NEITI Nigeria Extractive Industries Transparency Initiative

ANEEJ Africa Network for Environment and Economic Justice

STEMMING THE SCOURGE OF ILLICIT FINANCIAL FLOWS IN NIGERIA'S MINING SECTOR

with support from the
Foreign, Commonwealth & Development Office (FCDO)

UK International Development
Partnership | Progress | Prosperity

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THE PRESIDENCY

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EXECUTIVE SUMMARY

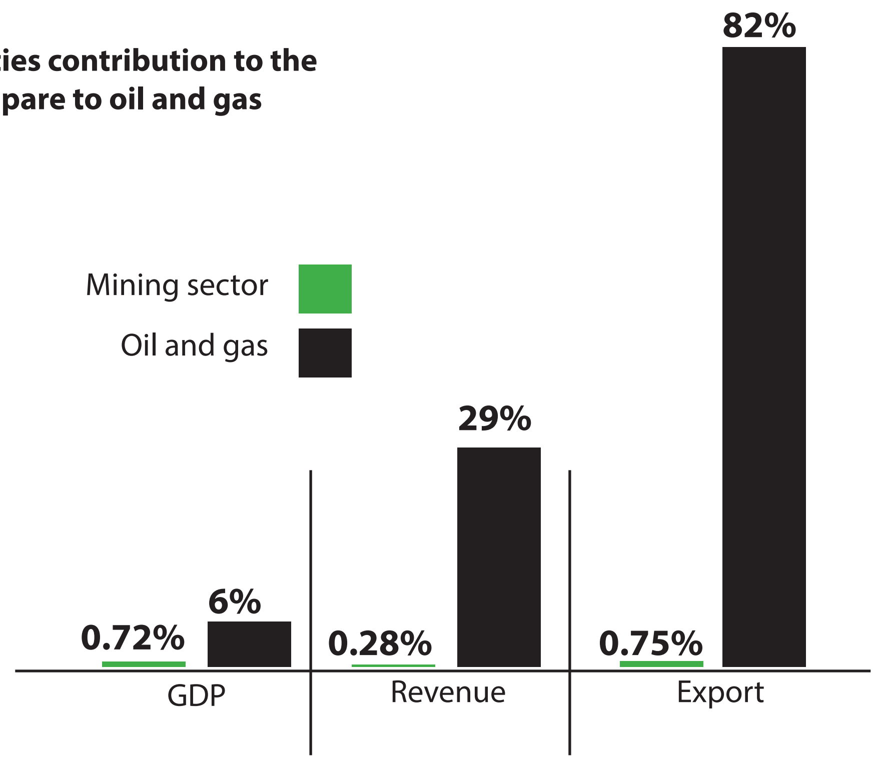
Nigeria's mining sector holds vast potential for economic diversification, revenue mobilization, and sustainable development. Despite the significant endowment of commercially viable minerals, including cassiterite, lithium, gold, columbite, limestone, and gemstones, the sector remains constrained by systemic governance weaknesses, fragmented regulation, informality, and opaque financial practices. These conditions create vulnerabilities that enable Illicit Financial Flows (IFFs) at multiple points along the mineral value chain. IFFs undermine economic development by enabling tax evasion, revenue leakages, corruption, smuggling, money laundering, and criminal activities. In Nigeria's mining value chain, IFFs occur through commercial manipulation, illegal mining operations, corruption among officials, and cross-border smuggling enabled by violent criminals and foreign actors. The mining sector continues to experience governance challenges, data weaknesses, unregulated actors, and a large informal economy. This policy brief highlights the findings of a field study and review of documentary evidence on the enablers of illicit financial flows in the mining sector, conducted by NEITI, Africa Network for Environment and Economic Justice (ANEEJ), and the Federal Ministry of Solid Minerals Development, with funding from the Foreign, Commonwealth & Development Office (FCDO). The study examined the enablers of IFFs in Nigeria's mining sector and identified typologies and pathways through which IFFs occur. The study also assessed governance and institutional gaps that enable these illicit flows, as well as criminal and informal networks that facilitate IFFs in the sector, including data, audit, and reporting weaknesses in the mining sector, and provides specific actionable policy and institutional reform recommendations that are required to address the scourge of IFFs in Nigeria's mining sector.

