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NATIONAL INHERENT RISK ASSESSMENT OF PROLIFERATION FINANCING IN NIGERIA



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The National (Money Laundering & Terrorist Financing) Risk
Assessment Forum under the auspices of the IMC Secretariat,
12 Ibrahim Taiwo Street, Aso Villa Abuja, Nigeria
1 Monrovia Street, Block 3, Wuse II, Abuja, Nigeria
(e-mail: nrasetariat@imc.gov.ng)

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Executive Summary

Proliferation of Weapons of Mass Destruction (WMD) and its financing, and parties enabling proliferation pose a threat to international peace and security. The International community agreed to combat the proliferation of such dangerous weapons worldwide by aggressively countering the proliferation of WMD and disrupting proliferation financing (PF).

The FATF requires countries to identify, assess, understand and mitigate their proliferation financing risks. Under United Nations Security Council Resolutions (UNSCR), Nigeria has agreed to implement Targeted Financial Sanctions (TFS) against state actors, entities and individuals involved in PF and development of WMD. These include State actors like The Democratic People's Republic of Korea, Islamic Republic of Iran, and also includes non-state actors like terrorist groups that operate in Nigeria, who may be interested in illegal mining of proliferation sensitive goods which they sell to finance and procure weapons for their activities. Nigeria is required to immediately freeze funds and other assets belonging to States, persons or entities identified by or under the authority of the UNSCRs and ensure that no funds or other assets or economic resources are made available directly or indirectly to any such person or entity.

This report examines the PF threat in Nigeria, with the aim to identify and mitigate issues which constitute actual or potential breach, non-implementation, or evasion of TFS in accordance with UNSCRs 1540, 1718, 2231 and subsequent resolutions. The assessment analyses how exposed the Nigeria financial system is, to being used to fund the transfer, and export of technology, goods, software, services or expertise that could be used in nuclear, chemical or biological weapon-related programmes, including the delivery systems to countries that indulge in PF activities.

The assessment also includes an examination of the threat from non-state actors from developing, acquiring, manufacturing, possessing, transporting, transferring or using nuclear, chemical or biological weapons and their means of delivery. States are to prevent the involvement of non-state actors in such illicit activities. UNSCR 1540 (2004) provides a set of broad-based provisions prohibiting PF-related activities by a non-state actor and requiring countries to establish, develop, review and maintain appropriate controls on providing funds and services, such as financing, related to the export and trans-shipment of items that would contribute to WMD proliferation. Obligations under this global approach are relevant in the context of FATF requirements on combating terrorist financing and money laundering. In particular the use of financial services and the financing of trade in proliferation sensitive goods and the leveraging of the Nigeria's financial system for PF-related activities. The assessment considered the PF threat to Nigeria from various sources and actors and the underlying activity of proliferation of WMD and of the materials, goods, technology etc that can facilitate the development and delivery of WMD by both State and Non-State actors.

Within this assessment, possible ways of proliferation of WMD and its financing that could be exploited in the Nigerian financial system are examined. This PF threat assessment seeks to identify and understand the threats from persons and entities involved in WMD proliferation in raising, moving and using funds in a broad sense, including sanctions avoidance. The approach goes beyond assessing rules-based compliance with the UNSCRs on TFS on a set list of individuals and entities linked to proliferation activities. The assessment contemplates PF to include a broad range of prohibited financial and other activities from transactions linked to WMD procurement, to the generation of revenue by proliferators and the institutional, financial, jurisdictional and corporate networks sustaining the activity.

The overall PF risk for the country was rated high due to the capability, sophistication and reach of State actors to use various subterfuges to raise and move funds and avoid sanctions, and also for the reason that within the assessment period, there was no formalized risk assessment to understand the risks, nor was there a legal framework in Nigeria for the implementation and enforcement of the targeted financial sanctions and other counter measures regarding proliferation financing.

This risk assessment is an analysis of Nigeria's current situation and represents a key step in providing the basis for an effective counter proliferation financing (CPF) regime; and to promote a greater understanding of the inherent risk regarding PF in Nigeria.

The risk assessment was conducted by the Proliferation Finance Workstream of the NIRA Working Group chaired by the Nigeria Nuclear Regulatory Authority (NNRA) and with substantial contributions from the Central Bank of Nigeria, the Corporate Affairs Commission, Department of State Services, Federal Ministry of Justice, Ministry of Foreign Affairs, the Nigeria Customs Service, Nigerian Export Processing Zones Authority, Nigerian Financial Intelligence Unit, the Nigeria Immigration Service, Nigerian Maritime Administration and Security Agency, the Office of the National Security Adviser, the Securities and Exchange Commission, the Special Control Unit Against Money Laundering and the National Authority on Chemical and Biological Weapons Convention.

Chapter 1: Methodology to Assess Inherent Proliferation Financing Risk

1.1 Introduction

Proliferation of WMD involves the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. It includes technology, goods, software, services or expertise¹.

Proliferation Financing is defined by the FATF as the act of providing funds or financial services which are used, in whole or in part, for the manufacturing, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons. It has become a major driver of growing insecurity concerns across the world while fueling insurgency, terrorism, human trafficking, organized crime, internal insurrections and civil wars among other destabilizing trends, thus posing an obstacle to the sustenance of global peace and security.

The Nigeria Government in line with Recommendations 1 and 7 of the FATF Recommendations is committed to combatting PF in the country not only in accordance with the UNSCR 1718, 2231 and 1540 and subsequent resolutions but also in the broader context of disruption of proliferation networks and activities in the country. Nigeria, like all States, is required to freeze the funds, other financial assets and economic resources which are in its territory that are owned or controlled by the designated individuals and entities on the 1718 and 2231 Lists. These funds, assets and resources should also not be made available by their nationals or by individuals or entities within Nigeria to or for the benefit of designated individuals and entities, except it comes within the exemptions provided by the relevant UNSCR.

Nigeria has not conducted a national risk assessment of the threats of Proliferation financing before, nor has its private sector done so, although there are indications that a number of FIs with international affiliations or spread do conduct some due diligence on suspected PF transactions as required by their parent Office. The Nigerian Nuclear Regulatory Agency is the government entity responsible for nuclear safety and radiological protection regulation in the Country. Nigeria also has a National Authority on Chemical and Biological Weapons Convention that principally coordinates and oversees the implementation of the Chemical and Biological Weapons Conventions and ensures Nigeria abides by international standards prescribed by the Conventions. The National Authority also provides national level guidance for the effective implementation of the Chemical Weapons Convention (CWC) and the Biological Weapons Convention (BWC). One of its main goals is to ensure that all Weapons of Mass Destruction (especially chemical and biological weapons) are prohibited and eliminated from Nigeria.

Data obtained from various authorities in Nigeria did not disclose a known case of an individual or entity in Nigeria supplying nuclear, biological, radioactive or chemical weapon to DPRK, Iran and any non-state actor. The Nigerian Nuclear Regulatory Authority and the National Authority on Chemical and Biological Weapons Convention have stringent regulations and processes in place, in line with international

¹ **Identifying Proliferation Financing, Why Should you be Concerned with the Prevention and Detection of Proliferation Financing**, Financial Reporting Authority of Cayman's Island, February 2020, p.4. See also **Counter Proliferation Financing, Guidance Notes**, Gibraltar Financial Intelligence Unit, HM Government of Gibraltar, June 2020, p. 4.

standards (eg, International Atomic Energy Agency Standards), that ensure that such materials are strictly regulated and its purpose and use are peaceful, well documented and routinely monitored.

However, due to a combination of low awareness, an absence of legal or regulatory framework, and the prior lack of a national risk assessment on PF, the potential of using the financial system of Nigeria for possible proliferation financing is present. There is therefore a material vulnerability in Nigeria of proliferation financing. The possibility that the States, individuals and entities, which are the targets of the UNSCR for PF, may exploit this loophole and leverage Nigeria's financial system for PF activities in a resilient or sustained manner is high. In the case of the 1718 Resolution which concerns DPRK, for instance, all organs of the State prioritize generating revenue for the State and uses the leverage of their presence in any country to achieve this. The DPRK itself leverages a complex scheme of networks to finance its nuclear and ballistic missile programme. Given that during the assessment period Nigeria lacked a legal or regulatory framework on TFS relating to PF, it had left open horizons of exposure for States like DPRK and Iran to exploit.

