

Helpdesk Research Report: Organised Crime and Development

Date: 30/05/08

Query: Please identify recent literature on the impact of organised crime on development and governance -- including, if available, any information on global trends in organised crime and the economic impact of organised crime.

Enquirer: Financial Accountability and Anti-Corruption Team (FACT) - DFID

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1. Overview

While the definition of organised crime varies across disciplines, it is most commonly described by criminologists as “criminal activities for material benefit by groups that engage in extreme violence, corruption of public officials, including law enforcement and judicial officers, penetration of the legitimate economy (e.g. through racketeering and money-laundering) and interference in the political process” (from Dijk, 2007, ‘Mafia Markers’, p. 40 – see ‘Key Documents’ section below). The term ‘organised crime’ can thus be considered to encompass activities such as drug trafficking, trafficking in persons, trade in weapons, money laundering and the smuggling of endangered species.

Given the nature of organised crime, it is difficult to monitor and accurately measure its prevalence and economic impact. Some of the literature notes that while levels of organised crime have increased in some regions/countries and decreased in others, its global scale remains roughly the same. However, some experts claim that organised crime is on the increase at the global level, in line with financial globalisation, corruption, and the expansion of the shadow economy. Organised crime usually involves the complicity or direct involvement of the public sector; and organised criminal groups gain power and resources from the shadow economy, while also investing in it.

Some experts suggest that organised crime can prove beneficial to economic growth, even if the gains are routed through the shadow economy. Others adopt a more nuanced approach - arguing that while small levels of organised crime can contribute to economic growth, high levels can hinder development and weaken the economy. This is so for a number of reasons: a high prevalence of organised crime can result in widespread public sector corruption (among the police, judiciary and enforcement agencies) which weakens the functioning of the state and its ability to provide public services. It can also directly impact the economy by drawing resources away from productive activities and investment. One of the key activities of organised criminal groups is providing protection for goods and services. The need for protection becomes more pronounced in contexts where the rule of law is weak and contracts unenforceable; or in situations of illicit trading. Organised criminal groups charge businesses high prices for these protection services which in turn, raises operating costs for businesses and lowers their productive investment.

It is important to note that while organised crime can contribute to poor governance and hamper development, it is also poor governance, and especially, weak rule of law and state illegality, that allows organised crime to flourish. These issues are mutually reinforcing. As such, organised crime needs to be addressed by approaches that focus not only on criminalisation, but also on the strengthening of governance and promotion of development.

2. Key Documents

Global Trends

- Dijk, J. V., 2007, 'Chapter 8: Assessing Organised Crime' in *The World of Crime: Breaking the Silence on Problems of Security, Justice and Development Across the World*, Pine Forge Press, Sage, California

This book, 'The World of Crime' provides statistical information on various forms of crime, filling a large gap in the literature. Of relevance to this query is Chapter 8, which focuses on organised crime. It identifies instrumental violence and the corruption of public officials as the two defining characteristics of organised crime. The author discusses the difficulties in measuring levels of organised crime and the dearth of quantitative and comparative materials on organised crime groups and illicit markets. It outlines the empirical information that is available, in the form of business victimisation surveys and perception indexes. Based on this information, it notes that the perceived level of organised crime over 1997-2005 has not changed much at a world regions level; and that there is a downward trend in the Caribbean (Dominican Republic, Jamaica and Trinidad and Tobago). The chapter also discusses the shadow economy, in which organised criminal groups invest. It states that shadow economies are on the rise in many parts of the world as a result of crime and corruption. It also emphasises the empirically established link between corruption and crime and the size of shadow economies (see pp. 161-162).

- Karofi, U. A. and Mwanza, J., 2006, 'Globalisation and Crime', *Bangladesh e-Journal of Sociology*, vol. 3, no. 1, pp. 1-20:
<http://www.bangladeshsociology.org/BEJS%203.1%20%20Karofi.pdf>

This paper looks at the linkages between globalisation and organised crime. Drawing on data from the Human Development Report (1999), it notes that "the growing influence of organised crime is estimated to gross \$1.5 trillion a year, rivalling multinational corporations as an economic power" (p. 6). It discusses estimates for various sub-activities, including the illicit drug industry, money laundering, traffic in persons, global terrorism, cyber crimes and illegal trafficking in weapons. The paper also highlights the challenges in combating global crimes. It stresses that state illegality and poor governance are usually endemic to organised crime – and that these are all factors that contribute to a weak economy: "Although low levels of corruption have been deemed to promote economic growth in certain regions, at a high level it inhibits growth and damages the economy because bribes are socially damaging and politically destabilizing and are harmful for the growth prospects of host countries in that it can undermine the functioning of states, lower the efficiency of production that reduce competitiveness and it can introduce inequities" (p. 8).

