"Measuring the Impact of Economic Crime: Can Indicators Assist?"

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'These five characteristics – specialisation in market-based crimes, hierarchical and durable structures, use of violence and corruption to achieve monopoly power, high rates of return, and penetration of the legal economy, seem to be what organized crime is all about.' R. T. Naylor Wages of Crime: Black Markets, Illegal Finance and the Underworld Economy (2002) Cornell University p. 16.

Introduction

As a general proposition all crime has economic consequences. The result of crime is potentially measurable in economic terms. Some crimes are committed in order to yield material benefit to the perpetrator(s). It is the prospect of acquiring tangible assets which motivates them. Criminologists have drawn a further distinction between predatory offences committed sporadically, when opportunities present themselves on the one hand, and on the other, market based offences.[1] The key distinguishing characteristic is that the former are episodic and do not always require supportive infrastructure, while the latter have to be supported by a modicum of long term organisation and a viable market. Examples of such activities include trafficking - in humans, arms and drugs. Financial crime committed systematically could also be described as market based economic crime. This paper is confined to market based economic crimes encountered in Southern African countries. It is however important at the outset to point out that the cleavage between predatory and market based economic crime is not clinical, as there are areas of overlap between them. The drug trafficking industry perhaps illustrates this reality as well as any other. Typically, cannabis cultivation is carried out at a peasant, subsistence level for downstream international criminal syndicates engaged in marketing the drug, often very far from the source regions.[2] Corruption, even at a grand level, demonstrates a symbiotic link between predatory and market-driven economic crime. Where bribery involves a large corporate institution and state officials, the executives that corrupt the public officials are likely to be repeat offenders, and could be said to be engaging in market based crime, while from the perspective of the recipients of bribes, their activities are *ad hoc* opportunistic acts of delinquency.

The underlying premise of this paper is that market driven economic crime is organised. It manifests itself as various activities or kinds of activities that occur in society, in the same environment in which lawful activities occur. As a result, and depending on its scale, economic crime is able to compete with lawful activity, and even penetrate and undermine it. The paper further assumes that in both developed and developing economies, participation in organised crime is not confined to dedicated or professional criminal groups. Entities established for legitimate business enterprises are just as liable to engage in organised crime as recognised criminal syndicates.[3] There seems to be agreement about the negative impact of organised crime on economies. General spheres in which the impact is encountered include inflation, poverty, commercial crime, development, and corruption.

Aware of this, most countries accept the need to conduct reform in key areas, such as legislation. At the political level, the importance of adopting an enlightened approach to crime detection, and law enforcement seems to have been accepted. It is clear that these initiatives have to be underpinned by an assessment of the precise form of threat that organised economic crime presents.

This paper profiles the nature of the harm attributable to economic crime. It follows up with a discussion of manifestations of harm. In the final part, the paper proposes indicative factors of incidence and scale of economic crime, and suggests possible sources of data.

The relativity of economic crime as a detrimental factor to society as compared to other factors is beyond the scope of this paper. A comprehensive analysis should juxtapose economic crime alongside other phenomena that constitute threats to society. Among those well known to the developing world are 'the depletion of raw

[1] On the distinction, see Naylor *Wages of Crime: Black Markets, Illegal Finance and the Underworld Economy* (2002) Cornell University pp. 14-16.

[2] See P. Bagenda, Chapter 4 of P Gastrow (editor) *Penetrating State and Business: Organised Crime in Southern Africa*, (2003) ISS Monograph series number 86, pp. 81-2.

[3] The debate on paradigms in organised crime discourse is explored further by A. Standing in *Rival Views of Organised Crime* (2003) ISS Monograph series number 77.

materials and capital, an over-dependence on imports, a high ratio of foreign to domestic investment, surpluses of imports over exports, and inadequate regulation of competition from foreign producers'.[4] The true significance of economic crime as a threat can be better demonstrated in that way.

Economic crime: areas of common concern

The forms of organised economic crime on which there is consensus, in terms of definition and incidence are:

- armed robbery, including robbery of cash-in-transit;
- theft of motor vehicles;
- serious commercial fraud;
- currency counterfeiting;
- extortion rackets;
- drug trafficking;
- smuggling of precious resources, predominantly diamond, gold, timber and wildlife products; and
- corruption.

