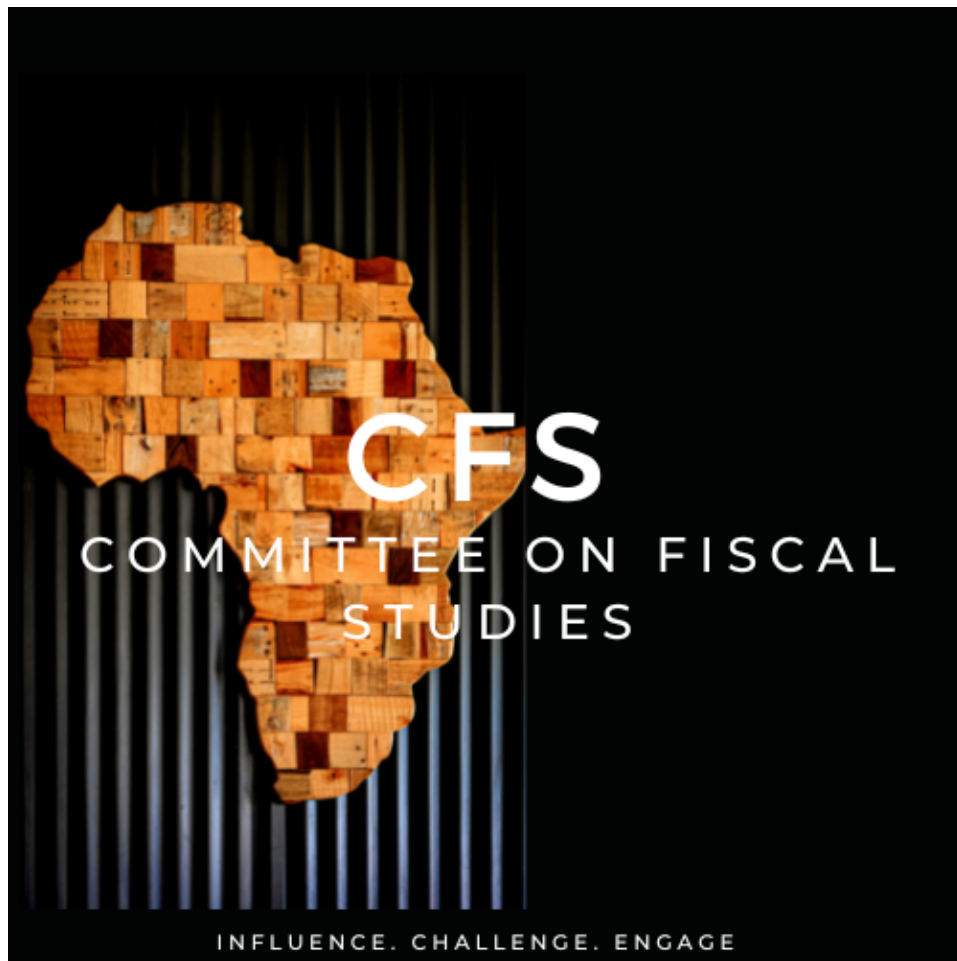


**UNDERSTANDING THE LINKS BETWEEN TRANSNATIONAL ORGANISED  
CRIME, CONFLICT AND THEIR IMPACT ON THE TAX BASE**



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## UNDERSTANDING THE LINKS BETWEEN TRANSNATIONAL ORGANISED CRIME, CONFLICT AND THEIR IMPACT ON THE TAX BASE

Tabitha Agaba

### ***Abstract***

*This research explores the intricate link between transnational organised crime, conflict, and their impact on the tax base, highlighting the mechanisms that facilitate these connections and the ensuing challenges faced by governments. The paper shows how organised crime groups exploit conflict and state fragility, establishing illicit economies that undermine tax bases through money laundering, corruption, tax evasion, and disruption of economic activities.*

### **1. Introduction**

This study embarks on a nuanced exploration of the intricate connections between transnational organised crime, conflict, and the erosion of the tax base. By conducting a review of existing literature and incorporating empirical evidence from region-specific case studies profoundly affected by these phenomena, this research identifies the key conduits - such as money laundering, corruption, illicit financial flows, tax evasion, and disruption of economic activities - that enable transnational organised crime and conflict to substantially undermine tax revenues. Furthermore, this paper delves into the repercussions of conflict on tax administration systems, thereby unveiling the myriad challenges governments encounter in effective revenue collection amidst periods of instability. This predicament often nudges states towards incurring debts, thereby further destabilising their fiscal stability.

One key dimension that is explored is the reciprocal relationship between transnational organised crime and conflict. Transnational organised crime can both exploit and exacerbate conflict, fuelling it through financial and logistical support to non-state actors and insurgents. This dynamic unfolds through various avenues, such as smuggling of weapons, drugs, or natural resources, and engaging in illicit activities to underwrite conflict-related activities. Moreover, organised crime networks, by the virtue of their illicit activities, amass considerable profits, which are subsequently channelled into conflict zones.<sup>1</sup> This cycle of investment and return fuels armed conflicts and perpetuates instability. Transnational organised crime also systematically undermines the rule of law, weakens state institutions, and engenders a culture of corruption within governments.<sup>2</sup>

In some instances, corrupt officials may conspire with criminal networks, granting them protection, enabling their operations, and inhibiting efforts to counteract them effectively. This has been evident on South Sudanese borders with Uganda and Kenya where revenue officials are

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<sup>1</sup> Transnational organized crime: A threat to global public goods Available here <https://www.sipri.org/commentary/topical-backgrounder/2022/transnational-organized-crime-threat-global-public-goods>

<sup>2</sup>Ibid.

bribed to allow for the smuggling of gold. This bribery takes place both on borders as well as the airports.<sup>3</sup> This culture of corruption can catalyse social unrest and inflame existing conflicts in fragile states. Such conflicts are characterised by weak governance. Accordingly, they offer a conducive environment for the flourishing of transnational organised crime. In the absence of robust law enforcement and judicial systems, these criminal networks carve safe havens, operate with relative impunity, and expand their illicit activities, thereby further destabilising the region. Additionally, conflict zones create conditions ripe for human trafficking, as displaced and vulnerable populations seek safety and protection.<sup>4</sup> Organised crime groups exploit this situation, trafficking individuals for myriad purposes, ranging from forced labour and sexual exploitation to recruitment into armed groups.

