

AML/CFT/CPF SECTORAL RISK
ASSESSMENT OF THE DEALERS IN
PRECIOUS METALS AND STONES
(DPMS)



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List of Acronyms

AML/CFT/CPF	Anti-Money Laundering and Countering the Financing of Terrorism
CAC	The Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBTR	Cash Based Transaction Reports
CTR	Currency Transaction Report
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
DNFI	Designated Non- financial institutions
EFCC	Economic and Financial Crimes Commission
FATF	Financial Action Task Force
FMMSD	Federal Ministry of Mines and Solid Minerals Development
ICRG	International Cooperation Review Group
JEMA	Jewellery Marketers Association of Nigeria
LEA	Law Enforcement Agencies
ML	Money Laundering
MLPPA	Money Laundering (Prohibition and Prevention) Act, 2022
NFIU	Nigerian Financial Intelligence Unit
NPF	Nigeria Police Force
PAGMI	Presidential Artisanal Gold Mining Development Initiative
PEP	Politically Exposed Persons
PCI	Product Complexity Index
STR	Suspicious Transaction Report
SAR	Suspicious Activity Report
TF	Terrorism Financing

Executive Summary

Nigeria has earned \$15.2 million from the exportation of gemstones, ranking the country 30th as an exporter. Precious metals and stones (PMS) are the 8th most traded product in the world, with a product complexity index (PCI) ranking of 20. This makes PMS an attractive instrument for Money Laundering, Terrorism Financing, and Proliferation Financing (ML/TF/PF) for criminals.

In Nigeria, various types of PMS exist, such as gold, tourmaline, gemstones, ruby, and sapphire. Dealers of Precious Metals and Stones (DPMS) are considered a Designated Non-Financial Business and Profession (DNFBP) under the Nigerian Money Laundering (Prevention and Prohibition) Act (MLPPA) of 2022.

The objective of the evaluation was to assess vulnerability, identify and mitigate risks, examine regulatory compliance, and promote the continuous improvement of AML/CFT/CPF measures to effectively and efficiently combat ML/TF/PF. The following vulnerabilities form the basis of our findings: customer risk, geography/country risk, and product/service risk.

The risk posed by DPMS and PMS for money laundering (ML), terrorism financing (TF), and proliferation financing (PF) is high due to the multidimensional characteristics highlighted in the 2022 National Inherent Risk Assessment of Money Laundering in Nigeria (NIRA). The outcome of the NIRA required undertaking of a risk assessment of the DPMS sector.

After analyzing responses from the Sectoral Risk Assessment (SRA) working group and expert assessments, it is evident that artisan miners pose the most significant risk to the DPMS sector in Nigeria. They account for 70% of the miners and require comprehensive activity records. There are also indications of money laundering and terrorism financing activities through the sector due to non-compliance by operators, complexity, and the unstructured nature of the sector operators, which makes the ML/TF risk **HIGH**.

Moving from the sector's inherent vulnerabilities, controls ranging from entry control to preventive measures were assessed, which showed relatively strong regulatory oversight and minimal compliance. To address identified gaps, practical mitigation measures were recommended to mitigate the sector's ML/TF/PF.

Part 1 - Introduction

Internationally, gold and precious metals are recognized as an attractive vehicle for money laundering. Gold is considered a high risk product for money laundering because it is a sound investment, involves much cash, is traded globally, often allows for anonymity, and is a form of global currency. In every society, gold has cultural value and financial significance. Gold is utilized in technology, liquid asset easily converted, retains value overtime and hold great investment value. As of 2022, precious metals ranked 8th in the world as the most traded products and 20th in terms of Product Complexity Index (PCI). It is also seen as a secure investment during unrest and uncertainty, adding to its appeal. These factors also apply to precious metals as forms in which gold is stored.¹

According to the most recent available data, precious metals were the eighth most traded product globally in 2020, with an estimated value of \$699bn and a growth rate of 7.28%. As a result, trade in precious metals contributed 4.17% of the total global trade² and Nigeria Exports of pearls, precious stones, metals, coins were US\$141.06 Million during 2023, according to the United Nations COMTRADE database on international trade³. Also, Nigeria is the most important producer of gemstones in West Africa, with commercial deposits of precious and semi-precious stones like paraiba tourmaline, sapphire, emerald, aquamarine, spessartite, amethyst, zircon and a few rare species like ruby, phenakite, kunzite, tanzanite, tsavorite, and lepidolite. When cut, faceted and polished for use in jewellery or other personal adornments, gemstones belong to a particular class of commercial minerals. The country has generated \$15.2 million from the exportation of gemstones and emerged as the 30th largest exporter worldwide⁴.

However, the high value, portability, and liquidity of precious stones and metals make them vulnerable to money laundering, terrorist financing, and proliferation financing. They are easily converted into cash, making them attractive for illicit activities. The industry's use of cash, obscured origins, and long supply chains pose challenges for detecting and tracing illicit activities. Additionally, the involvement of high-risk customers and informal networks, further increase the sector's susceptibility to illicit activities. The National Anti Money Laundering/Counter Financing of Terrorism/Counter Proliferation Financing (AML/CFT/CPF/CPF) Inherent risk assessment of Nigeria revealed that the jewelry sector in Nigeria is dominated by dealers who purchase final finished products from foreign countries,

¹<https://www.fic.gov.za/wp-content/uploads/2023/11/2023.11-SRA-dealers-in-precious-metals.pdf>

² The observatory of Economic Complexity (2020) Precious Metals. Available at: <https://oec.world/en/profile/hs/precious-metals?redirect=true>

³ <https://tradingeconomics.com/nigeria/exports/pearls-precious-stones-metals-coins>

⁴<http://games.guardian.ng/nigerias-gemstones-exports-hit-15-2m-securing-30th-place-globally/>

mostly from the United Arab Emirate (UAE) and sell them to walk-in customers. The jewelry dealers are mostly unregistered individuals, which exposes the sector to money laundering risk, according to the Special Control Unit against Money Laundering (SCUML). The subsector is very complex and unstructured, with many operators having only a few staff. This limits the resources that small businesses can dedicate to AML/CFT/CPF compliance.⁵

Objective

This report is part of the Nigeria's National AML/CFT/CPF Strategy 2023 – 2027. The sectoral risk assessments for Dealers in Precious Stones and Metals (DPMS) is to identify and address the risks of Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF). The main objectives of this assessment are:

1. **Risk Identification:** Identifying the ML/TF/PF risks associated with DPMS, considering their business nature, customer base, transaction patterns, and geographical exposure.
2. **Risk Mitigation:** Developing strategies and controls to mitigate the identified risks. This can include enhancing customer due diligence, implementing effective transaction monitoring systems, and conducting regular training and awareness programs for staff.
3. **Regulatory Compliance:** Ensuring that DPMS comply with relevant AML/CFT/CPF regulations and guidelines issued by regulatory authorities, including reporting requirements, record-keeping, and other compliance obligations.
4. **Vulnerability Assessment:** Assessing the vulnerabilities within the sector that could be exploited for money laundering or terrorist financing, such as high-value transactions, cash-based dealings, and the involvement of high-risk customers or jurisdictions.
5. **Enhanced Due Diligence:** Identifying scenarios where enhanced due diligence measures are necessary, such as when dealing with Politically Exposed Persons (PEPs) or high-risk countries, and establishing protocols for handling such cases.
6. **Collaboration and Information Sharing:** Encouraging collaboration and information sharing between dealers, regulatory bodies, and other stakeholders to improve the overall effectiveness of AML/CFT/CPF efforts within the sector.
7. **Continuous Improvement:** Establishing a framework for ongoing assessment and improvement of AML/CFT/CPF measures in response to evolving risks, regulatory changes, and emerging threats in the precious stones and metals market.

Methodology

The sectoral risk assessment has been carried out based on the Guidance Note on AML/CFT/CPF risk-based approach for dealers in jewellery, precious metals and stones issued by SCUML in 2019. The report examines how DPMS are being exploited as a conduit for ML/TF activities through the assessment of the risk. The methodology used for the assessment involved survey, questionnaires administered by SCUML and interviews with the subject matter experts from DPMS regulators, operators and law enforcement officers in Nigeria. A comprehensive desk review was also done to enrich the findings.

Self Regulatory Organizations /Association of dealers such as Jewelry Marketers Association of Nigeria (JEMA) and Precious Metal Gold Processors and Exporters Association of Nigeria (PMGPEAN) participated fully in the assessment.

The survey and response to the questionnaires served as the qualitative data while the secondary data was derived from the findings of the DPMS risk-based supervision, credible AML/CFT/CPF reports and expert assessments. The methodology is consistent with the expectations of the Financial Action Taskforce (FATF) Standards.

The project team consisted of experts from the following: Economic and Financial Crimes Commission (EFCC) - Extractive Industry Fraud Section (EIFS), Special Control Unit Against Money Laundering (SCUML), Nigerian Financial Intelligence Unit (NFIU), Jewelry Marketers Association, Miners Association of Nigeria, Ministry of Mines and Steel Development (MMSD), Nigeria Extractive Industries Transparency Initiative (NEITI), Nigerian Police Force - Special Fraud Unit (NPF), Mining Cadastre Office (MCO), Presidential Artisanal Gold Mining Initiative (PAGMI), Nigeria Union of Mine Workers (NUMW), and the Gemology Institute of Nigeria (GIN).

Background

Over the years, Nigeria has made significant progress in the fight against ML/TF/PF. After the maiden National Risk Assessment (NRA) undertaken in 2016, the SCUML issued a guidance note in 2019 on the AML/CFT risk-based approach for dealing in precious metals and stones. This served as a foundational framework to address specific risks within the sector.

Subsequently, Nigeria carried out a National Inherent Risk Assessment (NIRA) in 2022 and a National Residual Risk Assessment (NRRRA) in 2023. In both assessments, the risk for dealers of precious metals and stones were rated high, calling for targeted mitigation efforts. This sector-specific risk assessment aligns with FATF Recommendation 1, which emphasizes the importance of understanding risks at a sectoral level. It also includes implementing risk-

based supervision, focusing on on-site visits, and ensuring that institutions address their risks and apply a risk-based approach.

FATF Recommendation 22 and 23 spell out the requirements for DNFBPs in conducting their due diligence requirements for customers. DPMS, when conducting any cash transaction with a customer equal to or above the designated threshold should submit a Currency Transaction Report (CTR)⁶. While transactions whether below or above the reportable threshold but with noticeable element of suspicion should be filed as Suspicious Transaction Report (STR). More so, DPMS are subject to the application of FATF Recommendations 10, 11, 12, 15, 17 and verify the beneficial ownership information of legal persons and arrangements. Also, ensure effective monitoring and compliance on a risk-sensitive basis, in line with AML/CFT/CPF requirements.

In Nigeria there are numerous types of precious metals and stones, which include Gold, Tourmaline, Gemstones, Ruby, and Sapphire, to name a few. Dealers in jewelries most often conduct their transactions in gold from carats of 18, 21, 22, and 24 purity levels.

According to the 2022 NIRA, Jewelry dealers (Gold) purchase old and new finished gold products and then sell to customers who paid in cash or through bank transfers⁷. Also, old gold products either in Nigeria or other countries (Dubai, Saudi Arabia) are melted and transported to Dubai in exchange for new finished gold products and imported back to Nigeria.⁸ These finished products purchased in foreign countries (mostly from the UAE) are sold to mostly walk in customers back in Nigeria.

The sector is very complex and unstructured. A developing trend is the infiltration of organized crime syndicates using illegally mined minerals (specifically gold) in exchange for weapons⁹.

⁶ The FATF Recommendation, 2023, p.24.

⁷ National Inherent Risk Assessment of Money Laundering in Nigeria 2022, Page 104

⁸ "Ibid."