One mode of economic crime on which there is unanimity as to its existence, but not quite as to its definition or magnitude, is money laundering. It appears that money laundering, being concerned with the management and disposal of proceeds of crime, has come to be regarded as seriously as any of the other criminal activities. On account of its significance, money laundering is treated in some depth in this paper.

A profile of economic crime as a threat

If the proposition that economic crime occurs in the same environment as lawful economic activity is accepted, it follows that economic crime has an impact on such activity. The precise ways in which the impact will be encountered depends on how unlawful activity relates to lawful activity.

In Southern Africa it is widely acknowledged that the relationship is predatory. At one end of the emerging spectrum is the perception that proceeds of illicit activity sponsor unfair competition for lawful business. The following statements summarise this view:

> 'Criminal organizations dealing only in illicit goods and services are no great threat to the nation. The danger of organised crime arises because the vast profits acquired from the sale of illicit goods and services are being invested in licit enterprise, in both the business sphere and the government sphere. It is when criminal syndicates start to undermine basic economic and political traditions that the real trouble begins.' (Cressey 1969)[5]
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> '..the real harm done by organised crime comes not from selling inherently illegal goods and services but from the way the profits are subsequently invested' (Naylor 2002)
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> 'There are also significant social costs if efforts are not made to counter money laundering. Money laundering, organised crime and economic crime are often integrally linked, and criminal organisations will use their profits to infiltrate or acquire control of legitimate businesses, and to bribe individuals and even governments. Over time, this can seriously weaken the moral and ethical fabric and standards of society, and damage the principles underlying democracy. One cannot rule out the possibility of criminals installing puppet governments by deploying the proceeds of crime to rig and win elections.' (Sithole 2002)[6]

This view substantially forms the bedrock of economic policy based responses to organised crime, which seek to draw illegally acquired funds into the public financial system, through taxation and asset forfeiture. Measures inspired by these objectives aim to deprive criminals of the competitive advantage that they would otherwise derive from the proceeds.

The advantage which stems from economic crime does not arise only from the deployment of proceeds. As many economists have noted, sometimes it is inherent in the trade in commodities obtained by stealth - through theft, falsification or smuggling.[7] The cost to society is greater, perhaps even disproportionate to the benefits that

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[4] A. N. Gorodysky, 'Ukraine, International Money Laundering and the Investigation of Organized Crime' unpublished paper, accessible at http://www.ojp.usdoj.gov/nij/international/programs/Laundering.PDF.

[5] D. Cressey *Theft of the Nation* (1969) Harper & Row, New York, p. 3-4.

[6] Majozi Sithole, 'Taking Action Against Money Laundering', in C. Goredema (editor) *Profiling Money Laundering in Eastern and Southern Africa* (2002) ISS Monograph series, number 90, p. 2.

[7] *Finance Week*, 8-10 December 2004.

accrue to the perpetrators. The illicit commodities can displace commodities produced and marketed in compliance with the applicable taxation and import laws, and even precipitate de-industrialization. Unemployment inevitably results. The costs of unemployment in social, economic and political terms can be quite drastic.

There are other forms of harm to legitimate business and the communities in which it exists. Among the costs regularly cited by organized business are:[8]

- Costs of establishing and maintaining security systems that are proactive, reactive and forensic;
- Inflated insurance premiums that take into account increased risk and higher levels of crime;
- Higher levels of taxation to support public expenditure to combat crime.

As Altbeker points out, the impact that crime has on business confidence is just as significant as the effect on the so-called bottom lines. Business confidence, which is a matter of perception, is described as:[9]

> ‘the subjective feelings of investors and managers that impacts on decisions to expand, contract, or change direction’.

The kind of decisions taken by investors and managers can therefore be regarded as the barometer by which to measure such confidence.

Fraudulent dealings with savings and investments inevitably precipitate losses to depositors and investors.[10] So can speculative dealings. Occasionally, they result in the collapse of financial institutions. The latest illustrations have been witnessed in Zimbabwe, where losses from banking and asset management sector failures in the period 2003-4 cost investors an estimated Z$251 billion (USD 41,833,333.40).

