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COUNTERING TRADE BASED MONEY LAUNDERING:

IMPLICATIONS FOR REGULATORS AND OPERATORS

THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA

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THE BANKERS CREED

Hugh McCulloch's Advice to Bankers of 1863

(Hugh McCulloch (1808 – 1895) was an American Banker who helped launch the American National Banking System and was Secretary of the Treasury during the civil war and reconstruction)

- Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Make your loans on as short term as the business of your customers will permit, and insist upon the payment of all papers at maturity, no matter whether you need the money or not. Give credit facilities only to legitimate and prudent transactions. Never renew a note merely because you may not know where to place the money with equal advantage if the note is paid.

- Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently unsafe. Large borrowers are apt to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to it stakeholders, to keep its loans under its control.

- Treat your customers liberally, bearing in mind the fact that bank prospers as its customers prosper, but never permit them to dictate your policy.

- If you have reasons to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits.

- Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him; even if his excess of expenditures can be explained consistently with his integrity, still dismiss him. Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.

- The capital of a bank should be a reality, not fiction; and it should be owned by those who have money to lend, and not by borrowers.

- Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. “Splendid financiering” is not legitimate banking, and “splendid financiers” in banking are generally either humbugs or rascals.

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Abiola on
abiolaolanrewaju@cibng.org
08054958269

Nelson Olagundoye
on nelsonolagundoye@cibng.org
08028289271

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Editorial Team

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Letters to the Editor should be sent to:
The Nigerian Banker
Bankers House
PC 19, Adeola Hopewell Street
P.O. Box 72273
Victoria Island, Lagos, Nigeria
Tel: 01-4617924, 01-4610655
E-mail: cibn@cibng.org

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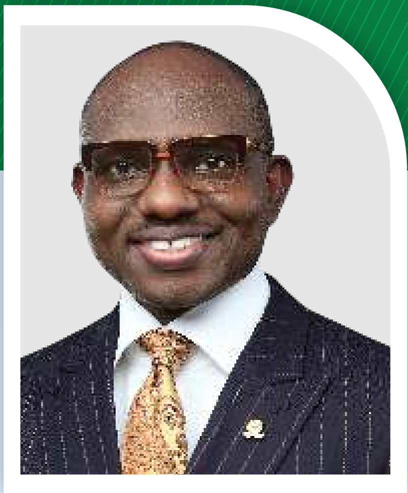


Editor's Note

Dear Esteemed Readers,

It is with immense pleasure that I extend a warm welcome to you all in this second quarter of the year 2023. As you already know that this publication serves as an opportunity to reflect on the notable events and advancements that have taken place within the Nigerian economy, the banking industry and our esteemed Institute during this period. The second quarter of 2023 has witnessed pivotal moments that have significantly influenced the landscape of the Nigerian economy and the banking sector. As we embrace a rapidly evolving financial environment, we remain committed to providing our members with the necessary tools and knowledge to navigate these changes and excel in their roles. In this quarter, the Nigerian economy displayed resilience, characterized by efforts aimed at economic diversification and sustainable growth. As we delve into the pages of this publication, I invite you to join us in exploring the events that characterized the second quarter in our nation as well as the policy measures implemented during the period.

During the period under review, the 16th President of the Federal Republic of Nigeria, President Bola Ahmed Tinubu CGFR was sworn in May 29, 2023. Notably amongst the first initiatives implemented by President Bola Ahmed Tinubu CGFR was the removal of fuel subsidy. The removal of the fuel subsidy was to ensure a more effective allocation of fiscal resources and stimulation of economic growth.

It is also worthy to note that the Dangote Refinery was commissioned May 22, 2023. The facility is Africa's largest oil refinery, which is located at the Free Trade Zone, Ibeju-Lekki, Lagos. This facility is expected to produce 650,000 barrels-per-day (BPD), creating over 135,000 permanent jobs and 12,000 megawatts of electricity, and is expected to earn Nigeria over $25 billion to $30 billion yearly. Another policy initiated is the unification of Nigeria's Foreign Exchange Rates (FX), a system that allows the exchange rate to be determined purely by market forces. The unified exchange rate indicates a more transparent and stable economic environment, which can increase investor interest in Nigerian businesses and sectors.

In a bid to ensure that stakeholders of the Institute are equipped with the latest skills, knowledge, and insights needed to drive innovation and maintain the highest standards of professionalism, we continue to bring to you thought-provoking knowledge events and conferences to facilitate an environment for learning and knowledge sharing. On this note, I present to you a key feature of this edition, a keynote address delivered by Ambassador Norman Wokoma, Former Director, Nigeria Financial Intelligence Unit, at the Breakfast Session with the theme **"Countering Trade-Based Money Laundering: Implications for Regulators and Operators"** which held June 13, 2023. The session was aimed at addressing the challenges faced by operators and regulators in implementing effective CTBML measures while also proposing strategies that regulators can adopt to further strengthen CTBML measures and mitigate the risks associated with trade-based money laundering. Another important feature of this edition is a paper presentation by Professor Adeola Adenikinju, Head, Department of Economics, University of Ibadan at the CIBN Advocacy Dialogue 8.0 with the theme **"Fuel Subsidy Removal: Opportunities for Individuals, Businesses, and the way forward"** which held June 16, 2023.

Other significant events during this quarter included the CIBN Annual General Meeting held on May 20, 2023, and the CIBN Advocacy Dialogue 7.0 themed "**Failure of Silicon Valley Bank in USA: Global Impact and Lessons for the Nigeria Financial System**," which held on April 13, 2023. Embedded within the pages of this publication are communiques summarizing the key findings, recommendations, and commitments arising from the Institute's Advocacy Dialogue 7.0 and 8.0. These communiques embody a consensus among leaders from government, industry, and academia, providing a roadmap for the path ahead.

In conclusion, I encourage you to immerse yourselves in the contents of this publication and reflect upon the events that have left an indelible mark on our country during the second quarter of 2023. It is my belief that knowledge is the cornerstone of progress, and I trust that the insights shared herein will inform and inspire you in your daily endeavors.

I wish you all an enlightening experience.

Akin Morakinyo, HCIB
Registrar/Chief Executive

Countering Trade-based Money Laundering: The Role of Regulators & Operators

Ambassador Norman Wokoma
Former Director, Nigerian Financial Intelligence Unit

INTRODUCTION

Good morning. Let me start by thanking the Chartered Institute of Bankers of Nigeria (CIBN) for inviting me to deliver the Keynote Address at this breakfast session on *Countering Trade-based Money Laundering: Implications for Regulators and Operators*. The programme provides us a platform to take stock of where we are and, more importantly, reflect on what lies ahead in our shared responsibilities to address the misuse of international trade channels, and safeguard the stability and integrity of the financial system.

We live in an age of globalization, where nations across the world trade goods and services. Notwithstanding the benefits of trade to economic growth, the international trade system is subject to a wide range of risks and vulnerabilities that can be exploited by criminal organizations and terrorist financiers. These arise from the enormous volume of trade flows that obscures individual transactions; the complexities associated with the use of multiple foreign exchange transactions and diverse trade financing arrangements; the commingling of legitimate and illicit funds; and the limited resources available to most competent authorities to detect suspicious trade transactions.

Trade-based money laundering (TBML) involves the exploitation of the international trade system for the purpose of transferring value and obscuring the true origins of illicit wealth. The Financial Action Task Force (FATF) defines TBML as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illegal origins or finance their activities". The process varies in complexity, but typically involves the misrepresentation of price, quantity, or quality of imports or exports.

Financial institutions are wittingly or unwittingly involved in TBML and terrorist financing schemes when they are used to settle, facilitate, or finance international trade transactions (e.g., through processing wire transfers, providing trade finance, and issuing letters of credit and guarantees).

Keynote address presented at the CIBN Breakfast Session on Countering Trade-based Money Laundering: The Role of Regulators & Operators held on June 13, 2023

Typology and other publications by the FATF and allied regional bodies have drawn attention to the fact that the international trade system is being heavily abused for money laundering and terrorist financing purposes.

THE TRUE SCALE OF TBML

The concealed nature of money-laundering, makes it difficult to determine the exact total amount of money laundered globally. Available literature provides little by way of estimates of the scale of TBML. The true scale of TBML globally remains uncertain, even as there is the consensus that it is among the most important forms of money laundering, if, indeed, not the most important form. Experts' ballpark estimates suggest that US$2tn annually may be a plausible figure. However, this figure is largely based on the analysis of global trade 'value gaps'. Consequently, it is likely to both include activities that may not be related to money laundering (e.g. simple customs fraud) and possibly exclude money-laundering activities conducted in a way that do not leave a detectable trace in aggregate trade data.

VULNERABILITIES / FACTORS DRIVING TBML RISKS

There are vast potentials for criminal organizations and terrorist groups to exploit the international trade system with relatively low risk of detection. According to FATF, key characteristics of the international trade system have made it both attractive and vulnerable to illicit exploitation.

Globally, the inherent vulnerabilities of the international trade system, among them, the complexities associated with (the often multiple) foreign exchange transactions and diverse financing arrangements; the enormous volume of trade flows; and the limited recourse to verification procedures through customs data exchange between countries, create opportunities for criminal organizations and terrorist groups to transfer value across borders or launder proceeds of crime/ move terrorist funds through the international trade system.

" There are vast potentials for criminal organizations and terrorist groups to exploit the international trade system with relatively low risk of detection."

In Nigeria, several factors increase the risk of TBML. These include the country's relatively big and open economy, the large volume of international trade and the presence of international shipping ports. For instance, Nigeria reported N20. 84 trillion in imports and N18. 91 trillion in exports in 2021. In addition, Nigeria's accessible financial system makes it attractive to international money launderers. Financial institutions, especially banks, process a high volume of complex global transactions, frequently involving multiple currencies, which create attractive conditions for would-be money launderers. Similarly, the relatively weak AML/CFT compliance culture among financial institutions (see Nigeria's mutual evaluation report), including failure to effectively address TBML risks, poor identification and handling of TBML alerts while conducting trade transactions, as well as entrenched corruption and limited resource and capacity constraints in critical competent authorities to detect illegal trade transactions, contribute to the increase of TBML risks in the country.

IMPACTS OF TBML

TBML presents significant threats to global security and sustainable development and constitutes one of the greatest challenges facing the international community. It creates reputational damage, results in regulatory penalties, loss of correspondent banking relationships and, indeed, undermines the stability and integrity of the global financial system. On a broader scale, TBML effects are corrosive and devastating, cutting across socioeconomic and political spheres. The adverse impacts include macroeconomic distortions; undermining of public sector domestic revenue mobilization; reduction in a country's access to investment and foreign markets; causing shifts in economic power from responsible entities to criminals; accentuating abject poverty, gross unemployment etc and the attendant negative consequences; threats to electoral process, political stability and democracy; and driving up the cost of governance due to increased expenditure on law enforcement.

CHALLENGES IN COMBATING TBML

There are several challenges inhibiting the effective detection and disruption of TBML. These include weak domestic and international cooperation (perhaps the biggest obstacle to combating money laundering in trade); complexity and volume of international trade; cross-jurisdictional nature of trade; limited understanding of trade processes; non-standardization of trade data; absence of Management Information Systems (MIS) and a central database; limitation in information or data sharing; limited will and capacity in many countries to investigate and prosecute cases, mostly due to corruption; limited available resources devoted to AML/CFT efforts, especially among smaller financial institutions; rapidly evolving TBML techniques and the professionalism of money launderers, who, incentivized by the huge sums of money involved, are able to innovate as quickly as regulators develop capabilities.

