

## Illicit Financial Flows, Trade Misinvoicing and Multinational Tax Avoidance: Exploratory Approach

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**Abstract.** Illicit financial flows (IFFs) linked to corruption, criminal activity, and tax evasion are a growing source of concern. The Sustainable Development Goals (SDGs) contain a goal to reduce IFFs. On how to identify illegal money flows, and even less on how to measure them, there is currently no clear consensus. While it is obvious that tax fraud and evasion fall under the definition of "illicit," there have been various arguments made in favor of expanding the term to also cover legal behavior that lowers tax obligations. There are several justifications for this, including the lexical definition of "illicit" and the existence of unclear enforcement. One of the most convincing reasons from a practical standpoint has been the idea that there is a significant "grey zone" that reflects a lack of distinct boundaries between legal tax planning and tax evasion. This is frequently associated with the notion that huge multinational corporations engage in illicit financial transfers in areas of practice where transfer pricing and trade misinvoicing overlap. This study examines definitional concerns and trade misinvoicing estimates to determine whether these behaviors and problems are similar or dissimilar. This study contends that lumping together lawful and illegal behavior under a single term results in ambiguity and a loss of clarity.

**Keywords:** Illicit Financial Flow, Trade Misinvoicing, Transfer Pricing, Tax Avoidance, Multinational Trade, Corruption, Tax Fraud.

### 1. Introduction

The amount of illicit financial flows out of Nigeria was first brought to the attention of the world by the Global Financial Integrity Report (2010). Africa was a net creditor to the world between 1980 and 2009,

according to the analysis, which covered this time period. During this time, Africa lost between \$597 billion and \$1.4 trillion in net resource transfers. The primary factor driving net resource transfers out of Africa was illicit financial flows. Nigeria, Egypt, and South Africa accounted for the bulk of the outflows from the region. Ndikumana and Boyce's studies on money flows into and out of African nations (2008, 2010, 2014) reveal that there have been significant capital outflows from African nations to Western jurisdictions. Sub-Saharan Africa became a "net creditor" to the rest of the globe as a result of these outflows being greater than the continent's external liabilities (Ndikumana & Boyce, 2008). Ndikumana (2017) claims that as of 2010, the continent had a net credit balance of US\$1.4 trillion with the rest of the world. According to these analyses by the Global Financial Integrity and Ndikumana and Boyce (2008), Nigeria was the continent's leading source of capital flight. These conclusions were reaffirmed in the 2015 report of the High-Level Panel on Illicit Financial Flows from Africa of the African Union.

According to the High-Level Panel's (HLP) Report on Illicit Financial Flows from Africa, Nigeria was responsible for 30.5% of all such outflows. Between 1970 and 2008, Nigeria suffered a loss of \$217.7 billion due to illicit cash flows. Ndikumana and Boyce (2008) only studied data for the 40 countries of Sub-Saharan Africa, but Kar and Cartwright-Smith (2014) looked at every African nation. Both analyses identified fifteen of the top twenty nations with cumulative illegal outflows despite variances in sample size and data problems. Both analyses also revealed that Nigeria had the highest total illicit outflows between 1970 and 2004 and was at the top of the list. However, more recent data for the years 2004 to 2013 from the Global Financial Integrity

revealed that Nigeria replaced South Africa as the nation with the biggest average illicit financial outflows in Africa for the ten years covered (Kar and Spanjers, 2015). Data showed that Nigeria ranked tenth among the top source nations for illicit transfers in an examination of Illicit Financial Flows from Developing Countries for the years 2004–2013.

Oil-exporting nations like Nigeria are susceptible to illicit financial transfers, according to IFF studies. 92% of Nigeria's total exports of goods are tied to the oil and gas industry. According to findings from a UNCTAD study on trade misinvoicing of primary commodities conducted in 2016, export misinvoicing is a significant method of transferring capital out of Nigeria. Under-invoicing of imports may indicate undervaluation of imports or the smuggling of oil into the nation.

Over the past 20 years, illicit financial flows (IFFs) have proven to be a source of increasing worry, reflecting the harm done by kleptocracy, corruption, state capture, and organized crime. The involvement of foreign banks, real estate, and corporate legal structures as vehicles for enabling illegal riches to be held out of the reach of law enforcement is highlighted by a focus on cross-border financial flows in particular.

