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The Economic Implications of Money Laundering in Nigeria

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Abstract

The effect of money laundering in frustrating legitimate business, and in corrupting the financial and socio political system should not be taken for granted. It is against this backdrop that this study seeks to examine the economic implication of money laundering in Nigeria. The accidental sampling method was used in the selection of 635 persons out of which 624 representing 98.27% of the sampled persons completely filled and returned the questionnaires administered to them. Data collected were analyzed using the simple percentages method, the first hypothesis was tested using the chi-square test and it was found that money laundering do have significant effect on Nigeria's economy with f-ratio of $476.163 > f\text{-critical of } 12.592$ at 0.05 level of significance with 6 degree of freedom, thus, the null hypothesis was rejected and the alternative was accepted. The ANOVA test on the second hypothesis confirms that Anti Money Laundering policies in Nigeria has not significantly reduce money laundering in Nigeria with f-ratio of $2.685 < f\text{-critical of } 5.987$ at 0.05 level of significance with 1 to 6 degree of freedom, thus, the null hypothesis was accepted. The study recommends more effective coordination of all institutions on the fight against money laundering by the EFCC, and a full, effective and efficient investigation of corruption reports by the ICPC.

Keywords: EFCC, Economic Distortion, ICPC, Legitimate Business Money Laundering

Introduction

Money laundering is the concealment of the source, nature, existence, location and disposition of money and/or property obtained illegally or from criminal activities such as embezzlement, drug trafficking, prostitution, 419, corruption and large scale crime. It is a process by which "dirty" money generated by criminal activities is converted through legitimate business into assets that cannot be easily traced back to their illegal origins. In recent times, money laundering had gain high recognition as global trend. According to Steel (2006), money laundering is said to be what it is because it shows how "illegal" and "dirty" monies are put through a cycle of transactions and washed, so it could come out as clean/legal money. This means that the source of this fund (illegal money) is obscured through a succession transfers and deals that those same funds can eventually be made to appear as good money. In the Dictionary of Finance and Banking (2008), this term "money laundering"

was refers to as a process where money is acquired illegally either through theft, drug dealing etc, is cleaned so that it will appear to have come from a legitimate source.

The origin of this “devil” (money laundering) could not be ascertained by anyone, but there are several opinions that it started several thousand years ago with Chinese merchants. In the words of silkscreen (1994); Steel (2006) they claimed that it all started from Mafia Ownership of Laundromats, in the United States where they needed to prove the genuine source for their monies, as they earned their cash from extortion, prostitution, gambling and bootleg liquor. Also according to silkscreen (1994), the development of money laundering was for trade and that Nigeria as a country is the centre of money laundering in Africa. Nigeria’s historical record of exploitation goes as far back as when her people were used as slaves under British colony and as an independent and a sovereign country experiencing transition from a military dictatorship to a democratic form of government after over 16years of military rule. Now, with the democratic form of government, money laundering is still on the increase.

With this rate of scans in Nigeria financial sector, the law enforcement decided to come up with legislative act called the money laundering (prohibition) Act 2004, this was followed by the Central Bank of Nigeria (CBN) Anti-money laundering compliance manual guidelines from Economic and Financial Crimes Commission (EFCC, 2003), Independent Corrupt Practices Commission ICPC, 2000). All agencies were changed with the responsibility of fight against money laundering and enforcement of all laws dealing with economic and financial crimes in Nigeria.

Statement of the Problem

The effect of money laundering on economic development are difficult to enumerate but it is clear that such activity damages the financial sector institution that are critical to economic growth reduces productivity in economy’s real sector by diverting resources and encouraging crime and corruption, which slow economic growth and distort external economic sector. (Idowu and Obasan, 2012) Money laundering in Nigeria had worsened in recent times, covering the image of decent and hardworking people in the country. According to Efenyumi, (2013), money launderers go through the bank in certain countries with the confidence that the laws in that country protect them and their illicit money to the disadvantage of those in poverty by money launderers in frustrating legitimate business, corrupting the financial and socio-political system stimulate nation and international action to regulate it. It is against this backdrop that this study seeks to examine the economic implications of money laundering in Nigeria.

Objective of the Study

The objective of the study is to analyze the economic effect of money laundering in Nigeria.

Research Questions

- I. What are the economic implications of money laundering in Nigeria?
- II. How effective is the Anti-money laundering policy in Nigeria?

Hypotheses

Ho1: Money laundering has no significant effect on Nigeria economy.

Ho2: The anti-money laundering policies in Nigeria have not significantly reduced money laundering in Nigeria.

Justification for the Study

The results from this study are useful to various sector of the economy, particularly the financial sector. It will broaden the literatures on economic implications of money laundering in Nigeria and assist policy makers in formulating new anti-money laundering policy to curb money laundering in Nigeria.

Literature Review

Conceptualizing money laundering has gained the attention of many scholars and agencies overtime. The draft Article 1 of the European Communities Directive (1990) defines money laundering as the conversion or transfer of property, knowing that such property is derived from serious crime for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence(s) to evade the legal consequences of his action and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime. According to Robert *et al* (2006) money laundering commonly follows the commission of a crime. He said that the process by which criminals attempt to hide or disguise the true origin and ownership of their ill-gotten wealth (an overview for members' guidance for Institutes of Chartered Accountants of Nigeria (ICAN).