The research paper also suggests policy recommendations aimed at enhancing the resilience of tax systems against these threats. The suggested strategies encompass enhancing international cooperation, implementing robust anti-money laundering initiatives, promoting good governance, and investing in conflict resolution and prevention efforts. By doing so, this study contributes significantly to the existing scholarly discourse by illuminating the multifaceted dynamics between transnational organised crime, conflict, and the tax base, thereby equipping policymakers, academics, and practitioners with invaluable insights.

## 2. Nexus between transnational organised crime and conflict

Building on the overview provided in the introduction, this section delves further into the complexities of transnational organised crime and conflict and their multifaceted relationship. Transnational organised crime thrives in conflict areas or fragile states. Fragility of a state is as a result of political or economic instability. It transcends borders and therefore monitoring the vices requires joint efforts starting with the origin of the crime, the transit and finally the destination.<sup>5</sup> To understand the impact of transnational organised crime on the tax base, one ought to understand the circumstances that these transnational organised criminals operate in order to create illicit taxation which in turn creates illicit economies thus weakening government systems. Illicit markets and illicit economies refer to illegal trade activities that operate outside the boundaries of legal frameworks.<sup>6</sup>

These markets include goods or services that either end up in the mainstream legal economy like illegal timber or illicitly mined gold that is smuggled from one country to another and later introduced into the tax system of a different country despite originating from an illicit market. or are entirely outside of the legal economy and as such feed into the illicit economies

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<sup>3</sup> Hunter, M., & Opala, K. (2023). '*TARNISHED HOPE: Crime and corruption in South Sudan's gold sector*', Global Initiative Against Transnational Organised Crime. Available here: <https://globalinitiative.net/wp-content/uploads/2023/05/Marcena-Hunter-and-Ken-Opala-Tarnished-hope-Crime-and-corruption-in-S-Sudans-gold-sector-GI-TOC-May-2023-.pdf>

<sup>4</sup> Bahadur, J. (2022). *Inside al-Shabaab's revenue-collection machine*. Global Initiative Against Transnational Organized Crime Available here: <https://globalinitiative.net/wp-content/uploads/2022/12/AS-protection-economies.-WEB.pdf>

<sup>5</sup> Phil Williams *Crime, Illicit Markets, and Money Laundering* Available here <https://carnegieendowment.org/pdf/files/mgi-ch3.pdf>

<sup>6</sup> Walker and Restrepo (2022) *Illicit Economies and Armed Conflict, ten dynamics that drive instability*. Available here <https://globalinitiative.net/wp-content/uploads/2022/01/GMFA-Illicit-economies-28Jan-web.pdf>

without ever interacting with the legitimate economy. These include arms trafficking, human trafficking among others.<sup>7</sup> Transnational organised criminals establish illicit markets, also known as black markets, where they can engage in the trade of unavailable or counterfeit goods.<sup>8</sup> These markets arise because of the emergence of opportunities during periods of conflict, which create gaps that facilitate the provision of these illicit services.

These markets can be highly profitable due to the high demand for illicit goods and the potential for significant profit margins. However, they also give rise to numerous social, economic, and security challenges. One prominent example of an illicit market is the illegal drug trade which generates billions of dollars annually but fuels violence and corruption.<sup>9</sup> Other illicit markets include the trade in counterfeit goods, such as fake luxury items, pharmaceuticals, and electronics. Because all these are done outside the law, they also serve as leakages for would be government income from the legal taxes imposed when importing or producing the same goods and services. More so, because they are not regulated under law, there is a high risk of poor quality or even harmful products getting onto the market and adversely affecting citizens.<sup>10</sup>

Several factors come into play when it comes to transnational organised crime, conflict and the tax base. It starts with illicit trade and illicit markets as discussed above which facilitate illicit economies that are run by the transnational organised criminals with support from armed groups where illicit taxation thrives. They impose taxes on economic activities, businesses, or individuals in the areas they control. These taxes stand without proper legal authority or accountability. An example of this illicit taxation is “protection money”<sup>11</sup> which is money they collect by coercing individuals, businesses, or communities to pay under the threat of violence, harm, or other adverse consequences. Transnational organised groups demand this protection money as a form of racketeering to secure control over the territories where they operate.<sup>12</sup> The purpose of this extortion is to generate income and instil fear to sustain their illicit activities.

In cases like Somalia, the Al Shabab has relied heavily on illicit taxation to fund its activities. A 2022 report by the Global Initiative Against Transnational Organised Crime, noted that the militia group had heavily relied on illegal roadblocks to collect taxes.<sup>13</sup> This is done in areas where the militia group has control. The loss of such revenue to the militia not only hampers peace and stability efforts, but it also strengthens the militia while denying the government an

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<sup>7</sup> Ibid.

<sup>8</sup> Interpol. *Illicit goods the Issues* Available here <https://www.interpol.int/en/Crimes/Illicit-goods/Illicit-goods-the-issues>

<sup>9</sup> Irmgard Z., Federico S, Alexander K, Enrico B (Measuring illegal economic activities and illicit financial flows: challenges and possible solutions. Available here <https://www.imf.org/-/media/Files/Conferences/2019/7th-statistics-forum/session-iv-zeiler.ashx>

<sup>10</sup> Transnational organized crime: A threat to global public goods Available here <https://www.sipri.org/commentary/topical-background/2022/transnational-organized-crime-threat-global-public-goods>

<sup>11</sup> Supra, n.4.

<sup>12</sup> Ibid.

