Profitability, Power, or Proximity? *Organized Crime Offenders Investing Their Money in Legal Economy*

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Abstract This article uses empirical data from the Dutch Organized Crime Monitor to give empirical insight into the choices organized crime offenders make when they invest their money in legal economy. Using a dataset of 1196 individual investments, light is shed on what kind of assets offenders purchase and where these assets are located. The results are used to assess the tenability of different theoretical perspectives and assumptions that are present in the literature on money laundering and organized crime: the standard economic approach ('profit'), the criminal infiltration approach ('power') and social opportunity structure ('proximity'). The results of this study show that offenders predominantly invest in their country of origin or in their country of residence and that their investments consist of tangible, familiar assets such as residences and other real estate and (small) companies from well-known sectors. Investments such as bonds, options, and stocks in companies in which offenders are not personally (or indirectly) involved, such as stocks in companies noted on the stock exchange, were only found in a small number of cases. In other words: offenders usually stay close to home with their investments. So, instead of profitability or power, proximity seems to be a better description of their investment choices.

Keywords Financial Crime · Money laundering · Organized crime

Introduction

Organized crime aims at generating financial gain.[1] Criminal earnings may be reinvested in criminal activities, they can be consumed to sustain a certain lifestyle, and, insofar necessary expenditures permit, an offender might also invest in the licit economy.

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[1]Besides money there might be other motivating factors promoting participation in organized crime, such as an offender's preference for an exciting life, the desire to impress peers, or, especially with regard to 'Mafia-type' organized crime, the exercise of power (Naylor 1999, p. 11).

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One of the greatest dangers of organized crime is often believed to be the capability of criminal groups to infiltrate in the economy and in the licit society at large (e.g. Barone and Masciandaro 2011, p. 116; Europol 2006; see also Verhage 2009, 2011; Naylor 2002, p. 34). The perceived threat of criminals earning and spending huge sums of money and gaining influence in economic, social and political spheres, was — and still is — an important driving force behind anti-money laundering measures (see for a review, e.g. Levi and Reuter 2009). It was one of the reasons to build up an anti-money laundering system during the 'war on drugs' in the 1980s and 1990s, which, more recently, was intensified by the 'war on terror'. Although both 'wars' were proclaimed by the United States, today in many countries all over the world anti-money laundering and asset forfeiture legislation has (long) come into effect and judicial authorities are getting more and more involved in financial investigation. These efforts are not only directed at drug crimes and terrorism, but at all sorts of criminal activity (Levi 2002, pp. 183–186; Van der Schoot 2006; Reuter and Truman 2005).

Despite an impressive range of anti-money laundering measures and a body of literature on this subject, empirical research is relatively scarce (see the following section). The purpose of this article is to contribute to the empirical evidence on money laundering. From an offender's point of view, the ultimate purpose of money laundering is the ability to use the profits of crime. Therefore, instead of looking into money laundering techniques, such as a loan back scheme for example, we will focus on how offenders actually spend their money. Our main point of interest concerns investments in the legal economy, since these kinds of investments seem to be the most important reason for concern. The data we use consist of a wide cross-section of 150 cases from the Dutch Organized Crime Monitor (see section 'Methodology'). Examining these cases regarding financial information, we were able to construct a dataset of almost 1200 individual assets.

We address the following research questions: 1) What do offenders in organized crime invest their money in? 2) Where do they invest their money? and 3) What can be inferred from offenders' investments about underlying strategies and motives? In the following section we look into the existing literature and explore theoretical perspectives on investment behaviour of organized crime offenders. The data we use are described in the 'Methodology' section. In the section 'Results' we present empirical insight into the investments of organized crime offenders in the legal economy. In the section 'Conclusion and discussion' we summarize the empirical results and we use those results to assess the tenability of different theoretical perspectives.

Theoretical Perspectives and Empirical Research

Theoretical Perspectives

Whatever a criminal does with illegal proceeds, it is safe to assume that he wants to avoid confiscation or arrest by the authorities. Given this basic limitation, offenders still have choices to make in their investment portfolio. Existing literature provides us with theoretical notions and assumptions on possible strategies or motives underlying the choices offenders make when investing their money. Two theoretical perspectives that can be found in the literature on (anti-)money laundering are the standard economic approach and the criminal infiltration approach.

With regard to the driving forces that are supposed to determine the investment strategies of offenders, the *standard economic approach* may be summarized as *profitability*. It stresses the similarity between participants in organized crime and licit entrepreneurs and it assumes that

criminal 'entrepreneurs' make cost/benefit efficient investments in a globalized economy. Comparing criminal collaborations with multinationals, D'Andria, for example, points to shared 'management practices': "*Recent transformations affecting large criminal organisations worldwide point to a mutation towards high internationalisation and management practices similar to incorporated enterprises*"(D'Andria 2011, p. 1). A similar assumption can be found in Shelly (2006, p. 43).

Besides assuming a cost/benefit focused criminal actor (see also Masciandaro et al. 2007), some authors who apply the standard economic approach elaborate assumptions regarding the highly flexible investment behaviour of organized crime. Offenders or criminal organizations are supposed to be very flexible when it comes to switching between countries or economic sectors. Investment choices are supposed to be mainly defined by expected returns and/or costs of an investment in a specific sector or country.[2] The costs, in turn, are defined by (amongst others) law enforcement activity (anti-money laundering regulations, police activity) applying to a specific sector or country; strict supervision on transactions make it more difficult — expensive — to safely spend dirty money. Furthermore, some authors assume transaction costs to be non-existent. So, when the cost/benefit analysis for sector or country B produces better results than the cost/benefit analysis for sector or country A, criminal organizations will withdraw their investments from A and turn to B (D'Andria 2011, pp. 6–10; Barone and Masciandaro 2011, p. 136).

The *criminal infiltration approach* was an important impetus in the development of the anti-money laundering system. In terms of the motivation behind — or the consequences of — the investment choices offenders make, it can be summarized as *power*; organized crime offenders gain power and influence by investing in the legal economy.

