

African Natural Resources Center  
African Development Bank

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**REPORT PREVIEW**

# Illicit trade in natural resources in Africa — A forthcoming report from the African Natural Resources Center



AFRICAN DEVELOPMENT BANK GROUP



About the report

# **Illicit trade in natural resources in Africa — A forthcoming report from the African Natural Resources Center**

To achieve inclusive growth, Africa requires financial resources, some of which can be raised by plugging the hole in the illicit trading of natural resources. In this context, illicit trading refers to the illegal trading in natural resources that erodes the economic benefits accruing to the larger African society. *Illicit Trade in Natural Resources in Africa*, a forthcoming report from the African Natural Resources Center of the African Development Bank (AfDB), explores facets of illicit trading in natural resources in Africa. The first goal is to focus the attention of public and private institutions on the problem. The second goal is to support regional member countries in designing policies and strategies to combat the scourge and stem the tide of financial loss. The report covers the minerals, forestry (and its by-products), oil, fisheries and wildlife sectors.

This brief summary of the report's major findings is provided as a preview to a select group of experts in advance of the final edition.

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Director, African Natural Resources Center

Situation overview

# **The nature and extent of illicit trade in natural resources in Africa**

The minerals, fisheries, timber, wildlife and oil sectors account for the bulk of illicit trading in Africa. The report provides an overview of each sector, answering the following seven questions for each:

1. What are the channels of illicit trading activities?
2. What is the economic size of the illicit trading?
3. What is the economic impact of the illicit trading?
4. What is the sustainability and socioeconomic impact of illicit trading?
5. Which case studies best illustrate the phenomenon of illicit trading and policy responses?
6. What policy responses are required to combat illicit trading more effectively?
7. What should be the role of the AfDB through the ANRC (and its other entities) in combating illicit trading in natural resources in Africa?

**Below is a summary of the findings in respect to each sector.**

## Minerals

In the mining sector, the minerals that are targeted for illicit trading are mainly high-value resources such as gemstones, precious metals and rare earths. For instance, in the gemstones industry, illicit diamond trading is rife in Zimbabwe's Marange diamond fields, Central African Republic, Democratic Republic of the Congo (DRC) and Sierra Leone. In rare earths, cassiterite, which is used to produce tin, is the single largest illegally traded mineral in Africa by volume. In 2013, an estimated 7,000 tons of the substance were exported illegally from the DRC at an estimated value of US\$29 million.

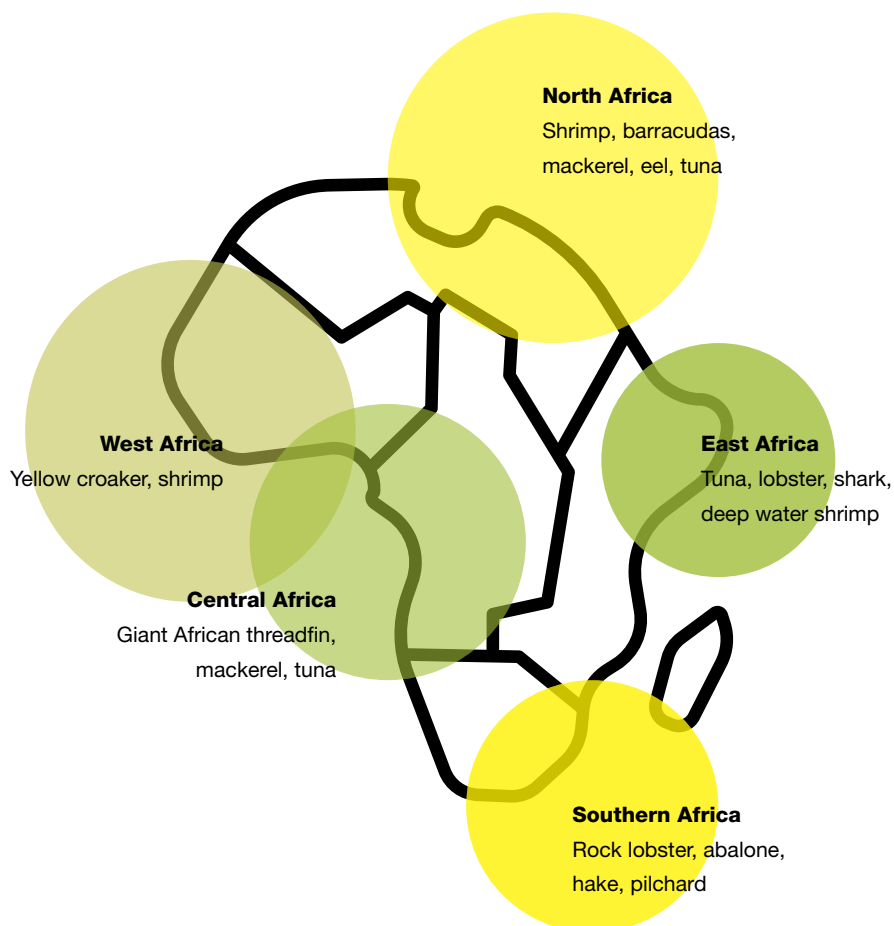
In economic terms, minerals are Africa's most important natural resource. The mining and quarrying of 60 different types of minerals accounts for around 20% of Africa's economic activity. Minerals also constitute Africa's second-largest export category after hydrocarbons and form roughly 10% of the continent's total exports. Interestingly, more than 80% of the value mineral commodities generate originates from a handful of countries. These are South Africa, Botswana, Ghana, Burkina Faso and Tanzania. Missing from this list are countries such as the DRC and Guinea, which are also endowed with resources worth an estimated US\$23 trillion. These nations struggle to attract investment needed to exploit reserves. In the DRC particularly, ongoing illicit trade is cannibalizing natural resources. Any illicit trade in this sector has not only reduced investment by companies weary of being tarnished through negative public and investor perceptions, but it has also robbed the region of current and future potential revenue.

