

Money Laundering: A Threat to Sustainable Democracy in Nigeria

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Abstract

Democracy is based on the participation of citizens in creating a structure of governance which can effectively deliver a vision of national unity and commonwealth. Equitable wealth distribution in a democratic system of government often have over-bearing impacts on the socio-economy of the people as well as the political stability, peace and security of a nation. However, a dangerous trend may exist when certain individuals in the society have access to the commonwealth of the people, and use same for personal interest by siphoning it into local and foreign accounts out of the reach of the original owners (i.e. the citizens).

This paper focuses on the impacts of money laundering on nascent democracies with emphasis on Nigeria. It x-rays the roles that the beneficiaries of these illicit funds play on the economy, society, institutions, security and political structure. Using the existing literature, this paper found out that money laundering as well as its predicate crimes has devastating effects on the socio-economic, security and political structure of Nigeria and for democracy to grow and be sustained, the menace of money laundering must be vigorously fought to a stand still.

Keywords: Democracy, Money Laundering, Distribution of Wealth

1. Background

Democracy is a form of government in which all citizens have an equal say on the decisions that affect their lives. Abraham Lincoln defined democracy as the “government of the people, by the people and for the people”. Put differently, we can say that a government comes from the people who agree to stay together; it is exercised by the people, and for the purpose of the people’s own interests. Democracy also refers to both formal and informal institutional arrangements for collective decision making and a wide variety of deliberative decision-making processes that incorporate core values of democracy in efforts to build and sustain peace (International IDEA, 2006). According to IDEA, democracy is defined in the minimal sense-as a system of government in which the principal positions of political power are filled through free, fair, and regular elections.

It is however imperative that the definition of democracy be adapted with the present day’s challenges. In this view, to be able to meet the challenges of the 21st Century and the dynamics in societal needs, there is need to promote a broader definition of democracy that will include equality of all citizens (i.e. from human rights perspective), capacity for social, political and economic development, core values in efforts to build and sustain peace, accountability, transparency, the building of consensus in settings of high diversity, ensuring the security of lives and property of citizens, developed electoral processes, and promoting public involvement.

Among the 194 countries worldwide that are recognized by the United Nations, 123 are said to practise democracy (www.freedomhouse.org). These 123 countries are a mix of developed and developing countries. Democracy is preferred to other forms of government because it involves collective decision making and a wide variety of institutions for deliberative decision-making. Democracy all over the world has been faced with various challenges which have threatened the positive benefits of the system. Apart from the challenges emanating from issues of fundamental human right; separation of powers; the rule of law; freedom of the media; opposition parties; free and fair elections; etc. Democracies in the recent time are faced with challenges such as terrorism, drug and human trafficking, corruption, arms smuggling, money laundering, political thuggery and election rigging. The climax of these obvious challenges is the direct and indirect impacts of money laundering on emerging democracies of Africa and developing countries. It has been widely acknowledged that money laundering portends grave danger to our democracy; it is the eminent threat of dirty money corrupting our government and poisoning the source of our financial systems with impurities (Puno, 2007).

Since Nigeria returned to democracy in May 1999, after almost three decades of military rule, and almost two decades of economic crises, the country has been faced with the complex challenges of national reconciliation, national reconstruction, economic reform and democratic consolidation. The country has not been able to surmount the challenges brought about by the long shadow of militarism, corruption and “winner takes it all” politics that looms large over her political process, exacerbating corruption level, fuelling crimes and frustrations, provoking violence, and concomitantly the new menace of money laundering that became more noticeable at the inception of democracy in the country. After the post-transitional general elections in 2003, Nigeria continues to struggle with these challenges yet the citizens are still anxious to see and enjoy the benefits

of democracy which includes social welfare, justice, equity, equal access to resources and power, and security of live and property. The country has taken a lot of steps towards reducing or better still eradicating the intensity of this menace.

Nigeria has established a number of regulatory and institutional frameworks to combat money laundering. Among these were the various anti-money laundering acts, establishment of Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), Special Control Unit against Money Laundering (SCUML) and others. Some of the effort to curb this menace was also taken by the Central Bank of Nigeria in its various policies to combat illicit funds flowing through the financial sector. Though government's efforts can not be underestimated, there are still a number of political and business figures being apprehended in and outside the country in cases that were linked with money laundering. Are these legal and institutional frameworks adequate and effective to combat the trend of money laundering in the country? What are the threats money laundering portend? Do these threats affect the country, especially the democratic structure of the country?

2. History and Dynamics of Money Laundering

Though some people believed that money laundering is a new phenomenon because there is rarely documented history over a long time (Shehu, 2000). However, the history of modern day money laundering could be traced as far back as the 1930's, following the activities of Mayer Lansky who introduced in 1932, an off-shore account in a Swiss bank. According to Adewale (2007), the account was used to hide the proceeds of the illegal activities of Governor Huey long of Louisiana, U S A. He said, Lansky later established slot machine houses in New Orleans. The Swiss bank provided funds in the form of 'loans' to Lansky & CO., thereby allowing the return of illegal money in the USA. It is also believed that money laundering was given momentum during the Second World War, when some Nazi officers went away with war loots and stocked in secret bank accounts in Switzerland. Since then, the phenomenon of money laundering has developed both in patterns and manifestations, which has further been facilitated by the advancement in technological level.

The time this phenomenon was discovered in Nigeria cannot be exactly pinpointed. However, it can be said to be as old as the existence crime and corruption in the country. Money laundering in Nigeria became dreaded when the country returned to democratic system. Though it has existed before the return of democracy, the level of awareness and combat was intensified during this period. Different policies were put in place the country became a member of international bodies that made stringent law binding on the country. The country was blacklisted in 2001 by the Financial Action Task Force (FATF) on the ground that she was one of the non-cooperating countries, which the government responded to by setting up a Presidential Inter-Agency Committee to address the raised issues in 2003. Nigeria was removed from the list in June 2006 following the implementation of the National Strategy and dialogue with FATF.

