

Executive Summary

WHAT DOES THIS REPORT CONTAIN?

This report presents an analysis of the investments of Italian mafia groups.

At the national level the analysis made use of numerous sources and data. In particular it was based on confiscated goods, drawing from all of the existing databases on the subject in Italy. At the international level, given the lack of databases, that therefore didn't allow for an equally in-depth analysis of the situation abroad, the research was conducted with information obtained from a systematic analysis of open sources.

In particular this report a) measures the presence of mafia-type organizations in Italy (mafia presence index or MPI); b) estimates the revenues from illegal activities of mafia-type organizations; c) outlines the mafia portfolio of investments in the legal economy; d) identifies the investment strategies in real estate; e) and in companies; f) maps the presence of Italian mafia groups abroad and analyzes available information regarding mafia investments in foreign countries; g) develops a model for the evaluation of the vulnerability of economic sectors to mafia infiltration.

The first step of the report was therefore to understand where mafia-type organized crime groups operate in Italy.

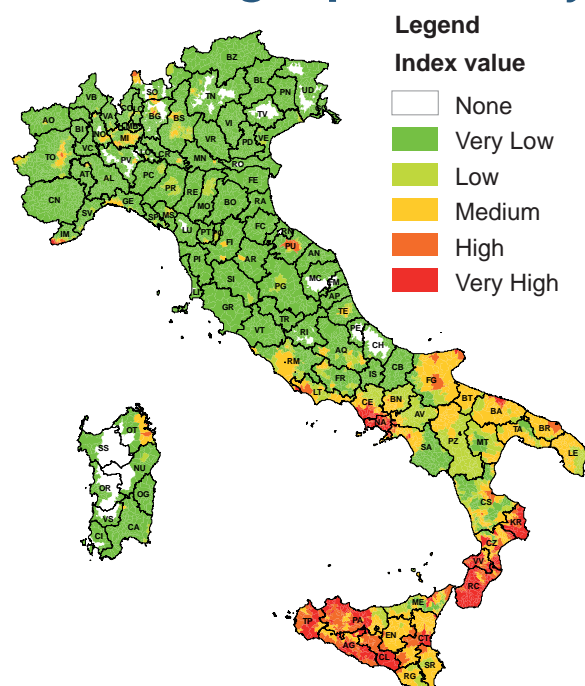
WHERE ARE MAFIA GROUPS IN ITALY?

THE MAFIA PRESENCE INDEX (MPI)

To understand the distribution of mafia organizations throughout Italy an index of mafia presence was created (MPI). The MPI measures where and who, among the mafia-type organized crime groups, operates on national soil.

The maps are at a municipal level and distinguish between Cosa Nostra, Camorra, 'Ndrang-

Where mafia groups are in Italy



Source: Transcrime findings

Mafia presence index 2000-2011

heta, Apulian organized crime and other Italian mafia-type organized crime groups (for example Stidda, Basilischi).

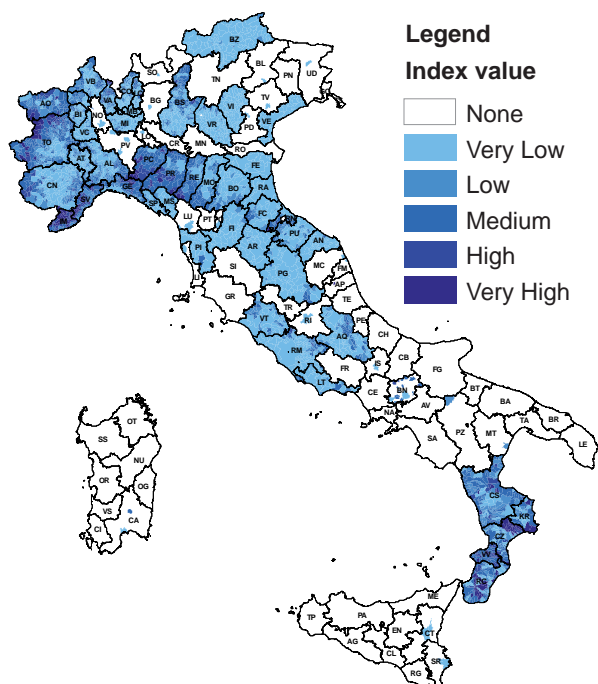
The MPI, besides confirming the strong criminal presence in traditionally controlled areas (Apulia, Calabria, Campania and Sicily) has revealed a strong mafia presence in certain areas of the North-West and central Italy. In fact, at a regional level, Lazio, Liguria, Piedmont, Basilicata and Lombardy show a clear presence of criminal organizations.

At a provincial level, Rome is in 13th place, Imperia in 16th, Genoa 17th, Turin 20th, Latina 25th and Milan 26th.

Outside of the regions with a traditional mafia presence, there are regions where only one type

of criminal organization is present (e.g. 'Ndrangheta in Piedmont, Camorra in Abruzzo), while in other regions more than one organization is present (e.g. Lazio). After defining which criminal organizations are active and where, the second step was to estimate their levels of wealth to understand the economic potential for investment in the legal economy.

