# Impact of Economic and Financial Crimes on the Nigerian Economy: An Assessment of Money Laundering

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## ABSTRACT

Economic and financial crimes represent a dangerous form of criminal behavior that affects not only individual member of a society but also having deleterious effects on the nation economy. These are non-violent criminal practices which are tantamount to sabotage of the national economy. This is because of the impacts of these offences on the social wellbeing and economic foundation of any nation. This paper examines the general consequences of economic and financial crimes especially money laundering on the economy of Nigeria. The study finds that the common characteristic of the effects of economic and financial crimes in Nigeria is its tendency to undermine national economy which in turn often results in decelerated improvement in the quality of life of citizens. Thus finding represents a major problem Nigeria is presently grappling with as a result of the prevalence of economic and financial crimes. The paper concludes by recommending a strong legal regime coupled with political will to combat the menace and minimize its devastating consequences.

**Keywords:** **Impact, Financial Crimes, Economic Crimes, Money Laundering, Globalization, National Economy**

## Introduction

Economic and financial crimes in whatever form and nature have potentially devastating impacts on economy, security and social wellbeing of the people. It is perhaps pertinent to stress that as modern financial system encourages and facilitates local and international commerce, antithetically, financial criminals are also enabled by modern financial global liberalisation to transfer millions of dollars around the world instantly through available information communication infrastructures such as internet, electronic money transfer (wire transfer) and the rest. Money laundering among other forms of economic and financial crime requires existing financial system and operation. 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. However, Nigerian government like many other governments of developing countries until recently has been very slow in putting in place strict policy measures and legislative framework in combating the effects of financial crimes. As a result, economic and financial crimes have eroded the integrity of Nigerian financial institutions since sizeable numbers of them were actively involved in money laundering and other financial criminal activities. This paper examines the impact of financial crimes on the economy and socio-political development of Nigeria.

## Conceptual Legal Framework of Economic and Financial Crimes under Nigerian Law

Prior to the enactment of the Economic and Financial Crimes Commission (EFCC Act 2004), no comprehensive definition of what constitutes economic and financial crime can be readily gleaned from any of the existing Nigerian criminal legislations and even the English Common Law. Economic and financial crime is a generic term for non-violent illicit criminal activities committed with the aim of earning wealth illegally individually or in concert with others in a manner which amounts to violation of laid down statutory provisions regulating economic and other activities in the society. Thus, for practical intent and purposes, almost any definition of economic and financial crime is unlikely to be adequate or too wide for convenient typological delimitation of the crime.

> *Thus section 46 of the EFCC Act 2004 defines the crime as follows: Economic and Financial Crimes means the non-violent criminal and illicit activity committed with the objectives of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration and includes any form of fraud, narcotic drug trafficking, money laundering, embezzlements, bribery, looting and nay form of corrupt malpractices, illegal arms deal, smuggling, human trafficking and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractices including counterfeiting of currency, theft of intellectual property and piracy, open market abuse, dumping of toxic wastes and prohibited goods, etc.*

The above statutory definition of the term "economic and financial crimes" reveals that the crime could reasonably include a wide variety of criminal offences. It is therefore correct to say that the concept of economic and financial crimes is a nebulous one (Naylor, 2003). There have been divergences of opinion on the proper choice of terminology to describe the kind of criminal activities envisaged by the Act and corresponding legislations elsewhere (IMF, 2001). However, for an act to be described as constituting economic and financial crime under the EFCC Act 2004, it must have the consequences of violating the economic activities of the government and its administration. These offences are particularly subversive of the socio-economic and political life of a nation (Adedokun, 1996). There is relatively a close connection between such crimes and organized crime, through which such offences infiltrate legitimate business activities, thereby providing legitimate frontal machineries for the laundering of ill-gotten gains, as a result of which they seriously undermine the overall legitimate economic life of a nation (Adedokun, 1996). Against the above backdrop, the paper examines the impact of economic and financial crimes on the economy of Nigeria and the extent to which the government is addressing this unfortunate phenomenon. Mehta (2009) stated that economic and financial crimes occur as a deviation from the violator's occupational role. Also most of the laws involved or violated are not part of the traditional criminal code. Such crimes are corruption, corporate fraud, public fraud, tax evasion, goods smuggling, stock manipulation, currencies forgery, credit card fraud, and the more recent phenomenon of cyber-crime.

