

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

**2nd Specialized Technical Committee on
Finance, Monetary Affairs, Economic
Planning and Integration
Experts Meeting
12-17 April 2018
Addis Ababa, Ethiopia**

Eco/STC/MAEPI/EXP/AG

Illicit resource extraction

OECD (2018), Illicit Financial Flows: The Economy of Illicit Trade in West Africa, Paris: OECD Publishing. pp 86-104. <http://dx.doi.org/10.1787/9789264268418-en>.

SOMMAIRE

I. Oil theft	3
II. Extractive industries.....	5
III. Questions	7
IV. Sources.....	8

Illicit resource extraction

West Africa is rich in natural resources, and yet illicit resource extraction remains a particularly worrisome category of IFFs. These assets are indigenous to the region; while they play a pivotal role in the formal economy, they can readily be diverted into the illicit economy at various points of the supply chain (source, transit, sale and export), thereby generating IFFs. Rather than driving development, the story of the region's natural resource exploitation is one of oil and minerals driving institutional corrosion, instability, violence and conflict.

Nevertheless, demonising the sector as a whole would be a misstep, with potentially detrimental effects on the livelihoods of a large share of the population. Most natural resource industries in West Africa feature a degree of subsistence-level criminal activity, e.g. poaching for individual use, artisanal mining and small-scale tapping of oil pipelines. These typically comprise income strategies for ordinary people lacking credible alternative livelihoods; both the products and profits may be invested in the local economy. In fact, as artisanal trades are increasingly identified as an important driver of development, there is growing momentum to formalise these sectors

I. Oil theft

Nigeria is the world's thirteenth-largest oil producer; in fact, oil is the main driver of its prosperity (World Bank, 2014b). At its peak in 2012, the country was exporting over 2 million barrels per day (b/d) with an average daily value of USD 178 million.⁷ Petroleum accounted for more than one-half of Nigeria's GDP, about 85% of government revenues and over 90% of exports (Gboyega et al., 2011). Yet the country's inability to control the integrity of its oil trade has made it the African country with the highest cumulative IFFs: Nigeria represents 79% of total West African IFFs and 30.5% of Africa's (HLP, 2015); this has spillover implications for neighbouring countries.

Nature and scale of the flow: estimates of the total scale of oil lost to illicit activity differ vastly – from 100 000 barrels per day (b/d) to 250 000 barrels per day – valued at approximately USD 3-8 billion per year (Katsouris and Sayne, 2013). The International Energy Agency (IEA) estimated that oil theft in Nigeria amounted to 150 000 b/d; this would comprise a loss of over USD 5 billion per year – a sum that would fund access to electricity for all Nigerians by 2030 (IEA, 2014).

Chatham House published the most in-depth examination of the illicit oil trade in Nigeria in 2013 (Katsouris and Sayne, 2013), describing in detail the methods used to divert oil. Some illicit trade consists in small-scale pilfering for domestic use, but most is industrial-scale bunkering to take the oil out into international waters and sell it in another jurisdiction (Katsouris and Sayne, 2013). The large oil tankers (licit and illicit) on their way to export platforms are also highly vulnerable to piracy in the Gulf of Guinea, which has become a rising threat driven by Nigerian oil (see the section above on maritime piracy).

Key actors: domestic engagement in Nigerian oil theft is extensive, and is based on has established organised criminal industries and protection networks. The Chatham House (Katsouris and Sayne, 2013) report describes networks as more cellular than hierarchical in nature, a logical route given the degree of flexibility this affords to those involved. However, a number of key personnel and operating factors remain (Table 3.5).

Table 3.5: Anatomy of a typical large-scale oil-theft operation

Role	Actions	Alleged common identities
High-level opportunists	Collect profits from theft by virtue of their status and ability to restrict and control others' access to the trade	Mostly government officials and security-force personnel; some traditional rulers and local godfathers
Facilitators	Source necessary equipment and cash for operations; serve as paymasters for ground-level operators; launder money	Accountants, lawyers, real-estate brokers, money changers, corrupt bank managers or other staff
Operations	Install illegal taps; staff taps and oversee loading; gather intelligence on oil, ship and state security-service movements	Local youths; former employees and contractors of the oil commission (alleged); small consortia of local elites; militant groups
Security	Stand sentry at tap point; secure the transport corridor; escort vessels in inland and coastal waters; gather intelligence; otherwise protect the network's "turf"	Local armed groups or "militants"; private security contractors; rank-and-file state security forces personnel (alleged)
Local transport	Provide the smaller ships, trucks and associated human resources needed to store stolen crude and/or carry it to ship-to-ship points in inland or coastal waters	Some local armed groups or "militants"; local and foreign shipping concerns; current and former politicians
Foreign transport	Provide the commercial-grade tankers and other vessels to carry stolen crude to destination points outside of Nigeria	Foreign shipping concerns and agents; some private commodities traders?
Sales	Broker sales of stolen parcels to foreign buyers; arrange for financing and shipment; remit profits to others in the network	Well-connected local intermediaries; some private commodities traders?
Low-level opportunists	Operate various types of protection/extortion rackets around theft rings to profit by exploiting oil thefts illegitimacy and/or by providing political cover	"Host" and "passage" communities, local elites, local armed groups and various types of youth gangs, rank-and-file security personnel