Diverse and difficult to quantify cross-border movements of money (or other assets) are linked to crime, corruption, and tax avoidance. Large estimates of the magnitude of illegal cash flows, however, have been crucial in gaining attention and fostering political momentum. Transparency International claimed that ten of the most notoriously dishonest leaders of state, including Suharto of Indonesia, Sani Abacha of Nigeria, and Ferdinand Marcos of the Philippines, had collectively embezzled up to US\$60 billion from their countries over the preceding 20 years in 2004. (Transparency International 2004). Peter Reuter and Edwin Truman published "Chasing Dirty Money: The Fight Against Money Laundering" examined new estimates of the proceeds of crime and corruption that are concealed through money laundering and came to the conclusion that they are likely to total many hundreds of billions of dollars every year. A global estimate of illicit financial flows in the hundreds of billions was provided by Raymond Baker in his seminal book *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free Market System*, which was released in 2005. The NGO Global Financial Integrity, which he later founded with the stated purpose of "quantifying and studying the flow of illegal money while promoting public policy solutions to curtail it," has made known

estimates of the annual illicit financial flows from developing nations of around one trillion dollars.

## **2. Illicit Financial Flows: Concepts and Components**

### **2.1. Illicit Financial Flows**

In general, interest in illicit financial flows is more recent, despite the fact that economists and international organizations have studied and discussed capital flight for decades. Some people consider the word "illicit financial flow" to be nebulous and imprecise, and the topic to be debatable. Lack of terminological clarity is a defining feature of the term, which can occasionally prevent the creation of sensible policy solutions (ECA, 2013; Ritter, 2015). According to Chowla and Falcao (2016), there is still no definite consensus on the conceptual and definitional aspects of the phrase "illicit financial flows." Thus, depending on the entity defining it, definitions of illicit financial flows have changed throughout time. Here, a few definitions are taken into account.

Illicit financial flow refers to the portion of illicit finance that leaves the country by moving across borders or through other means. As a result, measures to combat domestic illicit finance will be different from those to combat illegal financial flows. Due to globalization and the simplicity of sending money electronically across borders, illicit financial flows have accelerated their growth.

Illicit financial flows have also been characterized by other international organizations, including the UN (2016, 2016a), OECD (2013, 2015), and World Bank (2016). The definition provided by the Global Financial Integrity was adopted by the AU/ECA High Level Panel's Report (2015), which described illicit financial flows as "money illegally earned, transferred, or used." In contrast, the AU/ECA HLP Report (2015, p. 23) extended its definition and stated that illicit financial flows are operations "that, while not always absolutely illegal, go against established laws and conventions, including legal duties to pay tax." It so includes not just unlawful behavior but also that which is objectionable in light of unwritten laws, the intent of the laws, or the purposes for which they were created. According to the Institute for Austrian and International Tax, African Tax Institute, and UNODC (2016), this definition includes all flows, whether they are authorized or not.

## 2.2. Components of Illicit Financial Outflows:

Money laundering, bribery, and tax evasion were frequently included in definitions of illicit financial flows and transfers. (ECA, 2013; AU/ECA/2015) The following are the key elements of illicit financial flows:

**a. Corruption:** the gains from bribery, theft of public funds, or abuse of authority by public servants.

**b. Criminal activities:** the earnings from illegal acts such as drug trafficking, human trafficking, racketeering, counterfeiting, illegal goods, and financing for terrorism.

**c. Commercial activities:** profits from actions taken to evade taxes, conceal riches, and avoid customs charges and levies. They also include the proceeds of illegal business practices such as unfair contracts, mispricing in trade, misinvoicing of services and intangibles, and tax evasion.

According to Baker (2005), revenues from criminal activity make up around 35% of IFFs, with laundered business money through multinational corporations making up about 60%. Only roughly 3–5% of IFFs come from corruption-related proceeds. The elements of illegal financial transfers don't, however, exclude one another. Government officials' corruption helps some criminal operations of multinational corporations (bribery). Additionally, the ratios could differ between nations. Therefore, it's possible that corruption has a higher prevalence in several African nations where big money is embezzled by government employees and sent overseas.

The HLP Report (AU/ECA, 2015) states that holding money, evading or actively avoiding taxes, and dodging customs fees and domestic levies are some of the motivations behind illicit financial transfers through commercial activities.