The 'Ndrangheta



Source: Transcrime findings

Presence of 'Ndrangheta groups 2000-2011

ILLEGAL ACTIVITIES GENERATE A TURNOVER EQUAL TO 1.7% OF THE GDP (25.7 BILLION EUROS)

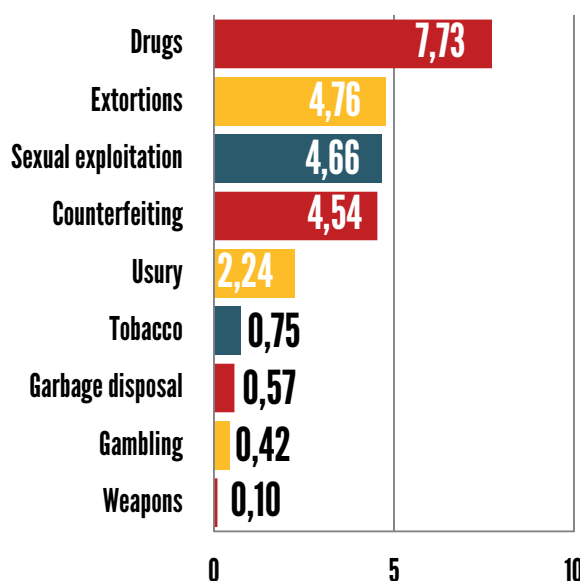
The turnover of the most important illegal activities attributable to mafia organizations was estimated: sexual exploitation, firearms trafficking, drugs, counterfeiting, gambling, illegal waste trafficking, illegal tobacco trafficking, usury and extortion.

Illegal revenues are on average equivalent to 1.7% of the GDP. Altogether, the analyzed illegal activities generate a turnover that is between 17.7 and 33.7 billion €. On average the illegal turnover is equivalent to 1.7% of the national

GDP (25.7 billion €) and approximately 427 € per inhabitant in 2010. Drugs generated the highest revenues (on average 7.7 billion €) followed by extortion (4.7 billion €), sexual exploitation (4.6 billion €) and counterfeiting (4.5 billion €).

Average revenues from illegal activity. In billions of Euros.

The main illegal activities are drugs, extortions, sexual exploitation and counterfeiting. With the exception of counterfeiting, the estimates of these activities present minimum and maximum values that imply significant variation.



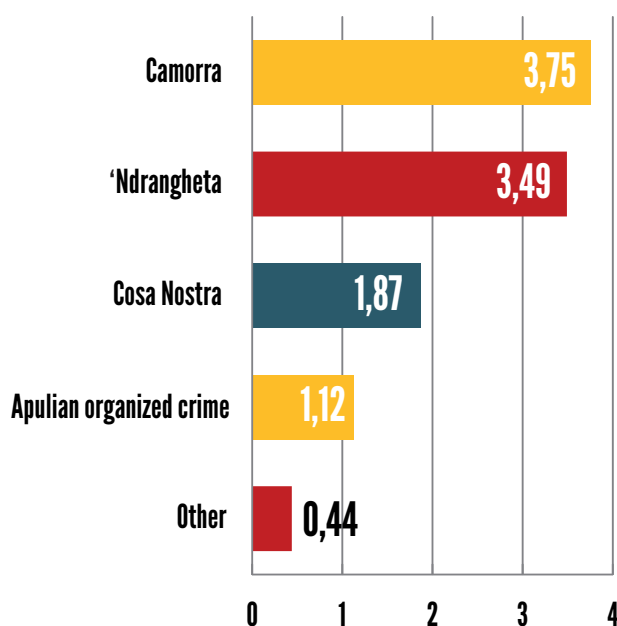
Source: Transcrime findings

MAFIA ORGANIZATIONS DO NOT HAVE A MONOPOLY OF ILLEGAL ACTIVITIES. FOR THIS REASON THEIR REVENUES ARE LOWER (BETWEEN 8.3 AND 13 BILLIONS OF EUROS)

Only a part of illegal activity is run by mafia-type organizations (between 32% and 51%). In accordance with the scientific literature, only a part of the analyzed illegal activities was presumed to be controlled by mafia-type organizations (with the exception of extortion, since it is typical of mafia-type organizations). **The results revealed that the annual revenues of the mafias are between a minimum of 8.3 and a maximum of 13 billion €, equal to 32% and 51% of the total illegal revenues.** On average, extortions produce 45% of this amount, followed by drugs (23%), usury (10%), counterfeiting and sexual exploitation (8% each).

Organized crime group average revenues. In billions of Euros.

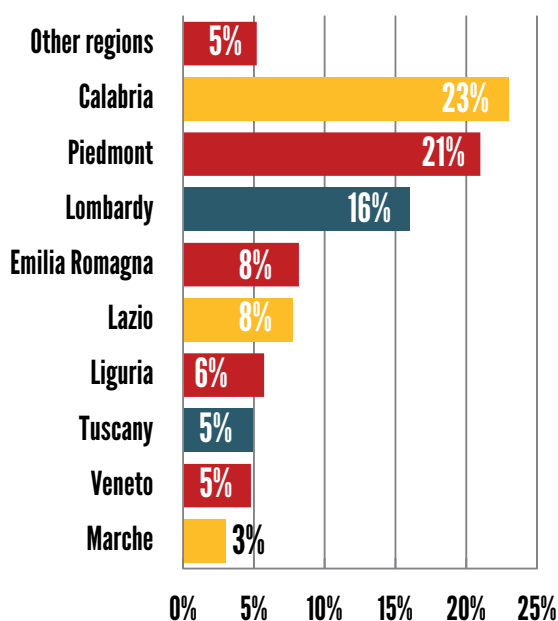
Camorra and 'Ndrangheta produce almost 70% of all Italian organized crime group revenues. The annual revenues of the groups affiliated with the two criminal organizations is estimated to be 7.2 billion Euros.



