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The Role of Cryptocurrency in Terrorism Financing: The Nigerian Context

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Abstract

The intersection of terrorism and its financing mechanisms has evolved dramatically with the advent of digital currencies, particularly cryptocurrency. This paper explores the role of cryptocurrency in facilitating terrorism financing within the Nigerian context, an issue of increasing concern for national security. Structured into five parts, this study begins with an introduction that sets the stage for understanding the complexity of terrorism financing in Nigeria and the emergence of cryptocurrency as a disruptive financial technology. The second part delves into the historical evolution of terrorism in Nigeria, charting its growth and the diverse methods employed to sustain these illegal activities financially. This section provides a comprehensive overview of the socio-political factors that have enabled terrorism to flourish and examines the traditional and contemporary avenues of funding these activities. This part also provides an in-depth exposition on the role of cryptocurrency in terrorism financing within Nigeria. This section critically analyses the attributes of cryptocurrency that make it an attractive tool for terrorists, including anonymity, decentralisation, and the challenges it poses to traditional financial oversight. Case studies and examples specific to Nigeria will be discussed to highlight how digital currencies are being exploited for nefarious purposes. In the third part, the focus shifts to the response of Nigerian regulatory agencies, particularly the Central Bank of Nigeria (CBN), in combating terrorism financing. This section assesses the effectiveness of current regulations and enforcement strategies, highlighting both successes and areas needing improvement. It also considers the broader implications of Nigeria's approach in the context of global efforts to combat terrorism financing. Finally, the fourth part offers a set of recommendations aimed at enhancing Nigeria's capacity to mitigate the risks associated with cryptocurrency-enabled terrorism financing. These recommendations are designed to strengthen regulatory frameworks, improve inter-agency coordination, and promote international collaboration. The paper concludes with a fifth part by summarising the key issues discussed and reinforcing the need for robust, adaptive measures to address the evolving threat of terrorism financing in the digital age.

Keywords: Terrorism, Terrorism financing, Cryptocurrency, Central Bank of Nigeria, Digital Currency Regulation.

1. Introduction

The global financial landscape has undergone significant transformation with the advent of digital currencies, particularly cryptocurrencies. These decentralised, digital assets, often operating on blockchain technology, have revolutionised traditional financial systems by offering faster, cheaper, and more accessible methods of transaction. However, this innovation has also introduced new challenges, especially in the realm of illicit finance. In Nigeria, a country grappling with the persistent threat of terrorism, the role of cryptocurrency in financing these illegal activities has emerged as a critical area of concern for policymakers and security agencies.

Cryptocurrency, as defined by the International Monetary Fund (IMF), is a "digital or virtual currency that uses cryptography for security and operates independently of a central bank."[1] The decentralised nature of cryptocurrencies like Bitcoin, Ethereum, and others, makes them particularly appealing for both legitimate users and those seeking to conduct illicit activities, including terrorism financing. Unlike traditional currencies, cryptocurrencies are not subject to direct control by governments or financial

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[1] Vikram, H and Antoine, B.June, 2018 *What Are Cryptocurrencies?* Accessed August 20th, 2024 https://www.imf.org/en/Publications/fandd/issues/2018/06/what-are-cryptocurrencies-like-bitcoin-basics

institutions, making them harder to regulate and monitor. This has raised significant concerns among global and national authorities about their potential misuse.

Terrorism financing, as defined by the Financial Action Task Force (FATF), refers to the provision or collection of funds, by any means, directly or indirectly, with the intention or knowledge that they will be used to support terrorist activities.[2] Terrorist organisations require substantial financial resources to recruit, train, and arm militants, spread propaganda, and execute attacks.

Traditionally, these funds have been sourced through methods such as donations, extortion, trafficking, and money laundering. However, the emergence of cryptocurrencies has added a new dimension to these financing methods, complicating efforts to trace and intercept illicit financial flows. The link between terrorism financing and cryptocurrency lies in the unique characteristics of digital currencies that can be exploited for nefarious purposes. Cryptocurrencies offer a level of anonymity that is difficult to achieve with traditional financial systems. Transactions can be conducted without revealing the identities of the parties involved, and funds can be transferred across borders with minimal detection. This makes cryptocurrency an attractive tool for terrorists seeking to evade surveillance by financial regulators and law enforcement agencies.

The Financial Action Task Force (FATF) has noted that while the overall use of cryptocurrency in terrorism financing is still relatively low compared to traditional methods, its potential to become a major conduit for such activities cannot be ignored.[3] In the Nigerian context, where the battle against terrorism, particularly from groups like Boko Haram and ISWAP (Islamic State's West Africa Province) is common, the increasing adoption of cryptocurrency presents both opportunities and challenges. On one hand, the Nigerian government has recognized the potential of blockchain technology and digital currencies to drive economic innovation. On the other hand, the same technology poses significant risks when it comes to national security, particularly in financing terrorism. As cryptocurrencies become more entrenched in Nigeria's financial ecosystem, understanding their role in terrorism financing becomes crucial.

