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FINANCIAL CRIME RISK AS AN ESG RISK: WHY AML MUST SIT AT THE HEART OF SUSTAINABLE FINANCE GOVERNANCE



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INTRODUCTION

The increasing prominence of Environmental, Social, and Governance (ESG) considerations has materially altered the architecture of global finance. What began as a largely voluntary framework has now assumed a determinative role in capital allocation, regulatory assessment, and institutional legitimacy. Notwithstanding this maturation, financial crime risk most notably money laundering and the financing of terrorism continues to be treated, in many quarters, as a peripheral compliance concern rather than as a central component of ESG risk.

This article advances the proposition that such an approach is no longer tenable. Anti-Money Laundering (AML) regimes must be repositioned at the core of sustainable finance governance. Drawing upon regulatory practice and enforcement experience across both developed and emerging markets, the article demonstrates that AML failures are rarely isolated breaches; they are symptomatic of systemic governance deficiencies with far-reaching social and environmental consequences. It further argues for an integrated governance framework in which AML operates as a foundational ESG control, rather than as a siloed regulatory obligation.

ESG's EVOLUTION

Over the past decade, ESG has evolved from a discretionary reporting exercise into a central metric by which investors, regulators, and development finance institutions assess long-term resilience, ethical stewardship, and institutional soundness. ESG indicators now influence access to capital, the cost of funding, and regulatory confidence.

Yet, despite this evolution, a notable conceptual dislocation persists. Financial crime risk is seldom articulated explicitly as an ESG risk, notwithstanding its direct and demonstrable implications for governance integrity, social cohesion, and environmental protection.

This compartmentalization is both analytically unsound and operationally hazardous. Financial crime, when facilitated whether actively or negligently by regulated institutions, corrodes the very foundations upon which sustainable finance is predicated. Institutions cannot credibly claim sustainability while permitting their systems to serve as conduits for illicit finance.

REFRAMING FINANCIAL CRIME AS A GOVERNANCE AND SOCIAL RISK

Money laundering, terrorism financing, corruption, and illicit financial flows are not abstract regulatory infractions; they are catalysts for profound social harm and governance erosion. These activities sustain environmental degradation, human trafficking, tax evasion, organised crime, and the systematic weakening of public institutions.

Where financial institutions fail to prevent their platforms from being utilised to launder illicit proceeds, they do more than breach regulatory rules. They become unwitting enablers of social harm and institutional decay across jurisdictions, including within emerging economies such as Nigeria, where the developmental consequences of illicit finance are particularly acute.

From an ESG perspective, financial crime risk resides at the intersection of the Social and Governance pillars. Socially, illicit finance entrenches inequality, deprives states of revenue, and undermines public service delivery. From a governance standpoint, weak AML frameworks are indicative of deficient board oversight, fragile risk culture, ineffective internal controls, and inadequate accountability structures. It is for these reasons that regulators, institutional investors, and ESG rating agencies increasingly interpret AML failures as signals of broader governance vulnerability rather than as isolated compliance lapses.

THE CONVERGENGE: HOW FINANCIAL CRIME UNDERMINES ESG

Integrating AML into ESG frameworks is not merely an exercise in expanding the scope of the Governance pillar. Rather, it is essential to preserving the integrity of all three ESG dimensions.

a. The Environmental Pillar: "Green" Crimes

Environmental crimes such as illegal logging, wildlife trafficking, and unregulated mining are among the most profitable illicit activities globally, generating up to $281 billion annually.

These crimes rely on money laundering to integrate "blood profits" into the legitimate economy, therefore, a bank funding a "sustainable" infrastructure project that uses illegally sourced timber is failing its environmental mandate due to a failure in its AML screening. In other words, the deficiency lies not in environmental policy, but in financial crime controls. Environmental sustainability, absent robust AML screening, is illusory.

b. The Social Pillar: Human Rights and Modern Slavery

The "S" in ESG focuses on labor standards, human rights and community impact. Human trafficking forced labor and modern slavery are recognized predicate offenses for money laundering. Where financial institutions fail to detect or interrogate transactional patterns linked to labor exploitation, they are, in effect, facilitating the monetization of human suffering. Sustainable finance cannot meaningfully exist where capital flows conceal the financial footprints of modern slavery.

c. The Governance Pillar: The Bedrock of Trust

Governance is the framework that ensures that the E and S are achieved. Corruption and bribery are the "vines" that strangle good governance; therefore, weak AML controls provide a veil for corrupt officials to siphon off funds intended for public goods or green transitions. In the absence of robust AML controls, practices such as greenwashing flourish. Beneficial ownership remains obscured, politically exposed persons evade scrutiny, and institutions unwittingly legitimize capital derived from corrupt or illicit sources. Governance, stripped of financial crime controls, becomes performative rather than substantive.

THE EXPANDING REGULATORY AND SUPERVISORY LENS

There is now a marked convergence among global standard-setters and supervisory authorities around a central proposition: financial crime risk is inseparable from governance quality. This position is no longer aspirational; it is operational.

The Financial Action Task Force (FATF) has, for some time, emphasised the central role of boards and senior management in determining the effectiveness of anti-money laundering frameworks. What has evolved more recently is the extent to which prudential and conduct regulators now assess AML arrangements as an integral component of risk-based supervision, rather than as a discrete compliance function.

