



# Piracy in the Horn of Africa

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## Statement of intent

The paper explores the origins, support mechanisms and broader implications of piracy in the Horn of Africa. The cash based character of piracy, combined with its concentration in failed states and poorly regulated countries, render traditional law enforcement frameworks largely ineffective. Effective responses to piracy will increasingly rely on higher levels of international cooperation and an emphasis on the identification and application of sanctions to individuals and support networks.

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## Introduction

With antecedents that reach back to classical times, piracy has sprung up and thrived in various troubled parts of the world for most of the 20th century and survived into the early years of our present century. Because the perpetrators live on the land and rely on its support, piracy is paradoxically a land problem, but with an obvious maritime dimension. Common piracy is usually opportunistic and sporadic, organised piracy is endemic and defined by the range and sophistication of the links that sustain it, the context within which these networks are able to operate and the effects that criminalised activity has on the local political, economic and social landscape. The wider the connections and networks a pirate enterprise has, the more requirements and opportunities there are for corrupt institutions and individuals.

## Somalia

According to the conventional narrative, piracy off Somalia began as a genuine sense of grievance and a localised response to illegal fishing and the dumping of toxic waste in Somali waters. However, the sheer scale of the rewards (in terms of ransoms) that emerged and the relationships required to manage these unexpected windfalls, along with the powerlessness of major nations to deal with the problem at source, attracted and encouraged organised criminals. They established networks that were quickly able to exploit the opportunities presented at the junction of one of the world's busiest shipping lanes and its proximity to one of the world's most anarchic failed states. In particular, the potential profits attracted powerful interests and figures – initially from the semi-autonomous Puntland region of Somalia – together with members of the successive Somali transitional governments and a wide range of investors and speculators from outside the region. Indeed, piracy off Somalia quickly fulfilled the criteria of the UN's Global Action Plan (World Ministerial Conference) of 1994 which defined organised crime as: a group organised to commit crime, with an ability to direct its activities, a commitment to use violence, intimidation or corruption, an ability to launder the proceeds of illicit activities and infiltrate legitimate economies, a facility to operate beyond national orders and a tendency to operate with other organised crime groups.

## Piracy as business

The most startling feature of the current wave of piracy is its financial agility and sophistication, which includes the means by which capital and resources are provided by investors who usually do not live or operate within the region. The result is that piracy in the modern world – especially that in the Horn of Africa - has become big business, characterised and facilitated by an irregular version of venture capitalism and illicit methods of international exchange.

Most significantly, the delivery of cash ransoms leave very little trace on systems that are designed to track and disrupt conventional organised crime financing or present the opportunity to implement

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normal anti-money laundering measures. This resistance to conventional surveillance methods and interdiction measures is ensured by two main features, notably the way in which ransoms are constituted – in cash that is strictly denominated – and the opaque paths through which the cash passes, both into the local East African regional economy and into the international financial system.

### Cash

The first key to the pirates' success has been their insistence on the use of cash for settling ransom demands. These normally comprise used Euros and US dollar bills – normally \$50 or \$100 notes – which sometimes have to match precise amounts within the consignments, such as \$208,000 exactly denominated in \$100 notes. For some obscure reason, there also seems to be an aversion to notes that were printed before 2001. To authenticate the banknotes and ensure that they do not have distinctive identification features, pirates use currency-counting and scanning machines procured from businesses and clan connections in Kenya, South Asia and the UAE.

As a result, significant amounts of cash remain in routine circulation in Somalia and the local region. In addition to pay-offs to local clan and religious leaders in Somalia, there is a general understanding that, in return for a compliant, cooperative attitude by the local population, a reasonable proportion of the wealth gained is allowed to trickle down to the local population, who often provide food, shelter and other logistic functions, including caring for captured sailors. As an example of the scale of this form of quantitative easing of the local economy, the recent release of a Spanish fishing vessel, the *Alakrana*, resulted in approximately € 2.7 million out of the € 7m paid in ransom remaining in the local economy. One area that has been transformed is that of female companionship which has been characterised by galloping inflation. Large sums are spent on dowries for prospective brides, typically around \$50,000 for an eligible female of the marrying kind and up to \$2500 for a sex companion. Not surprisingly this aspect has caused some discontent among the locals. There is also good evidence, especially in the patterns of real estate investment and other asset appreciation, to suggest that a great deal of cash flows into Nairobi and Mombasa in Kenya, where many clan chiefs and pirate leaders are based.