This paper, therefore, seeks to explore the evolving relationship between cryptocurrency and terrorism financing in Nigeria. It will examine the historical context of terrorism financing in the country, analyse how cryptocurrencies are being utilised to fund terrorist activities, and evaluate the efforts of Nigerian regulatory agencies, particularly the Central Bank of Nigeria (CBN), in curbing these illicit financial flows. Through this analysis, the paper aims to provide a comprehensive understanding of the challenges and propose actionable recommendations to mitigate the risks associated with cryptocurrency-enabled terrorism financing in Nigeria.

2. Evolution of Terrorism and Cryptocurrency in Nigeria

2.1 Historical Context of Terrorism in Nigeria

Terrorism in Nigeria has deep roots, with its modern manifestation often traced back to the early 2000s. The most prominent and devastating of these terrorist groups is Boko Haram, an Islamist militant group whose name loosely translates to "Western education is forbidden." [4]Founded in 2002 by Mohammed Yusuf in the northeastern region of Nigeria, Boko Haram initially focused on opposing Western education and secular government, but it soon escalated into violent extremism aimed at establishing an Islamic state governed by Sharia law.

The rise of Boko Haram coincided with socio-political instability in Nigeria, including widespread corruption, poverty, and regional inequality. The northeastern region, where Boko Haram began, is

[2] Guidance on Criminalising Terrorist Financing (Recommendation 5) (October, 2016) - Accessed August 20th, 2024 FATF https://www.fatf-gafi.org › G...PDF

[3] FATF- Terrorist Financing Risk Assessment Guidance - Accessed August 20th, 2024 https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://www.fatf-gafi.org/content/dam/fatf-gafi/guidance/Terrorist-Financing-Risk-Assessment-Guidance.pdf&ved=2ahUKEwiLxfLM0ZKIAxU0U0EAHbHJCi4QFnoECBEQAQ&usg=AOvVaw2usD6A3gRvFue-sgt F1oJn

[4] 'Who are Nigeria's Boko Haram Islamist group?'<https://www.google.com/amp/s/www.bbc.com/news/world-africa-13809501.amp> accessed 20 August 2024

among the most underdeveloped in Nigeria, with high rates of unemployment and low levels of educational attainment.

In 2015, Boko Haram pledged allegiance to the Islamic State (ISIS), leading to the formation of ISWAP (Islamic State's West Africa Province), a faction that split from Boko Haram. ISWAP has since become a formidable force in the region, further complicating Nigeria's counter-terrorism efforts. Both Boko Haram and ISWAP have employed a variety of methods to sustain their operations, relying heavily on financial resources to recruit, arm, and maintain their networks.

Traditional Methods of Terrorism Financing in Nigeria

Traditionally, terrorist groups in Nigeria have employed several methods to finance their activities. These methods include:

1. **Kidnapping for Ransom:** Kidnapping has been a lucrative source of income for Boko Haram and other militant groups in Nigeria. High-profile abductions, such as the kidnapping of the Chibok schoolgirls in 2014, have garnered international attention and, in some cases, resulted in substantial ransom payments.[5]
2. **Extortion and Taxation:** In areas under their control, terrorist groups like Boko Haram have imposed "taxes" on local populations and businesses. These funds are often collected through force or threats of violence, providing a steady stream of income for the group.
3. **Trafficking and Smuggling:** Boko Haram and ISWAP have been involved in various forms of trafficking, including human trafficking, arms smuggling, and the illicit trade of goods such as fuel and livestock. These activities are often linked to transnational criminal networks, allowing terrorist groups to generate significant revenue.
4. **External Donations:** Terrorist groups in Nigeria have also received financial support from external sources, including sympathetic individuals and organisations in the Middle East, North Africa, and the diaspora. These donations are often funnelled through informal financial networks, such as hawala, making them difficult to trace.
5. **Looting and Plundering:** During raids on towns and villages, terrorist groups often seize valuable assets, including cash, livestock, and food supplies. These spoils are then used to sustain their operations or sold to generate funds.

2.2 Evolution of Cryptocurrency in Nigeria

Cryptocurrency in Nigeria has seen a rapid and dynamic evolution, reflecting global trends while also being shaped by the unique economic, social, and regulatory landscape of the country. Initially met with scepticism, digital currencies have grown in popularity, driven by various factors including economic instability, a youthful population with a strong digital presence, and increasing distrust in traditional financial systems. As Nigeria became one of the leading countries in cryptocurrency adoption globally, this growth has spurred both opportunities and challenges, particularly in areas such as financial inclusion, remittances, and, more concerning, illicit activities like terrorism financing.

