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NATIONAL INHERENT RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORIST FINANCING THREATS & VULNERABILITIES IN THE NIGERIAN EXTRACTIVE SECTOR



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Executive Summary

The Federal Government instituted a review of the money laundering, terrorism financing, and proliferation financing threats and vulnerabilities in the extractive sector, as a complement to the National Inherent Risk Assessment (NIRA). The previous national risk assessment, published in 2016, only assessed oil bunkering and pipeline vandalism as a money laundering threat in Nigeria. The current assessment is necessitated in recognition of the high volume of proceeds of crime laundered from the sector, and observed links to terrorism financing, and is in tandem with the recommendations in the **Second Mutual Evaluation Report of Nigeria (2021)**, by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) which noted that the 2016 National Risk Assessment Report “*did not take account of the ML risk associated with corruption and fraud in the oil sector*”.

The scope of this assessment is from **2019 – 2021**, and is limited to the money laundering, terrorism, terrorist financing, and proliferation financing threats inherent to the extractives sector only, and should not be interpreted as an overview of operations in the sector. The outcomes of this report are incorporated in the National Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) Strategy and Action Plan for effective implementation and monitoring of mitigation measures.

This assessment identified corruption, tax evasion, illegal mining, smuggling amongst the predicate crimes evident in this sector. The oil and gas industry, in particular, is vulnerable to money laundering due to inadequate controls to safeguard the sector, with heightened concerns of terrorism financing risks in the oil and gas downstream and the mining sector. The report is also cross-referenced with other sectors and identifies banks as the most vulnerable conduits for illicit proceeds out of the sector, the role of legal entities and the real estate sector in obscuring their origin, as well as integrating the laundered funds back into the licit economy.

The development of this report was not devoid of challenges. The report suffers from the absence of statistics and records that are vital to understanding risks posed in the sector. As a maiden assessment of the extractive sector, the workstream constituted had limited reference documents to provide guidance on how to conduct the review, in addition to an uneven understanding of money laundering, terrorist financing and proliferation financing risks that exist.

Chapter one presents an overview of the extractive sector, broadly divided into the oil and gas industry and the mining industry, and highlights the existing legal and institutional framework and the complexity of the industry. Chapter two details the predicate crimes prevalent in the sector, and how the proceeds of crimes are laundered out of the sector. This chapter also notes the terrorist financing risks, which is still evolving due to limited information available. The last chapter provides some indicators and red flags for money laundering and terrorism financing.

This report was developed by the Extractive Industries Workstream under the direction of the National Task Force constituted by the Heads of AML/CFT/CPF agencies to address the deficiencies observed in Nigeria MER. The workstream was chaired by the Economic and Financial Crimes Commission, with contributions from the Nigeria Extractive Industries Transparency Initiative (NEITI), the Independent Corrupt Practices (& Other related Offences) Commission (ICPC), the Department of State Services (DSS), the Ministry of Mines and Steel Development (MMSD), Mining Cadastral Office (MCO), the Nigerian Police Force (NPF), the Central Bank of Nigeria (CBN), the Nigeria Security and Civil Defense Corps (NSCDC), the Nigerian National Petroleum Corporation (NNPC), the Nigerian Maritime Administration and Safety Agency (NIMASA), Nigerian Upstream Petroleum Regulatory Commission (NUPRC), Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), the Nigeria Export Processing Zonal Authority (NEPZA), the Oil and Gas Free Trade Zonal Authority (OGFZA) and the Nigerian Financial Intelligence Unit (NFIU).

Chapter One: Introduction

The Nigeria Extractive Sector, comprising the oil and gas and mining industries, has played a predominant role in Nigeria's economy since the discovery of crude oil in 1956. The total revenue from the oil and gas sector in 2020 was US\$ 20,430,387,000¹. Though production has dropped, the sector still remains one of the main drivers in the economy. The mining industry has under the current administration witnessed significant growth owing to government reforms, with over 50% year-on-year growth between 2019 and 2020.

The oil and gas industry has featured prominently in reported cases of money laundering and predicate crimes offences, the most prevalent being bribery and corruption, as well as fraud. The activities of illegal artisanal miners, pipeline vandalism, large scale oil theft, illegal bunkering and refining have also been identified as proceeds generating crimes in the sector.

The oil and gas sector has featured in several high-profile multi-jurisdictional cases and has come under negative scrutiny and highlighted the need for improved transparency and reporting. The mining sector has featured in terrorism financing investigations with substantial illegal mining activities across the six geopolitical zones.

Though the Federal Government has initiated several reforms, key of which is the assent to law of the Petroleum Industry Act 2021, leading to mergers of Ministries, Departments and Agencies (MDAs), as well tax reforms there is an urgent need to identify and address the specific money laundering and terrorist financing vulnerabilities that still exist in the sector as the inherent risks remain high while the mitigating measures remain inadequate.

The Federal Government has therefore instituted a review of the money laundering, terrorism financing, and proliferation financing threats and vulnerabilities in the sector, as part of the National Inherent Risk Assessment (2022). Building on the previous national assessment (2016), that assessed oil bunkering and pipeline vandalism as money laundering threats in Nigeria. This report holistically reviews the extractive sector to identify the predicate crimes associated with the sector, other sectors and jurisdictions that feature in money laundering and terrorist financing cases linked to the extractive sector.

¹ <https://neiti.gov.ng/cms/wp-content/uploads/2022/03/NEITI-OGA-2020-Report.pdf>

Overview of the Oil and Gas Industry (size, GDP, Scope of location of operations of the sector, Geographic reach of sector's activities)

Crude oil was first discovered in 1956 in Nigeria and continues to play a significant role in Nigeria's economy as it accounts for approximately 65% of total revenue to the Federal Government. According to OPEC 2020 data published in OPEC Annual Statistical Bulletin 2021, Nigeria had the largest gas reserves and second largest (behind Libya) oil reserves in the African region, with around 37 billion barrels of crude oil (36.910 billion) and 5.8 trillion cubic-meters of gas (5.750 trillion)².

The total revenue from the oil and gas sector in 2020 was US\$20,430,387,000 and the total collection from sales of gas and feedstock was \$10,783,072,000.³

The Nigeria Oil and gas sector is divided into three components: upstream, midstream and downstream.

Downstream

The key segments in the downstream sector are discussed below:

Transmission and Conveyance

This involves the transportation of oil and gas to the refinery and gas stations. There is a pipeline network from the wellhead to the refinery or plant. Tankers and purpose-built vessels are also used for this purpose

Refining

Nigeria has four state-owned refineries - Warri Refinery and Petrochemical Plant, the New Port Harcourt Refinery, the 'Old' Port Harcourt Refinery, and the Kaduna Refinery. These refineries have a combined capacity of 445,000 bpd. However, the refineries have deteriorated over time due to inadequate maintenance. As of 2020, the refineries produced no petroleum products. Even when the refineries were in operation, pipeline vandalism and crude oil theft have made it difficult to achieve 50% capacity utilisation. This low capacity has resulted in Nigeria's inability to meet its domestic demands and consumption of petroleum, and hence imports most of its gasoline and other petroleum products.

To improve their output, the Buhari-led government has commenced total rehabilitation of the refineries. The Government has also acquired 20% equity in the Dangote Refinery, a privately owned refinery with estimated refining capacity of 650,000 barrels a day. Set to commence operations in the 1st quarter of 2023, the Dangote Refinery operates in the Lekki Free Trade Zone, which is under the purview of the Nigeria Export Processing Zones Authority (NEPZA).

Distribution and Marketing

² NEITI 2020 OGA Report

³ NEITI 2020 OGA Report

Distribution and marketing of refined petroleum products are complimentary activities. Distribution refers to the movement of refined petroleum products from the refineries to the storage/sale depots through pipelines, coastal boats, road vehicles, rail wagons, etc. The Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) pipeline system, which connects the refineries to the approximately 21 regional storage/sale depots, is the main means by which petroleum products are delivered in Nigeria.

Midstream

Transportation of crude or refined petroleum products (via pipeline, rail, barge, oil tanker, or truck), storage, and wholesale selling are all part of the midstream sector in Nigeria.

Under Section 125 of the PIA Act 2021, the activities requiring a license for midstream and downstream gas operations involves establishing, constructing, or operating a facility for the processing of gas; engaging in bulk transportation of natural gas by rail, barge, or other means of transportation, operating gas transportation network, engaging in wholesale gas supply, engaging in the construction or operation of petrochemical or fertiliser plants, etc.

