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CHECK AGAINST DELIVERY

Tana Forum

Impacts of Illicit Financial Flows on Peace and Security in Africa*

Key note address

by

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Excellencies,

Distinguished Ladies and Gentlemen

I would like to thank the organizers for inviting me to participate in this forum. Allow me to start by acknowledging the Tana Forum's initiator, the late Prime Minister Meles Zenawi, foresight, for making reflection an hallmark of his contribution. My congratulations go to the Addis Ababa University's Institute for Peace and Security Studies and the distinguished Forum's Board, for their mark in the area of peace and security studies in Africa. I am very grateful to be given the opportunity to contribute to this forum's tradition of robust intellectual debate. This year's gathering is particularly timely given that the High Level Panel on Illicit Financial Flows, chaired by President Thabo Mbeki, is just about to finish its report. The opportunity to hear the insights on the Panel's work from its Chair would have enriched and deepen our discussions. Please patiently wait for the opportunity when the report is unveiled in June.

Excellencies,

Dear Participants

Since the early 1990s, most African countries have witnessed varied democratic transitions. Almost all democratic transitions have had to navigate the complexities and challenges of managing diversity in its various forms: the distribution of power and characteristics of political structures; issues of ethnicity and religion; definition of citizenship; or rights and concerns of marginalized groups.

Even where governments have reformed their institutions, or put in place policies and legislation to better manage diversity, unresolved conflicts linger. Central elements to consolidate democratic transitions require analyzing and addressing issues related to the quality of elections, promoting diversity in constitutions, understanding how deeply embedded diversity should be in the public space and institutions, as well as ensuring state capacity to mediate and rise above sectarian interests.

Conflict-ridden elections in many countries illustrate the distance that some African countries still have to go in managing diversity and the importance of improving electoral processes to uphold fair, inclusive and democratic elections. However, the biggest mistake of all is to believe elections are a silver bullet for resolving the challenges of national cohesion. Often the naif thought that one just needs to ask for a vote to solve all problems has contributed to the exacerbation of entrenched positions and provoked polarized political tension. The lack of accompanying elements fomenting social cohesion can have a vicious effect on any stated will of inclusiveness.

In many African countries human insecurity can certainly be linked to bad governance and lack of democratic practice. When democracy provides the means for conflict resolution, by ensuring that points of view are given a fair hearing, it plays a stabilizing role. The way this is done, though, is important. Like in any social construct the simplification of a blueprint is not the appropriate answer. Groups should feel that their rights are protected and that their economic interests can be fulfilled, so they do not resort to conflict to break or assert a claim to self-determination.

Lesson one is the fact that mismanagement of diversity is the nest of adversary attitudes and contributes to fomenting conflict.

Dear participants,

Evidence suggests that Africa is losing significant resources through illicit financial flows. Annual estimates have ranged from US\$20 billion before 2000 to US\$50 billion in the last decade. Obviously, the hidden nature of these flows has a devastating impact on tax revenues and public spending capacity. The continent is being deprived of huge financial resources needed to boost investment on infrastructure and services delivery, undermining State's hopes for a distributive economic and social development agenda. Regulating such staggering sums of illicit outflows has become one of the main challenges for structural transformation.

Because illicit financial flows are intentionally hidden from the plain view of countries' financial authorities, and their records, their impact and consequences are underestimated in many counts, namely regarding peace and security. In fact, there is a strong nexus between illicit financial flows and conflict. Illicit financial flows of all types are associated with either ineffective state functioning or illegitimate use of state authority. They present a threat to governance, by undermining both political institutions and confidence in them. They weaken safeguards when tensions arise. Equally, conflict undermines institutional resilience and governance systems designed to address inequalities, or corruption hindering the incentives for long term investments, over short term rent-seeking activities.

Lesson two is that illegal and illicit economic transactions are contributing greatly to brew conflicts.