⁹

Part 2 - Legal and Regulatory Framework

Legal and Regulatory Framework

The legal framework for the DPMS sector in Nigeria lies within the same legal frameworks applicable to mines and minerals in Nigeria. These legal frameworks provide for the regulation of exploration, mining, possession, purchase and exploration of minerals ore in Nigeria. As the foundational references for all legislations enacted and enforced in Nigeria, the 1999 Constitution (as amended) provides, the basis on which specific legislations applicable to mining and minerals in Nigeria flows. These specific legislations comprise the following:

- Nigerian Minerals and Mining Act, 2007
- Nigerian Minerals and Mining Regulations 2011
- Guidelines on Mineral Titles Application, January 2014
- Land Use Act, Cap L5, Laws of the Federation 2004

The designation of DPMS as DNFBPs has also brought mining and mineral dealership operations under the AML/CFT/CPF laws and regulations such:

- Money Laundering (Prevention and Prohibition) Act, 2022
- Terrorism (Prevention and Prohibition) Act, 2022
- Economic and Financial Crimes Act, 2004
- Nigerian Financial Intelligence Unit, 2018
- EFCC (Anti-Money Laundering, Counter Financing of Terrorism and Counter Proliferation of Weapons of Mass Destruction) and Other Related Regulations, 2022
- Regulations for the Implementation of Targeted Financial Sanctions on Terrorism, Terrorism Financing, and Other Related Measures, 2022
- Nigerian Extractive Industry Transparency Initiative, 2007

The 1999 Constitution

As general convention of law, the written constitution is supreme in any legal system.¹⁰ Section (11) of the 1999 Constitution (as amended) which provides that: “This Constitution is supreme and its provisions shall have binding force on all authorities and persons throughout the Federal Republic of Nigeria.” Affirmed the supremacy of the Constitution. Therefore, the constitution provides the foundation for all other legislations in Nigeria including those related to mining and mineral. Notably, the constitution affirmed in section

¹⁰ <https://djetlawyer.com/supremacy-of-the-constitution/>

44(3) that the sole ownership and control of mineral resources in Nigeria are vested in the federal government for the common good and benefit of the citizens.¹¹

Nigerian Minerals and Mining Act, 2007

The Nigerian Minerals and Mining Act of 2007 governs the exploration and exploitation of solid minerals, granting the federal government ownership of all mineral resources. It establishes the Mining Cadastre Office (MCO) to manage mineral titles, including issuing, suspending, or revoking permits with the Minister's approval. The Mine Inspectorate Department oversees compliance in mining operations. While the Act lacks strong AML/CFT/CPF measures, it prevents license issuance if an applicant's controlling shareholder has a relevant conviction within five years. It also regulates mineral dealership but lacks provisions for mineral importation and transit through Nigeria.

Nigerian Minerals and Mining Regulations 2011

The Nigerian Minerals and Mining Regulations 2011 supplement the Mining Act of 2007 by providing guidelines for mining supervision and mineral dealership. They enhance inspection operations, mandate internal reporting, and impose fines for violations. Licenses cannot be granted to individuals convicted of a felony or offenses under the Act. The regulations also govern the purchase, possession, movement, and export of minerals, ensuring agents are licensed and free of criminal convictions. Additionally, they formalize artisanal mining by allowing miners to form cooperatives to obtain group licenses, promoting inclusive participation and combating illicit mining.

Guidelines on Mineral Titles Application, January 2014

The guideline provides the procedures and requirements for obtaining different categories of mining licenses in Nigeria. Recently the Guidelines have incorporated AML/CFT/CPF considerations including beneficial ownership verification, implementation of Targeted Financial Sanction, Politically Exposed Person due diligence, and criminal background checks.

Land Use Act, Cap L5, Laws of the Federation 2004

The Act affirms that "the Land use Act vested all land comprised in the territory of each State (except land vested in the Federal Government or its agencies) solely in the Governor of the State, who would hold such land in trust for the people and would henceforth be responsible for allocation of land in all urban areas to individuals resident in the State and to

¹¹ Ogbomo, Osamuade. The Legal Regime for Mineral Resource Ownership in Nigeria: an in-depth Analysis of Oil Discovery and Its Implications (December 26, 2023). Available at SSRN: <https://ssrn.com/abstract=4742403> or <https://dx.doi.org/10.2139/ssrn.4742403>

organisations for residential, agricultural, commercial and other purposes while similar powers with respect to non-urban areas are conferred on Local Governments".¹² This assertion of the legislation brings mining and mineral operations under some form of regulatory powers of the state. However, some investors have pointed out the conflict between the Mining Act and the Land use Act, claiming that while mining licenses were issued by the Federal government, ownership of the land rests on the states and communities.¹³

Money Laundering (Prevention and Prohibition) Act, 2022

The Money Laundering (Prevention and Prohibition) Act, 2022 is the primary legislation for the supervision and regulation of DPMS in Nigeria. The legislation imposes several compliance and regulatory obligations on DPMS operators ranging from limitation to make or accept cash transaction above certain thresholds for individuals and corporate entities, reporting of cash transaction above \$1,000, conducting full range of Customer Due Diligence including; PEP due diligence, verification of third-party intermediaries, and custom risk assessment, reporting of STRs, and implementation of AML/CFT/CPF policies and programmes. The Act also provides for designation of DPMS operators as DNFBPs and the powers of regulators including SCUML to impose administrative sanctions.

Terrorism (Prevention and Prohibition) Act, 2022

DPMS are also subject to counter financing of terrorism and proliferation financing under the Terrorism (Prevention & Proliferation) Act, 2022. Like other DNFBPs, the Act, imposes obligation on DPMS operators to develop counter financing of terrorism programmes and strategies and report suspicious transactions related to terrorism financing.¹⁴

Notably, the Act also set out offences relating to the proliferation and financing of proliferation of weapons of mass destruction. The act also provides for the establishment of the Nigerian Sanction Committee with the responsibility to implement Nigeria's commitment under the relevant UNSCRs related to terrorism and proliferation financing.

EFCC (Anti-Money Laundering, Counter Financing of Terrorism and Counter Proliferation of Weapons of Mass Destruction) and Other Related Regulations, 2022

The Regulation is a subsidiary legislation to the Money Laundering (Prevention and Prohibition) Act, 2022. The legislation empowers SCUML to conduct fit and proper person checks on DNFBPS including DPMS operators. The Regulation also laid out the range of

¹² Land Use Act, 2004

¹³ <https://punchng.com/land-use-act-hinders-mining-activities/>

¹⁴ Section 82 & 83 T(PP) Act, 2022

administrative sanction penalties that can be imposed by SCUML on erring DNFBS. In addition, to the reporting obligations in the primary legislations, the Regulation imposes other statutory reporting obligation such as reporting on transaction related to Politically Exposed Person and Public Sector.

Economic and Financial Crimes Act, 2004

The EFCC has the mandate to investigate economic and financial crimes involving persons and corporate entities. In Particular, section7 (1) affirmed that the Commission has the powers to cause investigations to be conducted as to whether any person, corporate body or organization has committed any offence under this Act or other law relating to economic and financial crimes.¹⁵ The Commission also has the mandate to enforce other legislations relating to economic and financial crimes which may have significant impact on mining and mineral operations in Nigeria. In this respect the Commission, has established the Extractive Industry Fraud Section (EIFS) to investigate and prosecute perceived economic and financial crimes in the mining and the mineral sector.

Nigerian Financial Intelligence Unit, 2018

The Act establishes the Unit as the central body in Nigeria responsible for receiving, requesting, analyzing and disseminating financial intelligence report and other information to law enforcement, security and intelligence agencies and other relevant agencies in Nigeria. Section 3(1)m of the Act empowers the Unit to monitor compliance by the reporting entities and advise supervisory authorities as to the discharge by those institutions with regards to their obligations under the NFIU Act.

The Act also permits the NFIU to conduct joint supervisory activities such as joint examinations with supervisory authorities.¹⁶ The Act also empowers the unit to hold a secured database of all registered reporting entities held by supervisory agencies and self regulatory organizations.¹⁷ The Act empowers the NFIU to place any account under surveillance if it believes the account is relevant to a financial intelligence inquiry that the Unit is conducting.¹⁸ In addition, the Act empowers the NFIU to issue administrative fines for any violations under the Act.

¹⁵ Section 7(1)a, Economic and Financial Crimes Commission, 2004 Section 16(1) NFIU ACT, 2018

¹⁶ Section 19(1) NFIU ACT, 2018

¹⁷ Section 15(1 & 2) NFIU ACT, 2018

¹⁸ Section 16(1) NFIU ACT, 2018

Nigerian Extractive Industry Transparency Initiative, 2007 (NEITI Act)

The NEITI Act provides a framework for transparency and accountability in the extractive Industry, including the mining and minerals subsectors. The Act empowers the initiative to hold government and operators in the mining and mineral operative accountable in terms of their operations, income and payments made to government. Notably, the act empowers the initiative to demand for from any extractive industry operations information relating to their cost of operations and volume of sales at any time.¹⁹ Pursuant to its mandate, the Act empowers the Initiative to develop a framework for transparency and accountability in reporting and disclosure by extractive industry company of payments to be made to Government.²⁰ Notably, NEITI has developed a comprehensive database of beneficial owners in the extractive industry to support its mandate to ensure and transparency within the extractive industry.

Nigerian Regulations for the Implementation of Targeted Financial Sanctions on Terrorism, Terrorism Financing, and Other Related Measures, 2022

The Regulations for the Implementation of Targeted Financial Sanctions on Terrorism, Terrorism Financing, and Other Related Measures, 2022, prescribe procedures for freezing funds and other economic resources of designated persons. Designated persons include domestic or international terrorists, terrorist groups, or terrorism financiers. The regulations also outline conditions and procedures for using frozen funds and economic resources, and prohibit making them available to designated persons or entities.

The primary laws governing the mining sector, including the Mining Act and Mining Regulation, are considered effective. These laws are currently under review to address deficiencies, particularly concerning import and transshipment regulations.

- **Enforcement of Laws:** Enforcement is supported by collaboration between the Ministry and law enforcement agencies. However, many mining sites are in remote areas, which poses challenges. Recently, the Economic and Financial Crimes Commission (EFCC) has increased enforcement efforts against illegal miners.
- **Awareness of AML/CFT/CPF Laws:** PAGMI conducts outreach programs in collaboration with SCUML to raise awareness of AML/CFT/CPF regulations among formalized artisanal operators. Workshops have been organized across various regions, involving mining operators and associations.

¹⁹ Section 3 (d) NEITI ACT, 2007

²⁰ Section 3 (a) NEITI ACT, 2007

- **Resource Allocation:** While resource constraints exist, the government ensures the Ministry is adequately resourced to fulfil its mandate. Federal Mines Officers monitor licensed entities to ensure compliance with license scopes.
- **Monitoring Mechanisms:** Licensed entities must report their activities to the Ministry, which monitors compliance through regular inspections. Support from security agencies aids in these inspections.
- **Effectiveness of Controls on Unlicensed Export/Import:** Currently, there is no comprehensive regulatory framework for mineral import or transshipment. Exporters must hold mineral export licenses. There is a capacity gap among customs officials, which the government plans to address by establishing a single export port for minerals with trained inter-agency teams.
- **Inspectorate Activities:** Regular inspections of mining sites are conducted, often in collaboration with security agencies. In Zamfara, where mining has been suspended for nearly five years, inspections were conducted regularly prior to the suspension.
- **Declaration Regime for Movement of Precious Stones and Metals:** The export licensing system effectively monitors mineral exports. However, border porosity and illegal mining activities challenge the system's effectiveness in preventing illicit export. The ongoing review of the Mining Act aims to address import and transshipment provisions to enhance regulation.

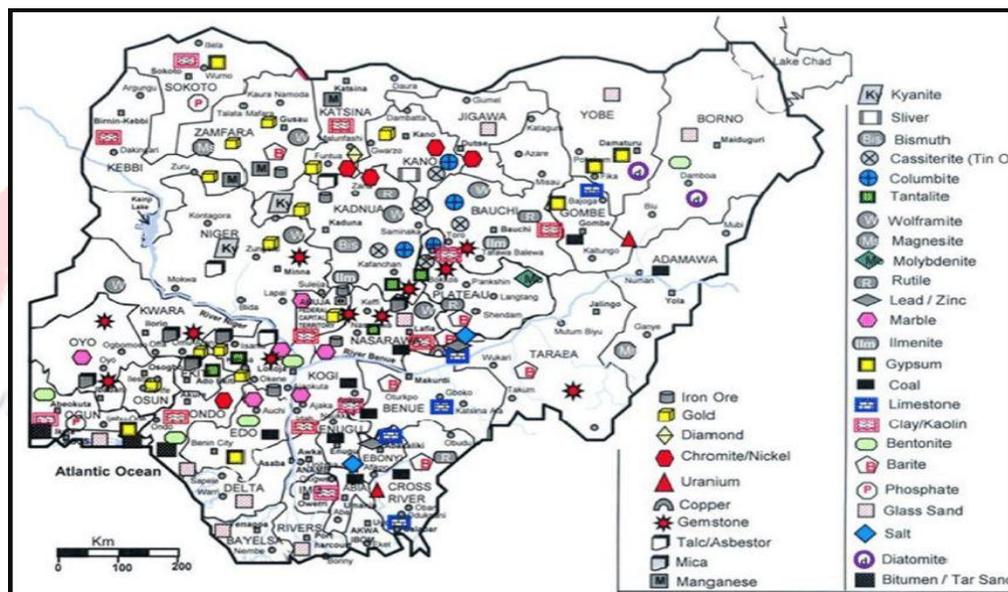
DPMS Nature, Products and Geographical Distribution

The Nigerian Extractive Industries Transparency Initiative (NEITI) divides Nigeria's precious metals and stones sector into formal and informal segments. The informal sector, which is primarily more of artisanal miners is difficult to quantify in term of the volume of its export. Accordingly, the major markets are in places like Bangkok, Thailand, Belgium, and the Middle East. Artisanal mining dominates the industry, with licensed gold merchants sourcing from these miners and selling them to middlemen for export. NEITI estimates the formal sector contributes less than 0.1% to Nigeria's GDP, suspecting the unrecorded volume of the informal sector could be significantly higher due to documentation challenges.

