THE AMOUNTS AND THE EFFECTS OF MONEY LAUNDERING

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0 INTRODUCTION AND MAJOR FINDINGS

0.1 Money laundering has become a growth industry

Most countries have established a Financial Intelligence Unit (FIU) or have taken other measures to avoid ending up on the list of Non cooperative countries and territories (NCCI's) issued by Financial Action Task Force (FATF), originally established by the G7[1] in 1989 and currently comprising 31 countries (who aim to make the international financial system hostile to money laundering.

Money launderers can take advantage of multiple rules

Money laundering has become a growth industry, involving a large number of non-governmental, multilateral, intergovernmental and supranational organizations. The Bank of International Settlements (BIS), the OECD, the G-8[2], G-20, EU members' finance and justice ministers, several departments in the United Nations, the World Bank, the International Monetary Fund (IMF), and the Financial Stability Forum (FSF) are all involved in regulatory efforts designed to assess and reduce money laundering. This has led to a plethora of bilateral and multilateral rules and agreements that have made effective regulation a challenge for all FIUs today. It has also contributed to jurisdictional arbitrage whereby money launderers can take advantage of multiple rules and conflicting agreements.

"Their analyses, reports and recommendations reveal a disturbing tendency to quote each other's work; since they enjoy substantially the same membership, this practice amounts to self-corroboration. Moreover, at times they offer overlapping sets of rules and best practices to deal with money laundering. It is ironic that the international community would fail to produce a single, unified set of rules to take on a criminal activity that thrives precisely on exploiting differences in laws and regulations" Nigel-Morris (2001, p.22).

ML needs a unified and transparent approach by FIU's

Despite these challenges, international progress is being made. The Forty Recommendations issued by the FATF on money laundering have been established as the international standard for effective anti-money laundering measures. This was certainly an important step in fighting money laundering. However, money laundering is a global menace, and needs a unified and transparent approach by FIUs, using a multilateral integrated strategic information risk management system.

[1] The G7 refers to the group of seven leading industrialized countries: the United States, the United Kingdom, France, Italy, Canada, Germany and Japan. Russia has recently joined this grouping and it is now referred to as the G8.
[2] See note one above.

For this, better information on the amount, flows and effects of money laundering seems to be an important foundation for further policy formulation. The following approach includes:

'black box' of estimates open

1. Opening up and interrogating the "black box" of estimates which arbitrarily circulate like magic figures throughout the world. These estimates are important since international organizations refer to them constantly. Finding the underlying model of such estimations is an important step to improve estimates of money laundering. For this we reconstruct and transparently show a model of how to measure money laundering that closely corresponds to estimates currently in circulation. This allows to check and critique the assumptions made, to test the model and to improve it in the future. Furthermore, once the black box is opened, the model can also be applied to other countries. This should allow to obtain more accurate and internationally comparable estimates of money laundering.

2. Surveying the potential effects that money laundering can have on the economy, society and on politics. These effects include among others the distortion of savings through criminal activity, effects on growth, contamination of specific sectors with crime, and the increase in crime rates that result from money laundering.

0.2 Money laundering is still an underrated issue in the public sphere

Although money laundering has received increased attention by politicians and international organizations, it is still underrated in the news and in public debate (see also 0.12). When money laundering is reported it is usually in association with the underlying or predicate offence such as drug trafficking or terrorist financing, rather than illicit money laundering in its own right. In Dutch criminal law, money laundering can be punished by up to four years in prison in addition to the predicate crime.

Lately, terrorism and its financing have been given heightened attention. The Dutch minister of Finance was praised by his American counterpart, Snow, for the excellent way in which the Netherlands cooperates with the US in their approach to the financial side of terrorism[3]. The relationship between money laundering and terrorism is, however, as we will show in chapter 5, indirect and 'loose'.

[3] In Dutch: Minister Gerrit Zalm (Financien) kreeg gisteren van zijn Amerikaanse collega Snow een flinke pluim voor de financiele aanpak van terrorisme in ons land. Snow, die voor een bezoek in Den Haag was, riep Zalm zelfs op om een internationale conferentie te organiseren over de aanpak van geldstromen die verband houden met terroristische activiteiten. Hij noemde de Nederlandse ideeën op dit gebied vernieuwend en memoreerde dat ons land het eerste land is waarmee de VS op dit gebied nauw samenwerkt. (Telegraaf, 14 Juni 2005, pagina 7)

A comparison of Dutch, Belgium and Australian newspaper articles shows that money laundering is still a topic needing more public debate (see 0.13 for more details). The newspapers concentrate on drugs and terrorism, and tend to overlook the many other crimes that lead to money laundering and the variety of economic, social and political effects it can have. In the Netherlands, money laundering only emerged as a topic of public debate when a real estate agent with connections to the Mafia was murdered. Once this news was over, money laundering again disappeared from public view.

Police prefer hunting drug dealers rather than 'white-collar' crime

The newspapers mostly pay attention to money laundering resulting from drug trafficking. The police prefer hunting `real` criminals such as drug dealers, thieves and killers rather than targeting `white collar´ crime committed by lawyers, notary publics and company executives. In 0.12 and 0.13 we give an overview of the Dutch debate and compare it to neighboring Belgium and also to Australia, the latter country has comprehensive risk management strategies in place for fighting money laundering.

0.3 What is money laundering exactly? The need for an interdisciplinary dialogue on definitions.

There is widespread debate and even uncertainty as to what constitutes money laundering. In section 1.2 we provide an overview of different definitions of money laundering by doing a structural linguistic analysis. In section 1.3 we discuss different approaches of emphasis and interpretation by scholars of law, economics and social science as well as by international organizations such as the FATF, that are responsible for fighting money laundering. We then conclude by examining the way the meaning of the term money laundering still differs quite substantially among the 18 definitions of money laundering that we identified. The importance of these differences is of more concern to economists and social scientists rather than lawyers, for whom the definition given by Dutch penalty law is the one and only valid definition (Interview with John Vervaele, professor of criminal law, Utrecht University). However, Dutch penalty law has a very broad definition of what `money` is in money laundering. For economists it was striking that it is not clear exactly what 'money' actually is in various definitions. Depending on the definition, it can be a stock or flow, `proceeds`, `wealth` or `income`.

ML is making illegal income appear legal

Sometimes the definitions refer to illegal activities that are both civil and criminal offences and on other occasions to criminal actions only. Hence they differ in the broadness of application. Something that is illegal is not necessarily criminal; while it is illegal to gamble in an unlicensed casino it is not a criminal offence to do so. Another striking feature was that some of the definitions say that money laundering is `trying to hide the source' of the illegal or criminal income, whereas others stress the act of `making it appear legal'. The former would also be the case if somebody hides the stolen money under his or her pillow, whereas the second necessitates some action of bringing the money back into the legal financial system.

Despite the fact that criminal codes differ in various countries, it is important to find a common definition of money laundering. For measuring money laundering one needs a clear definition that includes the types of crime that are at its foundation. Originally, money laundering referred only to the laundering of drug money. Then over time it was extended to theft, fraud and an increasing number of other offences. Today, the FATF definition includes terrorist financing. From a legal perspective this means that there has been a tremendous paradigm shift (see 1.3).

The FATF has made great efforts to define money laundering clearly. However, these efforts have been directed to achieving an international standard that nevertheless conceals the existence of national variations in legal definitions. It seems important to have an interdisciplinary debate on what money laundering is, what it includes and what it excludes.

0.4 The amount of money laundered is sizeable

The International Monetary Fund (IMF) estimated money laundering at 2-5% of world GDP but few others have made an attempt to quantify global money laundering. John Walker (1999) was the first analyst to make a serious attempt at quantifying money laundering and the initial output from his model suggests that $2,85 trillion is laundered globally. (All amounts are written in the Dutch standard form.)

$2,85 trillion laundered globally, $50 billion in Netherlands

The Walker Model examines two different aspects of the money laundering process. First, it scrutinizes money generated for laundering per country. Second, it examines flows of generated money from one country to another. Money can be laundered in the country in which it was generated or sent to another country for laundering. An important point of this model is that as soon as money has traveled (flowed) at least once, it is "white washed", or laundered. This model only counts this first transaction involving the placement of funds. Although "hot money" can be moved on multiple occasions in efforts to disguise its criminal origins, this model does not count each of these transactions, or movement of funds. It does not consider gross flows of money, as these can be much higher than those estimated in this model.[4]

For the estimation, we – as a first step – re-estimated the macroeconomic model of Walker (1999) for the Netherlands. Since Walker never published his entire dataset or the precise measures he used to obtain results, we used his general measures and methodology to reproduce his estimations for the Netherlands. We replicated his model by using the formulas and data sources that he had used in his published reports (Walker, 1992, 1995 and 1999). This allowed us to "look into the black box of the Walker Model".

[4] Although in criminal investigations of individual money laundering cases it is important to trace each movement of funds in order to retrace money laundering steps and also to recover laundered funds. FATF, *Basic Facts About Money Laundering*, http://www1.oecd.org/fatf/MLaundering_en.htm#What%20is%20the%20scale%20of%20the%20problem?

The figure that 2-5% of the world's total GDP is laundered and that up to US $50 billion of funds is laundered in the Netherlands, that has been repeatedly estimated in international studies, could be accounted for by using this model. By reproducing these estimations, we discovered the strength and the weaknesses of the Walker Model. Its strength is that it is a pioneer study, which estimates money laundering on a large scale for all countries for the first time.

Furthermore, Walker, having worked with the Australian Transaction Reports and Analysis Centre (AUSTRAC) incorporated his grounded knowledge on money laundering. Walker also had access to information, data sets and expert interviews in the field and consequently had developed an appreciation, or "feeling" for the extent of money laundering.

The weakness in this model is that it assumes that all countries attract criminal money for the same reasons. It conflates very different countries with very different economic structures. All of these encompassing models share these problems (see for example Schneider 2002). The way we use the Walker Model acknowledges these problems. We attempt to improve the model by introducing the most up-to-date Dutch data and calibrating international measures. We show that Walker tends to overestimate money generated for laundering in the Netherlands, by about 30-40%. But money laundering is still sizeable.

ML about 4% of the Dutch money demand

Our results indicate that there is € 8 to 14 billion from crime generated in the Netherlands of which 44% will stay in the Netherlands for laundering. This means that money laundering from crime in the Netherlands amounts to € 3.2 to 4.2 billion per year, with the most likely estimate to be € *3.8 billion*. The remaining Dutch criminal money will be placed somewhere else. In addition, criminal money from abroad will also flow into the Netherlands. There is also an additional € 14 to *21 billion* that flows into the Netherlands from the top 20 origin countries of generated money for laundering. This means that the amount of money laundering with which the Dutch have to deal accounts for about € 18 to 25 billion, hence about 4*% of the Dutch money demand,* or about 5% of the Dutch GDP.

0.5. Where is the criminal money being laundered and placed?

This brings us to the next question: where are these huge amounts of money sitting in the Dutch economy? In Chapter 3, we analyze different techniques of money laundering and identified sectors where the money is most likely to be located.

Casinos are not likely to launder very much

Only 1,5 million laundered through casinos

We do not believe that a lot of money is laundered through casinos. If one takes the turnover of casinos one could end up with estimates of about €600 million. However, if one looks closer at the number of visitors, the average profits, the heavy controls, video taping, reporting to the tax authorities, reporting suspicious transactions and bank transfer of larger profits, one ends up with much lower estimates.

Estimates by Paauw (2005) show that only about € *1,5 million* are likely to be laundered through Holland Casino. And to use illegal casinos for laundering would not be possible, since the money would then still stay illegal.

Trust companies, money exchange offices and money transfer agencies, are all likely sources for laundering. But one would at maximum arrive at a sum of, say €3 billion of illegal money. Then there is also the underground banking sector. Estimates show that at least 188 million leave the Netherlands through informal channels per year through underground banking.

Smuggling money cash out of the country is also limited in size because currency weighs heavy. To sell 22 pounds heroin for one million dollar would result in 250 pounds of cash. In 1999, there were about € 20 million cash confiscated from 231 people caught. In comparison, drugs confiscated at customs were € 1 billion due to latest reports.

Dutch criminal money laundered that can somehow be traced, amounts to approximately the same volume of criminal money that is generated in the Netherlands. But the huge inflows of it must be elsewhere.

Given the relative small size of the Dutch economy compared to the large amounts from illegal money flowing through it every year, there are basically only three possibilities where the money can be. First, it can sit in the real estate sector which is non transparent and large in volume. Its value in 2004 was €1233 billion. Second it can hide and intermingle with regular import and export business. Third it can flow through special purpose entitities (bijzondere financieële instellingen, BFIs).

Special Purpose Entities are often off-balance sheet, bankruptcy remote, and private. They can easily be used for both legitimate and illegitimate uses. Several structures lend themselves to money laundering, disguising loans as revenue to misstate earnings, concealment of losses, embezzlement, and other accounting improprieties. Financial scandals in which special purpose entities

were allegedly abused, include Banco Ambrosiano, BCCI, Enron, AIG, and Parmalat – to name only a few.

Special purpose entities have a turnover of eight times the Dutch economy

Special Purpose Entitites are not included in the Dutch statistics, namely the balance of payments, and have a turnover of about € 4000 billion per year. This amounts to eight times the Dutch economy! BFIs collate funds (this can include profits, losses, debt or equity) for multinational companies worldwide and redistribute these receipts to subsidiaries domiciled in other jurisdictions. Financially, a large amount of money laundering appears to take place using the tax-neutral facilities and services of the Netherlands. Even if only a half percent of money flown through this channel were laundered, this would more than explain our missing amounts.

A deeper study of the real estate sector, the import and export businesses and of special purpose entities seems necessary in order to trace large criminal flows in the Netherlands.

0.6 The Netherlands is a transit country for crime and criminal money

The Netherlands is a transit country for crime. Dutch expertise in financial *logistics* and its excellent location make the Netherlands a perfect place to use existing legal nodes and networks for crime. The international position of the Netherlands as a trading nation in legal markets also makes it attractive for international illegal trading, with criminals hiding their gains, goods and services in the overall trading network. Many forms of organized crime have to do with international smuggling activities – drugs, human trafficking, women for prostitution, arms, stolen vehicles, cigarettes – and other transnational illegal activities such as money laundering and fraud.

Family ties are important for international criminal associations. Good Dutch infrastructure combined with effective transnational social links and kinship networks help the Colombian cocaine, Turkish heroin and Moroccan hashish trade and make the Netherlands an important transit country for drugs in Europe (Kleemans 2004, p.308). This is in addition to locally produced synthetic drugs that are illegally traded worldwide.

0.7 What are the effects of money laundering?

This brings us to the question about the effects of money laundering for the Netherlands. In chapter 4, we identify 25 potential effects that money laundering can have. From the literature, we consider the following the most important for the Netherlands (see Chapter 5):

Company losses through crime are € 2 billion a year

- *Losses due to crime* related to money laundering. Company losses through crime are about € 2 billion per year. The economic, social and political consequences of drugs account for about 0.4% of GDP per year.

- Distortion of Investment, in particular in *the real estate sector*. A lot of money laundering seems to finally end by investing large amounts of wealth in real estate. This sector is less transparent than financial

markets, legal persons can act instead of physical persons and the value gains are high involving the placement of large volumes of wealth.

- Growth effects from money laundering are in principle positive for the Dutch (see chapter 6). One billion of additional money laundering leads to *about 0.1% more growth.* As long as the Dutch can profit from being a transit country of criminal activities and criminal financial flows, they will most likely rather profit than suffer from these activities. The same most likely will hold true for employment, especially in the financial services sector.

- However, if money laundering attracts more crime, the growth effect will turn negative. If money laundering leads to an increase in one million more crime cases, then growth will fall by about 0.3% points. This brings us to the dangers of money laundering.

0.8 The long term dangers of money laundering

As long as a country takes the benefits from crime, by accepting the money from laundering but keeping the crime abroad, it free rides on crimes committed in other countries. This may not be a particularly moral position, but economically speaking, it carries no disadvantages. However, from different studies (see for example Masciandaro's work for Italy), we know that criminal money will eventually attract crime. Even if the acceptance, or tacit approval of money laundering seems like a smart short term strategy for rich countries in order to attract additional capital inflows, increased government revenues, a more buoyant business sector, employment and growth, it is a ticking time bomb in the long run.