Dear participants,

Fuelled by the geopolitics of the cold war, almost half of the Africa's countries experienced some form or level of violent conflict during the post independence era. That included civil wars, armed insurgencies, coup d'état's, regional rebellions and social unrest. Many of these had far reaching domestic and international impact. The civil wars in Ethiopia, Sudan and Congo (Zaire) for example, led to strong challenges to the countries central authority. Separatist movements shook the political and territorial integrity of countries such as Angola, Comoros, Congo (Zaire), Mali, Mozambique, Nigeria, Somalia, and Uganda.

According to the Uppsala Conflict Data Programme (UCDP) there is a diminishing trend of conflicts and wars in Africa, since the 1990s, when the Rwanda genocide, the Ethiopian-Eritrean border dispute and the civil wars in Algeria, Angola, Chad, the Congos, Côte d'Ivoire, Liberia, and Sierra Leone provoked mass casualties. Yet, according to a IANSA/Oxfam/SafeWorld study, between 1990 and 2005, the cost of conflicts in Africa has reached the staggering amount of \$284 billion, or an average of \$ 18 billion a year.

Since the turn of the century, with the exceptions of the 2004 Gatumba massacre in Burundi, the Darfur conflict and the perennial Somali war theatre, complex conflicts have not only been on the decline, but the very nature of warfare is also changing. Conflicts are now typically smaller and the numbers of conflict related–deaths have diminished significantly. They are exhibiting, nevertheless, cross-border dimensions, while increasingly drawing their funding from illicit trade, banditry, and international terrorist networks.

Despite the ongoing responses to the conflicts by continental and international organizations, Africa’s growing political space and influence has not always been leveraged to quell its conflicts. Most internal conflicts in Africa can be traced to contestations over political legitimacy, national identity, state building and distributive justice, often interconnected. In addition, natural resources have been at the forefront of provoking conflict for resources control.

The involvement of the external interests has had serious consequences for domestic and regional security. A plethora of initiatives have not necessarily provided adequate solutions to the quest for peace and security. It is true that some intractable conflicts are hard to resolve, because their underlying causes are often deeply entrenched and complex. Conflict resolution strategies that fail to account for that complexity are likely to be ineffective. Quick wins have proven deceptive. The Rwanda and Somali wars are credited to have contributed, together with the Bosnia conflict, for the overhaul of a faltering peace keeping doctrine. It is fair to say these changes played a part in the drastic reduction of wars. It is less clear whether they reduced other forms of conflict that persist and demonstrate we are facing a new moment of truth.

Over the last decade, Africa has begun to reap the effects of a peace dividend. Fewer conflicts have generated growth and opportunities. For some countries the end of conflict has become synonymous with the availability of fresh resources, previously devoted to military expenditure; contributing to the stimulation of economic activity.

The challenges are shifting to human security, the increase of intra-states conflicts and emerging transnational threats. The multiplication of domestic insecurities highlights new trends, such as radicalism, drugs and human trafficking, all with trans-border dimensions. For instance, Boko Haram networks with Al Qaeda in the Maghrib and Al-Shabab. Drugs' trafficking explains the vitality of Sahara-based rebel groups. The Libya military and political developments have created a space for the proliferation of trans-border arms trafficking.

Despite relative stability across most of the continent, these trends do not help remove the longstanding negative perception of Africa.

For instance, although we are aware of individual conflicts in Asia we tend to look at them in isolation. Thus in the Philippines we know of the insurgency in Mindanao, or the Aceh insurgency in Indonesia, while in Malaysia there is the Sabah province conflict not to mention border clashes between Thailand and Cambodia, and many others. Even rising India has the Naxalite insurgency and issues of Kashmir to attend to, while South Korea sits on the border of a belligerent sister state. The Rohingya of Myanmar are one the many groups discriminated in a country engulfed in a war with minorities. Despite the widespread nature of these conflicts that region is not branded as unstable but rather seen as a dynamic contributor to global growth.

It is true that in Africa we have pervasive conflicts such as the ones in the Great Lakes Region and Somalia, but these we hope are the remnants in a changing reality. In other words, though the trend of conflict in Africa is downwards and the caseload is comparable to Asia, the global perception continues in many minds to be one of an Africa beset by crisis and a risky place for making investments. It is due in no small part by the fact that the nature of African conflicts and their world exposure attracts a different perception.

