

**ANTI-MONEY LAUNDERING (AML) REGIME IN BANKS
AND OTHER FINANCIAL INSTITUTIONS: TRENDS,
CHALLENGES AND PROSPECTS FOR NIGERIA**

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Abstract

Money laundering undermines the integrity of a country's financial system and facilitates criminal activities, such as drug trafficking, terrorists financing, and corruption. Nigeria has been identified as one of the major money laundering hubs in the world due to its large informal economy, weak financial regulations, and porous borders. Recognizing the effects of money laundering to the economy, the country has implemented various initiatives to combat money laundering, but with no meaningful results. Adopting the doctrinal research methodology, this paper examines the trends, challenges, and prospects for money laundering on the Nigeria's economy. The paper argued that despite the legal and institutional framework, and other measures put in place for combating money laundering in Nigeria, this illicit activity remains a part of Nigeria's daily life. It concluded that Nigeria's financial system is most vulnerable to money laundering activities because of the high volume of cash transactions and ineffective enforcement mechanisms and advocated for review of the laws to align with emerging trends.

Keywords: Anti-Money Laundering, Regime, Banks, Trends, Challenges, Prospects, Nigeria

1. Introduction

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It was estimated globally that between 500 billion to 1.5 trillion US Dollars is laundered through banks on a yearly basis.² These nefarious activities of money launderers posed a great danger to the existence of Nigeria's financial system and the economy at large.³ Money laundering is used by different people for different motives. While some used it to hide illegally acquired wealth to avoid criminal prosecution, others employed it to evade taxes or legalised ill-gotten wealth, using banks and other financial institutions as a conduit pipes.⁴ This explains why corrupt public servants and political leaders in Nigeria indulge in money laundering.⁵

The banking sector remains one of the most highly regulated segments of the Nigerian economy and this underscores why it remains the focal point of Nigeria's anti-money laundering drive. However, despite the regulations, money launderers continue to explore some loopholes in the system to perpetrate their heinous act, sometimes through connivance with the employees of financial institutions. The increasing integration of financial systems creates an avenue for money launderers to hide the proceeds of the illegal activities.⁶

Prior to the introduction of Bank Verification Number (BVN) by the Central Bank of Nigeria (CBN), an individual could maintain several bank accounts, using multiple names without detection. Thus, it was near impossible to conduct an objective customer due diligence by financial institutions. However, with the coming of BVN each customer is expected to have a single unique identifier which is now used to link

² Joseph O. Sanusi, 'Central Bank of Nigeria's Standpoint of Anti-Money Laundering Compliance' (2003) Conference of the Anti- Money in ECOWAS: Bringing the Anti-Money Laundering Requirement in Compliance with International Standards Lagos

³ Ibid

⁴ Natasha Georgieva, 'Concept, Definition and Characteristics of the Money Laundering Phenomenon' (2020) 8 *Journal of Process Management – New Technologies, International* 2

⁵ Joseph U.B. Azubike, 'Capital Flight and Money Laundering in Nigeria: Causes, Methods, and Effects' (2018) 4 *Journal of Accounting and Financial Management* 6

⁶ Caleb M Fundangaf 'The Role of the Banking Sector in Combating Money Laundering' (2003) Centre for Advanced International Studies, Lusaka, Zambia

all Bank accounts associated with individual customer.⁷ Recent research has shown that BVN registration agents create ‘ghost BVNs,’ which are used by fraudster and money launderers for their operation.⁸ Since the registration did not follow the laid down rule, it therefore becomes difficult to trace who the BVNs belong to. In addition, launderers/fraudsters prey on the ignorance of uneducated people in rural areas, either in the guise of grant or loan, to have access to their BVN and use same for nefarious activities. It has equally been shown that stolen or lost SIM cards can be used to generate the owners BVN attached to that phone number. This can then be used to access financial services while remaining anonymous.⁹ Thus, the less expensive money laundering input is, because of lax anti-money laundering laws, the more productive it would be.¹⁰

Nigerian has taken several steps to combat money laundering, including the enactment and implementation of the Money Laundering (Prevention and Prohibition) (MLPP) Act¹¹ and other relevant laws, as well as the establishment of the Nigerian Financial Intelligence Unit (NFIU), the Economic and Financial Crimes Commission (EFCC) and other related organisations. It has also strengthened financial sector regulations and increases oversight of financial institutions for collaboration with international law enforcement agencies. But despite these regulatory and institutional mechanisms put in place to fight these illicit activities, money laundering is still on the rise, proving every method unworkable.¹²

⁷ The CBN in Collaboration with the Banker' Committee launched a centralized biometric identification system for the banking industry tagged Bank Verification Number (BVN) on 14 February, 2014.

⁸ Ibid

⁹ Nefe Emadamerho-Atori, ‘How Fraudsters Exploit BVN for Fraud’ (*Dojah 2023*) <<https://dojah.io/blog/how-fraudsters-exploit-bvn-for-fraud>> accessed 8 September 2024

¹⁰ Vandana Ajay Kumar, ‘Money Laundering: Concept, Significance and its Impact’ (2012) 4 *European Journal of Business and Management* 2

¹¹ Money Laundering (Prevention and Prohibition) (MLPP) Act, 2022

¹² Keniebi Ebitibituwa, ‘Causes, Effects and Manifestation of Money Laundering in Nigeria’ (2023) <<https://www.linkedin.com/pulse/causes-effects-manifestation-money-laundering-nigeria-ebitibituwa-wupde/>> accessed 12 September 2024

The aim of this paper is to examine the trends and causes of the legal framework for anti-money laundering in Banks and Other Financial Institutions (BOFI) in Nigeria. The paper equally explains the various challenges and prospects of money laundering in Nigeria as well as expounded its implications on the economy.

