ILLICIT FINANCIAL FLOW AND ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

The study examined the effects of illicit financial flow on economic development in Nigeria. The study uses Per Capita Income (PCI) as a measure for economic development, while Tax Evasion and Avoidance (TEA), Bribery (BRB) and the Naira value of Contraband (CTB) goods were measures for illicit financial flows. In specific terms, the study hypothesizes that no relationship exists between illicit financial flow and the development of the Nigerian economy. In order that the preceding hypothesized statement is tested empirically, and the stated objective achieved, the study sourced data from the Global Financial Integrity (GFI) Report, the Organization for Economic Cooperation and Development (OECD) and the National Bureau of Statistics (NBS) Quarterly report which spans a period of thirty two (32) years. The study employed descriptive statistics, ADF unit root test for stationarity of the series and the least square method of linear regression in order that the relationship between the dependent and independent variables of the study would be determined. The findings resulting from the empirical analysis carried out on the data revealed that, there is significant positive relationship between illicit financial flow as measured by tax evasion and avoidance and economic development in Nigeria. Flowing from the above findings, the study recommends that the Federal Government of Nigeria (FGN) through its agency in charge of collection of various taxes in Nigeria, in this case, the Federal Inland Revenue Service (FIRS) should formulate policies that would discourage people from engaging in tax evasion such that would benefit the generality of the citizenry.

Keywords: Illicit Financial Flow, Economic Development, Tax Evasion and Avoidance
JEL Classification: G, O1

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1. INTRODUCTION

The debt crisis bedeviling nations since the early 1980s has caused them to focus attention on capital outflow occasioned by distortions in domestic economic policy direction and political uncertainties prevailing in the less developed countries. The magnitude of illegal transfers of funds out of less developed countries is worrisome. Thus, cross-border dealings aimed at concealing illicit flow of funds have now become the new phenomenon. According to Global Financial Integrity (GFI, 2013), the increasing globalizations with the attendant socio -economic concomitance, have made these questionable financial dealings to grow beyond measure.

Illicit financial flows have become a topical issue on the international development policy discourse affecting different countries of the world. These practices that occur in all countries of the world have negative consequences which are damaging to social and economic life of the various nations with high degree of severity to the developing countries which have fewer resources. Though, it is reported that the magnitude of these questionable dealings (illicit financial flows (IFFs) emanating from developing countries cannot be accurately measured, it is believed that the value is more than the official development assistance offered by Organization for Economic Cooperation and Development (OECD) donor countries.

Illicit flows manifest in many different forms and shape on a globalized scale which obscures ownership with profits, assets and taxes lost. According to a report by the Global Financial Integrity (GFI, 2010), Nigeria is unfortunately leading the pack on the origin and source of these questionable dealings in the sub-Sahara Africa especially from 2000 to 2009. According to the report, developing countries lost huge sums of money up to the tune of USD 903 billion to questionable dealings of illicit financial outflows in 2009.

Ogbonnaya and Ogechuckwu (2017), opined that illicit financial flow has deleterious effect on the economy of the affected countries especially developing countries to the extent that their loss or cost on the average ranges from the inability of the concerned country to provide basic amenities such that would support innovative and entrepreneurial effort of the youth. This cost is largely responsible for the high rate of poverty prevailing in the affected economies. In monetary terms, the cost is put at between USD 723 billion and USD 844 billion per annum on account of illicit flows for the decade ending 2009.

Ogbonnaya and Ogechuckwu (2017) also revealed a regional dimension to the issue of illicit financial flows as it has increased in every region of developing countries. According to them, the real percentage growth of illicit financial flows by regions over the period of their study indicates as follows: Africa is put at twenty three percent, while the Middle East and North Africa (MENA) is twenty six point three percent. Developing Europe is three point six percent; Asia is seven point eight percent and Western Hemisphere two point seven percent. Nigeria was ranked 7th among the top 10 countries with the highest measured cumulative illicit financial outflows between 2001 and 2010. The list also showed that China as first with $2.74

trillion followed by Mexico with $476 billion, others are Malaysia: $285 billion, Saudi Arabia: $210 billion, Russia: $152 billion, Philippines: $138 billion, Nigeria: $129billion, India: $123 billion, Indonesia: $109 billion, United Arab Emirates: $107 billion (Ogbonnaya & Ogechuckwu, 2017).

