Chapter 4.

Conclusions and recommendations

Based on an analysis of illicit financial flows (IFFs), this report establishes an analytical framework for understanding the harm that can be generated by criminal economies in order to guide and prioritise responses, both by the states in the region and the international community. These conclusions were drawn from an analysis of 13 forms of illicit or criminal economies operating in the region, organised by a typology distinguishing between illegal activities, the illicit exploitation or commodification of natural-resource assets, and the illicit trade in normally legal goods. This final chapter concludes with several observations and recommendations that draw on commonalities, but are also targeted at the development, finance and trade, and security and justice sectors. It draws on the report’s findings to determine a way for state and non-state actors to plan and co-ordinate their responses.
Introduction

Illicit financial flows (IFFs), defined as “money illegally earned, transferred or used” (United Nations Economic Commission for Africa [ECA], 2013), are increasingly understood as a threat to sustainable development and a shared global challenge. They constrain economic growth and undermine investment, depriving governments of the financial resources that might otherwise be invested in public goods, such as health, education or infrastructure.

IFFs carry a high price and can be linked to dangerous illicit or criminal activities, such as human trafficking, drug trafficking and conflict minerals. IFFs are particularly prevalent and damaging in the context of fragile and transition countries, where they contribute to vicious cycles of low development, instability and conflict by further weakening fragile public institutions and empowering those who operate outside of the law.

This report identified 13 forms of illicit or criminal economies operating in the region, organising them in a typology that clearly distinguished illegal activities from the illicit exploitation or commodification of natural-resource assets, and the illicit trade in normally legal goods.

Governments’ resilience and capacity to counter criminal economies and prevent IFFs reflect the resources available to them, and the political will to do so. Yet because of West Africa’s porous borders, the large areas where the state has little impact or control, and the predominantly informal economies governing domestic, regional and international transactions, it is difficult to see how conventional tools designed to mitigate IFFs (such as those focusing on law enforcement) can be effective in the region. In all states, countering and containing the most pervasive illicit trades is a struggle. In West Africa, the task is even more challenging; it is further complicated by the fact that these economies often provide basic livelihoods to populations living in affected areas.

Responding to this complex set of problems requires interventions that directly tackle criminal networks and mitigate harms, while simultaneously working to alleviate the development conditions that might give rise to IFFs. The way illicit and criminal activities function, and the means by which their IFFs are laundered, are also fluid: they change in response to the environment, opportunity and both global and local market drivers, and no single entity or organisation will succeed in addressing IFFs by working in isolation.

Main findings and conclusions

The persistence and agility of criminal economies is a product of increasingly interdependent global markets. Resources are finite, and the challenges of reducing the occurrence and impact of IFFs are many, particularly in fragile-state contexts, which characterise several of the countries in the West African region. Some illicit markets are clearly more damaging than others. If policy makers can understand how criminal markets work, the way in which they interact with local communities and local forces, and how they garner profit, they can prioritise their interventions and learn to mitigate those activities that do the most damage.

Despite the diversity of criminal economies considered in this report, a number of common conclusions can be drawn. These relate in particular to the enabling conditions in the West African region that allow individuals to undertake these activities without significant resistance. As is the case globally, criminal networks operating in West Africa
are able to move flexibly between markets and commodities with relative impunity, generating rents that will enable them to further perpetuate the conditions they need to thrive: corrupt officials buying legitimacy and support from local communities.

**The licit and illicit are interwoven**

It is often hard to draw the line at where livelihoods end and criminality begins; not all that happens informally should be construed as illegal. Yet, distinguishing between the licit and the illicit in West Africa is not straightforward, for two reasons. First, given the expansive nature of the informal economy (estimated at 50-80% region wide), most West Africans generate their livelihoods outside of the formal trade and regulatory framework (United Nations Economic Commission for Africa [ECA], 2012). Whole borderland communities rely on informal cross-border trade of commodities, the vast majority of which are food products: for example, a breakdown of the multi-million dollar weekly value of cross-border smuggling from Algeria to Mali estimated that over 85% of commodities were basic food items like flour, pasta or milk powder (OECD/Sahel and West Africa Club Secretariat [SWAC], 2014). As the forthcoming study on gold issued from artisanal and small-scale gold mining (AGSM) demonstrates, the incomes generated by artisanal miners through this illicit activity are economic mainstays for the local economy (OECD, forthcoming a). With few viable opportunities for livelihoods within the formal economy, these are subsistence forms of trade and industry. Activities like commodity smuggling – or even human smuggling – are not necessarily stigmatised as criminal behaviour, and a range of local services may develop in tandem with them to optimise the potential for downstream benefits. For example, towns on dominant migrant or drug routes have developed a host of services, including providing accommodation, food and armed security for hire. This amplifies the benefits of illicit trade and creates economic dependency on the part of the community.

