Economic Crimes, Poverty and Economic Growth in selected African Countries: A Causality Test Approach

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DOI: 10.56201/ijebm.vol.11.no5.2025.pg21.27

Abstract
The consequences of economic crimes on economic growth and poverty alleviation across Africa are assumed to be scaring and tend to negatively impact the whole economic system. Therefore, this study set out to investigate the nexus between the economic crimes, poverty and economic growth in some selected African Countries between 1990 and 2020. Specifically, this study examined the causal relationship among economic growth, economic crimes and poverty. The study employed Panel Granger Causality test as the estimation technique to achieve the stated objective. Results obtained from Panel Granger Causality test showed that there is unidirectional causality running from economic crime to economic growth in the selected African Countries. Therefore, the study concludes that economic crime impacts economic growth but economic growth does not impact on economic crimes. In line with the finding and conclusion of the study, it was recommended that there is need for African countries to be more aware of economic crimes and take appropriate and effective measures to control economic crimes since this may facilitate poverty reduction and improvement the process of economic growth.

Keywords: *Economic Crime, Poverty, Economic growth and Panel Granger Causality Test.*

1.0 Introduction

It is very sad and unfortunate to report that as at today, Africa is the most backward continent in the world due to self-inflicted injuries (Stephen, 2017). This situation now necessitated a fundamental question; that is, why is it that African countries are the most backward economically, politically and socially in the world despite being blessed with abundant human and material resources? To provide a justifiable and pertinent answer to this question (Stephen, 2017) traced African countries underdevelopment to five major points, *(i)* swagger, *(ii)* indolence, *(iii)* self-indulgence, *(iv)* hot-air and *(v)* poor leadership. Godwin (2012) opined that no country can make any meaningful progress without positive stimulus from the side of intelligent government. Harmonizing these points together, one will see that they all fall under poor governance which leads to high incidence of poverty, corruption, economic crimes and sluggish economic growth.

Economic crime has direct impact on economic growth and indirect influence on poverty alleviation strategies. For instance, high level of economic crime reduces economic growth, invites poverty and income inequality (Johnson, 2019). The consequences of economic crimes on economic growth and poverty alleviation across Africa are assumed to be scaring and tend to negatively impact the whole economic system. 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
it attracts high incidence of poverty.

Africa appears to be the continent with the least capacity to cope with economic crime as an integral component of corruption, primarily because of its high rate of poverty and underdevelopment, among other factors. The vast majority of African people remain impoverished while the few dishonest elites enjoy the proceeds of economic crime (Resnickand Birner, 2006). The proceeds from economic crimes are exported abroad to either by buying luxurious goods or being held in foreign bank accounts. The endemic nature of economic crime in Africa especially at the institutional levels has questioned the capacity of African states to deal with the issue of economic crime in which huge resources are lost to every fiscal year.

There is relationship among poverty, economic crimes and economic growth. At aggregate level, economic crimes impact poverty through lowering economic growth, reducing foreign and domestic investment, distorting market, hindering competition and increasing income inequalities. According to Chetwoynd et al, (2003), economic crimes are likely to increase poverty, and reduces economic growth. This is because, economic crimes reduce the potential income earning of the poor. Therefore, eradicating economic crime is one of the instruments of poverty reduction and economic growth stimulant. For instance, a low level of economic development implies a higher degree of poverty and poverty is often the major cause of economic crimes (Ojog, 2014; Godwin, 2012).

The African economies are consistently facing extreme absolute poverty. For instance, the average poverty headcount ratio at $1.90 poverty line as at 1985 was 53.3 percent, increased to 57.1 percent in 1992, and four years later, it rose to 63.5 percent, while in 2010, it increased to 69.2 percent, it grew and stood at 72 percent in 2016 (Okojie, 2018). Within this period, several poverty alleviation strategies were introduced both by African countries and international organizations. Yet, there is no significant improvement in poverty reduction. This however, has generated concerns and agitations among policy makers and academic researchers. It is widely spread in the societies where poverty and unemployment are high and the masses have lost government trust, has the propensities to widespread crime and political unrest. As reported by the Corruption Perception Index (2018), many African nations have no impressive outcome despite various government efforts to increase economic growth. In fact, some of these efforts enhance corrupt practices through bribery.

The situation is worst in some African countries as reported by the Transparency International (2018) which reports that out of 16 most corrupt countries, Nigeria was second most corrupt country in Africa while Ghana got 41, Carbe Verde had the highest with a 57 out of 100: on the average, African ranges about 30% (corruption perceptions index, Ighodaro and Igbinedion, 2020).

