

Money laundering conviction rate and capital formation in Nigeria

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ABSTRACT

Drawing from the Financial Action Task Force (FATF, G7) recommendations and the Nigeria Anti-Money Laundering Act that provides the penance and dissuasion for crimes in Nigeria, this study sought to interrogate the efficacy of money laundering conviction rate as an instrument of anti-money laundering policy on capital formation in Nigeria. The study is hinged on contemporary deterrence theory. The study adopted the ex-post facto research design and used quarterly data from 1Q 2010 to 4Q 2019, which was sourced from the Nigerian Financial Intelligence Unit (NFIU), Economic and Financial Crime Commission (EFCC) and CBN statistical reports. Hence, Error Correction Model (ECM) was utilized to analyze the data. The findings indicate that the current money laundering conviction rate (MLCR) has a negative and non-significant effect on capital formation in Nigeria. Therefore, the study concludes that the current conviction rate is too weak to deter the act. Hence, it is recommended that the judicial system be rejigged with enabling legislation and autonomy to strengthen it to hasten the trial of such cases and ease conviction of culpable individuals, without necessarily putting innocent victims at jeopardy. Such autonomy should also be granted to the EFCC, ICPC, NFIU etc. and inter-agency synergy should be encouraged.

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1. Introduction

Money laundering has been observed by diverse scholars to be a persistent threat to the global economy, more especially to developing nations (Enofe, Aliu & Ombu, 2018; Mekpor, 2018; Reganati & Oliva, 2017; Idowu & Obasan 2012). Its threat stems from the fact that it depletes capital from a national economy by constituting a massive leakage in the system. Illicit or criminal acquired funds often come in volumes that become difficult to inject into the financial system normally. Those who are involved in such illegal activities do all in their power to cover their tracks and also the proceeds they get from such criminal runs. This inadvertently compels them to seek and exploit every available means to hide their proceeds from the eyes of the law. The resultant effect of this is laundering of the proceeds to clean them up. These acts in some instances involve massive movement of funds into offshore accounts, particularly proceeds from public scoffers. The magnitude of this menace in 2015 is as signposted by the IMF (2015) estimates that money laundering accounts for 2-5 percent of global GDP, with amounts ranging from USD 800 billion to USD 2 trillion. Also, the Global Financial Integrity (2015) reported that the loss from illicit financial flows from developing nations from 2004-2013 was estimated at USD 7.8 trillion. These acts of laundering stolen public funds from African countries have led to serious poverty and massive depletion of funds for investments in developing these nations. Such massive fleecing of our common patrimony has become a bane of national development (Ogoun, 2020).

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Paradoxically, recipients of laundered funds gain capital formation while the nation where the funds are moved from suffered great loss in the capital meant for growth. The instance of the Swiss economy which profited so much from proceeds of money laundered by various corrupt African leaders, because of its secure and secret banking rules as noted by (Adesomoju, 2018; Ribadu, 2015). It became a haven for humongous amounts of money laundered, which ultimately became a source of cheap capital for its economy. As such, launderers were not interested in earning interest from the proceeds; rather they were content with the safety of the stolen funds. Just as most European nations also provided avenues for the safe housing of illicit funds at a time, as currently evidenced in the repatriated funds (Onyema, Pallavi, Habeeb & Seye, 2018; Alli, 2018; Aleksandre, 2018; Albert & Okoli, 2016; Amaechi & Okechukwu, 2015; Ribadu, 2004). These funds have served as a veritable source of capital for legitimate borrowings, thus questioning the ethical dilemma of the warehousing economy or entity. Capital formation denotes the accumulation of net assets or capital throughout an accounting period for a particular nation (Ajose & Oyedokun, 2018). In general, the bigger an economy's capital formation, the faster it may raise its total revenue or income. It shows the level of additional value creation in the nation's economy that is invested rather than being consumed. Pathania (2013) stated that the technical progress of a nation's production potential that can balance the growth of different sectors of the economy is dependent on the adequacy of capital formation. The flows of illicit funds out of an economy distort capital formation and cause economic growth retardation (Shuaib & Dania 2015; Idowu & Obasan 2012). However, evidence abounds that laundered money contribute to capital formation for the recipient country or firm as seen from the pathological case of African leaders who laundered money in various European nations (especially, Switzerland) (Ozili, 2020; Onyema et al, 2018; Babatunde & Filani, 2016; Oluwadayisi & Mimiko, 2016). Meanwhile, seen from the perspective of the victim nation, it is a major economic problem that demands policy measures, institutional re-awakening and structural reforms. To mitigate this (as a major victim of money laundering), the Nigerian government through the enactment of laws, introduced various policy measures as instruments for containment. Financial Action Task Force (FATF) (2016) advocates a measure that can protect the financial/economic structure from being used as a conduit for laundering money. It is in this regard that this study isolates the rate of money laundering conviction and how it deters laundering activities to shore up capital accumulation for domestic investment.