The Nigerian Midstream and Downstream Petroleum Regulatory Authority (the Authority) is also required under Section 126 of the Act to issue regulations with respect to midstream and downstream gas operations which includes the establishment and operation of a wholesale natural gas market scheme to ensure continuity of supply of natural gas to customers which applies to owners and operators of gas transportation pipelines, shippers of natural gas, holders of natural gas storage and distribution licenses and gas retailers and other matters consequential or ancillary to the activities stated above.

Upstream

This sector is characterized by exploration and production of crude oil and gas (petroleum operations). The income of companies engaged in these activities is subject to tax under the Petroleum Industry Act 2021.

Crude Oil is currently produced from three different basins: the onshore Anambra, the offshore Benin/Dahomey (deepwater and ultra-deepwater) and the Niger Delta (shallow and deep offshore basins). The Niger Delta and Benin basins are known to be the richest basins and hold the vast majority of reserves, and the source of a large portion of current production. During the late 1990s, exploration focus turned to high-risk ventures in the frontier basins of deep water offshore, with encouraging success. These ventures are becoming increasingly attractive, with developments in deepwater exploration and production technology. Nigeria's crude oil generally has a gravity between 21o API and 45o API. Its main export crudes are Bonny Light (37°) and Forcados (31°). About 65% of Nigeria's oil is above 35o API with a very low sulphur content. Estimates of Nigeria's undiscovered gas reserves range from 300 – 600 TCF. Nigeria has therefore been described largely as a gas province with some oil. The gas quality is high – particularly rich in liquids and low in sulphur. Due to the lack of gas infrastructure, 75% of associated gas is flared and only about 12% is re-injected.

The major forms of oil and gas arrangements in Nigeria's upstream sector are as follows:

- Joint Venture (JV)
- Production Sharing Contracts (PSCs)

- Service Contract (SC)
- Marginal Field Concession (MFC)

Joint Venture (JV)

This is the typical contract between a national oil firm, in this case the Nigerian National Petroleum Corporation (NNPC), and a multinational oil company (MOC). According to this structure, the MOC and NNPC both contribute to the finance of oil operations in proportion to their equity stakes in the joint venture and typically get the crude oil produced in a similar ratio. Shell, ExxonMobil, ChevronTexaco, TotalFinaElf, and Agip are significant participants in the JVs with the NNPC.

Production Sharing Contracts (PSC)

The Federal Government of Nigeria (FGN) chose the PSC model as its favoured petroleum agreement with MOCs in 1993 as a response of mounting financial pressure from the JVs. Awards for upstream activities are currently issued on a PSC basis, save from those that are only awarded to indigenous enterprises. In accordance with this agreement, NNPC has the concession. In order to execute petroleum operations on its own and on behalf of NNPC, NNPC hires the MOC or the indigenous firm as a contractor. The funding risk is assumed by the Contractor. The Contractor is entitled to receive reimbursement for its expenses upon starting commercial production if the exploration is successful. The Contractor is responsible for any losses if the operation is unsuccessful.

The first set of PSCs was signed in 1993, followed by those executed in 2001, after the 2000 licensing rounds. Since then, several further PSC models have been signed. With the exception of variations in the profit oil sharing formula and cost oil recovery ceiling, the PSC's fundamental principles remain virtually unchanged.

Service Contract

In this scenario, the contractor takes on exploration, development, and production tasks at its own risk for NNPC or the concession holder. The NNPC/holder retains exclusive ownership of the concession, and the Contractor has no claim to the produced oil. The Contractor receives periodic compensation in accordance with the formulae outlined in the contract and is reimbursed for costs exclusively from sales earnings of oil. When it comes to purchasing the crude oil generated under the concession, the Contractor gets first rights.

Marginal Field Concession

In order to further its objective for Nigerian content, the Federal Government (FG) encourages MOCs to allot their marginal fields to local concession holders. A Marginal Field is generally understood to be any field with reserves recorded, reported annually to NUPRC, and which has not been produced for more than ten years.

The main objectives of the government for introducing Marginal Field regime include:

- Expand the scope of participation by small (indigenous) players in Nigeria's oil industry.
- Increase the country's oil and gas reserves base.
- Provide opportunity for portfolio rationalization.
- Enhance employment opportunity.

Mining Industry (Size, GDP, Scope of Location of Operations Of The Sector, Geographic Reach Of Sector's Activities)

Apart from crude oil and gas, Nigeria has proven deposits of 44 valuable minerals which include tin, iron ore, coal, limestone, niobium, lead, zinc and precious stones. Significant deposits of these minerals occur across the country.

Nigeria was a prominent exporter of Tin, Columbite, and Coal in the early 1930s. However, owing to nearly four decades of neglect occasioned by the discovery of oil in commercial quantities and the Indigenization Act of the 1970s which was a disincentive to foreign mining companies, the sector has been neglected. The decline in the price of Tin in the 1980s, and the harsh economic conditions that were prevalent during the period of the austerity measures and Structural Adjustment Program brought Mining to its lowest ebb.

The mining sector was largely underdeveloped contributing approximately 0.6% to the National GDP before 2020. Mineral exploration was low in comparison with the volume of deposits found in the country. This is attributed to competing legislation (federal versus state laws) imposing double taxation and levies, and the absence of a compensation framework for the three tiers of government.

Through Federal Government reforms, the total financial flow into the federation account in 2020 from mining activity was N114.88billion, representing an increase of N40.03 billion from the N74billion earned in 2019. The increase of (53.40%) N128.28 billion was generated from the solid minerals sector in 2020 through the 58 revenue streams identified by NEITI⁴

In promoting investment in this sector, the Federal Government of Nigeria, in 2021 launched a National Policy on solid minerals aimed to boost GGDP and diversify revenue streams. The Federal Government also allocated six billion naira to support artisanal miners under the Economic Sustainability Plan.

Seven (7) strategic minerals have been identified that are believed to have enormous potential to make a significant contribution to Nigeria's economic development. These are Baryte, Gold, Bitumen, Iron Ore, Lead/Zinc, Coal, and Limestone.

Complexity Of Nigeria's Extractive Sector (With Respect to Ownership, Operations and Transactions).

The Oil and Gas supply chain in Nigeria is complex and comprises a multitude of actors operating in different subcomponents of the sector. There are six (6) major International Oil and Gas Companies (IOCs) and a substantial number of indigenous companies interfacing with several regulatory agencies with varying mandates.

The passage of the Petroleum Industry Act 2021 (PIA) has led to reforms in the industry, with operations subdivided into three categories – upstream, midstream, and downstream sectors. The Act has also streamlined the regulation and operation of these sub streams by collapsing the existing authorities into two (2) new agencies – one to regulate the upstream sector and the second to regulate both the midstream and downstream sectors. Furthermore, the PIA establishes the Nigerian National Petroleum Company (NNPC) as an incorporated company, NNPC limited, to be registered at the Corporate Affairs Commission (CAC) as a commercial entity⁵ transferring all assets and liabilities of the

⁴ NEITI 2020 SMA Report

⁵[KMPG report on the Petroleum Industry Act.](#)

NNPC to the incorporated company. In addition to the PIA, the Nigerian government's marginal fields licensing regime and its local content development drive have led to increased participation of indigenous oil companies in the petroleum industry. However, the country is also undergoing a wave of IOCs divesting out of Nigeria citing business opportunities in cleaner energy, though concerns raised include problems ***of oil theft, vandalism, and deliberate sabotage have been quite difficult to manage***⁶

The Oil Exploratory License (OEL); the Oil Prospecting License (OPL); and the Oil Mining Lease (OML) are the three categories of licenses issued in the upstream sector of the oil and gas industry to operators, service companies, and tertiary/research institutes, and several permits available. Operators and service companies in the midstream and downstream sectors also require licences/permits covering their operations.

The mining sector is not as complex as the oil and gas sector. The right to search for or exploit any mineral in Nigeria is governed by different mineral titles and titles are awarded either through a bidding process or application for a title. The application process is mostly carried out online. As of 2021, the Mining Cadastre Office, the agency responsible for issuing licenses received 34,938 applications, out of which 15,943 were translated into licenses.

