NIGERIAN FINANCIAL INTELLIGENCE UNIT

# GUIDANCE NOTE

NFIU/EXT/PUB/GUIDE/AC-STEI/JUL-2022/VOL.I/011

# GUIDANCE ON MONEY LAUNDERING, TERRORIST FINANCING AND PROLIFERATION FINANCING VULNERABILITIES IN FREE TRADE ZONES

The Nigerian Financial Intelligence Unit (NFIU) In fulfilment of its obligations on the timely provision of guidance to Reporting Entities and Competent Authorities (CA) publishes Indicators and advisory on crimes of money laundering and terrorist financing in an effort to guide Reporting Entities and Competent Authorities on observable trends and patterns to mitigate AML/CFT/CPF threats.

JULY 2022

# CONTENTS

# GUIDANCE ON MONEY LAUNDERING, TERRORIST FINANCING & PROLIFERATION FINANCING VULNERABILITIES IN FREE TRADE ZONES

## AUTHORITY

The Guidance on money laundering, terrorist financing and proliferation financing (ML/TF/PF) vulnerabilities of Free Trade Zones (FTZs) is issued to all FTZ Authorities in Nigeria, the Nigeria Customs Service, the Central Bank of Nigeria (CBN) as well as reporting entities by the Nigerian Financial Intelligence Unit (NFIU) in line with its functions contained in section 3(1)(l) of the NFIU Act 2018 which is to advise the Government, law enforcement and security agencies, supervisory authorities, and reporting institutions on the prevention of money laundering, the financing of terrorism and proliferation of weapons of mass destruction, and associated predicate offences; The guidance is to further assist FTZs in Nigeria and other relevant parties to have an understanding of the vulnerabilities of FTZs to ML/TF/PF building on existing international knowledge of risks associated with FTZs.

The guidance particularly notes paragraph 9 of the Central Bank of Nigeria Guidance for Banking Operations in The Free Zones in Nigeria, 2016 that requires banks within the FZs to ensure strict adherence to the provisions of the relevant AML/CFT laws and regulations.

## INTRODUCTION

Free Trade Zones provide significant opportunities for legitimate business and play an important role in global trade. National governments around the world found that offering easy regulations, limited taxes and reduced oversights in FTZ s can drive economic development and facilitate international trade and investment. The core purpose of a FTZ is to remove from a seaport, airport or border those hindrances to trade caused by high tariffs and complex customs regulations. However, the lax regulations led to the proliferation of FTZs around the globe with increasing vulnerabilities by criminal actors who are taking advantage of the relaxed regulations and lack of transparency in the zones. Logistically, zones are most often located near ports of entry; air, land or sea, but operate apart from traditional ports of entry and often under different rules. This location facilitates entry to the zone as well as the exit and entry to the customs territory. It also provides Customs officials with easier access to the port and FTZ.

In Nigeria, there are two types of FTZs-the specialized and general-purpose trade/export zones. For the two types, two administrative bodies are empowered to effectively manage these zones. They are: Nigerian Export Processing Zone Authority (NEPZA) for the general-purpose zones and Oil and Gas Export Free Trade Zone Authority (OGEFTZA) for oil and gas zones. General benefits comprise of duty deferral, duty exemption and duty reduction (inverted tariffs). Permissible activities within the zones include but not limited to oil and gas logistics, electricity and electronic products, textile products, production of wood products and handicrafts, pharmaceutical products, printing materials, et al.

While a FTZ is central to the integrated global economic development, countries need to put in place adequate AML/CFT/CPF measures to prevent the zones from becoming channels for facilitating criminal activities. The 2010 OECD report on Money Laundering Vulnerabilities of Free Trade Zones, for example, outlines these abuses to include "participation in an organized criminal group and racketeering, illicit trafficking in narcotics, fraud, counterfeiting and piracy of products, and smuggling". [1]

This guidance will recommend practical ways to mitigate ML/FT/PF vulnerabilities of FTZs in Nigeria in line with international best practice. The guidance leverages on a number of resources and international typologies.