Indicators of vulnerability

The classic view is that economic crime is endemic in states overwhelmed by challenges of transition, or caught up in political crises. At these junctures, the level of vulnerability is acute. The features of a transitional state which produce a peculiar vulnerability may be summarised as follows:

- diminished social control, as reflected by no (or weakly enforced) laws against economic crime;
- greater mobility of personnel within the country and transnationally;
- corruption precipitated by declining wages, increased opportunities, diminished penalties and falling moral values;
- close linkage between political power and access to economic leverage; and
- imbalance in resources between the law enforcement structures and criminal organisations; leading to
- frustration of law enforcement functionaries, and their absorption into the private sector or by organised crime; and
- opening up of avenues for unbridled opportunism to flourish.

With regards to Southern Africa, Gastrow offers a summary of the situation that most countries were in by the beginning of the 90s. He observes:[11]

> ‘Many recently independent states were then faced with the overwhelming task of managing a double transition, namely from state-led to market-led economies, and from autocratic rule to transparent democratic politics. With some exceptions, such as Botswana, the SAPs (structural adjustment programmes – *author’s note*) tended to produce unintended consequences. Besides being ineffective on a macro-economic level in many countries, there were elements in the political leadership and in bureaucracies who skilfully managed the reforms in a way to suit themselves. These elements were able to use the new ideological changes to engage in “practices of accumulation”, by staking out for themselves profitable areas for their own business activities. They straddled positions of public office with positions of accumulation, inevitably leading to corruption. This development was bound to impact on corruption and organised crime. The corrupt practices of so-called accumulators in high positions brought them into contact with ‘middlemen’, increasingly foreigners, and other entrepreneurs who were operating in the criminal markets...
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> ...It therefore appears that by 1990, obscured by the major transformation processes and turmoil that were experienced during the post-independence years and by the political conflicts in South Africa

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[8] See A. Altbeker, ‘Losing our nerve? Business Confidence and Crime in South Africa’ (2001) *NEDBANK ISS Crime Index number 4* pp. 16-7.

[9] Altbeker, op cit, at p. 17.

[10] In many parts of the world, fraudulent investment schemes have been used to lure gullible investors to part with their savings. The notorious advance fee fraud schemes (colloquially referred to as ‘419’ fraud) are symptomatic of these kinds of fraud.

[11] Gastrow, op cit, p. 11-13.

> during the 1970s and 1980s, transnational organised crime had come of age in the SADC region. The precise causes of its growth are complex and multiple and differ from country to country in the region. However, one experience that all SADC countries went through after independence was a fundamental transformation process. As a general rule, the growth of organised crime is most rapid in those countries, which experience not only a significant political change, but also an associated economic one. This has certainly been the case in a number of SADC states. However, the transition processes experienced in these states differed in content and intensity, and took place over different periods of time. It would therefore be too simplistic to ascribe the growth of organised crime in the region solely to the political and economic transitions that followed independence'.

Within that environment certain indicative factors of economic crime are evident.

Economic crime: the indicative factors

Proceeds of economic crime and other illegally acquired income tend to be transferred abroad within a relatively short period of acquisition. The objectives are to prevent detection of the predicate activities or to invest. To facilitate transmission and infusion into foreign economies and financial systems, conversion into acceptable currencies or marketable commodities is often necessary. The availability of such currencies and avenues through which to acquire them can be regarded both as characteristics engendering vulnerability to economic crime, as well as indicators of incidence. Currency exchange establishments, in the formal and informal sector, have been linked with money laundering in many parts of southern Africa and elsewhere. Records of transactions conducted through them, if genuine and comprehensive, would provide evidence of scale. Unfortunately, indications are that in too many instances, they are neither available nor reliable.

Investments of unexplained or undeclared wealth in external markets and foreign jurisdictions. Investments of this kind by nationals in politically connected or exposed positions invariably provide illustrations of this phenomenon.

Since the 1980s, large quantities of money have been transmitted to South Africa. Source countries include Angola, the DRC, Malawi, Mozambique, Zambia and Zimbabwe. With the advent of Frelimo rule in the mid-seventies in Mozambique, there was capital flight by the erstwhile Portuguese settler community, facilitated by banks, through direct transfers and payment for fictitious goods. It is estimated that 90% of the Portuguese left the country within the first five years following independence.