A clear example is present in documents of the Financial Action Task Force (FATF): "*Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society*" (FATF 1999, p.3; FATF 2014). Murray, although less distinct, states: "*money laundering […] is the key crime enabling organised crime groups to develop their influence in our democracies*" (Murray 2013, p. 99).[3]

Empirical Research

Literature on money laundering might be classified into three groups. First, several studies tried to assess the size of financial flows involved in money laundering, resulting in a wide range of estimations (Schneider 2010; Barone and Masciandaro 2011, pp. 116–118; Malm and Bichler 2013). These estimations have been criticized for being nothing more than "*speculative guesstimates*" (Levi 2012, p. 610; see also Naylor 2003, pp. 262–263). Despite this criticism, some of these estimates are frequently cited and have become "*facts by repetition*" (Levi and Reuter 2009, p. 362).[4]

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[2] D'Andria does include non-monetary variables when he discusses reasons that bring a person to 'join' a criminal organization (D'Andria 2011, pp. 3–4).

[3] Elements of these two perspectives are sometimes used next to each other.

[4] Frequently cited estimations of the size of money laundering on a global or international scale, are those produced by Michel Camdessus, Managing Director of the IMF (1998, in UNODC 2011, p. 19), and Walker (1999). The most well-known estimations of money laundering in the Netherlands were produced by Unger (Unger 2008; Unger et al. 2006).

A second category of articles and books focuses on responses to money laundering. There is an abundance of publications in which policy measures against money laundering are reviewed (Levi and Reuter 2009, p. 359).

The third category consists of empirical research on how offenders actually spend their money and try to conceal its criminal background. According to several authors, empirical research is scarce, particularly concerning large scale offenders, in fraud for example (Malm and Bichler 2013; Van Duyne and Levi 2005 ; Levi and Reuter 2009, p. 359; Suendorf 2001, p. 9; Verhage 2011, p. 172; Van Duyne 2003, pp. 68–69; Fernández Steinko 2012, p. 909; Levi 2012).

For this article, we conducted a literature search for empirical studies on money laundering, or more specifically the investment behaviour of offenders. Several empirical studies were found, covering various countries. So empirical research on the investments of offenders certainly exists. However, if we compare it with the body of literature on anti-money laundering *regulation*, it is indeed relatively scarce. Furthermore, some of the studies focus on only one particular type of crime and/or do not provide any or only limited insight into foreign investments. Since some studies seem to go unnoticed, we briefly describe the major studies below.[5]

In the Netherlands Meloen et al. conducted a study on 52 cases that each had an estimated sum of criminal earnings of at least € 450,000 (Meloen et al. 2003). They used police files to gather information on several aspects of offenders' investments in the Netherlands as well as in foreign countries. Van Duyne used the same data in several publications (e.g. Van Duyne 2003; Van Duyne and Levi 2005). Van Duyne also analysed the Dutch asset seizure database of the Public Prosecution Office and the Central Recovery Office, focussing on real estate and criminal funds, in the Netherlands as well as in foreign countries (Van Duyne 2013; Van Duyne and Soudijn 2010). Furthermore, the Dutch police publishes research reports on money laundering in which statistics, interviews and case files are analysed (Soudijn and Akse 2012).

Schneider (2004) analysed the files of 149 Canadian proceeds of crime cases from the 1990s. Three quarters of his cases consisted of drug cases. Schneider did not look into foreign investments, except for the use of foreign banks. Malm and Bichler (2013) also used Canadian data. They applied social network analysis to a dataset of 916 suspected members of organized crime networks who were known to participate in drug markets. Their dataset was based on intelligence instead of criminal cases. They did not look into foreign investments.

The investment behaviour of the Italian Mafia was studied by researchers working at research centre *Transcrime* (e.g. Riccardi 2014; Transcrime 2013). They used data on confiscated goods and mainly focused on assets in Italy.

In Spain, Fernández Steinko (2012) analysed the documents of 367 court cases, more than 90 % of which were drug cases. He presented information on several types of assets and also addressed financial flows to foreign countries.

Suendorf (2001) carried out a study on German offenders. He interviewed 89 experts and evaluated 18 files that were selected by those experts. His study also presents results on investments of immigrants in foreign countries.

Petrunov (2011) wrote an article on money management in cases of human trafficking. He conducted interviews with Bulgarian traffickers and prostitutes, among others. Petrunov mainly distinguishes between investments in Bulgaria on the one hand and investments in destination countries on the other.

Finally, two studies were conducted based on interviews with imprisoned offenders in the United Kingdom. The Matrix Knowledge Group (2007) interviewed 222 prisoners convicted

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[5] We do not claim this review to be exhaustive.

for drug crimes. The study only briefly addresses the assets of those convicts and does not look into foreign assets. Webb and Burrows (2009) used interviews with 45 prisoners convicted for human smuggling or human trafficking offences. Their study does pay attention to investments in foreign countries.

In the section 'Results: Investments of Organized Crime' we will compare our own empirical results with the main results of the studies mentioned above.[6]

Methodology

Definition

In this article we focus on investments in legal economy, such as real estate objects, companies, bonds, and options, leaving aside investments in criminal activity as well as any form of consumption, such as spending money on nightlife, clothing, cars, boats, and jewellery.[7] Cash money and deposits are also not included in our analyses. We do not consider keeping money in cash as an 'investment'. Furthermore, if we would include cash money and deposits, as a consequence, some 'investments' would be entered twice in our dataset. This would be the case if, for example, a case report holds information indicating that an offender has smuggled cash (or put money in a bank account) to a foreign country to buy a house. In such a case the house is entered in our dataset as a real estate object; also entering the cash would result in a double entry.

Data and Methods

The empirical data we use consist of a dataset of 1,196 individual assets of (suspected) participants in organized crime. This dataset covers various crimes, such as different sorts of drug trafficking/production, human smuggling, human trafficking and illegal arms trade, but also (large scale) fraud and money laundering. Furthermore, the dataset includes information on foreign assets. To build this dataset, we used all 150 cases that were analysed in the Dutch Organized Crime Monitor.

The Dutch Organized Crime Monitor is an ongoing research project. The main sources of information are closed Dutch criminal investigations into criminal groups. In four data sweeps, during the period 1996–2011, this resulted in 150 case reports. As each case focuses on a criminal network, together the 150 case reports contain information on many hundreds of suspects.