**Impacts of Economic and Financial Crimes in Nigeria**

In spite of Nigeria's enormous oil and gas deposit and abundant human resources, the nation is still a poor country with over 90 million Nigerians living in abject poverty (Nsongurua, 2003). For the past four decades, over $300 billion was earned from oil exports but paradoxically Nigeria's current per capital income is about 20% less than the 1975 level while the nation suffers under an excruciating external debt burden (Ribadu, 2004). Against the above background, the following are the impacts of the economic and financial crimes in Nigeria. However, it is important to note that effects of economic and financial crimes are most often interwoven.

**Undermining the Integrity of Financial Institutions and Markets**

The consequences of any successful money laundering activity by the Nigerian gags of drug cartels and other launderers have a far reaching effect on Nigerian financial system and even beyond. Laundered money ultimately flows into global financial systems and in the process any country integrated into the international financial systems is at risk. In corroborating this fact, Lamorde (2015), lamented that Nigeria and other African countries are estimated to be losing more than $50 billion annually in illicit financial flows (IFFs). Nigeria is ranked first among 10 African countries by cumulative illicit financial flows, which is about 30.5% share in African's total IFFs. The flows relate principally to commercial transactions, tax evasion, criminal activities like money laundering, drugs, arms and human trafficking, bribery, corruptions and abuse of office. The Global Financial Integrity, in its December, 2014 report, IFFs from the Developing World: 2003 to 2012, posited that developing and emerging economies lost $6.6 trillion in illicit financial flows from 2003 to 2012, while illicit outflows are increasing at a staggering average rate of 9.4% per year almost twice as fast as the global GDP. These statistics all considered, are enough cause for worry as, Nigeria is in a very precarious position, considering our size, autochthonous cultures and deviant religious practices, which reinforce the practice of not looking a gift horse in the mouth, questionable business practices, weak regulations and peculiar enforcement environment. If we throw in the myriad of other challenges that we have as a nation, then we would begin to see the faint outlines of the monstrosity that we face in money laundering (Lamorde, 2015). Aside from the fact that money laundering erodes the integrity of Nigeria's financial institutions, it also undermines the growth and development of local manufacturing industries and other industries in the private sector of the economy. Nigerian money launderers like their counterparts elsewhere, commonly disguise and conceal the source of the illicit proceeds of the crime by using front companies which co-mingle the proceeds from illicit criminal activities with legitimate funds (Norhashima, 2006).

**Loss of Control of the National Economic Policy**

Michael Camdessus, the former director of the International Monetary Fund (IMF), once estimated that the magnitude of money laundering is between 2% and 5% of world Gross Domestic Product (GDP) or $600,000 million. That some emerging market countries stand the risk of losing control of their domestic economic policy as these illicit proceeds from laundering and other economic and financial crime activities have the capacity to dwarf government budgets and as well corner the domestic markets (Dowell &Novis, 2001). Money laundering and currency manipulation as forms of financial crimes can adversely undermine currencies and interest rates particularly in developing economy like Nigeria with no convertible currency of its own. Nigeria depends on the purchase of other currencies for the purpose of meeting her international obligations in order to satisfy the local needs. Unchecked money laundering activities in Nigeria can adversely affect currencies and interest rates through reinvestment of funds where the schemes will be relatively secured from suspicion than where the rates of returns are higher. The economic implication here is that such irrational movement of funds creates inexplicable changes in monetary demand and increase volatility of international flows, interest and exchange rates. A situation of this nature will no doubt militate against sound national economic policy and implementation. Nigeria is recently coming out of such predicament as the nation witnessed serious national economic policy distortions and market contaminations in the 80s till late 90s.