The trend does not seem to have abated; part of the reason is that the factors that encourage the trend have remained virtually intact. In certain cases, developments in the source countries have increased the flow. Asset flows to South Africa are influenced by:

The scope for investment in residential property. With the exception of Botswana, Lesotho, Swaziland and Zimbabwe, the average price of good quality residential property in South Africa is relatively lower than in other parts of the region.[12] This oddity is probably attributable to the creeping dollarisation of economies in Southern Africa. In addition, the prevailing security of property rights in South Africa is rather less fragile than it is in some other parts of the region.

The presence in South Africa of a relatively developed financial system and safe investment climate/environment provides an incentive for cross border asset transmission.

The presence of migrant communities across national borders enriches the environment for the transmission of resources between the respective countries, often informally and with no recourse to the financial institutions and regularly in violation of currency movement control laws. An example is the spread of the Lundas in Angola, the DRC and Zambia, the Tutsi in Rwanda, Uganda and the DRC, the Venda in South Africa and Zimbabwe, or the Chewa-speaking communities on either side of the Malawi/Zambia border. In addition, dual nationality eases movement between the countries, and makes it difficult to regulate currency transmission.

Conspicuous consumption in luxury commodities. It has been observed that illegal income is likely to be consumed quicker or invested outside the financial sector than legal income. There are several reasons for this

[12] The average price of a dwelling house in middle-income areas of South Africa in May 2004 was ZAR488,456 (US$75,147). This is lower than that for similar property in neighbouring Mozambique (US$135,000) or Tanzania (US$120,000). Information based on Property Section in the *Weekend Argus* (29 May 2004), which circulates in Cape Town, South Africa.

inclination, partly the desire to conceal such income from detection, and partly to exploit lawful markets with the proceeds.[13] The latter motivation is particularly compelling if the environment in which consumption occurs is afflicted by inflation and unattractive interest rates. Proceeds of crime are then likely to be invested in real estate, commercial properties and luxury motor vehicles.

The market for luxury motor vehicles in Southern Africa transcends borders, which has led to the growth of symbiotic links among crime syndicates. An indeterminate number of South African syndicates engage in theft of motor vehicles in South Africa. The vehicles are thereafter smuggled across borders to Zimbabwe, Namibia and Mozambique for sale to syndicates which sell them on to syndicates that thrive on smuggling precious resources, drug trafficking and currency speculation.[14]

In these circumstances, indicators of incidence and scale of economic crime are likely to be:

1. Data on vehicles stolen in South Africa, less recoveries.
2. Data on average incomes in economic hub centres in Zimbabwe, Namibia, and Mozambique.
3. Data on registration of vehicles imported into those countries.
4. Aggregate values of imported vehicles.

Abuse of state institutions for private accumulation of capital. Various scenarios have been encountered in Africa. The first two arise within a context of economic and financial crisis, precipitated by external or internal factors. This usually leads to crisis management, and the creation of an environment replete with opportunities for economic crime on a grand scale. In the first scenario, the state is desperate for foreign currency to support trading activities and debt servicing. The ‘bogus exports’ fraud that led to the notorious Goldenberg scam in Kenya stemmed from an arrangement ostensibly introduced as an incentive to diversify the national export base. The judicial inquiry conducted over the last two years exposed a corrupt scheme that involved, and was facilitated by government departments at various levels, including the Office of the President, the Ministry of Finance, the Customs & Excise Department, the Ministry of Environment & Natural Resources, the Mines & Geology Department, and the Central Bank of Kenya.

The total funds yielded by the Goldenberg grand corruption and fraud scheme have not been quantified. They are estimated to be between US $600m and US $1 billion. Having been accumulated over a period of time, the funds were consumed gradually. Various entities have benefited from them. At the centre was the Pan Africa Banking Group. Others were - the Pan African Building Society; the Pan African Credit & Finance; the Uhuru Highway Development Corporation - which in turn constructed and managed a large hotel in Nairobi called the Grand Regency Hotel; the Kenya Duty Free shopping complexes at airport terminals; the United Touring Company and the Safari Park Hotel. In fact, the resources illegally gained through fraudulent compensation claims ‘provided seed money for criminal infiltration of legal business...’ and set up a foundation for the capture of ‘major sectors of the legitimate economy’. This typified the classic threat of systematic economic crime on which drastic measures against money laundering appear to be premised.[15] There is speculation that some of the criminally earned assets were used to fund the campaign of a political party in the elections in Kenya in 1992.