1.1 Money Laundering

FATF, (2012) defined money laundering (ML) as the processing of criminal proceeds to disguise their illegal origin. the Nigeria Anti-money laundering (Prohibition) Act of 2011 (As Amended) define it as “when a person in or outside Nigeria directly or indirectly conceals or disguises the origin or; converts or transfers, removes from the jurisdiction, acquirers, users, retains or takes possession or control of; any fund or property, knowingly or which he/she should reasonably have known that such fund or property is, or forms part of the proceeds of an unlawful act”. The attempt by launderers at this point is to masquerade the nature and origin of revenue derived from illicit sources and subsequently integrate it into the financial cycle devoid of the awareness of law enforcement agencies and tax collecting authorities (Norton, 2018; Compin, 2008; Lehman & Okcabol, 2005). It is mainly the washing of dirty money (funds) obtained through several dealings and methods to make such funds seem clean and legitimate. It also refers to the process of concealing illegal financial transactions. As a basic concept, money laundering includes any act of converting money or other items obtained through illegal activities into money or any items that appear to be legal, thereby hiding its illicit origin (Kumar & Hicks, 2018).

These acts are carried out in a clandestine manner where they do not want to be caught which has made the accurate assessment of money laundering a difficult one (Malsch & Gendron, 2013; Idowu & Obasan, 2012; Ping, 2010). However, the IMF (2015) estimates that money laundering accounts for 2-5 percent of global GDP, with amounts ranging from USD 800 billion to USD 2 trillion laundered. While the Global Financial Integrity (2015) reported that the loss from illicit financial flows from developing nations from 2004-2013 was estimated at USD 7.8 trillion.

The major aspect of the various descriptions is that the money laundering funds are acquired from criminal and illegitimate sources. It is therefore, the washing and conversion of dirty (unclean) money into crime-free or dirty-free (clean) money to enable its usage in the legitimate business world. This involves the cleaning of huge bulks of cash, if it is successfully done, it allows the launderers to take full control over the funds and ultimately provide illegitimate shelter for the source of funds (Lehman, & Thorne, 2015).

Predominantly, the money laundering process has been termed to have three stages: the initial is the “placement stage”, where launderers inject their illicit earnings into the financial/economic system through transfers, deposits and other mediums by disguising the source of the fund and making it difficult for regulators to trail/track. This stage explained the physical movement of funds from one place to another and it is debatably the most fundamental among the three stages, because the realization and completions of the entire “money laundering process is centered on the placement stage”. It is at this stage that banks and other monetary systems are dragged in, involved or introduced at the first instance into the money laundering process (Stack, 2015b; Steel, 2006; Singer, 1971). The second is the layering stage. This is the stage where launderers circumnavigate and traverse such black funds around the world to detach it from the source(s). As such making the funds to be more convenient and as well minimize the possibility of detection. It involves the practice of separating the funds from their illicit roots. At *this second stage*, the launderer uses multiple various techniques to layer their funds. Such as the use of multiple accounts and banks, engaging professionals to act as intermediaries and transacting

through corporate links, PEPS, businessmen and trusts. Money is wired (transferred) through a web of several accounts, companies and nations to mask their origins. The final stage is the integration stage, where launderers of money re-inject the illicit proceeds into the real economy by engaging in multiple transactions, investment like capital market, purchase capital assets, financial instruments, real estate or other businesses. Launderers also create fictitious companies and instigate unfair business practices which distort competition by causing legitimate businesses to crowd out. This is because launderers' investments are motivated by a need to conceal their dirty money instead of making genuine business profits; this indicates that such investment funds might lack quality and be of less economic value to the nation (Reganati & Oliva, 2017).

