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Trade-Based Money Laundering, Customs Compliance and the Stability of Nigeria's Trade Finance System

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Abstract

Trade-Based Money Laundering (TBML) poses a serious challenge to the integrity of international trade, customs administration and financial regulation. In Nigeria, the problem is particularly important because of the country's extensive cross-border trade, foreign exchange pressures, informal trade routes and continuing efforts to modernise customs administration. In view of the above, this paper assessed TBML, customs compliance and the stability of Nigeria's trade finance system. The paper adopted a qualitative documentary and analytical approach based on academic literature, legislation, policy documents, regulatory reports and institutional publications. The materials were reviewed thematically to assess the nature of TBML in Nigeria, the effectiveness of customs and regulatory reforms, persistent institutional weaknesses and their implications for trade finance. The findings showed that, trade mis-invoicing, false declarations and related forms of trade manipulation remain important areas of vulnerability. Nigeria has made notable progress through the Nigeria Customs Service Act 2023, customs digitalisation, the B'Odogwu Unified Customs Management System and improvements in the wider anti-money laundering framework. However, fragmented information systems, uneven enforcement capacity, limited interoperability, human capacity constraints and weaknesses in inter-agency coordination continue to reduce regulatory effectiveness. Based on the findings, it was concluded that, the more pressing challenge lies in the effective integration and implementation of existing reforms. Therefore, the paper suggested that, stronger coordination between customs authorities, financial institutions and financial intelligence agencies is therefore essential to reducing TBML risks and improving confidence in Nigeria's trade finance system.

Keywords: Customs Compliance, Money-laundering, Trade-based, Trade finance, Stability

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1. INTRODUCTION

International trade plays a central role in economic growth, investment and the movement of goods, services and capital across borders. As trade has expanded, however, the systems that facilitate legitimate commercial activity have also become attractive channels for financial crime. One of the most difficult of these practices to detect is Trade-Based Money Laundering (TBML), which involves the use of international trade transactions to disguise the movement, source or ownership of illicit funds. Unlike conventional money laundering, which often involves the direct movement of illicit funds through financial institutions, Trade-Based Money Laundering (TBML) conceals illicit value within seemingly legitimate commercial transactions. This is achieved through the manipulation of invoices, customs declarations and other trade documents, making suspicious transactions difficult to identify. The complexity of international supply chains makes detection even more challenging, as a single transaction may involve traders, shipping companies, banks and regulatory authorities across different countries. Practices such as over-invoicing, under-invoicing, multiple invoicing, false declarations and phantom shipments can be used to transfer illicit value while giving the impression of legitimate trade (Financial Action Task Force (FATF) & Egmont Group of Financial Intelligence Units (Egmont Group), 2021; Zdanowicz, 2009). TBML therefore raises concerns that extend beyond customs enforcement to financial regulation, government revenue and the integrity of international trade.

International organisations have repeatedly drawn attention to the risks associated with TBML, particularly where regulatory institutions have limited capacity to detect irregularities across trade and financial transactions (FATF & Egmont Group, 2021). These challenges can be more difficult to address in developing economies, where weaknesses in information systems, enforcement capacity and cooperation among regulatory agencies may allow suspicious transactions to go undetected (World Bank, 2020). Customs administrations consequently face the difficult task of facilitating legitimate trade while preventing commercial transactions from being exploited for financial crime.

Nigeria provides a useful setting for examining these concerns. International trade contributes to government revenue, industrial activities and the country's wider economic development (Central Bank of Nigeria [CBN], 2024). However, persistent problems involving customs fraud, smuggling, trade mis-invoicing and illicit financial flows continue to raise concerns about revenue losses, foreign exchange management and the effectiveness of regulatory oversight (Global Financial Integrity, 2021; Nigeria Customs Service [NCS], 2025). These concerns demonstrate why customs compliance should be considered not only in relation to revenue collection and border control but also in terms of its wider implications for the financial system.

The Nigeria Customs Service plays an important role in addressing these problems. Its responsibilities include customs revenue collection, enforcement of trade regulations, trade facilitation and border security. In recent years, Nigeria has introduced reforms intended to improve the administration and monitoring of international trade. The Nigeria Customs Service Act 2023, the B'Odogwu Unified Customs Management System and the National Single Window initiative are among the measures aimed at strengthening electronic processing, transparency and coordination among institutions involved in trade (NCS, 2025). These developments represent important steps towards modernising customs administration. However, their practical value depends on how effectively the systems operate, the capacity of personnel to use them and the extent to which relevant institutions can exchange information.