Due to time constraint, I would like to elaborate only on a few of these challenges:

- **Complexity of international trade** - Trade finance is a complex area that involves various stakeholders (exporters, importers, banks, customs officials and insurance providers etc.). In addition, countries have their individual regulations and requirements for international trade, including customs procedures, tax regulations and documentation requirements, which can create challenges for financial institutions and regulatory authorities trying to identify and prevent money-laundering activity.
- **Non-standardization of trade data:** The lack of a common, uniform format for recording and reporting trade-related information across jurisdictions, industries and stakeholders involved in international trade transactions can create challenges for financial institutions and regulatory authorities in the efforts to identify potential TBML.
- **Rapidly evolving TBML techniques:** TBML techniques are rapidly evolving, and criminals are constantly finding new ways to exploit the trade finance system. Operators and regulators must stay up-to-date with the emerging TBML trends and techniques and adapt their AML efforts appropriately.
- **Absence of Management Information Systems (MIS) and a Central Database -** Lack of MIS and a central data base or uniform price list of various commodities is also a hindrance to preventing under-invoicing and over-invoicing by those engaged in trade operations.
- **Limitations in information/ data sharing:** Information sharing is critical in combating TBML. Occasionally, stakeholders, especially financial institutions, are hesitant to share information due to concerns about data privacy and confidentiality, legal and regulatory barriers, and technical challenges related to interoperability between different systems and platforms used to store and exchange trade-related data.

COUNTERING TBML IN NIGERIA – THE ROLE OF REGULATORS AND OPERATORS

Countering TBML is critical to promoting trade transparency which builds trust, confidence and predictability in global supply chains. The result is a more robust international trade system that can facilitate economic growth.

There are many stakeholders, including regulators and operators, involved in international trade in Nigeria. Each has a role to play. Combating TBML effectively, requires a coordinated approach among all critical stakeholders within the TBML/international trade ecosystem. In the context of this programme, I will focus on the role of AML/CFT regulators/supervisors and operators/financial institutions.

AML/CFT Regulators/supervisors, especially the Central Bank of Nigeria (CBN) and, to some extent, the Nigerian Financial Intelligence Unit (NFIU), have important roles in combating TBML. In view of time constraint, I will highlight just a few.

The CBN plays a significant role in the management of Nigeria's international trade and ensuring compliance with AML/CFT requirements, especially for banks and Other Financial Institutions (OFIs). The CBN has access to trade data and other financial information that can be valuable to TBML investigations and prosecutions. The CBN also issues regulations and guidelines on AML/CFT and foreign trade (e.g. the *CBN AML, CFT and Countering the Financing of Weapons of Mass Destruction in Financial Institutions Regulations, 2022* and the *Monetary, Credit, Foreign Trade and Exchange Policy Guidelines*) to financial institutions.

The AML/CFT regulation has provisions that require financial institutions to adopt a risk-based approach to AML/CFT and enhance cooperation with competent authorities on AML/CFT issues. The CBN conducts regular offsite and onsite examinations to assess the adequacy of banks and OFIs systems for managing the risks associated with ML/TF and trade finance activities. These measures are to ensure compliance with extant regulations/guidelines in order to effectively prevent ML/TF, including TBML and, when necessary, impose penalties on non-compliant institutions.

Beyond its AML/CFT supervisory function, the NFIU is responsible for administering the reporting regime under the Money Laundering (Prevention Prohibition) Act - which requires financial institutions to file suspicious transaction reports. It plays a critical role in combating TBML by collecting and analyzing data on suspicious transactions and information from reporting entities, administrative and law enforcement authorities and international counterparts. Intelligence disseminated to end users can facilitate the investigation and prosecution of a TBML scheme. The NFIU also periodically provides training to the private sector concerning AML/CFT, including TBML issues.

Other important roles that supervisors are expected to play in combating TBML include identifying and assessing TBML risks present in the country; disseminating TBML typologies, “red flag” indicators and sanitized case studies to financial institutions and other competent authorities; exploiting proven tools, such as whistle-blower reward schemes, and fostering domestic coordination and international cooperation for effective information sharing on trade data, new and emerging TBML/TF trends and patterns to support the fight against TBML/TF.

Supervisors are also expected to encourage effective public-private partnership (PPP) as this constitutes a critical component in the fight against TBML. Great opportunities exist in PPP, including facilitating a shared understanding of TBML risks; fostering access to TBML information; enhancing the level of expertise and knowledge for all stakeholders; enhancing implementation of AML/CFT preventive measures, and improving law enforcement outcomes, especially TBML investigation, prosecution, and confiscation of criminal proceeds.

The roles of **operators/financial institutions** include conduct of risk assessment to determine their risk exposure; implementation of robust customer due diligence and stronger beneficial ownership requirements to uncover hidden relationships between exporters and importers; trade documentation and record keeping; transaction monitoring; suspicious transaction reporting; training and awareness and collaboration and information sharing amongst themselves and with relevant competent authorities. Due to time constraint, I will only elaborate on a few of these.

Trade documentation is an important source of information in identifying TBML. Invoices, bills of lading, shipping manifests and customs declarations can provide insights to the nature and value of the goods being traded, the parties involved in the transaction and the origin and destination of the goods. FIs should ensure that their trade documentation is accurate, complete and consistent with the transaction.

Transaction monitoring is an effective way of detecting suspicious transactions. It involves the analysis of transactional data and identifying unusual patterns or behaviours. FIs should use automated systems to monitor transactions. These can quickly detect anomalies and alert compliance teams.

Suspicious transaction reports are an essential tool in combating TBML, as they provide the NFIU and law enforcement authorities with valuable information on potential criminal activities. FIs are expected to have mechanisms in place to identify and report suspicious transactions to relevant authorities.

FIs are also to **share information and intelligence** with each other and with the relevant authorities to identify and track illicit activities and TBML. Collaboration can also enable FIs to gain insight to the latest TBML trends and techniques.

" The challenge today is not the lack of standards or regulatory framework, but effective implementation. Therefore, there is a need for effective and efficient action by all actors in the public and private sectors to stop TBML and create a stable and safer financial system."

CONCLUSION

With the growth in the volumes of international trade and given the complexities in the trade finance business, improving compliance with TBML measures requires effective coordination and cooperation amongst all stakeholders, especially regulators and operators.

The challenge today is not the lack of standards or regulatory framework, but effective implementation. Therefore, there is a need for effective and efficient action by all actors in the public and private sectors to stop TBML and create a stable and safer financial system.

Trade Based Money Laundering (TBML) Activities: Implications and Strategies for Regulators and Operators

Adeolu O. Adewuyi
Professor of Economics
University of Ibadan

AN OVERVIEW OF THE NATURE OF TRADE-BASED MONEY LAUNDERING AND ITS IMPACT ON THE GLOBAL FINANCIAL SYSTEM.

INTRODUCTION

Trade entails exchange of commodities for a financial instrument (money or money's worth). Goods bought are paid for either physically by direct cash payment to seller or via bank or transfer online, while sales proceeds are also received via these means. This makes trade finance very important. The speedy growth of global trade and the advancement in technology have given additional avenues to money launderers to move illegally acquired valuables (cash or goods) all over the globe (Naheem, 2015).

One of the trade-related financial crimes is trade-based money laundering (TBML) which can be defined as a crime committed via laundering of the earnings of the illicit activities through the international trade network of operations. It encompasses the manipulation of trade transactions, such as invoicing, to disguise the real origin of funds and portray them as genuine or to finance criminal activities (FATF, 2006). TBML has various features, including improper billing (over- or under- or multiple- invoicing of goods), miscategorising or deceptive description of goods to evade customs obligations, display of false shipping documents, disguise of consultancy or other service-related fees, and shipping of goods between criminals (Naheem, 2015; Cassara, 2016). This implies that TBML occurs not only in the areas of price, quantity and quality falsification but also in the angle of falsification of documents and certificates such as commercial invoice, shipping and insurance documents, and certificates of origin, inspection and weight (Soudin 2014; Hataley, 2020). With this, the proceeds of the illegal activities are moved into the formal financial system, making the origin of the funds difficult to trace by law enforcement agencies. It can also be regarded as the deployment of financial facilities and services (bill of exchange, letter of credit or open account facilities) to ease the movement of fraudulent money across different accounts or locations (Naheem, 2015).

The motivations for involvement in TBML have been identified with different groups. For instance, the White-collar Criminal Organisations would

Paper presented at the CIBNCFS Breakfast Session on Trade Based Money Laundering (TBML) Implications and Strategies for Regulators and Operators held June 13, 2023.

want to move money or money's worth to locations where they could obtain low taxation, hide profits and pay bribes to corrupt officials. Their approach is to violate foreign quotas, relabeling country of origin labels, falsify the accompanying documents and by-pass sanctions via corruption (Hataley, 2020). Also, the Terrorist organisations use TBML as a way of unlawfully moving funds for their activities. These Organisations employ informal or unconventional transfer mechanisms such as hawala, hundi or fei-chien, making such illegal funds difficult to be traced (Zdanowitz, 2009; Hataley, 2020). Another well know criminal group is the Transactional criminal Organisations which use TBML as a medium of recouping value back to the home country. According to the literature, this is the common purpose of involving in TBML (Cassara, 2016; Hataley, 2020). They use many schemes including the drug trade, smurfing, and the Black Market Peso Exchange (BMPE).

Increased TBML could lead to a rise in liability and heighten the risks for assets quality in the local and global financial systems. TBML and its associated tax evasion accounted for losses of nearly $9 trillion between 2008 and 2017. According to Global Financial Integrity (2023), between 2011 and 2021, TBML value exceeded US$60 billion globally. In terms of geographical distribution, TBML spread over 77 jurisdictions around the world. With regard to its prevalence, the areas with the most TBML cases include the United States, followed by Mexico, Colombia, China and Hong Kong. The pervasiveness of illicit financial flows (IFFs), including TBML, has attracted worldwide attention on the need to create tactics to put a stop on the ensuing danger. The 4th target of the 16th sustainable development goals (SDG 16.4) is directed at termination IFFs by 2030. Also, the G7, G20 and African Union have revealed their aspiration to disclose and stamp the channels through which IFFs are executed (Mbeki, 2015; Reuter, 2017). The associated danger of increased TBML, and IFFs in general, is that the financial resources needed to drive industrialization are carted away illegally to foreign countries, while the financial system is vulnerable to external shocks. This considerably reduce the funds needed in developing countries to address the challenges of industrialization, growth and poverty reduction such as inadequate infrastructure and weak business environment.

Nigeria is experiencing TBML and IFFs in general because the country is characterized by high level of corruption and laxity in the implementation of laws. The country's ranking worsened from 149th position in 2019 to 154th position (out of 180 countries) in 2020 on the Corruption Perception Index of Transparency International (Transparency International, 2021). The country was shown to be the 14th most vulnerable economy in the world based on the 2020 Basel Anti-Money Laundering Index (Basel Institute of Governance, 2020). Nigeria ranks among the top five countries with IFFs incidents in Africa as it is estimated that the country loses more than $15 billion to IFFs annually (Central Bank of Nigeria, 2015; Igwe, 2021), which is more than 35 percent of the Nigerian 2022 annual budget of US$41.8 billion (N17.13 trillion).

TBML RISK INDICATORS RELEVANT TO PRIVATE AND PUBLIC SECTORS

The Financial Action Task Force (FATF) released a collaborative report with the Egmont Group in March 2021 to assist both the public and private sectors to discover trade-based money laundering. The FATF is an intergovernmental organization that sets standards for averting money laundering and terrorist financing. The risk indicators are broadly categorized into four, structural, trade activity, trade documentary and commodity, and account and transaction activity risk indicators. The details of each of the risk indicator categories are highlighted in the following.

- Structural risk indicators: It is crucial to have a robust and comprehensive customer on boarding and review process which can identify the following as regard the company structure.
  - Is it multifaceted, cloudy, uses shell firms or ''brass plate'' service firms?

- Are some or all of the related bodies based in high risk countries or regions?
- Does it have an on-line presence or the website too stack or latent? Does it reveal your previous knowledge about the firm?
- Do the owners and managers seem to be nominees, deficient in experience in the area of activities of the firm? Have there been undesirable news about any of them?
- Does the trade business seem suitable for the address (es) provided, or Is the trade volume extreme or virtually non-existent? Are the given staff ranks appropriate, particularly for the commodities that the firm supply?
- Does the name of the entity (es) resembles or echoes like the name of a famous firm, which has no link with the entity (es) of concern?
- Does the entity has mysterious periods of dormancy?
- The customer or potential customer firm has no recently published or reported accounts in line with regulatory reporting standards or has not submitted most recent tax returns.
- Commodities (goods or services) that the customer presented are his or her main business and are described in generic terms only rather than detailed (e.g electronics). The customer should be able to give specific details including any restrictions, export or import licensing requirements, etc.

