

Review

Economic progress and economic crimes in Nigeria: An empirical investigation

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Received June 2015; Accepted December, 2015.

Abstract

Many theoretical and empirical studies have tried to establish the relationship between economic crime rates and economic growth with uni-directional causality. However, there has been dearth of studies on the relationship between economic growth and economic crimes. Dearth of data and adequate proxy for economic crimes has been the major challenge especially for Nigeria in estimating relationships involving crime. This present study is an attempt to bridge this identified gap in literature and so provide empirical evidence on the impact of economic growth on economic crimes in Nigeria. The study adopted OLS estimation technique while also exploring the long run and short run relationships between economic growth and economic crime in Nigeria within the period of 1970 to 2012. Findings show that the size of the economy (RGDP), per capita income, poverty rate and openness of an economy significantly affect the level of economic crime in the long run. However, in the short run, it was found that only per capita income, consumer price index, agricultural output and poverty rate significantly affect the level of economic crime in Nigeria. Therefore, although, economic progress increases economic opportunities and wellbeing, it is capable of increasing economic crime rates if left uncoordinated. The study recommends, amongst others, rapid infrastructural development (power, road etc) as the precursor of industrial growth. This will boost income, employment and the standard of living of the people as well as ensure effective reduction of economic crimes.

Key words: Nigeria, Economic Growth, Poverty, Economic Crimes, Illicit Financial Outflows.

INTRODUCTION

Economic crimes may be related to macro-economic factors. A number of scholars have come to this conclusion. While some empirical works on Nigeria have consistently reported a negative uni-directional relationship between economic crime rates and the strength of the economy, some others report a bi-directional causal relationship. The debate is still not settled. On one side of the divide, scholars argue that during economic recessions, economic crimes tend to grow rapidly, whereas during peak periods, it slows down. It has been theorized that during economically good times, more opportunities are created for people get engaged in jobs and earn better wages, and as such, are less likely to be attracted to commit economic crimes. In contrast, economic recessions result in diminished

opportunities and loss of jobs, creating idleness and appetite toward economic crimes misbehavior.

Attempts have been made by case laws, scholars and other sources to define crime. However, Section 2 of the Nigeria Criminal Code defines crime as “An act or omission which renders the person doing the act or making the omission liable to punishment under the Criminal Code or any act or law in force”. The same Criminal Code categorizes crime as simple, misdemeanor and felony. Furthermore, crime could also be described as political, religious, economic or social depending on the context it was committed. However, of particular interest to the researchers are crimes that are economic in nature known as economic crimes.

Table 1: Nigeria's Corruption Perception Index (CPI) and Relative Corruption

YEAR	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
CPI	0	0.69	1.76	1.9	1.6	1.2	1.0	1.6	1.4	1.6
RCR	0	54	52	81	98	90	90	101	132	144
YEAR	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CPI	1.9	2.2	2.2	2.7	2.5	2.4	2.4	2.7		
RCR	152	142	147	121	130	134	143	147	144	136

Source: Transparency International Report, 2014.

Nigerian laws define economic crimes 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 includes any form of fraud, money laundering, smuggling, currency counterfeiting, tax evasion, corruption, embezzlement etc. These constitute the typologies of economic crimes.

There have been some efforts aimed at measuring economic crimes. One of such efforts is Corruption Perception Index developed by Transparency International in 1995. This index has a band of 0 to 100. An index closer to zero signifies a very corrupt country, while an index closer to 100 signifies a country almost free from corruption. Table 1, which is Nigeria's Corruption Perception Index and Relative Corruption Ranking, portrays Nigeria as a corrupt nation with indices closer to zero. However, it has been argued that this index is a subjective measure. Furthermore, statistics on Illicit Financial Outflows (IFFs) as a measure of economic crimes was developed by Global Financial Integrity using two known models such as World Bank Residual Model and IMF Trade Mis-invoicing Model. IFFs refer to unrecorded capital outflows that derive from criminal, corrupt (bribery and theft by government officials) and illicit commercial activities (Baker, 2005). (Khan and Blenkenburg, 2012), posit that the components of IFFs include proceeds of theft, bribery and other forms of corruption by government officials; proceeds of criminal activities including drug trading, racketeering, counterfeiting, money laundering and terrorist financing; and proceeds of tax evasion and laundered commercial transactions. Using IMF Trade Mis-invoicing Model, a developing country's exports to the rest of the world are compared with what the rest of the world reports as having imported from that country. After adjusting for freight and insurance charges, discrepancies in partner-country trade partner trade statistics is mis-invoicing and so illicit financial outflow. IFFs, though cannot measure all economic crime committed in Nigeria, but it does capture some of the recurring economic crimes committed in government circle and commercial enterprise.