⁶[The nation - excerpt from the DG NEITI speech at the Nigerian International Energy Summit \(NIES2022\) in Abuja](#)

Legal and Institutional Framework in the Extractive Sector

While specific legislation has been made for each sector of the extractive industry, there are general laws and framework legislation which guide the operation of the extractive industry. By virtue of section 44(3) of the 1999 Constitution of the Federal Republic of Nigeria, the ownership and control of all minerals, oil and gas in Nigeria, its territorial waters and its exclusive economic zone is vested in the Federal Government. Other legislation that are applicable to the extractive sector are the Company and Allied Matters Act ("CAMA") 2020 which provides a regulatory framework for how businesses should be carried out in the country and prohibits foreign companies from conducting business in Nigeria unless it incorporates a local subsidiary in the country. Entities operating in the extractive sector are also bound by the tax laws issued by the Federal Inland Revenue Services. This section, however, captures key legislations that have implied AML/CFT/CPF obligations on companies.

Oil & Gas

The oil and gas sector is governed by more than 70 laws and statutes, comprising 34 Acts, 22 regulations and 20 orders guiding operations in the sector. While the 20 orders deal directly with the subject of oil and gas, some of the Acts and the regulations are not primarily oil and gas statutes but rather contain provisions on oil and gas operations.

The most recent legislation passed are the Petroleum Industry Act (PIA) 2021 and the Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Act 2019.

In response to concerns regarding management of crude oil sales revenue, gaps in community compensation and benefit sharing, tax evasion and corruption in the oil and gas sector, the Petroleum Industry Act (PIA) was signed into law on 16th August 2021 by President Muhammadu Buhari. The Act provides a legal, governance, regulatory and fiscal framework for the Nigerian Petroleum Industry and the development of Host Communities and related matters. The Act has significantly increased the penalty for late filing of returns. The Act overhauls the oil and gas administration and governance in Nigeria, birthing the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) as the primary regulators in the upstream and downstream sectors respectively.

The Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Act, 2019 ("the Amendment Act") following its passage by the National Assembly in October 2019 introduced a combined production and price-based royalty system. The new royalty regime specifies a baseline royalty of 10% for crude oil and condensates produced in the deep offshore (greater than 200-meter water depth) and 7.5% for the Frontier and Inland Basin.

Mining (Solid Minerals)

Minerals and Mining Act No. 20 of 2007 is the principal legislation that regulates the Nigerian mining sector. The Act vests the control, regulation and ownership of all mineral resources in the Federal Government of Nigeria. The Act also states that mining title can be issued only to a person or body corporate duly incorporated by the Corporate Affairs Commission, the custodian of Nigeria's company registry. The National Minerals and Metals Policy 2008 regulates the mining sector to ensure efficient and effective utilization of Nigeria's mineral resources.

The Federal Ministry of Mines and Steel Development issued the Nigerian Minerals and Mining Regulations 2011 which is intended to establish a more coordinated and accountable solid minerals sector in the country and stamp out discretionary grants of mineral titles. The Regulations were issued to set out the rules, procedures and processes for the acquisition of mineral titles, and to give effect to the Minerals and Mining Act No. 20 of 2007.

Institutional Framework: Predicate Offence and ML / TF Investigations

The Federal Government has over the years established agencies (and departments within agencies)

to investigate predicate offences and mitigate money laundering and terrorism financing.

- The Nigeria Extractive Industries Transparency Initiative (NEITI) was established in 2007 to ensure due process and transparency in the extractive sector.
- The **Extractive Industry Fraud Section (EIFS)** and other specialized sections of the **Economic and Financial Crimes Commission (EFCC)** investigates and prosecutes fraud in the extractive sector.
- The Independent Corrupt Practices and other Related Offences Commission (ICPC) investigates and prosecutes corrupt practices in Ministries, Departments and Agencies (MDAs).
- The Department of State Services investigates terrorism and also acts of economic sabotage which include threats to the oil industry
- The Nigeria Security and Civil Defence Corps (NSCDC) is charged with protecting the national critical assets, including oil and gas pipelines from vandalism. The NSCDC has also established a **Mines and Steel Department** to investigate the activities of illegal miners in the mining sector
- Finally, tax crimes are investigated and prosecuted by the Federal Inland Revenue Service (FIRS)

The PIA creates two (2) agencies that perform regulatory oversight functions over the activities of the sector. These agencies are the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA). The NUPRC has the statutory responsibility of ensuring compliance to petroleum laws, regulations and guidelines in the Upstream Oil and Gas Industry.⁷ The NMDPRA is responsible for the regulation of the midstream and downstream petroleum operations in Nigeria which include technical, operational and commercial activities.⁸

The Oil and Gas Free Zones Authority (OGFZA), a national Government agency with the responsibility to establish, manage and regulate Oil and Gas Free Zones in the country.

Government bodies supervising the mining sector include the Mining Cadastral Office, responsible for the administration of mining and quarrying licensing and management of cadastral records and the Mining Inspectorate Department which inspects the activities of licensed operators for conformity with the conditions of the license awarded. These departments are under the Ministry of Mines and Steel Development.

All dealers in precious metals and stones (DPMS) are categorized as jewellery dealers and fall under the definition of Designated Non-Financial Businesses and Professions, and are supervised by the Special Control Unit against Money Laundering (SCUML) with the Federal Ministry of Mines and Steel Development as the licensing authority. As of 2021, SCUML recorded a total of **829** dealers in jewellery and **1034** registered as dealers in precious stones and metals.

National Maritime Administration and Safety Agency (NIMASA) which was established by the NIMASA Act 2007 to monitor and promote the development of indigenous and commercial shipping in international and costal shipping trade, and to regulate and promote maritime safety, security and marine labour amongst other duties.

From Longitude 002° 49' East to Longitude 008° 30' East, Nigeria's marine territory extends southward to the statutory 200 nautical mile limits of the Exclusive Economic Zone. Oil and gas products which are just a few of the resources found in Nigeria's vast marine area, which covers over 84,000 square kilometers. It is thus the responsibility of the **Nigerian Navy** to protect the Nigerian territorial waters

⁷ Available at <https://www.nuprc.gov.ng/functions-of-nuprc/>

⁸ Available at <https://www.nmdpra.gov.ng/>

while starting tactical operations due to the sensitive nature of these assets.

Also, embedded in Nigeria's internal waters is a vast network of pipelines mostly located in the complex web of creeks. The Nigerian Navy are trained to adapt to the intricate responsibilities of safeguarding, and thwarting economic threats targeted at these national assets.

The Mining, Oil, and Maritime Crimes Analysis (MOMCA) department of the Nigerian Financial Intelligence Unit (NFIU) is charged with generating financial intelligence on crimes in the extractive sector for investigation and prosecution by law enforcement agencies, and providing guidance to government and private stakeholders on emerging money laundering, terrorism and proliferation financing threats and trends in the sector.

Assessment: Scope and Methodology

The scope of the assessment is restricted to money laundering, terrorism and terrorist financing, and proliferation financing threats and vulnerabilities in the extractive sector, and should not be interpreted as an overview of operations in the sector.

In conducting the assessment, a workstream was constituted comprising regulators and law enforcement agencies with mandates that cut across one, or several components of the extractive sector. The methodology used was developed by McDonell-Nadeau Consultants (MNC), with expertise in AML/CFT/CPF assessments. The MNC methodology is consistent with the expectations of the Financial Action Taskforce (FATF) Anti-Money Laundering/ Combating the Financing of Terrorism and the Financing of Proliferation (AML/CFT/CPF) Standards.

Information Gaps and Challenges in Developing the Report

Though the framework for inter-agency collaboration in the extractive sector exists, it was noted that there is room for substantial improvement to tackle money laundering and other predicate crimes in the sector. Licensing and registration controls apply very limited criminal background checks, as well as verification of source of funds and other fit-and-proper checks to protect the sector from being abused by criminals or serving as vehicle for investment of funds of illicit origin. Capacity building is required to improve understanding of linked predicate crimes, money laundering, terrorist financing, and proliferation financing threats, to better implement mitigating measures.

Substantial improvement is also required among stakeholders to arrest, investigate and prosecute Money laundering and terrorist financing crimes in the sector.

Additionally, the absence of statistics and adequate record-keeping limited the assessment of this sector.

While Intelligence reports (IR) are being forwarded by NFIU to law enforcement agencies, there is limited information provided on the outcomes of the investigation.

Chapter 2 -ML/TF/PF Threat & Vulnerabilities In The Extractive Sector By Predicate Crime

The report notes a myriad of factors that independently or jointly allow for illicit funds to be generated, and subsequently laundered. These chapters highlights the underlying crimes, known as predicate crimes or predicate offences, that allow for the generation of illicit funds in the extractive sector.

