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Challenges of Restraining of Illicit Financial Flows in Nigeria's Extractive Sector

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Abstract- Illicit Financial Flows, also knowns as Capital Flight, has become a common practice across the African continent. The Global Financial Integrity (2019) discovers that between 1980 and 2009, illicit financial outflows from Africa amounted to US $ 1.22 – 1.35 trillion. Evidence shows that illicit financial flow out of the continent is associated with extractive industries and natural resources generally. Nigeria is one of the resource rich countries crippling with the effects of capital flight in Africa. Despite the absence of concrete studies on the scale and scope of this condition in Nigeria[1], it is critical to unpack the underlying challenges and contributing factors the practice across a spectrum of institutional arrangements, rules and political commitment to lesser extent. This short paper sheds light on the illicit financial flows in the context of extractive industries and unpacks factors associated with absence of effective anti-corruption measures and poor governance of extractive industries.

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Challenges of Restraining of Illicit Financial Flows in Nigeria's Extractive Sector

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Abstract- Illicit Financial Flows, also knowns as Capital Flight, has become a common practice across the African continent. The Global Financial Integrity (2019) discovers that between 1980 and 2009, illicit financial outflows from Africa amounted to US $ 1.22 – 1.35 trillion. Evidence shows that illicit financial flow out of the continent is associated with extractive industries and natural resources generally. Nigeria is one of the resource rich countries crippling with the effects of capital flight in Africa. Despite the absence of concrete studies on the scale and scope of this condition in Nigeria[1], it is critical to unpack the underlying challenges and contributing factors the practice across a spectrum of institutional arrangements, rules and political commitment to lesser extent. This short paper sheds light on the illicit financial flows in the context of extractive industries and unpacks factors associated with absence of effective anti-corruption measures and poor governance of extractive industries.

I. Introduction

Nigeria is one of the leading resource-rich countries in the world and a member of the organization of Petroleum Exporting Countries (OPEC), an intergovernmental organization that brings together member countries to coordinate and exchange information on extractive policies. However, a large proportion of the revenue generated from the extractive industries is illegally earned and transferred to become what is known as 'Illicit Financial Flows.' A working definition of the concept of illicit financial flows has been defined in this short paper and will be discussed in the following sections, although there is no widely agreed definition in the literature. This paper provides a comprehensive analysis of factors contributing to the challenges of curbing illicit financial flows (also known as capital flight) in the extractive sector of Nigeria by looking at the practicality of anti-corruption measures, governance issues of transparency agencies in the extractive sector the Nigeria Extractive Industry Transparency Initiative (NEITI), and how the absence of political commitment in fighting illicit financial flows is accelerating the rate of capital flight in the Nigerian extractive industry from an organizational/bureaucratic perspective.

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[1] https://www.elibrary.imf.org/display/book/9781557757913/ch007.xml

II. Illicit Financial Flow in the Extractive Sector in Nigeria

Before directly going into the main challenges that resulted in barriers to fighting illicit financial flows out of Nigeria, this paper sheds some light on the meaning of illicit financial flows and the extractive industry. It draws on previous literature on this concept. According to Sigam (2012), extractive industries can be defined as "processes that involve different activities that lead to the extraction of raw materials from the earth such as oil, metals, mineral and aggregates, processing and usage of consumers." This encompasses both humans and machines that widely use extracted materials. Illicit financial flows (IFF) are one of the major factors that undermine the effectiveness and influence of the governance process in many developing countries, which collect huge revenues in the form of unearned income, whether this has to do with natural resources or international aid (ibid).

According to the World Bank (2017), there are three main areas that trigger illegal capital flight out of Nigeria (1) the acts of illicit financial flow are illegal in nature whether they take the form of corruption or tax evasion, (2) the sources of capital are illegal (rents from the extractive sector that would otherwise be used for national development), and (3) the capital is used for personal/group interests other than investment for citizens.

In addition, being the most populous country in the Organization for Petroleum Exporting Countries (OPEC), as of 2019, Nigeria had a GDP per capita of 2284, with major sources of income being the Natural resources (OPEC: Nigeria, 2019). While Nigeria relies mainly on the extractive sector as the biggest source of unearned income. There are facts about capital flight as a barrier to economic development, and the main challenges in the fight against illicit financial flows.

III. Uncoordinated and Ineffective Anti-Corruption Measures

Various Nigerian regimes have not taken concrete steps to undertake strict and effective anticorruption measures with sanctions. Ayodeji (2017) points out that successive governments in Nigeria failed to operationalize coordinated anti-corruption measures due to a range of factors, including the absence of civil

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society engagement, lack of political commitment, interference of the judiciary branch, and many acts that undermined the mandate of public oversight offices as well as the legislature by ruling elites. This is particularly one of the main reasons why there is capital flight in Nigeria. Anti-corruption institutions are not well-equipped with rules and operating environment to serve as watchdogs to anti-corruption, which is the main form of illicit financial outflow in Nigeria. In addition, anti-corruption commissions and the rest of government branches are not connected in terms of information sharing, monitoring, and reporting of anti-corruption incidents whether it is associated with earned income or unearned income from the extractive sector. Therefore, illicit financial flows remain active in many sources and forms without sound anticorruption agents.

