



# State of the Illicit Economy

Focus on Africa

APRIL 2023

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## A note from the Authors

The African Continental Free Trade Area (AfCFTA) Business Forum is a key platform for driving public-private partnerships to unlock and multiply trade and investment opportunities within the African Continental Free Trade Area (AfCFTA). With a market of 55 countries and a population predicted to double over the next two decades, the AfCFTA presents enormous potential for accelerating intra-African trade and positioning Africa for success in the global trading system. To fully leverage these opportunities, it is critical to create the conditions for success while responsibly managing the inherent risks.

The illicit economy is one significant risk that has thrived in the era of globalization, resulting in the trading of counterfeit and sub-standard goods, money laundering, and tax evasion. These activities endanger lives, erode tax revenues, and damage the reputation of businesses and governments alike.

Fortunately, H.E. Wamkele Mene, Secretary General of the AfCFTA, has shown the leadership and courage to recognize these challenges and drive innovative, groundbreaking solutions.

One such solution is the recent partnership between the AfCFTA and OriginAll S.A. This partnership aims to empower citizens within AfCFTA nations to make better, safer product choices by providing consumers with all possible information to differentiate legitimate from fake products and whenever possible, digitally verify the authenticity of a product before they buy it. The transactional data generated through a process of incentives will help brands better understand the African product landscape, assist government agencies in taking swift and decisive actions to identify counterfeit or illicitly traded product hot spots while generating accurate and up-to-date numbers to measure its scale and scope. Last but not least, our partnership will enable new and innovative means for brands to communicate with consumers and for the AfCFTA to serve as the focal point to issue instant, geo-localized alerts, product recalls and other information of relevance to protect the safety of African citizens.

Ultimately, this partnership will enhance public health and safety, prevent revenue losses within AfCFTA member states, and deprive criminal networks and disruptive structures of one of their main sources of revenue, potentially channeling billions of dollars back into the region's legitimate economy. This is just one example of the type of innovative, collaborative efforts that will be necessary to address the challenges of the illicit economy in Africa and maximize the opportunities presented by the AfCFTA.



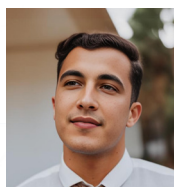
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## Part 1

### Scope of Illicit Economy in Africa and Globally: The Facts

The Illicit Economy, in all its manifestations, poses a significant challenge not only for Africa but for the entire world. Due to its clandestine nature, it operates in the shadows, making it difficult to generate accurate and up-to-date numbers to measure its scale and scope. There is a growing consensus that illicit activities have reached unsustainable levels, requiring urgent action. While obtaining precise measurements may be challenging, we must rely on and prioritize our work based on the best estimates provided by governments, law enforcement, businesses, and international organizations.

According to recent data, the global illicit economy is estimated to be worth between \$1.6 trillion and \$2.2 trillion annually<sup>1</sup>, which accounts for approximately 2-5% of the global GDP. In Africa, the scope of the illicit economy is equally significant, with estimates suggesting that it accounts for between 10% and 15% of the continent's GDP<sup>2</sup>. This amounts to a staggering \$100 billion to \$150 billion annually.

Some of the most prevalent forms of illicit activities in Africa include illegal wildlife trade, human trafficking, arms smuggling, drug trafficking, and counterfeit goods. For instance, the African illegal wildlife trade is estimated to be worth \$5 billion to \$23 billion per year<sup>3</sup>, with the trade in elephant ivory and rhino horn being particularly lucrative. Human trafficking in Africa is also a significant problem, with an estimated 9.2 million people living in modern slavery on the continent<sup>4</sup>.

Furthermore, the illicit financial flows (IFFs) in Africa are particularly detrimental to the continent's development. It is estimated that Africa loses approximately \$88 billion annually due to IFFs<sup>5</sup>, including tax evasion, money laundering, and corruption. This diverts much-needed resources away from critical investments in infrastructure, healthcare, and education.





Efforts to combat the illicit economy in Africa and globally have gained momentum in recent years. Governments, regional organizations, and international bodies like the United Nations and the African Union are working together to implement and enforce stricter regulations and law enforcement measures, as well as promote cross-border cooperation to address these complex challenges. Practical solutions such as the partnership between the AfCFTA Secretariat and OriginAll can provide shortterm, high impact results.

## Challenges of Existing Solutions

It is crucial to acknowledge that our current approaches to combating illicit trade are hindered by fragmentation and siloed organizations. No government or international agency can single-handedly eliminate the fundamental principles of supply and demand. If millions of people are willing to take risks to buy from parallel or illicit markets and a sufficient number of suppliers are willing to engage, transactions will occur regardless of our efforts and consequences.

Governments and societies confront considerable 21st-century challenges:

- Governments are stretched thin: Prioritizing the pandemic over the past 2 years, financial instability, regional conflicts, climate change, and inflation leaves fewer resources for combating criminal networks. To the contrary it is during these times that criminal and illicit networks thrive..
- Limited budgets constrain governments, particularly in the face of potential economic slowdowns or recessions.
- Multilateral and regional organizations possess relatively small budgets compared to the task at hand: The World Customs Organization (WCO) has an annual budget of less than \$20 million, while Interpol's annual budget is less than \$150 million. The African Union's budget is similarly limited.
- Fragmented actions and responses impede progress: Multiple layers of government, businesses with varying incentives, and hyper-connected citizens with high expectations create a complex landscape.
- Cross-jurisdictional cooperation is challenging Government officials must work within legal frameworks and national boundaries, while illicit traders flourish by operating across borders.
- Rapid technological advancements make it difficult for governments and organizations to keep pace and adapt their strategies accordingly.

Addressing these challenges simultaneously requires a reevaluation of existing strategies and a commitment to fostering innovation and collaboration among governments, businesses, and international organizations and consumers. By working together and leveraging technological advancements, we can make significant strides in combating the illicit economy.

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<sup>1</sup> Global Financial Integrity, "Transnational Crime and the Developing World," March 2017

<sup>2</sup> Brookings, "Illicit Financial Flows in Africa: Drivers, Destinations, and Policy Options," 2020

<sup>3</sup> Global Financial Integrity, "Transnational Crime and the Developing World," March 2017

<sup>4</sup> Walk Free Foundation, "Global Slavery Index 2018," 2018

<sup>5</sup> UNCTAD "Tackling Illicit Financial Flows for Sustainable Development in Africa" 2020

## Building Resilience to the Illicit Economy can be accomplished but only if we follow certain guiding principles

Tackling the illicit economy is achievable, but only if we adhere to certain guiding principles. While the task is daunting, we cannot simply give up. The establishment of the African Continental Free Trade Area (AfCFTA) provides a forum and framework for innovation and collaboration among engaged partners. By building partnerships around common principles, we can strengthen resilience against illicit actors across the continent. This list is not exhaustive but serves as a starting point to generate interest and engagement.

### PRINCIPLE #1

To stop illicit activity, the associated licit activity must be as efficient. This means simpler – easier to implement, easier to update, easier to scale – as well as transparent. The licit activity must also provide output – goods, services, efficiencies of scale, etc. – of sufficient quality and reliability that illicit activity is discouraged except in extreme cases. Furthermore, we need to make sure that there are incentives for businesses and citizens to join the formal economy. Not surprisingly, if you look at the World Economic Forum's global competitiveness report, some patterns emerge. Those countries with lower levels of competitiveness have higher levels of informal activity, violence and crime.

### PRINCIPLE #2

Empower citizens and consumers to bring illicit activities into the light. The AfCFTA partnership with OriginAll is a perfect example of giving consumers on the African continent adequate information to make better, safer product choices but also collect data on illicit activities and hotspots. This should be complemented by focused and international efforts on a global media campaign (PSA) to educate consumers about the dangers and effects of the illicit economy. The real power, though, will be at the grass roots, or bottom-up approach, by building simple tools that can turn the ubiquitous smartphone into a personal vetting tool. Peer-to-peer use of social networks and focused applications such as the one developed with OriginAll capable of warning consumers of unethical practices and localizing illicit products, will be highly effective.

### PRINCIPLE #3

Develop a consolidated data repository of promising and best practices. The AfCFTA is the ideal platform to house this information. Instead of focusing solely on negative aspects and bad actors, this offers an opportunity to highlight successful initiatives and efficiently scale and adapt them to other jurisdictions. Examples include:

1. The East African Community's (EAC) Single Customs Territory (SCT) initiative has streamlined customs processes, reduced transit times, and minimized costs associated with cross-border trade. By sharing this best practice within the AfCFTA repository, other African nations can learn from and adopt similar customs integration models.
2. The West Africa Trade Hub (WATH) provides technical assistance, capacity building, and market linkages to help businesses expand trade within West Africa and globally. Documenting the WATH's approach in the AfCFTA repository can inspire similar trade hubs in other African regions.
3. The Rwanda Revenue Authority's (RRA) successful implementation of the Electronic Cargo Tracking System (ECTS) has significantly reduced transit time and cargo theft. By sharing this best practice, other AfCFTA member states can learn from Rwanda's experience and adopt similar technologies to improve cargo tracking and security.

4. The African Risk Capacity (ARC) is an innovative approach to managing natural disaster risks through a combination of early warning systems, contingency planning, and risk pooling. By including the ARC model in the AfCFTA repository, member states can adopt and adapt this approach to strengthen their resilience against climate-related shocks.
5. The Southern African Development Community (SADC) has developed guidelines for harmonizing seed regulations, which have helped facilitate seed trade and promote agricultural development in the region. Sharing these guidelines in the AfCFTA repository can encourage other regions to adopt similar harmonization efforts, boosting agricultural trade and food security.

#### PRINCIPLE #4

Global activity is often used to generate a lower cost structure, what some call outsourcing or offshoring. It should not, however, be allowed to circumvent regulatory oversight in any of the jurisdictions in which it operates, more simply put you can't outsource accountability. The more global economic activity, the more transparent it should be. AfCFTA serves as a model for best practices, facilitating the implementation of jurisdictional regulations on trade and other economic activities across all member states. By aligning regulatory requirements for security and privacy across all platforms, the potential burden of complying with multiple regulations is significantly reduced. Encouraging standards-based security, privacy, service models, and product models is an important means for the equalization of regulatory statutes.

#### PRINCIPLE #6

Transparency requires analytics on economic activity. Shared economic data may compromise certain parties, the data must be anonymized, or "de-identified" to prevent the loss of private information from the publicly shared data. Anonymized data cannot be simply "white-washed"; rather, it must contain enough information to allow legitimate traffic to be correctly validated and quantified. It must also be of sufficient precision to quickly show where illicit economic activity is occurring. Economic data must be designed with privacy and transparency as simultaneous goals. Transparency is enhanced by the elimination of parochial approaches to tracking, and trace and reporting. Again, standards-based approaches are a huge advantage. In this case, standards for secure tracking and tracing of products through OriginAll provides transparency without jeopardizing privacy.

#### PRINCIPLE #5

This needs to be a deliberate and coordinated multistakeholder effort with the rules, roles, and responsibilities for each member clearly identified and tracked. The challenges are too big for one government or one business to tackle on their own. The AfCFTA Secretariat and strategic partners like the Africa Import & Export Bank (Afreximbank), African Development Bank (AfDB), the International Islamic Trade Finance Corporation (ITFC), the World Trade Organization (WTO), The International Trade Centre (ITC), Chambers of Commerce, Interpol, and other regional and international organizations can enlist businesses with consumer support as part of a broad-based coalition. CSOs can serve as a useful 'bridge', for example, by supporting awareness-raising efforts. Academia can also contribute a wealth of research on illicit trade, including techniques for measurement, and analysis of patterns and trends. Much like what we have learned from the challenges of climate change or responding to a pandemic, if each actor understands their role and contributes to the common good, we can make progress.





## Conclusion

Efforts to combat illicit trade must focus on identifying, disrupting, and dismantling criminal organizations engaged in serious forms of illicit trade and the networks that facilitate cross-border and international operations. Priority should be given to large-scale criminal enterprises, holding them accountable through a combination of criminal investigations, proportionate and dissuasive sanctions, and asset confiscation as a primary strategy for raising revenue to fund these initiatives.

Where possible, low-level offenders should be diverted from the criminal justice system and provided with rehabilitation opportunities. Simultaneously, national responses should recognize that criminal justice approaches are only one of several tools needed to address multifaceted problems rooted in socio-economic disadvantages and vulnerabilities. The 2019 ENACT Organized Crime Index for Africa, a flagship project of the Global Initiative Against Transnational Organized Crime, could be a valuable resource for these efforts.

In this context, international organizations and multilateral forums, including those focused on criminal justice, trade, and sustainable development, will continue to play crucial roles as conveners, standard-setters, and providers of technical assistance to government actors. It is noteworthy that in 2021, UN Member States mandated the UN Conference on Trade and Development (UNCTAD) to continue its essential work on illicit trade, related financial flows, consumer protection, competition, and other relevant topics. By working together and leveraging the expertise and resources of various stakeholders, we can develop a more comprehensive and effective response to the challenges posed by illicit trade.

Collaboration among governments, international organizations, businesses, and civil society is vital for creating a coordinated and sustainable approach to tackling this complex issue. By sharing best practices, improving transparency, and fostering innovation in regulatory frameworks, we can build resilience against the illicit economy and create a safer, more prosperous future for all. Empowering consumers to make better and safer product choices through the AfCFTA - OriginAll initiative will play a critical role in gathering the actionable data required for such efforts.