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 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 poverty and economic crime reduction. Against this backdrop, this study is investigating the causal relationship among the economic crime, poverty and economic growth in Africa.

2.0 Empirical Literature

Yamatoo (2018) studied interaction among poverty, income inequality and output growth in some selected developing countries using panel ARDL. Finding showed that causes of poverty are also reasons behind income inequality. Hellen (2019) studied the connection among poverty, income inequality and economic development in some selected developing economies using GMM as estimation techniques. In the study, it was found that both poverty and income inequality are detrimental to economic development in the selected developing countries. It was further discovered in the study that corruption is an enemy of capital formation and investment in the selected African countries. Omoluyigbe (2016) used vector error correction model to study the relationship among employment, poverty and corruption in some selected developing countries. In the study, it was also discovered that corruption is one of the factors behind incidence of poverty and unemployment.

Islam (2004) examined the relationship among economic growth, employment and poverty in selected developing countries. The study employed panel co-integration and error correction as estimation technique. Finding reveals that slow economic growth negatively impact the process of poverty alleviation in the selected countries. Aside, at the same time, the study found that slow economic growth generates high level of unemployment. In the same line of study, (Agrawal, (2008) investigated the relationship between economic growth and poverty in Kazakhstan from 1990 to 2004. The study employed (OLS) as estimation technique. Finding showed that increase in economic growth and various government poverty alleviation strategies reduce incidence of poverty in the country examined. Also, Oyugi, (2008) investigated the effect of economic growth on poverty reduction strategies in Botswane, Kenya and Namibia using descriptive statistic as estimation technique. Findings showed that growth has failed to reduce poverty.

Jeyakunor (2013) examined connection among poverty; economic growth and income inequality in selected developing countries using ordinary least square as estimation technique. Empirical result showed that slow economic growth promotes poverty in the selected developing countries Okoroafor & Nwaeze (2013) investigated the relationship between poverty and economic growth in Nigeria between 1990 and 2011. The study employed OLS as estimation technique. Finding revealed that there was a sharp disconnection between economic growth and poverty in Nigeria during the study period. Bakare & Ilemobayo (2013) studied the relationship between economic growth and poverty in Nigeria between 1981 and 2008. The study made use of co-integration and error correction as estimation technique. Finding revealed that despite that there was an increase in the level of economic growth in Nigeria during the study period, yet, poverty did not reduce. Ijaiya, Ijaya, Bello and Ajayi, (2011) investigated the relationship between poverty and economic growth in Nigeria between 1980 to 2008. The study employed OLS as estimation technique. Finding revealed that increase in the economic growth in Nigeria relatively reduces poverty level.

Aigbokhan (2008) examined the relationship among growth, inequality and poverty in Nigeria between 1980-2004. The study employed OLS as estimation technique. Finding revealed that increase in growth level does not lead to reduction in poverty in Nigeria during the study period. Also, Gold (2009) studied the impact of economic globalization on poverty level in Nigeria between 1985 to 2006 using co-integration and error correction as estimation technique. Finding from this study showed that economic globalization did not have significant impact on poverty in Nigeria during the study period. Ilesanmi (2021) employed GMM as estimation technique to investigate the interactions among poverty, economic growth and income inequality in Nigeria between 1990 and 2019. Finding showed that slow economic growth is the major reason behind high level of poverty and income inequality in African counties.

3.0 Research Methods and Materials

In an attempt to model the granger causal relationship among economic crime, poverty level and economic growth this study related each of these variables in pairs and then present the granger causality of each pairs following the works of Nayaran and Smyth (2004) and Detotto and Pulina (2012). Let X represent measure of economic crime, Y represent measure of economic growth and Z represent measure of poverty level, then the causality models in pairs are presented as follows:

Model for causal relationship between Economic crime and Economic growth

$$X_t = \sum_{i=1}^{n} \delta_i X_{t-i} + \sum_{j=1}^{n} \theta_j Y_{t-j} + U_{1t} \quad \cdots 7$$

$$Y_t = \sum_{e=1}^{n} \mu_e Y_{t-e} + \sum_{m=1}^{n} Y_m X_{t-m} + U_{1t} \quad \cdots 8$$