2. Trends of Money Laundering in Nigeria

Money is laundered in Nigeria through various means such as currency exchange houses (Bureau de Change), stock brokerage houses, automobile dealership, real estate agents, shell companies and trading companies. These institutions are capable of disguising proceeds from criminal activities. These are discussed below.

2.1 Banks and Other Financial Institutions

Money laundering activities in Banks and other financial institutions has, among others, the following negative effects: (a) Loss of confidence – banker customer relation is built based on trust and once that trust is eroded the relationship naturally becomes severed and could lead to the failure of the institution. One of the easiest ways a bank can lose that trust is when it allows itself to be the channel or victim of money laundering by customers. (b) Legal risk – money laundering activities could expose banks to litigations resulting in criminal liabilities, supervisory fines, and other penalties due to failure to practice ‘know your customer’ ethics or due diligence in customer assessment. (c) Loss of international banking relations with correspondent banks - no decent international bank would stake its reputation with banks that are vehicles for money laundering.¹³

2.2 Currency Exchange Houses (Bureau de Change)

Bureaux de Change (BDC) businesses are largely cash-based, hence its appeal to money launderers. BDC are readily available for money laundering activities and other forms of fraud/corruption. Since BDC’s

¹³ E.I. Okoye, ‘An Evaluation of the Effect of Fraud and Related Financial Crimes on the Nigerian Economy Kuwait’ (2013) 2 *Chapter of Arabian Journal of Business and Management Review* 7, 8

are largely cash based, they easily mix these ill-gotten monies with other untainted sums for both local and foreign purchases. Some BDCs even act as proxies for unidentified principals in both domestic and foreign businesses.¹⁴

2.3 Real Estate

The real estate sector is considered one of the largest and most vulnerable sectors for money laundering activities to thrive. Money launderers invest their earnings in real estate with the aim to make further profits.¹⁵ The Nigerian real estate sector has long provided opportunity for persons and companies to launder illegally acquired funds. The real estate sector is populated with informal agents some of whom are registered in tax havens in foreign jurisdictions. The proliferation of unoccupied choice properties in major cities like Abuja and Lagos to money laundering activities resulted in the high cost of houses. The real estate sector is the second most vulnerable to money laundering, next to the Bureau De Change operators.¹⁶

Money launderers employed the use family members, third parties, professionals, and close associates to acquire real estate. Due to increased use of real estate for money laundering activities, it has attracted increased attention from regulators and law enforcement agencies. This is largely because real estate sector is unregulated and characterised by under reporting of suspicious transactions involving unexplained wealth, despite the legal obligation to do so under the MLPP Act.¹⁷

2.4 Cash-Intensive Businesses

These are businesses that are highly cash based due to the nature of their transactions. They use their accounts to deposit both legitimate and

¹⁴ GIABA, 'Money Laundering Related to Fraud in Public Procurement in West Africa: A Case Study of Nigeria' (2014) GIABA Research Report

¹⁵ Joseph O. Sanusi, (n. 1)

¹⁶ GIABA (n. 13)

¹⁷ Bolaji Owasanoye, 'Real Estate Used for Money Laundering, IFFs' (2024) <<https://icpc.gov.ng/2021/10/28/real-estate-used-for-money-laundering-iffs-icpc-chairman/>> accessed 9 September 2024

illicit cash while portraying all as legitimate income. One of such businesses is the filling stations. Although there is no known record of prosecution of any filling station owner in relation to money laundering, however, considering their *modus operandi* and how fast they proliferated, it depicts a typical money laundering pattern. It has become a trend in Nigeria today that an unknown individual or company with no track business record will have multiple filling station litters across different states within the shortest period, often these filling stations are not operational. Other cash-intensive businesses are service based businesses like night clubs, betting companies, casinos etc being used for money laundering activities.¹⁸

2.5 Use of Automated Teller Machine Cards

One of the recently discovered cross boarder money laundering perpetrated by Nigerians is through the automated teller machine cards (ATM Cards). There has been array of arrests of some culprits using this method for money laundering by law enforcement agencies at various exit points.¹⁹ Similarly, Ghana Police arrested a Nigerian, Bachir Musa Aminou, with 656 ATM Cards while boarding Ethiopia Airline E.T90 on his way to Dubai, UAE.²⁰ In addition, the operatives of the EFCC in collaboration with Nigeria Aviation Security and the Nigerian Customs Service (NCS) under the aegis of Special Task Force on Money Laundering arrested one Khalil Bashir Lawal with 576 ATM Cards, at the Malam Aminu Kano International Airport. This arrest was done few hours after the EFCC secured the conviction of three other persons

¹⁸ Ilaria Zavoli and Colin King, 'The Challenges of Implementing Anti-Money Laundering Regulation: An Empirical Analysis' (2021) 84 *Modern Law Review* 4, 740-771

¹⁹ Wilson Uwujaren, 'EFCC Arraigns Man With 2,863 ATM Cards' *Premium Times* (Abuja, 8 December 2021) <<https://www.premiumtimesng.com/news/more-news/499878-efcc-arraigns-man-arrested-with-2863-atm-cards.html?tztc=1>> accessed 9 September 2024