In the second scenario, government, under pressure from economic and civil strife, resorts to ill advised ways of earning money, for instance by printing money. During the civil war in Mozambique (1977-1992), the state printed money to pay war-related expenses, and to finance a commodities black market. The market had in turn been fuelled by the war. The capacity of the formal economy and the state to provide goods and services was severely eroded by the war, creating a huge gap for the informal economy to exploit. Large amounts of money in circulation ended up in the hands of speculators.

The third scenario involves the ubiquitous *front companies* and *foreign banking accounts* established ostensibly to support security (espionage and economic) activities of the state. Funds are transmitted directly from the treasury to foreign financial repositories to pay for the activities of ‘state security agents’ operating

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[13] In the words of Naylor

> ‘Usually a legal firm works on the premise that it will be around for a long, perhaps indefinite time, even if the time horizon of any particular set of executives is shorter. On the other hand, an illegal; enterprise has a time horizon equal to that of the illegal entrepreneur. Thus, with its time horizon short to begin with, the illegal enterprise is always in danger of being abruptly terminated, reinforcing its tendency to take a grab-and-run attitude toward market exploitation.’

[14] ‘Police smash alleged smuggling ring’ Independent on Line (31 March 2005), accessible at http://www.iol.co.za/index.

[15] Authors like Naylor are cynical about the incidence of this kind of scenario. See R T Naylor, op cit, p. 34-7.

abroad. The system leads to the treasury being virtually turned into part of the banking system. To be sure, some of the payments processed in this manner are not looted. Its weakness lies in the absence of rigorous safeguards against theft, and its reliance on the honesty of individual officials. In the '80s and '90s, this avenue was exploited by state officials in various positions in South Africa, Zaire (now the DRC), Nigeria and Zambia to fraudulently transfer money to private accounts held in foreign banking institutions. Where these funds have since been traced, they have yet to be repatriated or fully accounted for.

The fourth scenario revolves around investment undertakings ostensibly undertaken in the interests of the state. Indications of the criminal abuse of these undertakings lie in the lack of accountability on their funding and performance during their existence.

Evidence of this kind of criminal conduct has been observed in mining undertakings that originated in Zimbabwe and Namibia. The mining locations were in the Democratic Republic of the Congo.[16] A study on the implications of inadequately conceived military undertakings by Zimbabwe in the DRC showed unsustainable levels of defence spending. Figures released by the Ministry of Finance revealed that more than 12% of the entire budget for 2001-2 was committed to defence. No provision was made for inflows from the commercial ventures in the DRC. To date, none of the expenditure incurred in that country has been offset by income from the ventures. The scale of the economic decline in Zimbabwe after 2000 appears to be partly attributable to the costs of the DRC campaign. The lack of accountability also creates opportunities for corruption and secondary asset laundering. The latter takes the form of mingling of resources, such as rough diamonds originating from one source with those extracted from another.

In view of the history of its evolution, it is not surprising that market-based economic crime in Southern Africa has cross-border dimensions. Illicit business emulates legitimate business in creating and using trans-national markets. Criminal groups have proved to be adept at taking advantage of globalisation and rapid technological innovation. The composition of these groups has for long been cosmopolitan,[17] and the nature of the activities of engagement varies with the demands of the market. One of the implications of this is the likelihood of cross-border transmission of proceeds of crime. The impact of crime is experienced in both the place where the criminal activity occurs and the destination of the proceeds. Indicators of economic crime cannot be complete if they do not take account of corresponding data in relevant foreign countries. It has been suggested that, as a research tool, data collection should occur on a corresponding basis among affected countries in the region. Major predicate activities should be identified, using material such as police and court records. Patterns of transmission should be mapped out, on the basis of information collected from within the criminal justice system as well as from data sources on routes of trade and other commercial activity. Departments of trade and customs will be important in this exercise. The resulting information is then organised in the form of a table, in which the source activities constitute a vertical column, and the destinations of transmission or consumption are arranged in a horizontal row. For Southern Africa, the table could resemble Table 1 below.[18]

[16] C. Goredema 'Organised Crime in Zimbabwe' in P. Gastrow (editor) *Penetrating State and Business: Organised Crime in Southern Africa*, Volume II (2003) ISS Monograph series number 89, pp. 22-4 and J. Grobler 'Organised Crime in Namibia' in P Gastrow, op cit, p. 30.

