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FlowsOfTransnationalCrime_Cash_2015.ppt

The Financial Flows of Transnational Crime and Tax Fraud: *How Much Cash* Is Used and What Do We (Not) Know?

1. Introduction

Proceeds from organized crime are quite large; often billions of US-Dollars are “earned”.

Hence money laundering of the proceeds is essential, if the criminals want to spend or invest this money.

Goal of this lecture:

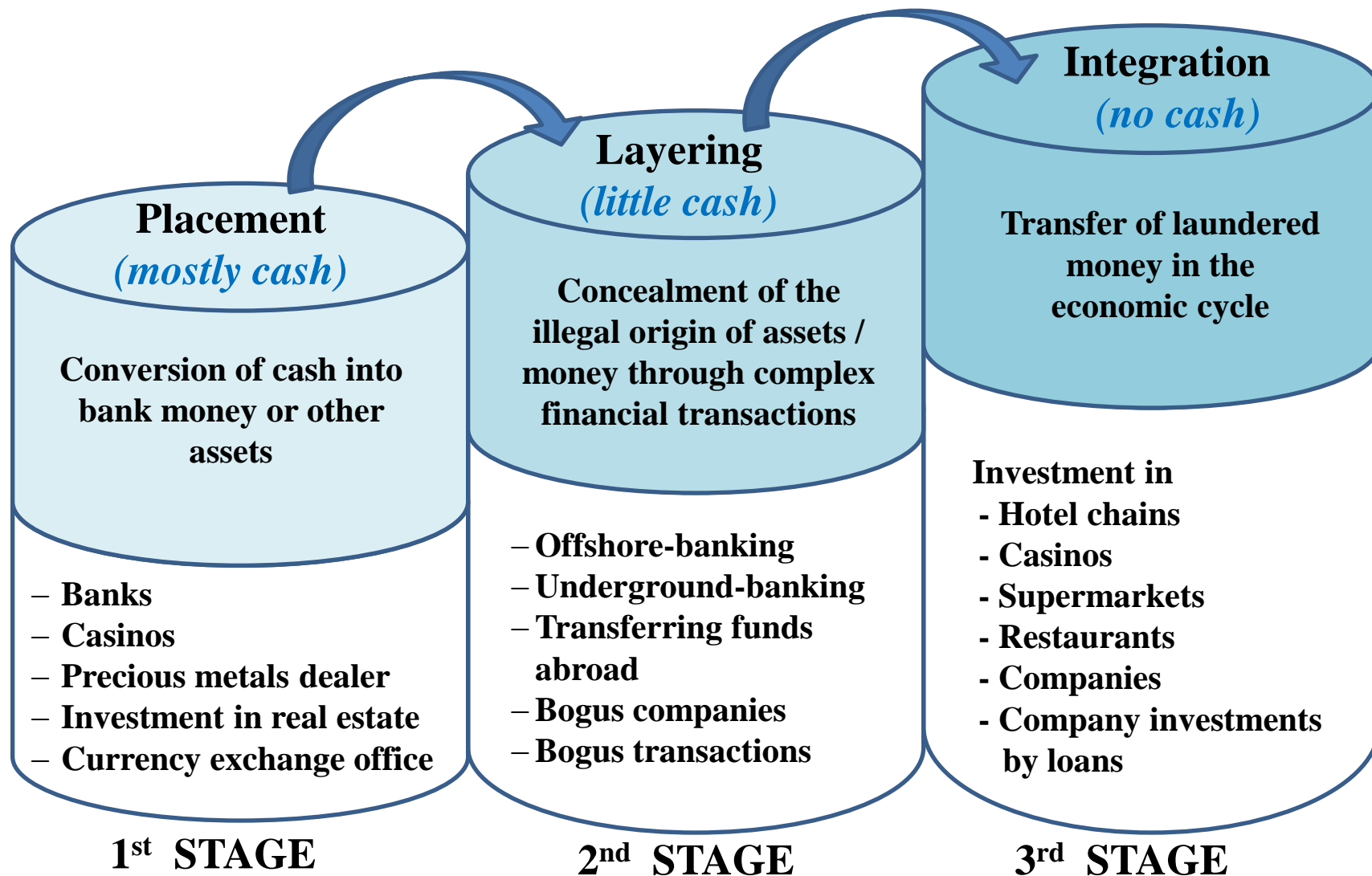
- (1) Explain the most common methods of money laundering.**
- (2) Show some facts/figures of worldwide and national criminal proceeds, money laundering and the use of cash.**
- (3) Show the infiltration of transnational crime.**

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2. Methods of Money Laundering and Estimation of Transnational Crime

Figure 2.1: Stage-model

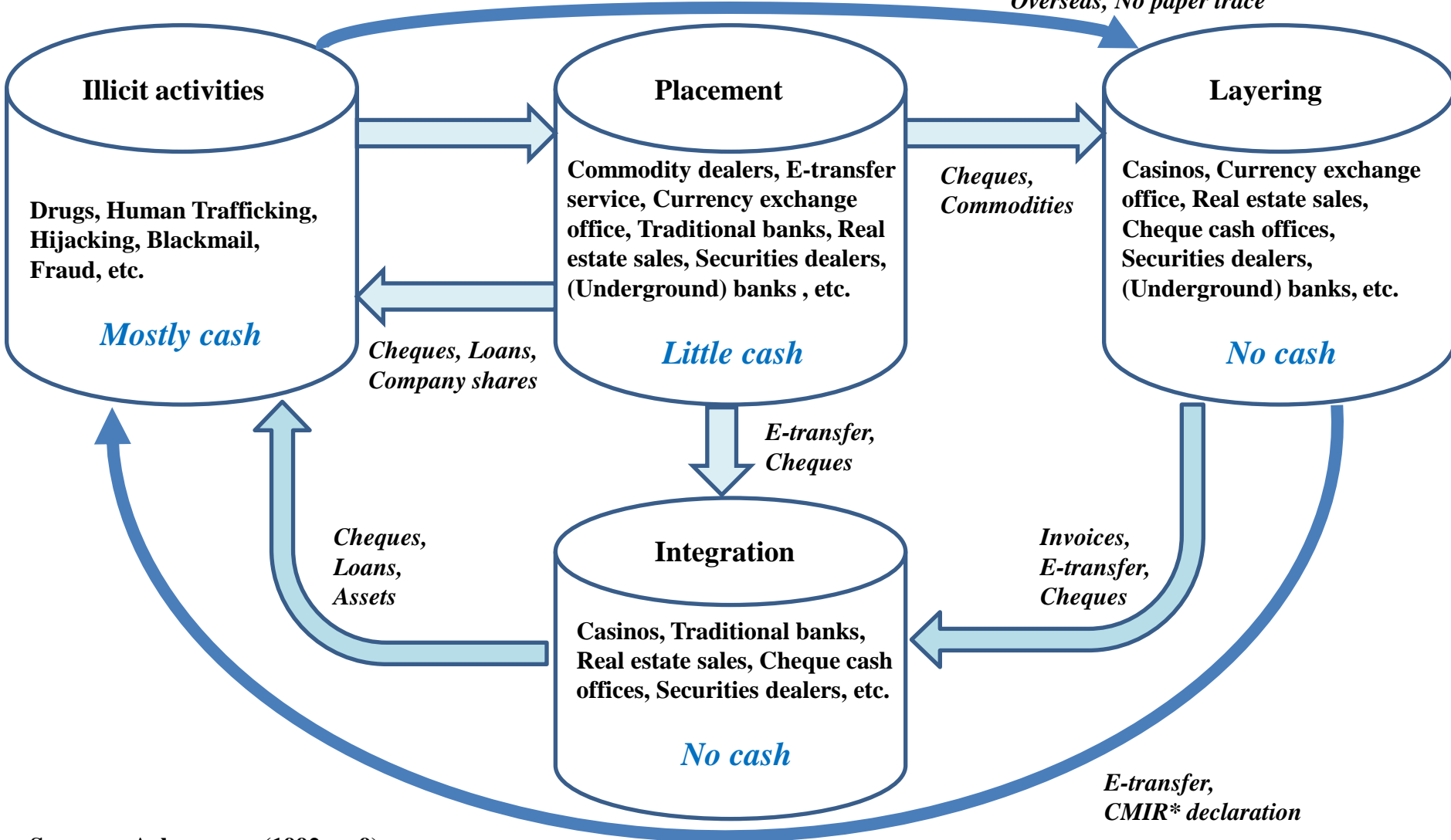


Source: Bayer (1993, p. 33) and Schneider, Dreer, Riegler (2006, p. 34) and own remarks.

