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Executive Summary

THE PIRATES *of* SOMALIA:

Ending the Threat, Rebuilding a Nation



The World Bank
Regional Vice-Presidency for Africa

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To read the full report please visit:
<http://www.worldbank.org/africa/piratesofsomalia>.

FOREWORD

Until recently, piracy off the Horn of Africa seemed to be prospering, unfettered by the efforts of the international community. Somalia, a country in chaos after years of civil war, was unable to slow the growth of this criminal industry.

Recent events suggest that 2013 may be a year of opportunity. The number of piracy incidents has been falling since 2012, thanks in part to mobilization of international naval forces and the adoption by the shipping industry of best practices to fend off pirate attacks. Meanwhile, Somalia has a new administration. Along with the daunting tasks it faces of rebuilding the state and putting the country back onto the track of prosperity and growth come tremendous opportunities.

This report, “The Pirates of Somalia: Ending the Threat, Rebuilding a Nation,” shows that it is in the international community’s common interest to find a resolution to Somali piracy, and more generally to help the government of Somalia to rebuild the country. Its findings reinforce the case for action. The costs imposed by Somali pirates on the global economy are so high that international mobilization to eradicate piracy off the Horn of Africa not only has global security benefits, it also makes ample economic sense.

However, Somalia cannot buy its way out of piracy; nor can the international community rely solely on its law enforcement agencies to defeat pirates, whether at sea or on land. As the report shows, the solution to Somali piracy is first and foremost political. Pirates rely on onshore support to conduct negotiations and to secure safe access to coastal territories. In turn, politically powerful figures capture large portions of the profits associated with piracy. Any solution therefore will involve forging a political contract with local stakeholders—a shift in attention, in other words, from the perpetrators to the enablers of piracy.

This report affirms that, beyond its firepower and financial resources, the international community can and should assist Somalia with *generating knowledge*—knowledge of how local power dynamics shape the rules for resource-sharing, how they drive clan and sub-clan relationships, and ultimately how they determine national political stability—to find solutions to the piracy problem. The report exemplifies the value of using rigorous analytical tools to address some of the pressing problems of Africa.

Collectively we have learned from our successes and failures, such as the opium poppy eradication programs in Afghanistan, the oil revenue distribution arrangements in the Niger delta, and the coastal resource management policies in the Philippines. Collectively, we can help the government of the Federal Republic of Somalia to build institutions that crowd in rather than crowd out positive change.