- OECD, 2004, 'The Security Economy', *General Economics and Future Studies*, Organisation for Economic Co-operation and Development, Paris:
<http://www.oecd.org/dataoecd/14/17/16692437.pdf>

This report discusses the growth of the demand for security goods and services, due to perceived risks associated with organised crime, terrorism, disruption of global supply chains, and computer viruses. Of relevance to this query is the brief section on organised crime, particularly the excerpt below (pp. 20-21):

"With respect to organised crime, available data suggest that current annual revenues from illicit criminal activity are huge. The National Intelligence Council (NIC) estimates them as follows:

- USD 100-300 billion for narcotics trafficking;

- USD 9 billion for automobile theft (in the United States and Europe alone);
- USD 7 billion for the smuggling of humans;
- USD 1 billion for theft of intellectual property.

However, there does not appear to be a general, uniform trend with regard to the level of organised crime. In Europe, for example, some countries report a rise in levels of organised crime and in the numbers of organised crime groups, while others report some stabilisation or even a decline. There is particular concern with transnational crime; although actual knowledge remains disparate, there are indications that it is on the rise. Increasing crossborder co-operation among criminal organisations stems in part from the growing interdependence of national economies and flows of cross-border traffic of people and goods, as noted above. As globalisation gathers pace in the future, so too will the opportunities for transnational crime”.

Governance and Economic Impact

- Dijk, J. V., 2007, ‘Mafia Markers: Assessing Organised Crime and its Impact upon Societies’, Trends in Organised Crime, no. 10, pp. 39-56:
<http://www.springerlink.com/content/57876q46x0j0035v/fulltext.pdf>

This study develops a causal model of the independent effect of organised crime, rule of law, and corruption on national wealth. It stresses the need for more and better statistics on organised crime and grand corruption. It also notes that reliance on police and court data (i.e. number of arrests or convictions) is misleading as it reflects police performance more than the actual extent of criminal activity. The study finds that within Asia, organised crime is most prevalent in South Asia (Pakistan and Bangladesh, in particular) and within Africa, it is most prevalent in Nigeria, Angola and Mozambique. In general, it finds that organised crime is more prevalent in countries with weak rule of law (inefficient and/or corrupt police and courts). Further, it links organised crime and weak governance to sustainable development by stressing the importance of good institutions in driving economic development: “Organized crime, then, will reduce economic development through its negative impact on policing and on the maintenance of the rule of law and through its positive impact upon corrupt practices at the highest level of government ... The finding that on balance significant revenues from drugs trafficking or other forms of lucrative crime slow down rather than strengthen economic growth may seem paradoxical or surprising on first sight. But this phenomenon is actually just another example of what development economists have called the ‘resource curse’ ... Some of the main drugs exporting countries seem to suffer from exactly the same predicament. In such countries drugs generate by far the most profitable opportunities for ‘rent seeking’ by corrupt officials. While corrupt elites accumulate great personal wealth, their countries remain underdeveloped and poor” (p. 53).

- Kumar, V. and Skaperdas, S., 2008, ‘On the Economics of Organised Crime’, prepared for inclusion in Garoupa, N., ed., ‘Criminal Law and Economics’:
<http://www.economics.uci.edu/docs/2007-08/skaperdas-15.pdf>

This paper discusses the emergence of organised crime groups in the developed and developing world, the way in which they function and their impact on the economy. It states that such criminal activities and groups arise from national and local power vacuums, often caused by cleavages of ethnicity, race and class. While aspects of organised crime groups are similar to regular businesses (i.e. the production and distribution of goods and services for profit), they differ in that their primary activity is the selling of protection of goods and services in the absence of legally enforceable contracts. Such contractual problems could be due to poor governance and the absence of a proper functioning judicial system. The paper notes that since organised crime groups often have a monopoly in their geographic area, they can charge extortionist prices for protection. This in turn creates economic distortions as legal businesses face higher costs of operation and invest less. Organised crime imposes further costs on the economy by drawing youth away from productive activities. The authors advocate that in order to reduce organised crime and its harm to the economy, the power vacuums that allow such activities to thrive must be addressed.