In the Dutch Organized Crime Monitor case studies are selected following a survey of criminal investigations of the police force and special investigative policing units. The case studies are not selected randomly. In organized crime research, a random sample is inconceivable, as police priorities — highlighting certain criminal activities and certain suspects — provide the basis for any sample researchers should want to construct. We therefore opted for a strategic sample that incorporates the heterogeneity of criminal activities and offenders (see for more information: Kleemans 2007). Richness of information is an important selection criterion

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[6] By the time this article is published or soon after, the following research projects should have published results: Organised Crime Portfolio (http://www.ocportfolio.eu), Assessing the Risk of the Infiltration of Organized Crime in EU Member states Legitimate Economies (http://arielproject.eu), and Financing of organized crime activities (FINOCA).

[7] Some might argue that jewelry, such as an expensive watch, could be considered as an investment. In this article, however, they are viewed as consumption goods.

and we avoid focusing solely on, for example, drug trafficking. Some types of organized crime are 'over sampled' on purpose, because they add more knowledge to what we already know (Van Koppen 2013, p. 11).[8]

A case study starts with an interview with a police officer and/or public prosecutor. Subsequently the police files are analysed and a case report is written, using an extensive checklist.[9] The police files contain the results of all police activities that were deployed in a case, such as wiretapping, observation techniques, undercover policing, gathering intelligence, interrogations of suspects, victims and witnesses, the confiscation of goods, and financial investigation.

To build our dataset, we checked every case report for available information on offenders' assets.[10] This resulted in 1196 individual assets, which were entered in SPSS. We used every source of information available in the case reports, i.e. we did not only look for confiscated assets but also used, among other sources, statements of suspects and witnesses, intelligence from informers, seized bookkeeping and records, and monitored telephone conversations.

Due to the empirical richness of the data, the Dutch Organized Crime Monitor is a unique research project (Paoli and Fijnaut 2004, p. 606). In this specific case, the monitor enabled us to build a dataset that is one of the few that, for various crimes, contains empirical information on organized crime offenders' assets in the Netherlands as well as in foreign countries.

Results: Investments of Organized Crime

Due to the illegal nature of his business, a participant in organized crime is confronted with certain risks. As a criminal 'entrepreneur', he operates in an unregulated environment. His business is always in danger of sudden termination as a consequence of seizures or arrests, and his colleagues may prove to be untrustworthy (cf. Reuter 1983: pp. 113–17; Kruisbergen et al. 2011, pp. 405–406; Naylor 2002, p. 21). Because of these risks, according to Naylor, offenders do not use their profits to invest but rather spend their money on an extravagant life style, thereby enhancing their prestige among peers (Naylor 2002, pp. 20–21).

The 150 cases in the Dutch Organized Crime Monitor indeed present plenty examples of offenders with an exuberant consumption pattern. Conspicuous spending by offenders is mentioned by various other authors as well (e.g. Levi 2012, p. 610; Fernández Steinko 2012; Matrix Knowledge Group 2007; Van Duyne 2003, p. 87). However, an exuberant consumption pattern does not preclude the possibility of investment. In various cases spending money on expensive cars, boats, jewellery, holidays, and girlfriends, is combined with investments in real estate and legal firms. In those cases, criminal earnings simply are large enough to facilitate both (Kleemans et al. 2002, p. 131). In the rest of this section, we elaborate on the investments we encountered in the cases provided by the Dutch Organized Crime Monitor.

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[8] It is important to note that the investment behaviour of offenders was not a selection criterion.

[9] The checklist elaborates upon: the composition of the group and how offenders cooperate; the illegal activities they participate in and the methods they use; the interaction with the licit as well as the criminal environment; the criminal earnings and the way these earnings are spent; the criminal investigation itself; the criminal court case; and opportunities for prevention (Van Koppen et al. 2010, p. 108; Kleemans and De Poot 2008, p. 70; for more information, see: Kruisbergen et al. 2012; Kleemans 2007).

[10] In some cases supplementary information was gathered from police officers, public prosecutors, or open sources.

Investments: Property and Companies

For 124 of the 150 cases in the Dutch Organized Crime Monitor, information was available on investments in real estate objects and/or companies in the Netherlands or another country. These 124 cases account for a total of 1196 individual assets. Table 1 gives a brief overview.[11]

The total number of property objects and companies per case varies from 1 to 117. Within the 124 cases in which information on this kind of assets was found, the average number of assets is 9.7, whereas the median is 5.0. The distribution is very skewed, as can be seen by the difference between both measures of central tendency.[12] Although in 90 % of the 124 cases the number of assets is less than (or equal to) 16, in some cases of fraud or money laundering the number of assets is much higher. Although only a quarter of the 124 cases fall within the category 'fraud or money laundering' as main criminal activity, they account for almost half of the 1196 assets that were found in all 124 cases. In this category of cases we find a small number of 'businessmen' with very large investment portfolios. Or as Van Duyne and De Miranda put it: "*few move much and many move only few*" (Van Duyne and De Miranda 1999, p. 257; see also Fernández Steinko 2012, p. 919). In following analyses we will distinguish — if necessary — between cases of drug trafficking, human smuggling, human trafficking, and illegal arms trade (and other offences) on the one hand, and cases of fraud and money laundering on the other hand.[13]

Property

As is clear from Table 1, real estate objects and companies are dominant in the investment portfolios of organized crime offenders (see also Webb and Burrows 2009, p. 27; the Matrix Knowledge Group 2007, p. 39; Malm and Bichler 2013). In this subsection we focus on real estate objects.