Ohanyere (2003) views money laundering as the procedure by which the proceeds of illegal acts are converted into apparently legal activities thus concealing their criminal origin. In a simple language it involves cleansing (laundering) dirty money in order to cover its dirty or illegitimate origin. It is an essential transformation process for the proceeds of crimes such as armed robbery, prostitution, gambling, arm deals, fraud, sales of hard drugs and any other act which the law and society prohibit. Hence, money laundering is the integration of illicit funds into the main stream of legitimate finance in order to conceal the criminal sources and nature of such funds and ultimately making the funds look clean. It is the smuggling in of funds with criminal intention into the channel of the legitimate financial system. The Association of Certified Fraud Examiners defines laundering as the disguising of the existence, nature, source, ownership, location and disposition of property derived from criminal activity. Osioma (2009) refers to money laundering as a second-order financial crime which derives from an underlying criminal activity often called predicate offence. It generates proceeds which when laundered results in the offence of money laundering. Still in his words money laundering is often a cross-border crime. Salinger (2005) opined that money laundering takes several different forms although most methods can be categorized into one of a few types such as bank methods, smurfing, currency exchanges and double – invoicing. Financial Institutions over the years have made efforts in detecting and preventing money laundering but the main attribute of money laundering are its processes in which it is carried out. It has been argued that money laundering does not take a singular act but takes a more complex operation, which is completed in three basic steps (Anon, 2006).

Stages/Processes of Money Laundering

Money laundering works in three phases (see figure 1 below). They are placement, layering and integration.

a. Placement

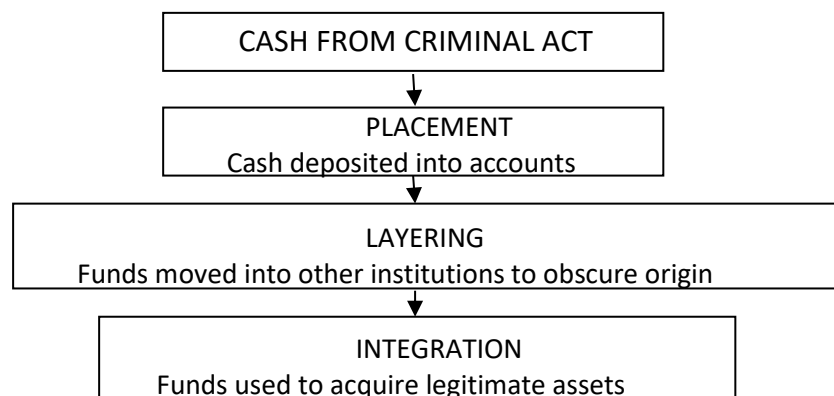
This is a stage the launderer deposits the dirty money into a financial institution such as bank accounts. This is often in form of cash bank deposit; and also the riskiest stage of money laundering process because large amount of money are pretty conspicuous and banks are required to report high-value transactions. However, they make use of a process known as sonurfing that is breaking the transaction into smaller amounts to evade reporting requirement. The launderer's intention this stage is to remove the cash from the place of possession so as to avoid any form of detection from the authorities and to transform it to other form of assets such as travelers' cheques, money order etc.

b. Layering

This is a process whereby the launderer engages in a series of conversions or movement of the funds to distance than from their source. Here layers upon layers of transactions are created, moving "dirty" monies between accounts or business or buying and selling assets on a local and international basis until the original source of the money is untraceable or the launderer might simply wire the funds through a series of accounts in various banks across the globe.

c. Integration

Having successfully processed his criminal profits through the two stages discussed above, the launderer then moves to the final stage – integration, in which the funds re-enter the legitimate economy i.e illegal funds is returned to the economy and masked as legitimate income. The launderer might choose to invest the funds in real estate, luxury assets or business ventures.



Adopted from Robert 'et al (2006) "Niger Delta Peace and Security Strategy Working Papers, Money Laundering and Nigeria.

Figure 1.

Economic Implications/Effects of Money Laundering in Nigeria

Attributes of Developing Economy

Developing countries, in particular, have been more exposed to the exploits of money laundering as a result of the nature of their economies. In practice, the economies of most developing countries are regarded as informal economies, characterized primarily with informal economic activities. In broad terms, an informal economy is the unregulated non-formal component of the market economy that produces goods and services for sale or for

other forms of remuneration (Giaba Report, 2001). Thus, the term informal economy refers to the economic activities by workers and other economic components, in law or in practice, not covered or inadequately covered by formal arrangements (Becker, 2004). Hence, in most developing countries, local traders and vendors work unregistered and unregulated and they constitute as the most perceptible components of the informal economy. Traditionally, the informal economy was adjudged to consist of survivalist activities. As such, different negative attributes were used to portray informal economy, varying from undeclared labour, tax evasion, unregulated economic and financial ventures, illegal and criminal activities (OECD 2009). However, considerable informal economic activities supply legally produced goods and services. On the other hand, informal economic activities are not necessarily carried out with the conscious motive to evade payment of taxes and infringe legislations and regulations, however, the activities can consist of confined illegal and legal operations or legal and irregular operators, but no criminal operators (Becker, 2004). For instance, in the West African region, the informal economy of the region is virtually cash and commodity oriented. As such, cash payment is the most common method of purchasing products and most often services. According to the World Bank, across Africa more than 80% of households do not use formal banking (World Bank Report, 2009). For instance, In Nigeria, the Central Bank of the country declared that just an estimated 23% of the country's population own bank accounts. This, arguably, is attributed to various factors such as cultural and religion barriers and lack of trust between the banks and local customers. Furthermore, the practices that are norms in the informal sector contradict the basic standards for banks on transparency of financial operations and accounting procedures. Consequently, traditional potential customers tend not use regular bank services. Rather, such customers turn to a decentralized financial system as an alternative solution. With this financial system, the investors in the informal sector mobilize savings and benefit from small funds that allow them to generate wealth in their domestic economies. With the development of this financially link, substantial amount of money is infiltrated into the global financial system thereby exposing the informal sector and its ventures to money laundering exploits.