2. Methods of Money Laundering and Estimation of Transnational Crime

Figure 2.2: Cycle-model

Foreign currencies, Smuggling, Overseas, No paper trace



Source: Ackermann (1992, p. 9), Schneider, Dreer, Riegler (2006, p. 38) and own remarks.

* CMIR = statement of cash transfer or transfer of money-like instruments (such as bills of exchange, treasury notes, money orders, promissory notes, shares, bonds)

2. Methods of Money Laundering and Estimation of Transnational Crime

Table 2.1: The methods of money laundering and the use of cash

1)	<i>Wire transfers</i> <i>(no cash)</i>	The primary tool of money launderers to move funds around in the banking system. Often the funds go through several banks and even different jurisdictions.
2)	<i>Cash deposits</i> <i>“Smurfing”</i> <i>(only cash)</i>	Money launderers need to deposit cash advances to bank accounts. Due to anti-money-laundering regulations they often ‘structure’ the payments, i.e. break down large to smaller amounts. (‘smurfing’.)
3)	<i>Informal value transfer systems</i> <i>(IVTS)</i> <i>(mostly cash)</i>	Money launderers need not rely on other transfer providers, such as the Hawala or Hindi. These systems consist of shops (mainly selling groceries, phone cards or other similar items).
4)	<i>Cash smuggling</i> <i>(only cash)</i>	Money launderers might mail, FedEx or simply carry cash with them from one region to another, or even to different jurisdictions.
5)	<i>Gambling</i> <i>(mostly cash)</i>	Casinos, horse-races and lotteries are ways of legalizing funds. The money launderer can buy (for ‘dirty’ cash) winning tickets – or in the case of casinos chips – and redeem the tickets or the chips in a ‘clean’ bank check.
6)	<i>Insurance policies</i> <i>(no cash)</i>	Money launderers purchase single premium insurance (with dirty cash), redeem early (and pay some penalty) in order to receive clean checks to deposit.

2. Methods of Money Laundering and Estimation of Transnational Crime

Table 2.1: The methods of money laundering and the use of cash (cont.)

7)	<i>Securities (no cash)</i>	Usually used to facilitate fund transfers, where underlying security deals provide cover (and legitimate looking reason) for transfers.
8)	<i>Business ownership (only cash)</i>	Money is laundered through legitimate businesses, cash-intensive operations, such as restaurants, are especially well suited for laundering.
9)	<i>Shell corporations (little cash)</i>	Money launderers might create companies exclusively to provide cover for fund moves without legitimate business activities.
10)	<i>Purchases (mostly cash)</i>	Real estate or any durable good purchases can be used to launder monies.
11)	<i>Credit card advance payment (only cash)</i>	Money launderers pay monies in advance with dirty money, and receive clean checks on the balance from the bank
12)	<i>ATM operations (only cash)</i>	Banks might allow other firms to operate their ATMs, i.e. to maintain and fill them with cash. Money launderers fill ATMs with dirty cash, and receive clean checks (for the cash withdrawn) from the bank.

Source: Unger (2007, pp. 195-196) and own remarks.

2. Methods of Money Laundering and Estimation of Transnational Crime

Table 2.2: Summary evaluation of estimation methods and their studies

	<i>Study [St.]</i>	<i>Method</i>	<i>Result</i>	<i>Evaluation</i>
DIRECT ESTIMATION METHODS				
[A]	-----	Discrepancy analysis of internat. balance of payments & world bal. of current account	World balance of current account deficit of around 100 billion USD (due to non-registered interest income)	Basically interesting approach. BUT: too unreliable data for offshore banks; lack of differentiation between legal & illicit source.
[B]	St. for the Netherlands (van Duyne, 1994)	Money circulation method	Return of Dutch guilder in the amount of 3.7 billion HFL (according to estimates by van Duyne 1 billion of that with illegal origin)	Method can be used as an indication for existence of money laundering & for plausibility check. BUT: Assumption of cash dependency, other reasons for transfer payment very obvious; dependency on method; very little relevance of currency in neighboring countries (abroad)
[C]	Case from the USA after change in fight against drugs	Change in cash holdings of national banks	Transfer of drug money to the U.S. in the billions	Good approach for detection of money laundering centers. BUT: no reliable statements to volume (distinction legal & illicit funds; significant change in anti-money laundering measures required)
[D]	St. to measure annually exported amount of money from the USA to offshore centres (Blum, 1981)	Estimates based on the inflows into offshore financial centers	100 billion USD funds from illegal sources; 20-25 billion USD (according to Gutmann's study) annually leaving USA in direction offshore centers	Highlights importance of offshore centers for money laundering. BUT: lack of distinction between legal & illicit funds; in calculations only limited comprehensible approach from Blum
[E]	-----	Calculation based on confiscated assets or individual money laundering cases	No data on total amount of actually confiscated assets; money laundering in the millions	Too vague, since it can be assumed that the confiscated assets represent only a fraction of true extent

2. Methods of Money Laundering and Estimation of Transnational Crime

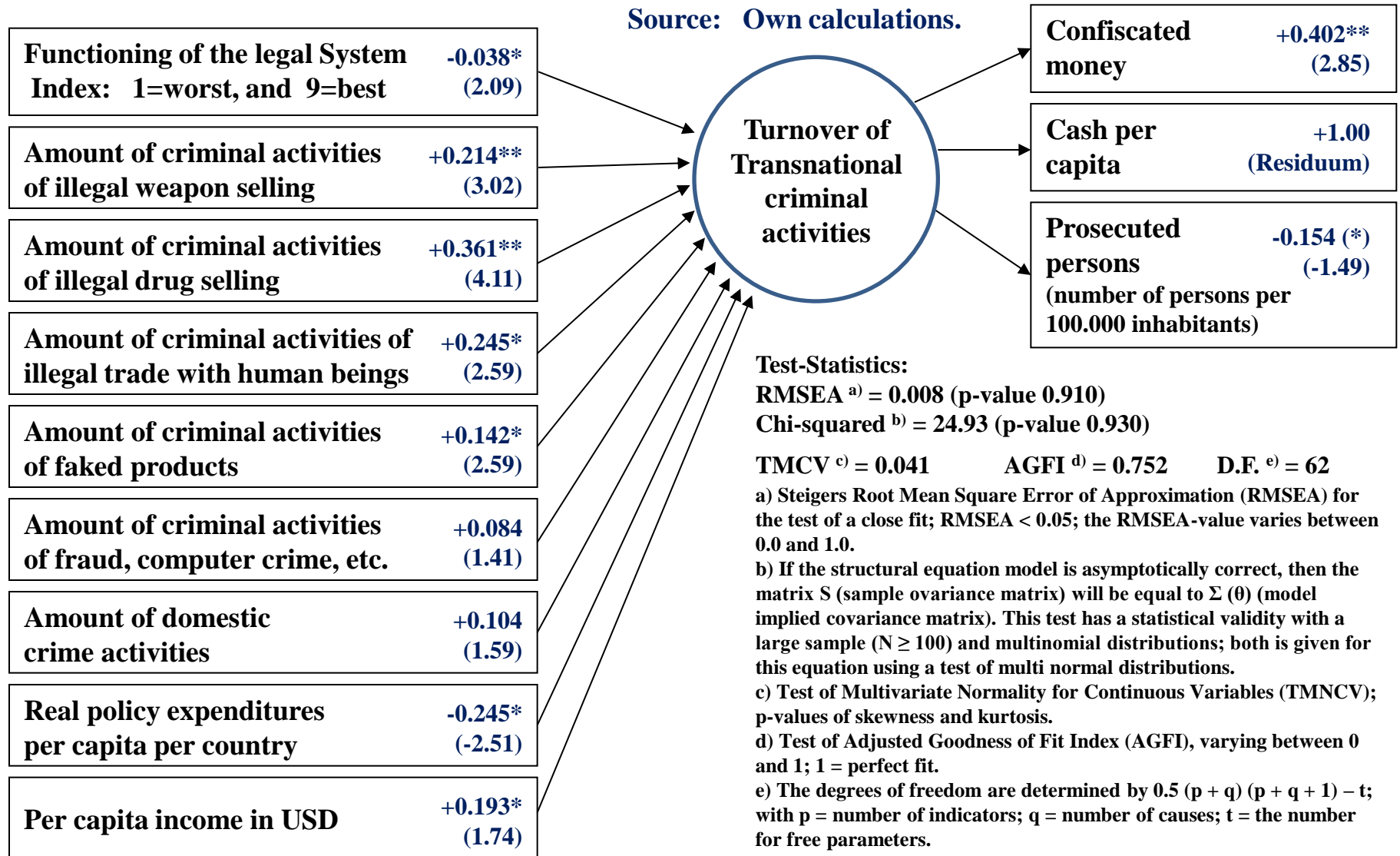
Table 2.2: Summary evaluation of estimation methods and their studies (cont.)