- <u>Trade activity risk indicators:</u> Information to be gathered before onboarding should comprise the following.
  - Comprehensive sales or revenue data, for not less than earlier 2 years so as to obtain knowledge of the nature of the firm.
  - During the account review, data on the transaction quantity, goods, counterparties, etc should be checked.
  - Full information about the counterparties need to be requested such as whether the main counterparties accountable for 60-80% of the firm's business, and countries in which they exist.
  - Are the countries mainly high risk? E.g. countries with poor score on transparency international corruption index, known transfer places for sanctioned countries and forbidden goods or services that are known to be related to criminal activity.
  - Transaction sizes which exceed the financial capacity of the firm or appear to be pass-through transactions from and to related parties are to be verified. How are the transactions financed, are there substantial inflows of cash or transfers, and from whom and where?
  - It is necessary to comprehend the expected behavior of a firm in relation to trading in its line of business so that comparison can be done with the new customer or the customer of concern.
  - Is the business transacted in line with the stated business of the firm? (e.g car dealer that is importing aircraft or cleaning chemicals or oil exporter importing frozen seafood.
  - Determine whether the trading parties are regular or irregular (i.e using a number of trade products to finance transactions that are unnecessary for the kind of trade. Involvement of multiple intermediaries that would seem unsuitable for the nature of the transactions.
  - Employing a number of trade finance products to expand the period of

financing to one that is beyond the normal transaction financing time for identical trade transactions.

- Are the profit margins substantially shrunk or exaggerated? Are the sources of goods unclear: goods brought in via unconventional channels not visible to the financial institution? Even if a customer has many banks or sources of finance, it should be possible at review to determine the degree of non-financed transaction activity.
- Have the business flows changed over the last review period? Have new counterparties become engaged, and does the larger part of the present trading quantity with these new parties have an attendant fall in flows with the previous parties? Ask for reasonable clarifications.
- Recall that where business partners changed considerably there must be a valid and credible explanation. If not, it is possible that the beneficial ownership has been changed and the firm is now a "front".
- It is at this point that the issue concerning ownership, beneficial ownership and changes in management need to be raised and a complete review of these persons be carried out. If there is a reluctance to advise if a change has occurred in ownership or structure, this is often a concern for a quiet takeover by criminal group.
  - If the firm is newly set up or is a reactivated dormant firm, and the transaction sizes and levels are substantial, an unidentified entity shows-up in the transactions or on the ownership records, then there is need for further investigation.

- Trade documentary and commodity risk indicators: These indicators are often found by the first line of defense at the transaction phase. Trade operators and the first line FCC operators are basically responsible for finding, evaluating, and escalating transactional risks and irregularities.
  - In the course of document checking, discrepancies in names, narrative of goods or services will be underscored. These cannot be discarded as technical UCP 600 (Uniform Customs and Practice for Documentary Credits) discrepancies, but must be outlined as potential financial criminal case of concern.
  - All financial institutions should have operations "Red flag lists" for their documentary inspectors to hunt. Actually, many financial institutions need to acquire algorithms to scan the captured details of the transactions against the red flag lists. The financial institutions will also have inspectors who look at documents for data that is not captured in their processes, and will evaluate data against the red flag lists, as well as ascertaining whether the transaction is in line with the anticipated business for the client.
  - The normal review to identify fraudulent documents or presentations will also aid the determination of a suspicious case.
  - The regulators regularly want the financial institutions to understand the loopholes in pricing. However, the variables are so large that it is virtually difficult to inspect pricing on the basis of algorithm or from customs databases. The best task is to use experience and knowledge of particular trade.
  - Commodity trade finance and transaction experts can identify suspicious transactions because of their day-to-day knowledge of what is occurring in the market, and the closely related transaction that they work on.

- The insertion of addition fees, free sample with high fundamental values and third party payments where the third party has not featured in the transaction documents are all cases of concern in which investigation is required.
- Carousel transactions, where goods of high intrinsic values are imported at what appears to be less than the market rates and which then show up in other transactions at exaggerated rates from unrelated counterparty. Containers numbers are useful in this case to identify if the same container is following a repetitious route all the while with changes values for the same goods. They are also important sources of invoice details, numbers and amounts.
- Constantly look for the equivalent or similar invoice numbers, goods and quantities as well as specifications if incorporated. Are they the same but with dates and vessel name changed? Are they monthly transactions? Is there a reasonable justification for the change or do the vessel voyage detail pile up?
- Look closely at the relationship; is the carrier a firm related to the client, one of the parties involved in the transaction or with related directors and/or managers?
- Is the carrier a non-vessel owning common carrier (NVCC)? Is the NVCC related to any of the parties involved in the transactions?
- Are descriptions of the goods in generic terms such that they hide the true nature of the goods being shipped? For instance, have all been used as descriptions for military goods and are they generic sufficiently to cover up for other transactions?

• <u>Account and transaction activity risk indicators:</u>

- At review, it seems that an account regularly makes last minute changes to payment guidelines. This is essential where a third party not observed in transaction suddenly show up as the recipient of the trade payments.
- Repeated changes in the amount to be paid in settlement of trade transactions should be probed.
- An account appearing as a ''netting account'' with high volume of payment in and out each day with a very small remaining balance overnight. This is only acceptable if the account is a segment of a group treasury managed account within a cash management facility agreed to by the financial institution after all inquiries at facility set up have been satisfactory resolved. Where the account is not a cash managed account under a properly designated facility, it becomes a source of concern.
- Where the account receives several cash deposits prior to when a trading payment is due (red flag) an investigation is essential to determine whether this is a genuine business model.
- Payments for a trade transaction are made by a third party or entity not related to the named consignee with no obvious economic reason (from a shell or front firm?)
- An account with regular cash deposits which are later remitted to persons or entities in free trade zones or off shore jurisdictions without clear commercial explanation.
  - Incoming wire transfers to a trade related account are split and then remitted to non-related multiple accounts without real connection or commercial activity.
  - Transaction volume of a trade entity

swiftly rise substantially over a short time period and then declines without notice or reason or goes into dormancy.

- Payments are in figures not compatible with the nature of the trade transactions in business where this is the standard (e.g price vs quantity or volume or measurement, rarely exact amounts).
- Watch for carousel payment: in from one country and out to another and back again.

To manage risk, a banker have to understand their customers, his or her sources of wealth and funds, the business he or she engaged in and how it compares structurally with peers business, the counterparties, the countries, the terms of payment, the supply to buy cycle, the manufacturing cycle, the stock cycle, the sell to pay cycle, and the overall time from ordering to delivery and payment.

Also, the regulators have to brace-up in terms of better understanding of the diverse methodologies of TBML use by the criminals and upgrade their skills to be able to utilize the new technologies required for combatting the menace. They should be able to come up with innovative and effective regulatory policies and framework to tackle the TBML challenges.

III. THE REGULATORY FRAMEWORKS CURRENTLY IN PLACE TO COMBAT TBML

The potential Key Players involved in Tackling TBML and Illicit Financial Flows are presented in figure 1. In Nigeria, the regulatory framework for tackling TBML is sub-summed in the general framework for combating Money laundering and terrorism. The Money Laundering (Prohibition) Act, 2011 (MLPA), Terrorism (Prevention) Act, 2011, Central Bank of Nigeria Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Regulation, 2009 (as amended) and other AML/CFT Guidelines serves as the guidance to Bank Examiners to carry out AML/CFT risk-based supervision (RBS), regulation and examination of banks and other financial institutions (BOFIs) under the regulatory guidance of the Central Bank of Nigeria.

The direction on how to identify and control risks connected with money laundering and terrorist financing is provided by the AML/CFT RBS Framework. Therefore, this framework contains a brief of AML/CFT compliance program requirements, money laundering and terrorist financing risks, expectations on risk management, industry sound practices and examination procedures. The goal of this framework is to foster uniformity in the execution of the AML/CFT requirements. The framework is designed to permit Bank Examiners to adapt the scope of their AML/CFT examination and procedures to the precise risk profile of the financial institution so as to optimally use resources and ensure compliance with the requirements of the relevant laws and procedures.

The regulatory Framework is made up of AML/CFT RBS Manual for Bank Examiners' Procedures and AML/ CFT RBS Regulation for Financial Institutions (FIs) to guide AML/CFT operations in FIs under the CBN management. It supplements the CBN AML/ CFT Regulation, 2009 (as amended). The EFCC Act 2004 and Terrorism (Prevention) Act, 2011 proscribe the financing of terrorism. CBN AML/CFT Regulation, 2009 (as amended) has also enlarged the prevailing AML/CFT legal framework by consolidation customer identification procedures, barring FIs from involving in business with foreign shell banks, requiring financial institutions to have due diligence procedures or Enhanced Due

Diligence (EDD) Procedures for foreign correspondent and private banking accounts and increase information circulation between FIs on one hand, and the law enforcement agencies (LEAs) and regulators on the other hand.

Specific government agencies perform a significant role in executing the AML/ CFT Regulations, designing examination guidance, guaranteeing compliance with and enforcement of the MLPA in the country. Among these agencies are the Central Bank of Nigeria (CBN)/Nigeria Deposit Insurance Corporation (NDIC), Economic and Financial Crime Commission (EFCC)/Nigerian Financial Intelligence Unit (NFIU), Federal Ministry of Trade and Investment (FMTI), Nigeria Custom Service (NCS), Securities and Exchange Commission (SEC) and National Insurance Commission (NAICOM). These institutions are required to collaborate to carry out consolidated AML/CFT supervision/examination, conduct oversight and enforcement functions of regulated institutions so as to remove any arbitrages. They are authorized to use their power to administer compliance with applicable banking rules and regulations, including the MLPA, 2011.

The NFIU was created via sections 1(2) and 12(2) of the EFCC Act, 2004. It is responsible for the acceptance, analysis and circulation of Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs). It is an independent entity within the Economic and Financial Crimes Commission (EFCC). It interprets AML/CFT guidance issued, undertakes outreach to regulated institutions on rendition of returns, complement the AML/CFT examination functions carried out by regulatory agencies such as CBN, SEC, NAICOM, etc. Its other critical roles includes supplying intelligence information to support cases investigated by the Law Enforcement Agencies (LEAs), discovering and sharing information on financial crime trends and patterns to the stakeholders and promoting international cooperation with its counterparts globally.

The Federal Ministry of Trade and Investment (FMTI) is the supervisory organ for designated non-financial institutions (DNFIs), which include casinos, real estate agents, dealers in precious stones, and the legal and accounting professions. The DNFIs were not regulated for AML/CFT measures prior to the enactment of the MLPA, 2011. However, sections 3,4,5,7,9 and 25 of the MLPA, 2011 have expanded the description of reporting entities to cover DNFIs. Sections 4 and 5 of MLPA, 2011 authorize the Ministry to monitor all DNFIs in Nigeria and guarantee proper compliance with AML/CFT conditions. The Ministry can impose sanctions on defaulting DNFIs under section 5(6) of the MLPA. The oversight roles of the Ministry are done via the Special Control Unit on Money Laundering (SCUML). The Commission was empowered under Section 7(2) of the EFCC Act, 2004 to prosecute any DNFI for any breach of the MLPA.

SCUML was set up in September, 2005 by Decision No EC (2005) 286 of the Federal Executive Council (FEC) as a specialized Unit of the former Federal Ministry of Commerce with the role of supervising DNFIs in Nigeria. Thus, this unit was assigned the role of monitoring, supervising and regulating the activities of all DNFIs. In the implementation of the relevant sections of MLPA, 2011 the FMTI has developed the Ministry/SCUML Register for all casinos in Nigeria. The officially known casinos is not significant in size relative to the size of small 'underground' ones. Apart from the measures introduced to stop criminals or their associates from holding controlling interests in casinos business, there is a regulation and monitoring framework put in place by the Ministry/SCUML to ensure that beneficiary owners of casinos are 'fit and proper'.