Though investments are expected to lead to the process of increasing a nations' capital accumulation and enhances the economic output capacity but the investments of illicit funds are tantamount to cause competitive disadvantage because of the ulterior motive of launderers are basically to safeguard their illicit funds and not to do real economic business (Effiom, Achu & Edet, 2019). At this level, the laundered proceeds are now invested in different legitimate commercial activities which complete the process of money laundering. These processes offer an all-inclusive and useful explanation of what was previously a difficult and occasionally coinciding "process of Money Laundering" (Malm & Bichler, 2013).

In Nigeria, the development of money laundering began as a trade in the 1950s, where Nigeria is considered as one of the centers in Africa (Silkscreen, 1994 in Ogbodo & Mieseigha 2013). It dates as far back as the British colonial era when Nigeria citizens were exploited and used for slavery. During the post-colonial era after Nigeria got its independence in 1960, it became an issue of advance fee frauds (419), gambling, looting, drugs and human trafficking. These periods coincided with the military regimes that took overpower from January 15, 1966, to March 1, 1999, when money laundering proceeds assumed diverse dimensions of frauds, bribery, fake schemes, corruptions, capital flight, financial misappropriations, money rituals, illegal arms dealings, smuggling, drug trafficking, prostitution as well as other forms of illegalities that lasted over 15years of the military rule (Ogbodo & Mieseigha, 2013). Since the transition to democratic government in 1999 to date, when Nigeria embraced information technology and the global financial market, the money laundering debacle has expanded via cybercrimes, contracts overstatement, use of fictitious or shell companies, insider trading and other forms of telecommunication's frauds (Sharman, 2010).

1.2 Money Laundering Conviction Rate

Like every other financial crime, money launderers are also rational profit-maximizers, as such deterrence is a crucial prerequisite to curtail their opportunistic behavior. Based on Becker's (1968) concept on crime and retribution, deterrence often emanates from multiple areas of legal ordinances, which could discourage the activities of money laundering and make it less profitable. He emphasized that preventive measures play a significant function in raising the odds of apprehending launderers of money.

In Nigeria, the EFCC 2004 Act and the Nigeria Anti Money Laundering (AML) Act, provide the NDLEA, EFCC, and CBN the power to investigate suspected money launderers and examine bank accounts in order to trace or track proceeds of financial crimes. The Nigeria Financial Intelligence Unit (FIU), on the other hand, is a unique and autonomous unit of the EFCC that acts as the nation's primary office for gathering, analyzing, and distributing intelligence facts on terrorism funding and money laundering (Usifo, 2017). The Unit is in charge of managing the AML network and has made a significant contribution in strengthening and coordinating national and transnational intelligence efforts by providing information to law enforcement agencies that guides investigations in support of global efforts to combat money laundering and other financial crimes. As a result of these collaborations, some notable financial crimes cases in Nigeria were unveiled which are: the Nigeria government vs. James Ibori and five others, Tafa Balogun vs. EFCC, Lucky Igbenidion, the ex-governor of Edo State who was indicted by the EFCC of misappropriating about Four Billion, Four Million Naira (N4.4 billion). The most recent is the indictment of EFCC Chairman, Ibrahim Magu in the case of money laundering (Onyema, Pallavi, Habeeb & Seye, 2018).

Statistically, the EFCC investigated 39,970 petitions between 2010 and 2019, equivalent to 54.05percent of all petitions submitted (73,948) for that period (EFCC, 2019). According to the calculations, 2,544 convictions were obtained, accounting for 6.36percent of the cases examined and a conviction rate of about 44percent of the 5,767 cases filed in court. In 2019, the EFCC obtained a significant rise in convictions, with a rate of 1280 secured cases, while 2018 was just 312 cases (Adesomoju, (2018; Onyema et al, 2018; EFCC, 2019).

However, when compared to higher-level convictions arising from major embezzlement of public funds, illegal dealings in petroleum products, and other significant money laundering act, the classification of advance fee fraud such as money obtained by false pretenses, criminal breach of trust, criminal conspiracy, employment scam, forgery/uttering, currency counterfeiting, impersonation and 419 crimes can be vastly viewed as mid or low-level financial crimes. Thus, it appears that big corruption cases, particularly those involving politically exposed individuals, are seldom resolved within three years of their filing, and that the conviction rate for low- and mid-level corruption is higher as reported in the EFCC operational statistics (EFCC, 2019; Onyema et al, 2018).