The introduction of cryptocurrency in Nigeria dates back to the early 2010s, shortly after the creation of Bitcoin in 2009. The earliest adopters were primarily tech enthusiasts and those interested in the potential of blockchain technology. Initially, cryptocurrencies were viewed with scepticism, largely seen as speculative investments rather than a legitimate medium of exchange. However, as global awareness of Bitcoin and other cryptocurrencies grew, so did their adoption in Nigeria.

Several factors contributed to the early adoption of cryptocurrency in Nigeria and they include the following:

1. **Economic Instability:** Nigeria has long struggled with economic volatility, characterised by fluctuating oil prices, high inflation, and a devaluing currency (the Naira). These economic challenges have made cryptocurrencies attractive as a store of value and a hedge against inflation. Bitcoin, in particular, was perceived as "digital gold," offering protection against the depreciation of the Naira.

[5]L Shola, and A Sani, 'Nigeria's Chibok Girls kidnapping: 10 Years Later, A Struggle to Move on' <https://www.google.com/amp/s/www.aljazeera.com/amp/features/2024/4/14/nigerias-chibok-girls-kidnapping-10-years-later-a-struggle-to-move-on> Accessed 20 August 2024

2. **Remittances:** Nigeria is one of the largest recipients of remittances in Africa, with millions of Nigerians living abroad and sending money home. Traditional remittance services, such as Western Union and MoneyGram, charge high fees and are often slow. Cryptocurrencies provided a faster, cheaper, and more accessible alternative for cross-border transactions, leading to their early adoption among the Nigerian diaspora and their families.
3. **Tech-Savvy Population:** Nigeria has a young and tech-savvy population, with high levels of mobile phone penetration and internet usage. This demographic was quick to embrace cryptocurrencies, particularly as a means of participating in the global digital economy. Online communities, social media platforms, and tech hubs in cities like Lagos became hotspots for discussions about cryptocurrency and blockchain technology.

By 2016, Nigeria had begun to establish itself as a significant player in the global cryptocurrency market. Peer-to-peer (P2P) trading platforms such as LocalBitcoins saw substantial growth, with Nigeria consistently ranking among the top countries in terms of trading volume. This period marked the beginning of a broader awareness and acceptance of cryptocurrencies in Nigeria, setting the stage for more widespread adoption.

By 2020, Nigeria had become a global leader in cryptocurrency adoption, ranking among the top countries in terms of trading volume on P2P platforms and Bitcoin search interest on Google. This widespread adoption reflected not only the growing popularity of digital currencies but also the adaptability of Nigerians in leveraging new technologies to navigate economic challenges. The year 2021 marked a turning point in Nigeria's cryptocurrency evolution, as the government moved to impose stricter regulations on the industry. This period was characterised by both regulatory challenges and a demonstration of the resilience and adaptability of the Nigerian cryptocurrency community.

CBN's Ban on Cryptocurrency Transactions: In February 2021, the Central Bank of Nigeria issued a directive to all financial institutions to close accounts involved in cryptocurrency transactions. The CBN cited concerns over the use of cryptocurrencies in money laundering, terrorism financing, and other illicit activities as the primary reasons for the ban. This move was met with significant backlash from the cryptocurrency community, which argued that the ban would stifle innovation and financial inclusion.

Shift to Peer-to-Peer (P2P) Trading: Despite the CBN's ban, the Nigerian cryptocurrency market demonstrated remarkable resilience. Many users shifted to peer-to-peer (P2P) trading platforms, which do not rely on traditional financial institutions to facilitate transactions. P2P platforms like Binance P2P saw a surge in activity, with Nigeria consistently ranking as one of the top countries for P2P trading volumes. This shift underscored the adaptability of Nigerian crypto users and the difficulty of enforcing a complete ban on digital currencies.

Government Exploration of Central Bank Digital Currency (CBDC): In response to the growing popularity of cryptocurrency and the challenges of regulating the sector, the Nigerian government began exploring the development of a Central Bank Digital Currency (CBDC). In October 2021, Nigeria launched the eNaira, Africa's first CBDC, as part of its efforts to promote financial inclusion and reduce the reliance on physical cash. While the eNaira is distinct from decentralised cryptocurrencies, its development reflects the government's recognition of the importance of digital currencies in the future of finance.

Cryptocurrency and Social Movements: The role of cryptocurrency in social movements also gained prominence in Nigeria, particularly during the #EndSARS protests in 2020. When traditional banking channels were restricted, protest organisers turned to cryptocurrency to receive donations and fund activities. This highlighted the potential of digital currencies to support civil society and bypass government restrictions, further cementing their role in the Nigerian financial landscape.

