TOWARDS CAPITAL FORMATION IN NIGERIA: ROLE OF SUSPICIOUS TRANSACTIONS REPORTS AS AN ANTI-MONEY LAUNDERING INSTRUMENT

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ABSTRACT

This study interrogates money laundering containment efforts of the Nigerian State via the instrument of Suspicious Transactions Reports (STR) and how this affects capital formation. This is predicated on the endemic nature of money laundering as a financial crime in the country. The paper deployed the Nigerian Money Laundering Prohibition Act (2011) and FATF (G7 Government) as a premise for the study. The work is hinged on financial surveillance theory. Ex-post factor research design was adopted. Quarterly data from 1Q 2010 to 4Q 2019 was sourced from the Nigeria Inter-Bank Settlement Scheme (NIBSS), Nigeria Financial Intelligence Unit Activity Reports (NFIU), and CBN Statistical Bulletins. The descriptive statistical data was subjected to regression inferential statistics, based on the espoused model of the study. It panned out that STR has positive significant effect on capital formation in Nigeria. Hence, the study recommends that traction should be given to STR instruments. Also, effective mechanisms of anonymity should be deployed to protect reporting staffers' risk of exposure to scale up reporting output.
Keywords: capital formation, financial trust, money laundering, suspicious transaction, surveillance theory

INTRODUCTION

Over the years untamed quest for money has created problems for society. From the early days of the nineteenth century criminal activities of the Sicilian mafia, to the celebrated crime families in the US crime history, activities of criminal groups and individual sleaze against the state from persons in positions of trust have continued. These funds were laundered in legitimate avenues to clean them up-hide their criminal origins.

Money laundering (ML) is a crime against a nation, which strives mostly in nations with weak legal framework. The effect of such crimes may not directly be felt or taken seriously by individuals (Barone et al., 2018; Barone & Masciandaro, 2008). From existing literature, avenues for cleaning up or legitimizing criminal proceeds accentuated these acts. Also, state action against dark money clean-up schemes is slow in coming, but it is assuming appreciable levels. This act of cleaning criminal proceeds is becoming increasing difficult as financial inclusion widens and transition to cashless operations gains traction (Norton, 2018).

Based on the foregoing, the Financial Action Task Force (FATF) policy, and the Nigeria Anti-Money Laundering Act (AMLA, 2011) require that accountants/auditors, lawyers, investment brokers, tax advisers, bankers, and financial institutions render surveillance services as financial gatekeepers, through which potential users most likely must pass to succeed in money laundering act. The gatekeepers are not combatants of money laundering rather, they are watchmen that gather intelligence for the Financial Intelligence Unit (FIU) in accordance with AMLA for necessary action of government (Hasmet, 2013).

Activities of money launderers affect a nation's formal capital formation process by constituting a massive leakage in the system due to launderers' use of financial channels to transmit large amounts. This makes it imperative for nations to focus on regulating financial institutions that are instrumental to the development of a nation's asset accumulation (Opudu & Ogoun, 2022). FATF (2016) revealed that customer due diligence (CDD), knowing your customer (KYC), Biometric verification number (BVN), suspicious transaction reporting, cash transaction threshold, financial inclusion, customer identification requirement, wire transfer limit, investment limit and foreign exchange transfer limit are core instruments that could contain money laundering (FATF, 2019, FATF, 2012, FATF, 2005).

Financial crimes or flows of illicit funds out of an economy distort capital formation and retards economic growth (Yasaka 2017; Shuaib & Dania 2015; Idowu & Obasan 2012). Evidence abound that laundered monies contribute to capital formation for the recipient country or firm, as seen from the pathological case of African leaders who laundered monies into various European nations (especially, Switzerland) (Opudu & Ogoun, 2022). Meanwhile, seen from the perspective of the victim's country, it is a major economic problem that requires policy measures, as well as institutional and structural reforms.