The Global Financial Integrity Report (2013) asserts that "trends of illicit financial flows manifest in the form of trade mispricing which account for an average of 80 percent of cumulative illicit financial flows from developing countries over the period of 2001-2010". This also represents the major channel for the transfer of illicit capital from China and Mexico.

Consequently, the issue of illicit financial flows (IFF) occupies a prominent place in developmental policy discourse of nations. This calls for a higher quality of national regulations, proper implementation and compliance with international best practices in order to curb these financial resources leakages from the system. It is in the light of the foregoing, that the study seeks to investigate the effect of illicit financial flows on economic development in Nigeria.

2. CONCEPTUAL REVIEW

2.1. ECONOMIC DEVELOPMENT

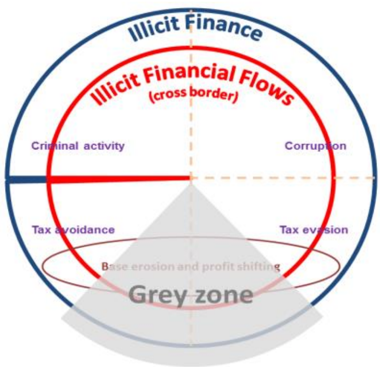
Economic development is a key policy focus of any government that is conscious of the welfare of its citizenry. This is because any meaningful success recorded in the area of economic development translates to improvement in the lives of the people. Nigeria runs an open economy which attracts international transactions that constitutes a vital proportion of its aggregate earnings. Like many developing countries, the economic prospects and development of Nigeria rest solidly on her interdependence with other developed countries. Economic development can be stated in terms of per capita income. This is especially so when it is measured with the population of a given country, such that the aggregate production of goods and services in a given year is divided by the population of the country in the given period. It should however be noted that there is no economic development without first recording economic growth. It is in line with this that "Chisman (1984) sees development as a process of societal advancement, where improvement in the well-being of people is generated through a strong partnership between all sectors, corporate bodies and other groups in the society."

The notion of development connotes not only an economic exercise but also involves both socio-economic and political issues that pervade all aspect of societal life. According to Naomi (1995) "development is usually taken to involve not only economic growth but also the notion of equitable distribution, provision of health care, education, housing and other essential services with a view to improving the individual and collective lives of the people." From the foregoing submissions, development can be said to encompass social, economic, cultural and political development. And how illicit financial flow thus affects all these developmental issues is the subject matter of this study.

2.2. ILLICIT FINANCIAL FLOW

According to the United Nations Economic Commission for Africa (UNECA), illicit financial flow is marred by a terminological fog, which poses the challenges of designing a clear-cut policy options to arrest it. Attempts have been made to give a functional definition and clarity of expression to the subject matter of Illicit financial flows as it affect the governance and economies of various nations of the world. It is the movement of illegally acquired money across border. Organization for Economic Cooperation and Development (OECD, 2010) explained that an illicit financial flow is a cross border capital transactions that either facilitate or conceal illegal activities. Illicit financial flows are manifested in methods, practices or crimes that are aimed at transferring financial capital out of a country contrary to national and international laws.

The Council for International Development (CID, 2014), contented that "illicit financial flows is the transfer of illegally earned assets or the hiding of legally earned assets to in order to evade tax." Global Financial Integrity (GFI, 2013) opined that Illicit Financial Flows (IFFs) are transactions and other related illegal activities as corruption, bribery, tax evasion, criminal activities and transactions involving contraband goods.



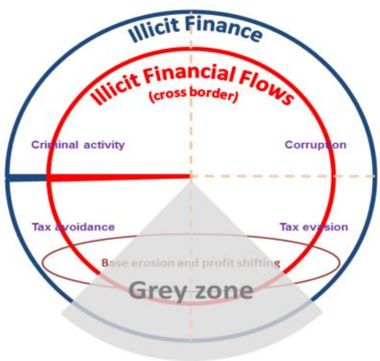


Figure. 1. *Alternative definition of IFFs*

2.3. EFFECT OF ILLICIT FINANCIAL FLOW IN NIGERIA

Illicit financial flow as a global phenomenon mostly in developing and third world countries has serious effect on the growth and development of the nation. The free movement of resources both human and materials are supposed to engender economic growth and development globally, but the reverse is the case when the movement is illegally done with fraudulent intent. The magnitude of the consequences of illicit financial flows on the economy of developing countries cannot be quantified. The consequences range from inadequate growth, high levels of poverty, resource needs and the changing global landscape of official development assistance. There is a broad consensus in the extant literature that Illicit Financial Flows (IFFs) deprive the affected countries of appreciable amounts of investible funds needed to jumpstart the economy.