<sup>13</sup> Harun Maruf (2023) *US Sanctions 5 Al-Shabab Commanders, 4 Charcoal Smugglers* Available here <https://www.voanews.com/a/us-sanctions-5-al-shabab-finance-officers-4-charcoal-smugglers/7109280.html>

opportunity to provide social services to the community. It was estimated in 2020 that the Al Shabab militia was collecting an estimated \$20 million dollars.<sup>14</sup>

Following the exploration of the connection between transnational organised crime, conflict, and the tax base, it is essential to delve deeper into each component of this complex nexus. Accordingly, the subsequent sections will dissect these concepts further. Section 2.1 will provide necessary background information and detailed descriptions of these key concepts. By doing so, it will equip readers with a more precise understanding, enabling them to follow the ensuing arguments and analysis. Section 2.2 aims to elucidate the nature and function of these illegal sectors. As they play a critical role in how transnational organised crime disrupts the tax base, a comprehensive understanding of these markets and economies is crucial. This section will not only define them but will also discuss how they emerge, how they operate, and the variety of goods and services they trade. Finally, Section 2.3 will connect these components together. After understanding the elements of transnational organised crime, conflict, illicit markets, and economies, it is necessary to analyse their cumulative effect on the tax base. This section will address how illicit economies can erode a state's tax base, detailing the mechanics behind this process and illustrating the direct and indirect impacts. This analysis is fundamental to appreciating the gravity of the challenge at hand and the need for effective countermeasures.

### **2.1. Definition and Conceptualization of Transnational Organised Crime, Conflict and Tax Base**

To ensure a comprehensive understanding of the themes under discussion, this subsection starts by defining and contextualising the key concepts: transnational organised crime, conflict, and the tax base. Transnational organised crimes are crimes that take place in more than one country, this can be the planning or execution of the crimes.<sup>15</sup> Illegal logging in the Democratic Republic of Congo is an example of transnational crime, because the trees are cut down in the DRC then smuggled across the Ugandan border where they are sold. Conflict is a confrontation between state actors, or between a state and non-state actor. The current conflict between the Congolese army and non-state actors in the Eastern Democratic Republic of Congo. A tax base is the total value of property, assets and income in a given jurisdiction that is subject to tax collection.<sup>16</sup> In a country, the tax base is usually made up of income tax, property tax, import tax among others.

### **2.2. Understanding Illicit Markets and Illicit Economies**

Armed with a clear understanding of the broader context, we now focus on illicit markets and economies, shedding light on how these operate, and the types of goods and services they trade. Illicit markets can involve different services and products like stolen goods, regulated goods

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<sup>14</sup> United Nations Convention against Transnational Organized Crime and the Protocols Thereto (2003). Available here <https://www.unodc.org/unodc/en/organized-crime/intro/UNTOC.html>

<sup>15</sup> International Red Cross. *Armed conflict*. How does law protect in war? Available here [https://casebook.icrc.org/a\\_to\\_z/glossary/armed-conflict](https://casebook.icrc.org/a_to_z/glossary/armed-conflict)

<sup>16</sup> Tax Foundation *Tax base* Available here <https://taxfoundation.org/taxedu/glossary/tax-base/#:~:text=The%20tax%20base%20is%20the,be%20raised%20at%20lower%20rates>

and services like wildlife products and counterfeits among others.<sup>17</sup> By providing these services or goods that aren't easily accessible, they meet a demand and create a supply. Illicit markets within the East African region focus on wildlife crime, mineral extraction and illegal logging.<sup>18</sup> These activities are prevalent in conflict torn countries like the Democratic Republic of Congo and South Sudan.<sup>19</sup>

Financial crime is another dominant part of the illicit markets in the East African region according to a report by ENACT.<sup>20</sup> Conflicts have often led to scarcity of goods in countries like Sudan, Somalia and South Sudan. Such scarcity is often met by the creation of illicit markets through illicit trade to meet these demands. The report also notes some conflicts like the one in Sudan, activities such as smuggling of goods like cosmetics, vehicles among others. These are usually smuggled from Libya to South Sudan and The Central African Republic. Both South Sudan and The Central African Republic have been experiencing conflict. It was further noted that some of the organised criminal groups operate in various countries across the region. Wildlife crime like elephant ivory trafficking has been identified as one of the activities through which armed groups in the Democratic Republic of Congo earn money to support their armed activities.<sup>21</sup>

Illicit markets are the bedrock of illicit economies through which they are able to function. Illicit markets also attract counterfeits and contrabands, these not only endanger the lives of individuals but also weaken governments. Illicit markets are economic activities that take place outside of the established systems by the government. These markets include the sale of prohibited goods such as the sale of arms, drug trafficking, the sale of wildlife and their products among others. Criminals are usually involved in the manufacture of counterfeit products which they supply to an illicit market. These are usually known as illicit goods.<sup>22</sup> Illicit goods are sold through illicit trade in illicit markets which contribute to illicit financial flows which further erode the tax base while strengthening the illicit economies.

Illicit financial flows are funds that have been illegally sourced through crime.<sup>23</sup> In a research report by The Global Initiative Against Transnational Organised Crime while looking at the conflict in Northern Mozambique, it noted that the major illicit market activities include wildlife trafficking, mining among others though these keep changing overtime depending on the interests.<sup>24</sup> The report further noted that the rise of illicit economies provided the right conditions for the conflict. This goes to explain that conflict does not always give rise to illicit economies, but rather illicit economies can support the creation of conflict.

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<sup>17</sup> Williams, P. *Crime, Illicit Markets, and Money Laundering*. Carnegie Endowment for International Peace. Available here <https://carnegieendowment.org/pdf/files/mgi-ch3.pdf>

<sup>18</sup> ENACT & INTERPOL. (2022, June). *Organized crime and armed conflicts in Eastern Africa*. Available here <https://enact-africa.s3.amazonaws.com/site/uploads/2022-09-20-interpol-analytical-oc-east-africa.pdf>

<sup>19</sup> Brown, V. F. (2017). *Organized Crime, Illicit Economies, Civil Violence & International Order* available here <https://direct.mit.edu/daed/article/146/4/98/27170/Organized-Crime-Illicit-Economies-Civil-Violence>

<sup>20</sup> Supra, n.18

<sup>21</sup> Ibid.