The Financial Action Task Force (FATF) is the international watchdog for the implementation of counter measures to fight money laundering, terrorist financing and proliferation financing. The FATF has designated twenty-one offences as predicate crimes to money laundering and requires jurisdiction to enact laws to criminalise these offences⁹. Accordingly, these offences are designated as predicate crimes in the Money Laundering (Prevention and Prohibition) Act 2022 (MLPPA).

Of the twenty-one predicate offences, the report identifies six offences evident in the extractive sector. These are money laundering, illegal mining, corruption, terrorist financing, tax evasion and environmental crimes. Though oil bunkering and pipeline vandalism are not included in the FATF list of predicate crimes, Section 18(6)(m) of the MLPPA expands the definition of predicated offences to include other criminal acts as specified in any other legislation enacted in Nigeria.



Corruption

Corruption in the extractive sector remains a major concern as cases of bribery, abuse of office, contract and procurement fraud, misappropriation, significant revenue losses and mismanagement of funds have been identified in the sector, with several reforms failing to produce the desired outcomes.

⁹[FATF Methodology 2013 \(ammended 2020\) - Glossary-Definition of predicate offences](#)

A report published by the Institut Francais de Relations Internationales (IFRI) on corruption in the Oil and Gas Industry notes that

“...embezzlement of oil wealth works at different levels. Firstly, at the international level, the allocation or exploring or operating rights, the OML (Oil Mining Leases), entails paying bonuses which fuel corruption networks. Then, at national level, fraudulent and overbilled contracts to allow commission to be paid into accounts abroad. Finally, at a very local level, the collection of “tolls” starts in the villages through protection rackets of youth groups who threaten to sabotage pipelines if they are not provided fictitious jobs.”¹⁰

Of particular concern is corruption related to petroleum subsidy scheme which was introduced in the 1970s. In 2021, payments for petroleum subsidies consumed N1.43 trillion, reducing income accrued to the federation account to N542 billion. The Nigerian National Petroleum Corporation (NNPC) presented the information during its meeting with the Federation Account Allocation Committee (FAAC) on January 19 and 20, 2022¹¹.

The absence of a national beneficial ownership database provides a cloak for corruption in the extractive sector. In 2019 the Nigeria Extractive Industries Transparency Initiative (NEITI) developed Africa’s first beneficial ownership register. In 2020, 67 companies were covered in the annual audit by the Extractive Industries Transparency Initiative. 31 companies provided beneficial ownership information, which was mostly information about corporate owners rather than information about natural persons as prescribed by law. Insufficient beneficial ownership disclosure increases the risks of corruption and money laundering and limits the ability of regulators to track illicit activities in the sector. The Companies and Allied Matters Act (CAMA) 2020 addresses this deficiency by mandating all companies to declare **persons with significant control**. Other instances of fraud in the oil and gas industry exist that reinforces the need for transparency in the industry.

Case Study 1: Fraudulent Award of Gas to Power Contract to Shell Company

ABC LLC registered a company in Nigeria (ABC Nig. Ltd) which was awarded a contract to convert natural gas to power electricity. ABC Nig. Ltd lacked both technical and financial capacities to execute the said project but secured the project by compromising and bribing government officials; Mr. Sun, who chaired the Technical Committee that recommended the award of the project and Mrs. Moon, who was the Legal representative for the awarding government agency. Mrs. Moon allegedly drafted and executed the agreement and inserted several clauses into the agreement that made impossible the agreement to be executed by Nigeria.

¹⁰[Source -IFRIS - Oil Rent and Corruption: The Case of Nigeria \(2018\)](#)

¹¹ <https://www.thecable.ng/exclusive-petrol-subsidy-payments-gulped-n1-4trn-in-2021-n270bn-in-december-alone>

Investigation revealed that Mrs. Moon received about **\$31,000** and **₦388,440** through her relatives' and personal accounts. Mr. Sun also received **\$184,697.79** and **₦62,944,768.41** from companies associated with the offshore company and their Nigerian companies.

Investigation also revealed that owners of the offshore company had over 30 registered companies in Nigeria and over 20 offshore companies used for various suspected money laundering activities.

The Economic and Financial Crimes Commission (EFCC), the agency responsible for the investigation and prosecution of fraudulent subsidies in the oil and gas in Nigeria recovered **₦12,998,963,178.29** (twelve billion, nine hundred and ninety-eight million, nine hundred and sixty-three thousand, one hundred and seventy-eight naira and twenty-nine kobo) as proceeds of illegal payment made under the subsidy regime between 2017 and 2021.

Table 1: Summary of Monetary Recoveries for Subsidy Cases Investigated By EFCC: 2017-2021

SN	YEAR	AMOUNT (N)
1	2017	4,665,612,089.90
2	2018	4,293,725,625.27
3	2019	2,405,029,182.11
4	2020	416,514,093.67
5	2021	1,218,082,187.34
	TOTAL	12,998,963,178.29

Tax Evasion

Available evidence show that tax evasion is prevalent in the extractive industry. These findings are corroborated by the Thabo Mbeki (UN-African Union) panel report which attributed 93% of all illicit financial flows to the extractive industry. The incidences of tax evasion are largely associated with other predicate factors like export under invoicing and collusion. The practices are also fueled by associated crimes like illegal mining and crude oil theft. Reports indicate that some of the volumes of stolen oil, which credible data has shown to occur on industrial scale, are comingled with legitimate crude on the high sea, contribute to the discrepancy in invoiced and actual exported volume usually assessed as over invoiced crude. These findings indicate that the criminal and commercial components of illicit financial flows from the extractive industry are sometimes intertwined.

Case Study 2: Under Invoicing of Crude Oil Export

In 2016, Nigerian government began a case against 5 major oil companies after investigations showed that the companies had under-declared or failed to declare crude oil export shipments thereby illegally exporting \$12.7 billion worth of crude oil to the US. According to the report, the illegal export occurred between 2011-2014. The specific details of the report are that the companies failed to declare more than 57 million barrels of crude oil lifted from Nigeria. The new government at the time had commissioned an audit of Nigeria's oil and gas exports from 2011 up to the time the current government assumed

office. The findings show significant disparity in volumes declared at Nigeria's export terminals and volumes offloaded at destination ports. This incidence of export under invoicing robbed Nigeria of significant revenue in oil taxes which represent a significant portion of revenue accruing to the federation.

The Nigeria Extractive Industries Transparency Initiative (NEITI) audit report highlighted inconsistencies in Nigeria's crude oil production and lifting data provided by Nigerian National Petroleum Corporation (NNPC), Department of Petroleum Resources (DPR) and Oil and Gas companies operating in the country. NEITI in its 2015 Audit Report in the oil and gas industry disclosed that different crude oil production and lifting records were maintained by the Crude Oil Marketing Division (COMD) of the NNPC, the DPR and oil companies. The report stated that while the DPR records put total crude oil production in 2015 at 780.831million barrels, the NNPC's record put the output at 780.368million barrels, a difference of 462,269 barrels. In addition, the report noted that records by oil companies put the total production at 771.198million barrels, a difference of 9.633million barrels and 9.17million barrels compared to the DPR and NNPC's records respectively. The report further accused oil- companies of doctoring their actual production data, by presenting two different data for the purpose of taxes.

The total outstanding taxes payable to FIRS as of 30th September 2021 was \$79.20 million while the total amount of outstanding revenue payable to NUPRC as of 31st December 2020 was \$31.10 billion¹².

Piracy

The Oil and Gas Industry is vulnerable to piracy as cargo ships are known to be targeted by crime syndicates with the proceeds illegally refined or used as barter for the procurement of arms. The International Maritime Bureau reports that Piracy and armed robbery attacks in Nigerian waters fell 77 percent in the first nine months of 2021 when compared to the same period in 2020 thus resulting in Nigeria being exited as a country prone to piracy by the International Maritime Bureau (IMB) in 2022.

The Deep Blue Project, otherwise known as the Integrated National Security and Waterways Protection Infrastructure, was initiated by the Federal Ministry of Transportation and Ministry of Defence while being implemented by NIMASA. Its main objective is to secure Nigerian waters up to the Gulf of Guinea.

The Gulf of Guinea collaboration Forum SHADE was established by Nigeria and 22 countries of the ICC in July 2021. The goal was to implement effective operational counter-piracy cooperation amongst regional and international Navies as well as the shipping industry and reporting Centres of the Yaounde Code of Conduct (ICC) for the Regional Strategy for Maritime Safety and Security in the Central and West Africa region.