Commercial tax evasion may result from trade mispricing, often known as trade misinvoicing or the misinvoicing of international trade transactions. It is a method for secretly transporting money out of a nation. It can be further separated into under-invoicing for exports and over-invoicing for imports. The price, quality, and quantity of traded items are inflated (AU/ECA, 2015). Importers overstate their expenses while exporters understate their income, and their trading partners are told to deposit the difference in foreign accounts (Ritter, 2015). According to empirical research, a significant portion of illicit transfers from developing countries are caused by trade mispricing (UNCTAD/Ndikumana, 2016). The HLP Report concentrated on Trade Mispricing as a key channel for smuggling money out of African nations. Companies engage in trade mispricing for a variety of reasons, including

financial gain, evading currency and customs restrictions, and reducing administrative hassles (AU/ECA, 2015, p.27; UNCTAD/Ndikumana, 2016).

## 2.3. Nigerian Financial Transfers from Illicit Sources: Facilitators/Drivers

Who or what are the forces behind the illegal transfers of capital out of Nigeria? The following factors, many of which are significant in Nigeria, were recognized by the AU/ECA Report as enablers and drivers of illicit financial flows out of Africa. These include tax incentives, insufficient regulatory frameworks, financial secrecy jurisdictions' presence, tax havens' existence, and beneficial ownership.

### i. Poor Governance

Ineffective regulatory procedures and corruption are examples of poor governance. Nigeria is ranked 136th out of 176 nations in Transparency International's 2016 Corruption Perception Index, which measures corruption in the public sector. Nigeria had a score of 28 out of 100. Nigeria fell in the rankings in 2017, falling to position 148 with a score of 27, demonstrating that corruption is still pervasive in Nigeria and takes many various forms (Transparency International, 2018). According to Jose Ugaz, Chair of Transparency International, "In too many countries, people are deprived of the most basic needs and go to bed hungry every night because of corruption, while the powerful and corrupt enjoy lavish lifestyles with impunity," highlighted the need to address issues of corruption urgently in a 2017 Report. Corruption makes it easier for illegal money to leave Nigeria. According to Ayodele and Bamidele (2017) and Otusaunya and Lauwo (2012), the availability of tax havens, secrecy jurisdictions, fictitious foundations, disguised corporations, and anonymous trusts in industrialized nations allows for these outflows. Due to the high level of bank secrecy, these offshore financial centers (OFCs) draw and conceal illicit funds from developing countries (Otusaunya, 2012). The Nigerian Extractive Industry Transparency Initiative (NEITI) Audit Reports on Nigeria's extractive industry have brought attention to some of the opaque practices in the sector that enable illicit financial flows in the form of tax evasion and avoidance by multinationals operating in the oil and gas sector.

### ii. Tax Evasion / Avoidance/Payment of Royalties/compensation

Shell and Chevron have been the subject of ongoing disputes between the federal and state governments

on the payment of taxes and royalties. International oil firms have bought off Federal Inland Revenue Service employees to reduce their tax obligations (Bakre, 2015) The Halliburton bribery case, where US\$182 million in bribes were funneled to Nigerian officials for a project worth US\$6 billion in engineering and construction labor, serves as a perfect illustration of this. The Bonny Island Liquefied Gas Project was first proposed by the Nigerian government in 1994, which is when the Halliburton scandal first surfaced. Through the NNPC, some of the money was transported to Nigeria and was intended for the ruling party. Although one of the attorneys was imprisoned in the USA in 2012, the Nigerians implicated have not yet been charged with financial fraud and money laundering (The Indian Express, 2015).

There have been reports of numerous instances of tax evasion, but more recently, the House of Representatives has started an investigation into a US\$21 billion oil loss and massive debts due to local enterprises by foreign oil companies (IOCs). The Ad Hoc Committee will look into how much money oil corporations lost because of unreported crude oil. In order to ascertain the causes of the loss of US\$21 billion, ascertain why the proper actions were not taken at the appropriate time to remedy the situation, and recover the revenue, it is necessary to look into the operations of the deep offshore and Inland Basin Production Sharing Contracts Act (PSC) as they pertain to the NNPC and IOCs (Vanguard, 2018).

