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THEMATIC CONFERENCE PROCEEDINGS OF INTERNATIONAL SIGNIFICANCE

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PREFACE

In front of you is the Thematic Proceedings of the International Scientific Conference "Archibald Reiss Days", which was organized by the Academy of Criminalistic and Police Studies, with the support of the Ministry of Interior of the Republic of Serbia and the Ministry of Education and Science of the Republic of Serbia, and held at the Academy of Criminalistic and Police Studies.

This International Scientific Conference is held for the second time in the context of initiated reforms of the security services and police education, and also in memory of one of the founders and directors of the first modern police high school in Serbia, Dr. Rodolphe Archibald Reiss, after whom the Conference was named.

The Thematic Conference Proceedings contain 76 papers by eminent experts in the field of law, security, criminalistics, forensic sciences, medicine, members of national security system or participants in education of the police and army, as well as other security services. Each paper has been reviewed by two competent international reviewers, and the Thematic Conference Proceedings in whole has been reviewed by four competent international reviewers.

The papers published in the Thematic Conference Proceedings contain the overview of contemporary trends in the development of police educational system, development of the police and contemporary security, criminalistic and forensic concepts. Furthermore, they provide us with the analysis of the rule of law activities in crime suppression, situation and trends in the above-mentioned fields, as well as suggestions on how to systematically deal with these issues. The Thematic Conference Proceedings represents a significant contribution to the existing fund of scientific and expert knowledge in the field of criminalistic, security, penal and legal theory and practice. Publication of this Thematic Conference Proceedings contributes to improving of mutual cooperation between educational, scientific and expert institutions at national, regional and international level.

Finally, we wish to extend our gratitude to all authors and participants at the Conference, as well as to reviewers: Mr Mykhail Tsymbalyuk, PhD, Mr Janko Jakimov, PhD, Mr Vid Jakulin, PhD and Mr Miodrag Simović, PhD. We also wish to thank the Ministry of Interior of the Republic of Serbia on its support in organization and realization of the Conference, as well as the Ministry of Education and Science of the Republic of Serbia, for its financial support in publishing of the Thematic Conference Proceedings.

Belgrade, July 2012

Programme and Organizing Committee

P R E D G O V O R

Poštovani, pred Vama je tematski zbornik radova učesnika međunarodnog naučnog skupa „Dani Arčibalda Rajsa“, koji je u organizaciji Kriminalističko-policijske akademije, a uz pomoć Ministarstva unutrašnjih poslova i Ministarstva prosvete i nauke Republike Srbije, održan na Kriminalističko-policijskoj akademiji.

Međunarodni naučni skup se održava drugu godinu za redom u kontekstu započetih reformi službi bezbednosti i policijskog školstva, a istovremeno u znak sećanja na jednog od osnivača i direktora prve moderne visoke policijske škole u Srbiji, prof. dr Rudolfa Arčibalda Rajsa, po kome skup i nosi ime.

Tematski zbornik sadrži 76 radova čiji su autori eminentni stručnjaci iz oblasti prava, bezbednosti, kriminalistike, forenzičkih nauka, medicine, pripadnici nacionalnog sistema bezbednosti ili učestvuju u edukaciji pripadnika policije i vojske, kao i drugih službi bezbednosti. Svaki rad su recenzirala dva stručna međunarodna recenzenta, a celokupan zbornik četvorica recenzenata.

Radovi objavljeni u tematskom zborniku sadrže prikaz savremenih tendencija u razvoju sistema policijskog obrazovanja, razvoja policije i savremenih koncepata bezbednosti, kriminalistike i forenzike, kao i analizu aktivnosti pravne države u suzbijanju kriminala, zatim prikaz stanja i kretanja u tim oblastima, kao i predloge za sistemsko prevazilaženje postojećih problema u njima. Tematski zbornik radova predstavlja značajan doprinos postojećem fondu naučnog i stručnog znanja iz oblasti kriminalističke, bezbednosne i kaznenopravne teorije i prakse. Izdavanje ovog zbornika doprinosi uspostavljanju i unapređivanju međusobne saradnje obrazovnih, naučnih i stručnih institucija na nacionalnom, regionalnom i međunarodnom nivou.

Na kraju, želimo da zahvalimo svim autorima i učesnicima skupa, kao i recenzentima, uvaženim prof. dr Mykhailu Tsymbalyuku, prof. dr Janku Jakimovu, prof. dr Vidu Jakulinu i prof. dr Miodragu Simoviću. Takođe zahvaljujemo Ministarstvu unutrašnjih poslova Republike Srbije, koje je podržalo organizaciju i održavanje skupa, kao i Ministarstvu prosvete i nauke Republike Srbije, koje je finansijski potpomoglo izdavanje ovog tematskog zbornika radova.