**Economic Distortion and Investment Instability**

Diversion and redirection of funds from sound to low quality investments or from one economic activity to another without rational economic reasons are common practices by money launderers. This is a conscious and continuous attempt to disguise and hide the true source of the illicit proceeds from their criminal activities. In taking investment decisions, money launderers ostensibly pay high premium on investments that could afford the proceeds of the illicit funds better protection from suspicion. It is not surprising therefore, that economic crime offenders invest their illicit funds in economic activities that are not viable (Vito, 1997). The movement of funds or investments "may be in direction contrary to those that would be predicted on the basis of economic logic. Money may move from countries with good economic policies and higher rates of return to countries with poorer economic policies and low rates of return, thus seeming to defy the law of economics" (Vito, 1997). The inherent economic implication of these criminal practices is that it creates unnecessary confusion for the economic policy makers of affected countries. Such mass redirection of investments can lead to problem of efficiency of economic policy. Relating the above to the Nigerian situation, it could be noted that Nigerian economic policies in the 80s and late 90s suffered from serious economic distortions occasioned by money laundering and other economic and financial crime activities through diversion and redirection of funds from sound to low quality investments. It took not a longer time for the repercussions of these criminal activities to manifest (CBN, 2000). Some apparently flourishing financial institutions in Nigeria especially commercial banks collapsed midstream and were officially liquidated as a result of diversion of funds (NDIC, 2003). Other financial institutions such as mortgage and finance houses also were not spared as many of them suffered premature distress and total collapse when deposits of illegally acquired wealth in these financial institutions disappeared within a short time.

**Loss of Needed Revenue for Development**

Economic and financial crimes generally deny the people and the government the benefits of channeling the nation's resources towards the common good of the society. Smuggling is one of the worst forms of economic and financial crimes in Nigerian today. The act of importing and exporting of goods secretly or clandestinely without payment of duty, illegal and unofficial trade in contraband goods by individuals or organized crime syndicates amounts to defrauding Nigeria of the revenue most needed for national security, social and economic development. Taxation as earlier reiterated is an old institution through which the government raises revenue to finance and support its primary socio-economic and political responsibilities. Aside from smuggling, tax evasionas an economic crime has the tendency to defeat the fiscal policy of a country which is to transfer part of excess resources from private hands to government. However, it is not in doubt that tax evasion in Nigeria is seriously paralyzing the national economy and the effectiveness of state and local governments whose major source of revenue is through locally generated revenue aside from the monthly statutory allocations. 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 replete with numerous instances of financial irregularities, non-compliance with standard financial procedures ranging 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 (The Guardian, 2007).

## Conclusion

While the crime of money laundering may be subtle and seemingly inscrutable, many of the crimes that predicate it are not so unobtrusive and certainly, the effects of each and every one of them are deleterious to the individual and the nation economy. The fundamental objective of the law of crime is the idea that acts or omissions which are sufficiently injurious to lives, properties, and societal values are legally proscribed and punished under the law. Economic and financial crimes as non-violent crimes have the tendency to undermine national economy which in turn often results in the impoverishment of the people.

## Recommendation

Since Nigeria has a scared history of poor governance, since 1999 when Nigeria returned back to democratic dispensation, the fight against economic and financial crimes should be renewed. Every government institutions or agencies should commit to applying Anti-money Laundering and Counter- Terrorist Financing (AML/CFT) measures. Nigerian government need to respond to the prevalence of economic and financial crimes and its devastating consequences by initiating series of legislative and administrative measures. Doing this no doubt will arrest the present unfortunate toll the negative effects of economic and financial crimes are having on the economy of Nigeria as a developing country. It is also recommended that a strong legal regime coupled with political will to combat the menace and minimize its devastating consequences should be put in place while strengthening the existing institutions.

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