When IFFs are compared with Gross Domestic Product of Nigeria as was done in (Figure 1), some interesting features become obvious. While RGDP exceeded IFFs from 1970 to 1998, IFFs surpassed RGDP from 1999 up to 2012. However, both recorded significant upward trend from 1999 to 2012.

What sort of relationship exists between economic growth and economic crimes in Nigeria? Is it one of symbiotic or parasitic relationship? Therefore, this study aims at providing robust econometric analysis, which deepens the understanding of the relationship between economic growth and economic crimes in Nigeria both in the short run and long run respectively for the period 1970 to 2012.

LITERATURE REVIEW

It has been argued that economic growth resulting in increasing economic opportunities for individuals makes individuals both in the public and private sectors to be less susceptible to crime. However, where financial crisis is manifested through decreased or negative economic growth and widespread unemployment, large number of individuals may suffer severe and perhaps sudden reductions in income. This, in turn, has the potential to cause an increase in the proportion of the population with higher motivation to identify illicit solutions to their immediate problems.

(Ezema and Ogujiuba, 2012), observe that Nigeria's productive and technological base is weak, outdated, narrow, inflexible and externally dependent. The infrastructure is poor, inadequate and lacks maintenance. The effectiveness of incentives has been generally low, giving rise to inadequate utilization of the factors of production. Furthermore, policy instability and summersaults are discouraging foreign investment despite the huge domestic market and the strategic location of the nation. These have culminated in producing a weak economy that is largely susceptible to economic crime attacks.

(McDowall and Loftin, 2009), conclude that macro-economic factors correlate most strongly with crime trends. In particular, he argues that the escalation of the property crime rate in the United Kingdom is closely tied to economic growth, and more specifically to consumer spending. When the economy is strong and consumption of consumer goods and services is growing, property crime growth tends to slow down or reverse. The opposite is true during periods of economic recession. Following an analysis of data on crime and macroeconomic cycles in England and Wales between 1946 and 1991, Levitt (2004), found that the number of recorded burglaries, robberies, and thefts rose which coincided with the ever-expanding economy and the rise in consumer spending. The historical correlation between the economy and crime rates

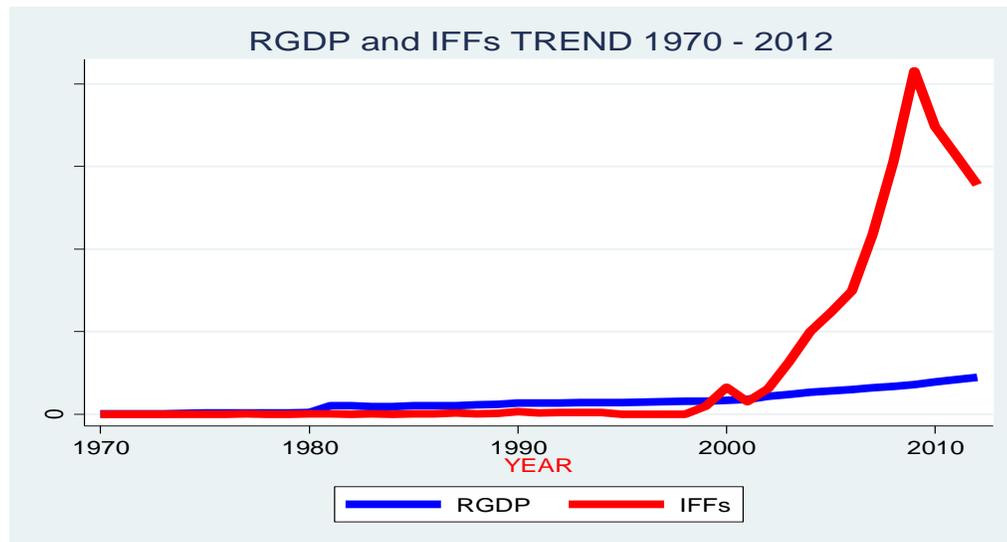


Figure 1: RGDP and IFFs Trend 1970 – 2012. Source: Authors using data from CBN and Global Financial Integrity

may also help to explain why the crime rate began to significantly increase during the 1960s and 1970s. This explanation hinges on how the increased wealth of developed countries was spent and the implications that these changing spending patterns had on opportunities for crime. On their part, Ekundayo et al. (2013), have consistently reported a negative uni-directional relationship between economic crime rates and the strength of the economy, while Ahmad et al. (2012), reports a bi-directional causal relationship.