²⁰ Sahara Report, 'Ghana Begins Probe of Nigerian Man Arrested With Over 600 ATM Cards from Nine Banks' (Abuja, 1 February 2022) <<https://saharareporters.com/2022/02/01/ghana-begins-probe-nigerian-man-arrested-over-600-atm-cards-nine-banks>> accessed 9 September 2024

arrested with 1,144 ATM at the same airport.²¹ The modus operandi of these syndicates has been to mobilise and hire the ATM Cards from the owners and give them token. They then deposit money into the account linked to the ATM Cards and use the ATM Cards abroad to withdraw foreign currencies for their laundering activities.²²

2.6 Use of Cryptocurrencies

Cryptocurrencies, being an electronic store of value accepted in some jurisdiction as a medium of exchange have their own exchanges like banks. One of the striking differences between cryptocurrency and fiat currency is that the former has no sovereign backing of any state. This makes it suitable for money laundering and other forms of illegal activities. It is apposite to state that Nigeria does not recognise cryptocurrency as a legal tender. Recently, Nigerian authorities shut down the activities of one of the biggest cryptocurrency exchanges in the world, Binance, which has been operating without licence in Nigeria. In justifying the clampdown on Binance activities by the authorities, the CBN claimed that in the last one year alone, \$26 billion has passed through Binance Nigeria from origins and beneficiaries that were yet to be adequately identified.²³ Consequently, EFCC filed a five-count charge bordering on alleged tax evasion, currency speculation and money laundering to the tune of \$34,400,000 against Binance and one of its executives Tigran Gambaryan.²⁴

²¹ EFCC, 'EFCC Arrests Suspect with 576 ATM Cards at Kano Airport' *EFCC Website* (Abuja, 21 December 2021) <<https://www.efcc.gov.ng/efcc/news-and-information/news-release/7587-efcc-arrests-suspect-with-576-atm-cards-at-kano-airport#:~:text=The%20suspect%2C%20Khalil%20Bashir%20Lawal,Task%20Force%20on%20Money%20Laundering>> accessed 9 September 2024

²² Ibid.

²³ Ayodeji Adegboyega, 'CBN Says \$26bn Passed Through Binance from Unknown Sources' *Premium Times* (Abuja, 13 June 2024) <<https://www.premiumtimesng.com/news/headlines/672399-cbn-says-26bn-passed-through-binance-from-unknown-sources.html?tztc=1>> accessed 17 July 2024

²⁴ EFCC, 'Binance Executive Loses Fundamental Suit Against EFCC' (2024) <<https://www.efcc.gov.ng/efcc/news-and-information/news-release/10206-binance-executive-loses-fundamental-suit-against-efcc#:~:text=The%20duo%20were%20arraigned%20on,Hundred%20Thousand%20United%20States%20Dollars>> accessed 18 July 2024

Similarly, in April 2024, Binance Holdings Limited (Binance), the firm that runs the world's largest cryptocurrency platform, Binance.com, was convicted along with its founder and Chief Executive Officer (CEO), Changpeng Zhao, a Canadian National in United States (US) and agreed to pay over 4 billion dollars fine.²⁵ Binance contravened the US essential components of an effective AML program: inclusive know-your-customer (KYC) protocols or systematically monitor transactions, and never filed a suspicious activity report (SAR) with FinCEN. Binance allowed its customers to open accounts and engage in business activities without submitting any identification beyond an email address. Between August 2017 and October 2022, US users transacted business worth trillions of dollars on the platform, generating over \$1.6 billion in profit for Binance.²⁶ This decision by the US Court has a far-reaching consequence on combating money laundering as it assists in sanitizing the integrity of Nigeria's financial institutions and the global financial system. Thus, any entity that prioritizes its growth and profits over compliance with the law must face the wrath of the law.

2.7 Use of FinTech Companies

Innovative and convenient ways of banking introduced by Financial Technology (FinTech) companies has been taken advantage of by cyber criminals and money launderers to perpetrate their acts. Services such as virtual accounts which are temporary accounts created for a short period of time to conduct a particular transaction and thereafter vanish into thin air continue to pose significant challenge to law enforcement agencies in tracing proceeds of crime and laundered funds. Consequent upon this concern and the risk of money laundering posed by their activities, the CBN recently barred 4 fintech companies, Opay, Kuda,

²⁵ United States Attorney's Office, 'Binance and CEO Plead Guilty to Federal Charges in \$4B Resolution' (2023) <<https://www.justice.gov/usao-wdwa/pr/binance-and-ceo-plead-guilty-federal-charges-4b-resolution>> accessed 18 July 2024

²⁶ US Dept. of Justice, 'Banance and CEO Plead Guilty to Federal Charges in \$4B Resolution' (2023) <<https://www.justice.gov/opa/pr/binance-and-ceo-plead-guilty-federal-charges-4b-resolution>> accessed 28 December 2024.

