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NATIONAL INHERENT RISK ASSESSMENT OF LEGAL PERSONS & LEGAL ARRANGEMENTS IN NIGERIA

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Abbreviations and Acronyms

AML	Anti-Money Laundering
BDC	Bureau De Change
BO	Beneficial Owner
BVN	Bank Verification Number
CAC	Corporate Affairs Commission
CAMA	Company and Allied Matters Act 2020
CBN	Central Bank of Nigeria
CCB	Code of Conduct Bureau
CDD	Customer Due Diligence
CFT	Counter Financing of Terrorism
CPF	Counter Proliferation Financing
CRS	Common Reporting Standard
DNFBPs	Designated Non-Financial Businesses and Professions
DSS	Department of State Service
EFCC	Economic and Financial Crimes Commission
FA	Finance Act
FEMA	Federal Emergency Management Agency (USA)
FIRS	Federal Inland Revenue Service
FIRSEA	Federal Inland Revenue Service (Establishment) Act 2007
FIU	Financial Intelligence Units
FTE	Free Trade Enterprises
FTZ	Free Trade Zone
IFFs	Illicit Financial Flows
INGOs	International Non-Governmental Organisations
IWT	Illegal Wildlife Trade
LA	Legal Arrangement
LEAs	Law Enforcement Agencies
LLC	Limited Liability Company

LLPs	Limited Liability Partnerships
LP	Legal Persons
LPs	Limited Partnership
LTD	Private Company Limited by Shares
LTD/GTE	Private Company Limited by Guarantee
MAC	Mutual Agreement Convention
MCAA	Multilateral Competent Authority Agreement
ML	Money Laundering
NAICOM	National Insurance Commission
NEPZA	Nigeria Export Processing Zones Authority
NFIU	Nigerian Financial Intelligence Unit
NIN	National Identification Number
NPOs	Non-Profit Organisation
NRA	National Risk Assessment
OECD	Organisation for Economic Co-operation and Development
OGFZA	Oil and Gas Free Zones Authority
PEPs	Politically Exposed Persons
PF	Proliferation Financing
PLC	Public Company Limited by Shares
PND	Post No Debit
POS	Point of Sale Machines
SEC	Securities and Exchange Commission
SRO	Self-Regulatory Organisation
SSA	Social Security Administration (USA)
STR	Suspicious Transaction Report
TF	Terrorist Financing
TIN	Tax Identification Number

Executive Summary

In Nigeria, legal persons and arrangements possess inherent money laundering (ML), terrorist financing (TF) and proliferation financing (PF) vulnerabilities owing to their construct and legal status. As a result, it is important to conduct an assessment to determine the level of such vulnerabilities to allow relevant stakeholders to implement measures to reduce the risks of ML, TF and PF. This assessment employs a three-level rating scale (high, medium, and low) and draws on international experience and the knowledge of competent authorities' officials to assess the vulnerability of the various types of legal persons and arrangements registered in Nigeria's mainland and free trade zones between 2019 and 2021.

In Nigeria's mainland, the assessed inherent ML/TF vulnerability levels were found to be high among Private Companies Limited by Shares and Business Names. These two account for 25.6% and 66.85% of the total number of registered entities in mainland Nigeria, respectively. Private Companies Limited by Guarantee, Limited Liability Partnership, Limited Partnership, Incorporated Trustees, INGOs, and Cooperative societies were found to have medium inherent vulnerability levels. Collectively, these categories of legal persons account for approximately 7.54% of all registered legal persons in mainland Nigeria. Finally, Private Unlimited Companies, Public Companies Limited by Shares, and Public Unlimited Companies were found to have a low level of inherent ML/TF vulnerability. They collectively account for 0.018% of the total number of registered legal persons in mainland Nigeria.

Within the Free Trade Zones (FTZs), the assessed inherent ML/TF vulnerability levels were found to be high for Branches of Foreign Legal Persons in FTZ (under the supervision of the Nigeria Export Processing Zones Authority) and Legal Persons operating in the Oil and Gas Export Free Trade Zone (under the supervision of the Oil and Gas Free Zones Authority). These two classes of legal persons account for 29.95% and 22.52% of the total number of registered legal persons in the FTZ, respectively. Branches of Local Legal Persons in FTZs and Branches of Legal Persons with Joint Ownership in FTZs were assessed as having a medium level of inherent vulnerabilities . They account for 43.40% and 4.13% of all registered legal persons in the FTZ, respectively.

Despite the rarity of trust arrangements as instruments or legal arrangements used by individuals in Nigeria, the assessment rated the ML/TF risks associated with Legal Arrangements in Nigeria as high risk because Trusts can also be used to conceal the control of assets, including the proceeds of crime, it may be created in one jurisdiction and used in another to hold assets across jurisdictions to disguise the origins of criminal proceeds. It may be used to enhance anonymity by completely disconnecting the beneficial owner from the names of the other parties including the trustee, settlor, protector or beneficiary.

The assessment was supported with case studies from different sources, this includes open-source information, ongoing and concluded cases from LEAs, STRs analysed and disseminated to LEAs from the NFIU and expert opinions from participants of the NIRA process.

The risk assessment was conducted by the Legal Persons and Arrangements Workstream of the NIRA Working Group chaired by the Corporate Affairs Commission (CAC) and with substantial contributions from other agencies.

Chapter One: Introduction

1.1 Background

Whilst acknowledging the legitimate and economically important role of legal persons and legal arrangements (LPLAs), they also display important inherent ML/TF vulnerability arising out of their actual construct. The unique legal status of legal persons lends itself to complex schemes designed to conceal the true beneficial owners, and in many respects, concealing the real reason for holding assets and conducting related transaction. Therefore, it has become increasingly necessary for countries to put measures in place to mitigate the risks of Money Laundering, Terrorism Financing as well as Proliferation financing.

1.2 Scope, Methodology, Limitations of the Assessment

The assessment was on the inherent vulnerabilities of Legal Persons & Legal Arrangements (LPLAs) to Money Laundering & Terrorist Financing (ML/TF) in Mainland and Free Trade Zones. The McDonell-Nadeau Consultants (MNC) methodology for risk assessment was used for an assessment period of 2019 - 2021. International experience and competent authorities' officials' knowledge, were taken into account in characterising the different types of legal persons and arrangement that could be exploited to facilitate ML/TF and conceal beneficial ownership.

Three-level ratings were used in the assessment process (high, medium and low). The ratings were agreed on a consensus basis by officials from relevant competent authorities following desk reviews of primary and secondary data and organized workshops. The assessment was limited to the inherent vulnerabilities of LPLAs to ML/TF activity. Data relating to cooperative societies was drawn from sample statistics obtained from open source, due to the time limit of the assessment team to have access to each state's registrar. The assessment was finalized in 2022.

1.3 Participants in the Risk Assessment

Information contained in this document was obtained from the following agencies that participated in the assessment and the ratings reflect international experience and the competent authorities' officials' knowledge:

- The Central Bank of Nigeria (CBN)
- The Code of Conduct Bureau (CCB)
- The Corporate Affairs Commission (CAC)
- The Economic and Financial Crimes Commission (EFCC)
- The Federal Inland Revenue Service (FIRS)
- The Federal Road Safety Corp (FRSC)
- The Nigeria Export Processing Zones Authority (NEPZA)
- The Nigerian Bar Association (NBA)
- The National Insurance Commission (NAICOM)
- The Nigerian Financial Intelligence Unit (NFIU)
- The Oil and Gas Free Zones Authority (OGFZA)
- The Securities and Exchange Commission (SEC)

Other sources of information include the laws and regulations prevailing at the time of the assessment, open-source information as well as interviews conducted with sector experts and contributions from the private sector.

Chapter Two National Situation

2.1 Types of Legal Persons and Businesses in Nigeria

In Nigeria, the following are the different types of legal persons that exist:

i. Companies
ii. Partnerships
iii. Incorporated Trustees
iv. Cooperative societies

2.2 Classification of Companies

A Company is a legal person deemed to be a separate legal entity from its members. Generally, there are three main types of Companies categorised based on the liability of the Members/shareholders: Limited by Shares, Limited by Guarantee and unlimited. All the three types could take the form of a private or a public Company.