**Criminal economies and their links to corruption**

The criminal economies presented in this report reflect that politics, governance and illicit activity are often interconnected, and public officials often wear multiple hats – as public officials performing their public role, but also as private individuals connected to local, community or family networks, and sometimes linked to criminal or illegal activity and cross-border trade. Loose lines and affiliations cause the licit and illicit to become blurred. At the same time, the size of the unregulated financial sector, the weak capacity of customs and borders authorities, and low levels of political commitment to change the status quo enable these activities to persist without penalty or censure. Key figures in business and government can serve as pivotal nodes in the networks that perpetuate criminal behaviour, initiating or organising transactions domestically and with international markets, protecting flows from seizure and network members from prosecution, and laundering money through legitimate business or international trade. This model is best analysed and understood in the extractive sector, but it applies equally to the trade in consumer goods and illegal goods (such as illicit drugs).

In the higher ranks, those engaged in the criminal economies are free to parlay their IFFs into political power or economic leverage. At the lower levels, corruption may serve as a means of livelihood. The payment of a bribe is perceived as a right of office in a system where civil service salaries are low and often irregular. It is an expected cost of doing business for individuals engaged in both licit and illicit activity, and payments typically increase according to rank. In this manner, both governance and politics become invested in protecting illicit flows. It is said the practice is so widespread and pervasive...
that it can be better defined as an alternative system of governance, rather than as corruption (Chayes, 2015). Nevertheless, it is an alternative system that reduces the development prospects and life chances of the society’s poorest and most vulnerable (Burgis, 2015).

**Extortion or protection taxes and financial exclusion strengthen criminal economies**

The ability to levy taxes on trade, both licit and illicit, is increasingly falling outside of the purview of West African central states. As the forthcoming study on drug trafficking demonstrates, charging for protection is a strategy of criminal groups involved in drug trafficking and other forms of illegal behaviour (OECD, forthcoming b). The case study on the financing of Al Qaeda in the Islamic Maghreb showed that terrorist groups active in West Africa are able to garner income from taxing or extorting the communities in which they operate, including in relation to legitimate economic activities. Money flows to local powerbrokers or terrorist groups, as it would (should) to the state; in this environment, protection becomes a commodity in itself, and violence plays a pivotal role in the fight for control (Shaw, 2016). The bribes paid to low-level officials are ultimately an additional tax levied on the people, diverted from the coffers of the treasury. The large size of the informal economy, and the blurred lines between legitimate and illegitimate economic activity, make addressing this resource diversion particularly challenging.

**Financial exclusion as a driver of IFFs**

A central factor enabling criminal economies and IFFs to thrive in West Africa are the region’s low levels of financial inclusion. Access to the formal banking system is out of reach of the vast majority of ordinary people. The principal means for remittance exchange and international transactions, the money transfer operators (MTOs), are prohibitively expensive. This has created a paradigm in which the majority of financial transactions are conducted in cash and the *hawala* system is favoured for longer-distance or cross-border payments. As a result, significant volumes of transactions are outside of government regulators’ reach, and cannot be measured for the purposes of international trade.

The consequences of so much economic activity falling outside of the formal system are manifold. First, the ubiquity of informal cash-transfer systems increases the risks of money laundering and terrorist financing. It also impedes the important benefits derived from access to banking and savings products, including the empowerment of women, increased productive investment and consumption, raised productivity and incomes, and increased expenditures on preventive health (World Bank, 2014).