1.3 Money Laundering and Gross Fixed Capital Formation (GFCF)

The macroeconomic term that is used in official national accounts to quantify the values of current and new non-current asset acquisitions by the private sector, government, and pure households (excluding their unincorporated companies) minus fixed asset disposals is referred to as Gross Capital Formation (GFCF). It is a portion of real output (GDP) expenditure, that indicates how much a nation's new value-creation is added as investment in the economy that is not consumed (Amahalu et al., 2016). Capital aggregation, formation or accumulation is referred to as the process of stocking or amassing considerable capital resources, the increase in wealth, or the development of extra wealth (Arowosaiye, 2015).

The relationship between money laundering and capital formation could be paradoxical in nature, depending on which side of the divide a country may be. When such laundered funds are harbored in a country, it may immensely trigger her economic growth because such funds contribute to the composition and the quantity of the accumulated assets that is used in the nation's productive activities. These funds become cheap money capital that is available for investment in the recipient country because the launderers who own these monies do not charge interest for the usage of the funds because their primary intention is to find a safe haven for the laundered funds. On the other hand, the victim country where the laundered funds are surreptitiously flowing from may have lost a huge part of her capital assets that is supposed to form part of her accumulated financial assets for the enhancement of the country's economic productive activities. Such capital flight negatively affects and reduces the capital formation of the victim nation.

The proper acquisition and utilization of real capital goods is critical to economic growth and development. The resultant effects lead to technological progression, labor productivity growth and higher living standard of the citizenry. On the other hand, capital assets deficiency can trap a nation in the vicious poverty cycle where the economic development of such a country can be retarded. Therefore, capital formation in this focus is the process of growing the capital stock of a country through investment in productive activities like equipment, plants, machines (assets) etc. that can be used to create further wealth. It involves the increment of capital assets of a nation by the effective and efficient usage of available fixed assets (tangible, intangible, monetary) and human capital resources.

1.4 Hypothesis Development

Deterrence as regard to money laundering crime is a theory that detailed how the threat of punishment can dissuade people from committing financial crimes and as such reduce the probability of such crime rate in society. This deterrence theory of penance was first drawn from the classical (utilitarian) philosophers' works such as Jeremy Bentham (1748 – 1832), Cesare Beccaria (1738 - 1794) and Thomas Hobbes (1588 - 1678) as explained in the work of Williams and McShane (1999). Their works provided the underpinning for modern deterrence theory in criminal behavior. These scholars theorized that individuals are motivated to avoid pain and prefer to obtain pleasure instead. As such, financial crimes can be discouraged by raising the likelihood, promptness and severity (seriousness) of legal penance to deter criminals from committing crime (Akers, 2000). Based on this premise, "the thought continues to form the underpinning for the modern deterrence hypotheses, and that theory is subsumable under the more general social learning and rational choice theories" (Nagin, 1998).

Vold, Bernard and Snipes, (2002) revealed that Modern deterrence theorists identified numerous key complications, including discrepancies between particular and universal deterrence, restricted/unrestricted deterrence, and actual/perceived (sanctions) penalties. They have also acknowledged that the deterrent impacts of legal penalty may be influenced by a variety of other circumstances, such as the fear of extra-legal penalty (Moyer, 2001).

However, evidence shows that modern criminal justice practices place a greater focus on the harshness of punishment than on conviction. Indeed, increasing the harshness of punishment may increase crime rather than diminish it (Bentham, 1948). On the other hand, increases in the certainty of an offender's conviction and punishment, have been proven to have potential implications on crime reduction. The criminal deterrence hypothesis has two potential applications: the first is that individual offenders are deterred from committing additional crimes by punishments imposed on them; the second is information given to the public that certain offenses is punishable by law which has a generalized deterrent effect, preventing others from perpetrating such crimes (Williams & McShane, 1999).

There are basically two distinctive phases of punishment that might affect deterrence, the first aspect is the certainty and awareness of crime punishment, this is obvious when the chances of trepidation and discipline associated with the crime is improved, it may have a deterrent impact especially on financial crimes (Wilson & Herrnstein, 1985). The second factor is concerned with the strict and severity of crime consequence; this relates to how serious the crime's penalty may impact behavior to the level where potential lawbreakers could conclude that the punishment is so severe, that the danger of being caught is not worth the risk of the crime. The fundamental principle of deterrence is that it is ethical, utilitarian or used for correction of wrongdoings. Hence, it is designed to prevent crimes and/or change behavior in the future rather than simply provide retribution or punishment for current or past behavior (Stafford & Goodrum, 2001).