Criminal money is a ticking bomb in the long run

Criminal money attracts crime. Criminals come to know a country, create networks and eventually also locate their criminal activities there. For the Netherlands we estimated that the money laundering multiplier is 1.1 to 1.2. This means that if one million of additional proceeds from crime will be laundered and partly reinvested into further illegal activities, this *will increase laundery related crime* by *10 to 20%* resulting in € 1,1 to 1,2 million of money laundering (see chapter 6).

Furthermore, money laundering always needs some assistance from local third parties such as lawyers, notary publics and corrupt officials – the generous customs officer who discretely overlooks the suitcase full of cash, the friendly bank clerk who is not that diligent with proof of identity documentation or fails to report suspicious transactions. Generally speaking, money laundering always necessitates third party involvement from oversight to outright bribery and corruption. However, the latter end of the spectrum of third party involvement –bribery and corruption – is rare in the Netherlands. Several police corruption reports demonstrated that there is *very little bribery* in the Netherlands. Only 25 cases out of 1600 investigated by the Bureaux of Internal Affairs from 1999-2000 showed any sign of corruption. But we also know from international studies that one million euro of money laundered needs approximately one additional bank employee to cooperate (see Masciandaro 1999). Yet,

inadvertent or tacit cooperation may eventually lead to corruption. Hence there is a danger that additional crime and corruption may increase if the problem is not regulated. It is important to combat money laundering even if a country has not experienced any negative effects. This remains the most appropriate strategy regardless of any short-term economic benefits that may accrue to a nation by turning a national blind eye.

0.9 Money laundering still does not pose an acute danger for the Netherlands

The Netherlands is still in the privileged position of having the choice to fight money laundering more fiercely or to wait, see and enjoy the benefits from money laundering until something serious happens. Recently however, there have been some signs of the potential dangers that money laundering might pose.

First, there was the killing of real estate agents, one supposed to have links with the Mafia. Second, the Netherlands has earned the reputation of being an attractive place for terrorist money. Third, the Dutch have developed a reputation for being a tax haven for non-residents, a status that also tends to attract criminal money. This might, eventually undermine the reputation of the financial sector and affect the integrity of financial markets. One advantage the Netherlands does have is that so far it has managed to avoid attracting highly organized crime with hierarchical structures like the mafia that exercise monopolies over certain sectors of the economy.

The Netherlands is not a Mafia run country

Crime does not settle and concentrate systematically in specific sectors

The Documentation Center for Scientific Research (WODC) has analyzed 80 cases from their monitor and found that the organization of crime in the Netherlands does not follow the "mafia" hierarchic pyramid structure with the "godfather" at the peak of the organization. Rather it involves a network of affiliated actors along with facilitators such as underground bankers, money exchangers, and forgers of documents reappearing as the main 'nodes' in the network again and again. Furthermore, crime does not settle and concentrate systematically in specific sectors. The theory that illegal business contaminates legal business and eventually `takes over`, does not seem to systematically be the case in the Netherlands. There are some sectors that are vulnerable to criminal activities, such as "horeca" (the hotel-, restaurant- and coffee shop sector), transportation, and real estate, but so far the WODC has not found any systematic sign of entire sectors run by criminals (see Kleemans 2005).

Money Laundering and Terrorist Financing Are Only Loosely Related

Money laundering and terrorist financing are only very loosely linked. Laundering means that one wants to disguise the criminal source of money and make it `clean`, whereas terrorist financing wants to make 'clean' money `dirty`. Very often, however, terrorists use the same channels to fund their activities as money launderers, such as underground banking or money exchange offices. A large part of terrorist financing can be channeled through innocent looking organizations such as charities or sport clubs. However,

terrorist activity in its own right will have an economic impact. Blomberg et al (2004) calculated that one additional terrorist event will *reduce growth* by 1.5% in the following 33 years, or by approximately *0.04% per year*. Combating terrorist financing remains an important strategy, as its overall effects are socially and economically corrosive.

> *The Netherlands is a tax haven and this makes it vulnerable to money laundering*

The Netherlands as one of the largest tax havens in Europe

International and supranational organizations, such as the OECD and the EU, reproach the Netherlands for being a de facto tax haven for non-residents. Within Europe the Netherlands is classified together with Luxembourg and Ireland as engaged in harmful tax practices. The United States even compares it with Bermuda and the Cayman Islands (Sullivan 2004).

One US commentator has recently shown that the US Internal Revenue Service (IRS) has classified the Netherlands as one of the largest tax havens in Europe. He notes that:

> '*[the] Internal Revenue Service cannot prevent companies from artificially shifting their profits to tax haven countries like the Netherlands, Ireland, Bermuda and Luxembourg. Subsidiaries in these four countries were assigned 30% of all profits of US corporations*' (Sullivan 2004, p.589).

To be a tax haven for large countries is not a bad idea per se, as long as the international community does not put sanctions on it. However, the danger of being a tax haven, is that it not only attracts legal money, but also opens the door for illegal money. It is in this sensitive issue where the greatest challenge of fighting money laundering lies: to keep the balance between trying to attract as much capital as possible, and having to sift out good money from the bad.

0.10 Anti money laundering networks: the Australian model

The Australian model was chosen by point of reference to illuminate the conditions and specificities in which Walker conducted his research. The goals of Australia's chief FIU, The AUSTRAC are integrated with reporting requirements, categories of suspicious transactions and interagency cooperation as part of an overall antimony laundering detection (AML) and risk management strategy. This provides useful points of comparison with the Netherlands's own FIU, the Office for the Disclosure of Unusual Transactions (MOT) (see chapter 7). It also shows that it would be a useful exercise to gather similar comparative information from all FATF or OECD countries and compile an inventory of AML strategies, looking at the advantages and disadvantages of each national AML regime. We conclude this chapter by examining new high-tech cyber forms of money laundering, which while currently unconventional (and thus not reported in chapter three), will pose new risk management challenges for all FIUs in the immediate future.

0.11 Money launderers have no tattoos but wear ties

The image that money laundering has with the police and with the public is still that it has to do with drug dealers, women traffickers or Mafia killers, people who often seem to like to have tattoos. However, money laundering mostly involves `white collar´ crime. Nicely dressed bankers, lawyers, notary publics, financial advisors, real estate agents, businessmen, and construction magnates; are the actors engaged in the huge transactions needed to turn criminal money into `white` money. The image of money laundering as a serious offence needs to be emphasized in the body politic, in all sectors of civil society from the citizenry to law enforcement agencies such as the police. It is necessary to concentrate on white-collar crime, on people who wear ties rather than tattoos.

ML is ranked low in the Dutch penal code

The ability of the police to pursue money launderers is constrained because the crime is ranked of lesser importance in the Dutch penal code and carries a lower penalty in comparison to predicate offences. This means that the police are not able to use the same means to detect and catch money launderers as they would for crimes that are considered worse or carry more severe penalties in the Dutch penal code. Of course this makes detection and conviction much more difficult since it limits the capacity to deploy all available resources that are needed in the fight against money laundering.

Since money laundering has not been considered a glamorous crime for police in comparison to drug offences, less emphasis has been placed on it. If fighting crime is the main concern then it makes more sense to go after the infrastructure that allows money laundering and facilitates this crime. This means that there should be a concerted effort to detect and prosecute money laundering.

0.12 The debate on money laundering in the Netherlands is preceding slowly

Newspapers look at drug trade, while political parties discuss ML in the context of tax evasion or international terrorism

There has not yet been a deep ongoing debate on money laundering and ways to counter it in the Netherlands. Within political and policy circles, different parties define and/or approach money laundering with much diversity. The newspapers mostly look at money laundering resulting from the drug trade or trafficking, while political parties discuss money laundering in the context of tax evasion or international terrorism financing. Also some reports, like the evaluation report from Faber and Van Nunen[5], tell us that financial economic crime or fraud are not considered to be very important issues for the Dutch police. They seem to prefer to prosecute drug dealers and `real` criminals rather than white-collar crime.

The debate concerning the laundering of criminal money in the Netherlands increased with the establishment of several international organizations concerned with economic crime who provided the first bench mark studies surveying flows of criminal money. One of the most prominent international organizations that highlighted the problem of criminal money internationally is the `Financial Action Task Force' (FATF). This was established in 1989 by the

[5] Faber, W., Nunen, A.A.A. van (2002). *'Het ei van Columbo? Evaluatie van het project financieel rechercheren'*. Oss: Faber Organisatievernieuwing

G7 and is housed in the same premises as the OECD in Paris, an organization to which it is closely linked. Its primary goal is to combat money laundering and financial crime. Other examples of international organizations that have been established to fight money laundering include 'The United Nations Office for Drugs and Crime' that is increasingly investigating the problem of money laundering in its own right and the 'Egmont Group', which is a network of 94 'Financial Intelligence Agencies'.

There have recently been a number of high profile fraud cases in the Netherlands. First there was the IRT affair. This affair led to an investigation on the effectiveness of Dutch police and ministries and examined alleged instances of corruption in these agencies.

In this investigation it became clear that financial investigation in the Netherlands has some flaws. The Parliamentary commission led by Van Traa[6] found that there was little communication between and within the police agencies and that the quality of police investigation often was too low. There was also the 'Bouwfraude', an investigation from a parliamentary committee.

The committee found fraud and corruption within the construction industry and between the private and public sectors. The temporary committee[7] found that there was a large black payment circuit and cartellization between several real estate agents. These cases received a lot of media attention and had some link to money laundering, which led to a temporary intensification of the debate on money laundering within the Netherlands.

1994: Anti money laundering legislation introduced MOT

In the last couple of years, the introduction of a number of new laws concerning the prevention of financial economic crime has increased the debate on this subject. The most discussed of these laws is the, in 1994 law, 'Melding Ongebruikelijke Transacties'[8] (Reporting Unusual Transactions). This law states that 'suspicious' money transactions have to be reported to a central agency. The law led to an enormous flow of reported transactions to this agency and a discussion concerning the usefulness and the efficiency of reporting suspicious transactions this way. A more recent example of new anti money laundering policy is the 2002 legislation giving the Dutch Central Bank the right to supervise money transfer agencies. This law led to a closure of approximately one third of all money transfer agencies.[9]

There has never been a specific debate in parliament on money laundering. There have been some debates on fraud[10], under which money laundering is often placed. In recent years most debates that have something to do with money laundering, were on the functioning of several anti-financial crime laws

[6] Parliamentary committee Van Traa (1996). '*Inzake Opsporing'*. Den Haag: SDU Uitgevers
[7] Temporary Parliamentary committee Bouwfraude (2002). '*Bouwfraude en corruptie bij ambtenaren'*. Letter to Parliament 28093 nr. 22, Den Haag, 24 January 2002
[8] Other examples of new or improved laws concerning this subject are the 'Wet op de indentificatie bij dienstverlening' (Law on identification at the services-sectors) and the 'Wet op de geldtransactiekantoren' (Law on money transfer offices)
[9] According to the Minister of Finance, Zalm, in the parliament debate 17050, nr. 256
[10] See for example the debate in parliament on the 2nd of December 2003, called 'Abuse and improperly use in the field of taxes, social security and subsidies' (Misbruik en oneigenlijk gebruik op het gebied van belastingen, sociale zekerheid en subsidies) (17050, nr. 256)

and on the Dutch national casino (Holland Casino). It is often suggested by newspapers and members of parliament that large amounts of money are laundered at casinos and that the state does not do enough to counter this. The management of the Holland Casino and the Minister of Justice have denied these accusations.

On May 11 2004 the Ministers of Justice (Donner) and Finance (Zalm) sent a letter[11] to parliament in which they stated that investigations into suspicious financial transactions have to be improved and that there should automatically be a financial investigation in large cases against criminals.

All Dutch political parties agree that money laundering should not be tolerated and that the Dutch and European governments should increase their efforts to counter money laundering. Between parties there are some differences between how they look at money laundering.

The 'Christen Democratisch Appèl' (Christian Democratic Party) places money laundering under fraud and points to the fact that the Netherlands rate highly on Transparency International's listing of least corrupt countries. They want increased investigations into money laundering and more responsibility from citizens concerning this subject. The CDA on the other hand does not believe in additional laws; 'Better maintenance (of the law) stands first. However, more legislation and controllers, reports and institutions are not the solution. It is about enforcing and maintaining current laws'.[12]

On the website of the 'Partij van de Arbeid' (Social Democratic Party) and in the party program, there is little to be found on money laundering policy. From recent political debates it becomes clear that the PvdA stands for reinforcement of the prosecution of money laundering and fraud. The PvdA also proposes improved organization of prosecution capacities and investment in additional resources that help in the fight against money laundering rather than leaving it to the benevolence of individual public servants[13].

Crucial new laws against ML to prevent terrorism

The 'Volkspartij voor Vrijheid en Democratie' (Conservative Liberal Party) see money laundering as an international problem and state that 'organized crime (and therefore also money laundering) is a growing problem in Europe [14]. The VVD is for a more effective and more decisive European wide anti-money laundering policy. It says that members of the European Union should not wait with crucial new laws against money laundering to prevent terrorism; they should introduce them immediately.

[11] Press release of the letter from the Ministry of Justice and Finance to parliament '*Meer aandacht voor vervolging en opsporing van witwassen'* on the 11th of May 2004 (www.minjus.nl)
[12] Freely translated from an email of the CDA party office ('Betere handhaving staat voorop. Nog meer regelgeving en controleurs, verslagen en waakhonden is echter niet de oplossing. Het gaat om uitvoeren en handhaven van wat afgesproken is.')
[13] Debate in parliament on the 2nd of December 2003, 17050, Nr. 256. PvdA was represented by Mr. A. Wolfsen
[14] Translated from an email of the party office of the VVD ('Georganiseerde misdaad is een groeiend probleem in Europa…')

The 'Socialistische Partij' (Socialist Party) also considers money laundering more of a problem that should be countered on a European level. The SP mostly talks about money laundering as a problem that facilitates tax evasion in contrast to many other parties who mention drug trafficking or terrorism; 'The Netherlands should turn against the laundering of black money and take the initiative to prevent tax evasion. On a European level there should be more measures and more pressure put on tax havens like Luxembourg'[15].

The 'Lijst Pim Fortuyn' (a progressive liberal party) is not only for maintaining the 'Pluk-ze-wetgeving' (Dutch laws which state that the criminal should financially compensate as much as possible for the damage their actions have done), but also for heavier punishment of financial economic crime; 'Money laundering is an economic offence and should be punished very hard, like in the US.

Financial-economic crime is just as damaging as normal crime and thus needs to be punished as severely as normal crime.'[16] The detection of these offences must also be improved.

'GroenLinks' (Green Social Democratic Party) indicate that all political parties agree on the fact that money laundering is forbidden and that it should be countered. GroenLinks made a big point of money laundering at Holland Casino, because '*we think that it is very bad that the government is involved in this*.'[17]

'Democraten '66' (Liberal Democratic Party) proposes in its party program for an 'extension of the powers of Europol and European legislation concerning the most important cross-border offences, like the trafficking in human beings, the trafficking of drugs, money laundering and environmental offences'[18]. D'66 also mentions that during this extension, the protection of suspects and the other key standards of the Dutch rule of law must be guaranteed.

[15] Freely translated from the party program of the SP 'Actieprogramma SP 2003-2007' (www.sp.nl) ('Nederland moet zich keren tegen het witwassen van zwart geld en het initiatief nemen om belastingontduiking te voorkomen. Er dienen in Europees verband maatregelen getroffen te worden om meer druk te zetten op belastingparadijzen als Luxemburg'.)
[16] Freely translated from an email of the LPF party office ('Witwassen is een economisch delict en dient net als in de VS keihard bestraft te worden. Witte boorden criminaliteit is net zo erg als gewone criminaliteit en dient net zo hard gestraft te worden.')
[17] Freely translated from an email of the GroenLinks party office ('GroenLinks heft hier (witwassen bij Holland Casino) een groot punt van gemaakt omdat wij het zeer kwalijk vonden dat de overheid hier bij betrokken was.')
[18] Party programme D'66 '*Verkiezingsprogramma 2002-2006'*, chapter 3 Defence (www.d66.nl) ('…een uitbreiding van de bevoegdheden van Europol en Europese regelgeving over de belangrijkste grensoverschrijdende strafbare feiten, zoals mensenhandel, drugssmokkel, witwassen en melieudelicten.')