From an offender's point of view, investing the profits of crime in real estate has a number of advantages. First, real estate is, or *was*, viewed as a safe investment that pays off. Second, because of the price level, real estate is able to absorb a lot of money. A third advantage lies in the lack of price transparency of property markets. Fourth, ownership of property can be concealed, by using legal entities for example. Fifth, (specialized) supervisory bodies are lacking or not effective (enough). Finally, criminals need a place to live as well (WEF 2011, pp. 9–11; Van Gestel 2010; KLPD 2008, p. 141; Kruisbergen et al. 2012, p. 214).[14]

Residential use of real estate turns out to be an important factor when we look closer into the real estate objects in our dataset, especially when we focus on the most comprehensive category of criminal activity that includes drug trafficking, human smuggling/trafficking, and illegal arms trade, among other crimes (Table 2). Almost 45 % of the 243 individual real estate objects that were found in those cases, concerns property for residential use. It includes houses and flats used by the offenders themselves or their relatives, but also houses and flats rented out to others. The property varies from very modest dwellings to very roomy and luxurious villas. The importance of real estate for residential use is confirmed by other authors who looked into the expenditure patterns of offenders (Fernández Steinko 2012; Van Duyne and

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[11] Other investments will be discussed in subsection 'Scope of investments'.

[12] If a distribution is skewed, the median is more informative than the mean since the former is less sensitive to extreme values than the latter.

[13] In one case the category of criminal activity was changed from 'other' (extortion) into 'money laundering'. The main suspect in this case was involved in extortion. However, almost all of the tens of assets that were found in this case belonged to another offender. Since this specific offender mainly participated as a money launderer, the case was coded as a money laundering case.

[14] In some cases, offenders might invest in real estate to obtain or strengthen control over a territory (Transcrime 2013).

Table 1 Investments of organized crime offenders in real estate objects and companies: number of cases in which assets occur and total number of assets

	Cases % (N) [a]	Total number of assets[b]
Property	58.0 % (87)	447
Companies	75.3 % (113)	892
Property and/or companies	82.7 % (124)	1196
No known assets/not enough information	17.3 % (26)	
Total	100 % (150)	1196

[a] Categories are not mutually exclusive, since one case may include investments in property as well as investments in companies.

[b] 143 Assets are coded as an investment in a company as well as an investment in real estate

Soudijn 2010, p. 271; Van Duyne 2003, pp. 98–101; Schneider 2004; Transcrime 2013; Petrunov 2011, pp. 177–178).

Slightly more than 18 % of the real estate objects in this category of cases concerns property for business use (commercial property), such as shops, hotels, restaurants, or commercial properties in the red light district, such as casinos or brothels.[15] We also found investments (11.5 %) in land without buildings, especially in foreign countries. 'Other' type of real estate objects (25.5 %) includes property such as car ports and real estate objects of which it was unclear for which purposes they were used.

The real estate portfolio of offenders in fraud and money laundering cases consists for a much greater part, 69.6 %, of property for commercial use. This includes the aforementioned shops and hotels but especially real estate companies, e.g. companies that buy and/or sell real estate.

Companies

In 113 of the 150 cases of the Dutch Organized Crime Monitor information was present on investments in legal firms. These 113 cases accounted for investments in 892 companies. In most cases these concern companies in which an offender is somehow personally involved, i.e. companies that are (partially) directly or indirectly owned or controlled by an offender, that are used for criminal purposes and/or in which actual economic activity takes place on behalf of the offender.[16]/[17]

To gain more insight into what kind of sectors offenders most frequently are involved in, we compare their companies with the distribution among different sectors within the economy as a whole (see Riccardi 2014). This comparison only involves those companies that are located in the Netherlands; 614 companies, 44 of which could not be categorized into an economic sector. Table 3 describes the distribution among different economic sectors for the remaining 570 companies (column '%'). The column labelled 'ratio' shows the relative size of an economic sector within offenders' portfolios as compared to the size of the same sector within

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[15] If an offender owns the property in which commercial activity takes place, the asset, such as a restaurant or a hotel, is coded as company as well as real estate.

[16] Not every company is owned or controlled by one offender; ownership or control might be shared with others. Companies in which several offenders are involved, are entered only once in the dataset.

[17] Purely financial assets, by which we mean bonds, options and stocks in companies in which offenders are not personally (or indirectly) involved, such as stocks in companies noted on the stock exchange, are discussed in subsection 'scope of investments'.

Table 2 Real estate objects of organized crime offenders: type of object per category of criminal activity, number and percentage of objects

	Drugs and other crimes[a]	Fraud/money laundering	Total
Real estate for residential use	44.9 % (109)	24.5 % (50)	35.6 % (159)
Commercial properties/real estate companies	18.1 % (44)	69.6 % (142)	41.6 % (186)
Land without real estate	11.5 % (28)	0 % (0)	6.3 % (28)
Other/unknown	25.5 % (62)	5.9 % (12)	16.6 % (74)
Total	100 % (243)	100 % (204)	100 % (447)

[a] Human smuggling, human trafficking, illegal arms trade and other

the economy as a whole (NACE 2002 1 digit). Since the data on companies of organized crime suspects were collected during a longer period of time, we use data on the Dutch economy that covers a similar time span. The 'ratio' is calculated by dividing the percentage of companies of organized crime suspects that is (formally) active in an economic sector, by the 16-year average (1994–2009) percentage of all Dutch companies active in the same sector.[18] Scores smaller than 1 refer to underrepresentation, which means that in our cases the percentage of companies that falls within that specific sector is smaller than it is in the Dutch economy as a whole. Values greater than 1 refer to overrepresentation. For example, 1.4 % of Dutch companies of organized crime suspects fall within the sector manufacturing, whereas for Dutch economy as a whole the 16-year average percentage of companies active in this sector is 7.3 %, which leads to a ratio of (1.4/7.3=) 0.19.

As far as Dutch companies are concerned, only very few investments are made, in terms of percentage of investments as well as compared to the Dutch economy as a whole, in agriculture, hunting and fishing (sector A/B, 0 %), mining and quarrying (C, 0 %), manufacturing (D, 1.4 % for total sample) and electricity, gas and water supply (E, 0 %). This holds for both categories of criminal activity.

Looking at the assets of offenders within the most comprehensive category of criminal activity, wholesale and retail (G) proves to be an important sector for investments; 44.2 % of companies that were found in cases that focus on, amongst other crimes, drug trafficking, human smuggling/trafficking and illegal arms trade, are active in this sector. The companies in this sector that offenders invest in involve, for example, companies importing/exporting fruit or other goods, car companies, clothing firms, and 'coffee shops'.[19] Other sectors/companies that offenders frequently invest in are hotels, bars and restaurants (sector H), transportation companies (I), and brothels (coded as 'other services', sector O). Offenders also frequently 'invest' in companies that belong to 'financial intermediation'(sector J). This generally does not involve banks but 'management' or 'investment companies' which main purpose is to hold other assets (real estate for example).

