

# Corruption, Security, Illicit Trade: Connecting the Dots

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# AC: Strategic Site

- Crime per se and instrument for other crimes - ranging from money laundering and terrorism to fraud and organized criminal activities
- It can be a predicate offense but also tool for ML, TBML and financial crime and criminal groups

# Corruption is

- The breach of trust, abuse of private/public power or office for self-interest despite or against collective interests

# Corruption and Security Threats

- Cause of instability, turmoil, extremism
- Facilitates particular terrorist acts
- Undermines Controls
- Contributes to criminal infrastructures, networks and power
- Financially supports militants who may tax or use these methods and infrastructures
- TF and ML empower criminal groups
- Insecurity creates market for corruption and OC

# Answers

- Focus on big picture and appreciate context (research)
- Strategy
- Peer review and self-reflection
- Coordination
- Use of new technologies for control of illegal trade
- Promote collective impact initiatives and PIs

# Theoretical Framework

- Ends – Means Discrepancies
- Adaptations
- Deviance
- Reduced guiding power of norms (esp. if social control does not succeed)
- Spreading deviance

- Actual deviance [crime as solution]
- Communication of neutralizing views
  - Did it for the company; no one was hurt; everyone does it, not my job to check if X had a license; broke unclear laws, etc.
- Creation of sub-culture
  - backed up by market ideology
- Normalization of deviance
  - Misconduct is routinized – unless controls kick in

# Globalization fuels crime by

- Creating means-ends disjunctions: it fosters lofty expectations in many countries and then frustrates them
- Activating criminogenic potential of asymmetries whereby
  - Crime opportunities rise
  - Motives are plentiful
  - Controls get weaker



# Criminogenic Asymmetries

- Structural discrepancies in the realms of law, the economy, politics, culture, technology, power
- They are produced in the course of interactions between unequal actors (individual or organizational) or systems with distinctive features

- If socio-economic and political asymmetries are the context against which serious crime, illicit flows, corruption, organized crime and security challenges are to be analyzed, we need to draw the big picture:
- who contributes to the production and maintenance of such asymmetries?

- Globalism and neo-liberal policies foster new needs and desires that are left unfulfilled
- Promises of more freedom, prosperity, and equality for a larger number of people broken
- Economic and power inequalities widened within and across countries in the last 2.5 decades – [;2](#)
- Means-ends disjunctions systematically created (Afghanistan, Iraq, Syria, Libya are obvious illustrations) by military interventions that fell far short of expectations – violent conflicts, criminal markets, migration and refugee flows

# Corruption as Cause of Insecurity

- Undermines governance and all public policy and services, making for instability and turmoil
- Public protests related to corruption in all continents

# High-level corruption

- Produces criminogenic asymmetries
- Inequalities
- Tax evasion – avoidance (has same effects)
- Capital flight
- Migration waves
- Brain drain
- Instability
- Extremism - renders people vulnerable to radical ideas

- Or can trigger revolution – Mohamed Bouazizi in Tunisia – self-immolation due to harassment, demand for bribes, confiscation of his street wares and humiliations by police



# Corruption fuels extremism

- Grievances drive people to despair and motivate them to take up arms and violently fight for some form of a resolution.
- Corruption is oppression, a violation of human rights; increases inequality
- If unaddressed and unarticulated in a can lead to conflict and acts of terrorism

- More population shifts but inconsistent globalization blocks human flows – new markets for corruption
  - Illegal migration and human smuggling
  - Human trafficking
  - Underground economies and cross-border trade
  - More organized crime, revenue loss, corruption



# Facilitation of terrorist acts

## Russian Plane Bombers Exploited Corrupt System

*By Peter Baker and Susan B. Glasser*  
Washington Post Foreign Service  
Saturday, September 18, 2004; Page A01

MOSCOW, Sept. 17 -- A thousand rubles, or about \$34, was enough to bribe an airline agent to get a Chechen woman on board a flight just before it was bombed, according to Russian investigators. The agent took the cash, and on a ticket the Chechen held for another flight simply scrawled, "Admit on board Flight 110."



# T-OC interface typology

- Protection or informal taxation of illicit trade (e.g., Shining Path, AUD, FARC).
- Ideology as camouflage for a criminal enterprise (Northern Alliance, KLA, Contras).
- Direct involvement in illicit trade (ISIS, Islamic Movement of Uzbekistan or Abu Sayyef).
- Partnership in illicit trade (e.g., IRA, PKK)
- Individual members occasionally get involved in the trade (e.g., LTTE, IRA).
- Traffickers sympathize with a cause and make a contribution (tobacco and Hizbollah)
- Simple exchange relations (e.g., arms traffickers sell to FARC or LTTE)

# Bureaucratic and petty corruption

- Undermines justice system (AML, CFT, counter-proliferation, anti-corruption...)
- Supports criminal enterprises
- Facilitates illicit trade and financial flows
- Which further weaken state and governance

# Enables criminal enterprises and infrastructures

- Blind eyes for smuggling, illegal trading, illegal migration, slave labor, human trafficking for sexual exploitation, organ trafficking, proliferation, etc.
- Obstruction and cover-up of criminal activities
- Which interface and support extremism

# ML - Corruption may

- Facilitate predicate offenses that create the proceeds to be laundered
- Facilitate the fraudulent elements of trade
- Neutralize controls and law enforcement -  
Customs corruption sabotages (blind eyes), obstructs (after fact) or undercuts capacity to control borders effectively

# APG

- The most common predicate offense in TBML is tax evasion and Customs offenses
- Also commercial fraud, intellectual property rights, narcotics, human trafficking, terrorist financing, embezzlement and corruption, organized crime (racketeering)