This risk assessment also analysed the extent that non-State actors may have tried to engage in illegal mining activities to exploit proliferation-sensitive minerals, including dual-use goods. It also analysed what the financing mechanisms are for these activities and whether they are occurring or have a likelihood of occurring in Nigeria. The non-State actors examined in this assessment included terrorist groups like Boko Haram, ISWAP, IPOB, IMN and bandits in the North East, North West and North Central regions of the country.

1.2 Risk Assessment Overview

The Nigeria Government used the McDonell Nadeau Consultants methodology and guidelines to identify and understand the PF risk in Nigeria. The tool allows for a systematic analysis of qualitative and quantitative data with regards to PF risk assessment. This chapter provides an overview of the PF risk assessment in Nigeria². The assessment worksheet which is part of the tool provided the basis to systematically assess PF risks in Nigeria, risk being the assessment of threat, vulnerability and consequence. These were identified and analysed in line with the FATF Recommendations on the criteria of Actors' Capacity, Scope and Scale.

1.3 Scope of the Methodology

The Nigeria NIRA relied on information received from all competent authorities and stakeholders. This included intelligence gleaned from analysing relevant financial reports, as well as requests for information from Government and Private Agencies, journals, open-source information and other relevant information. Other sources include the financial institutions, designated non-financial businesses and professions (DNFBP), sector regulators and self-regulatory organisations (SROs). The assessment is on inherent risks and covered the period covered 2019 – 2021. Thus the information and data gathered from these sources spanned this period.

The PF risks in Nigeria were profiled and assessed separately in accordance with the FATF Guidance on PF on the

Key Definitions

Threat: A person or group of people and their activities with potential to cause harm (e.g., ML/TF/PF other criminal activities, organized crime group, terrorist)

Vulnerabilities: Characteristics, traits or other features that can be exploited by threat or may facilitate their activities (e.g, open economy, large and mature banking sector, opaque corporation ownership, complexity of financial products, geographic location, client profile, deficient AML/CFT/CPF legislature or inadequate implementation of AML/CFT/CPF requirement.

Consequence: Impact or harm of the above on institutions, financial system, the economy and/or society in general.

² The broader PF risks, which are not covered in the updated Recommendation 1, refer to the risk of WMD proliferation and the risk of financing of proliferation. WMD proliferation refers to the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both dual-use technologies and dual use goods used for non-legitimate purposes). The financing of proliferation refers to the risk of raising, moving, or making available funds, other assets or other economic resources, or financing, in whole or in part, to persons or entities for purposes of WMD proliferation, including the proliferation of their means of delivery or related materials (including both dual-use technologies and dual-use goods for non-legitimate purposes). An understanding of the risk of WMD proliferation and its underlying financing, which is not required under the FATF Standards, may have a positive contribution to the understanding of the risk of the breach, non-implementation or evasion of PF-TFS (i.e. the narrow definition of PF risks covered in the FATF Standards), and assist the implementation of risk-based measures and targeted financial sanctions

implementation of UNSCR 1540 (2004)³, 1718 (2006)⁴, 2231 (2015)⁵ and successor resolutions⁶ using the MNC guide.

As part of this process, the core components of the PF threat and inherent vulnerabilities were identified and analyzed in line with the UNSCRs on WMD. Each state actor and non-state actor was rated according to its PF threats and Nigeria's inherent vulnerabilities. The possibilities of PF in Nigeria thus informed the ratings while considering the Economic, social and political consequences of PF in Nigeria.

³[https://www.un.org/disarmament/wmd/sc1540/#:~:text=In%20resolution%201540%20\(2004\)%2C,delivery%2C%20in%20particular%20for%20terrorist](https://www.un.org/disarmament/wmd/sc1540/#:~:text=In%20resolution%201540%20(2004)%2C,delivery%2C%20in%20particular%20for%20terrorist)

⁴ <https://www.un.org/securitycouncil/s/res/1718-%282006%29>

⁵ <https://www.un.org/securitycouncil/content/2231/background>

Chapter 2: Risk Context for Proliferation Financing Including Summary of Existing Mitigations

Identifying, assessing, and understanding proliferation financing risks on a regular basis is essential in strengthening a country's and its private sector's ability to prevent designated persons and entities involved in the proliferation of Weapons of Mass Destruction (WMD), from raising, storing, moving, and using funds, and other financial assets. The implementation of TFS related to proliferation and its financing is essential for a stronger Counter Proliferation Financing (CPF) regime⁷.

A proliferation financing risk, similar to an ML/TF risk, can be seen as a function of three factors: threat, vulnerability, and consequence. In the context of Recommendation 1, it refers to the obligations to identify, assess, and understand the risks of potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7. Another concept relevant for any risk assessment process is the understanding of inherent risk and residual risk, and applying those concepts specifically to PF risks, in a similar way Nigerian Government and private sector have already done for ML and TF risks.

During the assessment period there was an absence of a legal framework to implement TFS concerning UNSCRs relating to PF in Nigeria and a consequent lack of a coordinated template to measure implementation; this made the country vulnerable to being exploited as it limits the availability of reliable information and data on which to base a more pin-point analysis.⁸ In view of this, and considering that Nigeria has diplomatic and economic relationships with DPRK and Iran, which may be exploited for sanctions evasion by these States, **actors Capacity is rated high.**

2.1 Summary of Mitigating Measures

The following Legal, Supervisory and Law enforcement framework were the mitigating measures in place for PF threat in Nigeria during the assessment period.

- Nigeria has a Nuclear Regulatory Agency being the government agency responsible for nuclear safety and radiological protection. The Agency is charged with issuing license for the mining of nuclear or radiological materials in Nigeria. It has stringent regulations and processes in place in line with international standards (eg. International Atomic Energy Agency Safeguards) that ensure that such materials are strictly regulated, its use monitored and its purpose peaceful and documented.
- Nigeria has a National Authority on Chemical and Biological Weapons Convention that principally coordinates and oversees the implementation of the Chemical and Biological Weapons Conventions and ensures that Nigeria abides by international standards prescribed by the Conventions. It provides national level guidance for the effective implementation of the Chemical and Biological Weapons conventions and one of its main goals is to ensure that all weapons of

⁷ As included in the operative paragraphs (OPs) of relevant UNSCRs, it is the obligation of member states to impose targeted financial sanctions on designated persons and entities, as well as persons and entities acting on their behalf, at their direction, or owned or controlled by them. This guidance document uses "designated persons and entities" as a shorthand.

⁸ The legal framework for the implementation of TFS concerning UNSCRs relating to PF in Nigeria was enacted in May 2022 just before the publication of this Report. It therefore falls outside the assessment period.

mass destruction (especially chemical and biological weapons) are prohibited and eliminated in Nigeria.

- The Central Bank of Nigeria had issued circulars, pursuant to Regulation 11 of the CBN AML/CFT Regulations 2013 requiring Banks to increase surveillance and report all transactions involving persons and entities designated under UNSCR 1718 and all subsequent resolutions relating to DPRK; to continuously screen both customers and transactions against global sanctions list and stop all transactions and freeze without delay, all funds, owned or controlled, directly or indirectly by individuals and entities designated by the UN Sanctions committees, and report to the NFIU.

2.2 Law Enforcement Framework

- Nigeria requires the issuance by the Office of the National Security Adviser, NSA, of an end user certificate to users of biological, chemical and other materials to ensure that such materials do not fall into the hands of unauthorized entities or persons. There are stringent processes to be followed before the certificate could be issued.
- NFIU has issued advisories to Financial Institutions and DNFBS and other authorities to comply with relevant UNSCRs on PF⁹.
- The NIS issues resident permit to foreign nationals who operate in Nigeria with a record of the nature of business in which they operate.
- NCS is required by the MLPA to confiscate undeclared funds in excess of \$10,000 from international travelers and report same to the CBN and the NFIU.

⁹ One, dated 2nd September, 2019 was titled “Advisory on the United Nations Security Council Resolutions with Significant Implication for the Nigerian Financial System following the FATF List of Jurisdictions with Strategic AML/CFT/CPF Deficiencies Resolutions 1540 (2004), 1718 (2006), 2094 (2013), 2270 (2016), 2356 (2017), 2371 (2017) and 2397 (2017)”. This advisory focused especially on DPRK.

Chapter 3: Assessment of Proliferation Financing Threats.