## LEGAL FRAMEWORK OF FTZs IN NIGERIA

There are a number of Laws and regulations for the administration of FTZs in Nigeria. They are:

1. Nigerian Export Processing Zones Act 2004
2. Oil and Gas Export Free Trade Zone Act 2004
3. Companies and Income Tax Act (CITA) 2007
4. Petroleum Profits Tax Act (PPTA) 2004
5. Value Added Tax Act 2007
6. Federal Inland Revenue Service (Establishment) Act 2007
7. Investment Procedures, Regulations and Operational Guidance for Free Trade Zones
8. Oil and Gas Export Free Trade Zone Regulations 2003
9. Tinapa Free Trade and Resort Regulations, 2009

## SUMMARY OF FTZs IN NIGERIA

### NEPZA

The following is a list of zones within the NEPZA:

| S/N | Names of Zones | Operational Enterprises | No of Non-Operational Enterprises | Total Reg | Yet To Begin | No of Enterprises that Left |
|---|---|---|---|---|---|---|
| 1 | NAHCO FZ | 1 | 6 | 7 | N/A | N/A |
| 2 | OGFTZ | 46 | 41 | 89 | 2 | 3 |
| 3 | LEKKI | 69 | - | 106 | 19 | - |
| 4 | LAGOS FREE TRADE ZONE | 12 | - | 23 | 11 | - |
| 5 | EKO ATLANTIC | 11 | 6 | 17 | - | - |
| 6 | BUNDU | 2 | - | 2 | - | - |

[1] Risk ML vulnerabilities of Free Trade Zones.pdf (fatf-gafi.org) Assessment 2022, international typologies and other academic research.

| | | | | | | |
|---|---|---|---|---|---|---|
| 7 | DANGOTE FTZ | 52 | 43 | 95 | - | - |
| 8 | LADOL | 2 | 24 | 26 | - | - |
| 9 | SNAKE ISLAND | 10 | 10 | 20 | - | - |
| 10 | KANO FTZ | 17 | - | 38 | - | - |
| 11 | TINAPA | 6 | - | 43 | - | - |
| 12 | CALABAR FTZ | 35 | Inactive- 34 | 69 | - | - |
| 13 | ATV | 5 | 16 | 21 | 6 | - |
| 14 | QUITS | 3 | Inactive - 2 | | - | - |
| 15 | ALARO CITY CFP | 4 | 14 | 18 | - | - |
| 16 | CENTENERY | - | - | 18 | - | - |
| 17 | OLOKOLA | - | - | - | - | - |
| 18 | NEWREST FTZ | 2 | 1 | 3 | - | - |
| 19 | TOMARO FTZ | - | 11 | 11 | - | - |
| 20 | IBOM SCIENCE & TECH PARK FTZ | - | - | - | - | - |
| 21 | AHL ENERGY FTZ | 3 | - | 8 | 5 | - |
| 22 | SEBORE FZ | 1 | - | 2 | - | - |
| 23 | CEPLAS FZ | 1 | 5 | 6 | - | - |
| 24 | ENUGU INDUSTRIAL PARK FZ | 2 | - | 2 | - | - |
| 25 | ALSCON | 1 | | 1 | | |

| | | | | | |
|---|---|---|---|---|---|
| **TOTAL** | **285** | **213** | **625** | **43** | **3** |

**NON-OPERATIONAL FREE ZONES (INACTIVE) -UNDER NEPZA SCHEME**

| S/N | Names Of Zones | Status | No. of Licensed Enterprises | Location |
|---|---|---|---|---|
| 26 | MAIGATARI FTZ | Operational | 1 | Jigawa |
| 27 | Banki Border FTZ | Non-Operational | - | Borno |