But despite the adoption of the FATF and AMLA containment measures, there are still incessant financial crimes in Nigeria. Does this mean that the policy measures are not yielding the expected results? Therefore, the need for an empirical evaluation of the performance of the policy measures in Nigeria becomes towering. It is against this context, that this study detaches suspicious transaction report to investigate how it dissuades ML activities to shore up capital accumulation for domestic investment in Nigeria.

Money Laundering: The Concept

The money laundering construct is not shrouded in epistemological controversy. There is consensus of views in the meaning of the construct. The United Nations Office on Drugs and Crime (UNODC, 2014) defined it as "the method by which criminals disguise the illegal origins of their wealth and protect their assets bases to avoid the suspicion of law enforcement agencies and prevent leaving a trail of incriminating evidence." Also, Unger (2014) views it as the process of concealing the origin of illegitimate proceeds derived from financial manipulation, drug trade, fraud, corrupt enrichment, or other crimes, bringing back the ill-gotten money into the financial circuit of the legal economy.

Criminal enterprises seek to gain wealth and power through illegal means, and they go to great lengths to gain access to lawful society through a genuine business but in the long run, the economic flow is disrupted (Lehman, & Thorne, 2015; Ping, 2005). ML acts are carried out in a clandestine manner thus, making accurate assessment of ML a difficult one (Malsch & Gendron, 2013; Idowu & Obasan, 2012; Ping, 2010; Ping, 2005). However, the International Monetary Fund (IMF, 2015) estimates that money laundering accounts for 2%-5% of global GDP, with amounts ranging from USD 800 billion to USD 2 trillion laundered. While Global Financial Integrity (GFI, 2015) reported that the loss from illicit financial flows from developing nations from 2004-2013 was estimated at USD 7.8 trillion.

Gross Fixed Capital Formation

"Gross fixed capital formation (GFCF) is a macroeconomic phrase used in national accounts to measure the values of current and non-current (new) asset acquisitions by the private sector, government, and households (excluding their unincorporated companies) minus fixed asset disposals" (Opudu & Ogoun 2022). It is that part of real output (GDP) expenditure, that indicates how much a nation's new value-creation is added as an investment in the economy that is not consumed (Amahalu et al., 2016). It can also be referred to as the process of accumulating or amassing considerable capital resources that may lead to an increase in wealth, or the development of extra wealth (Arowosaiye, 2015; Seng, 2014; Ugwuegbe & Uruakpa, 2013).

Though investments are expected to lead to the process of increasing a nation's capital accumulation and enhancing its economic output capacity, the investments of illicit funds are tantamount to causing a

competitive disadvantage because of the ulterior motive of launderers, which is basically to safeguard their illicit funds and not to do real economic business (Effiom et al., 2019). At this level, the laundered proceeds are now invested in different legitimate commercial activities which indicate the completion of the whole process. These processes offer an all-inclusive and useful explanation of what is previously a difficult and occasionally coinciding process of ML (Malm & Bichler, 2013).

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 effective and efficient use of available fixed assets (tangible, intangible, monetary) and human resources" (Opudu & Ogoun, 2022). Gross domestic investment is the same as gross fixed capital formation plus net changes in the level of inventories (Jhingan, 2006).

Suspicious Transactions Report as AMLA Tool

Reporting of Suspicious transactions rule is a crucial aspect of AML policies. It is the aspect that reveals a set of information by alerting regulatory authorities that certain actions in some manners are looking suspicious and might indicate terrorism financing or ML (Fleming, 2005). The obligation to report suspicious transactions occurs irrespective of the money involved; whether the type of the crime is significant; or whether the reporting unit acknowledges client transactions or not (Chaikin, 2009).

"Financial institutions and other regulated actors have become traffic wardens that are required to assist in regulating the flow of financial traffic. The banks hence participate in state mechanisms of security to the extent that they have not only to maximize, but also to filter financial mobility, paralleling in a fashion the twin and contradictory aim of the airport' about the mobility of people and goods" (Salter, 2007; Lyon, 2007). Therefore, a transaction is labeled suspicious when the behavior and circumstances are sufficient to identify or suspect a crime (Gold & Levi, 1994).

