Financial Risk Management Strategies of Small to Medium Illicit Enterprises

Mark Berry, Royal Holloway, University of London, United Kingdom
R.V. Gundur,[1] Flinders University, Australia

Abstract

The international drug trade generates billions of dollars in revenue per year. A significant portion of that income comes from wholesale and retail sales late in the supply chain. Little is understood about the extent to which illicit revenue is laundered. Using data from ethnographic research and in-depth interviews with drug dealers in England and the United States, this paper investigates illicit entrepreneurs' management of criminal proceeds in both illicit and semi-legitimate drug markets. This paper argues that a significant proportion of criminal proceeds is disposed organically at the retail level, through ordinary cash transactions; however, at certain economic thresholds and stages in the supply chain, offenders begin to employ more concerted laundering techniques, such as reporting their revenue as taxable income and using proxies to launder funds. This study examines the extent to which these profits are reinvested into illicit enterprise or spent into the legitimate economy, and how these strategies shift as illicit entrepreneurs pursue distinct criminal and non-criminal opportunities. In doing so, this paper provides basic parameters which can aid in estimating the laundering of proceeds of crime generated by illicit markets.

Keywords: AML, drug market, money laundering, organized crime, turning points

The Illicit Drug Trade and its Proceeds

The illicit drug market not only generates the majority of revenues earned from organized criminal enterprise but also produces the greatest social and economic costs to society (Paoli 2017; Levi et al. 2013). While the drug market is international in its scope, the greatest proportion of the overall revenues is generated by the street-level retail sales that occur at the end of a supply chain (Giommoni, Gundur, and Cheekes 2020; Purvis and Gundur 2019). These retail proceeds, which on aggregate are the largest values associated with the drug trade, are often the values cited by law-enforcement officials when speaking of seizures. However, the revenue generated by drug trafficking organizations that largely specialize in wholesale transfer are, in absolute dollars, significantly less than those retail figures.

Illicit enterprise, regardless of size, generates illicit funds. No matter how little, when these funds are used, the crime of money laundering technically takes place (de Koker 2009). However, anti-money laundering (AML) regulations, law enforcement, and regulatory bodies, such as the Financial Action Task Force (FATF), focus on the disposal of relatively large sums of money that require *placement*, putting the proceeds of crime into the legitimate financial system; *layering*, moving that money through the financial system in various transactions to disguise its criminal origins; and *integration*, finalizing reintegration of the proceeds of crime into the licit economy, before the money is completely laundered (Levi and Reuter 2006; van Duyne and Levi 2005; Unger et al. 2006). These stages are not exclusive, may overlap, and, when considering small amounts, may not all occur. For

[1] Corresponding author, rajeev.gundur@oxon.org

example, when someone spends a few hundred dollars earned from street-level retail drug sales on everyday items, such as foodstuffs or clothing, those funds are placed directly into the licit economy without question and instantaneously integrated.

Overall, the most common AML requirement is that all state institutions report any suspicious transactions, but the thresholds for monitoring such transactions – e.g. 10,000 pounds, Euros, or dollars – is usually a function of the notion that most money laundering involves significant sums (Mullineux and Murinde 2003, 548). Whilst the policies themselves may be enacted through good intentions, there is little evidence of their effectiveness (Reuter 2007). Nonetheless, the AML regime plays a symbolic role; it demonstrates to the public that something is being done about the scourge of "organized crime," despite the concept being nebulous and not well or consistently defined within the public eye (Hobbs 2013; Zoppei 2015). That being said, if there were no AML regulations in place, there would be more laundering opportunities.

AML policy is designed to be both preventative and reductive. "Follow the money" has become a key rhetorical point guiding law enforcement agencies aiming to "hit criminals where it hurts most" (Naylor 1999). This approach assumes that stripping criminals of their assets makes them less likely to commit further crimes, as they will not have the funds to do so. In the US and UK, the countries featured in this comparative study, law enforcement agencies are encouraged to target criminal assets. However, low- and mid-level drug dealers often rely on credit to pay for their illicit wares. Accordingly, when assets of low-level criminal entrepreneurs are seized, these criminal entrepreneurs can increase the size of their loans, provided their creditors are willing to do so (Levi 2015). A creditor will provide further loans if the borrower has few alternative means of making the repayments and the additional loan ensures continued opportunity to deflect risk (Gundur 2020a); borrowers may find themselves in the position to accept these terms if the licit market offers limited opportunity due to a criminal record (Pager 2003). Accordingly, losing assets may encourage criminality rather than reduce it, especially when lenders incur greater debts, which encourage the sustention of criminal behavior, particularly among low-level offenders.

Effective criminal entrepreneurs, however, engage in strategies that expand or sustain their illicit businesses. One of those strategies invariably includes laundering money to curb law enforcement's efforts to "follow the money." People who launder money may do so via various roles, depending on the needs of the illicit enterprise they are involved with. Building upon the work of Malm and Bichler (2013), we suggest four broad categories of launderers. The current study features individuals in each of the following categories.