Palmpay and Moniepoint from onboarding new customers.²⁷ The EFCC had also obtained a court order to freeze 1,146 bank accounts for 90 days. These accounts were owned by various individuals and shell companies who were been investigated for the offenses of unauthorised dealing in foreign exchange, money laundering, and terrorism financing.²⁸

2.8 Use of Professional Services (Lawyers, Accountants, Brokers, etc)

It is a common practice world over that criminal use the services of professionals such legal practitioners, stockbrokers, accountants, etc to launder funds. Legal practitioners play a significant role in money laundering in Nigeria. This is largely connected to the doctrine of legal professional privilege and client confidentiality in transactions. Efforts through legislation to bring legal practitioners under the regulatory purview of Special Control Unit Against Money laundering (SCUML) and Designated non-Financial Institute and Professional (DNFIP) of the Money Laundering (Prohibition) (MLP) Act²⁹ has been vehemently opposed by the Nigerian Bar Association (NBA). Similarly, efforts by the CBN to enforce the provision of MLP Act was countered by the NBA through institution of legal proceeding.³⁰

Effort by the law makers to re-legislate similar provision in MLPP Act was hit by a brick wall through another litigation.³¹ The Federal High Court, while following the court's decision in *NBA v CBN*³² held that Sections 6, 7, 8, 9, 11 and 30 of the MLLP Act, in so far as they purport

²⁷ Okamgba, Eddidiong Ikpoto and Henry Falaye, 'CBN Stops Opay, Palmpay, Others from Onboarding New Customers' *Punch Newspaper* (Abuja, 30 April 2024) <<https://punchng.com/customers-panic-as-cbn-bans-opay-palmpay-others-new-accounts/>> accessed 17 July 2024

²⁸ Godsgift Onyedinefu, 'EFCC Secures Court Order to Freeze 1,146 Bank Accounts Over Forex Crisis' *Business Day* (Abuja, 30 April 2024) <<https://businessday.ng/news/article/efcc-secures-court-order-to-freeze-1146-bank-accounts-over-forex-crisis/>> accessed 17 July 2024

²⁹ S. 25, No 25 of 2011

³⁰ *Registered Trustees of the Nigerian Bar Association v CBN*, FHC/ABJ/CS/173/2013

³¹ *Abu Arome v CBN & Ors* FHC/ABJ/CS/25/2023

³² Godsgift Onyedinefu (n. 27)

to apply to legal practitioners are unconstitutional, null and void. The Court held that in light of the court of appeal's decision in *CBN v Registered Trustees of the Nigerian Bar Association*³³ and provisions of Section 192 of the Evidence Act, 2011, Sections 20 and 21 of the Legal Practitioners Act and Rule 19 (1) of the Rules of Professional Conduct (RPC), 2023 for legal practitioners, the phrase "Legal practitioners and Notaries" is liable to be deleted in the definition of designated non-financial institutions under Section 30 of the MLPP Act.

2.9 Not-for-Profit Organisation

One of the vehicles for money laundering has been not-for-profit organisations (otherwise known as NGOs). Religious organisation falls within this category. It is a common knowledge that these religious organisations are being used to perpetrate money laundering.³⁴ The EFCC Chairman, Olukayode had frowned at the conduct of some religious sect leaders whom he accused of being complicit in money laundering. The Chairman commented that the agency handled a pyramid scheme that involves over N30 billion fleeced from Nigerians. Along the line, some people died, some victims collapsed and all of that. The agency was able to trace over N7billion to a particular religious body and subsequently wrote to the leader of that religious sect. As a result of this, there was a restraining order from the court preventing the agency from recovering the money. Meanwhile, people have died along the line and money was traced directly to the religious body.³⁵ These comments from EFCC Chairman clearly shows the level of involvement of not-for-profit organisations, especially religious organisations, in money laundering.

2.10 Bulk Cash Trafficking

³³ (2021) 5 NWLR (PT 1769)268

³⁴ Linda Ikeji, 'Some Religious Organizations are More Corrupt than Public Offices' (2024) <<https://www.lindaikojisblog.com/2024/7/some-religious-organizations-are-more-corrupt-than-public-offices-efcc-chairman-ola-olukayode.html>> accessed 9 September 2024

³⁵ In an Engagement on Youth, Religion and the Fight Against Corruption in Abuja on Wednesday, 31 January 2024

Bulk cash trafficking entails the physical transportation of cash from one jurisdiction to another, and depositing same in a financial institution, such as an offshore bank, with greater banking secrecy or ineffective money laundering enforcement mechanisms. EFCC operatives arrested a 24-year-old bulk currency smuggler at the Murtala Mohammed International Airport in Lagos enroute Dubai, UAE while attempting to smuggle \$7million out of Nigeria.³⁶ In addition, two Lebanese Nationals, Hassan Rmaiti and Talal Hammoud were convicted by the Federal High Court sitting in Lagos for money laundering.³⁷ Many arrests of money launderers have been made and colossal sums in foreign currencies were recovered.³⁸

2.11 Other Methods of Money Laundering

Other not so popular methods include:

- i. Structuring/Smurfing – This is the use small amounts of money to buy bearer instruments, like money orders and deposit it in small amounts in banks accounts.
- ii. Shell Companies and Trusts - Trusts and shell companies disguise the true owner of money.
- iii. Trade-Based Laundering – Under or over-valuing invoices to disguise the movement of money.
- iv. Round-Tripping - Money deposited in a controlled foreign corporation offshore, preferably in a tax haven where minimal records are kept, and then shipped back as FDI, exempt from taxation.³⁹
- v. Point of Sale Laundering – This method of money laundering is more prominent among internet fraudsters, otherwise known as yahoo boys. It is executed using stolen

³⁶ Wilson Uwujaren, (n. 17)