A private Company has a maximum number of 50 members, cannot generally invite the public to subscribe to its shares and may restrict the transfer of its shares. A Public Company can invite the public to subscribe to its shares and has no maximum number of Members/Shareholders. Members/Shareholders in all the three types of Companies can be Natural persons and/ or Legal Persons. Shares can be held by minors provided there are other qualified persons holding shares in the Company. A subscriber who holds shares in trust for another person must disclose that fact and the name of the beneficiary in the Memorandum and Articles of Association. The names and full particulars of the ultimate beneficiary must be disclosed. Companies can have ownership structure with only Legal persons as shareholders

i. **Private Limited Liability Company (LTD):** This is the most prevalent type of legal person in Nigeria used by investors. For this type of legal persons to be registered, the number of shareholders and directors required is usually between 2 (two) and 50 (Fifty) with a minimum share capital of ₦100,000.00 (One Hundred thousand naira) However, the Companies and Allied Matters Act 2020 permits registration with a minimum of 1(one) shareholder. A Private Company unless authorised by Law cannot invite the public to subscribe for shares or Debenture of the Company. This type of legal person is used for business and profits sharing.
ii. **Public Limited Liability Company (PLC):** With this type of legal person, the Company is allowed to invite the public to subscribe to its shares. Shares can be traded on the Stock Exchange. The Law formerly required the minimum share capital of ₦500,000.00 (Five hundred thousand naira); however, this is now ₦2,000,000(Two Million Naira) under the Companies and Allied Matters Act 2020.A minimum of 2 (Two) shareholders and Directors is required and no maximum number of shareholders. A person cannot be a director in more than 5(five) Public Companies.
iii. **Private Company Limited by Guarantee (GTE):** This type of legal person is usually registered for not-for-Profit purposes, with the members liability limited to their financial guarantees. The income and property from this type of legal persons are to be used for the promotion of its object and not to be distributed to the members and it does not require any share capital. The maximum number of members is 50.
iv. **Public Company Limited by Guarantee:** Registration of this type of legal person is rare. This type of legal persons is usually registered for not-for-Profit purposes, with the members liability limited to their financial guarantees. The income and property from this type of legal persons are not

distributed to the members and it does not require any share capital. Being a Public Company there is no maximum number of members.

v. **Private Unlimited Company:** The registration of this type of legal person is rare. The Company is registered with a Share capital and the liability of members are unlimited. Members cannot exceed 50 and cannot invite the public to subscribe to its shares and can restrict the transfer of its shares.

vi. **Public Unlimited Company:** This type of legal person has members that do not have any limit on their liability and is not very often used. There is no maximum number of shareholders.

2.3 Other Types of Legal Persons

i. **Limited Liability Partnerships (LLPs):** This is a new form of legal person introduced and registered by the Corporate Affairs Commission pursuant to CAMA, 2020. It is a partnership arrangement done with a legal personality, distinct from the partners. A minimum of two "Designated partners" with at least one resident in Nigeria is required. The partners are liable to the amount which they had agreed to contribute or an amount which would be outstanding should the partnership wound up.

ii. **Incorporated Trustees:** An Incorporated Trustees is the registered Trustees of a Not-for-profit Association. Registration confers legal status on the Trustees. The Trustees must be natural persons resident in Nigeria. The Trustees are legal representatives of the Association. Powers of the Trustees is exercised subject to direction of the Association or the governing Council. The objects of the Association could be for religious, educational, literary, scientific, social, developmental, cultural, sporting or charitable. Funds can be raised through subscriptions and other contributions; however, accounts and audit of such funds must be maintained by the Trustees. In the event of dissolution of the Incorporated Trustee, remains of property of the Trustee must be transferred to other Organisation with similar objects and must not be paid or distributed to members of the Association. Some local Non-Profit Organisation (NPOs) register as Incorporated Trustees.

iii. **Cooperatives:** Section 3 of Nigerian Co-operative Societies Act No.88 of 2004, makes provision for only natural and legal persons to hold rights and thus become members of a co-operative society.

   There are Three (3) types of cooperative society under Section 3 of the Act:

   i. **Primary Society:** A cooperative is considered as a primary society if it has at least Ten (10) persons that can qualify as members under the requirements of the Act.
   ii. **Secondary Society:** A cooperative is considered as a secondary society if it has as its members a minimum of Five (5) registered societies and for a Federal Apex society it has as members a minimum of Five (5) registered State Apex societies.
   iii. **Industrial Society:** A cooperative is considered as an industrial society if it is economically viable and has at least Six (6) persons as members.

The assessment also considered Business Names and Limited Partnership, though these are not Legal Persons, they have been included for completeness and comparison purposes.

i. Business Names are not legal persons because registration does not confer legal status on the business; for other types of legal persons, the company has legal personality which is distinct from the natural persons involved. The Proprietor(s) in a business name directly bears liability of the business. The Proprietors can either be individual or Corporate Body.

ii. Limited Partnerships (LPs): This is also a new form of business partnership introduced and registered by the Corporate Affairs Commission pursuant to CAMA, 2020. It is a partnership arrangement that exists with a minimum of one limited partner and one general partner. In this type of partnership arrangements, the business is managed by the general partners whose liabilities are unlimited, however limited partner has limited liabilities except where the Limited partner takes part in the management of the partnership.

2.4 Registrars of Legal Persons

In Nigeria, the location and type of a legal person determines the authority that registers it. The majority of legal persons in mainland Nigeria are registered with the Corporate Affairs Commission (CAC). Cooperative societies on the mainland is registered with state registrars, and non-governmental organizations are overseen by the Ministry of Finance, Budget and National Planning.
There are two authorities saddled with the registration of legal persons within the free zones: the Nigeria Export Processing Zones Authority (NEPZA) and the Oil and Gas Free Zones Authority (OGFZA).

2.4.1 Corporate Affairs Commission

The Corporate Affairs Commission is established to generally administer the Companies and Allied Matters Act (2020), including:

i. The formation, incorporation, management, striking off and winding-up of companies, limited liability partnerships and business names;
ii. The management and removal of names from the register;
iii. The formation, incorporation, management and dissolution of incorporated trustees; and
iv. Registration of limited partnerships

Except for Cooperative Societies and INGOs, all Legal persons including business names Limited Partnerships operating on the mainland are regulated and supervised by the CAC.

2.4.2 Nigeria Export Processing Zone Authority (NEPZA)

The Nigeria Export Processing Zones Authority (NEPZA) was established as the sole Agency of the Federal Government responsible for the establishment, licensing, regulating and promoting the operations and management of Free Zones in Nigeria. NEPZA is empowered by law to register entities that wish to operate within Free Zones. Such entities are not required to register with the CAC, as long as their operations do not extend to the mainland.

2.4.3 Oil and Gas Free Trade Zone Authority (OGFZA)

The Oil and Gas Free Zones Authority (OGFZA) is the National Regulatory Agency established by the Federal Government of Nigeria through the Oil and Gas Export Free Zones Act, to regulate and manage Nigeria's oil and gas export free trade zones.
The first oil and gas export free zone to be established in the country was the Onne Oil and Gas Free Zone in Rivers State. Subsequently other oil and gas free zones were established as public-private partnerships between the Federal Government of Nigeria and private sector operators.

Registration of Legal Persons in an Oil and Gas Free Zone require that the entities are registered in Nigeria with the CAC or Offshore with that country's respective registrar.

2.4.4 States Registrars of Cooperatives

Cooperative societies in Nigeria are registered in all the thirty-six (36) states and the Federal Capital Territory (FCT). Powers are granted to the Governor of every state in the country to create a directorate that will be responsible for the registration and regulation of cooperatives in each of their states. Every state has a separate legislation and guidelines governing the cooperatives operating in them. While the President may appoint a person to be a Federal Director of Co-operatives, the Governor of a State may appoint a person to be the State Director of Co-operatives.

2.4.5 Ministry of Finance, Budget and National Planning

The Ministry of Finance, Budget and National Planning is empowered by S4. National Planning Commission Act 1993 to: monitor the activities of all International Non-Governmental Organizations (INGOs) and Local Non-Governmental Organization (NGOs) in the Country.
The MFBNP is empowered to issue permits to INGOs and NGOs operating in the country and to monitor their activities. They are to submit quarterly reports to the Ministry on all operation including expenditure. Request for permit renewal is accompanied with reports from the NPO, reports from Monitoring exercise by staff of the Ministry and a cover letter by a government establishment in the location of operation.