# Fisheries

Africa's marine fisheries have contributed significantly to the livelihood of the continent's coastal communities for centuries. The shell middens found off the coast of Eritrea in the Red Sea are the oldest record of human consumption of sea food. The Fantis of Ghana, for example, have been fishing along the West African coast since the 18<sup>th</sup> century. Marine fisheries, are core to the 'blue economy' and its potential, in Africa. Yet losses from the fishing industry are estimated to be about US\$2.5 billion annually. Some of the fish that are illegally traded are listed in Figure 1.

Figure 1

## Illicit trading activity in fisheries in Africa



Source U. Rashid Sumaila, 2016

## Timber

Illicit trade in the forestry sector is estimated at US\$13 billion. Regionally, the highest levels are reported in DRC (80%), Liberia (80%), Republic of Congo (70%), Gabon (70%), Ghana (65%), Cameroon (58%) and Equatorial Guinea (50%). This is not only costing Africa millions of dollars in revenue but it is also adding to the root cause of extreme poverty and social vulnerability. Illicit activities include the harvest, transportation, purchase and sale of timber in violation of national laws. The most prevalent forms of illicit activities include (i) trees harvested without permission (e.g. from protected areas) and then traded illegally; (ii) trees harvested at volumes higher than those licensed; (iii) harvesting protected species; and (iv) gaining access to forests or licenses to fell trees through corrupt means or falsified permits.

## Wildlife

According to the United Nations Environment Programme and World Economic Forum, the estimated value of illicit trading in wildlife globally is between US\$7 billion to US\$23 billion. Illicit wildlife trading activity is a global challenge, although much of the global attention is focused on Africa due to the dramatic increase in media coverage and the poaching of elephants and rhinos.

The rise in poaching and trading in animal parts such as elephant tusks and rhinoceros horns illustrates the nature of the problem for wildlife management and protection policies. For example, in Tanzania, the elephant population dropped by 60% from 2009 to 2014. In South Africa, 13 rhinos were killed illegally for the export of their horns in 2007. By 2014, that number had increased nearly 100-fold to 1,215. The scale of this illicit activity has been strongly linked to corruption. The only exception to the downward trend is in Botswana where the elephant population has increased since the government deployed the army to contain the practice.