- *Self-launderers are people who launder the proceeds of a crime that they committed (Unger 2013, 8).* Self-laundering is argued to be the most prevalent type of laundering in low- and mid-level drug markets (Malm and Bichler 2013). *They include two categories of actors:*
    - *Passive self-launderers* who include illicit entrepreneurs who dispose of their proceeds of crime by spending the proceeds to buy illicit goods to maintain business or licit goods to sustain themselves. The low values and volumes of currency involved mean that passive launderers are neither subjected to a high level of scrutiny nor likely included in estimates of money laundering.
    - *Active self-launderers* actively launder their proceeds of crime, typically via unsophisticated strategies, which often include their own businesses or investment endeavors.

- *Opportunistic launderers* look to their own social networks for opportunities to actively launder money. They may use the accounts of friends, families, or local businesses. Like self-launderers, opportunistic launderers pursue opportunities that are present in their immediate surroundings and among their contacts within the “routine activities” of their daily lives (Johnson and Payne 1986; Clarke and Felson 1993; E. R. Kleemans 2013). Opportunistic launderers exemplify the use of innovation to identify new laundering opportunities.
- *Professional launderers* have certain skill sets and are enlisted specifically by those with a surplus of illicitly obtained funds for the purposes of actively laundering large quantities. Such actors are often lawyers, bankers, or accountants who provide their services for a fee (He 2006).

Lost in most analyses of money laundering are the activities of the first three classes of launderers. These launderers are the ones most likely to be involved in the laundering of the proceeds of crime related to the retail drug sales or low-level wholesale drug sales. A small but important literature shows that most low-end illicit drug entrepreneurs make relatively low wages compared to steady, licit work (Naylor 2002; Levitt and Venkatesh 1998; MacCoun and Reuter 1992). Moreover, those illicit entrepreneurs who are able to develop steady business and encounter the need to launder their money are not particularly sophisticated nor devious; they often engage in opportunistic strategies which rely on their proximal networks of friends and family members (Malm and Bichler 2013; Ouellet, Bouchard, and Malm 2016; Levi and Reuter 2006).

This study confirms that these findings hold in different, international jurisdictions (the US and the UK) and explores the capital-management strategies of low-level to mid-level illicit entrepreneurs. Moreover, this study shows that illicit entrepreneurs who seek to expand their businesses, to become large enough to be their primary source of income, or who seek to exit illicit businesses and establish licit ones, engage in similar laundering tactics, regardless of their geographic location. In addition, this study makes three further contributions. First, it shows that there are clear business turning points that can be observed, regarding the needs and strategies of laundering proceeds from drug sales. Second, it shows how illicit entrepreneurs innovate to respond to shifts in access to laundering opportunities and shifts away from the cash economy. Third, it shows how some illicit entrepreneurs use licit structures to legitimate the proceeds of illicit businesses. For example, some illicit entrepreneurs may report their illicit business dealings to the tax authorities which effectively reduces the scrutiny that their activities’ finances might generate. Some illicit entrepreneurs use this legitimation of their illicit activities to pivot their businesses away from illicit trade. This phenomenon supports strategies that seek to convert illicit entrepreneurs into licit entrepreneurs, particularly in cases where decriminalization changes the market landscape (Rychert and Wilkins 2019; Belackova, Roubalova, and van de Ven 2019); consequently, these entrepreneurs may contribute positively to society and towards the government’s revenue stream.

This paper proceeds as follows. First, it presents this study and its methodology. Second, it provides an account of shifts in financial considerations at various stages of business maturity. It also indicates standard and innovative strategies used to dispose of the proceeds of crime and to shift business from the illicit to the licit realm. Third, it discusses the implications of these innovations and strategies for law enforcement and policy.

Current Study and Methodology

There is little extant research that surveys the financial strategies of low- to mid-level illicit entrepreneurs. The little that exists is sporadic and focuses on actors typically within one country. Moreover, there is a dearth of qualitative research that examines the practices of such entrepreneurs, particularly in reference to innovative uses of proceeds of crime that sustain and expand small-to-medium illicit enterprises. Accordingly, we pose three research questions:

1. How does the stage of entrepreneurship impact an illicit entrepreneur's money disposal strategies?
2. How do illicit entrepreneurs use licit structures to dispose their money?
3. Why and how do illicit entrepreneurs innovate to dispose the proceeds of their crimes?

This study draws on two studies on the retail and lower wholesale drug trade in the United States and in England. It provides a comparative view which explores whether jurisdictional context significantly changes the money laundering strategies of low- to mid-level illicit entrepreneurs. Together, these studies drew on 12 semi-structured, face-to-face interviews with members of law enforcement and 43 semi-structured, face-to-face interviews with people who were previously or at the time of the interview directly involved in the drug trade. Of these interviews, a minority of 10 (split evenly across each country) were what could be called "upper-level" positions, such as "management" or "small business owner," where actors engaged in the wholesale trade or managed retail underlings, or "specialists" where actors engaged in a specific, high-level activity, such as weapons trafficking or money laundering.

Participants were recruited using several recruitment methods: traditional chain referral/snowball methods (Noy 2008; Petersen and Valdez 2005); online classified advertisements (Gundur 2019; Worthen 2013); and direct engagement and "gonzo" recruitment, which took advantage of the authors' social and life circumstances to contact and interact with participants (Innes 2014). The diversity of recruitment methods allowed accounts to be collected from individuals who did not know each other and who operated businesses in different contexts. This strategy allowed the authors to triangulate the patterns of entrepreneurial behavior observed. In addition, given that both authors lived and worked in the communities they were studying, their understandings were also informed by conversations they had with others in the community and their own observations of everyday life.