SECTION ONE

INTRODUCTION

Nigeria's mining sector holds significant potential for economic diversification, revenue mobilization, and sustainable development. The country is endowed with at least 44 commercially viable minerals, which include cassiterite, lithium, gold, columbite, limestone, and gemstones, distributed across the 36 states of Nigeria's federation. However, despite these reported endowments, the mining sector in Nigeria has minimal contribution to the economy. The sector contributed only N329 billion in revenue to Nigeria in 2022 and N401 billion in 2023, with exports amounting to N35.67 billion in 2023.[1] To place these numbers in context, the sector contributed less than 1% to the economy in 2023, accounting for 0.72% of GDP, 0.28% of revenue, and 0.75% of exports.[2] This is in contrast to oil and gas, which contributed about 6% of GDP, 29% of revenue, and 82% of exports.[3]

Mining activities contribution to the economy compare to oil and gas



Despite Nigeria's endowment, the sector remains constrained by systemic governance weaknesses, fragmented regulation, informality, and opaque financial practices. Over 70% of mining activity in the sector is dominated by artisanal and small-scale mining (ASM) and characterized by informality, weak documentation, and unsafe practices.[4] These conditions create vulnerabilities that enable

1 NEITI Report: Solid Mineral Sector, 2023
2 Ibid.
3 NEITI Solid Minerals Report 2023.
4 UNDP Report: Beaming the Light on Hidden Sector: Artisanal & Small-scale Mining as Vital Sector for Sustaina

Illicit Financial Flows (IFFs) at multiple points along the mineral value chain.

Illicit financial flows in the mining sector describe the illegal or concealed movement of money, mineral value, or financial proceeds derived from commercial manipulation, corruption, or criminal activities.

IFFs undermine economic development by enabling tax evasion, revenue leakages, corruption, smuggling, money laundering, and criminal activities. In Nigeria's mining value chain, IFFs occur through commercial manipulation, illegal mining operations, corruption among officials, and cross-border smuggling. These activities are enabled by individuals and groups that include foreigners and violent criminals.

Nigeria faces profound and multidimensional losses from illicit financial flows in the mining sector, driven by weak governance systems, poor data quality, pervasive informality, inadequate regulatory oversight, opaque corporate and beneficial ownership structures, and the entrenched presence of violent criminal groups around mining sites. Besides revenue loss, IFFs result in security deterioration, institutional weakening, environmental degradation, loss of investor confidence, distortion of legitimate markets, erosion of community livelihoods, and reputational damage to the country's financial system.

Several studies by the Nigeria Extractive Industries Transparency Initiative (NEITI), the Inter-Governmental Action Group against Money laundering in West Africa (GIABA), the Global Financial Integrity (GFI), and the United Nations Economic Commission for Africa (UNECA) consistently highlight the mining sector as high-risk for illicit financial flows. Key indicators include high informality, weak traceability, widespread trade mis-invoicing, beneficial ownership secrecy, weak production–export reconciliation, low evidence of repatriation of export proceeds, cash-driven transactions, organized criminal activity, and conflict-linked extraction. An estimated 80% of mining in North-West Nigeria, notably in Zamfara, Katsina, and Kaduna States, is carried out illegally and through artisanal mining by the local population.[5]

This policy brief highlights the findings of a field study and review of documentary evidence on the enablers of illicit financial flows in the mining sector. It identified typologies of mining sector IFFs and the pathways through which they occur. The study also assessed governance and institutional gaps that enable these illicit flows, as well as criminal and informal networks that facilitate the flows. Key enablers include data, audit, and reporting weaknesses in the mining sector.

OVERVIEW (TYPOLOGY) OF IFF IN THE MINING SECTOR:

Illicit Financial Flows in the mining sector manifest through structured patterns of behaviour, institutional weaknesses, and market distortions. Typologies are widely used to document the diverse ways in which criminal networks, corrupt actors, or complicit organisations conduct unlawful transactions.[6] Typologies provide a systematic understanding of how IFFs occur across

ble Development in Nigeria, 2023.

5 ENACT Africa Report: Mining and extractives / Illegal mining drives Nigeria's rural banditry and local conflicts, 2020

6 Institutions like Financial Action Task Force (FATF), Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), United Nations Office on Drugs and Crime (UNODC), and Global Financial Integrity (GFI)

the mineral value chain, the actors involved, and the enabling conditions.

In the mining sector, IFFs arise through:

i. **Commercial IFF:** These illicit flows occur through trade mis-invoicing, underpricing, false declarations, non-repatriation of export proceeds, and beneficial ownership opacity that obscures collusive transactions between related parties.

ii. **Corruption-based IFF:** includes bribery in licensing and inspections, illicit levies, collusion, and political interference.

iii. **Criminal IFF:** include smuggling, illegal extraction, cash-based laundering, proceeds funding non-state armed groups, mineral-for-cash or mineral-for-weapons exchanges.