3.1 Overview

This PF threat assessment identifies the threats from persons and entities involved in WMD proliferation in raising, moving and using funds in a broad sense, including sanctions avoidance. It went beyond assessing rules-based compliance with the UN Security Council Resolutions (UNSCRs) on TFS on a set list of individuals and entities linked to proliferation activities. Series of workstream meetings/data validation with stakeholders were conducted and data requirement templates were designed to collate data and information from relevant agencies involved. The assessment contemplates Proliferation financing to include a broad range of prohibited financial and other activities – from transactions linked to WMD procurement, to the generation of revenue by proliferators and the institutional, financial, jurisdictional and corporate networks sustaining the activity. Nigeria is obligated to implement targeted financial sanctions against designated states, entities and individuals under UNSCR 1718 and 2231. Threats from non – state actors who are considered to have ability to exploit the PF weaknesses in the country was also considered under 1540. At the end of the assessment 3 profiles were developed based on the different state actors and non-state actors in Nigeria, viz DPRK, Iran and non-state actors.

3.2 Discussion of the PF Threat Assessment Result

During the period of focus, Nigeria assessed the PF threats in 3 categories of country-specific UNSCRs on DPRK and Iran, and non-State Actors using the following criteria:

1. **Actors' Capacity:** This refers to the extent to which the actors' sophistication, resources and ability to exploit the financial system contribute to resilient, sustainable and long-term proliferation financing activities. This includes the resources of state versus non-state actors, and their use of professional or informal intermediaries. Of particular interest during the assessment are banks and other financial institutions (including from designated countries or with history of providing services to designated countries), MVTS (including hawala and unregistered MVTS), TCSP (formal or informal) and VASPs. There were also considered key products/services including trade finance, currency exchange, maritime insurance, ledger payments with bank settlement.
2. **Estimated scope of Activity:** The scope relates to the extent to which the terrorist actors have a network of supporters/ collaborators contributing to the resilience of PF networks and activities, including diplomatic, corporate, criminal, and expat networks. The scope also considers the breadth of potentially PF-related activities identified by regulated entities and competent authorities, including proceeds generating crimes like smuggling, cybercrime, drug and wildlife trafficking, or coerced duties/taxes paid to state actors or non-state groups.
3. **Estimated Scale:** This is the estimated value of revenue raised, transited or held in the country related to proliferation financing. This estimate considered the financial and trade flows with not only the designated states or non-state actor, but also jurisdictions with significant links or exposure to that state or actor. Volume of trade as well as trade in revenue-generating or sanctioned goods and services, such as coal, arms/military goods and technology, gold and metals, art, statues, construction labour, seafood, textiles, and luxury goods. Barter trade were also considered.

3.3 Overall PF Threat Rating Results

The assessment made a rating based on the analysis of data accessed or as a result of an objective analysis of the circumstances of each threat in the Nigerian environment or as may be assessed in international typologies. There was a four-point rating scale of L- for Low; M – for medium; H – for High; and VH – for Very High. The identified threats were rated in accordance with the adopted criteria of capacity, scope and estimated scale of PF activities.

Table 1: Overall PF Threat Rating Results

No.	Groups	Consensus Rating Results for Rating Factors			No.	Normalized total for profile (Raw total divided by 12)	Overall Rating	Level of confidence in Information
		VH=4, H=3, M=2, L=	Capacity	Scope				
					Total Score	0<Norm. total<=1	(VH)(H)(M)(L)	(H)(M)(L)
1	DPRK	3	3	3	9	0.750	H	M
2	IRAN	3	3	3	9	0.750	H	M
3	Non State Actors	2	2	1	5	0.417	M	M

Table 2: Rating Guide

L: Equal to or less than 0.375	M: between 0.375 – 0.625	H: between 0.625 – 0.875	VH: Equal to or more than 0.875
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3.3.1 Possible Ways of proliferation of WMD and Proliferation Financing

A Report by the Centre for a New American Security (CNAS)¹⁰ divided the financial elements involved in the funding of the Proliferation of Weapons of Mass Destruction (WMD) into three stages:

1. Stage 1 – Fund Raising – At this stage, the proliferator raises funds for the programme through domestic budget supplemented with funds raised by networks overseas or by criminal activity conducted by or on behalf of state actors.
2. Stage 2 – Disguising the Funds – Here the proliferator transfers these funds into the international financial system. To do this, they rely on extensive networks of businesses, including front companies and middlemen to obscure any connection on paper to sanctioned countries.

¹⁰ The Financing of Nuclear and other Weapons of Mass Destruction Proliferation, Published January 24, 2018

3. State 3 – Procurement of materials and technology – At this stage the proliferator uses these in the international financial system to pay for goods, materials, technology, and logistics needed for its WMD programme.

Segmented according to the identified threats, this assessment analysed which sectors, products or services are vulnerable and could be abused or exploited in Nigeria during any of the stages above and was conscious that proliferation involves not only the purchase of weapons but also individual goods and component parts that can be used to develop weapons, which makes proliferation activities more difficult to detect.

3.3.2 Threat 1 – The Democratic People’s Republic of Korea (DPRK):

The major methods used by the DPRK in its proliferation and proliferation financing activities include the following:

- Extensive overseas networks of agents, including DPRK diplomats, who can arrange transactions on behalf of the government;
- Use of third-country nationals and companies, many of whom wittingly participate in these schemes or have compliance failures that allow exploitation by DPRK proliferation networks;
- Obscuring the end-user of their purchases through mislabeling goods or consolidating and repackaging shipments for ultimate delivery to the DPRK, with China remaining a commonly used location for transshipment across its land border or via ship-to-ship transfer; and
- Procuring goods that are not listed on relevant export control lists¹¹.

PF Actors Capacity - DPRK

The DPRK constitutes the most complex PF threat in the world, and has continued to operate sophisticated sanctions evasion schemes to raise funds to advance its nuclear and ballistic missile capabilities. DPRK intelligence agencies operate sophisticated cyber hacking activities targeting private companies and Governments.¹² Its diplomats use their legal presence in countries to act as banking representatives and revenue generators for the DPRK regime. The DPRK routinely uses its embassies as a vehicle for procurement. Nigeria is neither a WMD jurisdiction, nor a market of proliferation goods, nor an international trade centre of global importance. During the assessment period, Nigeria did not have a legal framework to implement TFS without delay to comply with the UNSCRs on the suppression and disruption of WMD proliferation and proliferation financing. Equally, at the time, Nigeria had not established the necessary legal authority or identified a competent authority responsible for implementing and enforcing TFS on proliferation. Nigeria did not have mechanisms to communicate designations to the financial sector and DNFBPs immediately upon taking such actions. Prior to this assessment, Nigeria had not conducted a national risk assessment related to Proliferation Financing, neither had its private sector, including the financial sector, done so.

The DPRK has an Embassy in Nigeria and the two nations have economic relations; they have also expressed desire to cooperate on educational and technological development. The DPRK is a closed society whose nationals have specific briefs of engagement when they leave the country. This institutionalized restriction of citizens’ freedom and ability to engage in private business outside the precincts of DPRK is considered in this report.

¹¹ **National Proliferation Financing Risk Assessment** of the USA, published February 2022, p.9

¹² See *The Lazarus heist: How North Korea almost pulled off a billion-dollar hack*; www.bbc.com/news/stories

The space of actual and potential cooperation between the two countries can be exploited by DPRK, given its vast networks, to use the Nigerian financial system for proliferation financing or to procure or transit materials in furtherance of its WMD programme. A significant factor is also that Nigeria allows DPRK and its nationals the environment to engage in diplomatic and economic activities freely, and that level of access and economic legitimacy affords the exploitation of that facility, together with exploitation of any identified weaknesses in the systems within Nigeria. This report assumes that the foregoing will be a high priority for DPRK to exploit given the priorities of the regime for evading sanctions and because that environment limits the availability of reliable information and data on which to base a more robust analysis of the country's vulnerability.

Any country that affords the DPRK the kind of access of significant economic and diplomatic freedom, as Nigeria does, stands a high risk of being exploited for proliferation purposes. The September 2021 Report of the UN Panel of Experts on DPRK Sanctions confirms that the DPRK remains committed to using international banking connections to further its WMD development and states that there is no appreciable decline in DPRK access to global financial institutions.¹³

There is a growing number of DPRK businesses in Nigeria. Data from the Nigeria Immigration Service indicate that within the assessment period, there were about **138** DPRK nationals in Nigeria, working in various businesses, mostly medical fields like acupuncture, and in other areas like ICT, project management and construction, etc., or as consultants to some state governments. These businesses have access to financial services in Nigeria. This fact raises the threat of the capacity of the DPRK to, in a resilient manner, finance PF activities using the Nigerian financial system as there are no systematic measures to ensure enhanced monitoring of the activities of these individuals and companies. This strategy is in line with the identified DPRK strategy of taking up residence and embedding themselves within a country of interest to increase their effectiveness of raising funds.