Source: Transcrime findings

Average revenues of the 'Ndrangheta by region (percentages).

Almost 50% of the income of the 'Ndrangheta is from the North-Western regions of Italy. This data reveals the distinctive nature of the organization and its ability to spread beyond its native territory.



Source: Transcrime findings

Camorra and 'Ndrangheta are the most active. Nationally, Camorra and 'Ndrangheta bring in almost 70% of the revenues of criminal organizations. Cosa Nostra produces 18% of the revenues. Unlike the other organizations, that earn a significant portion of their revenues in their region of origin, 23% of the 'Ndrangheta's revenues came from Calabria, 21% from Piedmont, Lombardy (16%), Emilia-Romagna (8%), Lazio (7.7%) and Liguria (5.7%). After having estimated the turnover, an analysis of investment portfolios was carried out with an analysis of confiscated goods.

HOW IS THE MAFIA BUSINESS PORTFOLIO MADE UP? REAL ESTATE IS PREVALENT

For this analysis all available data regarding seized and confiscated assets was used, since to date they are, with all due caution, the best proxy to analyze the investments of criminal organizations in the legal economy.

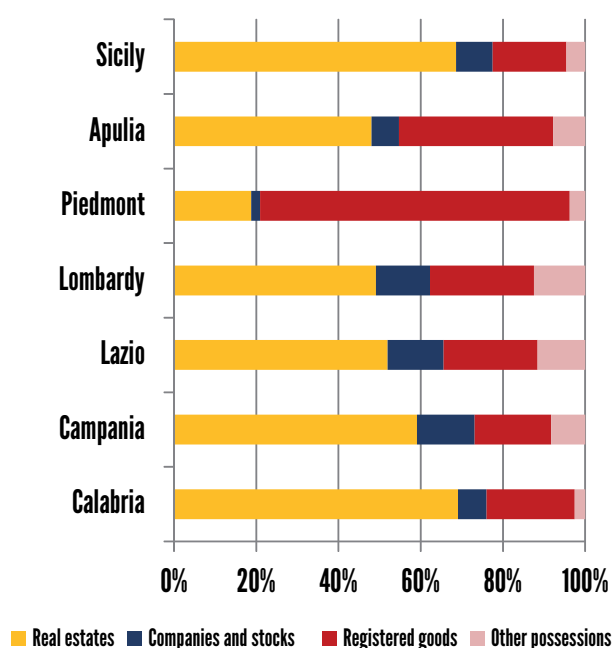
Out of 19987 confiscated assets, more than half are real estate (52.3%). Between 1983 and 2011 the confiscated estate of mafia-type organizations is made up of 19987 individual assets (real estate, movable goods and companies). In numeric terms, the largest quota of the investment was in real estate (52.3% of all confiscated assets). Next were registered assets (20.6%), other movable assets (18.4%) and companies and stocks (8.7%). The investment in real estate seems to have been preferred but it also poses the greatest risk of identification and confiscation.

Residences (42.2%) followed by lands (25.6%) are the most frequent investment in real estate by mafia-type organizations. Apartments are the most commonly owned type of residence (33.8%) and they significantly outnumber other types of dwellings (independent houses and villas). As for the lands, they are mostly agricultural lands that are concentrated almost exclusively in the regions where mafia-type groups are traditionally present (Sicily, Campania and Calabria).

Most real estate investments are in the South, most business are in the Central-North. In the southern regions (except for Apulia), there is a greater preference for investment in real estate. Investments in this category in Piedmont are significantly lower than in other regions (less than 20%) while in Lombardy and Lazio it is around 50%. The incidence of the investment in businesses tends to be higher in Campania, Lombardy and Lazio (with approximately 10%).

More real estates in the South

In southern regions (except Apulia) investments in real estates are preferred.



Source: Transcrime findings

Investments in companies are mostly limited liability companies (s.r.l.) in 46.6% of the cases. The preferred business form is limited liability (46.6%), followed by individual enterprises (25.8%), and different types of unlimited companies (società in accomandita semplice (14,5%) and società in nome collettivo (8,8%). Joint stock companies are less frequent (2%).

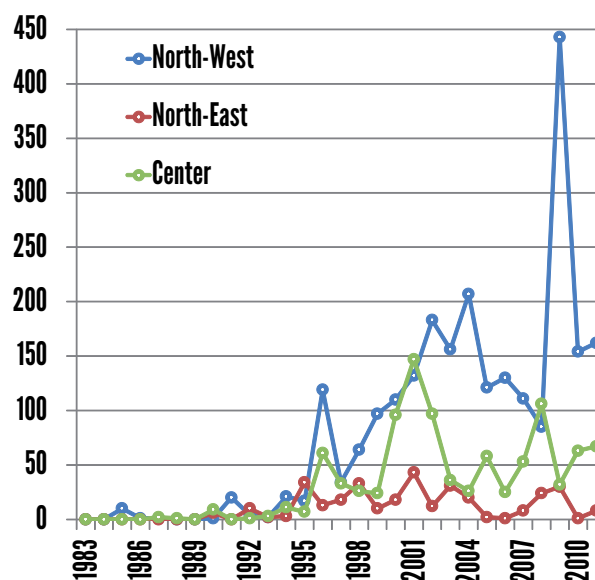
The advantage of s.r.l. business form is in the facility with which they can be created (10,000 € share capital is required) and the advantages of limited liability. The preferred economic sectors

seem to be those with a low technological level. In particular wholesale and retail (29.4%) and construction (28.8%), followed in much lesser part by hotels and restaurants (10.5%) and real estate companies (8.9%).

