

Dual-speed compliance in Nigeria's anti-money laundering and counter-financing terrorism regime: understanding sectoral disparities in the implementation of FATF international standards

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Abstract

Purpose – This paper aims to explain why the implementation of Financial Action Task Force (FATF) anti-money laundering (AML) and counter-financing of terrorism (CFT) standards vary significantly across sectors within the same national jurisdiction. Using Nigeria as a case study, the paper introduces the concept of dual-speed compliance to explain persistent gaps between technical compliance and functional effectiveness.

Design/methodology/approach – The study adopts a qualitative research design. Data were collected through 36 semi-structured interviews with regulators, financial institutions, designated non-financial businesses and professions (DNFBPs) and security agencies, supplemented by two focus group discussions. Documentary analysis of FATF and Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA) mutual evaluation reports, national risk assessments and relevant legislations was also undertaken. Data were analysed using thematic analysis to enable a systematic cross-sector comparison.

Findings – The paper shows that AML and CFT compliance in Nigeria operates at differentiated regulatory speeds. Banks and formal financial institutions demonstrate relatively high compliance, which is driven by intensive supervision, international financial exposure and significant compliance investments. In contrast, DNFBPs exhibit weak and uneven compliance because of limited oversight, low awareness, capacity constraints and insulation from global financial pressures. Informal economic actors largely remain outside the regulatory perimeter, resulting in near-total non-compliance and displacement of illicit financial activity.

Research limitations/implications – The study relies on qualitative data from a single country case, limiting statistical generalisability. However, the findings offer analytical insights that are applicable to other high-informality developing economies. Future research could apply the dual-speed framework comparatively across jurisdictions.

Practical implications – The paper highlights the need for sector-specific, risk-based supervisory strategies, targeted DNFBPs capacity-building and policies that integrate informal actors through digital identity and financial inclusion initiatives.



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Originality/value – The paper offers original value by introducing dual-speed compliance as a framework for analysing intra-state variation in AML and CFT implementation, which is supported by rare qualitative evidence from a high-informality developing economy.

Keywords Nigeria, FATF, Anti-Money Laundering, Regulatory Effectiveness, Counter-Terrorism Financing, Dual-Speed Compliance

Paper type Research paper

Introduction

Anti-money laundering (AML) and counter-terrorism financing (CFT) regulation has become a defining element of contemporary global financial governance. Since the establishment of the Financial Action Task Force (FATF) in 1989, states have converged around a common set of standards that are designed to strengthen the integrity of the international financial system and curb illicit financial flows (FATF, 2012; Levi and Reuter, 2006). Nigeria has been an active participant in this process by adopting successive FATF-aligned AML and CFT laws and undergoing multiple rounds of evaluation through GIABA, the FATF-style regional body for West Africa (GIABA, 2021, 2024).

Yet, despite Nigeria's substantial progress in achieving technical compliance that is reflected in comprehensive legislation, institutional reforms and improved regulatory guidance, significant vulnerabilities remain in both money laundering (ML) and terrorist financing (TF) risk exposure (GIABA, 2024). While the banking sector has developed relatively sophisticated compliance frameworks that are driven by stringent regulatory oversight, reputational risk concerns and correspondent banking pressures (IMF, 2021, NFIU, 2024), designated non-financial businesses and professions (DNFBPs) such as real estate practitioners, lawyers, accountants, dealers in precious stones and company service providers, continue to exhibit far weaker levels of compliance (NFIU, 2024). Empirical evidence from interviews and focus group discussions (FGDs) which was undertaken in the broader doctoral study revealed a striking pattern in which compliance in Nigeria is rapid, structured and resource-intensive in the banking sector, but slow, informal and often superficial in DNFBPs and the wider informal economy.

This paper introduces the concept of dual-speed compliance to explain this diverged pattern. Dual-speed compliance describes the coexistence of high compliance in tightly regulated financial institutions and low compliance in DNFBPs and informal markets within the same national AML and CFT system. The result is a fragmented compliance landscape in which robust enforcement in one sector is undermined by persistent weaknesses in others, a dynamic noted in broader analyses of fragmented governance in developing countries (Sharman, 2011; Reuter and Truman, 2004). Furthermore, similar patterns of uneven implementation, where formal financial sectors adopt advanced compliance technologies and practices while less regulated intermediaries lag, thereby creating asymmetric compliance capacities within national regimes, are observed (El Harras and Salahdine, 2025). Disparities in institutional capabilities and enforcement resources, in part driven by financial inclusion challenges and regulatory capacity constraints produce significant gaps between sectors, particularly affecting DNFBPs and informal financial channels (Aidoo, 2025; Olawale, 2024).

Although a substantial body of scholarship has examined cross-country disparities in AML and CFT compliance, far less attention has been paid to intra-state variation across economic sectors. Much of the literature treats national compliance as a unitary condition, implicitly assuming that regulatory capacity and incentives are evenly distributed within the state (Mugarura, 2014; Unger and Ferwerda, 2011; Olawale, 2024). The Nigerian case demonstrates the opposite; compliance is multi-speed, uneven and shaped by sector-specific incentives, capacities and degrees of state penetration.

