Broke and Broken: How Money Laundering Ruins Lives

By Owaahh

For the second time in his life, Moses Okudo walked into a sight he never thought he would have to see again. It was a gloomy Tuesday morning in October 2015 when he walked to an Imperial Bank branch and found the doors closed. Unlike the fifteen people he found there, he didn't need to read the notice on the glass door to know what had happened. He had seen this scene in 2006. His bank, like one before it, was now under receivership.

Okudo first got in touch with me as I was working on an investigative piece on the collapse of Imperial Bank. He is an entrepreneur at the helm of a medium-sized enterprise he has grown since 1999. He wanted to know whether it was true that his money had been stolen. A few weeks later, he asked whether it was true his bankers had been moving illicit money through the banking system. The answer wasn't as simple, I explained.

What I didn't tell him at the time was that the two banks whose closure had affected his life, Charterhouse and Imperial Bank, were more interlinked than he thought. Both of them had all the signs of having been used to launder money, meaning they would probably never be revived.

The Banks of the Underworld

Just a month earlier, international forensics firm FTI Consulting had sent Central Bank its first interim report on Imperial Bank. The report, dubbed "Project Stork" focused solely on one of the bank's clients, W.E Tilley (Muthaiga) Ltd, and its 12 subsidiaries. In total, the group had 73 bank accounts within the bank, including two accounts held by individual directors. At the bare minimum, it seemed as if this consortium had received loans (plus interest) totalling Sh. 34 billion without any form of security.

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Overdrafts would be converted into loans to clear the account, starting the cycle all over again. Inward receipts came from a total of 12 countries, which didn’t at first seem unusual for an international company. But it was because the only known business the company has engaged in its lifetime is fish mongering. That core business had barely grown enough to warrant such massive capital injections.

This was W.E. Tilley in its element. Just a decade before, in 2006, it was named as one of the companies at the centre of money laundering and tax evasion activities at Charterhouse Bank. Its accounts were flagged because it had moved five times the amount of money it had reported in its annual revenues. But it was one of the minor players in a much larger network built purposely to clean illicit money.

The case of Charterhouse epitomizes the economics of money laundering in Kenya. In 2001, five years before it was finally closed, the bank came into the limelight because of a single transaction. An account holder by the name Crucial Properties received USD 25 million from Liechtenstein in one transaction. The transfer sent all arms ringing mainly because the account holder, Crucial Properties, had largely been dormant in the five years the account existed. Even more so was the fact that its owner, Humphrey Kariuki’s, only known business was a small eatery in Nairobi.

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The explanations didn’t make sense (and never have), and all the money disappeared when the court order freezing the account was temporarily lifted. That case ended there. Three years later, Peter Odhiambo, an internal auditor at Charterhouse, blew the whistle on an elaborate money-laundering and tax evasion scheme within the bank.

It’s through his leaks that we now know how the bank cleaned dirty money.

Charterhouse had a small number of real and fake account holders who transacted huge amounts over time. Sometimes, they moved money more than 10 times their bank balance, and through nameless and temporary accounts. One forensic report flagged 839 accounts with no paper trail despite moving billions of shillings.

What’s more interesting though is that Charterhouse, founded in 1996, had a common or related shareholding with several iconic Kenyan companies. One of its majority owners, Ram Trust, also owned Kingsway Tyres, Village Market and Nakumatt Supermarkets. The holding company itself was domiciled in Liechtenstein, the same tax haven from where the 2001 transfer originated. Among the things Odhiambo noticed, according to US Diplomatic Cables later leaked by Wikileaks, was that funds were being diverted from Nakumatt Supermarket to personal accounts. At the face of it this was about underreporting the retailer's revenues to avoid taxes while boosting cash flow to indicate business was booming.

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But there was another layer above it; Odhiambo also noticed a daily deposit of Sh10 million to accounts under either Nakumatt or another retailer, Tusker Mattresses. It would then be transferred as part of the larger tax evasion scam, infusing it into the economy with as little cost as possible.

At its prime, Charterhouse Bank broke all prudential limits and rules in place. For example, just two borrowers, Triton Petroleum and Nakumatt Holdings, held loans worth more than the prescribed 25% of the bank's capital limits. Triton would be at the core of a Sh7 billion petroleum scandal two years later, drawing even more attention to just how networked the bank was to the economy.

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The Imperial Betrayal

The illicit money flowing in Kenya originates from many places; smuggling, drugs, and corruption are the most prominent. Most of it exists in hard cash that has to find its way to the formal economy by any means necessary, which is where bankers, retailers and other layers come into play. The process itself has two pitfalls layered atop each other.

First is the real possibility, as happened with Charterhouse and Imperial Banks that the lenders will be closed and innocent depositors will suffer. The second, a lot less subtle, is just how the successful transfer of such money affects the economy.

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Okudo was just one of more than 50, 000 account holders, most of them innocent, who found themselves broke that morning in 2015. He has never accessed the money he had at Charterhouse, meaning this double misfortune now meant he was rich and broke at the same time. Another depositor, Aleya Kassam [wrote about her family's experience]. Imperial Bank had failed with her entire family's life savings: "three generations, amounting to over 155 years' worth of working hard." In the month after the bank collapsed, she wrote, "Entire families have had to beg and borrow money to put food on their tables and pay rent. Children have had to be recalled from university and businesses have been paralysed." For them, like for Okudo, the experience was direct and painful. It wasn't just a paragraph in a news story or a spot on the evening news.