As we move forward, it is essential to remain adaptable, learning from our successes and failures, and continually refining our strategies. By staying committed to our shared goals and principles, we can make significant progress in the fight against illicit trade and its harmful consequences for societies, economies, and the environment.



## Part 2

### The AfCFTA – OriginAll Safe Product Initiative: Empowering African Citizens to Make Better, Safer Product Choices

In January 2021, the African Continental Free Trade Area (AfCFTA) Secretariat and the Swiss-based company OriginAll S.A. formed a historic alliance to empower African citizens to make better, safer choices when purchasing consumer products, with a particular focus on pharmaceutical products. The AfCFTA - OriginAll Safe Product Initiative is designed to enhance public health, prevent revenue losses, and reduce the incidence of counterfeit and illicitly traded products sold in Africa.

The AfCFTA is the sole supranational organization that negotiates and implements measures aimed at increasing socioeconomic development, reducing poverty, and making the African continent more competitive in the global economy. Its aim is to boost intra-African trade by removing barriers to trade, such as tariffs and customs restrictions, and by promoting the harmonization of trade rules and regulations across member states. The AfCFTA also seeks to enhance the competitiveness of African industries and promote the growth of small and medium-sized enterprises (SMEs) by providing access to new markets and facilitating cross-border investment.

The AfCFTA - OriginAll Safe Product Initiative supports these objectives by providing a new technology platform that enables users to intuitively gain better product information and, whenever possible, verify the authenticity of products using a smartphone. The platform is designed to enhance the impact of existing traceability solutions by providing a single and safe gateway for businesses, governments, and consumers to identify and verify the authenticity and conformity of products sold within African states. It also enables more efficient interaction between solutions in different regions and countries.

As of April 2023, 54 out of the 55 member states of the African Union (AU) have signed the AfCFTA Agreement. This makes the AfCFTA the largest free trade area in the world when measured by the number of countries participating, connecting over 1.3 billion people with a combined Gross Domestic Product (GDP) of USD 3.4 trillion. However, this also makes Africa a primary target for counterfeiters and counterfeit products, which pose a danger to public health and security and result in a loss of tax revenue for governments and private companies.

The AfCFTA - OriginAll Safe Product Initiative addresses these challenges by providing tangible clear benefits to all stakeholders. It will:

1. Enhance public health by ensuring that African patients have confidence in and access to high-quality medicines and medical products, reducing the incidence of preventable diseases, and improving overall health outcomes.
2. Support the implementation of the rule of origin by helping track the origin of products and sharing critical information on product origin with users of the platform.
3. Promote Made in Africa products and reduce the dependency on products from other parts of the world.
4. Create incentives for Incentives African member states to trade among themselves more as they will know where the products are coming from and have confidence in their authenticity.

5. Provide new and unprecedented insights to law enforcement agencies, while providing the AfCFTA and supporting brands with product information and consumption trends.
6. Generate new layers of factual data that will allow member states to better understand and monitor possible duties and taxes leakages.



Brands that join the AfCFTA - OriginAll Safe Product Initiative will enjoy a range of benefits, including the ability to share valuable product information with consumers and have their products' authenticity verified by users. They will also have access to certain transactional data generated and derived from the OriginAll 5Ws: what, when, where, who, and by whom (some on a permissioned basis). Brands will also be recognized and promoted by the AfCFTA Secretariat as "Trusted Trade Partner" and have access to an exclusive support and trade facilitation team, a network of officers of the AfCFTA Secretariat and its member states and participate in AfCFTA and member states' agencies training and selected events. In addition, brands will have the opportunity to recommend news and post alerts on the platform and interact directly with permissioned consumers.



Ultimately, the AfCFTA - OriginAll Safe Product Initiative will create a safer, more prosperous, and compliant market for African consumers and contribute to the economic growth and stability of the continent. It is a win-win situation, with Africa benefiting from increased investment, trade, and economic growth as well as being a more stable, healthy, and innovative continent. By joining and supporting this initiative, brands will lead the way in empowering citizens to make better, safer product choices, enhancing public safety, protecting revenue, and providing a visible strike against counterfeiters and illicit traders. They will also contribute to ESG objectives and select UN SDGs, such as promoting economic growth, reducing poverty, and enhancing public health.

## Part 3

### Deep Dive - Our Assessment & Analysis of Some of the Latest Reports on the Illicit Economy.

#### Impact of Illicit Economy: Global and Africa

##### Global Trade in Fakes (OECD, EUIPO, 2021)<sup>6</sup>

In recent years, the OECD and the EU Intellectual Property Office (EUIPO) have been diligently collecting evidence on various aspects of the risks associated with counterfeit and pirated goods. The findings have been published in a series of reports, beginning with Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact (2016)<sup>7</sup>, and later expanded and updated in subsequent reports such as Mapping the Real Routes of Trade in Fake Goods (2017)<sup>8</sup> and Trends in Trade in Counterfeit and Pirated Goods (2019)<sup>9</sup>.

This current report employs tailored statistical methodology first developed for an 2008 OECD study, updating the analysis with the latest data (from 2019) on counterfeit goods trade. Additionally, it offers a snapshot of recent trends during the COVID-19 pandemic, based on in-depth online dialogues and structured interviews with experts from enforcement and industry communities. Such updates are crucial for not only understanding this growing threat but also devising effective governance responses to support post-COVID recovery.

The findings are indeed worrisome. Counterfeit and pirated goods constituted up to 2.5% of world trade in 2019, and when considering only imports into the EU, fake goods accounted for up to 5.8% of imports. These figures are similar to those of previous years, indicating that illicit trade in counterfeit items remains a significant risk to modern, open, and globalized economies. Counterfeiters exploit modern logistical solutions and legitimate trade facilitation mechanisms while thriving in economies that lack strong governance standards.

The COVID-19 pandemic has only exacerbated the problem to levels we do not yet understand. Criminal networks have rapidly adapted to the crisis, adjusting their strategies to capitalize on the changing landscape. This study highlights the urgency for policymakers to address the growing threat posed by the trade in counterfeit and pirated goods.

Conducted under the guidance of the OECD's Task Force on Countering Illicit Trade, this research focuses on evidence-based analysis and advanced analytics to help policymakers map and understand the vulnerabilities created and exploited by illicit trade. By staying informed on the latest trends and the evolving tactics of counterfeiters, governments and industries can develop targeted, effective solutions to combat the illicit economy and protect legitimate businesses and consumers.

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<sup>6</sup> OECD, EUIPO, "Illicit Trade: Global Trade in Fakes, A Worrying Threat" 2021

<sup>7</sup> OECD, "Trade in Counterfeit and Pirated Goods, Mapping the Economic Impact" 2016

<sup>8</sup> OECD, "Trade in Counterfeit and Pirated Goods, Mapping the Economic Impact" 2017

<sup>9</sup> OECD, "Trade in Counterfeit and Pirated Goods, Mapping the Economic Impact" 2019

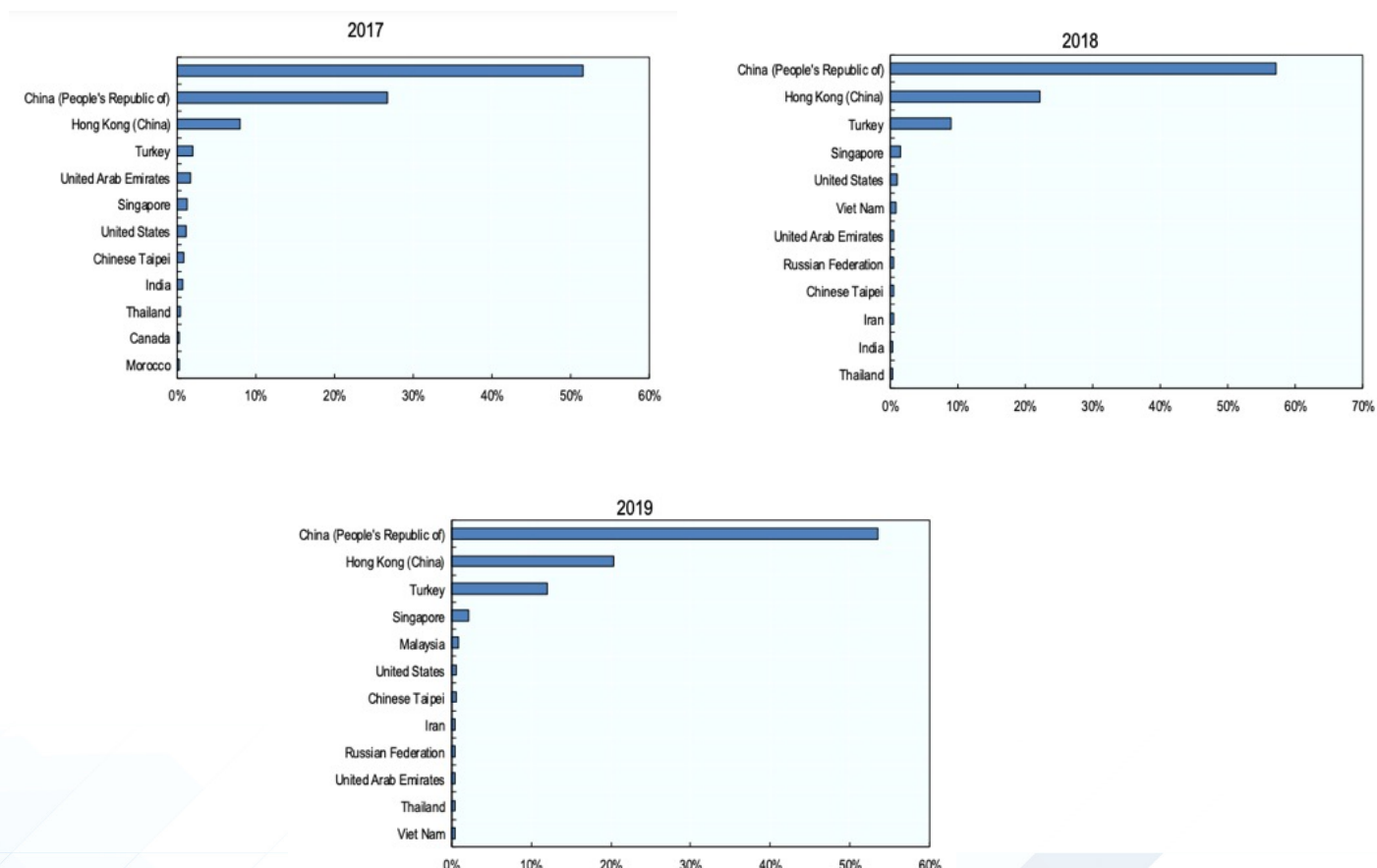
## Overview of seizures of counterfeit goods

In the three years analyzed (2017, 2018, and 2019), the total number of global customs seizures involving counterfeit and pirated goods consistently surpassed 130,000 annually. The comprehensive database on customs seizures of IP-infringing goods encompasses nearly half a million records. This extensive dataset offers valuable insights into the origins of counterfeit goods, the industries affected by counterfeit trade, and the economies where registered rights holders experience IP rights infringement.

## Provenance economies

Any economy can be the provenance of counterfeit and pirated trade, and the scope of these provenance economies is very broad. A descriptive analysis of the unified dataset of customs seizures identified 180 provenance economies of counterfeit and pirated products between 2017 and 2019, as compared to 184 from 2014 to 2016 and 173 from 2011 to 2013. While the scope of provenance economies is broad, the raw seizure statistics show that interceptions originate from a relatively concentrated set of provenance economies. In other words, some economies tend to dominate the global trade in counterfeit and pirated goods. The highest number of counterfeit shipments seized is in East Asia, with China and Hong Kong (China) at the top of the ranking.

*Top provenance economies of counterfeit and pirated goods in terms of customs*



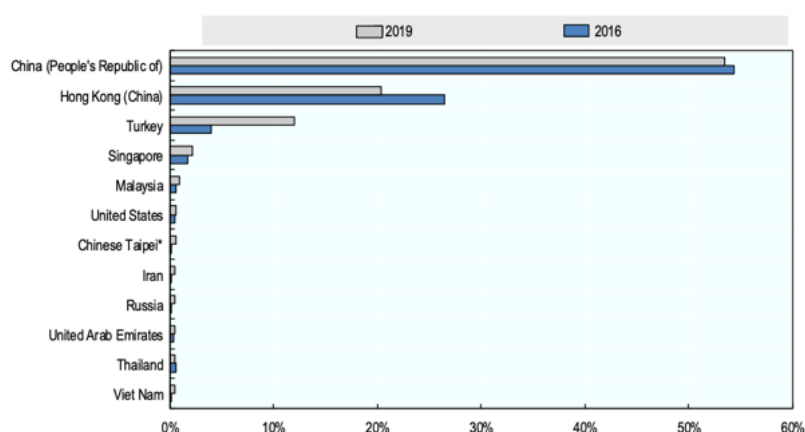
Source: OECD "Trends in Trade in Counterfeit and Pirated Goods" 2019



China and Hong Kong (China) dominated the global trade in counterfeit goods in both 2016 and 2019 (Figure 3.2), with the latter's percentage decreasing when compared to 2016. The presence of Turkey among the top provenance economies of counterfeit goods increased over this period: its share of global seizures tripled between 2016 and 2019, rising from 4% to 12%.