A large number of law-enforcement professionals and financial regulators were interviewed for this study, both within the region and externally; all recognised the inherent challenge of preventing IFFs in a context of strong *hawala* systems (SEN-GIABA-130515; NIG-Gov-LE-220915; UK-Gov-LE-220615; USA-Gov-LE-120515; WA-EU-080515; WA-EUSec-120515). It appears that the implementation of anti-money laundering/countering the financing of terrorism (AML/CFT) regulations, along with other factors, has led banks to adopt a more conservative position to limit their risk exposure in developing countries. This process, referred to as “de-risking”, further affects the prospects of financial inclusion for those on the margins of the economy. For example, the AGSM case study highlights that access to credit may have allowed informal miners to afford licenses, buy equipment and shift into more formal employment (OECD, forthcoming a).
Most West African countries set a high bar on financial inclusion and restrict outbound flows of money unless they are used for trading or transferred to depositary banking institutions. Banks have established privileged agreements with MTOs, who levy significant taxes on transfers. This serves as an additional tax on the poor and on the remittance system, which is an economic mainstay (Watkins and Quattri, 2014). Efforts to widen financial inclusion, possibly through the use of mobile money or alternative banking systems, would allow savings and transactions at the level of the individual, family or community to offer development benefits; it would reduce dependency on *hawala* systems, which may also be used as infrastructure for the criminal economy; and it would allow money to be protected from rent-seeking protection payments by all manner of actors. Experiences in East Africa have also shown that moving towards phone banking for payment of government services has reduced low-level bribe-paying and corruption, while increasing government revenue (World Bank, 2014).

A second implication of the dominance of the informal financial system and illicit trade is that West Africa’s share of global flows is undervalued, affecting the standing of its balance of payments and global trade. This is a problem stemming not only from trade mispricing or invoicing – although this remains a significant IFF loss – but also arises from informal production activities going unrecorded. The AGSM case study highlights the sheer size of the informal sector, and the amount lost by gold-producing countries through diversionary activities and cross-border smuggling (OECD, forthcoming a). Realising the value of these potential revenues and resources through legitimate economic performance would enhance the region’s capacity to engage in global and regional trade, and would allow economies to grow, reduce their aid dependency and generate long-term economic and social benefits.

*Responses based solely on security strategies are not effective*

If national governments and the development community wish to make meaningful progress on addressing IFFs, a combination of carefully tailored multisectoral policy instruments and approaches is needed to complement existing sanction and interdiction efforts. National governments and the international community have tended to rely heavily on law enforcement, border control and legal strategies as the predominant response to criminal economies. Yet the law enforcement officials interview for this study, both from the region and internationally, underlined a range of concerns undermining their effectiveness, including: areas of instability with little state authority or presence; communities and cities where smuggling is a livelihood strategy and economic dependency on those activities is high; long and porous borders that make credible border enforcement impossible; and weak institutions with limited capacity, resources or political support for sustained investigations. This report has identified some of the essential underpinnings of more effective responses – i.e. promoting sustainable livelihoods, financial inclusion and strategies to ensure integrity in the public service – which can complement and enhance the effectiveness of security and law-enforcement measures. Overall, however, considerably more research and learning is needed to identify the development conditions engendering or exacerbating IFFs, and their resulting impacts on a country’s growth, security and development.

While devising a new law might make the practice illegal, it will not change behaviour unless other incentives are adopted. Many of the activities described in this report are, in fact, informal livelihood strategies, and little is to be gained by criminalising those involved.
Consistent and coherent regional strategies and responses are essential

A major finding of this study reinforces the need for Economic Community of West African States (ECOWAS) member countries to work together to develop and implement common or complementary strategies and policies across an inter-disciplinary set of policy areas, such as trade and investment, taxation and subsidy regimes, finance and banking, labour market regulation and migration. Given the significant degree of interdependence among countries in the region, it is clear that unilateral action on the part of one country will only have limited impact. Such action is more likely to displace rather than reduce criminal economies and IFFs. Across the board of criminal economies, smugglers and traffickers exploit differentials in tax regimes, or differences in surveillance capacities, to maximise their profits and minimise interdiction risks; this is particularly true in illicit trade in legal goods and illicit resource extraction, where the commodities or acts play an important role in the local economy. Even with purely illegal activities like drug trafficking, perpetrators exploit arbitrage opportunities between justice systems to practice their trade in areas with the least chance of detection and prosecution, and ensure the lowest levels of penalties if caught. Given the differences across countries, a regional strategy is a necessary, albeit insufficient, component of an effective response.

