Effect of Money Laundering  
(A Case in Nigeria)

Umar Lawal Aliyu  
Prof. Dr. Umar Lawal Aliyu  
Faculty of Management, Department of Business Administration  
LIGS University Hawaii, USA

Abstract: The term money laundering is the process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions. Money laundering is illegal because it allows criminals to profit from crime, and it usually involves more than one illegal step to take place. One problem of criminal activities is accounting for the proceeds without raising the suspicion of law enforcement agencies. Thus the money launderer tries to make illegally gained proceeds (i.e., "dirty money") appear legal (i.e., "clean"). Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. In addition, the high volume of proceeds or money accrued by criminals through money laundering can have a devastating and corrupting effect on all elements of society. It will be good to note that if money laundering and financial crime is not greatly checked, it can have a corrosive effect on a country’s economy, government, and social well-being. The research study has noticed that the money from the criminal activity is dirty, and the criminals “launder” it to make it look clean. The research recommends that policy makers should pay attention to money laundering in order to stop the process of disguising the proceeds of crime and integrating it into the legitimate financial system.

Keywords: Crime, Criminal, Corruption, Economy, Government, Money Laundering, Proceeds.

1. INTRODUCTION

Money laundering is common terms that describe the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived or processed from a legitimate source. Money laundering has also been defined as 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, corruption and large scale crime. The funds involved in money laundering are increasing rapidly and the most recent estimate provided by the FATF suggests that the aggregate size of global money laundering is between 2% and 5% of world economic output, or between $590 billion and $1.5 trillion, most of which is gained from illicit drug trafficking, but also from corruption, fraud and organised crime.

In Nigeria, the Money Laundering (Prohibition) Act 2011 states that any individual, who is transporting cash or negotiable instruments in excess of US$10,000, or its equivalent must be declared
to the Nigerian Customs Service. Money laundering is defined in the Money laundering (Prohibition) Act of 2011 (As Amended) as “when a person in or outside Nigeria directly or indirectly conceals or disguises the origin or; converts or transfers, removes from the jurisdiction; acquirers, uses, retains or takes possession or control of; any fund or property, knowingly or which he/she should reasonably have known that such fund or property is, or forms part of the proceeds of an unlawful act.”

The effects of Money laundering and in fact economic crime in general can be very damaging and devastating than what analysts often describe especially in a developing country like Nigeria. Money laundry has caused economic shock to growth of economy of countries all over the world irrespective of their economic and political policies such that it drags the wheel of governance and economic development of a country to drain. In fact, it is a terror threatening the growth of the economy.

Money laundering and financial crime will have a corrosive effect on a country's economy, government, and social well-being if not curtailed. It is in this regard that an Anti-money laundering guideline was put into prominence globally after the September 11, 2001 attacks and the subsequent enactment of the Patriot Act in the United States and the establishment of the Financial Action Task Force on Money Laundering (FATF). By 2010, many jurisdictions globally required financial institutions to monitor, investigate and report transactions of a suspicious nature to the financial intelligence unit in their respective country.

2. LITERATURE REVIEW
2.1 Theoretical Framework

The UN defines it as “Money laundering is a process which disguises illegal profits without compromising the criminals who wish to benefit from the proceeds. It is a dynamic three-stage process that requires: first, moving the funds from direct association with the crime; second, disguising the trail to foil pursuit; and third, making the money available to the criminal once again with the occupational and geographic origins hidden from view”. United Nations Global Programme Against Money Laundering. Money laundering plays a fundamental role in facilitating the ambitions of drug traffickers, terrorists, organised crime syndicates, inside dealers, tax evaders as well as many others who need to avoid the kind of attention from authorities that sudden wealth brings from illegal activities, (Ronojit Banerjee).

Money laundering is illegal because it allows criminals to profit from crime, and it usually involves more than one illegal step to take place; from Placement to Layering and to Integration. Placement is the movement of cash from its source, while Layering is essentially the use of placement and extraction repeatedly, using varying amounts each time, to make tracing transactions as hard as possible. On the other hand, the final Integration is getting the money out so it can be used without attracting attention from law enforcement or the tax authorities.