#### Differences in provenance economies in counterfeit and pirated trade, 2017-19

Share of global customs seizures of IP-infringing goods



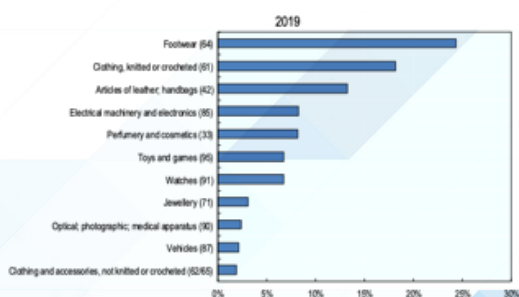
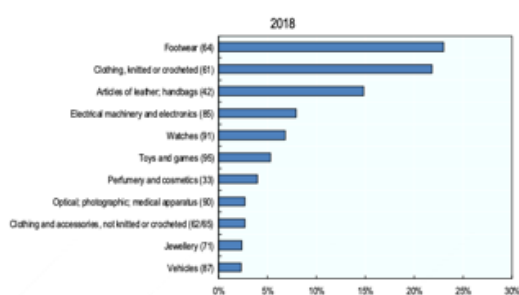
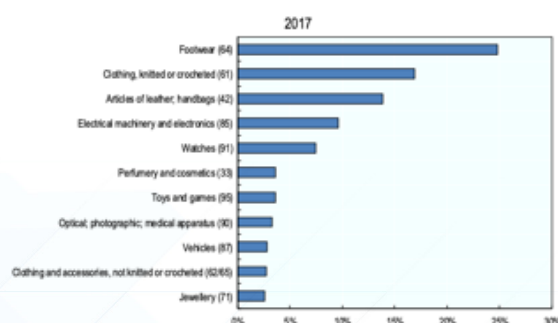
Source: OECD "Trends in Trade in Counterfeit and Pirated Goods" 2019

## Product categories

The unique dataset of customs seizures is also used to analyze the types of products subject to counterfeiting. It shows that a wide range of products are counterfeited and pirated. Indeed, the statistics on customs seizures reveal that between 2017 and 2019, customs detected articles in violation of intellectual property rights in 83 of the 96 HS chapters. This means that almost any kind of product is targeted by counterfeiters and may suffer from IP infringement.

#### Top product categories of counterfeit and pirated goods, 2017-19

(In terms of global customs seizures)

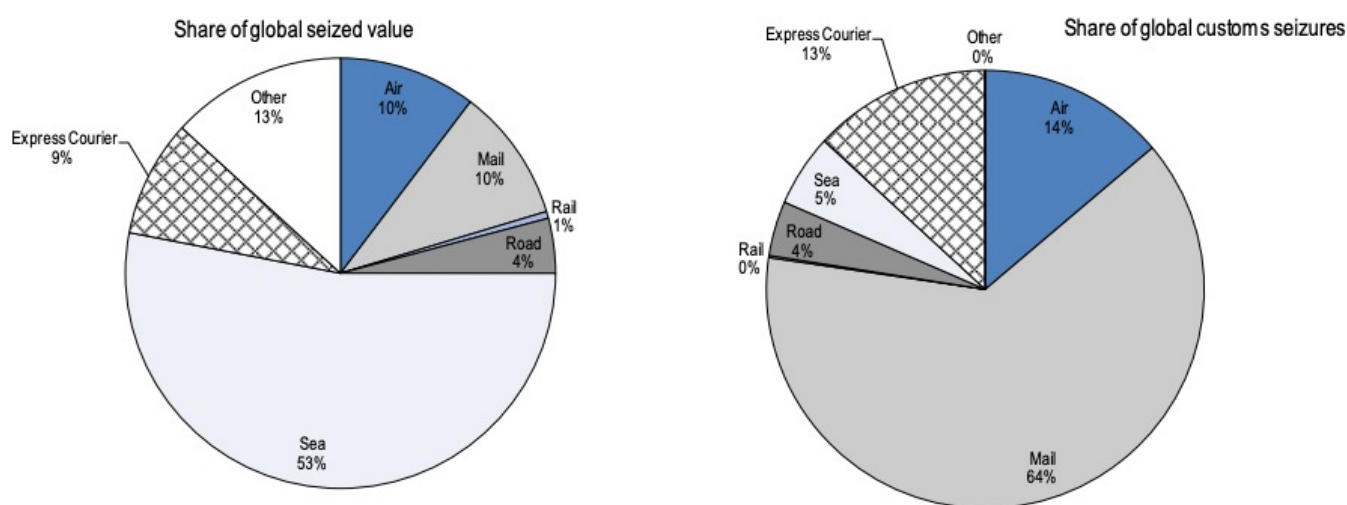


Source: OECD "Trends in Trade in Counterfeit and Pirated Goods" 2019

The descriptive analysis of the seizures database shows a large number of seized IP-infringing packaging and labels. For the 2019 period, the unified dataset includes almost six thousand customs seizures of counterfeit labels, a 20% increase on 2016. This re-confirms findings about the domestic assembly of counterfeit and pirated products from imported materials, formulated in a study by OHIM-Europol (2015). If the counterfeit products most frequently seized are common products, it should be noted that many counterfeit products represent a real threat to consumer health and safety as well as the environment. These include fake foodstuffs, toys, cosmetics, and chemicals. Counterfeit chemical products, such as fertilizers or pesticides, may raise environmental issues. Last but not least, the counterfeiting of pharmaceutical products is a reality. Even though they are not the most infringing products, their trade is a real threat to public health and was documented by the OECD and EUIPO in (OECD/EUIPO, 2020). The findings show that both common medicines as well as more complex drugs (i.e., for cancer or heart disease) are counterfeited.

## Conveyance methods and extent of seizures

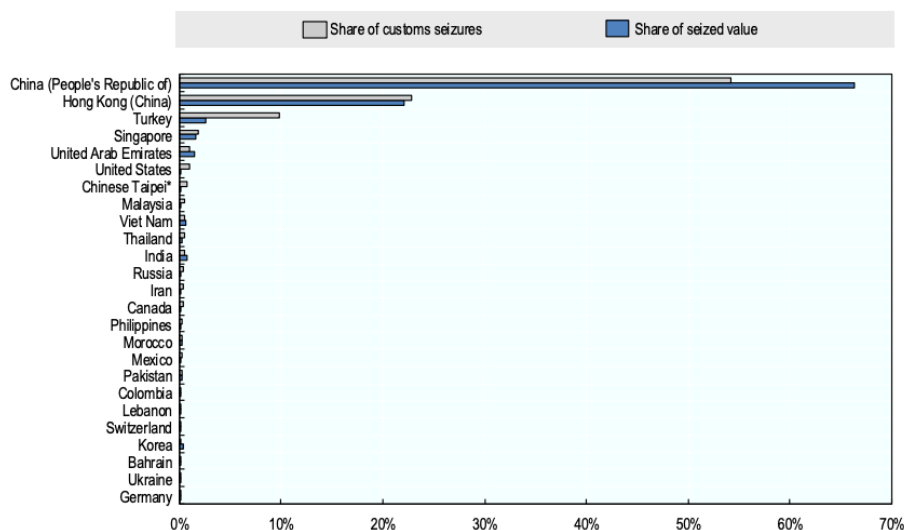
Descriptive statistics on customs seizures highlight that the postal service was the most frequently used method of shipping counterfeit and pirated products in terms of frequency of seizures. Between 2017 and 2019, postal shipments were the mode of transport of 64% of global seizures, and 13% of seizures concerned express courier. This indicates that the use of postal and express services dominates in terms of the number of seizures, accounting for 77% of global seizures, up from 69% of global seizures from 2014 to 2016. Postal shipments were followed by air, at 14% of global seizures, and sea, at 5%.



Source: OECD "Trends in Trade in Counterfeit and Pirated Goods" 2019

## Provenance Economies

On average 90% of global seizures from 2017- 2019 came from China, Turkey, Singapore, and the United Arab Emirates.

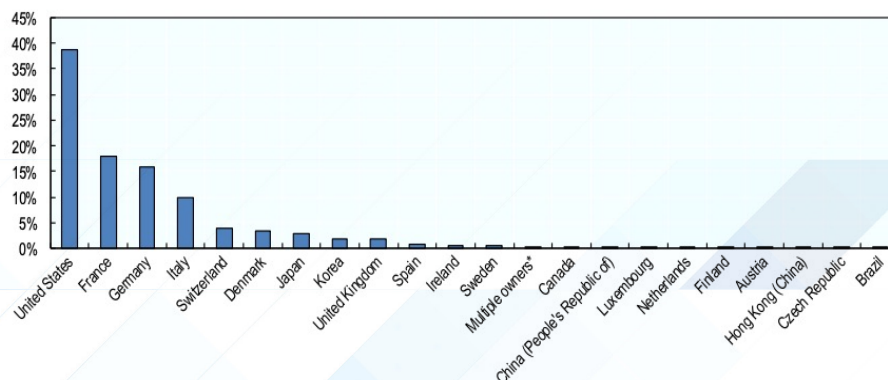


Source: OECD “Trends in Trade in Counterfeit and Pirated Goods” 2019

## Impacted Economies

This section studies the locations of IP rights holders that suffer from counterfeiting and piracy. Location refers to the place where the headquarters of a right holder is registered. As in previous years, the vast majority of companies whose IP rights are infringed upon by counterfeiters are located in OECD countries, whose economies rely on innovation and creativity. Almost 39% of customs seizures refer to products that infringe the IP rights of US rights holders. The United States is followed by France (18%), Germany (16%), Italy (9.8%), and Switzerland (4%). Other OECD countries whose companies also suffer from counterfeiting include Denmark, Japan, Korea, Spain, Ireland, and Sweden. Remarkably, right holders in China and Hong Kong (China) also suffer from counterfeiting, as China and Hong Kong (China) rank 15th and 20th, respectively, in the list of economies most impacted by global counterfeiting and piracy. This phenomenon is interesting as these regions are also the top provenance economies for counterfeited and pirated products. This also indicates the strong threat that counterfeiting, and piracy pose to undermining innovation within Chinese companies, since many of these companies rely on knowledge-based capital and IP rights in their business strategies.

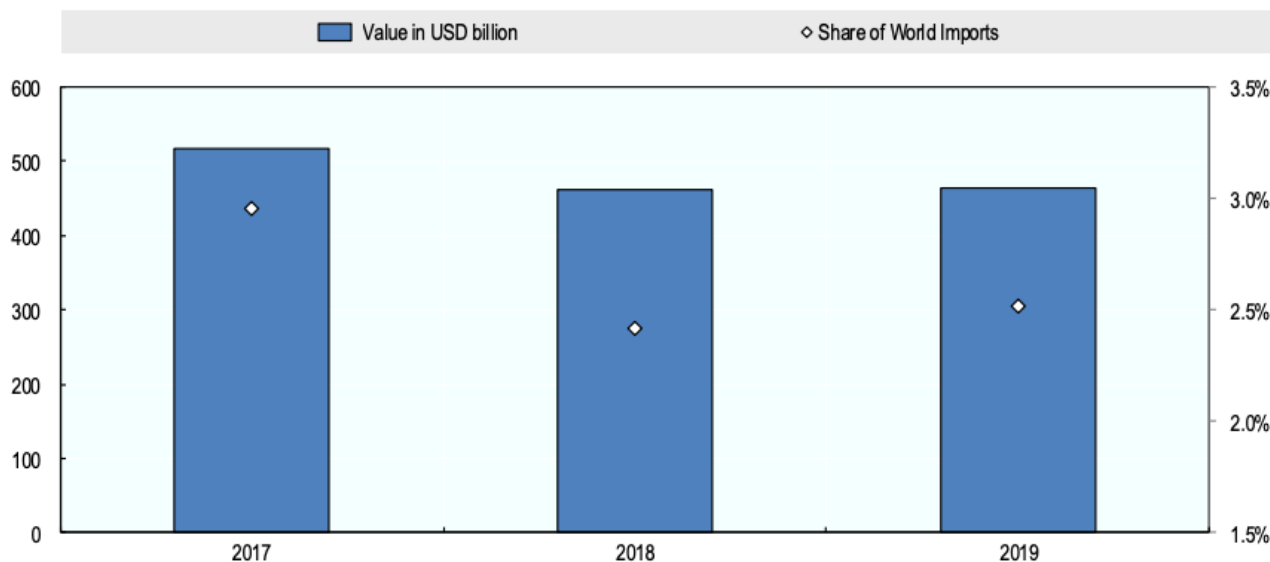
In terms of number of customs seizures



Source: OECD “Trends in Trade in Counterfeit and Pirated Goods” 2019

## Estimating the total value of the trade in counterfeit and pirated goods

The best estimates of this study, based on customs seizure data, indicate that counterfeit and pirated goods amounted to as much as USD 464 billion in world trade in 2019. It is important to note that this amount refers to the upper limit of trade counterfeits. Consequently, as much as 2.5% of total world trade in 2019 was in counterfeit and pirated goods.



Source: OECD "Trends in Trade in Counterfeit and Pirated Goods" 2019

## Estimates of counterfeit and pirated imports to the EU

Estimates based on the GTRIC methodology indicate that total trade in counterfeit and pirated goods destined for the EU amounted to as much as USD 134 billion (EUR 119 billion) in 2019. This number implies that as much as 5.8% of EU imports were counterfeit or pirated products.