Furthermore, some famous economic theories have identified some sort of relationship between economic growth and economic crimes. Particularly, the Classical economists (Adam Smith, Thomas Malthus and David Ricardo) sought to determine the sources and composition of growth and what can hinder growth. They observe that the way income is distributed among classes in the society determines whether growth occurs or how growth proceeds. They also observe that the way income is distributed also determines the saving behavior of classes in the society which is critical for growth. Therefore, growth flows from the distribution of income. Higher growth with good spread of income gives rise to increased economic opportunities and options for individuals, thus reducing unemployment and poverty. Conversely, higher growth with income distribution skewed in favour of the rich produces a multitude of unemployed individuals susceptible to crime. Rotimi et al. (2013), assert that there are strong indications that the changes in income distribution that have occurred in recent years in previously centrally planned economies have given rise to more corrupt actions.

Some empirical works have investigated the impact of economic growth on crimes. For instance, Asif (2014), studied economic growth and crime against small and medium sized enterprises in developing economies using OLS method and found that economic growth is negatively associated with crime. This relationship is stronger for small and medium firms

than large firms. Similarly, Jie et al. (2013), sought to find out if economic growth reduces corruption in Vietnam using cross-industry heterogeneity in growth rates within Vietnam to test empirically whether growth leads to lower corruption. Their empirical analysis used survey data collected from over 13,000 Vietnamese firms between 2006 and 2010 and an instrumental variables strategy based on industry growth in other provinces. The study found first, that firm growth indeed causes a decrease in bribe extraction. Second, this pattern is particularly true for firms with strong land rights and those with operations in multiple provinces, consistent with these firms being more mobile. The results of the study suggest that as poor countries grow, corruption could subside "on its own," and they demonstrate one type of positive feedback between economic growth and good institutions.

Furthermore, Steven et al. (2014), empirically investigated the impact of economic crisis on crime. The report finds that, whether in times of economic crisis or non-crisis, economic factors play an important role in the evolution of crime trends. Out of a total of fifteen countries examined, statistical modeling identifies an economic predictor for at least one crime type in twelve countries (80 percent), suggesting some overall association between economic changes and crime. These findings are consistent with criminal motivation theory, which suggests that economic stress may increase the incentive for individuals to engage in illicit behaviours. Treisman (2000), on the other hand, concludes that at the cross-country level, economic growth may reduce corruption, that is, as countries grow, corruption naturally declines. The study finds that per-capita income, instrumented by geography, negatively predicts corruption.

However, (Habibullah and Abdul, 2009), examined the relationship between real gross national product (GNP) and cyber crime. Applying an ARDL model for Malaysia, the study found a negative relationship between GNP and cyber crime.

They, therefore, advocated for strong and water-tight security code for banks and stiffer penalty for those found culpable. (Méon and Sekkat, 2005), in an empirical study on whether corruption greases or sands the wheels of growth using voice

MATERIALS AND METHODS

For the purposes of this analysis, economic indicators include real gross domestic product (RGDP), consumer price index (CPI), per capita income (PCI), Poverty rate (POVR), Trade Openness (OPEN), Agricultural output (AGRO) and illicit financial outflows (IFFs). Economic data were sourced from

and accountability index, bureaucratic efficiency index, political stability index, institutional efficiency index as variables and employing panel technique conclude that corruption 'sands the wheel' of economic growth.

Central Bank of Nigeria Statistical Bulletin, 2013, while IFFs were sourced from Global Financial Integrity database.

The estimation technique adopted in this study is the Ordinary Least Squares (OLS) technique. The functional expression which captures the relationship between economic progress and economic crimes is stated below:

$$\text{IFFs} = f(\text{RGDP}, \text{PCI}, \text{CPI}, \text{POVR}, \text{AGRO}, \text{OPEN}) \quad (1)$$

The mathematical/algebraic representation of the equation (1) is stated as follows:

$$\text{IFFs} = \beta_0 - \beta_1 \text{RGDP} - \beta_2 \text{PCI} + \beta_3 \text{CPI} + \beta_4 \text{POVR} - \beta_5 \text{AGRO} - \beta_6^n \text{OPEN} + \xi \quad (2)$$

Where:

IFFs	=	Illicit Financial Outflows
RGDP	=	Real Gross Domestic Product
PCI	=	Per Capita Income
CPI	=	Consumer Price Index.
POVR	=	Poverty Rate
AGRO	=	Agricultural Output
β_0	=	Intercept
β_1 to β_6	=	Parameters to be estimated.
ξ	=	Residual Terms.