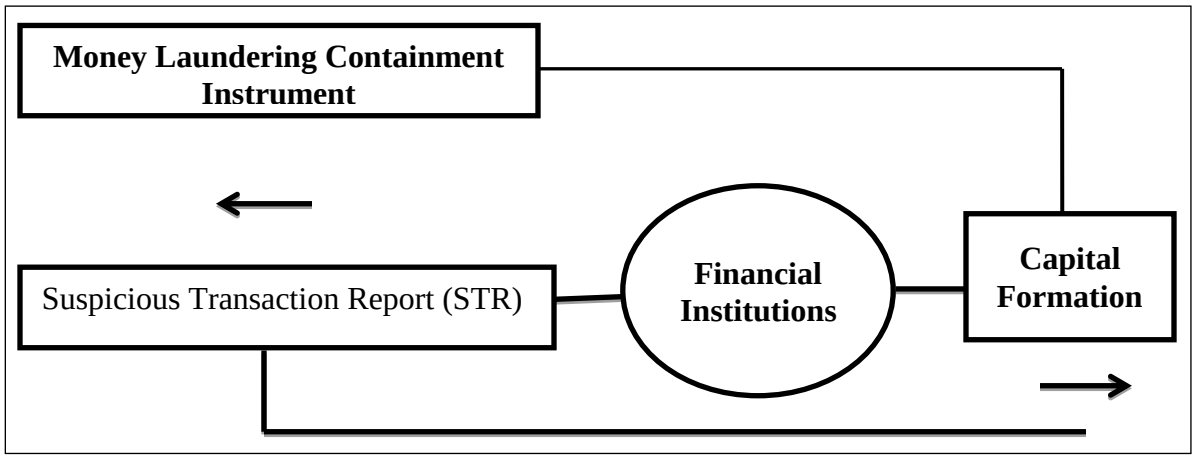

Fig. 1 Conceptual Framework of the Study
Source: Researcher's Conceptualization (2023).

The conceptualization in Fig.1 describes three major constructs which include the predictor factor, criterion factor and mediating factor. Hence, the primary predictor variable is the suspicious transaction report (STR) as a proxy for money laundering containment instrument and the criterion variable is the fixed capital formation of the nation; while the financial institutions are the mediating factor or variable. The proxy of the predictor variable (money laundering containment) was adapted from the work of Reganati and Oliva (2017), while the criterion variable is the gross fixed capital formation of the nation. Financial institutions were espoused as mediating factor based on the fact that the ML process that is hinged on "the placement

stage, layering stage and integration stage" can only suffice if financial institutions are mediating (Sharman 2011).

Hypothesis Development

In the fifteenth to seventeenth centuries, religious and political surveillance was the first in existence before the advent of surveillance theorization (Panopticon) (Marx 2002). The theory-building started with Jeremy Bentham during the 1700s with panoptic designs as a metaphor for surveillance (Bentham, 1995). The panopticon of Bentham as defined by Brunon-Ernst (2013) is a close watch, particularly of a suspect or the act of closely monitoring someone or something in order to prevent or discover a crime.

However, most surveillance technologies are now employed indiscriminately and ubiquitously to everyone and in all contexts, all locations, time, networks, and groups of people rather than just to suspected persons (Marx, 2002). Lyon, (2007) defines it as "the focused, systematic and routine attention to personal details for purposes of influence, management, protection or direction," Haggerty and Ericson, (2000) view it as 'the collection and analysis of information about populations to govern their activities.

Theoretical insights revealed that the surveillance hypothesis is an ancient societal process that has become a leading corporate practice of modern times (Latour, 2012; Dorrestijn, 2012; Ball, Haggerty, & Lyon 2012; Castells, 2010; Koskela, 2004). The theory has undergone several modifications due to technological advancement, corporate governance developments, and various governmental policy reforms. These reforms are necessary to overcome human limitations; the increasing crime rate challenges, accurate identification issues, interpersonal relations and institutional practice' (Ball, Haggerty & Lyon, 2012; Brivot & Gendron, 2011; Lyon, 2002).

