Money Laundering in Nigeria: Implications on National Development in Nigeria

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Abstract

This article examines the implications of money laundering on national development in Nigeria. The study used secondary sources/literature to gather relevant data on the subject matter. The study finds that money laundering takes place in stages-placement, layering and integration. There are institutions capable of masking proceeds from illegal criminal activities and enable money laundering in Nigeria such as currency exchange houses, stock brokerage houses, casinos, automobile dealership, and trading companies. There are also causes of money laundering in Nigeria, such as corruption, terrorism, arm trafficking, drug trafficking, tax fraud, smuggling, kidnapping among and other forms of financial crimes that permit and reinforce some organised criminal syndicates to make transnational financial transactions. It has also established that money laundering has contributed in various political, economic and social problems that retard national development in Nigeria. There are some measures put in place to address the problem of money laundering at the international continental and Nigeria levels. At the national level also, some agencies like Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices and other related Crimes (ICPC), National Financial Intelligence Unit (NFIU) and Code of Conduct Bureau (CCB) have been established to reduce the chances of illegal domestic and transnational financial crimes. Consequently, money laundering is a threat to national development in Nigeria. There are efforts by international and sub-regional governments to tackle money laundering. The article concludes that money laundering is a threat to national development in Nigeria. It also recommends that Nigeria should work together with interested countries to share information between respective public-private partnerships to ensure the most effective response to international money laundering and be committed to developing internationally endorsed guidelines for the transparent and accountable management of returned stolen assets.

Keywords: Money Laundering, Implications, National Development, Nigeria;

Introduction

More than ever before, the world is witnessing an upsurge of transnational organised crimes. Although transnational organised crimes are of many types, there are variations or typology of these crimes based on structure of the groups. These include: standard hierarchy, regional hierarchy, clustered hierarchy, core group, and criminal network (Dambazau, 2011). The most common transnational organised crimes in Nigeria are human trafficking, drug trafficking, money laundering, and advance fee fraud (419). As the major concern of this study, money laundering is executed in stages. The stages of executing money laundering are: placement, layering, and integration; while the techniques of executing include the use of accounts in the banking sector, use of bureau de change in the non-banking sector and use of insurance in the "special" platforms. In addition, money laundering can be internal, incoming into Nigeria, and out-going money laundering (Dambazau, 2011).

Historically, the term 'money laundering' originated from Mafia ownership of Laundromats in the United States. Gangsters there were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor, and they needed to show a legitimate source for this income. One of the ways in whichthey were able to do this was by purchasing outwardly legitimate businesses and mixing their illicit earnings with the legitimate earnings they received from them. Laundromats were chosen by these gangsters because they were cash businesses. Laundromats also provide an aptanalogy for the process of legitimising earnings: illegal (dirty) money isput through a cycle of transactions (washed), so that it comes out the other end as legal (clean) money (Crime and Misconduct Commission, 2005).

As it applies to Nigeria, money laundering is not only trans-national asproceeds of crime may be laundered within the same jurisdiction where an offence which generated theillicit income was committed. The same gaps in the public management structure that made it possible tocommit procurement fraud in the first place also makes it possible to retain the proceeds of the crime (GIABA, 2014). Although money laundering is not a peculiar criminal activity to one single country in the world, there are certain conditions that permit money laundering to thrive in one society more than in the other. Some of these factors include high rate of corruption, terrorism, arm trafficking, drug trafficking, tax fraud, smuggling, kidnapping among and other forms of financial crimes that permit and reinforce some organised criminal syndicates to make transnational financial transactions.

There are efforts by international and sub-regional governments to tackle money laundering. At the national level also, some agencies like Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices and other related Crimes (ICPC), National Financial Intelligence Unit (NFIU) and Code of Conduct Bureau (CCB) have been established to reduce the chances of illegal domestic and transnational financial crimes. In the London Anti-Corruption Summit, President Muhammadu Buhari (2016) stated that Nigeria commits to deploying public-private information sharing partnership to bring together the government, law enforcement agencies, regulators and the financial sector to detect, prevent and disrupt money laundering linked to corruption.

There are previous studies on money laundering in Nigeria and other parts of the world. For example, Arowosaiye and Ibrahim's (2009) study on "the devastating impact of money laundering and other economic and financial crimes on the economy of developing countries", Mugarura's (2020) study on "anti-money laundering law and policy as a double-edged sword", and Chitimira and Animashaun's (2023) study on the adequacy of the legal framework for combating money laundering and terrorist financing in Nigeria. But to the best of the researcher's knowledge, none of the previous studies focused on the examination of the implications of money laundering on national development in Nigeria.