The connection between customs administration and the banking sector is particularly important in understanding TBML. Banks facilitate international trade through instruments such as letters of credit, documentary collections and bank guarantees. In doing so, they rely largely on invoices, shipping records

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and other commercial documents rather than physically examining the goods involved. Where such documents have been deliberately altered, a bank may process a transaction without recognising that the declared value or description of the goods is inaccurate (Wolfsberg Group, 2019; FATF, 2021). This creates a challenge for financial institutions because routine customer due diligence may not reveal irregularities that would become apparent when banking information is compared with customs records. Effective control of TBML therefore requires cooperation between customs authorities, commercial banks and financial intelligence agencies.

Although TBML, customs administration and trade finance have received considerable attention in the literature, they are often examined independently. Research on customs administration tends to concentrate on revenue collection, border enforcement and trade facilitation, while studies on money laundering generally emphasise banking regulation and financial supervision. Trade finance research, on the other hand, frequently focuses on access to finance and the management of commercial risks. Less attention has been given to how weaknesses in customs compliance may affect the integrity and stability of trade finance, particularly in Nigeria. This leaves an important gap in understanding how the effectiveness of customs controls influences the ability of financial institutions to identify and manage risks associated with illicit trade transactions.

This work addresses that gap by examining the relationship between TBML, customs compliance and the stability of Nigeria's trade finance system. It identifies the major methods through which TBML operates, assesses the effectiveness of existing customs compliance measures and examines how regulatory and institutional weaknesses may expose trade finance transactions to financial crime risks. The study also considers recent policy reforms and identifies practical measures for improving coordination, information sharing and regulatory effectiveness.

The contribution of the study lies in examining customs compliance and trade finance as connected aspects of Nigeria's response to trade-related financial crime. Customs authorities and financial institutions deal with different aspects of the same commercial transactions, and weaknesses in either system may reduce the effectiveness of oversight. As Nigeria continues to modernise its customs administration and expand trade opportunities under the African Continental Free Trade Area (AfCFTA), greater attention to the reliability of trade documentation and cooperation among regulatory institutions will be important. Strengthening these connections can help reduce opportunities for TBML and support confidence in Nigeria's international trade and trade finance system.

2. LITERATURE REVIEW

2.1. Conceptual Review

Trade-Based Money Laundering

TBML involves using international trade transactions to conceal the proceeds of crime or move illicit funds across borders. According to the Financial Action Task Force (FATF, 2006), one of the main ways this occurs is through deliberate manipulation of the price, quantity or quality of imported and exported goods. Unlike money laundering carried out primarily through financial transactions, TBML uses seemingly genuine commercial activities to conceal the movement of illicit value.

Several techniques are associated with TBML, including over-invoicing, under-invoicing, multiple invoicing, false descriptions of goods and phantom shipments (FATF & Egmont Group, 2021). For example, an importer may inflate the price of goods to justify transferring more money abroad than the goods are worth. Conversely, under-invoicing may be used to evade customs duties or conceal the actual value of a transaction. Another method involves issuing multiple invoices for a single shipment to support

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repeated payments. Detecting these practices can be difficult because differences in declared trade values do not always indicate wrongdoing. Freight charges, insurance costs, exchange rate fluctuations and contractual arrangements can all affect the final price of goods.

It is therefore necessary to distinguish trade mis-invoicing from TBML. Although the two practices may overlap, inaccurate invoicing does not automatically amount to money laundering. Some cases may involve customs fraud, tax evasion or capital flight without necessarily being intended to conceal criminal proceeds. TBML, by contrast, involves the deliberate use of trade transactions to disguise or transfer illicit value. Tiwari et al. (2025) similarly caution against interpreting trade discrepancies as direct evidence of money laundering without examining the circumstances surrounding individual transactions. Accordingly, this study considers unusual invoicing patterns and discrepancies in trade records as potential warning signs that require further investigation, rather than definitive proof of TBML.

Customs Compliance

Customs compliance refers to how well traders follow the laws and procedures regulating the movement of goods across international borders. This involves providing accurate information about the value, quantity, classification and origin of goods, alongside paying the required customs duties and taxes (WCO, 2021). Beyond revenue collection, compliance helps maintain reliable trade records, supports the smooth movement of legitimate goods and enables customs authorities to identify transactions that may require further investigation.