Moreover, Petersen (2012) summarized modern surveillance as 'the use of technological techniques or devices to detect attributes, activities, people, trends, or events.' Detection can take place using closed-circuit television (CCTV) cameras (artificial intelligence machines) to spot unusual behavior as well as automatically footage all 'suspicious' transactions that are above the stated threshold and closely monitor, record, identify, and/or reveal all that happens 'behind the gaze'. The intention of this kind of surveillance is basically for deterrence and crime prevention (Petersen, 2012). This is why Cohen, (2016), and Galič et al. (2016) emphasize that financial surveillance is not a matter of fighting crime but of preserving the integrity of financial institutions and ultimately the financial/economic system as a whole.

However, Foucault's panopticism (Foucault, 1991) widen the scope of surveillance assemblage to other disciplines where financial surveillance became relevant and is now entrenched in daily tasks and has become a trend for modern financial/economic system (Marwick, 2012; Lyon, 2007; Mann, Nolan, & Wellman, 2003; Marx, 2002). The theory enables the gathering of financial intelligence via computer networks that monitor monetary movements; detect opportunistic behaviour at long distances where such information is recorded for future reference purposes. While, in the hand of large actors, surveillance is used by multinational corporations and nations; not only to watch individuals but also other things like military objects, stock trade, waste matters, terrorism and cybercrimes through internet surveillance technologies or digital vigilantism (Trottier 2015; Kitchin, 2014a; Kitchin, 2014b; Marwick 2012; Castells, 2010).

Liu et al. (2020) evaluated effect of corruption on companies' access to bank credit facilities in China. The study surveyed 2848 companies' data gathered by 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. Qi and Ongena (2019) interrogated whether bribery and corruption can affect firms' access to credit facilities in the banking sector; employing regression technique on a sample size of 12006 firms across 22 developing nations. They found that bribery and corruption is a major challenge to firms' development and productivity, as banks offer less credit access to firms associated with bribery and corruption. This negative effect is more pronounced

when there are fewer foreign banks in the firm's vicinity, or when competition in the local banking market is very low or very high.

Sun et al. (2018) explored effects of anti-corruption policies on bank credit decisions to state and non-state-owned companies in China. The study examined the impact of anti-corruption efforts using micro-level loan data from one public sector bank in China. They discovered that public sector firms had better borrowing conditions than private enterprises before the anti-corruption crusade, but that after the drive; private firms had better borrowing conditions with a lesser interest rate, longer duration, and larger loan sum than state-owned firms.

Enofe et al. (2018) investigated the nexus of money laundering and the economy of Nigeria. Data were collated from the CBN statistical bulletin and EFCC ranging from 2007-2014 and the OLS technique was adopted to evaluate the time series data. The findings reveal that ML hurts Nigeria's economy. The implication is that money laundering has led to flight of required resources for economic development in Nigerian. As such, the surveillance structure should be strengthened and all relevant agencies should be given the needed support to combat financial crimes.

Jancsics (2017) contributed to the discourse by detailing how corrupt public officials in Hungary employ business vehicles in siphoning funds. The investigation pointed toward understanding the purposes behind utilizing shell organizations in crooked and fraudulent transactions, recognizing the areas which these companies used regularly, the players accountable for interactions through these firms, and the sociopolitical setting for their survival. The study discovered that all of the documented incidents of corruption included the use of shell corporations and were connected to public strategic (policy) decisions. They were mostly employed in the agriculture and tobacco industries to distribute resources for client acquisition or market catch.

The present work departs from previous studies in that it focuses on interrogating the link between suspicious transaction report measures and asset accumulation in Nigeria. Believing that the development of a responsive regulatory surveillance assemblage would aid the creation of a model to detect and prevent unlawful financial actions. Therefore, the study hypothesize thus:

Ho_1: Reporting suspicious transactions has no significant effect on capital formation in Nigeria.