In cases of fraud and money laundering we found a partly different investment portfolio. Investments in companies in those cases more frequently involve real estate companies (sector K), and the afore mentioned 'management/investment' or 'holding companies' (sector J).

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[18] The data on assets of organized crime suspects were collected during 1996–2011 (see section 'Methodology'). Logically, however, the investments themselves took place earlier. Furthermore, 2009 is the most recent year for which information is available on industrial classification that is comparable with earlier years (the Dutch classification of economic activities used by Statistics Netherlands (CBS) changed in 2008). Therefore, we used data on Dutch economy during 1994–2009.
[19] In the Dutch meaning of the word, i.e. shops selling cannabis.

Table 3 Investments (or other involvement) of organized crime offenders in Dutch[a] companies: distribution across economic sector (NACE 2002 1 digit) per category of criminal activity, percentage of companies and compared to economy in general

Economic sector (NACE 2002 1 digit)	Drugs and other crimes[b]		Fraud/money laundering		Total	
	%	Ratio[c]	%	Ratio[c]	%	Ratio[c]
A/B Agriculture, hunting and fishing	0	0.00	0	0.00	0 %	0.00
C Mining and quarrying	0	0.00	0	0.00	0 %	0.00
D Manufacturing	1,9 %	0,27	1,1 %	0,15	1.4 %	0.19
E Electricity, gas and water supply	0	0.00	0	0.00	0 %	0.00
F Construction	1,5 %	0,14	4,4 %	0,42	3.3 %	0.32
G Wholesale and retail trade, repair	44,2 %	1,74	11,5 %	0,46	23.3 %	0.92
H Hotels and restaurants	14,1 %	2,37	8,2 %	1,39	10.4 %	1.74
I Transport, storage and communication	8,7 %	2,11	4,4 %	1,06	6.0 %	1.44
J Financial intermediation	5,3 %	2,41	24,5 %	11,04	17.5 %	7.92
K Real estate, renting and business activities	10,7 %	0,52	43,1 %	2,11	31.4 %	1.54
O Other community, social and personal service activities	13,6 %	1,93	2,7 %	0,39	6.7 %	0.95
Sub-total	100 % (206)		100 % (364)		100 % (570)	
Sector unknown	(15)		(29)		(44)	
Total	(221)		(393)		(614)	

[a] 'Dutch' refers to the location of the company.

[b] Human smuggling, human trafficking, illegal arms trade and other.

[c] Percentage of Dutch companies of organized crime suspects that is (formally) active in an economic sector divided by the 16-year average (1994–2009) percentage of all Dutch companies active in the same sector. Scores 0<1 refer to underrepresentation, scores >1 refer to overrepresentation

The following cases present examples of offenders who invest in wholesale/retail and restaurants, among others.

The criminal group smuggles cocaine from South-America to the Netherlands. Suspects are involved in several companies in their South-American land of origin as well as in the Netherlands — their country of residence. These companies concern, among others: a fish wholesale company, money transfer offices, liquor stores and car companies. The fish wholesale company is used to legitimize transports from South-America to the Netherlands. The money transfer offices are used to transfer criminal proceeds. Available information suggests that the liquor stores and car companies are also used for money laundering purposes (Case 128).

The criminal group for a large part consists of family members who originate from Turkey but who live in the Netherlands. They run a human smuggling operation. Illegal Turks are smuggled from France, Belgium and the Netherlands to England. The family owns four houses, two shops, and land in Turkey. In the Netherlands they have invested in a bar and a restaurant, which are used as an operating base for running the smuggling activities as well as a working place for the illegal immigrants. The offenders also own a restaurant in England, which is used for the English part of the smuggling operation (Case 35).

Companies, as is clear from the previous examples, might be used to support criminal activities. For more than half (53 %) of the 892 (Dutch or foreign) companies that organized crime suspects invest in, the case file holds information indicating that the company is used for criminal activities.[20] Suendorf (2001), Schneider (2004), Transcrime (2013), Malm and Bichler (2013), the Matrix Knowledge Group (2007), and Petrunov (2011), among others, also described the use of legal firms for criminal purposes. A legal company may serve different kinds of goals (Bruinsma and Bovenkerk 1996; Kruisbergen et al. 2012, p. 297). First, a company might be used for logistic support, i.e. storage, transport or meeting place. A transportation company, for example, might be used for transportation of illegal goods. Second, a legal firm may serve to legitimize and/or conceal criminal activity; a cleaning company, for example, can be used to order certain chemicals needed for producing synthetic drugs, and a fruit company can provide offenders with cargo as cover for a drug transport. Third, companies can be used for money laundering purposes; a company can serve to, for example, fake a legal profit or salary, absorb cash money, or to conceal the ownership of other assets (Schneider 2004, p. 45).

Companies that are used for criminal purposes might be merely shell companies or façades, but they might also deploy real licit economic activities. Particularly if an offender can make use of a company that is engaged in legal economic activities on a certain scale, it provides him with a good opportunity to place illegal funds, among other things (Levi and Reuter 2009).

Although investments in legal economy can support criminal operations, they might also prove to be a vulnerability. This is illustrated by the following case, which focusses on a main suspect and his fellow offenders who are involved in large-scale cannabis trafficking. In their criminal operations, an important role is played by so-called 'grow shops'; shops that provide equipment, such as light bulbs, for growing (hemp) plants indoors. The shops are legal, but it is forbidden for them to sell sprigs or weed. In this case several grow shops do sell weed to K, the main suspect. However, as this case illustrates, these shops, besides offering possibilities to criminals, might also present possibilities to the police to deploy certain methods of criminal investigation.

> The offenders have six grow shops at their disposal. From one of those grow shops, tens of kilos of cannabis were sold to K. The police targets the grow shop in an undercover buy-bust operation. An undercover agent succeeds in buying two kilos of weed. Subsequently, a number of suspects were arrested, the premises were searched, and the shop's bookkeeping and records were confiscated (case 122).