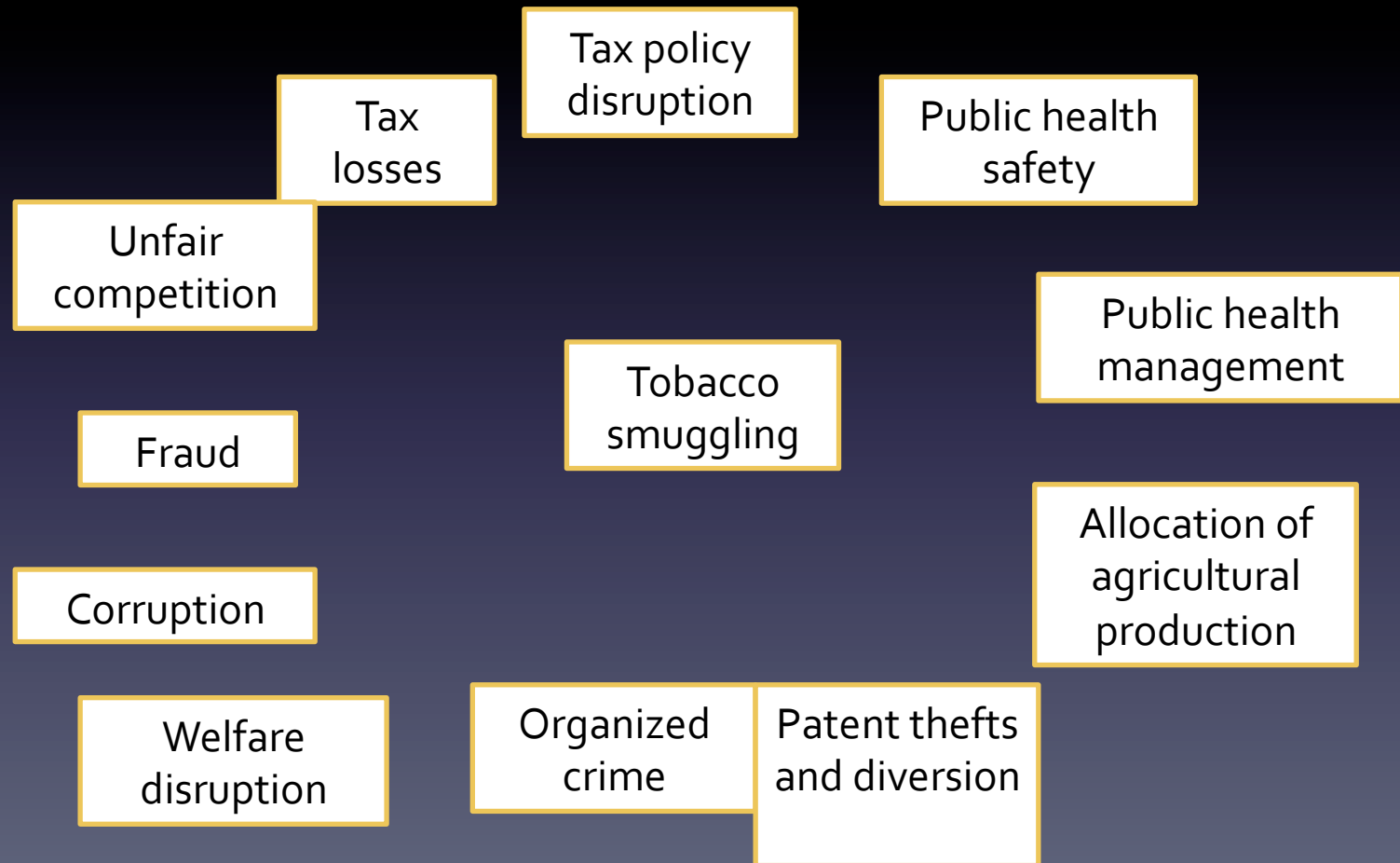
# Institute for Science and International Security report

- Finds that “in pursuing its banned or illegal activities North Korea often cooperates with or otherwise exploits countries with weak or nonexistent export and proliferation financing controls and those that suffer on average from more corruption than other countries”