	<i>Study [St.]</i>	<i>Method</i>	<i>Result</i>	<i>Evaluation</i>
INDIRECT ESTIMATION METHODS				
[F]	St. for Vienna (Siska, 1999); St. for Western Europe (BND, 1993), St. for the USA (ONDCP, 2000)	Quantification based on the estimated drug use	Around 700 million EUR sales revenues from hashish & heroin trade in Vienna; around 40 billion EUR sales revenues from hashish & heroin trade in Western Europe; around 12 billion USD sales revenues from heroin trade in the USA	Regional application of this method meaningful. BUT: prices diverge nationally / internationally very heavily; consumption individually different
[G]	-----	Quantification based on the estimated drug production	-----	Heavy price differences; estimations for production volume very different
[H]	St. for the USA (Preston, 1989)	Quantification based on confiscated illegal drugs	Amount of laundered money from drug trafficking for the U.S. 50 - 65 billion USD	Heavy differences in success rates of prosecution authorities; very uncertain extrapolation from confiscated quantity to actual quantity

Source: Own depiction.

2. Methods of Money Laundering and Estimation of Transnational Crime

Figure 2.3: MIMIC estimation of the turnover of transnational crime for 20 highly developed OECD countries over the periods 1994/95, 1997/98, 2000/01, 2002/03, 2003/04, 2004/05 & 2006/07



2. Methods of Money Laundering and Estimation of Transnational Crime

Table 2.3: Calculations of the turnover of transnational crime of 20 OECD countries using the MIMIC estimations (1995-2014)

<i>Year</i>	<i>Volume of money laundering (billion USD, 20 OECD countries)</i>	<i>Volume of money laundering in % of GDP</i>	<i>20 OECD countries</i>
1995	273	1.33 %	Australia, Austria, Belgium, Canada, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Switzerland, Spain and USA.
2000	384	1.47 %	
2001	412	1.52 %	
2002	436	1.56 %	
2003	475	1.63 %	
2004	512	1.66 %	
2005	561	1.72 %	
2006	603	1.74 %	
2007	646	1.77%	
2008	702	1.82%	
2009	680	1.60%	
2010	708	1.78%	
2011	741	1,96%	
2012	804	2.07%	
2013	859	2.15%	
2014	907	2.20%	

Source: Own calculations, calibrated figures from the MIMIC estimations.

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

(1) The most widely quoted figure for the extent of money laundered has been the IMF ‘consensus range’ of 2 % to 5 % of global GDP, made public by the IMF in 1998.

A more recent analysis of the results from various studies suggests that all criminal proceeds are likely to amount to some 3.6% of global GDP (2.3 % - 5.5 %), equivalent to about USD 2.1 trillion in 2009.

(2) The most reliable OECD estimate for the amount available for laundering through the financial system would be equivalent to 2.7 % of global GDP (2.1 % - 4 %) or USD 1.6 trillion in 2009.

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

Table 3.1: IMF estimates of money laundered, worldwide, period 1996 to 2009

<i>Estimation</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mid-point</i>	<i>Increase (in %)</i>
Average (1996 to 2009) IMF estimates of money laundered (as a percentage of global GDP)	2 %	5 %	3.5 %	---
Estimate for 1996 (in billion USD)	600	1,500	1,050	---
Estimate for 2005 (in billion USD)	900	2,300	1,600	52 %
Estimate for 2009 (in billion USD)	1,200	2,900	2,050	28 %

Source: UNODC (2011, p. 19).

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

Table 3.2: Cross-border flows of global ‘dirty money’ (including financial and tax fraud), in trillion USD; *cash 10-15% (own calculation)*

<i>Variable</i>	<i>2000-2005</i>			<i>extrapolated to 2009</i>		
	<i>low</i>	<i>high</i>	<i>in % of GDP 2000-2005</i>	<i>low</i>	<i>high</i>	<i>mid- point</i>
Overall amounts laundered (including financial and tax fraud)	1.1	1.6	2.9 - 4.3 %	1.7	2.5	2.1
Of which “pure” criminal component (in % of overall)	0.3 (27%)	0.5 (31%)	0.9 - 1.5 %	0.5 (29%)	0.9 (36%)	0.7 (33%)

Source: UNODC (2011, p. 34).

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

Table 3.3: Proceeds of transnational crime and the use of cash (time range 2003-2009)

<i>Kind of Crime (2003-2009)</i>	<i>Billion USD</i>	<i>In % of total proceeds</i>	<i>Sources</i>
Drugs (<i>cash 80%</i>)	320	50.0 %	UNODC, World Drug Report 2005 (data refer to 2003)
Counterfeiting (<i>cash 30%</i>)	250	39.0 %	OECD, Magnitude of Counterfeiting and Piracy of Tangible Products, 2009
Human trafficking (<i>cash 50%</i>)	31.6	5.0 %	P. Belser (ILO), Forced Labor and Human Trafficking: Estimating the Profits, 2005
Oil (<i>cash 10%</i>)	10.8	2.0 %	GFI estimate based on Baker 2005 (quantities) and US Energy Information Administration (prices: 2003- 2010)
Wildlife (<i>cash 50%</i>)	7.8 – 10.0	1.4 %	GFI estimate based on Francesco Colombo, “Animal Trafficking – A Cruel Billion-Dollar Business,” Inter Press Service, September 6, 2003; Coalition Against Wildlife Trafficking, World Wildlife Fund
Timber (<i>cash 50%</i>)	7.0	1.1 %	GFI estimate for 2009 based on Seneca Creek and Wood Resources International, OECD
Fish (<i>cash 50%</i>)	4.2 - 9.5	1.1%	GFI estimate for 2010, based on Norwegian national advisory group against organized IUU-fishing (FFA) and United Nations Food and Agriculture Organization

Source: UNODC (2011, p. 36) and own remarks.

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

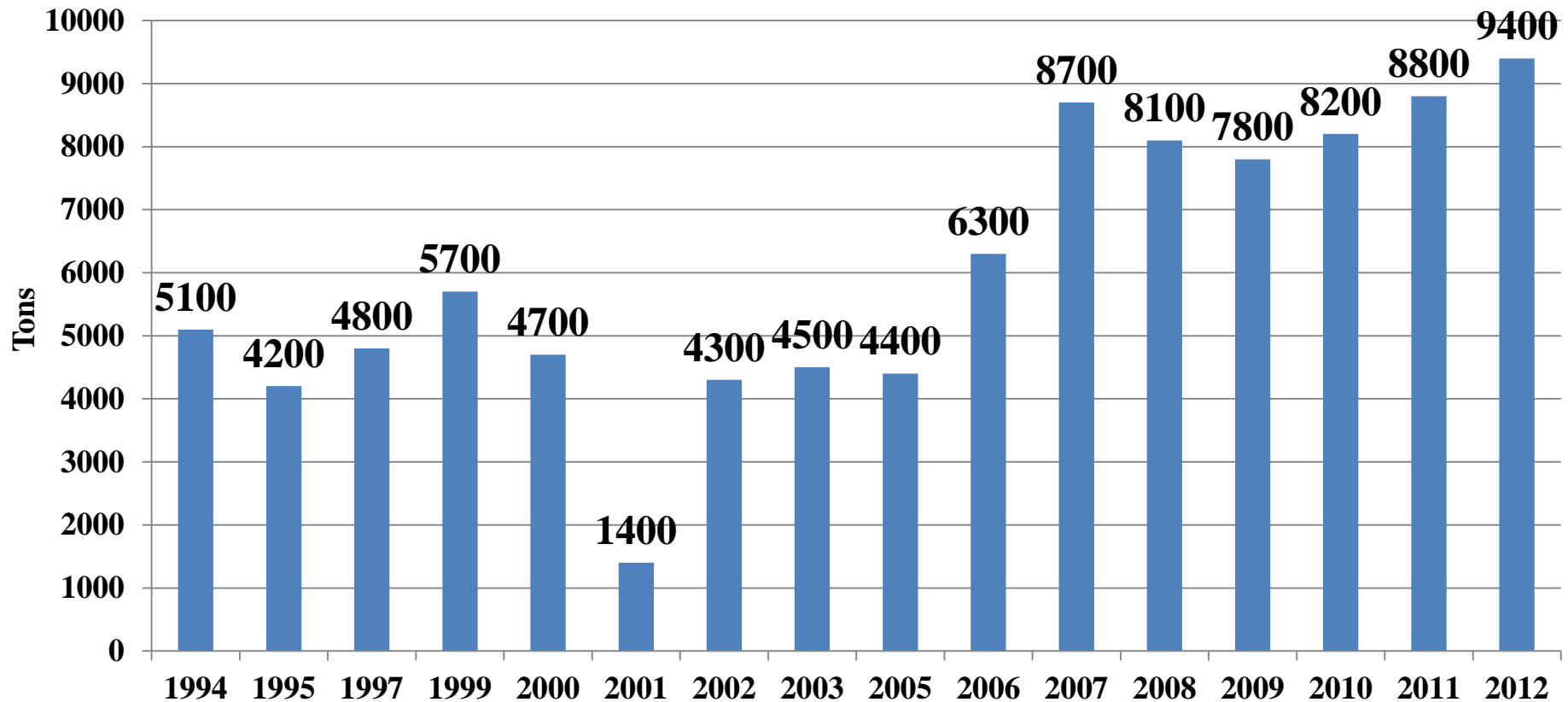
Table 3.3: Proceeds of transnational crime and the use of cash (2003-2009) (cont.)

