



# Measuring and Curbing Illicit Financial Flows: Nigeria's Experience

Presented during the Inter-regional Workshop  
Geneva, Switzerland, 20-21 September, 2023

National Bureau of Statistics

# Outline

Process  
Followed

Preliminary  
Meetings

Inauguration  
of the  
TWG-IFFs

Training of  
Technical  
working  
Group

Where we  
are: Method  
#3

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Conclusion

# PROCESS – Preliminary Meetings

- July – October 2021
  - Meetings with the Inter-Agency Committee on Combatting IFFs
  - Meeting with Head of National Bureau of Statistics
  - Meeting with RCO and some other UN Agencies
- Introduction to the Inter-Agency Committee on Combatting IFFs : October, 2021

# PROCESS - Inauguration of the TWG-IFFs

- Members of the TWG-IFFs were drawn from 11 major agencies (MDAs):
  1. Central Bank of Nigeria (CBN);
  2. Economic and Financial Crimes Commission (EFCC);
  3. Federal Inland Revenue Service (FIRS);
  4. Ministry of Finance;
  5. Budget and Economic Planning;
  6. Independent Corrupt Practices & Other Related Offences Commission (ICPC);
  7. National Bureau of Statistics (NBS);
  8. National Drug Law Enforcement Agency (NDLEA);
  9. Nigeria Customs Service (NCS);
  10. Nigeria Extractive Industries Transparency Initiative (NEITI);
  11. Nigerian Financial Intelligence Unit (NFIU)

# Training of technical working group and review of data

- Training on methodologies: November and December 2021;
- Data availability review: November 2021 – January 2022;
- Selection of Methods: December 2021 - January 2022
  - Tier 1 Method = Profit shifting
  - Tier 2 Method = Partner country method
- Pilot testing plan: December 2021 - January 2022;
- Further training and estimation of IFFs: February – May 2022

# Where we are so far: Method #3 – profit shifting

## Data Gathering

- Established that the data needed are from the Transfer Pricing Disclosure Forms of the Federal Inland Revenue Service (FIRS)
- There were some concerns about providing sensitive data on MNCs
- It was decided that the data should be anonymised.
- Data for 160 MNCs capturing 380 transactions over the period 2018, 2019, 2020 – based on available data in digitized format
- Considerable time was spent cleaning the data and understanding its structure.

| S/NO | Company    | Type of transaction   | Tax jurisdictions (Tax Heven)  | transanction category |
|------|------------|---|--|-----------------------|
| 16   | <b>AAP</b> |   |  |                       |
|      | 2020 YOA   | Interconnect, roaming, banking,warehousing,data management, data center, lease,employee services/reimburement, bank overdraft, loan arrangement and cable | Africa,UK,India,Mauritius,Netherlands, Ghana,Singapore, France,Niger & DRC | Cost/Income           |
|      | 2019 YOA   | Interconnect, roaming, banking,warehousing,data management, data center, lease,employee services/reimburement, bank overdraft, loan arrangement and cable | Africa,UK,India,Mauritius,Netherlands, Ghana,Singapore, France             | Cost/Income           |
|      | 2018 YOA   | Interconnect, roaming, banking,warehousing,data management, data center, lease,employee services/reimburement, bank overdraft, loan arrangement and cable | Africa,UK,India,Mauritius,Netherlands, Ghana,Singapore, France             | Cost/Income           |

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|------|------------|----------------------------|---------------------------|-----------------------|
| 16   | <b>AAP</b> |                            |                           |                       |
|      | 2020 YOA   | loan arrangement and cable | France                    | Cost                  |
|      | 2020 YOA   | Reimburement of exp        | Mauritius                 | Cost                  |
|      | 2020 YOA   | employee services          | Netherlands               | Cost                  |
|      | 2020 YOA   | lease                      | Singapore                 | Cost                  |
|      | 2019 YOA   | Reimburement of exp        | Mauritius                 | Cost                  |
|      | 2019 YOA   | employee services          | Netherlands               | Cost                  |
|      | 2018 YOA   | Reimburement of exp        | Mauritius                 | Cost                  |
|      | 2018 YOA   | employee services          | Netherlands               | Cost                  |