This article develops the dual-speed compliance concept theoretically, grounding it in Nigeria's AML and CFT landscape. It examines its broader implications for global AML and CFT governance. It also lays a foundation for comparative research on fragmented compliance structures within developing economies, contributing to a more nuanced understandings of how global standards are internalised across heterogeneous regulatory environments.

Conceptual framework and literature review

Dual-speed compliance arises at the intersection of global AML and CFT standard-setting, sectoral variations in regulatory capacity and the political economy of developing states. This section positions the concept within the wider literature, demonstrating both its theoretical significance and the empirical gap it fills.

Global anti-money laundering and counter-financing of terrorism governance and the Financial Action Task Force international standard-setting architecture

The FATF recommendations represent the pre-eminent global framework for AML and CFT regulation. The recommendations together with the mutual evaluation process, have profoundly shaped domestic legal reforms, supervisory architectures and the configuration of the global financial system (Reuter and Truman, 2004; FATF, 2012, 2023). Rather than relying on formal coercive authority, FATF's influence operates primarily through the mechanisms of transnational governance, which includes peer review, follow-up assessments, reputational signalling, grey- and black-listing and indirect market discipline via correspondent banking and de-risking practices. This mode of influence has been widely documented in both early and contemporary scholarship (Naylor, 2002; Sharman, 2011; de Koker and Jentzsch, 2013). More recent studies further emphasise that FATF's effectiveness is mediated through global financial interconnectedness, where compliance incentives are strongest for jurisdictions and sectors integrated into international finance, while domestically oriented or informal sectors remain comparatively insulated from external pressure (Bach and Newman, 2014; Demetis and Angell, 2020; FATF, 2022; IMF, 2023). Consequently, FATF operates as a form of market-embedded regulatory governance, shaping state behaviour through reputational and economic leverage rather than direct legal compulsion.

This body of work, however, overwhelmingly treats the state as the primary unit of analysis. National compliance is typically described as a single and unified phenomenon. What remains largely unexplored is the intra-state variation that occurs across sectors within the same jurisdiction. This is a critical oversight, particularly in developing countries where degrees of formality, institutional capacity and exposure to external pressure differ substantially across economic sectors. The concept of dual-speed compliance directly addresses this gap by demonstrating that compliance dynamics differ dramatically within a single national AML and CFT system.

Sectoral variation in anti-money laundering and counter-financing of terrorism capacity

The literature on AML and CFT implementation reveals substantial differences in the capacity and incentives of regulated sectors. Banks, insurance firms and large fintech companies typically exhibit higher compliance because they are subject to intensive regulatory scrutiny, reputational exposure and international financial interdependencies (IMF, 2021; World Bank, 2020). These sectors frequently invest in automated transaction-monitoring systems, sanctions-screening tools, dedicated compliance departments, enhanced due diligence (EDD) procedures and regular staff training.

In contrast, DNFBPs which include real estate practitioners, lawyers, accountants, dealers in precious stones and company service providers operate in environments characterised by low regulatory oversight, limited awareness of AML and CFT obligations and entrenched cash-based business models (GIABA, 2016; FATF, 2021).

Many informal value-transfer networks remain entirely outside formal regulations. While the literature recognises these disparities, it has not conceptualised them as a distinct phenomenon. However, dual-speed compliance integrates these observations into a coherent theoretical model: one sector operates at a high regulatory “speed” because of global exposure and supervisory pressure, while others lag *behind* due to structural, economic and institutional constraints.

Compliance theory and the limits of uniformity assumptions

Classical compliance theory stemming from deterrence approaches (Becker, 1968), institutionalist thinking (Keohane, 1984) and behavioural cooperation models (Axelrod, 1984) typically explains compliance through three mechanisms of coercive incentives, normative alignment and capacity. These frameworks assume that states respond as unified actors with consistent institutional incentives and equal exposure to external pressures. *Every state is expected to respond as a unified actor because in the eye of international law each state (including heterogenous ones) operates in a unitary fashion.*

The Nigerian evidence demonstrates that these assumptions do not hold in its reality as it implements the Global Standards. Banks, for example, face direct and immediate FATF-linked pressures through correspondent banking relationships, offshore audits and cross-border regulatory expectations (IMF, 2021). DNFBPs, by contrast, face minimal external scrutiny and informal actors face none. Consequently, compliance behaviour is sectorally differentiated, not uniform. This challenges the assumption of statewide behaviour and extends compliance theory by showing that compliance incentives operate unevenly across domestic sectors.

Dual-speed compliance, therefore, contributes to the compliance literature, as it demonstrates that compliance is multi-layered, stratified, uneven, shaped by sector-specific exposure to both domestic and international regulatory pressures.

Anti-money laundering and counter-financing of terrorism implementation challenges in developing countries

Substantial literature highlights the broader challenges faced by developing and fragile states in implementing FATF international standards. Studies from West Africa, Southeast Asia and Latin America consistently show that AML and CFT effectiveness is limited by pervasive informality, weak identity systems, corruption, porous borders, low financial inclusion and limited supervisory capacity (Levi and Reuter, 2006; Mugarura, 2014; GIABA, 2021; IMF, 2017). Insecurity and conflict also weaken enforcement capabilities in regions where terrorist financing is most concentrated (Institute for Economics and Peace, 2023).