2.5 Breakdown of Legal Persons in Nigeria

There are over 1,000,000 legal persons established in Nigeria and the vast majority of legal persons are set up in the mainland. The number of legal persons in the Free trade zones are less than one percent. Details of the legal persons according to corporate registrars, and the numbers found in each of the registrars are shown in Tables 1 – 5 below.

Table 1: Number of Legal Persons According to Corporate Registrars in Nigeria (2019 – 2021)

Licensing Authority	Mainland Or FTZ	No. Of Legal Persons	Total %
CAC	Mainland	1,321,656	95.20%
NEPZA	FTZ	375	0.03%
OGFTZ	FTZ	109	0.01%
States Registrars of Cooperatives	Mainland	66,521	4.79%
Ministry Of Budget & National Planning	Mainland	176	0.01%
TOTAL		**1,388,661**	**100%**

Table 2: Number of Mainland Legal Persons

Types Of Legal Persons[1]	No Of Legal Persons Registered Between 2019 – 2021	Total %
Business Names	928,126	66.85%
Private Companies Limited by shares	355,312	25.60%

[1] Includes Business Names and Limited Partnership

Cooperative societies	66,521	4.79%
Incorporated Trustees	37,084	2.67%
Private Companies Limited by Guarantee	836	0.06%
Public Companies Limited by shares	205	0.015%
International NPOs	176	0.013%
Limited Liability Partnership	56	0.004%
Public Company Limited by Guarantee	13	0.001%
Private Unlimited Companies	10	0.001%
Public Unlimited Company	8	0.001%
Limited Partnership	6	0.0004%
Total	**1,388,353**	**100 %**

Table 3: Number of Legal Persons in Free Trade Zones (NEPZA)

Location of FTZ	Number of FTZ	Number Of Legal Persons Per Zone	Total %
Lagos State	11	213	56.8 %
Ogun State	2	57	15.2 %
Abuja FCT	2	43	11.5 %
Kano State	1	39	10.4 %
Cross River State	1	12	3.2 %
Enugu State	2	6	1.6 %
Delta State	1	5	1.3 %
Total	**19**	**375**	**100 %**

Table 4: Number of Legal Persons Operating In Oil and Gas Free Zones (OGFZA)

OGFZ	Number Of Legal Persons	Total %
Onne[2]	83	76.1 4%
Liberty	15	13.8 %
Brass	2	1.83 %
Warri	8	7.33 %
Eko Support	1	0.9 %
Total	**109**	**100 %**

Cooperative societies are registered at state level. Number of cooperative societies were sampled from one state in each of the 6 geopolitical zones in Nigeria.

Table 5: Cooperative Societies from Six States in Nigeria

States/Geopolitical Zone[3]	Number Of Cooperative Societies	Total %
Kano (North West)	49,900	75 %
Abuja (North Central)	8,000	12 %
Rivers (South South)	2, 894	4.4%

[2] The figures for ONNE includes that of its sub zone, NOTORE.

[3] Open-source information

Lagos (South West	2,359	3.5%
Imo (South East)	2,031	3.1 %
Taraba (North East)	1,337	2 %
Total	**66,521**	**100 %**

2.6 Ownership Structure of Legal Persons in Nigeria

Legal persons may be owned by either foreigners or Nigerians. For companies registered with the CAC, shareholders and directors could be foreigners or locals or could be a combination of both. NEPZA registered entities can also be owned solely by foreigners or locals or jointly by Nigerians and foreigners. These are presented in tables 6 and 7 below:

Table 6: Number of Legal Persons with Foreign Interest (CAC)

Companies Composition	Number Of Persons
Companies with Foreign Directors	52,008
Companies with Foreign Shareholders	44,016
Total	**94024**

Table 7: Number of Foreign and Domestic Legal Persons in Free Trade Zone (NEPZA)

Type	Number Of Legal Persons	Total %
Local Companies[4]	210	56 %
Foreign Companies[5]	145	38.7 %
Joint Ownership (Local & Foreign Companies)	20	5.3 %
Total	**375**	**100 %**

2.7 Legal Arrangements

According to FATF, Legal arrangements refer to express trusts or other similar legal arrangements.
FATF defines express trust as: “a trust clearly created by the settlor, usually in the form of a document e.g., a written deed of trust.” In its most basic form, an express trust will have a:

i. Settlor—the person who contributes the trust assets.
ii. Trustee—the person who holds the legal title to the trust assets and administers it.
iii. Beneficiary—the person entitled to the trust assets.
iv. Protector—some countries permit settlors to appoint a protector to oversee the trustee’s handling of the trust.

[4] These are companies that are registered in FTZs with solely Nigerian directors and shareholders
[5] These are companies registered in FTZs that have solely foreign directors and shareholders

Trusts can also be used to conceal the control of assets, including the proceeds of crime. For example, a trust may be created in one jurisdiction and used in another to hold assets across jurisdictions to disguise the origins of criminal proceeds. It may be used to enhance anonymity by completely disconnecting the beneficial owner from the names of the other parties including the trustee, settlor, protector or beneficiary.

In Nigeria, the law of trust is derived from the received English Law and decided cases. There is no specific statute or a central authority regulating trust. Trust arrangements exist in Nigeria and are mostly private trust where individuals execute an instrument transferring their assets to other person(s) referred to as the Trustee who holds the assets on behalf of the designated beneficiaries; however, there is no available data on the number of such arrangement in the Country.
The following are elements of a private trust;

i. Certainty of intention – The settlor (i.e., the person giving the property, who is also called the donor) must manifest an intention to create a trust, either expressly or by conduct. An expression of hope or desire is not sufficient.
ii. Certainty of subject matter – The trust property must be clearly identified. The subject of the trust may take different forms, either an interest in land, a car, money, a debt or even a promise. Whatever form the subject of the trust takes, it must be specified with reasonable certainty.
iii. Certainty of objects - This means that the intended beneficiaries of the trust must be known or ascertainable. If the beneficiaries cannot be identified, the trust will fail and the subject of the trust will revert to the settlor/donor or his estate, as the case may be, except it is a charitable trust.

Legal arrangements found in Nigeria are the Trust fund and Trustee Companies which are licensed by the Securities and Exchange commission (SEC). These arrangements are commonly used for investment structures such as collective schemes which are extensively regulated by the stipulated provisions of the Investment and Securities Act and the Securities and Exchange Commission.

i. **Trust Fund:** Trust funds are established by individuals and legal persons to manage their assets. There are various uses for trust funds. A person who wants their wealth to be managed skilfully may apply for a trust fund inter vivos (i.e., trust fund formed during the grantor's lifetime).

   A person or group of people can also establish a trust fund for the support, maintenance, and education of their spouse, children, dependents, and other family members both throughout the grantor(s)' lives and in the event of their passing. A trust fund has also been defined as the relationship that develops whenever a trustee is required by law or equity to hold property that was acquired under the grantor's legal or equitable title, which could include real estate or personal property, for the benefit of other people or for a designated person(s) known as the beneficiary. In a trust fund, the beneficiaries or other trust fund objects instead of the trustee are the ones who actually benefit from the property.

   A trust fund can also be described as a situation in which one person grants another party the legal authority to manage their money for the benefit of another.
ii. **Trustee Company:** Trustee Companies are regulated by the Securities and Exchange Commission (SEC) as Capital Market Operator to function as Trustee. The SEC has Code of

Conduct for trustees, amongst which stipulates that they shall act in line with the trust deed or other constituent documents, adhere to the Trustee Investment Act, the Investment & Securities Act, the SEC Rules & Regulations and any other documents, law, rules and regulations which govern the trustees and the trust fund;

Registered Corporate Trustees in Nigeria have a forum, known as the Association of Corporate Trustees, where they interact, exchange information, support and promote trusteeship practice in Nigeria. The association is registered with SEC as Self-Regulatory organization (SRO). Some of the functions of trustees in respect of collective investment scheme under SEC rule 2013 are as follows:

- Monitoring of the activities of the fund manager and custodian on behalf of and in the interest of unit holders or fund contributors.
- Ensuring that the custodian takes into custody all of the scheme's assets and holds it in trust for the beneficiaries in accordance with the trust deed and custodial agreement.
- Ascertaining compliance with the provisions of the Trustee Investments Act, the Investments and Securities Act and the trust deed by the fund manager.
- Ascertaining that monthly and other periodic returns/reports relating to the scheme or fund are sent by the fund manager to the Commission.
- Taking all steps and executing all documents which are necessary to secure acquisitions or disposals properly made by the fund manager in accordance with the trust deed and custodial agreement.