Undermining the Integrity of Financial Institutions and Markets

The success of money laundering exploits has far reaching impact on the whole financial systems of many developing countries. Laundered money eventually flows into the international financial system and in the course of this process; countries that integrate into the global financial systems are exposed to the phenomenon of money laundering (Brent, 2002). Elaborating on the this fact, the one-time chairman of the EFCC Nigeria, Nuhu Ridadu, stated that the amount involved in various forms of transnational economic and financial crimes especially corruption, are often so large that it affects both the integrity of domestic economies and the global financial systems. For instance, an estimated amount of \$100 billion was corruptly exported from Nigeria between mid 1980s and 1999 while more than \$ 1 trillion illicit funds flowed into the United States annually through the international financial systems and this includes the proceeds from drug trafficking and other forms of economic and financial crimes.

In further reference to the Nigeria financial system, between the 80s and 90s, the reputation of the financial system in the country was at its lowest at this period. This was primarily down to the damaging status of the nation's financial system attributed to the negative impact of economic and financial crimes that were rampant at the time. During this period, most potential foreign investors were reluctant to extend their commercial ventures

to the Nigeria primarily because of the aforementioned reason (Sharon, 2005). Consequently, the financial institutions in the country relied overwhelmingly on the ill-gotten capital drained off by corrupt political office holders. Hence, these financial institutions were unable to endure the tests of market competition. As a result, many of these financial institutions disintegrated, thus, exposing the instability of the country's financial system and deemed not to investment friendly. The situation amounted to hindrance that hampered the surge of investments and economic development in the country, even to this moment.

Loss of Control of the National Economic Policy

One time director of the International Monetary Fund (IMF), Michael Camdessus, once estimated the scale of money laundering as between 2% to 5% of world Gross Domestic Product (GDP). In his this perspective, developing countries are poised to losing control of their domestic economic policies as illicit capital accrued from money laundering activities and other economic and financial crimes are capable of dwarfing government budgets and destabilize domestic markets (John and Gary, 2001). Furthermore, an IMF working paper concludes that money laundering impacts financial behaviour and macro-economic performance in different forms such as policy mistakes, due to measurement errors in national account statistics, volatility in exchange and interest rates due to unanticipated cross border transfers of funds; the threat of monetary instability due to unsound asset structures; effects on tax collection and public expenditure allocation due to misreporting of income; misallocation of resources due to distortions in asset and commodity prices; and contamination effects on legal transactions due to the perceived possibility of being associated with crime. Thus, in some developing countries, the illicit proceeds from criminal ventures dwarf government budgets, thereby, leading to a loss of control of their economic policies. According to John and Gary 2001, the exploits of money laundering and currency maneuvering can harmfully undermine currencies and interest rates, more predominantly, in a developing economy. This is evident in a developing country such as Nigeria. The country relies on the acquisition of other currencies so as to fulfill her international obligations in satisfying local needs. Thus, uncurbed money laundering practice in the country adversely impinges on currencies and interest rates through reinvestment of funds where the schemes will be fairly safe from suspicion than where rates of returns are higher. As profit making is not the stimulating factor for investing the proceeds of economic crimes in any business (Paul, 2010), it is always convenient for money launderers to move the funds around as the situation may demand. Therefore the economic insinuation is such that the unfounded movement of funds establishes inexplicable changes in monetary demand and escalates instability of international capital flows, interest and exchange rates (Brent, 2002). This is a situation that works, in return, against sound national economic policy formation and implementation.

Economic Distortion and Investment Instability

Money launderers, in their quest to disguise the source of their ill-gotten proceeds, divert the proceeds from one economic venture to another without sound economic reasons. Also, as there is no motive to generate profits, money launderers, most often, invest their illicit funds in economic and commercial ventures that do not, primarily, benefit the economy of the country where such illicit funds are situated. When making the investment decisions, money launderers apparently pay high premiums on the investments that will allow the illicit proceeds be protected from suspicion. In other words, money launderers do not necessarily pursue high profits generated investments but for investments that simply allow the recycling