The Federal Ministry of Mines and Steel Development (FMMSM) oversees licensed operators like Segilola and Ken Smith and focusing on formalizing artisanal miners through regulatory measures. These artisanal miners are prevalent in the sector, though efforts to integrate them into the formal economy are ongoing. Current efforts aim to cluster informal operators into mining cooperatives to increase revenue capture and potentially enhance the sector's official GDP contribution, currently at 0.1%. In Zamfara, the Federal Mines Officer reports significant artisanal mining activity alongside established companies, estimating

between two to five thousand miners operating in the region. Initiatives to establish mineral buying centers aim to capture the output of artisanal miners, integrating them into formal economic structures.

The Gemological Institute of Nigeria underscores Nigeria's vast gemstone deposits, such as topaz and aquamarine, noting challenges including informal market structures, infrastructural limitations, workforce capacity and insufficient investment which hampers the sector's growth potential and its ability to contribute more substantially to the economy.



Source:

https://www.researchgate.net/figure/Map-of-Nigeria-showing-availability-of-gemstones-and-precious-minerals-in-the-country_fig1_328041604

The top three gemstones produced in Nigeria are tourmaline, aquamarine, and topaz. Tourmaline is found in several parts of Nigeria, such as Oyo, Kaduna, Ondo, and Kogi. This gemstone is known for its vibrant colors and is commonly used in jewelry making. Aquamarine, known for its blue-green color, is found in Nasarawa, Oyo, and Kaduna states and is used in jewelry and decorative items. Topaz, known for its various colors, including yellow, pink, and blue, is found in areas such as Jos, Nasarawa, and Osun states and is also used in jewelry making. Also, deposits are found in Northern Nigeria, most prominently near Maru, Anka, Malele, Tshon Birnin Gwari, Kwaga, Gurmana, Birnin Yauri, Okolom-Dogondaji, and Iperindo in Osun state(see map above)

Part 3 – Risk Components

According to the 2019 SCUML Guidance Note for AML/CFT/CPF Risk Based Approach for Dealers in Jewelleries²¹, Precious Metals and Stones sector risk factors for the purpose of conducting a risk-based assessment are:

1. Product/Service Risk
2. Transaction/Delivery Channel Risk
3. Geography/Country Risk
4. Customer Risk

Product Risk

Extent of involvement of Product in Investigations to Money Laundering :

Precious metals and Stones Products have featured prominently in many investigations related to money laundering particularly those conducted by the EFCC. In the case of money laundering and embezzlement of public funds against the Former Minister of Petroleum, Mrs. Deziani Madueke, the EFCC secured final forfeiture of gold jewelries worth \$40 million dollars being part of the proceeds of corruption while the Minister was in office.²²

Investigations into money laundering related to precious metals and stones in Nigeria have led to arrest at the airport of person seeking export precious metals illegally and forfeiture of such items. In 2018, a report made by nationaldailyng.com, mentioned that the EFCC seized gold worth about \$3, 131, 412.39 (N1, 127, 308, 460.39) being allegedly exported to Dubai, United Arab Emirates, illegally from the Nnamdi Azikiwe International Airport by EFCC.²³

In a similar report in 2018, Mr. Tony Orilade, EFCC acting head, media and publicity, disclosed in a statement in Abuja, that official of the Commission seized gold worth N211 million being illegally transported through the Murtala Mohammed International Airport (MMIA), Lagos. According to Orilade, the package was to be taken to Dubai in the United Arab Emirates.²⁴

In May 2024, it was reported that the EFCC Kwara Zonal Command, seized 44 truckloads of minerals which include lithium, lepidolite, marble, and gold.²⁵

²¹ Guidance Note for AML/CFT/CPF Risk Based Approach For Dealers in Jewelleries, Precious Metals and Stones, 2019, p.10-11.

²² <https://shipsandports.com.ng/diezani-stripped-of-40m-jewellery-gold-plated-iphone-to-nigerian-government/>

²³ <https://nationaldailyng.com/efcc-intercepts-illegal-gold-export-at-airport/>

²⁴ <https://www.thecable.ng/efcc-seizes-gold-worth-n211m-at-lagos-airport/>

²⁵ <https://www.vanguardngr.com/2024/05/efcc-seizes-44-truckloads-of-minerals/>

From the Focus group Session, the NFIU reported 16 STRs with a total dollar value of \$159.1 million and 84 STRs amounting to N10.7billion in Naira value.

It is noted, according to the respondents to the questionnaire, most of the respondents are operating in the downstream part of the DPMS value chain as jewelry dealers, buyer and importers of precious metals and stones products. 7.7% and 30.8% perceived the precious metals and stones to have very high and high vulnerability to ML/TF respectively.

Extent of involvement of Product in Investigations and Related to Terrorism Financing:

Several studies have identified the complicity of illegal artisanal mining of minerals in conflict and terrorism. The press release from the Statehouse on July 15, 2020 on the Presidential Artisanal Gold Mining Development Initiative (PAGMI) affirmed that the illegal mining has fueled instability across gold mining regions with intelligence report confirming a nexus between illicit gold mining and a rise in banditry²⁶.

The rise in rural banditry in the Northwestern State of Zamfara, Kebbi, Sokoto, Niger, Kaduna and Katsina, which has led to displacement of people and loss of lives, has also been attributed in part to illegal artisanal mining of gold. It was reported that the discovery of gold mines and the activities of illegal miners competing for the control of gold reserves have served to further intensify the existence and activities of armed groups in the northwest. This development has led to suspension of mining activities in Zamfara State. Similarly, a rise in rural banditry, connected to illegal artisanal mining of gold and lithium has also been reported in the North Central State of Nasarawa. The Nigerian National ML/TF Risk Assessment, 2016, identified sale of Gold as one of the main sources of financing terrorism.

Rating

In view of the foregoing, it is evident that there are differentiated product risk scorings along the value chain. The ML and TF ratings for the raw **Precious Metals** are rated **“High”** given its exposure to informal operators, high terrorism affected areas and smuggling. The **Styled Jewelry** is rated **“High”** for Money Laundering because of its evident exposure to high risk jurisdictions and its considerable involvement in money laundering and corruption prosecution of PEPs. It is however rated **“Medium”** for Terrorism Financing.

Raw Precious Stones are rated **“High”** for Money Laundering money given the exposure to smuggling and exposure to high risk jurisdictions. However, it is rated **“Medium”** for terrorism financing in view of dearth of sufficient evidence of its involvement in terms of geographical locations of the mines and the export market.

²⁶ <https://fmino.gov.ng/everything-you-need-to-know-about-the-presidential-artisanal-gold-mining-development-initiative-pagmi/>

Transaction/Delivery Channel Risk

Tracing the sources of precious stones and metals in Nigeria is a complex task, depending on mineral type, scale of operations, and formalization levels. The process is generally more straightforward in the formal sector, where operators are licensed, due to required documentations and reporting. However, the artisanal and small-scale mining sector, often informal presents significant challenges. Transparency in operations heavily influences traceability, with formal companies maintaining records, while informal activities may lack documentation, making tracking of the source difficult.

For bulk minerals like coal and lithium, tracing is relatively straightforward, but for precious metals in smaller quantities, it's nearly impossible to identify their origin. The key to improving traceability lies in collaborative efforts among agencies, including customs checks at ports of exit. There are considerations to implement technologies such as blockchain, similar to the diamond trade, to improve tracking. Until then, inter-agency collaboration remains crucial.

The sector's exposure to cash transactions is limited, especially under the current cashless policy. Transactions in the precious metals and stones trade, particularly large volumes, are mostly conducted through bank transfers, with minimal cash involvement, except when dealing directly with artisanal miners. The Association of Gold Miners and Sellers has played a significant role in promoting non-cash payment methods, contributing to the industry's efforts to reduce cash transactions.

In the handmade jewelry sector, online cash transfers are customers' most favored payment method, and cash transactions are considered insignificant.

Regarding cross-border smuggling, potential risks exist, especially through the northern borders. Despite strong regulatory frameworks, unmanned borders and the free movement of people pose challenges. Collaborative efforts with internal security and intelligence agencies are critical for mitigating smuggling risks. Although specific statistics are lacking, suspicions of smuggling persist, particularly in regions with high artisanal mining activity but low formal revenue records.

Also, close to 70% of the respondents claimed that customers do offer to pay them in foreign currency occasionally, while just 23% say it rarely happens and 8% says it has never happened. This shows that the use of foreign currency in DPMS transaction is significant. In terms of conducting non face to face transactions, 50% of the respondents say they conduct

transaction on a non-face to face basis. This is quite high and exposes the sector operators to ML/TF abuses.

However, transactions from third parties do not seem to be a norm in the industry. 36% of the respondents say they rarely receive payments from third parties, 12% say it has never happened and 44% say it happens occasionally.

Rating

Transaction/Delivery Channel Risk rating for **Precious Metals and Stones** for are rated **“High”**. Despite the perception control on cash transactions, its exposure to high informal operators, and smuggling across borders are significant factors. The indicator was rated **“HIGH”** for Styled Jewelry as well. Although Cash payment is gradually declining in the sector given the adoption of Point of Sale payments among many Small and Medium Scale business in Nigeria, the product is highly exposed to foreign currency transaction, non face to face transaction including online sales and payment

Geographic Risk

Domestic

The Occurrence of Precious Metals and Stones is known across many parts of Nigeria. However, prevalence of specific minerals is more pronounced in some areas than the other depending on the geological conditions. For example in respect to Gold, several studies have reported the occurrence of gold mineralization in the western half of Nigeria, where they are linked to Precambrian to Lower Paleozoic supracrustal schist belts such as Anka,Zuru, Maru, Wonaka, Kazaure, Birnin Gwari, and Kushaka in the northwest and Egbe-Isanlu, Igara, Iperindo, and Illesha schist belts in the southwest.²⁷

In the publication by the Federal Ministry of Mines and Steel Development in 2010, titled, “Gold Deposit Exploration Opportunities in Nigeria” the Ministry identified 9(nine) major areas of gold mineralization in Nigeria which comprise **Maru, Anka and Malele in Zamfara State, Tshohon Birnin Gwari and Gurmana in Niger State, Okolom-Dogondaji in Kogi State and Iperindo in Osun State.**

