Illicit Financial Flows: The Economy of Illicit Trade in West Africa (forthcoming report)

What is this report about?

The negative impact of illicit financial flows (IFFs) on progress towards development goals increasingly features on international political agendas. This report examines the threats for citizens and states, focusing on West Africa because – given its open borders, natural resources and high levels of fragility – this region is particularly susceptible to criminal economies. It proposes a framework that offers an opportunity for policy makers (national governments, regional actors and international partners) to prioritise their policy interventions, address the enabling environment and mitigate the impact on the most vulnerable.

The report goes beyond traditional efforts to measure illicit financial flows (focusing solely on financial losses) towards a qualitative understanding of how these activities affect governance, the economy, development and human security. The analysis shows that criminal and illicit economies and resulting financial flows can have a potent negative impact, eroding the capacity of states and individuals to achieve basic social and economic development objectives over the long-term.

Drawing on collaboration with the African Development Bank (AfDB), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), the New Partnership for Africa’s Development (NEPAD) and the World Bank, the report focuses on five in-depth case studies: human smuggling from West Africa to Europe, drug trafficking in and through West Africa, counterfeit goods in Ghana, artisanal small-scale gold mining in Liberia and Ghana, and financing of terrorism in the Sahel.

Why is this report important?

- Most illicit activities represent a net loss for the region: Countries and companies lose revenue, investment, markets and legitimacy; and citizens are disenfranchised, exposed to violence and health risks, and deprived of financial gains.
- Illicit activities and flows feed a vicious cycle of corruption, allowing groups or individuals in power to access resources that can be used to boost electoral campaigns, secure patronage and retain control.
- There are spill-over effects from illicit activities, such as increased migration, violence or even terrorism.
- Official development assistance may be wasted or, in extreme cases, diverted to illicit activities that cause harm (for example, funds to build the capacity of an institution may inadvertently prop up actors colluding with criminals).

What is needed to solve the problem?

Some of the illicit activities covered in this report do not originate or even have a market in West Africa. Nonetheless, the region suffers the stigma. The countries of origin, destination and transit each need to address their share of the problem.
At the same time, these issues have so far been addressed as security problems, while for West Africa they are primarily a development concern. The perspective of the most vulnerable – the ordinary West African citizen – should be the first point of view taken into account in elaborating policy in this area.

**What is the developmental impact of illicit or criminal activities and related financial flows?**

The international community needs to build responses based on evidence. This report proposes a comprehensive framework for assessing the harm resulting from criminal activities. It prioritises responses based on an analysis that includes – but goes beyond – monetary loss, focusing on areas that are crucial for development:

A framework for assessing harm to development resulting from illicit and criminal activities, and the associated financial flows

The harm outlined in this framework can vary at the individual, community, national or international levels. There may also be differences based on demographics, gender and the vulnerability of specific groups. The following questions can guide the analysis of the impact of the activities presented in this report:

1. **Where is the good sourced?**
2. **Is there a local market for the good?**
3. **Where are the illicit financial flows generated by these activities earned and invested?**
### Applying a new analytical framework to selected case studies of criminal economies

<table>
<thead>
<tr>
<th>Where is the good sourced?</th>
<th>COCAINE TRAFFIC</th>
<th>COUNTERFEIT GOODS</th>
<th>ARTISANAL GOLD MINING</th>
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<td>EXTERNALLY: Cocaine is produced outside of the region.</td>
<td>EXTERNALLY: Counterfeit goods are predominantly produced outside of the region.</td>
<td>LOCALLY: Gold is indigenous to the region.</td>
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| Is there a local market? | NO. There is a small market for cocaine in the region. Trade is concentrated in a limited number of hands within the region. | YES. Counterfeit goods have a large local market. In some cases, (depending on the goods) they compete with local products. Many actors engage in the movement and marketing of counterfeit goods. The barriers to entry into the country are generally low, depending on the product. | YES. There is a sizeable local market for gold, which is used as a currency equivalent for local and cross-border trading. |

| Where are the IFFs earned and invested? | EXTERNALLY. The majority of the profits from cocaine trade are realised externally to the region. The local IFFs are predominantly used to finance local operations, corruption and protection (for those involved in the illegal trade). A small proportion of the locally realised flows are then laundered abroad. | EXTERNALLY. The majority of the IFFs are external to West Africa. Some profits are accrued by local importers and traders, but the majority are realised by producers. Those IFFs accrued locally are often re-invested in local counterfeit operations or make their way into the local economy. | LOCALLY. The majority of the IFFs accrued locally by the miners are invested locally in subsistence livelihoods, or used in cross-border trade. A minority share of the IFFs produced along the value chain leaves the country through a limited number of mining companies or gold dealing corporations. |

| Assessment of harm | The primary harm resulting from the cocaine trade includes: • damage to health from drug use • increased corruption through enrichment of local powerful elites that may be acting in collusion with criminals • violence resulting from competition among groups that control the market and increased armed protection. | The primary harm from counterfeiting includes: • negative impact on local industries • health and safety risks for consumers, for example from consuming counterfeit medications • loss of domestic revenue • increased corruption through enrichment of local powerful elites that may be acting in collusion with criminals. | The primary harm from artisanal gold mining includes: • health and safety risks for artisanal miners resulting from dangerous work practices or use of toxic products • damage to the environment resulting from use of toxic products • loss of government revenue • resourcing of local power-brokers. |

| Implications for response | Because of the limited nature of the local cocaine market (cocaine's penetration into social groups is commensurate with its high cost), responses should concentrate on the impact on the power balance: • improved measures for seizing the commodity prior to transit through West Africa (with the caveat that this will likely displace flows elsewhere) • targeted interventions, for example strengthening transparency and oversight • interventions focused on breaking down the trafficking networks. | Counterfeit goods, though receiving limited attention from authorities in the region, are in heavy demand, mostly because of lack of affordable legitimate alternatives. Responses should include: • for the goods most likely to cause physical harm, such as counterfeit medications, controlling flows that cause the most harm to consumers and raising consumer awareness of risks • providing viable market alternatives to consumers, possibly through government investment or subsidies • intervening with those producing and supplying the goods • addressing corruption, for example targeting relevant authorities with measures for improving transparency and oversight. | Artisanal gold mining is less of a criminal than an informal activity; most of the value chain benefits remain in the country, and in particular in the community of those involved. Responses should include: • mitigating harm to the environment • protecting small miners • shifting informal activity into the formal sector through legal and regulatory action, and by providing incentives to small miners to formalise their activity • creating/enforcing corporate regulation to address IFFs flowing outside of the region. |
What are the conclusions of the analysis of illicit financial flows affecting the West Africa region?

- IFFs that remain in the region are mainly from labour-intensive activities, rather than criminal ones.
- The most significant net losses within the region — as a result of IFFs being directed outside of the region — are the result of criminal activities driven by natural resources.
- Within the region of transit for goods with little local market in West Africa, the impacts are most likely to be high-level corruption and establishment of networks to protect the flow of goods, commensurate with their value.
- Criminal economies (whether locally or externally sourced) with a significant local market are most likely to play into local power hierarchies, and often contribute to corruption, conflict over resources, resource degradation and/or social instability (including terrorism).

Key responses to limit the negative impact of criminal economies and illicit financial flows on development:

- Take action in all countries — of origin, transit and destination.
- Take a multidimensional approach to assessing and mitigating the harm, prioritising the most vulnerable.
- Prioritise and harmonise policy interventions at the national, regional and, if possible, international levels.
- Carefully target interventions based on careful analysis of the causes and victims of harm.
- Create an enabling environment through regulation, transparency and oversight.