of their illicit proceeds even if it entails taking a low rate of return (Vito, 1997). Consequently, the situation rises in which there is the movement of capital from countries that produces higher rates of returns to countries with poorer economic policies and low rates of return, thereby infringing the law of economics. According to Vito Tanzi, a renowned international economist, at the domestic stage, large capital inflows or outflows artificially accentuated laundering process would adversely affect exchange rates and interest rates thereby fundamentally influencing the process of particular assets towards which the capital is invested. With the exchange rate left to fluctuate unhampered, the inflow of vast amounts of capital into a country would lead to its appreciation and to an expansion of the country's money base due to capital inflow therefore resulting to increasing the demand for domestic money which would be contented by the monetary authorities of the countries that are affected. According to Vito Tanzi, the inflation of the exchange rate would result to the situation in which traditional exports lose competitiveness to the imports while domestic prices rise up as a result of the pressure from the country's monetary base. Vito Tanzi describes this economic nature as "Dutch disease" and will incite the country's economic policy makers to "tighten its fiscal policy in order to create a budgetary surplus to use to sterilize the money effects of the capital inflows. Vito further declared that a country undergoing a capital outflow would have reverse effects of the above explanations. In practical terms, the artificial inflow and outflow of capital and investments from one country to another would have weakening effects on the international financial markets due to its integrated nature. Therefore, a distortion of this nature means that financial difficulties arising from one financial centre can easily spread to other financial markets and therefore stall economic growth and create financial instability. In this context for instance, the Nigerian economic policies in the 80s and late 90s endured serious economic distortions channeled predominantly by money laundering activities as well as other economic and financial crimes through diversion and redirection of capital from sound to low quality investments (CBN Report, 2000). It was not for a while for the consequences of these criminal activities to reflect on the financial system of the country. Major financial institutions in the country, primarily banks, collapsed midstream and were officially liquidated as a result of diversion of Funds (NDIC Report, 2003). Also, many other financial institutions endured untimely distress and in some cases, total collapse as deposits of the illicit proceeds of money laundering activities lodged in these financial institutions disappeared ceremonially and within a short period of time.

Undermining the Legitimate Private Sector

One of the most serious microeconomic impacts of money laundering, particularly in many developing countries, is felt in the private sector. Money launderers often use front companies, to fuse the proceeds of their illicit activities with legitimate funds, to hide their illicit proceeds. With access to substantial illicit funds, these front companies are able to subsidize their products and services at levels that are well below market rates. In some instances, the front companies offer products at prices that are below what it costs the manufacturers to produce. Therefore, the front companies, in this instance, usually have a competitive advantage over legitimate companies or manufacturers that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate business to compete against front companies with subsidized funding. As a consequence, the private business sectors of many developing countries are, often, overcrowded with criminal organizations. Clearly, the management principles of these criminal enterprises are not

consistent with traditional free market principles of legitimate business, which results in further negative macroeconomic effects.

Risks to Government Privatization Efforts

Seemingly, the concept of privatization in many developing countries, with the aim of promoting economic growth, attracts money launderers. This is attributed to the 'legitimacy' that a money launderer is able to acquire by purchasing into a previous government corporation and/or by being linked to the high volume of transactions (Maiendra, 2008). As a result, government corporations are ideal vehicles for laundering money. Money launderers are also able to bid higher prices for these corporations, a practice that undermines fair and legitimate competition (Celarier, 1997). Legitimate buyers who believe that the bidding process has been compromised are unlikely to bid in future. In this regard, money laundering activities threaten the efforts of many developing countries to reform their economies through privatization, thereby stalling economic growth (Schott, 2006). 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. In reference to Nigeria, over the two decades, different government administrations have embarked on structural reforms of the nation's economic and financial systems, in response to the country's economic and financial instability. The reforms were intended to stabilize the country's economic and financial sector. One of such reforms has been the privatization and deregulation policy. In essence, the policy permits the private business enterprises and individuals to be involved in the vital facets of the economy such as the midstream and downstream in the oil and gas, communication and energy sectors, with the goal of attaining economic and commercial growth (EFP, 2000). In this regard, many of the state owned enterprises have been bought up by private business enterprises and individuals. However, the exploits of money launderers along with corrupt officials have threatened the effective implementation of the policy. In other words privatization exercise has been usurped by individuals and corrupt public office holders with financial ability to outbid legitimate and prospective purchasers of formerly state owned enterprises. Furthermore, while deregulation and privatization policy initiatives are often economically beneficial in term of efficiency, better services delivery, job creation and so on, the policies if not properly monitored, can also serve as a venue to accommodate and integrate illicit drug funds and ill-gotten wealth from corruption and embezzlement of public funds. So much so that EFCC Nigeria in a report stated that the privatization exercise in Nigeria was being threatened by the involvement of funds from questionable sources (Kola *et al.*, 2006).

Reputation Risk

With the increasingly infiltration of money laundering activities in the economies of the developing countries along with lack of transparency and high level of corruption, developing countries having been finding it difficult to attract foreign investments which are contributory factors to economic development and financial stability. The negative damaging reputation attributed to these activities reduces legitimate international opportunities and sustainable economic growth and, on the other hand, drawing international organized criminal groups with undesirable reputations and temporary goal, therefore diminishing development and economic growth (John and Gary, 2001). On this basis, most developing countries

characterized with high level of corruption, insecurity, economic and financial instability and social unrest, have persistently failed to attract adequate foreign investments to boost their economic and financial growth. In practice, international financial markets as well as investors only extend their ventures and investments to an economic environment perceived to be investor friendly (Hans and Oliver, 2007). In this context, as a case study, Nigeria today is struggling with the huge task of providing an investor-friendly economic environment short of market manipulation, insider trading, money laundering, advance fee fraud, insecurity and other forms of corruption and financial abuse practices, in its quest to attract adequate foreign investments. The dominance of economic and financial crimes in the country has been, to a degree, liable for this lack of adequate foreign inflow of investments. In its report, the World Bank alleged that the Nigerian government misappropriated about, sixty five billion Naira (N65 billion) out of the \$ 458 million repatriated to Nigeria by the Swiss government (Tribune 2006). This was the money hidden in Swiss Banks by the country's late head of state, General Sani Abacha. Furthermore, The 2002 Report of the Accountant General of the Federal Republic of Nigeria on the management of the country's finances in year 2001 was sated with copious occasions of financial irregularities, non- compliance with standard financial procedures varying from lack of audit inspection, over invoicing, non- retirement of cash advances, payment for contract not executed, double debiting, lack of receipt to back up purchases made, and release of monies without prior approval from the appropriate authority (Guardian, 2007). The cumulative effect of the above development has been attributed as one of the reasons why the Financial Action Task Force (FATF), until May 2006, retained Nigeria in the list of Non- Cooperative Countries and Territories (NCCTs).