Another depositor wrote that it wasn't just a cry for help but "a questioning of everything." Woefully, he asked himself "We have never taken a cent from anyone…. We paid our taxes, obeyed the law. We always believed that the laws are there to protect us. Were we wrong?" Yet another told me how his wife was due with their child in December 2015, and he woke up to find himself without any access to the savings they had made in readiness. "I was in a daze the entire month," he said as we spoke over the phone. "At first, I was angry at the bankers and their friends, then at myself for not preempting it." Then he paused, and with a chuckle, added, "I think at some point I was even irrationally angry at the entire structure of money, and banking."

Although they accessed most of their money after, the damage had already been done. For them, the results of money laundering were raw and immediate.

For the rest of us, the effects tend to look far-off. Illicit money flows frustrate the legitimate economy and corrupt the financial system. It does this not just do this by illegally adding money into the economy, but also by encouraging tax evasion. Since money laundering is a derivative crime, its success also means that it encourages the activities that yield the money in the first place.

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All these may still look cryptic. But consider the sectors that epitomize the success of money laundering in Kenya. Nakumatt Holdings, the retailer at the epicentre of the 2006 crash of Charterhouse Bank, is currently facing unprecedented liquidity problems. The retail market as a whole, after a period of ambitious expansion, is struggling. It's mainly cash economy makes it hard to track the flow of illicit money within, and how they are contributing to the current burst.

For Nakumatt specifically, then the lingering question remains why a previously thriving retailer is the only one on its knees. There's the rapid unchecked expansion argument, but that seems to only be superficial especially in light of the 2006 leaks. Add to that the fact that one (now former) minority shareholder was linked by at least two governments to drug dealing, and there's a likelihood Nakumatt's current woes stem from or were at least exacerbated by dirty money and tax evasion. Today, no investor will save it and a concerted effort to get a government bailout has not been successful. The retailer's branches are shutting down faster than its executives can save it, leading to thousands of job and revenue losses in Kenya and Uganda. How this will affect the dynamics in the retail sector remains to be seen.

One of the best places to see the true effects of money laundering in Kenya is in the real estate sector. In the last decade, land prices in and around Nairobi have more than quadrupled. In some places, the prices have grown five-fold in less than five years. At the socio-economic level, the unchecked rise has distorted growth rates. Nairobi is now teeming with buildings built for the "middle class" but which are so expensive that even their targeted market can't afford them.

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As Patrick Gathara observed in this article in March 2016, the result is a city with one of the most expensive property rates in the world, but none of the socio-economic growth to show for it. It is an unsustainable situation that has also strained government resources necessary to ensure buildings are up to standard. Those that have been built for the poor are built as cheaply as possible, meaning, as economist Kwame Owino says, "…a cheap house will necessarily be a bad house." Since 2006, more than 12 buildings under construction have collapsed in Nairobi and its metropolis, killing over 60 people in total. The reasons have been the same; building owners and contractors cutting corners and ignoring the building code in a rush to complete the structures. The results have also been the same-arrests followed by shoddy prosecutions that eventually leaves the situation unsolved. The economics of crime dictate that if the profit is greater than the punishment, then the crime will be committed. Again and again.

In Plain Sight

The curious case of the 2001 transaction to Charterhouse Bank shows why the economy of money laundering has thrived. As is, the Kenyan society does not seem to consider ill-gotten wealth a bad thing. Humphrey Kariuki, the man behind the company at the centre of the case, is now a celebrated tycoon with interests in multiple industries. The same can be said of the beneficiaries of corrupt networks, politicians and non-politicians alike.

In a parliamentary debate in November 1995, a legislator equated our dalliance with money laundering to the drug kingpins of Columbia. Like the Colombian kingpins, he said, Kenya's financial criminals dish out money to acquire legitimacy. The solution, he offered, is that "We need to create a culture where if you do acquire wealth, the Kenyan community should be able to have some morals or norms that stigmatizes money acquired through crooked ways."

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One of the ways to drive such a change would be to link money laundering directly to its preceding crime and its resultant woes. The Sh130 billion stolen by President Moi and his corrupt network was meant for government spending and projects. Lost to the economy, it translated to higher food prices, empty medicine cabinets and incomplete or ignored infrastructure. It also promoted money laundering conduits within the banking system, triggering a chain of events that connects a transaction at Charterhouse in April 2000 with the plight of Okudo, Aleya, and 53,000 other account holders who couldn't access their money at Imperial Bank in October 2015.

Money made from smuggling suppresses legitimate business and denies the government much-needed revenue. For retailers, it means stakeholders such as suppliers and Kenya Revenue Authority cannot be paid. It also means rent and salaries are also delayed as everything else falls apart. Drug trafficking and smuggling has direct effects on the health of users and undermines law enforcement and social mores. If it is indeed true that the gambling industry is built on illicit money, then its effects on individuals and households is multiplied by the fact that it has been so successful. So successful, in fact, that winners are feted as national heroes.

The unchecked flows of illicit money are not only ruining the economy, they are also ruining lives. For Moses Okudo the employer, the money in his corporate account was stuck until the bank was resolved, if ever. He had to fire two-thirds of his staff and reduce his office space just to keep afloat. Although he had finally gotten some of his money back, the closure of the bank had dealt considerable damage to his business.

For Okudo the individual, he was effectively broke. He had to use his personal savings to save his business, meaning that his personal life would need to take a hit as well. This would affect how his family's lifestyle, including meeting rent, food and school fees obligations.

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