### **iii. Tax Waivers and Revenue Loss**

Studies have shown that Nigeria loses a significant amount of money each year due to tax exemptions. In a study published in 2013, Oriakhi and Osemwengie demonstrated how tax incentives caused the nation to lose money. Tax holidays, investment allowances, rural investment allowances, tax-free interest, deductible capital allowances, research and development, tax-free dividends, tax treaties, reliefs and allowances, and capital allowances are just a few of the sub-headings under which tax incentives have been used in Nigeria (Oriakhi and Osemwengie, 2013; CBN, 2013). Tax incentives are intended to draw, keep, or raise investment in particular economic sectors in order to support economic growth. It is anticipated that the money lost through tax incentives will eventually be made up by an increase in the tax base's capacity as a consequence of higher tax compliance or capital development, which will promote the expansion of the tax base (Oriakhi and Osemwengie, 2013). However, it is believed that between 2010 and 2014, Nigeria lost

billions of dollars as a result of the indiscriminate waivers granted to unworthy businesses, largely on the advice of the Nigerian Investment Promotion Commission (NIPC). Nigeria lost \$1.17 billion between 2009 and 2014 and \$1.56 billion between 2014 and 2016, according to a NEITI analysis. According to reports, while oil companies were supposed to pay 65% in taxes under the Petroleum Profits Tax Act, dishonest NIPC employees placed these businesses under the Industrial Development (Tax Relief) Act, making them eligible for Pioneer Status. According to reports, tax holidays have occasionally been given to businesses whose goods didn't fit the bill for the industries or products listed in the Schedule to the Act. Because certain pioneer credentials were backdated, the federal government was forced to repay taxes that had previously been paid (Onwuemeyi, 2018).

### **iv. Existence of Tax Havens and Financial Secrecy Jurisdictions**

Illegal transfers out of the country have been enabled by the existence of hidden financial jurisdictions and tax havens that make it simple for stolen money and assets to be repatriated overseas. According to studies, the wealthy in many developing nations, particularly Politically Exposed Persons (PEPs) in Nigeria, hold assets in foreign financial institutions (Otusanya, 2012; Otusanya and Lauwo, 2012). The gains from theft, fraud, and embezzlement have also been hidden, either as food or cash. OFCs make it easier for illegal money to move through the financial system. It is well-known that PEPs in Nigeria have engaged in money laundering, bought yachts, private aircraft, expensive homes and automobiles, and other luxury items, then hidden them in the United States, United Kingdom, Switzerland, United Arab Emirates, and other nations. A number of wealthy Nigerians, including businesspeople, politicians, and retired military personnel, were listed in the Panama Papers, which exposed over 11.1 million files of an offshore company. They were listed as owning and concealing their wealth, some of which was acquired through corruption, in offshore accounts (Ogbu, 2016).

### **v. Beneficial ownership**

Additionally, a NEITI analysis revealed that certain oil corporations run sham businesses. According to Section 2.5 of the Extractive Industries Transparency Initiative (EITI) Standard 2016, nations should keep a register of the beneficial owners of corporate entities that participate in the extractive industries through investment, operation, or bidding. This register should be open to the public. The natural

person(s) who ultimately own or manage a corporation, whether directly or indirectly, are referred to as the company's "beneficial owner(s)" according to EITI. Nigeria's approach to beneficial ownership is outlined in a Road Map for Beneficial Ownership issued by NEITI. It calls for the real owners of the mining and oil firms doing business in Nigeria to be made publicly known. NEITI attempted to get the beneficial owners of Nigerian mining and oil firms for the 2015 Oil and Gas Report, but it was unable to obtain the identities of natural owners from publicly traded corporations and fully owned subsidiaries..

#### **2.4. Effect of Nigeria's exposure to illicit financial flows**

Nigeria has reaped hundreds of billions of dollars in oil revenue since oil was discovered there in 1956. Despite these enormous profits, socioeconomic progress has happened slowly and has excluded the majority of the population. As demonstrated by the data, a large amount of these profits was lost through unauthorized money transfers out of Nigeria. Nigeria lost more than US\$200 billion between 1970 and 2008. Since then, more billions have been lost as a result of corruption, tax exemptions, and mispricing of exports and imports by Nigeria's main oil trading partners. With the help of bank officials and tax havens and money laundering, much of the money lost to governmental and private corruption has left the nation. According to recent information from the Federal Inland Money Service (FIRS), 29 Nigerians and Nigerian companies registered their private planes in South Africa in order to conceal their riches and avoid paying taxes in Nigeria and rob the Nigerian government of tax revenue (Vanguard editorial, November 3, 2017). According to the literature, illicit cash flows have a negative impact on development (Nkurunziza, 2012; ECA, 2013; Council for International Development, 2014). What effects have illegal financial flows had on the growth of Nigeria?