The interviews lasted from one to three hours. Most participants were interviewed formally only once; some were interviewed further in formal or informal settings. The base interview schedules for both studies focused on the mechanics of the retail and lower-wholesale drug trade, covering similar content, though some geo-specific information was unique to each cohort. For this study, a coding framework was developed, using a grounded approach drawn from previous analysis of the data and a discussion between the authors regarding key themes. Using QSR NVivo, the authors re-coded elements related to obtaining and disposing the proceeds of crime.

The two studies that form the basis of this article were independently approved by the Cardiff School of Social Sciences ethics committee and were undertaken with the standards set forth by that body. Some of the higher-profile participants requested that their cities not be disclosed to protect their identities, and, in reporting our findings, we are abiding by their wishes. The patterns of entrepreneurial behavior described in this article are similar regardless of location. All the individuals quoted within this article are real individuals and all are represented with pseudonyms; there are no composite characters. The quotes have been transcribed from recordings or reproduced from notes, in the cases where participants declined to be recorded.

The Financial Considerations of Small to Medium Illicit Enterprises

The drug trade is formed by several enterprises that work in concert to distribute products across a global supply chain (Purvis and Gundur 2019). In this context, it is helpful to classify illicit enterprises based on their size and corresponding financial turnover to understand how financial implications evolve depending on economic context. While some large enterprises exist in the drug trade, most drug enterprises – particularly at the retail level – are small to medium in size (Naylor 2002). Using stages of illicit entrepreneurial progression that accord to those proposed by Gundur (2020a), this study shows that the financial considerations, within the businesses of the illicit and semi-licit drug trade, are context and setting dependent (Gundur 2020b). In some cases, illicit entrepreneurs employ laundering strategies to expand or maintain their illicit enterprise; in other cases, illicit entrepreneurs design their economic strategies to provide an avenue to exit illicit enterprise altogether. In short, illicit entrepreneurs employ the simplest available strategies to use the proceeds of their crime; however, as their businesses mature, they engage in behaviors which minimize attention that their increasing financial expenditures may garner, innovating when easy or standard practices are no longer viable or the best solutions.

Entry-level entrepreneurs and passive self-laundering

The markup for illicit drugs is typically the most extreme in the last step of the supply chain; the end users generally get the poorest value for purity (Galenianos and Gavazza 2017). Despite this markup, most illicit drug retailers make small incomes, often below what might be earned in steady, minimum-wage jobs (Naylor 2002; Levitt and Venkatesh 1998). Despite this low rate of return and the risk they assume – both in terms of being captured by the police and having problems with competitors (Gundur 2020a) – some low-level drug dealers view the drug trade as easy money (Torres, D'Alessio, and Stolzenberg 2020).

For most seeking to get involved in illicit business, starting at the bottom in an entry-level position is necessary as these opportunities are more readily available for people who lack social or financial capital (Torres, D'Alessio, and Stolzenberg 2020). Many reasons motivate budding, illicit entrepreneurs to start dealing. Some start as children. American gang old-head Smokey ran kids on the street corners. The $50 bucks they could earn at 7 or 8 years of age was more money than they could ever dream of at that age. Some, like American gang member Daryl, are "just trying to make a little extra money and support [their] habit." Others turn to drug dealing as a means to supplement a source of licit income (Salinas 2018), like English drug dealer Ryan, who worked in a takeout chicken restaurant and sold drugs to afford things he otherwise could not afford. And some illicit entrepreneurs aspire to expanding and growing their trade, to building a business that can provide their primary income. No matter the mission, the first step into the retail drug trade is typically at the bottom, given that, as is the case with licit entrepreneurs, they lack better opportunities within their network and cannot jump ahead as they are cash and credit poor (Satterthwaite 2012; Matrix Knowledge Group 2007). These entry-level opportunities may take shape in various forms, including *inter alia*, being a member of a street gang that engages in retail drug sales; being an independent contractor who deals to friend groups; or being a packager in a drug processing business.

All of these jobs entail high risks for low rewards (Gundur 2020a). The money earned is typically reinvested into the drug trade, to either sustain or build the retail business, while profits are spent on relatively modest, cash purchases, including clothing, food, or other everyday needs. For low-level entrepreneurs staying in business is a priority, and they make sound business decisions by ensuring that they have product on hand before any other expenses are paid. "I'd always separate my re-up money [that is, money to resupply inventory] from my profit money," Linus, an American low-level drug dealer, explained. "My re-up money was first. So, when I made my re-up money, I went and bought me another [eighth of an ounce of cocaine to break down and resale]; and then my profit money came last." The gross profits earned from selling drugs could then be used to help with other needs. "[Selling cocaine] enables me to run my car, to see my daughter, to put food in the cupboard, so that's the main things really," Ryan explained. "I can't even say it's enough to cover to buy clothes or things like that. I save to buy TV, internet."