<i>Kind of crime (2003-2009)</i>	<i>Billion USD</i>	<i>In % of total proceeds</i>	<i>Sources</i>
Art and cultural property (cash 30%)	3.4 - 6.3	0.8 %	GFI estimate based on Interpol, International Scientific and Professional Advisory Council of the United Nations Crime Prevention and Criminal Justice Programme
Thereof gambling (cash 50%)	2.4 - 4.4	0.5 %	
Gold	2.3	0.4 %	GFI estimate based on estimates from UNODC, 2010 and other sources on illegal gold trade in DRC, South Africa and Peru
Human organs (cash 50%)	0.6 - 1.2	0.1 %	GFI estimate based on WHO, Council of Europe, United Nations
Small arms & light weapons (cash 70%)	0.3 - 1.0	0.1 %	GFI estimate based on Small Arms Survey and UNODC
Diamonds & coloured gemstones	0.9	0.1 %	GFI estimate for 2009 based on UN, Kimberley Process: Rough Diamond Statistics and US Geological Survey
Total (midpoint estimates)	645	100.0 %	Own calculations
Total rounded	650	---	Own calculations
In % of global GDP in 2009	1.1 %	---	Own calculations
In % of average global GDP, 2000-2009	1.5 %	---	Own calculations

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

Figure 3.1: Total production of opium in the three largest „poppy seed“-producing countries Afghanistan (80%), Myanmar (8%) and Lao PDR (12%) from 1994 to 2009; in metric tons



Source: UNODC, 2010, *The Globalization of Crime*, New York, p. 247.

3. Transnational Crime Proceeds and Money Laundering

3.1. Global Figures

Table 3.4.1: Size of the global drug market, year 2003, in billion US \$

Value of the drugs sold	„Retail price“ for the end consumer	Wholesale	Producer
Value of the drugs sold	<i>322 billion US \$</i>	<i>94 billion US \$</i> $322 : 94 = 3.4$	<i>13 billion US \$</i> $322 : 13 = 24.8$ $94 : 13 = 7.2$
Source: UNODC, 2005 World Drug Report, Volume 1, Analysis, Vienna 2005, p. 127.			

Table 3.4.2: Regional division of the global drug market, 2003, in billion US \$

	North America	South America	Europe	Asia	Africa	Oceania	World
value in billion US \$	142	9	106	35	14	16	322
in %	44%	3%	33%	11%	4%	5%	100%
Source: UNODC, 2005 World Drug Report, Volume 1, Analysis, Vienna 2005, p. 127.							

3. Transnational Crime Proceeds and Money Laundering

3.2. Regional Figures

Table 3.5: Annual money-laundering by *region*, period 2000 to 2005, in billion USD

<i>Region / Year</i>	<i>2000</i>		<i>2002</i>		<i>2005</i>	
America	313	37.8%	328	38.3%	350	37.7%
Asia-Pacific	246	29.7%	254	29.7%	292	31.5%
Europe	230	27.8%	234	27.3%	241	26.0%
Middle East / Africa	38	4.6%	40	4.7%	44	4.7%
Total	827	100%	856	100%	927	100%
In % of GDP	2.7 %		2.6 %		2.0 %	

Source: UNODC (2011, p. 33) and own calculations.

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Table 3.6: Amount & top 20 destinations of laundered money (2005). Source: Unger (2007, p. 80)

<i>Rank</i>	<i>Destination</i>	<i>% of worldwide money laundering</i>	<i>Walker estimate 2.85 trillion USD Amount in billion USD</i>	<i>IMF estimate of 1.5 trillion worldwide Amount in billion USD</i>
1	United States	18.9 %	538.145	283.50
2	Cayman Islands	4.9 %	138.329	73.50
3	Russia	4.2 %	120.493	63.00
4	Italy	3.7 %	105.688	55.50
5	China	3.3 %	94.726	49.50
6	Romania	3.1 %	89.595	46.50
7	Canada	3.0 %	85.444	45.00
8	Vatican City	2.8 %	80.596	42.00
9	Luxembourg	2.8 %	78.468	42.00
10	France	2.4 %	68.471	36.00
11	Bahamas	2.3 %	66.398	34.50
12	Germany	2.2 %	61.315	33.00
13	Switzerland	2.1 %	58.993	31.50
14	Bermuda	1.9 %	52.887	28.50
15	Netherlands	1.7 %	49.591	25.50
16	Liechtenstein	1.7 %	48.949	25.50
17	Austria	1.7 %	48.376	25.50
18	Hong Kong	1.6 %	44.519	24.00
19	United Kingdom	1.6 %	44.478	24.00
20	Spain	1.2 %	35.461	18.00
	SUM of 20 countries	67.1 %	1,910.922	1,006.50

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Table 3.7: Estimated earnings from criminal activity* *in the U.S.*, in billion USD

Year	<i>Financial and tax fraud included</i>		<i>Criminal income (financial and tax fraud excluded)</i>		<i>Ratio of criminal income in total illicit income</i>
	<i>Estimated criminal income</i>	<i>in % of GDP</i>	<i>Estimated criminal income (Ø cash 40%)</i>	<i>in % of GDP</i>	
1965	49	6.8 %	18	2.5 %	37 %
1970	74	7.1 %	26	2.5 %	35 %
1975	118	7.2 %	45	2.7 %	38 %
1980	196	7.0 %	78	2.8 %	40 %
1985	342	8.1 %	166	4.0 %	49 %
1990	471	8.1 %	209	3.6 %	44 %
1995	595	8.0 %	206	2.8 %	35 %
2000	779	8.0 %	224	2.3 %	29 %
2010**	1,043	7.0 %	300 (235 - 350)	2.0 % (1.6% - 2.3%)	29 %

* Criminal activities included: trafficking in illicit drugs, human trafficking, burglary, larceny-theft, motor vehicle theft, robbery, fraud, arson, non-arson fraud, counterfeiting, illegal gambling, loan sharking and prostitution. Tax evasion crimes included federal income, federal profits and excise tax evasion.

** Tentative UNODC estimate based on previous estimates and trends derived from new drug and crime data.

Source: UNODC (2011, p. 20) and own remarks.

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Table 3.8: Estimated unlawful earnings *in the Netherlands*, in million EUR (2003)

<i>Type of Crime (2003)</i>	<i>Proceeds of crime (in million EUR)</i>	<i>Proceeds of crime Mid-point estimates in % of total</i>
Financial, social security and tax fraud*	7,735 - 15,450	73.3%
Drugs (<i>cash 70%</i>)	1,960	12.4%
Illegal workers (<i>cash 70%</i>)	490	3.1%
Prostitution (<i>cash 60%</i>)	460	2.9%
Theft (<i>cash 95%</i>)	345	2.2%
Burglary (<i>cash 90%</i>)	340	2.1%
Fencing	190	1.2%
Illegal gambling (<i>cash 30%</i>)	130	0.8%
Illegal copying (<i>cash 30%</i>)	90	0.6%
Computer-crime	26	0.2%
Violent offences	6	0.0%
Other offences	187	1.2%
Total in million EUR	11,959 - 19,674	---
Total in million US-\$	13,500 – 22,300	---
As a percentage of GDP	2.6% - 4.3%	---

* Based on the assumption that between 5% and 10% of the total amounts were discovered and reported.