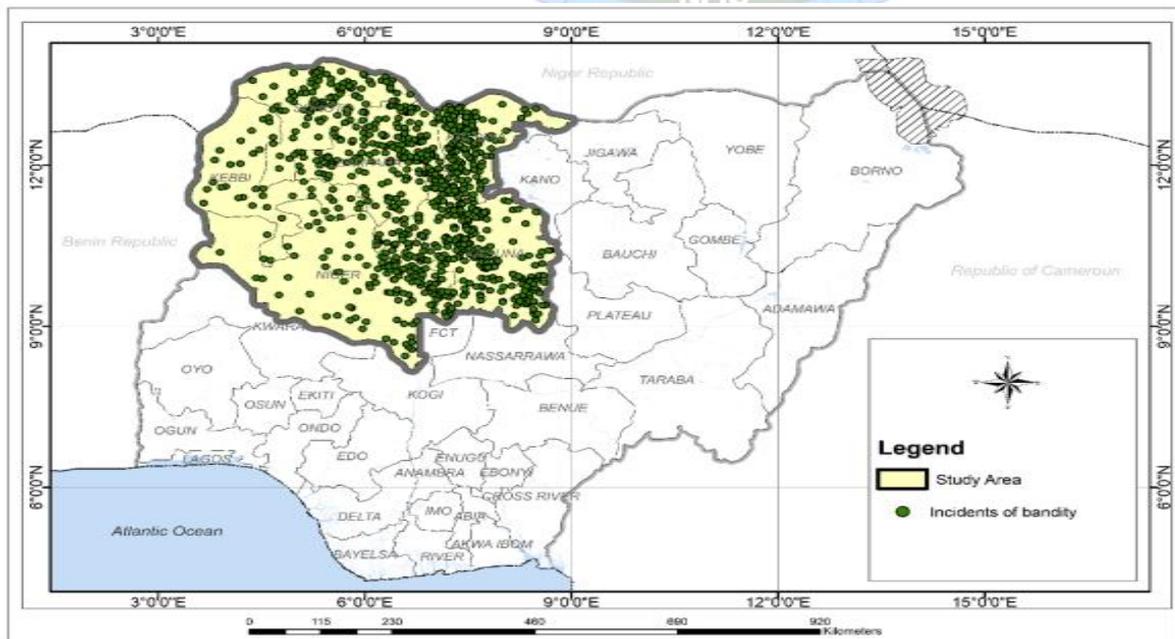
Notably, except for Iperindo in Osun State and fairly Okolom-Dogondaji in Kogi State the other 7 major areas of gold mineralization in Nigeria are areas that are highly impacted by rural banditry. (Please see the figure below)

²⁷https://www.researchgate.net/figure/Geological-map-of-Nigeria-showing-the-major-areas-of-gold-mineralization-and-location-of_fig2_336180630#:~:text=Several%20studies%20have%20reported%20the,Igara%2C%20Iperindo%2C%20and%20Illesha%20schist

Comparison of Major Gold mineralization and areas with highest incidences of armed attacks by bandits:



Areas of Gold Mineralization in Nigeria (Source: Federal Ministry Mines and Steel Development)



Map of Nigeria showing incidents of armed attacks by bandits (Source: <https://theglobalobservatory.org/2024/05/northwest-nigeria-has-a-banditry-problem-whats-driving-it/>)

Valuable gemstones are found across Nigeria, with some areas having more exposure to predicate crimes related to money laundering and terrorism financing. According to a report

by James E. Shigley titled "Gemstone Localities of the 2000s," major sapphire localities in Nigeria include Ganye and Gembu in Adamawa and Taraba States, Gunda and Tafawa Balewa in Bauchi State, as well as Godogodo and Kafanchan in Kaduna State. Tourmaline, which is the most commonly traded gemstone in Nigeria, is prevalent in various locations across Niger State, Oyo State, Kwara State, and Nassarawa State.

The origin of precious minerals in border states could indicate the credibility of claims of precious metals smuggling. Many states involved in precious metal and stone mining, such as Niger, Zamfara, Kebbi, Kwara, and Oyo, share borders with Benin and Niger. During the Focus Group session, members of the working group from the Federal Ministry of Mines and Steel Development expressed concern about the potential smuggling of precious metals and stones due to the free movement of people across Nigerian borders.

For example, the Federal Mines Officer of Niger State mentioned that the official revenue generated from mining activities does not align with the scale of mining, especially artisanal mining activities. This suggests that a significant amount of gold mined in the area might have been smuggled through Benin Republic.

The markets for styled jewelries are mostly located in urban centers such as Lagos, Kano, Kaduna, Abuja, and Port Harcourt. These urban centers are highly susceptible to money laundering risks due to the presence of high-net-worth individuals and politically exposed clientele.

Remarkably, more than 75% of the respondents say they do not have businesses affiliates/associates outside Nigeria. However, more than 100% of the respondents who claimed to affiliates/associates outside mentioned UAE. However, more than 90% of the respondents say they do not have knowledge of the AML/CFT regulations in their supply market.

In terms of area of business operations, more than 95% of the respondent operates in the North Central, while 11.5% operates in the North West. These seem to show a connection between the North West where the mines are located and the North Central where there is a significant market for styled jewelry.

International

The National Risk Assessment of 2016 identified Middle East and Asian countries such as UAE, Saudi Arabia, India and China, as major import markets for styled Jewelries in Nigeria.²⁸ In similar vein, members of the DPMS Sectoral Risk Assessment Working Group identified Europe and United Arab Emirate as major export market for Nigeria's precious metals

²⁸ NRA 2016, Page 187.

particularly gold. They unanimously agreed that the UAE is the major import market for Styled Jewelries in Nigeria.



List of importing markets for products exported by Nigeria (Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metals and articles thereof; imitation jewelries, coin)

Unit : US Dollar thousand						
Bilateral 4 digits	Importers	Exported value in 2019	Exported value in 2020	Exported value in 2021	Exported value in 2022	Exported value in 2023 [▼]
	World	520	2,083	8,959	150,779	131,362
☒	Switzerland	0	0	7,390	146,041	131,362
☒	Canada	0	0	15		
☒	China	0	0	29	246	
☒	Germany	381	0	512	399	
☒	Hong Kong_China	0	0		282	
☒	Korea_Republic_of	0	0		49	
☒	India	139	0			
☒	United Arab Emirates	0	1,624	610	3,761	
☒	Türkiye	0	452	379		
☒	United States of America	0	7	23		

Sources: ITC calculations based on [National Bureau of Statistics](#) statistics since January, 2013.
ITC calculations based on [UN COMTRADE](#) statistics until January, 2013.

The assertion of the Working Group is strongly supported by the above computations from UNCOMTRADE, which identified countries such as Switzerland, UAE as major importers of Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metals and articles thereof; imitation jewelries and coin.

Switzerland is an important stakeholder in the international trade in gold. A substantial proportion of the gold produced worldwide is refined in Swiss foundries, which work with both mined and recycled gold. In 2017, some 2,404 tonnes of gold were imported into Switzerland (worth a total of CHF 69.6 billion) and 1,684 tonnes were exported (CHF 66.6 billion).²⁹ Ordinarily, the size of the market presents a huge risk of easily accommodating illicit gold from marginal producers like Nigeria, however the country has strong regulatory framework for gold trade³⁰. Switzerland is not on the FATF List of Countries that has been identified as having strategic AML deficiencies. The last Follow-up Mutual Evaluation Report relating to the implementation of AML/CFT/CPF standards in Switzerland was undertaken in 2023. According to that Evaluation, Switzerland was deemed Compliant for 8 and Largely Compliant for 29 of the FATF 40 Recommendations. It was also deemed Highly Effective for 0 and Substantially Effective for 7 with regard to the 11 areas of Effectiveness of its AML/CFT/CPF Regime.³¹

Previous reports have identified the UAE as a major destination of proceeds of corruption from Nigeria. In 2018, a major leak of property data in the UAE revealed numerous politically exposed persons (PEPs), sanctioned individuals and criminals from around the world who own estate in Dubai. The data included information about at least 800 properties which were traced to 334 Nigerian PEPs.³²

²⁹ [Federal Council report on gold trading and human rights \(admin.ch\)](#)

³⁰ [Federal Council report on gold trading and human rights \(admin.ch\)](#)

³¹ <https://www.knowyourcountry.com/switzerland>

³² <https://www.transparency.org/en/news/money-laundering-list-exit-uae-much-to-prove>

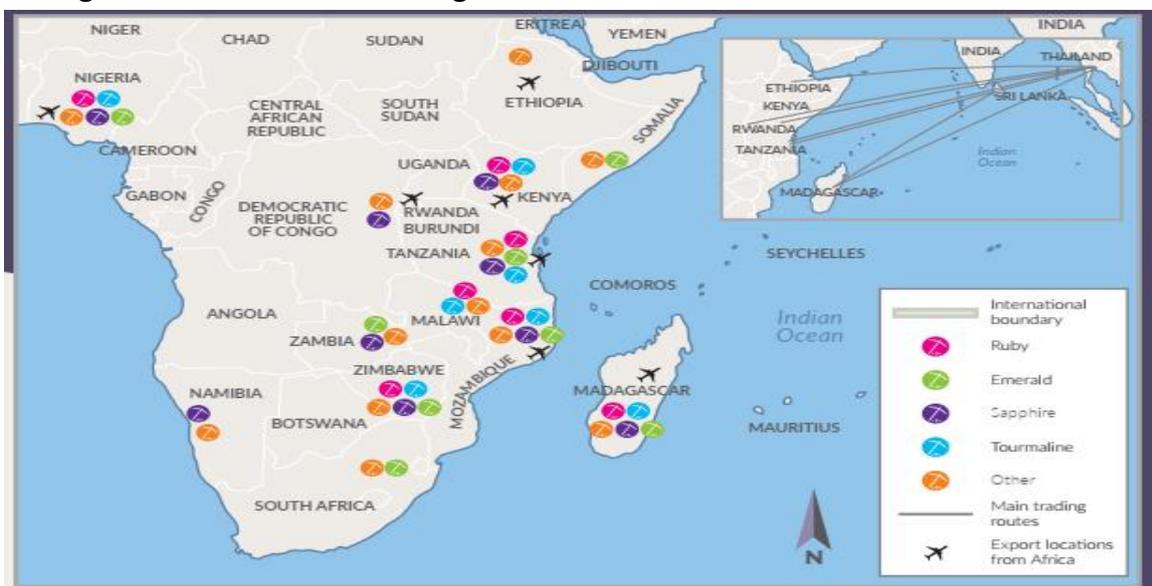
In September, 2021, the Emirati government arrested, prosecuted and designated six Nigerians for financing activities of Boko Haram, a designated terrorist group operating in mostly in North East Nigeria. While this demonstrated the commitment of the Emirati government to using judicial measures and targeted financial sanctions to disrupt the flow of funds to the terrorists, it shows exposure of Nigeria to Terrorism financing from the country.

The UAE has also recently exited the FATF grey list, having implemented satisfactorily the requirements of the FATF. However, concerns continue to trail its capacity to combat laundering of proceeds of crime including those from illicit gold trading.

There are also evidences that the Nigerian precious stones are also highly exposed to cross border transactions in major international markets. The Working Group identified countries in South East Asia, particularly Thailand as major export markets for gemstones from Nigeria.

This assertion was corroborated in a report by the Global Initiative against Transnational crime, titled “A Rough Cut Trade”, dated July 2020. The report listed Nigeria as one of major Mining sites and flow of coloured gemstones from Africa to Thailand. The report identified Nigeria as a source of Sapphire, Tourmaline, Emerald, Ruby and other gemstones to Thailand (see the figure below)

Mining sites and flow of coloured gemstones from Africa to Thailand



SOURCE: Global Initiative against Transnational crime, titled “A Rough Cut Trade”, dated July 2020

Adapted from James E. Shigley et al, Gem localities of the 2000s, *Gems and Gemology*, 46, 33 (2010), 188–216,

However, the report affirmed that looking at trade data, Thailand recorded almost no data on coloured gemstones from Nigeria.³³ This affirms exposure of the precious stones sector in Nigeria to illicit gemstone in Thailand and possibly around the world.

The report also identified Nigerians as one of the dominant nationals in the Thai illicit and informal gemstone market. It affirms that West Africans, especially Guineans, and increasingly Nigerians, are heavily represented in this segment of the Thai coloured-gemstone trade. The report mentioned that, “In Bangkok, Guineans were the most heavily represented nationality (48%), followed by **Nigerians (26%)** and Sierra Leoneans (11%). Others were from Gambia, Madagascar, Mali and Senegal.”

Although Thailand is no longer identified as a country with strategic AML/CFT/CPF deficiencies; however, significant concerns persist. For example, Thailand is categorized by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.³⁴



Rating

The Geographical Risk rating for all products along the value is rated “High” from the foregoing.



Customer Risk

The customer profile of a DPMS sector operator is a fascinating mosaic shaped by their position in the industry value chain and the scale of their operation. For instance, companies involved in upstream activities, such as dealing with raw mineral ore, will have a unique set of customers compared to those involved in downstream activities, such as selling styled jewelry.

Furthermore, the scale of operations also affects the customer base. Large-scale mining companies with a global presence have direct access to international markets and may not interact with private individuals. On the other hand, medium and small-scale miners might have a customer base that includes large-scale mining companies and mineral buying centers.