The NAICOM is mandated to provide regulatory/supervisory oversight in the Nigerian insurance industry. It controls, supervises, regulates and ensures effective administration of entities in the insurance sector. It is guided in its supervisory obligations by the National Insurance Commission Act (as amended), the Insurance Industry Policy Guidelines, 2005, Know Your Customer Guidelines for Insurance. Under the Sections 3, 4, 36 and 45 of the Insurance Act 2003, institutions operating in the Nigerian insurance sector are registered by NAICOM.

SEC is the highest regulatory and supervisory organ of the Nigerian capital market. The SEC derives its power from The Investment and Securities Act (ISA) 2007 (section 15), to regulate investments and securities in Nigeria, protect the integrity of the securities market against abuses arising from activities of the operators and prevent fraudulent and unfair trade practices in the securities industry. It utilizes ISA 13A, 2007 and SEC Rules and Regulations, 2000 (as amended) in the performance of its regulatory and supervisory responsibilities.

The NCS was set up by the Customs and Excise Management Act (CEMA), CAP 84 (LFN 1990). It is charged with the duty of controlling and managing the administration of the Customs and Excise laws. It collects revenue in a manner prescribed by the relevant legislation. Section 2 of MLPA, 2011 empowers NSC to report declaration in respect of information on the cross border transportation of cash or negotiable instrument in excess of US$10,000 or its equivalent by individuals in and out of the country to the Central Bank of Nigeria.

The NDIC was founded in 1989 with the enactment of Decree No. 22 of 1988. It insures all deposit liabilities of licensed banks and other relevant FIs to instill confidence in the Nigerian banking system. It assists the insured deposit-taking FIs in the interest of depositors in case of imminent or actual financial difficulties, particularly where suspension of payments is threatened, thereby preventing damage to public confidence in the banking system. It safeguards payments to depositors, in case of imminent or actual suspension of payments by insured institutions up to the maximum amount provided for in the enabling law.

It supports the monetary authorities in the designing and implementation of policies to ensure sound banking practice and fair competition among insured institutions in the country. It also pursues any other measures necessary to achieve its functions, provided such measures and actions are not repugnant to its objects. The Corporation's Examiners have powers to examine periodically, and under conditions of secrecy, the books and affairs of every insured institution, a right of access at all times to the books, accounts and vouchers of the insured institution.

In compliance with the directive of the African Union, the Nigerian government established the National Focal Point (NFP) which is being coordinated by the Department of State Services (DSS). The membership of the National Focal Point was drawn from several related government ministries, departments and agencies (MDAs).

Figure 1: Key Players involved in Tackling TBML and Illicit Financial Flows

Source: Adapted from Dohlman and Neylan (2016)

Challenges faced by regulators in implementing effective trade-based money laundering measures

According to FATF – Egmont Group (2020), there are many obstacles that regulators and other organizations face in their efforts to detect and prevent TBML.

These obstacles are summarized in the following.

- **The complexity of trade transactions:** TBML usually entails multifaceted trade structures, such as the engagement of numerous intermediaries, shell companies, or other parties that can make the tracking of the flow of funds very uneasy. It can involve several industries and goods and services exploited as a vehicle for conveying value where no one scheme is similar to another. Furthermore, some genuine organisations in specific supply chain, such as manufacturing firms and merchants do not have adequate knowledge of the risk indicators of TBML which may make them overlook it. Also, a rising number of online business opportunities have exposed new horizons for global trade. All of these make it a challenging task for authorities to identify highly vulnerable sectors and commodities for meditative actions.

- **Limited knowledge and awareness:** Stakeholders including regulatory authorities still possess only a basic knowledge of TBML and may be unaware of more sophisticated areas of this crime It is pathetic to see that, as authorities boost their level of understanding of TBML and put efforts to upgrade measures to fight it more effectively, criminals are regularly searching new opportunities to legitimise criminal earnings via the misuse of the global trading system. A lot of organizations, including small and medium scale enterprises, require more information and understanding of TBML and the preventive actions that can be taken.

- **Problem of data paucity and information sharing:** The required data and information for detection and prevention of TBML are not available to many organizations due to the lack of coordination and collaboration between various stakeholders, including financial institutions, law enforcement agencies and relevant government ministries. Each stakeholder may store its data in the in-house IT systems without information sharing mechanism which could allow timely access to this data by other stakeholders. Even when information sharing networks are in place, cross-referencing of data from various digitalized databases may be hindered. The investigators, analysts, and other relevant experts also face the difficulties of analysing and combining tax, trade and financial data during the investigation exercise. The FATF recommendations require policymakers, policy analysts, investigators, supervisors, and other relevant stakeholders to institute an effective systems that will foster cooperation, coordination and exchange of information with one another. This ensures the linkage of the work of various stakeholders responsible for collecting, analysing, and storing different kinds of data with stakeholders mandated with investigating predicate offenses including TBML For TBML that covers multiple jurisdictions, lack of international cooperation may pose a great challenge to mitigating the problem.

- **Difficulty in investigating and prosecuting TBML:** Proving TBML can be difficult, as it often involves complex trade structures and the use of trade-based techniques that are difficult to detect and track. In cases where there is disconnect between the TBML activity and predicate offences, the investigators of the predicate offences (antidrug trafficking units, anticorruption agencies, etc.) may find it difficult to examine the associated ML activity due to lack of sufficient expertise. There also cases where the prosecutor may have access to enough evidence to prove the objective side of the ML offence (conversion and transference of crime proceeds) but the knowledge required to conduct the investigation may be lacking, even when the factual condition of the case is available as evidence. This is especially the case for third-party ML or when the predicate offence was committed in another jurisdiction. Moreover, in circumstances in which criminals mismanage legitimate trade operations, illicit and legitimate funds are usually muddled together, making it extraordinarily difficult for regulatory authorities to identify the illegal assets.

“ The FATF recommendations require policymakers, policy analysts, investigators, supervisors, and other relevant stakeholders to institute an effective systems that will foster cooperation, coordination and exchange of information with one another. ”

- **There are peculiar challenges in the private sector**: The fragmentation of TBML schemes along the trade or supply chains makes it a herculean task for private sector operators such as the financial institutions to identify potential TBML schemes on the basis of the analysis of the whole chain. This poses limits to the ability of the private sector operators to discover divergences in supplementary documentation and customer profiles. The financial institutions also face another challenge in the area of verification of information that their customers supplied, particularly when a public registry does not exist. There is also the problem how to estimate the "fair price" of a traded good or service.
- **Inadequate technology:** The speed and dynamics of the TBML activities have made the need for rapid change in technology required for tackling the problem imperative. Thus, many countries and organizations lack the technology and tools necessary to prevent, detect, investigate and prosecute TBML effectively. Many countries may not have the resources to invest in new technologies and tools.

- **Weaknesses in AML regulations:** Despite efforts to strengthen AML regulations, many countries still need strong or consistent regulations that fail to address the threat of TBML effectively.

STRATEGIES TO STRENGTHEN TBML MEASURES AND MITIGATE THE RISKS ASSOCIATED WITH TRADE-BASED MONEY LAUNDERING

TBML continues to be a major challenge for the world economies. Although there is no single solution that best suit all countries, universal best practices that have been confirmed to be advantageous and operational in some jurisdictions are discussed in this section. Even thou the strategies recommended here are basically targeted at governments at national level, the private sector, the non-governmental organisations and the civil society including the journalists have critical roles to play in safeguarding the international trade system and the global economy.

- There is need to undertake education campaigns and increase awareness at local and global levels. As stated above awareness of TBML and its risk factors is quite low in many countries. The International organizations such as the FATF, FSRBs and the United Nations Office on Drugs and Crime need to broaden their advocacy programmes and expand their activities with governments across the world to guarantee greater awareness. Simultaneously, governments at country level should take further steps to offer suitable, updated and actionable information on TBML risks to stakeholders in their jurisdiction.
- Inter-agency task forces need to be inaugurated and properly coordinated: As discussed in the previous section, it is either there is no cooperation among government authorities or where it exists there is no proper coordination of information generation mechanisms. Looking at the examples in some countries such as Colombia and Kenya, the incidences of TBML can be minimized when multiple government ministries and agencies cooperate and coordinate their activities. The models in these countries, especially Kenya, which established an

Inter-Agency Anti-Illicit Trade Working Group may serve as a good strategy for combating TBML.

- There is need for development and implementation of national beneficial ownership registries. This is because, shell and front firms are often used for financial crimes, including TBML. Therefore, countries should develop and implement beneficial ownership registries that contain accurate, updated and verified information regarding the real corporate ownership.

- Beneficial ownership information should be extended to cover all aspects of trade. The extension of beneficial ownership requirements to sectors and institutions that are vulnerable to TBML risks (such as foreign companies doing business in the country and shipping firms involved in international trade), and the trade related regulatory agencies, countries can ensure greater surveillance over foreign trade transactions.

- Sharing of transaction-level trade information in real time: One of the effective approaches to discovering trade misinvoicing (a major type of TBML) is to juxtapose the exports (value and quantity) of one country with the corresponding imports (value and quantity) of its trading partner to uncover divergences. It is either there is no deliberate government efforts to do this or it is done with delays. Thus, when government does this, it is regrettably not done in real time.

- Deployment of new technologies to evaluate pricing of trade transactions. There is need to acquire and adopt new technologies to screen trade transactions for pricing issues and identify transactions at higher risk for trade misinvoicing. Although the acquisition and adoption of new technologies require new investment and skills upgrading, this could help to combat trade misinvoicing, prevent TBML, and curtail customs revenue loss. The work of the Global Financial Integrity (GFI) has shown the effectiveness of new technologies in tackling TBML.

- There is need to ensure that national anti-corruption efforts include international trade. At local and international levels, diverse forms of corruption in international trade activities and in ports (air and sea) as well as among the trade-related regulatory agencies have been problematic for decades. Therefore, this area has to be addressed by national anti-corruption efforts or initiatives.

- Supervision over free trade zones should be strengthened: The governments should ensure that customs authorities and law enforcement agencies have adequate access to free trade zones for the purpose of undertaken appropriate surveillance.

- Customs departments should be given the necessary resources to function effectively: The frontline in the fight against TBML are the Customs agencies. It is therefore imperative to ensure that they are provided with adequate financial, human, and technological resources to carry out their tasks effectively and efficiently.

- Regional customs frameworks require harmonisation: Member countries of regional communities with existing frameworks on trade should align and strengthen country of origin rules so as to curb trade diversion and concealing of country of origin as well as falsification of the certificate of origin.

A summary of explanation of the FATF's TBML red flags:

- **Divergences between Invoices and Official Documents:** Great differences between invoices and the description of commodities on official documents can signal the existence of TBML. This rages from mismatches in the quantity, quality, or value of goods, as well as irregularities in the channeling and scheduling of shipments.

- **Infrequent Trade Patterns:** This refers to transactions that diverge from usual trade arrangements, such as uncommon shipment routes, erratic product types, or big, round-number transactions.

- **Channeled via Multiple Countries:** Shipments that are channeled via numerous countries or several unrelated affiliates without good explanation can be an indicator of TBML. This can show that the shipment is being employ to launder money, conceal the origin of funds, or evade sanctions.

- **Doubtful Methods of Payment:** Payment design that are incompatible with the level of risk offered by the transaction can indicate the presence of TBML. This can include large cash payments or payments made to shell companies or offshore accounts.

- **High-Risk Goods:** Shipments of goods generally considered at high risk of involvement in money laundering, such as luxury goods, precious metals, and gems, should be carefully scrutinized for signs of TBML.

- **High-Risk Countries:** Close monitoring of shipments of goods entering or leaving countries that are considered to have a high potential for money laundering and to look for warning signs.

- **Cash Payments:** Shipments that are paid for in cash can be a sign of TBML, as cash transactions are more difficult to trace and can be used to evade AML controls.