Despite the clampdown on Nigeria, and the different policies that have been formulated to counter the menace, cases of money laundering are still rampant in the country especially among political and business class. Among these cases is the laundering of billions of Naira by the former Chief Executive Officer and Managing Director of Intercontinental Bank Plc, Dr. Erastus Akingbola, also Cornelius Ochi was arraigned in 2011 for allegedly laundering millions of Naira (EFCC, 2011). Some former governors, ministers and political office holders were guilty of laundering public funds into their private accounts in and outside Nigeria. The ex-governor of plateau state, Chief Joshua Chibi Dariye was arrested over laundering of £93,000 in a hotel room in London. Also his aide Joyce Bamidele Oyebanjo was jailed by a Southwark Crown Court in Britain for laundering a sum of £1.4 million of the impeached governor's loot from Plateau state, Nigeria (The Nation, 04 June, 2007). In 2005, the former governor of Bayelsa State of Nigeria, Diepreye Alamiyeseigha, was arrested in his £1.75 million London home (paid for in cash) with more than £1 million in bank notes found in his possession.

Most countries have adopted the definition of United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention, 1988) and the United Nations Convention Against Trans-national Organized Crime, 2000 (Palermo Convention). Money Laundering according to these Conventions was defined as:

- *“The conversion or transfer of property, knowing that such property is derived from any [drug trafficking] offence or offences or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offence or offences to evade the legal consequences of his actions;*
- *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 an offence or offences or from an act of participation in such an offence or offences; and*

- *The acquisition, possession or use of property, knowing at the time of receipt that such property was derived from an offence or offences or from an act of participation in such offence or offences (UNODC, 2000)."*

Drawing from the definitions given by The Vienna Convention of 1988 and the Palermo Convention of 2000, money laundering can be said to be the process of transferring or conversion of illicit funds derived from criminal activities for the purpose of disguising its illicit origin. Some of the underlying criminal activities which money launderers are involved in include embezzlement, bribery, drug trafficking, arms trafficking, avoidance of legitimate tax, child trafficking, smuggling, cyber crime, kidnapping and terrorism (ADP, 2003), which are known as predicate offences. Some of these crimes are presently ravaging Nigeria and have become household crimes in the country.

In discussing the historical background of money laundering, there is need for one to understand the process through which it takes place. Money laundering processes has generally believed has three stages. The first stage is the *Placement*; this involves the placement of illegally derived funds into the financial system which usually is through the financial system (IFAC, 2004). In the stage, proceeds from illegal activities are transferred into financial system in a way that financial institutions and government authorities are not able to detect. Some of the common practise in the placement of illicit funds includes organizing the cash payment through legitimate financial institutions which may involve deposits or money transfers, or the purchase of money orders, cashiers or travellers' check or other monetary instruments. The *Layering* is the second stage in the process. This generates layers of transactions to distance and obscure the proceeds from their illegal sources. Some of the layering techniques may include electronic funds transfer outside the country into bank secrecy haven.

Integration is the last stage in the money laundering process. It is said to be the unnoticed reinsertion of successfully laundered untraceable funds into the economy (IFAC, 2004). Some of the practices involved in this stage include spending and investing on legitimate-appearing business. It is however believed that there are two reason why criminals; whether drug traffickers, corporate embezzlers, corrupt public officials or terrorist have to launder money. The money, if tracked is evidence of their crime and is opened to seizure, so it has to be protected. Regardless of who uses the tools of money laundering, the operational principles are essentially the same (IFAC, 2004:14). According to IFAC, the world's largest and wealthiest economies tend to serve as the primary hosts for money launderers and their operations. These economies generally harbour the greatest demand for illegal drugs, which is still the primary money-laundering activity according to IFAC. Also, to successfully place, layer and integrate their illegal proceeds, the more sophisticated money launderers look for a similarly sophisticated financial services sector.

Due to the very unique nature of money laundering, it occurs mostly outside the normal range of economic statistics. Nevertheless, with other aspects of underground economic activity, rough estimates have been put forward to give the problem some sense of scale. The International Monetary Fund, for example, has stated that the aggregate size of money laundering worldwide could be somewhere between 2% and 5% of global gross domestic product. International Monetary Fund estimates global money laundering at US\$600 billion to \$1.5 trillion. Breaking it into component parts according to IMF, some US\$500 billion laundered is derived from criminal activities, US\$20 to US\$40 billion in the cross-border movement of corrupt money and some US\$500 billion being laundered is derived from crimes like tax-evasion. Baker and Dawson (2003) stated that about US\$500 billion comes out of developing and transitional economies, countries with unstable governments, weak legal systems and 80 percent of world's population. According to them, the streams of money from poorer countries parked in western accounts accumulate to trillions of dollars, of which half is eventually lodged in U.S. accounts.

Nigeria however has lost US\$600 million annually to money laundering (Elumelu, 2007). Between the mid-1980s and 1999, Nigeria lost US\$100billion to money laundering (Vanguard Newspaper, 2005). The former Nigerian Head of State, General Sani Abacha, utilized the services of a British businessman and generous donor to the British Labour Party, Uri David, and a British Lawyer, Jefrey Tesler, to stash away US\$4 billion in various banks in London and Switzerland, while he lost US\$30 billion to the international fraud syndicate (*The Times*, 1999). Nigerians who specialise in international money transfer have also extorted about US\$357,142,857 from overseas victims (Bakre, 2007).

3. Nexus between Money Laundering and Other Crimes

Money laundering is the criminal practise of filtering ill-gotten gains or dirty money through a series of transactions, so that the funds are cleaned to look like proceeds from legal activities. According to Shukla (2009), money laundering is driven by criminal activities and conceals the true source, ownership, or use of funds. He stated further that money laundering empowers corruption and other organized crimes. Organized criminal groups need to be able to launder the proceeds of drug trafficking and commodity smuggling. Terrorist

groups also use money laundering channels to get cash to buy arms. As money laundering is a necessary consequence of almost all profit generating crime, it can occur practically anywhere in the world. As Shehu (2000) puts it, there exists a symbiotic relationship between drug trafficking and money laundering to the extent that you can not fully execute one without the other. According to him, in 1991, the U.S. and European drug trafficker's profits were estimated to yield approximately US\$232,115.00 per minute.