Given the volume of international trade, customs authorities cannot physically inspect every shipment. Instead, modern customs administration relies on risk-based approaches to identify and examine transactions considered more likely to involve irregularities. These include electronic declarations, risk profiling, targeted inspections and post-clearance audits (WCO, 2018). Such measures are particularly useful in addressing TBML, where the goods being traded may be genuine but their declared value, description or supporting documents have been deliberately altered.

For this study, customs compliance is considered from two perspectives: operational and institutional. Operational compliance focuses on whether traders provide accurate declarations and fulfil their legal obligations. Institutional compliance, on the other hand, concerns the capacity of customs authorities to verify information, detect irregularities, enforce regulations and cooperate with other relevant agencies. Even where electronic customs systems are available, their effectiveness may be limited by poor information sharing, inadequate staff expertise or weak oversight that creates opportunities for collusion. Effective customs compliance therefore depends not only on traders observing established rules but also on the ability of regulatory institutions to enforce them consistently.

Trade Finance and Trade Finance Stability

Trade finance helps buyers and sellers involved in international trade manage payment and delivery risks. Through instruments such as letters of credit, documentary collections and bank guarantees, financial institutions facilitate transactions between parties who may have limited knowledge of each other. These arrangements depend largely on the accuracy and reliability of commercial documents, including invoices, bills of lading, certificates of origin and other shipping records.

This documentary dependence creates an important connection with TBML. Banks generally deal with documents rather than physically inspecting the goods underlying a transaction. If the documents are authentic in form but inaccurate in substance, a financial institution may process a transaction without immediately recognising that the value, quantity or description of the goods has been manipulated (The Wolfsberg Group *et al*., 2019; FATF & Egmont Group, 2021). Customs authorities and financial

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institutions therefore see different parts of the same transaction. Customs is better positioned to assess the goods, valuation and movement of cargo, while banks have information about payments, customers and financing arrangements.

In this study, trade finance stability refers to the ability of the trade finance system to support international transactions reliably while managing financial crime, regulatory, operational and reputational risks. This does not suggest that TBML alone determines the stability of the banking system. However, weaknesses in customs controls and trade documentation can expose financial institutions to greater risks, including increased compliance costs, regulatory scrutiny, difficulties in maintaining correspondent banking relationships and reduced confidence in cross-border transactions.

The relationship between customs compliance and trade finance is closely linked to the information used in processing international transactions. Although customs authorities and financial institutions perform different functions, both rely on accurate records of the goods being traded and the payments involved. Where customs declarations or supporting documents are unreliable, financial institutions may find it more difficult to verify transactions and identify potential financial crime. Strong customs compliance therefore contributes to the integrity of trade finance by improving the reliability of information available to the institutions involved.

2.2. Relationship between TBML, Customs Compliance and Trade Finance Stability

The central relationship examined in this study can be understood as a chain of institutional dependence. TBML represents the underlying threat, customs compliance provides an important preventive and detection mechanism, while trade finance stability represents one of the wider areas that may be affected when those controls fail.

Within Nigeria, this relationship involves several institutions. The Nigeria Customs Service is responsible for customs control and trade compliance, while commercial banks provide trade finance under the regulatory oversight of the Central Bank of Nigeria. The Nigerian Financial Intelligence Unit receives and analyses financial intelligence, while agencies such as the Economic and Financial Crimes Commission may become involved where suspicious activities require investigation or prosecution. No single institution possesses all the information needed to establish whether a complex trade transaction is legitimate.

A weakness at one point can therefore affect the wider system. Where an importer misrepresents the value of a consignment and that information is not effectively challenged at the customs stage, the same invoice may subsequently form part of the documentation relied upon by a financial institution. Equally, unusual payment behaviour identified by a bank may make greater sense when considered alongside customs valuation or shipment information. The strength of Nigeria's response to TBML consequently depends not only on the effectiveness of individual institutions, but also on whether the information held by those institutions can be brought together when risk indicators arise.

Stronger customs compliance can help reduce opportunities for TBML by ensuring that trade transactions are properly documented, verified and monitored. It also improves the reliability of information shared among regulatory institutions. In contrast, weak customs controls can make it easier for illicit transactions to go undetected, exposing Nigeria's trade finance system to greater risks. These risks may affect financial institutions, government revenue, foreign exchange management and confidence in the country's international trade.