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MAP OF SOMALIA

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EXECUTIVE SUMMARY

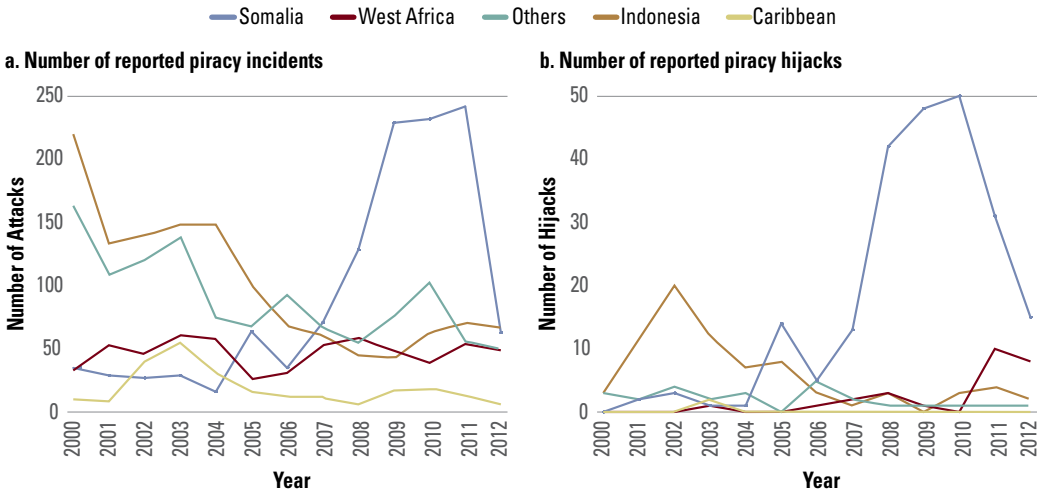
Context

Somali piracy attacks surged between 2005 and 2011. Although maritime piracy is as old as seaborne trade, and currently pirates also prey on ships in the Straits of Malacca and the waters of Southeast Asia, the Caribbean seas, and the Gulf of Guinea, what is unique about Somali pirates is the high frequency of attacks. Figure 1.a plots the number of reported incidents since 2000 in various regions. Piracy incidents off the coast of Somalia rose dramatically after 2005 and reached a high of 243 in 2011 but then plunged in 2012 to 63 reported attacks and 15 hijackings as of September.

Somali pirates almost exclusively attack vessels to hold cargos and crews hostage and negotiate their release in exchange for ransom. Figure 1.b shows the patterns of hijackings globally since 2005, further illuminating how Somali piracy is unique. Since the first known Somali hijacking in April 2005, 149 ships have reportedly been ransomed for an estimated total of US\$315–US\$385 million. Finally, the large number of Somali incidents is matched by the remarkably wide catchment area, deep into the high seas well beyond Somalia's territorial waters (see Figure 2).

The international community has mobilized to combat the surge of piracy off the Horn of Africa. Over 40 countries are involved in military counter-piracy operations, in a national capacity or through three coalitions: the European Union Naval Force Somalia through Operation Atalanta, the Standing Naval Group of the North Atlantic Treaty Organization (NATO) through Operation Ocean Shield, and Combined Task Force 151. Since 2008, the United Nations (UN) Security Council has adopted 13 resolutions to support counter-piracy action off the Horn of Africa. Beyond the UN, the European Union (EU), the African Union (AU), the

FIGURE 1: PIRACY IN NUMBERS



Sources: IMB 2012; UNODC-WB 2012.

League of Arab States, and NATO have all moved to fight piracy off the Horn. The UN Monitoring Group on Somalia was established by a UN Security Council resolution in 2003 to document violations of the arms embargo; its mandate has since expanded to monitoring piracy. The Contact Group on Piracy off the Coast of Somalia was established in 2009, pursuant to UN resolution 1851, to facilitate coordination of the 60 countries and 20 international organizations working to prevent piracy. Several other institutional, national, and regional initiatives, such as the Djibouti Code of Conduct, the Regional Anti-Piracy Prosecutions Intelligence Co-ordination Centre, and the Indian Ocean Commission Anti-Piracy partnership program, complement the international mobilization.

Why another report on Somali piracy, and how can it inform the debate? While the recent drop in pirate attacks has been attributed to counter-piracy policies, whether they will continue to be suppressed is a major question. This study therefore conducted two types of analysis to inform the policy dialogue and shape, or reshape, the debate on prospects for long-term eradication of piracy off the Horn of Africa:

1. It assessed the global human and economic costs and security risks of piracy, thereby quantifying the global benefits of a piracy-free Somalia.
2. It analyzed the piracy business model and the factors that allow it to thrive.

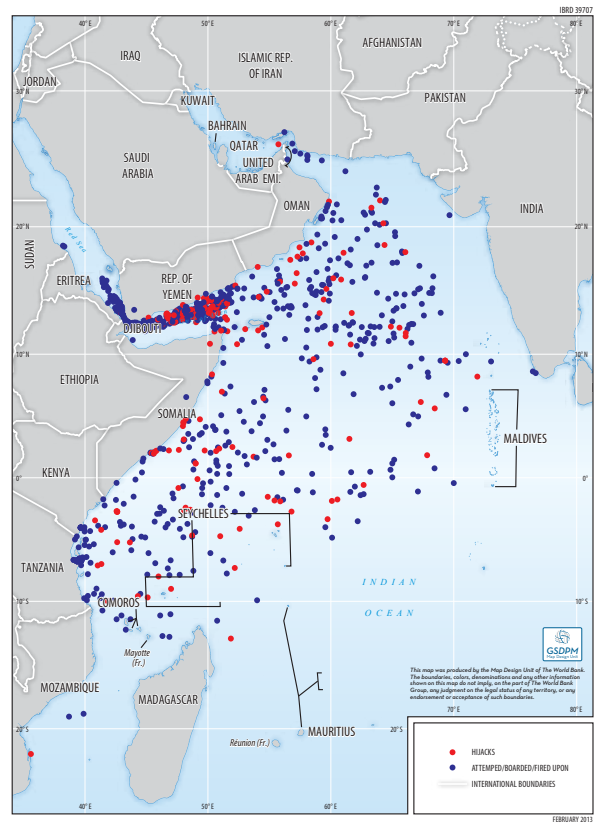
Taken together, the findings constitute the knowledge base for design of policy responses.