METHODOLOGY

To achieve our objectives, the study relied on annual time series data from the Nigeria Inter-Bank Settlement Scheme (NIBSS), Nigeria Financial Intelligence Unit Activity Report (NFIU), National Bureau of Statistics, and the Central Bank of Nigeria Annual Report 2021 and were converted to quarterly data to cover a wide range for the study. In analyzing the research hypothesis, the study adopted the use of both descriptive statistics and regression techniques (Gujuratti & Sangeetha, 2008). The selected ML instrument is the STR report (as the predicting variable) and "grossed fixed capital formation" (as the explained variable). The hypothesis was tested using the error correction method (ECM) of analysis. The use of coefficient of determination, t-test and f-test were applied in analyzing the data.

Specifications of the Econometric Model

The data are analyzed using the regression technique (error correction mechanism) which is a statistical method used to determine relationship between variables to predict future values. Using the formula:

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

This can be written in explicit form as:

$$L(FCF_{it})=\beta_0+ \beta_1 STR_{it} +\mu_{it}$$

Where:

FCF	=	Fixed Capital Formation
STR	=	Suspicious Transaction 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 FCFit=β0+β1STRit+μit. Thus, it aimed at evaluating the effect of anti-money laundering policy tools on capital formation in Nigeria. Consequently, the relationship between the predicting variable and the criterion variable is expected to have a positive significance.

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.

Table 1: Summary of Descriptive Statistics

	LOG(FCF)	LOG(STC)
Mean	8.206473	8.076422
Median	8.143004	7.916365
Maximum	9.244978	9.854355
Minimum	7.610541	7.589842
Std. Dev.	0.427058	0.609560
Skewness	0.967755	1.571975
Kurtosis	3.111677	4.449605
Jarque-Bera	6.264450	19.97629
Probability	0.043621	0.000046
Sum	328.2589	323.0569
Sum Sq. Dev.	7.112764	14.49098
Observations	40	40

Table 1 depicted the association in the data series that is adopted for the study. Hence, the log of fixed capital formation (FCF) and log of suspicious transaction reports (STR) of ML containment instruments are regressed. The normality test uses the null hypothesis of normality against the alternative hypothesis of non-normality. Hence, the null hypothesis of the regression is not rejected because the Probability value is less than Jacque Bera Chi-square at the 5% level of significance. Therefore, the above result indicates that the hypotheses of the variables are normally distributed since the probability values are less than the Jarque-Bera chi-square distribution. Therefore, they exceed the significance test at a 0.05 level.

Unit Root Test Stationarity

The selected variables were subjected to stationarity tests using Augmented Dickey-Fuller (ADF).

Table 2: ADF Unit Root Test Result

Variables	Augmented Dickey Fuller Test			5% C. L.	d(I)	Remark
	@level	@ 1st Diff	Lag			
Log(FCF)	-0.215054	-11.51896	2	-3.533083	I (1)	Stationary
Log(STR)	0.904670	-4.339112	2	-3.533083	I (1)	Stationary

Source: Authors computation using E view 9

Table 2 indicates that the variables are not stationary at the level and as a result, they failed to pass the Augmented Dickey-Fuller (ADF) unit root test at the first occurrence. However, further tests reviewed that the selected variables are stationary at the first difference I(1) series. Since the variables are not stationary at levels, it is necessary to difference them before estimation. Differencing the variables removed any long-run information contained in the variables of interest.