- Sung, Hung-En, 2004, 'State Failure, Economic Failure, and Predatory Organised Crime: A Comparative Analysis, Journal of Research in Crime and Delinquency, vol. 41, no. 2, pp. 111-129: available for purchase at <http://jrc.sagepub.com/cgi/content/refs/41/2/111>

This study provides a comparative analysis of predatory organised crime in 59 countries, drawing on data from the World Economic Forum. It finds that state failure and economic failure are key contributors to organised crime – in particular a corrupt judiciary and black market activities: “A corrupt judiciary deprives a nation of effective institutional defense against organised crime, and an active underground economy provides criminal syndicates with ample opportunities to expand their influence and legitimacy among ordinary citizens” (p.125). Further, the study notes that when a state is unable to guarantee internal security as a public good to its citizens, personal safety becomes a scarce commodity. Security firms and private policing fills the gap. Predatory criminal organisations that provide protection services can act as a *de facto* government and as monopolistic firms – competing with or replacing government and driving out legal private security firms. This, the author argues, erodes economic production in the long run and further undermines institutions.

- Keefer, P., Loavza, N. V., Soares, R. R., 2008, 'The Development Impact of the Illegality of the Drug Trade', Policy Research Working Paper 4543, World Bank, Washington, DC: http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/03/03/000158349_20080303134434/Rendered/PDF/wps4543.pdf

This paper argues that a pure criminalisation approach will prove ineffective in combating illegal trade in drugs and its negative impacts; rather an approach that incorporates development needs is necessary. It states that prohibition on the production of and trade in drugs results in a transfer of wealth from poor to rich countries and from poor peasants, who cultivate the drugs, to organised criminal networks, who control the distribution chain and substitute for legal contract enforcement (often through violence). Because of the high barriers to entry into these links in the distribution chain, these organisations can extract high prices from consumers and offer low prices to producers. In addition, the paper stresses that criminalisation can have harmful unintended consequences: “Whenever there are high rents from criminal activities and costs of bribing are low, intensified sanctions and policing may actually generate the perverse consequences of promoting organised crime, widespread corruption, and higher crime rates. These, in turn, may end up threatening the institutional environment even further and leading to an increase in the activity that they initially intended to reduce” (p. 16). Further, a widespread culture of violence and lawlessness can further undermine state legitimacy.

Case Studies

West Africa

- Mazzitelli, A. L., 2007, 'Transnational Organised Crime in West Africa: The Additional Challenge', International Affairs, vol. 83, no. 6, pp. 1071-1090: available for purchase at <http://www.blackwell-synergy.com/doi/abs/10.1111/j.1468-2346.2007.00674.x>

This paper explores the various factors that contribute to criminal activities in West Africa. These include inequalities in wealth, high population growth and rapid and uncontrolled urbanisation. Combined with natural resource economies and a patrimonial conception of the state, organised criminal groups have flourished. Such groups seek to minimise risk and maximise profit. The former includes economic risks (seizure and financial loss; and non-compliance by other criminal business partners) and judicial risks (criminal prosecution). The paper notes that while drug trafficking remains the most lucrative illicit activity, criminal networks have diversified their activities to reduce risk and to make it more difficult for law enforcement agencies to track them. West Africa has proven to be an ideal place for structured criminal networks since risks are reduced as a result of poor governance - weak state institutions, weak

rule of law and enforcement agencies. The expansion of criminal activities, in turn, further undermines confidence in the state to provide for public goods and security. The extent of organised criminal activities is unknown, however, due to the absence of official data. The paper provides a case study of Guinea-Bissau which demonstrates why transnational criminal networks are thriving in West Africa. A poor socio-economic situation, continued *coups d'état*, the prevalence of small arms and light weapons, a weak state incapable of service delivery and non-existent border and territorial control have all combined to create opportune circumstances for criminal groups to operate. The paper stresses that the international community must mainstream security and rule of law in their approach to development in order to address these challenges in West Africa.

- Shaw, M., 2002, 'West African Criminal Networks in South and Southern Africa', *African Affairs*, vol. 101, no. 404, pp. 291-316: available for purchase via Ingenta http://www.ingentaconnect.com/search/article?title=West+African+Criminal+Networks&title_type=tka&year_from=1998&year_to=2008&database=1&pageSize=20&index=3

This paper explores the presence of West African criminal networks operating in Southern Africa, in particular in South Africa. It is based on interviews as there is a lack of secondary resources available on the subject matter. The author finds that most research on organised criminal groups since the end of the Cold War addresses structured and hierarchical groups. However, West African criminal networks are different. They are made up of loose and often temporarily alliances, formed around specific projects. Still, these networks are difficult to penetrate. The paper notes that the weakening and criminalisation of the state is often a component of organised crime – with government actors also involved in criminal activities. This is true in the case of Nigeria, Liberia and to a lesser degree Ghana. The paper explores in more detail the case of Nigerian migration to South Africa. It notes that while the original intention of migrants was to escape instability in their home country, some migrants became involved in criminal activity when pressure to find employment intensified.