# Where we are so far: Method #3 – profit shifting...

- **Training, Data cleaning, Estimations**

- ✓ Trainings were held in March, April and May
- ✓ Estimation done between March and May
- ✓ Method #3 was divided into two parts: #3a and #3b
- ✓ Method #3: higher flows of illicit finance to aggressive tax havens (offshore financial centres)
- ✓ Method #3a: IFF geographic risk approach - identifies destination countries of transactions and appropriates level of risk/vulnerability to IFFs
- ✓ Method #3b: sensitivity of reported profits – estimates profit functions



# Where we are so far: Method #3 – profit shifting

- Method #3a: IFF geographic risk approach
- Tries to identify the highest risk/vulnerability for IFFs, considering the different partner countries;
- Vulnerability: reflects the extent to which a country is at risk of illicit financial flows in each channel of cross-border economic or financial activity
- Uses data on corporate tax haven index (CTHI) [ranks largest contributors to tax abuse by MNCs];
- Calculated by determining the weighted average haven score of a country's partner jurisdictions in that stock or flow relationship;
- Vulnerability score = for each company, multiply CTHI by weighted value of transaction [value of individual transaction / sum of transactions]

# Where we are so far: Method #3 – profit shifting

- **Method #3a: IFF geographic risk approach**
- The results showed the transactions that are remitted to different countries;
- The destination countries of such transfers were categorised based on the vulnerability scores of countries;
- Thus, it is possible to identify the transactions that are most frequently transferred to countries that are aggressive tax havens;
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- There are some multi-national corporations (MNCs) that exclusively make transfers to affiliates in countries that rank 100 on the vulnerability score, implying that such MNCs only make transfers to affiliates in very aggressive tax havens;
- Such findings would be useful for tax authorities in conducting audits of such MNCs;

# Where we are: Method #3 – profit shifting

- Method #3b: sensitivity of reported profits
- estimate the sensitivity and the scale of IFFs;
- The results of regressions of the hypothetical tax on costs on reported profits are expected to be positive and statistically significant;
- This would indicate that MNCs are using tax planning strategies to shift their profits from subsidiaries in Nigeria to subsidiaries in low-tax jurisdictions, with the aim of reducing their overall tax burden;
- However, our results showed a negative and insignificant coefficient for the hypothetical tax on costs;
- Therefore, it was not possible to proceed to the stage of estimating IFFs, as the coefficient on hypothetical tax on costs is required to be interacted with reported profits to estimate the tax losses from profit shifting or IFFs;

# Challenges

- ✓ Data do not exist in a form suitable for easy estimation of the chosen method from the data source(s)
- ✓ Absence of data for the computation of other methods
- ✓ Inadequate knowledge of the statistical software (STATA) used
- ✓ More time needed for training and estimation on other methods
- ✓ Funding ( TWG needs more capacity building training (within and outside Nigeria) on the methodologies, data collection, estimation, etc

# Next steps & support

- Next steps
  - ✓ Given the results from PCM, use the PFM to obtain estimates of IFFs;
  - ✓ Have regular meetings of the TWG-IFFs;
  - ✓ Comprehensively discuss data issues, draw up templates for data gathering
  - ✓ Close collaboration with FIRS and NCS;
- Support
  - ✓ Funding of activities to enhance improved estimation of IFFs;
  - ✓ Technical Assistance is paramount;
  - ✓ Continuous collaboration on better understanding of methods is required

# Conclusion



NBS is willing and ready to synergize and collaborate with all stakeholders (TWG) for a successful measurement of IFFs Nigeria. Leaving no one behind



Measuring and curbing illicit financial flows often requires a comprehensive and coordinated effort which is essential for development



Data is the back-bone for the estimation of IFFs. Its available and the methodology works for Nigeria



More work would be required to reach the final stage of estimation, analytics and report writing on curbing IFFs in Nigeria



All activities will be documented (report produced) and disseminated for good policy formulation.

*Thank  
you!*