Scope of Investments

In this subsection we will look into the social economic as well as the geographical scope of the investments of organized crime offenders.

Social Economic Scope

A first aspect of the social economic scope relates to the actor who invests. D'Andria, who, like some other authors, assumes that criminal 'entrepreneurs' apply the same management strategies as their licit counterparts do, distinguishes between economic behaviour of criminal

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[20] The information on the use of companies for criminal activities generally originates from intelligence and has not been confirmed by a judge. However, since for many companies the case file lacks information regarding the use for criminal activities, the real use for criminal purposes is probably higher.

individuals on the one hand and economic behaviour of criminal organizations on the other. A criminal organization is assumed to be a separate entity with its own rationale (D'Andria 2011, pp. 5–6).

On theoretical grounds one might argue whether a criminal 'enterprise' really transcends its individual 'employees' and has a rationale of its own. After all, due to the illegal nature of criminal 'enterprises' and the risks that go with it, 'employees' or individual 'businessmen' have a strong incentive to earn and spend money according to the principle of *each man for himself*.[21] An empirical-theoretical argument against D'Andria's assumption follows from research findings on the structure of cooperation between organized crime offenders in the Netherlands. For most cases, this structure is best described by the term 'criminal networks'; the structure of cooperation is fluid and changes over time (Kleemans et al. 2002; Kleemans 2007, pp. 178–179). It seems unlikely that the flexible nature of cooperation in those cases could bring about economic behaviour on behalf of 'the organization'.

A final — empirical — argument comes from the cases we studied. We did not systematically register for each case whether or not investments are made on behalf of a collective. Information that would allow for this is often lacking. In so far as available information indicates, however, the cases do no present evidence that organized crime investment portfolios in general are collective in nature. In some cases, such as some family based groups, the criminal group or organization indeed transcends the individual members and investments are made on behalf of the *organization* (or family or group). However, in other cases, available information suggests that profits and investments are *individualized* and there is no collective 'business capital' (Kruisbergen et al. 2012, pp. 300–301). In those cases, the time horizon of the criminal 'enterprise' is much shorter than the time horizon of a licit enterprise (Naylor 2002, pp. 20–21), which probably will limit the scope of investments.

A second aspect of the scope of investments concerns the actual investments themselves; what is bought and what is not? In a sense, investment portfolios are rather conservative. If we focus on offenders in drug trafficking, human smuggling/trafficking, and illegal arms trade, among other crimes, it turns out that offenders predominantly invest in real estate, residences in particular, and companies, i.e. wholesale/retail companies, hotels, bars and restaurants, transportation companies and brothels. Offenders thus invest in goods and companies that, one might say, they are familiar with from everyday life (see also Bruinsma 1996; Kleemans et al. 2002; Van Duyne and Levi 2005; Kruisbergen et al. 2012). In many of the companies just mentioned offenders are somehow personally involved, i.e. companies are (partially) directly or indirectly controlled by an offender, are used for criminal purposes and/or actual economic activity takes place within the company on behalf of the offender. Purely financial assets on the other hand, by which we mean bonds, options, and stocks in companies in which offenders are not personally involved, such as stocks in companies noted on the stock exchange, were only found in a small number of cases.[22]

A third and final aspect of the social economic scope of investments involves the influence offenders might gain through their investments. Data on organized crime in the Netherlands present some cases of offenders who gained some influence on the local level. This involves, for example, offenders who owned a large real estate portfolio, concentrated in a smaller town or a specific neighbourhood in a city, and became a factor to be considered in development

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[21] Whether or not a criminal organization exists as a separate entity that transcends its individual members, might very well depend on the type of organized crime, such as transit crime or 'Mafia-type' organized crime, or other characteristics, such as family ties as a binding mechanism within a group.

[22] Besides the assets we discussed so far, a small number of other investments were found, such as a power generator and sports sponsoring.

plans of a municipality (Kruisbergen et al. 2012, pp.182-183; Soudijn and Akse 2012, pp. 134–138). However, in our cases we found no examples of offenders whose investments allowed them to reach from the 'underworld' to powerful social, economic or political positions on a higher, national level in the Netherlands.[23] No examples were found of investments that would enable offenders to monopolize or control a region or a sector, such as the construction industry or any other sector for that matter. In cases of drug trafficking, human smuggling/trafficking and illegal arms trade in particular, most assets concern houses and other real estate and companies that through their size and nature do not account for significant influence in Dutch society (see also Van Duyne 2003, pp. 98–101; Van Duyne and Levi 2005; for Spain: Fernández Steinko 2012, p. 919).

This does not mean that our data do not include offenders with relevant positions in licit society. These offenders are present in our dataset. In a small number of cases of fraud and money laundering, some offenders have very large investment portfolios and/ or have an impressive professional background. However, in those cases, as information in at least some of them indicates, the movement between the 'underworld' and the 'upper world' went in the opposite direction. This concerns three cases in which people with well-established positions in the licit economy and without a criminal record, used their position to set up a rather big fraud or money laundering scheme. So in fact, these cases are about 'legal and respected' businessmen who got involved in organized crime, instead of criminals who, by investing their dirty money, infiltrated respectable business (see also Fernández Steinko 2012, p. 919). The following case presents an illustration (Kruisbergen et al. 2012, p. 135).

> The main suspects in this large scale fraud scheme hold central, licit positions within the real estate sector. They abuse those positions to enrich themselves with many millions at the expense of the organizations they work for. The suspects use fake bills provided by their own companies and/or a bank account of a notary public to divide the criminal earnings (case 143 and 144).

