

# Banking Sector Collaboration is Needed to Tackle Nigerian Corruption

Tom Keatinge



***New approaches are needed to address Nigeria's massive corruption problem. Engaging the banking sector, the key facilitator of the theft of the nation's wealth in this struggle, should be an urgent priority.***

The impact corruption can have on national security is all too visible in a range of states. Consider for example the extent to which corruption depleted the resources and morale of the Iraqi military, enabling Daesh (also known as the Islamic State of Iraq and Syria, or ISIS) to sweep aside the nation's army in 2014.

In Nigeria, the impact of corruption on the country's defence procurement and its military have almost certainly intensified the impact and longevity of Boko Haram. For example, in June 2016, Nenadi Usman and Femi Fani-Kayode, two former Nigerian ministers in the People's Democratic Party government of Former President Olusegun Obasanjo, were charged with the theft of over 4.9 billion naira (£12.6 million) of government funds. Both have pleaded not guilty. This money, alleged to come from the country's defence budget, was reportedly diverted from the fight against Boko Haram into personal bank accounts to be used in the failed presidential re-election campaign of Goodluck Jonathan.

At the heart of corruption in both business and government lies a desire to exploit influence for personal gain – most often financial. Everyday bureaucratic bribery and corruption involves small sums, easily handled in cash or by the informal financial sector – money remittance companies and other services outside the formal banking sector – and is thus difficult to trace. In contrast, the multi-million (indeed billion) dollar corruption opportunities in government

procurement, be it for health, defence, or infrastructure, require the use of the formal financial sector, both domestic and international, to facilitate the removal and concealment of such large sums. This necessary use of the formal financial sector, and the exposure this brings to compliance procedures and transaction monitoring, should present an opportunity for disrupting such kleptocratic behaviour. Thus, in order to disrupt high-level corruption in Nigeria, governance and compliance standards in the formal banking sector must be raised. Harnessing the capabilities and responsibilities of the banking sector and creating effective partnerships with public sector agencies are the key to achieving a radical step forward.

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The failure of the Nigerian government to have in place laws and procedures for tackling financial crime led to its designation as a 'non-cooperative country' by the Financial Action Task Force (FATF) until 2013. Founded in 1989 on the initiative of the G7, FATF is the global standard-setter

for anti-money laundering and counter-terrorist finance (AML/CTF), led by its 40 Recommendations. It was set up originally in response to the rapid rise of money laundering through the US as a result of the Latin American narcotics industry. However, FATF came of age following the 9/11 attacks on New York and Washington DC when it had CTF added to its responsibilities as global authorities discovered the extent to which terrorist financing, not just criminal funding, was flowing through the banking system.

In order to use its influence to raise global AML/CTF standards and to improve the integrity of the financial system, countries are regularly evaluated to determine the extent to which they comply with, and effectively implement, FATF's 40 Recommendations. Any weaknesses are published and those that fall short are placed on a list of countries with strategic AML/CTF deficiencies. These countries are then encouraged to develop a remediation plan that is subject to regular monitoring. Following its most recent mutual evaluation in 2008, Nigeria was placed on this list for having a range of fundamental deficiencies.

The Nigerian authorities have worked hard to address FATF's concerns and were rewarded in October 2013. FATF noted the significant progress Nigeria had made in addressing its AML/CTF deficiencies and removed it from the list of jurisdictions of concern. This does not mean that Nigeria's financial system is clean. Indeed, the assessment of the

US State Department in its most recent annual International Narcotics Control Strategy Report is that Nigeria remains a country prone to money laundering, observing that ‘pervasive corruption, a lack of investigative capacity, inadequate legislative authority, and interagency dysfunction have hindered or blocked numerous prosecutions and investigations related to money laundering’.

The theft of public funds, on the scale at which it occurs, is not possible without the use of the financial sector. Stolen funds often pass through multiple accounts before (in many cases) being moved offshore beyond the reach of domestic authorities. There, these funds are masked from attracting suspicion via the use of anonymous company structures such as those revealed by the Panama Papers. Once ‘cleaned’ in this manner, the funds can be used for investment in property or other assets in financial centres such as London or New York. Thus, if the fight against massive corruption in Nigeria is to have any chance of success, it is crucial for public–private partnerships to be formed that engage the banking sector in the frontline of this struggle.

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The importance of developing partnership between the government authorities that seek to fight corruption and the domestic and international banking systems that, most often unwittingly, facilitate this crime cannot be underestimated. At its heart, the challenge the authorities face is that in contrast to much of the data they need to fight crime, the most valuable information sources for tackling financial crime, are held by the private sector. Account-holder activity, payments, receipts and transfers can provide valuable insights into an individual’s lifestyle and activities that may reveal indicators of corruption.



Election posters supporting Goodluck Jonathan plaster the streets in Abuja during the 2015 presidential campaign. Two former Nigerian ministers allegedly diverted £12.6 million from the country’s defence budget to be used in Jonathan’s failed re-election campaign. *Courtesy of Sunday Alamba/AP/Press Association Images.*

The Nigerian authorities need to harness the capabilities and insights that can be provided by the private sector to tackle endemic corruption which has a direct impact on the ability of the state to provide security.

