



NIGERIA – Financial System Strategy 2020

Good Practices in Anti-Money Laundering, as Part of Governance Strategy

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Coverage

- **Initial Skepticism and Changing Attitudes**
- **Stronger AML Regimes for Sound Financial Sector**
- **AML/CFT in World Bank Governance and Anti-Corruption Focus**
- **Strengthening Nigerian Financial Sector Through Stronger AML/CFT Framework**

Initial Skepticism

- In 2001 discomfort of the World Bank and IMF role on AML, and resentment with FATF NCCT exercise
- Developing countries view AML as G7 agenda with dubious development benefits
- Debates along North-South lines, limited ownership



From Skepticism to Changing Attitudes

2002 - 2006

- **Last five years, realization that dirty money stifles growth and development:**
 - ❖ Better understanding of close link between corruption and money laundering and how money laundering undermines financial systems
 - ❖ Better appreciation of economic and social costs of corruption and how money laundering reinforces corruption and deters foreign investment
 - ❖ Suspension of NCCT exercises, adoption of voluntary assessment program → creates constructive international dialogue
 - ❖ Realization that absence of AML/CFT regimes deter investors has led to voluntary assessments, diagnostic gaps analysis, followed by TA programs



AML is Intrinsic to Good Governance

- Strong, effective AML regimes increases efficiency of financial systems, promote financial deepening
- Debate on costs of AML balanced with intangible benefits
 - **long-term profitability through good governance, legal framework and sound practices in financial institutions**
 - **AML framework eliminates “other costs” to cover cost of doing business**
 - **lower costs of new products to financial institutions and overall transaction cost to business**
 - **efficiency in resource allocation**

AML International Standards for Soundness of Financial Institutions

- International standards on AML/CFT aim to promote across-the-board good practices in banking, insurance and other financial services, legal, real estate and other professions
- FATF requirements instrumental in fight against abuse of financial institutions
 - Enhance due diligence (R.5)
 - Internal control requirements (R.15)
 - Suspicious transaction reporting (R.11&13)
- In addition, specific recommendation deal directly with corruption-PEPs (R.6)
 - Debate is that PEPs only focus on foreign PEPs (as min)
- FATF methodology operationalize other conventions ➡ UN Convention on Corruption, US strategy against kleptocrats, EU Third Directive

AML/CFT in World Bank Governance and Anti-Corruption Focus

- ❖ Poor governance of key public sector institutions reinforce corrupt practices, stifle pro-growth policies and deter private sector confidence
- ❖ AML provides additional instrument to combat corruption
- ❖ Increasing realization that FIUs are important government agencies in anti-corruption drive → custodian of information and tracking of STRs → cooperation between ACA, FIU and law enforcement
- ❖ Action Groups working towards helping developing countries recover proceeds of corruption (restitution)



AML/CFT in World Bank Governance and Anti-Corruption Focus

Recognizes corruption as a major deterrent to development and a heavy tax on the poor

Governance in Bank Lending (A)

- Prevent corruption in World Bank projects
- Mainstream good governance and anti-corruption measures into country policies and programs, including AML/CFT Program

Helping Countries to Combat Corruption (B)

- Set up Anti-Corruption Agencies
- Implement effective AML/CFT regimes
- Assist countries to meet relevant UN and regional conventions
- Assist in setting up task force on freezing, confiscation and asset restitution
- Strengthen international cooperation on asset restitution

(A) & (B) Supported by:

- Public Sector Governance
- Judicial & Legal Reforms
- Civil Society Initiatives
- Public-Private Sector nexus
- Corporate Governance
- Political Accountability
- Ethics and Integrity

Changing Attitudes in Nigeria

AML as part of Good Governance

- Put in place basic infrastructure
- Focus on corruption – some best practices on use of AML instruments to address corruption
- But strengthening in other key areas essential for trade and economic expansion:
 - ❖ Improve AML regulatory and supervisory framework for financial sector
 - ❖ Level playing field compliance among domestic and foreign-owned financial institutions
 - ❖ Measures to reduce vulnerabilities from cash economy
 - ❖ Supportive measures in non-bank sector to strengthen effectiveness of measures in financial sector

Changing Attitudes in Nigeria

AML Component in FS Roadmap

General Measures:

- **AML policies with focus on balancing regulatory cost and cost of doing business**
 - Reduce indirect cost
 - Facilitate domestic competition – level playing field
- **Greater use of AML assessment information to address economic structures that constrain business**
 - Transform cash economy
 - Corporate transparency for ML/TF “vulnerable” entities – including lawyers, accountants
 - Treat DNFBPs similar to financial institutions and listed companies
- **Greater use of transparency principle to showcase developments in AML and good governance to influence savings in domestic banks, credit ratings, expand corresponding banking accounts, positive on investor decisions**

Changing Attitudes in Nigeria

AML Component in FS Roadmap

Measures in FS:

- Review good governance practices in financial system (banking and insurance as priority) with AML as essential component
- Sound AML framework in financial sector → strengthening domestic financial institutions as first step towards financial sector liberalization
- Extend AML measures to selected business that are vulnerable to ML and TF
- Measures to ensure agencies dealing with AML issues are independent and observe principles of good governance
- Remove hurdles to transparency of “doing business” – cash transactions, lawyers, accountants, notaries, real estate
- Promote corporate transparency

Changing Attitudes in Nigeria

AML Component in FS Road Map (Cont.)

Banking Sector Measures:

Specific issues in banking sector → address dichotomy between foreign banks subsidiaries and branches with domestic bank

■ Advantage of foreign banks

- lower cost of AML policy design → centrally designed internal controls
- international nature of operations → more conscious of reputational risks
- competition “push” shareholders towards best practices

■ Disadvantage of domestic banks

- no push “from” shareholders → sometimes PEPs own banks
- lack capacity, skills and higher cost to build AML compliance systems → less concern of reputational risks, expectations of government support

Changing Attitudes in Nigeria Going Forward

Coordination Measures:

- Need coordination of reform measures, beyond FS and beyond legal, institutional and regulatory frameworks

Examples:

- beneficiary ownership measures require laws and regulations beyond FS
- address “cash economy” issues involve AML measures, but also financial development initiatives to integrate all sectors into banking systems
- good practices in real estate sector implicate policy, legal framework and regulation of companies
- good bank credit practices and information require sound policies in land and property rights issues

Conclusion

- There has been a marked change in attitudes across all regions → economic and financial considerations overrides political dimensions
- Growing trend and commitment to improve AML/CFT regimes as a key ingredient in fundamental financial and economic systems that promote growth and employment
- Greater use of AML/CFT assessment information to address economic structures that constrain businesses

Conclusions

- ❖ World Bank assistance focus on:
 - **Proportionality**: measures to align to vulnerability → help address priorities in reform process
 - **Balance**: measures to promote integrity of financial system which support access to finance
 - **Results**: long-term multi-year and multi-level programs that build positive results and outcomes
 - **Policy deepening**: coordinated policy advice to deepen TA towards practical and implemental measures → selective, based on absorptive capacity and success factors
- ❖ World Bank initiatives on governance and anti-corruption leveraging on AML/CFT measures and principles
- ❖ To expand current engagement in Nigeria → coordinated advice in AML that correspond to long-term reform of the FS

Thank you



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