| | | | | |
|---|---|---|---|---|
| 28 | Oluyole FZ | Non-Operational | - | Oyo |
| 29 | OILSS Logistics FZ | Non-Operational | - | Lagos |
| 30 | Living Spring FTZ | Non-Operational | - | Osun |
| 31 | Specialized Railway Industrial FZ | Non-Operational | - | Ogun |
| 32 | Brass LNG FZ | Non-Operational | - | Bayelsa |
| 33 | Imo Guandong FTZ | Non-Operational | - | Imo |
| 34 | Kwara FTZ | Declaration | - | Kwara |
| 35 | Koko FTZ | Declaration | - | Delta |
| 36 | Ibom Industrial City FZ | Declaration | - | Akwa Ibom |
| 37 | Ogidigbe Gas Revolution Industrial Park | Declaration | - | Delta |
| 38 | Ogogoro Industrial Park | Declaration | - | Lagos |
| 39 | Badagry Creek Integrated Industrial Park | Declaration | - | Lagos |
| 40 | Maritime Economic City | Declaration | - | Lagos |
| 41 | Ondo Industrial City | Declaration | - | Ondo |
| 42 | Eyinmba Economic City | Declaration | - | Abia |
| 43 | Green Economic Zone | Declaration | - | Kaduna |
| 44 | NASCO Town FZ | Operational | - | Lagos |

***Source: NEPZA***

| | | |
|---|---|---|
| **TOTAL NUMBER OF INACTIVE ZONES** | **19** | **1 Licensed Enterprise** |

**NEW FREE TRADE ZONES**

| S/N | Names of Zones | Status | Location |
|---|---|---|---|
| **45** | Bonny Kingdom Free Trade Zone | Declaration | Rivers |

### OGEFTZ

The following are active OGFZs in Nigeria:[2]

| LOCATION OF FTZ | FTZ |
|---|---|
| Akwa Ibom State | Liberty Oil & Gas Free Zone |
| Bayelsa State | Brass Oil & Gas City |
| Delta State | Warri Oil & Gas Free Zone |
| Lagos State | Eko Support Services, Apapa |
| Rivers State | Oil & Gas Free Zone Onne |
| | Notore Industrial City, Onne |

***Source: NEPZA***

## ML/FT/PF VULNERABILITIES OF FTZS IN NIGERIA

Criminals see FTZs as perfect places to manufacture and transport illicit goods, as controls and checks by authorities are often irregular or absent. Illegal transactions can be easily disguised as legal, using trade-based money laundering (TBML) schemes that are notoriously difficult to detect. If an offshore financial center is thought of as a tax haven for illicit finance; think of an FTZ as a haven for illicit trade (and associated crimes): Customs authorities have little or no oversight of what actually goes on in an FTZ, goods are rarely ever inspected and companies operating in FTZs tend to benefit from low disclosure and transparency requirements. With the number of FTZs around the globe a continuing mystery – some estimate the number at 4,300 – the opacity inherent in the zones is a massive security, crime and tax challenge[3].

The Financial Action Task Force (FATF) report on Money Laundering Vulnerabilities of Free Trade Zones 2010[4] highlighted the following ML/TF vulnerabilities of FTZs to include but not limited to:

FTZs are subject to unique laws, regulations, and oversight to take account of their role in job creation and economic development policies. These features provide opportunities for legitimate business but also present weaknesses which expose it to misuse by criminal elements. The existence of vulnerabilities in a system makes it attractive for money launderers and terrorist financers. Although zones vary in order to provide different benefits to countries and regions, they present similarities with regard to their vulnerabilities which are developed through the report.

The use of cash in FTZs continues to be important because it is easy to use in trade transactions. Cash does not require financial institutions and presents particular ML/FT risks because of its portability, anonymity and lack of an audit trail. Moreover, even if banks outside of the FTZs are involved in the trade transactions, they are less able to manage ML/TF risks because of the others vulnerabilities of the zones (opaqueness and relaxed oversight).