Loss of Revenue

Money laundering, amongst other economic and financial crimes, is a source of reduction of government revenue (Maiendra, 2008). In essence, the phenomenon of money laundering, together with other economic and financial crimes, reduces government tax revenue. Maiendra Moodley in her article stated that money laundering and its predicate offences are factors that contribute to the tax gap, as these activities decrease the amount of tax collected in South Africa. The tax gap in Africa is has been estimated to be over 40 percent, while South Africa loses an estimated sum R30 on from tax invasion and other tax related fraud. The South African Revenue Services (SARS), in its review in 2006, declared that that between 25 and 35 percent of all domestic businesses did not pay income tax, and that a large number of individuals were not registered as taxpayers. These businesses and individuals would then need to launder the income that they received, and/or hoard this income to avoid being detected by. As a result, government revenue was reduced due to tax evasion, therefore impeding service delivery.

In Farrugia (2009), the following are some of the effects of money laundering in an economy.

I. Increased Criminality

The rise of criminality is one major effect and a concern in money laundering. The success of money launderers is the distance they create between themselves and the criminal activity producing profit, so that they could enjoy the benefits of their crime without attracting attention and could also go to the extent of reinvesting the profits to finance other crimes so government, legislative act and other enforcing laws make effort to make the crime not worth committing. To this effect, Nigerian especially the politicians/rulers of the country

take risky step in committing outrageous crimes by stealing and moving money out of the country into fictitious account, all in the name of developing the country.

II. Microeconomics Effect

Here, money launderers create and make use of companies that front for them. These companies are not interested in and but pretend to be participating in them. Usually the companies are not doing any serious business. The income generated from the company is not usually from the business but from their criminal activities. Their decisions are not usually based on economic considerations and would offer products at prices below cost price making the front companies to handle an unjustified competitive advantage this lead to business closures/slnt down when legitimate business compete with them.

III. Macroeconomic Effect

The effects of money laundering on the macroeconomic scene are numerous and could be devastating. These include volatility in exchange rates and interest rates due to unanticipated transfers of funds, fall in asset price due to the disposition of laundered funds misallocation of resources in relative asset commodity prices arising from money laundering activities, loss of confidence in markets caused by insider trading, fraud and embezzlement etc. Other indirect economic effects are higher insurance premiums for those who do not make fraudulent claims and higher costs to businesses therefore generating fewer profits which make it difficult to break even. Quirk *et al* (1997) stated that money laundering has the ability to penetrate the global financial system and also alter economic data. Also, according Brent (2002), when considering the effect of money laundering on developing economics like Nigeria, it is particularly useful to distinguish among five directions that the money laundering flows may take with respect to such economies as explained below.

- a. Domestic money laundering flows in which illegal domestic funds are laundered within the country and reinvested or spent within the economy.
- b. Returning laundered funds originate in the developing country are laundered abroad and returned for integration.
- c. In bounds funds, for which the predicate crime occurred abroad, are either initially laundered abroad or within the developing country and intimately are integrated into the developing economy.
- d. Out bound funds, which typically constitute illicit capital flight from the developing economy, do not return for integration in the original economy.
- e. Flow-through funds enter the developing country as part of the laundering process and largely depend for integration elsewhere, thus playing little or no role in the economy itself.

Development of Anti Money Laundering Laws in Nigeria

On the global stage, the OECD countries facilitated the establishment of Financial Action Task Force (FATF) to confront the menace of the phenomenon of money Laundering (Okogbula, 2007). Since its establishment, FATF has succeeded in instigating proactive measures in combating the menace of money laundering. Furthermore, the organization has persistently made solid suggestions on how national legislations dealing with the menace of money laundering should be constructed. As such, several countries, in response, have enacted national laws precisely constructed to address the crime of money laundering within their jurisdictions. The first significant legislative measure in Nigeria was taken in 1989, with

the National Drug Law Enforcement Agency (NDLEA) Act, which brought Nigeria into line with the Vienna Convention (Robert *et al.*, 2011). However, in 1995, whilst under the military rule, Nigeria enacted the Money Laundering Decree¹⁶⁴. At the time, the aims of the Money Laundering Decree were, among others, to make certain that a documentary trail is left in all money laundering transactions through banks as well as create closer link between banks and the National Drug Law enforcement Agency (NDLEA) with the goal of preventing and haunting down money launderers. To this extent, the decree, restricted the sum of cash transactions, in the country, to N500, 000.00 in the case of an individual and N2, 000,000.00 in the case of a corporate body.