With the availability of anti-corruption institutions, corruption has become pervasive in the government sphere despite Obasanjo's rule in Nigeria. Many anti-corruption laws were passed, and anti-corruption commissions were established. As argued by Coker, Ugwu, and Adams (2012), big contract awards have been given to high-profile politicians, and public offices serve as a playground for corrupt activities despite the presence of these anti-corruption measures. This is also true when politicians and business elites agree to bend appropriate procurement processes and tender processes over personal interests due to weak anti-corruption measures, which later lead to money laundering. In addition, there are also some cases reported by the international media where Nigerian politicians and foreign business interest groups fell into the corruption trap, including Shell's support for corruption activities in 2004; the Federal Inland Revenue Services' (FIRS) fraud on tax revenue and bribery acts of three former Nigerian cabinet ministers with France's electric SAGEM S.A; and many other corruption incidents (ibid). Hence, capital flight is active behind bureaucratic institutions, which also eventually opened new doors for other ways of corrupting public money for the interest of a few political elites that have held political positions in Nigeria.

IV. Poorly Governed Extractive Agencies

Even though illicit financial flows result from ineffective and uncoordinated anti-corruption agencies, poorly governed transparency institutions for the extractive industries also contribute to factors that delay efforts to combat capital flight in Nigeria. As Billon (2011) argues, the absence of well-governed extractive institutions is the main source of illicit financial flows from many resource-rich developing countries, including Nigeria, resulting in poor transparency capacity. This particularly targets the role of the Nigeria chapter of the Extractive Industries Transparency Initiative (EITI), known as the Nigeria Extractive Industries Transparency Initiative (NEITI), which fails to provide information and reports on how revenues from extractives are collected and spent to the wider public audience, whether these are civil society organizations, non-state actors, independent think tanks, and other independent channels. It also undermines its capacity to uncover the cases associated with illicit financial flows from the extractive sector. Hence, the failure of effective extractive governing institutions prevents anti-corruption agencies from holding rent-seeking bureaucrats accountable and increases the chances of illicit financial flow.

Furthermore, resource-rich countries do not execute efforts aimed at promoting transparency and adopting a legal framework sanctioning political elites associated with illicit financial flows. In addition, Lemaître (2019) emphasizes the effectiveness of transparency agencies and states the importance of battling opacity to ensure institutions mandated to improve transparency under the overall management of extractive industries and track how widespread rules are enforced to prevent capital flight. In contrast, Schlenther (2016) believes that a lack of expertise in extractives results in developing countries falling into an illicit financial flow trap. There is no doubt that bending rules and spotting loopholes in anti-corruption and anti-money laundering sanctions, as well as weak governance in Nigeria's extractive industries, open up new doors for ruling elites to practice the act. Therefore, gaps in the setup of extractive industries to strengthen transparency channels into a wider array of citizens and the absence of rules and regulations in the extractive sector are sources of challenges to stop the spread of illicit financial flows in Nigeria.

V. Absence of Political Will

Political commitment to fight illicit financial flows is another factor that remains a huge burden in addressing the harmful consequences of capital flight in Nigeria. Georges (2015) argues that politicians from resource-rich countries in the developed world have their roots in extending the status quo, strengthening patronage, and maintaining financial and political incentives in continuing their status quo, which compromise efforts to tackle illicit financial flows. In this regard, Nigeria fails to adopt measures preventing political elites from holding themselves accountable for the anti-capital flight, which was new to President Obasanjo, who paid more financial incentives to return to the country's presidency for the third time. In contrast, however, Janský (2015) argues that it is not necessarily essential to deal with the consequences of illicit financial flows through policy or legal measures but rather to focus more on the sources of capital flight and why policy elites are tied to them. Therefore, the absence of

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political commitment and the desire to target politicians with vested interests to exercise capital flight in Nigeria will not accelerate the rate of illicit financial flows.

VI. Conclusion

In conclusion, the capital flight from Nigeria results in huge financial and investment losses, which hinder efforts to limit elicit financial flows, particularly revenues generated by the extractive industries. Three main challenges that are barriers to the fight against illicit financial flows in Nigeria have been broadly analyzed Despite the government's ability to curb capital flight from the country, unsuccessful anticorruption measures are providing opportunities to corrupt political elites to illegally grasp money and transfer it to a foreign destination by crossing an international border. Faulty extractive governance agencies in terms of improving transparency and citizen engagement are added weaknesses. Finally, the absence of political commitment facilitated many corrupt politicians in Nigeria to increase their willingness to accept illegal money is also common.

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