To fill the above research gap, this article is designed to examine the implications of money laundering on national development in Nigeria. The article is divided into seven sections. Section one introduces the article, section two conceptualizes the key terms of the study (money laundering and national development), section three discusses money laundering and its causes in Nigeria, section four deals with implications of money laundering on Nigerian national development, section five reviews some anti-money laundering efforts in Nigeria, and section six concludes the article.

Conceptual Clarifications

Conceptualizing Money Laundering

The term 'money laundering' refers to the activities and financial transactions that are undertaken with the specific aim of hiding the true source of income (Crime and Misconduct Commission, 2005). Money laundering, among other forms of economic and financial crime, requires existing financial system and operation (Arowosaiye & Ibrahim, 2009). Usually the money involved has been derived from an illegal enterprise and the goal is to give that money the appearance of coming from a legitimate source. Sometimes, however, money legitimately obtained can also become the subject of money laundering; it may, for example, be disposed of in such a way that it evades lawful taxation (Crime and Misconduct Commission, 2005). In addition, money laundering can be internal (within a country; Nigeria in this case), incoming (from other country(ies) into Nigeria), and out-going money laundering (from Nigeria to another country).

Stages of Money Laundering

As stated in the introductory remark, 'placement', 'layering' and 'integration' are terms used by law enforcement to describe the stages through which criminal proceeds are laundered. They can occur either at the same time (in the course of a single transaction) or in separate transactions. While the three stages are not always present in each money laundering action, they are a useful way of analysing the process of legitimisation.

i. **Placement:** Placement is the first stage in the money laundering process, when the physical currency enters the financial system. It is during this phase that the illicit money is most vulnerable to detection. Placement may be accomplished by breaking up large amounts of cash into less conspicuous, smaller sums, which are then banked. They are either deposited directly into bank accounts, or a series of monetary instruments (cheques, bank drafts, money orders etc.) are purchased and then deposited into bank accounts at other locations. It is widely acknowledged that money laundering is best fought at the placement stage of the process, by instituting various checks and disclosure requirements to make it as difficult as possible for criminally tainted money to enter the financial system. In Australia, the *Financial Transaction Reports Act 1988* (FTRA) makes it mandatory to report certain types of financial transactions which involve cash and/or certain monetary instruments. Accordingly, money launderers need either to circumvent the legitimate financial system entirely, or violate (evade, manipulate or ignore) the regulatory requirements of the FTRA to conceal their activities (Crime and Misconduct Commission, 2005).
ii. **Layering:** Layering describes the activity undertaken by the launderer to distance the funds from their illicit source. This is achieved by a series of complex conversions or movements of the funds, which prevent any audit trail being left by the 'dirty' money as it is being laundered, and thus conceal the source and ownership of the funds. For example, the funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. The use of tax havens, bank secrecy jurisdictions or countries that do not participate in measures to combat money laundering makes it difficult for investigators to follow the money trail (Crime and Misconduct Commission, 2005).

iii. **Integration:** Integration is the final stage of the laundering process, when the fund sre-enter the legitimate economy and the launderer makes the funds appear to have been legally earned. This may be accomplished by purchasing real estate, cars, precious metals, valuable jewellery or antiques. Alternatively, the funds may be used to invest in and operate legitimate business ventures. The integration of illicit monies into the legitimate economy is very difficult to detect if there is no audit trail established during the placement or layering stages (Shanmugam, Nair & Suganthi 2003, as cited in Crime and Misconduct Commission, 2005).

iv. **National Development**: According to Jamri (2019), discourse on the concept of development is one of the contested ones as evidenced amongst its experts. Similarly, Sakalasooriya (2020), mentioned that different definition of development exists for almost every writer. However, the term can be seen in different interpretations, depending on the disciplinary orientation of an author. Some authors looked at it as a social or sociological concept. Others see it as an economic term. There are those that view it from political perspective (Jamri, 2019). It is also important to distinguish between the static and dynamic nature of development. In other words, development can be seen as a state or condition and as a process or course of change (Sakalasooriya, 2020).

Rodney (1972), development refers to expansion of the economic capacity of a country and of the state of society and its institutions as whole. In simple terms, development signifies progress in human well-being, used to be equated with economic growth, but it is now widely acknowledged that this is a very inadequate characterisation. As noted by Stewart (2004), average per capita incomes are one important means to achieve such progress, but not the only one. Not only does average income fail to capture distribution across households, but it also may not be a good indicator of many important aspects of human well-being, such as people's health, education or their security.