³⁷ EFCC ‘Two Lebanese Convicted Over \$2.07m Bulk Cash Smuggling’ *EFCC Website* (Abuja, 20 December 2012) <<https://www.efcc.gov.ng/efcc/news-and-information/news-release/248-two-lebanese-convicted-over-2-07m-bulk-cash-smuggling>> accessed 9 September 2024

³⁸ Wale Odunsi, ‘Smugglers Caught With \$2m, \$6m at Nigerian Airports’ *Daily Post* (Abuja, 16 November 2022) <<https://dailypost.ng/2022/11/16/smugglers-caught-with-2m-6m-at-nigerian-airports-efcc/>> accessed 9 September 2024

³⁹ Ibid

card or transfer of stolen funds from the bank account of the victim to Point of Sale (POS) operator's account for cash withdrawal. Recently, there has been reports of kidnap victims being taken to POS agents for cash withdrawals. Transactions conducted through POS are untraceable as there is no existing requirement for any person withdrawing money from them to provide any means of identification.⁴⁰

The above list of money laundering methods is in no means exhaustive; however, it represents the most prominent methods of money laundering in Nigeria.

3. Causes of Money Laundering in Nigeria

3.1 Large Informal Economy

The Nigerian economy is characterised by a vibrant informal sector, which operates outside the formal, regulated framework. This sector is composed of small-scale, unregistered enterprises. Examples of informal employment workers include street traders, subsistence farmers, small-scale manufacturers, service providers (e.g. hairdressers, private taxi drivers, and carpenters), etc.⁴¹ With formal job opportunities often scarce, the informal sector provides livelihoods to an estimated 65 per cent of the Nigerian labour force. Money launderers exploit the informal sector of the economy to launder money and facilitate their illicit activities since it is very difficult to dictate their *modus operandi*. This may not be unconnected to the reason why banditry, kidnapping and other related financial crimes are perpetrated using the poor and indigent people in the society.⁴²

3.2 Inadequate Enforcement of Money Laundering Laws

⁴⁰ Ibid

⁴¹ Bank of Industry, 'Economic Development through the Nigerian Informal Sector: A BOI Perspective' (2023) <<https://www.boi.ng/economic-development-through-the-nigerian-informal-sector-a-boi-perspective/>> accessed 13 September 2024

⁴² Ibrahim Shelleng, 'The Informal Sector: The Backbone of Nigeria's Economy' Premium Times, (Abuja, 30 November 2023) <<https://www.premiumtimesng.com/opinion/647617-the-informal-sector-the-backbone-of-nigerias-economy-by-ibrahim-shelleng.html?tztc=1>> accessed 14 September 2024

The primary law governing money laundering in Nigeria is the MLPP Act, enacted in 2011 and amended in 2012 and recently amended in 2022. The MLPP Act criminalizes money laundering and provides for the establishment of the NFIU. Other relevant laws include: EFCC Act 2004, the Advance Fee Fraud and Other Fraud Related Offences Act 2005, Terrorism (Prevention and Prohibition) Act 2022 (TPPA) and the Proceeds of Crime (Recovery and Management) Act 2022.⁴³ Similarly, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations guide financial institutions and other reporting entities on their obligations to prevent and detect money laundering activities. Despite the availability of these laws, the fight against money laundering is far from over, partly due to ineffective enforcement of the money laundering laws.⁴⁴

3.3 Porous Border

Nigeria shares land borders with Benin Republic to the Southwest, Chad Republic to the Northeast, Niger Republic to the North, and Cameroon to the Southeast, considered to be the most volatile in Africa. Nigeria's border infrastructure, including patrol roads, communication networks, and surveillance equipment, are outdated and inadequate to effectively monitor the vast border areas. In addition, the borders are characterized by inadequate security personnel, especially in remote regions. These porous borders are influenced by social and economic factors, including shared ethnic groups and cultural ties. This in turn facilitates the movement of people and goods, including contraband, without appropriate authorization and documentation.⁴⁵ Thus, money launderers exploit the porous nature of these borders in perpetuating their illicit activities. This is illustrated by the activities of Boko Haram in the

⁴³ Ahmed I. Tijjani, 'Money Laundering and Financial Crimes in Nigeria' (2018) 48 *Journal of Poverty, Investment, and Development*

⁴⁴ Tookitaki, 'Money Laundering in Nigeria: Impact and Efforts to Combat It' (2024) <<https://www.tookitaki.com/compliance-hub/combating-money-laundering-nigeria-regulatory-framework-best-practices>> accessed 13 September 2024

⁴⁵Risk Control, 'Coping with Nigeria's Most Porous Borders' (2024) <<https://riskcontrolnigeria.com/blog/coping-with-nigerias-most-porous-borders>> accessed 14 September 2024.

Northeast, banditry, and kidnapping in the Northwest, to mention but a few.

