connote significance at 5% level of significance

**Source:** Author's Computation (2023)

Hausman test presented in table 4.2 compared pooled mean group estimation result with the mean group estimation result under the null hypothesis that difference in coefficient is not systematic. As reported in the table 4.2, the chi-square statistics stood at 2.60 alongside probability value of 0.8572, which connote that there is no enough evidence to reject the null hypothesis that difference in coefficient of the mean group and pooled mean group estimation is not systematic; hence the pooled mean group is valid for this study. Thus, the panel ARDL estimation is based on the pooled mean group option as presented in table 4.2.

Result of the long run estimation indicated that economic crime and gini coefficient has significant negative relationship with real gross domestic product growth rate, given coefficient and probability of  $-.6257428$  ( $p=0.006 > 0.05$ ) and  $-.8860034$  ( $p=0.026 < 0.05$ ) respectively. This reveals that real gross domestic product growth rate significantly decreases by 0.62% when there is 1% increase in economic crime. Result also revealed that net export and poverty level have insignificant negative and significant positive relationship with real gross domestic product growth rate, given coefficient of  $-9.34e-06$  ( $p=0.999 > 0.05$ ) and  $.2371845$  ( $p=0.009 < 0.05$ ). Result in addition showed that household consumption expenditure and gross fixed capital formation have positive insignificant relationship with real gross domestic product growth rate, given coefficient and probability of  $.122473$  ( $p=0.504 > 0.05$ ) and  $.2131521$  ( $p=0.125 > 0.05$ ) respectively.

On the other hand, short run estimation result revealed that economic crime, household consumption expenditure, gross fixed capital formation and gini coefficient have insignificant positive relationship with real gross domestic product growth rate given the coefficient of  $.6866189$  ( $p=0.239 > 0.05$ ),  $.2073873$  ( $p=0.792 > 0.05$ ),  $.1364583$  ( $p=0.659 > 0.05$ ), and  $3.485282$  ( $p=0.246 > 0.05$ ) respectively. This implies that real gross domestic product growth rate insignificantly increases by 0.68% when there is 1% increase in economic crime in the short run. Result also indicated that net export and poverty level have insignificant negative relationship with real gross domestic product growth rate, given coefficient and probability of  $-.0057277$  ( $p=0.505 > 0.05$ ),  $-.9130076$  ( $p=0.245 > 0.05$ ) respectively. Obtained ECT (-1) reported in table 4.9 reflects that about 74% of the short run inconsistencies is corrected and incorporated into the long run dynamics statistically, given probability value of 0.000 which is less than 0.05 level of significance.

## 5.0 Conclusion and policy Recommendations

This study examined the impact economic crime on economic growth in selected African countries. The results of study revealed that economic crime and gini coefficient has significant negative relationship with real gross domestic product growth rate while household consumption expenditure and gross fixed capital formation have positive insignificant relationship with real gross domestic product growth rate. Therefore, the study concludes that there is tendency for gross domestic product growth rate to fall whenever there is increase in the level of economic crime in the sampled African countries. In line with these findings and conclusion, the study recommends that African countries government should make more efforts to curb economic crime through adequate policies to reduce income inequality, unemployment rate and population growth rate and ensure means of improving per capita income.

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