Oil Bunkering/Crude Oil Theft

The Nigeria Extractive Industries Transparency Initiative (NEITI) indicated that in 2019, Nigeria lost 42.25 million barrels of crude oil to oil theft, valued at \$2.77 billion. The NSCDC also reported about 1,161 pipeline points nationwide were vandalized between 2019 and 2020.

¹² NEITI 2020 OIL AND GAS INDUSTRY REPORT.

High rates of attacks on oil facilities and theft of crude oil occur due to the extensive pipeline network that is difficult to police. There are about 10,000km of pipelines that convey crude, products and condensates that run through difficult terrain that is not easily accessible to pipeline surveillance personnel. There are about 2000 wellheads located across 258 oil fields in the same region. This makes it easy for regular pipeline vandalism and wellhead tampering to steal crude oil by criminal gangs and host community agitators who target oil assets only to hurt the economy (sabotage).

Statistics from the Defense Intelligence Agency (DIA) office indicate that 330 arrests relating to illegal oil bunkering were made and 131,493,075.00 litres of crude oil, 23,092,075.00 litres of AGO, 4,186,325.00 litres of DPK and 724,210.00 litres PMS were recovered.

The Economic and Financial Crimes Commission investigated 52 cases of illegal dealing in petroleum products and 16 cases of illegal oil bunkering and pipeline vandalism in 2020. According to NSCDC, 95% of the crime of illegal bunkering and pipeline vandalism was recorded in the South-South and the South-West states.

Case Study 3: illegal oil refining

The Nigerian Navy Ship DELTA discovered a newly constructed illegal refining site around Bennett Island in Warri South LGA of Delta State: *“the site had 5 ovens, 5 coolers and 8 surface metal storage tanks cumulatively laden with about 943.3 barrels of product suspected to be crude oil”*. No arrest was made as the perpetrators fled on sighting the naval patrol team. On the same day, the team located another illegal refining site around Uwakeno Community in Warri South LGA of Delta State; *“the site had 4 ovens, 4 coolers, 6 surface metal storage tanks and 2 dug out pits cumulatively laden with about 10,000 litres of products suspected to be illegally refined AGO and 440.2 barrels of stolen crude oil. The storage facilities were confiscated and the site has been earmarked for swamp buggy operation”*

Table 2: Summary of Investigations, Prosecutions and Convictions by the Nigerian Police Force (2019-2021) on illegal bunkering/pipeline vandalism

Year	No of Cases Reported	No of Suspects Arrested	No of Convictions	No of Cases Under Prosecution	No of Cases Under Investigation
2019	27	66	0	23	0
2020	8	12	1	4	3
2021	32	30	0	26	6
Total	67	108	1	53	9

Table 3: Pipeline Vandalism Cases Investigated, Prosecuted and Assets Confiscated by The NSCDC from 2019 – 2021

S/N	Case Status	2019	2020	2021	TOTAL
1	Investigations	1,819	1,218	2,018	5,055
2	Prosecutions	253	109	210	572
3	Convictions	53	27	22	102

Table 4: Recoveries Made by the NSCDC from 2019 – 2021

Year	Ltrs of AGO (Diesel)	Ltrs of PMS (Petrol)	Illegal Refineries Destroyed	Generators Recovered	Barges and Vessels Recovered
2019	294,118,325	511,680,119	9	35	11
2020	320,218,000	580,117,218	11	40	18
2021	428,000,000	707,312,056	16	60	30

Table 5: Summary of Investigations, Prosecutions and Convictions by the Nigerian Police Force on Illegal Mining (2019-2021)

Year	No of Cases Reported	No of Suspects Arrested	No of Cases Under Prosecution	No of Cases Under Investigation
2019	2	3	1	1
2020	4	10		4
2021	17	116	3	14
Total	23	129	4	19

Illegal Mining

Illegal mining is mining activity that is undertaken without state permission, in particular in absence of land rights, mining licenses, exploration and exploitation permits or mineral transportation permits. Illegal mining has led to violent local conflicts in the North-West. Data from the NSCDC indicates that illegal mining is more prominent in the North–Central and North–West geopolitical regions though there is an emerging trend of illegal mining activities in the South-South (illegal mining of sand).

The top ten minerals most vulnerable to illegal mining are gold, aquamarine, sapphire, tourmaline, tin, columbite, coal, lead/zinc, fluorite and sand¹³. There is a nexus between banditry, terrorist financing and illegal gold mining which is aligned with the report published by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) on illegal mining. The report *“Assessment of counter-terrorist financing capacities in West Africa”* published in 2020 identifies artisanal illegal mining as a means to fund terrorism in the West African Region¹⁴

Data from investigative activities also indicates the involvement of Politically Exposed Persons (PEPs) in illegal mining. During a press briefing on illegal mining in Nigeria, the Honorable Minister of Minerals and Steel Development disclosed connivance between Nigerian Elites and foreigners in perpetuating this criminal act¹⁵

It is important to note a trend in the use of illegally mined mineral resources in funding terrorism activities and violent crimes in the country through illegal artisanal mining by terrorists, and/or direct purchasing from illegal miners. Furthermore, a developing trend is the infiltration of organized crime syndicates using illegally mined minerals (specifically gold) in exchange for weapons. This act is mostly carried out through forced labour, in which women and girls are used as labourers to excavate and as carriers to exchange for arms¹⁶.

¹³Source – Minister of Mines and Steel Development

¹⁴https://www.giaba.org/media/f/1132_ENG-Assessment%20of%20the%20CFT%20Capacities%20in%20GIABA%20MS.pdf

¹⁵[Powerful Individuals Behind Illegal Mining in Nigeria, Says Mines Minister](#)

¹⁶[ENACT report on Women and girls in illegal mining in northern Nigeria](#)

The Economic and Financial Crimes Commission (EFCC) investigated 3 cases of illegal mining in 2020 and obtained convictions on 2 cases of illegal dealing of gold in 2019.

Case Study 4: Attempted Cross Border Shipment of Illegally Mined Gold

The Economic and Financial Crimes Commission (EFCC) seized gold worth about \$3, 131, 412.39 (N1, 127, 308, 460.39) being allegedly exported to Dubai, United Arab Emirates, illegally. The precious metal was reportedly seized at the Nnamdi Azikiwe International Airport by a team of EFCC detectives. The chief suspect had allegedly scaled through the scanning points without being detected, which pointed to connivance with some of the officials at different scanning points. The gold was reportedly handed over to Abba by a syndicate of illegal miners operating in Zamfara State.

Table 6: Illegal Mining Cases Investigated by the NSCDC from 2019 – 2021

S/N	Case Status	2019	2020	2021
1	Total Number of Illegal Mining Cases Investigated	13	260	102
2	Total Number of Prosecutions	0	0	8
3	Total Number of Convictions			

The hike in the illegal mining cases investigated in 2020 stems from the creation of the **Mines and Steel Department** in 2019, with corresponding units in the 36 states of the Federation, and the Federal Capital territory. Increased surveillance and strict enforcement by the department led to reduced cases in 2021.

i. Other Identified Fraudulent or Sharp Practices in the Extractive Sector

Opportunities for fraudulent activities exist in the oil and gas sector from extraction to sales of refined products to consumers. The absence of reliable equipment to measure the volume of crude oil being extracted makes it impossible to estimate the volume of crude oil extracted and even stolen through oil theft and vandalism. Oil theft also occurs in the downstream sector, as petrol pumps are rigged at petrol stations or adulterated. Also, to be noted is the sale of petroleum products on the “black market” giving rise to petroleum products being sold at exorbitant prices. Of concern is the emerging trend of filling station attendants acting as money agents, without appropriate customer due diligence carried out. It should be stated, however, that in most cases, the amount sold to an individual is usually not suspicious. However, if left unchecked, this practice could pose a threat to the country.

Other fraudulent practices include the diversion of petroleum products to non-designated retail outlets to gain undue financial advantage. This practice may be intra- state, inter- state and across the

borders of Nigeria to neighboring countries. The Joint Border Exercise in August 2019 with operation code-named 'Exercise Swift Response' resulted in large number of seizures of trucks and other vehicles used to smuggle refined products outside the country. This exercise was coordinated by the Office of the National Security Adviser¹⁷. This is also connected to the subsidy regime as the cost of PMS in Nigeria is significantly lower than in neighbouring countries.