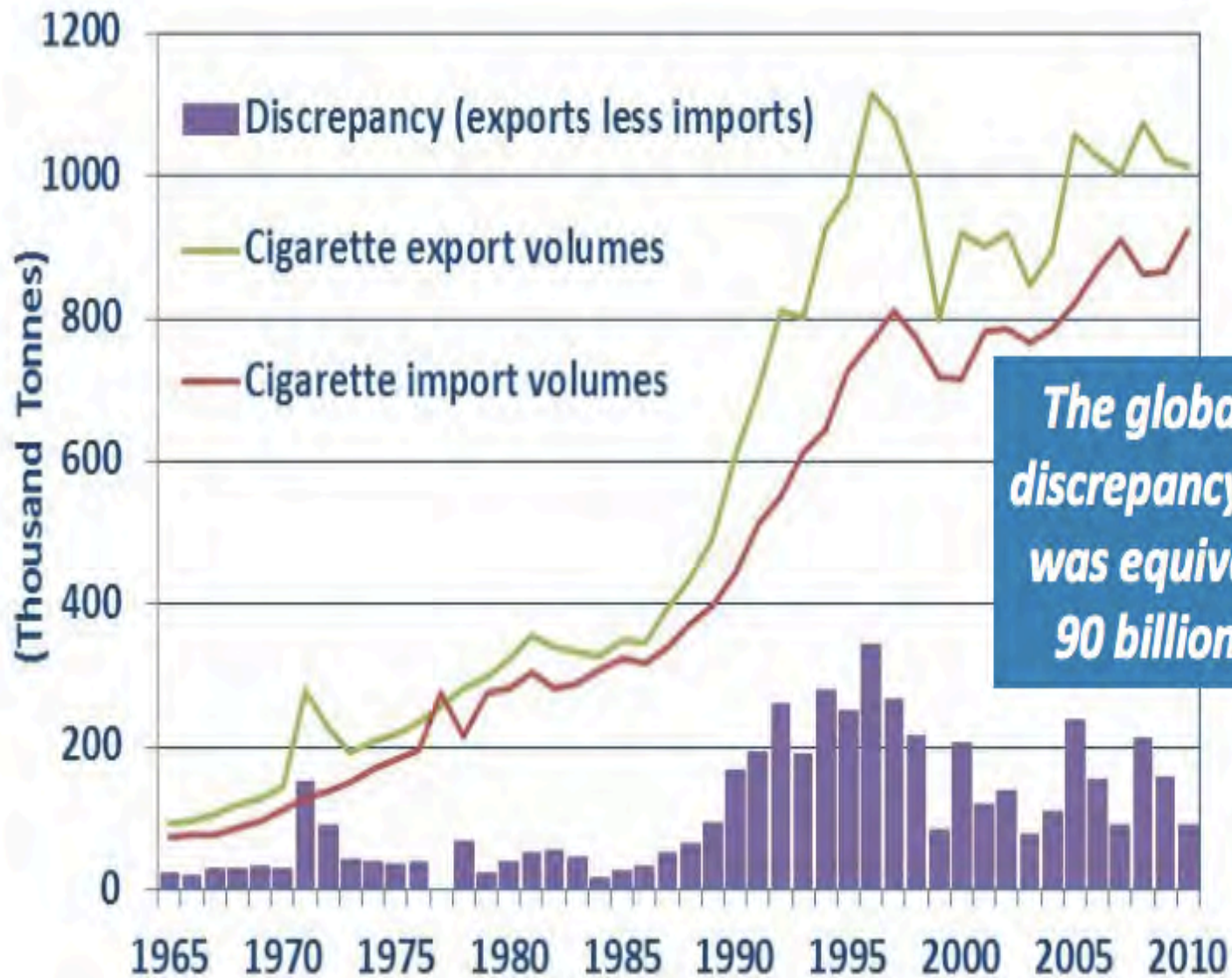
# Illegal tobacco trade



# Tobacco smuggling: many adverse effects



# Export-import disparities



*The global trade discrepancy in 2010 was equivalent to 90 billion sticks*

# Smuggling Data

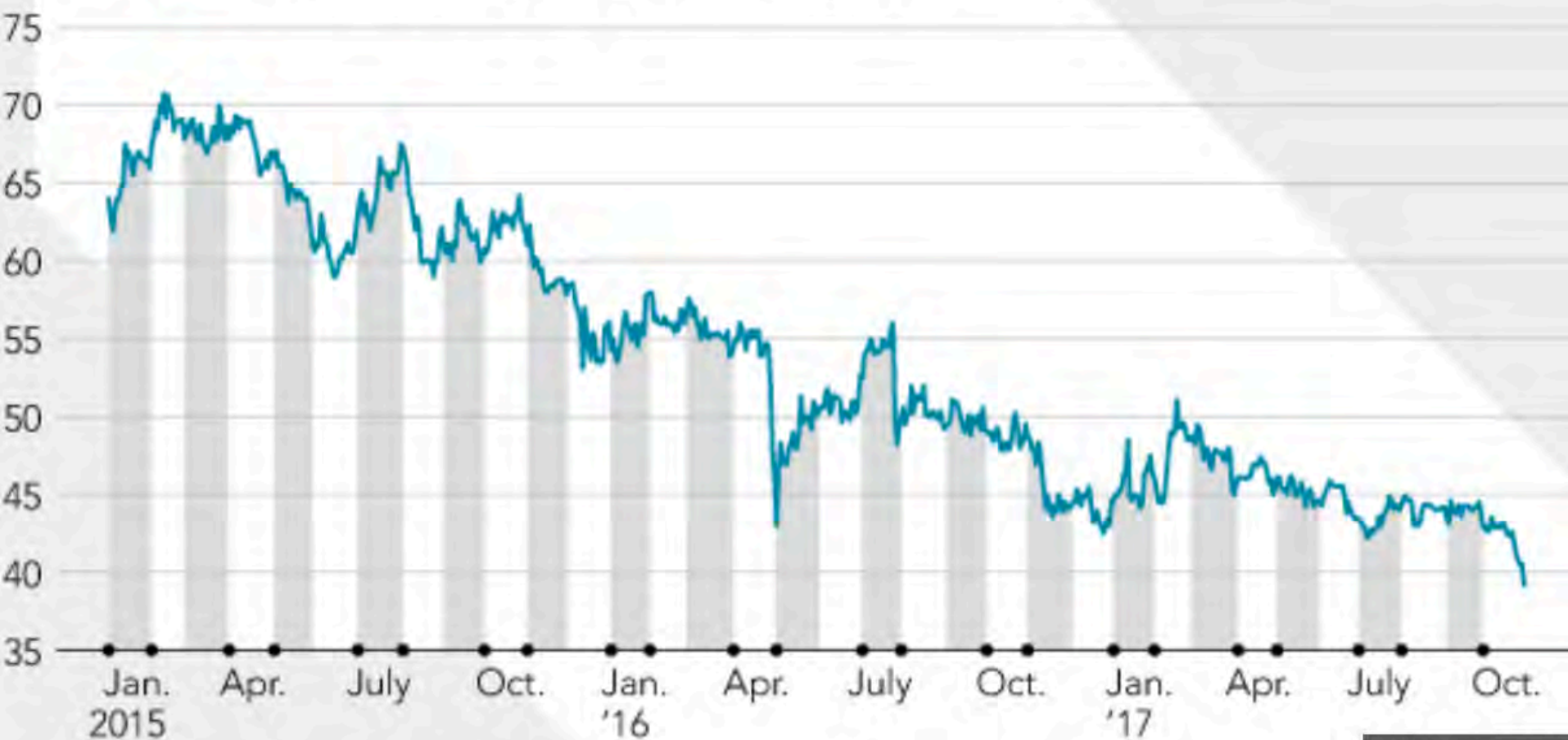
<b>Euromonitor estimates</b>	<b>Retail Sales volume</b> (Billion Sticks)	<b>Illicit Trade Share</b> (% retail sales)	<b>Illicit trade volume</b> (Billion Sticks)
Asia and the Pacific	3,474	8.4%	291
Eastern Europe	701	8.4%	59
Latin America	252	16.7%	42
Middle East & Africa	405	10.6%	43
North America	343	7.9%	27
Western Europe	562	8.7%	49
<b>World</b>	<b>5,152</b>	<b>9.0%</b>	<b>462</b>

# Malaysia: Actual government revenues and estimated Tax Loss

	2012		2013		2014		2015		2016		% change in local currency 2015-2016
	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	MYR bn	USD mn	
Actual revenue from excise duties on tobacco	3.3	1,074	3.4	1,076	3.5	1,055	3.4	911	3.5	847	4.5%
Estimated number of illicit cigarettes purchased (cigarettes bn)	7.9		7.8		6.7		6.6		9.6		46.1%
<b>Estimated Tax Loss from Illicit Consumption</b>	<b>1.9</b>	<b>622</b>	<b>2.0</b>	<b>624</b>	<b>1.9</b>	<b>577</b>	<b>2.2</b>	<b>562</b>	<b>4.3</b>	<b>1,028</b>	<b>94.4%</b>
Lost excise revenue	1.8	587	1.9	587	1.8	545	2.0	507	3.8	923	93.5%
Lost GST revenue	0.1	35	0.1	36	0.1	32	0.2	55	0.4	105	103.6%
<b>Excise Tax Loss as % of potential total Excise Tax revenues</b>	<b>35.3%</b>		<b>35.3%</b>		<b>34.1%</b>		<b>37.1%</b>		<b>52.2%</b>		

Source: Malaysian Ministry of Finance and Oxford Economics based on PM data

# Stock price of British American Tobacco Malaysia has been trending down amid proliferation of illegal cigarettes *(in ringgit)*



5 days ago

- Governance and human flows -raising of expectations and aspirations and then systematically frustrate them
- Globalization – ideas, attitudes, expectations, goods, capital, but not people

# Research suggests that

- Corruption is a push factor of migration

# Gender, race, privilege impacts

- Corruption has always greased the wheels of the exploitation and injustice
  - From ethnic cleansing to institutionalized racism, actors abused their powers at great cost for the many
- The vulnerable and marginalised – women, [children](#) and minority groups –suffer most. In dealings with police, judges, hospitals, schools and other basic public services, poor citizens tend to suffer more violations than the rich and lose a larger share of their resources



- Sextortion, for example, often takes place when women cannot pay bribes.
- Many will not report it because receiving a benefit may make it seem “consensual” even when they don’t have a choice.