---

[2] https://ogfza.gov.ng/ accessed July 2022

[3] https://gfintegrity.org/free-trade-zones-a-pandoras-box-for-illicit-money/

[4] ML vulnerabilities of Free Trade Zones.pdf (fatf-gafi.org)

Although the conditions for setting up FTZs may be regulated by the Customs or relevant management authority, and the kinds of operations may be subject to the approval of these authorities, the degree of Customs intervention is often insufficient or even absent. Commercial operations carried out under such lenient controls can lead to cutting off the monitoring of the international supply chain.

Most zone authorities operate separate company formation services from those that exist in the rest of the jurisdiction and market the ease of setting up a legal entity in an FTZ to attract business. Many zone authorities request little or no ownership information of the companies interested in setting up in the zone. As a result, it is simpler for legal entities to set up FTZs and hide the name(s) of the true beneficial owners. FTZs that offer company formation services also by-pass AML regulations that may apply to the legal entity formation process outside of the zone. This provides a means to access the financial system in the same jurisdiction or others offshore.

Certain types of goods are particularly vulnerable due to their value, size, high tariff rate, volume of trade and potential for IPR violations. Any one or a combination of these elements makes them attractive for potential misuse, especially via FTZs, because of their role as an open platform for trade and the businesses operating in these zones such as cigarettes, alcohol and other high duty items are more vulnerable to smuggling and contraband due to the increased revenue that can be generated by not paying tax.

IPR violations are difficult to detect and are difficult to substantiate at the time of the cargo inspection. In an environment with few inspections and large cargo coming in and out, it would be relatively easy to take advantage of relaxed oversight in order to import, repackage, re-label and export textiles or IT equipment into the country or onto a third country. Repackaging in FTZs is one of the tools used by criminals to cut the links with the real country of origin or destination.
Electronic items constitute high volume of trade and are therefore more vulnerable for VAT carrousels fraud where tax is illicitly reclaimed. The higher the volume, the higher the refunds will be. FTZs can be misused in these fraud schemes because they offer a large market with relaxed oversight for the trade of the items concerned.

## INTERNATIONAL TYPOLOGIES OF ML/TF IN FTZs[5]

Below case studies will deepen the understanding of the FTZs supervisory authorities in detecting red flags associated with ML/TF/PF in the FTZs:

### Case Study 1: Trade Based Money Laundering/Black Market Peso Exchange/Terrorist Financing

This case involved criminal structures operating in Colombia, Central and South America, Europe, Asia, the Middle East, Mexico and the United States. The investigation uncovered multi-ton quantities of cocaine being shipped to various locations worldwide and uncovered a

[5] ML vulnerabilities of Free Trade Zones.pdf (fatf-gafi.org)

massive Colombian/Lebanese drug trafficking and money laundering cell operating globally with direct links to the Islamic extremist organization Hezbollah in Lebanon. A portion of the drug proceeds sold in the Middle East was directed to Hezbollah leaders operating in Lebanon to ensure that the traffickers could operate in certain areas in the Middle East. The network also had a central money laundering operation based in Country I's Asian based commodities trade. The network utilized Asian based financial institutions and trading companies to launder in excess of USD 15 million USD monthly in narcotics proceeds to Colombia via the black-market peso exchange (BMPE). Proceeds of drug were sent to Country I based business accounts which were controlled by Colombian business owners who would purchase the currency from peso brokers and ship the goods to South America. Traffickers would receive the money up front or subsequent to the sale of goods. The network was able to funnel narcotics proceeds through Country I back to Colombia to the drug trafficking source. A number of businesses in the Colon Free Zone (CFZ) in Panama participated in this scheme and the zone was a central point of delivery for bulk cash proceeds of drugs.