In parallel, ESG-driven regulatory initiatives and disclosure regimes are increasingly incorporating governance indicators that, whether expressly or implicitly, capture the robustness of financial crime controls. Supervisory expectations have shifted accordingly. Regulated institutions are now expected to demonstrate, with clarity and coherence, how AML risks are identified, assessed, and mitigated within enterprise-wide risk management frameworks.

Weak AML controls are no longer treated as isolated compliance infractions. They are increasingly regarded as symptomatic of deeper governance and risk-culture deficiencies. This shift is borne out by enforcement trends. Contemporary AML enforcement actions are frequently accompanied by adverse findings relating to governance failures, including inadequate board scrutiny, under-resourced or marginalised compliance functions, ineffective escalation mechanisms, and incentive structures misaligned with prudent risk management. Collectively, these outcomes reinforce an unambiguous message: AML is a matter of board accountability, not merely operational execution.

INVESTOR EXPECTATIONS AND CAPITAL MARKET IMPLICATIONS

Institutional investors and asset managers are paying closer attention to financial crime risk as part of ESG due diligence. Repeated AML breaches, regulatory fines, or adverse findings can materially affect an institution's ESG ratings, cost of capital, and access to sustainable finance instruments.

From an investor's perspective, exposure to financial crime risk is a clear indicator of potential long-term value erosion. Regulatory penalties, remediation costs, management distraction, and reputational damage can materially impair performance and undermine strategic objectives. More significantly, institutions associated with facilitating illicit financial flows face the real prospect of exclusion from ESG-linked indices, sustainability-linked loans, and green or social bond markets.

As ESG integration becomes more sophisticated, investor scrutiny is extending beyond headline disclosures to governance substance. Increasing emphasis is placed on compliance culture, board oversight of AML, the effectiveness of whistle-blowing arrangements, and the independence and authority of compliance functions. Institutions that fail to integrate AML credibly into their ESG narrative risk being perceived rightly or wrongly as engaging in "governance washing".

AML AS A CORNERSTONE OF SUSTAINABLE FINANCE

Sustainable finance is premised on the idea that capital should be allocated in a manner that supports long-term economic stability, social wellbeing, and ethical conduct. This objective is fundamentally incompatible with financial systems that permit the flow of illicit funds.

AML frameworks play a critical role in safeguarding the integrity of sustainable finance by ensuring that green, social, and transition finance are not co-opted for criminal purposes. Without robust AML controls, sustainability-labelled products risk being used to launder proceeds of crime or finance activities that directly contradict ESG goals, including environmental crimes and corruption.

Embedding AML within sustainable finance governance therefore requires institutions to move beyond siloed compliance models. AML risk assessments should explicitly consider ESG-related exposures, including sectoral risks, geographic risks, and emerging typologies linked to climate finance, carbon markets, and digital assets.

BOARD ACCOUNTABILITY AND RISK CULTURE

At the heart of recognising AML as an ESG risk lies the question of accountability. Boards and senior management must demonstrate clear ownership of financial crime risk, supported by coherent governance structures, robust reporting lines, and genuine challenge.

Effective integration requires AML considerations to be embedded within board risk committees, ESG oversight frameworks, and strategic decision-making processes. Remuneration and incentive structures must not encourage excessive risk-taking at the expense of compliance and ethical standards. Equally critical is the cultivation of a risk culture in which staff are empowered to escalate concerns without fear of reprisal.

From an ESG perspective, institutions that can evidence strong AML governance send a powerful signal to regulators, investors, and the wider public of their commitment to responsible finance and long-term sustainability.

To reposition AML at the centre of ESG governance, institutions must adopt integrated approaches, including:

- Clear board-level ownership of financial crime risk
- Alignment of AML, ESG, and enterprise risk management functions
- Cultural reinforcement, including effective whistle-blower protections
- Judicious deployment of technology, informed by experienced human judgment

Such integration elevates AML from a compliance formality to a governance imperative.

MOVING FORWARD: STRATEGIES FOR INTEGRATION

To bridge the gap between financial crime risk and ESG, institutions should adopt the following:

1. Expanded Due Diligence: Move beyond basic identity checks. Incorporate environmental and social risk indicators into the "Customer Risk Rating" (CRR) models.
2. Unified Data Ecosystems: Break down the silos between ESG data teams and AML compliance teams. Shared intelligence on beneficial ownership is critical.
3. The "Impact" Lens: View AML not as a "tick-box" exercise, but as a mechanism for Social Justice. Preventing money laundering stops the flow of funds to entities that degrade the planet and exploit people.

CONCLUSION

The maturation of ESG has underscored that governance is not an abstract aspiration, but a practical measure of how institutions manage risk, enforce accountability, and uphold ethical standards. Financial crime risk AML is a material governance risk with profound social and systemic implications. Treating AML as a peripheral compliance obligation is no longer defensible in an environment characterised by heightened regulatory scrutiny, investor activism, and sustainability-driven capital allocation.

Sustainable finance is not merely about investing in renewable energy or climate-friendly projects; it is about ensuring that the capital underpinning the global economy is clean, transparent, and responsibly sourced. By placing AML at the heart of ESG governance, financial institutions move beyond passive gatekeeping to become active stewards of a sustainable financial system.

For institutions seeking credible ESG leadership, the conclusion is inescapable: AML must sit at the centre of sustainable finance governance. This approach not only mitigates legal and regulatory risk but reinforces institutional integrity, safeguards social value, and supports the long-term resilience of the financial system. The message is clear: You cannot have a "Green" economy built on "Dirty" money.

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