The UN Panel of Experts Reports indicate that the vast majority of earnings made by North Korean Nationals abroad are kept by the State-owned enterprise that employ them, thereby giving the regime an important source of revenue.¹⁴ This threat is therefore determined to be high. Nigeria is not an industrialized country and its production of materials that can be used for WMD is minimal. However, Nigeria has natural deposits of materials that have dual-use capacity. In the Niger-Delta belt, due to large deposits of oil and associated minerals, radioactive materials are found there. Nigeria has uranium deposits in the North Eastern region of the country, found in States like Adamawa and Taraba. As yet, mining of these materials under licence has not commenced as no licences have been issued according to data from the NNRA. There is no known case of DPRK national entity mining uranium and other ores containing radio-active materials in Nigeria. However, the NNRA documents applications by entities (not yet traced to DPRK) for mining licenses which stringent procedures the companies did not complete. Regarding Uranium mining License, the NNRA has received many notifications and applications but has not issued a single license to any of the applicants.

At the time of this assessment, there was only one serious application being considered by NNRA in respect of mining of Uranium in Adamawa and Taraba States and the application was being reviewed in conjunction with the Federal Ministry of Mines and Steel Development and the Department of State

¹³ 1718 Sanctions Committee (DPRK) Panel of Experts, September 2021 Panel of Experts Report, P.46, (Sept. 2021) <https://undocs.org/S/2021/777>

¹⁴ 1718 Committee Panel of Experts, March 2021 Report, p, 396

Security which was profiling the company. Such applications are subjected to stringent regulations of a system of authorization, inspection and enforcement.

However, it is a threat this assessment considered. There are some mine sites in Nigeria which minerals have dual use, like lead and gold in Zamfara State, tin and columbite in Plateau, and limestone and bitumen in Kogi that the harvesting or the minerals may be illegal. There is a possibility that non-state actors, or third party or local or foreign intermediaries of State actors may be conducting illegal mining activities and selling the products to either the DPRK or countries linked to it, or to entities or persons designated under the UNSCR 1718. However, this could not be established with certainty, as information gaps exist. However, it is an area the country may have to tighten its operations. It was not established that any such illegal mining of Uranium and other ores associated with radioactive material is happening as the regulations and restrictions of NNRA are stringently enforced.

Part of the obligations under 1718 is to take steps to prevent evasion of the TFS by DPRK, through the use of third parties. The financing of mining of these materials and facilitation of trade with third parties has also been examined and weighed in this assessment. There is a chance that goods of commercial applications which can also be used for nuclear materials (dual use goods) may have been exported to countries with significant link to DPRK but it is a challenge to authorities to monitor trade in all relevant “dual use” goods and their components, exported to different jurisdictions by or through Nigeria. However, this assessment recognizes this vulnerability. Nigeria is bordered to the North by Niger Republic, a landlocked sub-Saharan nation, which has the fourth largest uranium reserves, about 7% of the global total. The fact that Nigeria’s coastline on the Atlantic Ocean is also used as a sea outlet for Niger, is a factor considered in this assessment.

The Central Bank of Nigeria had, by way of compliance with the UNSC Resolution, issued a circular in September 2019 pursuant to Regulation 11 of the CBN AML/CFT Regulations 2013, requiring Banks in Nigeria to increase surveillance and report all transactions involving persons and entities designated under UNSCR 1718 and all subsequent resolutions relating to DPRK. They are required to continuously screen both customers and transactions against global sanctions list and stop all transactions’ and freeze without delay, all funds, owned or controlled, directly or indirectly, by individuals and entities designated by the UN Sanctions Committees. All terminated transactions or funds frozen pursuant to UNSCR must be reported to the NFIU. The NFIU has issued an advisory to Financial Institutions and DNFBPs and other authorities on the need to comply with the UNSCRs¹⁵. Available data indicate that during the assessment period, FIs complied with the CBN circular and abided by the NFIU advisory and have instituted due diligence, but such administrative due diligence requirements do not meet the standards prescribed by the FATF of a legal framework.

It is not shown that DNFBPs have measures in place to implement enhanced due diligence. This is a vulnerability contemplated in this assessment. The directives and advisory of the CBN and NFIU referenced above respectively were insufficient as a mechanism for full implementation of TFS under 1718, primarily because the legislative framework was not in place to do this effectively at that time. Also, the CBN measure was limited to banks and did not therefore extend to other FIs and DNFBPs, such as lawyers and TCSPs, who have the means of providing other material assistance - through other types of financial and professional services - to persons who might assist the DPRK to evade the UN Sanctions. The threat was still present despite the directive of the CBN.

¹⁵ See footnote 9

Vulnerabilities In Relation to The DPRK Threat

In addition to an absence of legal framework which could be exploited for PF, and the leverage of its diplomatic and economic (especially trade and other cooperation) presence, the following are the other vulnerabilities which, over the assessment period, were open for exploitation by the DPRK in the Nigerian financial and national system for financing its proliferation activities:

Types of Regulated Sectors Involved or Abused

Financial Institutions whose platforms are used to conduct financial transactions and other cross-border wire transfers. Correspondent banking relationships which Nigerian FIs have with foreign financial institutions are also veritable platforms prone to abuse by the DPRK, especially not only those that hold accounts of DPRK but of unknown entities linked to DPRK. Also, FIs which provide financial and professional services to the maritime sector are at increased risk of PF related to DPRK, due to the increased risk of exposure to proliferation activities which the maritime sector in Nigeria faces. This risk to the maritime sector is due to the DPRK's known and well-documented misuse of maritime shipping and contiguous industries on a global scale to evade sanctions and to further the enhancement of their nuclear capabilities.

OFIs and DNFBPs in Nigeria did not have adequate awareness of their obligations on PF. Most OFIs and DNFBPs had not conducted any risk assessment to identify, assess and understand the PF risks in their business environment and did not conduct screening of nor institute enhanced CDD during customer onboarding. The consequence is that there was no systematic pattern of gathering information or keeping records and therefore no information or data available about the inherent exposure of the sector to PF and associated threats. There were no indicated known measures put in place by these regulated bodies to mitigate the risks of proliferation financing.

The Capital Market: Nigeria's capital market accounted for 12.9% of the country's GDP in 2021 and operates in simple and complex structures through Group and Holding companies. The market deals with wide range of products and services which may be exploited for ML, TF and PF. Some of the products include equities, bonds, commodities, etc. DPRK networks, especially front companies and other intermediaries have the capacity to use brokers and other third-party transactions to buy stakes at initial public offers or through secondary market transactions, through the use of nominee accounts which has the tendency to anonymise the ultimate beneficial owners.

Maritime Sector Activities: Nigeria's vast maritime sector and its associated freight forwarding sector are also other sectors that could be involved or abused in facilitating PF in Nigeria as it's a target of the DPRK threat. The maritime sector's potential exposure to proliferation risk due to DPRK's known modus operandi as identified in international typologies, increases risk to the FI sectors which service the maritime sector. Maritime and other contiguous sectors, are at material risk for contagion from proliferation activities given the sector's close ties with the financial and DNFBP sectors. The intersections of the sectors with regulated sectors such as banking, insurance, legal, accounting and corporate service providers play significant roles in the abuse seen in facilitating PF in Nigeria. Analysis of some freight-forwarding companies activities indicate that DPRK operatives in or outside of Nigeria target the Nigerian shipping and freight forwarding sectors presumably to move dual-use goods and support ship-to-ship transfers in territorial waters for sanctions evasion purposes. FIs and DNFBPs provides insurance services, banking services or other financial or professional products or services, including legal services to maintain

the operations of those vessels or the affected maritime businesses, are exposed to PF and to facilitating sanctions evasion. A consideration, for instance, of their intersection with the legal profession is illuminating. The legal Profession has been held by Nigerian courts as not being subject to AML/CFT requirements, a matter which is still on judicial appeal. But lawyers primarily prepare and execute maritime shipping contracts which create complex structures that obscure the components of the shipping arrangements, like obscuring the consignee and the shipper. These loopholes are what DPRK exploit.