The ECOWAS region is not short on strategies, initiatives or declarations at the regional level. The necessary legislation is often in place to provide a framework for response, although implementation is often weak. Given the number of criminal economies in the region, and the relatively low capacity and resources available to address them, national and international policy makers seeking to address these challenges will need to choose their battles. Setting priorities – the entry point – will necessarily involve a careful balancing of trade-offs or factors. A few quick wins – “low-hanging fruit” – can be seized, but in the vast majority of cases, achieving results will require a long-term partnership between countries in the region and international actors. Once priorities are selected, maintaining a sustained focus and not spreading resources too thinly – or allowing them to be diverted to new issues – will be key.

It should be noted that West Africa is only one part of a global supply chain for the activities reviewed in this study and cannot alone be expected to address these criminal economies. The co-operation of OECD member countries is essential in this matter, and concerted efforts will be needed to reduce the demand for these criminal economies within established economies. OECD member countries can play a far more rigorous and active role in addressing criminal economies and IFFs outside of the region, ensuring that adequate attention is given to both the supply and demand sides of these criminal economies within the relevant economies. Priority should be given to shutting down the kinds of criminality that generate the most harm. In the case of illicit fishing or logging, for example, the European Union is the dominant consumer driving demand. Efforts to raise awareness and change consumer behaviour are one means to curb such illicit activities, but others can be explored. Subsidies and other related policies can also offset those industries where a large portion of trade is thought to have been illicitly sourced.

Common development principles should guide IFF responses

Dealing with criminal economies requires respecting the general principles that hold true for all cases and approaches:
**Understand the political economy**

Regulating the use and management of resources (whether licit or illicit) should be carefully handled, given the implications for the economy and society as a whole. A proper analysis of the political economy mapping the networks of interest behind the region’s resources should be a prerequisite to any kind of intervention. In a similar vein, when seeking to intervene in criminal markets, it is important to consider that all flows – including development assistance – can have an impact on incentives and vested interests. In the past, development assistance has had a distortive effect on the economies of developing countries, particularly those with a high degree of informality. The underlying principle must be to do no harm, which is not always assured when dealing with such complex issues.

**Take a development perspective and avoid doing harm**

The 2030 Agenda for Sustainable Development (2030 Agenda) signals that national governments and international donors share responsibility for achieving development, and that development objectives (i.e. growth, security, equity and inclusion – including financial inclusion) are best enabled by effective and accountable institutions (Sustainable Development Goal [SDG] 16). An IFF response strategy that applies heavy-handed, punitive measures to marginalised groups – for example, those whose livelihoods depend on subsistence activities – is likely to be counterproductive and will only increase criminal groups’ social collateral within their host populations. It is particularly important for international efforts to ensure that all actions and rhetoric strive to “do no harm” in the context of these complex and contingent realities.

Various forms of criminal economies will always exist, even in the strongest states, but their impacts will be most detrimental when they use or result in violence. In these cases, the need to take action will likely outweigh any mitigating factors. In other cases, criminal trades may be firmly rooted in the local political economy with criminal groups offering benefits the state is unable to provide, such as income and employment, basic social services and security. In so doing, these groups can create alternative governance systems that compete with the state, particularly among populations lacking access to state services and protection – such as minority ethnic groups, immigrants in urban hubs or distant hinterland communities (Felbab-Brown, 2013; Reitano and Hunter, 2016). In such instances, an appropriate response may not be to attempt to tackle or deconstruct the prevailing illicit trade or economy; but rather, to enable slow, iterative and progressive change – including, for example, through the integration of such trades into the formal economy, and the development of strategies to rebuild the legitimacy of the state in relation to the host community.

**Build reform coalition, involving state and non-state actors**

Civil society groups and the media play a crucial role in developing and sharing knowledge about criminal economies, and catalysing action. They should be encouraged by the international community and national governments to play a greater role, particularly in demanding accountable governance. At the same time, the most informed and effective response efforts will be those that leverage the potential of multiple actors, including public officials, who have decision-making authority and some access to resources; the private sector, which may be affected and or in some way implicated in a given illicit activity; and non-state actors, including local leaders, civil society and community-based groups who can, for example, conduct research to drive reforms by
national governments, or monitor implementation and action. Building effective coalitions for action will be essential to tackling the complex, multidimensional nature of the activity in question, as well as securing and deploying the diversity of skills that different actors can bring to the issue.