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Chapter Three: Legal Persons and Legal Arrangements Vulnerabilities

The risk associated with legal persons varies depending on where they are located. In the mainland, private companies limited by shares and business names have been assessed as representing a high inherent risk for ML/TF, while in the free trade zones, the branches of foreign companies and those operating in the OGFTZ also have high inherent risk.

A detailed discussion of the vulnerability factors associated with each type of legal person and legal arrangements are discussed below.

3.1 ML/TF Vulnerability Characteristics and Assessed Risk Levels, By Types of Legal Persons

The various legal persons with their inherent vulnerability characteristics, assessed level of risk, with domestic typologies are analysed below

3.1.1 Private companies limited by shares (ss. 22, 119, 868 CAMA 2020)

These Companies are registered for business purpose and profit sharing. The ownership structure can include both natural and legal persons. The Legal persons that are part of the ownership structure can have multiple layer ownership. Foreign Companies can own shares, and shareholding composition can be fully held by foreigners or foreign corporate shareholders.

Limited liability companies (LLC) are a convenient vehicle for many people to conduct business both domestically and in the international marketplace. They can be beneficial to the economy – stimulating growth, creating employment and rejuvenating local communities. Its simplicity in incorporation, flexibility in determining ownership and control among members, exploiting nominees, profit distribution and tax advantage makes it extremely vulnerable to ML/TF/PF.

The vulnerability is rated High because:

This category represents a high inherent ML/TF vulnerability, based on experts' opinion from Nigerian law enforcement agencies, regulatory and supervisory bodies, supported by analysis of STRs filed to the NFIU. Limited liability companies have been used to evade tax, engage in fraudulent trading and manipulation, act as vehicles to launder money and also finance terrorism activities.

LLCs have featured heavily in corruption cases investigated by the EFCC and are more prevalent than any other type of legal person. Bureau de Change (BDC) operators are most often registered as LLCs and these have been identified as being involved in different predicate offences including terrorism financing. For instance, some BDC operators with revoked licenses were identified either through analysis of investigation to have carried out illegal operations including involvement in terrorist financing.

Analysis of NFIU disclosures also revealed that most of the intelligence reports disseminated to LEAs in respect of companies were on LLC.

3.1.2 Business Names (Section 815 CAMA)

The proprietors can either be natural or legal persons. Registration does not confer legal personality to the business name, the proprietors directly take responsibility for liabilities incurred in the business. Though registration does not confer legal status and a Business Name is not in law a legal person, there is however likely to be an ultimate beneficiary, because there are Corporate Proprietors for business names and there is no legal requirement for disclosure of ultimate beneficiary or person with significant control where the proprietor is a corporation or a firm.

The vulnerability is rated high because:

Business names present a high inherent vulnerability as LEA investigations has identified sole proprietorships carrying out Ponzi schemes. NFIU analysis has also established, using the Biometric Verification Number (BVN) issued to bank account operators, that some directors of LLCs also create business names and subsequently create fake business transactions amongst them, which aid in the laundering process by commingling the funds between them.

Business names also present a high inherent risk to ML/TF due to the growing popularity of Point of Sale (POS) agents in Nigeria, which were introduced by the CBN to facilitate financial inclusion. The Covid -19 restrictions resulted in a huge increase in the use of POS terminals in Nigeria. The statistics by Nigeria Interbank Settlement System (NIBSS) shows that there was upward trend in electronic payment via POS, by August 2020, the value of transactions conducted through the POS was N 386.351 billion. Overall, the POS terminals registered and deployed in the year 2020 has surpassed other previous years.

Small business owners obtain these machines after fulfilling the requirements which include registered business name amongst others. The POS machines are used as convenient channels to withdraw or deposit funds, pay bills, buy airtime etc. However, criminals also capitalise on this channel to carry out different forms of fraud and case have been reported where they have facilitated kidnap for ransom[6].

Jewelry dealers are registered as business names, some of them have been linked to TF investigations with links to illegal FX operators.

3.1.3 Branches of Foreign Companies in FTZs (NEPZA)

Foreign ownership makes Ultimate Beneficial Ownership (UBO) information difficult to access. The country of origin of the foreign companies in the FTZs include; China, India, Lebanon, Mauritius, Cyprus, Italy, Korea, Netherlands, Panama, Turkey and UAE.

Some of the enterprises are into assembling, manufacturing, processing, recycling, repackaging etc. According to the FATF study on vulnerabilities in the free zone, it would be relatively easy to take advantage of relaxed oversight in order to import, repackage, re-label and export textiles or IT equipment

[6] There are instances of cases of crimes involving POS operators in the pages of newspapers, see the following links-https://www.newtelegraphng.com/concern-mounts-over-rising-pos-fraud/, https://thenewsnigeria.com.ng/2021/03/24/police-nab-pos-operator-collecting-ransom-for-kidnappers-in-edo/

into a country or onto a third country, and repackaging is one of the tools used by criminals to cut the links with the real country of origin or destination.

The Vulnerability is rated high because:

The risk of hiding beneficial ownership information is significant. Complex legal structures can be set up without disclosing the identity of the ultimate beneficiary of the company. This is due to the fact that they are foreign companies, and the Nigerian government does not have direct access as to who are the UBO of these companies.

It is worthy to note that in most of the zones that have foreign companies, the two countries that reappear are China and India. Even in the mainland country, Chinese and Indian companies have featured in several cases including illegal mining, corruption, violation of labour laws and tax crimes.

3.1.4 Companies Operating in the Oil and Gas Free Trade Zone (OGFZA)

The OGFTZ with its characteristics of ease of entry and operations, in addition to tax incentive, could be an attraction to money launderers, terrorist and proliferation financiers.

Nigeria occupies a strategic position in Africa and globally, due to its abundant human and raw materials base, the OGFZs offer highly competitive range of tax concessions plus other investment incentives including minimal bureaucracy, to ease flow of business. Oil & Gas Free Zones in Nigeria, some are now host to the largest and fastest growing oil & gas transit and supply bases in the world today.

The Vulnerability is rated high because:

Nigeria has faced a lot of challenges in the extractive sector, with public officials and their accomplices found to have been engaged in various malpractices in the sector. In particular, the Extractive Industries NIRA report published concurrently with this assessment has identified vulnerabilities in the governance and oversight of the industry.

Tax authorities have investigated Legal persons operating within the zone with regards to tax crimes and transfer pricing.

3.1.5 Limited Liability Partnership (LLPs) (sec. 746-794 CAMA 2020)

This is a new form of legal persons introduced and registered by the Corporate Affairs Commission pursuant to CAMA, 2020. It is a partnership arrangement done with a legal personality, distinct from the partners which can be legal person. A minimum of two “Designated partners” with at least one resident in Nigeria is required. The partners are liable to the amount which they had agreed to contribute or an amount which would be outstanding should the partnership wound up.

The Vulnerability is rated medium because:

Notwithstanding that a Limited number is registered in the Country because an LLP may likely have foreign partners with significant contribution and the domestic partner’s contribution can be a minimum amount.

An Individual or Corporate body could be a Partner in an LLP therefore the possibility of a complex structure could arise where the corporate partner has a multi layered ownership structure.

3.1.6 Limited Partnership (Sections 795 -810 CAMA 2020)

The limited partnership was introduced in the CAMA 2020. Partners can either be natural or legal persons. Registration does not confer legal status on the partnership The Limited Partnership comprises of the General and Limited partner, registration does not confer legal status therefore a Limited Partnership does not have legal personality.

The Vulnerability is rated medium because:

Professional service providers such as law firms, accounting firms, estate surveyors etc, who may be vulnerable to abuse by money launderers can be registered as a Limited Partnership.