- **Third-Party Payments:** Shipments that third parties pay for with no apparent connection to the transaction can indicate the presence of TBML, as this can be a sign that the third party is acting as a front for money laundering activities

CIBN Centre for Financial Studies

ASSOCIATION OF ENTERPRISE RISK MANAGEMENT PROFESSIONALS NIGERIA

COMMUNIQUE ISSUED AT THE END OF THE CIBN ADVOCACY DIALOGUE 7.0

THEME:

FAILURE OF SILICON VALLEY BANK IN USA: GLOBAL IMPACT AND LESSONS FOR THE NIGERIAN FINANCIAL SYSTEM

Held in

APRIL 13, 2023

1.0 Introduction

The CIBN Advocacy Dialogue Series 7.0 with the theme; **Failure of Silicon Valley Bank in USA: Global Impact and Lessons for the Nigerian Financial System** was held on Thursday, April 13, 2023. The hybrid event (HANDSHAKE WITH THE REGULATORS) which was hosted onsite at the Bankers House was jointly organized by The Chartered Institute of Bankers of Nigeria Centre for Financial Studies (CIBNCFS) and the Association of Enterprise Risk Management Professionals (AERMP).

The event x-rayed insights on the overview of the collapse of Silicon Valley Bank, the risks involved in the Bank failure and how to mitigate risk and compliance functions in the Nigerian Financial System. Participants also gained insights on the roles of management of banks and regulators in ensuring stability and confidence of the financial system as well as lessons for both domestic and global financial systems.

The President/Chairman of Council of The Chartered Institute of Bankers of Nigeria (CIBN), Ken Opara, Ph. D, FCIB, ably represented by Professor Pius Oladeji Olanrewaju, FCIB, 1st Vice President, CIBN, in his opening remarks, stated that the purpose of the Advocacy Series is to empower various stakeholders with knowledge on emerging issues affecting the banking and financial industry. He went further to highlight some salient points with respect to the theme as follows;

- The failure of Silicon Valley Bank (SVB) marks the second-largest bank failure in the history of the United States.
- The bank collapsed for multiple reasons which sent shockwaves through the financial system, reviving memories of the global crisis in 2008.
- The occurrence has sparked a chain reaction of similar failures, including Credit Suisse, First Republic Bank, Signature Bank and Silvergate Bank while amplifying the need for experts across the globe to discuss the systemic issues plaguing the U.S. banking system, the regulatory gaps as well as its global impact.
- Despite the fact that this event happened in the United States, it however, could greatly

destabilize markets and economies around the globe because the world is inextricably linked by globalization, which is why it is pertinent to discuss the global impacts to extract insights to strengthen the banking system and ways to further improve the operational efficiency of, particularly the, Nigerian banks.

2.0 Panel Discussion

The keynote presentations were delivered by Dr. Blaise Ijebor, Director, Risk Management, Central Bank of Nigeria (CBN) and Mr. Mustapha M. Ibrahim, FCIB, Executive Director, Operations, Nigeria Deposit Insurance Corporation (NDIC), while the Panel Session was moderated by Dr. Ayotunde Coker, HCIB, Chief Executive Officer, Open Access Data Centres Lagos and had the following experts from various sectors of the economy as Panellists:

I. Dr. Okey Umeano, Chief Economist Securities and Exchange Commission (SEC)
II. Mr. Olugbile Erinwusi, ACIB, Chief Risk Officer, Providus Bank
III. Prof. Godwin Oyedokun, FCIB, Lead City University, Ibadan
IV. Mr. Joshua Etopidiok, FCIB, Managing Partner, Theos Integrated Consulting & Retired Director, Central Bank of Nigeria (CBN) & Nigeria Deposit Insurance Corporation (NDIC)
V. Mr. Koranteng Kwabena, Chief Risk Officer, Standard Chartered Bank

2.1 Highlights of Discussions

2.1.1 Nature of the Collapse of Silicon Valley Bank

- Silicon Valley Bank business focused heavily on US technology startups. During the COVID-19 pandemic, it saw a surge in deposits as tech companies profited from providing entertainment and delivery services to people confined to their homes.
- Silicon Valley Bank invested much of its cash in US government bonds which traditionally is one of the safest types of investments.
- Silicon Valley Bank started experiencing issues when the US Federal Reserve started raising interest rates in response to soaring inflation, causing the value of its bonds to fall.
- As economic conditions for the tech sector became more distressed after the initial pandemic boom, many of SVB's customers began to draw on their funds.
- Silicon Valley Bank became short on cash and was forced to sell its bonds at big losses, prompting concerns about its financial health.
- Within 48 hours, spooked depositors had withdrawn enough funds to cause the bank's collapse.
- Silicon Valley Bank and Silvergate Bank suffered more of concentration risk in terms of deposit, liquidity risk and interest risk rather than default risk.
- The collapse of the bank exposed the weaknesses of the regulatory and supervisory authorities in assessing the risk management within the banking industry in USA.
- The failure has continued to disturb the investors and a call for lessons for stock bulls who may have become so complacent about risk management in banks.

2.1.2 Global Impact of the Silicon Valley Bank's Failure

- The failure of SVB not only impacted negatively on the technology industry in USA but also on businesses and countries all over the world like Europe, Israel and even China.
- Massive deposits migration from "unsafe" smaller banks to "safe" larger banks
- Continuous rise in interest rate of government bonds and other borrowings may result in deposit withdrawals by

depositors for investment in government securities thereby reducing banking system deposits

- It will also have adverse effect on the competitive landscape of banking industry as customers and investors would be hesitant to engage in other banks' transactions due to lack of trust and confidence in the banking system.
- The failure of SVB will also affect the global interest rate and inflation dynamics. The failure has proven that financial institutions are not immune to the rapid pace of interest rate increases. This is because higher inflation rates lead to higher interest rates, which can hurt banks' profitability.

2.1.3 Implications of the Failure of Silicon Valley Bank for the Nigerian Financial System

- Nigeria is home to some of the most successful Silicon Valley-backed startups
- Some of these startups maintained different forms of business relationships with SVB either as an investor or banker.
- For such startups and even the more established tech companies, the collapse of SVB will be felt in the short term as it could impact on liquidity and therefore their operations
- It is worth noting though that the extent of such impact would depend on their exposure particularly with respect to deposits held with SVB and whether such deposits will be treated as insured or uninsured deposits within the context of maximum deposit insurance coverage (MDIC) under U.S law.
- In the absence of a bailout to cushion the effect of SVB's collapse on the Nigerian tech ecosystem (which by all indications is unlikely), Nigerian startups with significant exposure need to take immediate steps to mitigate the negative effects that could be occasioned by severe liquidity challenges.
- These could be operational in nature including affecting payroll and supplies, slowing down expansion plans, and in extreme cases credit defaults

3.0 Recommendations

3.1 Domestic and Global Financial Systems

- Banks must understand the nature of its business operations and develop a robust risk management framework.
- Banks must understand the nature and behavioural patterns of the depositors to aid preparations for potential reactions to events in the market. This is because if customer deposits are problematic, it could increase the "flight to safety risk".

It is also important for banks not to rely heavily on limited sources of deposits.

- Pay attention to market risk elements essentially volatility with regards to interest rate and other financial instruments such as, equities, commodities and foreign exchange.
- Have contingency plans tested often to ensure no loopholes, for operational efficiency.
- Stress testing must form an integral part of the overall governance and risk management culture of the bank to enhance strategic decision making.
- Have full knowledge of liquidity pressures and put in place strong recovery plans to withstand the liquidity pressures and funding stresses.

3.2 Regulators

- Central Bank of Nigeria, CBN as part of the internal restructuring process should continue to put in place strong on-site and off-site supervisory functions.
- Liquidity coverage and capital adequacy ratios must be strictly monitored and

enforced by the Central Bank of Nigeria (CBN).

- Risk management strategies need to be reassessed periodically and aligned with the realities of the modern economy for example by factoring in the rise in demand depositors to mitigate liquidity mismatches.
- The Nigeria Deposit Insurance Corporation (NDIC) should consider increasing the maximum deposit insurance coverage limit and privatizing deposit insurance by establishing a regime for a voluntary deposit insurance system for deposits in excess of the MDIC in Nigeria.

4.0 Conclusion

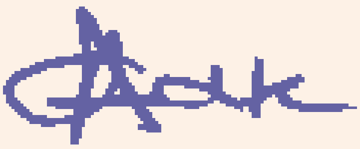
The collapse of Silicon Valley Bank has significant global implications for businesses and countries, over the world. The immediate disruption of financial services, the impact on the technology industry and the broader geopolitical and economic implications are felt globally as the problem unfolds.

It is important to note that safe and sound financial system is essentially anchored on effective bank management, supervisory review and evaluation processes.

In summary;

- ❖ By prioritizing risk management, responsible lending practices, market awareness, and collaboration with regulators, Nigerian banks can help to ensure that they are operating in a sustainable and responsible manner while supporting the growth of the local tech and startup industries.
- ❖ On the part of regulators, effective regulation and supervision of banks has the potential to make banks less likely to fail and also contribute to the stability and robustness of the financial systems.
- ❖ Timely and effective resolution of failing or failed bank is imperative to sustain public confidence in the banking system.
- ❖ Delay in taking prompt corrective action(s) increases the cost of resolution.
- ❖ The resolution authority must be supported by the judicial system in handling failed bank cases, particularly in asset realisation in the interest of depositors.
- ❖ There is need for cooperation and collaboration of all the safety-net participants.
- ❖ There is need for continuous HANDSHAKE between the operators and regulators in the financial system.

Akin Morakinyo, HCIB
Registrar/Chief Executive, CIBN



Olayinka Odutola, FCIB
Director General / CEO, AERMP

Photo Speaks

The Chartered Institute of Bankers of Nigeria 2023 Annual General Meeting which held Saturday May 20, 2023, at the Bankers House, Lagos


Photos from the CIBN Advocacy Dialogue 7 with the theme "Failure of Silicon Valley Bank in USA: Global Impact & Lessons for the Nigerian Financial System" held on April 13, 2023.

Execution of Memorandum (MOU) of understanding between The CIBN & The National Board of Nigeria for Technical Education (NBTE) held at Abuja March 31, 2023.

The Registrar/Chief Executive, Mr. Akin Morakinyo, HCIB, and the Executive Management of CIBN at the Stakeholder's Engagement with the Coordinator of NYSC Lagos State, Mrs. Yetunde Baderinwa.


The President/Chairman of Council, CIBN, Ken Opara, Ph. D, FCIB, Governing Council Members & the Executive Management of CIBN at the Stakeholders Engagement with Ecobank Nigeria Management Team led by the MD/CEO, Mr. Bolaji Lawal, HCIB, at the Ecobank Head Office.

Trade-based Money Laundering and Associated Challenges in the Global Financial System

Umara Gubio
Chief Risk & Compliance Officer
Nigerian Export Import Bank (NEXIM)

INTRODUCTION

What is Trade based Money Laundering TBML? Trade-based money laundering can be traced back to the emergence of International trade and the increasing integration of the global economy. Criminals and illicit actors recognized the potentials of using trade transactions to legitimize and move their illicit proceeds. TBML techniques exploit the complexity and volume of global trade, as well as the various mechanisms involved in the movement of goods.

Here are some key aspects and methods commonly associated with trade-based money laundering:

i. **Over/Under-Invoicing:** One of the most prevalent techniques involves manipulating the value of goods on invoices. Criminals can overstate or understate the price of goods to either move funds across borders or repatriate illicit funds while disguising their origin.

ii. **Falsified Trade Documents**: Fraudulent or forged invoices, bills of lading, shipping documents, and customs declarations can be created to provide a false appearance of legitimate trade transactions. These documents may include inflated or fictitious quantities, values, or descriptions of goods.

iii. **Phantom Shipping**: Criminals create transactions for goods that do not exist, enabling them to generate false invoices and move money without any physical movement of goods. This method relies on manipulating shipping and customs documentation to create the illusion of a legitimate trade.

iv. **Multiple Invoicing**: Criminals create multiple invoices for a single shipment, each with different prices, to overstate the value of the goods and transfer excess funds to another jurisdiction.

