Book Review Symposium III of Economic Sanctions from Havana to Baghdad: The Chilling Effect Beyond Borders - Sanctions Compliance, De-Risking, and the Marginalization of Nigeria's NGO Sector

By:

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I. Introduction

Economic sanctions are typically viewed as instruments of statecraft — mechanisms for foreign policy and international pressure. They have evolved from blunt, economy-wide measures to increasingly targeted tools directed at specific individuals, entities, and sectors. Though proponents of these more recent "smart" sanctions argue that such measures punish only bad actors while sparing ordinary civilians, *Economic Sanctions from Havana to Baghdad* challenges this assumption, arguing that no matter how carefully sanctions are designed, adjusted, or targeted, they retain the capacity to cause real harm to civilian populations.

One of the most commonly deployed instruments within the broader sanctions toolkit entails exclusion from the global banking infrastructure — making financial regulations and institutions themselves the primary mechanisms through which such measures are enforced. Violations of sanctions attract steep penalties for the banks through which a transaction involving a sanctioned party was carried out, even if the bank’s actions were inadvertent. This has given rise to "de-risking," a practice where banks, fearful of the steep penalties that come with sanctions violations, preemptively sever ties with entire regions or categories of customers deemed too risky.

“The ‘Chilling Effect’ of US Economic Sanctions on Banking and Financial Inclusion in Africa,” by Charles B. Chilufya, S.J. and Fernando C. Saldivar, S.J., offers an analysis of how international banking regulations – including sanctions enforcement - intersects with financial systems in Africa. The chapter details how complex compliance requirements cause banks and businesses to retreat from legitimate transactions, including humanitarian and aid related work. The authors advance two interrelated claims. First, the convergence of global sanctions enforcement with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) compliance frameworks produces a measurable "chilling effect" on banking services across Africa. Second, in response to the risk of severe penalties for sanctions violations, financial institutions preemptively withdraw from, or significantly curtail services — a pattern of de-risking that deepens financial exclusion among vulnerable populations.

With examples drawn from the Nigerian NGO/humanitarian sector, this essay examines how the dynamics described in the chapter appear in Nigeria, a country that is not subject to comprehensive sanctions, yet is deeply affected by global compliance risk. The banking challenges in the NGO/Humanitarian sector are a striking example of a broader pattern of how risk-based financial governance produces practical exclusion for Nigerians.

II. The “Chilling Effect” in African Banking

Global financial governance and sanctions enforcement are deeply intertwined systems that together shape the flow of capital across the world. The passage of the US Patriot Act in 2001, anti-money laundering (AML) and counter-terrorism financing (CFT) frameworks dramatically expanded the compliance responsibilities of financial institutions. Banks were now required to conduct extensive Know Your Customer (KYC) due diligence on clients, transactions, and correspondent relationships. Sanctions enforcement thereby became embedded into routine operations of the global banking system. Institutions like the Financial Action Task Force (FATF) further institutionalized these standards internationally, pressuring countries worldwide to adopt compatible regulatory frameworks or risk being "grey-listed" or "blacklisted," designations that carry significant reputational and financial consequences.

The penalties for failing to comply with these frameworks have been severe, and high-profile enforcement actions have sent a clear message to the financial industry. The landmark 2014 case against BNP Paribas — in which the French bank was fined nearly $9 billion by US authorities for processing transactions involving sanctioned countries, including Sudan and Iran — stands as one of the most consequential examples. Similar enforcement actions against HSBC, Standard Chartered, and Commerzbank have reinforced a powerful deterrent effect across the industry. The rational institutional response has been risk avoidance: rather than invest in the costly compliance infrastructure required to operate in jurisdictions deemed high-risk, many banks have simply withdrawn from them entirely.

The consequences of this dynamic have fallen heavily on Africa. As correspondent banking relationships — the backbone of international money transfers — have contracted, access to global financial networks has narrowed significantly across the continent. Retail banking services have followed, and financial inclusion has suffered as a result. Critically, these effects extend well beyond countries formally targeted by sanctions.

III. Nigeria as a High-Risk but Non-Sanctioned Environment

Nigeria offers a striking illustration of how global compliance regimes operate through risk perception rather than formal sanctions designation. Nigeria itself is not the target of broad sanctions by the US, EU, or others. However, there are a numbr of Nigerian individuals and entities, particularly Boko Haram, that have been listed as “Specially Designated Nationals” by the US Treasury Department. As a result, Nigeria occupies an unusually high-risk position in global banking calculations — a status driven by a constellation of structural and reputational factors rather than any legal prohibitions directed at the state or country . Nigeria has a large informal economy which makes transaction tracing difficult; an uneven identity documentation system, which complicates the KYC processes that banks are required to perform; and Nigeria also has a history of insurgency which has heightened concerns about terrorist financing. Finally, Nigeria has faced sustained AML/CFT scrutiny from bodies like FATF.Taken together, these factors make Nigeria a jurisdiction where the cost of compliance is perceived as high and the reputational risk of getting it wrong even higher.

The practical consequence is that banks apply enhanced due diligence standards to Nigerian clients and transactions, imposing extensive documentation requirements and heightened monitoring — particularly of politically exposed persons (PEPs), a category that is broadly defined and frequently applied in the Nigerian context. For development organizations, diaspora remittance senders, and local financial institutions, these measures translate into slower transactions, account closures, and restricted access to correspondent banking services. Nigeria thus demonstrates a core tension at the heart of the global compliance architecture: a system designed to target specific threats can, through the logic of risk aversion, impose sweeping financial costs on entire populations who are neither sanctioned nor implicated in the conduct the system seeks to prevent.