3.4 High Profile Corruption

Corruption is a universal phenomenon which every country is making effort to fight, and Nigeria is not an exception. One of the major decays in the Nigerian public/civil service is high profile corruption. It is so widespread that it has now affected private sector. Over the years, successive governments have designed various strategies to stem the illegal activity, including enactment of legislation.⁴⁶ Corruption is also one of the predicate offences for money laundering in Nigeria under the MLPP Act.⁴⁷

Since corruption is prohibited in Nigeria, perpetrators of the heinous act design various techniques to disguise the source or origin of proceeds. They make use of various money laundering mechanism so as not to draw attention to themselves or the nature and circumstances of acquisition of the property. Several state Governor, ministers, political office holders and public service officials were accused and prosecuted for laundering proceeds of official corruption. However, not all of them were convicted due to the nature of Nigeria's judicial system.⁴⁸ Corruption remains the major cause of money laundering in Nigeria. Over \$600 million were annually lose to money laundering and the total amount of money laundered by past and present Nigerian rulers over the past 40 years stood at about \$400 billion.⁴⁹

⁴⁶ Chris C. Ojukwu and J. O. Shopeju, 'Elite Corruption and the Culture of Primitive Accumulation in 21st Century Nigeria' (2018) 6 *International Journal of Law and Legal Studies* 2, 001-010

⁴⁷ S. 18 (6) (f) No 14, 2022

⁴⁸ Abdulqudus Ogundapo, 'Obituary: The Trial and Times of Tafa Balogun, Nigeria's 21st Inspector General of Police' *Premium Times* (Abuja, 5 August 2022) <<https://www.premiumtimesng.com/news/headlines/547060-obituary-the-trial-and-times-of-tafa-balogun-nigerias-21st-inspector-general-of-police.html?tztc=1>> accessed 25 August 2024

⁴⁹ S.O. Akinyoade, P.E. Ohenhen, and A.O Unuigbokhai, 'Money Laundering and Organized Financial Crime in Nigeria: Local and Foreign Capitalist Elites Collaboration' (2022) *International Journal of Research Development*

3.5 Organised Crime

Organised crime is another cause of money laundering in Nigeria. Organised crime survives on corruption by public officials and through pressure or coercion to shelter its operations. Successful money laundering enhances the profitability of criminal activities.⁵⁰ Where a country is seen as a safe harbour for money laundering, it naturally encourages people to commit crimes. Little wonder why terrorism and terrorist financing continue to thrive in Nigeria.⁵¹

Similarly, trafficking in persons, smuggling of migrants, sexual exploitation continues to thrive in some part of the country.⁵² Human trafficking is said to be a \$150 billion industry globally.⁵³ Nigeria is considered as a source, transit, and destination country of human trafficking.⁵⁴ According to the United Nations Educational, Scientific, and Cultural organisation (UNESCO), human trafficking is the third most common crime in Nigeria after drug trafficking and economic fraud.⁵⁵ Nigeria is ranked 38/160 of the countries with the highest number of modern slavery to the tune of 1.6 million.⁵⁶ In the same vein,

<<https://www.globalacademicgroup.com/journals/approaches/Money%20Laundering%20and%20Organized%20Financial%20Crime.pdf>> accessed 10 September 2024

⁵⁰ United Nations Office on Drugs and Crime, 'Defining Organized Crime' (April 2018) <<https://www.unodc.org/e4j/zh/organized-crime/module-1/key-issues/defining-organized-crime.html>> accessed 12 May 2024

⁵¹ Abiodun Sanusi, 'FG Names 15 Terrorism Financiers, BDCs, Plans Sanctions' *Punch Newspaper*, (Abuja, 20 March 2024) <<https://punchng.com/fg-names-15-terrorism-financiers-bdcs-plans-sanctions/>> accessed 12 May 2024

⁵² Pathfinder, 'Nigeria: Human Trafficking Factsheet Pathfinders Justice Initiative, *Pathfinders Justice Initiative* (Abuja, 6 September 2022) <<https://pathfindersji.org/nigeria-human-trafficking-factsheet/>> accessed 19 May 2024

⁵³ Ibid

⁵⁴ United States Office Report, 'United States Office to Monitor and Combat Trafficking in Persons' (2022) <<https://www.state.gov/reports/2022-trafficking-in-persons-report/>> accessed 19 May 2024

⁵⁵ Bisi Olateru Olaregi et al, 'Human Trafficking in Nigeria: Root Causes and Recommendations' (2006) 14 Policy Paper Poverty Series (2006) 2 <<https://unesdoc.unesco.org/ark:/48223/pf0000147844>> accessed 19 May 2024

⁵⁶ 2023 Global Slavery Index Report

illicit trafficking in narcotic drugs and psychotropic substances and other criminal activities associated with drug abuse has continue to surge in many parts of the country.⁵⁷ All these criminal activities and more continue to thrive because they found ways to successfully launder their illicit funds without detection.⁵⁸

4. Challenges of Money laundering in Nigeria

The legal regime for money laundering in Nigeria is not devoid of challenges. Some of the identified challenges are discussed below.

4.1 Ineffective Legal and Institutional Framework

Strong and effective legal and institutional framework is one of the prerequisites for effective anti-money laundering measure, whereas weak legal and institutional anti-money laundering framework is a fertile ground for money laundering activities. Nigeria has in place one of the best anti-money laundering legal frameworks in Africa. However, enacting such legal framework is not enough, it must be put to practice. There must be conscious effort to ensure the legal framework is applied and offenders are dealt with decisively. Regrettably, although Nigeria's anti-money laundering legal framework is sufficiently crafted, however it has been characterised with inefficient application. Furthermore, the war against money laundering is not won simply by enactment of laws, it continues to evolve. As government is implementing the laws, the criminals are constantly trying to find loopholes to bypass the law using different techniques and methods.⁵⁹ The law must therefore remain relevant, modern, active, constant, and dynamic to catch up with the criminals.