All of these transactions, while constituting money laundering, are passive self-laundering activities. These illicit entrepreneurs do not require any active laundering activity to make their earnings expendable. The cash transactions of the retail drug trade provide largely untraceable funds that can be directly reinvested into buying more product from a wholesaler. Likewise, these largely untraceable funds allow the purchases of everyday items, even ones that on aggregate total several hundred dollars, without raising suspicion. The small sums generated at the bottom of the retail trade are easy to dispose; given the day-to-day nature of many of these individuals' economic realities, there is little saving or hoarding. And while a significant percentage – perhaps the majority – of retail sales are passively (and effectively) laundered through these types of transactions, there is little that any law enforcement body can do to impact this behavior, which justifies the little the state expends in policing these behaviors (Torres, D'Alessio, and Stolzenberg 2020).

However, the illicit entrepreneurs who are well organized and effective money managers engage in activities that allow them to save part of their profits. Those profits can be invested to expand or to sustain their illicit businesses, which, in turn, creates the potential to generate larger profits. The increase in volume and value of the profits generated thus shifts the financial considerations and necessitates active laundering strategies.

Movers and Shakers: Chasing the "sweet spot" and the need to engage in active laundering

There are barriers to improving one's economic status in any market; this holds true for illicit entrepreneurs as well (Gundur 2020a). Successful entrepreneurs expand their businesses to a point where they maximize their reward-to-risk ratios, entering a new strata of illicit entrepreneurship, which Gundur (2020a) terms the "sweet spot." The sweet spot is a position that most successful illicit entrepreneurs seek and attempt to maintain once there. The *expansion* phase of a criminal entrepreneurial career is typically marked by illicit entrepreneurs' attempts to expand business and increase revenue beyond what is easily disposed through every day, low-value retail transactions. Expansion efforts vary and may involve distributing more product or diversifying into new illicit markets entirely. Successful expansion consequently results in an ongoing genesis of illicit proceeds, which, in turn, triggers a need to develop and engage in recurring laundering processes so that the illicit entrepreneurs can spend their money beyond their immediate community and social circles while avoiding law enforcement's attention. While – as we discuss later – some illicit entrepreneurs may plan to transition away from illicit enterprise eventually, expansion may still be desirable to establish the financial capital that would underwrite such a transition.

Once illicit entrepreneurs successfully achieve the market share they view as adequate to optimize their reward-to-risk ratio, they then stop expanding and maintain stasis within their sweet spot; continued expansion could expose them to increased (and intolerable) risk (Gundur 2020a). Accordingly, *maintenance* represents sustained criminality (rather than any attempt to transition towards legitimacy) and requires illicit entrepreneurs to develop strategies to actively launder and spend the proceeds of their crime without garnering attention from law enforcement.

The cases of American illicit entrepreneurs Wilfred, who specialized in the retail drug trade on a university campus; Smokey, who wholesaled and retailed; Damián, who wholesaled and dealt firearms, and English illicit entrepreneurs Teeth, who ran a crew of drug retailers; Charley, who operated an illicit performance enhancing drugs business; and Max, who operated a semi-legitimate nitrous oxide (N_2O) delivery service, provide examples of successful expansion and, later, maintenance. All of these men expanded their illicit businesses; four, Smokey, Teeth, Charley, and Max, were able to maintain them for a protracted period. Established in their sweet spots, these four continued to operate their illicit enterprises steadily, with a view that the risks inherent to their illicit trades were acceptable, given that they were earning as well as, or better than, successful white-collar professionals, such as accountants, engineers, doctors, or lawyers. This income not only allowed all to reinvest into their businesses, but also provided a profit. That profit required laundering to be expendable. The low-to mid-level illicit entrepreneurs in our studies predominately used two principal laundering strategies: active self-laundering through false pretexts and opportunistic laundering through proximal relationships.

Active Self-Laundering through False Pretexts

Self-laundering, which is often associated with tax evasion, is a process through which illicit entrepreneurs launder the proceeds of their own crimes (Unger 2013; Maugeri 2018; Levi and Reuter 2006). And while we concur with previous research that self-laundering is a common means to launder money in the low- to mid-level drug trade, we found that illicit entrepreneurs who engaged in self-laundering often reported their proceeds of crime as legitimate income, thus rendering it taxable income. Most respondents feigned employment in a licit job or operated a business front which allowed them to report their proceeds of crime as licit income.

By reporting and paying taxes on their illicit income, illicit entrepreneurs reduced their chances of being investigated by the tax authorities and exposed to unwanted criminal investigation. Law enforcement uses the tax code to target criminals who otherwise are hard to bring down; Al Capone is perhaps the most famous example, having been convicted of income tax evasion (Bucy 1997). Nonetheless, regardless of jurisdiction, "tax agencies do not profit from and are not set up to investigate overreporting of taxable income" (Levi and Reuter 2006, 354). Thus, paying taxes on illicit income is an efficient, and common, way of self-laundering; one can overreport revenue and pay higher tax and the money will come out clean. Moreover, tax authorities are unlikely to review the tax returns submitted by these illicit entrepreneurs; the revenue and expenses claimed are below the thresholds set for review. Simply put, where tax authorities are concerned, capacity is low; public sector cuts have resulted in declining review, investigation, and enforcement actions undertaken by US and UK tax authorities (Internal Revenue Service 2019; Lobao et al. 2018).