## The trade in counterfeits during the pandemic

Due to lockdowns in many countries, people have been using the Internet more than ever before, with the overall rate of digitization skyrocketing. The intensity of the misuse of the online environment keeps growing, and fakes tend to be increasingly found on new online sites and platforms, including social media. For example, between 2020 and 2021, e-commerce activity in the US has grown by almost 40%. This has resulted in a massive growth in the supply of all sorts of counterfeit goods online.

According to industry experts, the illicit trade in fake medicines keeps growing. Interviews with industry experts point to an overall growth of 5% in the average seizure value in 2020 compared with 2019. Considering the overall drop in enforcement, this suggests that the trade in illicit medicines has grown by 25% since 2019. Of these, 45% are counterfeit and 55% are stolen. These findings are confirmed by the results of enforcement operations. For example, the Europol-coordinated operation SHIELD resulted in massive seizures of counterfeit medicines and doping substances.



## Concluding Remarks

In 2019, international trade in counterfeit and pirated products amounted to as much as USD 464 billion. This figure excludes domestically produced and consumed counterfeit and pirated products, and pirated digital products distributed via the Internet. It represents up to 2.5% of world trade, compared with estimates of up to 3.3% of world trade in 2016 and 2.5% in 2013.

Given these sustained levels of counterfeit goods traded globally, the intensity of counterfeiting and piracy continues to be a great risk, with significant potential for IP theft in a knowledge-based, open, and global economy.

The quantitative analysis in this report confirms that fake products can be found in a large and growing number of industries.

Importantly, many of these goods can pose big health, safety, and environmental risks. Fake products such as dental equipment, pharmaceuticals, or baby formula are continuously being supplied to markets through multiple channels. Moreover, the degree of consumer deception is still the highest for these classes of products.

In terms of provenance, counterfeit and pirated goods originate in virtually all economies on all continents. While the scope of provenance economies is broad, seizure statistics show that most interceptions originate from a relatively concentrated set of provenance economies. In other words, some economies tend to dominate the global trade in counterfeit and pirated goods. The highest number of counterfeit shipments being seized originates from East Asia, with China and Hong Kong (China) ranking at the top.

We have also examined the complex routes through which counterfeit and pirated goods are traded, focusing on six main product types, that are particularly vulnerable to counterfeiting. These include such consumer goods as perfumery and cosmetics, footwear, clothing, jewelry, and toys. Significantly, counterfeit goods in these sectors can often pose serious health and safety risks to unaware users.

The data reveals some general patterns. Overall, China emerges as the key producer of counterfeit goods in all product categories. Several East Asian economies, including India, Thailand, and Malaysia, have been identified as important producers in some sectors, although their role is much less significant than China. Finally, Turkey appears to be a relatively important and fast-growing producer, especially for fake leather goods and cosmetics shipped to the EU.

The estimates indicate that the total trade in fakes destined for the EU amounted to as much as USD 134 billion (EUR 119 billion) in 2019. This number implies that as much as 5.8% of EU imports were counterfeit or pirated products. From the EU perspective, China is the major producer of counterfeit and pirated products across all categories analyzed for the EU Common Market.



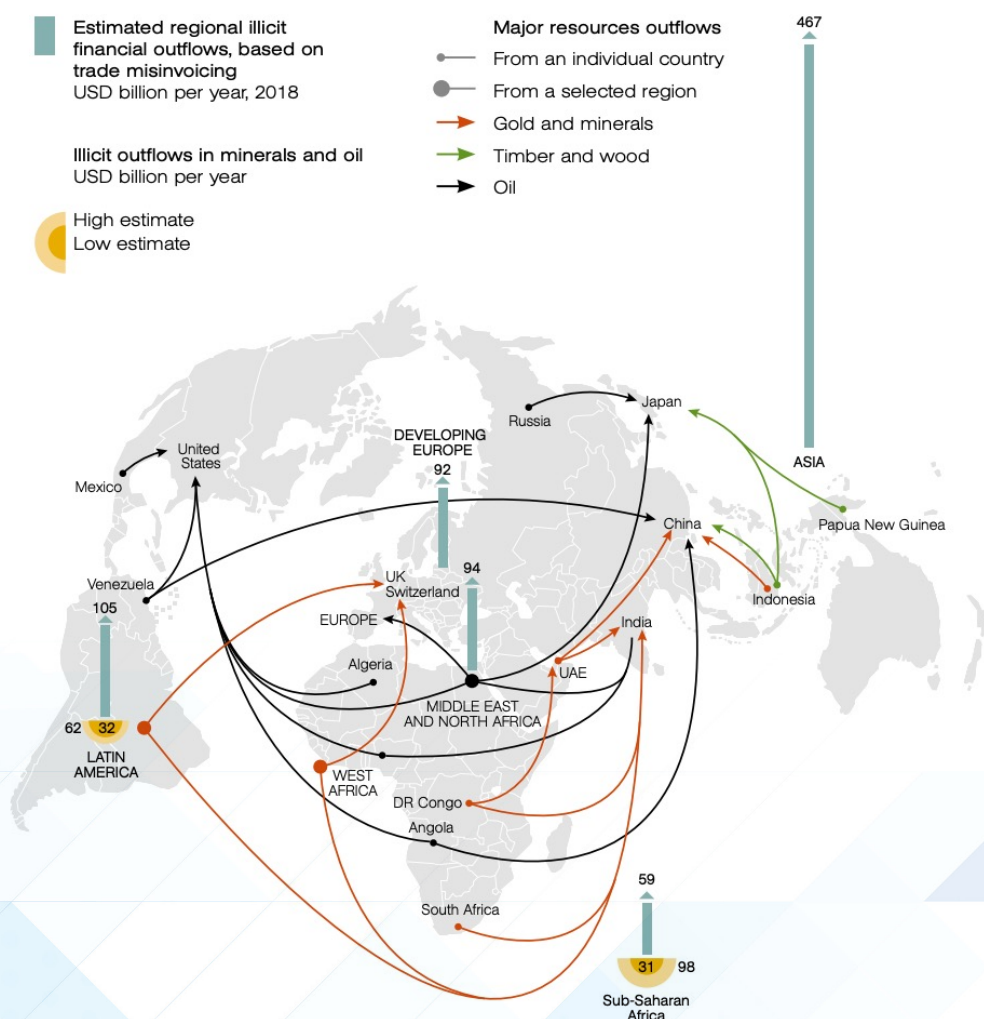
# Transnational Security Report Cooperating Across Borders: Tackling Illicit Flows (2021)<sup>10</sup>

## Cooperating Across Borders: Tackling Illicit Flows

Over the past few decades, these exchanges have grown significantly in scale, as the staggering extent of the problem illustrates: Illicit flows resulting from cross-border criminal operations – such as arms, tobacco, or pharmaceutical smuggling – are estimated to account for between USD 1.6 and 2.2 trillion annually<sup>11</sup>, nearly the size of the United Kingdom's gross domestic product (GDP). As this dirty money lines the pockets of malevolent actors, from armed groups, disruptive structures to terrorist organizations and even rogue states, illicit flows can evolve into global threats to peace and security.

In the long term, illicit flows impede a country's development by siphoning off funds from where they are needed, thereby reducing state capacities and weakening national economies. The African continent is estimated to have lost an average of USD 73 billion annually between 2000 and 2015 from trade mis invoicing alone, thus obscuring the true nature or value of goods moved. Furthermore, illicit flows undermine trust in governing structures by corrupting officials or undermining the integrity of electoral processes. Even state actors make use of them, for example, for espionage.

## GLOBAL ILLICIT OUTFLOWS OF CAPITAL AND SELECTED NATURAL RESOURCES



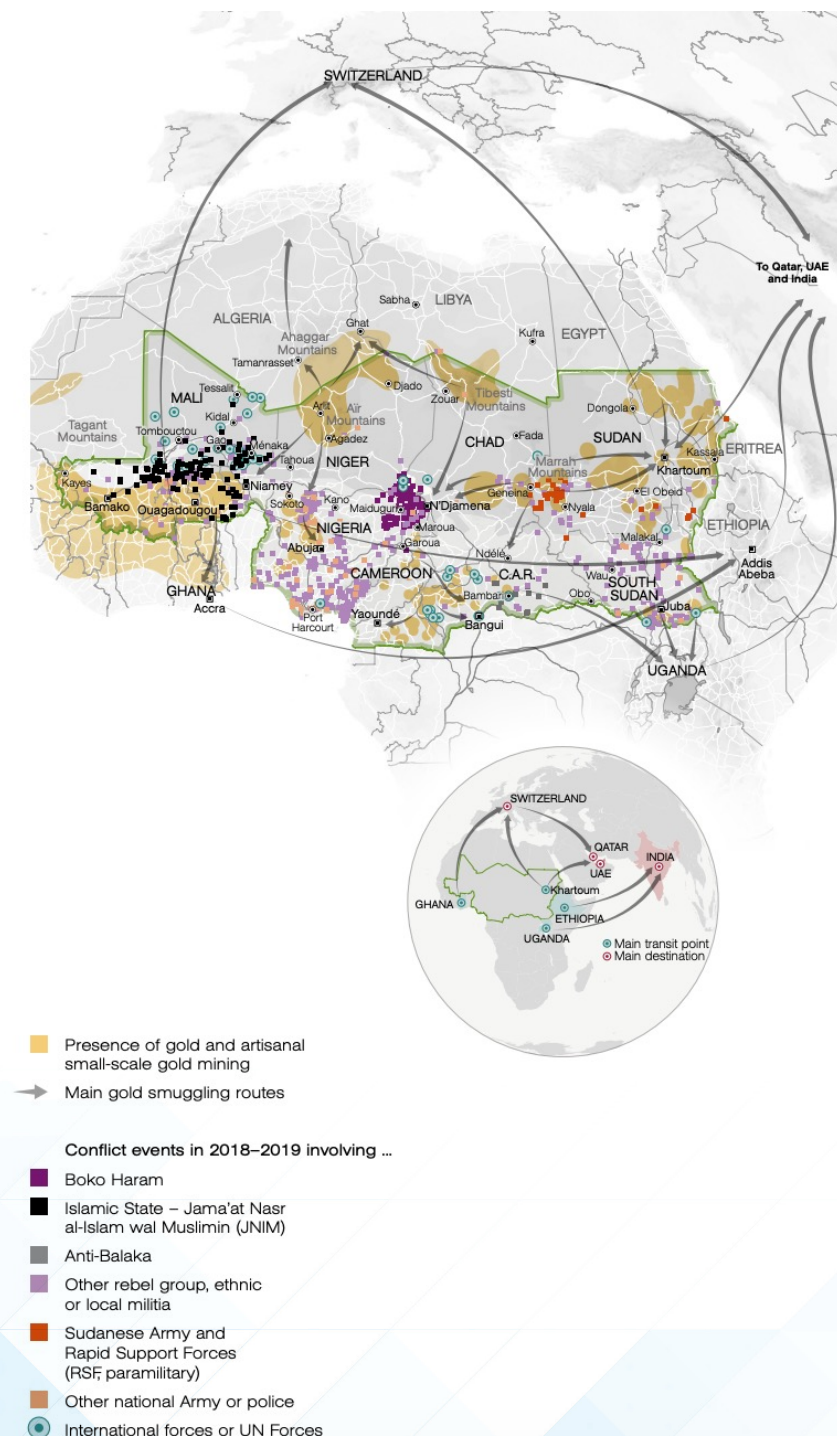
Source: Munich Security Conference, "Transnational Security Report Cooperating Across Borders: Tackling Illicit Flows" 2021

MSC "Transnational Security Report: Cooperating Across Borders: Tracking Illicit Flows" 2019  
Global Financial Integrity "Illicit Financial Flows to and from 148 Developing Countries: 2006-2015." March 2019

Officially, gold worth at least USD 22.8 and 23.45 billion<sup>12</sup> leaves Africa and Latin America every year. However, it is estimated that 55 to 60 percent of the gold mined on the two continents is considered illegal. Local gold refineries are being extensively used to launder gold from illicit sources in an artisanal mining sector involving several million people, forced labor, and high risks. Illicit gold mining is becoming a rising source of income for cartels, criminal gangs, and non-state armed groups, with the mineral sector averaging 17 percent of global threat and conflict finance, compared to drugs at 28 percent<sup>13</sup>. Capital flight from the African mineral sector has been estimated at USD 50 billion at least<sup>14</sup> – with a total range of USD 24 to 61 billion – compared to illicit oil exports of USD 7.65 to 37.5 billion. Illicit annual exports from extractive industries in Africa account for at least USD 31 to 98 billion, compared to USD 32 to 62 billion from Latin America, with companies typically paying only 0 to 4 percent tax on official amounts.

## GOLD, TERRORISM, AND CONFLICT IN TRANS-SAHARAN AFRICA

Source: Munich Security Conference, "Transnational Security Report Cooperating Across Borders: Tackling Illicit Flows" 2021



UN Comtrade Database Analytics Sentry "The Golden Laundromat" 2020

UNCTAD "Tackling Illicit Financial Flows for Sustainable Development in Africa" 2020



## Goods: Gold Diggers and Smoking Guns

Every year, an estimated USD 31.5 billion is generated in illicit flows in conflict affected areas, the vast majority of which – 96 percent – benefits organized criminal groups<sup>15</sup>. The illicit trade in goods, ranging from small arms to drugs and from counterfeit products to natural resources, represents a threat to security either due to the goods' inherent nature or due to their broader destabilizing effects.