Money laundering is indeed a global phenomenon, with devastating and dangerous effect, which undermines the economic and political stabilities of countries all over the world. This is to say that associated to money laundering is a very high significant social costs and risks and among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. Therefore, money laundering is an essential task carried out by all organised crime groups, and therefore if treated and analysed properly could be the tool with which authorities could prosecute organised crime syndicates.

2.2 History of Money Laundering

Money obtained from certain crimes, such as extortion, insider trading, drug trafficking, and illegal gambling is "dirty" and needs to be "cleaned" to appear to have been derived from legal activities, so that banks and other financial institutions will deal with it without suspicion. Money can be laundered by many methods, which vary in complexity and sophistication. Merchants who hid money they made from legitimate businesses from greedy kings traced money laundering back to 2000 years ago. They invested their money in villages but because they failed to declare their wealth to the government, they committed the crime of not paying tax. Hence, the act of hiding money and failing to pay tax constitute the crime of money laundering.
Laws against money laundering were created to use against organized crime during the period of Prohibition in the United States during the 1930s. Organized crime received a major boost from Prohibition and a large source of new funds that were obtained from illegal sales of alcohol. The successful prosecution of Al Capone on tax evasion brought in a new emphasis by the state and law enforcement agencies to track and confiscate money. Furthermore, when criminals launder ill-gotten money and successfully succeed it means that they have succeed and the crime pays and this makes criminals to commit more crimes to bring in more money. A notable leader of a gang Meyer Lansky started modern money laundering. He laundered monies by granting loans to fellow criminals through his bank in a bid to legitimize the source of his wealth.

However, the British Guardian newspaper was the first to use the term “money laundering” while reporting the Watergate Scandal, to show how a company in Miami moved dirty money from United States to Mexico and back to US, for donation to the Committee handling the re-election bid of President Nixon.

In the 1980s, the war on drugs led governments again to turn to money-laundering rules in an attempt to seize proceeds of drug crimes in order to catch the organizers and individuals running drug empires.

2.3 History of Money Laundering in Nigeria

Battling Money laundering in Nigeria starts with the laws accessible to battle the threat. In the 1980s, there was recharged concern on account of the effect of opiates and psychotropic medications on people and national improvement. Nigerian government issued the first legislative Act against money laundering. It was Nigerian NDLEA Decree 48 in 1989. ... Later, National Assembly adopted the Money Laundering Prohibition Act (2011), and after signing by the President, it became the present Nigerian anti-money laundering law.

Thus, the International community made efforts to stop movement of hard drugs and the rules were agreed by countries all over the world to fight and stop money laundering all over the world; of course Nigeria was not an exception to this general rule. Recommendations agreed for each member nation to pass a law to criminalize are as follows:

- Conversion or transfer of property for the purpose of concealing or disguising the illicit origin of the property
- Conversion or transfer of property once they know that such property came from a drug related offence
- Helping any person who commits such an offence or offences to evade the legal consequences of his actions
- Hiding or covering the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property came from drug trafficking or an offence related to it.

However, Nigeria signed the agreement on March 1, 1989 and approved it on November 1, 1989. The Money Laundering (Prohibition) Act 2011 states that any individual, who is transporting cash or negotiable instruments in excess of US$10,000, or its equivalent must be declared to the Nigerian Customs Service.

2.4 Methods and Stages of Money Laundering

Money laundering is a crime that must be dealt with if the country wishes to grow its economy, kill corruption and uphold law and justice in the land, and hold its head high among other nations. However, Placement, layering and integration are the three (3) stages involved in money laundering.