##### **i. Reduction in Tax Revenue:**

The various ways that illicit flows are shifted out of Nigeria have resulted in significant losses for the government in terms of export revenue, tax revenue (business income tax, personal income tax, customs taxes, etc.), and other sources of income. Nigeria entered an economic crisis in 2016 as a result of insufficient resources, which she came out of in 2017.

##### **ii. Impact on Service Delivery:**

High levels of illicit flows have decreased the amount of money available to meet the majority of Nigerians' fundamental requirements. Many Nigerians still do not have access to basic utilities including electricity, reliable transportation, electricity, housing, and sanitary facilities.

##### **iii. Growing Inequality:**

Inequality in Nigeria has gotten worse due to corruption, particularly among the corporate and political elites. While the richest people live in splendour at home in Nigeria and in affluence abroad nations where their looted wealth is stashed, the lowest 20% of the population control only 4% of the country's wealth.

##### **iv. Co-option of Political Power and Influence by Beneficiaries of Corruption:**

Beneficiaries of illicit financial flows, particularly through corruption, have amassed enormous riches and are consequently in a position to have more influence over the formulation of public policy. They have positions of political and economic authority, which makes it challenging for the government to carry out specific policies, such as those designed to eliminate or curtail corruption.

##### **v. Impact on Governance:**

Illegal financial flows contributed to the decline (due to bribery and theft of institutions for public resources, regulation, and other things (such as banks, financial intelligence units, legal systems). Several judges were detained for bribery in 2016 (Vanguard, 2016). Many Nigerians feel that they are primarily to blame for the Economic and Financial Crimes Commission's (EFCC) inability to successfully prosecute charges of corruption brought against powerful individuals in the nation.

##### **vi. Slow Industrial Growth:**

Foreign currency requirements have decreased as a result of illicit money transfers. Encourage Nigeria's industrial development. Due to a lack of foreign currency for the importation of machinery and plant, numerous factories throughout the nation have shuttered. The high youth unemployment rate in Nigeria has been exacerbated by this. In general, illegal financial flows contributed to the depletion of Nigeria's foreign reserves (which dropped to roughly \$20 billion in 2015–16), the reduction of tax revenue,

the worsening of poverty and inflation, and the widening of income inequality. Citing a press release from the Federal Government regarding some identified stolen public funds, Prof. Sagay stated in his speech at the Conference on Promoting International Cooperation in Combatting Illicit Financial Flows held in Abuja in June 2017: "One third of the stolen funds could have provided 635.18 kilometers of roads, 36 ultra-modern hospitals per state, 183 schools, educated 3,974 children from primary to tertiary level at 25.24 million per child and built a university (Sagay, 2017).

### 3. Magnitude of Illicit Financial Transfers from Nigeria

Due to their clandestine nature and secret character, IFFs are difficult to estimate. There are data challenges as well. The AU/ECA (2015) study focused on trade mispricing and evaluated gross outflows. However, the majority of research reveal that the majority of illegitimate transfers out of developing nations are made up of tax-related elements, such as tax evasion and avoidance, as well as transfer mispricing (Ritter, 2015). The evidence that is now available indicates that Nigeria is a significant source nation for illegitimate financial transfers out of Africa from 1970 to 2008. According to statistics from three studies, Nigeria was the main source nation for illicit flows out of Africa up until 2008, as seen in Tables 1 and 2 below.

**Table 1:** Top 10 African Countries by Cumulative Illicit Financial Flows, 1970 – 2008

Country	Cumulative IFFs US\$ Billions	Share in Africa's Total IFF (%)
Nigeria	217.7	30.5
Egypt	105.2	14.7
South Africa	81.8	11.4
Morocco	33.9	4.7
Angola	29.5	4.1
Algeria	26.1	3.7
Cote d'Ivoire	21.6	3
Sudan	16.6	2.3
Ethiopia	16.5	2.3
Congo Republic of	16.2	2.3

