Launch of the Global Initiative on Transnational Organized Crime

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Panel remarks by IDEA Secretary-General Vidar Helgesen

Mr Chair,

Thank you for the invitation and for the opportunity to contribute observations on the relationship between organized crime and politics. International IDEA is an intergovernmental organization of 29 member states with a mandate to support sustainable democracy worldwide. We support democratic reform through generating and sharing global comparative knowledge of electoral processes, constitution building, political parties and political finance. We have no expertise in transnational organized crime as such.

So you may wonder: why do we engage with the issue of transnational organized crime? We do because penetration of political processes by transnational organized crime is one of the biggest threats to democracy today. It undermines constitutional frameworks and the rule of law, it violates the integrity of the electoral process, and it corrupts political parties and the very principle of democratic representation.

This is not only a failed states challenge or a rogue state challenge. To make this abundantly clear, let me mention the example of the Swedish city of Södertälje. In this area, organised crime has infiltrated all structures of society except the judiciary. This is evident both at the street level, where 4-5 groups have competed for influence through methods such as extortion and targeted assassinations, and in the political structure. The perpetrators of violent acts have been brought to court (17 convictions in the lower criminal court on 29 August 2013), but the impact on political structures is harder to address.

Groups are based on family ties and the loyalty within the group is very strong; if a member of a group is nominated for a political party it guarantees that the rest of its members will vote for that party: loyalty to the group is more important than ideological conviction. Groups change party based on the type of favors each party is able to provide: subsidies to local organizations for questionable activities, liquor licenses, etc. The political parties are aware of this situation, but they are not addressing it as it would impact their local electoral base.

I mention this example briefly because when such things can happen in Sweden, no wonder it can happen elsewhere.

In order to shed light on the ways in which organized crime is penetrating politics, I want to share with you some observations from two forthcoming IDEA reports on illicit networks and politics: one on the Baltic states in Europe, the other on Latin America.

The Baltic States

Roughly, the nexus between illicit networks and politics in the Baltic states has developed in three phases.

The first phase started when the Baltic states won independence from the Soviet Union but the legacy of KGB within governance institutions remained. The privatization process was dominated by former power-holders who reinvented themselves as economic tycoons and movers and shakers of new political parties. At the ***national level***, large-scale financial manipulation, embezzlement, and fraud played a significant role in the distribution of former state assets and reflected the alliances between emerging businessmen-politicians and Russian organized crime. At the ***municipal level***, high profits in smuggling persons, cigarettes, alcohol, oil and food coupled with the political ambitions of both local elites and criminals, paved the way for criminalization of local governments, in particular those along the porous Eastern borders.

These functional relationships between illicit activity and politics expanded most significantly alongside the financial industry. With ownership in strategic economic sectors, including maritime harbors and energy distribution, banking became a key asset to control as it

ensured streamlined mechanisms for capital flight, unregulated currency exchange markets and money laundering. As an example, Riga's financial services in the nineties compared in sophistication to those offered by offshore banking in the Bahamas.

As years passed, the predominance of Russian organized crime receded. New local illicit networks emerged and the crime-politics relations at municipal levels became more of a homegrown mix of criminals-turned-politicians and politicians-turned-criminals who monopolized smuggling routes, access to local publicly owned warehouses and properties, local contracts and bureaucracies.

The second phase came with the accession to the EU in 2004. It redefined not only the borders of the EU with Russia and the CIS, but also the comparative advantages that the Baltic states offered for organized crime. It gave new market opportunities for organized crime networks to invest in legal businesses, increase the use of the local banking industry to facilitate money laundering schemes, take advantage of the favorable regime for residence permits for foreigners, and expand the modalities for cooperation and partnership with corrupt politicians. These changes were reflected in a drastic reduction in violence in the region, something which signaled an integration of criminal networks with legal business activities.

The third phase came with the 2008 financial crisis, which further opened new opportunities for organized crime investments in the region, as well as for a deeper encroachment into the economic and political fabric. Investment in undervalued legal businesses ensured not only capital returns in the medium and long term but also expedient ways of laundering money and diversifying risk. Crime moved beyond financial services to real estate, construction, energy supply chains, freight, private security, the food processing industry, retail and pharmaceutics.

With criminal networks investing aggressively in legal businesses in the region, and forming companies with boards that have strong ties to the political and financial spheres, the tracing of relationships between crime and politics is more daunting. Violence has been reduced not because the producers of violence have vanished, but because of a kind of settlement offering market and territorial control that does not have to be achieved through violence. Similarly, positive anti-corruption indicators do not necessarily mean that the connections

between public office and illicit networks have receded, but that the relationships have moved to places that are not those under close observation by anti-corruption watchdogs.