Furthermore, the Decree provided that transactions above the restrictions were to be disclosed to the NDLEA, in writing, within 7 days (Section 10). Also, the NDLEA could, in the quest to identify and locate narcotic drugs and psychotropic substances, proceeds, property, objects or other things related to the commission of a money laundering offence: (a) place any bank account and account comparable to a bank account under surveillance; (b) place under surveillance or tap any telephone line; (c) have access to any computer system; and (d) obtain communication or any authentic instrument or private contract, together with all bank, financial and commercial record, when the account, telephone line, or computer system is used or may be used by any person suspected of performing or taking part in a transaction involving the proceeds, property or things or when the instrument, contract or record concern or may concern the transaction. Also, in section 12 the decree set up Military style tribunals under the Special Tribunal (Miscellaneous Offence) Decree 1984, as amended try offences under this decree. Further provisions of the decree created severe penalties for offences relating to money laundering and financial crimes, ranging from long jail sentences, heavy fines and forfeiture of assets.

However, as much as the decree was intended to resolve the menace of money laundering practices, there were apparent loopholes that militated against its effective implementation (Okogbula, 2007). In the context of Nigeria, this is not unexpected, because the typical pattern of legislation in the country hardly takes perception of all the conditions before a law is enacted. This problem was more apparent during the military rule where decrees were rolled out after meetings of the military-dominated ruling councils without legislative debate. The ineffectiveness of the decree in combating money laundering and a presumed conception of the country's political administration's unwillingness or inability to address the menace led to the country being placed on the NCCTs list in June 2001. In response, the succeeding democratic government considerably improved willingness to address the country's anti-money laundering deficiencies and also cooperate more with FAFT. Thus, on 14 December 2002, Nigeria enacted the Money Laundering Act (Amendment) Act 2002. In essence, the Act improved the scope of the 1995 Money Laundering Decree by expanding predicate offences for money laundering from drugs to "any crime or illegal act. The Act also expanded particular AML obligations to non-bank financial institutions, and extended customer identification requirements to include frequent transactions of USD 5,000 or more. Furthermore, in December 2002, Nigeria enacted the Economic and Financial Crime Commission (EFCC) (Establishment) Act. The EFCC was commissioned in April 2003 and was charged to investigate money laundering cases from predicate offences other than drug trafficking and in addition to enforce the money laundering legislation of 1995 (as amended in 2002).

Flowing from the Implementation Plan prepared by an inter-agency technical committee, set up by the EFCC in 2003, the Nigerian Financial Intelligence Unit (NFIU) was

also established. The NFIU draws its power from the *EFCC Establishment Act 2004* and the *Money Laundering (Prohibition) Act 2004*. In shaping its creation and operation, abundant cognition was taken of Recommendation 26 of the FATF, Article 7 (1) (b) of the United Nation Convention against Transnational Organized Crime (Palermo Convention), the statement of Purpose of the Egmont Group of Financial Intelligence Units, and Articles 14 & 58 of the UN Convention against Corruption. All these provisions point to the need for every jurisdiction to create a national central body responsible for the collection and analysis of data for the purpose of referring financial information on suspected money laundering activities to the appropriate law enforcement agency and regulatory/ supervisory institution (Guff, 2005).

The Economic and Financial Crimes Commission (EFCC)

The EFCC is a Nigerian law enforcement agency that investigates financial crimes such as advance fee fraud and money laundering. The EFCC was established in 2003, partially in response to pressure from the Financial Action Task Force on Money Laundering (FATF), which named Nigeria as one of 23 countries non-cooperative in the international community's efforts to fight money laundering. According to the Economic and Financial Crimes Commission (Establishment) Act, 2004, the EFCC is the designated Financial Intelligence Unit (FIU) in Nigeria, which is charged with the responsibility of coordinating the various institutions involved in the fight against money laundering and enforcement of all laws dealing with economic and financial crimes in Nigeria. So far, the Commission has been able to and still recording successes in several areas of its mandate. Among others, it has recorded several convictions on corruption, money laundering, oil pipeline vandalism and related offences. 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. The Commission successfully prosecuted one of the biggest fraud cases in the world involving about \$242 million arising from a bank fraud in Brazil. It has increased the revenue profile of the nation due to its collaboration with the Federal Inland Revenue Service and the Seaports and has recovered revenue in excess of N75 billion,(over \$500million US Dollars) for government.

The Money Laundering (Prohibition) Acts

On 29 March 2004, Nigerian national assembly enacted the *Money Laundering (Prohibition) Act 2004*. The Act essentially superseded and improved upon the previous versions of the Act. The Act created the framework for a wider STR and customer identification system (Section 3), AML obligations for a wider range of financial and non-financial institutions (Section 7), and a framework for the Nigerian Financial Intelligent Unit (NFIU) within the EFCC (Section 25). The NFIU became operational in January 2005. Furthermore, the *Money Laundering (Prohibition) Act, 2004* makes different provisions prohibiting the laundering of the proceeds criminal activity (Section 14), and provides for appropriate penalties for money laundering infringements (Section 16). Precisely, the Act provides that any person or corporation or organization is allowed to make or accept cash payments of a sum an excess of N500, 000.00 or its equivalent in the case of an individual, and N2, 000,000.00 or its equivalent in the case of a corporation, unless such cash payment or acceptance is undertaken through a financial institution (Section 1). Also, a transfer of funds or securities to or from a foreign country in excess of US\$10,000 or its naira equivalent must be reported to the central Bank of Nigeria (CBN) or the Securities and Exchange