Traditional strategies of self-laundering involve investing in or operating licit businesses. Reported examples of legitimate businesses used to front laundering operations and transactions used to dispose of the proceeds of crime include liquor stores, restaurants, nightclubs, hotels, money exchangers, barber shops, maid services, real estate purchases, and arms sales and purchases (He 2010; Buchanan 2004; Levi and Reuter 2006; Grosse 2001). Such examples presented within our study. One American prison gang member, Pancho, talked about investment within his community; gang members who had a bit of extra money would "get people that ain't involved, people who're legit" to start a new business "from scratch, little by little." Another, Bruce, talked about how the shot callers of the gang, the guys who were higher up and well-established, created businesses to launder their drug money.

"[The Shot Callers] got smart, where they own construction businesses, restaurants, where it's easy to wash that money," Bruce explained. "They know that they can launder that money. There are large amounts of money that you can lose in construction or large amounts of money that you can make in construction. And you don't got to report everything. You could [claim] it as a loss, but you got cash." Accounting for construction projects is complicated and what Bruce stated is correct about most businesses: one can have a loss on paper but still be earning a profit. There are expenses which reduce revenues on paper but don't reduce real cash available, thus providing laundering opportunities.

Some illicit entrepreneurs maintained their licit identities as they progressed in their criminal careers in order to report their illicit earnings as legitimate ones to the tax authorities. A prime example is Charley, an Englishman who maintained his previous work identity to provide cover for his illicit earnings. "I'm currently paying money into the bank as a self-employed electrician," Charley explained. Charley created invoices with "different names, different addresses, different amounts," to account for the income he reported. Charley reported few expenses as he maintained the guise that he is performing the labor himself: "I put minimal receipts in, so, the jobs I do give to people who I pass my work onto, they do provide me with the receipts for their material."

Initially, Charley's fulltime salary, paid to him by one Chinese and two English bosses who ran the illicit anabolic steroids enterprise, netted Charley in the region of £1,200 per week, about double the average 2020 weekly wage in the UK. As the enterprise became more efficient, Charley's income increased significantly. As a result, Charley used his company to report only a portion of his illicit earnings.

Charley went on to say that the enterprise grossed around £1,000,000 in revenue per year. According to Charley, management have their own fronts through which they report their earnings to the tax authorities at scale in order to generate laundered income: "At their level they are happy to pay the tax bill. They are happy to pay [a] four-grand-a-year, five-grand-a-year tax bill. But then it benefits them, 'cause the more they [pay in taxes, the more they can borrow] from the banks." While this strategy runs contrary to the behavior of many legit business owners, who are interested in claiming expenses and reducing their tax burdens, this behavior does not trigger review by the tax authorities. Charley's managers gladly pay higher tax rates, since it is the cost of laundering the proceeds of crime, and the tax authorities gladly accept because it increases government revenue.

Max, who illegally served nitrous oxide, took this ethos a step further by fully reporting his business as legitimate and reporting most of his business revenues and expenses to the tax office: "Everything is above board; I have an accountant who does all my taxes," Max explained. "Because it's legitimate business, I can claim back my mileage; I get 45 pence a mile. I don't always claim because I don't always keep track of it, but I try and claim for most of it." After expenses, Max was netting between £100,000 and £150,000 per year and, despite engaging in illicit activity, he reported all his income, rendering the proceeds laundered. Thereby, Max was able to save or spend that money however he chose.

In brief, successful illicit entrepreneurs understand the value of declaring their revenue for tax purposes. Thus, they develop methods to report their illicit proceeds of crime as legitimate earnings. Many illicit entrepreneurs who operate in the sweet spot prefer reporting their income to developing laundering strategies that rely on others. Relatively high amounts of illicit earnings can be laundered this way; the wages that the best earners in our sample earned were on par or better than many white-collar workers. However, our observations suggested that when individuals cultivated a licit identity to front illicit behavior, these individuals displayed assets, like cars and houses, which accorded largely with their front identity. In short, paying taxes was one component of an effort to blend into the licit economy and society.

However, some illicit entrepreneurs were not interested in, or could not to be fully dependent on, this strategy. Successful execution did come with limitations, and some actors could not or would not abide by those limitations in the course of their illicit businesses. Accordingly, some illicit entrepreneurs opted to launder their money via other people or entities.

Active Laundering via Proximal Relationships

Not all illicit entrepreneurs who have significant illicit earnings seek to legitimate their illicit earnings by reporting them to the tax authorities. In larger illicit enterprises, professional launderers, who are able to launder large quantities of illicitly earned money consistently, are part of the business model. Small to medium illicit entrepreneurs, however, typically do not have access to professional launderers. Instead, small to medium illicit entrepreneurs who do not self-launder, or who have more than they can self-launder, seek laundering opportunities via their proximal relationships. By displacing the laundering operation to a proximate party, the illicit entrepreneur creates a "cutout" or a buffer that helps to diminish risk of being caught for illicit activity (Southerland and Potter 1993; Gundur 2020a; Levi 2020). This activity allows the criminal entrepreneur to keep a low profile and out of the purview of the authorities.

"I don't keep anything in my name," Teeth explained. "I sub-let. I'm not on the voters list. Even the social [the Department for Work and Pensions] don't know where I live. I've put myself down as homeless."

Nonetheless, Teeth wanted to buy nice things, such as a fancy sports car, but he knew he could not purchase the vehicle outright because doing so would likely draw unwanted attention from the police. To avoid this issue, Teeth conducted a "strawman purchase" via his taxi driver brother (Teichmann 2020); the car was purchased and insured in his brother's name. Teeth also avoided driving the car in the city to reduce police attention and to blend 'into the flows of city life' (M. Berry 2018, p5). Similarly, Smokey bought a house and put it in the names of his ex-wife and adult children, who had legal jobs.