Mafia in the North? Yes, but with peculiarities. In recent years the presence of mafia groups outside of traditional areas has gained much attention. There has been an expansion of criminal investments but not homogenously throughout the North. Concentrations in the North-West (first of all, Lombardy and Piedmont) have been observed, while investments are much less present in the Northeastern and Central regions (Lazio excluded).

Mafia in the North? Yes and mostly in the North-West

Analysis of confiscated goods shows a recent concentration in the North-West (first of all Lombardy and Piedmont), while investments are less frequent in the North-East and central regions (with the exception of Lazio).



Source: Transcrime findings

After this first general analysis two in-depth examinations of investments in real estate and investments of criminal organizations in businesses were carried out.

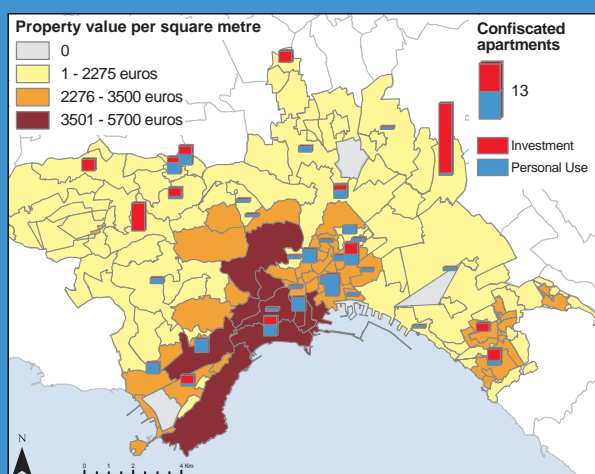
ARE MAFIA INVESTMENTS IN REAL ESTATES DONE FOR SPECULATIVE PURPOSES?

FOR THE MOST PART, NO.

Economic drivers seem to be secondary to mafia-type groups in their choice of real estate investments, while the acquisition of real estate for personal reasons seems to be of greater importance. This is probably due to symbolic and status drivers of individual members of organized crime groups or simply a matter of opportunity, rather than economic logic.

Naples

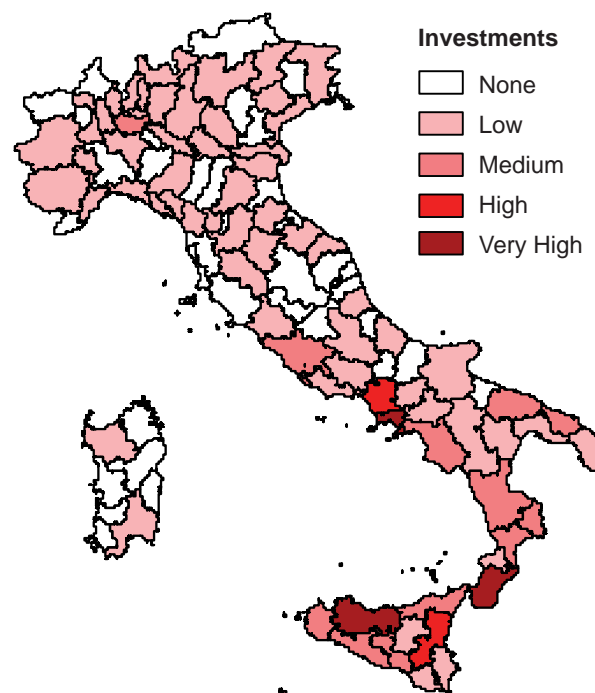
Most of the investments in apartments seems to be concentrated in the fringe areas



The affiliates of Camorra groups prefer to invest in fringe areas that have been more recently developed, where investment is less profitable but it is easier to acquire more real estate.

The acquisition of real estate as a safe investment. Real estate, both for personal use and as an investment, tends to be concentrated in areas where the mafia-type groups have a stronger territorial connection. This seems to reveal that the chance to control and ensure their investment through compliant middle-men and illegal rents is crucial in the decision making process of criminal organizations for the acquisition of real estate.