2.3 Empirical Evidence on TBML and Trade Mis-invoicing

Saenz and Lewer (2023) estimated the scale of TBML across 26 European Union countries using a

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multiple indicators multiple causes model and data covering 2005 to 2015. Their estimation suggested substantial levels of TBML and indicated a relationship between TBML and more conventional money laundering activity. The study is significant because it moved beyond describing laundering techniques and attempted to estimate the scale of the problem. Milon and Zafarullah (2024) provide a more institutionally relevant comparison. Using primary evidence from customs officials, port personnel, importers and customs brokers at Chattogram Port in Bangladesh, they found under-invoicing, over-invoicing and misdeclaration to be prominent methods associated with laundering through trade. Their study also identified weaknesses in inter-agency cooperation, transaction due diligence and specialist knowledge as factors that increased vulnerability.

Ndoricimpa (2024) examined trade mis-invoicing in Burundi using bilateral trade statistics, with separate analysis by trading partner and commodity. The study found extensive export under-invoicing involving several major trading partners and argued for improved transparency and more detailed investigation at transaction level. One strength of the study is its disaggregated approach, which shows that aggregate national figures may conceal substantial differences across products and trading relationships.

Bodjongo, Omoyi epse Essomme and Fofana (2024) examined trade-related illicit financial flows across 120 developing and emerging economies between 2008 and 2017. Their econometric results showed that, stronger control of corruption, greater price stability and improvements in aspects of the trade and tax environment were associated with lower trade-related illicit flows. Importantly for the present research, the relationship was also observed among African economies.

These studies provide evidence that, trade manipulation occurs across different institutional settings, but they also reveal limitations in the empirical literature. Methods based on trade discrepancies are useful for identifying patterns but are less effective in establishing the intention behind individual transactions.

2.4 Empirical Evidence on Customs Compliance and Institutional Capacity

Research on customs administration offers further insight into the conditions that make trade-related fraud possible. Chalendard *et al*. (2023), using administrative data from Madagascar's principal port, examined manipulation in the allocation of customs declarations to inspectors. They found that, declarations that departed from the prescribed assignment process presented a greater risk of tax evasion but were less likely to be identified as fraudulent and were cleared more quickly. The estimated revenue loss linked to this form of corruption was approximately 3 per cent of customs taxes collected. This finding shows that, weaknesses in customs enforcement are not limited to inadequate technology or smuggling activities. Internal governance problems, particularly the misuse of discretionary powers by customs officers, can also create opportunities for revenue loss and other forms of non-compliance.

Mohammed and Adamu (2023) examined the use of technology within the Nigeria Customs Service in Zone A, Lagos. Based on interviews with ten stakeholders and a review of secondary sources, the study reported improvements in transparency, revenue collection and the examination of imports and exports. However, challenges such as poor network connectivity, inadequate scanning facilities and porous borders continued to affect customs operations. Their findings indicate that, although technology can improve customs performance, its benefits may be limited where infrastructure and enforcement capacity remain inadequate.

Akomolehin and Akomolehin (2026) investigated customs modernisation at Lagos ports, Seme Border and Onne Port. Their comparative study found improvements in cargo clearance, auditability and revenue performance, particularly at Lagos and Onne. However, progress at Seme was less noticeable due to infrastructural limitations and the prevalence of informal trade. The researchers also observed that, the

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benefits of digitalisation varied across locations, depending on institutional capacity, available infrastructure and stakeholders' ability to operate the systems. These differences suggest that, introducing the same technology across customs commands does not necessarily produce similar results.

Artuc *et al*., (2026) examined the enforcement of import restrictions in Nigeria and found that, import bans were not always effectively enforced, with some restrictions contributing to increased informal trade. Although their research focused on trade policy evasion and household welfare rather than TBML, it provides insight into the difficulties of enforcing trade regulations in Nigeria. Where formal restrictions are poorly enforced, traders may resort to informal channels, making the monitoring of cross-border transactions more difficult.

The studies show that customs modernisation can improve efficiency and regulatory oversight, but technology cannot address every weakness in the system. The effectiveness of customs compliance also depends on officer integrity, reliable infrastructure, accountability and cooperation among relevant agencies. These issues remain important in Nigeria, where improvements in formal customs procedures coexist with informal cross-border trade and differences in enforcement capacity across locations.