Damián, a former weapons dealer, spoke of a similar strawman purchasing process: "If I wanted to buy a new car, I wouldn't go to the car dealership. I would get one of my friends that had his own business or a working man, and I said, 'Buy this for me.' And they would buy it for me. And I would pay them a little extra."

Other actors sought to receive laundered money rather than products purchased with dirty money. As with strawman purchases, illicit entrepreneurs generally rely on a relatively small network of facilitators, prioritizing kinship and group identity in their recruitment (Malm and Bichler 2013; Gambetta 1990). For instance, Charley received his salary from his mail-order anabolic steroid sales from his partner in China. Because receiving the money directly could cause unwanted attention, Charley recruited money mules who were proxies in his social network and paid them a fee for their service. Being a money mule is easy and requires no skill: members of Charley's social network received structured payments via Western Union below the mandatory reporting threshold that would trigger a suspicious transaction report, and then they withdrew the cash and gave it to Charley. Charley noted that recruitment was easy in Britain where austerity, economic instability, and mass unemployment created an economic situation where, for many, the opportunity to make fast money was hard to turn down, especially while the legal consequences seemed improbable (Arevalo 2015). Charley's pool of money mules was large enough that he could use any given individual intermittently, to reduce the chance an investigator would notice a pattern.

In short, these proximal money laundering strategies are commonplace, and occur without much effort. Illicit entrepreneurs pursue laundering opportunities that have the least complexity and resistance. However, there are occasions when these opportunities are not present, which leads to innovation.

Innovation

Innovation has long been a strategy used by people who seek better opportunities than what might be presently available (Merton 1968). In the context of illicit enterprise, innovation presents as risk avoidance or risk transfer, especially when considering illicit finance. Our respondents engaged in various innovative tactics to respond to fluctuations in access to proximal laundering and shifts in the use of cash and other payment mechanisms. For instance, American gang member Lil G explained that some illicit entrepreneurs would recruit "a cousin of a friend or a family member" who worked legitimate jobs and who would be in a position to engage in placement and layering processes.

Sometimes that arrangement would not be negotiated in friendly terms and would go beyond collaborative arrangements. Damián described a process where drug trafficking organizations would impose protection on legitimate business owners, who were from their same ethnic communities. But, instead of demanding a fee, the drug trafficking organizations demanded that the businesses facilitated money laundering operations: "[The drug trafficking organizations] would threaten the business owners. If they didn't do what they wanted them to do – let them wash their money through there, let them write receipts for such and such – you know, they'd shut them down."

Damián described his own strategies to transact high value for drugs; instead of trading money for drugs, he traded firearms. He was able to acquire firearms from criminal associates or from gun shows at good rates and trade them for an inflated value to the drug wholesalers. Charley's anabolic steroid enterprise also expanded its payment options by accepting bitcoin, fiat currency via Western Union, and anonymous tokens purchased by credit card.

The shift away from cash also marks a need to innovate. The use of cash as a payment method has declined significantly over the last decade, with payment cards now being the most common form of payment in the UK and USA: 42% and 26%, respectively (UK Finance 2020; CPO 2019). The decline of cash is seen as a benefit for policy makers and law enforcement because of its role in facilitating predicate crimes, money laundering, and corruption (Schneider 2017; Singh and Bhattacharya 2017). Teeth adapted to the shift away from the cash economy that underwrote payments for the drugs he sold by offering his clients and staff members drugs on credit. To ensure payment, Teeth had his clients give him their debit cards and pin numbers, thereby gaining full control over their bank accounts and the deposits made to these accounts. This process serves three important purposes for Teeth. First, Teeth is able to (almost) guarantee his revenue. Second, Teeth is able to spend money without having a digital paper trail connected to his name, recreating the anonymity of cash transactions. Third, Teeth is able to use ordinary payment systems, affording him the ability to further control and exploit his clients, which is critical to sustaining his business, in an invisible manner that subverts state surveillance (M. Berry 2018; C.R. Berry 2019).

The Risk Diminishers, the Legitimators, and the Leavers: Transition within and exit from illicit enterprise

Not all criminal entrepreneurs seek to maintain their illicit enterprises in the sweet spot, despite their businesses' continued viability. Many offenders seek to exit from behaviors that carry risk they are no longer willing to tolerate. This transition phase in a criminal entrepreneurial career involves illicit entrepreneurs moving the operations of their illicit enterprises into less risky modes of operation. Three patterns appear: risk diminution, enterprise legitimation, and exit.

Risk Diminishers

Risk diminishers continue to engage in explicitly illegal activities, albeit less risky ones. For example, an entrepreneur in the drug trade may shift his position within the supply chain to reduce exposure to economic risk and/or risk of capture, by moving from retail to wholesale (Gundur 2020a). Another entrepreneur may shift business towards the distribution of products which are less risky to sell due to their legal status, such as unregulated, decriminalized, legalized products, or those whose sale is not prioritized by law enforcement or whose use to get high is "off-label" (e.g. cannabis, "legal highs," or the off-label use of Ritalin or Adderall see: Brewster 2018; Rewbury et al. 2017; Lucas 2018).