One of the major conclusions of this report is that drawing a line between informal and illegal activity in West Africa is a challenge; a number of practices that are considered illicit are, in fact, informal livelihood strategies. In these cases, there is little benefit from criminalising those involved in subsistence-level activities; other ways of modifying behaviour would result in a better outcome for society as a whole. By contrast, while elite diversion of resources may be legal – because the government defines the laws – the outcome is inherently wrong from the perspective of governance, justice and rule of law.

Social pressure can reinforce the use of laws and judicial tools, as well as market incentives and disincentives, to change norms and behaviours. Exposure, awareness raising and activism can promote or discourage behaviour at both the international and local levels, and signal that “business as usual” cannot continue. While the value of these activities in changing policies and standards should not be underestimated, no effort, no matter how well-intentioned or well-resourced, is likely to succeed without significant national leadership and ownership by the most implicated and affected stakeholders. The leadership, transparency and development focus of national governments will be critical to changing attitudes and diminishing the foundations that allow criminal economies to flourish at the regional, national or community level. Reducing or removing a criminal economy is a long-term effort that may take decades; the priorities are many, while the resources and capacity are thin.

Policy areas for further work

Organised crime has no boundaries: its effects are felt, variously, across fragile, developing, middle-income and developed countries. Poverty and inequality are clearly also linked to increases in illicit and criminal activity, e.g. human smuggling and trafficking, smuggling of counterfeit goods, environmental degradation, and extortion and bribery.

For too long, the security sector and criminal justice approaches have driven the responses to criminal economies, treating them solely as a law-enforcement issue. The Agenda 2030 clearly spells out the responsibility of development actors to address organised crime and the IFFs it produces. SDG 6.4 requires national governments and international actors to work together to “significantly reduce illicit financial and arms flows, strengthen recovery and return of stolen assets, and combat all forms of organised crime” by 2030. In addition to this direct mandate, organised crime and criminal economies cut across a range of development concerns; more than 20% of the Agenda 2030 targets are at risk from the harms of criminal economies (Global Initiative, 2014).

Thus, the responsibility of development actors is twofold: to directly address criminal economies and the systemic socio-economic and governance conditions that enable them; and to mitigate the impact of criminal economies on development objectives. There are no generic or linear sets of policy recommendations that can achieve this. Deliberate, problem-oriented policy formulation, negotiation and validation will be needed to develop multilevel (global, regional and national) responses that are relevant and tailored to the context. On a broad and provisional basis, this report recommends considering and further developing the following policy approaches as areas for first-order responses.
**Financial and trade interventions**

Trade regimes – i.e. the financial and regulatory environment at the international, regional and national levels – can either help or hinder the growth of criminal economies and the dispersal of IFFs outside of a country’s productive formal economy. Given these challenges, this report recommends the following broad policy areas as areas in which IFFs mitigation measures could be designed and crafted:

**Promote interregional trade and subsidy policies.** Subsidies have an impact on the economic drivers related to illicit trade, and can serve as both incentives and deterrents. A free-trade zone is a step forward in this regard; however, as with other issues, the efficacy of this policy in countering illicit trade will depend on the level of implementation by national governments. The economies of West Africa are externally driven both on imports and exports, and there is minimal trade between countries of the region. Several empirical studies have shown the benefits of promoting interregional trade. For example, a 2005 study showed that trade within the West Africa Economic and Monetary Union could increase threefold if all intrastate roads were paved (UNCTAD, 2013). Promoting interregional trade would benefit local economies, and reduce their vulnerability to counterfeit goods and competing criminal economies. It may also reduce the propensity of the region’s youth to look externally (to Europe or elsewhere) for employment opportunities and create a more region-centric economic environment. Regulatory and financial reform, including reducing the requirements for owning and operating a business, could promote business development by domestic actors.

**Address problems of financial inclusion.** Access to the formal banking system is out of reach for the majority of ordinary people in West Africa, and the principal means for remittance exchange and international transactions, the MTOs, are prohibitively expensive. Individual countries in the region could open the MTO industry to market competition, reducing privileged-partner agreements. They could also exploit the benefits of emerging technologies (e.g. mobile phone-based banking systems), which would promote higher degrees of financial inclusion. A further step would be to reduce petty and transactional corruption by encouraging electronic or mobile direct-pay systems for public services.