Although this literature identifies systemic implementation problems, it does not describe how compliance varies across sectors within a single jurisdiction. This is an analytical gap that the concept of dual-speed compliance seeks to fill.

Why existing concepts do not fully capture Nigeria’s pattern

Existing terms such as “regulatory gaps,” “implementation deficits,” “capacity challenges” and “weak governance” offer important insights but fail to capture the structural divergence observed in Nigeria. They do not adequately explain the stark difference between the high compliance of globally interconnected financial institutions and the weak compliance of

domestically oriented DNFBPs and informal actors. They also fail to capture the role of global financial interdependence in shaping behaviour in some sectors while leaving others unaffected.

Dual-speed compliance brings coherence to these observations by conceptualising AML and CFT compliance as a fast/slow regulatory dynamic. It recognises a multi-speed implementation environment that is shaped by external pressures, sector-specific incentives and structural asymmetries. This makes it both theoretically robust and empirically grounded.

Methodology

This study adopts a qualitative research design to examine the uneven patterns of AML and CFT compliance across Nigeria's financial and non-financial sectors. Qualitative inquiry is well suited for this purpose because it allows the researcher to explore institutional behaviour, interpret lived experiences and understand contextual factors that cannot be meaningfully analysed using quantitative indicators alone. As scholars of interpretive and regulatory research argue, complex governance phenomena particularly in environments where informality, political economy dynamics and institutional constraints shape implementation require methodological approaches that prioritise depth, meaning and contextual sensitivity (Creswell and Poth, 2018; Schwartz-Shea and Yanow, 2012).

Research design

The analysis draws on empirical data generated as part of a broader doctoral study examining Nigeria's compliance with FATF international standards. A qualitative design was chosen because AML and CFT effectiveness in Nigeria is heavily influenced by institutional incentives, operational capacities, informal economic structures and political economy constraints factors that are difficult to quantify but central to the understanding of compliance outcomes (Reuter and Truman, 2004; Levi and Reuter, 2006). Such dynamics necessitate an interpretivist approach that can uncover how actors make sense of regulatory obligations and navigate structural barriers in practice.

Data sources

Three primary sources of data were utilized, *namely*, interviews, FGDs and documentary analysis. A total of 36 semi-structured interviews were conducted with key stakeholders across Nigeria's AML and CFT ecosystem, including bank compliance officers; regulators from the Central Bank of Nigeria (CBN), Securities and Exchange Commission, National Insurance Commission and the Special Control Unit Against Money Laundering (SCUML); security agencies such as the National Intelligence Agency, Economic and Financial Crimes Commission (EFCC), Nigeria Financial Intelligence Unit (NFIU), Nigeria Police Force and National Counter Terrorism Centre; representatives of Designated Non-Financial Businesses and Professions (DNFBPs); civil society and non-profit organisations; and academic and policy experts. Semi-structured interviewing enabled a balance between consistency and flexibility, allowing participants to elaborate on institutional realities and challenges (Patton, 2015).

Two FGDs were conducted to enhance triangulation and capture sector-specific perspectives. The first included regulators and security agencies, offering insight into inter-agency coordination constraints, capacity deficits and security-related limitations. The second involved DNFBPs, shedding light on informal practices and low awareness of AML and CFT obligations and banking-sector compliance professionals, revealing sophisticated internal controls driven by regulatory and international pressures. FGDs provided an opportunity to observe shared experiences and contradictions across sectors (Bowen, 2009).

Document analysis incorporated the GIABA Mutual Evaluation Reports (2008, 2021 and follow-up reports from 2022 to 2024), Nigeria's 2022 National Money Laundering and Terrorist Financing Risk Assessments, the Money Laundering (Prevention and Prohibition) Act 2022, the Terrorism (Prevention and Prohibition) Act 2022, NFIU typology reports and FATF's recommendations and methodology. Documentary evidence allowed for verification of claims from interviews and FGDs and offered insight into the structural assumptions embedded in FATF's global standards (FATF, 2013; GIABA, 2021).

Participants were selected through purposive sampling method, a strategy appropriate for research requiring in-depth insights from individuals with specialised knowledge of AML and CFT operations (Palinkas *et al.*, 2015). Purposive sampling technique was used to identify senior practitioners within security agencies and DNFBPs who are otherwise difficult to access. This sampling approach ensured the study captured diverse but relevant perspectives across institutional and sectoral lines.

Furthermore, the data were analysed through thematic analysis, following Braun and Clarke's (2006) six-stage approach: familiarisation, coding, theme development, theme refinement, theme definition and final reporting. Coding was conducted, using an NVivo 15 for inductive categorisation, allowing themes to emerge organically from the data. Cross-sector triangulation was employed to compare patterns across banks, DNFBPs and security/regulatory bodies. This process highlighted persistent divergences in incentives, capacity and exposure to external pressure across sectors, ultimately informing the development of the dual-speed compliance concept.