<sup>22</sup> Interpol. (n.d.). *Illicit goods - the issues*. Available here <https://www.interpol.int/en/Crimes/Illicit-goods/Illicit-goods-the-issues>

<sup>23</sup> UNCTAD. (2022, September). *2nd Illicit Trade forum*. Available here <https://unctad.org/meeting/2nd-illicit-trade-forum>

<sup>24</sup> Supra, n.6.

Illicit economies also flourish in countries with high employment rates because they offer them job opportunities.<sup>25</sup> In a research report by GI-TOC it was reported that in some cases such unemployment rates are caused by corruption, and economic capture by the well-connected politically or otherwise which creates the unemployment crisis and as such an opportunity for illicit trade to thrive through employing the unemployed and such as giving illicit economies a boost.<sup>26</sup> Corruption is one of the vices that facilitates illicit markets as well as illicit economies because through corruption goods are smuggled through border points creating an illicit market since their entry into the country is not recorded or taxed. The money earned from these markets, then ends up in the illicit economies.<sup>27</sup> In some cases, military actors have facilitated the survival of illicit economies, in a report by the SWP-Berlin noted. In the Democratic Republic of Congo there are reports of the military being used to transport minerals such as gold across the border for trade.<sup>28</sup> It can also be noted that one of the areas through which illegal taxation takes place in countries like the Democratic Republic of Congo is collecting taxes across a number of sectors like agriculture, fishing and natural mineral exploitation.

### 2.3. The Impact of Illicit Economies on the Tax Base

This final subsection of the second section explores the consequences of these illegal sectors for the state's tax base, providing both a theoretical explanation and real-world examples. Illicit economies facilitate tax loss, as commodities or counterfeits smuggled into the country by criminals, are unreported. Tax collecting authorities are unable to record details of such commodities much less follow up on them and such as these products cannot be taxed. In 2018, it was reported by Interpol that organised crime accounted for an estimated 31.5 billion dollars. Activities that make up this crime include mineral exploration and taxation, oil and gold.<sup>29</sup> These activities are part of the illicit economies.

The report further noted that 96% of these proceeds go towards organised crime groups. This enables armed groups to purchase weapons to support their conflict, sustaining it. Tax evasion and money laundering rank highly when it comes to how illicit economies operate. Money laundering supports illicit economies because it is involved in the concealing of the origins of illicit financial flows which allows them entry into the mainstream legal economy. When minerals or goods are smuggled across the border without paying taxes, tax evasion takes place, and this causes revenue loss to the government. Illicit taxation and illicit economies have adverse effects on a country's tax base in the following ways;

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<sup>25</sup> Brown, V. F. (2017). *Organized Crime, Illicit Economies, Civil Violence & International Order* available here <https://direct.mit.edu/daed/article/146/4/98/27170/Organized-Crime-Illicit-Economies-Civil-Violence>

<sup>26</sup> *Supra*, n.6.

<sup>27</sup> International Red Cross. *Armed conflict*. How does law protect in war? Available here [https://casebook.icrc.org/a\\_to\\_z/glossary/armed-conflict](https://casebook.icrc.org/a_to_z/glossary/armed-conflict)

<sup>28</sup> Vorrath, J., & Zuñiga, L. M. (2022). *Key Features of Illicit Economies in African Conflicts*. Insights from the Reports of UN Panels of Experts. Available here <https://www.swp-berlin.org/10.18449/2022C36/>

<sup>29</sup> Interpol. (2018). *Organized crime underpins major conflicts and terrorism globally* Available here <https://www.interpol.int/en/News-and-Events/News/2018/Organized-crime-underpins-major-conflicts-and-terrorism-globally>

a) Revenue Generation

Through illicit taxation acts as a significant revenue stream for illicit economies but in doing so, it is creating a leakage where services and commodities that should be earning the government income tax are being brought in and sold to or services being provided to citizens without remitting the tax to the necessary authorities. Moreover, these taxes are enforced through coercion, threats, or violence. The revenue generated from illicit taxation is used to further fuel other illegal activities and instability which all threaten the countries' political and economic stability.

b) Control and Power

During the enforcement of illicit taxation, criminal groups and individuals exert control and influence over territories and communities by instilling fear. By imposing and collecting taxes illicitly, these entities establish a sense of authority and dominance over the areas in which they operate which undermines legitimate governance structures and legal avenues for collecting government revenue. Furthermore, illicit taxation is often intertwined with money laundering practices. Money laundering undermines governments' legal tax bases by disguising the origins of illicit funds, making it difficult for authorities to trace and tax the true income and assets of individuals or businesses involved in criminal activities. This process involves disguising the illicit origins of the funds and making them appear as legitimate income or assets. Money laundering techniques, such as layering and integration, enable criminals to enjoy the proceeds of their illegal activities while avoiding suspicion.<sup>30</sup>

c) Weakening of legitimate governance

Illicit taxation undermines the effectiveness of legitimate governance and state institutions. By depriving governments of tax revenue, illicit taxation reduces their ability to provide public services, enforce laws, and promote economic development. Illicit economies thrive in environments where weak governance, corruption, and lack of law enforcement allow for the proliferation of illegal activities.

Addressing the link between illicit taxation and illicit economies requires comprehensive efforts, including strengthening governance structures, improving law enforcement, enhancing transparency, and promoting economic development to reduce the incentives for engaging in illicit activities. The link between illicit economies and conflict is complex though oftentimes the two go hand in hand. Illicit economies consist of illegal activities such as drug trafficking, arms smuggling, human trafficking, wildlife trafficking, and other various forms of organised crime. These activities generate substantial profits for criminal networks and can have significant implications for conflicts.