There is a plethora of empirical literature on the concept of money laundering and its link to terrorism, and economic growth and development, but little has been done on the relation of money laundering to gross capital formation. Notwithstanding, Tiwari, Gepp and Kumar, (2020) studied and reviewed literature on financial crimes and money laundering with the intention to identify and address the gap in literature. They apply a systematic approach with focus on Science-Direct, Scopus and Pro-Quest databases. Their findings reveal that money laundering literature can be generally categorized into six areas. Such as, the fight against financial crime structure and its efficacy; the role of organized crime actors as well as their relative importance; the impact of financial crimes on the economy and other industries; the scope of organized crimes; new prospects for financial crimes; and money laundering detection. However, money laundering detection studies were mostly engrossed in the use of technological innovations, banking transactions, real estate, and trade-based, while the study in relation to shell companies are relatively scarce. Therefore, they focused more on uncovering fictitious (shell) firms that are being used to siphon illicit funds in the United Kingdom.

Liu, Li and Guo (2020) evaluated the effect of corruption on companies' access to bank credit facilities in China. The study surveyed 2848 companies' data gathered by the World Bank and adopted economic models to analyze the data. The finding indicates that a small degree of corruption makes it easier for businesses to receive bank credits, but a high-level of corruption makes it difficult for companies to obtain bank credits. However, moderate corruption may be a bad choice for companies seeking bank loans, but corruption-based bank funding distribution can reach Pareto optimal solutions among businesses. Furthermore, government guarantees facilitate companies' access to funding, and the role of government guarantees helps explain the relationship between corruption and firms' access to bank loans. Improved institutional quality is linked to easier access to bank loans for businesses and reduces the impact of corruption on their external funding.

Jiang, Ng, and Wang (2018) investigated the "influence of lending corruption on bank loan contracting using a World Bank business environment survey". The scholars' positions were that nations with higher lending corruption rates create more rooms for banks to offer favourable loans to borrowers. Secondly, the study indicates that participating banks are often unwilling to loan out more in the lending syndication market in nations with higher lending corruption rates, and such participant banks avoid public bonds owing to high indebtedness and favor private bank lending relationships. Banks within these nations are prone to failures due to inadequate asset quality and poor earnings performance. Botes and Saadeh, (2018) buttress the need for accounting to go forensic to combat money launder activities.

Financial crime has sparked a slew of regulatory measures aimed at combating the threat. Regulators are forced to justify their operations in the presence of judicial and political criticism over the efficacy of rules in achieving anticipated AML objectives. The need to combine risk-based and compliance-based assessments, on the other hand, can be an important weapon in the battle against money laundering (Tiwari, Gepp & Kumar, 2020). The advancement of a responsive regulatory surveillance structure would be aided by the creation of a model to detect and prevent unlawful actions. Therefore, the hypothesis of this study shall be stated thus:

H₀₁: Anti-money laundering policy has no significant effect on capital formation in Nigeria.

2. Data and Methodology

In accomplishing the research objectives, the study made use of annual time series data from the EFCC, NIBSS, Nigeria Financial Intelligence Unit activity Report (NFIU), National Bureau of Statistics, and the Central Bank of Nigeria Annual Report 2019 and were converted to quarterly data to cover a wide range for this study. However, in analyzing the research hypothesis, the study adopted the use of both descriptive statistics and regression techniques (Gujuratti & Sangeetha, 2008). The selected variables are money laundering conviction rate (as the predicting variable) and gross fixed capital formation (as the criterion variable). The hypothesis was tested using the error correction method (ECM) of analysis. The use of coefficients of determination, t-test and f-test were applied in analyzing the data.

2.1 Specifications of the Econometric Model

The data are analyzed using the regression technique (error correction mechanism) that is termed to be a statistical method used to find relationships between variables for the purpose of predicting future values. Using the formula:

$$FCF_{it} = F(MLCR_{it}, U_{it}) \quad (1)$$

This can be written in explicit form as:

$$L(FCF_{it}) = \beta_0 + \beta_1 MLCR_{it} + \mu_{it} \quad (2)$$

where

FCF = Fixed Capital Formation
 $MLCR$ = Money Laundering Convicted Rate Report

β	=	Coefficient of parameter
it	=	Time coefficient
μ	=	Error term

A priori Expectation of Coefficient of Estimate

The main model used in this study is $FCF_{it} = \beta_0 + \beta_1 MLCR_{it} + \mu_{it}$. Thus, it aimed at evaluating the effect of anti-money laundering policy on capital formation in Nigeria. Consequently, the relationship between the predicting variables and the criterion variable is expected to have a positive significance.