A paper presented at the CIBN Centre for Financial Studies Breakfast Session held June 13, 2023.

v. **Trade Mispricing:** Illicit actors use discrepancies in pricing between related-party transactions to manipulate the value of goods and transfer funds. This method involves transactions between entities controlled by the same individuals or organizations.

vi. **Smuggling and Commingling**: Illicit funds can be concealed by mixing legitimate and illicit goods during transportation, making it difficult to trace the proceeds.

vii. **Involvement of Various Actors:** TBML can involve multiple parties, including criminal organizations, individuals, legitimate businesses, financial institutions, customs officials, and professionals such as lawyers and accountants. Each party may play a different role in facilitating or benefiting from illicit trade transactions.

viii. **Cross-Border Nature**: TBML often operates across multiple jurisdictions, exploiting the differences in trade regulations, customs controls, and financial systems. Criminals take advantage of weak enforcement, corruption, and regulatory gaps between countries to facilitate the movement of illicit funds.

ix. **Sector and Industry Specifics**: TBML can be found in various sectors, including commodities, textiles, electronics, precious metals, pharmaceuticals, and more. Certain industries with complex supply chains and high-value goods are particularly vulnerable to TBML activities.

x. **Money Laundering Risks for Financial Institutions**: Financial institutions play a crucial role in facilitating international trade finance. They are exposed to the risk of being unwittingly involved in TBML schemes through providing trade finance, processing trade-related transactions, or handling payments associated with illicit trade.

xi. **Detection and Prevention Efforts**: Governments, law enforcement agencies, financial institutions, and international organizations are actively engaged in detecting and preventing TBML. This involves implementing robust anti-money laundering (AML) measures, enhancing trade transparency, sharing information and intelligence, conducting risk assessments, and improving collaboration among stakeholders.

The scope of TBML continues to evolve as criminals adapt to new technologies, exploit vulnerabilities in trade systems, and find innovative ways to launder illicit funds.

The scope of TBML continues to evolve as criminals adapt to new technologies, exploit vulnerabilities in trade systems, and find innovative ways to launder illicit funds. It requires ongoing efforts to strengthen regulations, improve enforcement, and enhance international cooperation to effectively combat this form of money laundering.

Trade-based money laundering poses significant challenges for authorities due to the complexity of global trade networks, the involvement of multiple jurisdictions, and the vast number of transactions. It requires collaboration among law enforcement agencies, Financial Institutions, Customs Authorities, and International Organizations to detect and prevent TBML activities effectively.

Significance of Addressing TBML in the Global Financial System Addressing Trade-based Money Laundering (TBML) is of Significant Importance in the Global Financial System for Several Reasons:

- **Combating Illicit Financial Flows:** TBML is a major facilitator of illicit financial flows, allowing criminals to launder money derived from various illegal activities, such as drug trafficking, fraud, corruption, and terrorist financing. By addressing TBML, authorities can disrupt these illicit financial flows, ultimately reducing the profitability and viability of criminal enterprises.

- **Preserving Financial System Integrity**: TBML undermines the integrity of the global financial system by infiltrating legitimate trade channels and financial institutions. It can damage the reputation and stability of financial institutions, erode public trust, and weaken the overall integrity of the financial system. Addressing TBML helps protect the integrity and credibility of financial institutions and preserves the stability of the global financial system.

- **Mitigating Money Laundering and Terrorist Financing Risks:** TBML is a sophisticated form of money laundering that poses significant risks for money laundering and terrorist financing. By disguising illicit funds as legitimate trade transactions, TBML enables criminals and terrorists to integrate their proceeds into the legitimate economy. Effective measures to address TBML contribute to mitigating these risks and strengthening the overall anti-money laundering AML/CFT/CPF framework.

- **Enhancing Financial Transparency and Trade Integrity:** TBML thrives on opacity and complexity within global trade transactions. Addressing TBML involves promoting financial transparency and trade integrity. This includes enhancing the transparency of trade-related documentation, strengthening due diligence measures by financial institutions, improving trade data analysis, and fostering collaboration among various stakeholders, such as customs authorities, financial institutions, and law enforcement agencies. These efforts contribute to a more transparent and accountable global financial system.

- **Protecting Economic Stability and Development**: TBML can have detrimental effects on national economies. It can lead to revenue losses for governments, distort trade statistics, undermine fair competition, and hinder economic development. By addressing TBML, governments can protect their economies, ensure the collection of proper tax revenues, promote fair trade practices, and foster sustainable economic growth.

- **Strengthening Global Security:** TBML is often associated with organized crime, terrorism, and other illicit activities. Addressing TBML contributes to strengthening global security efforts by disrupting the financial networks that support these activities. By targeting the financial aspects of criminal and terrorist organizations, authorities can weaken their operational capabilities and reduce the potential for harm.

Addressing TBML requires International cooperation, and coordinated efforts among Governments, Financial Institutions, Trade organizations, and Law Enforcement Agencies. By recognizing the significance of combating TBML in the Global Financial system, stakeholders can work together to implement effective measures, improve Regulatory Frameworks, and enhance the resilience and integrity of the Global Financial system.

1. **Regulatory Framework and Challenges**
   i. Overview of International (AML/CFT/CPF) regulations
   ii. Existing gaps and limitations in addressing TBML
   iii. Challenges related to jurisdiction and harmonization
   iv. Regulators' role in preventing TBML and ensuring compliance.

2. **Implications for Regulators**
   i. Enhancing regulatory frameworks and guidelines
   ii. Promoting information sharing and cooperation among Regulators
   iii. Strengthening supervisory oversight and enforcement
   iv. Leveraging technology and data analytics for effective detection

3. **Implications for Operators**
   i. Developing Internal controls and Risk Management Frameworks
   ii. Conducting comprehensive due diligence on trading partners
   iii. Enhancing transaction monitoring and suspicious activity reporting
   iv. Staff training and capacity building

4. **Collaborative Strategies for Countering TBML**
   i. Public-private partnerships and information exchange
   ii. Engaging financial institutions and industry associations
   iii. Encouraging international cooperation and coordination
   iv. Sharing best practices and case studies

CONCLUSION

Nigeria's AML/CFT/CPF Framework has come a long way. It is made up of a robust Legal, Regulatory, and Institutional framework built over nearly 2 decades driven by external International pressures as well as strong political will. The framework continues to evolve as competent authorities engage at the highest levels to put in place robust national controls to help effectively mitigate Money Laundering, Terrorism Financing, and Proliferation Financing. Following the outcome of Nigeria's GIABA led FATF Mutual Evaluation in 2020, multiple deficiencies were highlighted in the Country's AML/CFT & CPF Framework. This necessitated the need to make amendments to existing laws and regulations, and the introduction of new laws and regulations.

At the heart of Nigeria's financial crime risk controls, lies several laws and regulations. However, the focus is on the MLPPA, 2022, CBN's AML/CFT/CPF Regulation (2022),Proceeds pf Crime Act 2022 POCA and Terrorism Prevention and Prohibition Act TPPA 2022,CBN Administrative Sanctions Regulation (2018) as well as the Nigerian Financial Intelligence Act 2018. I would conclude by emphasizing on the need for Recapitulation of key findings and insights, Call to action for regulators and operators and Importance of ongoing research, innovation, and collaboration

Photo Speaks

The President/Chairman of Council, CIBN, Ken Opara, Ph. D, FCIB, at the Investiture of Mr. Innocent Iweka Okwuosa, Ph. D, FCIB, as the 59th President/Chairman of Council of The Institute of Chartered Accountants of Nigeria, ICAN, held in Lagos.

The President/Chairman of Council, CIBN, Ken Opara, Ph. D, FCIB, at the Stakeholder's Engagement with the newly sworn-in Governor of Enugu State, Dr. Peter Mbah, at the Government House, Enugu.

The President/Chairman of Council, CIBN, Ken Opara, Ph. D, FCIB, at the groundbreaking ceremony of "The CIBN Bankers Hall"- A CIBN Legacy Project endowed to Nnamdi Azikiwe University, in Awka.

The President/Chairman of Council, CIBN, Ken Opara, Ph. D, FCIB, Governing Council Members, and the Executive Management of CIBN during a condolence visit to the family of Otunba (Dr.) Michael Olasubomi Balogun , FCIB, at their residence on Friday June, 23, 2023.

Cross session on Countering Trade Based Money Laundering: Implications for Regulators & Operators being organized by CIBNCFS held June 13, 2023, at the Bankers House, Lagos

Cross session of the CIBN Staff celebrating the 2023 Africa Day at the Bankers House, Lagos.

Fuel Subsidy Removal: Opportunities for Individuals, Businesses and the Way Forward

Professor Adeola Adenikinju
University of Ibadan

Preamble

Fuel subsidy is a very emotional subject in Nigeria. If Nigerians, under age 50 accounts for 70% of the population. It then implies that 70% of the Nigerians alive today have lived all their lives under fuel subsidy. Fuel subsidy was first introduced in Nigeria in 1973 as a palliative measure to cushion the landing cost of petroleum products delivery to refineries following the need to carry out Turn Around Maintenance on them. It has since been used as a social transfer mechanism to ease the burden of high fuel prices on the masses.

Before 1973, the price of petrol was fully determined by the market to reflect costs of crude plus costs of processing of the crude, transportation, and marketing costs, and in some cases, local taxes. Hence, prices of fuel vary across the country, lowest in towns and cities close to the refineries and highest in furthest distances from the refineries. With rising population and growing demand, the burden of sustaining fuel subsidies has been heavy. In 2011, the government spent $8.4 billion on gasoline subsidies. An estimated N10 trillion is reported to have been spent on subsidy between 2006 and 2018. In 2022 alone, an estimated N5 trillion would be spent on subsidy. This has made it difficult for the government to have enough revenue to fund the provision of basic social amenities and critical infrastructure. Over the years, fuel subsidy has moved from implicit subsidy to explicit subsidy. When the refineries were working, barrels of oil were sold to domestic refineries at below international price level.

- Fuel subsidy has been justified on a few reasons:
- To curtail inflation
- Promote industrial development and economic growth.
- Privileged or right of Nigerians as oil producers.
- Promote balanced national development.
- Promote equity.

Over the years, experience and data have not borne the lofty ideas and ideals that underpin fuel subsidy.

A paper presented at the CIBN Advocacy Dialogue 8.0 on Fuel Subsidy Removal: Opportunities for Individuals, Businesses and the Way Forward held June 16, 2023.

Costs of Subsidy

Subsidy has resulted in substantial loss of revenue and an exponential growth in domestic oil consumption, as low price does not signal real cost of consumption contributed to the collapse of local refineries, as price of fuel did not reflect cost of supply dilapidated, supply and distribution infrastructures, reluctance of private investors to invest in refineries, sporadic fuel shortages at fuel stations, smuggling and adulteration of products, macroeconomic and distributional distortions, emergence of multiple agencies to oversee subsidy management, including the PPPRA, PEF(M) massive fiscal losses and pressure on the exchange rate. Attempts in the past to remove subsidies have generated oppositions from consumers already used to cheap energy prices due to presumptions that any price increase will fuel inflation and reduce economic welfare.

Recent Government Efforts

The combination of declining oil revenue and high fiscal costs of subsidy has prompted the government to launch a renewed efforts to liberalize the fuel market. They include;

- The provision of fuel subsidy lasted for the first 6 months of the government.
- Major announcement on the end to fuel subsidy on day of Inauguration.
- Major adjustments to PMS prices, first by the NNPC and across the country by other marketers
- Meetings of stakeholders – labor, marketers, state governors, Traditional rulers, etc
- Establishment of a broad-base stakeholders committee to work out acceptable palliatives.
- Broad acceptance by Nigerians on the government move
- Market response has started.

Economic Agents response to Subsidy removal

Demand Response

- Fuel Efficiency measures
- Car pooling
- Work from home
- Reduce number of vehicles
- Use other means of transportation – rail, public bus.
- Substitution of other forms of energy

Supply Response

- More domestic refineries, depots, pipelines, and downstream infrastructure
- Public bus, and alternative transport modes
- Supply of other forms of energy including solar, CNG, EV, etc
- Reduce profit margins.

