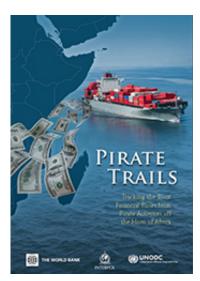
A World Bank financial report on... piracy

By João on November 11, 2013 at 9:00 am

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You've read in our textbook that management accounting is useful for organizations of all sorts. Well, thanks to the World Bank, we now have an amazing (albeit disturbing) view over the "business model" of pirates which hijack ships off the Horn of Africa (see also an article of the Economist).

The World Bank analyses the illicit financial flows through the many participants in this criminal activity. The estimates are not enough to create a management accounting report detailing the revenues (the ransom) and cost structure of this "business", but they do provide some insights.

For example, pirate financiers collect from 30 to 50 % of total ransom. "The Low Level Pirates, 'The Foot Soldiers', typically receive a standard fee of US \$ 30,000 to 75,000 per ship, which only amounts to 0.01% -0.025% of an average ransom payment". Then, the local community

provides a number of goods and services to the pirates. The full report includes more detailed figures.

Of course, we all wished that such application of management accounting techniques was never made, if that meant that the underlying activity did not exist. But since it does, we may well study it from an academic perspective to highlight the importance of a financial view of any business – even piracy. More importantly, and on a practical side, if authorities are able to disrupt the financial flows and/or the profitability of this activity, then the underlying motivation will dwindle and the criminal activity will be reduced. A sketch of the financials is certainly an important tool in the fight against this appalling problem in the 21st century.