There was also a related BMPE scheme based in Miami. Electronics companies in Miami would accept drug money from US bank accounts and purchase computer and electronics parts which were shipped to Colombia. The Colombian business owner would sell the parts and transfer the proceeds to the trafficker less a commission. Transactions between companies in the zone as well as import and export records are maintained on paper and the CFZ administration and Panamanian Customs systems are therefore not integrated making it very difficult for accurate and up to date tracking of shipments in the zone. The lack of transparency of transactions taking place in the zone makes it very difficult to track shipments to and from the zone as well as between companies in the zone, particularly given the size of the CFZ. Some businesses in the CFZ routinely accept large volumes of cash for wholesale quantities of merchandise. The presence of financial institutions including banks and money services businesses provides further opportunity for the integration of cash into the financial system. Within the CFZ filing cash transaction reports (CTRs) and suspicious transaction reports (STRs) is required of all businesses, however the practice of filing is not enforced and customers paying in cash for goods in the zone are not subject to any customer due diligence procedures. All STRs and CTRs filed in the zone go first to the zone administrator who forwards them on to the financial intelligence unit.

## Case study 2: Smuggling and Tax Evasion

A U.S. company received shipments of alcohol and tobacco from domestic and international suppliers at Customs Bonded Warehouses (CBW) and FTZs. The company would repackage the merchandise and ship it to out under the name of another company to other CBWs and FTZs, ultimately smuggling it into markets for sale. The proceeds were laundered primarily through the purchase of real estate in various jurisdictions. Investigators were able to determine the company behind the criminal activity used double invoicing, false Customs forms, a counterfeit Customs stamp, and forged signatures of Customs officials to facilitate the smuggling, transshipment, and sale of the untaxed cigarettes. One element of the scheme was to sell to foreign diplomats. During the execution of a search warrant at the U.S. company business location, law enforcement seized USD 947,195 worth of untaxed alcohol and cigarettes that had been prepared to be smuggled out of the United States. The investigation resulted in the arrests and convictions of 12 people who were also involved in an illegal weapons and drug distribution organization associated with the Abu Sayyaf Group, a terrorist organization based in the Philippines. This case exposed three main vulnerabilities in FTZ and CBWs. First, the lack of processing standards and associated due diligence. Ports operate differently and apply different standards. Some ports require that ship handlers must receive pre-approval in person with all relevant documentation prior to making deliveries. Other ports require that the delivery take place first and only then are some of the relevant forms supplied. The lack of a standard requirement exposes a vulnerability in the system. Second, all transactions are initially conducted via paper and the entry into an automated system is not standard in all ports. This makes it easier to facilitate the diversion. Some ports input the movement of bonded merchandise, but other ports do not expose the vulnerability of some ports.

The last vulnerability involves repackaging and smuggling within FTZs. Activities within zones are not closely monitored. Containers and shipments enter the zone and a company warehouse where repacking and labelling may take place as it does in this example. This provides a way to change the country of origin, company name, contents, quantity and price. Lack of oversight may also provide an opportunity to smuggle goods into or out of FTZs or CBW.

### Case Study 3: International Wire Transfers/Use of Complex Corporate Structures and Schemes/Multiple Accounts and Transactions/Terrorist Financing

A key suspect in Euskadi Ta Askatasuna (ETA), a designated terrorist organization by Canada, the EU, the UK and the United States, was a shareholder of three companies set up in Spain. These legal entities supposedly sold computers and electronic equipment, but in reality, they did not conduct any significant business. However, their bank accounts showed large cash deposits including large denomination Euro notes, and wire transfers. Persons involved with these legal entities created companies in Costa Rica which were later transferred to Mr. U, owner and manager of company 'IT' a computer and electronics business based in a free trade zone in Costa Rica, which engaged in regular transactions with the legal entities in Spain. The bank was located in the free trade zone and AML/CFT obligations do extend to all financial institutions operating in the zone. 'IT' was supposedly in the business of importing computer parts, assembling and selling computers domestically and internationally. In practice, it had very little activity. However, within a six-month period IT received approximately € 3,400,000 in transfers from the legal entities in Spain and sent back almost the same amount. IT explained to the bank that the money was being sent from its parent group of companies in Spain to support its expansion in Costa Rica. Also, that the outgoing transfers were payments of imports from Spain. The Costa Rican authorities believe that 'IT' was laundering the proceeds of illicit activity in exchange for a regular infusion of cash to continue day to day operations of the company. Although AML obligations did apply to the bank, the frequency of international transactions and the close proximity to customers may have resulted in relaxed oversight. Mr. U visited the bank on a daily basis and became personal friends with the bank manager and account executive associated with the account. As a result of this case, Costa Rican regulations now require banks to rotate employees of FTZ branches every three months. Vulnerabilities associated with the FTZ: Companies located in the zone are vulnerable to money laundering and terrorist financing. Although AML obligations extended to the bank, relaxed oversight of the institution permitted the activity to take place. Draft FIU regulations will require FTZ users to submit threshold-based reports to the FIU (cash and non-cash). The competent domestic authority that oversees FTZs would enforce this requirement. At the time of this investigation terrorist financing was not a crime in Costa Rica (2008). This case facilitated the passage of legislation to make terrorist financing a crime.