Case Study 5: EOCO Ghana

The EFCC received an intelligence from EOCO Ghana relating to Oil theft and theft of vessel involving some Nigerians who sold crude oil to a company in Ghana. The EFCC investigated the case and it was found out that Mr. E whose company is E&P Ltd exported about 1, 670 Metric Tons of Low Pour Fuel Oil (LPFO) from Nigeria via Togo to Ghana. The product was apparently stolen from Nigeria. After discharging the product in Ghana, Mr. E was paid the sums of \$200,000, and \$34,000 through a cheque which he presented to the U Bank in Ghana and withdrew the funds in cash. Subsequently, Mr. E engaged a Bureau De Change Operator in Ghana who changed the dollars and credited Mr. E's company's account in Nigeria with the sum of N28,980,000. Interestingly, the Ghanaian Bureau De Change ("BDC") operator did not transfer the funds directly, he rather contacted his friend in Nigeria who also does BDC Business in Nigeria. It was the Nigerian BDC that actually paid in the Naira equivalent of the dollars into the Nigerian Bank account of E& P Ltd. The Nigerian BDC paid the funds in tranches through his companies account and that of his other Nigerian Colleague.

On receipt of the payments of the Naira, Mr. E transferred the sum of N2,000,000.00 to Mr. D who aided him all along the transaction. The trio of Mr. E, his company (E& P Ltd), and Mr. D are currently being tried for Money laundering and dealing in and exporting petroleum products without license.

Another fraudulent practice is the smuggling of Petroleum Products. The NNPC recorded daily Premium Motor Spirit (PMS) evacuation spikes in various depots across the country, against government projected volumes of daily consumption. These spikes led to the reactivation of Operation White II – an inter-agency task team comprising the NNPC, stakeholders and LEAs in May 2021. It was further reported that these volumes were being smuggled out to neighboring countries like Benin Republic, Cameroun, Niger republic etc., with higher PMS prices compared to Nigeria. The OPW II team was mandated to curtail smuggling, diversion and hoarding of PMS to ensure the Nation's energy security. Intelligence driven investigations are ongoing.¹⁸¹⁹

Dealing in Petroleum Products without a license (Illegal Dealing in Petroleum Products) involves dealing in the storage and sales of petroleum products without appropriate licenses (primarily Storage and Sales Licenses issued by the NMDPRA).²⁰

¹⁷ <https://punchng.com/joint-border-security-operation-prompts-massive-arrests-seizures/>

¹⁸ <https://www.thisdaylive.com/index.php/2021/06/11/nnpc-decries-rise-in-smuggling-of-petroleum-products/>

¹⁹ <https://dailyfocus.com.ng/operation-white-2-efcc-to-prosecute-smugglers-of-petroleum-products/>

²⁰ <https://www.vanguardngr.com/2020/08/court-fines-firm-n7m-for-dealing-in-petroleum-product-illegally/>

The EFCC investigated 52 cases of illegal dealing in petroleum products and 16 cases of illegal oil bunkering and pipeline vandalism in 2020. According to NSCDC, 95% of the crime of illegal bunkering and pipeline vandalism was recorded in the South-South and the South-West states.

Table 7: Summary of Forfeited Vessels/Petroleum Products in relation to Illegal Dealing with Petroleum Products (2019)

S/N	Type	Final	Interim
1	Barges	NIL	2
2	Petroleum Products	40 Metric Tonnes of Ago	58.487 Metric Tonnes of Ago Excluding Unquantified Petroleum Products

Table 8: Summary of Forfeited Vessels/Petroleum Products in Offences of Illegal Dealing with Petroleum Products by EFCC: 2020

Sn	Assets Forfeited	Final	Interim
1	Petroleum Products	1,193.53 Metric Tonnes of Petroleum Products Excluding Unquantified Petroleum Products	1,121.39 Metric Tonnes of Petroleum Products Excluding Unquantified Petroleum Products
2	Vessels	5	8
3	Tug Boats	3	8
4	Barges	10	14
5	Trucks	27	NIL

Table 9: Summary of Forfeited Vessels/Trucks/Petroleum Products in relation to Illegal Dealing with Petroleum Products (2021)

Sn	Asset Type	Final	Interim
1	Vessels	6	2
2	Barge	1	NIL
3	Vehicles/Trucks	108	10
4	Petroleum Products	3,503 Metric Tonnes of Petroleum Products, Excluding Yet to Be Sounded Petroleum Products	547 Metric Tonnes of Petroleum Products, Excluding Yet to Be Sounded Petroleum Products

The mandate of the Mining, Oil and Maritime Crime Analysis (MOMCA) department of the NFIU is to analyze predicate crime in the Extractive sector. This department has disseminated cases to law enforcement agencies between 2020 till date. The Intelligence reports disseminated improved by 53.13% in 2021, compared to 2020. These cases stemmed from suspicious transaction reports (STR) filed by the financial institution, request for information by law enforcement agencies (RFI) and also request from outside Nigeria.

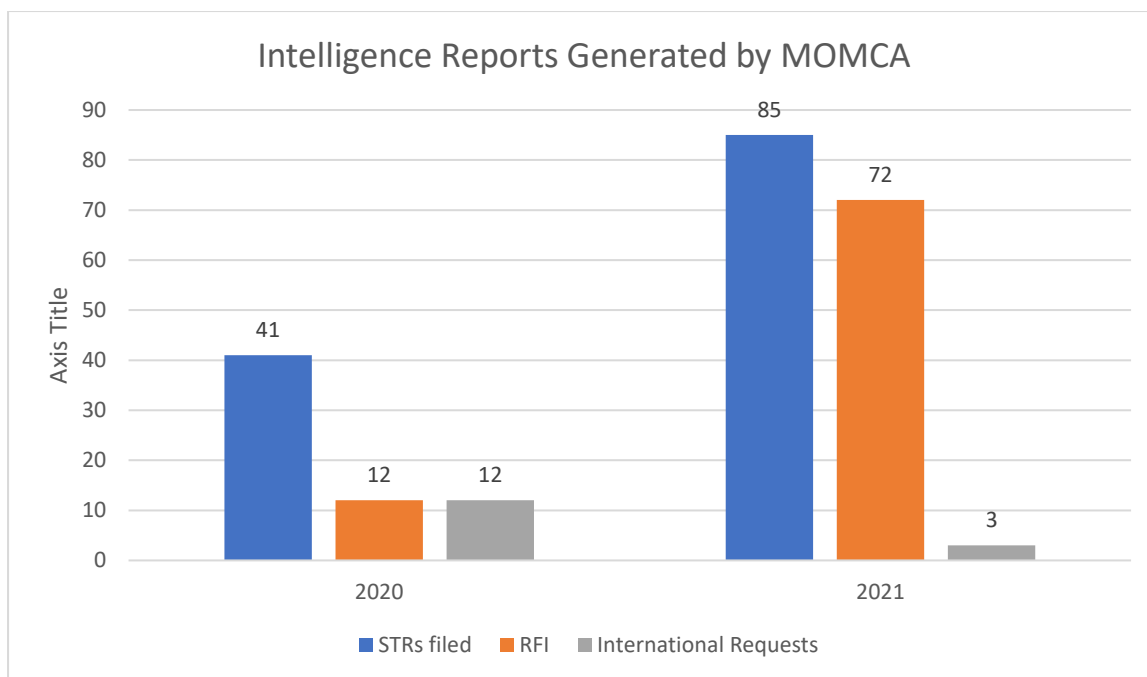


Figure 1: Intelligence Reports Generated by MOMCA

This increase is as a result of sensitization of the department's functions to regulatory and law enforcement agencies in the sector. Of the 225 intelligence reports generated by the NFIU, 126 reports emanated from the analysis of Suspicious Transaction Reports (STR) filed by banks. Nil reports were filed from the securities market, insurance sector, and the DNFBPs, including the DPMS and the real estate. The predicate crimes predominant in the NFIU analysis are money laundering, and tax crimes, only 13 intelligence reports on oil bunkering were disseminated to Law Enforcement Agencies for investigation. This low number of intelligence reports related to the extractive sector can be attributed to low quality of STR reporting, arising from limited understanding of ML/TF/PF risks in the extractive sector, and absence of red flags and indicators to guide reporting entities.