3. METHODOLOGY

This study uses a qualitative documentary approach to examine the relationship between Trade-Based Money Laundering (TBML), customs compliance and the stability of Nigeria's trade finance system. The research focuses on analysing existing legislation, regulatory frameworks, institutional practices and findings from previous studies rather than collecting primary data through interviews or surveys. This approach allows for a critical assessment of the available evidence on TBML and the effectiveness of customs compliance measures in Nigeria.

The analysis draws on academic publications and institutional documents. Academic materials include peer-reviewed journal articles and relevant scholarly publications on TBML, trade mis-invoicing, customs administration, illicit financial flows, trade finance and financial regulation. Institutional materials include legislation, policy documents, regulatory guidelines and reports issued by bodies such as the Nigeria Customs Service, Financial Action Task Force, World Customs Organization, Egmont Group and other relevant national and international institutions. The review gives priority to recent publications and developments in Nigeria's customs and regulatory environment, while drawing on earlier studies where they provide important conceptual or theoretical insights. Materials were selected based on their relevance to TBML, trade mis-invoicing, customs compliance, customs modernisation, institutional cooperation, financial intelligence and trade finance risks. Studies focusing on Nigeria received particular attention, alongside evidence from other developing economies with similar regulatory and institutional challenges.

The selected materials were examined through thematic analysis, focusing on how TBML operates, the effectiveness of Nigeria's customs compliance measures, recent regulatory reforms and the challenges affecting coordination among relevant institutions. Findings from different sources were compared to identify common patterns, conflicting evidence and areas requiring further investigation. This provided a basis for examining how weaknesses in customs administration and regulatory oversight may affect the integrity of Nigeria's trade finance system.

4. FINDINGS

The paper identifies several issues affecting Nigeria's response to TBML. Trade mis-invoicing, false declarations and other forms of document manipulation remain significant concerns, particularly where weaknesses in customs verification allow irregularities to go undetected. The findings were examined under the following, nature and manifestation of TBML in Nigeria; Nigeria's customs compliance and

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regulatory response; persistent institutional and implementation gaps; as well as implications for Nigeria's trade finance stability and economic governance.

4.1 Nature and Manifestations of TBML in Nigeria

Trade mis-invoicing remains a major concern in Nigeria's international trade, as it can be used to conceal the movement of illicit funds across borders. For instance, importers may deliberately declare goods at a lower value to evade customs duties, while inflated invoices may be used to justify excessive foreign payments or unauthorised transfers of funds. Such practices can also be used to exploit foreign exchange arrangements. Detecting these irregularities can be difficult because the transactions may involve genuine imports or exports, even though the declared values do not accurately reflect the goods being traded.

This finding is consistent with evidence showing that trade mis-invoicing has significant economic consequences for Nigeria. Afolabi (2023), for example, found that, trade mis-invoicing adversely affected domestic resource mobilisation in Nigeria. Omosuyi (2025) similarly reported a negative relationship between trade mis-invoicing and industrial development. These findings suggest that, manipulation of trade transactions is not simply a customs enforcement problem. Revenue losses and the movement of funds outside legitimate channels can affect the resources available to government.

Meanwhile, trade mis-invoicing should not automatically be treated as evidence of money laundering. Differences between the value of goods declared in Nigeria and the figures reported by trading partners may arise from legitimate factors such as freight charges, insurance costs, exchange rate fluctuations, differences in product classification or the timing of trade records. Such discrepancies may raise suspicion, but further investigation is needed to establish whether they involve criminal activity. For this study, unusual trade values are therefore considered potential indicators of TBML rather than proof that money laundering has occurred.

Apart from invoice manipulation, false declarations concerning the quantity, classification, origin or description of goods also present challenges for customs enforcement in Nigeria. Traders may misrepresent these details to evade duties, avoid import restrictions or conceal the true nature of a shipment. Detecting such practices can be particularly difficult when dealing with goods whose prices vary considerably or whose valuation requires specialised technical knowledge.

Nigeria's geographical position and extensive land borders further complicate customs enforcement. The country shares borders with Benin, Niger, Chad and Cameroon, where trade takes place through both recognised border crossings and informal routes. Artuc et al. (2026) found that weaknesses in enforcing Nigerian import restrictions contributed to increased informal trade. While informal trading activities should not necessarily be linked to money laundering, transactions conducted outside established customs procedures may leave limited records, making it more difficult for authorities to monitor the movement of goods and identify suspicious activities.

