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ORGANIZED CRIME AND THE LEGAL ECONOMY

THE ITALIAN CASE



FACTS

Organized crime and the legal economy. The Italian case

United Nations Interregional crime and Justice Research Institute (UNICRI)

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Domestic organized crime groups, especially the Camorra, the 'Ndrangheta, and the Cosa Nostra, operate across numerous economic sectors, both in Italy and abroad, and their illicit proceeds represent the main source of laundered funds.

Illicit markets remain the main source of profit for organized crime groups in Italy, and more broadly in Europe. However, the border between illegal and legal activities of organized crime is hard to define. Financial as well as human resources are increasingly being circulated from one sector to the other, without interruption.

Findings based on the analyses of the data and cases provided by the Italian authorities

The infiltration into the legal economy can take different forms. Usually, it results in the direct or indirect control by organized crime of legal enterprises; these are acquired through – inter alia – fictitious interposition of third persons to avoid repercussions from preventive measures, such as freezing orders or assets seizures.

The creation of monopolies in specific sectors, in view of favouring the criminal enterprise, is usually perpetrated by organized crime through intimidation and violent practices. This is also a result of the distortion of competition rules created by criminal infiltration.

The cases analysed highlighted specific techniques put in place by the Camorra groups, which include the following steps:

- the clan approached entrepreneurs who were facing cash flow problems;
- in some cases the economic actors were victims of extortion, with parallel proposals of loans at usury rates;

- in some cases, entrepreneurs asked funds to criminal groups, fully aware of the risks, including the establishment of a corporate agreement with the criminal ‘partner’;
- in this latter case, the licit company was progressively absorbed by the criminal group, it became a significant component of the organization, and a crucial element for reinforcing its growth capacity through laundering mechanisms or the reinvestment of profits coming from illegal activities.
- Another case proves how the members of a Camorra clan were involved in the wholesale of sea products through a licit commercial activity (example of infiltration in the food sector). One of them was the formal owner of a retail business. A monopoly was created at local level by imposing products and significantly distorting the rules of free competition.

Traditional organized crime activities, such as extortion and the imposition of protection money, impact the legal economy and are usually implemented side by side with attempts to directly or indirectly own legal enterprises.

Examples from the analysed operations demonstrate that extortion takes different forms: one of the main clans of Camorra (Mazzarella) often uses the imposition of food products by infiltrating the legal distribution chain; other cases show that the extortion requests involve small sums of money, mostly serving as a way to confirm the clans’ control over the territory.

The report highlights the growing importance and complexity of the grey area. Organized crime is increasingly relying on the support of several actors, as lawyers and strawmen, which are ready to help the criminal group wanting to conceal the illicit proceeds of crime.

One example from the analysed set of data proves the increasing interrelation among ‘Ndrangheta (Gallico group), politics and apparently licit business actors. The two attorneys involved in the case played a crucial role in the creation of an *offshore* society and in the transfer of properties belonging to the criminal group to the society – to avoid patrimonial preventive measures. The properties (lands) were also used to obtain State subsidies from crops cultivation.

The infiltration of organized crime into the legal economy is growing, and has a serious impact on the economy and society.

The weight and extent of assets confiscated by the law enforcement from criminal networks in Italy, even if they represent only a fraction of the total amount of the economy created and managed by organized crime, can be considered a good proxy of it, and demonstrate the impact of organized crime’s infiltration into the legal economy.

Growth of seizure orders:

- The number, complexity and geographically dispersion of seizure orders has increased in recent years, moving from levels below 50 per-year to levels constantly above the rate of 100 per-year.
- During the 1980s seized properties were always below 250 per year, but, since the early 1990s, a strong increasing trend has begun, and the number of seized goods reached levels higher than 500 per year by the end of that decade. After 2000, the total number of real estate requisitions has always been approximately, or above, 500 per year.

Where organized crime invests his funds and extent of penetration

- Real estate properties form the largest category of property seized between 1983 and 2012 (52.3%), followed by vehicles (20.6%), financial credits (11.7%), firms and stocks (8.7%).
- Out of 12,311 seized properties, residential dwellings form the largest category (approximately 40%), while land properties, both for construction and agriculture, represent approximately 25% of the total number.
- Before the 2000s, the total yearly value of seized real estate was always close to, or below, €50 million.

In more recent years, there has been a remarkable increase in the value of seizures, and levels well above €50 million per year have become very common.