4.2 Lack of Political Will

The present and successive administrations lack the political will to rid of money laundering in Nigeria. Most of the perpetrators of money

⁵⁷ Mercy Corps, 'Drug Abuse as A Conflict Accelerant in Northcentral Nigeria' (2022) <<https://nigeria.mercycorps.org/blog/drug-abuse-conflict-accelerant>> accessed 21 May 2024

⁵⁸ Ibid

⁵⁹ Tracey Anderson, 'Anti-Money Laundering: History and Current *Developments*' (2015) 30 *Journal of International Banking Law and Regulation* 10, 521-531

laundering in Nigeria are either serving and former heads of Governments, Governors or Ministers and other top government functionaries. Unfortunately, it does not appear that there exists a political will to deal with the issue, at least, no such evidence has been indicated by the political leadership in the country.⁶⁰

4.3 Technological Advancement

Rapid advancement in technology has continue to pose a significant challenge for anti-money laundering measures the world over. Nigeria has continued to witness significant use of technological advancements such as fintech to facilitate money laundering. Cyber criminals (yahoo boys), continue to use the services of fintech to perpetrate their heinous activities. This is largely because of the convenience that the services of these fintech provide in operation of account. A customer can open and operate an account within the comfort of his bedroom simply by completing an online form and provide BVN, identity (ID) card and address, with no effort from these fintechs to verify the identity of these customers.⁶¹

4.4 Digital Assets

Cryptocurrency is another technological development that poses a significant money laundering risk not only in Nigeria but globally. Cryptocurrency is an electronic store of value accepted as a medium of exchange⁶² by some countries. The first cryptocurrency, Bitcoin, was released in 2009 by Satoshi Nakamoto.⁶³ Since then hundredth of cryptocurrencies have been developed. As at March 2024, it was estimated that there were about 13,217 cryptocurrencies in existence out of which around 8,985 were active. Around 420 million cryptocurrency

⁶⁰ Ibid

⁶¹ Etim Etim, 'CBN, Fintechs and Money Laundering' (*The Cable*, 2 May 2024) <<https://www.thecable.ng/cbn-fintechs-and-money-laundering/>> accessed 17 July 2024

⁶² Tracey Anderson, 'Bitcoin - Is it Just a Fad? History, Current Status and Future of the Cyber-Currency Revolution' (2014) 29 *Journal of International Banking Law and Regulation* 7, 428–435

⁶³ Satoshi Nakamoto, 'Bitcoin: A Peer-to-Peer Electronic Cash System' (2023) <<https://bitcoin.org/bitcoin.pdf>> accessed 17 July 2024.

users exist, with about 18,000 businesses accepting a form of crypto as means of payment across the globe. However, cryptocurrency appeals to money launderers due to its anonymity, and the absence of regulatory and institutional framework governing it.⁶⁴

5. Implications of Money Laundering for Nigeria's Economy

The implications of money laundering for Nigeria's economy cannot be quantified. However, the overall implications of money laundering activities on the socio-political lives and economic wellbeing of the Nigerian populace can only be imagined. Some of the implications are discussed below.

5.1 Tax Evasion

One major implication of money laundering is tax evasion which has been identified as one of the most underlying forms of illegal activities, with immediate and most obvious macroeconomic impact on a country's economy. Tax evasion leads to loss of revenue to the government, thus, affecting the capacity of the government to carry out developmental projects thereby affecting a large section of the citizens who could have benefited from such government expenditure. To cover up this deficit, government usually pursues tax increment policy which affects honest taxpayers.⁶⁵

5.2 Underdevelopment

Money laundering is anti-development. It is usually employed by corrupt individuals to hide their ill-gotten wealth, mostly, stolen from government coffers. This, therefore, denies the government the benefits to deploy such resources for economic prosperity of the country. The monies laundered should have been judiciously used for education, health, infrastructural and industrial development, poverty alleviation, youth entrepreneurship development among other sectors that will ensure growth and economic prosperity. It is unimaginable what

⁶⁴ Josh Howarth, 'How Many Cryptocurrencies Are There in 2024?' (12 March 2024) <<https://explodingtopics.com/blog/number-of-cryptocurrencies>> accessed 17 July 2024.

⁶⁵ Joseph O. Sanusi, (n. 1)

government would have achieved, both in terms of infrastructural and human capital development in Nigeria, if half of the resources stolen and laundered from the government coffers were effectively utilised.⁶⁶

5.3 Economic Distortion

The major objective of money launderers is the protection of their proceeds and obscuring the illegal origin of the funds. Profits generation is least of their concern; thus, they can afford to invest in any activity that can help them achieve their aim, irrespective of the economic benefit of such investment to the country. Consequently, economic growth suffers when funds are redirected from sound investments to unproductive investments that hide their origin. This could result in policy summersault and loss of economic control by governments due to erroneous measurement in macroeconomic statistics owing to misleading monetary data, which can have adverse effects on interest and exchange rates volatility.⁶⁷

5.4 Monetary Instability

Money laundering threatens a country's monetary stability due to the misappropriation of resources. Money launderers reinvest their funds where their nefarious activities are less likely to be detected rather than where the rates of return on investment are promising. Thus, money laundering may lead to bizarre fluctuations in money demand and amplified unpredictability of global capital flows, interest, and exchange rates. The unpredictable nature of money laundering, coupled with the attendant loss of policy control, may make sound economic policy unattainable.⁶⁸

5.5 Decline in Foreign Investment

Money launderers are more interested in protecting the proceeds of their nefarious activities rather than generating profits from their investment. Money launders rechannelled their funds from profitable investments to

⁶⁶ Ibid.