## Case study 4: Custom Fraud

A particular Belgian company imported textile products and used textile-certificates (to prove the origin) from the United Arab Emirates (U.A.E.), which means that the goods were produced there or got a sufficient transformation there (depending on the type of finished product). The invoices and certificates came from 2 companies established in the Sharjah Airport Free Zone. It is very unlikely however that there would be production entities in this airport area. On the official site of this FTZ 16 production entities are not mentioned, only warehouses, offices, container parking areas. On the site is also mentioned that "the SAIF –Zone was built to promote and enhance business in an atmosphere free of regulations and red tape". This lack of regulations made it impossible for investigators to prove that the origin of the goods was not U.A.E. but another country from which import wouldn't have been possible in this particular case because import licenses were compulsory. Moreover, the whole documentation and invoice circuit was seemed to be false so the commerce was especially vulnerable to abuse for money laundering purposes also. This case demonstrates the use of fraudulent trade documents, in this case certificates of origin, to disguise the true origin of goods in order to evade duties and taxes and more generally facilitate/allow import/export trade. The vulnerabilities of zones are also showed as a result of relaxed oversight and enforcement as well as opaqueness of these areas. This case also illustrates the challenges associated with discerning between customs fraud and Trade Based Money Laundering. This case does not indicate the transfer of value through the international trade system, rather the misuse of FTZs and the international trade system to perpetrate the predicate offense

## Case Study 5: Abuse of Legal Entities

This case resulted in the thorough analysis of financial flows existing between the head office of a Belgian society (in Belgium) and its subsidiary company located in a free zone of the United Arab Emirates (U.A.E.). Most of the information came from the penal file. The company B used a foreign subsidiary company to remove the funds of the head office (advances on funds, needs for liquidities) and to transfer them to the subsidiary company in the U.A.E. These funds were also transferred to other free zones (Madera). The transfer of these funds via the U.A.E. made it possible for the company B to set up a real estate company for a precise real estate project in another European country. The analysis of the accounts in Belgium did not reveal the final destination of the funds and this company ("except perimeter of consolidation") was unknown. This real estate project of great importance was carried out. Then, the actions of this company were sold and the benefit of this sale transferred to the subsidiary company in the UAE. Part of these funds then returned to Belgium in the form of dividends and was deducted from the taxable amount (Advance Corporation Tax). The difficulties encountered in this case, can be generalized and result from:

- The absence of 'official' documentation about the FTZ.
- No preventive conventions of double taxation at the time with the U.A.E. (Impossibility of obtaining an adequate collaboration).
- Use of false invoices to dissimulate the operation.
- Impossibility of checking the identity of certain recipients.
- Complication of the situation by using a cascade of free zones (Emirates, Madera).
- Problematic bank secrecy.
- Use of offshore companies

The detection of similar operations is almost impossible. In this particular case, the consultation of documents that were not part of the book keeping, seized by the Court, made it possible to give another interpretation of the accounting and revealed the offshore companies. The existence of subsidiary companies in FTZ, the deduction of the A.C.T on the level of the corporate tax, the existence of high value cash transactions in relation to (real estate) projects abroad constitute considerable ('red flag') risk indicators