Furthermore, it is, for instance, not clear from data available, what technical capability, or measures the Nigerian Maritime Administration and Safety Agency (NIMASA) has in place to identify nuclear and radio-active materials or goods of dual-use capacity and how much seizures have been made. It is also not clear what screening is conducted to forestall ship to ship transfers or the monitoring of vessels which fly the flags of nations other than theirs, nor what collaboration NIMASA has with the Nigerian Customs Service on implementation of items in the Export Control List. This is a vulnerability weighed in the assessment that gave rise to this report.

Available data reveal that Freight forwarders are also another area prone to abuse for PF in the maritime Sector. The level of awareness of this sector to exposure to being used for proliferation activities is low. Data also reveals an interest of DPRK entities in the sector.

Bureaux De Change (BDC): To evade sanctions, BDCs are usually used to convert currency, or to transfer money. BDC operations in Nigeria, although monitored and supervised still leave gaping holes as there are unregulated and unsupervised outlets who conduct transactions in foreign currency informally without any form of screening or awareness of the obligations to make reports. This is projected to be veritable ground of abuse by the DPRK, especially as typologies show a heightened use of BDCs in TF activities. DPRK capacity to deploy the anonymity provided by transactions with unlicensed foreign exchange dealers to convert currencies and take them across Nigeria's porous borders to fund PF activities is high. The Nigerian BDC Sector's major vulnerability is that it is expansively cash-based.

Free Trade Zones: There are two types of Free Zones in Nigeria: the specialised and the general. The only specialised free zone in Nigeria is the Oil and Gas Export Free Zone (OGEFZ), which operates in Onne, Rivers State. On the other hand, Nigeria has a total of 19 active Free trade zones (FTZ) licensed and regulated by Nigeria Export Processing Zones Authority (NEPZA). 70% of the Zones are located in the Southern part of the Country which is closer to the Atlantic Ocean. This location facilitates the import and export of goods by the actors in the Zone. When an entity is licensed by the Free Trade Zone Authority to carry on their business in Nigeria, it constitutes registration and no further registration is required with the Corporate Affairs Commission (CAC). Under NEPZA, these Zones harbour over 500 enterprises with cumulative investments worth over US\$20 billion and accelerating employment generation of about 50,000 direct jobs and 100,000 indirect jobs. Data did not reveal a DPRK entity operating in these zones but there is a heavy presence of Chinese entities involved in manufacturing, trade and supply activities around such zones, especially in the Lekki FTZ and the Ogun Guangdong FTZ. Given the role of China in relations with DPRK as shown by International typologies and their suspected support of DPRK's evasion of sanctions, the predominance of China in FTZs and other economic relations in Nigeria, poses a material potential threat. This is compounded by the absence of implementation of TFS requirements within the sectors, where monitoring of these activities could confirm or disprove sanctions evasion.

These Free Trade Zones, coupled with Nigeria's shipping industry and significant coastline, offer material potential for abuse, especially if the Chinese or other third-party participants in these FTZ are willing to assist DPRK to evade sanctions through this avenue. The absence of legislative requirements for

implementation of TFS obligations in these various sectors or in the financial and professional sectors that provide services to the operators in the FTZs and the shipping sector, leaves significant space for abuse. Due to information gap, the level of economic integration between FTZs and other sectors in the economy including, and especially, with the FI and DNFBP sectors was not fully explored. However, there are indications that contagion from FTZ operators have heightened exposure to proliferation activities, will result in heightened PF exposure for FIs or DNFBPs sectors which service these FTZ operators. It is also not known, and thus created an information gap whether these exposed FIs and DNFBPs implement adequate and effective systems as a countermeasure to this risk.

This gap was considered in rating this threat profile. The incentives available for operating in a free trade zone is majorly that businesses that operate there are exempt from the normal fiscal regime with regard to customs duty and tax. The country in turn hopes to attract foreign direct investment, increase foreign exchange earnings, promote technology transfer and develop export-oriented industries in Nigeria. This is an area DPRK may wish to exploit, especially if a sympathetic heavy presence of China businesses in the Zones leverage such presence in favour of DPRK.

Types of Financial and Professional Services Involved or Abused.

Virtual Assets: Nigeria is rated second slightly behind Kenya in the 2021 Global Crypto Adoption Index Top 20 in Africa. Virtual currencies commonly rely on complex infrastructures that involve several entities, often spread across several countries, to transfer funds or execute payments. The virtual assets ecosystem also evolves rapidly as occasioned by decentralized technology and business models which have resulted in the multiplicity of participants, products and services in the virtual assets space. Data reveal that direct DPRK transactions through FIs in Nigeria are in small amounts. Data available indicate that 90% of SARs received on PF from FIs were transactions conducted on a virtual assets' platform raising the possibility of dealings in virtual assets. According to Insight Threat Intelligence, DPRK is increasingly using cryptocurrencies to evade sanctions and gain access to foreign currency, specifically the US dollars. To circumvent sanctions DPRK uses multiple exchanges, mix and shift services to evade sanctions.¹⁶

Investment Brokers: DPRK capacity lends credence to the possible use of front companies and other intermediaries to use brokers and other third-party transactions to buy stakes at initial public offers or through secondary market transactions, through the use of nominee accounts which has the tendencies to anonymise the ultimate beneficial owners.

Types of Legal Persons and Legal arrangements Involved or Abused.

Corporate Entities and Front Companies: international typologies indicate that DPRK regularly use third country nationals and companies, many of whom participate for profit, or have low compliance mechanisms which allow exploitation by DPRK proliferation networks.

Maritime Insurance arrangements: International typologies identify that DPRK often obscures the end-user of their purchases through mislabeling goods or consolidation and repackaging shipments while at the same time preparing misleading insurance papers for ultimate delivery to the DPRK, with China a commonly used location for transshipment across its land borders, or via ship-to-ship transfers.¹⁷

¹⁶ DPRK's use of cryptocurrency to evade sanctions, Insight Threat Intelligence, Sept. 27, 2018, <https://www.insightthreatintel.com/news>

¹⁷ Methods and Patterns Common to DPRK PF Activity, National Proliferation Financing Risk Assessment, February 2022, Department of Treasury, US, p. 9

Estimated Scope of PF Activity in Nigeria.

Actors network of supporters: The network of collaborators of DPRK Proliferation activities include diplomatic, corporate, criminal and expatriates. Proliferation networks use individuals, entities and countries by using front companies, illicit brokers, and other illicit means to fund proliferation. DPRK has an Embassy in Nigeria with Diplomatic and other personnel who operate active accounts in Nigeria's banks with varying transactions. It could not be ascertained the extent to which Enhanced Customer Due Diligence was conducted on these before the accounts were opened.

Nigeria has diplomatic ties to DPRK, which also facilitates travel, business and other economic activities between the two countries, this is a significant factor which ratchets up the threat of misuse of Nigeria's systems and institutions for sanctions evasion. Also, given that the DPRK regime does not allow free travel by its citizens, it is questionable what the full scope of activities that these DPRK nationals are engaging in within Nigeria, without appropriate oversight by Nigerian authorities. This was considered in this assessment.

Trends in STRs and FIU Disclosures relating to PF.

Data available indicate STRs received on PF from FIs are six (6) from 2019 – 2021, while SARs are 30. 90.98% of the SARs were transactions conducted on a virtual assets' platform.

In 2015, a period outside the scope of this assessment, an STR of an FX transfer of 21,438.82 Euro from the account of MSX PLC was made to BXD LTD. The Customer stated that the funds was a claim for insurance. The narration indicated insurance claim in favour of Korea National Insurance Company GMBH, a sanctioned entity based in Germany with affiliation to the North Korean regime, was initiated by MSX Insurance through BXD Ltd. The customer's transaction was blocked at the time and monitoring of the customer continued.

Trends in TFS Asset Freezes related to PF.

During the period of focus, data sourced from authorities and further checks did not reveal any freezing of assets arising out of PF activities by any Nigerian authority.

Countries Involved in the Inflow and Outflows of PF Funds.

There is no solid evidence that other countries are involved in the inflows and outflows of PF funds through Nigeria. However, given that China is the biggest trading partner to DPRK and Nigeria is China's second largest trading partner in Africa, it is inescapable to conclude that part of the activities of China trade relations with Nigeria may be at risk of ending up in the DPRK. It is also factored in that China has a land border with DPRK and some provinces in China (for example, the Dandong region) offer DPRK the platform for the registration of companies recognized in other jurisdictions as Chinese companies when in actual fact, they are DPRK companies. Although China has recently adopted a Land border Law which took effect in January 2022, it is unlikely these measures will appreciably affect North Korea's activities across the border which help the DPRK ballistic missile programme. This factor was considered in this assessment.