Beograd, jul 2012. godine

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IMPACT OF MONEY LAUNDERING ON ECONOMIC SECURITY

Snezana Mojsoska
Faculty of Security – Skopje, Macedonia
Gordana Vitanova
Ekonomski Fakultet, Prilep, Macedonia
Dance Nikolovska-Vrateovska
Uprava za javni prihodi, Shtip, Macedonia

Abstract: Through globalization, technological advances and greater mobility of people and resources across national borders, money occupies a key position or becomes a major player in global markets. The globalization and increase of the use of money in transactions cause difficulties in monitoring them and lead to the increased risk of committing crime. Money laundering is a criminal activity which is difficult to control both in national economy and globally. Money laundering has a corrosive effect on the economy of a country.

The purpose of this paper is to show the impact of money laundering as an economic phenomenon in the security of the economy.

Money laundering undermines national economies through the impact on micro and macroeconomics, as follows: private sector, the integrity of financial institutions and markets, adversely affecting the demand for money and increased volatility of international capital flows, exchange rates and interest rates and loss of tax revenue.

According to the world statistics assessment about 1.5 trillion dollars are laundered in the world anually. In the Republic of Macedonia, according to the Annual Report of the Office for Fight against Money Laundering and Financing Terrorism since 2009, the participation of suspicious transactions in GDP is 60% and it has to be an alarm to enhance measures to prevent money laundering.

This paper will offer future directions for strengthening the control and at the same time will indicate the need to implement a unified system for recording, collecting and displaying data that would function for international level in the national economy and will contribute to strengthening of the economic security from the money laundering phenomenon.

Key words: Economic security, money laundering,microeconomy,macroeonomy, system.

INTRODUCTION

The process of globalization, technological advances and greater mobility of peaople and resources across national borders, contributed for the transnational crime to emerge in new forms of the so-called non-traditional forms of security among which is the economic stability. Since 1940-ties, many scientists such as Earle, [1943], Hirschman, 1945, Viner, 1948, believe that there is an integrated relation between security and economy. "Economic security", as a link between the economy and security, has recently become more than an important dimension of

the sciences such as political economy and the science of security. The line between studying the security and the issue of economic order is very thin because several scientists emphasize the importance of studying both sciences together.

Non-traditional forms of security, such as social and economic security, are of great importance unlike the traditional security normatives (for example military security), as the threats of this type are not apparent. Some authors argue that globalization is one of the sources of this problem, because it enables the world integration of social, economic and political aspects which entail a significant change in the scope of economic security.

The conjunction of economics and security, or "economic security" has more recently become an increasingly important dimension of both international political economy and security studies, caused not only by academics' discussions in the field but also by institutional shifts in global power. The line between the study of security and the question of economic order has become far less noticeable, as more and more scholars have highlighted the importance of studying the two together. And yet, the work in this field focuses on the state as a referrence object. Only then does economic security figures. "*If* the state is taken as the referrence object, *then* economic security becomes part of the national security agenda', says Buzan, adding that "the idea of economic security becomes awkwardly entangled with a range of highly politicized debates about employment, income distribution and welfare." For this reason, Buzan suggests, the conflation of social and national security can be electorally persuasive (Buzan, 1991: 232, 237, 241; emphasis added). I want to suggest that there is much more at stake here than the question of electoral gains. At stake are the far more substantive political gains to be gained by the state from the idea of security. If, as Mick Dillon (1996) suggests, we think of security not as a noun that names something but as a principle of formation, then we can consider security as the principle of formation behind the reordering of the social world. And so, building on arguments I have made elsewhere (Neocleous, 2000), I will argue that what is at stake in this principle of formation is the fabrication of economic order, at the heart of which has been the idea of "economic security" and which can be seen in both its internal/domestic dynamics (social security) and external/international dynamics (national security) [1].

Money as a driving force of any society is a basic posibility to survive, but also the basic reason, in conditions of lack of money, to make the people desperate and willing to do something that might enable them to survive or to get rich. Therefore, we believe that money have a big and crucial role in this matter. There are several threats to economic security:

1. Low earnings
2. No earnings
3. Significant decline in income
4. Significant loss of assets
5. Large unexpected cost

1 Mark Neocleous, From Social to National Security: On the Fabrication of Economic Order Downloaded from sdi.sagepub.com by Snezana Mojsoska on October 23, 2011

NEGATIVE EFFECTS OF MONEY LAUNDERING ON ECONOMY

The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity of the real sector in economy by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the external sector of economy - international trade and capital flows - to the detriment of long-term economic development. Developing countries' strategies to establish offshore financial centers (OFCs) as means for economic development are also impaired by significant money-laundering activity through OFC channels. Effective anti-money-laundering policies, on the other hand, reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

The financial sector A broad range of recent economic analyses indicate that strong developing-country financial institutions, such as banks, other non-bank financial institutions (NBFIs), and equity markets, are critical to economic growth. Such institutions allow for the concentration of capital resources from domestic savings - and perhaps even funds from abroad - and the efficient allocation of such resources to investment projects that generate sustained economic development.