National development is therefore any significant change in a country or any one or more of its sectors-political, economic, or educational. Democratization and democratic consolidation, political stability, equal political freedom and participation, enfranchisement, equal representation for all segments of national population and other national progresses achieved through political processes are all aspects of political development. Economic growth like high Gross Domestic Product (GDP) and Gross National Product (GNP), less inflation, reduction in poverty and unemployment, more sources of revenue, robust foreign reserve and improvement in agriculture sector are all aspects of economic development. Increase in literacy level, more schools at all levels of education (elementary and tertiary), researches and access to information as well as theory and application knowledge for national development are all aspects of educational development.

Causes of Money Laundering in Nigeria

Money laundering is shrouded in mystery, its scope is difficult to measure, and it is an economic crime which affects all countries in the world, including Nigeria (Chimitri & Ncube, 2021).Money is laundered in Nigeria through currency exchange houses, stock brokerage houses, casinos, automobile dealership, and trading companies. These institutions are capable of masking proceeds from illegal criminal activities. The overall effects of these activities on the socio-political lives and economic wellbeing of the people of the developing countries and Nigeria in particular could be well imagined (Arowosaiye & Ibrahim, 2009). In fact, transnational crimes like kidnapping, drug trafficking, human trafficking, terrorism, insurgency, dealings in small and light weapons are mainly perpetrated for financial reasons which in some cases are laundered from foreign countries to Nigeria.

As stated in the introductory section, there are some enabling conditions that lead to, and nurture, money laundering. They include: corruption, terrorism, arm trafficking, drug trafficking, tax fraud, smuggling, kidnapping among and other forms of financial crimes that permit and reinforce some organised criminal syndicates to make transnational financial transactions. In line with the above, the kidnapping has fueled the rate of both incoming and outgoing money laundering in Nigeria. British government has decried the fact that at least 25 British and dual British citizens and more than 200 other foreign nationals have been kidnapped in the Niger Delta area since January 2007 alone and the crime is a multi-million Naira illegal enterprise for the kidnappers. Thus, one of the elements of militancy and/or insurgency in the Niger Delta is kidnapping (Ibrahim & Mukhtar, 2017).

Victims of violent and financial crimes are originally foreign oil workers, but today many are locals, often employees of international oil and oil service companies, and not necessarily wealthy; anyone whose family might pay a ransom can be targeted. In June 2012, police rescued international footballer Christian Obodo who had been kidnapped in front of a church (Catlin Group, 2012).In their own research, Chitimira and Animashaun (2023) found out that financial crimes, such as tax evasion, money laundering and terrorist financing, pose serious threats to national security and financial integrity of any country Similarly, GIABA (2014) recognized that corruption, financial crimes and money laundering are inter-related experiences (that feed one other).

Anti-Money Laundering Efforts

Internationally, multiple efforts have been made to suppress and/or eradicate money laundering. The United Nations Security Council passed Resolution 1267 in October 1999, imposing economic sanctions and establishing a Sanctions Committee to monitor and enforce targeted financial sanctions against some suspicious groups. Also, acknowledging the nexus between money laundering and terrorist financing led to the formation of United Nations Convention for the Suppression of the Financing of Terrorism had been adopted in December 1999 (Biersketer & Eckert, 2008). The UN Convention against Corruption provides for different forms of corruption such as trading in influence, abuse of power, and acts of corruption in the private sector. Articles 4 and 6 of the African Union Convention on Preventing and Combating Corruption and Related Offences also set parameters that establish the laundering of proceeds of corruption as an offence. More specifically, under this Convention, one does not have to be the owner of the funds to be liable, particularly for the principal offender and not that of an accomplice (GIABA, 2014).

At the continental level, the African Union is consistent with the efforts of the Economic Community of West African States (ECOWAS), as reflected in the Protocol against Corruption adopted in October 2001 (GIABA, 2014). In Nigeria, some agencies like Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices and other related Crimes (ICPC), National Financial Intelligence Unit (NFIU) and Code of Conduct Bureau (CCB) have been established to reduce the chances of illegal domestic and transnational financial crimes. Also, anti-Corruption Summit was organised in London in 2026. During the summit, President Muhammadu

Buhari stated that Nigeria has limited powers under the Independent Corrupt Practices Commission Act, 2000 and the Economic and Financial Crimes Commission Act, 2004 to recover stolen assets. In order to improve the current legal procedures and ease assets recovery procedures, Nigeria drafted the Proceeds of Crime Bill. The Proceeds of Crime Bill will provide for transparent management of returned assets and non-conviction-based approach to asset recovery. Public-private partnership in the financial sector has been a medium for collaboration for information sharing as it exists and brings together the Chief Compliance Officers of Banks, law enforcement and security agencies.