- The estimated total value of confiscated assets over the period considered 1983-2012 amounts to approximately €1.5 billion. Almost €690 million of confiscated assets are located in Sicily alone. Other regions with high levels of organized crime monetary investments in the real estate market are Campania, Calabria, Lombardy, Lazio and Apulia.
- In Italy, the total value for all real estate assets seized from organized crime during the period 1983–2012 values at approximately € 1,452,000,000, corresponding to 0.1% of Italy's GDP in 2012. Considering the total amount of real estate investments in Italy, the proportion of criminal economic penetration into the real estate market is on average equivalent to €22 million for every €100 billion worth of building assets. Looking at regional data, this rate is remarkably high in Sicily (190), Calabria (120), Campania (31) and Apulia (28), and among other “non-traditional” regions such as Lombardy (14) and Lazio (16).
- In the years under analysis (1983-2012), a total of 1,708 firms have been seized in Italy. By comparing the number of seized firms with the total number of registered firms in every sector of activity, we can measure the relative weight of each sector on the overall economy. The sectors which emerge as more affected by organized crime penetration are the mining sector (49 per 10,000), followed by the health and other public services sector (17.2 per 10,000) and the constructions sector (5.3 per 10,000).
- The most common juridical forms chosen by organized crime are companies (48.6%), with sole proprietorships (23.9%) and partnerships (23%).
- Considering the total number of seizures, the three sectors which are more exposed by the penetration of organized crime firms are the constructions sector (27.9%), the wholesale and retail trade (27.6%), and the accommodation and food industry sector (10.1%).
- More than 95% of seized firms were located in only six regions: Sicily (36%), Campania (20%), Lombardy (13%), Calabria (9%), Lazio (8%) and Apulia (8%). Sicily alone counts for more than one third of all seized firms.
- A considerable number of organized crime firms are also situated in the north of the country. In this part of Italy, the leading region is Lombardy, where more than 200 seized firms operated, an amount corresponding to 13% of the total. Other northern regions in which a considerable number of firms were seized are Emilia Romagna (26), Liguria (15) and Piedmont (13).
- The rate of criminal penetration among firms by region (the number of seized firms for every 10,000 registered firms in the region) shows that Sicily (13.44), Calabria (8.99), and Campania (6.18) have the highest levels of criminal penetration, followed by Lombardy (2.37) and Lazio (2.27).
- Seized firms show an evolution toward more complexity when looking at their geographical location over time. Until the beginning of the 1990s, the bulk of organized crime firms were located in Sicily. The number of seized firms started to grow remarkably since then. The areas that contributed the most to the growth in seizures observed in the second decade are Campania (29% of the total growth in seizures and 149 additional confiscations from the first to the second decade), Sicily (26%), other southern regions (16%) and Lombardy (15%).

The illicit access to public (and private) biddings is another strategy widely applied by organized crime. As demonstrated in the case of reconstruction work after the earthquake in L'Aquila in 2009, criminal organizations took advantage of profit-making opportunities with respect to both public and private sector construction projects.

During investigation activities conducted by specialized law enforcement offices and teams of prosecutors, the authorities verified that companies connected to criminal organizations were operating in more than 40 construction sites during the reconstruction works in L'Aquila after the earthquake.

The role of external actors and the use of corrupt practices are fundamental for organized crime deciding to operate in the legal economy. In particular, political and economic actors are vulnerable to organized crime pressures, and they may create an “entry point” for criminals into the legal economy. The example of votes trading during political elections in exchange for subsequent favours for public biddings, to be provided by the elected candidate, is clear in this regard.

An example from the cases analyzed: ‘Ndrangheta gathered votes for Councilman Zambetti Domenico in exchange for cash payments totalling to €200,000 and guarantees of access to public funding and influence within the political system. The scheme totalled approximately €50 paid for each vote received by the councilman.

It is very difficult to provide monetary estimates concerning the value and size of organized crime infiltration into the legal economy as well as on the quantification of its impact. However, two main findings from the quantitative analysis stress that: regions with deeper criminal penetration perform worse with respect to economic development; and there is a positive association between higher public expenditure in public security and the number of requisition orders.

Comparing the levels of regional GDP per capita in 2012, and the rate of criminal penetration into firms, three patterns of criminal investment seem to emerge.

- First, a negative relationship between organized crime penetration and economic performance has emerged in the southern regions with a long tradition of organized crime presence (Sicily, Campania, Calabria and Apulia). Indeed, such regions have the lowest GDP per capita levels and the highest rate of criminal penetration. In this case, strong existing ties between criminal organizations and the local environment, as well as potentially high social returns from investments in the legal economy, probably represent the main sources of attractiveness for illegal funds.
- A second trend has emerged in some regions with a relatively high standard of living, such as Lombardy and Lazio, which nevertheless attract a high amount of investment from organized crime. In these cases, the organized crime penetration is more recent, and the attractiveness of these regions could be attributed to the pivotal role that they play as Italian political and financial powerhouses.
- Finally, there are some regions that experience a low level of criminal penetration, and are quite heterogeneous in terms of economic performance. Such regions may be less vulnerable to organized crime penetration for several reasons. In some cases, low levels of economic wealth, together with weaker ties with criminal groups, may imply that such regions do not offer attractive investment opportunities for illegal funds. For other regions instead, good economic performances may act as a deterrent for illegal investments, because there could be less incentives in starting illegal activities whenever the legal economy offers high returns.