Todd, an American prison gang member who started a boutique cannabis business in a university town, viewed his business venture as less risky than trading in the methamphetamines his gang traditionally traded in: "You start slinging it to [a hip university student], he slings it to his friends; and then you just kick back and don't do shit. Make wax and kick it. There's no risk because how many potheads have ever told on anybody? No potheads going to tell on anybody because it's not a crime. You know what I'm saying? In this place, it's kids. I don't know. See, it's pretty high yield, low risk." While cannabis distribution in the area where Todd lived was illegal at the time, and he was aware of the consequences, he understood that the prevailing attitudes of the town meant that law enforcement would expend little effort to chase him or his clients.

Legitimators

Legitimators attempt to reposition their illicit businesses towards legitimate trade along what organized crime scholar Dwight C. Smith, Jr (1980) termed the "Spectrum of Enterprise," with fully licit and illicit enterprise marking each pole of that spectrum. Legitimation attempts may be characterized by a change in products traded or the formal establishment of a business that can report its revenues to the tax authorities. Some of these businesses continue to engage in partially illicit or merely semi-legitimate trade. Such businesses are able to generate clean, spendable proceeds that are reported as revenue from their legal business activities.

Max's first entrepreneurial evolution is an example of a legitimation shift. Max's first foray into illicit enterprise involved selling cocaine. As a cocaine dealer, Max saved his excess cash by "putting money to the side." The profit he gained from dealing provided him the economic foundation necessary to transition out of retail cocaine sales, which were clearly illicit, to nitrous oxide sales, which were semi-licit. At the time that Max started his nitrous oxide business, the substance was an unregulated "legal high" in the United Kingdom, commonly used by recreational users (Randhawa and Bodenham 2016). The startup costs for his business were around £5,000 and involved buying nitrous oxide and setting up a website where customers could place their orders. These types of business start-up cash infusions are common and are not typically scrutinized by the tax authorities. The shift to selling nitrous oxide was not a complete exit from offending behavior, given that Max knowingly supplied the substance for human consumption. However, enforcement was a low priority, and Max legitimated his business by operating its finances transparently, effectively self-laundering the proceeds of his crime through the tax system.

Leavers

Leavers are people who exit from offending. The motivations for leaving vary, but many report some turning point, such as children, incarceration, a near-death experience, or the loss of a peer through incarceration or death, that causes them to become more risk adverse (Gundur 2020a; Carlsson 2012; Melde and Esbensen 2011). Likewise, the strategies for leaving vary. Some leavers exit offending by forming completely legitimate businesses. Often, though certainly not always, these businesses are first used as money laundering vehicles, and then, once independently viable, no longer use infusions of dirty money to stay afloat. To that end, several US law enforcement personnel indicated that there was significant difficulty in determining whether a new business was being propped up by or was facilitating the laundering of the proceeds of crime. Investigations of low-level money laundering require careful placement of confidential informants and are not a matter of priority; financial crimes are usually included to escalate a suit of charges against serious offenders.

"It's very hard for us to distinguish [dirty money laundering fronts from legitimate businesses]," Odalis, an American police sergeant, explained. It may be a very honest looking restaurant operating on its face, generating good revenue; you see people eating there on a daily basis. But on the back burner, they may be involved in money laundering as well. We would have to have the right people in place, the right informants, to be able to identify these businesses. So, on face value, they're very, very hard to identify."

Accordingly, these businesses provide a good avenue to exit offending. American drug distributor Biggs sunk his proceeds from cocaine wholesaling into his music studio.

Max took his earnings from the nitrous oxide business to start up a fully legitimate and legal alcohol delivery service, which allows him to make a modest income.

Other leavers simply seek to hold down legitimate jobs and transition to a role in the legitimate economy. Smokey was trying to establish himself in the legitimate workforce. These days he has diminished his risk by engaging in wholesales, but he has also gotten legitimate employment that allows him to live a more normal life: "I go to work. Obviously, I got a job now. I work, come back, sit here." Wrangler, an American who spent time in prison for burglary and drug sales, left offending because the risk outweighed the reward. "I can make $10,000 in ten minutes, but how much risk do you have?" Wrangler pondered. "I've tried to think, 'So if I got popped with that one pound of meth, that's approximately ten or fifteen years' sentence for me probably. So, even making $8 an hour, you're going to make about $20,000 or $30,000 a year or whatever you make. About $24,000 maybe. Think about 10 years at $24,000. That's over $200,000 that I would lose trying to risk that money, and those odds aren't great for me anymore."

Discussion: Lessons from this Study and their Implications for Law Enforcement and Policy Makers

This study has provided an overview of the common laundering mechanisms that small and medium illicit entrepreneurs employ across various stages of business development. In doing so, it has explored three questions: How does the stage of entrepreneurship impact an illicit entrepreneur's money disposal strategies; how do illicit entrepreneurs use licit structures to dispose their money; and, why and how do illicit entrepreneurs innovate to dispose the proceeds of their crimes? In answering these questions, this study shows that illicit entrepreneurs are astute businesspeople whose activities may account for the majority of funds laundered in the drug trade. Nonetheless, given the ongoing costs of policing their financial activities, law enforcement should focus on curbing the illicit business opportunities themselves while the policy makers should support mechanisms that facilitate avenues to licit entrepreneurship.