Having looked at how the relationships between organized crime and political actors evolved, let us now look at what characterizes the relationships. Our report offers four insights.

1. Relationships are functional not ideological. Mutual benefit is the driver. Political actors can gain greater electoral capital through using these networks to intimidate and recompose voter bases, and enrichment through joint ventures. Illicit networks can gain protection from prosecution, opportunities for collusion in the plundering of public assets, co-participation in public tenders etc. Specifically, local criminal networks serve as bridges between transnational networks and local politicians. In a concrete case of smuggling rings in the border area, local criminals had the cross-border contacts, these contacts needed warehouses and secure transport for the smuggled goods. The local politicians offer publicly owned warehouses and safe passageways in exchange for a cut of the profits or partnering in the business.
2. Relationships thrive on closely knit social and economic ties. They are not dependent on electoral cycles or illegal campaign financing, but based on more organic and sustained family or friendship ties that can go back to school or developed through shared interests and social associations, like sport clubs. Over time this builds resilience and permanence. This is the situation in one case which is currently under investigation: Lines between an elected mayor and an illicit network are completely blurred. There's a vertical integration of legal and illegal businesses, and political clout, accompanied by effective service delivery to the electorate. This has produced extremely high rates of popular support for local political figures that are under serious criminal investigation. Voter awareness of such links becomes irrelevant and is overridden by voter satisfaction with the delivery of public services.
3. Commercialization of politics is a doorway to criminalization. The exercise of politics has shifted from citizens' choice of competing ideological platforms to increased focus on individualistic extension of private interests. The commercialization of politics uses public office as a channel for legal or illegal business interests, and as an opportunity for

personal wealth accumulation. Power is maintained through selling favours to third-party interests, including those of illicit networks.

National anti-corruption bodies and law enforcement agencies have made significant advances but still face the challenge of maintaining their independence. High-profile cases have not progressed while the upper echelons of law enforcement and anti-corruption agencies have been reshuffled. Compromises between politics and illicit networks are also reflected in the creation of legislation which deliberately overlooks areas in need of tight control – such as vetting of political candidates, lobbying, and political party formation, financing and internal regulation. As an example, a case under judicial investigation illustrates how a known operator of an illicit network opted to form a political party in order to bypass obstacles to the expansion of his multiple businesses.

The criminalization of politics via its commercialization is most acute in the municipalities. Increased autonomy of local authorities, coupled with substantial budget transfers from both national governments and the EU, has empowered local politicians to deliver more effectively, but it has also created important capital opportunities for joint ventures between illicit networks and politicians.

4. International dynamics shape the nature and the extent of the relationships between crime and politicians. Geopolitics and international cash flows can encourage criminalization of politics. CIS countries have ample reasons for investing in the Baltic states: geographical proximity, relaxed regulations for foreign investment and EU membership ensure entry into wider European markets and financial circuits without the hassle of strong regulation. Large volumes of trade attract not only legal entrepreneurs but also illegal networks that find opportunities for money laundering, and new markets and distribution channels for illegal trades. While foreign investment has helped in overcoming post-independence economic stagnation, the lack of robust vetting mechanisms has paved the way for dirty money to enter the economy. Vulnerable sectors include the financial industry, real estate, logistics, pharmaceutics, food processing, energy distribution, import-export enterprises, wholesale and retail.

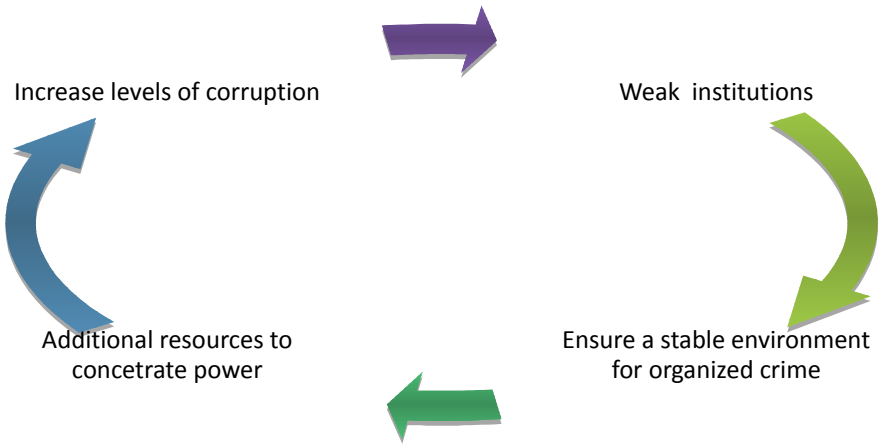
Paradoxically, international dynamics also hinder effective action against the networks. Substantive differences between national criminal codes, international regulatory frameworks and law enforcement systems create loopholes that safeguard the criminalization of politics from both public scrutiny and criminal prosecution. National policies, regulatory frameworks and law enforcement competence are hampered when facing complex cases that transcend national borders.