Source: Unger (2008, p.66) and own remarks.

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Table 3.9: Estimates of the income and profits of organized crime *in Italy*, in billion EUR (2009)

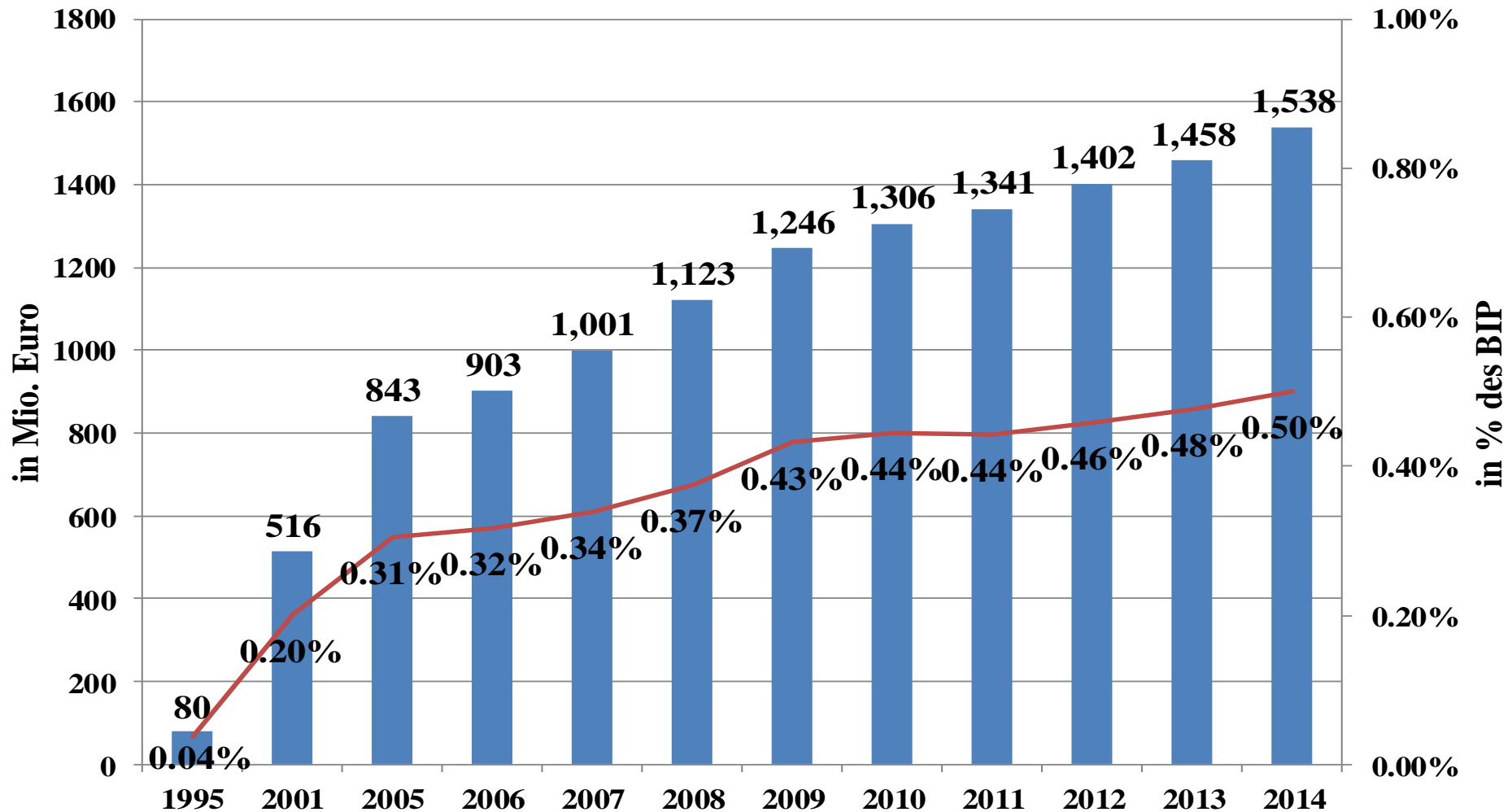
<i>Kind of Income (2009)</i>	<i>In billion EUR</i>	<i>In % of total</i>
Trafficking (drugs, human beings, arms, smuggling; <i>cash 50%</i>)	67.87	50.2 %
‘Predatory activities’ (protection racket, loan sharking)	24.00	17.7 %
Theft and robbery (<i>cash 50-70%</i>)	1.00	0.7 %
Illegal economic activities (Procurement, agro-crime, <i>games & gambling</i> , counterfeiting, illegal construction)	25.00	18.5 %
Eco-mafia / agro-mafia	16.00	11.8 %
Prostitution (<i>cash 60-80%</i>)	0.60	0.4 %
Financial gains	0.75	0.6 %
Total income in billion EUR	135.22	100 %
Total income in billion USD	188.58	---
Total income in % of GDP	8.9 %	---

Source: UNODC (2011, p. 26) and own remarks.

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Figure 3.2: Sum of “national” criminal money flows in Austria, in million EUR and in % of GDP (1995-2014)

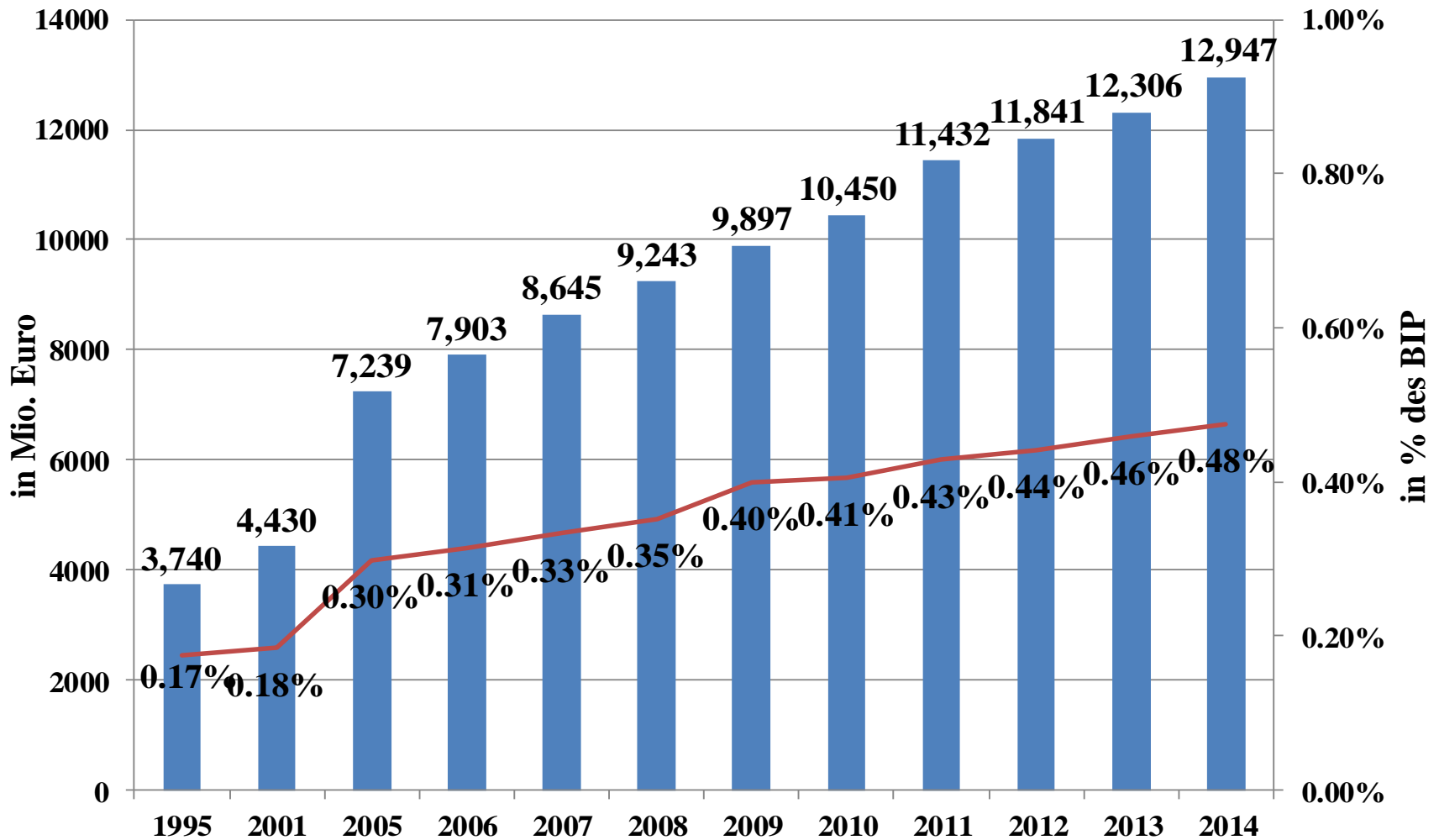


Source: Own calculations, OECB, ECB Statistical Data.