Small arms and light weapons kill more people than any other type of weapon. The illicit trade in small arms is troubling, especially considering that a total of more than 1 billion<sup>16</sup> small arms are estimated to be circulating globally.

Global drug trends, like the recent growth of the complex synthetic drug market have global, regional, and national security implications. For example, the rise of the synthetic opioid Fentanyl, with 70,601<sup>17</sup> overdose deaths reported in 2021. Experts have linked recent violence to increasingly aggressive efforts by organized crime groups to move into synthetic opioids; such efforts have included lacing them into other drugs to boost sales. The shift towards synthetic drug production is also tangible in the "Golden Triangle" of Myanmar, Thailand, and Laos. Myanmar's Shan State has emerged as a hotspot for crystal methamphetamine production based on Chinese chemicals, creating "a political economy inimical to peace and security" as interlocked interests spoil attempts to end a long-standing conflict.

Profitable trade is not limited to illegal drugs. With 1.3 billion smokers<sup>18</sup> in the world and an estimated one in ten cigarettes and tobacco products sold illicitly, the profits of the illegal cigarette trade are enormous. The OECD estimates the value of the illicit trade in tobacco to be greater than that of oil, wildlife, timber, arts and cultural property, and conflict diamonds combined<sup>19</sup>. Indeed, the trade is highly attractive given its relatively low risk compared to other forms of crime. However, it not only deprives governments of revenue –in 2019, the total tax loss due to the illicit cigarette market in the European Union, Norway, and Switzerland was approximately €9.5 billion<sup>20</sup>, and in South Africa alone, over USD 500 million – but also fills the coffers of organized crime and other malevolent actors. Countries such as North Korea have become veritable hubs for the production of counterfeit tobacco products. Related security threats range from tobacco cartels threatening vendors to terrorist funding across the decades, from Algerian terrorist leader Mokhtar Belmokhtar to ISIS.

The illicit trade in precious materials plays a particular role in obstructing conflict resolution. A significant amount of gold is smuggled from the eastern DRC to neighboring countries such as Uganda, Rwanda, and Burundi, and then onto international markets.

This illegal gold trade is primarily driven by artisanal and small-scale miners operating in the DRC, often under dangerous conditions and with little or no government oversight. Militia groups and criminal networks exploit this situation to control the gold supply and fund their activities through illegal taxation, extortion, and violence.

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<sup>10</sup> MSC "Transnational Security Report: Cooperating Across Borders: Tracking Illicit Flows" 2019

<sup>11</sup> Global Financial Integrity "Illicit Financial Flows to and from 148 Developing Countries: 2006-2015." March 2019

<sup>12</sup> UN Comtrade Database Analytics

<sup>13</sup> Sentry "The Golden Laundromat" 2020

<sup>14</sup> UNCTAD "Tackling Illicit Financial Flows for Sustainable Development in Africa" 2020

<sup>15</sup> Global Initiative "World Atlas of Illicit Flows: Organized crime underpins major conflicts and terrorism" (2018)

<sup>16</sup> Security Council Report "October 2021 Monthly Report"

<sup>17</sup> National Institute on Drug Abuse "National Drug Involved Overdose Deaths 1999-2021" 2021

<sup>18</sup> World Health Organization "WHO Report On The Global Tobacco Epidemic" 2021

<sup>19</sup> OECD "Illicit Trade Converging: Converging Criminal Networks" 2016

<sup>20</sup> KPMG "Project Sun: A study of the illicit cigarette market in the European Union, Norway and Switzerland" 2020



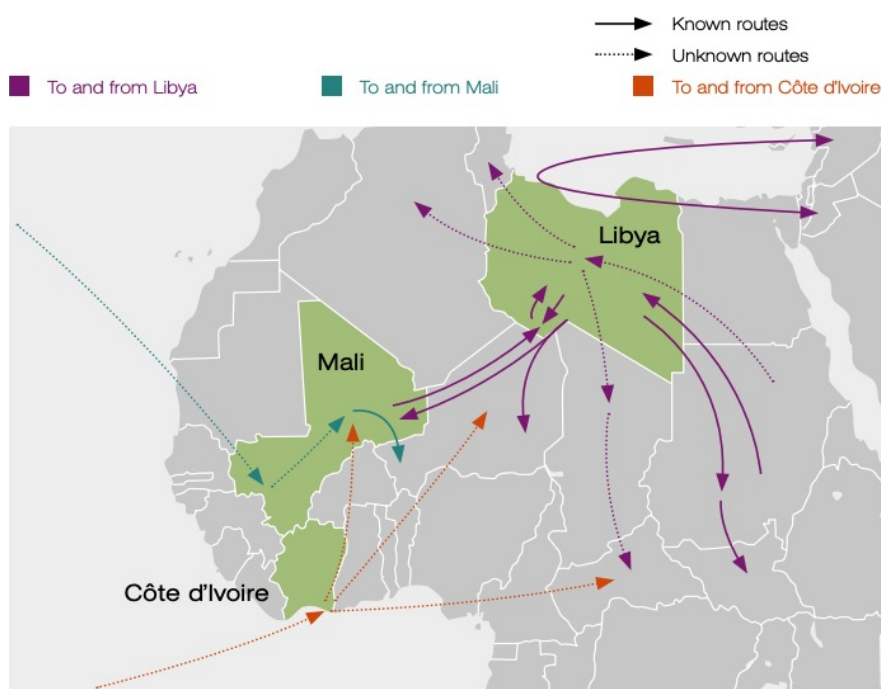
The smuggled gold eventually makes its way into the global market, where it can end up in the supply chains of major companies. This creates challenges for organizations that are trying to ensure their supply chains are free from conflict minerals and other illicit goods.

While efforts have been made to combat the illegal gold trade in the DRC, including certification schemes and traceability systems, these initiatives have had limited success in curbing the problem. A lack of government oversight, corruption, and the involvement of various armed groups continue to contribute to the persistence of this issue<sup>21</sup>.

And though timber may appear to be less precious than gold at first glance, illegal logging is in fact “the largest, least risky, and most profitable illicit environmental industry,” with 15% to 30% of the global timber trade being illegal rising to 50% to 90% of the trade from tropical countries<sup>22</sup>. In addition to funding organized crime, illegal deforestation compounds environmental degradation and climate change, threatening human security in affected areas and potentially triggering further conflicts down the line.

Illicit trade does not stop at near-extinct species, either: The illegal wildlife trade is worth as much as USD 23 billion annually<sup>23</sup> and is increasingly linked by investigators to financial crime and money laundering.

## DOCUMENTED FLOWS OF WEAPONS AND NON-STATE ARMED PERSONNEL IN THE SAHEL 2011-2017



Source: Conflict Armament Research

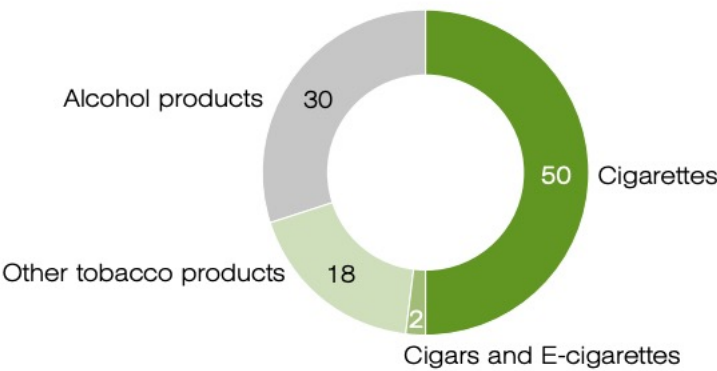
<sup>21</sup>United Nations Security Council “Letter dated 23 December, 2020 from the Group of Experts on the Democratic Republic of the Congo, addressed to the President of the Security Council” 2020

<sup>22</sup>United Nations Environment Programme “Green carbon, Black trade: Illegal logging, tax fraud and laundering in the world’s tropical forests” 2012

<sup>23</sup>The International Air Transport Association “Illegal Trade in Wildlife: Fact Sheet” 2022

# CUSTOMS SEIZURES OF ILLICIT ALCOHOL AND TOBACCO PRODUCTS

Seizures by product, 2017, percent\*

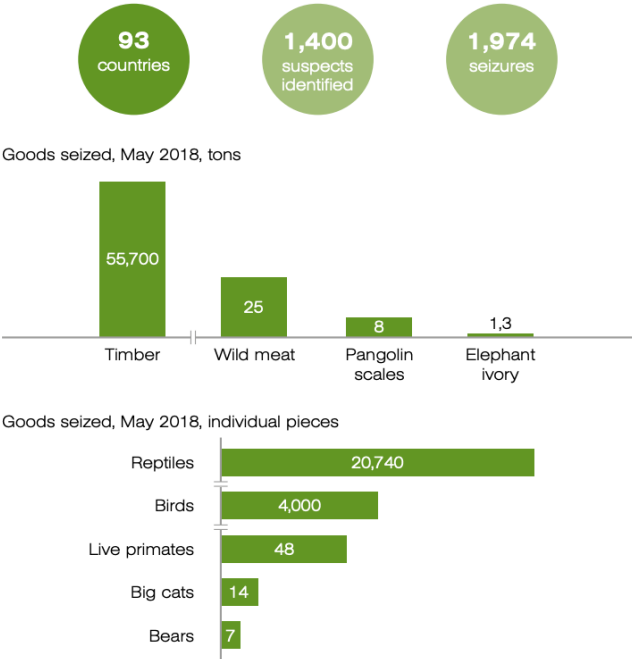


\* Based on 12,228 cases reported by 91 customs administrations to the World Customs Organization

Source: INTERPOL & World Customs Organization

# TACKLING ILLEGAL TRADE IN WILDLIFE AND TIMBER: OPERATION THUNDERSTORM

Operation Thunderstorm (May 2018) was coordinated by INTERPOL and the World Customs Organization, in conjunction with the International Consortium on Combating Wildlife Crime.



Source: INTERPOL & World Customs Organization

## People: Profit and Loss

One of the most heinous forms of illicit trade is the trafficking and exploitation of human beings for profit, involving forced labor and sexual exploitation. Sadly, it is also highly profitable: experts rank human smuggling and trafficking as the fourth largest global crime sector, with an annual revenue of over USD 150 billion<sup>24</sup>. They victimize an estimated 25 million people worldwide, with 80% in forced labor and 20% in sex trafficking. Given the scale of profits, human trafficking has, like other illicit activities, become increasingly attractive to non-state armed groups and terrorist entities.

As experts expect the current number of over 100 million<sup>25</sup> forcibly displaced people worldwide to increase to over 300 million by 2030, human trafficking will likely continue to increase in relevance for years to come. The clandestine movement of people in the opposite direction – e.g., of foreign fighters into conflict zones – also has inherent security consequences.

Data on human trafficking is notoriously difficult to obtain, given the high number of unreported cases. Reported cases, such as those collected by the IOM and UNODC, have ranged in the hundreds of thousands for the past two decades. A truly global problem, human trafficking also affects individuals from seemingly peaceful regions. Out of the almost 21,000 victims registered in the EU-28 between 2015 and 2016, 44 percent were EU citizens. Despite considerable regional differences in gender and age, women and girls constitute almost three quarters of trafficking victims identified globally. Many victims of trafficking find themselves in one of the various forms of modern slavery, which entrap an estimated 50<sup>26</sup> million people worldwide.

As traffickers continue to exploit victims with impunity in many parts of the world, multilateral actors have reiterated the need to counter these crimes. This has led to a commitment by G20 leaders and a pledge by 193 countries to end human trafficking and modern slavery by 2030 as part of the Sustainable Development Goals.