**Take a nuanced approach to financial regulation.** Given the dominance of the informal economy, and the extensive importance of hawala dealers for remittance transfers, efforts to enhance the capacity to combat terrorist financing and money laundering should be measured against the need to ensure that remittance flows can continue (Hammond, 2011). Both domestic and international financial regulators should aim for a more granular and vigilant approach to transfers by politically exposed persons (PEPs).

**Strengthen IFF responses within OECD member countries.** The OECD publication on IFFs, *Illicit Financial Flows from Developing Countries: Measuring OECD Responses* (OECD, 2014a), compared the performance of OECD member countries along a range of relevant international indicators. It found that OECD member countries are making significant progress in building the firewalls to counter IFFs. But work remains to be done, particularly to increase transparency of the financial system and corporate ownership, and monitor PEPs (OECD, 2014a). As a first step, all OECD member countries could comply with regulations, for example, by enhancing the capacity to identify and seize the assets of those PEPs known to be associated with criminal behaviours, and returning them to the source country. Given the clientelist nature of governance in West Africa, asset freezing and seizure – which could serve to reduce the capacity of powerbrokers to
display their wealth – would send an important signal down the hierarchy of patronage networks.

**Sharpen efforts to address the IFF risks arising at each step of the commodity supply chain.** West African countries rely strongly on revenues from the extractive sector. The proceeds from Nigeria’s oil and gas industry comprised 8.42% of its real gross domestic product (GDP) and generated 75-80% of the country’s overall government revenues in 2016. In Ghana extractive industries contributed to 10% of the GDP and 18% of the government revenues. Yet this sector is highly exposed to risks related to IFFs, as discretionary power and the politicisation of decision-making processes are major risks at various stages of the commodity’s value chain. A 2014 OECD report showed that roughly one in five cases of transnational corruption took place in the extractive sector, ahead of arms dealing or public-infrastructure works which also have a more negative reputation (OECD, 2014b). Companies sourcing mineral resources are also strongly encouraged to carry out risk assessments across their whole supply chains. The OECD has developed a Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas (OECD, 2016), which provides detailed recommendations to help companies identify and address risks of contributing to conflict, adverse human-rights impacts and risks of corruption, bribery and money laundering, including through their mineral purchasing practices.

**Align regulatory regimes behind efforts to counter illicit trade.** The legal framework for world trade facilitates trade, but does not prevent illicit trading activity and in some cases WTO members seeking to regulate or control their borders can be challenged by other members before a WTO panel, which renders more challenging for countries to tackle IFFs. Global trade policies, such as the use of subsidies and tariffs, play an important role in defining and providing incentives for illicit trade. For example, within the WTO framework, a country exposed to high levels of inflows of counterfeit goods from other countries cannot claim damages or compensation from the originating or source countries. In the realm of intellectual property, there is no standardised offence categorised as counterfeiting which prevents extradition or legal action in another country. International free trade zones play an important role in global trade, and yet their proliferation has also increased vulnerabilities to illicit and criminal economies. Legislation regulating free trade zones is not standardised, and several countries do not apply national jurisdiction over goods in transit or goods in free trade zones (ICC, 2013). The infrastructure of legitimate trade, shipping lines, online sales sites, courier services and international payment solutions fulfil essential roles in enabling and facilitating trade; and yet, the liabilities of these international operators is limited when criminals abuse their services.

**Incentivise good governance by corporations based in OECD member countries.** Foreign corporations in West Africa, including those of OECD member countries, have been criticised for a range of practices. These include maximising profits through preferential tax regimes, failure to adhere to environmental and labour standards and outright criminal behaviour. To maintain their legitimacy, OECD member countries are encouraged to continue to address these issues within corporations headquartered in their own states building on previous achievements made under the Convention on Combating Bribery of Foreign Public Officials in International Business Transaction. These measures could be undertaken in parallel with efforts to strengthen the capacity of West African governments and private sector to fight corruption, including for example, through joint efforts such as the Joint African Development Bank-OECD Initiative to Support Business Integrity and Anti-Bribery Efforts in Africa.
Local livelihood and public-service provision

Recreate the link between governance and service provision. Criminal economies have enriched local interest groups at the expense of the state, enabling them to build legitimacy by offering security, livelihood and basic services to local communities, and any long-term goal of any intervention should be to reinforce the state’s capabilities and legitimacy in the eyes of the public. Efforts will also need to resonate with communities, and should address their context driven priorities and vulnerabilities. Community priorities can be understood and addressed, perhaps using community-perception surveys, which can help to show which groups have gained social legitimacy. Participatory strategic planning and programme design, even around relatively small investments, can reinforce the likelihood that communities feel their needs have been met and priorities considered.