0.13 Money laundering in the media

Dutch national newspapers once in a while write something about money laundering. However, the newspapers often write the largest part of their articles on the crime preceding money laundering (for example drugs trade), and only a small part on the money laundering itself. In the last couple of years there were several cases, involving money laundering which received a lot of media attention. These cases were very different from each other. The most recent case involving money laundering concerned 'Air Holland'[19] (a Dutch airline company). 'Air Holland' is suspected of having traded and transported drugs for several years. 'Air Holland' supposedly laundered a lot of money earned by these criminal activities and reinvested it back into its own company in a classic, textbook like, money laundering operation.

Another example of a case involving money laundering is Indover Bank[20]. In January 2005 this Amsterdam based bank received heavy internal criticism from its parent company, Bank Indonesia. Bank Indonesia had completed internal investigations revealing that there had been corruption, fraud and money laundering at Indover Bank for years. In its response and in its own subsequent investigation Indover Bank refuted these allegations.

The Dutch National Bank has also looked into this case and did not find any evidence for these serious accusations. Still, the Indover Bank's reputation has been damaged.

There were also some cases which linked money laundering to terrorism. An example of this is the 'Mansoor'[21] (name of the Dutch police dossier) case. In this case an owner of a small video store was suspected of being the central person in a large international money-laundering network. This network had some connections with terrorist organizations for which they also laundered money. Several newspapers stated that the organization frequently used the Dutch national casino for laundering these funds.

Sometimes there were articles on money laundering and organized crime. At the end of 2004 the police investigated the 'Barazani group'[22]. This group, consisted of many companies, and held a significant portfolio of real estate in central Amsterdam. The group is suspected of being a part of a money-laundering network linked to organized Israeli crime syndicates.

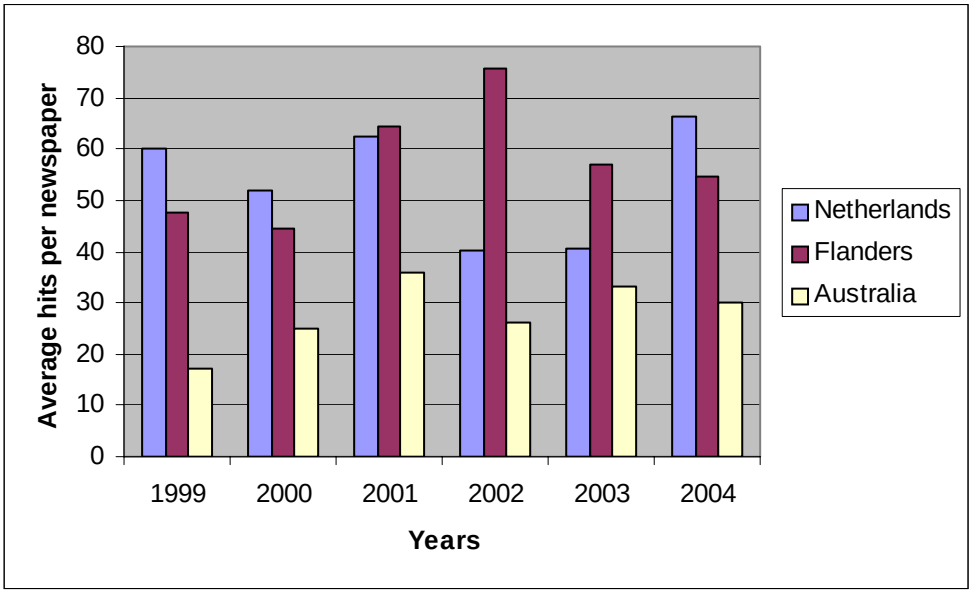
[19] For examples look in the 'NRC Handelsblad' of the 28th of April, page 3 or the 'Volkskrant' of the 11th of December, page 25
[20] Articles on this case are for example in the 'Financieel Dagblad' of 31st of January or the 'Parool' of the 6th of December, page 21
[21] Examples are in the 'Parool' of the 27th of November 2004, page 99 and the 'NRC Handelsblad' of the 11th of June 2004 on page 2.
[22] For example look in the 'Telegraaf' of the 22nd of January 2005, page 15 or the 'Parool' of the 2nd of December 2004, page 12

These were some of the examples of the diverse cases reported in the media in recent years. There was not much debate in the newspapers on money laundering and the fight against it as an independent topic in its own right. The only parliamentary debate was on amendments to the 'Melding Ongebruikelijke Transacties' (MOT) legislation and on Holland Casino.

Newspapers only report 10 times per year on ML

The Flemish newspapers wrote on money laundering average 58 times per newspaper per year in the period 1999-2004[23]. For the Dutch national newspapers this number was 54 in the same period[24]. While the Flemish newspapers had the highest amount of articles on money laundering in 2001 and 2002, the Dutch newspapers wrote the most about money laundering in 2004. This different distribution might have been caused by the high national profile these money laundering cases were given, as mentioned above. In Australia, one of the leading countries in the world in the fight against financial economic crime, money laundering is mentioned 28 times on average in national newspapers in the same period[25].

Graph 0.1: Money Laundering in newspapers



Source: LexisNexis (Netherlands), Mediargus (Flanders) and Factiva (Australia)

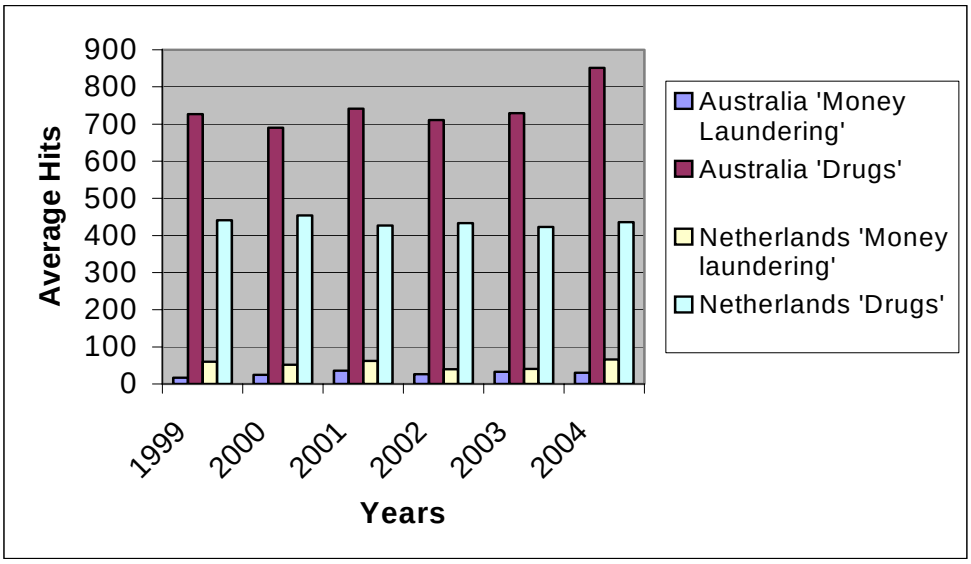
Newspapers report 80 times per year on drugs

In comparison to money laundering, drugs have received far more media attention in all three countries. In the Netherlands 'drugs' are mentioned 436 times on average per newspaper per year in the period 1999-2004[26].

[23] Looked with the Mediargus search machine in the Flemish (Dutch-speaking part of Belgium) national newspapers for the word 'witwassen' (money laundering).
[24] For the Netherlands the LexisNexis database was used to search for the word 'witwassen' (money laundering) in all Dutch national newspapers.
[25] The Factiva database was used find articles on 'money laundering' in all Australian national newspapers.
[26] The LexisNexis database was used to track all incidents of the word 'drugs' in aand looked for the word 'drugs' in all Dutch national newspapers.

The difference in Australia was even greater. In Australia there were on average 742 hits on 'drugs' per newspaper per year[27].

Graph 0.2: Drugs and money laundering in the newspapers



Source: LexisNexis (Netherlands) and Factiva (Australia)

After the terrorist attacks on September 11th 2001 in the United States the debate on money laundering changed. Before the terrorist attacks there was more attention to tax evasion and fraud in combination with money laundering.

After these attacks terrorism and terrorist financing have become more important in the debate on money laundering. The international organizations have also focused more on the laundering of money by terrorist organizations.

From the debate of money laundering in parliament and in the media, we conclude that the image of money laundering as financial crime that can harm per se, has to be more accentuated. Though it is important that money laundering comes from criminal activities, it is even more important, that money laundering is a crime per se and might lead to ever more criminal activities, in particular, to more white-collar crime. More information of the public on this contamination effect of money laundering is needed.

[27] The Factiva database was used to track all incidents of the word 'drugs' in all Australian national newspapers for the period 1999-2004

1. THE DEFINITION OF MONEY LAUNDERING

1.1 An overview of existing definitions of money laundering

In order to estimate the amount and the effects of Money Laundering (ML), it seems wise to first clearly define the subject. The huge differences of the estimated amounts of money laundering calculated by international organizations and by national research institutes can partly be explained by the fact that they simply speak about different things.

The definition of money laundering is ambiguous

The term "Money Laundering" is derived from the habit of the gangster Al Capone funneling his ill-gotten gains through launderettes to construct the pretence of a legitimate income (van Duyne, 2003, p. 73). This metaphor of dirty money, income, proceeds or whatever being washed in order to become white or clean, is still adequate for all definitions of money laundering. But, the definition of money laundering is more ambiguous than one would expect it to be. What precisely is being laundered, and how? Here experts from law, economics and political or international organizations seem to have different views. This makes the debate on money laundering more cumbersome than it needs to be and urges for shedding some light into the subject by pointing out the common traits and differences between money laundering definitions.
In order to construct a universal definition of money laundering we collected the definitions used by different scientists, (international) organisations and legislations and compared them with one another. We started with the legislations of the Netherlands, the European Union and the United Nations (these definitions are presented in appendix 1 as respectively number 1, 2 and 3), because these are the legislations applicable for the Netherlands. Definitions were then collected from international organisations such as the FATF, IMF and World Bank, Interpol, IOSCO, IFAC and the Australian Institute of Criminology Research and Public Policy Series (respectively number 4, 5, 6, 7, 8 and 9). Definitions from several scientists' research are also used.[28] Included are definitions by the following scientists: Kleemans, Brienen and van de Bunt (WODC 2002); Savona (1997); Graham (2003); van Duyne (2003); Walker (1995) and Cuéllar (2003) (respectively number 10, 11, 12, 13, 14 and 15). We also included definitions derived from the Conference on Global Drugs Law (1997) and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (1990)[29] (respectively number 16 and 17) in our research. Finally, we included the definition found in a Reagan Administration report (number 18), because of its early appearance in 1984. (See Appendix I)

[28] When the literature adopts the definition from an international organisation that is already stated (especially FATF is commonly used), this definition is not included in our research.
[29] The definition of Money Laundering was not changed in the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 2005

1.2 A structural linguistic analysis of the money laundering definitions

The first characteristic that seems to stand out in this research is the large variety of definitions. The eighteen definitions use different words and have different meanings. We tried to classify the definitions according to three aspects, which they all seem to share: an activity, a subject and a goal. Although these three aspects sometimes overlap a bit,[30] this structuring seems to be an ordered distinction, which aids in giving a clear overview of the underlying themes of each definition.

In Appendix II, we marked those parts of the definition that describe the activity in yellow (in light grey if you have no coloured print out). The activity is the action that is taken to achieve the goal; this can be seen as the illegal or criminal part of money laundering. As can be seen in Appendix II, definitions of money laundering do not seem to concern only money. Some of the definitions include terms such as proceeds and property. For this reason we included the subject in the overview, which we highlighted green (or middle grey in case that you have no coloured print out version). Although it is not interesting for legal purposes, almost all definitions describe why the action is taken[31]. This aspect, the goal of money laundering, also has many differences, and is marked blue (or dark grey in the non coloured version). To be sure there are no other interesting aspects that we are missing in the definitions, we colour coded each of the three aspects in each definition. As one can see, this structural linguistic composition of definitions into activity, subject of the activity and goal of the activity is all encompassing. There is little left in the definitions that is not marked by one of the three colours. If one takes a closer look at each aspect, it becomes much easier to understand the underlying differences in the definitions.

1.2.1 The activity of money laundering

There are two kinds of definitions with regard to activities. First there are definitions that do not define exactly which action must be taken for money laundering to occur; typical words in these definitions are: a process and an activity. In the table of appendix III, in the first column, the activities mentioned are listed. One can see that the definitions of FATF (1996), IFAC (2001), Savona (1997), Walker (1995) and Cuéllar (2003) fall under this category, to give some examples. The second category describes exactly which actions are considered as money laundering. The best example of this is found in the Dutch penal code (2004): "Hiding or disguising the true origin, the source, the alienation, the movement or the place where it can be found." This is the longest and most detailed description of activities in our list. It is not always clear what the dominant category is, because there is partly an overlap between the activity and the goal. (This is the fact in the definition of the Dutch Penal code where the "hiding or disguising … the place where it can be found" can be seen as the activity, but also as the goal.

Dutch penal code: 'hiding' or 'disguising'

[30] The activity and the goal overlap in definitions 1 and 13.
[31] This is ambiguous for definitions 1, 13 and 14.

The same applies for the definition of van Duyne where "falsely claiming a legitimate source" is the activity, but the goal can be seen as the "claiming a legitimate source".)

1.2.2 The subject of money laundering

Although there seems to be many differences in the subject, all of these differences can be whittled down to two questions: Is the subject only money or is it more than that? Is the source of the subject illegal or criminal?

Is the subject only money or is it more than that?

One would assume that money laundering only concerns money. But as a comparison of our definition shows, the term money is only mentioned five times in the seventeen definitions. So, what concepts are used in all the other definitions? Words like proceeds and property are often mentioned.[32] We distinguished the subject of money laundering by dividing it into stocks (i.e. the accumulated amount of assets or property in a specific point in time) and flows (i.e. the annual flow of proceeds). Money can be both, it can be an accumulated stock of hoarded money under the bed and it can be a flow, the yearly amount demanded and supplied in an economy. The distinction of subjects into stocks and flows is shown in the table in appendix IV. As one can see, the subject in about half of the definitions is a stock and in the other half a flow. Or to be more precise, the subject in 5 of the definitions is a flow; in 5 definitions a stock and in 8 definitions it is not clear whether the terms used ("money", "advantage", "object") are referring to a stock or a flow. In particular, the most important term involved in money laundering, money itself, does not allow us to distinguish between stocks and flows.

Tax evasion can be illegal but not criminal

Does it concern an illegal or a criminal act?

When we try to answer this question we can easily start by just counting how many times the term illegal is used and how many times the term criminal is used.[33] As can be easily seen in the table in appendix IV, the term illegal is used 6 times and the term criminal 12 times.

Nevertheless, the global consensus is that illegal money is money that has not been reported to the tax office, while criminal money is the money that is gained from criminal behavior. The global consensus is that the term illegal is a broader concept than the term criminal.[34] To decide which concept is the best in a universal definition of money laundering one must ask the question: Should illegal money or criminal money be taken in account when estimating the total value of money laundering?

[32] Proceeds are mentioned 4 times and property is mentioned 5 times.
[33] Synonyms for illegal and criminal are replaced by the words illegal and criminal respectively.
[34] According to Emile van der Does, a law expert at the Dutch ministry of Finance.

1.2.3 The goal of money laundering

The goal of money laundering is irrelevant in the principles of law, since the law describes which activity is criminal, without being concerned with why this activity is taken. Nevertheless, a goal can be extracted in all definitions presented in the appendices, except one.[35]
The goals mentioned in the definitions can be put into two categories, which make the differences between the goals surprisingly clear. A person commits the crime of Money Laundering to (1) make the subject appear legal and/or (2) to hide the illegality of it. In the table in appendix IV, 'hide the illegal nature' of the subject is mentioned 8 times, 'make it appear legal' 4 times and a combination of these two is also mentioned 5 times. This takes us to the logical question: What is the difference between 'make it appear legal' and 'hiding the source of it'? Making it appear legal seems to be a more active act than hiding the source.
As can be seen in appendix IV all the international organizations and legislations point out that only hiding the source is enough to be guilty of Money Laundering. This makes sense in the way that this could make it easier to accuse someone of Money Laundering.