[17] See P. Gastrow, *Organised Crime in the SADC Region: Police Perceptions* (2001) ISS Monograph series number 60, pp. 39-65. The author employs tables to illustrate the picture as perceived by police agencies in the region. For a historical overview of the developments in this area, refer to P. Gastrow, op cit, p. 1-17 On the role of networks from West Africa, see *Crime as Business, and Business as Crime* (2003) South African Institute for International Affairs.

[18] Adapted from a methodological framework proposed by John Walker, a criminal justice researcher based in Melbourne, Australia, in 2004 to facilitate a global survey of money laundering trends.

Table 1: Framework for comparative indicative proceeds of crime data between countries

Source activity of proceeds	Consumed locally	Transmitted to country 1	Transmitted to country 2	Transmitted to country 3	Transmitted to country 4
Drug trafficking					
Theft of motor vehicles					
Commercial fraud					
Armed robbery (excluding motor vehicles)					
Extortion rackets					
Corruption					
Smuggling of precious resources					
Externalisation of currency					
Money laundering					

Sources of data

There are significant challenges that can impede the collection of the data required to collate indicators of economic crime. For data on criminal activity to be available at all, it is necessary not just for the activity to be recognised as a crime, but also for it to be officially recorded, and for the records to be stored in an organised and retrievable form. Furthermore, if what is sought is information on the impact of crime, there should be a modicum of analytical content to the record. The preferable record is one that can be objectively verified. It is matter of debate whether the impact of crime is recordable in this sense, and if so, at what stage this can be done.

Table 1 rests on the assumption that the police are the main repositories of the relevant information on crime trends. The reality is that in some cases, police statistics are deficient. In other instances, it may not be practical to expect all the information to be available to the police. Agencies mandated to detect, investigate and prosecute species of organised crime, playing a complementary but not subordinate role to that of the police, are occasionally better placed. In respect of corruption, the advent of dedicated anti-corruption agencies is a promising development. There has been growth in the establishment of these agencies in the last few years, in the wake of the adoption of the SADC Protocol against Corruption. The position at the end of 2004 is shown in Table 2.

Table 2: Dedicated Anti-Corruption Agencies in Southern Africa (2004)

Group I: countries with dedicated anti-corruption agencies	Group II: countries contemplating the establishment of a dedicated anti-corruption agency	Group III: countries not contemplating establishing a dedicated anti-corruption agency
Botswana, Malawi, South Africa, Swaziland, Tanzania, Zambia, Lesotho, Mauritius, Mozambique and Zimbabwe	Namibia	DRC, the Seychelles

The focus on anti-corruption agencies is influenced by the noticeable tendency to require such agencies to investigate the laundering of proceeds of crime.[19] It is suggested that anti-corruption agencies should be required to collect and exchange data on the magnitude of economic losses attributable to corruption.

Apart from the agencies mandated to tackle corruption, one should also be able to obtain usable information from other sectors which are particularly vulnerable to economic crime. In a survey of auditors in seven countries in the region in 2003, Standing and Van Vuuren found that in most, the banking and finance sector was perceived

[19] As has occurred in Botswana, South Africa, Swaziland, Mauritius, Mozambique and Zimbabwe. The proposed Bill in Lesotho adopts the same approach.

to fall into this category.[20] With specific reference to money laundering, it was found that other sectors were:

- vehicle retailing
- mining
- entertainment
- precious commodities trading
- real estate
- fuel industry
- sugar trading.