Source: Katsouris and Sayne (2013).

The more professional bunkering operations are highly armed and linked to foreigners. These include Moroccans, Venezuelans, Lebanese, Chinese and Russians, who own ships that load crude oil and deliver it for refining to Ghana, Cameroon and Côte d'Ivoire before transferring it to other markets (Alemika, 2013).

High-level involvement in Nigeria's oil theft has been a facet of the oil smuggling trade since the 1970s. Diverting oil through illicit channels permitted the then-military government to boost revenues and circumvent Organization of the Petroleum Exporting Countries (OPEC) restrictions. When the military junta turned into a democratic government, little was done to ensure more equitable division of resources; discontent grew substantially, along with greater opportunities for crime (Gboyega et al., 2011). Moreover, the Niger Delta has become a source of growing conflict, as oil theft has triggered what appears to be politically motivated violence and targeted attacks.

Considerable evidence exists of the ongoing association of senior levels of the government and military acting to facilitate the illicit trade in oil (Gillies, 2009). Protection unions operate along the illicit supply chain, taxing all actors engaged. Table 3.6 indicates the protection economy that has developed around the oil theft industry.

The role of neighbouring countries is also relevant. While some neighbouring countries, like Benin, have made seizures and investigated oil theft (Gillies, 2009), other states seem to be profiting from the spillover effects (Mayah, 2014). Fundamentally, only a few places in the world exist to offload tonnes of stolen fuel, and buyers with links to formal distribution operations are likely to be customers (UNODC, 2013b). Following money trails may help understand the flow's international dimensions.

Table 3.6: Sample of alleged protection payments by oil thieves

Item	Cost
Bribes to navy officers for tanker clearance	N 1.5 million (USD 9 50) for 500 000 litres (USD 3 per barrel)
"Security" payments at the tap point to: Local youth	N 700 000/week (USD 4 375)
Community government	N 1 million/week (USD 6 250)
	N 2 million/week (USD 12 500)

Note: N = Naira.

Source: Katsouris and Sayne (2013).

Stealing oil beyond the local level requires the participation of transnational organised-crime groups, who can ensure its transportation and sale once the oil leaves Nigeria's territorial waters (Gboyega et al., 2011). According to UNODC (2013b), the major international markets for stolen Nigerian oil are China, Democratic People's Republic of Korea, Israel and South Africa. International companies also play a role in the trade; the combination of tax write-offs and subsidies makes the level of theft a negligible expense (Katsouris and Sayne, 2013). In fact, whether companies are also involved in illicit trade is up for debate. In 2003, an investigation claimed that Nigeria could be losing as much as USD 600 million from illicit activities by international oil companies (Gboyega et al., 2011).

IFF implications and development impacts: Nigerian oil theft is largely cash-based, and bulk cash smuggling is common. For example, low-level employees may prefer to be paid in cash, while senior individuals may elect to purchase luxury goods or property through cash sales, taking advantage of these resources without resorting to the formal banking system. Nevertheless, it is assumed that the volume of illicit revenue raised through oil theft is far too high for the physical movement of currency to be the primary moneylaundering vehicle. It is believed that the money-laundering process may be facilitated by bankers, lawyers and accountants, or may also use banks in other jurisdictions featuring less-robust anti-money laundering regimes (Katsouris and Sayne, 2013).

Beyond estimates of the scale of oil theft, its economic and developmental impact is not well researched. This knowledge gap can be filled by identifying transaction points and conducting investigations. For example, Chatham House reports that complex oil thefts require money to buy or rent vessels that move or store oil, as well as to pay intermediaries to launder the illicit proceeds. These are all entry points for a better investigation (Katsouris and Sayne, 2013).