# Examples

- In Mexico, circa 25% of the income earned by poor households is lost to petty corruption
- In Bangladesh, nearly one-third of girls trying to enroll in a government stipend scheme for extremely poor students had to pay a bribe, while half had to make a 'payment' before collecting their awarded scholarship
- In Madagascar, one-quarter of all households are forced to cover school 'enrolment' fees although all primary education is 'free'

# Traffic in persons

- Vulnerability of victims
- Tempted officials (consular, borders, police)
- Infiltrated legal economy (hotels, entertainment industry, real estate, etc)
- Elite clients

# Tone at the top in business and government

- EY
- Lawful but awful corporate practices (D. Shield, risk taking, trusts, tax avoidance, toxic waste disposal)
- Integrity in foreign policy - Afghanistan, Iraq, Syria, Libya, Somalia, Yemen, DPRK – SIGIR/SIGAR lessons (to be) learned
- Integrity in foreign aid

# EY 14th Global Fraud Survey



**42%**

could justify unethical behavior to meet financial targets

While not consistent with the people with whom we work - our survey found that an alarming number of CFOs and finance team members would be willing to engage in unethical behaviors:

**16%**



of finance team members below the CFO would make a cash payment to win or retain business - higher than 13% of all respondents

**7%**



of finance team members below the CFO would misstate financial performance - nearly double the proportion of all respondents which stood at 4%

- Reconstruction efforts in conflict zones hampered by corruption in procurement and public works
- Undermines legitimacy of international interventions
- Destroys reconstruction efforts
- Private-to-private corruption, as functions outsourced to private sector
- Odious debt debates

- This brings up question of policy and priorities
- Foreign policy (Afghanistan, Diego Garcia/ Chagos, Iraq, Libya, Yemen, etc.)
- Accountability and better understanding of own role - but also capacity to reduce impact and asymmetries

# Justice Center in Parwan Courthouse Stands Incomplete





# Full circle

- Ill thought policies, human rights violations, regulatory fundamentalism and corrupt practices in fragile states lead to extremism; then
- Terrorism creates market for corruption and OC: refugees and migrants from Libya, Syria, Somalia, Iraq Afghanistan, Palestine, Myanmar – look at what they are fleeing: vulnerable to exploitation, radicalization, entry into criminal enterprises





# Some good news and practices

- Islands of integrity
- Participatory budgeting
- I didn't pay a bribe
- Potential for collective Impact initiatives
- UNCAC requirement for strategy

# Even small steps matter

- State of anti-corruption depends on the balance of opportunities for corrupt practices and constraints/controls

# Goals and objectives?

Περιγραφή	Πρωτ. Διαστ.	Εσοδα διαστ. /περιωθ.	Προσ. Ελεγχoi /Υπαλληλο	Προσoδος Προσ. Ελεγχων	Κατασχέσεις/Ληξ.	Μη Συμμορφωση
ΑΘΗΝΩΝ Α'	26.95%	3988.89	0.38	1.36	3.59%	2.36%
ΑΘΗΝΩΝ Δ'	13.17%	2083.20	0.49	1.00	0.16%	2.70%
ΑΘΗΝΩΝ ΙΑ'	8.51%	873.50	0.29	0.73	0.16%	2.57%
ΑΘΗΝΩΝ ΙΒ'	18.78%	3758.68	0.67	1.87	5.85%	1.45%
ΑΘΗΝΩΝ ΦΑΒΕ	49.85%	74250.43	0.69	2.56	1.52%	11.20%
ΠΑΛΑΙΟΥ ΦΑΛΗΡΟΥ	2.24%	1583.27	0.19	0.43	1.39%	1.94%
ΧΑΛΑΝΔΡΙΟΥ	3.94%	2979.51	0.72	1.14	0.97%	2.48%
ΑΜΑΡΟΥΣΙΟΥ	3.74%	3270.61	0.37	0.50	0.07%	2.20%
ΓΛΥΦΑΔΑΣ	21.54%	1214.08	0.39	0.69	1.05%	2.14%
ΚΗΦΙΣΙΑΣ	19.71%	2274.80	0.59	1.33	0.78%	1.79%
ΝΕΑΣ ΦΙΛΑΔΕΛΦΕΙΑΣ	26.88%	1334.28	0.63	2.45	0.00%	0.54%
ΑΘΗΝΩΝ ΦΑΕΕ	14.62%	97221.51	1.10	1.44	2.72%	9.45%
ΨΥΧΙΚΟΥ	16.46%	1319.50	0.22	1.10	0.21%	1.28%
ΠΕΙΡΑΙΑ Α'	20.96%	2909.78	0.83	1.17	0.56%	3.23%
ΠΕΙΡΑΙΑ ΦΑΕ	10.86%	37056.47	0.59	0.75	1.88%	8.99%
ΠΛΟΙΩΝ ΠΕΙΡΑΙΑ	9.71%	927.04	0.07	0.25	0.23%	7.82%
ΜΟΣΧΑΤΟΥ	10.01%	4403.91	1.45	3.23	4.60%	2.37%
ΑΧΑΡΝΩΝ	9.72%	2298.71	0.79	0.82	0.20%	2.90%
ΕΛΕΥΣΙΝΑΣ	14.20%	948.74	0.07	0.15	0.25%	3.02%
ΚΟΡΩΠΙΟΥ	3.36%	2951.49	0.43	0.95	0.90%	2.83%
ΠΑΛΛΗΝΗΣ	11.52%	1164.94	0.13	0.16	0.49%	3.11%
ΘΗΒΑΣ	0.17%	1813.75	0.00	0.00	0.00%	3.66%
ΧΑΛΚΙΔΑΣ	9.82%	1318.41	0.87	1.37	0.07%	2.41%
ΠΑΤΡΩΝ Α'	2.81%	4551.21	1.12	1.14	0.60%	2.72%
ΚΟΡΙΝΘΟΥ	11.27%	305.98	2.09	1.95	0.08%	2.39%
ΛΑΡΙΣΑΣ Β'	13.57%	2767.06	1.84	6.00	2.16%	1.80%
ΘΕΣΣΑΛΟΝΙΚΗΣ Α'	15.93%	2230.19	0.48	0.74	0.06%	3.18%
ΘΕΣΣΑΛΟΝΙΚΗΣ Β'	9.96%	3774.61	0.37	0.48	0.35%	5.72%
ΘΕΣΣΑΛΟΝΙΚΗΣ Ζ'	12.36%	2037.83	0.19	0.42	0.47%	2.20%
ΘΕΣΣΑΛΟΝΙΚΗΣ ΦΑΕ	6.98%	30766.31	0.30	1.00	24.50%	12.55%
ΚΑΛΑΜΑΡΙΑΣ	21.08%	1574.89	0.36	0.63	0.12%	1.84%
ΡΟΔΟΥ	8.42%	630.29	1.01	1.03	0.03%	3.35%
ΗΡΑΚΛΕΙΟΥ Α'	3.23%	2819.58	0.00	0.00	0.05%	2.96%
ΗΡΑΚΛΕΙΟΥ Β'	5.36%	921.03	0.93	4.13	0.03%	3.20%