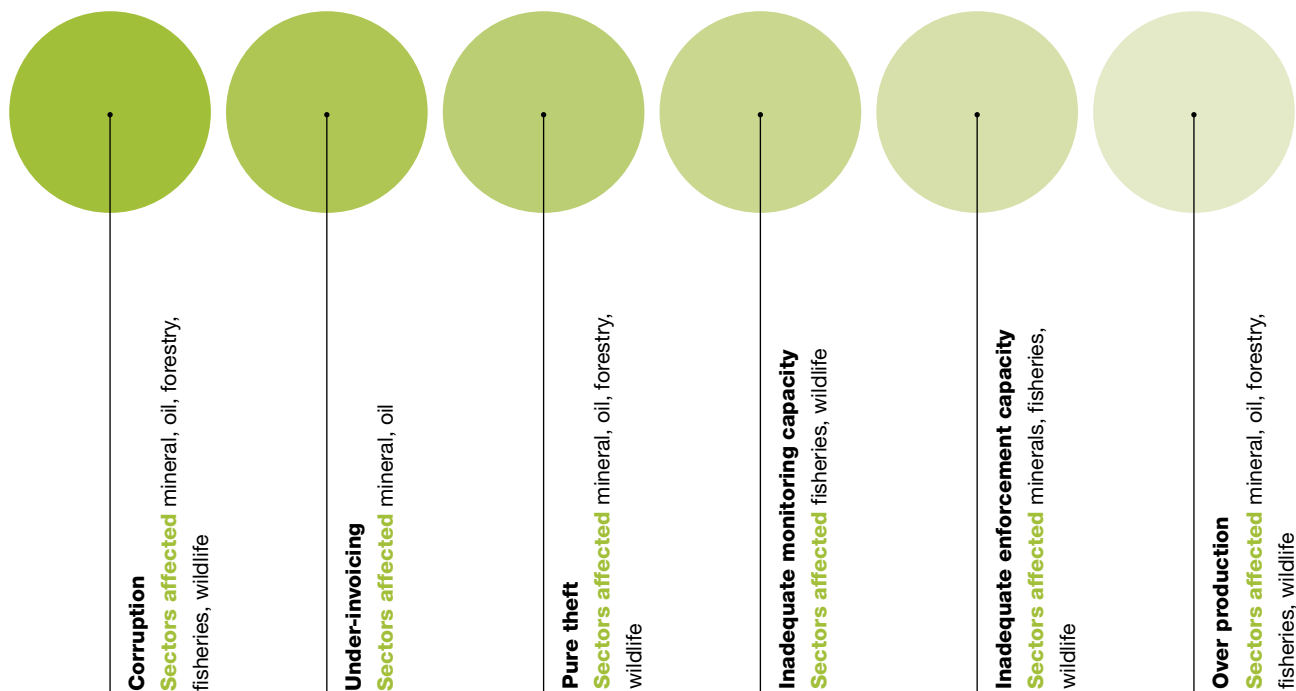
## Oil

Illicit trading in oil in Africa, amounts to nearly US\$100 billion a year due to under-invoicing, theft, bunkering and corruption. Bunkering entails the blatant theft of crude oil through vandalizing of pipelines, the proliferation of illegal refineries, organized attacks on oil installations, kidnapping of oil workers and the hijacking of loaded vessels. Illegal bunkering activities by militants in the Niger Delta in Nigeria is the most high profile case of illicit activity in the sector. In Libya, rebel factions attempted to illegally confiscate crude oil that had been loaded on vessels for sale abroad. There has been speculation that the illegal shipment of oil produced in South Sudan from the port in Khartoum in the Republic of Sudan is an ongoing problem. Illicit trading also includes discrepancies in crude oil revenue financial accounting, which has been reported in some Africa countries.

# Channels of illicit trading

There are both common and unique channels of illicit trading across the five sectors. The channels include corruption, under-invoicing, theft, inadequate regulatory capacity and inadequate law enforcement and resource scarcity.

Figure 2  
Channels of illicit trading within each sector



The channels for illicit trading in various sectors are made possible by a number of loopholes. They include a combination of corruption, under-invoicing, theft, poor governance, armed conflict, inadequate

monitoring, poor border controls in export and import markets, demand from and availability of illicit clients, and inadequate enforcement capacity. This points to the need for policies, laws and institutions that must be

strengthened in order to contain the problem.