2.3 The Emergence of Cryptocurrency in Terrorism Financing

With the rise of digital currencies, terrorist groups in Nigeria have increasingly explored new methods to fund their activities, with cryptocurrency becoming an emerging tool for these purposes. Cryptocurrencies, such as Bitcoin and Ethereum, offer several advantages that are attractive to terrorist organisations such as;

1. **Anonymity and Pseudonymity:** Cryptocurrency transactions can be conducted without revealing the identities of the parties involved. This anonymity makes it difficult for authorities to trace the flow of funds and identify the individuals or groups behind the transactions.
2. **Decentralisation:** Unlike traditional financial systems, which are regulated by central authorities, cryptocurrencies operate on decentralised networks. This means that transactions do not require intermediaries such as banks, making them harder to monitor and regulate.
3. **Cross-Border Transactions:** Cryptocurrencies enable the transfer of funds across borders with minimal interference from financial regulators. This is particularly useful for terrorist groups that receive funding from external sources, as it allows them to bypass restrictions on international financial transactions.
4. **Fundraising through Online Platforms:** Terrorist groups have also utilised social media and encrypted messaging apps to solicit donations in cryptocurrency. These platforms provide a global reach, enabling terrorist organisations to raise funds from sympathisers around the world.

The Nigerian government, in collaboration with international organisations such as the Financial Action Task Force (FATF), has been working to address these challenges. Efforts include enhancing the monitoring of cryptocurrency transactions, improving inter-agency cooperation, and developing regulatory frameworks that balance innovation with security. However, the decentralised nature of cryptocurrencies continues to pose significant challenges for regulators.

Efforts to combat cryptocurrency-enabled terrorism financing in Nigeria must be multi-faceted, involving not only stricter regulations and enforcement but also international cooperation and information sharing. The Central Bank of Nigeria (CBN), in conjunction with other financial intelligence units and law enforcement agencies, will need to enhance their capacity to monitor and analyse cryptocurrency transactions. Public awareness campaigns and partnerships with the private sector, particularly cryptocurrency exchanges, are also crucial in mitigating the risks associated with digital currencies.

3. Agencies Responsible For Regulating Terrorism Financing Particularly Cryptocurrency

The fight against terrorism financing in Nigeria involves some regulatory agencies, each playing a critical role in identifying, monitoring, and preventing the flow of funds to terrorist organisations. The Nigerian government has recognized the growing threat posed by terrorism financing, particularly with the advent of digital currencies like cryptocurrency. This recognition has led to the development of a regulatory framework designed to address both traditional and emerging methods of financing terrorism.

Key agencies involved in this effort include the following:

a. The Central Bank of Nigeria (CBN)
b. The Economic and Financial Crimes Commission (EFCC)
c. The Nigerian Financial Intelligence Unit (NFIU)
d. The Securities and Exchange Commission (SEC)

Each of these agencies has distinct responsibilities, but their efforts are coordinated to ensure a comprehensive approach to combating terrorism financing. The CBN, as the apex financial regulator, plays a particularly significant role, especially concerning the regulation of digital currencies and their potential use in illicit activities. Each of these agencies will be discussed paying attention to their roles, merits and demerit starting from the apex financial regulator which is the CBN.

3.1 The Central Bank of Nigeria (CBN): Functions and Role in Regulating Terrorism Financing

The Central Bank of Nigeria (CBN) is the primary institution responsible for the regulation and supervision of the financial sector in Nigeria. Established by the CBN Act of 1958 and granted

independence with the CBN Act of 2007, the CBN's core functions include but not limited to the following:

1. **Issuing Legal Tender:** The CBN has the exclusive right to issue currency in Nigeria, ensuring the stability and integrity of the national currency.
2. **Monetary Policy:** The CBN formulates and implements monetary policy aimed at achieving price stability and supporting economic growth.
3. **Financial Stability:** The CBN oversees the banking sector, ensuring that banks and other financial institutions operate in a sound and stable manner. This includes the regulation of payment systems and the enforcement of anti-money laundering (AML) and counter-terrorism financing (CTF) measures.[6]
4. **Foreign Exchange Management:** The CBN manages Nigeria's foreign exchange reserves and regulates the foreign exchange market to ensure the stability of the Naira.
5. **Financial Inclusion:** The CBN promotes financial inclusion by ensuring that a broad segment of the population has access to financial services, including those in rural and underserved areas.

CBN's Role in Regulating Cryptocurrency and Combating Terrorism Financing

The rise of cryptocurrency posed new challenges for the CBN, particularly in its efforts to combat money laundering and terrorism financing. Initially, the CBN took a cautious approach to cryptocurrency, issuing warnings about the risks associated with digital currencies and cautioning the public against their use. However, as the use of cryptocurrency grew, so did the need for more concrete regulatory measures.