Relevance of the Linguistic Analysis

The analysis provided above was an overview of definitions of money laundering as spelled out by various legal instruments, political organizations and economists/academics. The analysis served to reveal significant differences in definitions in terms of the subject, source and goals of money laundering. First of all, the differentiation of the subject of money laundering into stocks and flows will be of particular relevance to economists in estimating the amounts of money laundering. The additional differences identified (*i.e.* illegal v. criminal money; making it appear legal v. hiding the source) might at first sight appear less interesting to economists but a closer look reveals that given potential repercussions, they should not be easily dismissed. The way money laundering is defined impacts what aspects are taken into account and included when estimating the amounts, the size of the phenomenon. For example, a definition of money laundering referring to 'making money appearing legal' is less inclusive than a definition referring simply to 'hiding the criminal nature.' The former refers strictly to more active acts whereas the latter could include both active and passive acts. For instance, hiding stolen money under the bed or using stolen money to buy a painting for personal gratification and hanging it in one's house would qualify as 'hiding the illegal nature' but not as 'making money appear legal.' Such actions do not involve an active effort and intent to portray illegal funds as legal. Consequently, the acts described above would not be included into money laundering estimates, which define money laundering as an activity pursued with the aim of making the money appear legal. Such estimates would potentially only take into account criminal money moved through financial institutions involving the three traditional stages (*i.e.* placement, layering and integration).

Buying a painting with stolen money would qualify as 'hiding the illegal nature'

[35] The goal is ambiguous in the definition of Walker (1995).

Similarly, the distinction between illegal and criminal money becomes relevant. Different numbers will be obtained if one includes both illegal and criminal money in the calculation or alternatively, only one of these two types of proceeds.

In this context, the differences in definitions identified in our analysis are particularly worrisome given the trans-national character of the crime of money laundering. By using different definitions, various jurisdictions, experts and international organizations will reach different conclusions and will make different estimations of the same phenomena.

This creates significant problems in terms of international exchange of information as well as distortions of economic statistics (*i.e*. underestimations or overestimations). The distortion of statistics is particularly worrisome given that statistics form the basis for economic, legal and economic policies. From an economics point of view, the distortion of economic statistics can have drastic implications for the soundness of economic policy adopted as a consequence thereof (see also chapter on effects).

1.3 Problematic legal aspects relating to money laundering definitions

There's no significant difference among legal definitions

The structural linguistic analysis of definitions did not reveal any significant differences among legal definitions. As can be observed from Appendix IV, the first four definitions, are legal definitions –Dutch Penal Code, EU Directive, UN, FATF (soft law)—and are in agreement with regards to the subject, source and goal of money laundering. There are however, some subtle differences among legal definitions of money laundering, which do not come across at first sight through a linguistic analysis but which, are nevertheless extremely relevant. These aspects will be discussed at length below.

With regards to legal definitions of money laundering, the most problematic aspects relate to predicate offences (*i.e.* the criminal offences which generated the proceeds thus making laundering necessary). From a legal point of view, hiding/disguising the source of money will of course, not amount to money laundering *unless* these funds were obtained from a criminal activity (*i.e*. predicate crime). Therefore, what exactly amounts to money laundering, which actions and who can be prosecuted is largely dependant on what constitutes a crime for the purpose of money laundering.

The history of legislation of money laundering began with the criminalization of proceeds of drug related offences, as provided by the Vienna Drug Convention. Thus, originally the only predicate offences for money laundering were drug-related crimes. That is to say that initially, the only offenders that could be prosecuted for money laundering were offenders attempting to launder the proceeds derived from the production and sale of narcotics. However, in line with the FATF Recommendations and the provisions of the EU Directive, many states have introduced the criminalization of laundering money derived from other sources, not only drugs.

Revised Article 1 (E) of the 2001 EU Directive, which has to be implemented by the EU Member States, defines as predicate offences 'any kind of criminal involvement in the commission of a serious crime.' The directive identifies as 'serious crimes': drug trafficking (as defined in the Vienna Convention), organized crime (as defined in the 1998 EU Joint Action), fraud (as defined by the EU fraud Convention, corruption and *offences which may generate substantial proceeds and are punishable by a 'severe sentence' by Member States.* The last provision is extremely broad and unclear and given that no guidance is given as to the exact interpretation of these terms, this can lead to substantial differences in terms of predicate offences among Member States. (Mitsilegas, 2003)
Hence, the problem is that, despite harmonizing efforts at both European and international level, national legislations criminalizing money laundering continue to differ. Most countries have criminalized serious offences but have nevertheless, adopted different approaches to what constitutes a serious crime for the purpose of. Thus, the predicate offences that generate proceeds vary from one country to another as follows (Ping, 2004):

(i) all predicate crimes (The Netherlands), or those that might be tried in a higher court (e.g. Australia, Finland, Italy and UK)

(ii) crimes with a specified minimum period of imprisonment e.g. Austria (greater than three years), New Zealand (greater than five years), Switzerland (greater than one year)

(iii) a list of predicate offences e.g. Canada (45 crimes), Greece (20 crimes), USA (130+ crimes)

Relevance of the Issue

What is seen as ML in Canada, might not be seen as such in Greece

The situation outlined above is indicative of considerable divergences in national definitions of money laundering. This is extremely problematic given the trans-national character of the money laundering crime. It reveals that what might constitute money laundering in Canada might not amount to the same in Greece, given the shorter list of predicate offences in the latter. Similarly, a person that could be prosecuted for money laundering in Switzerland might not be able to be prosecuted in Austria. Given such differences among jurisdictions, in a situation where the predicate crime (e.g. trafficking in endangered species) took place in one country but the proceeds derived thereof were laundered in another country serious problems concerning investigation and prosecution could arise. This is due to the fact that most domestic legal systems impose double criminality requirements. As pointed out by Stessens (2002, 14) "a limitation of the application field of a money laundering incrimination to some predicate offences is prone to cause technical legal difficulties which may impede the fight against money laundering (...) The variety of the domestic money laundering laws relating to the range of predicate offences may hamper international co-operation for lack of double criminality."

The condition of double criminality means that the "predicate activities, which generated the proceeds constitute an offence under the law of both the state where they were carried out and under the law of the state where the proceeds were eventually laundered. If state A has jurisdiction over money laundering acts that concern the proceeds from an activity in State B, most legal systems require that these predicate activities are both incriminated in State A and State B." (Stessens, 2002, 227) The double criminality requirement owes its existence to two primary considerations. First of all, it makes little sense for a jurisdiction to prosecute certain behavior as criminal if it is not regarded as such under domestic law.

The second consideration flows from the legality principle. It would be unacceptable and unfair for State A to punish someone for activities conducted in State B, if those activities are perfectly lawful under the law of State B. The double criminality requirement is adhered to in most European jurisdictions. For example, in the Italy the condition that the predicate offence must be a crime both under national jurisdiction as well as *lox loci delicti* follows from parliamentary *travaux preparatoires*. In Belgium this condition follows from established case law, whereas in Germany and Luxembourg it is explicitly stated in the definition of money laundering. With regards to the Netherlands although there is no jurisprudence on the topic, nor any discussion of the issue in parliamentary *travaux preparatoires*, one can assume the existence of implicit double criminality. [36]

Thus, as long as there are differences among countries in terms of what constitutes a predicate offence to money laundering, situations could arise where one jurisdiction could not prosecute someone for money laundering due to the fact that the predicate offence was committed in another jurisdiction, which does not list the respective crime as a predicate offence to money laundering. In such a situation, one of the most important elements for the offence of money laundering will be absent, namely that the funds were obtained from a criminal activity. Hence, it would not give rise to prosecution. Given the double criminality requirement, as long as divergences remain in place among various states in terms of the scope of predicate offences, the efficacy of the international fight against money laundering will be seriously jeopardized. Consequently, "the fight against money laundering should be a common effort by the international community and the laws governing money laundering crime in various countries should be as similar as possible." (Ping, 117)

Adopt a very broad approach to predicate offences?

One possible way to address the problems outlined above would be to adopt a very broad approach to predicate offences, to expand their scope as much as possible. This would increase the chances that the double criminality requirement would be satisfied thus, leading to international efficacy of law enforcement actions. Additionally, a broader list of predicate offences would also lead to increased effectiveness in the domestic legal context (*i.e.* the predicate offence was committed within the same state as the money laundering offence).

[36] For more information on this issue see Buruma/Verrest, Introductie Internationaal strafrecht, Ars Aequi Libri, Nijmegen 2004

In the contrary situation, important areas relating to laundering would remain unregulated and would thus, proliferate. As Stessens (2002, 14) points out " the original limitation of the application field of the incrimination of to drug offences, or to the most serious predicate offences, was often justified by an economics argument, namely that the law enforcement authorities and the courts have neither the time nor the means to investigate all types of money laundering with regard to the proceeds of any kind of predicate offence. [However as a result of a limitation of the application field of predicate offences], not only would the laundering of the proceeds of some crime activities obviously stay immune, but the limitation could also create problems of an evidential nature.

Often the proceeds of various activities of organized crime are intermingled, with the result that the proceeds from drug trafficking cannot be separated from other proceeds or cannot even be calculated."

In light of these arguments, it appears highly desirable that the criminalization of money laundering should not be based strictly on drug-related crimes and/or the unclear, all-embracing category of 'serious crimes'. In order to ensure an efficient fight against money laundering through the criminal law system, two alternative solutions seem pertinent. One possibility, as suggested above, is for jurisdictions to extend the scope of predicate offences to cover all crimes. Such a solution would not only help circumvent some of the problems inherent in the double criminality requirement but would also seem sensible from a moral point of view. (Stessens, 2002) From an ethical perspective, it is difficult to understand why the laundering of proceeds of crimes punishable with more than 12 months of imprisonments should be criminalized and not for example, the proceeds of offences punishable with 11 months of imprisonment. An alternative possibility would be to adopt a more restrictive approach to predicate offences so as to cover only crimes generating substantial proceeds. However, this approach is viable *only in as long as* there is international agreement on a common list of offences with substantial proceeds or at least, agreement on specific and clear-set criteria for determining what qualifies as such a crime.

International convergence with regards to predicate offences to ML becomes a must

Regardless of which option is preferred, international convergence with regards to predicate offences to becomes a must. Even if one jurisdiction extends predicate offences so as to cover all crimes (*i.e.* the Netherlands), it could still encounter jurisdictional problems if the money laundering is trans-national in character and the other countries involved have not adopted an equally broad approach. Consequently, a move towards convergence would benefit not only investigation and prosecution efforts and lead to efficiency in international co-operation on criminal matters connected to money laundering but also have significant beneficial implications for the international exchange of information. A suggestion along these lines was made by the United Nations as early as 1998: "the time may have come to end the artificial division of criminal money into categories depending on the nature of the crime. As long as criminal money can be laundered legally (...) banks and brokers who are asked to launder money will argue that they thought the money was legitimate because, although criminal in nature, it came from a non-predicate offence."

(United Nations Report, 1998). A similar recommendation was also put forward the European Parliament, which warned against the adoption of a "variable geometry version of European criminal law", specifically referring to the issue of predicate offences. (EP, Report on Criminal Procedures in the European Union, 1999)

Another problematic aspect in terms of lack of a harmonized approach to money laundering at the international level is the fact that "in some countries the person who committed the predicate offence will not, according to basic principles of domestic penal law, commit a further offence when laundering the proceeds.

This can constitute a problem in the field of mutual legal assistance when it comes to determining double criminality". (Verrest, interview) Once again, there is a need for remedying this situation and adopting a more harmonized approach at the international level in order to circumvent the challenges mentioned above.

Before concluding however, a final remark deserves consideration. There has been a relatively recent change of paradigm at the international level related to the issue of predicate offences and the relationship between money laundering and terrorism. In its Second Special Recommendation on Terrorist Financing, FATF recommends countries to list terrorism as one of the predicate offences to money laundering. As explained above, predicate offences refer to the original crimes from which 'dirty' proceeds were derived and which make the laundering process necessary. Clearly, terrorism does not logically fit into this scheme. Terrorism is not a crime from which dirty proceeds are obtained and which subsequently need to be laundered. On the contrary, terrorism is usually found at the other end of the spectrum. The financing of terrorism involves money dirtying or reverse money laundering. As will be discussed in the chapter on effects, very often terrorism is financed not only with illegally derived funds but also with clean money, which was never connected to a criminal activity (*i.e*. wealthy supporters, charities). Thus, money can come from clean sources and by being used to finance an illegal activity (*i.e*. terrorism) it becomes dirty. The aim is not necessarily to separate the money from its source (*i.e.* the predicate offence) but rather from its destination (*i.e*. the terrorist act). Unlike money laundering, it does not purport to avoid detection of dirty money of past crimes but instead to primarily avoiding detection of clean money to be used for future crimes. For these reasons, listing terrorism as a predicate offence does not appear to make sense in the classical paradigm. However, as discussed in the chapter on effects, terrorism financing uses similar channels and exploits the same weaknesses in the financial system as money laundering in its aim of concealment. It is this in this connection that FATF listing of terrorism as a predicate crime to money laundering can be understood. FATF's approach of broadening the list of predicate offences so as to include terrorism was motivated by one primary consideration: efficiency. Given the interconnectedness of money laundering and terrorist financing in terms of the methods used, an artificial connection was created at the law enforcement level as well. In other words, since money launderers make use of

Listing terrorism as a predicate offence is a paradigm change in law

similar channels, enforcement authorities could now conceivably use the same conceptual legal framework for both crimes.

To sum up, with regards to legal definitions of money laundering, we notice a push for an expansion of their scope through a broadening of the list of predicate offences for the purpose of efficient law enforcement. This drive for efficiency has been taken so far as to completely alter the traditional paradigm.

1.4 Which definition will be used?

We will refine the Australian model, which will be explained later. This model uses the definition which is number 14 in appendix I. This is the definition Walker stated in 1995. Because the term money is used in this definition it is not clear the subject is a flow or a stock, but in his empirical work money laundering is estimated as a flow of money[37], so we will interpret the term money for the calculations as a flow.

The definition of Walker (1995) states that money laundering is about illicit source of moneys. Although not all empirical work uses illegal money. In our estimation of the Walker Model, we continue using illegal money, since it gives a broader idea of the situation of money laundering.

[37] Walker, John, "How Big is Global Money Laundering", Journal of Money Laundering Control, 3(1):25-37, 1999, p.26

Appendix I: Definitions of money laundering

1. Guilty of money laundering is he who hides or disguises the true origin, the source, the alienation, the movement or the place where a object can be found, or hides or disguises who is the rightful claimant of an object or has it available, while he knows/should have known that the object is – directly or indirectly – derived from a crime. (Objects are all means and property rights). [38]

2. When the following conduct is committed intentionally it is money laundering:
   - the conversion or transfer of property derived from criminal activity for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity in evading the legal consequences of his action;
   - the concealment or disguise of the true nature, source, location, disposition, movement or rights with respect to, or ownership of, property, knowing that such property is derived from criminal activity or from an active participation in such activity;
   - the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an active participation in such activity;
   - participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counselling the commission of such actions. [39]

3. A person commits the offence of money-laundering if:
   - the person acquires, possesses or uses property, knowing or having reason to believe that it is derived directly or indirectly from acts or omissions which constitute an offence against any law punishable by imprisonment for not less than 12 months;
   - or renders assistance to another person for the conversion or transfer of property derived directly or indirectly from those acts or omissions, with the aim of concealing or disguising the illicit origin of that property, or of aiding any person involved in the commission of the offence to evade the legal consequences thereof; or concealing or disguising the true nature, origin, location, disposition, movement or ownership of the property derived directly or indirectly from those acts or omissions.[40]

4. Money laundering is the processing of criminal proceeds to disguise their illegal origin.[41]

5. Money laundering is a process in which assets obtained or generated by criminal activity are moved or concealed to obscure their link with the crime.[42]

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[38] Translated from: Schuldig aan witwassen is "hij die van een voorwerp de werkelijke aard, de herkomst, de vindplaats, de vervreemding of de verplaatsing verbergt of verhult, dan wel verbergt of verhult wie de rechthebbende op een voorwerp is of het voorhanden heeft, terwijl hij weet/redelijkerwijs moet vermoeden dat het voorwerp – onmiddellijk of middellijk – afkomstig is uit enig misdrijf. " (Voorwerpen zijn alle zaken en vermogensrechten). Source: Dutch penal code (Nederlands Wetboek van Strafrecht) article 420bis, 420quater en 420ter at 18 October 2004.