Also observed in the NFIU analysis are Oil & Gas companies double-hatting as Bureau de Change (BDC) operators without licensing from the supervisory authority, the Central Bank of Nigeria (CBN). As a result of measures adopted by the CBN to manage the foreign exchange reserves, consumers have resorted to alternate means to meet demands for foreign exchange. This demand is being exploited by oil and gas companies who trade in foreign currencies to consumers. While there are legitimate reasons for foreign exchange (FX) transactions, the absence of controls (including Customer Due Diligence) exposes the sector to being used as a conduit to fund criminal activities and illicit financial flow. In its analysis, the MOMCA department identified 6 cases of misuse of companies for foreign exchange transactions in 2020, and twenty 20 cases in 2021.

Some of the Oil & Gas companies seemingly exploit the window for FOREX bidding from the CBN by first obtaining petroleum products Import Permits (and repeatedly renewing the permits) from the NMDPRA and using same to bid for FOREX without any importation or commensurate importation of the products after possibly obtaining the FOREX.

Money laundering Vulnerabilities in the Extractive Sector

The overall intention of the perpetrators of criminal acts is to generate and then launder their Illicit funds. Once illicit funds are generated, funds are then laundered through Financial Institutions and DNFBPs often with the use of legal persons. Analysis has shown that laundered funds are used to purchase high-value assets in Nigeria and overseas or moved to offshore accounts.

Due to the size of the Extractive sector, there are complex money laundering schemes that exist in the sector. These schemes sometimes are multi-sectoral and also multi-jurisdictional. The level of sophistication of criminal activities in the extractive sector ranges from elementary to involving a complex web of actors to perpetrate a crime involving the use of several layers of anonymity and complex structures, syndicate groups, and the involvement of state actors.

The use of legal persons in perpetrating criminal acts and laundering funds is recurring in all facets of the oil and gas industry, especially as most contracts, licenses, and permits are issued to incorporated companies. Common criminal occurrence includes the award of contracts to shell companies, and the involvement of blacklisted companies and individuals in companies that are being awarded contracts, licenses, and permits. Trade-based money laundering is significant in the sector, given the widespread corruption, especially in the misinvoicing of crude oil and refined products exported and imported. Tax evasion also features prominently due to transfer mispricing and smuggling of extractive minerals, leading to exponential losses in revenue. In a report released by the Ad-hoc Committee instituted by the House of Representatives, it was estimated that Nigeria “lost over \$50 billion in gold tax revenue between 2013-2018 as a result of illegal mining and exportation of unprocessed gold from Nigeria”²¹

The below diagram provides an example on how proceeds of crime are laundered out of the oil and gas sector.

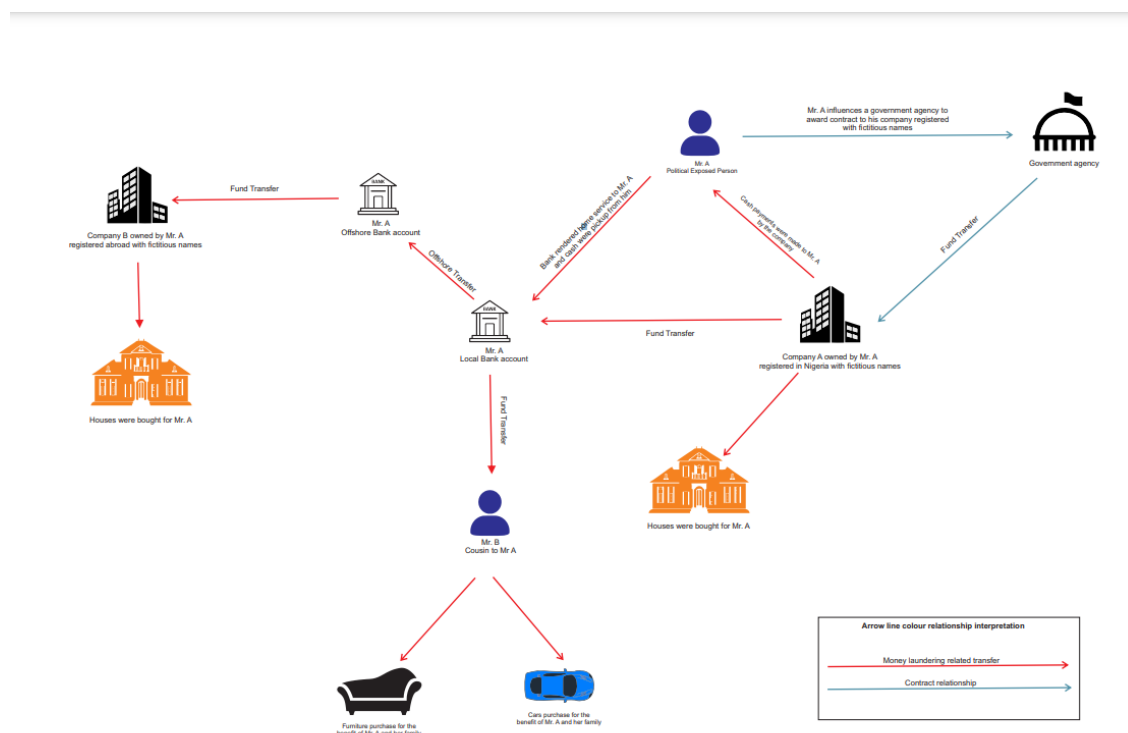


Figure 2: how proceeds of crime are laundered out of the oil and gas sector.

²¹Source; NEITI report on Averting Illicit Financial Flows in Nigeria’s Extractive Industry

Case Study 6: Laundering Proceeds of Corruption through Legal Persons with PEP as Beneficial Owner

Mr A is a senior government official (a politically exposed person) in a government agency, influences the award of a contract to Company A, a front company in which he is the beneficial owner. Upon receipt of contract funds, part of the funds is transferred directly to him as cash payments. Funds are also used in the purchase of property on behalf of the PEP, in his name or in the name of a close associate.

Funds are further transferred into Mr. A's account with a commercial bank with an authority to transfer funds to another close associate, who uses the funds to purchase luxury items. Mr. A also initiates an offshore transfer to another close associate who purchases assets using another front company.

The above provides a broad example of how banks, and legal entities are used as conduits to move proceeds of crime out of the sector, as unearthed in investigation. Ultimately the funds are integrated back with the purchase of real estate and rental income, purchase of other luxury items, payment of tuition, legitimate offshore investments, and warehousing of funds in tax havens.

There is a high level of anonymity, especially in the oil and gas sector, where crimes committed by PEPs are disguised in a complex web of company structures and the use of legal arrangements. A clear example of the misuse of legal persons in the Malabu Oil Block

Case Study 7: Use of Shell Companies to Launder Proceeds of Corruption

Malabu, a newly incorporated company without significant experience was awarded an oil license in April, 1998. The then Petroleum Minister granted to Malabu Oil and Gas the exclusive rights to OPL 245, one of Nigeria's most valuable offshore oil blocks. Malabu had been set up just five days before the award. OPL 245 sat idle for 13 years, until the Nigerian government facilitated a transfer of the rights from Malabu to Shell and Eni in 2011 via a two-step transaction. In the first step, Shell and Eni paid \$1.3 billion to the government. In the second step, the government agreed to transfer \$1.1 billion to Malabu owners. Malabu later transferred most of the funds it received to several shell companies with unclear beneficiaries, through various banks in London. The transaction has been under investigation in several jurisdictions.

Case Study 8: Laundering Corruption Proceeds from Procurement through Banks, Shell Companies to Offshore Centres

A former Minister for Petroleum Resources who oversaw Nigeria's state-owned oil company was allegedly involved in the embezzlement of \$1.6bn, where she influenced the award of contracts to shell companies, created in Nigeria and owned by her business associates. The proceeds of those illicitly awarded contracts were then laundered by the help of some Nigerian bank officials through companies and banks in British Virgin Island (BVI), Switzerland, the US and the UK.

Investigations revealed that the proceeds were used for the purchase of various assets, including extensive properties in London and an \$80 million yacht in the USA. It was further revealed that companies registered in Nigeria, BVI, Switzerland and the USA were complicit in the fraud.

In the above case study, law enforcement agencies have so far linked nine associates and thirteen legal entities in this grand money laundering scheme. The funds were moved to offshore locations primarily through the formal financial sector, especially the deposit money banks. Products offered by these banks, which includes offshore transfers, private banking, credit facilities and investments make them susceptible to abuse.