IV. Field Evidence: NGO Banking Experiences in Nigeria

Chilufya and Saldivar argue that withdrawal of banking services undermines financial inclusion and development goals across Africa. The following field evidence demonstrates how this dynamic manifests in Nigeria’s NGO sector.

According to Soji Apampa, Chief Executive Officer, The Convention on Business Integrity, Nigeria, compliance is demanded at every stage of the development funding cycle. He explains that acting on directives from their own banks, funding agencies and INGOs embed banking compliance requirements into grant applications. Local NGOs that fail to meet these standards are simply disqualified from funding. Requirements not built into program design upfront are imposed at the point of implementation. In some cases, the agencies as well as the local NGOs develop pre-approved vendor and supplier lists. By the time a project is approved, the donor organization has already ensured that all financial transactions will satisfy its national banks and regulators — thereby transferring the compliance burden downstream while eliminating its own risk.

Oyebisi Oluseyi, Executive Director of the Nigerian Network of Non-Government Organisations (NNNGO), notes the time cost of banking compliance. For instance, accessing foreign exchange requires the physical presence and biometric verification of multiple board-level signatories — regardless of transaction size or frequency — creating significant coordination challenges and project delays. An informant, who manages a Foreign, Commonwealth & Development Office (FCDO) project in Nigeria recounts how he had to submit the same set of documents three different times before it was approved by the funding agency. The financial burden of such delays falls on NGOs themselves, typically managed through arrangements known as "no-cost extensions" — requests for additional implementation time that carry no charge to the funder, but which force the NGO to stretch already diminished resources across the same original project objectives. In some cases, project timelines have been cut from 12 to 9 months. The consequence is stark: NGOs are forced to reduce either the number of beneficiaries served or the level of support provided to each.

Another informant, the Executive Director of the Association of Women in Mechanized Agriculture (WIMA) reports that in a recent project, compliance requirements led to a one-month delay and a 45% increase in costs, forcing the organization to merge training cohorts and deploy additional staff to meet its targets. Similar compliance burden also extends to vendors and beneficiaries, who are excluded from programs if they cannot meet identification, documentation, and banking requirements.

All informants report difficulties transferring funds to rural areas, making cash the only way to implement a development project in underbanked rural communities. Therefore, NGOs are more likely to select beneficiaries from urban communities rather from rural, underbanked communities. According to the WIMA informant, WIMA has “avoided certain locations, partners, or beneficiaries due to perceived financial risk like - conflict regions, informal businesses, small farmers without ID”. The net effect is that the people who need the most help are excluded from NGO assistance.

V. Discussion: Compliance Friction Without Sanctions

The Nigerian case powerfully illustrates a dynamic that the broader literature on sanctions and de-risking has only recently begun to examine: compliance regimes generate structural financial barriers even in countries never formally targeted by sanctions. As the chapter argues, the chilling effect of US sanctions enforcement — rooted in the extraterritorial reach of the Patriot Act and the deterrent power of OFAC's penalty regime — does not stop at the borders of sanctioned states. It radiates outward, affecting and reshaping how global banks assess risk across entire regions. Nigeria, with its large informal economy, uneven documentation infrastructure, and elevated AML/CFT scrutiny, sits squarely within this expanded zone of compliance sensitivity.

What makes this phenomenon particularly difficult to address is its invisibility. Unlike formal sanctions designations, which are publicly listed and legally contestable, the barriers NGOs encounter in Nigeria emerge from private risk management decisions made within financial institutions. Banks imposing enhanced due diligence, restricting correspondent relationships, or declining to process transfers to certain jurisdictions are not violating any law — they are responding rationally to a regulatory environment in which the cost of compliance failures can reach billions of dollars - as the BNP Paribas case demonstrated. The result is a set of practical consequences — delayed transfers, excessive documentation demands, account closures — that closely mirror those experienced in environments subject to explicit, broad-based sanctions, yet attract far less policy scrutiny or humanitarian attention.

VI. Conclusion

The chilling effect documented in the broader sanctions literature finds a concrete and instructive expression in Nigeria's financial landscape. Though Nigeria is not sanctioned at the national level, the operational burdens faced by NGOs working there — slower transactions, elevated administrative costs and restricted access to correspondent banking — reflect the same underlying logic that drives financial exclusion in targeted states. Risk perception, amplified by decades of AML/CFT regulatory expansion since the US Patriot Act, has proven to be as powerful a barrier as explicitly broad legal prohibition.

This has meaningful implications for how the humanitarian and development communities understand financial governance. If the consequences of sanctions enforcement extend beyond their designated targets, then evaluating their humanitarian impact solely through the lens of formally sanctioned countries will systematically understate the damage. Nigeria suggests that a broader pattern of what might be called "regulatory marginalization" is at work — one in which entire populations are effectively penalized not for any legal or political designation, but simply for occupying jurisdictions that global banks find too costly to serve. As this 2021 GAO report confirms, these dynamics are real, documented, and yet persistently under-addressed. Closing that gap requires moving beyond targeted sanctions frameworks to examine how the full architecture of global financial compliance shapes and often undermines economic and social development, gender equity, and humanitarian and other goals across Africa.