Investments in real estate

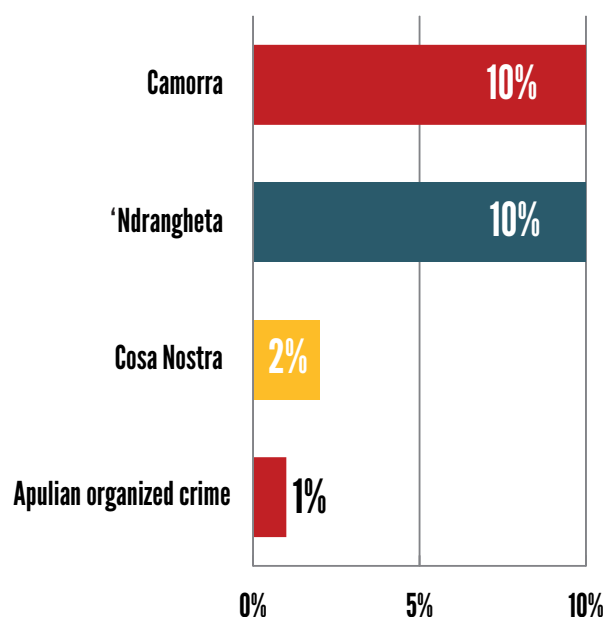


Source: Transcrime findings

Confiscated real estate considered as investment (1983-2012). Italian provinces.

Percentage of real estate confiscated from criminal organizations outside of the region of origin. Years 1983-2012

Camorra and 'Ndrangheta are the most active in areas that do not traditionally have a mafia presence. 10% of their real estate is confiscated outside of their region of origin.



Source: Transcrime findings

A common strategy to all criminal organizations. In general slight differences are observable between the different mafia-type organizations. More specifically, the data show that all the mafia groups have a clear tendency to invest in their areas of origin even though some organizations (Camorra and 'Ndrangheta) seem somewhat more “open” to new territories. Even in the composition of the different types of real estate attributed to different mafia-type organizations the differences appear to be minimal.

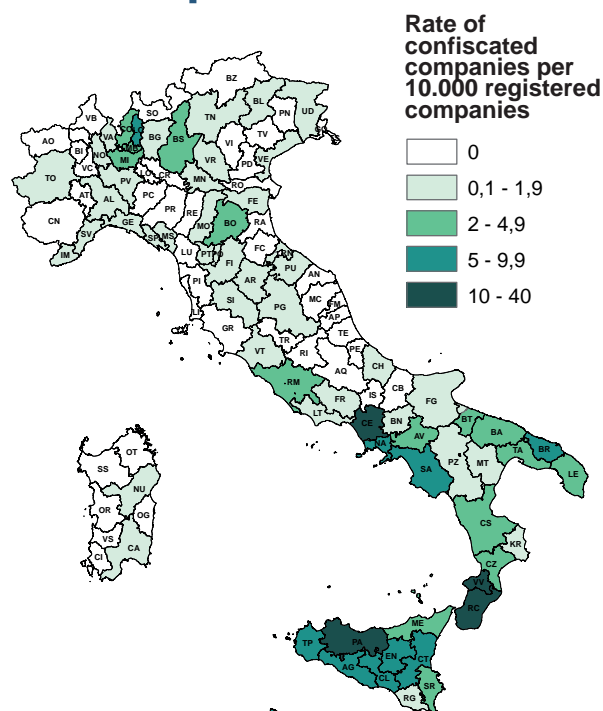
MONEY LAUNDERING, TERRITORIAL CONTROL, SOCIAL CONSENSUS: THIS IS WHY MAFIA GROUPS INVEST IN COMPANIES.

The reasons for investment vary. The investment of mafia organizations in companies fulfills many drivers: the maximization of profits, the need to launder money and conceal criminal activities, the control of a territory, social consensus and other cultural and personal reasons. These reasons also influence the choice of the area and the economic sectors, the financial and economic management strategies and the methods of infiltration and control.

Profitability is not the main objective. Mafia groups invest in geographic areas and economic sectors that best satisfy their need for control of the territory and maximize social approval, while the profitability of the sector seems to be less influential.

Low-tech sectors, that are more labour intensive and have a greater potential for public funding are more exposed. The businesses of mafia-type organizations are concentrated in sectors with little foreign competition, that are low-tech, very labor-intensive, with small and medium enterprises, that are deregulated, territorially specific and where public funding and public administration are very involved. The sectors that best encompass these characteristics are the traditional ones: construction, mining and quarrying, hotels and restaurants; while

Mafia companies



Source: Transcrime findings

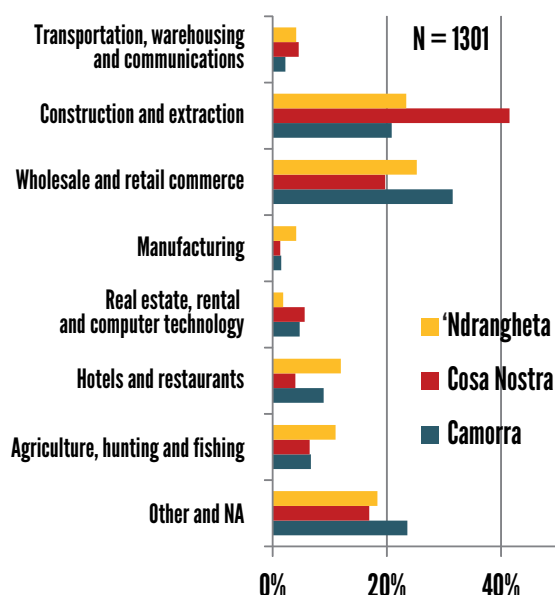
Rate of confiscated companies (1983-2012) per 10.000 registered companies. Italian provinces.

wholesale and retail trade, even though they are frequent numerically, don't present a higher concentration of mafia investments compared to “legal” investments.