CBN's Initial Stance on Cryptocurrency: In 2017, the CBN issued a circular to banks and financial institutions, warning them about the risks associated with dealing in cryptocurrencies and advising them to steer clear of such transactions.[7] The CBN highlighted concerns over the anonymity of cryptocurrency transactions, which could facilitate money laundering and terrorism financing. Despite these warnings, cryptocurrency adoption in Nigeria continued to grow, driven by factors such as economic instability, the need for financial inclusion, and the increasing use of digital currencies for remittances.

The 2021 Ban on Cryptocurrency Transactions: In February 2021, the CBN took a more decisive step by issuing a directive to all financial institutions to close accounts involved in cryptocurrency transactions. The CBN cited the use of cryptocurrencies for money laundering, terrorism financing, and other illicit activities as the primary reasons for the ban. This move effectively cut off the connection between the traditional banking system and cryptocurrency exchanges, making it more difficult for Nigerians to buy and sell digital currencies using their bank accounts. The ban sparked widespread debate and criticism, with many arguing that it stifled innovation and financial inclusion. However, the CBN defended its decision, stating that the risks posed by cryptocurrencies outweighed the potential benefits, particularly in the context of national security.

Introduction of the eNaira: In response to the growing demand for digital currencies and the challenges of regulating decentralized cryptocurrencies, the CBN launched the eNaira in October 2021. The eNaira is a Central Bank Digital Currency (CBDC) that is fully regulated and backed by the Nigerian government. The eNaira aims to provide a safe and secure digital payment option while maintaining the CBN's control over the financial system. By introducing the eNaira, the CBN sought to offer a government-backed alternative to cryptocurrencies, which would allow for greater oversight and control, particularly in the context of anti-money laundering (AML) and counter-terrorism financing (CTF) efforts.

Regulating Cryptocurrency Post-Ban: Despite the ban, cryptocurrency trading in Nigeria continued, particularly through peer-to-peer (P2P) platforms. Recognizing the resilience of the cryptocurrency market and the challenges of enforcing a complete ban, the CBN and other regulatory agencies began exploring ways to regulate the sector more effectively. This included the possibility of introducing new

[6] 'Roles of Central Bank of Nigeria',<https://usesmileid.com/glossary/central-bank-of-nigeria-cbn> accessed 20 August 2024

[7] A Ayansola, 'The Implication of the CBN Circulars on Cryptocurrency Transactions in Nigeria', - <https://www.aluko-oyebode.com/insights/the-implications-of-the-cbn-circulars-on-cryptocurrency-transactions-in-nigeria/> accessed 20 August 2024.

regulations that would allow for the monitoring of cryptocurrency transactions while addressing the risks of money laundering and terrorism financing.

By October 2021, there were indications that the CBN might consider a regulatory framework for cryptocurrencies, potentially allowing for their use under strict guidelines. This shift reflected a broader understanding that outright bans were not feasible in the long term and that a more nuanced approach was necessary.

Nigerian government's latest stance, as reported in the news[8], emphasises the importance of establishing a regulatory framework that facilitates effective tax collection from the cryptocurrency industry. By bringing cryptocurrency under formal regulation, the government seeks to ensure that transactions within the sector are transparent and taxable. This move is seen as crucial for providing the country with the appropriate legislation needed to tap into the revenue potential of digital assets. Implementing a tax regime for cryptocurrencies in Nigeria comes with it implications which includes; ensuring compliance in a largely decentralized and pseudonymous system, dealing with tax evasion risks, and managing the complexity of tracking transactions across different platforms and wallets.

Merits of the CBN's Regulatory Approach

1. **Enhanced National Security:** The CBN's proactive measures, including the ban on cryptocurrency transactions, have been aimed at safeguarding national security by reducing the risk of money laundering and terrorism financing. By limiting the use of unregulated digital currencies, the CBN has sought to protect the financial system from being exploited by criminal and terrorist organisations.
2. **Financial System Stability:** The CBN's cautious approach to cryptocurrency has helped maintain the stability of Nigeria's financial system. By preventing the unchecked growth of digital currencies, the CBN has minimised potential disruptions to the traditional banking sector and the broader economy.
3. **Introduction of the eNaira:** The launch of the eNaira represents a significant step forward in the digitization of Nigeria's financial system. As a government-backed digital currency, the eNaira offers a safe and regulated alternative to cryptocurrencies, promoting financial inclusion while ensuring regulatory oversight.[9]