However, given the sensitivity of AML and CFT information, rigorous ethical safeguards were maintained throughout the research. Participants were assured of anonymity, and all identifying information was replaced with codes. Interviews avoided discussion of active investigations or operational intelligence. Informed consent was obtained from all participants, and data were stored securely in compliance with established ethical research protocols (Israel and Hay, 2006). The fieldwork was conducted under formal ethical approval granted for the doctoral project.

Empirical evidence supporting dual speed compliance

The empirical findings from interviews, FGDs and documentary analysis provide strong support for the concept of dual-speed compliance. Across Nigeria's AML and CFT landscape, compliance practices vary markedly between highly regulated financial institutions and the weaker, less formalised DNFBPs and informal sectors. This divergence illustrates the multi-speed nature of AML and CFT implementation. It also confirms the uneven distribution of incentives, capabilities and external pressures across sectors – a pattern consistent with similar observations in developing-country regulatory environments (GIABA, 2021; IMF, 2021; FATF, 2021, NRA, 2022).

To operationalise the concept of dual-speed compliance, the empirical analysis proceeds by disaggregating Nigeria's anti-money laundering and counter-terrorism financing architecture into its constituent sectors. This sectoral approach enables a clearer examination of how compliance incentives, regulatory exposure and institutional capacity vary across different parts of the system. The discussion begins with the financial sector, where compliance is most advanced, before moving to weaker and less regulated domains.

High-speed compliance: banks and the formal financial sector

The banking sector demonstrated the strongest and most consistent compliance culture. This aligns with global findings that banks particularly large, internationally connected institutions, tend to operate at the highest compliance "speed" because of external scrutiny,

reputational risks and regulatory expectations (Reuter and Truman, 2004; de Koker and Jentzsch, 2013).

In addition, banks experience significant international pressure stemming from FATF's evaluations, reputational and financial risks of grey listing, vulnerability to de-risking by correspondent banks and heightened expectations from foreign partners. One Tier 1 bank compliance officer articulated this clearly: "If we fail FATF, we lose correspondent banking. We cannot take that risk". The IMF (2021) similarly notes that global banks face stronger market-based compliance incentives than other sectors.

Furthermore, Banks have invested substantially in compliance infrastructure, developing large internal AML departments, automated transaction-monitoring tools, sanctions screening systems and EDD frameworks. Regular internal training has created a deep compliance culture, with FGD1 participants emphasising that "compliance is a major part of our budget." These observations align with the literature, showing that financial institutions in emerging markets often adopt sophisticated compliance tools due to reputational risk and international exposure (World Bank, 2020). Bank staff that both participated in the interviews and FGDs demonstrated detailed awareness of FATF's recommendations, risk-based approaches, money laundering and terrorism financing red flags and customer due diligence (CDD) obligations. This knowledge base reflects both internal training and regulatory insistence on sector-wide compliance literacy (FATF, 2021).

While the financial sector exemplifies high-speed compliance, it does not represent the broader reality of Nigeria's anti-money laundering and counter-terrorism financing system. The concentration of regulatory capacity, technological investment and international pressure within banks creates an asymmetrical compliance landscape. To fully understand the systemic effectiveness of the regime, it is necessary to examine sectors where these drivers are weaker or absent. The next section therefore turns to designated non-financial businesses and professions, where compliance dynamics differ markedly and reveal the limitations of a banking-centric regulatory model.

Low-speed compliance: designated non-financial businesses and professions and semi-formal sectors

In contrast to financial institutions, DNFBPs exhibited significantly weaker compliance. This pattern mirrors broader findings across developing countries, where non-financial sectors consistently lag financial institutions due to limited oversight, weak incentives and high levels of informality (GIABA, 2016; Mugarura, 2014).

FGD2 participants reported minimal knowledge of FATF international standards or their own reporting obligations. As one participant noted, "We deal with clients every day, but we do not know how FATF applies to us." This lack of awareness is one of the characteristics of DNFBPs sectors globally, especially in jurisdictions with weak outreach programmes (FATF, 2021).

The Establishment of SCUML as a unit of EFCC pursuant to the Money Laundering (Prevention and Prohibition), Act, 2022, reflects Nigeria's development of a comprehensive institutional framework for Money laundering and terrorism financing. However, as participants observed, while Nigeria possesses "all the required institutions" the central challenge remains not "the absence of structures but effectiveness of enforcement". SCUML faces significant resource and staffing constraints, with limited capacity to supervise more than 40,000 DNFBPs nationwide. Participants highlighted infrequent inspections, unclear regulatory expectations and minimal sanctions, all of which undermine compliance. These findings reflect GIABA's 2021 mutual evaluation assessment that DNFBPs oversight in Nigeria remains "low intensity" and "largely reactive."

The real estate and precious stones markets, among others, frequently rely on cash transactions, informal agreements and undocumented ownership structures. A precious stones dealer explained: “Most buyers want to pay cash. These are long-standing business practices”. The predominance of cash aligns with Nigeria’s broader informal economic landscape, which is documented in [IMF \(2017\)](#) and [NBS \(2021\)](#) studies. In addition, according to CBN in 2025, there was an average of N3.9 trillion currency outside the bank, with only N290 billion currency in banks. This cash outside the bank provides huge avenues for low compliance with FATF international standards in Nigeria.