The logarithmic transformation of Equation (2) is specified in Equation (3) below:

$$\ln \text{IFFs} = \beta_0 - \beta_1 \ln \text{RGDP} - \beta_2 \ln \text{PCI} + \beta_3 \text{CPI} + \beta_4 \text{POVR} - \beta_5 \ln \text{AGRO} - \beta_6^n \text{OPEN} + \xi \quad (3)$$

Note that variables in rates or percentages are not logged.

To verify if long-run equilibrium relationship exists and to verify if this relationship is integrated with the short-run dynamic adjustment mechanism that describes how the series

react when they move out of long-run equilibrium, the researchers explored co-integration and error correction models.

The long run equation of the model is stated below:

$$\pi_t = \text{IFFs}_t - \psi_0 - \sum \psi_{i,1} \text{RGDP}_t - \sum \psi_{i,2} \text{PCI}_t + \sum \psi_{i,3} \text{CPI}_t + \sum \psi_{i,4} \text{POVR}_t - \sum \psi_{i,5} \text{AGRO}_t - \sum \psi_{i,6} \text{OPEN}_t \quad (4)$$

Where:

π_t is the equilibrium error term. $\Psi_{i,1-6}$ are the long-run responses (change of IFFs_t with respect to a change in economic progress).

The error correction model of this study is stated below:

$$\Delta \text{IFFs}_t = \alpha + \beta_1 \Delta \text{RGDP}_{t-1} + \beta_2 \Delta \text{PCI}_{t-1} + \beta_3 \Delta \text{CPI}_{t-1} + \beta_4 \Delta \text{POVR}_{t-1} + \beta_5 \Delta \text{AGRO}_{t-1} + \beta_6 \Delta \text{OPEN}_{t-1} - \beta_7 \text{ECT}_{t-1} + \varepsilon_t \quad (5)$$

Where:

β_1 to β_6 are the short-run effect (called the impact multiplier) that measures the immediate effect that a change in economic progress will have on economic crime. ECT is the error

correction term whose parameter captures the percentage of the previous year's disequilibrium from the long-run that is corrected in the current period. Therefore, β_7 parameter, measures the adjustment effect (also called the feedback

Table 2: Unit Root Test Result

VARIABLES	TEST STATISTIC	CRITICAL ADF	LEVEL OF SIGNIFICANCE	ORDER OF INTEGRATION
IFFs	-6.980	-3.569	1%	I(1)**
RGDP	-2.943	-2.925	10%	I(0)*
PCI	-8.661	-3.569	1%	I(1)**
CPI	-10.353	-3.569	1%	I(1)*
POVR	-5.993	-3.569	1%	I(0)*
AGRO	-4.717	-3.569	1%	I(1)*
OPEN	-3.740	-3.569	10%	I(0)*

Source: Researcher's Compilation using Stata 11 software. N/B: *Stationary at Levels. **Stationary at 1st difference.

Table 3: Co-integration Test

Johansen tests for cointegration					
Trend: constant			Number of obs = 42		
Sample: 1970 – 2013			Lags = 2		
rank	parms	LL	Maximum eigen value	Trace statistic	5% critical value
0	56	-2378.5063	.	253.5696	124.24
1	69	-2325.7624	0.91886	148.0818	94.15
2	80	-2284.9724	0.85664	66.5018*	68.52
3	89	-2272.8533	0.43848	42.2636	47.21
4	96	-2262.6614	0.38450	21.8798	29.68
5	101	-2254.3832	0.32578	5.3234	15.41
6	104	-2251.7341	0.11852	0.0252	3.76
7	105	-2251.7215	0.00060		

Source: Researcher's Compilation using Stata 11 software.

effect): it indicates how much of the disequilibrium is being corrected.

RESULTS

Because of the need to avoid spuriousness results, the time series data were first subjected to unit root test using Augmented –Dickey Fuller Test. The outcome of the unit root test was presented in Table 2. The result of the unit root test showed that all the variables have unit root problem except RGDP, POVR and OPEN. However, taking a first difference of the variables that are non-stationary ensured the elimination of their unit root problems. Having achieved stationarity of all the variables of the model, the next step was to determine if the variables were co-integrated and so do move together in the long-run.