Table 3: Regression Output

Dependent Variable: DLOG(FCF)
Method: Least Squares
Date: 05/22/23 Time: 11:12
Sample (adjusted): 2011Q1 2019Q4
Included observations: 36 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.047404	0.018306	2.589588	0.0145
DLOG(FCF(-1))	-0.594156	0.142275	-4.176118	0.0002
DLOG(STR)	0.198711	0.092843	2.140286	0.0403
DLOG(STR(-3))	0.130837	0.104891	1.247362	0.2216
ECM(-1)	0.035868	0.108320	0.331129	0.7428

R-squared	0.405826	Mean dependent var	0.040751
Adjusted R-squared	0.329158	S.D. dependent var	0.124875
S.E. of regression	0.102278	Akaike info criterion	-1.593990
Sum squared resid	0.324287	Schwarz criterion	-1.374057
Log likelihood	33.69182	Hannan-Quinn criter.	-1.517228
F-statistic	5.293311	Durbin-Watson stat	2.273811
Prob(F-statistic)	0.002282		

Table 3 X-rays the significant effect between suspicious transaction reports policy and capital formation in Nigeria. The error correction model result reveals to us the speed at which our model returns to equilibrium, following short-run fluctuations. The adjusted R^2 value of 0.3292 indicates that the predicting variables can explain 33 percent of the systematic change in the criterion variable (capital formation). This means that the adjusted R-square measures the explanatory strength of 33 percent. This denotes that there is goodness of fit in the specified model. The value can be considered sufficient because the criterion variable is also influenced by other factors besides the suspicious transaction reports (STR) policy.

Also, the F-statistics value from Table 3 is reflected as 5.293311 at a 5% level of significance. The F-statistic indicates that the model is rightly specified. Hence, the coefficients of STR policy reveal that money laundering containment measures based on STR have a positive and significant effect on capital formation at a 5 percent level, and this is based on ($\beta = 0.19$, $t= 2.14$, $p= 0.04$). The Durbin-Watson statistics, a rule of thumb for the measure of autocorrelation is greater than R^2 ($2.273811 > 0.405826$). This indicates the absence of first-order autocorrelation.

The t-statistics further prove the validity of the estimated model which is statistically significant at a 5 percent level, as shown by the t-probabilities. This also implies that the predicting variable of STR has a positive significant effect on the criterion variable (capital accumulation). This outcome implies that a 100% increase in the regressant variable will lead to a 19% significant increase in capital formation (criterion variable). This also conforms to our a priori expectation. The ECM also took the expected sign and it is significant at a 5 percent level. Therefore, we reject the null hypothesis and accept the alternate and conclude that there is a significant relationship between the anti-money laundering policy instrument of reporting suspicious transactions (STR) and capital formation in Nigeria. This implies that the predictor variable (money laundering containment instrument) has a strong contribution to explaining capital formation in

Nigeria.

IMPLICATION, CONCLUSION AND RECOMMENDATION

From the research pan out, the result is indicative that an increase in STR scales down money laundering thereby increasing the gross fixed capital as espoused in the study. Obviously, with the reduction in the volume of bulky cash transactions via the operationalization of the cashless policy. This import is that transactions with shadowy backgrounds would definitely trigger alert within the system thus making increasingly difficult to hide and move such funds around.

This observation finds credence in the Central Bank of Nigeria's report that following the introduction of the Biometric Verification Number (BVN), and linking of all accounts in the financial system, certain accounts have not been claimed by anyone. Thus, effectively designating them as ghost accounts without owners. Even after several reminders there is no claim of ownership, which is indicative of illegal proceeds considering the huge volumes involved. There is surveillance on these said accounts to see those who would come and claim them. Therefore, the inference here finds consistency with the observations of Reganati and Oliva (2017), Yasaka (2017) and Idowu and Obasan (2012).

The study interrogates the money laundering containment instrument of suspicious transactions reports (STR) policy as a proxy for surveillance of financial trust violation and its effect on capital accumulation in Nigeria. The "FATF (G7 government) and the Nigerian Money Laundering Prohibition Act (2011)" were employed as a yardstick to champion the relationship between the selected variables. It was observed that the policy instrument of STR has a positive and significant effect on capital formation in Nigeria. Therefore, the STR policy has been shown to contribute substantially to capital formation growth in Nigeria. Hence, it is recommended that traction should be given to STR instruments. Also, effective mechanisms of anonymity should be deployed to protect reporting staffers' risk of exposure to scale up reporting output.

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