Not all territories show the same patterns and not all mafia-type organizations invest in the same way. Companies confiscated to Cosa Nostra, for the most part in Sicily, are mostly in construction and complementary sectors; Camorra businesses are more widely spread out geographically and have a greater sector variability, including extractions, mining (crucial for both building and illegal waste disposal) and certain retail activities (e.g. food, clothing, flowers and plants).

ATECO economic sectors of confiscated companies. Comparison among mafia groups (1983-2012)

Cosa Nostra more than the others invested heavily in the construction and mining business, that are crucial for the control of the business cycle of cement.



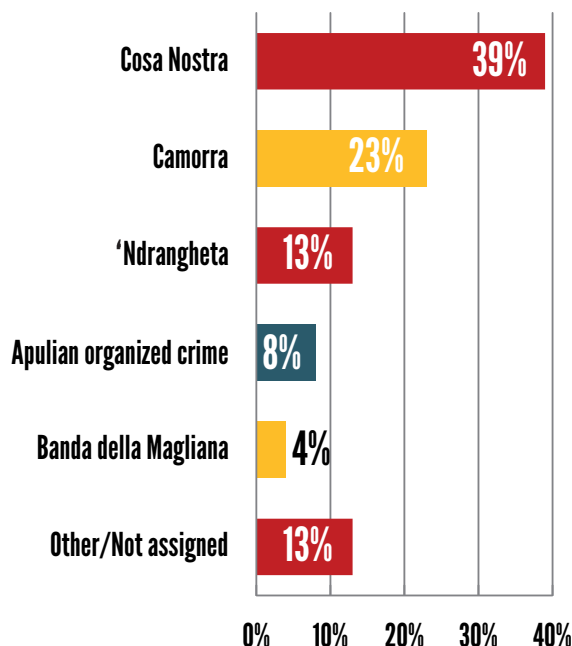
Source: Transcrime findings

'Ndrangheta investments are also present in the North, with Milan and Lecco leading after Reggio Calabria the provinces with the greatest number of confiscated companies, and some activities (like bars and restaurants) are preferred by some cosche over building and retail trade. In the North the analysis reveals a "fluid" situation, characterized also by the presence of local business men that are unaffiliated with a specific type of organized crime or simultaneously connected to multiple groups; also there are cases of joint-ventures between different mafia organizations to control and manage the same sector of the legal economy.

Are *Mafiosi* brilliant businessmen? No. The analyzed mafia-run companies are similar to their "legal" competitors in the sector in terms of profitability but are at times inferior, due to inefficient management and despite the use of typical mafia methods, such as intimidation of personnel, competitors, suppliers and the manipulation of public procurements. The economic-financial management of the companies run by criminal organizations therefore fulfill the aims of money laundering and

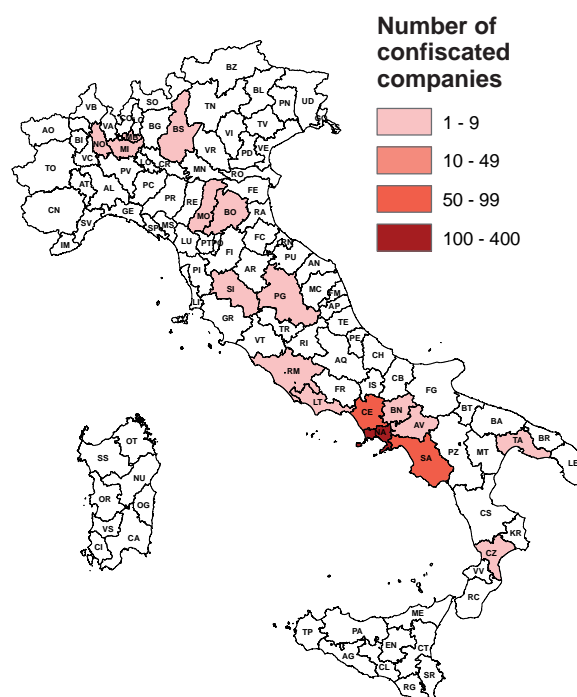
Percentage of confiscated companies to organized crime groups (1983-2011)

Mostly (39%) they are attributable to Cosa Nostra. This is not surprising considering that Sicily is the region with the most confiscated companies.



Source: Transcrime findings

Camorra companies



Source: Transcrime findings

Companies confiscated to the Camorra (1983-2012). Italian provinces.

concealment of criminal activity more than the maximization of profit.

The use of businesses by mafia-type organizations for their money laundering needs is clear also from an analysis of their balance sheets: the wide availability of resources from illegal markets allows for the financing of businesses without bank loans, which are absent in the majority of analyzed cases; also, the necessity to have readily available resources is often evident in the high levels of current assets, receivables and working capital.

How to control the companies? Through limited liability companies (s.r.l.) often handled by strawmen chosen because of family ties.

The most common business form among mafia-run companies is limited liability, regarded as the best compromise between the simplicity with which it can be set up and managed and the needs for concealment of criminal identity (thanks to the division of the equity between different shareholders). This last aim can be achieved also with the use of strawmen, chosen primarily among a close-knit circle of family and relations, and the use of complicated business ownership structures, defined by cross-shareholdings and “Chines boxes” schemes. On the other hand the intention of mafia groups to maintain a direct and “in house” control is clear from the analysis of the shareholding: this explains the infrequent use of outside consultants and managers in favor of the direct involvement of family members or even the boss of the criminal organization, especially in ‘Ndrangheta groups.