Money laundering impairs the development of these important financial institutions for two reasons. First, money laundering erodes financial institutions. Within these institutions, there is often a correlation between money laundering and fraudulent activities undertaken by employees. At higher levels of money-laundering activities, entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their money-laundering channels. Second, particularly in developing countries, a customer's trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust.

By contrast, beyond protecting such institutions from the negative effects of money laundering, the adoption of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks, NBFIs and equity markets reinforce the other good-governance practices that are important to the development of these economically critical institutions. Indeed, several of the basic anti-money-laundering policies - such as know-your-customer rules and strong internal controls - are also fundamental, longstanding principles of prudential banking operation, supervision, and regulation.

The real sector Aside from money laundering negative effect on economic growth through its erosion of developing countries' financial sectors, money laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less productive activity, and by facilitating domestic corruption and crime, which in turn depress economic growth.

As we can see from the various money-laundering typologies reports, money laundered through channels other than financial institutions is often placed in what are known as "sterile" investments, or investments that generate little additional productivity for the broader economy, such as real estate, art, antiques, jewelry, and luxury automobiles. For developing countries, the diversion of such scarce re-

sources to less productive domestic assets or luxury imports is a serious detriment to economic growth. Moreover, criminal organizations can transform productive enterprises into sterile investments by operating them for the purposes of laundering illicit proceeds rather than as profit-maximizing enterprises responsive to consumer demand and worthy of legitimate investment capital.

Money laundering also facilitates crime and corruption within developing economies, which is antithetical to sustainable economic growth. Just as an efficient financial sector is a key "input" to other productive processes in a developing economy - such as manufacturing - an efficient money laundering channel is a key "input" to crime because the financial proceeds from crime are less valuable to a criminal (in a sense, an "unfinished product") than are laundered funds. The less expensive money laundering "input" to crime is as a result of lax anti-money-laundering policies, the more "productive" (active) the criminal element will be, just as in any industry or business. As numerous studies have demonstrated from statistical and anecdotal evidence, substantial crime and corruption act as a brake on economic development, while other studies have shown that anti-money-laundering policies can deter such activity.

The external sector. Unabated money laundering can also impair a developing country's economy through the country's trade and international capital flows. The well- recognized problem of illicit capital flow from developing countries is typically facilitated by either domestic financial institutions or by foreign financial institutions ranging from offshore financial centers to major money-center institutions such as those in New York, London, or Tokyo. Given that illicit capital flow drains scarce resources from developing economies, transnational money-laundering activity helps impair developing-country growth. By contrast, there is little evidence that the imposition of anti-money-laundering policies in a given jurisdiction spurs a significant flow of capital to more lax jurisdictions. Moreover, just as the confidence that developing-country citizens have in their own domestic financial institutions is critical to economic growth, the confidence that foreign investors and foreign financial institutions have in a developing country's financial institutions is also important for developing economies because of the role such confidence plays in investment decisions and capital flows.

Money laundering can also be associated with significant distortions relating to a country's imports and exports. As far as a country's import is considered, criminal elements often use illicit proceeds to purchase imported luxury goods, either with laundered funds or as part of the process of laundering such funds. Such imports do not generate domestic economic activity or employment, and in some cases can artificially depress domestic prices, thus reducing the profitability of domestic enterprises.

Offshore financial centers (OFCs) as a development strategy. Over the past decade dozens of OFCs have been created as part of developing countries' (or territories') efforts to develop their domestic economies through the provision of international financial services. These OFCs can be classified along a spectrum from "notional" OFCs (those that provide minimal financial services other than simply being a jurisdiction in which "name plate" operations may be established) to "functional" OFCs (those that provide a wide-range of value-added financial services).

Studies of the effectiveness of establishing an OFC as an economic-development strategy have shown that notional OFCs contribute little to the surrounding economy and do not form the basis for sustained economic growth. First, notional

OFCs are virtually costless to establish, and therefore competition among them for customers is severe. Second, because notional OFCs provide little value-added services, such OFCs generate almost no economic demand for the surrounding "real" economy in terms of employment, goods, or services.

On the other hand, truly functional OFCs require significant investments in infrastructure - such as communication facilities, and even a skilled labor force - thereby limiting the pool of competing OFCs and increasing the commercial returns to those OFCs that emerge as strong competitors. Moreover, functional OFCs benefit their surrounding "real" economies through their demand for goods, services, and educated workforce to support the OFCs' value-added activities.

This distinction between notional and functional OFCs becomes critical to assessing the economic effect of money laundering on OFCs as an economic development tool. Money laundering *per se* does not require more costly value-added services of a functional OFC, and therefore may gravitate to merely notional OFCs - the very type of OFC least able to contribute to the country's real economy. By contrast, legitimate international capital is more likely to require the services of a functional OFC *and* will be deterred from making extensive use of an OFC tainted by widespread allegations of money laundering and the associated activities of fraud and corruption. Thus, for a country to implement a successful economic-development strategy based on the establishment of an OFC, the strategy must adopt measures to control money-laundering activity through the OFC.