Government Support

Income Support

- Conditional Cash transfers
- Public transport vouches for elderly, students, disables.
- Tax, tariff reduction, credit support for public transport and alternative energy
- Income support for rural farmers

Expenditure switching

- Universal Basic Education: public education in primary and lower secondary school
- Free public health care
- Students' loans
- Rural infrastructure
- Job and employment
- School Feeding, free uniforms, and books

Opportunities for Entrepreneurs

- ICT and software developers for the implementation of the intervention programmes (e-wallet, transport vouchers, cash-transfer schemes, etc).
- Trainers and education experts in the areas of vocational skill development
- Transporters
- Solar and inverter system specialists
- Logistics and delivery experts

Critical challenges

- The greatest challenge facing the process of deregulation in Nigeria is the credibility of government.

- Past promises of govt have not been implemented.
- Lack of transparency and inefficiency of government
- Inability of govt to remove some of the supply bottlenecks in the short run.
- Resistance from entrenched interests and Nigerians who have come to see cheap fuel as a right.

WHAT WILL POST-SUBSIDY ERA ECONOMY LOOKS LIKE

The current practice of using trucks to move fuels from Lagos to different parts of the country have destroyed our roads, let to deaths of innocent Nigerians and destruction of properties. In addition, smuggling of fuels to neighboring countries will no longer be profitable as prices of fuel across the region will closely align.

Nigeria will no longer subsidize fuel consumption across the neighboring countries and provide source of revenues for their governments through taxes imposed on fuels smuggled from Nigeria. Government controlled refineries will also be likely to be sold to the private sector or run like private sector companies. Nigeria will no longer spend N13 billion every month on refineries that are not producing and inefficient and would have saved over US$19 billion spent on TAM of refineries in the past 8 years.

Furthermore, removal of subsidies will encourage efficiency in fuel consumption, and promote the switch to green energy in the energy consumption mix of Nigeria. The rich folks will pay for the fuel they consumed, while some support will be provided for the poor, for instance, by diverting more government expenditures to social goods. After the initial shocks, adjustment process in fuel prices will follow those of other normal commodities deliver by the market. Fuel prices will move more instantaneous around their long-term trends rather than proceed in fits and jumps that have caused major shocks in the economy.

RECOMMENDATIONS

I. Nigeria needs to keep to a formula-based approach for determining fuel prices in the short term, while expediting actions in respect of putting in place a vibrant domestic refining industry.

II. There is a need to allow for more competition in the supply chain, especially in the issuance of import licensing. Importers should compete on freight charges, product costs, and margins.

III. Government should work hard to remove some of the supply constraints at the Ports.

IV. Some of the current charges should be waived or reduced, e.g., demurrage, NPA charges. An orderly scheduling of imports to allow for faster discharges of fuel cargoes is also recommended.

V. The current low pricing regime for crude oil should allow the government to put in place some form of taxes on fuel imports.

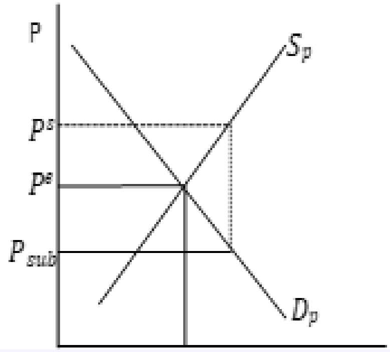
CONCLUSION

Subsidy removals have significant benefits for the economy. It will increase the revenues accruing to the government and enhance government capacity to undertake its economic programmes. Efficient fuel pricing will also allow private investment into refinery establishment and all segments of the fuel supply system. This will make the returns in the sector comparable to what obtains in other sectors with similar degree of risk and investment and further reduce the present state of perennial fuel shortages which have bedeviled the industry for nearly a decade.

The improvement in the efficiency of energy use also has implications for conservation and energy transition. Energy is an irreplaceable wasting asset. Every barrel of oil lifted from the ground cannot be replaced and hence represents a loss to the future generation. Hence, higher energy prices would place an appropriate valuation on the resource and thus ensure that the interests of future generation are taken into consideration in the utilization of the resource.

Price Determination in a Market Economy

- Competitive price = Demand price and Supply price



P^s = Supply price

P_{sub} = P^d = subsidy price = demand price

P^e = equilibrium price = P^d = P^s

Cumulative crude oil production up to and including year *(1,000 b)*

	1970	1980	1990	2000	2010	2021
Algeria	2,569,469	6,404,548	8,974,340	11,837,030	16,079,015	20,459,280
Angola	76,423	623,359	1,681,478	3,972,081	8,818,353	15,042,613
Congo	5,406	83,269	503,937	1,277,335	2,185,806	3,270,350
Equatorial Guinea	0	0	0	125,946	1,080,047	1,738,586
Gabon	195,732	870,019	1,507,592	2,691,226	3,586,461	4,436,052
IR Iran	12,357,977	29,969,896	38,410,483	51,367,070	65,152,744	77,922,668
Iraq	7,476,078	15,826,156	22,246,208	26,918,241	34,596,929	49,668,356
Kuwait[1]	13,028,906	21,993,164	25,857,094	32,092,887	40,548,105	51,583,885
Libya	5,476,384	12,810,843	16,929,582	21,993,272	27,594,678	30,753,839
Nigeria	1,138,896	8,389,456	13,656,562	20,572,881	28,198,355	34,903,075
Saudi Arabia[1]	13,283,848	42,306,785	61,814,608	91,266,532	122,387,773	161,654,358
United Arab Emirates	1,160,471	7,164,231	11,921,927	19,785,670	28,265,801	39,740,356
Venezuela	26,301,976	36,046,663	42,528,079	51,772,971	62,363,887	70,379,743
OPEC	**83,071,565**	**182,488,388**	**246,031,889**	**335,673,140**	**440,857,955**	**561,553,161**

Notes:
Prior to 2020, the crude oil production series for Nigeria includes some blended condensate from lease and gas plants.
1. Figures include share of production from Neutral Zone.

Daily and cumulative crude oil production in OPEC Members

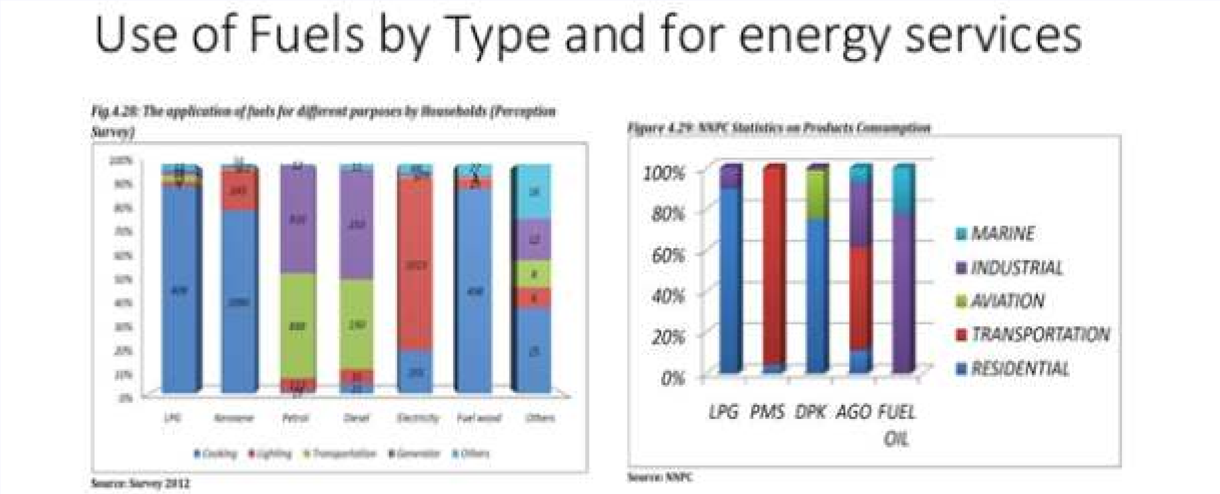
(1,000 b)

Daily crude oil production

(average)

	1970	1980	1990	2000	2010	2021
Algeria	1,029	1,020	783	796	1,190	911
Angola	84	150	474	736	1,758	1,124
Congo	0	56	156	267	309	267
Equatorial Guinea	0	0	0	115	237	93
Gabon	109	175	274	283	233	181
IR Iran	3,829	1,467	3,135	3,661	3,544	2,392
Iraq	1,549	2,646	2,113	2,810	2,358	3,971
Kuwait[1]	2,990	1,664	859	1,996	2,312	2,415
Libya	3,318	1,832	1,389	1,347	1,487	1,207
Nigeria	1,083	2,058	1,727	2,054	2,048	1,323
Saudi Arabia[1]	3,799	9,901	6,413	8,095	8,166	9,125
United Arab Emirates	780	1,702	1,763	2,175	2,324	2,718
Venezuela	3,708	2,165	2,135	2,891	2,854	636
OPEC	**22,277**	**24,835**	**21,220**	**27,226**	**28,818**	**26,363**

OPEC	GDP per capita (US$)	Oil production per capita (barrels) (2021)	cumulative oil production per capita (barrels) (1970-2021)
Algeria	3624.4	7.4	453.3
Angola	2320.9	12.8	467.3
Congo	2245.6	17.1	578.9
Eq. Guinea	8466.7	22.6	1133.3
Gabon	9142.9	31.5	2095.2
IR Iran	2706.5	10.3	916.7
Iraq	5046.1	35.2	1206.3
Kuwait	31488.4	205.0	12000.0
Libya	4835.8	65.8	4597.0
Nigeria	1998.6	2.2	159.8
Saudi Arabia	23478.9	93.8	4554.9
UAE	42705.2	103.3	4135.4
Venezuela	1455.4	7.3	2203.4



Limited Fiscal Space

Nigeria's revenue/GDP ratio and expenditure/GDP ratio are among the lowest in the world. When we expect the government to deliver on dividends of democracy by embarking on major infrastructural and social spendings, the government must have resources to achieve that. The truth is that the Nigerian government cannot afford it. Many countries where government played active roles in the society it is because they have the capacity to do so.

Government budget per capita (2017)

Nigeria	$108
UK	$17,202
Ghana	$440
South Africa	$1,865
USA	$20,674
Egypt	$554
Turkey	$2,343
Saudi Arabia	$8,912
India	$559

COMMUNIQUE ISSUED
AT THE END OF THE
CIBN ADVOCACY DIALOGUE 8.0

THEME:

FUEL SUBSIDY REMOVAL: OPPORTUNITIES FOR INDIVIDUALS, BUSINESSES AND THE WAY FORWARD

FRIDAY, JUNE 16, 2023

1.0 Introduction

The CIBN Advocacy Dialogue 8.0 with the theme; '**Fuel Subsidy Removal: Opportunities for Individuals, Businesses and the Way Forward'** was held on Friday, June 16, 2023. The virtual event was organized by The Chartered Institute of Bankers of Nigeria Centre for Financial Studies (CIBNCFS).

The event critically examined the implications of fuel subsidy removal in Nigeria with a view to identifying opportunities for individuals and businesses across various sectors, as well as come up with insights that would help policy makers formulate a comprehensive roadmap for sustainable economic growth and business adaptation in the post-subsidy era.

The President/Chairman of Council of The Chartered Institute of Bankers of Nigeria (CIBN), Ken Opara, Ph. D, FCIB, in his opening remarks, stated that the purpose of the Advocacy Series, was to empower various stakeholders with knowledge on critical issues affecting the banking and financial industry.

He further highlighted some salient points with respect to the theme as follows;

- The aim of the event was to delve into the multifaceted implications of this policy decision and collectively chart a path towards sustainable economic growth, looking at business adaptations in the post-subsidy era.
- The topic is of keen interest to individuals, communities, corporate bodies, and also the international economy.
- The removal of the subsidy is seen as an opportunity rather than a challenge by the Institute.
- Nigeria has spent over 11.7 trillion US dollars on subsidies from 2016 to 2023, with 4.32 trillion spent in 2022 alone.
- The subsidy removal presents opportunities such as utilizing compressed natural gas (CNG) for energy, shared facility concepts, embracing flexible working hours to reduce fuel consumption, and implementing alternative power supply like solar energy.