In fact, in Nigeria, legal practitioners are completely exempted as DNFBPs following a Federal High Court Judgement dated 19th July 2024. The Court invalidated Sections 6, 7, 8, 9, 11 and 30 of the Money Laundering (Prevention and Prohibition) Act, 2022 in so far as they apply to legal practitioners. The court held that lawyers cannot be compelled to disclose client financial information obtained in the course of professional engagement, and that mandatory reporting obligations imposed on lawyers are inconsistent with lawyer–client confidentiality protected under Nigerian law, thereby barring regulatory agencies (including EFCC, CBN and SCUML) from enforcing those provisions against legal practitioners (*Abu Aroma v Central Bank of Nigeria and 3 Ors*, Suit No. FHC/ABJ/CS/25 / 2023, FHC Abuja, 19 July 2024).

Furthermore, the case raised three fundamental issues of constitutional autonomy, legal professional privilege and institutional legitimacy. It argued that the regulation of legal practitioners is framed as falling within the exclusive domain of the judiciary and professional bodies, not executive agencies. The case also claimed that mandatory reporting of client transactions violated the confidentiality that is protected under the Evidence Act and common-law principles. The court ruled that SCUML, as an EFCC-linked unit, lacked the neutrality required to supervise lawyers without undermining the administration of justice.

The evidence from designated non-financial businesses and professions demonstrates that even within the formal regulatory perimeter, compliance remains uneven and often superficial. However, these sectors still operate within some degree of legal and institutional visibility. The compliance gap becomes even more pronounced when attention shifts beyond the semi-formal sector to the informal economy, where regulatory oversight is minimal or entirely absent.

Complete non-compliance: informal economy actors

Actors in the informal economy, including small traders, hawala-type operators, community savings groups and cross-border smugglers, operate largely outside the FATF’s regulatory perimeter. They typically maintain no formal registration, no customer identification systems, no record-keeping and no reporting mechanisms. Security officials interviewed in this study described informal value-transfer networks as “completely invisible to regulators.” This structural invisibility is reinforced by Nigeria’s demographic and identity-coverage gaps. Despite Nigeria being the most populous country in Africa, with an estimated population exceeding 232 million people in 2024–2025 ([World Bank, 2024](#)), large segments of the population remain outside formal identification systems. As of 2024, only about 118 million Nigerians had been issued a National Identification Number [National Identity Management Commission (NIMC), 2024], while approximately 64 million individuals were enrolled in the Bank Verification Number system, which underpins access to formal banking services ([Central Bank of Nigeria, 2024](#)). These figures underscore the structural limitations of know your customer (KYC) and CDD frameworks in the Nigerian context, particularly in relation to informal, cash-based and underbanked populations.

This aligns with Nigeria's National Risk Assessment of 2016, National Inherent Risk Assessment of 2022 and empirical findings across multiple regions, showing that informal sectors routinely evade AML and CFT oversight due to structural informality and weak state penetration (Levi and Reuter, 2006; Institute for Economics and Peace, 2023).

The near-total absence of compliance within the informal economy highlights the structural boundaries of the existing regulatory framework. In addition, with the patterns observed in both the financial sector and designated non-financial businesses and professions, the evidence points to a deeply uneven compliance landscape. This raises a critical analytical question: what underlying factors produce and sustain these divergent compliance outcomes across sectors? The following section addresses this question by identifying the key drivers of the dual-speed compliance pattern.

Drivers of the dual-speed compliance pattern

Empirical evidence highlights four primary drivers of Nigeria's multi-speed compliance structure, *namely*, uneven regulatory pressure, unequal incentives to comply, differences in sectoral exposure and contrasting capacity levels.

Banks face strong FATF-linked and market-driven compliance incentives, while DNFBPs experience minimal oversight. Informal actors receive no regulatory pressure at all. This asymmetry is consistent with Sharman's (2011) argument that global financial regulation disproportionately affects institutions most connected to international markets. Also, banks face high costs for non-compliance. They record loss of correspondent banking relationships. DNFBPs on the other hand, risk little, while informal actors' risk nothing. Consequently, compliance incentives vary sharply across sectors.

Furthermore, banks are embedded in global financial networks, while DNFBPs are predominantly domestically oriented, and informal actors operate within community-based systems. These structural differences shape regulatory behaviour and compliance priorities. In addition, banks *have* compliance officers, advanced technology and training programmes; majority of the DNFBPs have limited compliance literacy, whereas informal actors lack any AML and CFT understanding *but* others that are literate about it (lawyers) were exempted through court interpretations of the Money Laundering (Prohibition and Prevention) Act, 2022. Capacity asymmetries are a recurring theme in AML and CFT evaluations of developing countries (World Bank, 2020; GIABA, 2021).

These drivers; uneven regulatory pressure, differentiated incentives, varying degrees of global exposure and unequal institutional capacity, do not operate in isolation. Rather, they interact to produce a structurally fragmented compliance system in which different sectors respond to anti-money laundering and counter-terrorism financing obligations in fundamentally different ways. The cumulative effect of these dynamics is not merely variation, but systemic fragmentation. This fragmentation is further illustrated through participant accounts, which provide direct insight into how these disparities are experienced and interpreted within Nigeria's regulatory environment.