Moreover, the International Monetary Fund studies suggest that smaller countries can become favored by large-scale money launderers for short periods of time, causing a sharp surge in financial activity, followed by an equally sharp decline, resulting in severe macroeconomic instability as local authorities are unable to take offsetting monetary or exchange-rate measures.[2]

MONEY LAUNDERING AND THE ECONOMIC PHASES

Beyond the evasion of legal regulation, offshore markets in the post-Cold War period are more threatening because money laundering has played a significant role in (post-Cold War) the financial crises of nation states. The experience in Russia, recorded in abundant detail through a sequence of scandals closely tied to political back stabbing, suggests that there are intricate links among capital flow, embezzlement, racketeering, pillaging of public assets, corruption and organized crime. As I have demonstrated in a recent study, significant profits derived from organized crime and corruption, were deposited in Swiss banks and re-invested in Russia to finance the growing national debt. Corruption and criminal activities played a major part in creating public debt and diverting funds to speculative overseas financial markets : the Russian Central Bank estimated that $ 74 billion was transferred from Russian banks to offshore accounts in 1998, the year of the devaluation. A predatory, kleptocratic, and, in the end, Mafiastyle pattern of abuse created substantial demand for money laundering on international capital markets, including the demand for Russian Treasury bonds, and was an important factor in the Russian financial crisis of 1998.There are other examples, as well, which are typically overlooked in neoclassical economic analyses that remain limited to empirical testing of limited models. Yet, such examples reveal the sometimes incestuous relations between the

2 Brent L. Bartlett, International Economics Group,Dewey Ballantine LLP, Negative effects of money laundering on economic development, The Asian Development Bank, Regional Technical Assistance Project No.5967,Countering Money Laundering in The Asian and Pacific Region, May 2002, pg. 4

laundering of "funny money" and financial crisis.. The Mexican crisis of 1994-1995, and the "tequila effect", or the repercussions which it triggered in Latin American countries through the regionalisation of exchanges , can only be understood if the "cocaine effect". Starting in the 1990s, Mexican drug dealers took charge of one half of the Colombian drug trade to the United States, and thereby repatriated some 3 to 8 billion dollars per year, which exceeded the value of Mexico's oil exports. Part of these funds went to the ostentatious consumption of luxury goods from the United States, thereby increasing the country's dependence on imports. The rest was recycled in small businesses, luxury real estate, and the securities and grey currency markets, which levy some 10 to 15 percent for their money laundering services. The hasty privatization initiated by Carlos Salinas also provided opportunities for recycling narcoprofits, especially in the banking sector where the State sold a series of firms for $12 billion. After the crisis, these banks were saddled with debts in excess of $60 billion, which were subsequently assumed by the State.

In Mexico, money laundering was combined with international short-term capital flows to create excess liquidity and a stock market and real estate bubble. Though at the outset they corresponded to only 1 to 3 percent of GDP, the mass of narco-dollars managed to distort competition to the advantage of organized crime in small business and banking. The "laundering premium" which they earned made it possible for them to be more competitive and on occasion to absorb their competitors, while emphasizing short-term speculative investments. Moreover, their access to credit made it possible to recycle and expand capital of dubious origin. Far from improving the general competitiveness of the export economy, or helping to reduce external debt, laundering accentuated imports of consumer goods and emptied the productive sphere in favor of short-term investments.

The injection of narco-dollars thus contributed to the deterioration of foreign trade and precipitated payment(s) defaults, devaluation and the financial crisis of 1994-1995. As in Russia and Mexico, the Thai crisis, which triggered the Asian crisis of 1997, is no stranger to money laundering. According to a study published in 1997 by three researchers at Chulalongkorn University,10 the equivalent of 8 to 11% of the Thai GDP was controlled, at the onset of the crisis, by organized crime, which derived its profits mostly from gambling and prostitution, and also from drug traffic out of Burma. Accelerated democratization of the Thai political system during the 1990s gave a clear advantage to the provinces rather than the Bangkok region. Bangkok was the stronghold of the modernist democratic party and generated half the GDP. The peripheral regions were under the control of local "godfathers," frequently of Sino-Thai origins, who combined certain legal monopolies with illegal activities such as gambling, prostitution, drug trafficking, and contraband in wood and precious stones. When the provinces acquired the decisive role in fragile government coalitions, political patronage encouraged money laundering. Once again, it focused on speculative real estate and stock market investments, in a context of insider trading scandals that occurred in the course of privatization. As in Mexico, the inflow of foreign short-term capital, most often transited through the Bangkok Offshore Banking Facility, accelerated local speculation by limiting investments at the expense of the productive and export sectors. The deterioration of the external accounts that ensued was aggravated by the rise of the dollar and the slowdown on the electronics export markets in 1996. This precipitated the exchange crisis and the devaluation of the baht. But the pressure created by short-term investments or by the results and figures in the formal economy does not explain the magnitude of the crisis. The local political and financial system also played a part, in that it strongly favored the laundering of profits from crime. By the end of 1999, two years after the crisis, whereas the Thai GDP had contracted by 10% in 1998 alone, and the surplus

on the real estate market was estimated at 300 000 units in the Bangkok region, real estate prices did not fall. This stability remains incomprehensible if one analyzes real estate prices according to traditional market criteria, but the puzzle disappears when one factors in the need for money launderers to funnel massive amounts of funds into real estate, as well as the delays which they caused in the reconstruction of the financial sector.[3]