The cumulative losses from these illicit practices undermine state authority, fuel organized crime and conflict, weaken the effectiveness of Anti-Money Laundering and Counter Financing Terrorism (AML/CFT) controls, and constrain Nigeria's ability to translate its mineral wealth into sustainable development and inclusive growth. The scale and complexity of IFFs in the mining sector undermine economic diversification, resource mobilization effort and national development goals.

The combination of abundant mineral wealth, pervasive informality, weak regulatory controls, and fragmented data systems creates a high incentive for illicit financial flows in Nigeria's mining sector. Understanding the structural, institutional, commercial, and criminal enablers of IFFs is therefore essential to improving revenue mobilization, strengthening transparency and accountability, mitigating conflict risks, empowering local communities, and ensuring sustainable sector growth

Scene of artisanal and small-scale mining (ASM)

Photo: THIDAY

use typologies to analyse patterns of IFF.

SECTION THREE

FINDINGS

Findings from the study show that Nigeria's mining ecosystem is characterized by severe governance, transparency, and enforcement weaknesses. These vulnerabilities collectively enable illicit financial flows (IFFs) through illegal extraction, under-reporting of production, trade mispricing, smuggling, diversion of mineral revenues, and laundering of proceeds.

The findings demonstrate that IFFs enablers in Nigeria's mining sector are systemic rather than incidental, embedded across institutional arrangements, market structures, data systems, and security environments. Weak regulatory capacity, fragmented institutional coordination, opaque ownership structures, informal artisanal mining, foreign buyer dominance, and criminal infiltration of mining zones interact to create multiple high-risk pathways for value leakage. A summary of the findings is presented in Table 1 below.

Table 1: Findings on specific themes within Nigeria's mining sector.

S/N	THEME	KEY FINDINGS	IMPLICATIONS OF IFFs & GOVERNANCE
1	Governance	• Weak regulatory capacity • Political interference • Fragmented inter-agency coordination	Limits effective oversight and enforcement, allowing selective compliance, regulatory capture, and exploitation of institutional gaps that facilitate illicit financial flows.
2	Market and Trade	• Dominance of foreign buyers • Widespread price manipulation • Cash-based transactions	Creates information asymmetry and pricing power imbalances, enabling under-valuation of minerals, capital flight, and concealment of true transaction values.
3	Data and Transparency	• Irreconcilable datasets among agencies • Incomplete production reporting • Lack of beneficial ownership (BO) verification	Weakens transparency and accountability, making it difficult to track production, revenues, and ownership structures, thereby increasing exposure to profit shifting and revenue losses.
4	ASM and Informal Economy	• High informality • Lack of documentation • Traceability challenges	Facilitates informal mineral flows outside regulatory systems, complicating monitoring, taxation, and enforcement across the value chain.
5	Corruption and Criminality	• Illegal taxes and extortion • Infiltration by armed groups • Facilitated smuggling networks	Fuels criminal economies, undermines state authority, and accelerates cross-border mineral smuggling and illicit financial flows.

Source: *Research on enablers of IFFs in the Nigerian Mining Sector, 2025*

IFF in the mining sector deprives Nigeria of revenue, enables corruption, incentivizes illegal mining, empowers criminal networks, and undermines legitimate operators. The Nigeria Financial Intelligence Unit (NFIU) identified illegal mining as an emerging threat to Nigeria's economy and national security. In addition to the loss of government revenue and environmental abuse, Illegal mining (IM) is now a major driver of illicit financial flows (IFFs), with strong linkages to money laundering, organized crime, and insecurity. The increasing pattern, where red flags such as shell companies, Politically Exposed Persons (PEPs), and foreign nationals underscore the sophistication of the threat.