The type of investments we found — and did not find — in our cases can partially be explained by the nature of organized crime in the Netherlands. Kleemans used the term *transit crime* to describe the nature of organized crime in the Netherlands; offenders are primarily involved in international illegal trade, i.e. international smuggling activities. In this type of organized crime, the Netherlands serves either as a country of destination, a transit country, or a production country (Kleemans 2007). Offenders simply use the legal opportunities, such as the economic and physical infrastructure, instead of trying to 'infiltrate' or monopolize it, which explains the general lack of 'strategic' investments.[24]

The choices or strategy of investments may be quite different in 'Mafia-type' organized crime. The main activities of Mafia organizations may be described, at least historically, as racketeering. In racketeering, controlling and monopolizing sectors or regions is an important part of the criminal business model (see also Gambetta and Reuter 1995, pp. 116, 133–134). That might very well affect the investment choices. Riccardi analysed about 2000 companies confiscated in Italy. He argues that investment choices of Mafia participants are determined by,

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[23] In some cases there are indications that offenders, by contacts with (corrupt) people within the government or law enforcement and/or as a consequence of their investments, might have obtained influence in a foreign country (their country of origin) (see also Van Duyne 2003, pp. 98–101).

[24] Another explanation might be found in the low level of corruption —— or the high level of transparency — in the Netherlands (Transparency International 2012), which reduces the possibility for 'strategic investments'.

Table 4 Investments of organized crime offenders in real estate objects and companies: country of investment, number and percentage of assets

Country of investment[a]	Total number of assets % (N)
Country of origin	62.5 % (748)
Country of residence	19.6 % (234)
Subtotal: country of origin or country of residence	82.1 % (982)
Other country	17.9 % (214)
Total	100 % (1,196)

[a] Assets of indigenous Dutch offenders in the Netherlands are classified as assets in 'country of origin'.

among other factors, the possibilities to maximize territorial control and expand political and social support (Riccardi 2014).

Geographical Scope

Where do offenders invest their money? In this subsection we look into the country of investment. More interesting than the country itself, is the relation between an offender and the country he invests in. In Table 4, the country of investment of all 1196 real estate objects and/or companies are broken down into three categories: investment in country of origin of the offender; investment in country of residence of the offender (if this is not the country of origin); investment in another country. Investments of indigenous Dutch offenders in the Netherlands are classified as 'country of origin'. To determine the country of origin/residence of the offender who owns the asset, we looked at the de facto ownership/control of the asset. If, for example, available information indicated that behind a person who has formal ownership rights another person is hidden who has actual control of an asset, we used the latter.

It turns out that 62.5 % of all assets are located in the country of origin, i.e. the Netherlands for indigenous Dutch offenders, Turkey for offenders who originate from Turkey, et cetera. Assets in the country of residence account for 19.6 % of all assets. So, altogether, investments are predominantly made in offenders' 'home' countries; 82.1 % takes place in the country of origin or the country of residence. Only 17.9 % of the assets are located in another country.[25] The Netherlands is the most frequently used country by far (64.4 % of all assets). For some offenders this is the country of origin, for others it might be the country of residence. Other frequently used countries are Turkey (4.8 %), Suriname (3.3 %) and Belgium (3.3 %). All in all, the geographical scope proves to be rather limited, at least as far as real estate objects and companies are concerned (see also Webb and Burrows 2009, p. 27; Van Duyne and Levi 2005; Suendorf 2001).[26]/[27]

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[25] In cases of drug trafficking, human smuggling, human trafficking and illegal arms trade, 21.8 % of all investments take place in 'another country'. In cases of fraud and money laundering, this holds for 13.8 % of the investments.

[26] Suendorf (2001) finds that migrant offenders frequently invest in their country of origin. That holds for Turkish, Italian, Albanian, Serbian, Kosovo-Albanian as well as Vietnamese offenders. Russian offenders on the other hand, according to experts Suendorf interviewed, invest their money for a large part in Europe and the USA.

[27] In its *Global Agenda Council on Organized Crime*, the World Economic Forum gives examples of organized crime offenders' investments in real estate with a more prominent international dimension (WEF 2011).

Conclusion and Discussion

Empirical Results

In the previous section we presented the results of analyses on a dataset of 1196 assets that are linked to organized crime offenders. In the portfolios of these offenders, real estate objects and companies are dominant.[28] Investments in real estate consist for a large part of residences. As far as companies are concerned, offenders frequently are involved in wholesale and retail such as fruit importing companies or shops, hotels and restaurants, transportation companies, brothels and 'management' or 'investment companies' which main purpose is to hold other assets (real estate for example). A number of cases of fraud and money laundering display a different pattern. Their assets more frequently concern commercial real estate, real estate companies and the aforementioned 'management/investment' companies. In general, investments in agriculture and fishing, mining, manufacturing, and energy are absent or strongly underrepresented. For more than half of the companies offenders invest in, available information indicates that the company is used for criminal activities, i.e. for money laundering purposes, logistics, and/or legitimization.

Offenders do not frequently invest in purely financial assets, i.e. bonds, options and stocks in companies in which offenders are not somehow personally involved, such as stocks in companies noted on the stock exchange. Those assets were found in only a small number of cases.

As far as the place of investment is concerned, it turns out that offenders predominantly invest in their home country.

Profitability, Power, … or Proximity?

The empirical results allow us to post-hoc evaluate the validity of some theoretical perspectives and assumptions with regard to organized crime and investments in the licit economy.

The standard economic approach assumes that *profitability* is the main determining factor in the investments choices of offenders. It assumes that organized crime offenders, just like licit entrepreneurs, make cost/benefit efficient investments in a globalized economy. Offenders are also supposed to be very flexible when it comes to switching between countries or economic sectors. However, our empirical results show that offenders predominantly invest in their home country. We focused on de facto ownership (control) instead of formal ownership and we did not include cash money and deposits in our analyses. Including formal ownership as well as cash money and deposits might lead to different results. Nevertheless, at least as far as de facto ownership (control) of real estate objects and companies is concerned, the geographical scope of offenders' investment portfolio's is rather limited, and certainly not as 'global' as assumed. Furthermore, the importance of property within their investments portfolios, limits offenders' flexibility. When a big share of your money has been invested in houses and other real estate, it probably will not be easy to swiftly withdraw your money and move it to another country of investment, at least not without high costs.[29]

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[28] Although involvement in companies is frequently found in organized crime cases in the Netherlands, companies are not frequently seized for confiscation (Van Duyne and Soudijn 2009). In Italy confiscation of companies is far more common (Riccardi 2014; Transcrime 2013).

[29] The fact that, at least in part of the cases, profits and investments are individualized and there is no collective 'business capital', is another point on which the comparison between organized crime and licit enterprise is flawed.