Money laundering is one of the most famous derivatives of the crime, including money and an activity that is hard to control. Even in terms of well developed legislation that regulates this matter and institutions aimed at combatting money laundering, it is difficult to follow such an appearance. This process is unbeatable threat of social and economic security, because by threatening the efficient functioning of the financial system, monetary policy, the policy of sustainable growth and development, it destroys the economy as a base for social upgrading and actually becomes a national problem, or in other words becomes a threat for the stability and harmony of the whole nation.

Money laundering has a corrosive effect on a country's economy and social welfare.

Money laundering in economic terms violates business decisions, increases the risk of bank failures, undertakes control of the economic policy of the government, i.e. it damages the reputation of the country.

Money laundering typically involves a series of transactions to conceal the source of funds, so that those funds can be used without compromising the identity of the criminals who are trying to use those funds. These transactions are usually done in three phases:

1. Placement is the first phase in the process of money laundering in setting illegally acquired incomes into the financial institutions and as such it may use different techniques. Some of the techniques of placement are:

- Smurfing and structuring
- Alternative transmission
- Electronic transfer
- Conversion of funds
- Movement of funds
- Gambling houses
- Insurance

2. Layering is the second phase of money laundering process, in which illegal funds are moved, dispersed and disguised to conceal their origin. Funds can be covered up in the financial system through a network of free transactions. There are different techniques of layering in this module:

- Electronic funds transfer
- Offshore banks
- Shell corporations
- Moving accounts
- Intermediaries

3. Integration is the third stage of money laundering process, in which the illegal funds or the funds are successfully laundered and appear as legal in the financial system, making them available for investment, saving and spending.

3 Guilhem Fabre, Prospering on Crime: Money Laundering and Financial Crisis, Working Paper No 9, 2005 Centre for East and South-East Asian Studies, Lund University, Sweden, pg.2

We will examine various techniques of integration in this module as follows:

- Credit and debit cards
- Consultants
- Corporate financing
- Assets sales and purchases
- Business recycling
- Import / export transactions

Through these processes, attempts are made to transform monetary assets derived from illegal activities in legally regular assets[4].

THE IMPACT OF MONEY LAUNDERING ON THE ECONOMIC SECURITY

Money laundering has potentially disastrous economic, security and social consequences.

Modernization of the financial systems, facilitates trade, and also allows criminals to transfer millions of dollars by electronic means at any time. Money is laundered through the exchange of currency, stock, brokerage houses, gold, dealers, casinos, insurance companies and trade companies, banking instruments, offshore banking, shell corporations, free trade zones, electronic payment. Uncontrolled, money laundering can erode the integrity of financial institutions. Due to the high integration of capital markets, money laundering may adversely affect currencies and interest rates. Money laundering in global financial systems can undermine national economies, i.e. it represents a serious problem and a threat to national and international security.

Money laundering leads to negative effects on economic and social trends such as:

Money laundering, represents a dangerous threat to the public confidence, the work of public institutions and government, which directly causes huge damage to national economy. Appearance of money laundering results in the increase of tax evasion, avoidance of the legislation, appearance of smuggling and funds taken abroad, which directly increase taxes which are to be paid by the taxpayers.

Money laundering directly undermines financial markets.

Money made from the crime is partly used for the corruption of the officials employed on the financial markets, causing irreparable damage to the financial institutions and market credibility. This money is used for eroding the banking system.

Money laundering systematically destroys the economic institutions of a market economy, undermines the democratic political structure as well as the political stability.

Legal instability and increased corruption reduce the interest of foreign investors.

This incriminating phenomenon is a problem not only for the emerging markets, but also for the world's major financial markets. The negative impacts of money laundering tend to grow especially in the emerging markets. A review of micro and macroeconomic framework helps to explain why money laundering is a complex threat, especially for the emerging markets.

However, to understand what happens in the economy and how money laundering affects economic development, assets (such as cash hoarding, savings in a bank account, or investments in the legitimate economy) must be separated from transfers (transfers within the national economy and across borders).[5]

4 Similar www.austract.com

5 Stuart Yikona, Brigitte Slot, Michael Geller, Bjarne Hansen, Fatima el KadiriI,ll-gotten Money and the

Negative effects on the private sector: One of the most serious microeconomic effects of money laundering is mostly shown in the private sector. Money launderers often use companies to achieve their goal by mixing revenues which are provided doing illegal activities and legally earned funds. The most common form of business organizations that are used for such purposes are privately owned organizations and partnerships and serve as a mask for entering revenue in the financial system. These business organizations can provide services at and below market interest rates, to offer products at prices lower than the costs of the manufacturer. Thus, they have a *competitive advantage* over the other business organizations that operate legally and can result in a reduction of the private sector and even lead to negative macroeconomic effects.