It has been observed that the impact of economic crime manifests itself in the phenomena of inflation, poverty, commercial crime, development, and corruption. In each of the stipulated sectors, a key objective of the inquiry will determine the causal connection with criminal business. In each case, the nature and scale of economic crime is compared with the nature and scale of inflation, poverty, commercial crime, development, and corruption. The result should be capable of being presented in the form of a series of graphs, on each of which one pole of the axis represents the scale of economic crime, and the other shows the scale of, for instance, poverty.

In order to secure data relevant to the relationship, one has to look beyond the stipulated sectors. Table 3 presents a possible list of other data repositories that could be relied on to construct a comprehensive picture. It is adapted from an analysis of sources developed at a workshop on money laundering in Blantyre, Malawi.[21] For each source of information, it is important not only to recognise the type of data to be sought, but also the possible limitations that may affect either the source or the utility of data.

Table 3: Analysis of primary sources of information on economic crime and money laundering scale and trends

Economic Crime & Money Laundering: Analysis of Primary Sources of Information on Trends

Source	**Key repositories of data**	**Type of data**	**Limitations**
Police	Police statistics Senior officers Station heads, detectives, Economic and commercial crime units, Narcotics bureaus, Crime intelligence	Crime statistics Proceeds of crime Criminal syndicate identities Case experiences Existing measures Crime trends and patterns	Might not be comprehensive (will not record unreported crimes) Limited penetration analysis - may overlook destination of proceeds of crime May be reluctant to divulge pending cases Political motive to play down levels of crime
Anti-Corruption Bureau/ Commission	Director of bureau, investigators	Agency records for pending cases Completed case records/files	Disclosure may be prevented by confidentiality or for legal reasons Records may not be centralised Corruption Political motivation may deter certain investigations
Revenue Authority (customs/ taxation)	Tax (income, retail and value added) records Duty collection records Trade trends (imports and exports) Trade volumes Statistics officials	Economic statistics Scale and nature of inflow and outflow of imports and exports, declarations of value, avenues of legitimate trade Non-declared income (corporate and individual)	Corruption may compromise record keeping or efficiency Inter-country arrangements may make record keeping unnecessary Illicit sources of incoming/outgoing commodities may not be detected Eventual destination of incoming commodities will not appear Goods through undesignated points unrecorded May be difficult to make sense of mixed mass of information

[20] A. Standing & H. Van Vuuren 'The role of auditors: Research into organised crime and money laundering' (2003) ISS Occasional paper, number 73.

[21] ISS Workshop on Money Laundering in Malawi, Protea Ryalls Hotel, 29 September, 2004.

Reserve/ Central Bank	Regulatory units Bank supervision Anti-ML units	Authentication of remittances Fiscal information Economic data Average income levels Size of the legitimate economy	Absence of legislative duty Ethical considerations may impede openness Political pressure may result in non-disclosure Capacity constraints
National Intelligence Bureau	Internal security unit External security unit Specialised crime unit	Border security Case experiences Effectiveness of existing measures Patterns and level of economic crime Identity of criminal syndicates	Not comprehensive (will not take account of unreported crime) Preoccupation may be with political rather than criminal threat Corruption may effect reliability Confidentiality to protect sources Reciprocal obligations to counterpart organisations may impede information disclosure Political motive to downplay incidence of crime Penetration analysis may be limited
Directorate of Public Procurement	Director	Tender documents Information on awards of tenders Verification of existing companies Tender compliance	Might not be systematically documented
National Construction Industry Council	Head of council, officials	Verification of eligible and ineligible companies	Lack of capacity
National Audit	Auditor General	Information on criminal misuse of public resources	Limited resources and time affect reliability Restricted to public sector
Directorate of Public Prosecutions	DPP	As with the police	As with the police
Road Traffic Directorate	Director	Vehicle registration Crime statistics	Corruption Lack of capacity Might not be systematically recorded
Ministry of Commerce	Head of ministry, bureaucrats	Licences Type of business conducted by companies	
Immigration Department	Immigration officials and registers	Inflows and outflows of migrants	Corruption may affect availability or reliability of data Accessibility Inadequate technology (records prepared manually)
Registry of Companies	Companies registrar Actual registers	Intellectual property records and transfers Assets attributable to individuals Beneficial interests in corporate entities Unexplained wealth Suspicious registrations	Corruption may affect availability or reliability of data Accessibility Inefficiency Incomplete records
Currency Exchanges (bureaux de change)	Transaction records Bureau operators Oral and documentary survey of clients	Transaction records Efficacy of control measures Turnover over pre-determined period Potential for abuse Empirical evidence of actual abuse for ML activity	Poor documentation (sources of currency exchanged not documented) Corruption Involvement in criminal business No obligation to co-operate with non-statutory institutions