This quasi-feudal arrangement builds and relies on the traditional relationships and loyalties that have existed in Somalia for generations. Owing to their access to significant amounts of cash, the pirate leaders dominate all aspects of local society, trading and security, allowing access to specialist assistance that includes medical, technical and communications support. The way that this micro-economy operates is indicated by the proportions of the profits afforded to various groups and individuals: the initial investor would normally expect to receive about 25%; 50% is attributed to operational expenses (which would include paying off local clan chiefs and militias and reinvesting in weapons and equipment) and the rest goes in pay, with the leader of an attack receiving up to \$20,000 (the average Somali family subsistence level is \$500 a year). Carefully scaled amounts are disbursed to individuals involved, depending on their role – calculations found onboard captured ships minutely itemised the days and roles individual pirates had contributed and their daily rates in a form of time sheet.

The body of a Somali pirate who drowned after receiving a huge ransom was washed ashore recently with \$153,000 (£100,000) in cash, which is thought to have included potential payments to various individuals, investors and traders ashore. This possibly indicates the existence of a primitive joint-stock enterprise (common in 16th century European privateering expeditions) among the locals. As a result, some families who previously struggled to maintain subsistence by farming have moved into higher grade occupations that trade in vital commodities and foodstuffs.

### Islamist connections

There has been considerable speculation that money derived from piracy has funded Islamist militants both in Somalia and abroad. However this has not been formally acknowledged because shipping companies would be breaking national laws and international conventions on funding

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terrorism by paying ransoms. Given the anarchic state of Somalia itself, the local rules of the game would suggest strongly that a large proportion of the cash is extorted by the Shabab militia and the Islamic Courts in exchange for political influence and 'protection'. It seems that the Shabab militia had previously declared that taxable earnings in Somalia violate Islamic law by propping up a government that it considered un-Islamic; however, piracy was exempt, simply because it was not 'taxed', as such.

### Weapons and equipment

In terms of equipment, Somalia's pirates initially equipped themselves with AK-47s and rocket-propelled grenades, procured mostly from local sources and previous conflicts, but also from as far afield as Yemen and Pakistan. Local and foreign-based Somali investors supplied them with food, fuel and armaments. With further investment and ransom cash, a more sophisticated approach has developed which has included satellite phones and electronic detection devices, primarily to indicate the presence of coalition naval and air forces. Indeed, it seems that 20 - 30% of all proceeds are re-invested in replacement weapons and more advanced systems, including GPS locators and communications jammers. Some pirate vessels have incorporated special absorbent paint that reduces detections by both warship and aircraft radars. It remains to be seen whether an increasing level of violence or naval intervention escalate to the point where pirates feel the need to invest in more sophisticated and lethal weapons such as man portable anti-air missiles or more powerful anti-armour options. Currently, indications are that the pirates are seeking, in their own interests, to contain the level of violence, with continued reliance on RPG-7s, AK-47s, semi-automatic pistols and grenades, although sniper rifles and night vision equipment have been photographed by journalists.

### International networks

The second feature of Somali piracy that gives resilience is the diverse network that supports and exploits its operation. Organised crime has traditionally thrived in ethnic diasporas through which influence has extended to and from various countries of origin. Modern piracy has therefore thrived in a globalised world, most notably when linked to corruption and weak governance. Many of the features of piracy in the Horn of Africa were presaged by Chinese ethnic connections associated with piracy in Indonesian waters some years ago and are apparent in ongoing activity off Nigeria. Much of the funding and broader business support is provided by the extensive Somali diaspora, which has substantial communities in Europe (predominantly the UK), the US, Canada and, significantly, the UAE. In fact, Somali trading, leisure and Internet businesses predominate in the Deira area of Dubai, while three Somali airlines are based in the city.