Latin America

Interestingly, the preliminary findings of our report on Latin America have certain parallels to the dynamics in the Baltic states.

There is a vicious cycle of **weak institutions - organized crime - corruption**. Weak institutions benefit organized crime, ensuring the continuation of illegal activities. Weak institutions are more corruptible, and less capable of enforcing the law. The money politicians are pocketing from deals with organized crime guarantees increased personal and political power. When this money is invested to increase political power - financing political campaigns, buying votes, corrupting other state officials - it further weakens the institutions (see figure 1).

Figure 1. Weak institutions-organized crime-corruption trap



- In countries with **weak political parties** there is a **greater tendency** that politics are infiltrated by organized crime: it is easier to influence one person than a group. For

example: *In Colombia, a politician from the department of Valle del Cauca (Pacific Coast) was elected to parliament under the Movimiento Popular Unido in 2002, four years later he was elected under the political party Convergencia Ciudadana. In 2009 he was detained and imprisoned due to links with illegal paramilitary forces and drug dealers. In 2009, still in jail, he was one of the co-founders of Partido de Integración Nacional (PIN).*

- The relationship between organized crime and politics is **not sufficiently prosecuted and sanctioned,** for two main reasons: (a) robust legal frameworks are not implemented by the judiciary due to lack of capacity; or (b) the rule of law is weak due to the judiciary being infiltrated by organized crime. An example: *In Uyacali in Peru the national and international media have for years presented evidence about a possible relationship between organized crime and a highly ranked politician, but after a decade the judiciary has been unable to establish any connection. A finding of large quantities of illegal drugs in wood containers to be exported abroad and property of the company of the mayor of Uyacali is key evidence.*

- Society does not effectively condemn these behaviors because: (a) there is little example from state institutions that this is a condemnable behavior, as it is barely punished; (b) the cost of committing a crime is small compared with the large benefit of avoiding poverty or creating a large fortune; and (c) criminal actors fill the gap of state institutions. Example of the latter: *A well-known and rich farmer in the municipality of Malacatán (Guatemala), close to the Mexico border was allegedly the main and direct link in Guatemala with the Cartel of Sinaloa. During the months following his arrest, a number of demonstrations took place both in Malacatán and Guatemala City, demanding his liberation. People where not only afraid of losing their jobs at the farm, but they were also afraid of a possible security vacuum after his departure. Security in the region was provided by the organized crime and not by the state institutions.*

- Coastlines and land borders tend to be more susceptible to the presence of organized crime and hence to the relationship with public actors. This is true particularly in areas with weak or little state presence and high levels of poverty. Coastlines are highly susceptible because they provide an easy exit to transnational crime and harbors offer the infrastructure needed to ship large cargoes to long distance markets.

- Legal businesses are used in two ways to facilitate organized crime: (a) as a way to launder money from revenues from illicit businesses (top members of the illicit networks often own these legal businesses). States contracts awarded to legal companies are also used as a way to launder money; and (b) as camouflage to illegal activities, particularly when it comes to international trade; containers full of legal goods are often used to smuggle illicit goods.
- There is no ideological coincidence involved in the relationship between organized crime and politicians. This is a business relationship and depends on the capability of the politician to stay in power and to influence politics and on the capability of organized crime to provide resources (money or votes) which will increase the power of politicians.

Conclusion

I have presented some of the key challenges coming out of our two forthcoming reports. The reports also look at recommendations for policy responses which time does not allow me to comment on in this setting. Let me however briefly say that the main take-away is this: In combatting organized crime we need to move beyond a law enforcement approach and address this problem as first and foremost a political one. This is easier said than done, because at the international level governments often shy away from open debate about the murkier aspects of their political life. Similarly and obviously, it is difficult at the national level because of the entrenched interests involved. But we need to build the resistance of the political system against organized crime, through strengthening the integrity of electoral processes, improving and enforcing regulation of political parties and their financing, and not the least: enabling and protecting citizens and civil society organizations to speak out, and protecting journalists so that open debate of the challenges can take place.