3. Data Presentation, Analysis and Interpretation

The descriptive statistics presented the output of the mean, median, maximum, minimum, standard deviation, kurtosis, Jarque-Bera, and probability for the data, the result is presented in Table 1 below.

Table 1
Summary of Descriptive Statistics

	LOG(FCF)	LOG(MLCR)
Mean	8.206473	3.178905
Median	8.143004	3.228826
Maximum	9.244978	3.496508
Minimum	7.610541	2.772589
Std. Dev.	0.427058	0.179987
Skewness	0.967755	-0.893613
Kurtosis	3.111677	3.269465
Jarque-Bera	6.264450	5.444651
Probability	0.043621	0.065722
Sum	328.2589	127.1562
Sum Sq. Dev.	7.112764	1.263423
Observations	40	40

Source: Authors' computation using E Views 10

Table 1 describes the relationship in the data series that is adopted for the study analysis. Hence, the selected variables of log of: fixed capital formation (FCF) and money laundering conviction rate (MLCR) are regressed. The normality test uses the null hypothesis of normality against the alternative hypothesis of non-normality. Hence, if the probability value is less than Jarque Bera Chi-square at the 5% level of significance, the null hypothesis of the regression is not rejected. Therefore, the above result indicates that the hypotheses of all the variables are normally distributed since the probability is less than the JarqueBera chi-square distribution. As such, they pass the significance test at the 0.05 level.

3.1 Unit Root Test Stationarity

The time series data of the selected variables were subjected to stationarity tests using Augmented Dickey-Fuller (ADF). Table 2 summarizes the results of the stationarity test.

Table 2
Unit root test result using ADF procedure for the model

Variables	Augmented Dickey Fuller Test			5% C. L.	d(I)	Remark
	@level	@ 1 st Diff	Lag			
Log(FCF)	-0.215054	-11.51896	2	-3.533083	1 (1)	Stationary
Log(MLCR)	-3.794320	-2.686201	2	-3.786383	1 (2)	Stationary

(Source: Authors computation using E view 9)

Following the above table, all the variables are not stationary at level and therefore fail the Augmented Dickey Fuller (ADF) unit root test at first instance. However, the unit root test of the variables indicates that all the variables except money laundering conviction rate (MLCR) are stationary at first difference I(1) series. Whereas money laundering conviction rate (MLCR) is integrated at second order I(2). Since all the variables are not stationary at levels, it is necessary to differentiate them before estimation. Therefore, differencing the variables removes any long-run information contained in the variables of interest. However, this enables us to embrace the estimation of models. Table 3 presents the significant effect between money laundering conviction rate and capital formation in Nigeria. The error correction term tells us the speed at which our model returns to equilibrium following short run fluctuations. The adjusted R² value of 0.0568 indicates that the predicting variables can explain 6percent of the systematic variations in the criterion variable (capital formation). In other words, the adjusted R square measures the explanatory strength of 6percent. This denotes that there is goodness of fit in the specified model. This value can be considered sufficient because the criterion variable is also influenced by other factors besides anti-money laundering policy of (MLCR). Also, the F-statistics value from the table is reflected as 1.52669 at 5% level of significance. The F-statistic indicates that the model is rightly specified. Therefore the null hypothesis is accepted

and we conclude that there is no significant relationship between anti-money laundering policy instruments of money laundering conviction rate and capital formation because the overall probability value of 0.21866 is greater than 5percent level of significance. The Durbin-Watson statistics, a rule of thumb for the measure of autocorrelation is greater than R^2 ($2.4825 > 0.164595$). This indicates the absence of first order autocorrelation. Hence we accept the null and reject the alternative hypothesis.