Beyond Nigeria, the widespread practice of oil theft is also affecting neighbouring countries. In Benin, for example, a UN assessment mission found that smuggled fuel represented some 80% of all petroleum sold in the country, leading to the closure of many legal petrol stations (UNSC, 2012a). Furthermore, the failure to bring order and transparency to the oil industry in Nigeria is likely to dampen enthusiasm for further oil exploration in the region. Unless controls over the regional market in petroleum products can be reinforced, this will serve as a significant disincentive for investment (UNODC, 2013b).

II. Extractive industries

The ECOWAS region is endowed with significant mineral wealth, which has powered much of its economic growth over the past two decades. Ten of the 20 resource-rich African countries identified by the International Monetary Fund are located in West Africa. Some – such as Nigeria, Sierra Leone, Niger and Ghana – have been in the top tier of global economic performers; in each case, extractive minerals contributed 25% or more of their GDP. Yet that wealth has rarely translated into reduced poverty or inequality (Africa Progress Panel, 2013).

The negative relationship between extractive industries and illicit trade, crime, governance, conflict and development in West Africa is most clearly illustrated by the story of two of the region's most famous commodities: diamonds and gold. But this story is playing out again in relation to more recent, emerging industries, such as uranium in Niger or iron ore in Guinea.

Nature and scale of the flow: there are multiple ways to divert extractive resources and the revenue gained from them. These practices differ depending on the industry and country, making it difficult to estimate the magnitude and challenge of the trade. Some single data-point statistics provide a basis for evaluating the scale of the outflows:

- Estimates put the number of artisanal gold miners in Mali at between 100 000 and 200 000, producing around 4 tonnes of gold a year – 8% of national output – valued at USD 240 million (Africa Progress Panel, 2013). In Ghana, artisanal and small-scale miners are thought to number as many as 1 million today (Punam, Dabalen and Land, 2017).
- As of late 2013, the illicit trade in Ivorian diamonds was estimated at USD 12-23 million per year (UNSC, 2014a).
- In 2011, exports of mining products from Guinea reached USD 1.4 billion, representing 12% of GDP, but government mining revenues were just USD 48 million, or 0.4% of GDP (Africa Progress Panel, 2013).
- Between 50% and 90% of the diamond trade in Sierra Leone is lost through smuggling (Fanthorpe and Gabelle, 2013). At the same time, only one of the five major mining companies in Sierra Leone paid any corporate tax in 2011 (Africa Progress Panel, 2013).

The best data come from countries that were under embargo, and thus subject to international monitoring of their resource extraction. Côte d'Ivoire, until 2014 the subject of a UN diamond embargo, was shown to have an illicit trade almost equal to the USD 25 million in Ivorian diamonds exported legally before the embargo was imposed (UNSC, 2014a). The same document described an illegal river-dredging operation between Yamoussoukro and Seguela, in which 25 boats were reportedly extracting some USD 125 000 per month in gold (UNSC, 2014a). In Sierra Leone, anywhere from 50% to 90% of all diamonds mined by small-scale mining operations are not registered with local Kimberley Process offices, and many of these unregistered stones are smuggled out of the country (Vorrath, 2014). In Liberia, official gold exports over January-September 2013 stood at 416.5 kilogrammes, but actual production likely totalled around 3 000 kilogrammes, with most of the excess smuggled out of the country (UNSC, 2013a). An estimated 80% of Liberian gold miners operate without a licence, facilitating this large volume of illicit production (Vorrath, 2014).

The most vulnerable regions are those with the highest levels of mineral deposits. Sierra Leone was by far the largest diamond producer in West Africa in 2013, followed by Guinea, Ghana, Liberia and Togo (Kimberley Process, 2014). Production in Sierra Leone is concentrated in the districts of Kono (bordering Guinea), Kenema (bordering Liberia) and Bo. South-eastern Guinea and north-western Côte d'Ivoire are also active diamondmining regions, with the area around the Ivorian city of Seguela notorious for smuggling (UNSC, 2014a). The mines are often located in isolated, heavily forested border regions with poor transportation links to national capitals, allowing smugglers to cross borders with ease. The same goes for gold: many diamond-mining regions are also active in the production and smuggling of gold.

Other mineral deposits can also be found across West Africa. The northern Niger regions of Zinder and Agadez are rich in uranium and oil, with concessions mined by French, Chinese and Canadian firms (International Crisis Group, 2013). The Simandou Mountains of Guinea contain one of the world's largest and highest-quality iron ore deposits (Samb, 2014). Iron ore in Simandou in Guinea, and petroleum projects in Liberia, could generate average annual revenues of USD 1.6 billion in each country; they represented 31% of GDP in Guinea and 147% of GDP in Liberia 2011 (Africa Progress Panel, 2013). Other major minerals mined in the region include bauxite, coal, rutile and coal.