Artisanal miners, who work on a smaller scale and lack direct market access, may engage with anyone willing to buy across the value chain, including unlicensed individuals.

According to the responses from the questionnaire, more than 90% of the respondents affirmed that their customers are mostly mix of regular and walk in customers. Among the

³³ Global Initiative against Transnational crime, titled “A Rough Cut Trade” July 2020, page 18

³⁴ <https://www.knowyourcountry.com/thailand>

various categories of customer, there seem to be an equal spread PEP and foreigners seem to occasional clients, while Third parties and other types of customers are more prevalent and KYC/CDD procedures are also very poor.

Also, more than 88% of the respondents say they only request for valid means of identification from their clients only in high-risk situations, while only 11.5% request for valid means of Identification at all times and 57% claimed never to have conducted internal audit and more than 45% have no independent internal audit function. This is understandable given the size and sole proprietorship nature of most operators, particularly the Jewelry subsector of the industry.

Exposure to Foreigners and Non Residents

Mining of precious stones and metals is largely done by artisanal miners who sell to mineral buyers and aggregators, who must also hold valid license to possess and purchase such minerals in Nigeria.³⁵ However, during the working group focus group session, a senior representative of the Federal ministry of Mines and Steel Development affirmed that from record of purchase and possess licenses issued; most of the direct buyers of minerals are Nigerians. He however, opined that there is limited participation of foreigners resident in Nigeria. Another senior official of the Ministry also affirmed that, “there are foreign operators from Niger and Burkina Faso resident in Nigeria, but they are not significant players.”

Expressing a different opinion, the representative from NEITI affirmed that although foreigners are active at the exploration and mining stages of the mineral value chain, they are participating mostly as buyers. He further affirmed that buyers of raw minerals are mostly foreigners from Asia.

The representative of the Gemological Institute of Nigeria however affirmed that buyers of styled precious stones articles are mostly Nigerians. The report by the Global Initiative against Transnational crime, titled “A Rough Cut Trade”, dated July 2020, however extensively highlighted significant engagement of foreigners and non-resident Nigerians in the Nigerian Gemstone Value chain. Mineral Buying Centres are also major clients of the artisanal miners. Foreigners, particularly Asians are significant holders of license to operate as a mineral buying centre.

In a report by the International Centre for Investigative Reporting, some Asian nationals were alleged to be complicit in plundering gold reserves in Kurebe village in Zamfara State and bribing terrorist related to the Islamic State of West Africa. The report mentioned that on many occasions, the terrorists had seized the mined stones and stalled operations until they were bribed with millions of naira and motorcycles

³⁵ Section 94 of Nigeria Mineral & Mining Act, 2007

In another report, the Senate Committee on Solid Minerals said it has uncovered an ongoing collusion between some Nigerians and some foreigners for illegal mining in some parts of the country.

The complicity of foreigners is not limited to persons of Asian origin. The Cross River State government raised the alarm over what it described as massive illegal mining activities at the state's National Park by foreigners purported to be nationals of Chad and Niger Republic. Chairman, Cross River State Forestry Commission, Dr. George Oben-Etchi stated that the miners are heavily armed to the extent that they intimidate citizens of the local communities in Akamkpa local government area which has become a hotbed for illegal mining activities in recent times.

Exposure to Politically Exposed Persons and High Net worth Clientele

Assessing the exposure of DPMS to PEP clientele along the mineral value chain may be challenging given the fact that mining is conducted largely by artisanal miners who may not have the structure in place for such enhanced due diligence. Similarly for the dealers in styled jewelries, such compliance challenges abound. More than 45% of the respondents claimed they rely on publicly available information to identify PEPs, more than 36% says they obtain the information directly from the customer and 13.6% say they have no measures in Place. Less than 10% uses commercial databases.

The NRA, 2016 observed that the clients of dealers in styled jewelries are mostly private individuals (at almost 91%) and very few high net worth individuals. However, that must have changed given more than 1000% percentage point increase in value of gold per gram over the years, particularly with recent devaluation of the Naira.

Politically Exposed Persons are also significant holders of mineral buying centres, small and medium scale mining licenses. Artisanal miners and some other operators must have been exposed to them along the mineral value chain.

S/N	Mineral classification	Number
1	Metallic Minerals	285
2	Precious Metals	162
3	Gemstones	76
4	Non-Metallic Minerals	39
5	Non-Precious Metals	1
Total		563

Source: Artisanal and Small-Scale Mining Department, Ministry of Mines and Steel Development. Quoted by NEITI 2021, Solid Mineral Industry Report.

Rating

The Customer Risk rating is rated “High” for all products along the DPMS value chain in Nigeria. The analysis revealed high exposure to PEPs and high net worth clients, and foreigners operating as aggregators and mineral buying centers,

Ownership and Control Structure

As reported in the National Risk Assessment, 2016, ownership of styled jewelries is mostly at the level of sole proprietorship. There is also a consensus at the focus group session that although the DPMS upstream sector is largely dominated by Nigerian companies and operators, however there is increasing participation of international mining companies.

Large mining companies are mostly owned by international mining conglomerates with operations around the globe. Their ownership structure presents its unique challenges. For instance, Thor Exploration Limited is a Canadian company, operating in Nigeria through its subsidiaries, Segilola Resources Operating Limited (“SROL”) and Segilola Gold Limited (“SGL”), which it owns 100%. However, the company’s financial statement for 2021 revealed the company has other subsidiaries incorporated in the British Virgin Island, which shows its exposure to high risk jurisdictions³⁶.

Exposure to PEP Ownership and Control

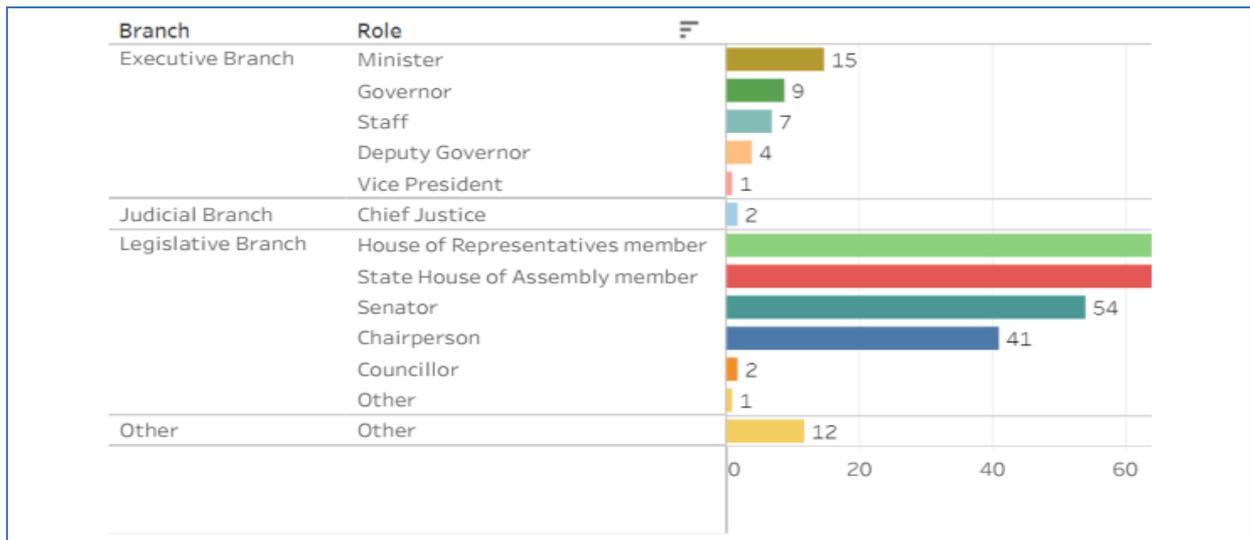
Generally Nigerian mining industry is highly exposed to ownership by Politically Exposed Persons. In an analysis done by “Joining the Dots with PEPs” an initiative by Directorio Legislativo and other Nigerian partners, to track the involvement of PEPs in the extractive sector in Nigeria, it was found that there are 455 alerts, indicating such number of PEPs possibly being a beneficial owner of a mining, oil or gas company registered in the Nigerian state.³⁷ These PEPs ranges from members of the legislative arms who are in the highest numbers to Chief Justices, Governors, Cabinet Ministers etc.

The analysis also revealed that there are 11 Alerts, indicating such number of PEP relatives possibly being a beneficial owner of a mining, oil or gas company registered in the Nigerian

³⁶ Thor Exploration limited, Consolidated Financial Statements, For the Years Ended December 31, 2021, and 2020

³⁷ <https://peps.directoriolegislativo.org/nigeria/analytics>

state.



Source: <https://peps.directoriolegislativo.org/nigeria/analytics>

There are also several reports of complicity of politically exposed persons in conflicts related to precious metals and stones mining across Nigeria. A report by Vanguard Newspapers, affirmed that, “Politicians and retired military generals are fuelling Zamfara free for all gold mines wars; same mineral wars that almost destroyed Liberia, Sierra Leone, and many other African countries”.³⁸ Similarly, the Institute of Security Studies, reported that “Collaboration between politically connected Nigerians and Chinese corporations in illegal gold mining drives rural banditry and violent local conflicts in some parts of Nigeria. This includes the North West, North Central and to some extent South West regions”.³⁹

³⁸<https://www.vanguardngr.com/2019/04/zamfara-gold-threat-to-development-and-national-stability/>

³⁹ <https://issafrica.org/iss-today/how-illegal-mining-is-driving-local-conflicts-in-nigeria>

Part 4 – Mitigation Measures

Dealers in Precious Stones and Metals fall under designated non-financial businesses and professions. They are required to adhere to anti-money laundering, counter-terrorism financing, and counter-proliferation financing regulations. According to Section 6(1) of the Money Laundering (Prevention and Prohibition) Act, 2022, these dealers must declare their business activities before starting operations or within three months from the commencement of the Act if the business already exists.

- **Declaration of Business Activities to SCUML**

Dealers in Precious Stones and Metals are listed as Designated Non-Financial Business and Professions and are obliged to comply with AML/CFT regulations. Section 6(1) of the Money Laundering (Prevention and Prohibition) Act, 2022 mandates Dealers in Precious Stones and Metals to make declaration of business activities before commencement of business or within 3 months from the commencement of the Act, in case of existing business.

The Central Bank of Nigeria (CBN) circular dated August 2, 2012, requires banks and other financial institutions to obtain evidence of registration with the Special Control Unit against Money Laundering (SCUML) before establishing business relationships with any DNFBP including DPMS operators. This ensures that all DPMS operators are brought into AML/CFT supervision under SCUML.

This requirement is enforced by the Federal Ministry of Mines and Steel Development and the Mining Cadastral Office as requirement for granting any category of license to an operator.

- **Entry Controls Measures**

The Mining Cadastral Office the Nigeria Mining Cadastre Office (NMCO) was established in 2007 with the responsibility for the Administration and Management of Mineral Titles in Nigeria in accordance with Section 5 (1) of the Nigerian Minerals and Mining Act, 2007 (the Act). The Office has since adopted the SCUML Guidance Note on Conducting Market Entry Control and Ongoing Monitoring of DNFBPs by Self-regulatory Bodies and Government Licensing Authorities. Consequently, the Office has adopted the full range of AML/CFT market entry controls which include conduct of criminal background checks, implementation of Targeted Financial Screening, and Politically Exposed Persons Due Diligence and Beneficial ownership verification for applicants for license.

Licenses are also taken through security clearance before commencement of operation at the approved cadastral area. In Zamfara, successful licensees underwent clearance by local security agencies, with negative reports potentially leading to license revocation. Although

no licenses have been issued in Zamfara for over five years, the procedure for negative reports remains in place.

- **Obligations to take Preventive Measures by DPMS Operators**

Dealers in precious metals and stones (DPMS) as part of the DNFBP sector are under obligations to undertake AML/CFT/CPF preventive measures. A composite of more than 70% of the operators have appointed a compliance officer. 34% of them appointed compliance at other level, which must have included outsourcing of the compliance function, while 13% are sole proprietor who handles the compliance function by themselves.