## 8 DECENT WORK AND ECONOMIC GROWTH

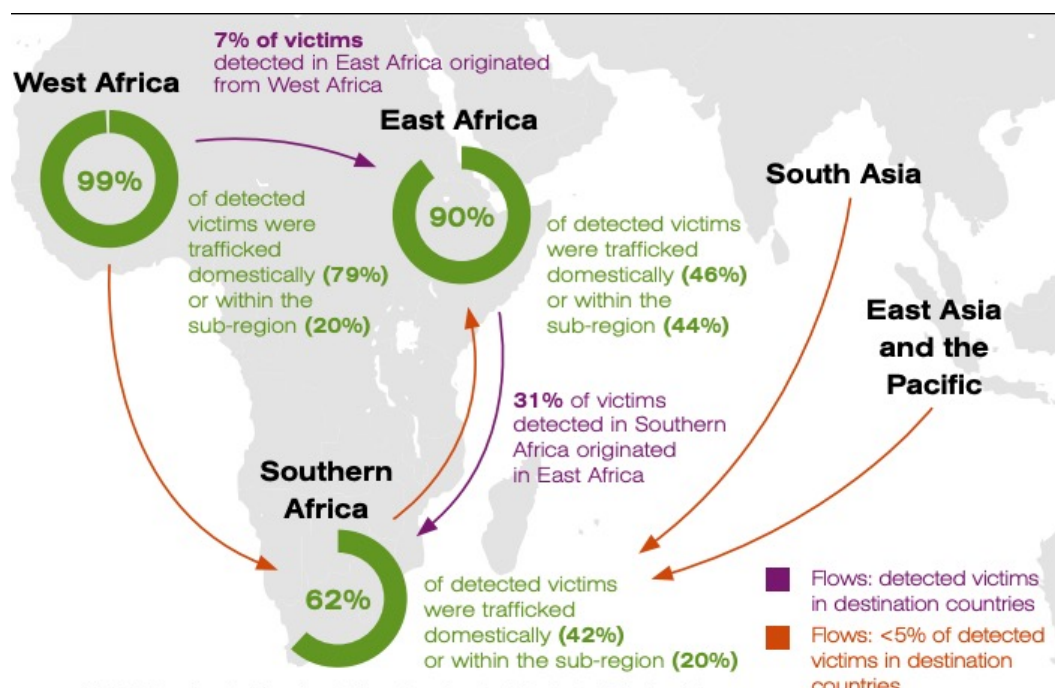


<sup>24</sup> U.S Department of Homeland Security, "Countering Human Trafficking: Year in Review", 2021

<sup>25</sup> United Nations High Commissioner for Refugees, Refugee Data Finder

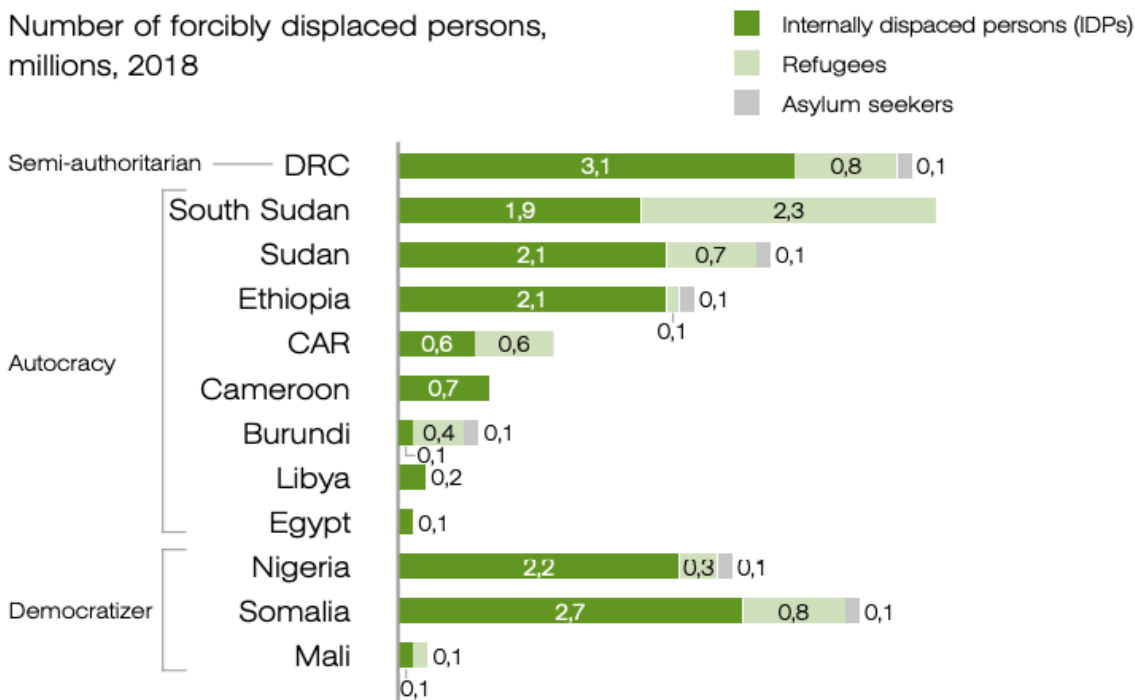
<sup>26</sup> International Labour Organization, Press Release, 12 September, 2022

ORIGINS OF TRAFFICKING VICTIMS DETECTED IN SUB-SAHARAN AFRICA



Source: UNODC, adapted by the Africa Center for Strategic Studies

DISPLACEMENT IN AFRICAN COUNTRIES EXPERIENCING ARMED CONFLICT



Source: Africa Center for Strategic Studies



## Finance: Dirty Laundry

Today, large, and small amounts of money can be transferred within a matter of seconds, boosting both licit and illicit business. As regulations and law enforcement struggle to keep up, illicit financial flows (IFFs) – cross-border flows of money that are transferred, earned, or used in an illegal way – are thriving. The size of even single IFFs is astonishing: In 2018, it was revealed that over less than a decade, one branch of the Danish firm Danske Bank in Estonia had laundered as much as USD 230 billion.

While the exact global extent of IFFs is unknown, the International Monetary Fund (IMF) estimates the annual amount of money laundered in the world to range between 2 and 5 percent of global GDP – in 2018, this was USD 1.7–4.2 trillion<sup>27</sup>. According to the Economic Development in Africa Report 2020<sup>28</sup> by the UN Conference on Trade and Development (UNCTAD), Africa loses about US\$88.6 billion, 3.7 percent of its gross domestic product (GDP), annually in illicit financial flows. Even the lower estimates are on par with current global military spending. Recovering IFFs is often unsuccessful because it is complicated and time consuming: The UN estimates that less than 1 percent of IFFs are actually seized. EUROPOL data supports this assessment. Hence, unlawful businesses are highly profitable compared to typical legal businesses, which paid an average worldwide corporate income tax of 26 percent in 2018. Despite the challenges involved, “following the money” can pay off, as of early 2021, countries have recouped more than \$1.36 billion<sup>29</sup> in unpaid taxes, fines, and penalties as a result of the 2016 Panama Papers investigation into off-shore financing schemes shows.

Some states also use IFFs as an instrument of their foreign and defense policies, blurring the line between state and non-state actors: Lax rules are exploited to stash illicit money abroad, and this is used for operations, to buy influence through political donations and obscure state influence. North Korea, for example, uses IFFs to evade sanctions and fund its nuclear weapons program, a critical threat to international security. Since 2016, cyberattacks have become an important source of revenue for the DPRK, adding to its existing illicit trade activities. Between January 2017 and September 2018 alone, North Korean hackers stole an estimated USD 571 million<sup>30</sup> during five attacks on cryptocurrency exchanges. In August 2019, a confidential report by a United Nations panel of experts on North Korea was leaked to the media. It was reported that North Korean hackers had stolen an estimated USD 2 billion<sup>31</sup> through cyberattacks on banks and cryptocurrency exchanges, with the proceeds used to fund the country’s weapons program.



<sup>27</sup> International Monetary Fund, “Anti Money Laundering and Combating the Financing of Terrorism” 2021

<sup>28</sup> United Nations Conference on Trade and Development, “Tackling Illicit Financial Flows for Sustainable Development in Africa”, 2020

<sup>29</sup> Fitzgibbon, Hudson, International Consortium of Investigative Journalists, “Five years later, Panama Papers still having a big impact”, 2021

<sup>30</sup> Global Cyber Security Company “Hi-Tech Crime Trends”, 2018

<sup>31</sup> Michelle Nichols, “North Korea took \$2 billion in cyberattacks to fund weapons program: U.N. report” Reuters, 2019

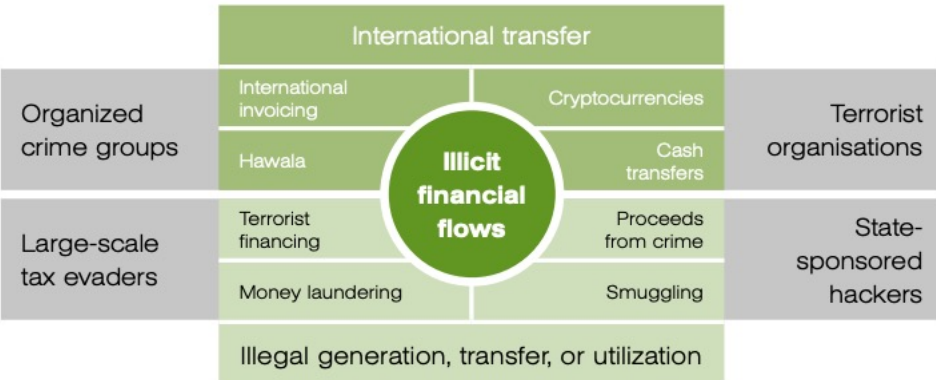
IFFs also undermine development efforts and exacerbate state fragility. For example, according to a 2018 report by the United Nations Conference on Trade and Development (UNCTAD), the African continent lost an estimated average of USD 73 billion<sup>32</sup> annually between 2000 and 2015 due to trade mis invoicing, which is a common practice associated with illicit financial flows (IFFs).

Trade mis invoicing involves deliberately misreporting the value, quantity, or quality of goods or services in international trade transactions in order to move money across borders illegally or to evade taxes and customs duties. This can involve under-invoicing imports or over-invoicing exports, among other methods.

The UNCTAD report found that trade mis invoicing was the largest component of IFFs from Africa, accounting for approximately 67% of the total. The report also noted that the scale of IFFs from Africa was likely underestimated due to data limitations and the difficulty of detecting illicit financial flows.

## ILLICIT FINANCIAL FLOWS AND ACTORS

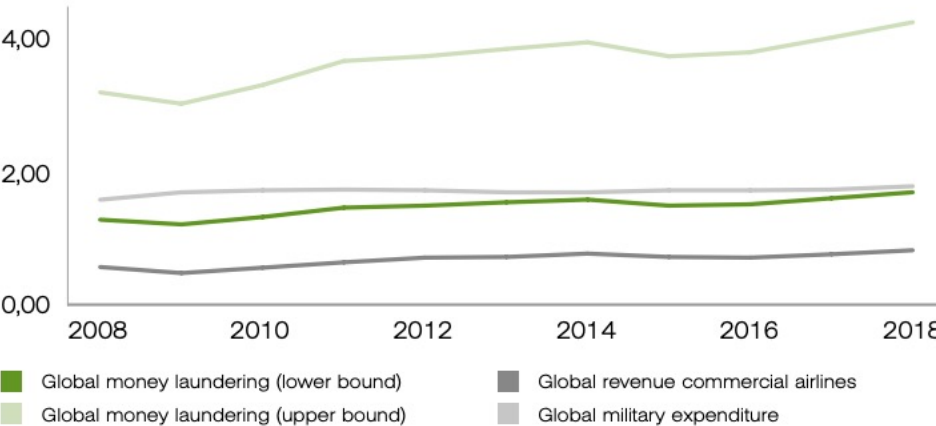
Characteristics of illicit financial flows and important actors



Source: EY, based on Center for Global Development

## VOLUME OF MONEY LAUNDERING GLOBALLY

Comparison of global money laundering estimates and selected revenue and expenditures, 2008–2018, USD trillion



Source: EY, based on IATA, CIAO, IMF and SPIRI

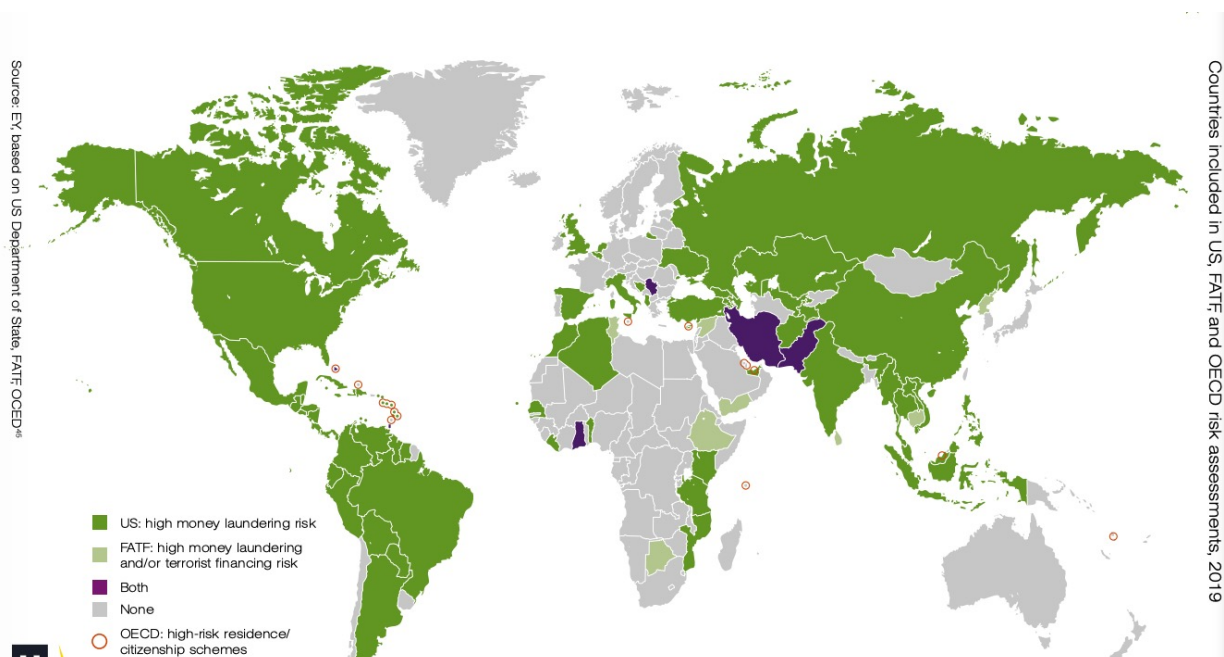
<sup>32</sup> United Nations Conference on Trade and Development, “Trade and Development Report”. 2018