The Limited Partner only invest and does not engage in the management or day to day affairs of the Partnership and there is no requirement for disclosure of natural person or ultimate beneficiaries behind the corporate partners at registration.

3.1.7 Private Unlimited Companies (Sections 25, 22, 119, 868 CAMA 2020)

This type is registered for business and profit sharing.

i. Ownership structure can include both natural and legal person. Legal person can have multiple layer ownership.
ii. Foreign Companies can own shares.
iii. Shareholding composition can be fully held by foreigners or foreign corporate shareholders.

The Vulnerability is rated medium because:

The structure may be vulnerable to misuse because there is possibility of multiple layer ownership structure, and it can be fully owned by foreigners. However, registration and use of private unlimited Company is low which could be due to the fact shareholders have no limit on the liabilities incurred by the Company.

3.1.8 Incorporated Trustees

These are natural persons appointed as Trustees by group of persons bound by common interest for education, literary, sports, scientific, cultural development, sporting or charitable purpose. Trustees are not registered for business purposes however; registration confers legal entity on the Trustees who by law must be natural persons resident in Nigeria.

The Vulnerability is rated medium because:

In practice, Incorporated Trustees are mostly registered for developmental, charitable and as representatives of associations. Some local Non-Profit Organisations (NPOs) register as incorporated trustees. However, these characteristics made them prone to abuse, some trustees use the organisation to commit crimes by hiding behind the noble cause of the organisation.

There are cases identified where the NPOs were used for money laundering purpose, especially with regards to corruption, NPOs trustees are involved in diverting the funds meant for development purposes, and corrupt public officials used NPOs to siphon government funds.

3.1.9 Branches of Local Companies in FTZ (NEPZA)

The free zone enterprises do not have to register with the company registry in Nigeria (CAC) in order to operate within the zones, NEPZA has procedures in establishing businesses in the FTZ, once those conditions are fulfilled, the enterprises are registered and can commence operations. The promoters and shareholders are easier to identify because they are locals and their identification can easily be accessed using the National Identification Number (NIN), Bank Verification Number (BVN), however, there is inherent vulnerabilities within the FTZ because the zone authorities operate separate company formation services from those that exist in the rest of the country, there is also no obligation to declare UBO in the FTZs.

The Vulnerability is rated medium because:

The ease of setting up an enterprise to attract foreign investment might also encourage launderers to explore the market. Due to relaxed taxation policy, it is also likely the launderers will take advantage of the zone.

Some enterprises registered in the Free Trade Zone are involved in high risk businesses including real estate development, hospitality, construction etc. The real estate sector has a high inherent vulnerability to money laundering. The integration of illicit wealth into the real estate sector happens through several actors, both natural and legal persons, therefore there is a risk of laundered funds being integrated within the zone.

3.1.10 Branches of Companies with Joint Ownership in FTZ (NEPZA)

These companies are of hybrid construct with elements of both foreign and local promoters operating in the free zone.

The Vulnerability is rated medium because:

This is because control is shred across different jurisdictions, the beneficiaries of the local promoters can be identified easily and records will be transparent, while the foreign promoters' beneficiaries may be harder to trace and is less transparent.

3.1.11 Cooperatives Societies (Nigerian Co-Operative Societies Act No.88 Of 2004)

A cooperative is a voluntary association of Individuals united by a common bond. Every member has shares proportionate to the amount they contributed.

Cooperatives are autonomous, self-help organizations controlled by their members, they work for the sustainable development of their communities through policies approved by their members. It also helps members in accessing loans promptly, their contributions serve as collateral and fellow contributors are accepted as guarantors.

The Vulnerability is rated medium because:

Some cooperative organizations provide their members with convenient and secured means of saving money and obtaining credit at a reasonable rate of interest without collateral, but a deduction from income on monthly basis. There is multi-purpose cooperative society that is engaged in product marketing, processing, supply, transportation, storage, commerce etc.

Some cooperative societies were used by unscrupulous people to engage in Ponzi schemes, forgery, and defraud people of their contributions. The EFCC has reported cases of fraud with regards to cooperative societies, the NFIU also analysed STRs and disseminated Intelligence reports with regards to cooperative societies and fraudulent activities. Because of the weak regulatory oversights of cooperatives, they tend to be abused with their funds being diverted for personal use by their officers.

3.1.12 Public Companies limited by shares (Sections ss. 21,22, 119, 120, 868 CAMA 2020)

This type of Company is registered for business and profit sharing, a public Company generally can invite the public to subscribes to its shares.

i. Ownership structure can include both natural and legal person. Legal person can have multiple layer ownership.
ii. Foreign Companies can own shares.
iii. Shareholding composition can be fully held by foreigners or foreign corporate shareholders.

The Vulnerability is rated low because:

i. Operation and management of public Companies are done with strict compliance to Code of Corporate governance which promotes transparency. The code specifically outlines the responsibilities and duties of the board of directors, their composition and structure, the role and function of the CEO/MD of the company, it ensures that the company secretary has the relevant qualification and competence to discharge his duties amongst others. It also checks insider trading and conflict of interest.
ii. They are regularly monitored for compliance and subject to penalties for violations of the code.
iii. Companies are subjected to strict compliance with financial standards and audit.

Generally Public Companies are subjected to regulations of the Securities and Exchange Commission and the Nigeria stock Exchange where the shares of the Company is listed on the stock market.

3.1.13 Public Unlimited Company (Sections 24,25, CAMA 2020)

This type of Company is registered for business and profit sharing, a public Company generally can invite the public to subscribes to its shares.

i. Ownership structure can include both natural and legal person. Legal person can have multiple layer ownership.
ii. Foreign Companies can own shares.
iii. Shareholding composition can be fully held by foreigners or foreign corporate shareholders.

The Vulnerability is rated low because:

i. Operation and management of public Companies are done with strict compliance to Code of Corporate governance which promotes transparency. The code specifically outlines the responsibilities and duties of the board of directors, their composition and structure, the role and function of the CEO/MD of the company, it ensures that the company secretary has the relevant qualification and competence to discharge his duties amongst others. It also checks insider trading and conflict of interest.
ii. Public companies are subjected to strict compliance with financial standards and audit.
iii. Generally Public Companies are subjected to regulations of the Securities and Exchange Commission and the Nigeria stock Exchange where the shares of the Company is listed on the stock market.

Number of registered public unlimited Company is low.

3.1.14 Private Companies Limited by Guarantee (Sections 26, 22, 119, 868 CAMA 2020)

These types of legal persons are not registered with a share capital, there is no share investment by members, liability of members is limited to the guarantee they undertake to pay in the event of winding up of the Company.

i. Members of the Company can include both natural and legal person. Number of members must not exceed 50.
ii. Membership structure can include both natural and legal person. Legal person can have multiple layer ownership.
iii. Foreign Companies can be members.
iv. Membership composition can be fully foreigners or foreign corporate bodies (legal entities).

The Vulnerability is as rated low because;

i. Approval of the Attorney General of the Federation is mandatory for registration of the memorandum and articles of Association of the Company at on boarding or on subsequent changes in the objects of the Company.
ii. The Company is not registered for business and profit making for purpose of sharing the profit to members of the Company. Also, in the event of winding up the members cannot distribute remaining assets but must be transferred to another organisation with similar objectives.

3.1.15 Public Company Limited by Guarantee (Sections 26, 24, 119,120,868 CAMA 2020)

This type of legal person is not registered with a share capital, there is no share investment by members, liability of members is limited to the guarantee they undertake to pay in the event of winding up of the Company.

i. Members of the Company can include both natural and legal person.

ii. Membership structure can include both natural and legal person. Legal person can have multiple layer ownership.
iii. Foreign Companies can be members.
iv. Membership composition can be fully foreigners or foreign corporate bodies (legal entities).

The Vulnerability is rated low because:

i. It is not commonly registered
ii. Approval of the Attorney General of the Federation is mandatory for registration of the memorandum and articles of Association of the Company at on boarding or on subsequent changes in the objects of the Company.
iii. The Company is not registered for business and profit making for purpose of sharing the profit to members of the Company. Also, in the event of winding up the members cannot distribute remaining assets but must be transferred to another organisation with similar objectives.