- While the immediate impact may involve adjustments in prices and costs, there are also opportunities for innovation, efficiency, and growth across different sectors of our economy.
- It is crucial to understand these dynamics, assess the risks and opportunities, and strategize accordingly.
- Urged participants to embrace the opportunity to critically examine the removal of fuel subsidy, evaluate various opportunities/benefits and collectively shape the way forward.

2.0 Panel Discussion

The keynote presentation was delivered by Dr. Biodun Adedipe, FCIB, Chief Consultant, B. Adedipe Associates Ltd. While the Panel Session which was moderated by Mrs. Funke Ladimeji, HCIB, ED, Coronation Merchant Bank & Chairperson, APWB, had the following experts from various sectors of the economy as Panellists:

i. Dr. Yemi Kale, Partner & Chief Economist, KPMG Professional Services
ii. Prof Adeola Adenikinju, Prof of Energy Economics , University of Ibadan
iii. Mrs Audrey Joe-Ezigbo, Co-Founder, Falcon Corporation Ltd
iv. Prof. Yemi Oke, Professor of Energy & Electricity, University of Lagos
v. Mr. Johnson Chukwu, Chief Executive, Cowry Asset Mgt Ltd
vi. Prof Muhammad Auwalu Haruna, Director, CBN Centre for Economics & Finance , ABU, Zaria

2.1 Highlights of Discussions

2.1.1 Overview of Fuel Subsidy in Nigeria

- Subsidy is understood generally to be a direct or indirect payment to individuals or firms and it can be in the form of cash or a tax cut or waiver.
- In economic theory, the essence of subsidy is to correct market failures (inefficient allocation of resources) or externalities, with the ultimate aim of achieving greater efficiency.
- It is either to ensure effective use of the resource or service in question (avoiding waste), or to enhance the value delivered
- This aligns with the perspective of the World Trade Organization (WTO) that argues that subsidy is supposed to improve welfare by correcting market failure, thus aligning private and social costs and benefits.
- In general, though subsidy is always targeted and when the target beneficiaries are denied or prevented from accessing the benefits, the policy has failed.
- According to Oil & Gas Sub-Committee, Policy Advisory Council, 2023, "$10.70 billion was lost annually to PMS subsidy and inefficiencies associated with the purchase, distribution, and sale of PMS."
- National Bureau of Statistics, 2023, "During 2014-2022, N11.5 trillion was spent funding subsidy, compared to N7.0tr for Defense, N6.2tr for Education and N4.2tr for Health."
- Fuel subsidy (or price control) removal has been an issue in discourse in Nigeria for several decades, since it was institutionalized in 1977 with the Price Control Act.
- Every occasion of 'price alignment' was termed subsidy removal by government after government up until August 2020.
- Conceptually, there is nothing wrong with subsidy. The problem in our clime is its administration and application that leaves considerable room for fraud and all manner of sharp practices.
- The petroleum sector had been overregulated and inefficiently regulated.
- Most activities were fraught with fraud and corruption.
- Inefficiency and unsafe business practices were rife.
- What could have been legitimate subsidy

benefits due Nigerian taxpayers were inadvertently transferred to citizens of neighbouring West African countries.

- Most of the new investments in the downstream sector were not by responsible investors, but those that wanted to take advantage of the strange opportunities.
- The target beneficiaries of fuel subsidy did not receive it.
- NNPCL as importer of refined products tantamount to 'dirty deregulation'.
- Erstwhile Petroleum Equalization Fund was a market aberration that enabled corruption.
- The erstwhile pricing template and mechanism had in-built inefficiency and manipulation tendency.
- The daily allocation of 450,000 bpd of crude oil for domestic refining / consumption completely obliterates and puts a lie to subsidy.
- Therefore, the removal of the fuel subsidy is a necessity and it has a broad range of impact.

2.1.2 Macro Implications of Fuel Subsidy Removal in Nigeria

- Market-determined prices for refined petroleum products are expected, accompanied by licensing requirements for importation.
- Immediate price increases in PMS (Premium Motor Spirit) have already been witnessed, and there may be price hikes in food and non-food products, depending on their reliance on transportation and energy.
- Removing subsidy and reducing the involvement of NNPC (Nigerian National Petroleum Corporation) can lead to more effective allocation of fiscal resources and stimulate economic growth.
- Licensing will be required for the importation of refined petroleum products, subject to specific technical and other requirements.
- Fuel subsidy removal can serve as a catalyst for economic diversification by encouraging investment in non-oil sectors, driving innovation, job creation, and overall economic growth.
- Removing fuel subsidies would alleviate the financial burden on the government, allowing for more efficient allocation of funds to other critical sectors such as healthcare, education, and infrastructure development.
- A transparent and market-oriented petroleum sector, free from subsidies, can attract foreign investors who seek stable and predictable business environments, fostering economic growth and technology transfer.
- The removal of fuel subsidies can stimulate the development and adoption of alternative energy sources, such as renewable energy and electric vehicles, thereby reducing the country's dependence on fossil fuels and promoting a greener and more sustainable future.
- As competition and efficiency improve, pump prices for petroleum products should gradually decrease.
- Favourable pricing may incentivize domestic production of refined petroleum products.

2.1.3 Impact on Businesses and Households

1. Increase in transport fares: This can have a direct impact on the commuting expenses of individuals and families, affecting their overall budget and disposable income.
2. Increased cost of living: Basic necessities such as food, goods, and services that rely heavily on transportation and energy usage may experience price increases, affecting household budgets and purchasing power.

3. Increased cost of doing business: Businesses, especially those reliant on transportation and energy, may face higher operational costs. This includes industries such as logistics, manufacturing, agriculture, and retail, which heavily rely on fuel for their day-to-day operations. The increased cost of fuel can impact profitability and potentially lead to price adjustments for goods and services.

4. Agitation for wage and pension increase: As the cost of living rises, employees may demand higher wages to cope with the increased expenses, which can add pressure to both private and public sector employers.

5. Priority and strategy reset: The removal of subsidies necessitates a re-evaluation of priorities and strategies for both businesses and households. It prompts a need to reassess budgeting, spending habits, and long-term financial planning. Businesses may need to adjust their pricing strategies, explore cost-saving measures, and identify new opportunities for growth. Similarly, households may need to prioritize expenses, explore alternative energy sources, and adapt to the changing economic landscape.

6. Consumer behaviour changes: Higher fuel prices can influence consumer behaviour, leading to shifts in spending patterns and preferences. Consumers may opt for more fuel-efficient vehicles, prioritize closer proximity to essential services, and explore alternative modes of transportation such as carpooling, public transit, or cycling.

3.0 Recommendations:

3.1 For Government

1. Citizen engagement and awareness: The government should actively engage citizens by communicating the opportunities, challenges, and strategies in place to cushion the effects of subsidy removal. This includes creating platforms for dialogue, providing accurate information, and addressing concerns to foster transparency and understanding.

2. Intensify food security measures: With potential increases in transportation costs and food prices, the government should prioritize initiatives to enhance food security. This can involve investing in agricultural productivity, supporting smallholder farmers, promoting sustainable farming practices, and improving storage and distribution systems.

3. Enhance mass transportation: To mitigate the impact of increased transport fares on commuters, the government should prioritize the development and improvement of mass transportation systems. This can include investing in public transit infrastructure, expanding reliable and affordable transportation options, and promoting alternative modes of transportation.

4. Strengthen social protection programs: The government should reinforce social protection programs to provide a safety net for vulnerable groups affected by subsidy removal. This can involve expanding access to healthcare, education, affordable housing, and targeted cash transfer programs to alleviate the burden on low-income households.

5. Fuel diversification and utilization of gas: To reduce reliance on imported petroleum products, the government should prioritize fuel diversification and promote the increased utilization of gas resources. This includes incentivizing investment in gas

infrastructure, supporting the development of gas-based industries, and encouraging the adoption of cleaner energy alternatives.

6. Promotion of competition: The government should actively promote competition within the energy sector to drive efficiency, improve service delivery, and ensure fair pricing. This can involve implementing policies that foster a competitive market environment, encouraging new players to enter the market, and preventing monopolistic tendencies.

7. Support entrepreneurship and skill development: Policies should be implemented to support entrepreneurship and skill development, enabling individuals and businesses to adapt and thrive in the changing economic landscape. This can involve providing access to finance, offering business development programs, and facilitating vocational training to enhance investment, productivity, and job creation.

8. Efficient management of resources: Efficient management of resources will be crucial for optimizing productivity and minimizing waste. The government should prioritize transparent and accountable practices in resource allocation, budgeting, and project implementation to ensure optimal utilization of available resources.

9. Support for the small-scale sector: Specific facilities and support should be made available and accessible to the small-scale sector of the economy. This can involve providing targeted financial assistance, improving access to markets, and offering capacity-building programs to enhance the livelihoods of small-scale businesses and entrepreneurs.

10. Dismantle corruption mechanisms: The government should actively dismantle corruption mechanisms and ensure that the funds previously allocated for subsidies are repurposed for productive use. This involves implementing robust anti-corruption measures, promoting transparency, and enforcing accountability in the management of public funds.

11. Public-private partnerships: The government should foster public-private partnerships to leverage the expertise, resources, and innovation of the private sector. Collaborations between the government and private entities can facilitate infrastructure development, promote investment, and drive economic growth.

12. Embrace greener sustainable alternatives: The removal of fuel subsidies can incentivize the adoption of greener and more sustainable alternatives. The government should encourage the development and adoption of renewable energy sources, energy-efficient technologies, and environmentally friendly practices to reduce carbon emissions and promote a cleaner and more sustainable future.

13. Stimulate market responses through policy and regulatory framework: The government should establish a robust policy and regulatory framework that stimulates market responses to subsidy removal. This includes creating a conducive business environment, implementing clear and predictable regulations, and fostering innovation and competition within the energy sector.

3.2 For Businesses & Households

1. Improve operational efficiencies: Businesses should identify areas where they can streamline processes, reduce waste, and optimize resource utilization. This can involve implementing lean management principles, adopting technology solutions, and investing in employee training to enhance productivity.

2. Adjust operating hours: Businesses may consider modifying their operating hours to align with cost-effective energy usage. By optimizing the utilization of energy during off-peak hours, they can reduce electricity consumption and lower operational costs.

3. Eliminate process leakages: It is crucial for businesses to thoroughly examine their processes and identify any loopholes or inefficiencies that lead to resource wastage or financial losses. By plugging these leakages, businesses can maximize their profitability and minimize unnecessary expenses.

4. Provide employee support: As the subsidy removal may result in increased transportation costs for employees, businesses can consider providing support in the form of one-off allowances or implementing flexible working arrangements, such as hybrid work models or remote work options. This can help alleviate the financial burden on employees and maintain their job satisfaction.

5. Explore affordable alternative energy sources: With the removal of fuel subsidies, businesses and households can explore and invest in affordable alternative energy sources such as solar power, wind energy, or biomass. Transitioning to renewable energy options can help reduce dependence on costly fuel and contribute to a greener and more sustainable future.

6. Promote a change of lifestyle: Households can play their part by embracing energy-saving habits and adopting a more sustainable lifestyle. This can include practicing energy conservation at home, such as using energy-efficient appliances, minimizing water usage, and reducing waste. Additionally, individuals can explore eco-friendly transportation options, such as cycling, or using public transportation whenever possible.

4.0 Conclusion

In conclusion, the removal of fuel subsidies in Nigeria brings forth both opportunities and challenges. While it aims to stimulate economic growth, attract investments, and optimize resource allocation, there are potential implications for businesses, households, and the overall economy. It is crucial for the government to engage citizens, implement supportive policies, and promote sustainable alternatives to mitigate the impact of subsidy removal.

Businesses and households should focus on enhancing efficiencies, exploring alternative energy sources, and embracing lifestyle changes. By collectively embracing these measures, Nigeria can navigate the fuel subsidy removal transition, foster economic resilience, and contribute to a greener and more prosperous future.

Akin Morakinyo, HCIB
Registrar/Chief Executive, CIBN

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Head Office: Bankers House PC 19, Adeola Hopewell Street, Victoria Island, Lagos, Nigeria.

P.O.BOX 72273. **Tel:** +234 -1- 4617924, 4610655, 6310046