## ILLCIT FINANCIAL FLOWS – HIGH RISK COUNTRIES

	Inflows	Outflows
1	Liberia	Democratic Republic of Congo
2	Panama	Timor-Leste
3	Afghanistan	Zimbabwe
4	Zambia	Sudan
5	Togo	Sierra Leone
6	Antigua and Barbuda	Bhutan
7	Dominica	Lesotho
8	Bahamas	Eritrea
9	Central African Republic	Uzbekistan
10	Benin	Mozambique

Source: EY, based on IMF

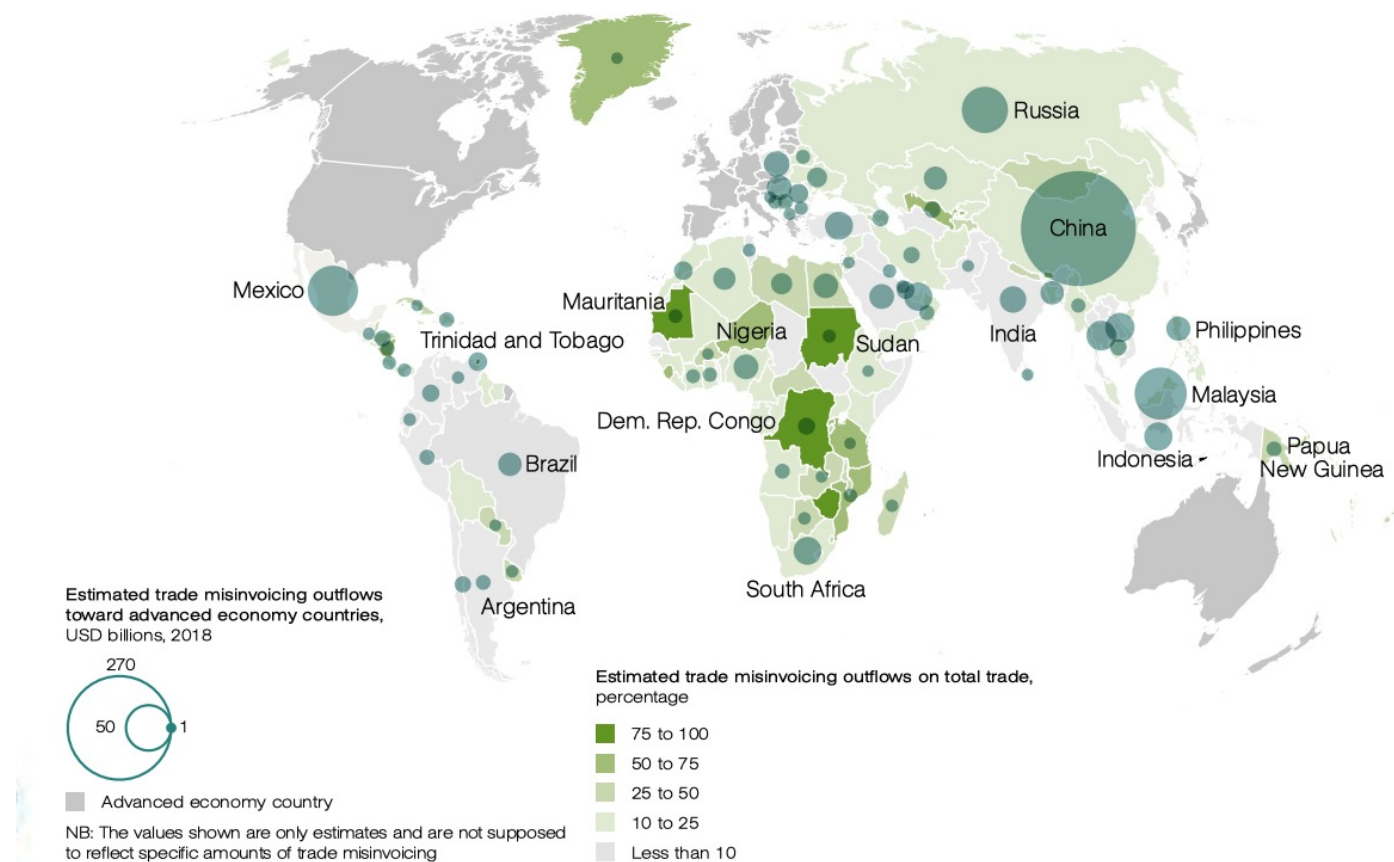
## ILLCIT FINANCIAL FLOWS – HIGH RISK COUNTRIES



Source: EY, based on US Department of State, FATE, OCED

## POTENTIAL CAPITAL FLIGHT THROUGH TRADE MISINVOICING

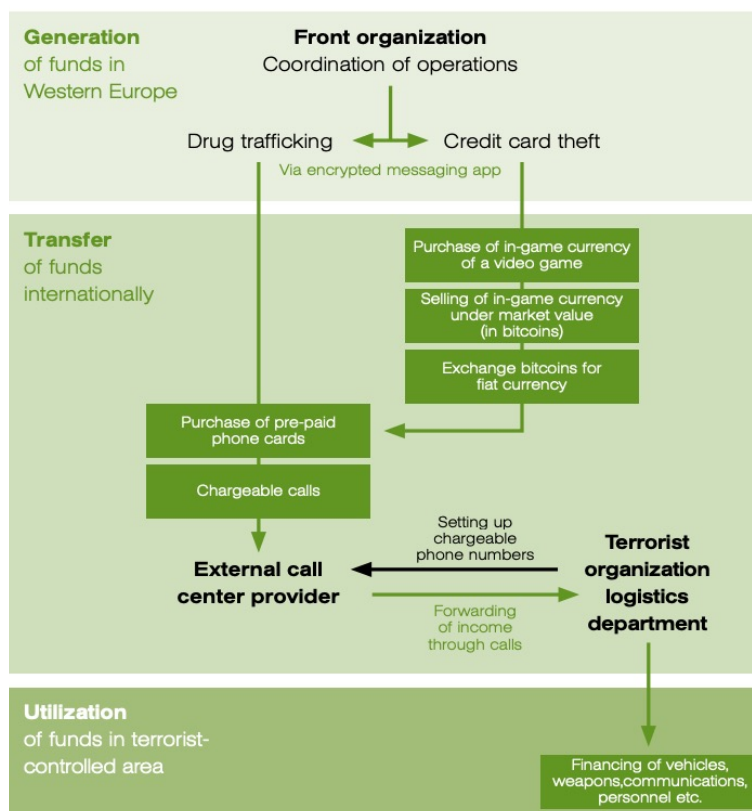
Estimated trade mis invoicing outflows towards advanced economy countries and percentage of total trade, 2018, USD billion



Source: RHIPTO Norweigan Center for Global Analyses, based on IMF data

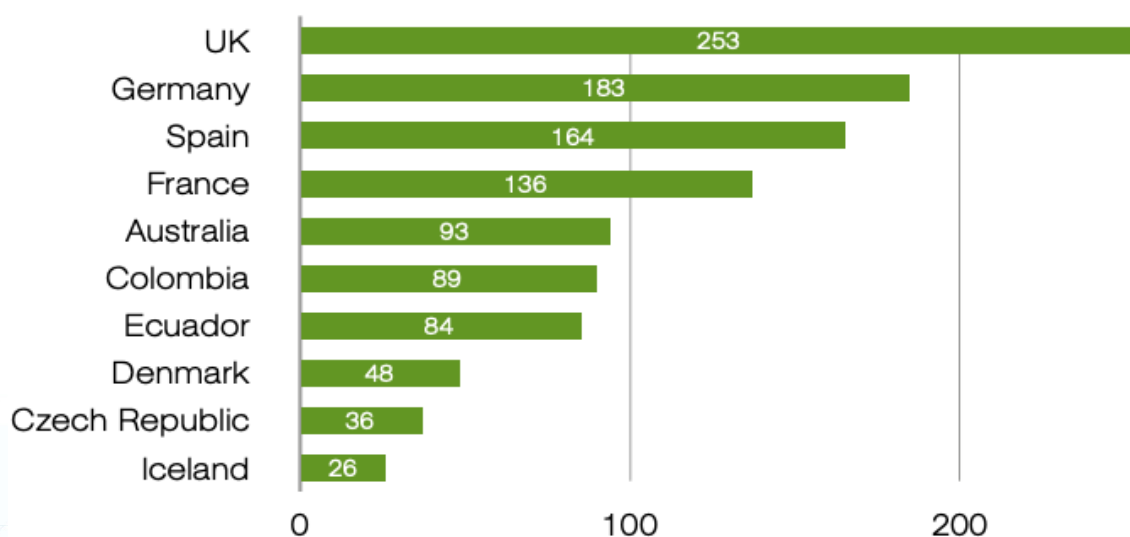


Scheme of an exemplary illicit financial flow to fund a terrorist organization



Source: EY

Amount of money recovered per country, top ten, 2016–2019, USD million



Source: International Consortium of Investigative Journalists



## Illicit Economies and Armed Conflict<sup>33</sup>

### Northern Mozambique

#### Background

According to a 2020 report by the Global Initiative Against Transnational Organized Crime<sup>34</sup>, Mozambique is a transshipment point for heroin and other illicit drugs smuggled along the eastern African coast, with the majority of the drugs coming from Afghanistan and Pakistan. The report also noted that methamphetamine production and trafficking have been on the rise in the region, with Mozambique serving as a transit point for shipments to Asia and other parts of Africa.

The report also highlighted the illegal extraction and exportation of rubies, gold, timber, and wildlife in Cabo Delgado, the northernmost province of Mozambique. The region has significant deposits of rubies, and there have been reports of ruby smuggling and illegal mining operations in the area. The province is also home to vast tracts of forest, which have been targeted by illegal logging operations. Wildlife trafficking is also a significant issue in the region, with elephants and other species being poached and their body parts smuggled to Asia for use in traditional medicine and other products.

Although products and tactics along these routes have shifted over time, the ways illicit markets operate reinforce structural and social inequalities as networks built on corruption at all levels ensure that the wealthy and politically connected benefit most. Most markets are dominated by networks of foreigners and local businessmen, with political corruption providing the protection for operations. There are no estimates of how many local people each illicit market employs. In northern Mozambique, illicit trafficking was previously centralized around a few key commodities – namely, heroin, timber, and ivory – which were controlled by economically powerful traders with high-level support from the local political elite. The diversification of trafficked products has driven the growth of low-level corruption needed to support these networks. The illicit mining trade is dominated by foreigners, while mining is primarily done by Mozambicans and Tanzanians. There are major West African networks in Nampula and South Asian buyers from countries such as Myanmar and Bangladesh. The level of violence linked to illicit markets in this region is low. It is almost nonexistent for drug traffickers or wildlife traffickers. In the early 2010s, there was reported violence between miners in Montepuez competing for access, but there is no reported violence among the traders. Kidnapping between criminal networks or gangs is more common in the south of the country, as is kidnapping for ransom. Assassinations are also a more common phenomenon in the south of the country, although there was the high-profile assassination of the mayor of Nampula, Mahamudo Amurane, in 2017.

<sup>33</sup> Global Initiative Against Transnational Organized Crime, "Anatomy of an Insurgency: Mozambique", 2020.

<sup>34</sup> Global Initiative Against Transnational Organized Crime, "Global Organized Crime Index 2021", 2021



## Illicit Drugs

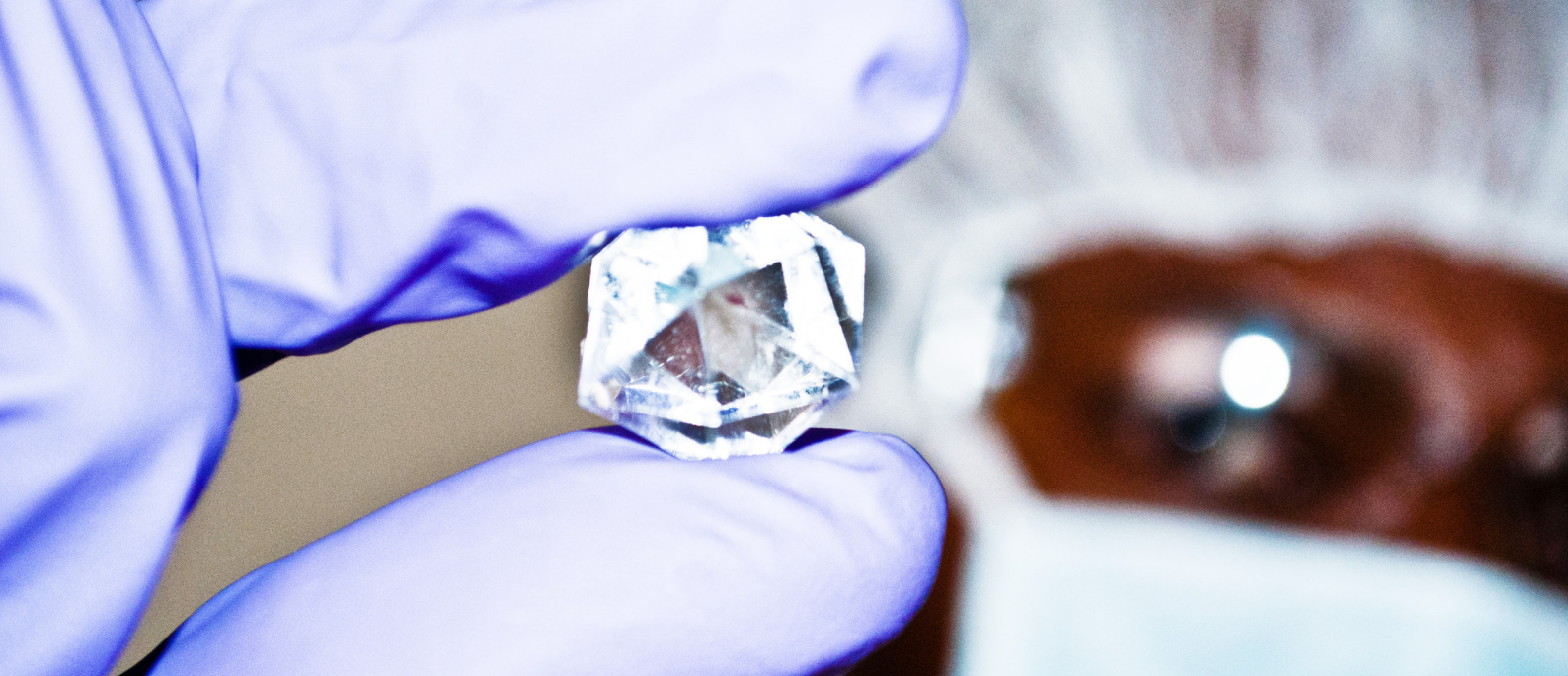
Trafficking in heroin and cocaine was known to occur in Mozambique in the 1990s and early 2000s, with northern Mozambique being the primary transit region. In recent years, heroin has been the dominant product in drug shipments, with methamphetamine and cocaine becoming increasingly common, particularly since the beginning of 2020. There are some reports that Mozambique also has production sites for methamphetamine and methaqualone, but the extent of this operation is unknown. There is also a local market for sale and consumption, which is largely left alone by the authorities.