Investment Banks and Discount Houses	Management	Transaction records Investment values Individual deposits	Bank confidentiality
Insurance Companies	Insurance agents Insurance brokerages	Asset values and holdings Paid out claims Fraudulent claims Economic impact of crime	High volume of transactions Poor record keeping The use of intermediaries may obscure linkages Absence of relevant legislation Corruption
Estate Agents	Records of property sales	Property values Beneficial interests in fixed property	Absence of regulation Confidentiality duties to clients Corruption
Legal Profession	Lawyers Lawyers financial records	Property transactions Trust settlements and identification of beneficiaries	Lack of legal obligation to disclose Client privilege Collusion
Accountants and auditors	Accountants, auditors	Statement of affairs/accounts Audit reports Verification of existence of corporate bodies	No legislative obligations Confidentiality Collusion Lack of client profiling
Commercial agents	Sales persons	Origin of goods Value of imports Volume of imports	Collusion with dishonest clients
Clearing and forwarding agents	Sales persons Dealership owners Sales records	Ownership of goods Value of goods Frequency of imports and exports Duties payable Tax history Methods of purchase	Poor record-keeping Source of funds may not be visible Collusion and corruption High volumes may make task of collating information difficult
Commercial Banks	Bank managers Bank tellers Foreign currency departments	Individual deposits Fraud statistics Suspicious transaction reports Economic impact of crime Foreign currency levels	Lack of national identification system Not systematically documented Bank confidentiality Competition No obligation to report suspicious transactions
Motor Vehicle Dealers	Sales persons Dealership owners Sales records	Motor vehicle sales Purchaser identities/nationalities Methods of purchase	Poor record-keeping Origin of funds may not be visible No obligation to report High volumes may make task of collating information difficult Where vehicles financed through third party intermediaries, records will be difficult to use
Interpol (SARPCCO)	Nat. Crime Bureau reports Economic crime data Bureau chief	Narcotics data Trends and patterns of crime Identity and size of crime syndicates Anti-crime networking	Heavily reliant on constituent members statistics Insufficient analysis Capacity constraints No authority to release data

Summary of indicators

The indicators can be grouped into two categories: indicators of the incidence of economic crime and indicators of its impact.

Incidence of Economic Crime

- Scale of the trade in commodities obtained by stealth - through theft, falsification or smuggling
  - data on vehicles stolen in the country, less recoveries
  - data on average incomes in the national economic hub centres
  - data on registration of vehicles imported into the country
  - aggregate values of imported vehicles
- Manifestation of the challenges of transition, or political crisis
  - declining wages, increased opportunities for crime;
  - diminished penalties and falling moral values;
  - close linkage between political power and access to economic leverage;
  - imbalance in resources between the law enforcement structures and criminal organisations.
- Abundance of hard currency
- Unexplained disparities between production declared by the state and exports (of precious resources, such as minerals)
- Unrecorded income from precious resource sales

Indicators of Impact

- Level of inflation
- Level of poverty
- Level of commercial crime
- Level of under-development
- Degree of corruption
- Costs of establishing and maintaining corporate security systems
- Extent by which insurance premiums are affected by levels of crime
- Correlation between crime and levels of taxation

Conclusion

While there is broad and evident consensus about the need to respond adequately to serious economic criminal activity, clarity on the terrain for which responses should be designed continues to elude policy and decision makers, particularly in Southern Africa. Various reasons may be blamed for this state of affairs. They include the dearth of empirical research on the nature and scale of crime, even in respect of crimes considered to be priority crimes. The gap in the current environment has tended to be filled by misconceptions on the nature of organised crime groups and criminal business in general.

This paper proposes a method by which to develop a set of indicative factors that could facilitate a better understanding of the scope of criminal business (in its most comprehensive form) as well as facilitate the assessment of the threat that this business raises to economies from time to time.