Offenders, in cases of drug trafficking, human smuggling/trafficking and illegal arms trade in particular, mainly invest in houses and other real estate, as well as in companies they are familiar with from everyday life and that are used in many cases for criminal purposes. Investments in purely financial assets, on the other hand, were only found in a small number of cases.

Certainly, offenders will not mind making a profit. Indeed, investments in real estate, for example, can be quite profitable (although recent history has shown that this needs not be the case). However, the lack of 'global flexibility' and the rather conservative nature of the investment portfolios indicate that the standard economic approach does not suffice to describe the investment choices of organized crime offenders.

In the criminal infiltration approach, the motivation behind — or the consequences of — the investment choices offenders make, can be summarized as *power*; investing in the licit economy brings power and influence. Our data, however, do not support the 'infiltration hypothesis'. No examples were found of investments that would allow offenders to reach from the 'underworld' to powerful legitimate positions in the Netherlands, certainly not on a national level. The data do include a small number of offenders with (very) well established positions in the licit economy, but (some of) those cases are illustrations of, one might say, *infiltration the other way around*; 'legitimate' businessmen and professionals without a criminal record who utilize their position in the licit economy to set up criminal activities.

Concluding, the assumptions of both these two perspectives do not fit our empirical results. Therefore we have to explore other perspectives. The results of our study show that the distance between the offender and his assets is often small, comprising both physical and social distance. They predominantly invest in their country of origin or in the country of residence, their investments consist of tangible, familiar assets such as residences and other real estate and (small) companies from well-known sectors, whereas purely financial assets, i.e. bonds, options and stocks in companies in which offenders are not somehow personally involved, are far less common. In other words: offenders usually stay close to home with their investments. So, instead of profitability or power, *proximity* seems to be a better description of their investment choices. This 'proximity' actually fits pretty well with a social opportunity approach regarding organized crime (cf. Kleemans and De Poot 2008).

The concept of *social opportunity structure* merges social network theory (e.g. Burt 1992) and opportunity theory (e.g. Clarke and Felson 1993). Economic behaviour is embedded in social relations (see also Granovetter 1985; Uzi and Lancaster 2004; Kim and Skvoretz 2013). Because of the lack of formal regulations and the constant threat of arrest, seizures or other sanctions, social ties and trust are even more important in criminal transactions (e.g. Kleemans and Van de Bunt 1999; Morselli 2009; Kleemans 2014; Beckert and Wehinger 2013, pp. 17–18, 21; Loughran et al. 2013, p. 6). Offenders have to know the right people to participate and succeed in organized crime; you have to have access to producers, clients, facilitators, and so on. For this purpose an offender uses existing social ties, or he tries to find new contacts.

The amount and quality of social capital differs among offenders. Therefore, Kleemans and De Poot (2008) coined the term 'social opportunity structure' to explain involvement in organized crime: criminal opportunities depend on social ties, which in turn depend on one's age, social, geographical and ethnic background, occupation, et cetera. This social opportunity structure not only applies to involvement mechanisms in organized crime, it is also useful to understand the choices offenders make when they invest the profits of crime: their options for investment are defined — and limited — by the opportunities offenders find in their direct social environment.

Implications

In this article we have given empirical insight into the assets of organized crime offenders in the Netherlands and we explored the value of different theoretical perspectives on offenders' investment behaviour. We argued that 'proximity' seems to be a better label for the investment choices offenders make than 'profitability' or 'power'. We do not pretend, however, to have given a completely unequivocal or 'final' answer to our research questions. Every research has its limitations. This especially holds for research on criminal phenomena. Our research is based on police files. Consequently, our study only involves cases that were prioritized by the police and in which offenders were caught. A further bias results from the fact that only those assets were included on which the cases could produce some information. Research based on police files always runs the risk that certain findings remain absent, not because the facts are not there, but simply because the police could not find them. This could lead to an underestimation of the importance of some types of assets or certain methods of money laundering, such as the use of secrecy havens, for example.

Although research on criminal activities has its limitations, it is the only way of acquiring knowledge. Until now, empirical research on how offenders actually spend their earnings is relatively scarce. As a consequence, debate as well as policy lack a firm empirical basis.

A higher level of useful knowledge requires quantitative research on topics such as the type, magnitude and place of investment, as well as qualitative, in-depth research into the mechanisms and considerations that shape the spending behaviour of organized crime offenders. To gain more insight into the considerations of offenders when spending their money, effort should be put into getting information from the ones who know best, the offenders themselves. Interviewing offenders might also partially compensate for the bias resulting from relying on police files, although we realize that this method has its own difficulties.

Since financial aspects of organized crime are a neglected field in empirical research, future research could address a broad range of questions. A specific subject of interest, however, is 'digital methods' of money laundering. Knowledge on the use of crypto currencies for money laundering purposes, for example, hardly rises above the anecdotal level.

Furthermore, research should as much as possible differentiate between different types of organized crime. Our study involved organized crime in the Netherlands. Dutch organized crime, as mentioned earlier, for a large part boils down to transit crime, international illegal trade. Research on offenders who participate in other kinds of organized crime, such as racketeering, might produce (partially) different results, as is indicated by research on Mafia investments (e.g. Riccardi 2014). Furthermore, we found some differences within our own data; between cases of drug trafficking, human smuggling, human trafficking, and illegal arms trade on the one hand, and cases of fraud and money laundering on the other. This, together with the fact that many offender-owned companies are used for criminal activities, implies that the nature and logistics of organized crime are important factors in offenders' portfolios (see also Sieber and Bögel 1993). For understanding as well as combatting organized crime, it is therefore essential to account for different types of this phenomenon.

Finally, the apparent absence of a 'power' motive in cases of organized crime in the Netherlands and the fact that offenders for a large part invest in their own environment, do not mean that we should not worry about criminal earnings and investments or that the police should not put too much effort in investigating it. Neglecting financial investigation might cause, in effect, some offenders to accumulate an investment portfolio that actually does bring power. Furthermore, the wealth of a criminal can lead to recruitment of

potential new offenders, exactly because the spending predominantly takes place in a criminal's own social environment.

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