They carry out KYC and CDD on an ongoing basis, implement targeted financial sanction screening, put in place procedures to detect and report suspicious transactions, conduct beneficial ownership verification and PEP due diligence. They also undertake risk assessment based on customer, product, geography, and delivery channel. High-risk customers, including PEPs, (foreign and domestic PEPs), public servants, and students, are identified through these assessments. The nature of the product and geographical factors also contribute to the overall risk rating. Delivery channels such as transfers, cash, and gold-to-gold transactions are closely monitored, and reporting thresholds are strictly adhered to.

Also, more than 94 of the respondents claimed to have written AML/CFT Policy. This must have been so because the Jewellery Marketers Association of Nigeria (JEMA) developed an industry wide AML/CFT policy manual for its members and more than 76% of the respondent said that they carry out an assessment to determine if a foreign or nonresident client is from a high jurisdiction.

- **Enhancement of Sanction Regimes**

Even though, the implementation of Targeted Financial Sanction is also a bit sluggish, 50% of the respondents affirmed that they have registered on the National Sanction Committee (NSC) website. The same 50% claimed to be using the database provided by the NSC to conduct TFS screening. Shockingly, 45% of the respondent claimed they are neither aware of the NSC nor the requirement to conduct TFS.

In addition to the existing conviction-based sanctions, dissuasive and proportionate administrative sanctions have also been introduced and effectively applied to address continued AML/CFT/CPF violations within the sector. This provides a wider range of sanctions to enforce remedial actions in the shortest possible time.

- **Risk based Outreaches and Sensitization**

In addition to the actions taken by reporting entities, authorities and supervisory bodies have implemented specific measures to enhance the effectiveness of AML/CFT/CPF measures. Sensitization workshops and training programs are organized to educate reporting

entities on topics such as Identification and reporting of suspicious transaction reports, beneficial ownership, Targeted Financial Sanctions, and Risk Assessment. Supervisory bodies regularly engage reporting entities to improve their understanding of risks and encourage timely reporting. Regulations and guidelines are regularly updated to incorporate requirements for beneficial ownership identification and verification.

Review of the Questionnaires show that considerable numbers of the operators are implementing AML/CFT training programmes. More than 45% of the respondents affirmed that they conduct AML/CFT on annual basis, while 16.7% conducts quarterly and 12.5% conducts on a monthly basis. However, percentage of the respondents is at 20.8%, which remain slightly high given the intensity of engagement with the sector. In a similar vein, 69.2% of the respondent said they conduct differentiated trainings depending on the duties of the staff, while a composite of 70% of the respondent affirmed that new employees received trainings within a specified timed of 1-12 month of employment.

2. Enforcement, Investigation and Prosecution

In the realm of investigation and prosecution related to the DPMS sector, there have been numerous cases investigated within the broader extractive industry. However, these have not specifically targeted money laundering or terrorism financing within the DPMS subsector. Instead, investigations in this area have largely focused on fraud-related activities.

Investigators have received training on AML/CFT/CPF procedures specifically concerning precious stones and metals, ensuring they are well-prepared to handle cases in this domain. There are established mechanisms for joint investigations in the DPMS sector, facilitated by inter-agency collaborations. These efforts have resulted in multiple arrests and prosecutions across various zonal commands, demonstrating the effectiveness of coordinated investigative approaches.

As part of the Inter-Agency effort to combat illegal miners in Nigeria, the Federal Ministry of Solid Minerals Development established an inter-agency security outfit called the Mining Marshal Corp with maiden recruitment of 2,200 personnel in March, 2024. Additional 350 personnel were recruited in June, 2024, to bolster the capacity of the corp. So far, between the inauguration of the Mining Marshal Corp in March and June, 2024, a total of 200 illegal mining operators have been arrested while, 133 prosecutions are ongoing.

SCUML has also constituted the Adhoc Committee on unlicensed DNFBPs which comprise of regulatory and law enforcement agencies. This Committee exchanges information on identification of unlicensed DNFBPs including those operating the DPMS space.

3. Formalization of Illicit Artisanal Miners

In recent times the Federal Government has intensified efforts to formalize the illicit artisanal mining in Nigeria. The Presidential Artisanal Gold Mining Initiative (PAGMI) has run several pilot formalization programmes in major mining states across the Federation. This has helped in great deal to curb illegal mining and Integrate the Artisanal and Small-Scale Miners into the formal sector and enhance their development in a structured manner in line with global best practice.

In addition, the government is providing other incentives to dissuade illegal artisanal mining including reducing bureaucratic cost of obtaining small scale and artisanal mining license and financial support through the Artisanal and Small-Scale Financing Support Fund.

In the formalization process for precious metals and stones, essential due diligence procedures are also taken. While PAGMI does not issue licenses, it conducts due diligence for operators seeking formalization, incorporating criminal background checks, biometric information, and community consultations to ensure applicants are not involved in illegal mining.





Part 5 – Overview of Relevant Data from Suspicious Transaction Reports Analysis

In accordance with Section 17 (2) (f) of the MLPPA, 2022, DNFBPs under which DPMS are classified are required to submit cash-based transaction reports and currency transaction reports (CTRs) to SCUML. In separate section of the same law, DPMS are required to file suspicious transaction report to the NFIU, within 24 hours. An analysis conducted on STRs filed on DPMS operators, revealed that there was no regulatory report from DPMS operators in line with the requirement of MLPPA, 2022.

The DPMS's capacity for identification and reporting of STR appears to be very low, which corroborates the almost nonexistent STR filed from the sector. Although more than 65% of the respondents claimed to have registered on the NFIU STR reporting platform, official registration statistics did not confirm it. Also, more than 80% claimed that they have policy on STR. However, only less than 4% of the respondents claimed they have instances where transactions were not concluded on the AML/CFT compliance. More than 50% of the respondent don't request for the sources of income of their clients, while 45.8% says they only do when the risk is high. Notwithstanding, the NFIU received a total of 110 (one hundred and ten) STRs/SARs from financial institutions in line with the provisions of Section 7 of MLPPA 2022. Keywords that were used in the search were gold jewellery, precious stones and precious metals. Most of these reports submitted demonstrated huge cash transfers followed by immediate transfers to individuals/corporate entities or immediate cash withdrawals. This indicates the prevalence of cash transaction in the DPSM sector, making it vulnerable to abuse by money launderers.

Out of the 110 STRs/SARs filed to the NFIU on DPMS, 63 were suspected to be money laundering related, 21 were DPMS suspected to be transacting without documentary evidence, 16 were suspected to be related to terrorism financing, 3 were operating without license, 3 were into foreign exchange dealership, contrary to the intended nature of business (DPMS) declared to the bank, 2 were transactions carried out by associates of PEPs and 2 were STRs classified as related to DMPS but had no clear relation to the sector. This of course can be regarded as confirmation that the sector is subject to abuse by criminals.

Analysis of reports filed by Financial Institutions to the NFIU for the reporting period covering **2 February 2019 to 17 April 2024** is shown below:

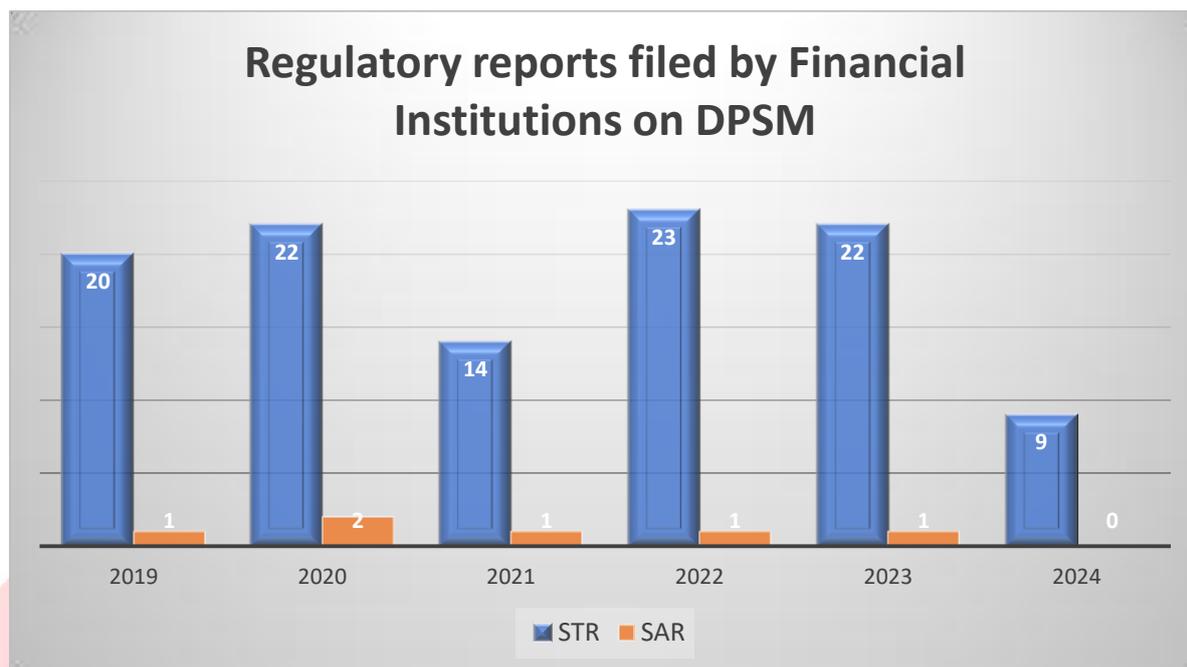
Table 1: Regulatory reports filed by Financial Institutions on DPSM

Reports Filed by FIs	2019	2020	2021	2022	2023	2024

STR	20	22	14	23	22	9
SAR	1	2	1	1	1	Nil



Chart 1

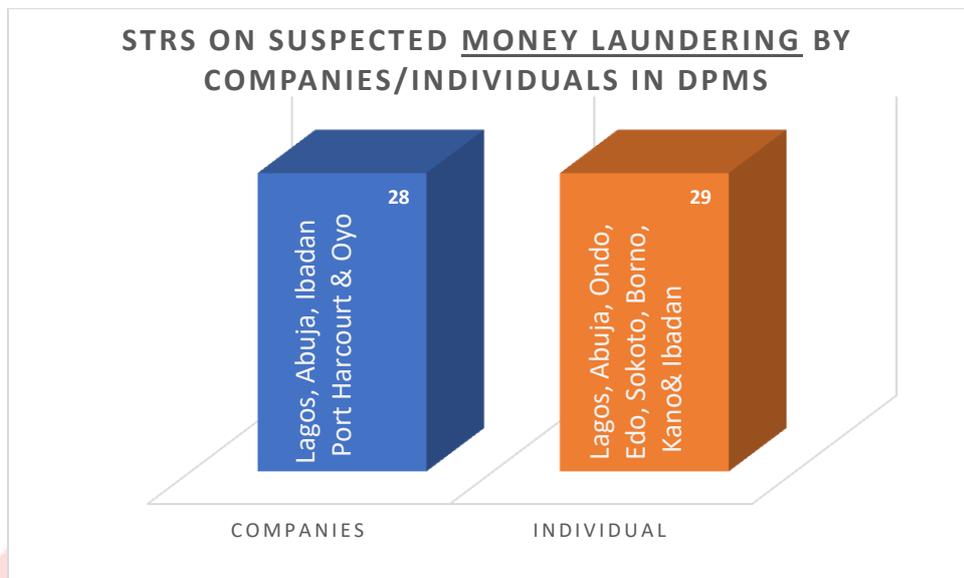


Table/Chart 1 (one) above provides a summary of statutory reports filed to the NFIU by Financial Institutions on activities of DPMS from the year 2019 to 2024. Based on the table above, a total of 110 STRs and 6 SARs were filed within the time frame.