Number of cases

Thousands

600  
500  
400  
300  
200  
100  
0

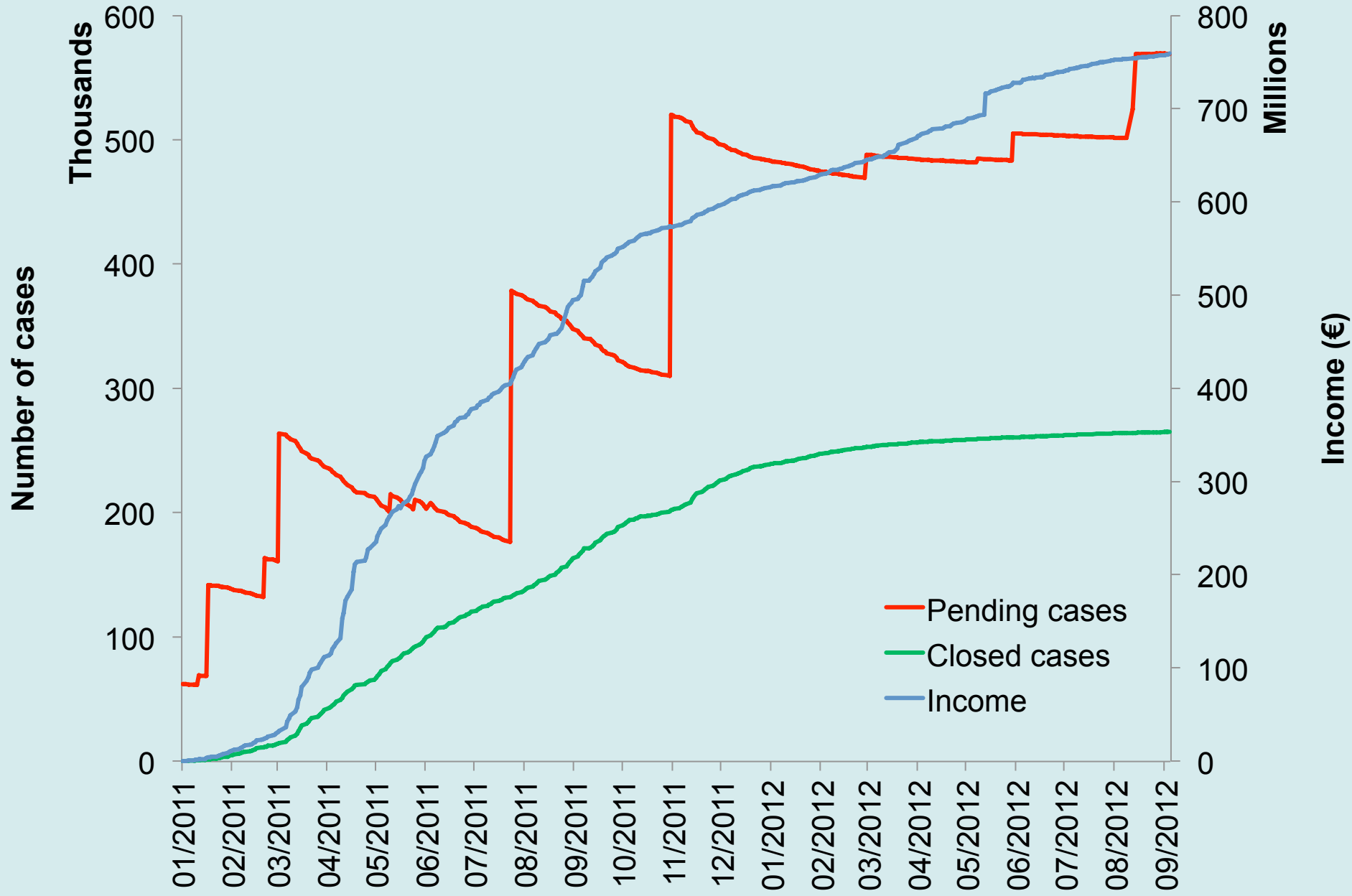
01/2011 02/2011 03/2011 04/2011 05/2011 06/2011 07/2011 08/2011 09/2011 10/2011 11/2011 12/2011 01/2012 02/2012 03/2012 04/2012 05/2012 06/2012 07/2012 08/2012 09/2012

Pending cases  
Closed cases  
Income

Millions

800  
700  
600  
500  
400  
300  
200  
100  
0

Income (€)



# Better donor controls



# Values, Ethical Leadership and Compliance



**42%**

could justify unethical behavior to meet financial targets

While not consistent with the people with whom we work - our survey found that an alarming number of CFOs and finance team members would be willing to engage in unethical behaviors:

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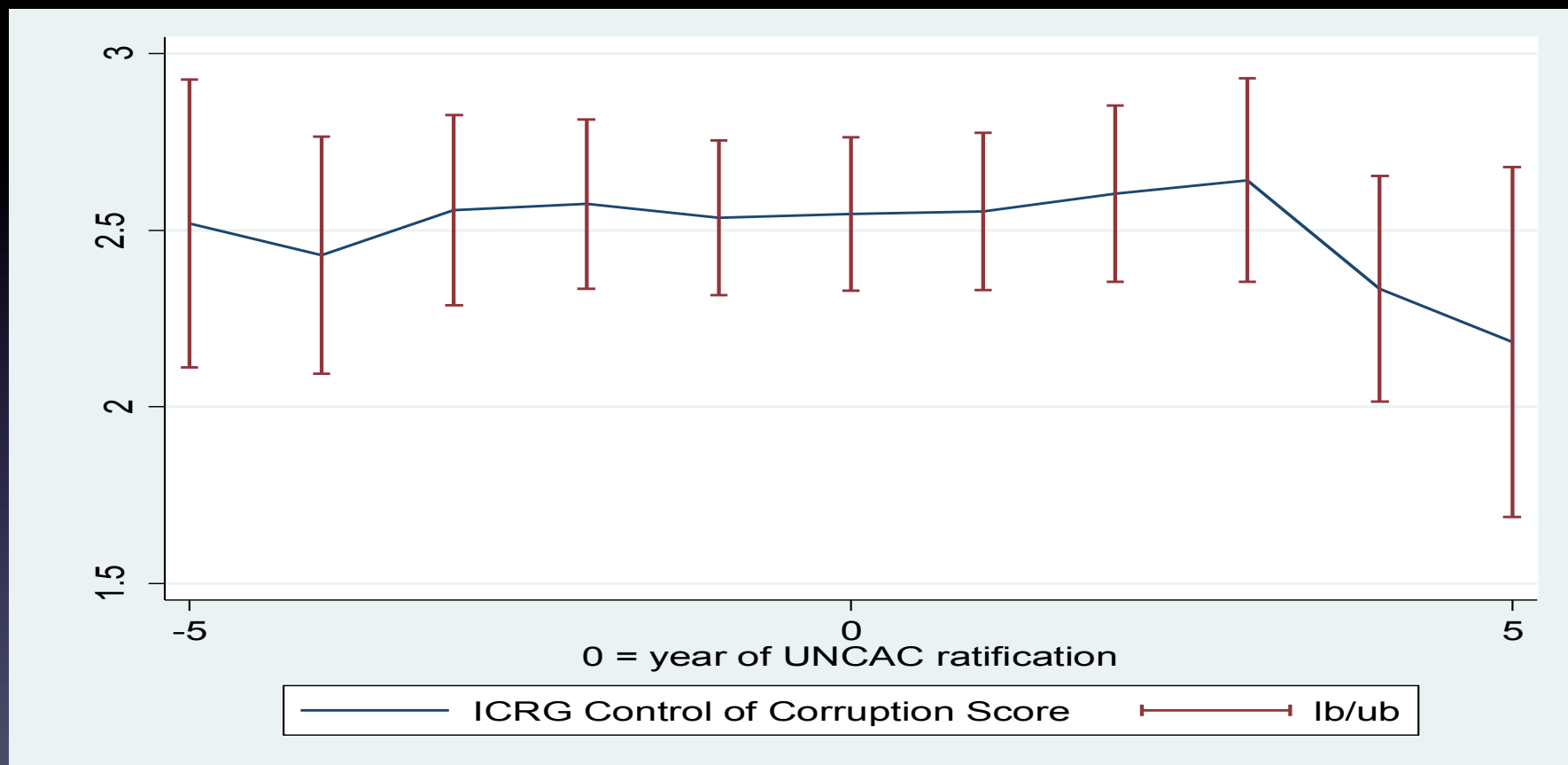
of finance team members below the CFO would misstate financial performance - nearly double the proportion of all respondents which stood at 4%