As previously mentioned, the analysis attempted also to study the mafia phenomenon and its investments abroad. Outside of the Italian body of knowledge, one of the most advanced in the fight against organized crime, there are, however, no systematic databases that allow for an equally in-depth analysis of mafia investments abroad. An attempt to fill this void was made with a systematic analysis of the open sources of international, European and national authorities. The research was extended also to news publications from many countries.

MAFIA ABROAD? THEY OPERATE IN MANY COUNTRIES BUT THERE IS LITTLE INFORMATION ON THEIR INVESTMENTS.

The analysis of mafia groups abroad allowed for the piecing together, albeit on the basis of fragmented and non-homogeneous information, of their presence and/or their connections in relation to various European and extra-European countries.

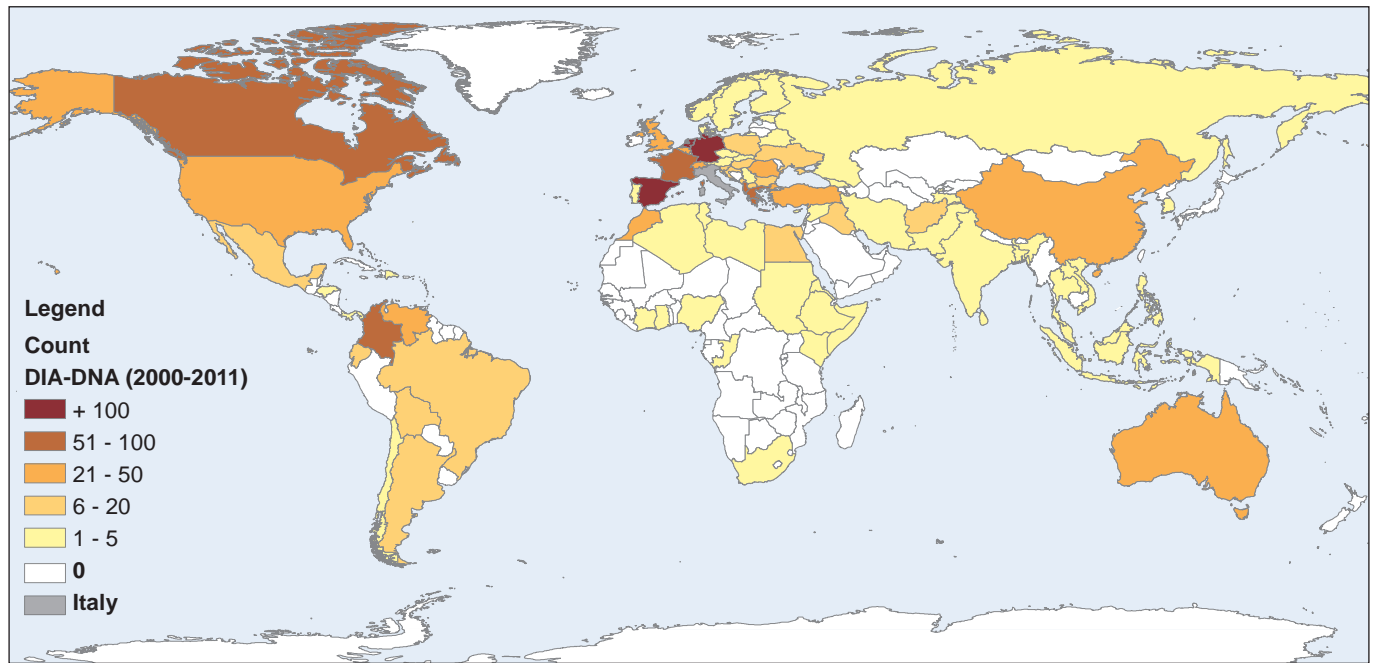
In Europe Cosa Nostra, the ‘Ndrangheta, the Camorra are mainly present in Germany, Spain and The Netherlands. Apulian organized crime appears to be mainly active in Albania, Greece and the Balkans.

Outside of Europe, Cosa Nostra seems to be active mostly in Canada, Colombia and Venezuela; the ‘Ndrangheta is present in Australia and Canada and, to the same degree as the Sicilian mafia, seems to be active also in South America, especially in Colombia. The Camorra has connections with China for the handling of counterfeited goods and with Colombia and Venezuela for drug trafficking, to the same degree as other criminal organizations. Apulian organized crime is present in China and Turkey in the trafficking of migrants and in Colombia for drugs.

Regarding the investments of the mafia abroad, they reflect for the most part the paradigms of their investments in Italy: the real estate sector, the tourism and hotel sector, companies in traditional sectors such as agriculture. Also there is involvement in commerce and import-export. From the analysis of several case studies the management strategies of companies confiscated abroad seem to reflect the characteristics of the Italian ones. Among which: low profitability; equity mainly made up of current assets and working capital; an almost complete absence of banks loans; the use of relatives as strawmen.