Undermining the integrity of financial markets Financial institutions that rely on the revenues provided by crime are additional challenges to properly management of their assets, liabilities, and operations. If large sums of money are integrated into a financial institution suddenly disappear without warning, it can result in problems with liquidity of the bank's operations. Apart from the above mentioned, it has an impact on the investments, and money laundering can lead to increased responsibility and awareness of risks for quality in the financial system. When that happens, it can create systemic risks for the financial service industry and, consequently, to the loss of confidence and credibility in the system.

Loss of control of the economic policy In some countries, illegal revenues affect the volume of money supply in circulation, i.e. the effectiveness of monetary and fiscal policy, resulting in the loss of control of economic policy by governments. Money laundering reduces tax revenues and thus indirectly harms honest taxpayers. It also complicates the collection of taxes by the Public Revenue Office and in such a way this loss of income generally means higher tax rates and/or lower public spending.

Money laundering can also adversely *affect currencies and interest rates* in countries where criminals reinvest their money through schemes less likely to be detected, and on the other hand where rates of return are higher. Money laundering can increase monetary instability, cause *misallocation of resources and create distortions in the competitiveness of the prices of goods.*

In short, money laundering and the financial crime can result in inexplicable *changes in money demand and increased volatility of international capital flows, interest rates and exchange rates*. The unpredictable nature of money laundering, along with the loss of political control can lead to *difficulties in achieving the economic policy.*

Money laundering has a direct *impact on the foreign exchange market* in any economy. Foreign exchange market is vulnerable due to the volume of money involved in the trade. The movement of assets with suspicious origin, from one jurisdiction to another, can cause volatility in the foreign exchange rates and cause a domino effect in regulation of the cash flows and increase of the inflation.

Other economic implications of money laundering is that it could affect the overall *distribution of the incomes*, and thereby create a distorted economic indices and, consequently, *inappropriate allocation of the limited resources.*

Economic disruption and instability Money launderers are not interested in the profits from their investments, but in protecting their revenues. They "invest" their funds in activities that have no economic benefit for the country where assets are located. Additionally, investments can be of low quality that will result in slower economic growth. In some countries, for example, the entire industry, such as con-

Economy Experiences from Malawi and Namibia, the world bank study,2011, page 3

struction and hotels are funded not because of actual demand, but for short-term interests of money laundering. When these industries are no longer useful to money launderers, they leave the market by causing the collapse of these sectors and enormous damage to the economy.

Risks of Privatization Money laundering threatens the efforts of many countries, to create appropriate reforms in their economies through the privatization. Although privatization is often economically beneficial, it also can serve as a means for money laundering.

Reputation risk In the modern process of intensive international cooperation and liberalization of financial flows, no economy can afford insufficient respectability and credibility, as well as weak financial institutions, both in the domestic and the external surrounding. Confidence in the markets is constantly undermined by money laundering and financial crime, as well as by other revenues resulting from criminal deeds such as financial fraud, insider trading of securities, and embezzlement. This can result in reduced rates of growth, development of the country. If the financial reputation of the country becomes disturbed, its revival is very difficult and requires considerable resources to fix a problem that previously could be prevented by appropriate policy for prevention and control of money laundering.[6]

IMPACT OF MONEY LAUNDERING ON MACEDONIAN ECONOMY

On the basis of the American database of money laundering, Macedonia is not a regional financial center. Most financial transactions are made through the banking system, which is regulated and controlled, but some cash transactions of certain sums are realized outside the banking system. Money laundering in Macedonia is normally associated with financial crimes like tax evasion, smuggling money, privatization crime, insurance fraud, bribery, and corruption. Most of the proceeds that are laundered come from domestic criminal activity. Macedonia is not an offshore financial center since the Banking Law does not allow the existence of shell-banks in Macedonia. The banks are not allowed to open anonymous bank accounts. There is no evidence that the technique of alternative transferring money exists in Macedonia. There are several operating free trade zones in the country, and they function as industrial zones where foreign investors have legal benefits, incentives and benefits of free trade zone. Manufacturing capacities that enjoy these benefits are owned by foreign investors. Dealers of arts, antiques, and other high-value consumer goods, entities dealing with jewelry and precious metals, and travel agencies are excluded from the list of entities obliged to report suspicious and cash transactions to the Macedonian FIU. So far, there is no evidence that any of these entities engage in money laundering or terrorist financing activities. Non-bank financial institutions, including exchange offices and non-bank money transfer agents, as well as all other reporting entities, are poorly supervised and audited in regard to anti-money laundering/counter terrorist financing programs and practices. These institutions are to be supervised by the Public Revenue Office; in practice such inspections rarely occur as the Public Revenue Office is focused on investigating tax evasion. There is a need for improving supervision of the non-bank financial sector and providing necessary resources and training to ensure full implementation of laws. Although mandatory, reporting by lawyers,