Money laundering also can equally be linked to terrorism and terrorist financing. This stems from the fact that the techniques used in money laundering are essentially the same as those used to conceal the sources of, and uses for, terrorist financing. Funds realised from drug trafficking activities are also being laundered bringing a link between the two criminal activities. Ferragut (2012) stated that the illicit proceeds from drug trafficking in the United States and Mexico, as with those from any criminal activity, are laundered by criminal organizations so that their assets cannot be traced back to their origins.

Money laundering has also been established to be the mechanism through which corrupt leaders conceal the source of their money. Conceptually according to GIABA Report (2010), corruption (along with corrupt institutions and personnel) is a collaborator in money laundering and, in practice, it represents a major opposition to anti-money laundering system and measures as the latter can hardly thrive in the absence of the former. The link between corruption and money laundering is, at least, two-fold: the proceeds of corruption, particularly when substantial, are susceptible to be laundered; and the combined effects of corruption and poor governance institutions can and do blunt the effective operation of anti-money laundering systems. And furthermore, it has been convincingly argued that the relationship between the two forms of crime is a symbiotic or two-way phenomenon because just as corruption facilitates money-laundering, the latter encourages the former (Chaikin and Sharman, 2009: 23).

Some corrupt Nigerian leaders have used the money laundering to distant the source of their money. General Sani Abacha, former Nigerian head of state, directed his national security advisor to create and present false funding requests which Abacha authorised. The cash was taken out of the Central Bank and laundered through domestic banks, close family or associates. According to a United State senate report, immediately after Abacha's death in 1998, his wife was stopped at Lagos airport with 38 suitcases full of cash and on investigation his son was found to have US\$ 100 million in cash. Some other public office holder like Joshua Dariye and James Ibori former governors of Plateau and Delta States of Nigeria, were caught laundering millions of pounds of state fund.

Tax evasion is another criminal activity that has strong link with money laundering. Though money laundering and tax evasion are different crimes, there is a link between both (Spreutels and Grijseels, 2000). According to them, the success of tax evasion depends on the ability to hide the financial trail of the income. Money launderers seeks to transform illegally earned income into legal income, while tax evaders seek to conceal income, either legally or illegally earned, from detection and collection by the tax authorities. Although tax evasion and money laundering are operationally quite distinct processes, they share the same sophisticated techniques of fund dissimulation, furthermore they mutually support each other and are often perpetrated through offshore locations (Froomkin, 1999). Tax evasion can be part of fiscal or financial fraud, which constitutes a predicate crime for money laundering in most countries (Unger, 2009). According to him, when looking at legal definitions of money laundering and at law enforcement in different countries, one can see that a large part of tax evasion is often excluded from the money laundering definitions or from enforcement.

As stated in the International Federation of Accountants (IFAC) paper, many conditions and control deficiencies that may contribute to fraud vulnerability may also contribute to money laundering vulnerability. Some of these include; the lack of a strong control environment, particularly, raising questions about the competency, integrity and tone-at-the-top of principals and senior management, the lack of strong regulatory compliance and risk management functions or departments, signs of evasion or non-conformity with any internal anti-money-laundering controls and a lot more. The paper further stated that government and Inter-Governmental Organizations believe that there may be links between the proceeds of foreign official corruption and terrorist financing and the crime of money laundering. Many of these criminal activities that have links with money laundering are referred to as predicate offences. As defined by United Nations Office on Drugs and Crime (UNODC) predicate offence is any offence, which generates proceeds of crime. However, money laundering can be view to be a consequence of other criminal activities. In order to disconnect and clean the funds from its illegal source, criminals launder illicit funds.

4. Initiatives in Combating Money Laundering

From the very start in the fight against money laundering at the international level, the United Nations took an active role to promote the coordination of countermeasures and the strengthening of international cooperation. The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, adopted in

December 1988 in Vienna, was one of the first international instruments to address the issue of proceeds of crime, and it requires States to establish money laundering as a criminal offence.

The Financial Action Task Force (FATF) is also one other international instrument against money laundering as well as terrorist financing. The Financial Action Task Force (FATF) is an inter-governmental body created in 1989 under the aegis of the EU G8 group to generate the necessary political will to bring about legislative and regulatory reforms for the development and promotion of national international policies to combat money laundering and terrorist financing (FATF, 2008). In 1990, the FATF came up with forty recommendations as an initiative to combat the misuse of financial systems by persons laundering drug money. After the September 11 2001 terrorist attack in the United States, FATF expanded its mandate to deal with the issue of financing of terrorism, and took the important step by adding nine special recommendations on terrorist financing. The FATF has 49+9 recommendations for combating money laundering and terrorist financing and which are binding on all member countries. Another measure established by the United Nations to counter money laundering is the United Nations Convention against Trans-national Organized Crime which was also opened for signature in December 2000 also called the Palermo Convention. The purpose of this Convention is to promote cooperation to prevent and combat Trans-national organized crime more effectively.

Apart from the protocols setup to counter the menace of money laundering, there are some other organizations that stands as instruments used in fighting money laundering. Among them is the Egmont Group established in 1995 in Brussels, Belgium. It involves the coming together of a number of national Financial Intelligent Units (FIUs) in an informal organization known as the Egmont Group. The main goal of this group as established is to provide a forum for all Financial Intelligent Units (FIUs) to improve support to their respective national anti-money laundering programmes and develop protocols for sharing information. Some of the support Egmont Group was mandated to provide include: expanding and systematizing the exchange of financial intelligence; improving expertise and capabilities of the personnel of such organizations and; fostering better communication among FIUs through the application of new technologies and the sharing of information for use in financial crimes investigations. The National Financial Intelligence Unit (NFIU) was established in 2005 and is legally empowered under the Money Laundering (Prohibition) Act of 2004 and the Economic and Financial Crimes commission (EFCC) Act. The membership of Egmont Group has over the years increased to 139 and Nigeria Financial Intelligence Units (NFIU) is a member of Egmont Group (Egmont Group, 2013).