[39] Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of Money Laundering [Official Journal L 166 of 28.06.1991]. Amended by: European Parliament and Council Directive 2001/97/EC of 4 December 2001 [Official Journal L 344 of 28.12.2001].

[40] United Nations Office on Drugs and Crime (UNODC), UNODC model money-laundering, proceeds of crime and terrorist financing bill, 2003

[41] Financial Action Task Force (FATF) on Money Laundering, The Forty Recommendations, 1996, p.1 (these recommendations are revised in June 2003, but this revised version did not present a (new) definition) (online available at: www.oecd.org/fatf/40recs_en.htm)

6. Money laundering is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources.[43]

7. Money laundering is a wide range of activities and processes intended to obscure the source of illegally obtained money and to create the appearance that it has originated from a legitimate source.[44]

8. Money laundering is the process by which criminals attempt to conceal the true origin and ownership of their criminal activities.[45]

9. Money laundering is the process by which the proceeds of crime ("dirty money") are put through a series of transactions, which disguise their illicit origins, and make them appear to have come from a legitimate source ("clean money"). [46]

10. Money laundering is all acts that are needed to give money from criminality an apparent legal source. [47]

11. Money laundering is an activity aimed at concealing the unlawful source of sums of money.[48]

12. Money laundering is the process by which the proceeds of crime are converted into assets which appear to have a legitimate origin, so that they can be retained permanently or recycled into further criminal enterprises.[49]

13. Money laundering is falsely claiming a legitimate source for an illegally acquired advantage.[50]

14. Money laundering is the process by which illicit source moneys are introduced into an economy and used for legitimate purposes.[51]

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[42] International Monetary Fund, The IMF and the Fight against Money Laundering and the Financing Of Terrorism, A Fact sheet, September 2004 (http://www.imf.org/external/np/exr/facts/aml.htm), the IMF worked together with the World Bank on this, the World Bank adopted the same definition.
[43] Interpol General Secretariat Assembly in 1995 (http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/default.asp)
[44] International Organization of Securities Commissions (IOSCO) Technical committee, Report on Money Laundering, October 1992, No. 25
[45] Article from the article and speeches library of the International Federation of Accountants (IFAC), Money Laundering and Frauds – Changing Expectations From Accountants, Accounting Profession Issues and Trends, by M A Baree, FCA, President, Institute of Chartered Accountants of Bangladesh, SAFA conference at Goa, India, October/December 2001 (online: http://www.ifac.org/library/ speecharticle.tmpl?nid=1023137314174201)
[46] Graycar, Adam and Peter Grabosky, Money Laundering, Australian Institute of Criminology Research and Public Policy Series, Money Laundering in the 21st Century: Risks and Countermeasures, Seminar held on 7 February 1996 Canberra, Australia
[47] Translated from: "Witwassen is het geheel van handelingen dat nodig is om gelden die afkomstig zijn van criminaliteit een ogenschijnlijke legale herkomst te geven." Source: Kleemans, E.R., M.E.I. Brienen, H.G. van de Bunt, Georganiseerde criminaliteit in Nederland 198, WODC, Ministerie van Justitie, 2002, p.127
[48] Savona, Ernesto U., Responding to Money Laundering, ISPAC, 1997, p.3
[49] Graham, Toby, Butterworths, International guide to Money Laundering law and practice, second edition, 2003, p.1
[50] Duyne, P.C. van, K. von Lampe and J.L. Newell (ed.), Criminal Finances and organizing crime in Europe, Nijmegen, 2003, p. 69
[51] John Walker Consulting Services, AUSTRAC – Estimates of the Extent of Money Laundering In and Throughout Australia, prepared for the Australian Transaction Reports and

15. Money laundering is a process whereby money from crime is rendered more useful by two means: converting it into a desirable medium (i.e., a bank balance or equity in a company) and erasing its more obvious links to crimes.[52]

16. Money laundering is the process of converting cash, or other property, which is derived from criminal activity, so as to give it the appearance of having been obtained from a legitimate source.[53]

17. The conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime.[54]

18. Money laundering is the process by which one conceals the existence, illegal source, or illegal application of income, and then disguises that income to make it appear legitimate.[55]

Analysis Centre, September 1995 (http://www.austrac.gov.au/text/publications/moneylaundestimates/index.html)

[52] Cuéllar, Mariano-Florentino, The Tenuous Relationship Between the Fight Against Money Laundering and the Disruption of Criminal Finance, The journal of Criminal Law & Criminology, 93 (2-3), 2003, p. 324

[53] Paper presented by Mr. Rick McDonell, Head Asia/Pacific Secretariat, FATF, entitled "An Overview of the Global Money Laundering Problem, International Anit-Money Laundering Standards and the Word of the Financial Action Task Force" delivered at the International Conference on Global Drugs Law, New Delhi, 28 February 1997

[54] Article 1 of the 1990 European Communities (EC) Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (http://www.ex.ac.uk/politics/pol_data/undergrad/ron/ index.htm)

[55] President's Commission on Organized Crime, Interim Report to the President and Attorney General, The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering 7, a Reagan Administration Report, 1984

Appendix II: Marked definitions of money laundering

Grey letters means the activity.
SMALL CAPS means the subject of the activity.
Bold means the goal of the activity.

1. Guilty of money laundering is he who hides or disguises the true origin, the source, the alienation, the movement or the place where a OBJECT can be found, or hides or disguises who is the rightful claimant of an object or has it available, while he knows/should have known that the object is – directly or indirectly – derived from a crime. (Objects are all means and property rights). [56]

2. When the following conduct is committed intentionally it is money laundering:
   - the conversion or transfer of PROPERTY DERIVED FROM CRIMINAL ACTIVITY for the purpose of **concealing or disguising the illicit origin** of the property or of assisting any person who is involved in the commission of such activity in evading the legal consequences of his action;
   - the concealment or disguise of the true nature, source, location, disposition, movement or rights with respect to, or ownership of, property, knowing that such property is derived from criminal activity or from an active participation in such activity;
   - the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an active participation in such activity;
   - participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counseling the commission of such actions. [57]

3. A person commits the offence of money-laundering if:
   - the person acquires, possesses or uses PROPERTY, knowing or having reason to believe THAT IT IS DERIVED directly or indirectly FROM ACTS OR OMISSIONS WHICH CONSTITUTE AN OFFENCE AGAINST ANY LAW PUNISHABLE BY IMPRISONMENT FOR NOT LESS THAN 12 MONTHS;
   - or renders assistance to another person for the conversion or transfer of property derived directly or indirectly from those acts or omissions, with the aim of **concealing or disguising the illicit origin** of that property, or of aiding any person involved in the commission of the offence to evade the legal consequences thereof; or concealing or disguising the true nature, origin, location, disposition, movement or ownership of the property derived directly or indirectly from those acts or omissions.[58]

[56] Translated from: Schuldig aan witwassen is "hij die van een voorwerp de werkelijke aard, de herkomst, de vindplaats, de vervreemding of de verplaatsing verbergt of verhult, dan wel verbergt of verhult wie de rechthebbende op een voorwerp is of het voorhanden heeft, terwijl hij weet/redelijkerwijs moet vermoeden dat het voorwerp – onmiddellijk of middellijk – afkomstig is uit enig misdrijf. " (Voorwerpen zijn alle zaken en vermogensrechten). Source: Dutch penal code (Nederlands Wetboek van Strafrecht) article 420bis, 420quater en 420ter at 18 October 2004.
[57] Council Directive 91/308/EEC of 10 June 1991 on prevention of the use of the financial system for the purpose of Money Laundering [Official Journal L 166 of 28.06.1991]. Amended by: European Parliament and Council Directive 2001/97/EC of 4 December 2001 [Official Journal L 344 of 28.12.2001].
[58] United Nations Office on Drugs and Crime (UNODC), UNODC model money-laundering, proceeds of crime and terrorist financing bill, 2003

4. **Money laundering** is the processing of CRIMINAL PROCEEDS to **disguise their illegal origin**.[59]

5. Money laundering is a process in which ASSETS OBTAINED OR GENERATED BY CRIMINAL ACTIVITY are moved or concealed to **obscure their link with the crime**.[60]

6. Money laundering is any act or attempted act to **conceal or disguise the identity** of ILLEGALLY OBTAINED PROCEEDS **so that they appear to have originated from legitimate sources**.[61]

7. Money laundering is a wide range of activities and processes intend to **obscure the source** of ILLEGALLY OBTAINED MONEY and to **create the appearance that it has originated from a legitimate source**.[62]

8. Money laundering is the process by which criminals attempt to **conceal the true origin and ownership** of THEIR CRIMINAL ACTIVITIES.[63]

9. Money laundering is the process by which THE PROCEEDS OF CRIME ("DIRTY MONEY") are put through a series of transactions, which disguise their illicit origins, and **make them appear to have come from a legitimate source ("clean money").** [64]

10. Money laundering is all the acts that are needed to **give** MONEY FROM CRIMINALITY **an apparent legal source.** [65]

11. Money laundering is an activity aimed at **concealing the** UNLAWFUL **source** of SUMS OF MONEY.[66]

12. Money laundering is the process by which THE PROCEEDS OF CRIME are converted into assets which appear to have a legitimate origin, **so that they can be retained permanently or recycled into further criminal enterprises**.[67]

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[59] Financial Action Task Force (FATF) on Money Laundering, The Forty Recommendations, 1996, p.1 (these recommendations are revised in June 2003, but this revised version did not present a (new) definition) (online available at: www.oecd.org/fatf/40recs_en.htm)
[60] International Monetary Fund, The IMF and the Fight against Money Laundering and the Financing Of Terrorism, A Fact sheet, September 2004 (http://www.imf.org/external/np/exr/facts/aml.htm), the IMF worked together with the World Bank on this, the World bank adopted the same definition.
[61] Interpol General Secretariat Assembly in 1995 (http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/default.asp)
[62] International Organization of Securities Commissions (IOSCO) Technical committee, Report on Money Laundering, October 1992, No. 25
[63] Article from the article and speeches library of the International Federation of Accountants (IFAC), Money Laundering and Frauds – Changing Expectations From Accountants, Accounting Profession Issues and Trends, by M A Baree, FCA, President, Institute of Chartered Accountants of Bangladesh, SAFA conference at Goa, India, October/December 2001 (online: http://www.ifac.org/library/ speecharticle.tmpl?nid=1023137314174201)
[64] Graycar, Adam and Peter Grabosky, Money Laundering, Australian Institute of Criminology Research and Public Policy Series, Money Laundering in the 21st Century: Risks and Countermeasures, Seminar held on 7 February 1996 Canberra, Australia
[65] A freely translation from: "Witwassen is het geheel van handelingen dat nodig is om gelden die afkomstig zijn van criminaliteit een ogenschijnlijke legale herkomst te geven." Source: Kleemans, E.R., M.E.I. Brienen, H.G. van de Bunt, Georganiseerde criminaliteit in Nederland 198, WODC, Ministerie van Justitie, 2002, p.127
[66] Savona, Ernesto U., Responding to Money Laundering, ISPAC, 1997, p.3
[67] Graham, Toby, Butterworths, International guide to Money Laundering law and practice, second edition, 2003, p.1

13. Money laundering is falsely claiming a legitimate source for an ILLEGALLY ACQUIRED ADVANTAGE.[68]

14. Money laundering is the process by which ILLICIT SOURCE MONEYS are **introduced into an economy and used for legitimate purposes**.[69]

15. Money laundering is a process whereby MONEY FROM CRIME is rendered more useful by two means: **converting it into a desirable medium** (i.e., a bank balance or equity in a company) and **erasing its more obvious links to crimes**.[70]

16. Money laundering is the process of converting CASH, OR OTHER PROPERTY, which is derived from criminal activity, so as to **give it the appearance of having been obtained from a legitimate source**.[71]

17. The conversion or transfer of property, knowing that such PROPERTY is DERIVED FROM SERIOUS CRIME, for the purpose of **concealing or disguising the illicit origin** of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime.[72]

18. Money laundering is the process by which one conceals the existence, illegal source, or illegal application of INCOME, and then disguises that income to **make it appear legitimate**.[73]

[68] Duyne, P.C. van, K. von Lampe and J.L. Newell (ed.), Criminal Finances and organizing crime in Europe, Nijmegen, 2003, p. 69
[69] John Walker Consulting Services, AUSTRAC – Estimates of the Extent of Money Laundering In and Throughout Australia, prepared for the Australian Transaction Reports and Analysis Centre, September 1995 (http://www.austrac.gov.au/text/publications/moneylaundestimates/index.html)
[70] Cuéllar, Mariano-Florentino, The Tenuous Relationship Between the Fight Against Money Laundering and the Disruption of Criminal Finance, The journal of Criminal Law & Criminology, 93 (2-3), 2003, p. 324
[71] Paper presented by Mr. Rick McDonell, Head Asia/Pacific Secretariat, FATF, entitled "An Overview of the Global Money Laundering Problem, International Anit-Money Laundering Standards and the Word of the Financial Action Task Force" delivered at the International Conference on Global Drugs Law, New Delhi, 28 February 1997
[72] Article 1 of the 1990 European Communities (EC) Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (http://www.ex.ac.uk/politics/pol_data/undergrad/ron/ index.htm)
[73] President's Commission on Organized Crime, Interim Report to the President and Attorney General, The Cash Connection: Organized Crime, Financial Institutions, and Money Laundering 7, a Reagan Administration Report, 1984

Appendix III: An overview of the definitions of money laundering

ref.	Activity	Subject	Goal
1	hiding or disguising the true origin, the source, the alienation, the movement or the place where it can be found	all means or property right - direct or indirect - derived from a crime	hiding or disguising the true origin, the source, the alienation, the movement or the place where it can be found
2	conversion or transfer	property derived from criminal activity	concealing or disguising the illicit origin
3	acquires, possesses or uses	property that it is derived from acts or omissions which constitute an offence against any law punishable by imprisonment for not less than 12 months	concealing or disguising the illicit origin
4	the processing	criminal proceeds	disguise their illegal origin
5	a process in which <subject> are moved or concealed	assets obtained or generated by criminal activity	obscure their link with the crime
6	any act or attempted act	illegally obtained proceeds	conceal or disguise the identity so that they appear to have originated from legitimate sources
7	a wide range of activities and processes	illegally obtained money	obscure the source and create the appearance that it has originated from a legitimate source
8	the process	their criminal activities	conceal the true origin and ownership
9	the process of putting through a series of transactions which disguise their illicit origins	proceeds of crime ("dirty money")	make them appear to have come from a legitimate source ("clean money")
10	all the acts that are needed	money from criminality	give it an apparent legal source
11	an activity	unlawful sums of money	concealing the unlawful source
12	the process of converting into assets which appear to have a legitimate origin	proceeds of crime	so that they can be retained permanently or recycled into further criminal enterprises
13	falsely claiming a legitimate source	illegally acquired advantage	claiming a legitimate source
14	the process	illicit source moneys	introduced into an economy and used for legitimate purposes
15	a process	money from crime	converting it into a diserable medium and erasing its more obvious links to crimes
16	the process of converting	cash or other property derived from criminal activity	give it the appearance of having been obtained from a legitimate source
17	the conversion or transfer of property	property derived from serious crime	concealing or disguising the illicit origin
18	the process by which one conceals the existence, illegal source or illegal application and the disguises that	illegal income	make it appear legitimate