The issue of identifying beneficiary ownership cannot be overlooked as this plays a key role in ongoing reforms to improve transparency in the sector. The oil and gas sector featured prominently in the leaked *Panama Papers and Pandora papers*, including executives of oil firms, as well as two former Ministers of Petroleum Resources. In December 2019, The Nigeria Extractive Industries Transparency Initiative (NEITI) launched the beneficial ownership registry for the extractive sector. Furthermore, the amended Companies and Allied Matters Act (CAMA 2020) and subsequent regulation, makes mandatory the creation of a national BO registry, and declaration of ultimate beneficiaries of companies. However, the effectiveness of the national registry, along the lines of sanctions for non-compliance, prominence in investigations, etc. is yet to be ascertained as the registry became effective in 2021.

Additionally, the banking sector is vulnerable to trade-based money laundering given the complex structure of transactions in the sector, and the known occurrence of under-invoicing and over-invoicing of crude oil and refined products, most pronounced in the subsidy scheme. In the case highlighted above, over thirty-four billion naira was laundered through the banking sector, in which senior bank officials were implicit in the crime.²²

The cross-border element also provides opportunities for funds to be laundered to tax havens and other jurisdictions. Beneficiaries of illicit funds mentioned in the Panama Papers include the United Kingdom, British Virgin Islands, Switzerland, and Jersey.²³, as Banks remain a dominant linked sector in laundering funds both domestically and through cross-border transactions.

Terrorist Financing Vulnerabilities in the Extractive Sector

The high number of criminal activities in the extractive sector poses significant threats and vulnerabilities toward financing terrorism using illicit funds gotten from the sector. Activities of pipeline vandals which generate huge funds can be seen to be used for the purchase of weapons to carry out their activities. Also, nexus had been established by various intelligence outfits that illegal mining has been a contributor to the terrorism occurrences in the North–East, North–West and some part of North-Central geopolitical regions of Nigeria.

It is important to note a trend in the use of illegally mined mineral resources in funding terrorism activities and violent crimes in the country through illegal artisanal mining by terrorists, and/or direct purchasing from illegal miners. The use of gold to finance terrorism has featured in investigations.²⁴ However, statistics on funding of terrorism through illegal mining, trends, and typologies, mineral resources involved and geographical zones most affected cannot be ascertained at the time of publishing this report as research is ongoing by the relevant competent authorities.

Oil smuggling has been noted as a possible means of funding terrorism in Nigeria²⁵. In 2021, the Zamfara State Government banned the sale of petroleum products in local governments that had

²²<https://www.efcc.gov.ng/news/2706-diezani-alison-madueke-what-an-appetite>

²³<https://panamapapers.investigativecenters.org/nigeria-2/>

²⁴Increased Requests for Information from the NFIU

²⁵[Source: FATF Terrorism Financing in West and Central Africa \(2016\)](#)

witnessed an upsurge of banditry²⁶. However, statistics and typologies on the use of proceeds of oil bunkering/smuggling to fund banditry and/or terrorism are yet to be published by any competent authority in Nigeria.

Proliferation Financing Vulnerabilities in the Extractive Sector

Nigeria is neither a Weapons of Mass Destruction (WMD) jurisdiction, nor a market of proliferation goods, nor an international trade centre of immense proportions. Currently, there are no known actors conducting illegal mining or sales of uranium and other radioactive materials to countries, entities or persons designated under the UNSCR 1718.

Nigeria has natural deposits of materials that have dual-use capacity. Radioactive materials are found in the Niger-Delta belt due to large deposits of oil and associated minerals. Uranium is found in the North-Eastern region of the country; however, licenses are yet to be issued for its extraction as a result of strict application procedures involving authorization, inspection and enforcement.

Though there have been reported cases of illegal mining, there is no evidence indicating the use of dual-purpose minerals for proliferation purposes.

Indicators of ML, TF and PF in the Extractive Industry

This assessment of money laundering, terrorist financing and proliferation financing risks is a key step in applying counter measures to sanitize the sector. Nigeria is yet to produce a strategic document on indicators and red flags to guide Financial Institutions and eD Designated Non-Financial Businesses and Professions (DNFBPs) such as the real estate sector and dealers in precious stones and addresses the misuse of these institutions as conduits for laundering the proceeds of crimes.

However, the below is a non-exhaustive list of indicators of money laundering, terrorist financing and proliferation financing threats in Nigeria's extractive sector

- Frequent payments to unrelated third parties from oil and gas companies/mining companies with no economic justification.
- Transactions between a PEP and a mining company.
- Frequent transfers (including cash movement) from Petrol Stations to locations of suspected terrorist cells.
- Increased economic activities in locations enriched with natural minerals. This includes foreigners from countries identified as strategic concerns to Nigeria, settling in underdeveloped areas.
- Unexplained source of wealth for Politically exposed persons and officers in the extractive sector.
- Significant volume of transactions in the accounts of officers working in the extractive sector without economic justification.
- The use of uncut precious stones for the purchase of real estate.
- Unusual transaction profiles in the accounts of family members and close associates of senior officers in the extractive sector.
- Beneficial ownership information on extractive companies revealing links to officers in the extractive sector.
- Extractive companies that pay emoluments to staff in cash to obscure audit trails for transactions.
- Individuals and entities linked to adverse media information, on going investigations, or convictions related to the extractive sector

²⁶[Source: Premium Times](#)

- Customer's stated business is export of minerals, but is unwilling to provide supporting information.
- Information provided on letter of credit does not match customer's known transaction profile.
- Transfers to tax havens
- Transactions to designated persons, entities and jurisdictions on UNSCRs on terrorist financing and proliferation financing.

Chapter 3 – Conclusion

Understanding the money laundering, terrorist financing and proliferation financing threats in the extractive sector is a major step in curbing illicit activities and sanitizing the Nigerian Extractive Industry sector. The report brings to fore the links between predicate crimes, and how funds are laundered out of the extractive industry sector. The prevalent predicate crimes in the extractive industry sector are all rated high and very high, buttressing the fact that this sector is extremely vulnerable.

Though Nigeria is conversant with the predicate crimes that are prevalent in the sector, a consistent and focused approach must be adopted to enshrine money laundering, terrorist financing and proliferation financing investigations, prosecutions and convictions.

The consequences of a cohesive effort to tackling money laundering, terrorist financing and proliferation financing cannot be overlooked. Inadequate application of measures to abate crime in the sector, and proceeds of crimes from being laundered, will negatively impede the counter measures implemented by security forces in combatting terrorism leading to loss of lives and property and heightened security threats and loss of revenue to the Federal Government.

The significant volume of proceeds of crimes laundered through the sector, and terrorist financing threats, urgently calls for a review of the legislative and institutional framework, improved inter-agency collaboration to ensure money laundering elements are addressed.

Table of Acronyms

AGO – Automotive Gas Oil

BO – Beneficial Ownership

BVI – British Virgin Islands

CSOs – Civil Society Organisations

DNFBPs – Designated Non-Financial Businesses and Professions

DPMS – Dealers in Precious Metals and Stones

DPK – Dual Purpose Kerosene

EITI – Extractive Industry Transparency Initiative

FATF – Financial Action Task Force

GDP – Gross Domestic Product

IMB – International Maritime Bureau

IOCs – International Oil & Gas Companies

LEAs – Law Enforcement Agencies

MOMCA – Mining, Oil and Maritime Crimes Analysis

MDAs – Ministries, Departments and Agencies

ML – Money Laundering

MNC – McDonell-Nadeau Consultants

NEITI – Nigerian Extractive Industry Transparency Initiative

NEPZA – Nigeria Export Processing Zones Authority

NIRA – National Inherent Risk Assessment

NMDPRA – Nigerian Midstream and Downstream Petroleum Regulatory Authority

NNPC – Nigerian National Petroleum Company

NNRA – Nigerian Nuclear Regulatory Authority

NUPRC – Nigerian Upstream Petroleum Regulatory Commission

OEL – Oil Exploration License

OGFZA – Oil and Gas Free Zones Authority

OML – Oil Mining Lease

OPL – Oil Prospecting License

OPW – Operation White

PIA – Petroleum Industry Act

PEPs – Politically Exposed Persons

PF – Proliferation Financing

PMS – Premium Motor Spirit

SCUML – Special Control Unit Against Money Laundering

STRs – Suspicious Transaction Reports

TF – Terrorist Financing

UNSCR – United Nations Security Council Resolutions

WMD – Weapons of Mass Destruction