4.2 Nigeria's Customs Compliance and Regulatory Response

Nigeria has undertaken several reforms to address persistent challenges in customs administration and financial crime control. One of the major developments is the Nigeria Customs Service Act 2023, which provides the legal framework for customs operations, enforcement and the adoption of modern customs procedures (Nigeria Customs Service Act, 2023). The legislation supports efforts to strengthen customs administration beyond its traditional focus on physical inspection and revenue collection, particularly in responding to increasingly complex forms of trade-related financial crime.

Technology has also become an important part of Nigeria's customs reform efforts. The introduction of the Nigeria Integrated Customs Information System (NICIS) improved electronic declarations and cargo

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processing. Building on these developments, the Nigeria Customs Service introduced the B'Odogwu Unified Customs Management System to replace NICIS II and improve the integration of customs operations. The system was first piloted at the Port and Terminal Multi-Services Limited (PTML) Command in Lagos before its gradual expansion to other locations. It has also incorporated key trade documentation processes, including Form M and the Pre-Arrival Assessment Report (PAAR) (NCS, 2025a). These changes are intended to reduce manual processes, improve record-keeping and make customs transactions easier to monitor.

The use of electronic systems is particularly relevant to TBML prevention because it allows customs authorities to maintain transaction records and identify unusual trading patterns. Information from previous declarations, trader profiles and shipment records can assist officers in identifying transactions that require further examination. Mohammed and Adamu (2023), in their study of Zone A, Lagos, reported improvements in transparency, revenue collection and cargo examination following the adoption of technology. Similarly, Akomolehin and Akomolehin (2026) found that, customs modernisation contributed to better clearance efficiency, auditability and revenue performance, although the level of improvement varied across the locations examined.

Despite these developments, difficulties encountered during the introduction of B'Odogwu show that digitalisation alone cannot resolve customs compliance problems. The initial implementation faced challenges relating to system integration, documentation and cooperation with authorised dealer banks. The NCS (2025a) acknowledged resistance and technical difficulties associated with integrating Form M and PAAR processes into the new platform. Such challenges can affect the smooth processing of trade transactions and limit the benefits of electronic customs administration. Reliable infrastructure, cooperation among participating institutions and effective information exchange are therefore necessary for the system to achieve its intended objectives.

Beyond customs modernisation, Nigeria has made progress in strengthening its anti-money laundering framework. Institutions such as the Nigerian Financial Intelligence Unit (NFIU), Central Bank of Nigeria (CBN) and Economic and Financial Crimes Commission (EFCC) perform different but related functions in financial intelligence, banking supervision, investigation and enforcement. An important development was Nigeria's removal from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring in October 2025. According to FATF (2025), Nigeria had completed the action plan required to address the strategic deficiencies previously identified in its anti-money laundering and counter-terrorist financing framework.

4.3 Persistent Institutional and Implementation Gaps

Despite improvements in customs administration and financial regulation, implementing these reforms effectively remains a challenge in Nigeria. A major concern is the limited exchange of information among institutions responsible for overseeing international trade. Although these agencies perform related functions, they often rely on separate information systems, making it difficult to obtain a complete picture of individual trade transactions.

The Nigeria Customs Service maintains records of cargo movements, customs declarations, valuation and classification of goods, while commercial banks hold information on customers, trade payments and financing arrangements. The Central Bank of Nigeria (CBN) supervises banking activities, and the Nigerian Financial Intelligence Unit (NFIU) collects and analyses financial intelligence. Other agencies maintain records relating to shipping, company ownership and criminal investigations. When these records are examined separately, important details that could reveal irregularities may be overlooked.

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This lack of coordination creates opportunities for TBML. For example, a bank may process an invoice without recognising discrepancies in the value of the imported goods because it has limited access to customs records. Similarly, customs officers may clear a shipment without knowing that the associated payments are inconsistent with the trader's financial activities. Comparing information across these institutions would make it easier to identify transactions that require further investigation.

The World Customs Organization (2026) reported that Nigeria's Time Release Study at Tin Can Island Port identified manual procedures and poor coordination among border agencies as major contributors to cargo clearance delays. Although the study focused primarily on clearance efficiency, its findings also highlight weaknesses in information sharing and system integration. These challenges may also affect the ability of customs authorities and other regulatory institutions to identify and investigate suspicious trade transactions.