Below is the tabular representation of the assessed risk level of legal persons. Table 8 represent legal persons in the mainland, while table 9 represent legal persons in the free trade zones.

Table 8: Assessed Inherent ML/TF Vulnerability Levels by Type of Legal Persons in Mainland Nigeria

S/N	Types Of Legal Persons[7]	No Of Legal Persons (2019 – 2021)	% Total	Assessed Risk
1.	Private Companies Limited by shares	355,312	25.60%	High
2.	Business Names	928,126	66.85%	High
3.	Private Companies Limited by Guarantee	836	0.06%	Medium
4.	Limited Liability Partnership	56	0.004%	Medium
5.	Incorporated Trustees	37,084	2.67%	Medium
6.	INGOs	176	0.013%	Medium
7.	Cooperative societies	66,521	4.79%	Medium
8.	Limited Partnership	6	0.0004%	Medium
9.	Public Company Limited by Guarantee	13	0.001%	Low
10.	Public Companies Limited by shares	205	0.015%	Low
11.	Public Unlimited Company	8	0.001%	Low
12.	Private Unlimited Companies	10	0.001%	Low
	Total	**1,388,353**	**100 %**	

[7] Includes business names and limited partnership

Table 9: Assessed Inherent ML/TF Vulnerability Levels by Type of Legal Persons in Free Trade zones.

S/N	Type Of Legal Persons	No Of Legal Persons (2019 – 2021)	% Total	Assessed Risk
1.	Branches of Foreign Legal Persons in FTZ (NEPZA	145	**29.95%**	High
2	Legal Persons operating in the Oil and gas Export Free Trade Zone (OGEFZA)	109	**22.52%**	High
3	Branches of Local Legal persons in FTZ (NEPZA	210	**43.40%**	Medium
4	Branches of legal persons with Joint ownership in FTZ (NEPZA)	20	**4.13%**	Medium
	TOTAL	**484**	**100%**	

3.2 Vulnerability Associated with Legal Arrangement

In Nigeria, trusts are not prevalent as an instrument or legal arrangement by individuals. Notwithstanding, trusts may be used in facilitating money laundering through the creation of several layers of complex structures across different jurisdictions.

The Vulnerability rating is considered as high.

Trusts have inherent characteristic of anonymity, the beneficial owner can be completely disconnected from their assets, which makes them vulnerable to ML/TF.
Another vulnerability is the possibility of hiding criminal proceed by establishing trusts in one country and hold assets in another jurisdiction to hide those proceed of crime.

Some Politically Exposed Persons incorporate trusts in other jurisdictions in order to integrate illicitly acquired wealth to obscure the source of wealth. Some trusts ultimately hold assets for their beneficiaries, execute transactions on their behalf including the payment of family expenses. The NFIU has received international intelligence, where an incorporated company in a foreign jurisdiction is ultimately owned by a trust. The beneficiaries of the trust are family members of a PEP in Nigeria. The incorporated company owned a property in another jurisdiction. The beneficial owner (BO) made a loan to the incorporated company and when the property was sold, it was agreed that the loan should be repaid back to the BO as loan repayments. The balance of the property sale and funds after the repayment of the loan will then be retained by the trust.

Chapter Four Information Gaps

Some information gaps were identified during the assessment process, these include the following:

- Classification of companies operating in Free Trade Zones: the classification of enterprises in the free zones are according to the nature of the business being carried out, not according to the structure of ownership, such as partnership or limited liability. Which made it impossible to present the data from the free zones and the mainland using the same criteria. It is against this background that analysis on LP created in the FTZ was carried out based on the nature of business conducted.
- Total number of cooperatives in Nigeria: there is no central registry for cooperatives in Nigeria, every state has its own record. Some of the data on cooperatives was obtained from the open source.
- Legal Arrangements: there is no registry for legal arrangements in Nigeria, while the trustee companies operating as capital market operators are captured under the assessment, information could not be obtained on trust funds.
- In most of the threat's profiles of NIRA 2022, the types and frequency of legal persons and arrangements being abused for ML/TF purposes were not provided.

Chapter Five: Overall Assessment and Conclusion

In mainland Nigeria, the assessment found that Private companies limited by shares was identified as the most vulnerable legal person in Nigeria. This is due to simplicity of incorporation, flexibility in determining ownership and control among members. Business names, which are not legal persons but considered in the assessment for completeness and comparison purposes, also present high inherent vulnerability to ML/TF, because they have been identified as vehicles for ponzi schemes and the prevalent legal person behind POS operators, who are involved in different crimes.

Other legal persons assessed as having medium ratings include Private Companies Limited by Guarantee, Limited Liability Partnership, Incorporated Trustees and cooperative societies. NPOs are registered as incorporated trustees, and some of them are susceptible to being abused for ML/TF purposes. Cooperative societies are also involved in fraud schemes, some of the findings during the assessment identified a vulnerability of engagement in in Ponzi schemes and fraud, hence the rating as medium.

All public companies are considered as low risk, due to their ownership structure and regulatory controls.

In the free trade zones, the assessment found legal persons registered in the oil and gas free trade zones and those with foreign directors/shareholders in FTZs under the supervion of NEPZA to have high vulnerability to ML/TF. While the legal persons with local interests and hybrid construct have medium vulnerability to ML/TF.

There are different crimes highlighted in the assessment identified through the various threats profiles developed for the NIRA, where legal persons were identified as being vulnerable. These crimes include corruption, fraud, environmental crimes, terrorist financing, drug trafficking.

The legal arrangements assessment was limited to those Legal persons operating in the capital market sector, that offer trustee services. Records were not available regarding other Legal Arrangements existing in Nigeria. Though it is not prevalent, the legal arrangements were found to be of high risk, due to international experiences and the evidence of Nigerians are involved in such arrangements in other jurisdictions to hid assets.

The report has identified diverse vulnerabilities of LP/LA, this will help in guiding the competent authorities to develop appropriate mitigating measures to address those challenges.

Annex: Typologies

Case Study 1: Laundering Through Offshore Legal Entities

The NFIU received a Suspicious Transactions Report (STR) from a financial institution on the 4th of March 2021 on Ms. KKK. It was reported that on the 10th of July 2020, Ms KKK Account received the sum of $1,859,478.32 (One million, eight hundred and fifty-nine thousand, four hundred and seventy-eight dollars, thirty-two cents) from MLR HOLDINGS LIMITED. Ms. KKK claimed that the funds were proceeds of matured? investment in a company she had an interest in overseas and that she was liquidating her investment interest abroad. The financial institution stated that from the publicly available information, MLR HOLDINGS LIMITED was incorporated in an offshore financial centre and that the entity had been dissolved and no longer exists in law. on review of the account belonging to Ms. KKK the following findings were made:

MLR HOLDINGS LIMITED transferred the total sum of $2,359,478.32(Two million, three hundred and fifty-nine thousand, four hundred and seventy-eight dollars, thirty-two cents) to Ms. KKK, from the amount received, the total sum of $1,682,200.00 (One million, six hundred and eighty-two thousand, two hundred dollars) was transferred to another entity- TJJ LIMITED. From TJJ LIMITED, the total sum of $1,500,000.00(One million, five hundred thousand dollars) was paid to RJJ LIMITED.

From an open-source query, it was revealed that MLR HOLDINGS LIMITED was found in PANAMA, BRITISH VIRGIN ISLANDS, BAHAMAS, the ISLE OF MAN, MALTA and JERSEY. All countries/jurisdictions where MLR HOLDINGS LIMITED are located are known for money laundering and are offshore Tax havens; with MLR HOLDINGS LIMITED also to have either been dissolved or struck off.
An open-source query also revealed that Ms. KKK was the daughter of a Politically Exposed Person (PEP). The FIU was inclined to believe Ms. KKK might have evaded personal income tax from an undeclared interest/income earned abroad and might have evaded corporate tax by routing business transactions through her personal account. The FIU also believed that MLR HOLDINGS LIMITED was a shell company incorporated in an offshore location and was used to disguise the source of funds to Ms. KKK, through an offshore bank and tax haven and the funds might have been integrated by TJJ LIMITED and RJJ LIMITED through its BDC operation, loan, and payment of bills transactions.