3. Transnational Crime Proceeds and Money Laundering

3.3. Nationwide Figures

Figure 3.3: Sum of “national” criminal money flows in Germany, in million EUR and in % of GDP (1995-2014)

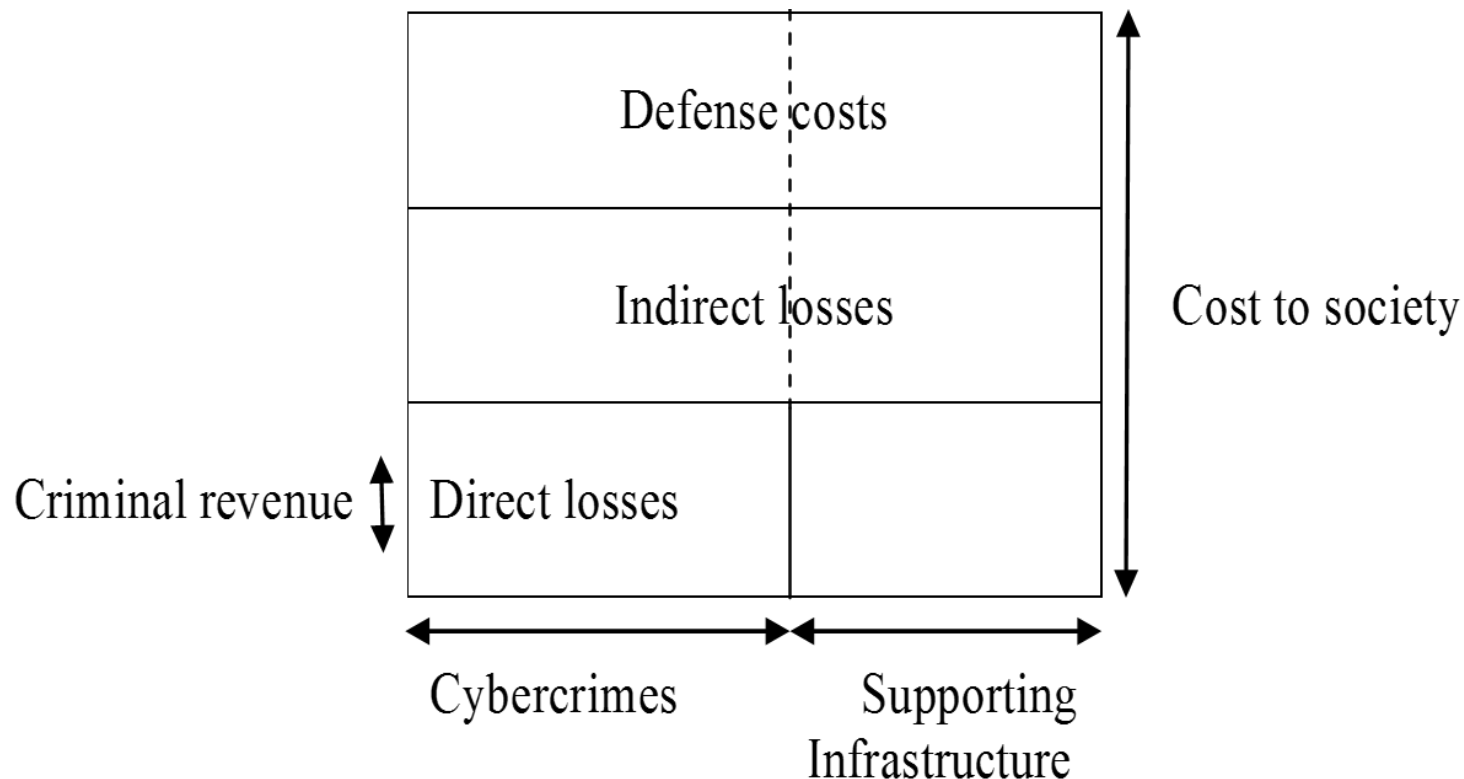


Source: Own calculations, Statistical Office of Germany, ECB Statistical Data.

3. Transnational Crime Proceeds and Money Laundering

3.4. Cybercrime

Figure 3.4: Framework for analysing the costs of cybercrime.



Source: Anderson, et al. (2013, p. 270).

3. Transnational Crime Proceeds and Money Laundering

3.4. Cybercrime

Table 3.10: An estimation of the various cost components (partly proceeds) of cyber crime

Type of cybercrime	UK estimates	Global estimates
1. Costs of genuine cybercrime		
Online banking fraud		
- phishing	\$ 16 m	\$ 320 m
- malware (consumer)	\$ 4 m	\$ 70 m
- malware (businesses)	\$ 6 m	\$ 200 m
- bank tech. countermeasures	\$ 50 m	\$ 1,000 m
Fake antivirus	\$ 5 m	\$ 97 m
Copyright-infringing software	\$ 1 m	\$ 22 m
Copyright-infringing music etc.	\$ 7 m	\$ 150 m
Patent-infringing pharma	\$ 14 m	\$ 288 m
Stranded traveler scam	\$ 1 m	\$ 10 m
Fake escrow scam	\$ 10 m	\$ 200 m
Advance-fee fraud	\$ 50 m	\$ 1,000 m
SUM of 1 (in % of total costs)	\$ 164 m (0.9%)	\$ 3,457 m (1.6%)
2. Costs of transitional cybercrime		
Online payment card fraud	\$ 210 m	\$ 4,200 m
Offline payment card fraud		
- domestic	\$ 106 m	\$ 2,100 m
- international	\$ 147 m	\$ 2,940 m
- bank / merchant defence costs	\$ 120 m	\$ 2,400 m
Indirect costs of payment fraud		
- loss of confidence (consumers)	\$ 700 m	\$ 10,000 m
- loss of confidence (merchants)	\$ 1,600 m	\$ 20,000 m
PABX fraud	\$ 185 m	\$ 4,960 m
SUM of 2 (in % of total costs)	\$ 3,068 m (6.7%)	\$ 44,200 m (19.8%)

3. Transnational Crime Proceeds and Money Laundering

3.4. Cybercrime

Table 3.10: An estimation of the various cost components (partly proceeds) of cyber crime (cont.)