Here are some ways illicit economies and conflict are interconnected:

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<sup>30</sup> United Nations Office on Drugs and Crime. Infiltration of Organized Crime in Business and Government. <https://www.unodc.org/e4j/en/organized-crime/module-4/key-issues/money-laundering.html>



i. Financing of armed groups through illicit economies

Illicit economies often provide a source of funding for armed groups involved in conflicts. These groups may use the profits from illicit activities to purchase weapons, recruit fighters, and sustain their operations. Illicit economies can thus fuel and prolong armed conflicts by providing the necessary financial resources to sustain the fighting.

ii. Illicit economies create competition over resources

Illicit economies are often based on the exploitation of valuable resources such as drugs, minerals, or natural resources. In conflict-affected areas, control over these resources becomes a driver of conflict, as different groups compete for their control and the associated profits. This competition can lead to violent clashes and protracted conflicts.

iii. Illicit economies weaken state institutions

Illicit economies can undermine the legitimacy and effectiveness of state institutions. The presence of powerful criminal networks engaged in illicit activities can lead to corruption, co-optation of state officials, and erosion of governance structures. This weakened governance can create a power vacuum, contribute to state fragility, and provide fertile ground for the emergence or escalation of conflicts.

iv. Illicit economies often involve non-state actors such as organised crime groups, rebel factions, armed groups or terrorist organisations.

These actors may take advantage of weak governance or conflict environments to establish control over illicit markets through illicit trade. Their involvement in illicit economies can further destabilise conflict-affected regions and hinder peace-building efforts. Illicit economies always create interplay with legal economies whereby illicit economies can have negative spill over effects on legal economies. They can distort markets, foster corruption, hinder economic development, and impede foreign investment. The resulting economic fragility and inequality can exacerbate social tensions and contribute to the escalation of conflicts. Transnational organised crime groups benefit from conflict because there's little to no law-and-order enforcement and this enables them to carry out their activities uninterrupted. Activities that include cross border smuggling, human, wildlife and drug trafficking, counterfeiting, mineral extraction just to mention a few. Organised crime groups take advantage of the conflict to get taxes through roadblocks and by making scarce commodities available. This causes governments to lose taxes and create a vacuum in service provision<sup>31</sup>.

In a June 2022 report by Interpol, it was noted that organised crime groups utilise the gaps caused by conflict to impose illicit taxation on the communities.<sup>31</sup> It was further noted that allies between organised criminals and armed groups may evolve over time, but organised criminals

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<sup>31</sup> Supra, n.18.

facilitate the longevity of conflict.<sup>32</sup> With conflict, there is reduced tax collection and countries depend on taxes for development and debt repayment. With the reduction of tax collection, social services suffer. Organised criminals take advantage of the fragility of states during conflicts or political uprisings to establish networks that enable them to do their work while legitimate government systems struggle with peace and stability. Because war creates an unstable environment for businesses, transnational organised criminals utilise these gaps to impose their own laws and create their own businesses which can include counterfeit goods. The trade of counterfeits takes place through a dark market that is created by instability and insecurity. Illicit trade that is mostly carried out by criminals thrives.

It should be noted that conflict can easily spill over into neighbouring countries and so do transnational organised criminals.<sup>33</sup> Conflict creates a breeding ground for organised criminal groups because they also help sustain it. Peace building efforts are further hampered by both parties since they both benefit from conflict. Conflict creates an enabling environment for transnational organised crime to thrive and in some cases like in northern Mozambique where transnational organised crimes supports conflict to thrive. Armed groups in conflict require funds to sustain their operations and one way of doing this is through engaging with organised criminal groups for a portion of their funds in exchange for protection. A fact that shouldn't be ignored is the fact that governments tend to focus more on more stable areas in their countries than fragile or conflict prone areas which creates a vacuum and allows for illicit economies to thrive. Governments should improve their presence in these areas to encourage tax collection but also disrupt the illicit economies. With the failure to raise funds due to the conflict and transnational organised crime, governments often find themselves indebted as they try to borrow funds to carry out peacebuilding efforts yet they cannot raise revenue through taxes due to instability. With the loss of the tax base and heavy indebtedness, it becomes difficult for governments to provide social services to the population.

### **3. Interplay between Transnational Organised Crime and Conflict on the Tax Base**

The preceding sections unpacked the complexities of transnational organised crime, conflict, and their implications on the tax base. It delved into the definitions of these phenomena and explored the underbelly of illicit markets and economies. Now, building upon this groundwork, we will delve into the practical manifestations of these dynamics.

This section examines how these theoretical concepts play out in real-world scenarios. It draws upon a variety of case studies from different geographical regions, demonstrating the interplay between transnational organised crime and conflict, and how these activities impact the tax base. Each case will present a unique interplay of these elements, contributing to a broader understanding of their complexity and diversity. Subsequently, it takes a closer look at the involvement of organised crime groups in the logistics of transportation, and how this activity can hide illicit activities. The involvement of various parties in these activities, including customs officers, will also be discussed. Customs officers are often bribed by those smuggling goods across

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<sup>32</sup> Paula Miraglia, Rolando Ochoa and Ivan Briscoe (2012) *International Center for the Prevention of Crime and the Clingendael Institute Transnational organised crime and fragile states*.<https://www.oecd.org/dac/accountable-effective-institutions/WP3%20Transnational%20organised%20crime.pdf>

<sup>33</sup> Supra, n.6.

the border, this causes revenue loss to the country where the smuggled goods are coming from. On the Ugandan border with South Sudan, bribery of the customs officers is a key component in the smuggling of gold across the border from South Sudan into Uganda.<sup>34</sup>

Finally, the section concludes by studying the case of Uganda, a significant transit point for the proceeds of transnational organised crime. This analysis will help highlight the international scope and impact of these criminal networks. By examining these real-life scenarios, this section aims to elucidate the tangible impacts of the theoretical concepts discussed earlier, thereby providing a well-rounded understanding of the interplay between transnational organised crime, conflict, and the erosion of the tax base.