Between 2022 and 2024, data indicated a surge in activities connected to illegal mining across Nigeria. This is particularly so in areas already destabilized by kidnapping, banditry, and terrorism. Analyses of the data from this period provide key insights into the typology used to sustain the illegal mining criminal enterprise. There is a growing intersection between Chinese commercial interests and local conflicts in the North-West and North-Central regions, where illicit mining both fuels and finances insecurity.[7] Foreign companies often hide their ownership through shell firms registered under CAMA, using Nigerian proxies to access mining licenses and export permits. This practice obscures beneficial ownership and enables trade misinvoicing and money laundering through underpriced exports.[8]

OTHER FINDINGS

Institutional capacity constraints and governance fragmentation undermine regulatory effectiveness: Key regulatory and oversight institutions, including the Ministry of Solid Minerals Development, Mining Cadastre Office (MCO), NEITI, Customs, and relevant state agencies, continue to face critical capacity constraints arising from inadequate staffing levels, limited technical expertise, insufficient operational resources, and weak digital infrastructure. These institutional weaknesses are exacerbated by fragmented governance arrangements characterized by siloed operations, limited inter-agency coordination, and the absence of an integrated, sector-wide digital monitoring system.

Weak data governance, limited transparency, and insufficient enforcement of beneficial ownership significantly facilitate corruption and regulatory capture. Persistent weaknesses in data governance, manifested through reliance on manual record-keeping, non-verifiable production reporting, and incomplete export documentation, significantly reduce transparency across the mining value chain. These deficiencies facilitate misreporting, data manipulation, and the concealment of mineral flows. Furthermore, the lack of robust beneficial ownership disclosure and verification frameworks allows the use of shell companies and enables politically exposed persons (PEPs) to obscure ultimate ownership and control, thereby increasing the sector's exposure to illicit financial flows and regulatory capture.

Beneficial ownership transparency (BOT) remains weak despite the existence of BO registries. Mining licenses are frequently held through special purpose vehicles (SPVs), shell companies,

7 See Matthew Page, USIP (2022)
8 The Punch (2023 and ENACT (2020)

or layered corporate structures that obscure the natural persons who ultimately own or control extractive assets. Verification of BO information across MSMD, MCO, and the Corporate Affairs Commission (CAC) is limited, fragmented, and largely reliant on self-declaration. This opacity allows Politically Exposed Persons (PEPs), undisclosed foreign interests, and criminal actors to conceal control over mining operations, undermining accountability and facilitating corruption, money laundering, and regulatory capture.

Fragmented institutional coordination and licensing controls: A critical enabler of IFFs is the absence of effective coordination and information-sharing among key institutions, including the Ministry of Solid Minerals Development (MSMD), Mining Cadastral Office (MCO), Nigeria Extractive Industries Transparency Initiative (NEITI), Nigeria Customs Service, Nigerian Financial Intelligence Unit (NFIU), the Central Bank of Nigeria (CBN), and relevant state agencies. Each institution collects sector-relevant data for distinct mandates, yet the lack of interoperable systems and limited formal data-sharing protocols results in fragmented and inconsistent records on licenses, production volumes, exports, revenues, and beneficial ownership. This fragmentation limits authorities' ability to reconcile production data with export declarations, financial flows, and tax payments.

Market structure risks, foreign buyer dominance, and cash-based trade: Market dynamics in the mining sector further amplify IFF risks. Despite mining being a regulated activity, foreign buyers, particularly Chinese actors, exercise disproportionate influence over pricing, purchasing arrangements, and export channels, negotiate directly at mining sites, and distort local market conditions. Mining companies and buying centers reported that price negotiations are largely buyer-driven, with limited government oversight. This dominance distorts market conditions and enables systematic under-valuation of minerals, manipulation of grades and weights, and informal payment arrangements. Such practices create classic entry points for trade-based money laundering and transfer mispricing. Cash transactions remain prevalent, especially in ASM and early-stage mineral purchases. The mixture of cash and bank transfers obscures transaction trails, weakens financial reporting, and limits authorities' and financial institutions' ability to detect suspicious activity, contributing directly to revenue losses and data opacity.

Value Chain Leakages due to limited regulatory reach over informal and ASM activities: The ASM subsector contributes a substantial share of Nigeria's mineral output, but operates largely outside formal regulatory systems. Many artisanal miners and cooperatives lack licenses, receipts, digital records, traceability documentation, and environmental or safety compliance, and other social vices. Minerals extracted from illegal or informal pits are easily blended with legally sourced minerals, making provenance verification extremely difficult. This blending allows illegal minerals to be laundered into formal supply chains and export markets, creating a direct channel for IFFs. ASM informality also complicates monitoring, taxation, and enforcement, entrenching parallel mineral economies beyond effective state control.