Commission (SEC) in the case of a public corporation (Section 2). The provisions of the Act, further, stipulates the mandatory reporting of all monetary transfers to and from outside the country and must indicate the nature of the transfer, the amount of the transfer, the names and addresses of the sender and the receiver of the funds or securities that were transferred, and the ultimate beneficiary of the transfer if different from the latter persons. The federal High Court has the exclusive jurisdiction to try offences under the Money Laundering (Prohibition) Act, 2004. In the trial of offences under this Act, the Federal high Court is authorize to admit collaborating evidence establishing that an accused person is on possession of property for which he or she cannot satisfactorily provide an account and which property is disproportionate to his or her known sources of income (Section 19). However the Act has been repealed by the Money Laundering (Prohibition) Act 2011. The Act 2011 was signed by the current Nigerian president, Jonathan Goodluck in June 2011 (Vanguard, 2011). The Act makes comprehensive provisions to prohibit the financing of terrorism, and the laundering of the proceeds of crime or illegal acts. It expands the scope of supervisory and regulatory authorities so as to address the challenges faced in the implementation of the anti-money laundering regime in Nigeria. It also makes provision for appropriate penalties for offenders. The Act places a duty on bankers and other financial institutions to report international transfers of funds exceeding \$10,000 to the Central Bank from where the records can be accessed by security operatives (Dunia, 2011).

Other Legislative Measures

Another important Nigerian body in the fight against money laundering is the Independent Corrupt Practices Commission (ICPC), established in 2000. Its main tasks are to investigate reports of corrupt practices, to eradicate corruption in public bodies and to educate the public against corruption. The ICPC also lists amongst its duties the prevention of corruption through studies of systems, practices and procedure. Whilst the EFCC is an investigation and prosecution body focused on financial crime, the ICPC has a broader mandate to tackle corruption in all forms both by investigation and education (Enweremadu, 2010). The amendments made to legislation in 2002 gave greater responsibility to the Central Bank of Nigeria (CBN) in dealing with money laundering. In particular, they allow the governor greater power to intervene in the banking sector in order to safeguard confidence in the financial system as a whole. The CBN has also been given a greater role in financial sector surveillance, identifying trends and patterns of corruption in banks and other monetary institutions. The CBN has directed all commercial banks in Nigeria to report any transaction of a sum over half a million naira (US \$5,000). The CBN then transmits all such reports to the National Economic Intelligence Committee (NEIC). This system is set up to monitor money sources and uses, track spending patterns and generally forestall terrorist activity. Anyone who cannot satisfactorily explain a transaction over a half million naira may be charged under the Exchange Control (Anti-Sabotage) Act, which carries a minimum penalty of five years in prison for individuals, and a fine of N 100,000 (US \$1000) form corporate enterprises. Legal persons can also be charged with money laundering under the National Drug Law Enforcement Agency (NDLEA) Act, which carries a penalty of ten years to life in prison, and forfeiture of assets. If a bank fails to report transactions for amounts over a half million naira, it may carry a penalty of imprisonment, fines, or both. Corporations convicted of such an offense may be forced to forfeit its property and assets. The CBN also has a responsibility to coordinate efforts among financial organizations to increase efficiency in regulatory oversight. This is done through the Financial Services Regulation Coordinating Committee

(FSRCC), representing a framework for coordination of regulatory and supervisory activities in the Nigerian financial sector. Alongside the work of the CBN to monitor the banking sector the Nigerian Stock Exchange has a number of structures and measures in place to check money laundering in Nigeria. These include a Central Securities Clearing System (CSCS) aimed at making transactions more transparent, Administrative Guidelines to ensure the proper documentation of legitimate capital importation through Nigerian banks, a Know Your Client Requirement and membership of the International Federation of Stock Exchanges, which subjects them to international standards and code of best Practice. The National Drug Law Enforcement Agency Act, the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree (previously the now repealed Exchange Control (Anti-Sabotage) Act) and the Money Laundering Act all authorize the freezing of assets. Freezing accounts may be administrative or judicial, coming from the Central Bank of Nigeria, or as the result of a judgment handed by an authorized court or tribunal. Assets can be frozen at the request of another government in cases where both governments share mutual legal treaties in cases of criminal or civil matters.

Other legislative measures that Nigeria has taken in response to combating money laundering and other financial crimes include 1991 Banks and Other Financial Institutions Act (BOFIA), amended in 2002, 1993 Advanced Fee Fraud and Other Related Offences Decree, 1994 Failed Banks (Recovery of Debt and Financial Malpractice in Banks) Act, 1995 Advance Fee Fraud and Other Related Offences Decree (creating "419" offences), 2000 Corrupt Practices and Other Related Offences Act (establishing the Independent Corrupt Practices Commission), 2002 Electoral Act (replaced 2001 Electoral Act)

Research Methodology

The research design used in this study is the descriptive survey method; it involves the use of representative sample from the population. The population of the study is the entire nation. For the purpose of this study, the non-probability sampling was applied in the selection of the sampled organizations, which are: Nigeria Immigration Service, Nigeria Custom Service, Ministry of Finance and Post Graduate students of the Departments of Accountancy, and Finance of the Nnamdi Azikiwe University, Awka, Nigeria.

The accidental sampling method was used in the selection of the sample size of 635 persons out of the entire population. A total of 635 questionnaires were personally administered to the sampled persons, however, 624 copies were retrieved fully completed. Collected data were statistically analyzed using the simple percentages while the hypotheses were tested using the chi-square and ANOVA tools.

Analysis of Data

The responses to the questions in the questionnaire provided the basis for the following analysis. Table 1, below present the responses to such questions on the economic implication of money laundering in Nigeria.