- Aning, K., 2007, 'Are There Emerging West African Criminal Networks? The Case of Ghana', *Global Crime*, vol. 8, no. 3, pp. 193-212: available for purchase at <http://www.informaworld.com/smpp/35861953-57773300/content~content=a781278405~db=jour~order=page>

NOTE: This paper was not accessible by the GSDRC. The following is the abstract provided by the publisher.

"This paper situates discussions about emerging African Criminal Networks (ACN) within Ghana specifically, and West Africa generally, and seeks to present the initial results of an empirically based study on the activities of transnational organised criminal (TOCs) groups in Ghana. The paper argues that the nature of state and statehood in Africa and its inability to establish effective regulatory mechanisms contributes to the rise of these particular types of criminal groups. It begins by conceptualising the place of Ghanaian and West African criminal groups within the framework of international crime. Furthermore, it undertakes an in-depth analysis of three types of crimes; namely computer and internet crime, drug trafficking and (artisanal) small arms manufacture and smuggling in Ghana. By applying a set of standard variables and criteria, the paper evaluates the growth of TNCs in these three issue-areas and how such activities potentially undermine public institutions like the Ghana Police Service (GPS), customs, excise and preventive services (CEPS), judiciary, banking and political parties and political institutions in Ghana. Finally, it seeks to offer an explanatory framework for the growth and acceptance by local communities of the activities of organised crime in Ghana by situating this within a cultural ethos and the social welfare roles played by those involved in such crimes".

Eastern Europe

- Sörensen, J. S., 2006, 'The Shadow Economy, War and State Building: Social Transformation and Re-stratification in an Illiberal Economy (Serbia and Kosovo)',

Journal of Contemporary European Studies, vol. 14, no. 3, pp. 317-351: available for purchase at <http://www.informaworld.com/smpp/title~content=t713429588>

This paper explores the rise and consolidation of shadow economies in Serbia and Kosovo. It is based on estimates, anecdotes and news articles, given the limited sources available on the subject matter. The paper's discussion of the 'grey economy' includes the small-scale transfer of public goods to private individuals and all forms of services and transactions that evade the tax system. The paper states that the grey economy is most widespread in the least developed areas in the Balkans, and its expansion in the 1990s and after 2000 produced further uneven regional development. It stresses the importance of considering social and political contexts in explaining the expansion and consolidation of illiberal forms of economy. Often, such economies represent forms of adaptation to marginalisation and exclusion from the global political economy (e.g. sanctions on Serbia under Milosevic). The paper notes that it is estimated that the grey economy has declined to approximately 30 percent from 80 percent, after the overthrow of Milosevic; whereas it has grown in Kosovo.

- Sergi, B. S. and Qerimi, Q., 2007, 'Fighting Corruption and Organised Crime as a Means of Socio-Economic Development in South-East Europe', South-East Europe Review, no. 2, pp. 81-94:
<http://www.cceol.com/aspx/getdocument.aspx?logid=5&id=acfa7637-3027-449e-80d9-f54256be1b89>

This paper explores the relationships between corruption and socio-economic development (from p. 81) and between organised crime and socio-economic development (from p. 88), in the context of South-East Europe. It notes that both corruption and organised crime are prevalent in the region. It argues that a coordinated, multi-level and multi-faceted approach that addresses the root causes of organised crime in the region is necessary. As such, a better understanding of the root causes is essential. The paper stresses that the key problem is weak rule of law, i.e. inefficient judicial systems and weak enforcement and border control. Law enforcement and judicial personnel face incentives to participate in and/or allow concessions to corrupt and organised crime activities to compensate for their low salaries. Any efforts to combat organised crime must address these rule of law issues.

Authors and contributors

This query response was prepared by Huma Haider: huma@gsdrc.org

Contributors were:

Steve Archibald (The IDL Group);
Nicholas Dorn (Cardiff University and Erasmus University Rotterdam);
Rosaleen Duffy (University of Manchester);
Dr. Stephen Ellis (Leiden University);
James Fennell (DFID);
Carina Gunnarson (University of Uppsala);
Gernot Klantschnig (University of Oxford);
Dr. Daniel Lambach (Institute of Development and Peace);
Mick Moore (IDS);
R. T. Naylor (McGill University);
Stergios Skaperdas (University of California-Irvine);
Andre Standing (ISS Cape Town);
Jan Van Dijk (University of Tilburg);
Stijn Van Daele (Ghent University);
Michael Woodiwess (University of the West of England).

Websites visited

Council of Europe, Google, Google Scholar, GSDRC, Ingenta journals, Institute of World Economy and International Relations, International Alert, Max Planck Institute for Foreign and International Criminal Law, Institute for Security Studies, Nathanson Centre on Transnational Human Rights, Crime and Security; OECD, Transnational Institute, World Bank

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