Table 2: STRs on suspected Money Laundering by Companies/Individuals in DPMS

Client Type	Number of clients Reported	Reason for suspicion	Account Location	Value (N)
Companies	28	Money Laundering	Lagos, Abuja, Ibadan, Port Harcourt & Oyo	2,784,680,648
Individual	29	Money Laundering	Lagos, Abuja, Ondo, Edo, Sokoto, Borno, Kano & Ibadan	1,779,506,707
Total	57			4,564,187,355

Chart 2

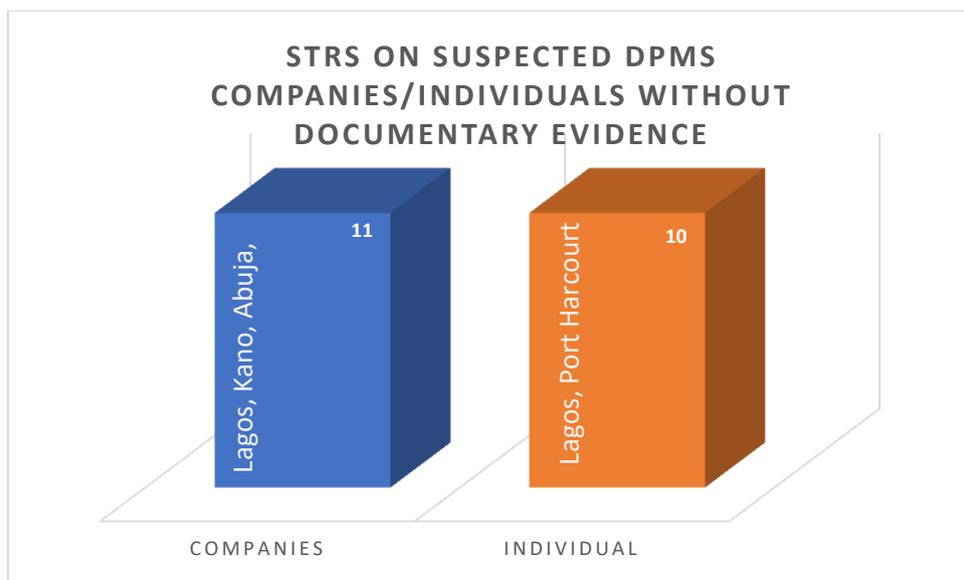


Table/Chart (2) two above provides details of 63 STRs that were filed to the NFIU by Financial institutions for Money Laundering suspicion activities. Out of the 63 STRs, 28 were on registered companies, 29 were on individuals and 6 had no clear narration. The regions that frequently featured in the STRs are Lagos, Abuja, Ibadan, Port Harcourt, Oyo, Ondo, Edo, Sokoto, Borno and Kano. The total value of funds involved is **N4,564,187,355**.

Table 3: STRs on suspected DPMS Companies/Individuals without documentary evidence

Client Type	Number of clients Reported	Reason suspicion for	Account Location	Value (N)
Companies	11	Operation without documentary evidence	Lagos, Kano, Abuja,	359,141,465
Individual	10	Operation without documentary evidence	Lagos, Port Harcourt	146,727,310
Total	21			505,868,775

Chart 3

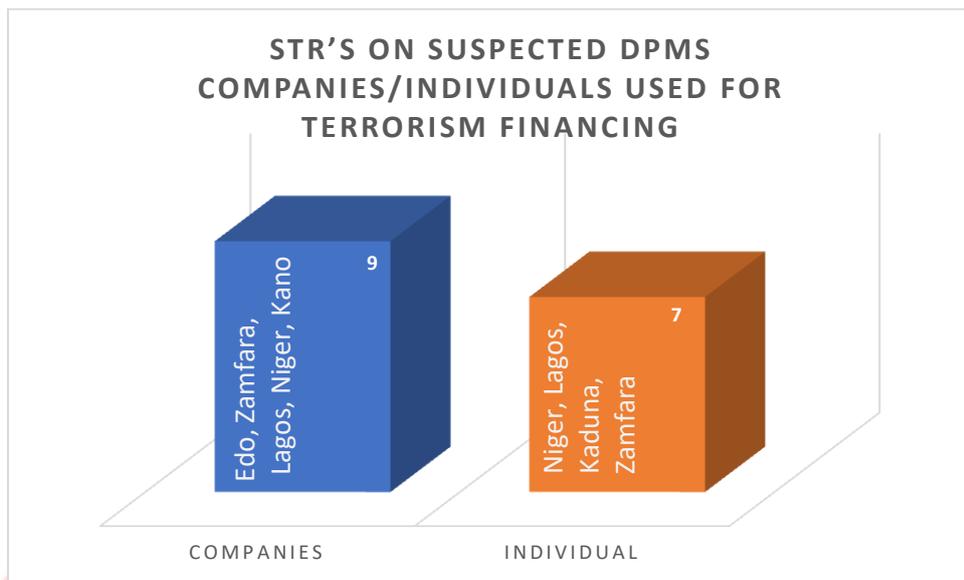


Table/Chart 3 (three) above provides details of 21(twenty-one) STRs that were filed by Financial institutions for operation of DPMS activities by Companies/Individuals without documentary evidence. Out of the 21 (twenty-one) STRs, 11(eleven) were on registered companies, 10 (ten) were on individuals. The regions that frequently featured in the STRs are Lagos. Abuja, Port Harcourt, and Kano. The total value of funds involved is **N505,868,775**.

Table 4: STRs on suspected DPMS Companies/Individuals used for Terrorism Financing

Client Type	Number of clients Reported	Reason suspicion for	Account Location	Value (N)
Companies	9	Terrorism Financing	Edo, Zamfara, Lagos, Niger, Kano	52,889,500
Individual	7	Terrorism Financing	Niger, Lagos, Kaduna, Zamfara	599,043,323
Total	16			651,932,823

Chart 4



Table/Chart 4 (four) above provides details of 16 STRs that were filed to the NFIU by Financial institutions for suspicion of Terrorism Financing through DPMS activities by Companies/Individuals. Out of the 16(sixteen) STRs, 9(nine) were on registered companies, 7 (seven) were on individuals. The regions that frequently featured in the STRs are Lagos, Edo, Zamfara, Niger, Kaduna and Kano. The total value of funds involved is **N651,932,823**.



Part 6- Conclusion and Recommendations

Conclusion

The findings of the assessment revealed significant actual and potentials inherent risks ranging from products, geographical (at both local and internal levels), transactional/delivery mechanism to customer. While the sector has shown considerable improvement in AML/CFT compliance, many deficiencies persist in term of applying the full range of AML/CFT due diligence, identification and reporting of STRs.

At the upstream part of the DPMS value chain, key vulnerabilities were identified including prevalence of illicit artisanal mining, which undermines regulatory efforts and exposes the sector exploitation by criminals and terrorism financing.

In light of the foregoing, the sectoral risk assessment aligns with the outcome of the National Residual Risk Assessment in rating the exposure of the DPMS sector to ML/TF/PF as **HIGH**.

Recommendations

1. The Federal of Nigeria should have a strategy to intensify efforts at formalization of the informal artisanal miners.
2. SCUML, NFIU, SROs and government licensing authorities should collaborate to implement a risk-based outreaches and awareness creation to the sector.
3. The SCUML Ad Hoc Committee should be expanded to include other relevant law enforcement agencies like the Nigerian Police Force and the National Security and Civil Defence Corp.
4. Government should strengthen capacity of regulators, supervisors and law enforcement agencies on the DPMS sector.
5. The Federal Government of Nigeria should introduce a single exit port for all raw precious metals and Stones.
6. The Federal Government of Nigeria should intensify collaboration with AML/CFT regulatory agencies of import and export markets of Nigerian precious metals and stones.
7. SCUML should intensify supervision of licensed mineral buying centres.

Annextures:

1. *Indicators of ML/TF in the sector*
2. *Red flags of ML/TF in the DPMS Sector*
3. *Case Studies*

INDICATORS OF MONEY LAUNDERING AND TERRORISM FINANCING IN THE SECTOR

Client Behavior

- The client's economic profile does not align with the cost of the precious metals or stones purchased
- Where client's source of funds cannot be identified or is unclear.
- Client or transaction is from country or jurisdiction in relation to which the FATF has called for countermeasures or enhanced client due diligence measures or jurisdiction known to have inadequate measures to prevent money laundering and the financing of terrorism.
- Client linked to adverse media reports
- The client or any of its associated person / entity with positive name matches while conducting Targeted Financial Screening.
- Political exposed client who is linked to negative news / crime or any client who is family member or close associate of such political exposed person.
- The customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping purposes.
- The customer is unusually concerned with the reporting threshold or AML /CFT/CPF policies.
- The customer attempts to maintain a high degree of secrecy with respect to the transaction, for example:
 - requesting that normal business records should not be kept; or
 - The customer is unable or unwilling to provide information for due diligence and record keeping purposes.
- The customer makes enquiries about refund policies and requests for large refunds subsequently.
- The customer fails to provide sufficient explanation and/or documents for the source of funds for his transaction. For example, the customer attempts to use a third-party cheque or debit/credit card in which the source of funds or underlying ownership cannot be easily traced to the customer or is questionable.
- The customer makes unnecessary self-disclosure that his funds are clean and not involved in any money-laundering activities.
- The supplier appears to be related to a high-risk country or territory or entity that is associated with risk for money laundering or terrorism activities or a person that has been designated as terrorists.
- The supplier transports the precious metals and precious stones through a country or territory that is designated as 'high risk for money laundering or terrorism activities' for no apparent economic reason.
- DPMS operators operating at a location different from the officially listed address.

- The supplier appears to be in a hurry to complete transaction or is willing to sell precious metals and precious stones at a rate significantly lower than their typical sale value.
- The supplier does not appear to understand the precious metals and precious stones industry, or lacks the appropriate equipment or finances to engage in regulated activity in the precious metals and precious stones industry.



Transaction Patterns

- Any cash transactions that exceed the threshold noted for Jewellers & Precious Stones / Metals Dealers.
- Transactions that are not consistent with the usual profile of a customer or transactions that appear to be beyond the means of the customer based on his/her stated or known occupation or income.
- Transactions where customer does not consider the value, size and/or colour of the precious stone, precious metal, or precious product.
- Unusual payment methods, such as large amounts of cash or cashier's Cheques.
- The customer pays for precious metals, precious stones or precious products with cheques, but it is noted on the cheque that the payment is for something else.
- Numerous transactions by a customer, especially over a short period of time, such that the amount of each transaction is not substantial but the cumulative total is substantial.
- Use of third parties in transactions related to precious metals and precious stones, for example: Payments received from a third party, who is not the owner of the funds, without legitimate business purpose; or Precious stones/metals product delivered to a third party, who is not the owner or payer of funds, without legitimate business purpose.
- Large transactions which are cancelled shortly after deposits or full payment are made, resulting in the refunds. For example, the customer may pay for the transaction in cash and request the refund be issued in the form of a cheque. Conversely, the transaction may be made with a debit/credit card and the customer request for the refund to be in cash or other means.
- Overpayment of transactions with a request to refund excess in cash or to a third party.
- Transactions that are not consistent with the usual profile of a supplier:
 - Over or under-invoicing, structured, complex, or multiple invoice requests, and high-dollar shipments that are over or underinsured; or
 - Transactions which are excessive, given the amount or quality, or potential profit from the sale of precious metals and precious stones; or
 - Consignment size or type of precious metals and precious stones shipped appears inconsistent with the capacity of the exporter or importer. For example, the shipment or transshipment does not make economic sense.
 - Misclassification of gold purity, weight, origin and value on customs declaration forms.
- The transaction involves the use of front or shell companies, which have no real operating activity. For example, the entity's ownership structure appears to be

doubtful or obscure or the entity refuses to provide additional information when requested.

RED FLAGS

- Customer indiscriminately purchases or sells merchandise without regard for value, size, or colour.
- A customer paying for high-priced jewellery with cash only but not in other popular and safe methods of payment. (e.g., credit card, debit card certified cheque)
- Unusual buying and selling behaviour/pattern (e.g., repeated purchases of luxury products without apparent reasons)
- Purchases or sales that is unusual for the customer or supplier.
- Unaccompanied minors making purchases or sales
- Unusual payment methods, such as large amounts of cash, multiple or sequentially numbered money orders or cashier's cheques, or payment received from third-parties.
- Attempts by customer or supplier to maintain high degree of secrecy with respect to the transaction, such as request that normal business records should not be kept.
- Customer is reluctant to provide adequate identification information when making a purchase.
- A customer orders item, pays for them in cash, cancels the order and then receives a large refund.
- A customer asking about the possibility of returning goods and obtaining a cheque (especially if the customer requests that cheque be written to a third party).
- Customer may attempt to use a third-party cheque or a third-party credit card.
- Funds come from an offshore financial centre rather than a local bank.
- Large or frequent payments made in funds other than Naira
- Transaction lacks economic justification.
- Customer is known to have a criminal background.
- Customer uses or produces identification documents with different names.
- Customer does not want to put his/her name on any document that would connect him/her with the purchase.
- Purchase appears to be beyond the means of the customer based on his/her stated or known occupation or income.
- Seller sells numerous items at the same time.
- Seller sells items repeatedly.
- Seller sells items with price tags on them.