Human, Economic, and Global Security Costs

The scale, geographic scope, and violence of Somali piracy operations have created public concern throughout the world. As many as 3,741 crewmembers of 125 different nationalities have fallen prey to these pirates, with detention periods as long as 1,178 days. Reportedly, 82 to 97 seafarers have died either during the attacks, in detention after poor treatment, or during rescue operations.

Beyond the human tragedy, although certainly in part because of it, Somali piracy has imposed significant global costs, particularly on nearby economies. Increased insurance premiums, expenditures for on-board security measures, and rerouting or cancellation of shipments are among the many channels through which pirates have affected the world economy. To evaluate the global cost, this report analyzes changes in world trade patterns that coincided with and might be explained by the onset of Somali piracy. Compared to pairs of countries that trade through other sea routes, all other things being equal trading partners for which the shortest shipping route goes through the Arabian Sea saw a drop of 7.4 percent in the value of their yearly trade—the same effect as would result from imposing an additional 1.1 percent ad valorem tax on all shipments through

FIGURE 2: REPORTED SOMALI PIRACY INCIDENTS (2000–2012)



Sources: IMB 2012; UNODC–WB 2012.

the zone where Somali pirates operate (see Figure 2). Considering Somali piracy as an increased cost of trade translates into an estimated US\$18 billion yearly loss to the world economy—an amount that dwarfs the estimated US\$53 million average annual ransom payment since 2005.

Piracy has not only imposed a hidden tax on world trade generally, it has severely affected the economic activities of neighboring countries. Since 2006 East African countries have seen a marked decline in tourist arrivals and fishing yields. In the booming tourism sector, spending in East Africa since the surge in pirate activities has grown 25 percent more slowly than in other sub-Saharan African countries. The growth slowdown is mostly attributable to fewer visits from citizens of member countries of the Organization for Economic Cooperation and Development (OECD), who are now 8.6 percent less likely to choose East African countries as vacation destinations. Similarly, exports of fish products from piracy-affected countries compared to other regions have dropped by 23.8 percent since 2006, in part due to falling production. Total catches of tuna in the Western Indian Ocean have declined by 26.8 percent as vessels relocated to safer fishing grounds.

The actual and potential links between pirates and Islamist insurgents are another source of global concern. This report evaluates the nexus between pirates and terrorist organizations. While Somali piracy seems unlikely to morph into a politically motivated criminal organization, the analysis does not rule out the possibility of individual initiatives in that direction. Nonetheless, the potential scope and actual extent of mutually beneficial cooperation between pirates and some members of the Islamist insurgent group al-Shabaab is significant; because it might contribute to instability in Somalia, the possibility of enhanced cooperation between pirates and al-Shabaab is a threat to global security.

The Business Model of Somali Piracy

The Somali pirate business model relies heavily on onshore support infrastructure to conduct ransom negotiations. Generically a pirate operation consists of armed offshore operations with onshore support that provides shelter for returning pirates and access to markets for stolen goods and for the goods, services, and manpower needed for pirate attacks. Because Somali piracy is largely a hijack-for-ransom enterprise, its onshore operations also require reliable sources of food, water, energy, and especially *khat*—a leafy narcotic—for the militiamen in charge of guarding hijacked ships