Building the legitimacy of the state is not straightforward. Criminal or terrorist groups may have achieved a degree of social legitimacy, and interventions that increase the insecurity of local populations will draw criticism and build resentment among them, particularly if there are no livelihood dividends attached. This threatens the buy-in and credibility of peace and state-building processes, and strengthens the legitimacy of the alternate governance provider – whether a criminal or terrorist group. In cases where the credibility of the state has been eroded over time or owing to widespread impunity, the state may not be able to move forward immediately. Alternative interlocutors, such as religious authorities and diaspora populations, could bridge the gap (Reitano and Hunter, 2016).

Support alternative livelihoods. One of the factors underpinning the prevalence of illicit trade in West Africa and individual involvement in criminal enterprises is the lack of viable livelihood alternatives. While job creation is a classic development strategy to reduce the appeal of illicit trafficking for former combatants, livelihood strategies often offer little more than short-term, labour-intensive work that cannot compare to the potent allure of illicit profits and genuinely sustainable livelihoods. To effectively address criminal economies, livelihood and employment-generation programmes will need to be done differently.

Studies of responses to organised crime in other contexts are useful. They have shown that to reach the target demographic, i.e. youth susceptible to criminal behaviour and violence, alternative livelihoods need to provide employment that enhances social standing and provides a viable future (Hoyos, Rogers and Székely, 2015). Other studies have observed that individuals attracted to illicit industries may have a higher risk tolerance, and that traditional employment generation and livelihood programmes might not appeal to them (Dercon, 2015). Innovation and experimentation are needed to find apprenticeship models and employment schemes that provide goals and achievement benchmarks, returns on perseverance and commitment, and investment opportunities that can generate sustainable livelihoods and social capital over the long term.

Justice and security

Traditionally, law enforcement, criminal justice and security-sector responses have been the dominant means of responding to criminal economies. This study has emphasised the limited efficacy of isolated responses, particularly in states where corruption and socio-economic drivers contribute to the enabling environment. Therefore, these recommendations cannot be expected to have an impact in isolation from other actions, but will continue to form part of a comprehensive and integrated solution.
**Address the backward and forward linkages across the criminal justice chain.** To disrupt criminal and trafficking networks effectively, attention must be paid to ensuring appropriate levels of political will; legal frameworks that facilitate interdiction, leading to the arrest of higher-level traffickers; and capacity within the criminal-justice system to prosecute the individuals involved. Seizures and arrests will have a minimal impact if they are not followed up with appropriate levels of prosecution; however, judicial independence and integrity must also be assured. Penal reform and appropriate human-rights standards in prisons are important measures to prevent recidivism or the exacerbation of criminal environments. Areas rife with religious fundamentalism and terrorist ideologies should develop specialised capacity to deal with individuals susceptible to undergoing further radicalisation.

**Pursue regional approaches.** Given the transnational nature of criminal economies and criminal operations, the efficacy of any surveillance, sanction and interdiction efforts will have to extend beyond national borders. Moreover, unilateral law-enforcement strategies can experience the “balloon effect,” where successful efforts in one country simply push the problem elsewhere. Co-ordinating efforts across countries and regions, including through sharing intelligence and joint operations, and aligning legal frameworks, can increase their effectiveness. Although addressing the issue from a regional perspective presents challenges; efforts to counter criminal economies should consider the regional implications and seek ways to align efforts across the region and with neighbouring regions. International donors and other multilateral actors can support co-ordination and information sharing.

**Harmonise legal policy.** Criminal networks have shown skill at hopping jurisdictions to select the most favourable conditions. ECOWAS member states will need to work together to counter criminal economies, ensuring consistent follow-through and reinforcing policy linkages between criminal justice, trade and development.