6 John McDowel,THE CONSEQUENCES OF MONEY LAUNDERING AND FINANCIAL CRIME, Money Laundering - Economic Perspectives - State Department, May 2001, page 3

accountants, brokers, real estate agents, consultants, NGOs, casinos, and notaries is irregular, but improving. The FIU's competencies overlap in many areas with the Public Revenue Office, the Customs Administration, the Financial Police and the regular police. Although in the past two or more of these institutions would be working independently on the same cases, coordination between them has been effective, resulting in several coordinated large-scale investigations of cases concerning money laundering, tax evasion, fraud, corruption, and misuse of official position, involving numerous companies and individuals.

Terrorist financing is a crime under Macedonian laws, but to date, there have been no convictions for terrorist financing. There are no indications that financiers of terrorism use trade-based money laundering schemes or the free trade zones for their operations. A few smaller banks and all savings houses lack the ability to electronically identify account holders and transactions by named individuals and usually will cross-check their customer lists with distributed lists manually.

According to the Macedonian Law on Preventing Money Laundering and Other Proceeds of Crime and Terrorism Financing (LPMLTF), financial institutions can temporarily freeze assets of suspected money launderers and terrorist financiers prior to receiving a court order.Frozen assets are confiscated only by a court's final verdict. Although existing legislation regulates the management of seized and forfeited assets, more work is needed to bring it in line with good international practices. Macedonia has passed complex legislation pertaining to judicial reforms, including amendments to the Constitution and the Criminal Procedure Code that allow the use of specialized investigative methods in investigating money laundering cases. In 2010, the Parliament adopted a new Criminal Procedure Code, which after becoming effective in the second half of 2011 will strengthen a prosecutor's ability to more effectively prosecute serious and organized crime. Reforms in the judiciary should further enhance efforts to combat organized crime, corruption, terrorism, trafficking in human beings, money laundering, and narcotics, by increasing penalties, tightening definitions, and defining authorities responsible for taking the lead in combating these various crimes. However, real reforms are almost non-existent, the judiciary is highly politicized, and the rule of law is backsliding.[7]

Measuring the impact of money laundering on the Macedonian economy is a complex task due to lack of data. It is practically impossible to use the Walker method to measure the amount of money laundered through the financial system. But according to the data available from the competent institutions, we can perform the connection of the amount of money laundered detected by the major macroeconomic indicators, as to show the size, importance and impact of laundered money on the Macedonian economy. Within the annual report of the Office for Prevention of Money Laundering and Financing Terrorism, there are transactions summarized by values for the different currencies for which information is received from banks and which are available in their equivalent value in MKD according to their current rate for 2009 (Table 1). If you look at the report of the Ministry of Finance, there are available macroeconomic indicators for the Republic of Macedonia for 2009 (Table 2).

7 http://info.publicintelligence.net/MoneyLaunderingDatabase2011.pdf(аццессед 11.01.2012)

Table 1. Statistics of transactions summarized by values for different currencies for which is received as information from banks, their equivalent value in denars according to current exchange rate and percentage representation of different currencies from the information for transactions in 2009

Ord.No.	Currency	Sum	Equivalent value of denars	%
1	MKD	152.050.591.830,51	152.050.591.830,51 ден.	61,29
2	EUR	1.139.995.256,55	70.098.308.325,26 ден.	28,26
3	CHF	312.678.429,25	13.132.494.028,50 ден.	5,29
4	USD	185.579.178,12	8.423.438.894,87 ден.	3,40
5	AUD	73.247.605,77	2.965.063.081,57 ден.	1,20
6	NOK	52.749.979,11	404.064.839,98 ден.	0,16
7	CAD	8.242.785,67	354.439.783,81 ден.	0,14
8	GBP	4.738.562,58	331.699.380,60 ден.	0,13
9	SEK	30.184.103,48	189.556.169,85 ден.	0,08
10	DKK	15.749.426,91	130.090.266,28 ден.	0,05
11	JPY	2.721.000,00	1.368.663,00 ден.	0,00
		Total:	248.081.115.264,23 ден.	100

Source: Annual Report 2009, Administration for Prevention of Money Laundering Financing of Terorisam, 2009, page 20