Similar difficulties have accompanied the introduction of the B'Odogwu Unified Customs Management System. During its expansion in 2025, complaints emerged concerning processing delays, incomplete documentation and challenges with system integration. These concerns were acknowledged by the Nigeria Customs Service and the Nigerian Shippers' Council (NCS, 2025b). Such difficulties do not necessarily indicate that the reform has failed. Rather, they highlight the practical challenges of introducing new technology across institutions with different operational requirements. Reliable infrastructure, adequate training and compatibility between existing systems are necessary if the platform is to deliver its intended benefits.

The skills and professional competence of personnel also influence the effectiveness of customs compliance. Customs valuation, tariff classification and the identification of suspicious trading patterns often require specialised knowledge and sound professional judgement. Although electronic systems can improve processing and reduce certain forms of manual intervention, officers must still be able to distinguish legitimate commercial differences from deliberate manipulation. Banking personnel face similar challenges, particularly when assessing trade finance documents that require an understanding of international trade practices beyond routine financial transactions.

Accountability within customs administration is another area requiring attention. Customs officers exercise considerable discretion in valuation, inspection and cargo clearance, while traders and clearing agents may possess information that regulators cannot immediately verify. Without adequate supervision, these circumstances can create opportunities for bribery, collusion and selective enforcement. Chalendard *et al.* (2023) found that interference in customs inspection and declaration procedures could weaken fraud detection and reduce government revenue. Although their research was conducted outside Nigeria, it highlights the importance of internal controls, electronic audit trails, post-clearance audits and effective supervision in reducing opportunities for abuse.

Challenges at Nigeria's land borders further complicate enforcement. Improvements in electronic customs procedures at major seaports may not produce the same results at border locations where infrastructure is weaker and informal trading activities are more widespread. Akomolehin and Akomolehin (2026) observed differences in the outcomes of customs modernisation across Nigerian trade locations, with infrastructure and informal trade influencing the effectiveness of reforms. This suggests that improvements in customs compliance must extend beyond major ports to address weaknesses across different trade routes.

Nigeria's customs and financial regulatory systems have undergone considerable reform, but important gaps remain in their practical operation. Information sharing, institutional accountability, technical capacity and consistent enforcement continue to affect the country's ability to detect and prevent TBML.

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Greater attention to these weaknesses, particularly the coordination of customs, banking and financial intelligence systems, may produce more meaningful results than introducing additional regulations without adequately implementing those already in place.

4.4 Implications for Nigeria's Trade Finance Stability and Economic Governance

Weaknesses in customs compliance can affect Nigeria's trade finance system because banks and customs authorities handle different aspects of the same international transactions. While banks are concerned with payment arrangements, financing and customer risks, customs authorities focus on the goods being traded and their declared values. Both institutions depend on accurate commercial documentation, making the reliability of trade records important for maintaining confidence in international transactions.

Nigeria's import process illustrates this relationship. Documents such as Form M, commercial invoices, shipping records and Pre-Arrival Assessment Reports (PAAR) are used at different stages of importation and payment processing. The integration of Form M and PAAR into the B'Odogwu Unified Customs Management System reflects efforts to improve coordination between customs procedures and trade-related financial transactions. However, where the value or description of imported goods has been deliberately misrepresented, inadequate verification may expose both customs authorities and financial institutions to risks arising from the same transaction.

For commercial banks, these weaknesses create operational and regulatory challenges. A bank may conduct the required customer due diligence but still process payments supported by inaccurate trade documents. Such transactions can be difficult to identify when invoices appear genuine and relevant customs information is not readily available. Better information sharing between customs authorities, banks and financial intelligence agencies would improve transaction monitoring and help financial institutions identify suspicious activities without taking over the inspection responsibilities of customs officers.

The implications also extend to Nigeria's international banking relationships. Nigerian banks rely on correspondent banks to facilitate cross-border payments and settle international trade transactions. These relationships depend partly on the confidence that foreign financial institutions have in domestic regulatory controls and the management of financial crime risks. Nigeria's removal from the FATF list of jurisdictions under increased monitoring in October 2025 marked progress in addressing weaknesses in its anti-money laundering framework (FATF, 2025). Nevertheless, maintaining this progress requires continued enforcement and effective oversight of trade-related financial activities.