Type of cybercrime	UK estimates	Global estimates
3. Costs of cybercriminal infrastructure		
Expenditure on antivirus	\$ 170 m	\$ 3,400 m
Cost to industry of patching	\$ 50 m	\$ 1,000 m
ISP clean-up expenditures	\$ 2 m	\$ 40 m
Cost to users of clean-up	\$ 500 m	\$ 10,000 m
Defense costs of firms generally	\$ 500 m	\$ 10,000 m
Expenditure on law enforcement	\$ 15 m	\$ 400 m
SUM of 3 (in % of total costs)	\$ 1,237 m (16.7%)	\$ 24,840 m (11.9%)
4. Fraud against public institutions		
Welfare fraud	\$ 1,900 m	\$ 20,000 m
Tax fraud	\$ 12,000 m	\$ 125,000 m
Tax filing fraud	--	\$ 5,200 m
SUM of 4 (in % of total costs)	\$ 13,900 m (75.7%)	\$ 150,200 m (67.5%)
SUM of 1–4 (in % of total costs)	\$ 18,369 m (100%)	\$ 222,697 m (100%)

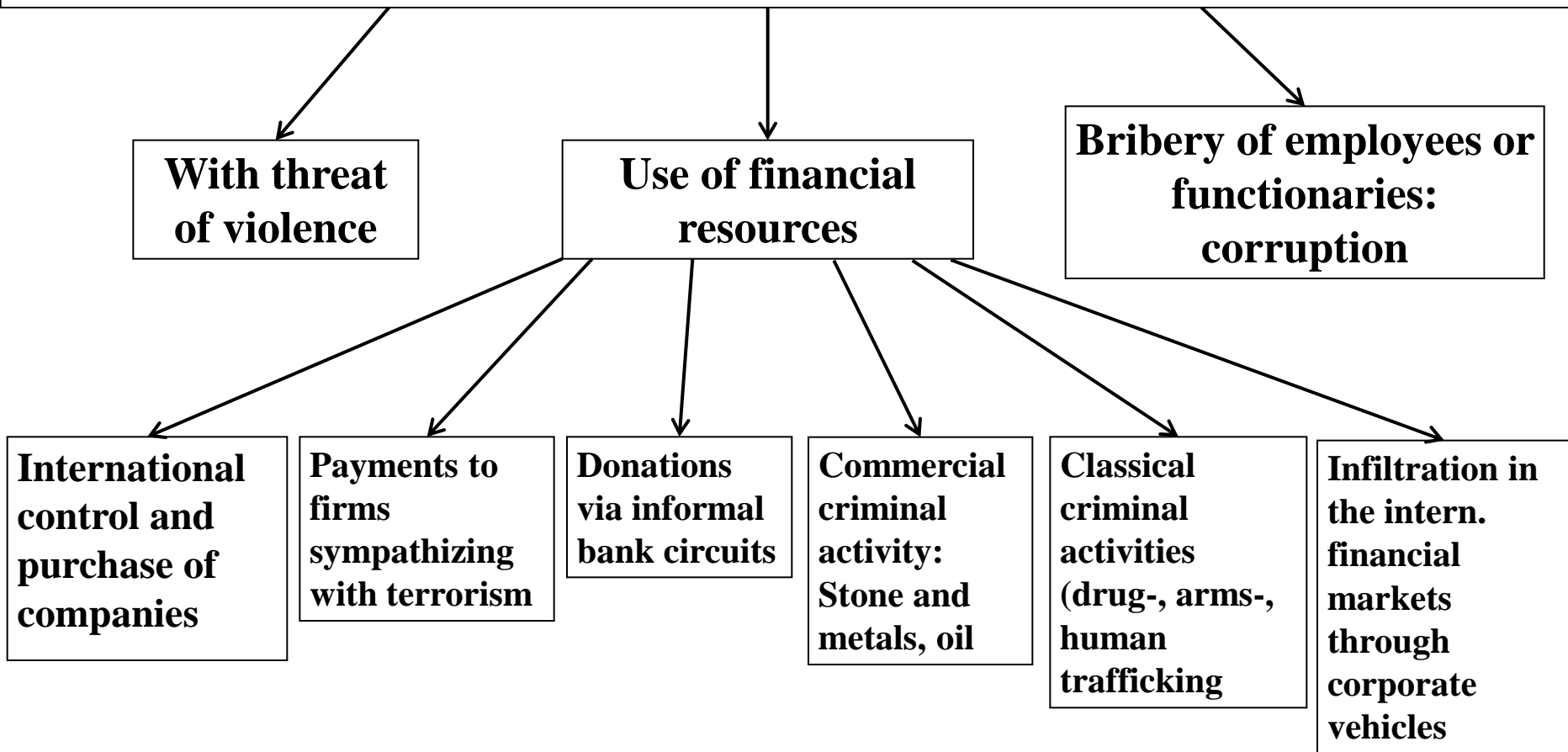
Source: Anderson, et al. (2013, pp. 294-295).

4. The Infiltration of Financial Crime

4.1 Infiltration Ways

Figure 4.1: An estimation of the cost components (partly proceeds) of cyber crime (cont.).

Means / Instruments of Infiltration of the TOC in the “Official” Economy



4. The Infiltration of Financial Crime

4.2 The Informal Money Transfer (Hawala) System

- (1) Hawala bankers are financial service providers who carry out financial transactions without a license and therefore without government control.**
- (2) They accept cash, cheques or other valuable goods (diamonds, gold) at one location and pay a corresponding sum in cash or other remuneration at another location (*cash 50-70%*).**
- (3) Unlike official banks, Hawala bankers disregard the legal obligations concerning the identification of clients, record keeping, and the disclosure of unusual transactions, to which these official financial institutions are subject.**

4. The Infiltration of Financial Crime

4.2 The Informal Money Transfer (Hawala) System

- (4) Hawala banking system is vulnerable to criminal abuse. There is evidence that money derived from drug trafficking, illegal arms sales, body part trade, and all kinds of fraud have indeed moved through Hawala banking networks.**

- (5) The Hawala system forms an integral part of the informal black market economy, underground bankers ensure the transfer of money without having to move it physically or electronically.**

4. The Infiltration of Financial Crime

4.2 The Informal Money Transfer (Hawala) System

- (6) When a payment needs to be made overseas, the underground banker will get in touch with a courier (email, fax or phone) in that country informing him of the details.**

If the recipient of the payment wishes to personally obtain the money, a code referring to the underground banker in the country of payment is given to the recipient.

Such a system is almost untraceable since it leaves little if any paper trail.

4. The Infiltration of Financial Crime

4.2 The Informal Money Transfer (Hawala) System

Figure 4.1: Hawala: Guessestimates or Estimates

Author/Source	country/area	year/period	estimated amount of informal money flows in billion USD
Schneider and Caruso (2011)	India	2000-2005	5-10 per year
Fischer (2002)	Saudi Arabia	unknown	40 per year
Fletcher and Baldrin (2002)	Pakistan	2001	2.5
Viles (2008),	Somalia		0.5-1.0
Page and Plaza (2006)	global	2004	57.53
Omer (2004)	Somalia		
Omer and El Koury (2004)	Somalia	2004	0.7-1.0 per year
Zaidi (2010)	Pakistan	unknown	2.5-3.0 per year
IMF (2001)	Pakistan and Afghanistan	unknown	2-5 per year
Jessee (2006)	Pakistan	unknown	2-3 per year

4. The Infiltration of Financial Crime

4.2 The Informal Money Transfer (Hawala) System

(7) Bunt (2007) classifies two different perspectives:

On the one side, Hawala banking is regarded as a centuries-old institution which has not yet outlived its usefulness.

Low-income workers and migrant workers in particular supposedly put more trust in Hawala bankers than in formal banks.

Hence, Hawala banking might be the closest thing of a free market banking, without government regulation and it functioned well for centuries.

On the other side, Hawala banking is an ‘underground banking’, a system that flies under the radar of modern supervision of financial transactions.

Underground banking is considered a threat to the effectiveness of anti-money laundering measures and the fight against terrorist and transnational crime financing.

5. Summary & Conclusions

5.1. Major Results

(1) The necessity of money laundering is obvious as a great number of illegal (criminal) transactions are done by cash.

This amount of cash from criminal activities must be white washed in order to have a “legal” profit and to be able to invest or consume these profits.

(2) Tax fraud and/or illegal cross-border capital flows are by far the biggest/highest share of all illegal transactions (quite often 66% of all illegal capital flows/proceeds!).

(3) Most common money laundering method used for sums up to 50,000.00 EUR is the “*Business Ownership*” method, for higher sums the “*Shell Corporation*” method will be used.

5. Summary & Conclusions

5.2. Conclusions

Five conclusions:

- (1) The proceeds of transnational crime are scientifically extremely difficult to estimate.**

It's defined differently in almost every country; the measures taken against it are different and vary from country to country, it is not at all clear which part of the revenues of transnational crime stay in this country.

Hence, we have no or little empirical evidence, whether these dirty or “white-washed” financial proceeds “stay” or are transferred to other countries → consequence is a severe double counting problem!!