Addressing the link between illicit economies and conflict requires a comprehensive approach that combines law enforcement efforts, good governance, economic development, and conflict resolution strategies. It involves disrupting illicit networks, strengthening institutions, promoting inclusive economic growth, and addressing the root causes of conflicts. In DRC, illegally mined gold is illegally exported thus creating an illicit market for minerals, but it was also noted in a report by SWP Berlin that legal tax collectors play a role in facilitating this illicit trade by introducing these minerals into the legal/legitimate market.<sup>35</sup> This facilitates the illicit trade because these illegally mined minerals are now sold legitimately. Illicit economies undermine governments because they take away from their resource revenue from illicit mining, illicit trade and markets all of which facilitate illicit economies and reduce the legitimate governments income. Illicit taxation or taxation by armed groups is driven by numerous interests, for some armed groups, the decision on which goods to tax can stem from ideology and certain beliefs about certain goods or a need to encourage certain behaviours associated with different goods. Like the Alshabab and heavily taxing alcohol to discourage its consumption.<sup>36</sup>

A report by Interpol<sup>37</sup> and ENACT<sup>38</sup> noted that fragility in different countries supports the activities of organised crime groups. The Alshabab militia doesn't only get its income from tax collection by controlling taxi checkpoints (taxis are commercial vehicles used for public transportation) but it also engages in other forms of tax collection such as irrigation and sale of land as well as the importing and selling of goods just to mention as reported in a 2020 news article by the Reuters new agency.<sup>39</sup> According to the World Atlas of illicit flows, It was reported that the Alshabab collects an estimated 20 million dollars and half of that income comes through illegal taxation.<sup>40</sup> The Al Shabaab militia is an example of how conflicts facilitate organised criminal groups to erode the tax base. Whereas the Al Shabaab is a militia group, it has utilised the conflict to create its own taxation regime that funds its activities.

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<sup>34</sup> Supra, n.3

<sup>35</sup> Supra, n.28.

<sup>36</sup> Jackson, A. (2022). *Why do armed groups tax? It's not just about the money – ICTD* from <https://www.ictd.ac/blog/why-armed-groups-tax-not-just-money/>

<sup>37</sup>Supra, n.18.

<sup>38</sup> Ibid.

<sup>39</sup> Katharine Houreld (2020) Elaborate Somali insurgent tax system collects almost as much as the government.

Available here <https://www.reuters.com/article/somalia-security-idUSKBN27C1P0>

<sup>40</sup> Nellemann, Henriksen, & Pravetton. (2018). *World Atlas of Illicit Flows*. <https://globalinitiative.net/wp-content/uploads/2018/09/Atlas-Illicit-Flows-Second-Edition-EN-WEB.pdf>

A report by SWP-Berlin noted that rebels in the Central African Republic (CAR) had set up tax collection routes around mining areas though they urged that they set them up to collect taxes to provide services. It is unclear whether this is an actual possibility. Just like with Somalia's armed groups demanding a protection tax from the population in areas under their control, the rebels in CAR use this same method to raise taxes.<sup>41</sup> The case in DRC is no different as the population is threatened with violence should they fail to comply and in the end they pay multiple taxes to different groups both non state actors as well as the state. The threats have led to the killings of people working in mines.<sup>42</sup> A 2018 report by Interpol reported that 31.5 billion dollars was lost in and around conflict areas.<sup>43</sup> It was further noted that the sources of this income were slowly changing from traditional activities of drug trafficking, kidnapping among others to more advanced sources like natural resource exploitation, taxation of minerals like gold among others. Furthermore, it should be noted that illicit taxation takes through various forms as highlighted by both the Interpol and GI-TOC reports. Both reports indicate that illicit taxation in communities is carried out by organised criminal groups and oftentimes in collaboration with armed conflicts groups.

In Democratic Republic of Congo, it was reported that an armed group known as the Mai Mai Yakutumba group benefits from illicit taxation through illegal logging as well as mounting illegal roadblocks that control traffic as well as the running of businesses.<sup>44</sup> In 2018, the World Atlas on illicit flows reported that \$197 million dollars was earned through illegal taxation and extortion.<sup>45</sup> Illicit taxation undermines peace building efforts as well as stability. Because its beneficiaries need the instability caused by conflict to thrive. Organised crime groups actively engage in the logistics of transportation. A report by ENACT noted that some activities like illegal fishing can be hidden through documents at the time of export by customs officers. The participation of these officers in this vice could also be attributed to the blackmail by the organised criminal groups. It was estimated that around €1.1 billion of fish was exported to the European Union from the African continent without due process.<sup>46</sup>

It is further reported that organised criminals engage in various crimes like human trafficking and immigrant smuggling among others. Drawing on examples from the Democratic Republic of Congo and the Lord's Resistance Army rebels and their participation in transnational organised crimes like illegal mining, wildlife trafficking among others to raise funds to facilitate their war, it is clear that conflicts support transnational organised crime to maintain its existence. Because of their nature, Uganda has become a transit point of the proceeds of transnational organised crime. Illegal timber harvested from the Democratic Republic of Congo is smuggled into Uganda and sold within the country. In cases of wildlife trafficking in particular the ivory

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<sup>41</sup> Supra, n.28.

<sup>42</sup> Interpol. (2018). *Organized crime underpins major conflicts and terrorism globally*. Interpol. Available here <https://www.interpol.int/en/News-and-Events/News/2018/Organized-crime-underpins-major-conflicts-and-terrorism-globally>

<sup>43</sup> Supra, n.18.

<sup>44</sup> Nellemann, Henriksen, & Pravetton. (2018). *World Atlas of Illicit Flows*. <https://globalinitiative.net/wp-content/uploads/2018/09/Atlas-Illicit-Flows-Second-Edition-EN-WEB.pdf>

<sup>45</sup> Supra, n.18.