These and other factors have made it more difficult for the continent to attract foreign investment and mobilize adequate and sustained levels of domestic resource mobilization. It is as if the nature of Africa makes it more attractive to speculators. The vulnerabilities of African States and the widening size of illicit flows are increasing the incentives for criminal activities.

Lesson three is that unless we contribute to change negative Africa's brand and the reason for its persistence, Africans will consume other's narrative about the continent.

Dear participants,

Not all conflicts are motivated or caused solely by economic imperatives. In some countries conflicts have been fueled by political or social exclusion. The Rwanda genocide for example, was fomented by the Tutsi alienation and exclusion for decades. In Uganda, Kony's Lord's Resistance Army rebellion was fuelled by ethnic retribution sentiment. The rise of the SPLM/A in 1983 was a result of marginalization of South Sudan.

Some conflicts have been sparked by a mix of factors. The conflict in Somalia for instance, was caused by a combination of internal power disputes and also economic stress provoked by the pillaging of its coast. The conflict in the Democratic Republic of Congo involved seven neighboring nations fighting for influence and geo-strategic concerns.

In North Africa, the ousting of governments in Tunisia, Egypt and Libya, that precipitated other conflicts in the Arab world, clearly demonstrates the ripple effects of social unrest snowballed by youth frustrations. Lack of employment opportunities can undermine social cohesion and political stability.

Causes of conflict can be a complex mixture of issues affecting different stakeholders. The magnifying of tension points contributes to entrench conflict. Funding belligerent becomes attractive to many, provided the logic of the dispute brings economic gains.

Illicit financial flows and weak state capacity are symbiotic; and tend to reinforce each other. Transnational cartels operating as netwarriors are a threat to state sovereignty. In Mexico, criminal networks have influenced change at the local and transnational levels imposing a reconfiguration of power structures. Criminal enclaves have proliferated in Myanmar, Afghanistan or Colombia.

There are networks operating a global value chain of a criminal nature. The drivers both in terms of scope and need are international. Addressing trans-border organized crime requires a continental and international response. Many individual countries in Africa victims of transnational criminal activities, such as Guinea-Bissau or Mali, do not have the adequate capacity to respond to illicit activities. As a result, there is a need for collective focus on drivers which can help establish regional and national security enforcement strategies and mechanisms.

Inflation of domestic currencies caused by the inflow of illegal drugs, contraband, under-invoicing of imports or outright smuggling, stimulate booms in certain economic sectors, such as construction or real estate. Overvalued local currencies have other devastating economic effects such as discouraging the production of legal exports by making imports cheaper, forcing local producers to compete against cheap imports. Illicit flows can have the same effects as the so-called Dutch disease. Actually, quite often, the natural resources richness is married to criminal activity, reinforcing the negative consequences of a “Dutch like disease”, impeding real economic transformation and socially inclusive policies.

Gangs, terrorist and criminal agents like an environment where they can move financial assets to profitable investments that hide their wealth. The money laundering operations of organized crime groups pose a serious and growing threat to peace and security. Ransoms collected by Somali pirates are laundered through Khat exports or real estate business in neighboring metropolis. Firearms trans-Saharan trafficking from Libya to rebel movements is mixed with other trafficking, such as human and drugs related, that find their way into nice villas or quasi legitimate activities. Illegal ivory trade is rampant in many parts of Africa. In fact, African countries are prone to criminal supply chains that are resourcing conflicts.

For instance, according to UNODC, some \$1.25bn in cocaine is trafficked from South America to West Africa and on to Europe. A policy response to these threats is very complex. A West Africa Commission on Drugs, headed by President Obasanjo is busy looking into the intricacies of such operations.

Lesson four is that Africans can either choose to be victimized or act. Priorities have to change.

Dear participants,

Allow me to offer a possible reading of direct and indirect impact of illicit financial flows resulting from bad economic governance.