The Financial Intelligence Unit (FIU) is simply a central office that obtains financial disclosure information, processes it in some way and then provides it to an appropriate government authority in support of its national anti-money laundering effort. The activities performed by FIU include “receiving, analysis, and disseminating information (Egmont Group, 2013). An FIU could conceivably perform the activities mentioned in the definition and investigate and or prosecute violations indicated by the disclosures. It is housed within the Nigerian Economic and Financial Crimes Commission’s (EFCC) directorate of investigations. The Nigeria FIU is principally responsible for receiving suspicious transaction reports (STRs) and currency transaction reports (CTRs) from financial institutions as well as undertaken analysis of the reports and disseminates the information to relevant government institutions.

At the regional level, there are also some structures put in place to combat money laundering. The authority of Heads of States and Government of the Economic Community of West African States (ECOWAS) adopted DECISION A/DEC-9/12/99 of December 1999 and formally established the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) in the year 2000 at its 24th session in Bamako, Mali. By this establishment, GIABA is one of the specialized institutions of the Economic Commission of West Africa (ECOWAS). The establishment of GIABA as a FATF-Style Regional Body (FSRB) was a demonstration of the strong political commitment of member states to combat money laundering and terrorist financing and to cooperate with other concerned nations and international organizations to achieve this goal (GIABA Report, 2006). The mandates of GIABA seem to have fallen within the purview of support/facilitation and not enforcement. One of its mandates is to ensure the adoption and implementation by Member States of measures against money laundering and the financing of terrorism in accordance with acceptable international standards and practices, including the FATF 40+9 recommendations.

Apart from the various instruments and protocols that was setup at both global and regional level to fight the criminal activities of money laundering, individual countries were also encouraged to establish national structures to combat the specific typology of money laundering in their individual country. In an effort to implement the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (The Vienna Convention), Nigeria criminalized white collar crime through some legislation. They include: the Failed Banks Recovery of Property Acts of 1994; Advance Fee Fraud and other Fraud Related Offences Act 1995; and Money Laundering Act, 1995. The Nigerian Money Laundering (Prohibition) Act 2002 (MLPA) was enacted at a period when money laundering was synonymous with drug trafficking, it was followed

by the Money Laundering (Prohibition) Act 2003 to repeal the money laundering act of 1995 Decree No. 3 money laundering decree which is now Section No.3 of the money laundering act. The last among the acts is the the Money Laundering (Prohibition) and Terrorism (Prevention) bills 2011. It was sign by President Jonathan to show his commitment and courage in fighting the current induced terrorism.

5. Implications of Money Laundering

Money laundering is a criminal way of reintegrating proceeds from illegal activities into a legal economy. It is necessitated by the requirement that criminals, be it drug traffickers, organized criminals, terrorists, arms traffickers, blackmailers, or credit card swindlers, cyber criminals, disguise the origin of their criminal money so they can avoid detection and the risk of prosecution when they use it. Because money laundering involves a series of multiple transactions used to disguise the source of financial assets so that those assets may be used without compromising the criminals who are seeking to use them and also relies so much on the financial system and operations of a country, it has a more and direct impact on the economy. Generally, money laundering has potentially devastating economic, security, and social consequences (McDowell and Novis, 2001). This chapter studies the implications of money laundering on democracy by examining its effect on the economy, society, security and political system.

5.1 Economy

Global money laundering imposes significant costs on the world's economy by damaging the effective operations of national economies and by promoting poorer economic policies. The International Monetary Fund, for example, has stated that the aggregate size of money laundering worldwide could be somewhere between 2% and 5% of global gross domestic product. Using 1996 statistics, these percentages would indicate that money laundering ranged between USD\$590 billion and \$1.5 trillion. Money laundering is a problem not only in the world's major financial markets and offshore centres, but also for emerging markets. Indeed, any country integrated into the international financial system is at risk (McDowell and Novis, 2001:2). As emerging markets open their economies and financial sectors, they become increasingly viable targets for money laundering activities.

According to McDowell and Novis (2001), money laundering undermines the legitimate private sector. The microeconomic effect of money laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains. In the United States for instances, organized crime has used pizza parlours to mask proceeds from heroin trafficking. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates. In some cases, front companies are able to offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage over legitimate firms 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, a situation that can result in the crowding out of private sector business by criminal organizations.

Money laundering has devastating effects on the integrity of financial institutions and market (Barlett, 2002:5). It makes the financial markets to slowly become corrupted and the public's confidence in the financial system is eroded. There is often a correlation between money laundering and fraudulent activities undertaken by employees of financial institutions. Fraudulent activities of some employees of financial institutions increase the likelihood that individual customers or institutions will be defrauded within the institution. For instance, a former Acting Manager of a new generation bank in Nigeria, Cornelius Ochi was charged for diversion of public fund, forgery and attempt to launder proceeds of illegal loans. He was said to have dipped his hands into the account of his customers and laundered N20.3 million as loan to other customers (EFCC, 2011).

Customer's trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust. This will reduce deposits and investment in the financial institutions. And for a developing countries like Nigeria, the financial sector is one of the most surviving and productive sector. The financial sector employs more people and generates more revenue for the government. The reduction in deposits and investment in the financial sector will lead to more people unemployed and less revenue for the government. Also money laundering makes financial markets become increasingly risky and less stable, the rate of growth of the economy is reduced (Braithwaite, 1979). 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.

Quoting from a thesis by Aluko (2011), 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. Between the 80s and 90s, the reputation of the financial system in Nigeria was at its lowest (Aluko, 2011:27). This according to him was primarily due to the damaging status of the nation's financial system attributed to the negative impact of economic and financial crimes like money laundering that were rampant at the time. He further stated that the the financial institutions in the country relied overwhelmingly on the ill-gotten capital drained off by corrupt political office holders, which made the financial institutions unable to endure the test of market competition.