- **Placement**: This is the movement of cash from its source. Launders always disguised or misrepresent their bad and illegitimate gotten money. The criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have been derived or processed from a legitimate source. This is followed by placing it into circulation through financial institutions, casinos, shops, bureau de change and other businesses, both local and abroad. The process of placement can be carried out through many processes including:
a. Asset Purchase: The launderer purchase assets with the ill-gotten money all with a view and intention of changing the form of the proceeds from conspicuous bulk cash to some equally valuable but less conspicuous form.

b. Bank Complicity: This is when a financial institution is owned or controlled by criminals. They contrive and use the financial institution launder money and these makes the process easy for the launderers. The complete liberalisation of the financial sector without adequate checks also provides leeway for laundering.

c. Blending of Funds – The best place to hide cash is with a lot of other cash. Therefore, financial institutions may be vehicles for laundering. The alternative is to use the money from illicit activities to set up front companies. This enables the funds from illicit activities to be obscured in legal transactions.

d. Bureau De Change: Lauders also use Bureau De Change to launder money and this makes the process easy for the launderers. They use all forms of black markets to disguised or misrepresent their bad and illegitimate gotten money.

e. Currency Exchanges – In a number of transitional economies, the liberalisation of foreign exchange markets provides room for currency movements and as such laundering schemes can benefit from such policies.


g. Securities Brokers – Brokers can facilitate the process of money laundering through structuring large deposits of cash in a way that disguises the original source of the funds.

Layering: Layering is essentially the use of placement and extraction repeatedly, using varying amounts each time, to make tracing transactions as hard as possible. It is meant to make the trailing of illegal proceeds difficult for the law enforcement agencies. The known methods are:

a. Cash converted into Monetary Instruments – Once the placement is successful within the financial system by way of a bank or financial institution, the proceeds can then be converted into monetary instruments. This involves the use of banker’s drafts and money orders.

b. Material assets bought with cash then sold – Assets that are bought through illicit funds can be resold locally or abroad and in such a case the assets become more difficult to trace and thus seize.

Integration: On the other hand, the final Integration is getting the money out so it can be used without attracting attention from law enforcement or the tax authorities. This is the movement of previously laundered money into the economy mainly through the banking system and thus such monies appear to be normal business earnings. The known methods used are:

a. Property Dealing – The sale of property to integrate laundered money back into the economy is a common practice amongst criminals.

b. Front Companies and False Loans – Front companies that are incorporated in countries with corporate secrecy laws, in which criminals lend themselves their own laundered proceeds in an apparently legitimate transaction.

c. Foreign Bank Complicity – Money laundering using known foreign banks represents a higher order of sophistication and presents a very difficult target for law enforcement. The willing assistance of the foreign banks is frequently protected against law enforcement scrutiny. This is not only through criminals, but also by banking laws and regulations of other sovereign countries.

d. False Import/Export Invoices – The use of false invoices by import/export companies has proven to be a very effective way of integrating illicit proceeds back into the economy. This involves the overvaluation of entry documents to justify the funds later deposited in domestic banks and/or the value of funds received from exports.

"Ronojit Banerjee"
However, the basic methods of money laundering can be summarised below:

- Appointing trustees to manage funds held in accounts
- Cash removal from the country with couriers or money concealment in the cargo for the further repatriation through foreign banks
- Cash transfer to front men accounts with a breakdown of amounts
- Concealment of the true money origin (accounts in foreign banks and cash placement in investment companies, an organization of fictitious companies, securities acquisition, antiques, overseas property, etc.)
- Contracts making with foreign companies for the various information and reference services
- Fictitious lease contracts and other contracts making for the supply of non-existent goods
- Large amounts depositing in cash
- Multiple funds transfers to the account during the day by different persons
- Passage of cash accounts, significantly exceeding the client’s actual capabilities
- Personal information with knowingly distorted data
- Securities purchase with their transfer to another bank
- Transactions on a particularly large scale in the interests of third parties, for example, huge amounts exchanging

2.5 Causes of Money Laundering

Criminal gangs do money laundering because they wish to remain anonymous from the public and not arouse suspicion of law enforcement officers over the source of their wealth. Another cause for money laundering is the need by criminals to evade paying taxes to government. Money laundering means to manage money illegally acquired from crime to avoid detection. In fact, “money laundering” means “converting illegal or crime got money into clean money”. However below are some causes of money laundering:

- All criminals that launder money use these monies to contribute and become both legitimate and the unlawful organizations in the nation.
- Hoodlums, criminals or lawbreakers do evade tax since they need to be rich and incredible amidst different their criminal counterparts. In fact, the criminals want to be rich, powerful and famous among their criminal counterparts.
- Launderers evade tax to make more money in order to gain power, influence the decision of the political elites of the country by sponsoring their elections and overall become the strongest people in the country.
- Money launder do tax evasion since they wish to stay mysterious from the community they stay and they do not want the public or law enforcement officers to suspect how or where they get or make their money i.e. they do not want the public or law enforcement agencies to suspect the source of their ill-gotten money.
- Tax evasion is another big and fundamental reason for money laundering. In addition, in order to evade tax criminals or lawbreakers cover their source of money, spending and expenses to government by use of money laundering.
- Criminals launder because they cannot use their illegitimate money freely in the community because law enforcement agent will confiscate the money if they discover the money as illegitimate or ill gotten. Thus, after money has been laundered, the criminals can use it for legitimate purposes.

However, we can bring all the sources as mentioned below:

- A high share of the population and business unofficial income, the "black market" existence
- Access of financial institutions to international trading centres for gold bars, trade in precious stones and metals
- Anonymous cash accounts and financial instruments, including shares and bonds, with the payment of "bearer" funds
- Corruption among state executive, law enforcement, and judicial authorities
- Impossibility or limitation of opportunity for financial information exchanging with foreign law enforcement agencies
Inadequate procedure for the establishment of financial and non-financial institutions, an opening of branches outside the country and the licensing of financial activity with not taking into account or improperly taking into account the necessity to identify the true company owners (especially when possession can be carried out by nominal holding)

Legislative securing of the financial transactions secrecy, insufficient requirements for transparency of financial transactions and ownership of assets

Miscalculations in the regulation of foreign exchange transactions and other transactions with cash

The imperfection of mechanisms for activities of financial institutions monitoring, non-compliance with international financial management standards developed by specialized international organizations

Wide use of operations by enterprises, banks with offshore companies involving

2.6 Nigeria money laundering prohibition act

This Act (which has been amended by the Money Laundering (Prohibition) Act, 2012 repeals the Money Laundering (Prohibition) Act, 2004 to strengthen the framework for combating money laundering and corruption in Nigeria

An Act to repeal the Money Laundering (Prohibition) Act, 2004 and enact the Money Laundering (Prohibition) Act, 2011; and for related matters. ENACTED by the National Assembly of the Federal Republic of Nigeria.

PART I – PROHIBITION OF MONEY LAUNDERING; Limitation to make or accept cash payment.

No person or body corporate shall, except in a transaction through a financial institution, make or accept cash payment of a sum exceeding –

(a) N5,000,000.00 or its equivalent, in the case of an individual; or

(b) N10,000,000.00 or its equivalent in the case of a body corporate.

Note: To tighten loose ends in the 2004 Act, the National Assembly passed the 2011 Money Laundering (Prohibition) Act, the President signed it into law on June 3, 2011, and it became the existing law on money laundering in Nigeria.

2.7 Effects of Money Laundering in Nigeria

Money laundering is negatively affected the image of Nigeria, which is trying to integrate into the world economy. In Nigeria, and many other African countries, the problem of money laundering is still very relevant. Money laundering is the process of converting illegal money into legal money. The infiltration and sometimes saturation of dirty money in legitimate financial sectors and national accounts can threaten economic and political stability. Criminally obtained money is removed from the country and serves to enrich just some few individuals. In addition, money-laundering leads to a reduction of financial resources from Western countries for the Nigerian economy development, especially direct investments. Money laundering has negative effects on economic development of a country. Money laundering constitutes a serious threat to national economies and respective governments.

It negatively affects financial assistance from the developed countries and financial institutions. There are various effects of money laundering. They include its effects on the economy shown in how the manufacturing of domestic products fared, socioeconomic environment, financial and political environment. The last important consequence of money laundering is the widening gap between rich and poor people. The unemployed Nigerian youth are drawn into terrorism and criminal activities. All these effects weaken the economy, inhibits the countries development. However, all the above factors can be elaborated and discussed below:

- Effect of illegal tax avoidance on oil and gas segment demonstrate that politically uncovered people purchase oil promoting organizations and cause precariousness and shortage in the part to advance them.