- Donors should assess thoroughly how their intervention might affect the balance of opportunities for corruption and controls.

# Address signs of AC failings

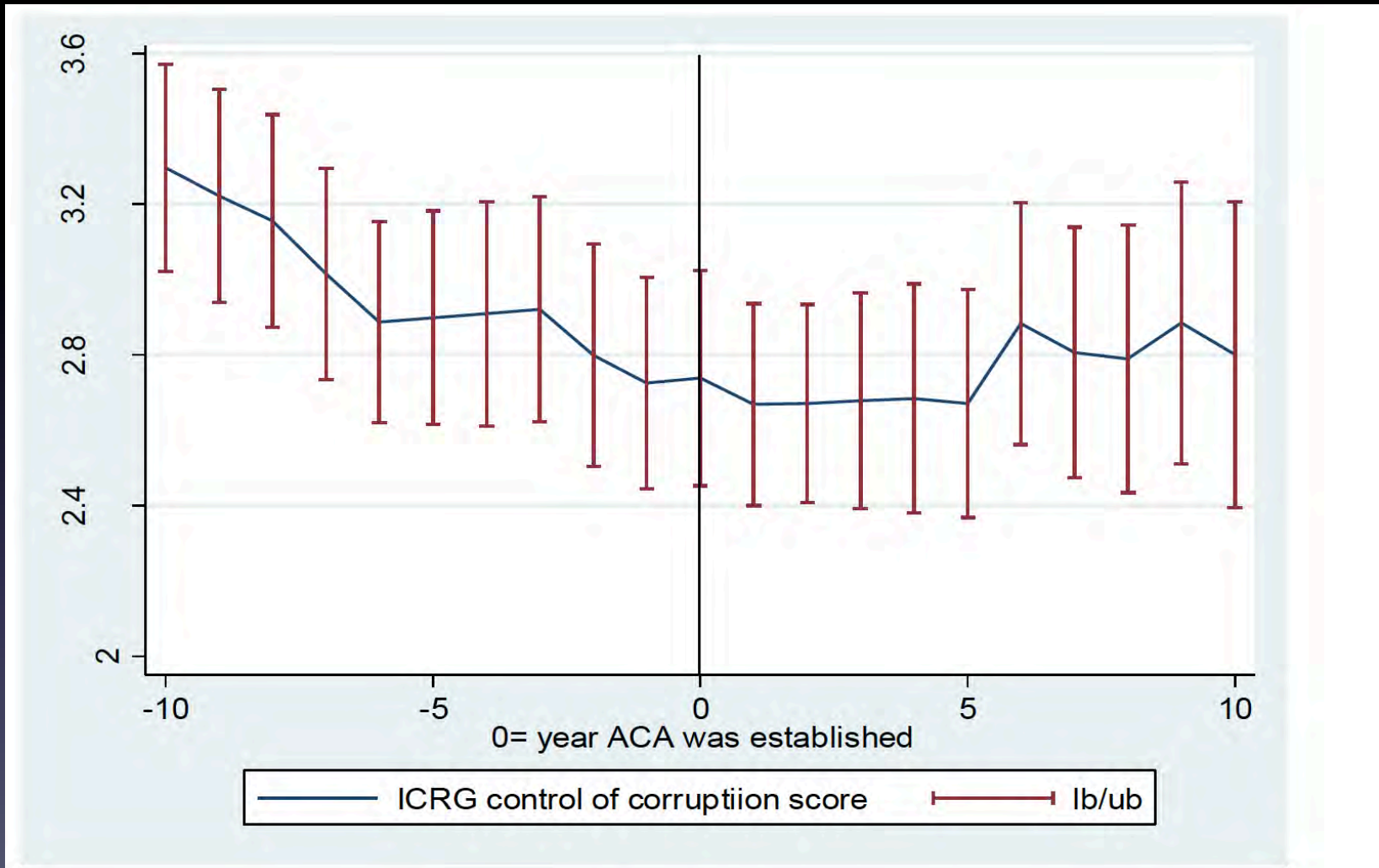
- Discriminatory - Taking care of the opposition
- Impunity of top officials – focus on minor offenses and low-level officials
- Bureaucracy, legal and regulatory complexity
- Tick-the-box mentality:
  - Compliance, practice and ethical norms not aligned
  - Law is not enough