Money laundering has a negative effect on the real sector by distorting investment and depressing productivity. This manifest when resources are taking away from a productive to a less-productive sector or the taking away of money from the original economy to another. In Nigeria for instance, the former military head of state of General Abacha was alleged to have laundered \$4 billion into banks in the UK, Switzerland, the US, Germany, Luxembourg and elsewhere. Also during the democratic era, the former governors of Bayelsa and Delta state were alleged to have laundered a huge sum of state's fund which was supposed to be used for the development of their states, into private accounts in developed countries. This makes clear the outflow of resources through money laundering.

Resources that were meant to be used for the development of the countries are stashed away in foreign accounts in developed countries. This reduces the spending on investment projects and in turn depresses productivity. When there is a reduction in investment, productivity falls and there will be a fall in economic growth. If there is a fall in economic growth; income reduces, unemployment increases and poverty level also increases. In a research carried out in 1995 on Australia's economy, the country loses A\$5 billion to A\$10 billion to money laundering activity in actual that amount annually. These translated to a total net loss of between A\$5.6 billion and A\$11.3 billion in output for the Australian economy, between A\$3 and A\$6 in loss income, and between 125,000 and 250,000 people lost their jobs (Walker, 1995). Reduction in economic growth and income, loss of jobs and output will have an undermining effect on governance, as well as the sustainability of democracy of any country. It also facilitates corruption and crime at the expense of economic development, and can also increase the risk of macroeconomic instability (IMF, 2001).

Money laundering affects the external sector through facilitating illicit capital flight, depressing foreign investment and distorting prices (i.e. exchange rate and interest rate) and content of trade (IMF, 2001). The UK's financial supervisory authorities estimate that illicit transactions in UK accounts that originated in Nigeria amounted to about \$1.3 billion between 1996 and 2000 (BBC 2001). The obvious effect of illicit capital flight is to worsen the scarcity of capital in developing countries. When there is capital flight there will be loss of productive capacity, tax base, and control over monetary aggregates, imposing a substantial burden on the public at large and rendering policymaking more difficult. The Nigerian economic policies in the 80s and the 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).

Generally, money laundering has a devastating effect on the economy. It undermines the integrity of financial institutions and markets, enables loss of control of the national economic policy, causes economic distortion and investment instability, undermines the legitimate private sector, a risk to government privatisation efforts (Aluko, 2011:27-40). The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organized crimes and to investigate to what extent these funds is laundered. The report estimates that in 2009, criminal proceeds amounted to 3.6% of global GDP, with 2.7% (or USD 1.6 trillion) being laundered.

5.2 Social Consequences

Leaving money laundering unchecked puts more pressure on the social stratum. If criminals are not prevented from laundering the proceeds of their criminal activities, it facilitates the commission of these crimes. If money laundering is not curtailed, it weakens ethical standard, social fabrics, and can also create a consciousness that these criminal activities are worthwhile for people to engage in. This may encourage more people to engage in these criminal activities creating a burden for emerging democracies. According to McDowell and Novis (2001:8), it allows drug traffickers, smugglers, and other criminals to expand their operations. This according to them, drives up the cost of government due to the need for increased law enforcement and health care expenditures (for example, for treatment of drug addicts) to combat the serious consequences that result.

Money laundering also has it socioeconomic effect of transferring economic power from the market, government and citizens to criminals. The sheer magnitude of the economic power that accrues to criminals from money

laundering has a corrupting effect on all elements of the society (McDowell and Novis, 2001:8). The unfortunate indulgence of few Nigerians in various forms of economic and financial crimes especially money laundering, drug trafficking and advance fee fraud, is destroying the good reputation of the nation and the credibility of her citizens. Many Nigerians suffer humiliation abroad and encounter unnecessary difficulties in conducting international businesses for lack of trust and integrity. Aside from the humiliation suffered abroad, there are reported cases of brutal retaliatory actions taken by victims of economic and financial crimes (Arowosaiye and Kulliyah, 2009:14).

In a research conducted by UNODC on “estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes”, it suggested that the overall proportion of money used by drug traffickers for reinvestment into their ‘business sector’ is higher than for criminals in general. In other words, income from drug trafficking seems to promote drug trafficking stronger than income from other crimes fosters other crimes. This however resulted to a higher health costs, leading to serious health problems and the WHO data confirmed that a significant number of people worldwide suffer from the negative health consequences of drug consumption. According to WHO, citing from the UNODC Report (2011), some 200, 000 people per year die from drug abuse and more than 11 million disability-adjusted life-years are lost every year due to consumption of drugs (opiates, cocaine and amphetamines), equivalent to some 19 years per 100 drug users, far more than for tobacco (5 years per 100 users) or for alcohol (2 years per 100 users).

The social costs of money laundering if allowed flourishing and be used by drug traffickers to promote drug trafficking as stated by UNODC Report (2011:104) are divided into three parts. It include; Productivity loss (i.e premature death, drug abuse-related illness, institutionalization/hospitalization, productivity loss of victims of crime, incarceration and crime careers), Health costs (such as treatment, ambulatory care and special disease cost, HIV/AIDS, prevention, research, insurance administration, training, crime victim health care cost etc), and Other costs (such as state and local police protection, state and local legal adjudication, federal, state and local corrections, federal spending to reduce supply, private legal defence, property damage for victims and social welfare). Unger et al (2006) stated that the corrupting effect of money laundering is not restricted to the financial sector alone. Once launderers have infiltrated a particular economy, they will further invest or bribe public officials in order to gain control of large sectors of the economy. In summary, the growing economic and political influence of organized crime will affect not only the economy but also the society at large by eroding the social fabric and predating collective ethical standards (FATF, 2002:3).