The Intelligence Report was forwarded to the Economic and Financial Crimes Commission (EFCC) to institute an investigation and to the Federal Inland Revenue Service (FIRS) for tax assessment.

Indicators/Red Flags;

i. Offshore transactions /use of shell companies.
ii. Tax havens.
iii. Politically Exposed Person (PEP).

Case Study 2: Laundering Funds Through Lottery

The NFIU received two Suspicious Transaction Reports (STRs) from two financial institutions filed on COMPANY ABC. A sum of N210,371,931.50 was received from a TELCOM on August 27th 2020 in one single transaction, the purpose of the funds was stated as funds to pay lotto winners. The source of funds are proceeds from customers (lotto players) transmitted via the TELCOM USSD code. COMPANY ABC receives frequent inflow from the TELCOM as a collector of their funds from lotto players (customers) and same is transferred nearly immediately.

From the financial analysis of the company ABC's account, some key findings were made:

- The major depositor in the account is TELCOM Nigeria Limited.
- It was observed that immediately TELCOM Nigeria Limited credits the account with huge inflows, funds are transferred out to other beneficiaries immediately.
- Huge sums were transferred from the company account directly to the account of the directors of the company.
- Most of the companies that received funds from this account are related in one way or the other. Funds/winnings do not seem to go to accounts of winners.
- Revenue/Proceeds do not seem to go to the National Lottery Trust Fund as stipulated in S24 of the National Lottery Act 2005.

The FIRS commenced its investigation exercise on ABC limited in April 2021. The exercise yielded additional tax liability of **N613,180,783** on the company upon its conclusion in October 2021. The case is ongoing and it is subject to further reconciliation.

Indicators/Red Flags

i. Fraud.
ii. Tax evasion.
iii. High volume of transactions between a business account and a personal account.
iv. Numerous beneficiaries

Case Study 3: Laundering Through Agro-Allied Company

On the 18th of February 2021, the FIU received a Suspicious Transaction Report (STR) from a financial institution on 555 AGRO LTD for transactions that followed a pattern of inflows from various investors and bulk payment to another entity – PTK - an online payment platform.

From the financial analysis of the accounts of 555 AGRO LTD, the following findings were made:

i. 555 AGRO LTD, though an agricultural entity, was into investments where it offers various investment opportunities on fruits and vegetables with a Return on investment promised over a period.
ii. 555 AGRO LTD was not registered and authorized under SEC to carry out investment activities.
iii. The transactions seen on the account were Ponzi like. The account contained transactions that involved multiple payments of similar amounts by numerous individuals.

The Intelligence Report was forwarded to the Security and Exchange Commission (SEC) and they have since instituted an investigation on 555 AGRO LTD. The company was shut down on 10th March 2022 for alleged illegal involvement in capital market activities.

Case Study 4: Using Partnership Business to Receive Fraudulent Funds

The NFIU analysed STR on a USD account belonging to Mr. Ben who is a managing partner in an Accounting/Auditing firm. The subject's account received the sum of **$305,000.00** from one of his business accounts.

Open-source information revealed that the subject was wanted in the United States after being indicted by a grand jury of charges on two counts of bank fraud and two counts of aggravated identity theft. The wife of the subject also pled guilty to a money-laundering conspiracy that defrauded the Social Security Administration ("SSA") and the Federal Emergency Management Agency ("FEMA") out of nearly $1,000,000. It was stated that the funds were directed to other means before eventually paying into the subject's company accounts in the United States.

A review of inflows into Mr. Ben's account revealed that the total sum of **$1,794,600.00** were transferred from the subject's company account in the United States. Further analysis indicated that the subject routed funds through his company based in the U.S.A from which criminal proceeds were transferred to his personal account in Nigeria and from there, made huge cash withdrawals and transfers to other entities and individuals. Some of the individuals are subjects of previous STRs.

The Intelligence Report was forwarded to the Economic and Financial Crimes Commission (EFCC) to institute an investigation on Mr. Ben and his business.

Indicators/Red Flags

i. High volume of cash transactions.
ii. Multiple transactions with individuals who are subjects of STR.
iii. Fraud/Identity theft.
iv. Declaration of the subject as wanted by a grand jury.
v.

Case study 5: Abuse Of Office By Government Official By Enriching Himself

The facts of the case are:

i. That the Defendant was a public officer, the Executive Chairman of Zamfara State Universal Basic Education Board (the Board), and that, while in that position, he was engaged in running private businesses including execution of contracts awarded by the Board as well as selling timber/wood to people and companies who were awarded contracts by the Board and that he was in the habit of receiving gratification, kickbacks and commissions on account of contracts awarded by the Board.
ii. That the Defendant registered the business name, MJIE Enterprises, through which he ran his private business and for which he was the sole signatory to its bank accounts and that it was under the name and style of the business name that he executed contracts for the Board and for which he was paid the respective amounts stated in the relevant counts in the charge.
iii. That it was through the bank accounts of the business name, and also through banks accounts in his own name, that he received the payments for the contracts and some of the kickbacks as well as the proceeds of the private business transactions he had with some of the contractors and those various amounts were subsequently withdrawn from

the bank accounts piecemeal by the Respondent personally and by third parties at his instance.

At the conclusion of the trial, the trial Judge discharged the defendant on all the charges on Money laundering. The court only convicted him on lesser offence of managing and running private business and sentenced him to 6 months imprisonment with an option of fine of N200,000. But dissatisfied with the judgment, the EFCC appealed against the judgment. The Court of Appeal upturned the decision of the High Court and convicted the defendant ("Respondent at the Court of Appeal") on the Money Laundering charges. The Court found that the activities which generated the funds for which the Respondent was charged was unlawful. And that putting the money in the Bank account with other funds in the account constitutes concealment amongst other holdings under the Money laundering (prohibition) Act.

Case Study 6: Laundering Proceed of Corruption Through NPOs.

The NFIU received an STR from a financial institution on an NPO – **444 INITIATIVES**. The NPO was set up with the objective to build and make peace a priority in homes and communities. In March 2018, **444 INITIATIVES** witnessed a transfer deposit of **₦49,000,000.00** (Forty-nine million naira) from a **Federal Government Agency** as financial support to NPOs to organize an **Awareness Campaign**.

A week later **444 INITIATIVES** then made transfer outflows of **₦46,000,000.00** (Forty-six million naira) to an entity **AMS LIMITED** and **₦2,850,000.00** (Two million, eight hundred and fifty thousand naira) to an individual **Mr TK.**

A query on the NFIU database for **444 INITIATIVES** revealed that there has been **a** previous STR filed on it for a similar amount - **₦46,000,000.00** (Forty-six million naira). Another query revealed that **AMS LIMITED** the recipient of the fund from **444 INITIATIVES,** is owned by one **Mr UY** who is the Personal Assistant to the **MD** of the **Federal Government Agency** that disbursed the funds to **444 INITIATIVES**.
From the financial analysis of the accounts of **444 INITIATIVES** and **AMS LIMITED**, the following findings were made:

i. **Mr UY** abuses his office as the Personal Assistant to the **MD** of the **Federal Government Agency**.
ii. The government funds are transferred to NPOs with which **Mr UY** is acquainted.
iii. The NPOs transferred the funds to entities associated with the **Mr UY** only retaining a small percentage.
iv. **Mr UY** made use of Twelve (12) different entities to divert the government funds.

A review of another entity account associated with **Mr UY** – **PCP LIMITED**, revealed that **70%** of the deposits into the account of over Two billion naira (2,000,000,000) were from Nine (9) different NPOs. Mr. UY withdrew some of the funds and also transferred to several individuals and entities. S

Red flags/indicators:

i. Transactions were unrelated to the purpose of the NPO.
ii. Activity in the account was inconsistent with the expected purpose and profile of the account conveyed at onboarding.
iii. PEP related transactions
iv. Fund Diversion
v. Use of multiple legal persons (NPOs & Corporate entities)

Case Study 7: Foreign Entity Illegally Transacting in the Customs Territory

Pannda Industry FZE was alleged to have been transacting with companies in the customs territory without paying the relevant taxes. Investigation by EFCC into the entity's activities revealed that they indeed transacted with several companies outside the Free trade zone, and this led to the recovery of ₦50,039,731.64 as well as the regulation of the entity's tax records with the Federal Inland Revenue Service.