⁶⁷ F.R. Drayton, 'Dirty Money, Tax and Banking: Recent Developments Concerning Mutual Legal Assistance and Money Laundering in the Caribbean Region and the Region's Responses' (2002) 5 *Journal of Money Laundering Control* 4, 338- 344.

⁶⁸ Ibid.

unproductive ventures that covers their ill-gotten proceeds, thereby hampering economic growth. Thus, foreign investment will be at its lowest, because investors will be wary of an economic environment where illicit monies are permitted to play critical role in the allocation of resources.⁶⁹

5.6 Financial Sector Instability

Financial institutions play a pivotal role in economic development and prosperity of every nation. The more robust a financial sector is, the more determined the economic growth of a nation. Financial institutions are weakened by money laundering activities due to the seeming connection between it and fraudulent activities undertaken by personnel of the institutions. For instance, customer trust is the most fundamental principle upon which banking relationship exist, as it is essential to the growth of sound financial institution. Thus, where such trust is eroded the banking sector is affected. Money laundering poses a great risk, not only to the individual banks but, to the whole banking system. Stringent anti-money laundering laws, coupled with strict compliance, can significantly enhance the performance of the Nigerian economy.⁷⁰

5.7 Proliferation of Organised Crimes

One of the negative consequences of money laundering is the raising trend of organised crimes. Money laundering provides an avenue for the proceeds of crime to be laundered, hence, the appetite for continuous perpetration of those crimes. In the past decade, Nigeria has witnessed the proliferation of organised crimes and high-profile criminal activities, such as banditry, kidnapping, drug trafficking, terrorists financing and human trafficking.⁷¹

5.8 Reputational Risk/Sanctions

In today's global economy, nation states are not willing to jeopardise their reputations by associating themselves with countries that are

⁶⁹Josh Howarth, (n. 63)

⁷⁰Wale Odunsi, (n. 37).

⁷¹E.I. Okoye, 'An Evaluation of the Effect of Fraud and Related Financial Crimes on the Nigerian Economy' (2013) 2 *Kuwait Chapter of Arabian Journal of Business and Management Review* 7, 8

labelled as money laundering hub. This is because money laundering erodes confidence in the financial markets, and the adverse reputation resulting from these activities weakens legitimate global opportunities available to any country and slows down sustainable economic growth.⁷² Lax anti money laundering compliance regime could lead to international sanction, confiscation of assets or placing a country on Financial Action Task Force (FATF) grey list as Nigeria is currently placed.⁷³ This therefore stains the reputation of the nation.

6. Conclusion and Recommendations

Money is laundered in Nigeria through various means such as currency exchange houses; BDC, stock brokerage houses, automobile dealership, real estate agents, shell companies and trading companies. These institutions are capable of disguising proceeds of criminal activities. Money laundering activity damages critical sector of economy. It equally reduces productivity in the real sector through diversion of resources and encourages corruption and other criminal activities. It negatively affects international trade and capital flows to the country. Money laundering, therefore, harms the economy by causing monetary and socio-economic instability, economic distortions, and promotes corruption and a more vulnerable financial system. All these factors are detrimental to long-term economic development of Nigeria.

Various local and international bodies such as FATF and Inter-governmental Action Group against Money Laundering in West Africa (GIABA) continue to issue money laundering typologies to jurisdiction to help in curbing the menace and these jurisdictions continue to improve their legal system to address any lacunae. However, money launderers are closely monitoring the legislations and are constantly working to find new techniques to launder money. They continue to get help from other professionals such as lawyers and accountants who, by preparing falsified financial documentation or using a well-designed scheme, contribute towards ensuring the sustenance of this criminal

⁷² Linda Ikeji, (n. 33)

⁷³ FAFT, 'Black and Grey Lists' (October 2024) <<https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>> accessed 20 September 2024

activity. Efforts are now being undertaken to tackle money laundering in Nigeria's financial sector, but there are still significant difficulties in its practical implementation.

It is the recommendation of this paper that unless the problem of corruption is effectively tackled in Nigeria, corrupt public officials will continue to devise means of laundering the proceeds of such corrupt activities. This problem of corruption has eaten deep into the fibre of the Nigerian system. Granting of pardon to some former state Governors charged with and convicted for corruption enhances it further, since the culprit will always be pardoned.

The paper recommends that addressing the porosity of Nigeria's borders requires a comprehensive approach that includes strengthening border infrastructure, increasing border security personnel, enhancing surveillance, and monitoring capabilities, as well as weak governance. This paper also recommends the need to focus on Nigeria's informal sector to ensure it plays an even more significant role in the country's economic growth because of the vital role it plays in the economy.

It is further recommended that MLPP Act be amended to align with technological advancement to the extent that as money launderers employ a cutting-edge methodology in their illicit activities, the law would be a step ahead. This will go a long way in fostering positive coordination in combating financial crimes, which is crucial for achieving Nigeria's economic prosperity.

It is the recommendation of this paper that collaboration between anti-money laundering agencies like the EFCC, ICPC, the Nigeria Police and the CBN, etc should be improved, particularly in sharing of information on those suspected of money laundering in Nigeria.