Demerits of the CBN's Regulatory Approach

1. **Stifling Innovation:** The CBN's ban on cryptocurrency transactions has been criticized for stifling innovation and limiting the growth of the digital economy. Many Nigerians, particularly young entrepreneurs and tech enthusiasts, have expressed frustration that the ban has hindered their ability to participate in the global cryptocurrency market.
2. **Driving Cryptocurrency Underground:** The ban on cryptocurrency transactions has pushed much of the activity into the underground economy, particularly through P2P platforms. This has made it more difficult for regulators to monitor and track cryptocurrency transactions, potentially exacerbating the very risks the CBN sought to mitigate.
3. **Lack of Regulatory Clarity:** The CBN's regulatory approach to cryptocurrency has been characterised by a lack of clarity and consistency. The initial ban, followed by hints of potential regulation, has created uncertainty in the market, making it difficult for businesses and investors to plan and operate effectively.

The CBN's role in regulating terrorism financing, particularly in the context of cryptocurrency, reflects the complexities and challenges of managing a rapidly evolving financial landscape. While the CBN

[8] Guardian News Website. *Federal Government to Introduce New Tax Laws by September, Target Regulation of the Cryptocurrency Industry* - Accessed August 22nd, 2024 https://nairametrics.com/2024/08/18/federal-government-to-introduce-new-tax-laws-by-september-targets-regulation-of-cryptocurrency-industry/

[9] 'Nigeria Launches eNaira - Africa's first Digital Currency', <https://www.google.com/url?sa=t&source=web&rct=j&opi=89978449&url=https://african.business/2021/10/finance-services/nigeria-gears-up-for-enaira&ved=2ahUKEwiDh6-425KIAxUEXUEAHefnBGoQFnoECDsQAQ&usg=AOvVaw26xXc0kqB0dwqv2AsRWYyt> accessed 22 August 2024

has taken significant steps to protect Nigeria's financial system from the risks associated with digital currencies, its approach has also highlighted the need for a more balanced and forward-looking regulatory framework.

3.2 Economic and Financial Crimes Commission (EFCC): Functions and Role in Regulating Terrorism Financing

The EFCC is Nigeria's premier anti-corruption agency, established in 2003 to investigate and prosecute economic and financial crimes. These include money laundering, fraud, tax evasion, and terrorism financing. The EFCC operates under the EFCC Act 2004 and other related laws, and it plays a critical role in ensuring financial integrity and combating financial crimes in Nigeria. The EFCC has the authority to investigate and prosecute individuals and entities involved in terrorism financing. It collaborates with other local and international agencies to track and dismantle financial networks that support terrorist activities. The EFCC also works closely with the Nigerian Financial Intelligence Unit (NFIU) to identify suspicious transactions that may be linked to terrorism financing.

Merits of the EFCC Regulatory Approach

1. **Effective Prosecution:** The EFCC has successfully prosecuted several high-profile cases involving terrorism financing and other financial crimes, thereby serving as a deterrent to potential offenders.
2. **International Collaboration:** The EFCC's partnerships with international organizations like INTERPOL, the Financial Action Task Force (FATF), and other global law enforcement agencies have enhanced Nigeria's capacity to combat terrorism financing on a global scale.

Demerits of the EFCC Regulatory Approach

1. **Resource Constraints:** The EFCC often faces challenges related to inadequate resources, which can limit its ability to carry out comprehensive investigations and prosecutions.
2. **Perceived Political Influence:** There have been concerns about the perceived politicisation of the EFCC, with allegations that its actions may sometimes be influenced by political considerations.

3.3 Nigerian Financial Intelligence Unit (NFIU): Functions and Role in Regulating Terrorism Financing

The NFIU is the central body responsible for receiving, analysing, and disseminating financial intelligence related to money laundering, terrorism financing, and other financial crimes. It was established in 2004 and operates as an autonomous unit within the EFCC but gained full independence in 2018 to comply with international standards. The NFIU is a key player in Nigeria's anti-money laundering and counter-terrorism financing (AML/CTF) regime.[10] The NFIU plays a crucial role in identifying and reporting suspicious financial transactions that may be linked to terrorism financing. It works closely with financial institutions, regulatory agencies, and law enforcement bodies to monitor and analyse financial flows. The NFIU also serves as Nigeria's liaison with the global Financial Intelligence Units (FIUs) network, sharing information and intelligence on cross-border financial crimes.

Merits of the NFIU Regulatory Approach

1. **Enhanced Monitoring:** The NFIU has improved the monitoring and reporting of suspicious financial activities, contributing to more effective tracking of terrorism financing.
2. **Global Compliance:** The NFIU's independence and adherence to international standards have strengthened Nigeria's position in the global fight against money laundering and terrorism financing.