5.3 Security

Money laundering is a consequence of some criminal activities. These are called predicate offences, these are crimes that have strong links with money laundering and pose serious threat to security. Bank robbery, car thefts, prostitution, terrorism, corruption, counterfeiting, illicit trafficking of narcotics and psychotropic substances, human trafficking are challenges to the security of life and property as well as the national security. Terrorists finance their terrorist acts through laundering of funds. Funds are required by terrorist to promote a militant ideology, pay operatives and their families, arrange for travel, train new members, forge documents, pay bribes, acquire weapons, stage attacks and a variety of higher-cost services, including propaganda and supposedly legitimate social or charitable activities. The blockage of the flow of funds will incapacitate terrorists and their activities. The cost of terrorism on our society is enormous, this is made clear in the destruction of life and property as experienced in United States (2001), Moscow (2002, 2010), Bali (2002, 2005), Madrid (2004), Beslan (2004), London (2005) and Mumbai (2006, 2008), likewise Niger Delta militant and Boko Haram insurgent attacks in Nigeria. To ensure peace and security of life and property, the flow of funds to terrorist and the laundering of proceeds from crime by criminals need to be stopped.

There is no doubt that the link between money laundering and the predicate crimes stands as a threat to peace and security. The US Department of Treasury said that following the terrorist attacks, it has recognized that the fight against money laundering is integral to the war on terror. Masciandaro (1999) assumes that money laundering triggers financial flows, which lead to more investment in illegal activities in a country. There is, according to him, a spill over mechanism from criminal money to crime. Because of the possibility of money laundering in the financial sector, reinvestment of the money in illegal activities in the real sector will be the consequence. He stated that money laundering increases crime so that finally 10%-25% more money laundering will take place. Hence, when there is reinvestment of laundered money into illegal activities it increases crime rate which threatens peace and security of any nation.

In Africa however, there is no country on the continent where the amount of illicit money generated by organised crime, trafficking, fraud and corruption is believed to be negligible. According to Moshi (2002), if by all accounts, these funds are substantial and, in the wrong hands, it can create significant problems in any country. In order to buttress the above mentioned impacts of money laundering on security, the situation in Nigeria is not different. There have been allegations that some corrupt politicians have been behind the funding of Boko

Haram, an Islamic sect in the northern eastern Nigeria that has staged various terror attacks which have lead to loss of lives and destruction of properties.

5.4 Politics and Good Governance

Undoubtedly, the impact of money laundering in any society goes beyond the security, economic and financial mechanisms of such society. In essence, money laundering has damaging costs and effects on the political facet of the society. Uncontrolled money laundering activities are detrimental to development in a number of significant ways; they increase the profitability of crime, promote corruption and have a negative effect on good governance (Moshi, 2007:2). The penetration of criminals into the legitimate markets can also shift the balance of economic power from responsible and responsive entities to rogue agents who have no political or social accountability (Vandana, 2012:118). It was also asserted by McDowell and Novis (2001:8) that the sheer magnitude of the economic power that accrues to criminals from money laundering has a corrupting effect on all elements of society and that in extreme cases, it can lead to the virtual take-over of legitimate government

In the report of Unger et al (2006:127) on the amount and effects of money laundering for Netherlands and Australia's ministry of finance, it was asserted that money laundering undermines political institutions in Netherlands. The effects of money laundering on institutions should not be underrated. Institutions can be drawn into active complicity with criminals and become part of the criminal network itself. With their economic power, money launderers can infiltrate the institutions (political, financial, or social) and give bribe to public officials. Hence, the infiltration of criminals in public institutions influences their policies and programmes, this in the long term retard good governance as well as the democratic structure of a country.

The infiltration of corruption and organized crime according to Goodling (2003) in the political structures of many developing countries arguably explains the political instability and underdevelopment that persist in these countries. One time UNODC director Jan van Dijk identified the bond between organized crime and "grand" or political corruption and poverty on the one hand, and low urbanization, poor development of law and limited judicial autonomy on the other. According to Jan van Dijk (2008), political corruption is an essential characteristic of organized crime, the two go mutually, organized crime attempts to acquire political influence and to provide room for or remove blockages to their illicit activities. This could be by bribing police, politician, judges or other government officials in a bid to influence them. The exploits of money laundering, as well as its predicate offences, in the political sphere in the political structures of developing countries arguably explains the political instability and underdevelopment that endure in these countries. As stated by Kashamu (2013), when the former president of Nigeria Olusegun Obasanjo was in government, almost 60 percent, including former governors and former senators that surrounded him were drug dealers. Over the years, these kinds of people have brought about political instability, inept governance as well as civil and social unrest to Nigeria.

These for instance have worsen the issue of godfatherism in Nigeria when the military incursion into politics and the military apologist, who were financially equipped, through promotion of political and economic centralization, corruption, concentration of wealth in the hands of few dictates the pace and direction of the political activities in the country. According to Adeoye (2009:270), a curious review at the phenomenon of godfatherism reveals that though nothing is wrong with the globally acclaimed idea. In fact, it helps to nurture democracy and provide opportunities for upcoming politicians to attain political power. He said the truth is that most honest political aspirants in Nigeria did not possess the financial muscle to win primary, talk less of general election, hiding under the umbrella of godfathers seems logical. The existence of money-politics in Nigeria's political terrain favoured the godfathers, who were ready to sponsor any contestants of their choice because of the economic and financial strength they have amassed through corruption, money laundering and other criminal activities.

It was asserted by United Nations Interregional Crime and Justice Research Institute (UNICRI) that organized crime uses many forms of corruption, which as stated by Jan van Dijk (2008) is an essential characteristic of organized crimes, to infiltrate into political process of most developing countries. Thus, corruption however, according to UNICRI predicates the abuse of governments' resources by diverting them from sectors of critical importance such as health, education and development, where ordinary people are deprived of economic growth and development opportunities. Elumelu (2007) lend credence to this fact as he said Nigeria loses US\$600 million of fund that was supposed to be used in the development in the country to money laundering.