Estimated Scale of DPRK of In Nigeria.

Incoming and Outgoing Financial Flows with the DPRK: Nigeria's diplomatic and trade relations with DPRK is an actual and potential window of sanctions evasion. While the trade relations has been determined

not to be huge, it still posed a threat to the implementation of the UNSCRs on DPRK during the assessment period, given the absence of a legal framework for TFS in Nigeria at that time.

Incoming and Outgoing Financial Flows with Jurisdictions links or Exposure to the DPRK.

Nigeria has huge trade relations with China, a jurisdiction known to have significant links with DPRK. Both China and DPRK have aggressive trade, cultural and bilateral ties. China is by far North Korea's main trade partner.¹⁸ Nigeria is the biggest importer and second largest trading partner to China in Africa. According to the China Embassy in Nigeria, the bi-lateral trade volume between Nigeria and China was \$13.66 billion in 2020.¹⁹ Nigeria's imports from China are mostly on raw materials, manufactured products, solid minerals and agricultural products, with Nigeria's main export to China being crude oil. Nigeria's large trade relations with China is a risk because there are dual use goods that have commercial applications as well as other applications, which may ultimately end up in the hands of DPRK, considering China's relationship with DPRK. This is a threat Nigeria has to contend with.

Incoming and Outgoing Trade with Jurisdictions with Significant Links or Exposure to the DPRK.

Nigeria has huge trade relations with China, a jurisdiction known to have significant links with DPRK. Both China and DPRK have aggressive trade, cultural and bilateral ties. China is by far North Korea's main trade partner²⁰. Nigeria is the biggest importer and second largest trading partner to China in Africa. To date, no known asset of DPRK or its entities has been frozen under TFS.

¹⁸ North Korea's External Economic Relations, www.piie.com.

¹⁹ www.vanguardngr.com

²⁰ North Korea's External Economic Relations, www.piie.com

Case Studies

1. During the COVID lockdown in 2019 to much of 2020, the Nigeria Immigration Service intercepted about 28 nationals of North Korea in-bound to Nigeria. Due to global restrictions, they could not be deported back to DPRK. Their travel documents were however seized. A Kano-based business man stood guarantor for four of them and on the further guarantees of a Diplomatic official of the DPRK Embassy in Abuja, these individuals were released. These individuals are scattered around the country engaging in various businesses. An inquiry into the activities of these individuals indicated that they are mostly involved in medical activities, including acupuncture and other medical procedures.
2. An STR reveal that a Nigerian customer of a bank on a singular day in 2020 received six (6) cash deposits of USD10,700.00 totaling USD64,200, representing 88% of all deposits into the Customer's account since the account was opened. Upon inquiry, customer informed the bank that the funds would be used for purchase of chemicals from North Korea and the chemicals shall be used for the production of disinfectant anti-virus sprays. Concerns about this transaction were raised because the deposits were structured in equal amounts and not in line with the expected transaction patterns of the account, in accordance with the purpose of account given in the account opening forms. Moreover, the purpose of the funds involved trade transactions with a sanctioned state, DPRK.
3. An account in a Nigerian Bank opened in 2013 has been receiving low amounts of inflow. In 2019, the account received an inflow of \$920 and the sender matches a name in the OFAC Special Designated Nationals and is linked to DPRK. There is a conflict in purpose of the funds and a purposive obsession with secrecy by the customer.
4. A sum of \$499 was received through an international money transfer platform from a sender in DPRK. It is noticed that customer had unusual concern for secrecy as it was noticed that he has been hopping from one branch to the other to avoid compliance filter.

Information Gaps for PF during Assessment.

Getting data on the location and comprehensive businesses of DPRK nationals' resident in Nigeria was challenging. Also, the accounts they operate and what are the transaction patterns of these accounts have not been determined. Furthermore, information on sea-borne volume of trade on proliferation materials has been challenging. The Agencies that are responsible are still gathering relevant information with the time frame of this exercise. Therefore, the information gathered from secondary sources on maritime activities involving DPRK in Nigeria is subject to further verification. Also, the Free Trade Zone data is on locations and type, there is no information on what kind of activities go on there and the specific incentives there are have not been fully analysed.

3.3.4 THREAT 2 – Islamic Republic of Iran

PF Actors Capacity -Iran

Nigeria has an obligation under the UNSCR to implement targeted financial sanctions against sanctioned states. One of States that has country specific resolutions against it is the Islamic Republic of Iran. In the case of Iran, unlike the DPRK, UNSCR 2231 (2015) endorsed the Joint Comprehensive Plan of Action, JCPOA but retained targeted financial sanctions on a number of individuals and entities designated pursuant to the resolutions and established new specific restrictions. The assessment rated the actors capacity of Iran on PF high. The primary reasons for the rating is based on the existence of legitimate trade relations between Nigeria and Iran, which affords opportunity to be exploited for proliferation/proliferation financing in the absence of a legal framework in Nigeria to implement TFS concerning UNSCRs relating to PF.²¹ Iran also has diplomatic and other economic relations with Nigeria which may be exploited for sanctions evasion in the face of no legal structure for the implementation of TFS. Also, the fact that there are strong religious and cultural ties between certain religious bodies in Nigeria with Iran facilitate the provision of material support to advance Iran's nuclear programme.

Sanctions against Iran have been substantially downgraded following the adoption, in 2015, of the Joint Comprehensive Plan of Action, JCPoA which lifted most of previous sanctions imposed on Iran for its nuclear programme, provided Iran remained in compliance with its responsibilities under the deal. As it is, the sanctions under UNSCR 2231 are restricted to specific individuals and entities. These factors were considered in this assessment and in the absence of a TFS implementation framework, they informed the high rating of estimated Scope.

The assessment rated the scale of PF of Iran high. It considered the financial and trade flows not only between Nigeria and Iran, but also with countries that have significant links or exposure to Iran. Available data on financial transactions did not reveal much record of transactions traced to the sanctioned entities and individuals; and further probe, within the time frame, did not reveal much financial activities involving linked entities. The fact of the absence of a framework to trace and link transactions at the relevant time, and the existence of religious sects whose members receive varied support from Iran were considered during this assessment. Also, it was considered that Iran has been under one form of sanction or the other since 1979, and has advanced its sanctions evasion strategies.

²¹ See footnote 7 above.

Vulnerabilities In Relation to Iran

Types of regulated sectors involved or abused

Financial Institutions: Financial institutions in Nigeria conduct due diligence during on-boarding for customers with Iranian connection. It is, however, not known the effectiveness of the due diligence performed. Matching a transaction against the sanctions list is not enough as the high possibility of use of fronts and links to perform transactions is present.

Bureaux De Change (BDC): To evade sanctions, BDCs are usually used to convert currency, or to transfer money. BDC operations in Nigeria, although monitored and supervised still leave gaping holes as there are unregulated and unsupervised outlets who conduct transactions in foreign currency informally without any form of screening or awareness of the obligations to make reports. There are 5,689 registered BDCs in Nigeria, licensed by the Central Bank of Nigeria, and about 5,100 of these access FX from the Central Bank. The Sector's major vulnerability is that it is expansively cash. The CBN stopped selling FX to the BDC Sector In July 2021 due to unwholesome practices including market manipulation, aiding illicit financial flows and other financial infractions, forcing them to now source from autonomous markets. Unlicensed foreign exchange operators are also a source of concern as they provide a window that could be exploited for PF. Their transactions, though not huge, are open to exploitation.

Closely related to this is the operation of the alternative international remittance system, like Hawalas, by Nigerian based BDCs. The CBN which regulates BDCs shared data of records of limited use of alternative payment transactions, like Hawala by some BDCs, especially for Nigerian travelers to mostly Islamic countries (including Iran), who need funds but cannot otherwise access funds through the formal means.

Virtual Assets: Virtual assets are another Sector that could be abused. Until recently of Virtual instruments have not been regulated in Nigeria²². Indeed, the CBN banned fIs and OFIs in Nigeria from conducting transaction in virtual currencies. The possibility of converting resources into virtual assets by Iranian linked persons and entities is high.

Types of financial and professional services involved or abused.