Table 3
Error Correction Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.056227	0.021411	2.626125	0.0133
DLOG(FCF(-3))	-0.298614	0.166372	-1.794859	0.0824
DLOG(MLCR)	-0.406724	0.405341	-1.003412	0.3234
DLOG(MLCR(-1))	0.313761	0.369757	0.84856	0.4026
ECM(-1)	-0.057127	0.090762	-0.629408	0.5337
R-squared	0.164595	Mean dependent var		0.040751
Adjusted R-squared	0.056801	S.D. dependent var		0.124875
S.E. of regression	0.121276	Akaike info criterion		-1.253246
Sum squared resid	0.455945	Schwarz criterion		-1.033313
Log likelihood	27.55844	Hannan-Quinn criter.		-1.176484
F-statistic	1.52694	Durbin-Watson stat		2.482505
Prob(F-statistic)	0.218666			

The t-statistics further prove the validity of the estimated model which is statistically non-significant at 5percent level, as shown by the t-probabilities. This also implies that the predicting variable of MLCR have a negative non-significant effect on the criterion variable. This outcome implies that an increase in the regress variables will lead to insignificant decrease in capital formation in Nigeria.

H0₁: The conviction rate of money laundering crimes has no significant effect on capital formation in developing Nigeria.

The first objective of this study was to examine the effect of money laundering conviction rate on the capital formation in Nigeria. Thus, Ho₁ proposed that the predicting variable has a negative non-significant effect on the criterion variable at 5percent level, as revealed in (Table 4.4). Hence, Hypothesis One was supported because a negative non-significant relationship was found between MLCR and FCF as ($\beta = -0.407$, $t = -1.003$, $p = 0.3234$).

3.2 Discussion of findings

The hypothesis and objective of this study was to examine the effect of money laundering conviction rate on capital formation in Nigeria. Thus, Ho₁ proposed that the predicting variable has a negative non-substantial effect on the criterion variable at 0.05 level. Hence, the hypothesis was supported because a negative non-significant relationship was found between MLCR and FCF. This implies that the conviction of money launderers does not significantly affect capital formation in Nigeria. This is due to the facts that the Nigerian judicial process may have been hijacked by the political system to the point where the key players in the money laundering acts (i.e. PEPs, top businessmen, first class citizens) are untouchable. Even when they are caught by the ruling opposition party, the prosecution process has always been compromised. However, the few that were convicted by the law were mere act of fulfilling all righteousness and were for political advertisement purposes because the expected standard forensic investigations were not thoroughly or systematically carried out to recover all laundered funds. The handfuls of recovered laundered funds (assets) are not judiciously redeployed or ejected into the economy. This position is supported by the work of (Onyema et al, 2018). Therefore, this is the core reason why the expected deterrence effect that conviction of money launderers is supposed to bring has no significance in Nigeria. Hence, launderers are not afraid of the legal punishment nor the resultant effects of the stigmatization by the society for committing money laundering. Paradoxically, they are celebrated as victors, who have conquered poverty, more especially if such fellows are generous. That is the ethical dilemma interrogating the Nigerian economy today.

4. Conclusion and Policy Implication

Drawing from the FATF (G7 government) recommendations, and the general perceptions that the threat of punishment can dissuade people from committing financial crimes, as well as reduce the probability of such crime rate in society, this study's interrogation of the interface between conviction rate and its influence on deterrent and attendant impact on capital formation is properly collocated within the domain of deterrence theory. The empirical test pan-out indicates that the current money laundering conviction rate (MLCR) has a negative and non-significant influence on capital formation in Nigeria. Therefore, the study concludes that the current conviction rate is too weak to deter the act

The foregoing outcome is not unconnected with the weak judicial system, slow pace of administration of justice, loopholes in the legal system and the attendant high rate of corruption in our national system. Also, the prevalence of political and ethno-religious considerations over and above national interest are strong mitigating factors in the fight against money laundering. The Nigerian media is agog with instances of presidential pardon being given to the few convicted persons for political expediency, the withdrawal of prosecution of accused persons for the same reason and the blatant use of anti graft agencies for witch-hunting political opponents. The endemic nature of these foreclosures are rooted in the national morale decadence that permeates our national psyche, is well collocated with the precinct of the global quest for well acquisition that resonates across all nations. A world that celebrates wealth regardless of how it is gotten and promotes materialism as the only essence of life. Hence, it is recommended that the judicial system be rejigged with enabling legislation and autonomy to strengthen it to hasten the trial of such cases and ease conviction of culpable individuals, without necessarily putting innocent victims at jeopardy. Similarly, such autonomy should also be granted to the EFCC, ICPC, NFIU and all agencies that has such a mandate. Finally, inter-agency synergy should be encouraged as this will harvest better results than the silos model in operations.

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