# The impact of UNCAC ratification



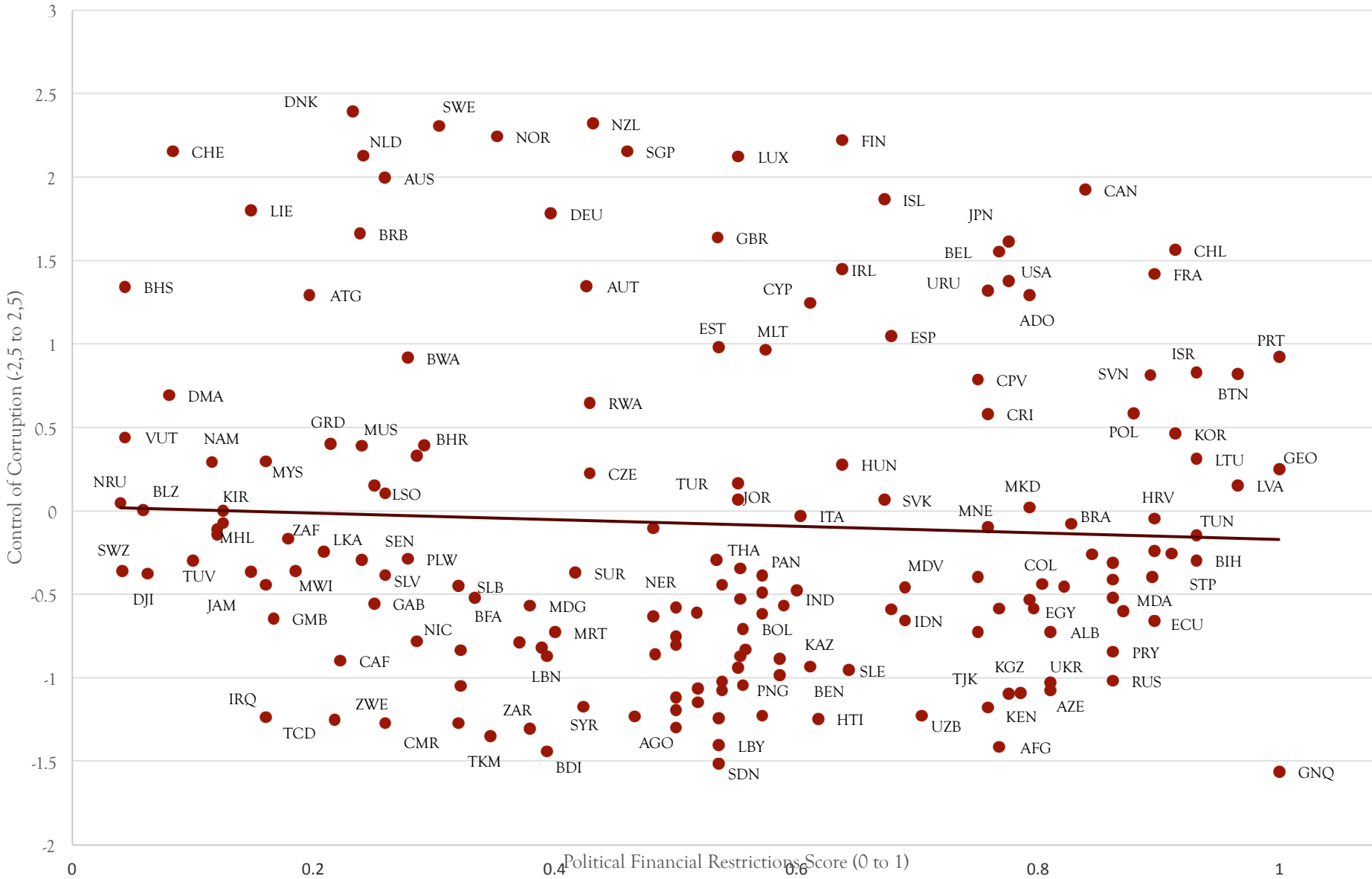
Source: CONTEXTUAL CHOICES IN FIGHTING CORRUPTION: LESSONS LEARNED (2011) Alina Mungiu-Pippidi et al.

# The impact of ACAs

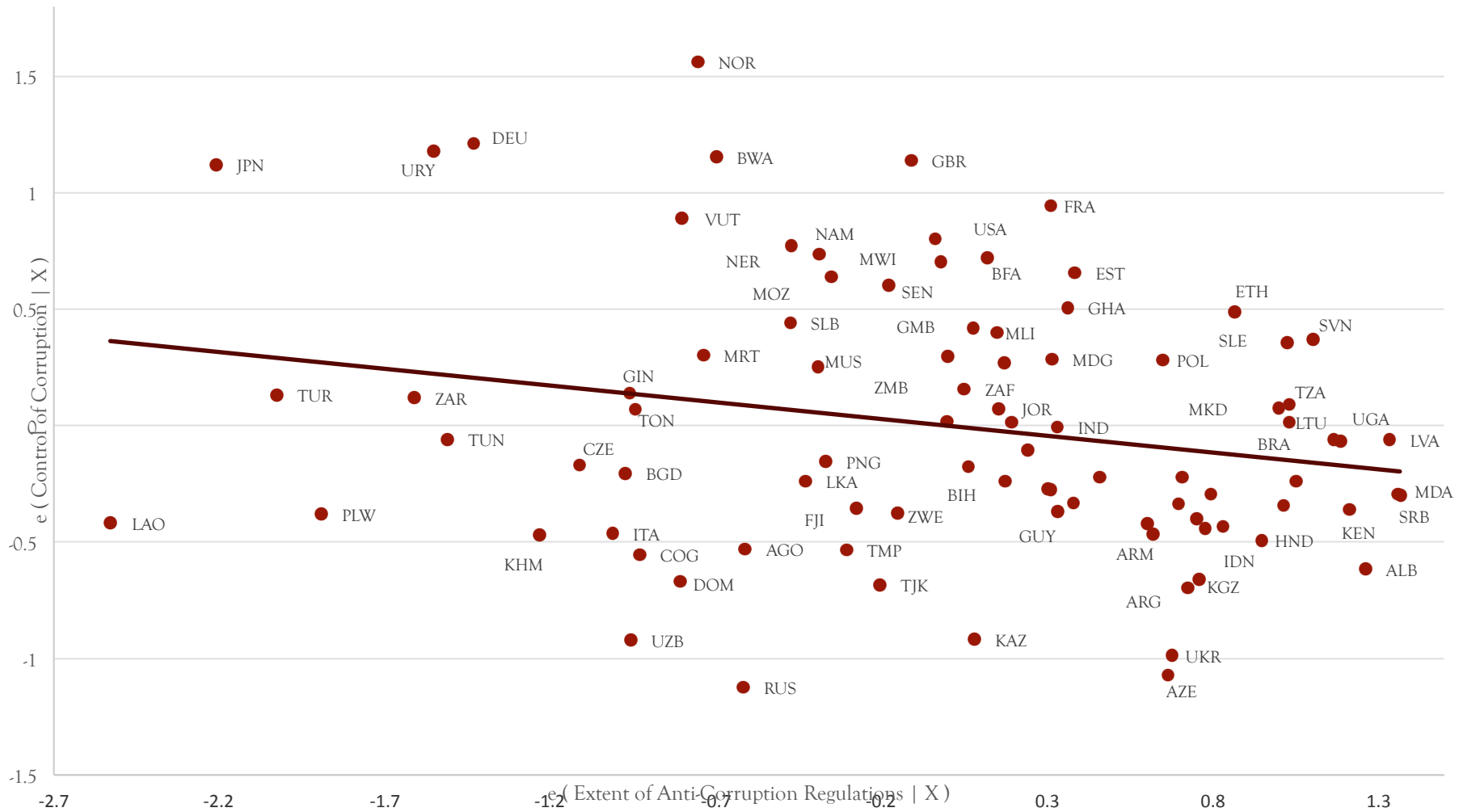


Source: Own calculation on the basis of ICRG corruption risk scores and ANTICORRP data.  
Legend: ICRG score from 1 to 6, with 6 best control of corruption. Vertical bars show confidence error interval. If they overlap, the change is not significant. N=99.