1 = Dutch penal code (2004) (shortened)
2 = Council Directive (1991) (shortened)
3 = United Nations law model for money laundering (2003) (shortened)
4 = FATF (1996)
5 = IMF and World bank (2004)
6 = Interpol (1995)
7 = IOSCO (1992)
8 = IFAC (2001)
9 = Australian Institute of Criminology Research and Public Policy Series (1996)
10 = Kleemans, Brienen and van de Bunt (WODC 2002)
11 = Savona (1997)
12 = Graham (2003)
13 = Duyne, van (2003)
14 = Walker (1995)
15 = Cuéllar (2003)
16 = International Conference on Global Drugs (1997)
17 = European Communities Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (1990) (shortened)
18 = President's Commission on Organized Crime (1984)

Appendix IV: Specific differences of the definitions of money laundering

	Subject			**Source of subject**		**Goal**	
ref.	Stock	Flow	Stock or flow	Illegal	Criminal	Hide the source	Make it appear legal
1			Object		Criminal	Hide the source	
2	Property				Criminal	Hide the source	
3	Property				Criminal	Hide the source	
4		Proceeds			Criminal	Hide the source	
5	Assets				Criminal	Hide the source	
6		Proceeds		Illegal		Hide the source	Make it appear legal
7			Money	Illegal		Hide the source	Make it appear legal
8					Criminal	Hide the source	
9		Proceeds			Criminal	Hide the source	Make it appear legal
10			Money		Criminal		Make it appear legal
11			Money	Illegal		Hide the source	
12		Proceeds			Criminal		Make it appear legal
13			Advantage	Illegal			Make it appear legal
14			Money	Illegal			Ambiguous
15			Money		Criminal	Hide the source	Make it appear legal
16	Property		Money		Criminal		Make it appear legal
17	Property				Criminal	Hide the source	
18		Income		Illegal		Hide the source	Make it appear legal

1 = Dutch penal code (2004) (Objects are all means and property rights)
2 = Council Directive (1991)
3 = United Nations law model for money laundering (2003)
4 = FATF (1996)
5 = IMF and World bank (2004)
6 = Interpol (1995)
7 = IOSCO (1992)
8 = IFAC (2001)
9 = Australian Institute of Criminology Research and Public Policy Series (1996)
10 = Kleemans, Brienen, van de Bunt, WODC (2002)
11 = Savona (1997)
12 = Graham (2003)
13 = Duyne, van (2003)
14 = Walker (1995)
15 = Cuéllar (2003)
16 = International Conference on Global Drugs (1997)
17 = European Communities Convention (1990)
18 = President's Commission on Organized Crime (1984)

2 THE AMOUNT OF MONEY LAUNDERING

2.1 Introduction to the 'Walker Model'

IMF: ML is 2-5% of world GDP

To fully comprehend the global money laundering problem, it is important to have an estimate of the amounts of money laundering around the world and within a particular country (and for the purposes of this report with specific reference to The Netherlands). The International Monetary Fund (IMF) estimated money laundering at 1-2% of world GDP. Few others have made an attempt to quantify global money laundering. John Walker (1999) was the first to make a serious attempt at quantifying money laundering, and initial output from his model suggests that $2.85 trillion are laundered globally. While his model, referred to in this report as the 'Walker Model', was a good first attempt at quantifying money laundering, there are many improvements that can be made. The following sections will explain and evaluate the Walker Model, provide methods that improve and modify it and generate revised estimates from this modified model.

The Walker Model examines two different aspects of the money laundering process. First, it scrutinizes money generated for laundering per country. Second, it then examines flows of generated money from one country to another. Money can be laundered in the country in which it was generated or sent to another country for laundering. An important point of this model is that as soon as money has traveled (flowed) at least once, it is "white washed", or laundered. This model only counts this first transaction involving the placement of funds. Although "hot money" can be moved on multiple occasions in efforts to disguise its criminal origins, this model does not count each of these transactions, or movement of funds. Therefore gross flows of money laundering can be much much higher.

We look into the black box of the Walker Model

For the estimation, we, as a first step, re-estimated the macroeconomic model of Walker (1999) for the Netherlands. Since Walker never precisely published his dataset or the precise measures he used to obtain results, we used his general measures and methodology to reproduce his estimations for the Netherlands. We replicated his model by using the formulas and data sources that he had published (Walker, 1992, 1995 and 1999). This allowed us to "look into the black box of the Walker Model".

By reproducing the estimations, we discovered the strength and the weaknesses of the Walker Model. Its strength is that it is a pioneer study, which estimates money laundering on a large scale for all countries of the world for the first time. Furthermore, Walker, having worked for a long time at AUSTRAC (Australian Transaction Reports and Analysis Centre), has used his partly tacit knowledge on money laundering, which he has gathered through much experience and routine on the job. Walker also had access to a vast amount of information and expert interviews in the field and had developed an appreciation, or "feeling" for the extent of money laundering. It appears that he used this "tacit knowledge" and "feeling" to calibrate his model.

We believe that when Walker suddenly ends up with some cryptic sounding formulas such as three times Bank Secrecy plus 15 this is the outcome of trial and error estimation where he tried to narrow down the potential outcomes to some accurate estimates, which he might have had in head before doing the model. We could call this a rough form of calibration of his model.
The advantage of developing a model for the whole world is immediately paralleled by the deficiencies of such a procedure. The model lacks detailed information on each country. Also, only two equations are used to explain money laundering behavior all over the world. However, it gives a good starting point for improving estimations by using more detailed information on each country.

2.2 Generated money for laundering: explanation of Walker's generated money for laundering

Walker used Australia as a starting point for calculating money generated in a country for laundering. To obtain estimates for the amount of money generated for money laundering in Australia, Walker started with a survey of crime experts. To do this, a questionnaire was circulated by AUSTRAC to each of the state and territory police services and each branch of the Australian Federal Police (AFP) (including criminologists and police analysts), all Police Commissioners, and a number of independent researchers. In the questionnaire, experts were specifically asked about proceeds of crime (financial benefits obtained by the criminal) and proportion of proceeds laundered. As a check of the survey figures, Walker also looked at proceeds of crime based on restraining orders, estimates based on underestimated income, estimates based on reports of suspect financial transactions, and estimates based on flows of finance through Australian Banks and international transfers.

Walker extracted estimates for proceeds of crime

Walker also estimated the total costs of crime in a 1992 paper[74] for the Australian Institute of Criminology (AIC) (shown in Table 2.1). These estimates come from several agencies and statistics, which were aggregated to provide an overall estimate. From these estimates, he extracted estimates for proceeds of crime, proportion laundered, and amount laundered. He used these numbers as well as those obtained by the surveys to arrive at money laundered per recorded crime shown in Figure 2.1.

Figure 2.1:

Money laundered per recorded crime:
(Australian figures applied to all countries)

- $50.000 per recorded fraud offence
- $100. 000 per recorded drug trafficking offence
- $400 per recorded theft
- $600 per recorded burglary
- $1400 per recorded robbery
- $225 per recorded homicide
- $2.23 per assault/sexual assault
- $2,23 per recorded assault/sexual assault

Source: Walker (1995)

[74] These initial numbers have been re-estimated in 1996 and 2003.

Table 2.1: Assessing crime in Australia

Crime Category	Best available estimate of costs (mil$)	Proceeds of crime (% of total costs)	Portion laundered (% of proceeds)	Amount being laundered (mil$)
Homicide	275	Very small (1%)	Small (10%)	0.275
Assault (including sexual assault)	331	Very small (1%)	Very Small (1%)	0.0331
Robbery and extortion	93	Considerable (80%)	Small (10%)	7.44
Breaking and Entering	893	Considerable (80%)	Small (10%)	71.44
Fraud/forgery/false pretenses	6710-13770	Considerable (80%)	Considerable (80%)	4294-8812
Theft	1232-2712	Considerable (80%)	Small (10%)	98.56-216.96
Property/Environmental damage	525-1645	Very small (1%)	Small (10%)	.0525-1.65
Drug Offences	1200	Considerable (80%)	Considerable (80%)	768
Total	11259-20719			5240-9878

Source: Data from Walker 1992

Explanation (rational) of classifications

The majority of homicides do not financially benefit the offender. Only rare crimes such as contract killings and homicides committed in order to benefit from insurance payment or inheritances would be financially beneficial. Most assaults are also not committed to gain finances. Assaults committed for financial gain are usually classified as robberies. Robberies are quite costly to the community but the amount of money gained from each robbery is usually a small enough amount that it has no need of being laundered. Theft is similar to robbery in the extent to which proceeds are gained and the little need for laundering. Property and environmental damage are also crimes rarely committed for financial gain. Drug and fraud offences are crimes most associated with money laundering. Large amounts of money are involved which creates a high demand for money laundering.
The categories of *very small*, *small*, and *considerable* are taken from Walker (1995) where he assigned percentage values to these categories: very small= 1%, small=10%, Considerable=80%.

We assume (as Walker assumed) that this is the same for the Netherlands. We have verified this assumption with several Dutch experts. The final crime categories were broken down into:
Fraud; drug trafficking; theft; burglary; robbery; homicide, and assault/sexual assault. The estimates of total laundered money for each type of crime is divided by the number of that type of crime recorded per year in Australia.

2.2.1 Estimating generated money for laundering per country

To estimate generated money for laundering in each country, statistics on levels of crime in each country were used, as well as GDP per capita, corruption data, and the Australian figures for amount of money laundered per recorded crime.

Explanation of the variables:

- Estimating levels of crime in each country:

Sources:
These data were obtained from the *United Nations Survey on Crime Trends and Operations of Criminal Justice Systems* and the International *Crime Victims Surveys* were used to quantify the number of crime in particular categories in each country.
For those countries in which data was not available, Walker computed the average crime rates per capita for each of the twelve world regions, and applied the values to the population figures for countries without data.

- GNP per capita: each country's initial figures for generated money are factored up or down by GNP per capita to take into account the fact that poor countries are not likely to generate as high levels from criminal proceeds as richer countries.

- Data for corruption was taken from the Transparency International Corruption Perception index and was transferred into a 1 to 5 scale: 1=low corruption to 5= high corruption. It is used to factor up the fraud component of money laundering by multiplying the Australian based figure of $50, 000 by the corruption scale.

To find the total generated money in each country, the crime statistics for each crime category are multiplied by the estimated profitability of each crime, with fraud being factored up by the corruption index on a scale of 1 to 5. Then the numbers are multiplied by a prorated GNP per capita figure to take account of differences in profitability of countries.
The following is an example (recalculated generated money for laundering for the Netherlands) of the methodology used for a particular country's estimates (Table 2.2).

Table 2.2: Netherlands (recalculated)

Crime	Number of crimes[1]	$ Laundered per crime	Total $ for Laundering (millions)
Fraud	241.600	50,000*1[2]	12.080
Drugs	7.474	100,000	747,4
Theft	1.776.000	400	710,4
Burglary	288.000	600	172,8
Robbery	480.000	1400	672
Homicide	183	225	0,041
Assault/sexual assault	960.000	2.23	2,1
Total			14.4

[1]Source: The International Crime Victims Survey 2000, Seventh United Nations Survey on Crime Trends and Operation of Criminal Justice Systems 2000, and the Statistical Yearbook of the Netherlands 2004

[2] 1 is the corruption factor for the Netherlands

According to these calculations, the Netherlands generates approximately $15 billion per year for money laundering according to the crime statistics from 2000-2004. Variations between the $15 billion calculated here and the approximately $18 billion in Table 2.4 can be explained simply by differences in crime statistics between the calculated years. This recalculation was an exercise to recalculate Walker's numbers but is not the final figure used for the generated money in the Netherlands. The victim survey numbers were used for fraud since we tried to understand what Walker had done by getting estimates as close to his as possible. The new figure calculated for generated money within the Netherlands will be explained later.

Another important point to be made is that there can be much volatility in figures produced according to which crime statistics are used. For instance, Table 2.3 shows a comparison of different crime statistics. The main difference here is between statistics from police records and from victim surveys. It is logical that statistics from victims surveys will be higher than those recorded in police statistics since not all crimes are reported.

Table 2.3: Differences in numbers of crime in the Netherlands according to source

Crime	Victim Surveys	Seventh UN Survey on Crime Trends	European Sourcebook (2003) offences	European Sourcebook (2003) offenders	Statistical Yearbook Netherlands (2004)
Fraud Embezzlement	241.600	19.698 7.805			15.100** 8.900**
Drugs		7.474	7.694	11.899	12.700**
Theft	1.776.000	728.261	880.689	98.615	1.809.300*
Burglary	288.000	91.946	509.750	47.433	293.400*
Robbery	480.000	18.630	19.071	7.172	
Homicide		183	2.804	2.771	
Assault/Sexual Assault	960.000	44.129/ 1.648	45.233/ 1.695	30.644/978	978.000*
Prostitution					
Illegal gambling					
Illegal workers					
Fencing					2.200
Illegal Copying					

**from victim surveys*
***from police records*

In order to later understand the flows of money into and out of the Netherlands, it is important to find where most of the global money for laundering originates. Walker (1999) ranks the top 20 origins of laundered money (Table 2.4), which make up over 90% of the total origins of laundered money. This means, that by taking a closer look at the relationship and attractiveness of the Netherlands to these top 20 countries, we are able to obtain a more accurate figure than past estimates.

It is important to find where most of the global money for laundering originates

Table 2.4: Top 20 origins of laundered money (Walker 1999)

Rank	Origin	Amount ($USbill/yr)	% of Total
1	United States	1.320	46,3
2	Italy	150	5,3
3	Russia	147	5,2
4	China	131	4,6
5	Germany	128	4,5
6	France	125	4,4
7	Romania	116	4,1
8	Canada	82	2,9
9	United Kingdom	69	2,4
10	Hong Kong	63	2,2
11	Spain	56	2,0
12	Thailand	33	1,2
13	South Korea	21	0,4
14	Mexico	21	0,7
15	Austria	20	0,7
16	Poland	20	0,7
17	Philippines	19	0,7
18	**Netherlands**	18	0,6
19	Japan	17	0,6
20	Brazil	17	0,6
Total	All Countries	29	100%

2.2.2 Comments on generated numbers for other countries

There are concerns that the number for the United States maybe inflated

A criticism often offered of the Walker Model is that the amounts of money for laundering generated in particular countries are too big. Specifically, there are concerns that the number for the United States maybe inflated. If this is the case, then the inflated numbers would have a large influence on other countries since, according to the Walker Model, 46.3% of all money generated in the world for laundering comes from the US.

After an inquiry into the proceeds of crime in the US, it is evident that the Walker numbers are reasonable. In the original Walker Model, it was estimated that the United States generates $1.3 trillion per year for money laundering. Concerns were raised that these figures to be too high. After some examination of the particular US criminal situation, this figure of $1.3 trillion seems reasonable. For example, taking into account only the amount of money generated by drugs and some forms of fraud, the total proceeds of crime are approaching the Walker figure (see Table 2.5).

Table 2.5: Proceeds from crime in the US

Crime	$ Generated (billions)
Drugs	65
Occupational Fraud	660
Insurance Fraud	30
Telemarketing Fraud	40
Check Fraud	10
Identity Fraud	53
Total	**858**

Sources: Drugs: Executive Office of the President, Office of National Drug Policy (ONDCP) Drug Policy Information Clearinghouse Fact Sheet
www.whitehousedrugpolicy.gov/publications/factsht/drugdata/index.html
Insurance fraud: National Insurance Crime Bureau,
http://www.nicb.org/public/publications/index.cfm
Telemarketing Fraud: http://www.usdoj.gov/criminal/fraud/telemarketing/491crm.htm
Check Fraud: http://www.printsolutionsmag.com/issues/september03/secdocs.html
Identity Fraud: London Free Press, March 24, 2005

2.3 Improvements in generated money from the Netherlands

2.3.1 What should be taken into account?

In adapting the model for generated money within the Netherlands, it is important to take all factors possible into account to gain a better estimate and understanding of the situation. Originally, Walker (1999) only used those statistics he could obtain from the United Nations Survey of Crime Trends and Operations of Criminal Justice Systems, which included only fraud, drugs, theft, burglary, robbery, homicide, and assault/sexual assault. These are not the only crimes from which money can be laundered. The Centraal Bureau voor de Statistiek (CBS) recently published the report *De illegale economie in Nederland* in which they look at drugs, prostitution, illegal workers, illegal gambling, fencing and illegal copying. To gain more informed estimates of money generated for laundering, we use both groups of illegal activity and any subcategories that become relevant. Table 2.6 shows the types of actives with which we are concerned.