<sup>46</sup> Ibid.

trade, ivory is smuggled into Uganda before being exported to Asia<sup>47</sup>. Armed groups often impose taxation zones as a form of control both of international actors and local population. Most Armed groups engage in taxation as a source of income, seeking legitimacy from the population.<sup>48</sup> This gold is mainly controlled by armed groups as well as border tax officials who are bribed to allow for the smuggling of this gold. Armed groups often impose taxation zones as a form of control both of international actors and local population. Most Armed groups engage in taxation as a source of income, seeking legitimacy from the population.<sup>49</sup>

#### 4. Illustrating the impact

Whereas this paper focuses on fragile or conflict states, the primary focus in this section is on South Sudan, Democratic Republic of Congo (DRC) and Somalia though a few examples from the conflict in Central African Republic and northern Mozambique are also referenced. In northern Mozambique, the illicit economies majorly focus on wildlife poaching and trafficking, drug trafficking and illicit mining.<sup>50</sup> In the case of the DRC, reports indicated that the illicit economies in conflict areas are mainly around areas of wildlife crime, illegal logging and illicit mining. Armed groups collect taxes by imposing restrictions on mines. At times with the collaboration of military officials, minerals are transported across the border. This is part of the corruption that facilitates illicit markets as well as illicit economies. The illicit minerals have also found their way into the legal economy though they do not have to necessarily pay the taxes from them. This causes losses to the government.

Illegal timber trade is lucrative in the DRC because the vast forests an estimated 150 million hectares in the country and the ease with which neighbouring countries like Uganda facilitate in this illicit trade by providing both the transit route for the timber but also a market for it. Illegal timber trade and charcoal trade have led to the destruction of forests. This trade also involves tax avoidance and forged certificates. This trade in the DRC involves armed groups, politicians, underpaid military personnel and traders.<sup>51</sup> These work together to ensure the success of this trade both within the eastern DRC and its export to neighbouring countries. Due to low salaries, military personnel engage in illicit trade as well as illicit taxation that is carried out at checkpoints where citizens are exhorted, or they are asked to pay for security.<sup>52</sup>

It is noted that before 2017, the illegal timber exports were sent to Europe though that changed in recent times to Asia. As noted in section 3 the role of neighbouring states in enabling this trade cannot be understated as Uganda and Rwanda are often used as transit countries for this illegal timber which accesses their countries through borders and it's not recorded yet once it is in

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<sup>47</sup> Runhovde, S. R. (2017). Merely a transit country? Examining the role of Uganda in the transnational illegal ivory trade. Trends in Organized Crime. Available here [https://phs.brage.unit.no/phs-xmlui/bitstream/handle/11250/2427085/merely\\_a\\_transit\\_country.pdf?sequence=1](https://phs.brage.unit.no/phs-xmlui/bitstream/handle/11250/2427085/merely_a_transit_country.pdf?sequence=1)

<sup>48</sup> Tanya B, Max G, Ashley J, Vanessa B & Florian W (2021) Beyond Greed. Why armed groups tax. Available here <https://www.ictd.ac/publication/beyond-greed-why-armed-groups-tax/>

<sup>49</sup> Ibid.

<sup>50</sup> Simone Haysome (2018) Understanding northern Mozambique's vulnerabilities *WHERE CRIME COMPOUNDS CONFLICT* Available here; <https://globalinitiative.net/wp-content/uploads/2018/10/TGIATOC-North-Mozambique-Report-WEB.pdf>

<sup>51</sup> Uhm, D. V., Tjnoon, M., & Bakole, E. (2022). *Business as usual? Illegal timber and charcoal trade in Eastern DRC*. Available here <https://globalinitiative.net/analysis/charcoal-timber-trade-eastern-drc-congo/>

<sup>52</sup> Ibid.

either country it is sold as legal timber.<sup>53</sup> This causes financial loss to the DRC in addition to the environmental degradation. Important to note in the DRC case is that sometimes timber traders will establish relationships with the armed groups for security while they conduct their business. The Allied Democratic Forces and the Mai Mai groups tax the traders.

In the case of Somalia, the Al Shabaab insurgents' tax the population in the areas that they control through demanding taxes to access transportation routes. The Al Shabaab is considered one of the wealthiest armed groups.<sup>54</sup> Taxation has played a critical role in keeping the Al Shabaab empowered and able to carry out its activities. The taxation takes place at checkpoints in order for drivers to access the roads, agricultural produce, livestock and goods that are for food, fuel or general cargo<sup>55</sup>. This happens in areas under its control. Goods generate the highest tax. Threats are often used to ensure complacency with the taxation calls. The Al Shaabab makes more money through illicit taxation than the government that enables it to run its operations smoothly.<sup>56</sup>

In South Sudan, gold smuggling to neighbouring countries is a common occurrence and instability plays a critical role in this. Despite the lack of adequate data on the gold mined and smuggled out of the country, there are reports that suggest that the smuggled gold is worth millions of dollars.<sup>57</sup> Gold is a lucrative mineral that is in high demand both locally and internationally. Gold smuggled out of South Sudan usually uses Uganda and Kenya as a transit point before being exported to the United Arab Emirates (UAE).<sup>58</sup> Though in some cases this gold is sold within Uganda and Kenya after being smuggled out of South Sudan.<sup>59</sup>

Armed groups, military officers as well as political actors are involved in the illicit gold trade. Their level of involvement differs with each group though for this particular paper we will focus on armed groups who tax the artisanal miners and multinational companies that operate in these areas. A report on Tarnished Hope Crime and Corruption<sup>60</sup> further noted that there is increased violence in areas with gold reserves between state and non-state actors. These fights are usually over control of the mining sites. The challenge of weak border security and corruption play a crucial role in enabling gold smuggling. Artisanal mining is a common source of income for rural communities. Bribery plays a role in the export of gold to Kenya. There are some border routes with little police presence as well as revenue officers which makes them attractive for the smugglers.