Source: AU/ECA, 2015

Nigeria was the origin of illicit financial flows out of Africa between 1970 and 2008, according to the report of the High Level Panel (HLP) on Illicit Flows from Africa. 30.5% of Africa's illegal financial outflows were from Nigeria. According to the report, between 1970 and 2008, Nigeria lost \$217.7 billion to unauthorized financial transfers. Two other studies supported Nigeria's position as the continent's largest source of illicit transfers outside of the continent. From 1970 to 2004, capital flight from Sub-Saharan African nations was examined. Nigeria was the country from which capital departed Sub-Saharan Africa at the highest rate, according to Ndikumana and Boyce (2008, 2010). As indicated in Table 2, Nigeria was deemed to be the top source country for illicit money flows according to Global Financial Integrity's research of Illicit Financial Flows from Africa over the same time period of 1970-2004.

**Table 2:** Top 20 African Countries, Cumulative Illicit Flows, 1970-2004, (Millions USD)

Ndikumana and Boyce, 2008		Kar and Cartwright-Smith, 2014	
Country	Illicit Flows	Country	Illicit Flows
Nigeria	165,697	Nigeria	69,543
Angola	42,179	Egypt	70,498
Cote D'Ivoire	34,350	Algeria	25,678
Congo Dem Rep	19,573	Morocco	24,985
Cameroon	18,379	South Africa	24,880
South Africa	18,266	Cote D'Ivoire	16,102
Ethiopia	17,032	Congo Republic of	14,132
Zimbabwe	16,152	Sudan	12,832
Congo Republic of	14,951	Angola	12,659
Mozambique	10,678	Tunisia	11,748
Zambia	9,770	Cameroon	11,452
Sudan	9,219	Ethiopia	10,876
Gabon	8,581	Gabon	8,176
Ghana	8,504	Zimbabwe	6,822
Madagascar	7,431	Tanzania	6,561
Tanzania	5,185	Zambia	5,860
Uganda	4,982	Madagascar	53,455
Sierra Leone	4,608	Kenya	5,139
Rwanda	3,367	Mozambique	4,945
Burkina Faso	3,077	Ghana	4,536

Source: Kar and Cartwright-Smith, 2014

Ndikumana and Boyce (2008) only studied data for the 40 countries of Sub-Saharan Africa, but Kar and Cartwright-Smith (2014) looked at every African nation. Both analyses found fifteen of the top twenty nations with cumulative illicit outflows, despite disparities in sample size and data problems. Both analyses revealed that Nigeria had the highest total illicit outflows between 1970 and 2004 and was at the top of the list. However, more recent data for the years 2004 to 2013 from the Global Financial Integrity revealed that Nigeria replaced South Africa as the nation with the biggest average illicit financial outflows in Africa for the ten years covered (Kar and Spanjers, 2015). Data showed that Nigeria ranked tenth among the top source nations for illegal transfers in an examination of Illicit Financial Flows from Developing Countries for the years 2004–2013 (Kar and Spanjers, 2015). The ten developing nations that were the top sources of illicit financial flows from 2004 to 2013 are listed in Table 3. The survey identified the ten nations that accounted for 67.3% of all illicit financial outflows worldwide.

**Table 3:** Ten Highest Source Countries for Illicit Financial Flows: 2004-2013 (Millions of nominal USD)

Rank	Country	Cumulative	Average
1	China Mainland	1,392,776	139,228
2	Russian Federation	1,049,772	104,977
3	Mexico	528,439	52,844
4	India	510,286	51,029
5	Malaysia	418,542	41,854
6	Brazil	226,667	22,667
7	South Africa	209,219	20,922
8	Thailand	191,768	19,177
9	Indonesia	180,710	18,071
10	Nigeria	178,040	17,804
Total of Top ten		4,885,718	488,572
Top Ten as Percentage of Total		67.30%	
Developing World Total		7,847,921	784,792

*Source: Kar and Spanjers, 2015*

Nigeria is a significant source country for illicit financial flows from Africa and from all developing countries, as indicated in Tables 2 and 3 of all available analysis of illicit financial flows from Africa. This has effects on Nigeria's development and mobilization of local resources. Distribution of unauthorized transfers from Nigeria between 2004 and 2014 is shown in Table 4.