Case Study 8: Fraud through Cooperative Society

I. In the case of Federal Road Safety Corp Cooperative Society in Okigwe, Imo State, where one Mr. Chidera Ogbuke was to purchase 200 Laptops for the Coops members for N 70,000..00 but he printed a Fake receipt of purchasing the Laptops at N 120,000.00 thereby defrauding each member N 50.000.00.
II. In February 2021, the EFCC arraigned the executives of College of Education Warri Non-Academic Staff Multipurpose Cooperative Society on a 16-count charge for allegedly converting N32 million belonging to the society to their personal use.

Case Study 9: Ponzi Scheme/Tax Evasion Through Cooperatives, NGO & Investment Company

On 01/02/2021, the FIU received an STR from a financial institution on an entity- **CCC AGRICULTURAL COOPERATIVE** for huge inflows totalling the sum of **₦295,950,415.89** (Two hundred and ninety-five million, nine hundred and fifty thousand, four hundred- and fifteen-naira, eighty-nine kobo) On December 16, 2020, from **GGG COMMUNITY INITIATIVE** (an NGO) which was followed by immediate transfers to various beneficiaries.

Two days before (14/12/2020) **GGG COMMUNITY INITIATIVE** was also reported in an STR for receiving huge funds from **BFF FINANCE and INVESTMENT LIMITED.**

From the query on the FIU database and the financial analysis of the accounts of **CCC AGRICULTURAL COOPERATIVE, GGG COMMUNITY INITIATIVE, BFF FINANCE and INVESTMENT LIMITED**, the following findings were made:

i. The entities- **CCC AGRICULTURAL COOPERATIVE, GGG COMMUNITY INITIATIVE, BFF FINANCE and INVESTMENT LIMITED** were associated with one another; serving as referees to each other and sharing similar Trustees, Signatories and members and addresses.
ii. A review of the transactions pattern of **CCC AGRICULTURAL COOPERATIVE** indicated numerous deposits from over 100 different individuals that are likely contributors to their investment scheme. The withdrawals too, to different individuals were likely returns for their contributions.
iii. The entities also commingled funds among themselves.

CCC AGRICULTURAL COOPERATIVE operated an agricultural cooperative society registered under the Nigerian Co-operative Societies Act and subsequently was incorporated as a Registered company. **CCC AGRICULTURAL COOPERATIVE** had changed its name more than twice.
BFF FINANCE and INVESTMENT LIMITED had also changed its name more than twice. Another entity associated with **BFF FINANCE and INVESTMENT LIMITED** had previously crashed with investors losing their funds. It was also discovered that **BFF FINANCE and INVESTMENT LIMITED** was not registered with the Security and Exchange Commission (SEC). **BFF FINANCE and INVESTMENT LIMITED** had also suddenly closed over 20 joint banks accounts.

The FIU was inclined to believe that **CCC AGRICULTURAL COOPERATIVE** was involved in a Ponzi scheme and that **BFF FINANCE and INVESTMENT LIMITED** was routing Profit and Gains made from trading or business activities through NGO (**GGG COMMUNITY INITIATIVE**) and Cooperative Societies (**CCC AGRICULTURAL COOPERATIVE**) to be exempted from Corporate Tax Liabilities, thus evading tax. The Intelligence Report was forwarded to the Economic and Financial Crimes Commission (EFCC) to institute an investigation, to the Federal Inland Revenue Service (FIRS) for tax assessment and The Security and Exchange Commission (SEC) for operational intervention.

Indicators/Red Flags

i. The account has a pattern of rapid inflow and outflow.
ii. Frequent change of legal name.
iii. Change of legal personality from the registered cooperative to an incorporated company.
iv. Sudden closures of bank accounts

Case Study 10: The use of Legal Arrangement by Pep to hide proceeds of Crime

Dan Trust Nigeria Ltd is a registered company whose major shareholder a lawyer – Mr. AD. Dan Trust Nigeria Ltd is a shareholder in BCD West Africa incorporated in the Isle of Man together with an Italian – Mr HB. Mr HB is also a shareholder in BCD Nigeria Ltd but Dan Trust Nigeria is not a shareholder in BCD Nigeria Ltd.

BCD Nigeria and BCD West Africa are shareholders in XYZ Company Ltd. There is no visible work being done by BCD West Africa yet it rakes in over hundreds of millions of dollars. BCD Nigeria has multimillion-dollar concessionary and consultancy contracts with the Nigerian Government. It also has business interests in the banking, education, real estate sectors, etc in Nigeria. This XYZ Company also has shares in BCD West Africa. The XYZ Company is owned by Chief KMC, but whose name does not appear in any of the information of the company at the Corporate Affairs Commission. Chief KMC was a former high-ranking political office holder in Nigerian.

Dan Trust Nigeria Ltd which maintains a trust for Chief KMC and is in charge of executing almost every transaction for Chief KMC up to the point that the company pays the school fees of Chief KMC's children. Properties are acquired by Dan Trust Nigeria Ltd for Chief KMC. In one of the general elections, US$30, 000,000.00 was moved from BCD Ltd to BCD West Africa in favour of Dan Trust Nigeria Ltd.

Upon inquiry, it was the claim of Dan Trust Nigeria Ltd that the fund was paid to Chief KMC through the Trustee as dividends which had accrued over time. The case is ongoing.

EXCERPT FROM INTERVIEW WITH TAX OFFICIAL: VULNERABILITIES IN FTZ

"There are incidences of tax evasion practices involving companies operating in the Free Zones. Even where there are no outright tax evasion schemes, definitely we have cases of harmful tax avoidance schemes, especially prior to the Finance Act, of 2019 when Nigeria had no "Thin Capitalisation Rules" in our tax laws.

I remember vividly a particular case I investigated between 2012 and 2014. The company applied to the FIRS for a refund of excess Withholding tax and VAT deductions running into over **500 million naira**. The Nigerian company in question, which operates in the Oil and Gas Free Trade Zone in Onne, was wholly owned by two institutional investors that were registered in **British Virgin Island** and **Liechtenstein** (Both countries are Tax Havens, where there are no obligations to pay companies income tax). The object of the Nigerian company was the importation and sale of some specialised materials to service oil companies in the Nigerian customs territory. The business is a multibillion-naira business with an average annual turnover of around **13 billion naira**. The Nigerian company was the sole supplier of the specialized materials in Nigeria and one of the parent companies was a major manufacturer of the specialized materials worldwide.

Because the Nigerian company operates within the oil and gas free zone, it is only subject to tax in respect of its activities within the customs territory. Now, for the five-year period that we investigated, the Company persistently recorded losses in billions of naira despite its multibillion-naira turnover. This position was very unusual for a company with a business of this nature.

Upon our investigation, some harmful tax avoidance practices were uncovered. Number one was thin capitalisation. The company had total capital of around **17 billion naira** with **99.98% being loan capital from its parent companies** and only **0.02% being equity capital**. This arrangement implies that interest on the loan, being an allowable tax deduction, was being used to erode the company's profit. In fact, these interest payments are a disguise for capital repatriation and could constitute an ML risk.

Beyond thin capitalisation, we also discovered that the loans were structured in terms that were unconventional and the interest rates were far above market value. Additionally, because the materials being sold were purchased from one of the parent companies, the direct costs were highly inflated to as high as 95% and the transaction could not be said to have been at arm's length.

We also found out that the Company was paying huge sums as royalty to the parent companies without National Office for Technology Acquisition and Promotion (NOTAP) approval.

At the end of our tax investigation exercise, all prices were restated at the fair market value, the company was denied the refund and was made to pay additional tax liabilities. Unfortunately, we could not prosecute the company because there was no outright tax evasion. Rather, it was a case of harmful tax avoidance that explored the loopholes that existed in our tax laws then.

However, with the enactment of the Finance Act, 2019, thin capitalisation rules have been introduced into the Nigerian tax legislation. The Act introduces a specific benchmark of 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) as the limit for an interest deduction on loans by a foreign connected person. This benchmark is consistent with the recommendations of Article 4 of the OECD BEPS project."

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