# Control of Political finance



# Anti-corruption legislation and control of corruption



coef= -.144, p=0,033, N=90

Don't celebrate prematurely



- Homework – proper cost-benefit analysis  
foreign policies/measures
- Coordinate and share data among FIU, ACA,  
Customs

# AML/AC in concert

- Cost synergies: Substantial overlap in the standards required for each
- AML systems could significantly augment anti-corruption efforts,
  - the importance of financial intelligence, asset confiscation, recovery and international cooperation.

- Profit is main motive, but how to enjoy and use proceeds? Need to integrate into financial system
- AML to disrupt illegal operations and remove profits
- Map networks of crime and corruption
- Asset recovery

# Illicit Flows Control with the Help of New Technology

Start with tobacco

# Groundbreaking innovation

- Major breakthrough in locating material via nano-electromagnetic “scanner”
- Search for unique signatures, which cannot be blocked by any substance no matter how dense, large or distant. This technology “sees through” any potential hiding place regardless of location

# Choice of target material

- The only nano-electromagnetic signatures Nanosecure will detect are molecules
  - known (in the Nanosecure(tm) library of signatures, which already has 33,000 items and growing)
  - relevant to the purpose (eg, tobacco, gold, diamonds); PoC in Greece 100% successful
  - Mapping of illicit networks and their methods

# Additional Answers

- Collective IMPACT initiatives
- Connection with human rights

# Proposed type of Collective Action

## Continuous FORUM

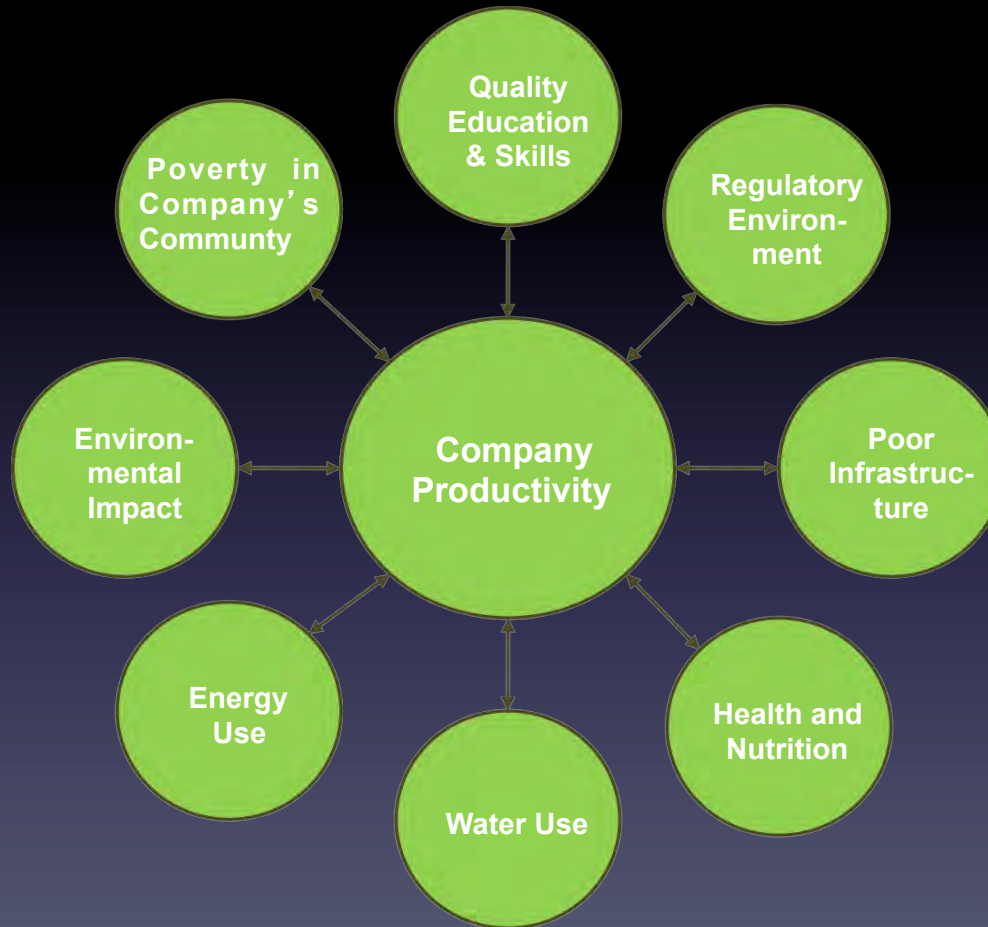
- regular brainstorming and elaboration of legal, regulatory and procedural reforms
- build genuine consensus, buy-in, business sense (as in Wolfsberg)
- deep democratization
- adequate answers to local priorities and concerns
- Culture of integrity and values-driven compliance
- sustainable efforts



# Creating Shared Value (CSV) reinvent capitalism

- Creating shared value is the practice of creating economic value in a way that also creates value for society by addressing its needs and challenges.
- Shared value is not corporate social responsibility or philanthropy—creating shared value is at the core of the business strategy

# Competitive Advantage and Societal Issues: “Externalities” have Internal Effects



# Consistently with Collective Impact Initiatives

- Collective impact occurs when organizations from different sectors agree to solve a specific social problem using a common agenda, aligning their efforts, and using common measures of success

# 5 key elements

- a common agenda,
- shared measurement systems,
- mutually reinforcing activities,
- continuous communication,
- backbone support organizations

# Necessary Conditions

- Dynamic leadership
  - an influential champion or group of champions
- adequate financial resources
  - 2-3 years support
- a sense of urgency for change
  - Crisis, resources/opportunities, research raising awareness and media focus, exciting new approach

# Advantages of human rights

- Address economic, political and social factors that encourage and reproduce corruption;
- Recognise the claims of marginalized groups towards whom the state has obligations;
- Oppose impunity, abuse of power, discrimination and violence;
- Deal with rule of law and criminal justice issues;
- Address gender violence and racism, and the human rights of women and other groups who suffer discrimination;
- Empower victims of corruption, through participation, accountability and access to information;
- Use the accountability and enforcement mechanisms of the international human rights system.
- Leverage NGO experience in mobilizing people and support AC strategies

# Draw on Academic Contributions to Anti-Corruption

- Capacity building
- Sustainability
- Contextual understanding
- Independence
- Communication
- Practical application/implementation

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