Africa's recent commodities boom has been a major source of public revenue, contributing to economic growth. Ideally natural resources wealth should enable Africa to power its economies and determine the quality, pace and extent of its transformations. Natural resources have traditionally been one of the main driving forces behind our continent's economic fortunes but also a contributor to some of our most violent conflicts.

The highest illicit financial flows were recorded in African countries that are resource and mineral rich mainly in oil, precious metals and minerals. The policy and legal frameworks for the mining sector have traditionally been designed to attract investment, and raise resources for rent-seeking or unstrategic spending rather than to encourage transformation. Moreover, the share of resource rents retained by African countries has often been limited on the account of overgenerous concessions that are always made in the race to the bottom for mining investment, as well as to the information asymmetries which typically characterize the mining sector. It has also not worked in the light of tax leakages through transfer pricing and trade mispricing. It is estimated that between 1970 and 2008, illicit financial flows linked to trade mispricing alone cost the continent \$854 billion.

The lost resources on the African continent are a clear indication that now, more than ever, Governments need to enforce and implement principles and standard operating procedures which could reduce the amount of leakages that incur through illicit financial flows. They also need to negotiate better! For starters, the setting up of financial intelligence units to curtail, track and repatriate illicit financial flows will be crucial in ensuring that resources lost can be tracked and eventually returned. The implementation of the Extractive Industries Transparency International (EITI) guidelines will ensure that negotiations between companies working in the extractive

industry and Governments are transparent. Frameworks such as the Kimberley process will see to it that diamonds are not illegally traded, while initiatives such as “publish what you pay” will enforce more transparency in the industry. The blood diamonds syndrome still exists. Actually what happens with Coltan or logging is no different.

Lesson five is that Africans economic leadership is the most important element for reversing the trends and make sure Africa addresses its problems.

Dear participants,

Despite slow global recovery, African countries continue to record impressive economic growth. However, this growth has been unequal. It could also have been higher if the high levels of illicit financial flows leaving the continent had been invested in the continent.

While the abundance of natural resources is considered the golden avenue to poverty alleviation and economic growth, the business environment in many African countries has produced a conducive environment for multinational companies and local companies alike to illicitly transfer funds to offshore safe havens with little or no repercussions. When revenue which should be paid to governments is illicitly diverted to other sources abroad, social protection and welfare programmes suffer. Unemployment and lack of opportunities often drive the bulging youth to possible alternatives of survival that include criminal entrepreneurship.

Improved governance and leadership are vital in addressing these important findings. We need to re-evaluate our governance in order to discern whether or not we are adequately equipped to provide stability, while being flexible enough to address the variety of issues relating to illicit financial flows. Interestingly, promoting a developmental state provides both opportunities and limitations in pursuing these goals. A developmental state facilitates coherence, drive and better allocation of resources. But, it also has the potential to limit dissent if proper organic forms of inclusion are not taken into account, as we can learn from Asia.

For a developmental state, addressing illicit financial flows and strengthening regulatory and governance institutions is important. But a more effective approach is needed in order to address these flows root causes. Long-term development visions and strategies can promote better resources management and less corruption. They will succeed when providing social cohesion and respect for diversity. However, national efforts alone will not suffice. Given the trans-national ingredients of both illicit flows and conflict, it is necessary to take care of peace and security in the neighborhood. A holistic regional pact for security could unite African countries around their common interests in security and development. Such a pact would lock in or lock out any actor responding or not to the collective imperatives. An African-owned agenda, devised and implemented by Africans, tantamount to the principle of African solutions to African problems, is a good start. Africa has already made strong commitments for its security, architecture in order to achieve the stated objective of silencing the guns by 2020. The time to act is now!

When we say Africans need to write their own narrative, we do not mean writing a fiction. It means acknowledging whether they did right or wrong, or will do right or wrong. Africans should be accountable first to themselves. Africans cannot afford time for their transformation. They should be impatient. Africans should jump and run like a cheetah, the fastest in the world.