Evidence of fragmentation across sectors

Multiple participants underscored the fragmented nature of Nigeria's AML and CFT system. One regulator observed, "The banks are doing their job; others are not". An intelligence officer remarked, "DNFBPs are the weakest link". A Law Enforcement Officer similarly stated, "The informal sector is a black hole". These perspectives confirm that compliance in Nigeria is not uniform but sectorally stratified, with distinct compliance "speeds" across regulated, semi-regulated and unregulated sectors.

The empirical findings presented in this section demonstrate that compliance in Nigeria's anti-money laundering and counter-terrorism financing regime is not a unified national outcome but a sectorally differentiated process. The coexistence of high compliance in the financial sector, weak compliance among designated non-financial businesses and professions and near-total absence of compliance in the informal economy provides strong evidence of a multi-speed regulatory system. These patterns are not incidental but reflect deeper structural and institutional dynamics. The following section builds on these findings to develop the dual-speed compliance concept theoretically, situating it within broader debates on global governance, compliance theory and the political economy of regulation.

Discussion: developing the dual speed compliance concept

The findings from this study demonstrate unequivocally that Nigeria's AML and CFT regime does not operate as a unified compliance system. Instead, it functions as a bifurcated regulatory environment in which different sectors internalise and implement FATF international standards at markedly different speeds. This divergence between a highly compliant, internationally exposed financial sector and a weakly compliant, semi-formal or informal DNFBPs sector forms the basis of the dual-speed compliance concept. This section develops the theoretical underpinnings of the concept and situates it within broader scholarly debates on global governance, compliance theory and regulatory capacity.

Dual-speed compliance as a structural feature

Dual-speed compliance captures the structural disparities in how sectors within the same national jurisdiction internalise and operationalise international AML and CFT standards. The Nigerian case illustrates that the financial institutions, driven by strong supervisory pressure, international scrutiny and significant institutional investment, operates at a high compliance speed. Banks, for instance, maintain sophisticated AML and CFT systems and demonstrate consistent engagement with FATF and regulator-driven expectations, a pattern widely observed in globally integrated financial institutions ([Reuter and Truman, 2004](#); [de Koker and Jentzsch, 2013](#)).

By contrast, DNFBPs and informal sector actors operate at a low compliance speed, characterised by weak regulatory oversight, limited awareness of obligations and minimal institutional incentives. This disparity is not a temporary implementation gap, but a systemic structural feature shaped by Nigeria's political economy, the uneven distribution of regulatory capacity and the global architecture of FATF's standards (GIABA, 2021; [FATF, 2021](#)). The dual-speed phenomenon thus reflects, at a deeper level, the differentiated institutional environments within a single national AML and CFT system.

Dual-speed compliance and the political economy of regulation

The political economy of AML and CFT in developing countries helps explain why compliance speeds diverge so sharply across sectors. Financial institutions especially Tier 1 banks, are tightly embedded in global financial networks. Non-compliance threatens access to correspondent banking relationships, foreign currency markets, international investment flows and reputational standing ([IMF, 2021](#)). These pressures create powerful incentives for banks to invest heavily in compliance infrastructure, reflecting the argument that globally connected firms face stronger regulatory and market-based incentives than domestically oriented ones ([Sharman, 2011](#)).

DNFBPs and informal sector actors, however, operate under fundamentally different conditions. They are predominantly domestically oriented, loosely regulated, often politically influential and heavily reliant on cash-based practices. They are also largely

insulated from the international financial pressures that drive financial institutions compliance (Unger and Ferwerda, 2011; Mugarura, 2014). As a result, their incentives to internalise FATF norms are weak.

The dual-speed dynamic therefore emerges from the interaction between differentiated incentives and differentiated capacity, producing differentiated compliance speeds across sectors. This insight aligns with broader regulatory scholarship showing that compliance is shaped not only by formal rules but also by structural incentives and power relations within domestic political economies (Bach and Newman, 2010).

Financial Action Task Force's national assumptions vs sectoral realities

FATF's global assessment system assumes that AML and CFT implementation occurs at the national level and that compliance can be analysed holistically across a country's institutional environment. However, Nigeria's empirical profile challenges this assumption. The national AML and CFT regime contain pockets of high sophistication, particularly in the banking sector; pockets of low awareness among DNFBPs; pockets of complete regulatory invisibility in the informal economy and constitutional dilemma. This mirrors findings in other developing regions, where FATF's national-level evaluations obscure significant intra-state variation in institutional capability (Tsingou, 2010; Levi and Reuter, 2006).

Dual-speed compliance thus exposes a conceptual gap in FATF's architecture. The assumption of uniform national coherence fails to capture sectoral fragmentation within states. Recognising this fragmentation is essential to understanding why national-level technical compliance does not necessarily translate into system-wide functional effectiveness.