- Sellers cannot explain the source of the items they seek to sell.

Case Study

The case studies were derived from the analysis of one hundred and four (104) STRs filed by Banks on DPMS. The banks reported the DPMS for suspected illicit activities. See below:

INTERNATIONAL TERRORISM FINANCING THROUGH THE DPMS SECTOR

CASE STUDY ONE

Details:

A joint TF investigation between 2019 and 2021 established a link between a convicted terrorist financier currently serving a life jail term in the UAE and a dealer in rough gold from artisanal mining in North West & North Central Nigeria.

During the investigation, it was observed that within a three-year period, the sum of **N560million** was seen to have moved between the convicted terrorist financier in the UAE and the rough gold dealer in Nigeria.

The rough gold dealer's financial footprints were traced to states with the highest cases of banditry and kidnapping for ransom in the North West & North Central parts of the Nigeria.

The rough gold dealer is presently facing a trial bordering on the financing of terrorism.

Indicators/Red Flags:

- ❖ Huge volume of transactions: N560million within three years with the same person
- ❖ The customer is into artisanal rough gold mining in places noted for banditry and kidnapping for ransom
- ❖ The customers transactions were traced to places of banditry and kidnapping for ransom
- ❖ Customer linked to a convicted Terrorist Financier in UAE

Location:

 UAE, Nigeria

TERRORIST FINANCING

CASE STUDY TWO

Details:

The account of Mr. AMB was reviewed from May-2022 To Dec-2023 for possible money laundering, terrorism financing and proliferation financing red flags. Due to a Credit turnover of **N100,462,745.88**

The customer was on-boarded as self-employed with no specific line of business stated. The Relationship Manager however stated that the customer is a jewelry retailer.

A review of the transactions in the account revealed regular inflows and subsequent outflows to different individuals.

Notable counterparty was Mr.NI who transferred a total of **N34,338,000.00** to Mr AMB between 11-03-2023 and 10-08-2023 in 31 tranches. On inquiry, RM stated that this counterparty is also a jewellery retailer whom the customer collaborates with to sell goods and remits the payment subsequently.

Another identified counterparty was Mr. MS who transferred a total of **N202,000** in 5 tranches between 11-03-2023 and 07-05-2023. This counterparty in turn received outflows amounting to **N24,772,000.00** in 20 tranches between 02-04-2023 and 03-09-2023. On inquiry, RM stated that the counterparty is a provision seller whom the customer received cash from and transfers the equivalent amount.

Indicators/Red Flags:

- ❖ Use of personal account for a designated non-financial business without SCUML certificate.
- ❖ Regular inflows and subsequent outflows to different individuals.
- ❖ Inflow of **N34,338,000** from Mr.NI in 31 tranches
- ❖ Inflow of **N202,000** from Mr. MS in 5 tranches who operates a different business (Provision)

Location:

 Niger State, Nigeria

MONEY LAUNDERING THROUGH PEP

CASE STUDY THREE

Details:

The customer commenced banking relationship with ABC Bank PLC. on July 20 2017. The account was opened in Abuja with account number ZZZ and the customer also maintains 4 other accounts with the bank. The directors and signatories to the account are Mr. UAM and Mr. AAU whose Bank Verification Number (BVN) is also linked to the CCC gold and jewelry Ltd with account number VVVV in the bank.

GTC Nigeria Ltd is run by Mr. GU a lawyer and a principal partner of ALP. Publicly available report reveals that Mr. GU is a close associate of senior PEP and enhanced due diligence were carried out on the account at the point of account opening where it was documented that the customer is into general trading.

The customer's account has received credits totaling **USD 8,160,975.00** while the total debits from inception to date equals **USD 8, 160, 364.88**. The principal transaction mode on the customer's account is via transfers. A review of the customer's account revealed that between February 01 and 14, 2019, the customer received three transfers totaling **USD 5, 000 000 .00** from GTC Nigeria Ltd.

Upon further enquiries and due diligence carried out the customer could not explain the purpose of the inflows. However, the customer claimed that the outflows were for FX conversion to naira. The customer was unable to provide details of the purpose or documentary evidence showing the purpose of the transactions.

Suspicious transaction report, referenced DDD has been previously filed on the account of GTC Nigeria Ltd based on a large transfer of **Euro 4,700,000.00** to the customer. Volume of transactions is very high and unusual to the account. The customer is unable to explain the actual purpose of the transactions or provide documentary evidence showing the actual purpose of the transaction.

Indicators/Red Flags:

- ❖ Account receives transfer of USD **5, 000 000 .00** from GTC Nigeria Ltd which is run by close associate of a senior PEP.
- ❖ Customer was unable to provide details of the purpose or documentary evidence showing the purpose of the transactions
- ❖ Very high volume and unusual transaction to the account of the customer
- ❖ Large Forex Transactions during Election Period

Location:

 Abuja, Nigeria

MONEY LAUNDERING THROUGH PEP

CASE STUDY FOUR

Details:

The customer commenced banking relationship with XYZ Bank PLC. on November 26 2012. The account was opened at the Ikoyi branch of the bank in Lagos with account number CCCC and BVN DDD. The customer also maintains additional 3 accounts FFFF with the bank. The customer's BVN is linked to the account of Mr. IAA with account numbers XXX and YYY.

CDD and KYC were carried out on the customer at the point of account opening where it was documented that the customer is an entrepreneur. Publicly available information reveals that the customer is a close associate of Mr. HH the former governor of State in Nigeria.

A review of the customer's account revealed that the customer made large FX cash withdrawals of **USD100,000.00** and **USD175,000.00** totaling **USD275,000.00** on March 13 2019 and March 18 2019 respectively. These cash withdrawals were made at the Ikoyi branch of the bank in Lagos. Further review of the account revealed that the customer received an FX inflow of **USD480,000.00** into her account from MN limited with account number IIII and BVN SSSSS on February 18 2019.

MN limited is a private limited company that is involved in the leasing of ocean ferrying vessels used by drilling companies in rivers state to transport security personnel and their equipment. The company has various vessels leased to 3 Oil Exploration Companies. The directors and signatories to the account include Mr. IO Mr. OO Ms. VO and Ms. OO.

A suspicious transaction report LLL had earlier been filed on MN limited when Mr. OI the managing director and signatory to the account made large FX cash withdrawals of **USD70,000.00** and **USD400,000.00** on February 8 2019 and February 19 2019 respectively. Upon further enquiries and due diligence carried out the customer Mr. OUM claimed the funds were for payment for jewelry and goods received from her suppliers in Italy. However, the customer did not provide any documentary evidence showing the purpose of the transactions.

The customer is also a politically exposed person thus high risk.

Indicators/Red Flags:

- ❖ Customer is a close associate of Mr. HH the former governor of delta state.
- ❖ Large FX cash withdrawals of **USD100,000.00** and **USD175,000.00**.
- ❖ FX inflow of **USD480,000.00** into her account from MN limited-service provider to oil exploring companies.
- ❖ Large fx cash withdrawal the customer was unable to provide documentary evidence of the destination and purpose of withdrawals cash to jewelry is a means of integrating illicit funds for easy cross border movement.

Jurisdiction:

 Lagos

OPERATING WITHOUT SCUML CERTIFICATE

CASE STUDY FIVE

Details:

Ms. PV with account number TTT and Bank Verification number JJJ operates an individual FSA 3. The account was opened on August 24, 2016, and has generated a cumulative credit of **NGN 142,626,515.58**, the balance in the account is **NGN 421,630.75** as at the time of this report.

Account shows customer has constantly received huge and erratic inflows followed by multiple outflows, this prompted the need for further investigation.

During further investigation and based on the outcome of our Enhanced Due Diligence (EDD), the following observations were made:

1. Customer name did not appear as a PEP on any of our local data base or on any online platform via web search.
2. In the last two months, the customer has generated a cumulative credit of **NGN 19,870,582.25** and cumulative debit of **NGN 18,916,428.13**.
3. On the 28th of October 2022 customer received **NGN 5,000,000.00** from PL company which was followed by various outflows to six beneficiaries (with narration AAA, Apple Device, OGDB) totaling **NGN 3,542,488.14**. No information was seen on the beneficiaries from an online review.
4. On enquiring from the Account officer on these transaction pattern carried out by the customer, we were informed that customer claims to be a jeweler and is into the purchase and sales of precious stones.
5. This response did correlate with some of the transactions that took place in the account, as there is evidence of dealings with one confirmed jewelry company PLCO and also response also explains reason for the narration code 'stone', that appear at the end of some of customer's transactions.
6. Finally, taking into consideration customer use of her personal account, which is not certified by SCUML for such business, a business known to be a highly used platform by money launders makes the transactions in this account highly risky and suspicious.

Indicators/Red Flags:

- ❖ Huge inflow of a cumulative credit of **NGN 142,626,515.58**, the balance in the account is **NGN 421,630.75**.
- ❖ Constantly received huge and erratic inflows followed by multiple outflows.
- ❖ Use of her personal account, which is not certified by SCUML

Location:

 Port Harcourt

CASE STUDY SIX

Details:

'Subject X' is a foreign national and the owner of different businesses in different industries, including 'entity A' licensed for gold trade in the UAE. Entity A name was later changed to 'entity B' under the same business activities. The subject held different bank accounts reported by financial institutions for suspicious activities or linked with other counterparties who are subjects of STRs. The subject, with a family member, created a gold-smuggling system across borders.

While the subject had no criminal record in the UAE, the UAEFIU found through World-Check that the subject and a family member were convicted in the past in a European country 'country A' of creating an unlawful system for customers to sell gold anonymously to a refinery for cash. A suspended sentence of 18 months was imposed in said country. Based on adverse media, the involved refinery paid more than 1 billion euros in cash for gold during one year and produced millions of euros in illegal gains.

The UAEFIU received a request for information from another European FIU counterpart 'country B'. The request might have resulted from the court case and adverse media mentioned earlier. Country B indicated suspicious transactions noted through its correspondent banking system involving subject X, 'entity C' a refinery owned by a subject's family member in country A, and different counterparties in the UAE. This was in addition to a family-based refinery 'entity D' in an African country. Country B considered the possibility of unlicensed financial agent activities, fraudulent account usage and/or money laundering.

According to the concerned customs department in the UAE, the subject was importing different types of products, including gold, silver, platinum bars, gold bullion and coins, jewelry, banknotes in circulation, and relevant industrial spare parts. Products exported involved precious metal bars, gold bars, pieces, bullion, coins, grain, the waste and scrap of gold, banknotes in circulation, and a chemical gold-refining system automatic with a double-filtration system.

To launder the money, the subject had different bank accounts (obtained in the four currencies of AED, EUR, GBP, and USD) in several financial institutions (banks and exchange houses) in the UAE. These accounts had a high turnover volume, including multiple incoming transfers followed by immediate outgoing transfers for no reason. Moreover, based on the UAEFIU database, it was suspected that the subject used a UAE third party, 'entity Z,' to conduct payments to high-risk countries in Africa, with two STRs having previously been received from reporting entities in the UAE and referred by the UAEFIU to the concerned law enforcement agency.

Ultimately, the UAEFIU concluded that the subject might have been laundering money gained from illicit gold through bringing and selling some of this gold to different companies in the UAE. Money laundering activities included utilizing financial institutions in the UAE to move money within and across borders, taking many loans from banks while paying the loans off within a short timeframe, and as well as purchasing multiple luxury properties that

are collectively worth millions of AED. Consequently, the UAEFIU disseminated the case to the relevant police department for further investigation into the subject.

Indicators/Red Flags:

- Trade in high-risk products such as gold bars, coins, bullion and loose diamonds from high-risk jurisdictions known for conflict gold.
- High velocity in the movement of funds.
- Unjustified multiple incoming transfers followed by immediate outgoing transfers.
- Unusual large value of clearing cheques.
- Unusual and inconsistent business activities and a change of business name.
- Using loans to integrate illicit funds into the financial system of the UAE.
- Purchasing high-value real estate to launder money gained from conflict gold.
- Links to other STRs with the same suspicion and/or alleged crimes and criminals.
 - ❖ • Similar concerns have been received from a counterpart FIU.

Location:

 UAE

Source UAE FIU

A handwritten signature in blue ink, appearing to read 'Daniel Isei', written over a white background.

Daniel Isei, fsi, CAMS, CFE

Director, Special Control Unit against Money Laundering