Corruption, security compromise, and criminal control of mining zones: Corruption and insecurity further intensify IFF risks in mining areas. Respondents cited widespread unofficial levies, bribery during inspections, extortion at checkpoints, and irregular taxation practices. These conditions incentivize operators to avoid formal channels and rely on corrupt intermediaries to bypass regulatory requirements. In several mining zones, bandits and organized criminal groups impose access fees, control mining sites, enforce compulsory sales at below-market prices, or directly operate illegal mining activities. These groups effectively replace state authority with parallel systems of control. Furthermore, their presence presents both a security threat and an IFF risk, as proceeds from mineral sales can be diverted into criminal economies and financing networks.

Enforcement outcomes and prosecution gaps: Although enforcement actions have increased, particularly by the Economic and Financial Crimes Commission, prosecution outcomes remain limited. Numerous arrests and seizures between 2023 and 2025 stand in stark contrast to the small number of convictions and asset forfeiture orders. The May 2025 conviction of four Chinese nationals in Jos, Plateau State, each sentenced to 20 years' imprisonment with asset forfeiture, remains an exception rather than the norm. Low conviction rates reduce deterrence and encourage persistent incidences of IFF enabling practices in the mining sector.

Value Chain Vulnerability Assessment: An assessment of the mining value chain, spanning licensing, extraction, aggregation, transport, export, and downstream trading, reveals multiple, interconnected points at which illicit proceeds are generated and laundered. Evidence from administrative datasets, enforcement records, and visual trend analysis demonstrates that vulnerabilities are not isolated but systemic, recurring across minerals, locations, and years.

RECOMMENDATIONS & POLICY OPTIONS:

1. Strengthen Inter-Agency Coordination

- The presidency should establish and operationalise a structured inter-agency coordination framework involving the Ministry of Solid Minerals Development, NEITI, EFCC, NFIU, ICPC, Nigeria Customs Service, security agencies, revenue authorities, and relevant sub-national institutions.
- The Office of the National Security Adviser should enhance intelligence sharing, joint investigations, and coordinated enforcement actions targeting mining-related illicit financial flows.

2. Integrate AML/CFT measures into mining governance

- In keeping with the recent adoption of AML/CFT operational manual for entry controls by the MCO, the Ministry of Solid Minerals Development should embed Anti-Money Laundering, Counter-Terrorist Financing, and Counter-Proliferation Financing (AML/CFT/CPF) controls across other levels of the mining value chain.
- The Nigeria Financial Intelligence Unit (NFIU) should strengthen enforcement of financial intelligence reporting, analysis, and follow-up on suspicious mining-related transactions and export proceeds.

3. Accelerate formalization to enhance traceability of ASM

- The Ministry of Solid Minerals Development should accelerate the formalization of artisanal and small-scale mining through simplified licensing regimes, cooperatives, access to finance, and technical support.
- The Ministry should engage with the Office of the National Security Adviser and relevant institutions to develop and deploy traceability systems for high-risk minerals to reduce smuggling and production–export discrepancies.

4. **Transparency and Beneficial Ownership Disclosure**

- The Mining Cadastre Office, the Corporate Affairs Commission, and NEITI should enforce mandatory beneficial ownership disclosure for all mining title holders as required by applicable law and regulation, and extend disclosures to related corporate entities.
- The Ministry of Solid Minerals Development, the Mining Cadastre Office, and NEITI should improve public access to timely, accurate, and reconciled data on mining licenses, production, exports, and revenues.

5. **Legal and Institutional Reforms**

- The MSMD should engage with relevant committees of the National Assembly to expedite the ongoing review and update of outdated mining, financial crime, and regulatory frameworks to address emerging IFF risks.
- The Office of the Attorney-General of the Federation should strengthen prosecutorial capacity, conviction rates, and asset recovery mechanisms linked to mining-related financial crimes.

6. **Community Engagement, Media, and Security**

- The MSMD, through its departments and agencies, should enhance community participation, awareness, and grievance mechanisms in mining governance and monitoring.
- The Office of the National Security Adviser should coordinate the improvement of security presence and state authority in mining-affected and ungoverned spaces to disrupt criminal networks and protect legitimate operators.