Model for Causal relationship between Economic crime and poverty level

$$X_t = \sum_{i=1}^{n} \delta_i X_{t-i} + \sum_{j=1}^{n} \theta_j Z_{t-j} + U_{1t} \quad \cdots 9$$

$$Y_t = \sum_{e=1}^{n} \mu_e Z_{t-e} + \sum_{m=1}^{n} y_m X_{t-m} + U_{1t} \quad \cdots 10$$

Model for Causal relationship between poverty level and economic growth

$$Y_t = \sum_{i=1}^{n} \delta_i Y_{t-i} + \sum_{j=1}^{n} \theta_j Z_{t-j} + U_{1t} \quad \cdots 11$$

$$Z_t = \sum_{e=1}^{n} \mu_e Z_{t-e} + \sum_{m=1}^{n} y_m Y_{t-m} + U_{1t} \quad \cdots 12$$

Where**:**
X = economic crime [ECR)
Y = growth rate of RGDP
Z = Poverty level

4.0 Results and Discussion

Table 4.1: *Panel Unit Root Test Result*

	Test at level			**Test at First Difference**			
Variables	**LLC**	**IPS**	**FISHER**	**LLC**	**IPS**	**FISHER**	**REMARK**
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)

Note: *(*) connote rejection of unit root hypothesis at (5%) level of significance level*
Source: *Author's Computation, (2025)*

Result in table 4.1 revealed that real gross domestic product growth rate is stationary at level, that is, the variable is integrated of order zero, I(0), implying that the variable do not retain innovative shock passed on it beyond a period. On the other hand, result indicated economic crime and poverty level are not stationary at level, but at first difference, that is, they are integrated of order one, I(1), depicting that the variables do retain innovative shock passed on them period a period. Since there is combination of I(0) and I(1), therefore, this result revealed that variables included in this study are integrated of mixed order.

4.2 Analysis of Causal Relationship Among Economic Crimes, Poverty and Economic Growth

This consists of the result of pairwise causal relationship between economic crime, poverty level and economic growth (measured as real gross domestic product growth rate) as shown in Table 4.2:

Table 4.2 Pairwise granger causality test Result

Null hypothesis	F-Stat	Probability
LNRGDPGR does not Granger Cause LNECR	5.65495*	0.0037
LNECR does not Granger Cause LNRGDPGR	0.67420	0.5099
LNPVL does not Granger Cause LNECR	1.45410	0.2344
LNECR does not Granger Cause LNPVL	1.64308	0.1942
LNPVL does not Granger Cause LNRGDPGR	0.83099	0.4361
LNRGDPGR does not Granger Cause LNPVL	0.61578	0.5406

*Note: * connote rejection of the null hypothesis at 5% significance level*
Source: *Author's Computation (2025)*

Result in Table 4.2 revealed that there is enough evidence to reject the null hypothesis that real gross domestic product growth rate does not granger cause economic crime, but here is no enough evidence to reject the null hypothesis that economic crime does not ganger cause real gross domestic product growth rate. This implies that there is unidirectional causality running between real gross domestic product growth rate and economic crime. Result also showed that there is no enough evidence to reject the null hypothesis that poverty level does not granger cause economic growth, likewise there is no enough evidence to reject the null hypothesis that economic crime granger cause poverty level. Hence, there is no causal relationship between economic crime and poverty level. Result in addition indicated that there is no enough evidence to reject the null hypothesis that poverty level granger causes real gross domestic product growth rate, and that there is no enough evidence to reject the null hypothesis that real gross domestic product growth rate does not granger cause poverty level. Therefore, this result revealed that there is no causal relationship between poverty level and real gross domestic product growth rate.

5.0 Conclusion and Recommendations

This study examined the interactions among economic crimes, poverty and economic growth in selected African countries between 1990 and 2020. Specifically, the study investigated the causal relationship among poverty, economic crimes and economic growth. Based on the finding of the study that there is unidirectional causality running from economic crime to economic growth in the selected African Countries. Therefore, the study concludes that economic crime impacts economic growth but economic growth does not impact on economic crimes. In line with the finding and conclusion of the study, it was recommended that there is need for African countries to be more aware of economic crimes and take appropriate and effective measures to control economic crimes since this may facilitate poverty reduction and improvement in the process of economic growth.

5.1 Suggestions for Further Studies

i. Future studies may assess how economic crimes affect other macroeconomic phenomena such as income inequality, economic development, human capital development etc.

ii. Future studies may select countries based on income level which may help in examining the difference between effect of economic crime on poverty rate and economic growth for middle income, low income and high-income African countries.

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