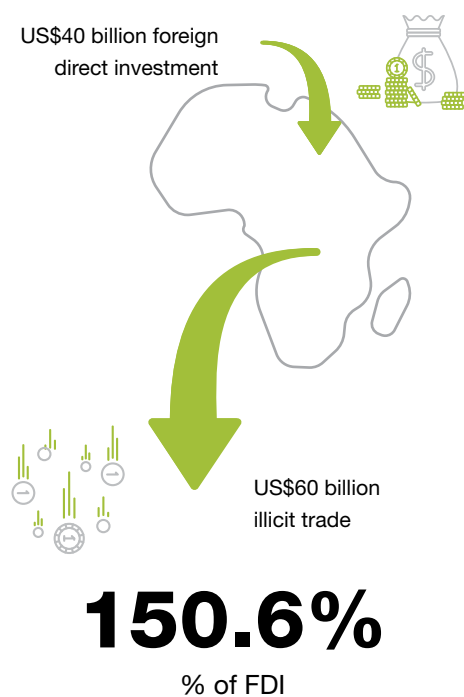
# Scale of economic loss from illicit trading

Figure 3  
**Economic loss from illicit trading**

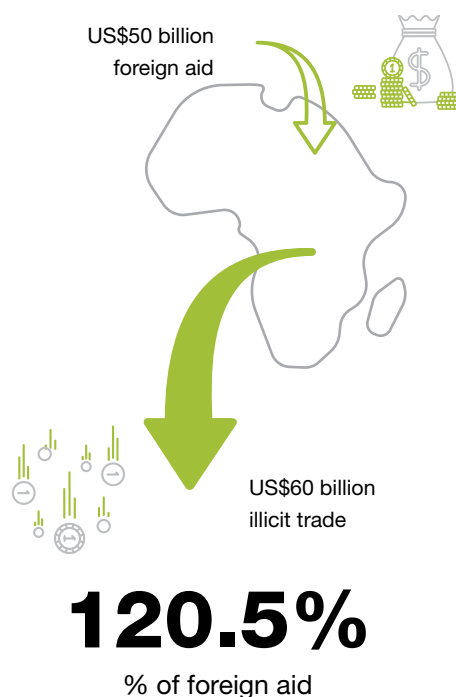
## Scale of illicit trading (US\$ bill)



## as % of FDI (in 2014)



## as % of foreign aid



Source: From various chapters in Illicit Trade in Natural Resources in Africa. Africa's GDP (US\$2.4 trillion); FDI (US\$40 billion); Foreign aid (US\$50 billion).

The scale of illicit trading can be illustrated through an estimation of total direct revenue lost. In 2014, Africa lost US\$60.25 billion to illicit trade, which is about 2.5% of its GDP; 151% of FDI inflows in 2015; and 120% of foreign aid (see Figure 3).

The largest loss is from the combined extractive industries of the oil and minerals sectors. The lowest loss is in forestry and by-products. That said, these figures are an underestimation as they only account for direct losses based on the immediate value of

the commodity. As outlined in the next section, Illicit Trade in Natural Resources in Africa covers the wider economic losses experienced throughout the economy. The scale of the loss is illustrated in Figure 3.

# Economic impact of illicit trading

The assessment of the economic impact of illicit trading not only considers the direct revenue losses but also the indirect loss in opportunities from the entire economy through a multiplier effect. This effect presents itself in the form of loss in direct incomes, jobs and unpaid tax revenues. The wider economic impact of illicit trading is estimated at US\$120 billion per annum, which is 5% of Africa's GDP. An estimated 24 million jobs are lost, which is about 6% of overall employment in Africa. By curbing illicit activities such as these, Africa could create 25 million more jobs. The loss in tax revenue is about US\$3.6 billion.

Figure 4

## Economic impact of illicit trading in natural resources in Africa

Jobs lost



**24.2 million**

Total economic impact



**US\$  
120 billion**

200% of financial loss

**Source** Figures from Illicit Trade in Natural Resources in Africa and other reports. It is assumed that the multiplier effect on direct losses in Figure 4 is 2 times; income accounts for 25% of the economic impact; the ratio of the overall African economy of US\$2.4 trillion to the 400 million jobs in the whole of Africa, job creation factor is 6000 (or each employee produces \$6000 in GDP). This is applied on the economic impact figure to produce the job impact figure, except for fisheries (which are labor intensive); The Tax revenue impact is 3% of economic impact revenues.