[10] 'About NFIU- Nigeria Trade Portal' <https://trade.gov.ng/en/custom-pages/aboutnfiu#:~:text=It%20was%20established%20in%20June,law%20enforcement%20and%20regulatory%20agencies.> accessed 21 August 2024

Demerits of the NFIU Regulatory Approach

1. **Operational Challenges:** Despite its independence, the NFIU faces operational challenges, including limited funding and the need for more advanced technology to analyze financial data.
2. **Coordination Issues:** There can be challenges in coordinating efforts between the NFIU and other agencies, particularly in the timely sharing of intelligence.

3.4 Securities and Exchange Commission (SEC): Functions and Role in Regulating Terrorism Financing

The SEC is the primary regulator of Nigeria's capital markets, responsible for ensuring that the securities market operates in a fair and transparent manner. Established by the SEC Act, the commission oversees the regulation and development of the Nigerian capital market, including securities, exchanges, and investment schemes. The SEC plays a role in regulating terrorism financing by overseeing investment activities that could potentially be used to launder money or finance terrorism. The SEC requires market participants to comply with AML/CTF regulations, including conducting due diligence on clients, reporting suspicious transactions, and maintaining proper records. The SEC also collaborates with the CBN and the EFCC to ensure that capital market activities are not exploited for illegal purposes, including terrorism financing.

Merits of the SEC Regulatory Approach

1. **Market Integrity:** The SEC's oversight ensures that the capital market operates with integrity, reducing the risk of it being used for illegal activities, including terrorism financing.
2. **Investor Protection:** By enforcing strict compliance with AML/CTF regulations, the SEC protects investors and helps maintain confidence in Nigeria's capital markets.

Demerits of the SEC Regulatory Approach

1. **Regulatory Gaps:** The SEC may face challenges in identifying and addressing new and emerging threats related to terrorism financing, particularly as financial instruments and technologies evolve.
2. **Resource Limitations:** Like other agencies, the SEC may have limited resources, affecting its ability to conduct thorough oversight and enforcement.

The response of Nigerian regulatory agencies to the challenge of terrorism financing, particularly in the context of cryptocurrency, is multi-faceted and involves significant collaboration between various bodies. Each agency has a specific mandate and plays a crucial role in the broader framework designed to protect Nigeria's financial system from being exploited by terrorists and other criminal elements. While the CBN has been at the forefront of efforts to regulate cryptocurrency and combat terrorism financing, the roles of the EFCC, NFIU, SEC, and NCC are equally important. These agencies must continue to adapt to emerging threats, work together to close regulatory gaps, and ensure that Nigeria's approach to combating terrorism financing remains effective and aligned with global standards.

In a recent development, the Nigerian government successfully traced and blocked approximately N83 billion, which included both cryptocurrency and fiat money, that was allegedly channelled towards funding nationwide protests against hardship and bad governance.[11] During a Council of State meeting, the National Security Adviser (NSA), Nuhu Ribadu, revealed that the government had tracked $50 million in cryptocurrency, of which $38 million was frozen across four different wallets. Additionally, N4 billion was identified as contributions from political actors across several states.[12]

This case underscores the Nigerian government's growing capacity to monitor and intercept financial transactions, particularly in the digital realm, as part of its broader efforts to maintain national security. The discovery of an international actor allegedly involved in coordinating these activities highlights the increasingly global nature of financial crimes and the necessity for Nigeria to enhance its regulatory frameworks and international cooperation.

[11] 'FG blocks N83bn Protest Funds, Arrests Political Collaborators' <https://www.google.com/amp/s/punchng.com/fg-blocks-n83bn-protest-funds-arrests-political collaborators/%3famp>accessed 21 August 2024.
[12] Ibid

This case study is highly pertinent to the discussion on the role of Nigerian regulatory agencies in combating terrorism financing, particularly through the regulation of cryptocurrency. It illustrates the practical application of existing regulatory measures and the effectiveness of agencies like the CBN, EFCC, and NFIU in identifying and freezing illicit funds. Furthermore, it highlights the challenges these agencies face, such as the involvement of foreign actors and the need for cross-border collaboration, which are crucial elements in the ongoing fight against terrorism financing and other forms of financial crime in Nigeria.