5. Summary & Conclusions

5.2. Conclusions

Five conclusions (cont.):

- (2) To reduce transnational crime activities is very difficult, as there are no efficient and powerful international organizations which cooperate among each other and which can effectively fight against transnational crime.**
- (3) It should be the prime target for governments to nationally and internationally reduce tax fraud and other illegal cross-border capital flows; e.g. the rigorous fight against tax havens should have the highest priority.**

5. Summary & Conclusions

5.2. Conclusions

Five conclusions (cont.):

- (4) Cash is still used in many crime activities because it does not leave traces. A reduction of cash can reduce crime activities as transaction costs rise, but as the profits of crime activities are still very high, the reduction will be modest (10-20% at most!).**
- (5) Hence, this paper should be seen as a first attempt in order to shed some light on the grey area of the revenues/proceeds of tax fraud and of transnational crime. We have some knowledge about the use of the proceeds of TOC, but little how to successfully fight/reduce it.**

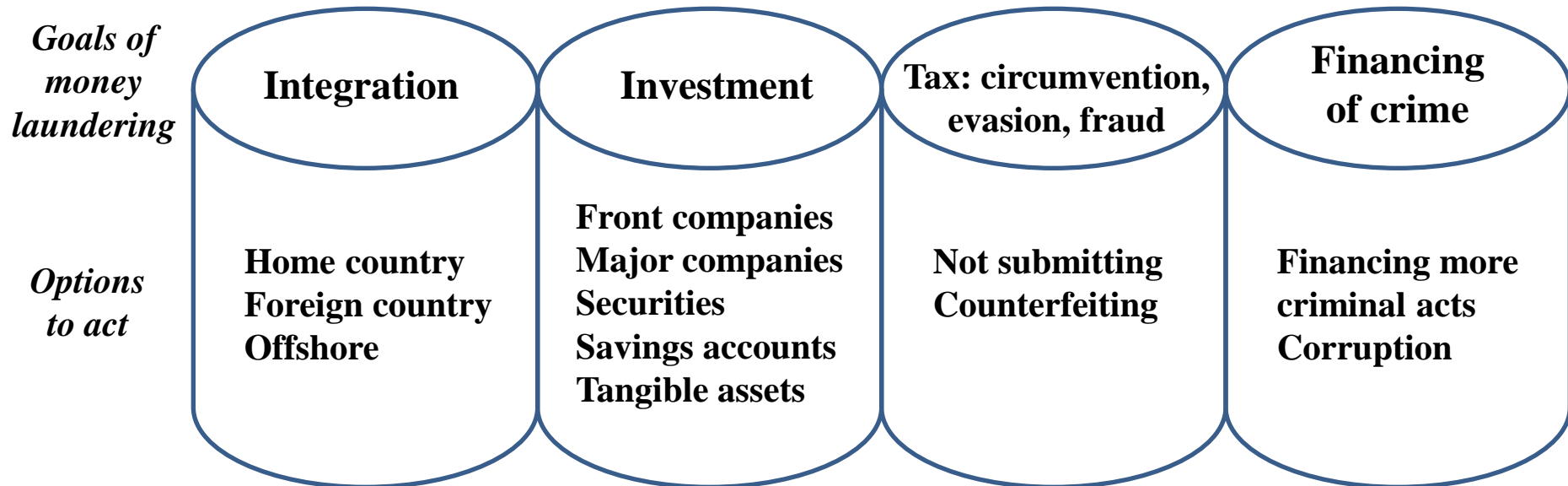
**THANK YOU VERY MUCH
FOR
YOUR ATTENTION!**

6. APPENDIX

- **Appendix Part A1: Methods & Stages of Money Laundering**
- **Appendix Part A2: Further Facts & Figures:**
Global / Regional / National
- **Appendix Part B: References**

6. Appendix Part A1: Methods & Stages of Money Laundering

Figure A.1: Goal-model.



Support factors

Banking secrecy, International factor, Factor of the inadequate financial market supervision and of the lacking coordination in fighting domestic money laundering, Protection factor of secrets, Offshore-factor, Factor of the envelope function of legal persons, Layering-factor, mixing-factor, counterfeiting-factor, Factor of cashless payment transactions.

Source: Ackermann (1992, p. 11) and Schneider, Dreer, Riegler (2006, p. 39).

Appendix A2: Further Facts & Figures: Global / Regional / National
Table A.1: Estimates of worldwide turnover of organized crime.

<i>Origin / study</i>	<i>Year</i>	<i>Volume (worldwide) in trillion USD</i>	<i>As a percentage of global GDP</i>
M. Schuster	1994	0.5-0.8 trillion	0.9 - 3.0 %
International Monetary Fund & Interpol	1996	0.5 trillion	1.6 %
UN estimates	1994/98	0.7-1.0 trillion	2.4 - 3.4 %
S. Kerry	1997	0.42-1.0 trillion	1.4 - 3.3 %
J. Walker	1998	2.85 trillion	9.5 %
National Criminal Intelligence Service	1998	1.3 trillion	4.3 %
	2001	1.9 trillion	5.9 %
	2003	2.1 trillion	5.6 %
I. Takats (2007)	2005	0.6-1.5 trillion	1.3 - 3.3 %
J.D. Agarwal and A. Agarwal (2006)	2005	2.0-2.5 trillion	4.4 -5.5 %
Global Financial Integrity (2011) (estimate for transnational crime)	2000-2009	0.65 trillion	1.5 %
J. Walker (based on J. Walker & B. Unger) (2009)	2001	1.0 trillion	3.4 %

Appendix A2: Further Facts & Figures: Global / Regional / National
Table A.1: Estimates of worldwide turnover of organized crime (cont.).

<i>Origin / study</i>	<i>Year</i>	<i>Volume (worldwide) in trillion USD</i>	<i>As a percentage of global GDP</i>
Median of all estimates	2009*	1.9 trillion	3.3 %
Inter-quartile range of all estimates	2009*	1.5-2.4 trillion	2.6 - 4.1 %
Average of all estimates	2009*	2.1 trillion	3.6 %
Confidence interval of mean (95%)	2009*	1.6-2.6 trillion	2.7 - 4.4 %

* Extrapolated to global GDP in 2009.

Source: adapted from UNODC (2011, p. 38) and see Appendix.

Appendix A2: Further Facts & Figures: Global / Regional / National

Table A.2: FATF estimates of global amounts of laundered money from 1988 to 2009.

Estimate of drug sales in key markets (1988)	USD 124 billion
As a percentage of global GDP (1988)	0.8 %
Assumed proportion that is laundered (1988)	66 – 70 %
Estimate of amounts laundered related to drugs	USD 85 billion
Proportion in % of global GDP (1988)	0.5 % of GDP
Estimated proportion of drugs in total amounts laundered	25 %
Estimated total amounts (all crimes) laundered in 1988	USD 340 billion
As a percentage of global GDP	2.0 % of GDP
<i>Extrapolated to global GDP in 2000</i>	<i>USD 0.6 trillion</i>
<i>Extrapolated to global GDP in 2009</i>	<i>USD 1.2 trillion</i>

Source: Organization for Economic Co-operation and Development, Financial Action Task Force on Money Laundering, Paris, 1990, p. 6. quoted in UNDCP, Economic and Social Consequences of Drug Abuse and Illicit Trafficking, UNDCP Technical Series No. 6, Vienna 1998, p, 26; International Monetary Fund, Financial System Abuse, Financial Crime and Money Laundering- Background Paper, February 2010.

Appendix A2: Further Facts & Figures: Global / Regional / National

Table A.3: FATF Estimate of World-Wide Money Laundering, period 1988 to 2005

<i>Year</i>	<i>Amounts estimated to have been laundered (in billion USD)</i>	<i>As a percentage of global GDP</i>	<i>Increase (in %)</i>
1988	340.0	2.0 %	---
1996	1,100.0	3.5 %	223.5 %
2005	2,300.0	3.0 %	109.1 %

Source: IMF (2001), UNODC (2011, p. 19) and own calculations.

Appendix A2: Further Facts & Figures: Global / Regional / National

Table A.4: Updated FATF model of global amounts laundered.

Estimate of drug sales in key markets (UNODC estimate for 2003)	USD 322 bn
As a percentage of World GDP	0.9 % of GDP
Assumed proportion that is laundered (initial FATF estimate)	66 - 70 %
Estimate of amounts laundered related to drugs	USD 220 bn
Proportion in % of global GDP (2003)	0.6 % of GDP
Estimated proportion of drugs in total amounts laundered (initial FATF estimate)	25 %
Estimated total amounts (of all crimes) laundered in 2003	USD 880 bn
As a percentage of GDP in 2003	2.4 % of GDP
<i>Extrapolated to global GDP in 2009</i>	<i>USD 1.4 trillion</i>

Source: UNODC (2011, pp. 31-32).

6. APPENDIX – Part B: Original References

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6. APPENDIX – Part B: References

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See text box below respective figure / table; exceptions: tables 3.6, 3.7 & A.1.

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