Table 1. Economic implication of money laundering in Nigeria

S/No.	Questions	Agree	Disagree	Total
1.	Money laundering undermines the integrity of the financial institutions and markets.	512 (82.05%)	112 (17.95%)	624 (100%)
2.	Money laundering could lead to loss of control of national economic policies	417 (66.83%)	207 (33.17%)	624 (100%)
3.	Money laundering fuels economic distortion and investment instability.	572 (91.67%)	52 (8.33%)	624 (100%)
4.	Money laundering undermine legitimate public sector.	325 (52.08%)	299 (47.92%)	624 (100%)
5.	Money laundering is a risk to government privatization efforts.	311 (49.84%)	313 (50.16%)	624 (100%)
6.	Money laundering could lead to reputation risk.	489 (78.37%)	135 (21.63%)	624 (100%)
7.	Money laundering reduces government's revenue.	512 (82.05%)	112 (17.95%)	624 (100%)

Source: Field Survey, 2013

Table 1, above shows that money laundering undermines the integrity of the financial institutions and markets with 82.05% of the respondents agreed to the fact. 66.83% are of the opinion that money laundering could lead to loss of control of national economic policies. 91.67% of the respondents believe that money laundering fuels economic distortion and investment instability while 52.08% thinks that money laundering undermines legitimate public sector. 49.84% of the respondents think that money laundering put the privatization effort of the government at risk while 78.37% and 82.05% of the respondents are of the view that money laundering will result to reputation risk and reduction of government revenue respectively.

Test of Hypothesis One

HO₁: Money laundering has no significant effect on Nigeria's economy.

The information from table 1, above is used in the chi-square test presented below:

Chi-square Table

F _o	F _e	F _o -F _e	(F _o -F _e) ²	$\frac{(F_o-F_e)^2}{F_e}$
512	448.29	63.71	4,058.9641	9.054
417	448.29	-31.29	979.0641	2.184
572	448.29	123.71	15,304.1641	34.138
325	448.29	-123.29	15,200.4241	33.908
311	448.29	-137.29	18,848.5441	42.045
489	448.29	40.71	1,657.3041	3.697
512	448.29	63.71	4,058.9641	9.054
112	175.71	-63.71	4,058.9641	23.100
207	175.71	31.29	979.0641	5.572
52	175.71	-123.71	1,5304.1641	87.099
299	175.71	123.29	15,200.4241	86.509
313	175.71	137.29	18,848.5441	107.271
135	175.71	-40.71	1,657.3041	9.432
112	175.71	-63.71	4,058.9641	23.100
Calculated Value				476.163

Critical value at 0.05 level of significance with degree of freedom of 6, is 12.592

Decision Rule

Since the calculated value of 476.163 is by far greater than the critical value of 12.592 with 0.05 level of significance and a 6 degree of freedom, the null hypothesis which states that money laundering has no significant effect on Nigeria's economy was rejected, while the alternative hypothesis was accepted.

Table 2, below presents the perception of respondents as to how effective are the anti money laundering policies in Nigeria.

Table 2. Effectiveness of the Anti Money Laundering Policies in Nigeria

S/No.	Questions	Yes	No	Total
1.	The Anti Money Laundering policies ensure that documentary trail is left in all money laundering transactions through banks. Do you think this will help to reduce money laundering?	385 (61.70%)	239 (38.3%)	624 (100%)
2.	The Anti Money Laundering requirement to ensure disclosure of transactions above restrictions will help the fight against money laundering. Do you agree?	344 (55.13%)	280 (44.87%)	624 (100%)
3.	The EFCC is effectively coordinating the various institutions involved in the fight against money laundering in Nigeria. Do you think so?	298 (47.76%)	326 (52.24%)	624 (100%)
4.	The ICPC's main task is to investigate reports of corrupt practices to eradicate corruption in public bodies. Are you satisfied with the level of their investigation?	311 (49.84%)	313 (50.16%)	624 (100%)

Source: Field Survey, 2013

Table 2, shows that the documentary trail will reduce the rate of money laundering with 61.70% of the respondents in agreement with the assertion. 55.13% are of the view that the disclosure of transactions above the restriction will enhance success in the fight against money laundering in Nigeria, however, 52.24% did not agree that the EFCC is effectively coordinating the institutions involved in the fight against money laundering, and finally, 50.16% of the respondents are not satisfied with the level of investigation of corrupt practices report by the ICPC.

Test of Hypothesis Two

HO₂: The Anti Money laundering policies in Nigeria has not significantly reduced money laundering in Nigeria.

Information from table 2, above is used for the ANOVA test on the second hypothesis.

ANOVA summary Table

Source of Variation	Sum of square	Degree of freedom	Mean square	f-ratio	f-critical
Between Group Treatment	4,050	1	4,050	2.685	5.987
Within Group Treatment	9,050	6	1,508.333		
Total	13,100				

Decision Rule

The ANOVA summary table above shows that calculated Value of 2.685 is less than critical value of 5.987 at 0.05 levels of significance and degree of freedom of 1 to 6. This implies that at 0.05 level of significance and degree of freedom of 1 to 6, the anti money laundering policies in Nigeria has not significantly reduced money laundering in Nigeria.

Conclusion and Recommendation

The deductions of this study is that money laundering do have significant effect on Nigeria's economy and that the anti money laundering policies in Nigeria has not significantly reduce the rate of money laundering in Nigeria.

Effort should be made by the government to ensure that the EFCC effectively coordinate the institutions involve in the fight against money laundering and also ensure that the ICPC meet their goal of fully and effectively investigating corrupt practices reports.

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