Key actors: extractive-industry supply chains and related financial flows (both licit and illicit) involve a complex web and diverse set of actors. The forthcoming working paper on ASGM (OECD, forthcoming c) illustrates the complexity of these financial flows and the key actors involved. A number of criminal entrepreneurs have been identified in various UN monitoring reports for their role in smuggling gold and diamonds out of the region. West Africa is also allegedly a transit zone for diamonds from other parts of Africa; for example, diamond brokers in Monrovia have bought diamonds from Zimbabwe and the Central African Republic, and trafficked them to Liberia to evade Kimberley Process restrictions (UNSC, 2013a). Yet none of those who have been individually named have been prosecuted.

Some of the major players in this illicit economy also operate other legitimate businesses, which they use to launder their ill-gotten gains. The financier behind the trade in Ivorian diamonds from Seguela, for example, is the largest importer of motorcycles in northern Côte d'Ivoire, as well as managing trading companies specialising in agricultural products. Most of the gold illegally imported to Burkina Faso passes through the hands of an unnamed intermediary who owns a construction company that launders the proceeds of gold smuggling (UNSC, 2014a).

The issue of conflict minerals, where current or former combatants engage in predatory extraction, blurs the lines between political and criminal motivations for conflict. In 2014, the UN Panel of Experts on Liberia found that large numbers of former combatants were engaged in illicit mining (UNSC, 2014b). Similarly, a local commander for the Forces Nouvelles de Côte d'Ivoire, the main rebel group during the Ivorian Civil War and now a major political party, is allegedly smuggling both diamonds and gold out of the Seguela area. Gold operations are said to use labourers from Burkina Faso, which is also the final destination for the illicitly mined gold. The same commander also reportedly uses his connections to current and former security forces in the area to safeguard the cross-border illicit trade in Ivorian diamonds (UNSC, 2014a).

To protect illicit resource flows, criminal groups co-opt the state. One of the reasons for the lack of consistent data on illicit mining is that relatively few arrests are made, owing to corruption in the criminal-justice sector (Vorrath, 2014).

IFF implications and development impacts: the Kimberley Process requires members to certify shipments of rough diamonds as "conflict-free" and prevent conflict diamonds from entering the legitimate trade. This necessitates licences for all related activities, from mining to exportation, reinforced by international sanctions (Kimberley Process, 2014). Liberia became a party to the Kimberley Process Certification Scheme in 2007, and Sierra Leone became a party in 2003 (Vorrath, 2014).

Initially, the Kimberley Process was heralded as a remarkable pact between the international community and the private sector to regulate the control of illicit diamonds along the supply chain. However, as open conflicts have been resolved and illicit activity has morphed into hybrid arrangements, the Kimberley Process has seen a significant reduction in efficacy. For example, it has been recently estimated that 50-90% of the diamond trade in Sierra Leone continues to be lost through smuggling (Fanthorpe and Gabelle, 2013).

Little is known about how the proceeds of illicit transactions are brought out of the region and laundered, perhaps due to the heavy emphasis on the trade in conflict minerals to the exclusion of other illicit flows and transactions. The trade in minerals can include diamond brokers and/or dealers, who engage miners and landowners, and allow illicit mining to occur on the land of which they are custodians. Legal licence holders may also use their licence to help legalise illicitly mined materials. National controls may also be avoided by sending diamonds to a factory, which polishes them to the point where they are no longer subject to Kimberley Process restrictions on rough diamonds before shipping them abroad, as occurred in Côte d'Ivoire (UNSC, 2013b). In many instances, no transactions appear to actually occur until the minerals leave West Africa. The UN Group of Experts on Côte d'Ivoire, for example, noted that "a portion of the Ivorian diamond production is sent to international trading, cutting and polishing centres directly through Abidjan and its international airport," and then sold in foreign markets (UNSC, 2013b).

A problematic consequence of diamond and gold smuggling is the loss of tax revenues for the region's governments. In 2009, for example, Sierra Leone passed the Mines and Minerals Act, which imposed export taxes of 5% on gold, 6.5% on precious stones and 15% on special stones with values exceeding USD 500 000. In the six months following the bill's passage, the country recorded zero official exports of gold or precious stones, while neighbouring Guinea and Liberia recorded increased exports. Between the Act's passage in 2009 and late 2014, only two special stones were exported from Sierra Leone (Vorrath, 2014). Desperate to recoup at least some of its lost tax revenue, the Government of Sierra Leone slashed the precious-stone tax from 6.5% to 3% in March 2011. In August 2012, it similarly cut the gold tax from 5% to 3% (Akam, 2012).