This need was underlined by the communiqué issued by countries, including Nigeria, which attended the London anti-corruption summit in May 2016. It included a commitment to:

*create stronger partnerships between governments, regulators, law enforcement, financial intelligence units (FIUs) and business to detect and prevent the flow of illicit funds and to enable the private sector to act as a more effective first line of defence.*

It further emphasised the importance of addressing barriers to information sharing between public and private sector parties by encouraging ‘all jurisdictions, where applicable national law permits, to improve information sharing between law enforcement authorities, FIUs, regulators and banks, and within and among private sector participants, both domestically and across borders’.

Reflecting this group commitment, Nigeria’s ‘country statement’ at the

conference underlined the desire to prevent the facilitation of corruption by ‘deploying public-private information sharing partnerships to bring together governments, law enforcement, regulators and the financial sector to detect, prevent and disrupt money laundering linked to corruption’.

Partnership and information sharing are rightly seen as the key elements needed to strengthen the integrity of the financial system domestically and internationally. Banks, as facilitators of the flow of corrupt funds, need to ensure that their standards of governance and control prevent them from being abused by corrupt individuals and acting as conduits for money laundering. Those that fail should face sanctions, including being shut down. But having put financial institutions on the frontline in the fight against financial crime, governments need to empower them to play a decisive role in the identification, blocking and reporting of suspicious transactions.

Models for learning exist. There is the formal model, which is underpinned by legislation allowing public–private sector information sharing, such as the UK’s Joint Money Laundering Intelligence Taskforce that was set up



in February 2015. Then there is the less formal such as the monthly gatherings in Nairobi of public and private sector actors committed to tackling financial crime in Kenya. In its country statement, Nigeria pointed to the fact that such a partnership already exists within its financial sector, bringing together bank chief compliance officers, law enforcement and security agencies in the Committee of Chief Compliance Officers of Banks in Nigeria. This is to be welcomed, but as FATF regularly underlines, technical compliance does not equate with effectiveness. The apparent impunity with which corrupt individuals can make use of the banking sector to hide their illicit gains in Nigeria suggests that the effective implementation of such a partnership is lacking.

So how can harnessing private sector capabilities advance efforts to remove the high-end corruption that has blighted Nigeria for so long?

### **Governance and compliance culture must be ingrained in the banking sector to ensure that banks genuinely know their customers**

First, governance and compliance culture must be ingrained in the banking sector to ensure that banks genuinely know their customers. Banks need also to identify suspicious transactions which are then reported to the Nigeria Financial Intelligence Unit (NFIU). Lenders must be more effective in implementing their responsibilities in the fight against corruption. As the Chief Executive Officer of FBN Merchant Bank, Kayode Akinkugbe, noted in a May 2016 speech at the Monthly Meeting of the Committee of Chief Compliance Officers of Banks in Nigeria, 'sound corporate governance goes beyond compliance and check-lists; it must become a way of life. We have a duty to ensure that it permeates the length and breadth of our banks'.

Second, the suspicious transaction reports that are filed with the NFIU must be rigorously assessed, analysed



Nigerian soldiers at a checkpoint in Gwoza, a town liberated from Boko Haram. The impact of corruption on Nigeria's defence procurement and its military have almost certainly intensified the impact and longevity of the terrorist group. *Courtesy of Lekan Oyekeji/AP/Press Association Images.*

and acted upon where necessary. Financial investigations can reveal considerable information about illicit actors and their support and facilitation networks. Exploiting this source of intelligence must be prioritised in order to identify bad actors. Third, genuine dialogue between the authorities and the banking sector must flourish to create an effective partnership in tackling financial crime. Nigeria must quickly deliver an effective response to its London anti-corruption summit partnership and information-sharing commitments to harness the capabilities of the private sector.

Finally, the NFIU must build on an improved quality of suspicious transaction data and greater trust and confidence between government agencies and banks to screen parties engaged in areas presenting a high risk of corruption, such as defence procurement. Their previous financial activity must be investigated in partnership with the private sector to determine whether they are above reproach.

In recent years, the growing awareness that finance is at the root of almost all forms of domestic and transnational crime has led governments to focus an ever-greater level of

attention on the client and transaction monitoring capabilities of their banking sectors. FATF has forced up technical standards across the globe but the effective application of these standards has often been lacking. While the finance industry has invested heavily in systems and people to improve their compliance and governance functions, the ability of governments to exploit this capability and investment remains poor.

Corruption is first and foremost about the acquisition of illicit funds, funds that need to be stored and moved beyond the reach of the authorities. Whilst updated legislation such as the Money Laundering (Prevention and Prohibition) Bill, tabled this year is important, a poorly managed relationship between the public and private sectors that fails to invest in partnership and information sharing ensures that corrupt actors can hide their gains with impunity regardless of legislation. The only way for Nigeria to genuinely tackle high-end corruption is to form effective partnerships that enhance the integrity of the financial system.

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