**Innovate and adapt strategies to tackle corruption.** Criminal economies and IFFs benefit from varying forms of corruption (by local police, border guards and local authorities) through impunity at the highest levels of the state and judiciary. If national and regional leaders do not take initiative on the issue of corruption, other strategic opportunities (such as internationally supported elections or transitions) can build mechanisms and bulwarks against corruption into certain contexts.

At the national level, some African countries have tried to reduce petty corruption through e-payments and mobile banking (Joseph, 2015). If ubiquitously applied to government services and key areas susceptible to corruption, this approach could reduce the size of the informal economy, and the widespread perception of corruption and impunity in governance (Zimmerman, Bohling and Rotman Parker, 2014). Although independent corruption commissions have a poor track record in sub-Saharan Africa, they have been effective elsewhere, and could address elite corruption and impunity.

**Update approaches of financial intelligence units (FIUs) to address informality:** a relatively comprehensive set of existing programmes reinforce the capacity of FIUs to respond to money laundering and IFFs, yet a large number of transactions enabling the criminal economy are occurring in the informal sector through unregulated money transfer systems, such as hawala. Different countries have experimented with regulating and licensing hawala dealers, dedicating capacity within FIUs to overseeing remittance-service providers (Financial Action Task Force, 2013). Further research and new approaches to better address these linkages could be further explored. FIUs could also work to enhance their
capacity to detect and respond to money laundering in the real-estate sector and other relevant sectors where funds have been invested.

**Specialised independent organised crime units.** The creation of specialised units to combat organised crime has been controversial; as in other jurisdictions, organised crime groups have targeted these units for corruption. Further, the isolation in which these units operate does not always translate into better co-ordination or capacity development of the broader police service (Center for International Policy, 2014). If designed with appropriate levels of independence and insulated against political influence, these units could be an effective means of investigating and prosecuting organised criminal groups and networks. In some countries, international sting operations have proven valuable in disrupting criminal networks at a high level; this capacity should be developed and led within the countries and regions (Reitano and Shaw, 2013).

**Focus on service delivery and community-level policing.** Strengthening relations between the police and the community, and enhancing public perceptions of – and trust in – policing is an important long-term intervention that would counteract longstanding corruption and redress the dominance of military actors over civilian policing units. Paying adequate police salaries is a prerequisite, as is including service-delivery metrics in assessments of police performance. Creating discretionary local funds that can be allocated to community-safety priorities can be valuable in building the confidence of local populations. Creation of ombudsman offices and other means of discreet provision of intelligence and information can help build a culture of reporting on illicit activity.

**Notes**

1. Several studies have shown, for example, that profits derived from trafficking cocaine are no more stigmatised than those from smuggling semolina (Meagher, 2005; Scheele, 2012; OECD/SWAC, 2014; Reitano and Shaw, 2015). This makes it still more difficult to disentangle the illegal from the informal and draw a line at where livelihoods end and criminality begins.
2. Per FATF (2013), the term **hawala** refers to a money transfer mechanism operating as a closed system within corridors linked by family, tribe or ethnicity. Used extensively along traditional trade routes in Asia, Middle East and East Africa centuries ago, in recent times the term has been used to describe a typology of money transmitters which arrange for transfer and receipt of funds or equivalent value and settle through trade, cash, and net settlement over a long period of time. **Hawala** and other similar service provider include hundi and underground banking.
3. Cases in Burundi (Brachet and Wolpe, 2005) and Somalia (Harvard, 2012), as well as in other countries, have shown that the delivery of humanitarian and development assistance can be co-opted by different actors and become another tool granting power and control to non-state armed groups.
4. In 2014, Nigeria’s GDP was rebased from about USD 270 billion to USD 510 billion for 2013. The increase of 89% was attributed to new sectors of the economy such as
telecommunications, movies, and retail which were previously not captured or underreported.

5. One model of an internationally supported corruption court is the International Commission against Impunity in Guatemala. While not without flaws, it has proven effective at creating a bulwark between political and state office, corruption and aggressive infiltration by organised crime. For a comprehensive evaluation of the court, see WOLA (2015). Indonesia’s KPK is another anti-corruption commission that has achieved positive results (Bolongaita, 2010).

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Interviews


Further reading