## Case Study 6: Bringing Cash to Free Trade Zones[6]

A total 14 million AZN obtained through drug trafficking and child abduction were collected by 3 groups in 3 countries within a 4 months period. The collected funds were further transferred to 2 groups through cash and other money transfer operations. These 2 groups transferred the funds in cash to Free Trade Zones. Due to a lack of oversight mechanism in the country, the cash was deposited into bank accounts of 2 fictitious legal entities (A and B companies).
There were no financial transactions carried out 6 months after the cash deposits were made. However, on the 6th month, money (funds deposited into the bank accounts 6 months earlier) were transferred from the accounts of A and B companies into the accounts of the ABC and Alpha companies incorporated in country X in 3 transactions over a 4-month period. Money transferred to the account of ABC Company is designated "for the purchase of goods and materials" while money transferred into the Alpha Company's account – for "providing services."
The investigation revealed that founders of both companies (ABC and Alpha companies) are the same persons.
Control over the work has started at the time of the first transfer from a Free Trade Zone to 2 legal entities incorporated in X country. The investigation period was 1 year and 2 months.

Source: FIU Azerbaijan

[6] http://www.fiu.az/uploads/content/docs/methodology/azt_eng.pdf accessed July 2022

## ML/TF/PF RISK INDICATORS IN FTZs

The red flag indicators for illegal activity in free trade zones have been derived from experiences from other jurisdictions. The indicators are relevant considering the universal nature of the operations of FTZs.

*Red flag indicators associated with financial institutions:*

- The method of payment requested by the client is inconsistent with risk factors of a transaction.
- The transaction requires to pay third party that have no apparent connection with the transaction in cash or using other payment method.
- The transaction involves the use of frequently changing payment orders.
- A legal entity with low capitalization that carries out many large-value daily transactions which are disproportionate to its capitalization.
- A legal entity regularly deposits large sums into an account and immediately expends them.
- Use of fiduciary companies established in FTZs.

*Red flag indicators associated with unusual business activity:*

- Goods are transhipped through a number of countries without any reason.
- A circuitous route of shipment and/or circuitous route of financial transaction.
- The trading activity includes shipment of goods inconsistent with the geographical position.

*Red flag indicators associated with Trade Based Money Laundering:*

- Identification of significant discrepancies between the description of commodities and the actual goods shipped.
- Significant discrepancies between the value of commodities reported on the invoice and the fair market value.
- The size of the shipment appears inconsistent with the scale of the exporter or importer's regular business activities
- The size of a shipment appears inconsistent with the exporter or importer's regular business activities.
- The type of a shipment appears inconsistent with the exporter or importer's regular business activities.
- Inconsistencies in information contained in trade and accounting documents, such as a list of commodities, names of companies, etc.
- A discrepancy between the volume of a shipment and a shipping cost.
- Containers with the same goods are repeatedly exported and imported. It can be provided as an example of circulation of the same goods.
- Import of goods incompatible with the technical level of a country.

- Orders for goods are placed by legal entities or individuals from a country other than the country of the stated final consumer.
- An address of a shipping company is indicated as a commodity's final destination.
- Delivery of traded goods to addresses located in localities adjacent to boundaries.
- Goods that can be easily bartered (cigars, tires, gasoline) sold to traders in the regions close to the boarders.
- Goods that are more prone to ML (artworks, precious stones, tobacco products, etc.) should be more closely monitored.

*Risk indicators associated with shell companies (physically non-existent):*

- The transaction involves the use of shell companies.
- Improperly invoiced export transactions involving tax havens.
- Using companies with unusual operations and located offshore (for example, providing a loan to a company based in Dubai to carry out local commercial activities in Belgium).
- Involving third parties.