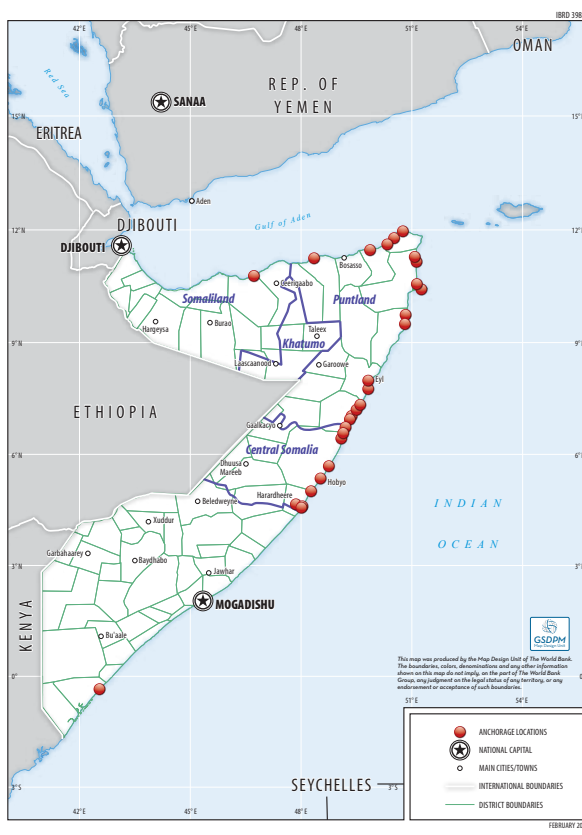
throughout the ransom negotiation process. Somali pirates therefore need, explicitly or implicitly, to be granted access to the coast and obtain protection against both national and international law enforcement and competing criminal groups.

The spatial distribution of anchorage locations of hijacked vessels along the Somali shoreline (see Figure 3) reflects the ability of pirates to win support from, among many others, government officials, businessmen, clan elders and members, militia and religious leaders, and members of local communities. In these places, pirates have been able to use a mixture of financial inducements and physical coercion to obtain access to the coast for extended periods of time.

Financial inducements may take the form of an “anchorage” or “development” fee, such as the Islamist insurgent group al-Shabaab charges for use of territory under its control in Central Somalia, or of a bribe paid to a government official in Puntland for not interfering in piracy business. More indirectly, suppliers of food and khat, militiamen, and providers who can move and launder ransom proceeds can charge pirates significant markups on their goods and services. Finally, politically powerful local figures capture large portions of the profits through direct involvement in piracy. It is estimated that commanders and instigators in the Somali piracy business split 70 to 86 percent of piracy proceeds with these stakeholders, without the support of whom anchorage of hijacked boats would not be feasible.

Understanding Somali piracy requires acknowledging that the distribution of power among

FIGURE 3: ANCHORAGE LOCATIONS OF HIJACKED SHIPS



Sources: IMB 2012; UNODC–WB 2012.

stakeholders is rooted in a long and rich history centered on the clan. Clan and subclan affiliation is a major organizing factor in Somali society. Political power was traditionally vested in clan leaders, yet throughout Somalia's modern history internal and external forces have conspired to challenge their authority. Formal entities, from colonial rulers to the successive national governments and regional administrations, have concentrated power at the expense of local governance institutions; and powerful businessmen, pirates, warlords, and insurgent groups compete with traditional leaders for effective political control. At stake is the distribution of resources—such as the proceeds from piracy. Recognizing the geographical heterogeneity and time variability of these interactions and the central role of clan and subclan affiliations is a prerequisite to explaining why a hijacked ship is anchored in a given place at a given time; it is therefore integral to the design of policies to durably eradicate piracy.

Reshaping the Policy Dialogue

The dramatic discrepancy between the revenues pirates enjoy and piracy's global cost offers a powerful rationale for the international community to support the administration of the Federal Republic of Somalia.

Current and proposed onshore or offshore policies for curbing Somali piracy are either ineffective or unsustainable. Such onshore interventions as local economic development or law enforcement initiatives aim at discouraging young Somalis from becoming pirates. They do so by increasing the cost of foregoing alternative livelihoods or by promising lengthy prison terms in case of capture. However, the response of the piracy industry will likely be to offer higher compensation so as to neutralize the intended deterrence. This can easily be done without significantly affecting profitability, given how pervasive poverty is in the communities recruits are typically drawn from. And while offshore initiatives such as navy patrols and onboard security are believed to explain why piracy plunged in 2011 and 2012 (see Figure 1), these are only effective as long as they remain in place: they would have to be permanent to prevent any resurgence of piracy. Because of their high cost, in the long run they may simply be unsustainable.