According to (UNICRI), money laundering also escalates the cost of public services making it difficult for economically disadvantaged people to afford these services and the poor get poorer, worsening poverty and social inequality. Fragile governance often mutually exists with corruption and a mutually causal correlation between corruption and weak government institutions, often results to a vicious cycle. Growing socio-economic inequality triggers the loss of confidence in public institutions. Social instability and violence escalate due to the increasing inequality, poverty and mass mistrust of political process, therefore leading to civil and political unrest that all hinder the growth of democracy in most developing countries.

In summary, money laundering activities is detrimental to growth and development in developing country especially Nigeria. It impacts on the economy of developing countries is severe; it undermines the legitimate private sector, the integrity of financial institutions and market, it also has a negative effect on the real sector by distorting investment and depressing productivity, it affects the external sector through facilitating illicit capital flight, depressing foreign investment and distorting prices and so on (Barlett (2002:5); McDowell and Novis (2001); Braithwaite (1979); IMF 2001). It also put pressure on the social stratum by weakening the ethical standard and making criminal activities worthwhile (McDowell and Novis, 2001). It destroys the good reputation of the nation and the credibility of her citizens (Arowosaiye and Kulliyyah, 2009). It makes criminality thrive thereby threatening the security of lives and property (Masciandaro, 1999). Money laundering threatens the political institutions and also jeopardises the prospect of good governance (Moshi (2007); Vandana (2012); McDowell and Novis (2001).

6. Impact of Money Laundering on Nigeria's Democracy

Adopting a broader definition of democracy as defined above in this paper, "as a system that will ensure equality of all citizens (i.e. from human rights perspective), capacity for social, political and economic development, core values in efforts to build and sustain peace, accountability, transparency, the building of consensus in settings of high diversity, the security of lives and property of citizens, a developed electoral processes, and promotion of public involvement. Since its return to democracy in 1999, Nigeria has not been able to achieve in totality any of these principles. Some Nigerians have even lost hope in the democratic system as a result of the fact that it refuses to yield the necessary and widely expected fruit. For instance in 2002, some Hausa youths openly displayed Placards condemning democracy and expressing preference for military rule at Idi-Araba part of Lagos state, Nigeria. They were supported by a prominent politician from the northern part of Nigeria, who was a former civilian Governor and a presidential aspirant, Abubakar Rimi, who openly called for the violent overthrow of the President Obasanjo's government if possible through a coup d'état, in an interview with a newsmagazine in 2004.

After some decades of military rule, Nigeria has been faced with the complex challenges of national reconciliation, national reconstruction, socio-economic reform, peace and security for live and property, militarization of politics and democratic consolidation. Some of these challenges, that have made democracy grossly unstable since the country's returned to democracy have resulted to ethno-religious crisis and agitations among which are the Niger-delta unrest and kidnapping, Boko Haram insurgency in the northern part and electoral violence at different times in the country. The country's democracy has been characterised with poverty, unemployment, crime of various kinds, social and political injustice, political assassination, electoral malpractices and violence, godfatherism in the political system, corruption which was asserted to be the heart of the democratic instability (Ogundiya, 2010). Has he put it, corruption is a major challenge to democratic stability in Nigeria.

For instance, the issue of godfatherism as mentioned in the section above has impeded the growth of democracy in Nigeria. The modus operandi of godfatherism changed suddenly between 1999 and 2007. It got so bad under president Obasanjo's government when godfathers assumed different names: gangsters, mafia, and criminals. It almost truncated Nigerian puerile democracy in June 10th, 2003 when a self-confessed godfather, Uba employed thugs and Nigerian police to abduct his godson, Chris Ngige, who was the elected governor of Anambra State. Ngige's sin was his refusal to allow Uba to nominate all political appointees, take the largest share of state's allocation, and instantly pay him a whooping sum of N2.5 billion; the claimed cost of installing Ngige as governor (Onwumere, 2007). The State became a war zone, innocent lives were lost, houses were set ablaze, and Anambra state became ungovernable for weeks. Oyo and Kwara states of Nigeria had similar experiences when the godfathers in the states disagree with their godsons (the state Governors) over the control of the state's affairs (The Punch, April 5th, 2007:16). The bone of contention has always been disagreement over allocation of money, political appointments, and the resulting consequences were similar to that of Anambra state. Money laundering has made corruption strong in some of the states then thereby making some people stronger than the state.

The Nigerian electoral system has been marred with fraud and violence which has not made it deliver good result for the polity. Governance at all levels in the Nigerian polity has woefully failed to deliver the much expected socio-economic and political dividends of democracy. This persistent phenomenon of ineffective governance has also engendered a disillusioned citizenry, which has inevitably put a big question in the sustainability of democracy in Nigeria. Several factors have been identified as been responsible for the low output of governance. However, Inokoba and Kumokor (2011) posited that until Nigeria is able to put in place a robust, transparent and credible electoral process, the country will continue to experience governance devoid of all the fundamental trappings of a sustainable democracy. Adele (2012) pointed out that unnecessary political ambitions, ethnic

politics, unemployment and monetization of politics are some of the causes of electoral malpractices and violence.

Conducting free and fair election has been a weighty albatross in Nigeria's repeated attempts at sustained democratic governance. According to the International Institute for Democracy and Electoral Assistance (IDEA), the electoral process in the country faces many administrative, attitudinal and political problems that have consistently challenge meaningful, open and democratic elections. The 2007 election for instance was designed from the onset to be flawed. It was built on corruption, pervasion, exclusionary politics, blackmail, intimidation and coercion (Inokoba and Kumokor, 2011:143). Also the 2011 election was characterised with fraud and violence, there was post-electoral violence, especially in the northern part of the country which claimed lives and properties.

Among the challenges of democracy that has been identified in Nigeria is corruption. Corruption has been one of the main impediments in the wheels of sustainable democracy in Nigeria. It has narrowed the chances of socio-economic development, which are essential for democratic deepening and survival (Aleyomi, 2013). Corruption in this resources-rich country has lead to underdevelopment in mostly all the sectors. Citing from Bakre (2010), it has been allegedly concluded that the Nigerian Senate is full of fraudsters (Aliyu, 2008), nearly all members of the Senate take bribes (Nzeribe, 2002) and most of the members of national assembly are corrupt (Yerima, 2008). Corruption is endemic in all strata of the country, it has weaken the institutions, ensnare the country with poverty, hunger, unemployment, underdevelopment which have deprived the people access to dividend of democracy.