3.5 Comparisons with International Jurisdictions

Several countries around the world have adopted different approaches to regulating cryptocurrency, offering lessons that Nigeria could potentially learn from and some of these jurisdictions are;

1. **The United States:** The U.S. has taken a regulatory approach that balances innovation with consumer protection and national security.[13] Agencies like the Securities and Exchange Commission (SEC) and the Financial Crimes Enforcement Network (FinCEN) have implemented regulations that require cryptocurrency exchanges to comply with anti-money laundering (AML) and know-your-customer (KYC) requirements. The U.S. approach emphasises transparency and accountability, allowing the market to grow while ensuring that illicit activities are minimised.
2. **The European Union:** The EU has implemented comprehensive regulations for cryptocurrency through the Fifth Anti-Money Laundering Directive (5AMLD).[14] This directive requires cryptocurrency exchanges and wallet providers to register with financial authorities and comply with AML and CTF regulations. The EU's approach aims to integrate cryptocurrencies into the broader financial system while ensuring that risks are managed effectively.
3. **Singapore: S**ingapore has emerged as a global hub for cryptocurrency and blockchain technology, thanks to its forward-looking regulatory framework. The Monetary Authority of Singapore (MAS) regulates cryptocurrency under the Payment Services Act, which requires companies to obtain licences and comply with AML/CTF regulations. Singapore's approach promotes innovation while maintaining robust oversight to prevent financial crimes.[15]

As Nigeria continues to grapple with the threats posed by terrorism financing, the CBN and other regulatory agencies must evolve their strategies to keep pace with technological advancements. By learning from international best practices and fostering greater collaboration with the private sector, Nigeria can develop a regulatory environment that supports innovation while safeguarding national security and financial stability. The success of these efforts will depend on the ability of regulators to strike the right balance between control and flexibility, ensuring that Nigeria remains resilient in the face of emerging threats.

4. Conclusion

The threat of terrorism financing through cryptocurrencies represents a significant and growing challenge in the digital age. As this paper has discussed, the rapid evolution of financial technologies has provided new avenues for terrorist organisations to move funds anonymously and across borders, complicating traditional regulatory and enforcement mechanisms.

Nigeria's regulatory agencies, particularly the Central Bank of Nigeria (CBN), have taken important steps to address these challenges, but more needs to be done. The recommendations provided in this paper underscore the need for a holistic approach that includes strengthening regulatory frameworks, enhancing inter-agency coordination, promoting international collaboration, and increasing public awareness.

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[13]T Lawal, 'Adopting AML Technologies in U. S Crypto Exchanges', <https://youverify.co/blog/aml-technology-in-crypto-exchange-us> accessed 22 August 2024.

[14] 'EU Opens Door for Cryptocurrency Exchanges to Apply AML Rules' https://www.linklaters.com/en/insights/blogs/fintechlinks/2018/june/eu-opens-door-for-cryptocurrency-exchanges-to-apply-aml-rules> accessed August 22nd, 2024

[15]K Oraz, 'Singapore Crypto Regulations—All You Need to Know in 2024' <https://sumsub.com/blog/singapore-crypto-regulations-all-you-need-to-know/> -accessed 22 August 2024

By adopting these measures, Nigeria can significantly increase its capacity to mitigate the risks associated with cryptocurrency-enabled terrorism financing. The evolving nature of this threat demands that regulatory and enforcement strategies remain adaptive, proactive, and aligned with global best practices. Ultimately, ensuring a secure financial ecosystem is crucial not only for national security but also for the broader stability and development of Nigeria in the digital era.

5. Recommendations

Given the growing threat of cryptocurrency-enabled terrorism financing, Nigeria must adopt a multi-faceted approach to strengthen its regulatory frameworks and improve its overall capacity to combat this evolving menace. Below are a set of recommendations designed to address these challenges effectively:

1. **Strengthening Regulatory Frameworks:** Nigeria should continue to refine and update its legal frameworks to address the unique challenges posed by cryptocurrencies. This includes enacting specific laws that clearly define and regulate the use of digital currencies, particularly in relation to financial crimes and terrorism financing. The CBN should implement a robust licensing regime for cryptocurrency exchanges and service providers. This would ensure that only vetted and compliant entities operate within Nigeria, reducing the risk of cryptocurrencies being used for illegal activities. The absence of clear regulations continues to pose risks, including the potential for cryptocurrencies to be used in illicit activities such as money laundering and terrorism financing. Therefore, it is crucial that the government accelerates its efforts to establish a regulatory framework that not only facilitates tax collection but also addresses these broader security concerns.
2. **Improving Inter-Agency Coordination:** There is a need to establish a centralised platform for real-time data sharing among key regulatory agencies, including the CBN, EFCC, NFIU, and the NCC. This would facilitate faster detection and response to suspicious transactions that may be linked to terrorism financing.
3. **Promoting International Collaboration:** Nigeria should actively engage in bilateral and multilateral agreements with other countries and international organisations to enhance cooperation in tracking and prosecuting cross-border financial crimes involving cryptocurrencies.
4. **Enhancing Public Awareness and Involvement:** It is important to launch national awareness campaigns to educate the public on the risks associated with cryptocurrencies, particularly their potential use in financing terrorism. This would help build a more informed citizenry that can identify and report suspicious activities.