Combating illicit financial flows is a shared agenda, requiring action by both developed and developing countries. Illicit flows are often a symptom of a deeper governance failure and just one element of a wider set of governance challenges faced by many countries. High levels of corruption combined with weak institutions – and sometimes illegitimate regimes – are drivers for such outflows. Ultimately, the fight against illicit financial flows from the developing world must focus on building responsive, effective institutions which deliver services to their population. This will encourage citizens and companies to engage in legal activities, report their earnings and pay their taxes and dues in accordance with national laws.

In the case of Nigeria, the illegal financial flow of money from Nigeria soil per year is enormous, and to the tone of $50billion Dollars lost from African countries and Nigeria has the highest loss. These monies if properly used will reduce poverty and underdevelopment. The human resource lost in form of illicit flow through human trafficking will form a strong labor force if well utilized.

i. Illicit financial flow is a conduit that drains useful blood in the heart of the man called Nigeria through foul means and leaves the man in a perpetual state of ill health and shortage of blood. Illicit financial flow out from Nigeria drain the nation foreign exchange reserve and keeps the nation in a state of underdevelopment. The monies that should have been accrued to our foreign exchange are lost to other nations for their betterment and to Nigerians detriment.

ii. Inflation is another by-product of illicit financial flow out of any country. This is based on the fact that Nigeria economy is conditioned in a way that we produce what we don’t consume and consume what we don’t produce. Goods and services from developed nations will be smuggled into Nigeria and sold at a higher price. This simplified inflation as infant local industries will not grow. No wonder Nigeria is seen and made a dumping nation for second hands goods and dumping ground for inferior products. Nigeria is made to be over dependent on everything needed to make things easy. Nigeria imports almost everything including fuel while she is no 13 in oil producing nations in the world.

iii. Illicit financial flow has reduced the nation earning in international trade leading to international trade deficit.

iv. Domestic resources are distorted and exploited out through illegal financial flow in Nigeria. A visit to Delta and Rivers State on the high, you will see for yourself the amount of resources that are lost through bunkering and exported out of Nigerian soil unaccounted for. Resources that are supposed to be mobilized for growth and development are taken by few individuals who will not even invest the money in Nigeria soil.

v. Another impact of illicit financial flow is that it discourages investment in Nigeria. Those involve in this saga, save their money in other nations leaving Nigerians to wallow in poverty and underdevelopment. There is no investment culture in Nigeria because of illicit financial flow.

vi. Illicit financial flow according to Ayodeji (2012) contributes to the retardation of economic growth and development of developing countries. This study completely kowtows to his submission.

vii. The high level of poverty, low income per capita, unemployment, illiteracy, poor health care, poor education, lack of social amenities and other infrastructural services are as result of illicit financial flow.

viii. Illicit financial flow is corruption simplified and personified. It aids and abates corruption in Nigeria, as Nigeria political leaders, top public officers and businessmen/women use this as a means to save their illicit siphoned wealth in foreign nations through money laundering.

ix. Bad governance as seen in Nigeria for many decades is the effect of illicit financial flow. The dividends of good governance both military and democratic system has never been enjoyed as a result of illicit financial flow as our leaders are busy saving monies in foreign bank instead of embarking on development project that will add value to Nigerian people.

x. Illicit financial flow has affected our economy greatly as Nigerian depends mostly on loan from other nation and international financial institution in financing development projects. These loans are paid with interest adding to illicit flow out from Nigeria. Making Nigeria net creditor in international scenario.

xi. Political instability in Nigeria today is effect of illicit financial flow. The effect and influence of Multinational Corporation in the local, state and national political electioneering process cannot be overemphasized. Multinational companies through their collaborators determine who win what position in the nation. They finance candidate for election and install whosoever will represent their best interest. They introduce divide and rule system in many communities. Many communities today are in crisis as a result of the activities of Multinational Corporation to aid their Illicit Financial Flow (IFF) intent mostly among the oil producing communities in the coastal riverine areas.