Virtual Assets: As pointed out above, vAs are a veritable channel of moving money for the purpose of proliferation financing. Iran, may be a player in this regard. Chainalysis, a blockchain data platform, ranks Nigeria among the top 10 crypto adopters globally. As at September 2020, Chainalysis ranked Nigeria ⁸th in their global Crypto Adoption Index (third in Africa behind South Africa and Kenya). By October 2021, Nigeria had become second in Africa, behind Kenya.²³ Although no known data has provided any link of a virtual asset transaction involving Iran linked entities and individuals, it is still a possibility this assessment considered.

NPOs with Religious Cover: The Islamic Movement in Nigeria (IMN) is an Iranian Inspired Shia religious group which receives material and ideological support from Iran. Formed about four decades ago, it advocates the creation of an Iranian-style Islamic State in Nigeria. It has well organized branches and

²² Recently in May 2022, SEC issued new rules on issuance, offering platforms and custody of digital assets to regulate virtual assets in Nigeria.

²³ Inherent Vulnerability Profile for VASP prepared by the VASP Workstream of the NFIU

administrative structures in most of the 36 States of Nigeria and operates its own schools and hospitals. It has a registered foundation called the Fudiyya Foundation under which there are over 360 primary and secondary schools. Iran has never hidden its support for the IMN and although there is no data to support financial flows in this regard, yet, the activities of these groups could not be undertaken without substantial international support which this assessment presupposes comes from Iran. This assumption may be disproved when more facts are gathered.

Types Of Legal Persons And/Or Legal Arrangements Involved Or Abused

Corporate Fronts – According to US Treasury Department, it has been revealed that some firms registered in Hong Kong and Dubai in UAE are front companies for the Islamic Republic of Iran. Nigerians do a lot of business with Dubai. Dubai is a choice city of leisure and abode for many Nigerian families. It is also suspected that some UAE and Hong Kong registered companies which operate in Nigeria may be fronts for Iranian businesses and government.

Estimated Scope of Iranian Activity in Nigeria

Actor’s network of supporters: Nigeria has a large base of Shiite adherents who have close ties with Islamic Republic of Iran. Nigeria had proscribed one of the Shia groups, the Islamic Movement of Nigeria, IMN, accusing it of terrorism and other illegal activities. Data from financial institutions did not reveal transactions in the name of designated individuals or entities in the 2231 List. However, there are transactions in the name of some Shia Groups and the possibility of use of these groups, and associated individuals as non-profit intermediaries to evade sanctions is highly recognized. Iran maintains an Embassy in Nigeria with diplomatic and other personnel. The links of designated individuals and entities under 2231 to these personnel have not been fully explored but is a risk that this assessment considered.

Trends in STR/FIU and Sanction Evasion Prosecution.

There are no STRS or FIU disclosures relating to PF activities of the designated entities and individuals under 2231 within this assessment period. There is a continuing analysis to establish any link with associated persons and groups for further validation. There were no established cases of PF connected to Iran or to sanctions evasion on Iran’s behalf investigated by any of the Investigative agencies, nor were there any prosecutions. Iran has good relations with China; and Nigeria and China have huge trade and economic relations. Another country is the UAE, which international typologies have shown have relations with Iran and which is a favorite business and leisure destination for many Nigerians.

Information Gaps

The possibility of information gaps exist, as analyses are ongoing on some Iran-linked companies to determine if any of the designated individuals and entities own or control any of these entities. However, preliminary analyses do not point to this on a factual basis. The lack of information on implementation of TFS by fls and DNFBPs means that there is an absence of empirical grounding for the conclusions.

3.3.5 Threat 3 - Non-State Actors

Non- State Actors PF Capacity

Nigeria is struggling with a debilitating wave of terrorism, which is heightened by porous borders and weak control measures. As the TF Risk assessment indicates²⁴, non-state actors and criminal elements especially terrorist groups like Boko Haram, ISWAP, ANSARU, and Bandits) have footholds in large swathes of the Nigerian geographic space, especially its vast forests. Although it is an insurgency that began initially from the North-East of the Country, it has created widespread insecurity in the country. Nigeria has mineral deposits of Uranium and a large number of radioactive materials, including chemical and biological substances and other materials that have dual-use capacity. Analyses show that these terrorist actors do not currently have the capacity to use these materials to create WMDs. Nonetheless, access to these materials by these actors heighten the risk of proliferation financing, as there is a possibility, although not high, of these actors mining and selling these materials and other materials to raise funds for their terrorist activities. In light of these circumstances, Non-State Actors capacity on proliferation financing is rated medium. Given the general outlay of the forces at play, it is also safe to rate scope of proliferation activities of non-State Actors in Nigeria at medium.

UNSCR 1540 provides a set of broad-based provisions prohibiting the financing of proliferation-related activities by a non-state actor and requiring countries to establish, develop, review and maintain appropriate controls on providing funds and services, such as financing, related to the export and transshipment of items that would contribute to WMD proliferation. Obligations under this global approach exist separately and do not form part of FATF's Recommendation 7 and its Interpretive Note, and Immediate Outcome 11, but do form part of FATF's Recommendation 2 and are relevant in the context of other FATF requirements on combating terrorist financing and money laundering. Nigeria has ratified various Conventions on WMD and has put in place measures to ensure that non-State actors are not in a position to develop, acquire, manufacture, possess, transport, transfer or use nuclear, chemical or biological weapons and their means of delivery. However, the activities of non-State actors, especially terrorist groups are a vulnerability of PF in Nigeria that this Report considered.

This assessment evaluated the sophistication and ability of non-State Actors to effectively develop, acquire, manufacture, possess, transport, transfer or use nuclear, chemical or biological weapons and their means of delivery in Nigeria. While terrorist organizations desire to lay their hands on such weapons, not for purpose of development of WMDs but to sell same to raise funds to finance their terrorist activities. Authorities, like the DSS and Border Control authorities, indicate that terrorist organization within Nigeria do not have such sophistication, and there has not been an increased activity by non-State actors from across the border to source proliferation materials from Nigeria; the ability of non-State actors to obtain WMD capabilities, from Nigeria, as gathered from battlefield experiences of the Defence Forces, is restricted to developing rudimentary capabilities for the production of IEDs to carry out suicide missions. However, the risk that non-state actors in Nigeria purchase weapons and other materials from non-State actors outside its borders who use the proceeds of the sale of those weapons for proliferation activities is present.

Vulnerabilities To Non-State Actors' of Activities

Types of Regulated Sectors Involved Or Abused

Financial Institutions: Most FIs in Nigeria do not have adequate awareness of their obligations on PF. Most have not conducted any risk assessment to identify, assess and understand the PF risks in their

²⁴ Nigeria's TF Risk Assessment for the same period which the PF Work Stream read its draft

business environment and do not therefore conduct adequate screening of or institute enhanced CDD during customer on-boarding. Therefore, the risk of Non-State Actors exploiting this vulnerability is present.

DNFBPs: Some DNFBPs may be involved and abused. Although there is no evidence that materials mined by non-State Actors are deployed through these businesses, it is safe to assume that the Real Estate Sector, dealers in precious stones and metals and BDCs may have been abused by non-State Actors who have laid hands on dual-use materials and sold same to proliferators to raise funds for their activities. The possibility that proceeds of the illegal activities of non-State actors may be invested in virtual assets is high but the volume has not been determined.

Types Of Legal Persons And/Or Legal Arrangements Involved Or Abused

Corporate entities – Proliferators use linear financing module of registering corporate entities and front companies to raise funds to purchase goods and materials from brokers or manufacturers. In the face of inadequate BOI screening mechanisms, Non-State Actors would find the corporate fronts and entities a safe avenue to channel funds for PF purposes.

Non-Profit Organizations – Competent authorities, like the DSS have reported cases of Non-Profit Organizations that have been used to ferry funds to non-state actors in the North-East of Nigeria where the insurgency that is threatening the security of Nigeria commenced in 2009. Indeed, the NFIU has publicly identified NGOs as one of the platforms that terrorism financiers use to finance terrorism. The link to PF is the possibility of using terrorist activities to aid Proliferators. Some Organizations have been suspended from operating in Nigeria because of links with terrorism.

Estimated Scope of Non-State Actors' PF Activity.