Trade mis-invoicing can also create difficulties for foreign exchange management. Nigeria's experience with foreign exchange shortages and regulatory controls makes accurate trade documentation particularly important. Inflated import invoices may be used to justify foreign currency payments that exceed the actual value of goods, while deliberate under-valuation of exports may allow some proceeds to remain outside formal financial channels. Such practices can undermine the accuracy of trade records and complicate efforts to monitor foreign exchange transactions.

Government revenue is another area affected by weaknesses in customs compliance. Under-invoicing, incorrect classification and undeclared imports can reduce the duties and taxes collected from international trade. Afolabi (2023) found that trade mis-invoicing adversely affected domestic resource mobilisation in Nigeria, highlighting its potential fiscal consequences. Revenue lost through these practices reduces the resources available to government and may increase pressure on other sources of public financing.

5. CONCLUDING REMARKS

This paper assessed Trade-Based Money Laundering (TBML), customs compliance and the stability of

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Nigeria's trade finance system. The review shows that, TBML extends beyond customs violations or banking-related financial crime. It involves the manipulation of trade transactions across different stages of importation, exportation and payment processing. Weaknesses in customs enforcement, financial supervision and information sharing can therefore create opportunities for illicit activities that affect several institutions. Also, trade mis-invoicing, false declarations, incorrect classification of goods and other forms of trade manipulation remain major concerns within Nigeria's trading environment. However, discrepancies in reported trade values do not necessarily indicate money laundering. Differences may arise from freight charges, insurance costs, exchange rate fluctuations and variations in valuation or reporting procedures. Such irregularities should therefore be investigated carefully rather than automatically treated as evidence of TBML.

Nigeria has made considerable progress in improving customs administration and financial crime regulation. The Nigeria Customs Service Act 2023, the introduction of the B'Odogwu Unified Customs Management System and the expansion of electronic customs procedures have provided a stronger foundation for transparency, record-keeping and regulatory oversight. Improvements in the wider anti-money laundering framework have also strengthened the country's capacity to address financial crime risks. Nevertheless, these reforms have not eliminated the challenges affecting customs compliance and enforcement.

One of the major concerns identified is the limited coordination among institutions involved in international trade. Customs authorities, commercial banks and financial intelligence agencies hold different information about the same transactions, yet their systems are not always adequately connected. Poor information sharing, inadequate technical capacity, inconsistent enforcement and weaknesses in border controls can make it difficult to identify suspicious activities. These problems highlight the need to improve how existing reforms are implemented rather than relying solely on the introduction of new regulations.

The implications extend beyond customs revenue collection. Inaccurate trade documentation can expose financial institutions to regulatory and operational risks, increase compliance costs and affect confidence in correspondent banking relationships. Trade manipulation may also contribute to government revenue losses, distort foreign exchange transactions and create unfair conditions for legitimate businesses. Although customs compliance alone does not determine Nigeria's financial or economic stability, weaknesses in customs administration can increase the risks faced by institutions involved in international trade.

Suggestions

Based on the findings, it was suggested that, greater attention should be given to improving cooperation among institutions responsible for customs administration and financial regulation in Nigeria. The Nigeria Customs Service (NCS), Central Bank of Nigeria (CBN), Nigerian Financial Intelligence Unit (NFIU), commercial banks and other relevant agencies need more effective arrangements for sharing information. This would allow customs declarations, trade payments and financial intelligence to be compared when suspicious transactions are identified.

Moreover, customs enforcement needs to place greater emphasis on identifying high-risk transactions rather than relying mainly on routine inspections. Better use of transaction histories, valuation records and post-clearance audits would help customs officers identify unusual trading patterns. However, discrepancies in trade values should prompt further investigation rather than automatically be treated as evidence of TBML. Achieving this requires investment in the professional development of customs officers, banking personnel and financial investigators, particularly in customs valuation, trade

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documentation, financial intelligence and the detection of complex trade manipulation.

Finally, beyond the introduction of new policies, Nigeria needs to ensure that existing reforms produce measurable improvements in customs compliance and financial crime prevention. Institutional cooperation should be assessed through practical results, including the quality of intelligence sharing, the identification and investigation of suspicious trade transactions, and improvements in regulatory compliance. Nigeria has already made progress in strengthening its legal and institutional framework. The priority should now be consistent implementation, effective monitoring and greater accountability across the institutions responsible for protecting the integrity of international trade.

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