2.4. CHANNELS OF ILLICIT FINANCIAL FLOW AND REASONS FOR HIGH RATE OF ILLICIT FINANCIAL FLOW IN NIGERIA

According to the Global Financial Integrity (2013) report, the following are some of the channels of illicit financial flow in Nigeria: tax evasion and avoidance, money laundering, smuggling of contraband goods, bribery and corruption, trade mispricing etc. The list is by no means exhaustive as the channels are different from time to time and from region to region.

There are however so many reasons for the high rate of Illicit Financial Flow (IFF) in Nigeria which the study has outlined below:

i. Bad government- bad government cannot produce good governance that will reduce poverty and ensure growth and development of the nation. A weak government without a strong dynamic legal and institutional framework to checkmate corruption and punish offenders accordingly will continue to wallow and swim in the ocean of IFF.

ii. Nigerians mentality of short cut to get rich without hard work.

iii. Nigerians people honor people that have made money without regard and respect for people that have integrity and dignity. Imagine in some part of Rivers state those involve in oil bunkering at the high sea are given chieftaincy title. The Amnesty program has shown clearly how government wittingly or unwittingly encourage economic saboteurs in that those miscreants were paid eighty thousand Naira per month just for being bad boys. Imagine people that carry gun to kill, kidnap and destroy oil installations while Nigerian graduates that are in national service are paid thirty thousand per month.

iv. Political gladiators, top public office holders and top civil servants want to accumulate so much wealth for even their fourth generation yet unborn by involving in money laundering.

v. Politicians want to stay in power forever and make themselves relevant to any political dispensation because of this, they prefer to siphon our patrimonial wealth and use banks via money laundering to save it in foreign banks only to use them during election to buy the electorates that are desperately hungry because they have failed to provide dividends of good governance.

vi. Multinational corporation’s activities are not monitored. NNPC, SHELL, and many more see themselves to be bigger than the Nation by operating with impunity.

vii. Lack of defined established functional tax system, coupled with bureaucratic bottle neck in tax administration in Nigeria. Company and people can easily evade tax without molestation.

viii. Poor orientation and sensitization about the adverse effect of illicit financial flows.

ix. Corruption is the grand mother of all the above reasons. Corruption has eaten deep so much into the fabrics of Nigerians that everything goes provided you can bribe your way out.

x. Banks and other corporate bodies' activities are not checkmated.

xi. Lack of political will to fight illicit financial flows by the government in power for so many years and Poor legal institutional framework.

xii. Lack of information and technological technical know-how to trash and track activities of illicit financial flows.

xiii. Porous border and lack of corporation amongst neighboring nations

3. THEORETICAL REVIEW

3.1. THE STRUCTURALIST THEORY OF DEVELOPMENT

According to the Structuralist theory, for any nation to develop, that nation must intentionally intervene in her economy and ensure that her economy will be able to become fully modernized and industrialized. This theory was used to assess Latin American countries. The theory also stipulates that government of the nation must do the needful within its powers to eradicate and ensure growth and development through effective legislation, policies and programmes of action if not the nation will remain in perpetual poverty and in a state of underdevelopment.

Relating it to illicit financial flow as it affects Nigerian nation there is an imperative radical need for government of Nigeria to come up in clear terms and legislate with potent instrumentalities on how to free the nation from illicit financial flow out of the country as the amount of money lost to this unwholesome saga can be used for growth and development of the nation. The concomitant effect of illicit financial flow is grave to the political and economic development of Nigeria. Political gladiators at the corridors of powers are culpable of this offence using it as an avenue to save stolen wealth from public fund with their collaborating agents and financial institutions.

The structural theory of development maintains that government has an absolute power to protect her economy, via the protection of infant industries, super and sub structure of the entire system. The theory focuses on structural aspect that hinders the economic development and growth of the nation. Illicit financial flow out of Nigeria is a major concern to issues that negates development and growth of the country. The analysis on the transformation of a subsistence agricultural economy to modern manufacturing and industrialized nation is their major concern. This can perfectly come through as a result of structural thinking through policy formulation implementation and prescription; these are seen as vehicles for transformation and changes in the society.

The government of Nigeria must intervene speedily to save the nation of gross illicit financial flow out of the country if the country must move forward economically. The structuralist theory of development as a theoretical foundation for the study is geared towards reducing to the barest minimum if not eradicating completely illicit financial flow out of the country. The Government should determine trade relations both within and outside the country.