Co-integration Relationship

The co-integration test result was presented in Table 3 and the test showed only two co-integrating vectors. This implied that the variables have long run relationship and there are only two ways the variables can relate in the future. This long run relationship was further explored through a long run regression analysis. The result presented in Table 4 of 1 showed that only RGDP, PCI, POVR and OPEN were statistically significant in the long run, while AGRO and CPI were not statistically significant in the long run at 5 per cent level of significance. Similarly, because the critical F is greater than the table F as suggested by the probability value (5 per cent level of significance), the entire model is significant in explaining the determinants of economic crimes in Nigeria. Furthermore, the adjusted R² shows that only 87 per cent of the changes in IFFs were explained by RGDP, PCI, POVR and OPEN while 13%

Table 4: Summary of Co-integration Regression Result

Variables	Beta Coefficients	t-Statistic	Prob.
RGDP	1.93	9.03	0.00
PCI	-0.93	-5.46	0.00
CPI	-0.11	-0.87	0.39
POVR	0.16	2.43	0.020
AGRO	-0.02	-0.37	0.71
OPEN	-0.21	-2.90	0.006
Adjusted R2	0.87		
F-Stat	51.99	F-Prob.	0.00

Source: Researcher's Compilation using Stata 11 software.

Table 5: Error Correction Model**Co-integrating equations**

Equation	Parms	chi2	P>chi2
_ce1	5	214.4451	0.0000
_ce2	5	211.9412	0.0000

Identification: beta is exactly identified

Johansen normalization restrictions imposed						
	beta	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
_ce1	iffs D1.	1
	rgdp D1.	(omitted)
	pci D1.	-.3121234	.3204506	-2.71	0.007	- 2.06445 4.4931621
	cpi D1	.5844276	.1296178	3.26	0.001	.7684737 .9038140
	povr D1	.1244276	.1296178	2.43	0.015	.5684737 .6038140
	agro D1	-.817399	.3285772	-12.34	0.001	-.0672196 - .1177503
	open D1	-.1051991	.0253369	-0.65	0.517	-.0050614 .0156591
	res	-84.78583	25.15677	-3.37	0.001	.1982435 .4322732

Source: Researcher's Compilation using Stata 11 software.

were explained by variables outside the model. However, the explanatory power of the explanatory variables is strong. A further look at the result presented in Table 4 also showed that the variables conform to a priori economic expectation except RGDP and CPI. Furthermore, a unit change in PCI, POVR and OPEN would cause IFFs to change less than proportionately, while a unit change in RGDP would cause IFFs to change more than proportionately. This is because PCI, POVR, OPEN and IFFs have fairly inelastic relationship while RGDP and IFFs

have elastic relationship. While a percentage increase in RGDP causes an increase in IFFs by 193 per cent in the long run, on the one hand, a percentage increase in PCI, OPEN and POVR will decrease IFFs by 93%, 21% and increase IFFs by 16% respectively in the long run, on the other.

Error Correction Model

The Error Correction Model was presented in Table 5. The result showed that the coefficient of the error correction term

Table 6: Summary of Causality Test Result

Pairwise Granger Causality Tests			
Date: 05/29/15 Time: 22:45			
Sample: 1970 2013			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Probability
RGDP does not Granger Cause IFFS	42	3.39304	0.04436
IFFS does not Granger Cause RGDP		0.70957	0.03843
PCI does not Granger Cause IFFS	42	1.25380	0.02726
IFFS does not Granger Cause PCI		0.62624	0.54017
CPI does not Granger Cause IFFS	42	45.9587	9.4E-11
IFFS does not Granger Cause CPI		14.2208	2.6E-05
AGRO does not Granger Cause IFFS	42	3.17453	0.05341
IFFS does not Granger Cause AGRO		1.71413	0.19411
OPEN does not Granger Cause IFFS	42	0.56369	0.57392
IFFS does not Granger Cause OPEN		0.45281	0.63931
POV does not Granger Cause IFFS	42	0.62136	0.04273
IFFS does not Granger Cause POV		2.81352	0.05287

Source: Researcher's Compilation using Stata 11 software.

Table 7: Results of the diagnostic tests conducted.