- Globally, the financial impact of illegal tax avoidance and other money related wrongdoings demonstrate that outsiders and their corporate associations prohibit Nigeria and its natives from some monetary exchanges due to poor rating and notoriety issue.
Launderers who do tax evade utilize their evil gotten riches to support political applicants of their decision and end up forcing their hopefuls on the general population. In the event that they succeed, they would control the legislature and the Government.

Major impacts of tax evasion on assembling of residential items, demonstrate that when cash from wrongdoing is laundered by bringing merchandise into the market, which they offer at crazy costs to wash the cash and make it lawful. They pitch those products beneath their cost to slaughter nearby organizations and disappoint business people who can't contend with such merchandise to close shop.

Money laundering is the widening gap between rich and poor people. The unemployed Nigerian youth are drawn into terrorism and criminal activities.

One financial effect of money laundering is that the government loses tax revenues as criminals who do money laundering, fail to pay tax to avoid discovery and prosecution.

Political impact of Money Laundering in Nigeria demonstrate that Politically Exposed Persons that launder cash, make the world name the nation as a very degenerate Nation where its pioneers take the monetary riches implied for ages yet unborn.

These influential people join other backward stakeholders to frustrate the passing of the Petroleum Industry Bill (PIB) that would transform the sector for the good of the masses.

Until date, some internet companies do not allow Nigerians to carry out financial transactions on their platforms.

3. RESEARCH METHODOLOGY
3.1 Research Design
This research work is specifically designed to study the Effect of Money Laundering in Nigeria. The research design is meant to guide the researcher in the use of the best method of collecting data in the course of the study. The research design used in this study is the simple survey approach. The researcher is interested in observing what is happening by using secondary data in order to ascertain the Effect of Money Laundering in Nigeria.

3.2 Population Of The Study
The population of the study defines the limit to which the research findings are acceptable. The population comprises of only the Effect of Money Laundering in Nigeria. It will however be good to note that the secondary data collated was carefully analysed. This was all in view to ascertain a viable result and avoid eventual pitfall.

4. CONCLUSION
Money laundering is a crime that must be dealt with if the country wishes to grow its economy, kill corruption and uphold law and justice in the land, and hold its head high among other nations.

The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial sector institutions that are critical to economic growth. It also reduces productivity in the economy’s real sector by diverting resources and encouraging crime and corruption, which slows economic growth, and can distort the economy’s external sector international trade and capital flows to the detriment of long-term economic development.

5. BIBLIOGRAPHY
1. Company Fraud And Money Laundering In Nigeria By Chineme Ezenwa
2. Company Fraud And Money Laundering In Nigeria By Odujinri & Adefulu
3. Drugs And Money: Laundering Latin America’s Cocaine Dollars By Robert E. Grosse
4. Effect Of Money Laundering On Nigerian Economy By Amahalu Nestor Ndubuisi, Phd; Abiahu Mary-Fidelis Chidoziem; Okika Elochukwu Christian & Obi Juliet Chinyere
5. Global Anti-Money Laundering Regime And Pakistan By Ahmed, Raja Pervaiz
8. Money Laundering And Tax Evasion In Football By Blackshaw, Ian
9. Money Laundering In Nigeria: Causes, Signs, Effects, Punishment By Elizabeth Soriola At Naija.Com 2018
10. Money Laundering In Nigeria; Meaning, Causes, History, Laws, Notable Cases, Effects By Victor Usifo
11. Money Laundering In The Eu By Ronojit Banerjee
12. Money Laundering Risks Of Prepaid Stored Value Cards By Choo, Kim-Kwang Raymond
13. Nigeria: Company Fraud And Money Laundering In Nigeria By Chinemerem Ezenwa, Odujinrin & Adefulu 20 November 2018
14. Tax Havens And The Money Laundering Phenomenon By Mihu, Stefan

Zambrut Journal, Link Access;
https://zambrut.com
https://zambrut.com/money-laundering/

© Copyright International Journal of Zambrut | Zambrut, Inc.