Why dual-speed compliance matters

Developing the concept of dual-speed compliance provides several important contributions to AML and CFT scholarship and practice. Dual-speed compliance clarifies why Nigeria, despite strong legal reforms and robust oversight in the financial institutions sector, continues to exhibit weak functional effectiveness. A significant portion of the AML and CFT ecosystem operates outside effective regulatory reach, a finding supported by global evaluations of developing state AML and CFT performance (FATF, 2021; GIABA, 2021). Moreover, because FATF oversight primarily targets formal financial institutions, the regulatory load falls disproportionately on sectors that are already well supervised. Meanwhile, DNFBPs and informal actors, where money laundering and terrorism financing vulnerabilities abound, remain weakly integrated into the AML and CFT frameworks.

Furthermore, the dual-speed model illuminates the structural vulnerabilities exploited by criminal actors, including real estate markets, gold trading networks, legal intermediaries and informal value-transfer systems (NFIU, 2022; IMF, 2017). In addition, by demonstrating that compliance is stratified across sectors, dual-speed compliance challenges state-centric assumptions in the AML and CFT literature and introduces a more granular analytical lens for evaluating implementation in developing economies.

These insights show that dual-speed compliance is not merely a descriptive concept but a theoretically robust framework that helps explain the uneven internalisation of global standards within structurally heterogeneous national economies.

Implications for theory and policy

The dual-speed compliance framework developed in this study carries significant implications for theories of compliance, institutionalist scholarship and policy design in AML and CFT governance. By revealing how different sectors internalise international

standards at divergent speeds, the findings challenge state-centric analytical assumptions and highlight the need for more context-sensitive regulatory approaches.

Implications for compliance theory

The concept of dual-speed compliance provides new insights towards understanding Compliance Theory by demonstrating that compliance is not a singular or uniform outcome but a multi-level and sectorally differentiated process. Traditional compliance frameworks, drawing from deterrence (Becker, 1968), institutional alignment (Keohane, 1984) and cooperative behaviour (Axelrod, 1984), generally treat “the state” as the central unit of analysis. However, the findings show that states may be compliant in some subsectors and non-compliant in others, depending on the distribution of incentives, capacities and external pressures.

This internal fragmentation explains why countries simultaneously display high technical compliance in the form of laws, regulations and institutional structures yet low practical or functional compliance in terms of enforcement and outcomes (Reuter and Truman, 2004; Levi and Reuter, 2006). Existing compliance scholarship rarely examines this intra-state variation, tending instead to aggregate compliance at the national level.

Dual-speed compliance challenges this assumption and suggests that meaningful analysis must consider variation across different regulatory domains, echoing recent calls for more granular approaches to institutional behaviour (Bach and Newman, 2010; de Koker and Jentsch, 2013).

Implications for liberal institutionalism. The findings refine Liberal Institutionalism by demonstrating the limits of global institutional influence in fragmented domestic environments. Liberal Institutionalism posits that international organisation shape state behaviour by diffusing norms, monitoring compliance and facilitating cooperative frameworks (Finnemore and Sikkink, 1998; Keohane, 1984). The FATF is often cited as a successful example of this dynamic (Sharman, 2011).

However, the evidence from Nigeria shows that FATF’s influence is uneven across subsectors. The organisation’s norms exert strong effects on high-capacity, globally interconnected sectors, such as banks, which are deeply embedded in international financial markets and vulnerable to reputational or market sanctions. By contrast, FATF has limited reach in low-capacity, informal, or domestically oriented spaces such as DNFBPs and informal actors. These areas remain largely insulated from FATF’s monitoring systems and enforcement tools (GIABA, 2021; IMF, 2017).

Thus, dual-speed compliance demonstrates that the influence of global institutions is bounded by domestic structural conditions, a significant extension of institutionalist theory. International norms diffuse effectively only where enabling institutional environments exist; where such conditions are absent, global standards struggle to transform local practice (Tsingou, 2010).

Policy implications for Nigeria. The dual-speed pattern indicates that Nigeria’s AML and CFT policymaking must move beyond uniform approaches and adopt differentiated and sector-specific strategies. Firstly, regulatory agencies must tailor supervision and enforcement to the distinct needs and capacities of DNFBPs. A “one-size-fits-all” strategy disproportionately strengthens the banking sector while leaving high-risk non-financial sectors vulnerable (GIABA, 2021). Enhanced supervisory tools, risk-based inspection models and structured reporting frameworks are needed for DNFBPs.

Secondly, DNFBPs require targeted training, awareness programmes and simplified compliance tools. Sector-specific guidance materials s FATF’s best practice guidance for legal and accounting professions would assist in bridging knowledge gaps.

Thirdly, integrating the informal sector into the regulatory ecosystem is critical. Policy options, such as simplified KYC models, national identity expansion and digital financial inclusion initiatives, all of which are known to reduce anonymity and improve traceability in high-informality economies ([World Bank, 2020](#)).

Fourthly, SCUML's capacity must be strengthened. Without adequate staffing, technical resources and enforcement authority, DNFBPs oversight will remain limited and perpetuating the dual-speed dynamic.