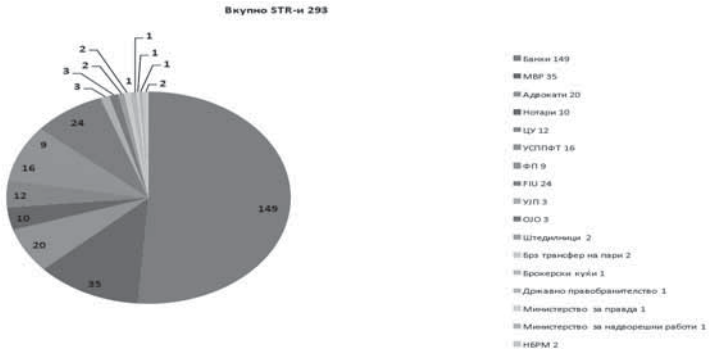
Table 2. Basic macroeconomic indicators for 2009

Basic macroeconomic indicators for 2009	2009
Real sector GDP at market prices	
Real growth rate	-0,9
In million denars	410.734
External Sector in million euros	
Export of goods (G.o.b.)	1 921
Import of goods (G.o.6.)	3472
Import of goods (s.j.G.)	361 6
Import without lohn (s.j.G.)	3236
Foreign direct investments	145
Fiscal Sector in million denars	
Total revenues	128.498
Population	2.052.722
Unemployment rate	32,2
Employment, growth rate	3,4
Monetary Sector nominal growth, end of period	
Net – foreign currency assets	4,2

Source: Ministry of Finance
From the total data available it can be concluded that:

Despite the fact that not all STR are really criminal transactions, striking is the fact that Macedonia, as a small and open economy with 2 052 722 inhabitants and with GDP valued at MKD 410 734 million for 2009 has registered an amount of STR which occupies a huge part about 60% of GDP, and the representation of the black economy in GDP is on the average about 38%. To illustrate the magnitude of this ratio, we will point out that the total assets of investment funds occupy only 0.3% of GDP. This small share of assets of investment funds in GDP (as one of the indicators for the development of the financial system in the country) indicates a small development of the financial institutions in spite of the data for the participation of a large percentage of suspecious transactions in GDP is only the confirmation for an alarming situation of this phenomenon and its strong influence on the development and implementation of the macroeconomic policies in Macedonia to correctly (incorrectly) allocate the available funds. And it also shows a high level of productivity and overall economic growth and social development.

Graph 1.Number of received reports for suspecious transactions (STC-s) by entities and institutions



Source: Annual Report 2009, Administration for Prevention of Money Laundering Financing of Terorisam, 2009, page.31

According to the graph of the annual report, the highest percentage of STR are detected by the banking sector, or even 149 STR or 50.8% of the total number reported STR. Compared with the previous years, it must be noted that there is an improvement in the communication and collaboration between the stakeholders and Office as Financial Intellegence Unit.

Table 2. Macedonia core rating according Moneyval report

R.1: Money laundering offence	PC
SR.II: Criminalisation of terrorist financing	PC
R.5: Customer due diligence	NC
R.10: Record Keeping	PC
R.13: Suspicious transaction reporting	PC
SR.IV: Suspicious transaction reporting related to terrorism	PC

Sources: http://www.knowyourcountry.com/macedonia1111.html (accessed 23 October 2011)

CONCLUSION

Money laundering is a derivative crime, of a multi-dimensional and multi-disciplinary nature.

Money laundering, financial crime and terrorist financing have shattered the myth of capital neutrality. The negative economic effects of money laundering on economic development are hard to measure, same as the assessment of the extent of money laundering is difficult. Money laundering, undermining the efficiency, functionality and security of the financial institutions and financial system (which are of crucial importance for the economic growth and development and thus for the social prosperity), reduces the efficiency of the macroeconomic policies, reduces productivity in the real sector of the economy (through improper allocation and reallocation of the resources) and encourages criminal and corruptive activities in the country. The phenomenon of money laundering can also have distortive effects

on the international trade and on the capital flows, and by that it realizes inhibitory effect on the long-term economic development. Money laundering has an influence on economic security.

Macedonia has passed complex legislation pertaining to judicial reforms, including amendments to the Constitution and the Criminal Procedure Code that allow the use of specialized investigative methods in investigating money laundering cases. But there is still some deficiency that should our country do. An effective system of activity monitoring should be adopted for the informal banking sector.

Taking into consideration the destructive influences resulting from the occurrence of money laundering, it becomes clear why the efforts to reduce and prevent this occurrence are active on a world level. Global responses to the challenges concerning money laundering, come from the need to raise awareness and inform economic agents about this phenomenon (especially for the broad socio-economic impact), creating the necessary legal and institutional framework and infrastructure as to address this matter, efficient and consistent implementation of the legislation, improvement of the existing and creation of new instruments and mechanisms to combat this phenomenon, which through institutional network connection would function both regionally and internationally. Regarding this issue, there is a need for batter coordinated and deepened inter-institutional social action aimed at prevention, early detection and legal channeling of the phenomenon of money laundering, and also with a purpose to create a unified system on the national level for updating and monitoring data for the researched phenomenon. On the international level it is particularly important to achieve cooperation and exchange experiences in the field of legal assistance, as well as for the extradition and exchange of information and intelligence between agencies as to prevent such an occurrence.

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