The analyses that were carried out have laid the foundation for the development of a model for the evaluation of the vulnerability risk of economic sectors to criminal infiltrations called Mo.Vu.S..

Camorra, Cosa Nostra, 'Ndrangheta and Apulian criminal organizations outside Italy.



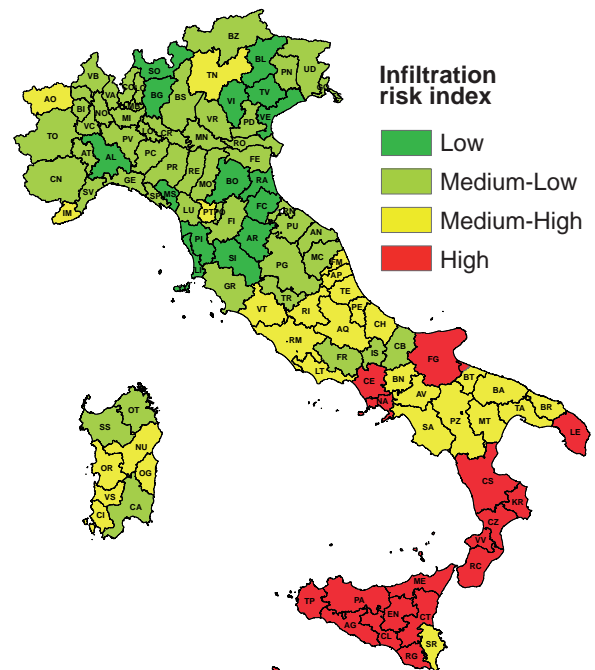
Source: Transcrime findings

THE LEGAL ECONOMY'S VULNERABILITY TO CRIMINAL INFILTRATION? THE MOVUS MODEL AS AN INSTRUMENT FOR THE EVALUATION OF RISK AND MONITORING.

The project developed Mo.Vu.S., a model for the **evaluation of the risk of infiltration by mafia-type organizations in economic sectors**. Mo.Vu.S. gives a grade from 0 (lowest risk) to 100 (highest risk) for twelve economic sectors presenting at least one precedent of infiltration. The index is the combination of two risk macro-factors. The first macro-factor is the Rt territorial risk that is linked to the characteristics of an area that can encourage the infiltration of criminal organization. The second, Rs sector risk macro-factor (one for each economic sector) is based on the characteristics of each economic sector at a provincial level.

The results reveal a greater vulnerability in the southern provinces, not only because of the values of the Rt macro-factor (due to the criminal presence and grey economy), but also the higher values of the Rs, that highlight a vulnerability profile even in the analyzed economic sectors.

Risk of mafia infiltration in the economy. Construction sector



Source: Transcrime findings

The Mo.Vu.S. model

The study that was carried out has several policy implications that will be summarized in the following paragraph.

HOW IS THIS STUDY USEFUL?

Thanks to the mafia presence index (MPI) the understanding of the phenomenon and its intensity for the development of policies and the evaluation of their impact over time will be possible.

For the first time in Italy, a scientific and replicable methodology for the measurement of the presence of mafia-type organizations has been developed at a national and municipal level. From a policy perspective, the results of the mapping allow for a precise evaluation of the geographic presence of each type of criminal organization. A regular mapping over time could allow for an evaluation of the impact of crime fighting activities on the presence and the composition of mafia groups.

Crime pays a lot less than is commonly thought. The media's belief that criminal organizations have revenues equal to 10% of the GDP needs to be debunked.

From a policy perspective, the estimates supply a more exact (and significantly inferior) measurement than previous estimate attempts. Almost all of the estimates can be replicated and updated annually, allowing for the periodic measurement of the extent and the burden of illegal activities. This can contribute to the identification of priorities in terms of preventive and crime fighting activities. Furthermore, awareness of the fact that mafia activities are not as profitable as they appear, can act as a deterrent for other criminal organizations that are being formed and for younger generations that might be tempted by the prospect of easy money.

The risk of mafia penetration can be measured both geographically and in economic sectors to prevent mafia infiltration.

The study has revealed that there are different levels of vulnerability between areas (even

those without a traditional mafia presence) and between economic sectors at risk of infiltration. It is possible therefore to adopt, on one hand, strategies for the prevention of infiltration in areas and sectors that are more at risk – also by increasing the awareness of local entities – and on the other hand, with targeted strategies to make crime fighting more efficient. For this purpose, the Mo.Vu.S. model proposes, for the first time in Italy, a systematic model for risk evaluation that can be both informative (to raise awareness among administrators and businessmen) and preventive (by adopting measures for the monitoring and assessment of at-risk sectors and areas).

The risk of a business being controlled by a mafia-type organization can be measured through the reading of its financial statements (red-flags). There are recurring features in the management and control strategies of companies run by mafia-type organizations. In particular certain predictors and red-flags have been identified, both in and beyond the accounting sphere, that can be the basis for business risk profiles that can be used in financial investigations of suspicious companies.

This study has also shown the potential benefits that an integration between databases available in Italy and abroad would have in terms of understanding the mafia phenomenon and its patrimony. The suggestion is that despite the differences between existing databases and their aims, there is a practicable route for the sharing of knowledge of this phenomenon, which can only be beneficial in terms of efficacy in the sequestering and confiscation of goods in the legislative and investigative phases and for international cooperation.