**Table 4:** Illicit Financial Flows from Nigeria: 2004 -2013 (Millions USD)

Years	IFFs	Trade Misinvoicing Outflows	Illicit Hot Money
2004	1,680	1,680	0
2005	17,867	523	17,345
2006	19,660	2,008	17,151
2007	19,335	4,936	14,399
2008	24,192	3,410	20,783
2009	26,377	0	26,377
2010	19,376	4,231	15,144
2011	18,321	13,056	5,265
2012	4,998	0	4,998
2013	26,735	0	26,735
Cumulative	178,040	29,844	148,197
Average	17,804	2,984	14,820

*Source: Kar and Spanjers, 2015*

According to the table, Nigeria lost 17.8 billion US dollars annually on average between 2004 and 2013.

#### 4. Nigeria's Extractive Sector

The oil and gas industry and the solid minerals industry make up Nigeria's extractive sector. The Nigerian Extractive Industries Transparency Initiative (NEITI), which was founded, has published reports on Nigeria's extractive industry. Oil and gas industry: According to OPEC data, Nigeria has the greatest proven gas reserves in Africa and is second only to Libya in terms of crude oil reserves.

It has the ninth-largest proven reserves of natural gas and crude oil worldwide (NEITI, 2016). Nigeria had 192.065 Standard Cubic Feet (scf) of natural gas reserves and 37,062.06 million barrels of oil as of the first day of 2016.

(97.208 scf of associated gas and 94.857 scf of non-associated gas). In 2015, the oil and gas industry was responsible for around 89.29% of all exports from the nation. The oil and gas industry plays a significant role in the economy. From 12.86% in 2013 to 10.80% in 2014 to 6.4% in 2015, the contribution to GDP fell. Crude oil prices fell from a peak of \$114.17 per barrel in June 2014 to \$53.1 per barrel in December 2015, which is what caused the fall. The contribution of oil to government income and exports between 2010 and 2015 is shown in Table 5.

**Table 5:** Contribution of Oil to Government Revenue and Exports: 2010 – 2015 (%)

Year	Contribution to Revenue (%)	Contribution to Exports (%)
2010	73.88	94.08
2011	79.87	94
2012	75.33	94.19
2013	69.77	92.99
2014	67.47	92.54
2015	55.41	92.63

*Source: CBN Statistical Bulletin, cited in BUDGIT, 2017*

## 5. Conclusion and Recommendations

The High-Level Panel Report on Illicit Financial Flows highlighted the severity of the issue for African nations, particularly Nigeria. Since then, there has been a rise in worldwide awareness of the problem of illicit cash flows from impoverished nations. Oil-exporting nations make up the largest portion of illegal money flows coming out of Africa, according to the African Union Report on Illicit Financial Flows. Between 1970 and 2008, Nigeria lost \$217.7 billion to illicit financial flows, or 30.5% of all illicit flows out of Africa. Nigeria is ranked as the tenth-highest source country worldwide for illegal financial transfers by the Global Financial Integrity Group. The High-Level Panel and Global Financial Integrity Reports, as well as the UNCTAD/Ndikumana Reports, provided additional support for the literature review in this report regarding the scope of illegal financial transfers coming out of Nigeria. Nigeria is now the second-largest recipient of illicit transfers among African nations, trailing only South Africa, according to a recent research by the Global Financial Integrity. However, the amount of illicit transfers coming from Nigeria is significant enough to be considered a critical policy issue that requires attention.

According to the literature, all of the enablers and drivers of illegal transfers listed in the High-Level Panel Report also act as catalysts for illicit capital transfers out of Nigeria. The majority of illegitimate transfers occur as a result of tax fraud, particularly by multinational corporations. Another factor that facilitates illegal transfers out of Nigeria is corruption, both in the public and commercial sectors. Another significant facilitator of unauthorized capital transfers from Nigeria, an oil-exporting and -importing nation, is trade misinvoicing, particularly by Nigeria's oil trading partners. Excessive tax breaks and incentives also

made capital outflows possible. Tax reforms are necessary to both shut some of these doors and increase income. Nigeria has implemented tax reforms over the years, particularly at the federal level, to increase the tax income to GDP ratio in response to diminishing oil export revenues and the need for revenue diversification. Some States have also implemented tax measures to increase their internally generated revenue as a result of decreasing allocations to States from the Federation Account.

It is advised that improved documentation of government operations be made. It is important to increase the capacity of academics so that they can study both the trends in illicit transfers coming from their own nations and the agents/forces behind these transfers.

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