Given the business model of Somali piracy, effective and sustainable interventions over the long term will require shifting focus from the perpetrators to the enablers of piracy. Negotiating an end to piracy with the latter requires that they have a legitimate representative to defend their

interests and that they be held accountable to the government and its partners for progress in eradicating piracy. Such representation of a diffuse group of individuals and communities whose interactions with one another go well beyond the realm of piracy implies that *the long-term solution to piracy off the Horn of Africa cannot be dissociated from construction of a Somali state that is viable at both central and local levels*. This report does not advocate a particular structure of federalism or decentralization; it simply opens up the topic for discussion on the basis of new evidence.

As it engages with the government of the Federal Republic of Somalia, the international community should acknowledge the complexity and volatility of local politics. Piracy can thrive in selected safe havens along Somalia's coastline because pirates are able to navigate the local political economy landscape, selectively using financial inducements and physical coercion to create an environment in which to operate that is safe and secure. Similarly, the Somali government and its partners will need to understand the idiosyncratic realities of Somalia's local politics so that they can be addressed with an appropriate mix of development assistance and law enforcement initiatives; these are necessary to change the incentives of stakeholders from condoning to condemning piracy. Recognizing what is needed to overcome local political economy constraints is a prerequisite not only to ending the threat of piracy, but also—and much more fundamentally—to rebuilding the Somali state.

ABSTRACTS

Chapter 1

The report assesses the global and regional impact of piracy off the coast of Somalia. It then analyzes the pirate business model to help shape the policy debate on long-term strategies to end it.

Chapter 2

Piracy off the coast of Somalia has severely disrupted the trade of goods transiting through the Arabian Sea. Analysis of bilateral trade flows estimates the average global cost annually to be US\$18 billion (+/- US\$6 billion) a year.

Chapter 3

Piracy has not only had a high cost in terms of the trade in goods, it has also slowed the growth of tourism in the region. Coastal and island countries of East Africa have seen arrivals of tourists from OECD countries plunge and tourism revenues dry up.

Chapter 4

The first vessel reportedly hijacked was a fisherman's dhow. Since then there has been a regional decline in both exports of fish-related products and catches of fish, such as tuna. However, evidence of overfishing and stock depletion is inconclusive.

Chapter 5

So far, interaction between pirates and the al-Shabaab insurgency has ranged from conflict to coordination. Rather than being systemic, cooperation has mainly been between individuals and small groups, through

subclan ties. Although there is scope for closer cooperation, the prospect of maritime terrorism is unlikely.

Chapter 6

Pirates of Somalia have reportedly launched more than a thousand operations since 2005, hijacking 149 vessels and 3,741 crewmembers. Hijacked ships have been anchored in 27 locations. Total ransoms collected are estimated at US\$315 million to US\$385 million.

Chapter 7

The piracy business model hinges on the ability to securely anchor hijacked ships along Somalia's coastline during negotiations for the release of cargo and crew. The heart of a pirate operation is therefore on land rather than at sea.

Chapter 8

The availability of secure anchorages for hijacked boats depends on the pirates being able to induce or coerce local stakeholders into condoning their activities. In any given location, local power dynamics are instrumental in explaining the emergence of piracy.

Chapter 9

Today's counter-piracy policies consist mainly of law enforcement measures. Initiatives to deter potential recruits have been ineffective. While perhaps responsible for the recent drop in reported incidents, the deployment of naval forces and systematic provision of armed guards onboard vessels are not sustainable as a resolution of the piracy threat.

Chapter 10

A paradigm shift is proposed: integrating law enforcement and development assistance policies into a political contract with local stakeholders. That requires formalization of local political representation—a prerequisite for which is a comprehensive understanding of local power dynamics in Somalia.



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