Diagnostic Tests	Statistic	Probability
Durbin Watson Statistic for Serial correlation	1.83	
Breusch-Godfrey Prob. for Serial correlation		0.69
VIF Mean for Multicollinearity	2.51	
Breusch-Pagan Prob. For Heteroscedasticity		0.60
Jarque-Bera Statistic for Normality Test	0.003	
Jarque-Bera Prob		0.94
Ramsey Reset F-Stat. for Mis-specification test	2.02	0.13

Source: Researcher's Compilation Using Stata 11 Software.

(ECT) is significant and correctly signed indicating that the series cannot drift too far apart and convergence is achieved in the long-run. The ECT indicated a feedback of approximately 84 per cent of the previous year's disequilibrium from long run elasticity of the explanatory variables corrected. That is, the coefficient of the error correction term measures the speed at which the level of economic crimes adjusts to changes in the explanatory variable in an effort to achieve long run static equilibrium. It can be said, therefore, that the speed of adjustment is very good. Furthermore, in the short run, the variables that caused changes in the level of economic crimes are PCI, CPI, POVR and AGRO. However, agricultural output and consumer price index affected the level of economic crimes the most with 81% and 58% impact respectively. This was followed by per capita income and poverty rate with 31% and 12% impact respectively.

Causality Test

The summary of the causality test result was presented in Table 6. The result showed that RGDP and IFFs have bi-directional causal relationship. Furthermore, PCI granger cause IFFs while IFFs did not granger cause PCI. CPI and IFFs cause each other as does POVR and IFFs. AGRO cause IFFs while IFFs did not cause AGRO. No causal relationship was observed between IFFs and OPEN.

Diagnostic Tests

The results of the diagnostic tests conducted were presented in Table 7. The results showed the absence of auto correlation. The Durbin Watson Statistic is approximately 2. The Variance Inflation Factor (VIF) is less than 10 justifying the absence of multi-collinearity. The insignificant Breusch-Pagan probability

warranted the acceptance of the null hypothesis of homoscedasticity. The Ramsey Reset F-statistics not significant and suggested the absence of mis-specification problems. The Jarque-Bera statistic suggested that the error term is normally distributed. This therefore implies that the parameter estimates are robust and reliable.

DISCUSSION

The result presented above showed that only Real Gross Domestic Product (RGDP), Per Capita Income (PCI), Poverty Rate (POVR) and Openness (OPEN) affect economic crimes significantly. However, RGDP makes the most impact on economic crimes followed by PCI. However, contrary to expectations, RGDP relates with IFFs positively. The result further showed that RGDP and IFFs have bi-directional causal relationship. This buttresses the point that unguarded growth may breed economic crimes. This is not surprising because (Figure 1) reveals a rising IFFs as RGDP rises. Furthermore, as expected, low PCI explains the occurrence of poverty. Higher PCI increases the standard of living and thus reduces the hunger/appetite for economic crime. Therefore, if income distribution is skewed in favour of the rich or economic growth is not allowed to trickle down to the masses through the provision of infrastructure and social services, PCI and POVR will sour low and high leading to high rate of economic crimes. It is not surprising that AGRO did not significantly affect IFFs in the long run within the period under review despite the numerous reforms and perceived achievement in the sector. Most of the reforms only targeted the rich farmers while the incentives provided hardly get to the rural farmers. Linking farmers with off-takers is still a major obstacle militating against local farmers as does land tenure system, which continues to hinder agricultural mechanisation. No wonder Nigeria still depends largely on food importation to satisfy domestic demand.

CONCLUSION

The study sought to investigate the nature of the relationship between economic growth and economic crimes in Nigeria. It was found that real gross domestic product, per capita income, poverty rate and the extent of openness of the economy affected significantly the level of economic crimes in Nigeria in the long run. Contrary to expectations, growth in the size of the economy increases the level of economic crimes. It is thus, established that poverty and economic crimes may still grow with growth in national income. This happens when economic growth does not trickle down, thus leaving the poor masses with no option of survival than resort to economic crimes.

RECOMMENDATIONS

It is recommended that policies which create the enabling environment for the growth of industries, manufacturing sub-sector, small and medium scale enterprises should be vigorously pursued. To achieve this, critical infrastructure such

as energy must be stable. Government should also prioritize her operations in the agricultural sector so as to make it attractive and lucrative. All these would bolster employment and reduce poverty and economic crimes in Nigeria. Transparency and accountability are inevitable principles of good governance and only strong institutions can lay those foundations. Conscious efforts must be made towards laying the foundations of strong institutions.

Conflicts of interest

Authors have none to declare

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