Table 2.6: Generated money from criminal activities in the Netherlands

Crime	Walker[1]	CBS [2]	We use
Fraud	X		X
Drugs	X	X	X
Theft	X		X
Burglary	X		X
Robbery	X		X
Homicide	X		X
Assault/Sexual Assault	X		X
Prostitution		X	X
Illegal gambling		X	X
Illegal workers		X	X
Fencing		X	X
Illegal copying		X	X

[1]*Walker, John (1999) How Big is Global Money Laundering? Journal of Money Laundering Control, Vol.3 No.1*
[2]*Smekens, M. and M. Verbruggen (2004) De illegale economie in Nederland, Netherlands Centraal Bureau voor de Statistiek (CBS)*

The CBS calculates the value added of the illegal economy as €3.3 billion

If one compares the original Walker Model estimates with the results of the CBS, one can see that the studies refer to different types of crime. The CBS calculates the value added of the illegal economy and comes up with €3.3 billion. The only overlap with the Walker Model is for drugs. For the rest, Walker includes sexual assault, homicide, robbery, burglary, theft, and fraud. The major difference between the two studies is certainly the types of crime they are dealing with. In the final version of our estimation we want to include all types of crime.

2.3.2. Calculating generated money in the Netherlands

As stated earlier, to obtain the best idea of money generated in the Netherlands for laundering, one should look at all possible areas for money to be generated. In Tables 2.8, 2.9, and 2.10, we compile proceeds generated from crime in the Netherlands from different types of crime and sources.

Table 2.7 shows the estimated damage per type of offence for businesses and institutions. Direct damage here is considered the actual amount taken from the business or institution or the direct amount destructed. Total damage includes other costs. Direct damage can be seen as the amount gained by the criminal with respect to crimes like burglary, theft, computer crimes, etc. These direct damages are shown in Table 2.8 without fraud, since fraud will be dealt with later and we want to avoid double counting.

Table 2.7: Estimation of damage per type of offence for business and institutions (million euro)

Offence	Direct Damage (Million €)	Total Damage (Million €)
Burglary	340	400
Theft	345	405
Vandalism	140	160
Fraud	140	178
Computer crime	26	53
Violent offences	6	10
Other offences	47	82
Total	**1.044**	**1.288**

Source: Criminaliteit en rechtshandhaving 2001, WODC, 2003, p.60; taken from NIPO 2002

Without counting fraud, € 94 million was laundered from crime against business

The activities in Table 2.8 are multiplied by the approximate percentage laundered for each type of crime to get the total amount laundered for each type of crime. The total amount of money generated for laundering in 2001 from crimes reported (studied) against business and institutions, without counting fraud, was € 94 million.

Table 2.8: Money generated for laundering from crime committed against businesses and institutions

Offence	Direct Damage (Proceeds) (Million €)	% to be Laundered	Total Generated for Laundering (Million €)
Burglary	340	10	34
Theft	345	10	34.5
Vandalism	140	0	0
Computer crime	26	80	20.8
Violent offences	6	0	0
Other offences	47	10	4.7
Total	**1.044**		**94**

Source: Criminaliteit en rechtshandhaving 2001, WODC, 2003, p.60; taken from NIPO 2002

The Centraal Bureau voor de Statistiek (CBS) recently published a study by Smekens and Verbruggen (2004) in which they estimated the illegal economy in the Netherlands. The activities of drugs, prostitution, illegal workers, illegal gambling, fencing and illegal copying are all areas that are also used for calculating generated money for laundering in the Netherlands. Table 2.9 shows a breakdown of the different illegal activities and their proceeds. The proceeds are then multiplied by the approximate percentage laundered for each activity to obtain the total amount generated for laundering. From this CBS study, we find € 2.3 billion generated for laundering.

Table 2.9: Money generated for laundering from different types of crime

Offence	Proceeds (million €)	% to be Laundered	Total Amount Generated for Laundering (million €)
Drugs (Heroine, Cocaine, XTC, Cannabis)	1.960	80	1.568
Prostitution	460	80	368
Illegal Workers	490	10	49
Illegal Gambling	130	80	104
Fencing	190	80	152
Illegal copying	90	80	72
Total	3.320		2.313

Source: Smekens and Verbruggen (2004), CBS

Most generated money comes from drugs and fraud

Fraud is an extremely important area to consider when qualifying money laundering. It is clear that the most money generated for laundering comes from drugs and fraud. According to the SIOD Jaarverslag (Annual Report) 2004, €84.566.245 worth of fraud was found from 67 investigations. The 2003 Annual report of the FIOD-ECD, showed that approximately €689 million in fraud had been discovered. Through expert interviews we found that only approximately 5-10% of fraud is caught. This means that the amount of fraud detected should be multiplied 10 to 20 times to obtain the true figure for fraud committed. We take 10% of fraud being caught as the most likely scenario and 5% caught as the worst-case scenario to find the range of fraud proceeds for laundering shown in Table 2.10. The estimated percentage of fraud laundered (80%) originally comes from Walker's estimations and was confirmed by interviews with Dutch experts. If 10% of fraud is caught, the amount of money generated from fraud is much lower, €6 billon compared to €12 billion.

Table 2.10: Money generated for laundering from fraud

Fraud	**Million €**	***10/20 True Amount[1]**	**Total Fraud Committed**	**% to be Laundered**	**Total Fraud Laundered**
FIOD-ECD (2003) (Tax fraud and financial fraud)	689				
SIOD (2004) (Premie, fiscal, maatschappelijk	84,6				
Total (most likely)	773,5	*10	7.735	*80	**6.189**
Total (worst case)	773,5	*20	15.470	*80	**12.376**

[1] According to FIOD experts, approximately 5-10% of Fraud is caught.

Table 2.11 shows the sum of the amounts of money generated for laundering in the prior Tables 2.8, 2.9, and 2.10. Based on the available information, between €8.6 and €14.8 billion are generated in the Netherlands for laundering. It is, however, important to realize that this is a figure obtained from available data and does not include proceeds of every crime, so this maybe an underestimate, but is by far a much more informed number than that previously reported by Walker (1999).

Table 2.11: Total money generated for laundering in the Netherlands

Source	Total Generated money for Laundering in Billion € (most likely)	Total Generated money for Laundering in Billion € (worst case)
Table 8	0.094	0.094
Table 9	2.313	2.313
Table 10	6.189 (10% fraud caught)	12.376 (5% fraud caught)
Total	**8.596**	**14.783**

It is clear that a vast amount of money is generated in the Netherlands for laundering, between NLG 70 and 350 million in the Netherlands in 1991. Also in 1991, proceeds from drugs, weapons and illegal gambling houses amounted to approximately NLG 10 billion.

Different estimates of generated money for the Netherlands

Table 2.12 shows the different estimates of money generated in the Netherlands for laundering. Walker (1999) uses a number estimated by using data for proceeds of crime from Australia and then applied to the Dutch crime statistics. It is also not completely clear what crimes Walker used when calculating these numbers. The second figure is the recalculated Walker number. This number was calculated by taking more recent crime statistics and using only those crimes explicitly mentioned by Walker. These statistics were also applied to the original Australian numbers for proceeds of crime. Our numbers for generated money are the only numbers calculated by looking at Dutch data for proceeds of crime, which gives a much more realistic idea of the Dutch situation.

Table 2.12: Different estimates of generated money for the Netherlands

Source	Estimate of Generated Money (Billions)
Walker (1999)	$18,4
Recalculated Walker	$14,4
Revised estimates	**€8,6-14,8**

After estimating the amount of money generated in a country, it is then possible to turn our attention to the flows of generated money between countries.

2.4. Flows of laundered money

Now that we have established how to best estimate the amount of money generated in a country for laundering, we turn our attention to the flows of this money between countries. This will be done in a two-step process, first by calculating how attractive a country is to money launderers and then estimating proportions of money flowing from one country to another by using a measure of distance deterrence, which will be explained, in the following sections.

18 % of the world money laundered flows to the US, 1.7 % to the Netherlands

The major concern of money laundering is how much money flows into and through the Netherlands and does this have positive or negative effects for the economy. In order to estimate the flows of money into and out of the Netherlands, we first calculated the money streams by means of a slightly modified Walker (1999) model. Walker had estimated that approximately $50 billion flow into the Netherlands (including money coming from abroad and money generated in the Netherlands), but he never showed what percentages of flows he assumed came from which countries. From his estimates we only know that 18% of the world money laundered flows to the US, and 1.7% to the Netherlands (See Table 2.13).

Table 2.13: Top 20 Destinations of laundered money (Walker 1999)

Rank	Destination	Amount ($USbill/yr)	% of total
1	US	538	18,9
2	Cayman Islands	138	4,9
3	Russia	120	4,2
4	Italy	106	3,7
5	China	95	3,3
6	Rumania	90	3,2
7	Canada	85	3,0
8	Vatican City	80	2,8
9	Luxembourg	78	2,8
10	France	68	2,4
11	Bahamas	66	2,3
12	Germany	61	2,2
13	Switzerland	58	2,1
14	Bermuda	53	1,9
15	**Netherlands**	50	1,7
16	Liechtenstein	49	1,7
17	Austria	48	1,7
18	Hong Kong	45	1,6
19	UK	44	1,6
20	Spain	35	1,2

But even if we accepted the $50 billion for the Netherlands, Walker does not demonstrate how much money flows from which country into and out of the Netherlands. We, therefore, had to recalculate the whole model in order to get at the proportions flowing from and into each country of the world. For this we modified Walker's model.

2.4.1 Attractiveness index for money laundering

Flows of laundered money into and out of the Netherlands are what we are most concerned with. Walker (1999) uses specific variables to make an "Index of Attractiveness" (that is an index of how attractive countries are to money launderers).

Important points in the model include:

- Foreign countries with a tolerant attitude towards money laundering will attract a greater proportion of the money than more intolerant countries: tolerant countries are those with banking secrecy laws or uncooperative government attitudes towards money laundering.
- High levels of corruption and/or conflict in a country will deter money launderers from laundering money in that country because of the added risk of loosing their funds.
- Countries with high levels of GNP per capita will be preferred by money launderers, since it is easier to 'hide' their transactions.
- Other things being equal, geographic distance, and linguistic or cultural differences are deterrents to money launderers.
- Being a top trading partner of a country makes a country more probable for money laundering.

Index of country-attractiveness for money launderers

This index of attractiveness is a rank order of how attractive countries are to money launders. The higher the score, the more attractive the country is to money launderers. The Walker formula for this index is given first and then followed by the extended formula we used. The formulas are explained below along our improvements. Walker's formula for attractiveness is

$$Attractivenss = (GNP) * (3 * BS + GA + SWIFT - 3 * CF - CR + 15)$$

where *GNP* is GNP per capita, *BS* is Banking Secrecy, *GA* is Government Attitude, *SWIFT* is SWIFT member, *CF* is Conflict, *CR* is Corruption.

Our modified formula for attractiveness is

$$Attractivenss = (GDP) * (3 * BS + GA + SWIFT + FD - 3 * CF - CR - EG + 10)$$

where *GDP* is GDP per capita, *BS* is Banking Secrecy, *GA* is Government Attitude, *SWIFT* is SWIFT member, *FD* is Financial Deposits, *CF* is Conflict, *CR* is Corruption, and EG is Egmont Group member.

Explanation of variables:

Walker does not give explanations of the scales and/or, in many cases, sources used for these variables. In recalculating this model we have done so. Two new variables have been added to the original formula, Financial Deposits and Egmont Group membership, which are indicated by * below. Financial Deposits were added in order to account for the size of the financial market as a proxy for the financial attractiveness of a country.

The variable Egmont Group member or not was added in order to give more weight to countries' attitude towards money laundering by taking into account international cooperation efforts and weather or not a country has a financial intelligence unit (FIU).

GDP per capita is measured in US$ for the most recent year possible and prorated against the Netherlands. Data was taken from the CIA World Factbook.

Bank Secrecy is a scale from 1 (no secrecy laws) to 4 (bank secrecy laws enforced)
Sources: OECD Report *Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices* (2000), OECD Report *Improving Access to Bank Information for Tax Purposes* (2000). Countries are given a 1 if they are from civil law countries and have no other secrecy laws. Countries are given a 2 if they are common law (because common law countries already have some secrecy built into their legal systems) but have no other special bank secrecy laws. Countries that have extra secrecy provisions are given a 3 and countries are given a 4 if they are on FATF, FSF, or OECD blacklists.

Government Attitude is a scale from 0 (government anti-laundering) to 4 (tolerant of laundering)
Countries who are part of the Financial Action Task Force (FATF) are given a value of 0, while those countries who are currently on the FATF "Non-Cooperative list" are given a 4. Countries who were previously on this list are given a value of 3. Countries that are part of an anti-money laundering group other than the FATF are given a 1 and countries who are a part of no group or used to be on the non-cooperative list but are now part of a group are given a 2.

S*WIFT membe*r is 0 for non-member countries and 1 for members of the SWIFT (Society for Worldwide Interbank Financial Telecommunication).

**Financial Deposits* are financial system deposits to GDP. This figure is demand, time and saving deposits in deposit money banks and other financial institutions as a share of GDP, calculated using the following deflation method: {(0.5)*[Ft/P_et + Ft-1/P_et-1]}/[GDPt/P_at] where F is demand and time and saving deposits, P_e is end-of period CPI, and P_a is average annual CPI.

Raw data are from the electronic version of the IMF's International Financial Statistics (IFS lines24, 25, and 45). Data on GDP in local currency (lines 99B..ZF or, if not available, line 99B.CZF), end-of period CPI (line 64M..ZF or, if not available, 64Q..ZF), and annual CPI (line 64..ZF) are from the electronic version of the IFS. Calculations from Beck.T, Demitguc-Kunt, A. and R. Levine (1999) *A New Database on Financial Development and Structure.*

**Egmont Group* is a 0 (not member) or 1(member). The Egmont group is group of FIUs (Financial Intelligence Units) set up for the stimulation of international co-operation.

Conflict is a scale from 0 (no conflict) to 4 (conflict situation exists)
0 is given when there has been no conflict since 1989
1 is given if there was conflict at a minor level and is now terminated.
2 is given if there was conflict at a higher level and now terminated.
3 is given if there is a conflict situation at present.
4 is given if there is an ongoing war situation
Source: Uppsala Conflict Data Project
http://www.pcr.uu.se/database/index.php

Corruption is the modified Transparency International index (1=low, 5=high)
Data for corruption was taken from the Transparency International Corruption Perception index 2004 and was transferred into a 1 to 5 scale.

Transposed (based on Australia)= TI index 8.8=1

Figure 2.2: Corruption Scale

Least Corruption	10	1
	9	1
	8	1
	7	2
	6	2
	5	3
	4	3
	3	4
Most Corruption	2	4
	1	5

Constant 10 included ensuring that all scores are above 0.

2.4.2 New attractiveness index

Table 2.14 shows the new rank order of attractiveness for all of the countries in the world. For the most part, these scores are logical and make sense. In a few instances (i.e. Monaco) the countries are ranked lower than they realistically should be. This is due to discrepancies in data. For most other countries, the attractiveness index is accurate. As can be seen in Table 2.14, the Netherlands is quite an attractive country for money laundering. This is due for the most part to their stable government, relatively rich country, and well-developed financial services.

