Chapter 6
Economic Growth, Financial Development and Bank Failure:
The Case of Corruption in Nigeria

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ABSTRACT

Corruption is one of the main causes of inefficiency and poor productivity. This chapter looks at the relationship between banking failure, corruption, financial development, and economic growth in Nigeria during the period from 1989 to 2019. The work uses the autoregressive distributed lag (ARDL) cointegration and error correction model and the Granger causality test for the analysis of data. The results of the empirical analyses show a negative relationship between corruption and both financial development and economic growth. This shows that corruption is bad for both the financial sector and the economy. The result also shows that corruption is a good reason for causing bank failures in Nigeria. Hence, for financial development and economic growth, corruption must be reduced as much as possible if not eliminated. It is recommended to put the fight against all forms of corruption in Nigeria in top gear.

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INTRODUCTION

Nigeria has witnessed the rise of E-commerce and internet fraud concurrently. The evolution of the internet has provided cover for all kinds of real-world criminals to transfer their offline workspaces to the net. Internet related financial crimes in Nigeria today is only second to public sector corruption and it continues to grow at a faster rate. Due to the bad habits of few Nigerian online criminals, Nigeria is now one of the countries that are associated with online fraud around the world. But other forms of corruption are not left out; they have continued to serve as serious threats to Nigeria's economic growth and development. Corruption is one of the main causes of bank failure in Nigeria. Between 1997 to 2002 about 34 banks collapsed in Nigeria (Ndulue, 2003). In 1997 alone, 26 banks were liquidated (Yuguda, 1997). According to a study, fraud and embezzlement are linked with corporate failure in Nigeria (Dogarawa, 2007). Corruption has become endemic in Nigeria, as in many other African countries (Abdullahi, 2007). But the Nigerian government through the Economic and Financial Crime Commission (EFCC) has been doing a good job of curtailing this menace through investigation, prosecution, effective monitoring, and collaborations with sister agencies from the US, EU and elsewhere. According to Transparency International (TI) corruption is the abuse of entrusted power for private gain (TI, 2006). Corruption and poverty reinforce one another; corruption results in poverty when money means for people's welfare are looted or when it increases the cost of doing business, thus causing a decrease in investment (Abdullahi, 2007). Corruption caused inefficiency and poor productivity and in the financial sector, the banking crisis is most associated with the lack of transparency. Financial sector transparency together with tighter regulation and adherence to principles that ensure adequate banking supervision are the parameters that indicate good banking practices (TI, 2006). According to a Shirley (1996), bureaucracy helps corruption. One worrying variable connected with rising crimes in Nigeria is unemployment (Mukhtar and Abdullahi, 2020).

According to some studies, during the global financial crisis of 2009, financial institutions collapsed due to reckless lending practices (Abdullahi, 2019; Deman, 2009). The world of finance is full of crooks and thieves from Michael Milken of Drexel to Kenneth Lay of Enron who created ingenious ways of stealing shareholders' money. In Nigeria, the history of the Nigerian corporate and financial industry is full of chief executive officers (CEOs) and other top executives who connive to steal people's money. Some of the recent notorious corporate failure cases that were tried in the Nigerian courts include Cecelia Ibru of Oceanic Bank and Erastus Akhingbola of Intercontinental bank PLC who was accused of stealing the money of the banks they controlled that later led to the bankruptcy of these banks. The banking crisis of 2009 led to the creation of the Assets Management Corporation of Nigeria (AMCON) to manage the assets of failed banks and other corporations that collapsed during the crisis period. During the period, the Nigerian government used trillions of Naira of public money to bail out these banks. All these helps to show the extent to which corruption and mismanagement have gone into killing the Nigerian economy. Banks in Africa and around the world have helped boosted corruption by helping corrupt politicians and others to stash their ill-gotten wealth. Around the world, ethical banking such as Islamic banking has been associated with a reduction in corruption in the system (Uddin, Chowdhury & Islam, 2017). The modern banking system faced the main challenge of having to make a profit in midst of tight regulatory requirements enforced by regulators in order to achieve market discipline (Abdullahi, 2019). At the macro level, a sound and the robust financial system makes it difficult for corruption to linger. On the other hand, a sound macroeconomic policy reduces corruption and promotes economic growth.

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