4. EMPIRICAL REVIEW

Empirical studies on illicit financial flow and its impact in Nigerian economy are scanty. Instead, most studies found carried out their research on Africa as a continent with mixed findings as highlighted below.

Nkurunziza (2013) examined illicit financial flow as a constraint on poverty reduction in Africa. He opined from his analysis that if Africa is to successfully fight against its high level of poverty, it will need to mobilize more resources to invest in poverty-reducing programmes. The study concluded that to fight poverty in Africa, African leaders need a strong political will, having known the amount that has left the continent over the years, it will be important to find ways of attracting them back.

AU/ECA Panel 2011 did a work on illicit financial flows from Africa. They examined the nature, magnitude and developmental challenges of IFFs from Africa, based on disparities in national income accounts and trade date (trade mispricing). They also explored the extent to which financial secrecy among African countries had heightened the risk of IFFS. They used the World Bank Residual method, and International Monitory Fund (IMF) Direction of Trade Statistics (DOTS) based Trade mispricing method. Despite the significant variations, it was found that IFFs from the continent have been increasing over time and oil exporting countries tend to top the list of African net creditors to the world.

Dev and Devron (2008) investigated on illicit financial flow from Africa Hidden resource for development over a period of 39 years. The study analyzed and used the World Bank Misinvoicing Model (MM) to estimate the volume of flows from African countries. It was found that illicit flows from Africa grew at an average of 11.9% per annum in real terms over the 39 years' period, that sub-Saharan Africa registered the highest growth rate in over 30 years. The study also analyzed trends in illicit financial flows in relation to GDP. The study finds that the ratio for 2000-2008 takes shape dip because of much faster rate of growth during this period.

Also, Amah and Okezie (2015) evaluate the impact of illicit financial flows on economic growth and development. The study adopted a cointegration approach. The result shows that there is a long run relationship between illicit financial flows and economic growth and development. It is recommended that Nigeria must develop customs capacity to effectively curtail massive capital outflows through illicit practices.

5. METHODOLOGY

The study employs longitudinal and causal research design. This entails measuring the cause and effect relationship between the dependent and independent variables over a long period of time. The periods covered by the study are 1988 to 2020. The choice of this period is because it is the period which precedes major economic reforms-Structural Adjustment Programmes (SAP) of the Federal government of Nigeria. The data for this study are collected from the Central Bank of Nigeria (CBN) statistical bulletin for various years, the National Bureau of Statistics (NBS) Quarterly Reports as well as the Global Financial Integrity Estimates of Illicit Financial Flows annual reports.

Model Specification: The model for this study is patterned after Dev and Freitas (2011) with modifications. The model is specified to fit into an equation that can show relationship between illicit financial flow and economic development in Nigeria. The model used variables such as Tax Evasion and Avoidance (TEA), Bribery (BRB) and value of Contraband goods (CTB) to represent illicit financial flow and Per capita income (PCI) to represent economic development. The model is:

$$PCI = f(TEA, CTB, BRB) \quad (1)$$

Where

PCI = Total Per Capita Income

TEA = Tax Evasion and Avoidance

CTB = Value of Contraband Goods

BRB = Bribery

The econometric form of the model is presented as:

$$PCI_t = \beta_0 + \beta_1 TEA_t + \beta_2 CTB_t + \beta_3 BRB_t + \mu_\delta \quad (2)$$

Where;

t = Time series property,

u_t = Error term

β_0 = Intercept

β_1 toβ_4 = Coefficients

The *a prior* expectations of the models are:

$\beta_0 > 0$, β_1 to$\beta_3 > 0$

Analytical Technique: The study used descriptive statistics, Augmented Dickey Fuller (ADF) unit root test for normality and stationarity of the series and the Least Square Method (LSM) of linear regression to analyze the data.

