

HOW FIRMS COPE WITH CRIME AND VIOLENCE

by Maria Ariano¹

Introduction:

I met Prof Albert Hirschman only once in my life, when I attended a conference organized by Luca and Nicoletta in Naples, which was attended by Hirschman and his wife. His gaze and his intelligence struck me enormously. I still remember how his eyes were looking and analyzing everything!

However, I think that the teachings and the presence of Albert Hirschman have always been close to me and a constant source of inspiration in my work and in my life through the teachings of Luca.

I was almost finishing the University where I had learnt lots of interesting and standard things, and I was ready to apply my knowledge in my future work, when this Professor (Luca) “shook my world” because he opened my world to something completely new, which still sounded like music to me....possibility! ☺!!!!

Since then to follow Luca’s teaching has been like following Hirschman and his legacy!

Since then, I tend to run away when big and important economists try to explain to me how the world works and how to understand it. I do not want to diminish anything of this effort, but to be always reduced to a formula or to a model, where variables are clear and defined since the beginning and have a weight, is not really the most appealing thing to me. And even less, considering that I work in development and I travel to many developing countries where my counterparts want practical and possible solutions, not models and formulas that can indicate them what to do!

After being a student of Luca this standard and perhaps even very important approach does not work for me anymore! So, I tried to be loyal to what I learnt and to what I believe in and I “exported in my work” this approach.

I was lucky. I found intelligent people that shared my view or even just they accepted it. Today I am presenting one of these methodological examples, sharing with you the results of a report that two great colleagues of mine and I wrote to examine how firms cope in environments characterized by crime and violence.

The Report:

The report examines how firms cope in environments characterized by crime and violence, which is a knowledge gap identified in the 2011 World Development Report on Conflict, Security, and Development. Unsurprisingly for us, many possibilities provided by reality emerged! Firm’s coping can range from survival to improving the firm’s competitive position. Several case studies were analyzed in the report— from Colombia (Medellín), Brazil (Rio de Janeiro), Jamaica, Mexico (Tijuana, Ciudad Juárez, and Mexico City), Nepal, and Rwanda—, which show that crime and violence affect the private sector in several ways (see Table 1 for an overview of the case studies).

¹ This draft synthesizes the World Bank report “How Firms Cope with Crime and Violence”, co-authored by Michael Goldberg, Kwang W. Kim and Maria Ariano. It is used for the conference given that the teachings of Prof. Hirschman, and of Prof. Meldolesi and Prof. Stame have been a source of inspiration for it.

Table: 1: Overview of Case Studies						
	Colombia (Medellin)	Brazil (Rio de Janeiro)	Jamaica	México (México City, Cd. Juárez, Tijuana)	Nepal	Rwanda
<i>How crime and violence affect firms</i>	Exclusion, rents, extortion via gang related business, kidnappings, bombings	Exclusion, and extortion through gang related businesses	Factory shutdowns, Loss of business, lower national productivity and investments, brain drain	Extortion fees, kidnappings, theft, assault to logistical providers, blockades	Forced 'donations', extortion, obstructions and strikes	Loss of business / visitors to competitor country (Uganda)
<i>Source of violence</i>	Drug trade, political violence (between guerrillas and paramilitaries), breakdown of social order	Drug trade, accumulation of several risk factors such as inequality	Drug trade, legacy of riots dating back to slave trade	Drug trade, accumulation of several risk factors such as inequality	Political (armed conflict, civil unrest, politically-motivated disruptions), ethnic (clashes among several ethnic groups), criminal (armed group, mafia violence and extortion)	Post-conflict/genocide
<i>Coping Type*</i>	PPM, Clusters, exit, pay (firm-level security arrangements and extortion fees), joining criminal activities, advocacy	PPM, where Private sector partly funds public program for security and pacification of violent areas, Corporate Social Responsibility	PPM to promote a program against crime and violence, pay (Security arrangements by individual firms), Adaptability of firm-level operations, Corporate Social Responsibility	PPM in the form of Private and Public Forums and cluster initiative (Tijuana Innovadora), Individual firms, role of social media	Individual firms: Exit, relocation, delay of investment, Pay (Incurring higher protection costs), Collusion with violent groups Exploitation of new business opportunities Collective: Cost-sharing of security services, lobby for government action; private sector acts as a mediator; engage in public-private dialogue on reforms Hydropower sector: Delay in investments, Re-orientation of the business model, Negotiation of protection with local communities	PPM: Participatory value chain approaches (working groups) in tourism, coffee, tea, and leather

Policy Implication	Role of participatory approaches, Cluster Initiatives, lessons from participatory budgeting to procure non criminal firms	Incentives to attract investments in post-violent areas	Collective actions/Cluster Initiatives, institutions and implementation issues matter, lessons learned from microfinance programs	Facilitate cluster initiatives	More systematic data collection on protection arrangements; Promote economy-wide, inclusive public-private dialogue, bringing together divergent interests.	Facilitate participatory value chain / cluster initiatives
WBG Role	Facilitate clustering, implementation arrangements	South-South exchanges (LAC, global fragile regions)		Facilitate cluster initiatives, PPDs	Extend diagnostics to clarify protection arrangements that firms use; facilitate inclusive, economy-wide PPD.	Facilitate participatory value chain / cluster initiatives
PPM=Public-Private Mechanism. PPD=Public Private Dialogue. PPF=Public Private Forum. See footnote 13 for “clusters” or “cluster initiatives.”						

It emerges that firms are excluded from economic activities in some high crime areas, and incur high costs of security in other affected neighborhoods. Crime and violence weaken the business environment, often resulting in the loss of firm revenues from lower consumer demand and constraints to expansion. When supply chains are interrupted, normal production and sales are threatened. Finally, small and medium enterprises (SMEs) are particularly vulnerable to crime and violence, absorbing relatively high costs in such environments.

Small, medium, and large firms cope with such situations in a variety of ways. They take collective action by lobbying or participating in public-private forums, adapt their strategy or operations to the circumstances, become party to the violence, pay for the high cost of crime (such as security services, property losses, and extortion rackets), or exit the market altogether.

Based on the case studies and secondary research on the costs of violence to the private sector, the report describes several private sector coping mechanisms along with policy implications. Given their vulnerability and limited resources, SMEs stand to benefit the most from effective policy interventions as well as complementary investments at the grassroots, firm and sectoral levels. The study suggests that, first, the costs of crime and violence to firms are exceptionally high and are an important negative effect on competitiveness. Second, support for private sector coping mechanisms can be most effective when it is part of an integrated approach which involves investments for the private sector and strengthening social services, security and justice systems. Third, the cases highlight the importance of public-private mechanisms (PPMs), bringing the strengths of each type of actor to bear on deep-rooted economic and social problems. A fourth set of lessons come from each of the unique cases. It is not possible to simply replicate the experience of Medellin, Jamaica or Rio de Janeiro, since each one is built on national and local realities, limitations and opportunities. However, the lessons from each are useful to local and national policymakers, the World Bank Group and other donors.

However, there are still missing pieces and the need to further explore this question to try to understand reality. Further research is required on how these PPMs evolve and can be supported effectively by the World Bank Group (WBG), using the array of tools developed for private sector, governance, and civil society to deal with crime and violence and spur economic development. Also, the role and the limitations of public and private institutions and international organizations, such as the WBG should be further explored and considered, given that these should be locally led organic processes.