Key to note is that most countries within the eastern Africa region have experienced the spill over effects of armed conflict from their fragile neighbours as the case with the Lord's Resistance Army rebels who once operated in Northern Uganda then from there to the DRC and Rwanda respectively. The Allied Democratic Forces have been operating within the eastern DRC and have used this as an opportunity to launch attacks on their neighbours like Uganda. Against such a background, fragile countries should utilise regional cooperation to build resilience against

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<sup>53</sup> Ibid.

<sup>54</sup> Supra, n.3.

<sup>55</sup> Ibid.

<sup>56</sup> Supra, n.36

<sup>57</sup> Supra, n.3

<sup>58</sup> Ibid.

<sup>59</sup> Ibid.

<sup>60</sup> Ibid.

transnational organised crime and conflict. A report by ENACT and Interpol noted that within the East African region, the organised crime groups are spread across.<sup>61</sup>

## **5. The impact of conflict on tax administration systems**

In this section we discuss the impact of conflict on legitimate tax administration systems. Taxation is key in raising government revenues to provide social services for its population however transnational organised crime groups and armed groups create an atmosphere of extortion and insecurity that deters the population from meeting their tax obligations to the governments but rather to the armed groups or organised crime groups for security and right of passage among other reasons. Examples of this are shown in detail in conflict zones within the Democratic Republic of Congo (DRC) and Somalia which have been plagued with armed groups fuelling conflict for over a decade now.

With the loss of revenue and inability to raise funds from taxes, governments struggle to provide basic social services for their populace, and this is often used by the armed groups as an excuse to conduct illegal taxation in order to provide social services. Failure to provide these social services reduces the legitimacy of the government as some armed groups take advantage of these gaps to illicitly tax the population with the promise to provide social services. We explored this in section 4.

## **6. Strategies to mitigate impact on tax revenue**

In this section, we explore the ways through which the impact of transnational organised crime and conflict on tax revenue can be minimised. Gikonyo, an expert in transnational organised crime and conflict who was interviewed for this research asserts that the challenge of tax collection can be mitigated through simplifying tax laws and procedures can make it easier for businesses and individuals to comply with tax regulations, leading to improved tax collection.<sup>62</sup> She also adds that Governments can expand the tax base by ensuring that more economic activities and individuals contribute to the tax revenue. This could involve including informal sectors, previously untaxed businesses, or those engaged in illicit but legal activities into the formal tax system. The government can also strengthen Tax Administration by investing in the training of tax officials, adopting modern tax technologies, and implementing transparent processes to minimise corruption and enhance tax compliance.

Furthermore, implementing temporary special tax initiatives or surcharges during times of conflict or crisis can help generate additional revenue to cover increased security and recovery expenses. In regions with limited banking infrastructure, adopting mobile payment systems can facilitate tax collection and provide a more accessible and convenient way for taxpayers to fulfil their obligations. Gikonyo also noted that international Cooperation especially in transnational conflict situations where collaborating with neighbouring countries and international organisations to combat transnational organised crime can help reduce illicit activities and increase tax compliance. Post-conflict reforms after conflicts can help governments focus on comprehensive

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<sup>61</sup> *Supra*, n. 18.

<sup>62</sup> An interview with Dr. Contance Gikonyo, an expert in Transnational Organised Crime and Conflict at the University of Nairobi (August 2023).

post-conflict economic and institutional reforms to attract investments, rebuild infrastructure, and encourage economic activities that contribute to the tax base.<sup>63</sup> To address the challenge of illicit taxation, it is important for governments to engage in public awareness campaigns so as to raise awareness about the importance of paying taxes and the benefits of taxation for the development of the country to encourage voluntary compliance but governments should consider non-tax revenue sources, in addition to traditional taxation.

Furthermore, Governments can explore non-tax revenue sources, such as user fees, licensing fees, natural resource royalties, and other forms of income generation to counter the challenge of illicit mining. Utilising external aid and financial support especially from international donor organisations can play a crucial role in providing financial and technical assistance to build institutional capacity and support revenue generation efforts in fragile states especially in addressing the challenge of illicit economies and illicit markets who utilise in borders to smuggle commodities across different country borders as explored in the section 4.

## **7. Policy recommendations**

In all considerations and solutions to address the challenge of transnational organised crime and all its enablers, In an interview with Matt Herbert, an expert in transnational crime, he suggests that governments should look to targeted sanctions while working with international agencies, this would deter the individuals involved in illicit markets and conflict.<sup>64</sup> He also notes that governments in fragile states or conflict states would benefit from providing accountability into what the taxes collected do to improve their legitimacy and encourage tax compliance. This is necessary because in certain conflict or fragile states, the populace believes that the armed groups are providing more social services than the legitimate government itself, the government can tackle this by improving their output in areas that are under their control. It is paramount that governments are actively involved in finding solutions to illicit taxation. Corruption is a challenge in conflict areas as explained with the examples of military officers that engage in the transportation of illicitly mined minerals as well tax collectors accepting illegal minerals into the legal system. This is one of the many instances in which corruption supports transnational organised crime while compromising the legitimate government needs. Herbert also noted coordinated efforts on an international level are needed to enable the effectiveness of sanctions on corrupt individuals as well as regional groups.

## **8. Conclusion**

Transnational organised crime has both traceable and untraceable links to conflict which affect the tax base of a given country that is fragile or experiencing violence as well as her neighbours. While researching this paper, it became clear that whereas governments need international support to enforce sanctions, they need to focus on internal avenues to widen their tax base as well as address the challenges of corruption within the tax collection agencies. Transnational organised criminal groups benefit from instability and therefore all their efforts are geared towards ensuring its longevity. Governments in their efforts to improve the taxbase and

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<sup>63</sup> Ibid.

<sup>64</sup> Interview with Matt Herbert, an expert in transnational organised crime and conflict (August 2023).



negotiate peace and stability in conflict prone or fragile states, governments should also aim to provide social services to these areas to improve their argument of tax collection in such areas.

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