Descriptive Statistics: The individual descriptive statistic for Per Capita Income (PCI), Tax Evasion and Avoidance (TEA), Value of Contraband Goods (CTB), Bribery (BRB), 1988- 2020 are presented in the table below:

Table 1. *Descriptive statistics on illicit financial flow and economic development in Nigeria*

	PCI	TEA	BRB	CTB
Mean	1383.727	1245.335	442.2242	246162.6
Median	1024.000	668.0000	451.2000	161074.0
Maximum	3099.000	2813.000	772.7000	754207.0
Minimum	270.0000	2.040000	128.7000	20332.00
Std. Dev.	921.9210	960.8074	175.4317	222387.4
Skewness	0.339574	0.327994	0.001528	1.242784

Kurtosis	1.589119	1.426301	2.497730	3.081895
Jarque-Bera	3.371264	3.996919	0.346891	8.504043
Probability	0.185327	0.135544	0.840763	0.014235
Sum	45663.00	41096.04	14593.40	8123367.
Sum Sq. Dev.	27198027	29540830	984840.6	1.58E+12
Observations	33	33	33	33

Source: Author's computation, 2023 using Eview 8.0

The results of the mean as presented in table 1 revealed that only PCI, TEA and CTB have considerable high mean values in the distribution of the series. The other variable BRB has a mean value that is averagely distributed. Of all the variables BRB has the lowest mean value with a mean value of 442.2242. In the standard deviation value, except for CTB, the other variables show trends that oscillate around the mean point. This is good for the distribution of the series used for estimation and for inference in the study. The result of the skewness shows that all the variables are positively skewed. The implication of this is that the series used in the study lie to the left of their respective means (left-tailed). The results of the Kurtosis are all less than 3 except CTB, implying that the values pass the test for Kurtosis. This means that the series are normally distributed. Using 5% level of statistical significance, the probability value for Jarque-Bera statistic for all the variables except CTB are greater than 5% which means that the series pass the normally test (PCI 0.18 > 0.05; TEA 0.13 > 0.05; BRB 0.84 > 0.05; CTB 0.01< 0.05). Since the Jarque-Bera statistics revealed that the series are normally distributed except for CTB, there is need for stationarity test for data suitability for inferences.

Unit Root Test: The study uses (ADF) unit root test to find out whether the variables exhibit unit roots property. The table below shows this:

Table 2. *Summary of Unit Root Test Results*

Variables	ADF Test Statistic	95% Critical ADF Value	Order of Integration	Remarks
PCI*	-3.427499	-2.960411	1(1)	Stationary
TEA*	-7.180683	-2.960411	1(1)	Stationary
BRB*	-3.603789	-2.957110	1(1)	Stationary
CTB*	-4.244215	-2.957110	1(1)	Stationary

Source*: Author's computation, 2023 using Eview 8.0* indicates significant at 5% levels.*

From the table above, it is seen that all the variables are stationary at first difference. This is confirmed from the ADF statistic which is greater than the 95% critical ADF values for all the variables. This shows that the time series properties of the data were relatively stable as there is no biasedness of information, indicating that the result is reliable.

Table3. *Model Estimation and Interpretation*

Dependent Variable: PCI				
Method: Least Squares				
Date: 06/24/23 Time: 05:50				
Sample: 1988 2020				
Included observations: 33				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	202.6353	229.0566	0.884652	0.3836
TEA	0.860689	0.076052	11.31713	0.0000
BRB	0.059991	0.418145	0.143470	0.8869
CTB	0.000336	0.000330	1.018004	0.3171
R-squared	0.818840	Mean dependent var		1383.727
Adjusted R-squared	0.800100	S.D. dependent var		921.9210
S.E. of regression	412.1927	Akaike info criterion		14.99407
Sum squared resid	4927181.	Schwarz criterion		15.17547
Log likelihood	-243.4022	Hannan-Quinn criter.		15.05511
F-statistic	43.69331	Durbin-Watson stat		1.914706
Prob(F-statistic)	0.000000			

Source: Author's computation, 2023 using Eview 8.0

5.1. INTERPRETATION

The result revealed a very high R-squared which is 0.82. This means that the model formulation captured 82 percent of the systematic variation of the impact of illicit financial flow on economic development in Nigeria. The model does not capture the remaining 18 percent. The adjusted R-squared which is 0.80 is also very high, meaning that the model has 80 percent predictive ability. The Durbin Watson (DW) statistic is 1.9; and is within the acceptable range. It shows the overall performance of the model and indicates that there is no serial correlation; as such the result is reliable.

On the significance of the individual variables, TEA is found to have a very significant and positive effect on PCI (TEA Prob. 0.0000< 0.05), BRB has no significant but positive effect on PCI (BRB Prob. 0.8869 > 0.05), CTB has no significant but positive effect on PCI (CTB Prob. 0.3171> 0.05).