*Red flag indicators associated with Proliferation Financing[7]:*

- The customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation-sensitive or military goods, particularly to higher risk jurisdictions.
- The customer or counter-party, or its address, is the same or similar to one of the parties found on publicly available lists.
- The customer is a military or research body connected with a higher risk jurisdiction of proliferation concern.
- Customer activity does not match the business profile.
- Customer is vague, particularly about end user and end use, provides incomplete information or is resistant to providing additional information when sought.
- A new customer requests a letter of credit from a bank, whilst still awaiting approval of its account.
- Complicated structures to conceal involvement – use of layered letters of credit, front companies, intermediaries and brokers.
- The transaction concerns dual-use, proliferation-sensitive or military goods, whether licensable or not.
- The transaction involves an individual or entity in a foreign country of proliferation concern.
- Transaction demonstrates a link between representatives of companies exchanging goods e.g., same owners or management, in order to evade scrutiny of the goods exchanged.

[7] https://www.gov.gg/CHttpHandler.ashx?id=122750&p=0 accessed July 2022

- Transaction involves the shipment of goods inconsistent with normal geographic trade patterns i.e., where the country involved does not normally export or import the types of goods concerned.
- Order for goods is placed by firms or individuals from foreign countries, other than the country of the stated end-user.

## RECOMMENDATIONS TO MITIGATE ML/FT/PF IN FTZs

1. FTZs should put in place AML/CFT compliance structures in its requirements and policies and implement action plans for monitoring companies seeking to establish businesses within the FTZs and further cooperation with the Nigeria Financial Intelligence Unit.
2. NEPZA to ensure that the Nigerian Copyrights Bill covers all FTZs in Nigeria to protect against piracy and counterfeiting of products.
3. Before granting licenses as stipulated under section 10 of the NEPZA, specific steps to understand a company's history and antecedents should be conducted to avoid issuing licenses to high risks companies and companies from high-risk jurisdictions under the UN sanction list of countries blacklisted by the FATF.
4. About the complexities of foreign companies, it is pertinent to identify the beneficial owners of foreign companies and their subsidiaries operating in various FTZs through proper KYC and CDD before issuing licenses to operate within an FTZ to know the ultimate beneficial owners of the company.
5. Governments should formally delineate FTZ-related responsibilities between respective government agencies and FTZ administrators. Respective agencies should have appropriate resources and expertise to carry out those responsibilities, which at a minimum include:
   - Ensuring the physical security of the FTZs.
   - Coordinating crime prevention and detection activities in the FTZs, including the performance and regular updates of the risk assessment.
   - Reporting suspicious activities and/or monitoring FTZ administrators' and users' compliance with their obligation to report suspicious activities.
   - Training FTZ users on their responsibilities.
   - Conducting due diligence on prospective FTZ users and administrators.
6. Reporting entities operating in FTZs should strictly comply with provisions of the MLPPA, TPA, and other AML/CFT/CPF regulations. There should be a designated compliance officer in all the branches to file Suspicious Transaction Reports (STRs) to the NFIU per section 7 of the MLPPA 2022.
7. NEPZA to ensure appropriate risk assessments and customs control within the FTZs to mitigate ML/TF/PF vulnerabilities and apply appropriate mitigants to address identified gaps.

8. There should be a continuous collaboration between the NEPZA, NCS, and NFIU on proactive and reactive ways to mitigate the use of FTZs as a conduit for ML/TF/PF.
9. NEPZA should publish statistics on seizures of illicit goods in FTZs and related criminal prosecutions and/or non-conviction-based forfeiture actions.
10. NEPZA should endeavour to collect reliable information on the extent of the use of cash in FTZs and consider its implications in respective FTZs' risk assessments
11. Financial institutions engaged in financing businesses that trade through FTZs should consider incorporating FTZ risk into their AML/CTF risk assessment in addition to or instead of the broader country risk.
12. The NFIU will continue to cooperate with customs agencies and other relevant authorities to identify red flags and typologies that could be shared with financial institutions and the logistics sector for better detection of possible money laundering and sanctions evasion involving FTZs.
13. Competent authorities should collect intelligence on high-value goods stored in FTZs and ensure that this information is taken into account in the country's AML/CTF risk assessment.