What is this report about?

The negative impact of illicit financial flows (IFFs) on progress towards development goals increasingly features on international political agendas. There is now a consensus that resolving the problem of IFFs requires responding to underlying development challenges, and tackling all parts of the problem in source, transit and destination countries.

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, this report examines the nature of thirteen overlapping, and often times mutually reinforcing, criminal and illicit economies, with a view to identify their underlying development linkages and resulting financial flows.

The report goes beyond traditional efforts to measure illicit financial flows (focusing solely on financial losses) and takes the first step towards building a qualitative understanding of the way in which illicit or criminal activities might interact with the economy, security and development of a region particularly susceptible to IFFs. In taking this approach, this report identifies the networks and drivers that allow these criminal economies to thrive, with a particular emphasis on the actors and incentives behind them. This report further proposes a framework that offers an opportunity for policy makers (national governments, regional actors and international partners) to prioritise their policy responses, and to address the development conditions and resulting impacts of IFFs.

DID YOU KNOW?

ILLEGAL NARCOTICS

With an estimated profit of just USD 40 million year-on-year, the development impacts of the cocaine trade lie, not in the monetary loss, but in the purchase of local political influence in the region.
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 and criminal activities, such as increased instability, violence or even terrorism.

- The distinction between licit and illicit is often blurred. With few viable legitimate livelihood opportunities within the formal economy, these other forms of trade and industry – albeit illicit – are subsistence-level activities.

At the same time, these issues have so far been addressed as security problems. Yet, for West Africa, as elsewhere, they are primarily a development concern. The perspective of the most vulnerable – the ordinary West African citizen – is also a particularly important area of focus in elaborating policy in this area.

DID YOU KNOW?

COUNTERFEIT AND SUBSTANDARD GOODS

- According to the European Union, 60% of the market value of all medication in the region is estimated to be falsified or substandard[1].

- Sub-standard and counterfeit medicines pose very serious health risks. West Africa, one of the regions most affected by malaria, is particularly vulnerable to counterfeit anti-malarial medications.

[1] A WHO cross-national study found that non-compliant anti-malarials were highest in West African countries of all tested countries. In 2011, the World Health Organization found that 77% of Nigerian and 64% of Ghanaian medications failed to meet quality control standards.
DID YOU KNOW?

ILLEGAL OIL AND MINERAL EXTRACTION

- In 2013, Nigeria was losing an estimated 100,000-250,000 barrels of oil per day, with a value of approximately USD 3-8 billion per year. (Katsouris and Sayne 2013)
  - It is estimated that this sum would fund access to electricity for all Nigerians by 2030 (IEA)
- The annual cost of piracy to West African countries is thought to range from USD 565 to USD 2 billion per year, although the higher amount is driven by estimates of oil theft either sourced from or transiting through the Gulf of Guinea (Osinowo, 2015).
- In Sierra Leone between 50-90% of the diamond trade is lost through smuggling (Fanthorpe and Gabelle, 2013). At the same time, in 2011, only one of the five major mining companies in Sierra Leone paid any corporate tax (Africa Progress Panel, 2013).

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.
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. The following questions can guide the analysis of the impact of the activities presented in this report:

1. Where is the good sourced?
2. Who are the actors and networks involved?
3. Where are the illicit financial flows generated by these activities earned and invested?

What are the conclusions of the analysis of illicit financial flows affecting the West Africa region?

- Informal activities generating IFFs that remain in the region cannot always be stigmatised as criminal.
- Criminal industries driven by natural resources whose IFFs are invested outside of the region present the most significant net losses.
- Transit-trade goods with a limited local market are the most likely to induce high level corruption and the establishment of protection networks, 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, potentially leading to insecurity, violence and conflict.
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.

✓ Prioritise and harmonise policy interventions at the national, regional and, if possible, international levels.

✓ Target interventions based on careful analysis of the causes and consequences of harm.