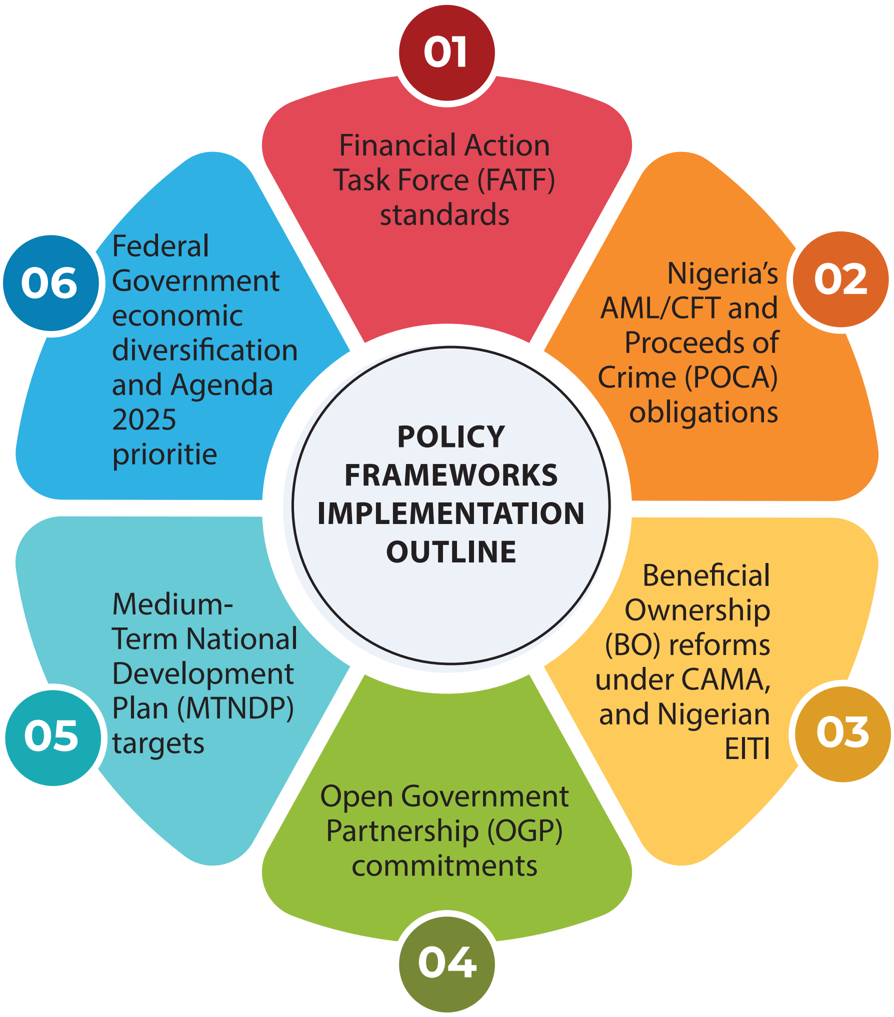
7. **Sustained Civil Society and Development Partner Engagement**

- The MSMD, NEITI, and development partners should support continued civil society research, advocacy, and independent monitoring of IFFs in the mining sector.
- The Ministry should encourage sustained technical and financial support from development partners for institutional reforms, capacity building, and technology deployment.

POLICY ALIGNMENT & IMPLEMENTATION

The enablers of illicit financial flows (IFFs) identified in Nigeria's solid minerals sector are not isolated governance failures; they represent systemic breaches of Nigeria's international commitments, statutory AML/CFT obligations, and national development priorities. To ensure uptake and reform impact, recommendations must therefore be explicitly aligned with existing policy frameworks, rather than framed as stand-alone proposals.

Therefore, stemming the scourge of IFFs in Nigeria's mining sector requires coordinated institutional reform, better data systems, stronger transparency mechanisms, and inclusive engagement of ASM communities. Beneficial ownership opacity undermines Nigeria's compliance with FATF Recommendation 24 on transparency and the use of legal arrangements, and enables tax evasion, the laundering of illicit proceeds, and the participation of PEPs via proxies. The identified policy frameworks must align, and their implementation is outlined below.



CONCLUSION

Nigeria's mining sector possesses vast economic potential but is hindered by governance weaknesses, data fragmentation, market distortions, informality, and corruption. These vulnerabilities enable multiple IFF types, undermining revenue mobilization and sector development. Nigeria stands at a crucial opportunity point: strengthening governance, transparency, and institutional coordination can significantly reduce IFFs, enhance revenue generation, and advance national development goals. Implementing the proposed reforms will not only improve sector integrity but also position the mining industry as a key contributor to Nigeria's economic transformation. Systemic reforms – legal, institutional, technological, and operational – are essential to curbing IFFs and enhancing economic diversification. There is an urgent need to translate these recommendations to policy reform roadmap to curb illicit financial flows in Nigeria's mining sector, and to translate evidence in the brief into concrete, measurable, and time-bound actions, aligned with Nigeria's national development priorities and international commitments, including the EITI Standard and global AML/CFT frameworks.

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