However, even if government revenues from the extractive industries were to be fully realised, there is little indication they would be put to work for development priorities. Resource-rich countries stand out as systematically underinvesting in social protection. Guinea and Niger both spend less than 0.5% of GDP on social protection, compared with a regional average of 2.5%. Nigeria also spends 1.5% of GDP on social protection, with limited coverage.

III. Questions

- Where is the good sourced?
- Who are the actors and networks involved?

- Where are the illicit financial flows generated by these activities earned and invested?
- Is there a link between corruption and illicit financial flows?
- What measures should be taken to protect Africa's natural resources?
- What measures should be taken to fight against corruption and illicit financial flows?

IV. Sources

Africa Progress Panel (2013), Africa Progress Panel Report 2013: Equity in Extractives, Africa Progress Panel, Genève.

AIE (2014), Africa Energy Outlook Special Report: A Focus on Energy Prospects in Sub-Saharan Africa, AIE/OECD Publishing, Paris.

Akam, S. (13 août 2012), « Sierra Leone plans gold tax cut to curb smuggling », Reuters, www.reuters.com/article/2012/08/13/sierraleone-gold-taxidUSL6E8JDAKX20120813.

Alemika, E. (2013), The Impact of Organised Crime on Governance in West Africa, Friedrich-Ebert-Stiftung, Abuja.

Conseil de sécurité des Nations Unies (2012a), « Report of the United Nations Assessment Mission on Piracy in the Gulf of Guinea (7 to 24 November 2011) (S/2012/45) », Conseil de sécurité de l'Organisation des Nations Unies, New York.

Conseil de sécurité des Nations Unies (2013a), « Letter dated 19 November 2013 from the Chair of the Security Council Committee established pursuant to Resolution 1521 (2003) concerning Liberia, addressed to the President of the Security Council (S/2103/683) », Conseil de sécurité de l'Organisation des Nations Unies, New York.

Conseil de sécurité des Nations Unies (2013b), « Letter dated 11 October 2013 from the Chair of the Security Council Committee established pursuant to resolution 1572 (2004) concerning Côte d'Ivoire addressed to the President of the Security Council (S/2013/605), Conseil de sécurité de l'Organisation des Nations Unies », New York.

Conseil de sécurité des Nations Unies (2014a), « Letter dated 14 April 2014 from the Vice-Chair of the Security Council Committee established pursuant to Resolution 1572 (2204) concerning Côte d'Ivoire address to the President of the Security Council (S/2014/266) », Conseil de sécurité de l'Organisation des Nations Unies, New York.

Conseil de sécurité des Nations Unies (2014b), « Midterm Report of the Panel of Experts on Liberia submitted pursuant to paragraph 5(b) of Security Council Resolution 2128 (2013) (S/2014/363) », Conseil de sécurité de l'Organisation des Nations Unies, New York.

Fanthorpe, R. et C. Gabelle (2013), Political Economy of Extractives Governance in Sierra Leone, Banque mondiale, Washington, DC.

Gboyega, A. et al. (2011), Political Economy of the Petroleum Sector in Nigeria, Banque mondiale, Washington, DC.

Gillies, A. (2009), Reforming Corruption out of Nigerian Oil?, Part One : Mapping Corruption Risks in Oil Sector Governance, Anti-Corruption Resource Centre, Oslo.

ICG (2013), Niger : Another Weak Link in the Sahel?, International Crisis Group, Bruxelles.

Katsouris, C. et A. Sayne (2013), Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil, Chatham House, Londres.

Kimberley Process (2014), Annual Global Summary 2014, Kimberley Process, <http://kimberlyprocess.com>.

Mayah, E. (24 mai 2014), « Togo triangle : Where stolen Nigerian crude is sold », The Niche Online, www.thenicheng.com/togo-triangle-where-stolen-nigerian-crude-oil-issold-1.

ONUDD (2013b), Transnational Organised Crime in West Africa : A Threat Assessment, Office des Nations Unies contre la drogue et le crime, Vienne.

Punam, C., A. Dabalen et B. Land (2017), Mining in Africa : Are Local Communities Better Off ?, Africa Development Forum, Banque mondiale, Washington, DC.

Samb, S. (5 août 2014), « Guinea's Simandou iron ore trove: huge potential for the hugely patient », Reuters, www.reuters.com/article/2014/08/05/guinea-miningsimandou-idUSL6N0QB5LD20140805.

Vorrath, J. (2014), From War to Illicit Economies : Organised Crime and State Building in Liberia and Sierra Leone, tiftung Wissenschaft und Politik, Berlin.