# Social and sustainability impact of illicit trading

Illicit trading also has social and sustainability impacts. Minerals, oil-related conflict and piracy linked to fishing have fueled conflict and crime. Some examples include the conflict in the Niger Delta in Nigeria, civil wars in Angola, Liberia and Sierra Leone, and piracy in Somalia. Crime in wildlife trading frequently results in the death of wildlife wardens.

Illicit trading has also led to environmental damage due to illegal mining. It has impacted negatively on bio-diversity by destabilizing ecosystems, especially in the forestry, oil and mining sectors. Environmental pollution and the dumping of waste in mining is causing health and safety challenges. For example, the use of cyanide and its improper disposal by illegal artisanal miners is both a health and an environmental hazard. For renewable resources,

illicit trade undermines policies and other initiatives aimed at preserving and conserving plant and animal species. This eventually leads to depletion and the extinction of endangered species.

Illicit activities in natural resources impacts adversely on social and human rights. For example, child labor is rife in the artisanal mining sector, where nearly 700,000 children are involved. Figure 5 summarizes the social and sustainability impact of illicit activities by sector.

Figure 5

## Social and sustainability impact of illicit trading



### Conflict and Criminality

Minerals, *conflict minerals*

Oil, *conflict and bunkering*

Fisheries, *piracy*

Wildlife, *death of enforcement agents*



### Environmental

Minerals, *artisanal + small-scale mining*

Oil, *environmental destruction*

Forestry, *deforestation*

Fisheries, *poverty and malnutrition*

Wildlife, *ecological imbalance*



### Social and human rights

Minerals, *child labor*

Forestry, *child labor*

Fisheries, *displacement of subsistence fishermen*

Wildlife, *loss of livelihoods*



### Biodiversity

Minerals, *environmental degradation*

Oil, *environmental degradation*

Forestry, *Instability in ecosystem*

Fisheries, *negative impact on ecosystem*

Wildlife, *Instability in ecosystem*



### Health and safety

Minerals, *artisanal + small-scale mining*

# Reducing illicit trade activities

As much as the impacts of illicit trade in natural resources are concentrated in the countries and regions where resources originate, product value chains and markets for the products are global. Without demand in foreign consumer markets, the trade in illicit natural resources would be reduced. Equally, without compliant foreign law enforcement agents and effective foreign marketing channels, the level of trade would be much lower. The

effective management of illicit trade therefore requires coordinated action across the value chain. The final *Illicit Trade in Natural Resources in Africa* report will assess the conditions that enable illicit trade in natural resources across the product pipeline in order to determine options to reduce it.

Current options focus on:

1. Development of international

statutory frameworks to oversee trade,

2. Policy harmonization across affected countries and markets,
3. Assessing and understanding sustainability implications and costs,
4. Campaigns in consumer markets to undermine demand for illicit products,
5. Enhanced policing and law enforcement.

Figure 6

## Key policy recommendations

To bolster current policies and to fill gaps, new policies that stress the need for governance, knowledge, regulation, security and criminal justice are worth considering. These include but are not limited to;



Tackling corrupt practices (governance)



Building databases on the quantum of natural resources and illicit trading (knowledge)



Tightening certification and verification procedures (regulation)



Regional and global collaboration  
and cooperation  
(regulation (at regional level))



Improving the political economy  
of natural resource management  
(governance)



Increasing community awareness  
and participation to improve  
oversight (governance)



Strengthening transparency  
in trade



Combatting environmental crimes  
and strengthening law enforcement



Strengthen financial regulation to  
curb financial crime



Stronger enforcement of the  
Convention on International Trade  
in Endangered Species of Wild  
Fauna and Flora and extending  
lists of species



Frequent and widespread use of  
the US Lacey Act, EU IUU fisheries  
and timber regulations,  
among others.

# Role of AfDB (through ANRC) in addressing illicit trade

The AfDB, through the ANRC and other arms of the organization, has a major role to play in the fight against illicit trading in natural resources in Africa by undertaking the following;

1. Generating knowledge,
2. Driving thought leadership,
3. Providing policy advice,
4. Advising lending departments within the AfDB,
5. Highlighting the issue in the Bank's assurance principles,
6. Ensuring ANRC works more closely with relevant departments in appraising projects for compliance,
7. Advocating integrated and sustainable resources development as relates to national and regional laws and conventions that curb illicit trade.







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