This study supports existing research that shows that the stage of entrepreneurship affects an illicit entrepreneur's money disposal strategies. At the lowest stage in the entrepreneurial criminal career, passive laundering is most prevalent; since retail drug distribution is the most common role in the illicit drug supply chain and on aggregate accounts for most of the markup taken, passive laundering likely accounts for at least half of all laundering activities in the illicit drug trade. However, little can be done to combat passive laundering; early illicit entrepreneurs spend their revenue on resupply, drug use, and subsistence. These low-level criminal entrepreneurs' revenue allows them to 'stay afloat' (Venkatesh 2008). The funds earned do not allow for the accrual of assets; consequently, there is little that law enforcement can do from a financial enforcement perspective to further take the 'profit out of crime' as the movement of these funds may also be significantly difficult, if not impossible, for law enforcement to detect (Levi 1997).

Nonetheless, as offenders and their enterprises mature, they develop competency in criminal activity and accrue social and economic resources that enable them to expand their businesses and to enter a sweet spot of low risk to reward (Hirschi and Gottfredson 1983; E.R. Kleemans and de Poot 2008; Gundur 2020a). The additional revenue generated requires concerted money laundering techniques as spending these higher proceeds would be more likely to draw unwanted attention from the tax authorities and law enforcement. The two primary mechanisms identified in this study include self-laundering and proximal, opportunistic laundering.

The self-laundering technique in which small and medium illicit entrepreneurs engage typically results in the reporting of illicit revenue as licit revenue for a business front, thereby allowing the illicit entrepreneur to pay tax on earnings while rendering the balance laundered. These actions are not typically investigated by tax authorities given the businesses do not engage in any sort of tax avoidance, which is a primary trigger for tax agency investigation units. For many illicit entrepreneurs, overreporting revenue is the most straight-forward way to launder their funds. This strategy is effective in terms of reward and appears to have negligible risk. However, not all actors have access to business fronts through which they can overreport income. Thus, they use other strategies, such as proximal laundering to launder and/or covertly transfer their funds.

This study's findings on proximal, opportunistic laundering support existing research. Proximal laundering opportunities are commonplace and often simple. Actors appear to be aware of the capacity limitations that proximal laundering offers and recruit people based on their preexisting ties and employment status. Likewise, it appears that the proxies engage in this behavior because they view the reward-to-risk benefits to be reasonable.

Both self-laundering through the tax system and proximal laundering have limitations in terms of capacity, meaning that illicit entrepreneurs choose their strategies based on appropriateness. In circumstances where neither procedure is an effective laundering solution, illicit entrepreneurs innovate, with facility, working around shifts in payment preferences and mechanisms. These innovations happen quickly, indicating that illicit entrepreneurs are both attuned to shifts in market demands and equipped to respond to market shifts efficiently.

Small to medium illicit entrepreneurs in the sweet spot can be described as undertaking good business practices. They are acutely aware of their business needs and the obstacles they must overcome to sustain or expand their businesses. Moreover, successful small to medium illicit entrepreneurs understand the importance of curbing their visibility in most aspects of their lives. In most cases, they seek to live a visible life that accords with their visible personas and make use of misdirection through cutouts to purchase items which would otherwise draw attention.

These activities are resource intensive for police and tax authorities to investigate. Following the money is expensive, when the proceeds of crime are modest. Successful investigations often require the development of well-placed informants to be able to accurately identify these illicit businesses and transactions. Tax authorities have been saddled with the burden of accurately reporting revenues; however, they are not charged with auditing the provenance of those revenues. Resources for such investigations are virtually non-existent in the US or the UK. Policy strategies to curb the laundering strategies described in this article may only increase overall market costs without reducing laundering transactions, given illicit entrepreneurs' propensity to innovate when necessary. Accordingly, the breakeven point where such an investment is worthwhile for law enforcement is likely to be higher than spending on alternative strategies aimed to decrease demand for illicit goods or to divert illicit entrepreneurs into the licit economy.

Notably, those illicit entrepreneurs who engage with the tax system seem to transition away from crime, while those who find their illicit business activities to be too risky over time exit. In both cases, the transition to leaving is often triggered by turning points that cause individuals to become more risk adverse and is manifested by obtaining licit, stable jobs or founding licit business ventures. In our sample, all except two of the illicit entrepreneurs became leavers and one of the two who had not left claimed to be in the process of transitioning out of offending. Accordingly, when licit opportunities are available, many entrepreneurs engaging in criminal business activities take those opportunities.

This finding is important for contemporary society, particularly as the legal status of drugs changes across the western world and as illicit entrepreneurs face barriers to starting a licit business, given capital deficits in the first instance and criminal records in the second. The findings of this study support the notion that market responses via public health interventions, decriminalization, and legalization will be effective in curbing the generation and laundering of illicit funds. While that concept, in itself, is not novel, the findings of this study also indicate that legalization of previously illegal substances should assimilate illicit drug entrepreneurs into the formal economy, allowing them to trade regardless of drug-related criminal convictions. Such measures would be a continuation of many illicit entrepreneurs' natural progression while providing an opportunity for these illicit entrepreneurs to contribute positively to society and the state's coffers. Finally, this approach should not be confined to legalization scenarios; leniency should be afforded also to leavers who demonstrate a commitment to running a licit business, regardless of the provenance of the capital used to start that business.

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