Actor's network of supporters

Terrorist organizations, from Boko Haram, ISWAP, Ansaru, to other loose groups of bandits terrorising Nigeria, may have ambitions to lay their hands through criminal activities on nuclear, chemical or biological materials either as mineral deposits or others within Nigeria, and their means of delivery, but data has not revealed any such capacity existing within these terrorist groups. Their Proliferation activities therefore are on the fringes, if any. It has not been shown that in Nigeria, there are active proliferation networks of non-State actors. However, non-state groups being mostly criminal elements do not rely on the regulated channels of trade. They use illicit routes to smuggle the materials for export through the Sahel or import arms purchased in the Sahel region for terrorist activities. State Authorities determine that import of arms is not financed from proliferation activities of non-state actors. Nigeria has 84 approved land border routes but there are over 1400 illegal border routes which criminals use to enter into Nigeria. Therefore, the movement of proliferation materials into neighboring countries of Chad, Niger, Cameroon and Benin is a possibility. However, neither Customs, nor Immigration, or the Directorate of State Security has reported any such activities involving proliferation of WMD by non-State actors. Border control in Nigeria is a huge challenge mainly because of the vastness of Nigeria's borders, myriads of illegal border routes and corruption among border officials. For instance, Nigeria's border with Niger Republic runs a distance of 1,608 kilometers. There is no established trade on proliferation materials between non-state actors in Nigeria and others. However, the proliferation of small arms and light weapons across the Sahel is a disturbing dimension to the scale of activities of non-state actors. Yet, it is not known that proliferation of WMDs activities influence such proliferation of small arms and light weapons.

Scale Of Non-State Actors of Activities.

Available data did not reveal the scale of financial flows involving non-state actors in relation to proliferation financing. However, given the established links between the non-state actors especially terrorist organisations with foreign collaborators, the estimated scale of financial flows for PF purposes is rated medium.

Chapter 4: Inherent Consequence of Proliferation Financing

Proliferation financing facilitates the movement and development of proliferation sensitive goods. The movement and development of such items pose serious threats to human life, the environment, infrastructure and, more broadly, to international peace and security. Thus, countering the flow of funds to proliferation actors (both state and non-state actors such as terrorist groups) play a vital role in combatting the proliferation of WMDs.

The consequence of a situation, where sanctioned states, designated individuals and entities, and non-state actors have access to funds, assets or economic resources which allow them to source materials, items or systems for developing nuclear, biological or chemical weapons and their systems of delivery, portends grave implications to global peace and security.

Nigeria like all countries, is mandated, under Chapter VII of the UN Charter, to implement the mandatory UNSCRs which address proliferation financing. The UNSC adopted a two-tier approach, which includes the implementation of broad provisions covering all non-State actors (as enunciated in UNSCR 1540), as well as targeting jurisdictions who have been specifically identified for their proliferation of WMDs (as enunciated under UNSCRs 1718 for DPRK, and 2231 for Iran respectively).

Nigeria's diplomatic, economic, scientific and cultural ties to DPRK and, to an extent, Iran leaves open opportunities for these States to exploit the relationships to raise and move funds for the purpose of funding their proliferation programmes. The wave of terrorism sweeping across Nigeria also grants opportunities for non-State actors to exploit the weaknesses in the system to raise funds, not directly for proliferation purposes, but which proliferators may leverage on to finance their activities.

This assessment recognizes that all these have consequences at the Political, economic, Social and reputational levels for Nigeria.

At the political level, the existence of high-level cooperation with sanctioned States makes a resolute implementation of the sanction requirements more problematic. The diplomatic presence of proliferation States and the free environment granted their nationals for business in the country, especially for a country like the DPRK whose nationals work for the advancement of their proliferation programme, has international reputational consequences. This might attract negative international ratings of Nigeria's commitment to the implementation of resolutions of the United Nations Security Council.

On the Economic level, Nigerian trade relations with the sanctioned states have the potential of a violation of international protocols. Many sectors of the economy still do not have adequate awareness of the PF risks posed by States and non-state actors. In the circumstance, their unrestricted economic relations with critical sectors have short- and medium-term implications for the economic stability and integrity of these sectors, after TFS requirements begin to be imposed on their clients or transactions. For instance, the banking sector is at a high risk of being abused for the movement of funds for proliferation financing purposes. This affects the confidence necessary for effective correspondent banking relationships which finance Nigeria's other international trade activities, and puts these relationships at risk through the potential for de-risking by the multi-national correspondent banks. Allowing these entities to play within the economic sphere of the country also allows these sanctioned States to deploy cyber-attacks on the country's financial arteries, as demonstrated by the DPRK-backed Lazarus Groups cyber-attack on the Bangladesh National Bank, as noted in this assessment.

Proliferators use various instruments to raise and move funds. One such instrument is the destabilization of social relations. The cycle of terrorism holding Nigeria may not be unconnected to foreign interests for the control of resources. National fault lines are exacerbated and in a climate of insecurity and uncertainty, proliferation activities thrive.

Access to the financial system and financial services is central to proliferation efforts, and disrupting this financing is key to countering the spread of WMDs. This assessment has used available data and international typologies to demonstrate the threat PF poses to Nigeria by analyzing the vulnerabilities which the country faces in proliferation financing. In all, the assessment shows that a weak counter Proliferation financing system produces a compromised political environment, a damaged economy, social tensions and international reputational damage to the country.

List of Key Acronyms and Abbreviations

AML - Anti-Money Laundering

BDC - Bureau De Change

BO - Beneficial Ownership

BWC – Biological Weapons Convention

BXD - Boxed

CAC - Corporate Affairs Commission

CBN – Central Bank of Nigeria

CDD - Customer Due Diligence

CFT – Combating Financing Terrorism

CPF - Combating Proliferation Financing

CWC – Chemical Weapon Convention

DNFBP – Designated Non- Financial Business and Profession

DPRK - Democratic People’s Republic of Korea

DSS - Department of State Services

FATF - Financial Action Task Force

FI - Financial Institution

FIU - Financial Intelligence Unit

FMOJ (DPP) - Federal Ministry of Justices (Directorate of Public Prosecution)

FTZ - Free Trade Zone

FX - Foreign Exchange

GDP - Gross Domestic Product

ICT – Information and Communication Technology

IEDs - Improvised Explosive Devices

IMN - Islamic Movement in Nigeria

IMTO - International Money Transfer Operator

ISWAP - Islamic State of West Africa Province

JCPOA - Joint Comprehensive Plan of Action

LTD - Limited

MFA - Ministry of Foreign Affairs

ML – Money Laundering

MNC – McDonell- Nadeau Consultants

MSX - Malta Stock Exchange

MVTS - Money or Value Transfer Services

NCS - Nigeria Customs Service

NEPZA - Nigeria Export Processing Zones Authority

NFIU – Nigerian Financial Intelligence Unit

NIMASA – Nigerian Maritime Administration and Safety Agency

NIRA - National Inherent Risk Assessment

NIS - Nigeria Immigration Service

NNRA - Nigerian Nuclear Regulatory Authority

NPOs - Non-Profit Organizations

NSA - National Security Adviser

OFAC - Office of Foreign Asset Control

OFIs - Other Financial Institutions

OGEFZ - Oil and Gas Export Free Zone

ONSA – Office of the National Security Adviser

PF - Proliferation Financing

PLC - Public Limited Company

SAR - Suspicious Activity Report

SCUML - Special Control Unit Against Money Laundering

SEC – Securities and Exchange Commission

SROs – Self Regulatory Organizations

STR - Suspicious Transaction Report

TCSP – Trust and Company Service Provider

TF – Terrorism Financing

TFS - Targeted Financial Sanction

UAE - United Arab Emirate

UK - United Kingdom

UNSCR – United Nations Security Council Resolution

USA - United States of America

USD - United States Dollar

VA - Virtual Assets

VASPs - Virtual Asset Service Providers

WMD – Weapons of Mass Destruction

Participants

Different Agencies participated in the PF workstream in accordance with their mandate. They include:

- Nigerian Financial Intelligence Unit (NFIU)
- Nigerian Nuclear Regulatory Authority (NNRA)
- Corporate Affairs Commission (CAC)
- Central Bank of Nigeria (CBN)
- Department of State Services (DSS)
- Federal Ministry Justices Directorate of Public Prosecution (FMOJ (DPP)
- Ministry of Foreign Affairs (MFA)
- Nigeria Customs Service (NCS)
- Nigerian Maritime Administration and Safety Agency (NIMASA)
- Nigeria Immigration Service (NIS)
- Nigeria Export Processing Zones Authority (NEPZA)
- Office of the National Security Adviser (ONSA)
- Special Control Unit Against Money Laundering (SCUML)
- Security Exchange Commissions (SEC)
- National Authority on Chemical and Biological Weapons Convention

Annexes

Threat Profile For Democratic People’s Republic of North Korea

Threat Profile for Republic of Iran

Threat Profile for Non-State Actors