Drugs move through Cabo Delgado in three main channels: by dhow, by containers on cargo ships, and overland from Tanzania. The best-known channel is the trafficking of heroin and methamphetamine via dhows from the Makran coast of Pakistan and Iran, which can carry up to one ton of heroin and meth. These are broken into smaller shipments, which are offloaded onto smaller fishing boats from meeting points over the horizon to be brought into harbors and beaches. These shipments are primarily directed to markets in Europe and the United States, but an increasing amount is absorbed by local African markets.

The province of Nampula is known for various forms of illicit activity, including money laundering and trade in illicitly sourced minerals, and increased illicit trade in the region could have impacts on the provincial government and elite interests.<sup>40</sup> While former trafficking hotspots – such as Mocímboa da Praia and the surrounding coastline – have now come back under government control, cyclone season has restricted shipments, and it is unclear where drop-offs will take place going forward in December 2021 going forward. Since August 2021, when weather made dhow shipments difficult, traffickers who moved south to avoid the conflict have remained, and heroin and meth shipments by dhow and container are continuing to reach the more southerly ports.







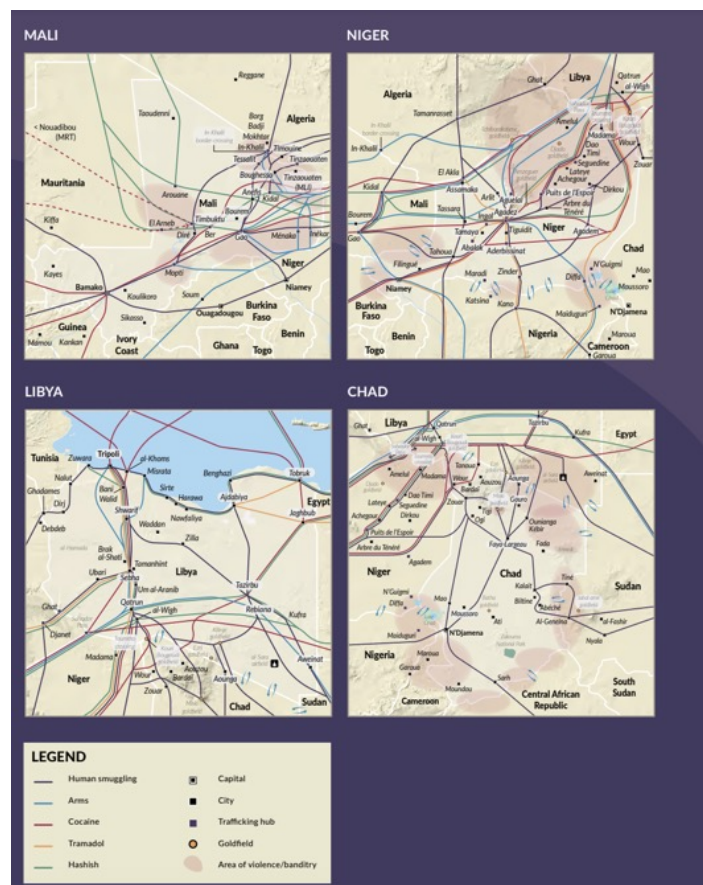
## Illicit flows through northern Mozambique (Feb 2021)



Source: Risk Bulletin of Illicit Economies in Eastern and Southern Africa, March – April 2021

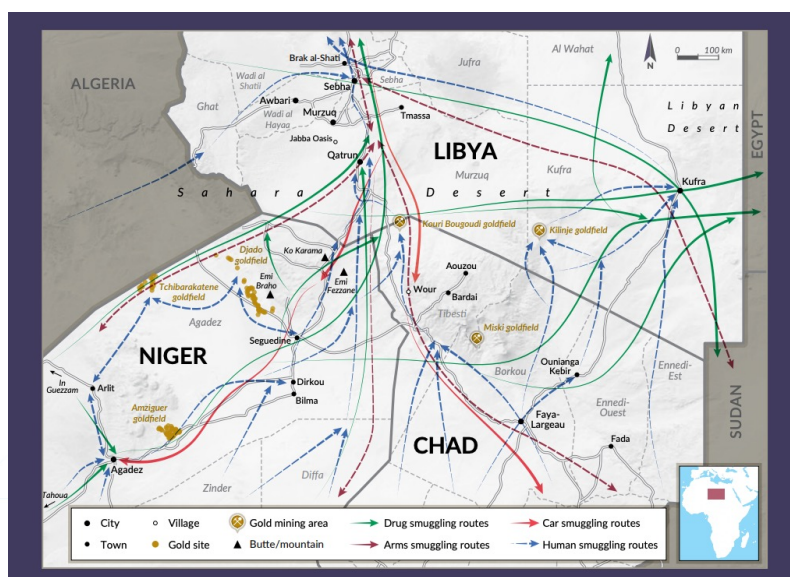


## ILLICIT TRAFFICKING ROUTES 2019



Source: Micallef Bish, "After the storm: Organized crime across the Sahel following upheaval in Libya and Mali", November 2019

## Smuggling flows in Chad Niger Libya triangle 2021



Source: Alexandre Bish, "Soldiers of fortune: The future of Chadian fighters after the Libyan ceasefire", December 2021

## Arms trafficking

As noted in the GI-TOC's Organized Crime Index 2021<sup>35</sup>, currently most arms dealers in Libya are relatively small and play a mediatory role between different actors. However, arms transfer by governments to Libya continue, in breach of a UN embargo, making it a key source country for illegal arms.

In Mali, Libya was an important source of illicit arms and ammunition for armed groups. Arms collected in 2012 are still circulating in the arms trafficking market.

In Chad, a growing number of armed groups along the country's borders has increased demand for arms. The overflow of conflicts from Libya since 2011, the Darfur region of Sudan since 2003, and the Boko Haram insurgency in the Lake Chad region since 2009 have all impacted the demand for arms.

As noted in the GI-TOC's Organized Crime Index 2021, Niger is a major transit corridor for weapons destined for conflict zones in the region. The deterioration of Niger's own security and stability, however, has increasingly made it a destination market for arms. The Islamic State in West Africa poses a substantial threat to Niger's border region with Nigeria, and armed groups operating in Nigeria's Zamfara forests, which border Niger's Maradi region, have become increasingly violent.

## Migrant smuggling

Migrant smuggling through the Sahel and Libya to Europe experienced a boom in the years after the conflict, reaching its peak around 2016. State collapse in Libya greatly amplified the movement of people migrating irregularly through the region, many of them heading for Europe. This became the primary illegal market targeted by Western governments at the time. Intensifying the fight against corruption and money laundering in Africa

## Background

Illicit financial flows (IFFs) cost Africa around \$88.6 billion per year. They have hamstrung progress and created poverty, insecurity, and financial challenges that today impede implementing the 2030 UN Agenda for Sustainable Development and the AU Agenda 2063: The Africa We Want. IFFs have also driven the African continent towards indebtedness. The United Nations Economic Commission for Africa (ECA) estimates that these losses are equivalent to a proportion of three-quarters of the amount required to make progress on Sustainable Development Goal 3 (SDG 3) (Health and Well-being); a quarter of the amount needed for SDG 4 (Education); and a third of the additional amount needed for SDG 9 (Infrastructure).

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<sup>35</sup> European Courts of Auditors, "Economics Governance Report", 2020



## IFFs

Commercial practices related to trade and tax abuse, including tax avoidance and BEPS practices by multinational corporations that are not necessarily illegal; the Mbeki panel to account for 65% of IFFs from Africa.

Criminal practices such as money laundering, trafficking, smuggling, and tax evasion account for 30% of IFFs from Africa.

Corruption involving government officials, including bribery and abuse of public office, is estimated at 5% of IFFs from Africa.

In 2018, during International Anti Corruption Day, the United Nations Secretary General Antonio Guterres estimated that corruption costs the global economy more than \$3.6 trillion annually. Estimates from the African Development Bank have suggested that Africa annually loses about \$148 billion to corruption.

The UNODC suggests that about 3.6% of global GDP, or approximately \$1.6 trillion, is laundered. The IMF has similarly reported that laundered proceeds could be anywhere between 2 and 5 percent of the global GDP.

The 2020 ECA Economic Governance Report identified five key institutions and 9 legal frameworks that can collectively strengthen governance systems and prevent IFFs. These institutions and laws are necessary towards for preventing IFFs. Thus far, only 23 African countries have established the five institutions and only one country has put in place all nine legal frameworks. Until these institutions and laws are put in place by all African countries, there is a likelihood that corruption and money laundering could continue to be a risk and filter through economies. In addition, studies have shown that the role of the global offshore system in driving and enabling corruption and money laundering (tax havens and financial secrecy jurisdictions) is a crucial part of the IFFs ecosystems. These are largely present in major financial centers or controlled by former colonial powers.

## IMPLICATIONS OF IFF ON ZIMBABWE

Illicit Financial Flows (IFFs) are a major challenge to Zimbabwe's development. They have a direct impact on the country's stability and its ability to raise, retain, and mobilize its own resources to finance sustainable economic development. The study finds that Zimbabwe lost over US\$32.179 billion during the period 2000 to 2020. The study relies on normative and legal arguments to justify the effects of illicit financial flows. The problems with IFFs are that they are not only illicit but that their effect spreads far beyond their immediate area of occurrence. Zimbabwe has suffered irreparable damage because of illicit financial flows. IFFs are mainly driven by the desire to hide wealth and evade taxes; perpetrators clearly do not respect the obligations of citizenship. Financial flows are crucial for poor countries and have played an important role in Zimbabwe. Since not all financial flows are good for development, the integration of poor countries into the global financial system poses opportunities as well as risks.



These IFFs were mainly from mining, timber, fisheries, and wildlife. Of the cumulative outflows, 97.88 percent (US\$2.793 billion) were from the mining sector. IFFs in wildlife accounted for 0.53 percent (US\$15.07 million), while fisheries and timber accounted for 0.98 percent (US\$28.04 million), and 0.61 percent (US\$17.30 million) respectively. These estimates are based on the analysis of data sets for partner-country trade from the United Nations Commodity Trade Statistics Data Base (UNCOMTRADE) and the Convention on International Trade in Endangered Species (CITES). The RBZ estimated a loss of US\$3 billion between 2015 and 2017. The RBZ further posited that an estimated US\$684 million was remitted outside Zimbabwe, or externalized under dubious and unwarranted circumstances in 2015. Data from GFI showed that Zimbabwe lost an estimated US\$670 million through trade mis-invoicing in 2015. In 2019, the country lost an estimated US\$3 billion to IFFs. The Chairperson of the Zimbabwe Anticorruption Commission (ZACC) in her presentation during the workshop on the Commission's Strategic Plan for 2019-2024 indicated that: The Financial Intelligence Unit estimated that Zimbabwe lost over US\$3 billion to illicit financial flows through proceeds of crimes involving tax evasion, smuggling, corruption, fraud, drug trafficking, and money laundering. Africa loses at least US\$50 billion a year.

Transparency International Zimbabwe blamed the flows on the absence of a solid plan that synchronized reforms, arguing that Zimbabwe needed a national anti-corruption strategy to coordinate various governance reforms aimed at curbing corruption and IFFs. In 2018, a list of companies and individuals who had moved funds offshore illegally was published by the Reserve Bank of Zimbabwe. The list indicated that the country had lost close to US\$1 billion. The Zimbabwe National Chamber of Commerce argued that companies were driven into illicit actions by the tough business environment.