Despite vehement denials by the Dubai authorities that the city's institutions are involved in laundering pirate cash, especially in the wake of 9/11, considerable circumstantial evidence suggests that syndicates operating through Dubai and other Gulf states have been laundering and dispersing cash from ransoms. These payments are thought to have totalled as much as \$80m (£56m) over the past year alone and the sheer volume of hard currency enables the syndicates to access increasingly diverse means of moving money, with cash handled and laundered by figures within a network that involves players in Somalia, the Gulf, Europe, the US and Canada as well as others on the Indian sub-continent. In this regard, the nexus provided by the UAE is highly significant, especially through the use of the hawala system of money transfer and other forms of clan transactional systems and syndicate-based instruments to evade compliance and scrutiny. Hawala is described by the OECD's Financial Action Task Force (FATF) as a "financial service that accepts cash, cheques and other monetary instruments or other stores of value in one location and pays a corresponding sum in cash or other form to a beneficiary in another location by means of a communication, message or transfer or through a clearing network to which money/value transfer system belongs". It is, of course, ideal for transferring large sums of money worldwide with little or no documentation and for shielding the activities of intermediaries in financial centres.

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The existence of extensive support structures also adds a further measure of sophistication. Pirate networks are exploiting information available to the shipping industry to plan attacks, while front organisations have subscribed to the Lloyd's List ship movement database and sources such as Jane's Intelligence, to ascertain the position and intended movements and protective measures being undertaken by ships. Radio traffic is regularly monitored in several countries, with real-time information exchange via the Internet and satellite communications. The pattern of recent operations suggests that some investors or controlling groups are 'sponsoring' attacks on specific ships to order. There is also strong evidence to suggest that members of the federal and regional authorities in Somalia are also receiving kick-backs to facilitate and protect the practice of piracy. Interestingly, the hijacking of the *Sirius Star*, over 450 miles out to sea, was planned by former members of the Somali Coastguard.

## What can be done?

While international law and complex hostage situations thwart the world's navies in their attempts to suppress illicit activity and to intercept pirates off Somalia, piracy continues to flourish because the benefits outweigh the risks, not just for the perpetrators at sea, but also for all those profiting from the enterprise behind the scenes. Unfortunately, perceptions of effective action have, until now, been shaped and assessed on the extent to which international action has disrupted the flows of money. What has made this difficult is the fact that a great deal of illicit cash remains in current circulation and is not passed through enough banks and financial instruments in forms and through transactions that can be easily identified. The ready accessibility of poorly regulated, offshore financial institutions and corrupt individuals has added to the problems. In these circumstances, it seems odd that so much reliance has been placed on tracking the cash particularly as no effective, concerted international plan to track and obstruct the money flows seems to be in place.

Lessons from counter-espionage, counter-narcotics and intelligence operations suggest that the best option would be to identify those individuals engaged in the process, painstakingly map the networks of individuals who provide the sophisticated support lines along which much of this cash passes and target those individuals at points where they connect with legitimate institutions. These individuals need to be exposed to pressure and sanction at every point. Most importantly, together with international cooperation and greater information exchange, a determined effort is required to penetrate and disrupt the discrete and largely opaque clan and family connections and wider networks within the Somali diaspora and its links to organised crime in South Asia and the UAE. Even if it ultimately proves difficult to prosecute these individuals because of the complexities of international jurisdiction, political indifference and because the crimes were committed in international waters, the business costs and penalties of engaging in any aspect of the pirate trade need to be increased beyond the point where it is deemed to be worth the effort and exposure.

## Closing thoughts

It is also important that the world does not become complacent about piracy or believe that it is an isolated phenomenon harking back to a former age or occurring in undeveloped areas. It will flourish wherever there are gaps in international and national governance and security, where there is access to weapons and manpower, and in circumstances where states and institutions fail to put in place sufficient safeguards, compliance regimes and personal scrutiny mechanisms to ensure that crime is not seen to pay.



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