There is no doubt that for any democracy to survive peace is a factor that must be installed. Nigeria's corporate existence has been threatened by a number of factors among which is an escalating and uncontrolled crime problem Tanimu(2006). Insecurity and crime have been deeply rooted in the polity, particularly in recent time, which has emerged as a key concept in Nigeria's struggle for good governance, sustainable democracy and development. The incessant crisis in the country since the 1999 has been a burden to the democratic process. The Niger-Delta militancy, abduction, piracy, armed robberies and Boko Haram insurgency have gulped the government of Nigeria billions of Naira which were supposed to be for the development of the country. People have attributed the causes of these criminalities to many things among which are corruption and money laundering. In a letter written by the former president of Nigeria, Olusegun Obasanjo to the incumbent president, Goodluck Jonathan on the 2nd of December 2013, Obasanjo stated that drug, indoctrination, fundamentalism, gun trafficking, hate culture, human trafficking, money laundering, religion, poverty, unemployment, poor education and international terrorism have effect on criminal activities in the country especially Boko Haram insurgency and Niger-delta militancy (Obasanjo, 2013:8).

Corruption, crimes, godfatherism, electoral fraud and violence, poverty, unemployment thrives when money launderers are allowed freely to operate. These things have been a bane on Nigeria's democracy since the inception of democratic governance in 1999. The citizens have been deprived access to the basic dividend of democratic system, making some citizens believe that a military system is better than democratic system of government.

7. Conclusion

It is imperative in this 21st century to promote a broader definition of democracy. Democracy should be a system of government that will ensure equality of all citizens (i.e. human rights concerns), capacity for social, political and economic development, core values in efforts to build and sustain peace, accountability, transparency, the building of consensus in settings of high diversity, ensuring the security of lives and property of citizens, developed electoral processes, and promoting public involvement to mention a few. Nigeria has been deprived access to many of these basic tenets of democracy. Money laundering is a bane to a developing democracy like Nigeria, it has a direct relationship with corruption, drug trafficking, tax evasion, arms trafficking and terrorism (Shehu, 2000; GIABA, 2010; Chaikin and Sharman, 2009; Thornhill, 2011; Spreutels and Grijseels, 2000). The menace of money laundering and its link to predicate crimes like corruption, drug trafficking, tax evasion, arms trafficking, cyber crimes, human and child trafficking and terrorism, are the bane to the stability and development of emerging democracy in Nigeria.

There have been various efforts, both in terms of protocols and instruments, towards combating this menace at the international, regional and national level. The Vienna and Palermo conventions, the FATF Recommendations, the Egmont group, GIABA and also the Economic and Financial Crimes Commission in Nigeria are some efforts that have strengthened the anti-money laundering fight. These efforts have not been a waste though they have not totally freed Nigeria of the operations of money launderers. Money laundering has damaging effect on Nigerian economic and financial system Aluko (2011), due to the huge sum of money that it allows criminals to amass. It threatens the social stratum (Arowosaiye and Kulliyah, 2009), and undermines the

peace and security of any nation (Moshi, 2002; Masciandaro, 1999). Money laundering activities also have negative effect on good governance, democratic institutions and the political stability of any nation (Adeoye, 2009; Unger et al, 2006; Vandana, 2006). It has undermined economic and financial growth and development in Nigeria, threatened peace and security of lives and property of Nigerians and has weakened democratic structures which as lead to the distortion good governance and political stability.

This study concludes that money laundering undermines the, social, political, security, economic and financial structures of Nigeria and it is thereby devastating on the stability, sustainability and development of democracy in the country.

8. Recommendations

Efforts and initiatives in combating money laundering should be the priority of any nation that wants to sustain its democracy. Nigeria's democracy is vulnerable to the corrosive effect of money laundering because of the level of endemic corruption, drug and arms trafficking, political godfatherism and gangsterism, tax evasion and cybercrimes and other criminal activities in the country. Though Nigerian government has taken some initiatives to salvage the country from the corrosive effect of this menace, the operation of money launderers are still well grounded and are confronted with less stiff penalties. This has to a great extent constituted the woes of the country's democratic system.

This paper recommends that government of Nigeria should intensity efforts in her awareness programme by sensitising the general public on the criminal act of money laundering and its overwhelming corrosive implications on nascent democracy. The level of awareness of people especially stakeholder in the financial sector is low and unwillingness to report acts of money laundering constitute serious impediments. There has also been heavy compromise by stakeholder in the financial sector given the fact that many of them either take part or aide criminals who engage in money laundering activities.

The country should alongside combating money laundering also put up mechanism to deal with other predicate offences like corruption, drug and arms trafficking, tax evasion, terrorist financing and terrorism. The cash-based nature of the Nigerian economy makes it vulnerable to money laundering activities. Government should make laws to curtail the excessive use of cash in business transactions and encourage the use of other non-cash financial instruments in business transactions. The efforts of the Central Bank of Nigeria must be commended in making the economy a cashless in its various cashless policy as this will greatly reduce money laundering in both financial and non-financial sectors.

There is need for synergy among various agencies fighting money laundering and its predicate offences (i.e drug trafficking, human trafficking, arms trafficking, armed robbery, corruption, cyber crimes, theft and terrorism) as this will enhance the exchange of useful intelligence amongst them, and strengthen the anti-money laundering fight. These national agencies should also partner with international agency in the area of technical assistance, exchange of intelligence and training of personnel involved in combating money laundering. These will expand and expose the personnel to the international dimension, dynamics and diversity of money laundering.

Lastly, efforts should not be relented in area of research and development, especially in funding of research tink-tanks in crusade against the menace. Studies should be intensified in the typology, dynamics and implications of money laundering and it predicates offences.

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