In March, 2022, the Nigerian Senate passed the Money Laundering (Prevention and Prohibition) Bill 2022 (“the Bill”), which seeks to abolish the Money Laundering (Prohibition) Act 2011 (as amended) (“the Act”). Upon its passage into law, the Bill will strengthened the existing system for preventing and prosecuting money laundering and terrorism financing in Nigeria. The four key objectives of the Bill are: (a) to strengthen the existing system for combating money laundering and related offences, (b) make adequate provisions to prohibit money laundering, (c) expand the scope of money laundering offences and provide appropriate penalties and (d) establish the Special Control Unit Against Money Laundering under the Economic and Financial Crimes Commission (TEMPLARS, 2022).

However, the Economic and Financial Crime Commission (EFCC) has been able to and is still recording successes in several areas of its mandate. Among others, it has recorded several convictions on corruption and money laundering. Assets and money worth over $11 billion have been recovered from corrupt officials and their cohorts. The Commission is tenacious with over 65 high profile cases at advanced stages of prosecution in several courts in Nigeria and over 1500 other cases in court and secured over 600 convictions. Before then there were other provisions of Financial Crimes Laws such as Money Laundering Amendment Acts 2003, No 7; 1995, and the Advance fee fraud and other related offences Act 1995as amended (Anene, 2011). This indicates that there are efforts from international through continental to national levels at tackling money laundering, with relative successes and failures at each level.

Implications of Money Laundering on Nigerian National Development

Money laundering has many negative impacts on the social, economic and social security of the Nigeria. It is one of those organized crimes that make mafias to constitute transnational problem today, hence a threat to security, especially in poor and conflict-ridden countries (United Nations Office on Drugs and Crime, 2010). Money laundering makes crime pay because it allows drug traffickers, smugglers and other criminals to accumulate economic power and expand their operations. This has the potential to erode the political and social systems of a country, and could affect stability and the general rule of law. This in turn drives up the cost of law enforcement and the spin-off costs of health care in the treatment of problems such as drug addiction (Crime and Misconduct Commission, 2005).

Perceived ease of entry to a country attracts an undesirable element across its borders, degrading quality of life and raising concerns about national security. The crimes perpetrated by these undesirable elements erode basic individual liberties by threatening rights to life and entitlements to own property (Crime & Misconduct Commission, 2005). Organized criminal organizations are capable of outbidding legitimate purchasers of state-owned enterprises. When illicit proceeds are invested in this manner, criminals increase their potential for more criminal activities and corruption, as well as deprive the country of what should be a legitimate, market-based, taxpaying enterprise (Ogbodo & Mieseigha, 2013).

It has the potential to undermine the financial community because of the sheer magnitude of the sums involved. Money laundering on a grand scale has the potential to change the demand for cash, make interest rates and exchange rates more volatile, and cause high inflation rates for a country. Laundering diminishes economic development because it undermines legitimate business, competition and government tax revenue, and therefore indirectly harms honest taxpayers and reduces legitimate job opportunities (Crime and Misconduct Commission, 2005). In a nutshell, money laundering has contributed in various political, economic and social problems that retard national development in Nigeria. This is because most of the security challenges bedeviling Nigeria are motivated by financial gain and the perpetrators are mainly getting the illegal financial profits either from Nigeria to outside the country or from outside the country to inside. Consequently, money laundering is a threat to national development in Nigeria

Conclusion and Policy Recommendations

The article examined the implications of money laundering on national development in Nigeria. In conclusion, money laundering is a universal financial crime as it is not unique to any country or society, Nigerian inclusive. Money laundering has serious implications on national development in Nigeria. It undermines legitimate business, competition and government tax revenue. Money laundering also contributes in various political, economic and social problems which make national development a mirage in Nigeria. This is because most of the security challenges bedeviling Nigeria are motivated by financial gain and the perpetrators are mainly getting the illegal financial profits either from Nigeria to outside the country or from outside the country to inside. Consequently, money laundering is a threat to national development in Nigeria.

In addition to recommendation for further studies on the subject of money laundering and its consequences on national development in Nigeria, it is also pertinent to note that more strategic and constructive efforts at inter-state collaboration for detection and control of money laundering. Within the country, Nigeria should be committed to developing internationally endorsed guidelines for the transparent and accountable management of returned stolen assets. The Nigerian Government should also work together with interested countries to share information between respective public-private partnerships to ensure the most effective response to international money laundering.

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