Fifthly, Nigeria should leverage appropriate technologies such as mobile KYC, low-cost AML tools and digital transaction platforms to reduce informality and promote compliance across underserved sectors and Finally, *because* the Nigeria's Money Laundering (Prevention and Prohibition) Act, 2022 and SCUML'S 2022 Operational Guidelines for DNFBPs adopted a broad, blanket DNFBPs approach of placing the lawyers under the same framework as Casinos and real estate dealers and that the Federal High Court judgment effectively and currently exempt lawyers from money laundering legislation-based DNFBP obligations. In Nigeria, therefore, lawyers cannot be compelled under the voided sections, unless the decision is overturned on appeal. Nigeria is unlikely to win on appeal and is left with the option of adopting the UK and European Union's functional, activity-based approach. Under this approach, Legal Professional Privilege is expressly preserved, lawyers are covered only for specified transactional activities including real estate, company formation and trust management. Reporting obligations apply only when lawyers act as financial or transactional intermediaries, not when providing pure legal advice and that supervisory responsibility lies with professional bodies and not law-enforcement agencies directly (SCUML). Thus, the Money Laundering (Prevention and Prohibition) Act, 2022 of Nigeria should be amended to reflect functional, activity-based approach.

Implications for Financial Action Task Force and Inter-Governmental Action Group Against Money Laundering in West Africa. Dual-speed compliance also has implications for global and regional standard setters. FATF evaluations typically assess compliance at the national level, often masking the significant internal fragmentation observed in developing countries. There is a need for evaluation methodologies that recognise sectoral asymmetries, particularly in high-informality economies.

FATF and GIABA should strengthen guidance for countries with large informal sectors, limited supervisory infrastructure or significant DNFBPs vulnerabilities. Current global standards implicitly assume formalised economic structures and robust regulatory capacity, assumptions that do not hold in many Global South contexts ([FATF, 2021](#); [GIABA, 2021](#)).

Additionally, FATF and GIABA should promote DNFBP-focused technical assistance, recognising that non-financial sectors increasingly serve as key conduits for money laundering and terrorism financing in developing economies ([Unger and Ferwerda, 2011](#)).

Finally, targeted financial sanctions frameworks should be adapted to suit contexts where terrorism financing risks occur largely outside the banking system. As research shows, terrorists in the Sahel and West Africa rely heavily on cash, informal taxation and trade-based schemes, requiring more sophisticated and context-specific disruption tools ([Institute for Economics and Peace, 2023](#)).

Conclusion

This paper has introduced and elaborated dual-speed compliance as a novel conceptual framework for interpreting the uneven internalisation and implementation of FATF AML and CFT standards within Nigeria. Drawing on extensive qualitative evidence including interviews, FGDs and documentary analysis, the study demonstrates that Nigeria's AML and CFT landscape functions not as a unified regulatory system but as a diverged compliance

environment. In this environment, the banking and formal financial sector exhibit high levels of compliance driven by external scrutiny and institutional investment, while DNFBPs and informal economic actors display, markedly, weaker or non-existent compliance practices.

This dual-speed pattern is structural rather than periodic. It reflects deep-rooted characteristics of Nigeria's political economy, institutional landscape and economic structure. The financial sector's integration into global markets exposes it to international pressures such as correspondent banking requirements, FATF evaluations and reputational risks, thereby creating strong incentives for sustained compliance. Conversely, DNFBPs largely serve domestic markets, operate with limited regulatory oversight and face minimal external pressure, resulting in limited incentives to adopt or internalize AML and CFT obligations. Informal actors, who constitute a significant share of Nigeria's shadow economy, remain entirely outside the regulatory perimeter and are therefore unaffected by the global AML and CFT norms.

The dual-speed compliance concept advances existing theoretical frameworks by demonstrating that compliance is not a monolithic national outcome but a sectorally differentiated process. It extends Compliance Theory by showing that actors within the same state respond differently to deterrence, normative expectations and capacity constraints, depending on their location within the political economy. It also refines Liberal Institutionalism by illustrating that the power of global institutions such as FATF is mediated by domestic structures *and* that institutional influence is strongest in globally integrated sectors, and weakest where economies are informal, decentralised, or poorly regulated.

To policy makers in Nigeria, the findings underscore the shortcomings of adopting a uniform, legislation-focused approach to AML and CFT reform. Achieving functional effectiveness requires targeted sector-specific strategies, including capacity-building and simplified compliance tools for DNFBPs, enhanced risk-based supervision, amendment of the laws and long-term initiatives aimed at formalising economic activity and expanding digital and financial inclusion. Strengthening SCUML and improving coordination across regulatory bodies are likewise crucial.

For FATF and GIABA, the dual-speed framework, highlights the need for context-sensitive evaluation methodologies that recognise internal sectoral asymmetries within states. Current national-level assessments obscure the significant fragmentation that characterises AML and CFT implementation in high-informality contexts. More tailored guidance is needed to assist countries where the large portions of the economy operate outside the formal financial system and where supervisory capacity is uneven across sectors.

The dual-speed compliance offers a robust theoretical lens for understanding AML and CFT implementation challenges in Nigeria and across the Global South. It provides a foundation for comparative research, examining how varying levels of formality, regulatory pressure and international exposure shape compliance outcomes within and across countries. In doing so, the concept contributes to broader debates on global financial governance and the localisation of international standards in diverse institutional environments without necessary given excuses for countries not to comply with international obligations while considering their internal deficiencies.

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