On the direction of the effect of the independent variables on the dependent variable, TEA has positive significant effect on PCI. A unit increase in TEA will result in 86.068% increase in PCI. BRB has a positive effect on PCI. A unit increase in BRB has an increase of 5.99% on PCI. A unit increase in CTB will result in 0.0336% direct increase in PCI. This can be expressed mathematically as:

$$PCI = 0.86*TEA + 0.005*BRB + 0.0003*CTB + 202.6353$$

From the empirical analysis, the study therefore states that tax evasion and avoidance component of illicit financial flow has significant positive effect on economic development in Nigeria (TEA Prob. = 0.0000 <0.05). Also, bribery (BRB) component of illicit financial flow does not significantly affect economic development in Nigeria but it positively affects (BRB Prob. = 0.08869 > 0.05). In addition, contraband goods component of illicit financial flow in Nigeria does not have significant but positive impact on economic development in Nigeria (CTB Prob. 0.3171> 0.05).

5.2. EMPIRICAL VALIDATION OF HYPOTHESIS USING T-STATISTIC

H01: There is no relationship between Illicit Financial Flow (IFF) as measured by tax evasion and avoidance and economic development measured by Per Capita Income (PCI) in Nigeria.

From the estimated regression result in table 3, the calculated t-statistic of 11.32 is far greater than the critical t-tabulated value of 2. The implication of this is that the null hypothesis is rejected while the alternate hypothesis is accepted. This is so because the decision rule of the t-statistic on test of hypothesis stipulates that the study rejects the null hypothesis when the computed t-value is greater than the tabulated t-value or accept the null hypothesis when the computed t-value is less than the tabulated t-value. In the light of the foregoing, the study rejects the null hypothesis and concludes that there is significant positive relationship between illicit financial flow as measured by tax evasion and avoidance and economic development measured by Per capita Income (PCI) in Nigeria.

6. DISCUSSION OF FINDINGS

It can be seen from the result of the study that tax evasion and avoidance has a significant and positive relationship with economic development as measured by Per capita Income (PCI) in Nigeria. The relationship can best be described as positive significance as revealed in table 3. The result goes to confirm the theory that many people evade tax and benefit from same in Nigeria. This result is similar to the findings of Dev and Freitas (2011), who examined the amount of illicit financial flows from developing countries over the decades ending 2009 that is from 2000 to 2009. Again, the result is consistent with the finding of Amah and Okezie (2015) who evaluated the impact of illicit financial flows on economic growth and development. Their result shows that there is a long run relationship between illicit financial flows and economic development in Nigeria.

In addition, as can be observed from the result in the table above, contraband goods has a positive but no significant relationship with economic development as measured by Per Capita Income (PCI) in Nigeria. The not relationship is consistent with economic theory that high level of contraband goods rids the domestic economy of its development from local resources. This result is similar to the findings of Handson et al (2016) who investigated the impact of economic growth on unemployment in South Africa between 1994 and 2012.

Also, it was observed from the study that there is no significant but positive relationship between bribery and Per Capita Income in Nigeria. The relationship is positive though not significant. The positive relationship may have been due to the fact that few people benefit from bribery and corruption in Nigeria.

7. CONCLUSION AND RECOMMENDATION

Based on the findings, the study concludes that the practice of tax evasion and avoidance and by extension illicit financial flow is still very pervasive in the Nigerian system. This is evidenced by the significant and positive relationship between tax evasion and avoidance and the standard of living of the Nigerian people. The practices of illicit financial flow only benefit the individuals in their micro level and not the generality of the society. This goes to deprive the government at the macro level of the needed resources to provide adequate infrastructure that would better the lots of the people.

Based on the findings of the study, the following recommendations are therefore made;

i. The Federal Government of Nigeria through its agency in charge of collection of various taxes in Nigeria, in this case, the Federal Inland Revenue Service (FIRS) should formulate policies that would discourage people from engaging in tax evasion such that would benefit the generality of the citizenry.

ii. Again, the Nigerian Custom Service (NCS) should as a matter of urgency set up a task force within its ranks to effectively manage the country’s borders in order to contain the activities of smugglers which are inimical to the growth of the domestic economy.

iii. The Federal Government of Nigeria should strengthen its anticorruption agencies in order to reduce the incident of bribery and corruption which benefit few individuals in the country.

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