Table 2.14: New attractiveness scores
(The higher the score, the greater attractiveness to money launderers)

Country	Score
Luxembourg	55.4
Bermuda	26.4
Switzerland	25.7
Cayman Islands, Norway, Hong Kong, Austria, Liechtenstein	21-20
Belgium, Aruba, Jersey	19-18
Iceland, Canada, Ireland, Singapore, Australia, Isle of Man, Vatican City (Holy See)	17-15
France, San Marino, Guernsey/Alderney/Sark, Germany, **Netherlands**	15-13
United Arab Emirates, Bahrain, Gibraltar, Italy, US Virgin Islands, Cyprus (Greek), Falkland Islands, Finland, Bahamas, Greece	13-12
Malta, New Zealand, Japan, Barbados, Guam, Sweden, United States	12-11
Greenland, Hungary, Denmark, Israel, British Virgin Islands	11-10
Taiwan, French Polynesian, Qatar, United Kingdom, Spain, Macau, South Korea, Brunei	10-9
Puerto Rico, Slovenia, Oman, Portugal, New Caledonia, Pitcairn Islands, Antigua, Northern Mariana Islands, Mauritius, Turks and Caicos, Czech Republic, Saint Kitts and Nevis, Botswana, Martinique, Uruguay	9-6
Seychelles, Malaysia, Anguilla, Slovakia, Kuwait, South Africa, Namibia, Lithuania, Palau, Chile, American Samoa, Trinidad and Tobago, Samoa, Saint Pierre and Miquelon, Poland, Cook Islands, Nauru	6-4
Latvia, Panama, Saint Lucia, Dominica, Croatia, Ukraine, Grenada, Guadeloupe, Belize, Tunisia, Bulgaria, Fiji, Thailand, Russia, Libya, Argentina, Kazakhstan, Costa Rica, Reunion, Niue, Belarus, Jordan, Lebanon, Maldives, Turkmenistan, Brazil, Montserrat, Jamaica, Philippines, Gabon, Egypt, Guyana, Guatemala, Saint Vincent and the Grenadines, Vanuatu, El Salvador	4-2
Monaco, Mexico, Romania, Suriname, Macedonia, Albania, Swaziland, Iran, Dominican Republic, Mayotte, Estonia, Syria, Lesotho, Armenia, Andorra, Tonga, Cuba, Venezuela, Colombia, Ghana, Honduras, Marshall Islands, Vietnam, Bosnia and Herzegovina, Federated States of Micronesia, Paraguay, Zimbabwe	2-1
Ecuador, Mongolia, Papua New Guinea, Peru, Morocco, Bolivia, Solomon Islands, The Gambia, Turkey, Mauritania, Netherlands Antilles, Myanmar, Sri Lanka, Nicaragua, Algeria, Kyrgyzstan, Guinea, Bhutan, Nigeria, Azerbaijan, Cape Verde, Djibouti, Cameroon, China, Equatorial Guinea, India, North Korea, Laos, Uzbekistan, Moldova, Saudi Arabia, Kenya, Indonesia, Bangladesh, Togo, Benin, Burkina Faso, Chad, Sao Tome and Principe, Tuvalu, Ivory Coast, Zambia, Angola, Haiti, Cambodia, Pakistan, Kiribati, Georgia, Madagascar, Serbia and Montenegro, Liberia, Ethiopia, Malawi, Congo, Eritrea, Tanzania, Mali, Rwanda, Iraq, Niger, Uganda, Central African Republic, Mozambique, Tajikistan, Sudan, Yemen, Senegal, Sierra Leone, Democratic Republic of Congo, Comoros, Guinea Bissau, Nepal, Western Sahara, Somalia, West Bank/Gaza Strip, Afghanistan, Burundi	1-0

2.4.3 Distance deterrence and proportions for money laundering

The next step in the model is to incorporate the attractiveness scores with a distance deterrence score. Distance deterrence should be seen as the amount of distance between one country and another. The closer the countries, the higher the proportion of money laundered. In the original Walker Model, distance deterrence is measure as the physical distance between countries.

2.4.4 Improvements to distance deterrence

With the globalization of financial markets it seems unlikely that physical distance is a major inhibiting factor to the movement of money. While physical distance may play a role, it seems more realistic to take other factors into account also. Using other variables along with physical distance it is possible to arrive at a distance deterrence score for each country to each other country. A formula for this is shown below:

Distance = language + trade + colonial background + physical distance

Distance deterrence Index refers to language, colonial background, trade and physical distance

Distance deterrence assigns a value to countries in relation to their relative distance to other countries depending on language, colonial background, trade and physical distance. Countries have more distance between them if they speak different languages, come from different backgrounds, do not trade with each other and/or have a large physical distance separating them.

Explanation of variables
Language= 0 or 1(same language 0, different language 1)
Colonial Background= 0 or 1(same=0, different =1)
Trade= 0 or 1 (0 same, 1 different), this is taken from looking at each county's trading partners for imports and exports. Data was taken from the World Trade Organization (WTO) and the CIA World Factbook.
Physical distance= number for zones (1 to 7) 1 if countries are in the same region, 7 if countries are very far from each other, except for Netherlands (real distances in miles from capitals). Here for countries other than the Netherlands, regional zones where used to simplify calculations.

If two countries have the same official language or the same widely used languages, they are given a score of a 0, meaning there is less distance between them.

Colonial background has to do with whether or not a country was a former or existing colony or somehow related in a similar fashion. If countries are related, they are given a 0 meaning there is less distance between them.

Both data for language and colonial background were taken from the CIA World Fact Book.

Trade is distinguished by the trading partners of a country. If the country that is receiving the money is a top trading partner of the sending country, it is coded as a 0, meaning there is less distance between the countries.

Physical distance is represented by zones to keep calculations less complicated although some variation here is lost because the numbers range only between 1 and 7. There must be a minimum distance of one to keep calculations correct. The distances between regions are given below in Figure 2.2. There is less variation in countries because they are taken in regions instead of in kilometers. Exact distances between country capitals were used only for the Netherlands.

Figure 2.3: Distances between regions

	North America	South America	Europe	Africa	Middle East	Asia	South-east Asia
North America	1	3	3	5	4	5	7
South America		1	5	6	6	5	7
Europe			1	2	2	3	4
Africa				1	3	3	4
Middle East					1	2	4
Asia						1	2
Southeast Asia							1

2.4.5 Incorporating attractiveness index and distance deterrence into proportions

Both indicators are combined in order to calculate which percentage of criminal money generated for laundering in each country will flow to another country.
In the original Walker Model, to calculate the proportion of flowing from one country to another, Walker used the following formula:

$$P(X,Y) = \frac{Attractiveness\ \ Score\ Y}{(\text{Distance}\ \ X\ \ to\ \ Y)^2}$$

There is nothing built into this model to make sure that the values of the proportions of money flowing from the country to countries and to itself (money laundered locally) do no exceed 1 or 100%. For this reason, it seems important to build in a calibrating part of the formula to ensure that values do not exceed 1. The formula that follows seems to be a better choice.

$$P(X,y_i) = \frac{1}{\sum_{i=1}^{n}\left[\frac{attractiveness(y_i)}{dist(X,y_i)}\right]} \times \frac{attractiveness(y_i)}{dist(X,y_i)}$$

where *P* is the proportion of money flowing from country *X* to country *y*i

For example, X... a specific country (the Netherlands), yi... another country i i=1.....n all countries of the world.

Proportion of money flowing from country X to country y_i

For example, the proportion of money flowing from country *X* (Netherlands) to country *y*i (Aruba) equals the attractiveness of Aruba, weighted by the distance between the Netherlands and Aruba. In order to make sure that shares add up to 1, this weighted attractiveness for money laundering is corrected for the total weighted attractiveness scores over all countries.

2.4.6 New flows of money laundering

Using the calculations from above we are able to estimate the flows from the top 20 countries for generating money for laundering to the Netherlands (See Table 2.15). It is worth mentioning again that the top 20 countries make up 90% of the world generated money for laundering, so by looking at these 20 countries, we get the best estimate of the amount of money flowing from the rest of the world to the Netherlands.

We are also able to estimate the proportions and amounts of money flowing from the Netherlands to all other countries in the world, but these are only estimates of the amount of money generated in the Netherlands for laundering and gives no indication of how much money is flowing through the Netherlands to other destinations. For this reason, we have decided not to concentrate on this area since we are more concerned with the money that is coming to the Netherlands.

Table 2.15: Inflows of money for laundering to the Netherlands

Country	Million $	Percentage
Germany	2.113	1,6
Austria	187	,09
Spain	617	1,1
UK	1.127	1,6
Romania	1.461	1,3
Italy	1.580	1,1
Poland	399	2,0
France	1.267	1,0
US	11.099	,08
Mexico	228	1,1
Canada	650	,08
Russia	2.179	1,5
China	1.367	1,0
Hong Kong	630	1,0
Thailand	307	,09
Japan	143	,08
Philippines	242	1,3
South Korea	189	,09
Brazil	229	1,4
Flowing to NL	**$26.013[75] (€21.000)[76]**	
NL	**€3.798 ($4,75)**	44,2
Total	**€24.798 ($30.763)**	

$26 billion illegal money flow from top countries to the Netherlands

The amounts of $ here come from the original 'generated' money from Walker and are multiplied by the newly calculated proportions to get the actual amounts of money flowing to the Netherlands. The original 'generated' money from Walker 1999, was used for the sake of feasibility of the project time limits. Finding better estimates of generated money in each country is something for further research. The countries in Table 2.15 are the top 20 origins of laundered money and comprise 90% of the total money generated for laundering. Although only 0,8% of the total money generated in the US flows to the Netherlands, it is the largest amount of money ($11 billion) flowing into the Netherlands for laundering purposes.

[75] This is a 1999 number and not inflated. If inflated for 2002, the number would be $29.153.
[76] Exchange rates used are based on $1= €0.8.

As can be seen from Table 2.15, **$26 billion flow from the top countries** in the world to the Netherlands, while **€3.8 billion stay in the Netherlands** for laundering from their own generated proceeds. This amounts to approximately **$30 billion being laundered in the Netherlands annually**.

2.4.7 Money for laundering staying in the Netherlands

A very unrealistic conclusion of the original Walker Model was that only 20% of the money generated for laundering in the Netherlands would stay in the Netherlands. Doubts were raised as to why a country, which seems so attractive for other countries to whitewash their money should not be attractive for its own criminals. The low percentage of the Walker Model was due to the fact that he assumed laundering in the own country based on corruption in that country. We modified the model by using a country's attractiveness to itself and distance to itself with a minimum distance to ensure correct calculations.

According to these latest calculations, **44% of the money generated** for laundering from the proceeds of crime in the Netherlands will stay in the Netherlands. This means that about **€ 4 billion** of criminal money generated in the Netherlands will also stay in the Netherlands.

2.4.8. How robust are the amounts estimated?
In order to test whether our results, in particular the proportions of money for laundering flowing into each country, are robust, we re-estimated the model with different weights given to the variables of the attractiveness and distance indicator (see appendix one).

We can conclude, that given the fragility of the topic, our results are fairly robust. The proportional shares for the Netherlands can change by 10 to 15%, i.e. our results can be under- or overestimating. For instance, the figure we use for the Netherlands is 44%. When working with the analysis, values may be as low as 31% and 49%. This means that the amount we estimated (using the lower figure of €8,6 billion) can vary between 2,67 and 4,21 billion euro staying in the Netherlands.

Results can be under- or overestimating by 10 to 15%

2.5 Figures we know

According to the Meldpunt Ongebruikelijke Transacties (MOT):
The total amount involved with executed suspicious transactions in 2004, is €3,2 billion. This gives some indication of the lower bound of money laundering. Tables 2.16 and 2.17 also give an indication of the most important countries for money laundering flows into and out of the Netherlands. The top countries for flows are pretty consistent with our finding. It is, perhaps, best then, to take a closer look at the money flows between these specific countries and the Netherlands to gain a better understanding on the true situation. This is an area for future research.

Table 2.16:

	Country of origin	Number of suspicicious transactrions.	Value in €
1	United States of America	965	3.372.490
2	Italy	650	2.578.080
3	Netherlands	570	398.303.770
4	Germany	430	1.687.820
5	Great Britain	360	9.768.960
6	Spain	320	1.052.960
7	Austria	235	920.64
8	France	165	569.45
9	Portugal	110	446.58
10	Turkey	105	574.11

Table 2.17:

	Country of destination	Number of suspicious transactions	Value in €
1	Netherlands Antilles	11.64	42.884.900
2	Colombia	2.855	7.541.790
3	Turkey	1.735	9.694.950
4	Surinam	1.2	5.400.370
5	Dominican Republic	1.085	3.866.300
6	Nigeria	755	2.195.352
7	Neterlands	570	398.303.780
8	Spain	505	1.400.710
9	Marocco	470	1.548.360
10	Brazil	310	877.66

2.6 Summary

The real strength of this section is that it gives transparency to the Walker Model and provides more contemporary and informed estimates for the amount of money laundering flowing to the Netherlands from other countries and estimates of how much money generated in the Netherlands is laundered in the Netherlands. In Walker (1999), the model used to estimate the amount of global money laundering is unclear with respect to the sources of his information and data and how certain variables are measured. As a first step to improving this, we opened Walker's "black box" making the model more transparent so that it could be more easily dealt with and so that future research could be conducted. Another important improvement made was with respect to the generated money for laundering in the Netherlands. Formerly, when estimates were made of the amount of generated money within the Netherlands, Walker used Australian estimates of proceeds of crime per crime in each crime category and applied them to Dutch crime statistics to obtain the Dutch figure. To improve this estimate, we investigated the actual Dutch proceeds of crime from statistics of actual costs of crime, damages, and uncovered proceeds. Using this method, we estimated a figure of between **€8,6 and €14,8 billion euro being generated in the Netherlands for laundering**. Walker originally estimated generated money for laundering in the Netherlands to be around $18 billion.

Opening Walkers 'black box' makes the model more transparant

Between €8,6 and €14,8 billion comes from Dutch criminal money

Next, we improved the index of attractiveness for the countries in the world as well as the distance deterrence factor to gain improved proportions of money laundering between countries. According to these latest calculations, **44% of the money generated** for laundering from the proceeds of crime in the Netherlands will stay in the Netherlands. This means that (using the lower figure for generated money of €8.6billion) about **€ 4 billion** of criminal money generated in the Netherlands will also stay in the Netherlands.

44% of Dutch criminal money stays

We also find that **$ 26 billion flow to the Netherlands for laundering** from the top 20 countries for generated money. Combining money generated in the Netherlands that is then laundered in the Netherlands and money that flows from other countries, it is approximated that **$ 30 billion are laundered in or through the Netherlands every year**.

$30 billion is laundered in or through the Netherlands

Walker overestimates the Dutch data by 30-40% according to our estimates. If the $26 billion flowing to the Netherlnads are overestimated by the same amount, we end up with an inflow of money between €14 and 21 billion and €3,8 billion generated. This would mean €18 to 25 billion in total, which amounts to almost 5% of the Dutch GDP.

Although much has been accomplished, there are areas for future research. For instance, much more can be gained by looking at specific country ties to the Netherlands. A closer look at money flows between the Netherlands and the top origins of generated money (and top origins of suspicious transactions) could give a much more realistic picture of the Dutch situation.

It may also be helpful to look at the countries in which the Netherlands may be sending hot money such as the Netherlands Antilles. A further weakness of the model is that it is *ad hoc*. Both, the attractiveness and the distance deterrence indicator, are very basic. More work can be done here from both a theoretical and empirical side.
A weakness of the Walker Model is that it only estimates flows leaving a country based on money generated there. For countries like the Netherlands, which seems to be a country where large money flows go through and do not stay, it would be advisable to create a model that can estimate total flows of money leaving the Netherlands, which combines both money generated and money flowing through.

In short, the Netherlands is an important country for money laundering and it in essential to understand its role in the world by gaining the best available information for policy formulation.

Appendix I

In order to test whether our results, in particular the proportions of money for laundering flowing into each country, are robust, we re-estimated the model with different weights given to the variables of the attractiveness and distance indicator.

Explanation of Sensitivity Analysis:

The proportions in the sensitivity analysis in Table 18 are proportions of money flowing from the Netherlands to the other countries. The table should first be interpreted with the headings *dist* and *att* meaning *distance* and *attractiveness* formulas. The attractiveness formula used is

$$Attractivenss = (GDP) * (3 * BS + GA + SWIFT + FD - 3 * CF - CR - EG + 10)$$

where *GDP* is GDP per capita, *BS* is Banking Secrecy, *GA* is Government Attitude, *SWIFT* is SWIFT member, *FD* is Financial Deposits, *CF* is Conflict, *CR* is Corruption, and *EG* is Egmont Group member.

The distance deterrence formula used is as follows

*Distance = language + 3*trade+3 colonial background + physical distance*

In Table 18, dist(3/3)att(3/3) should be read as the original formulas for distance and attractiveness. When performing the sensitivity analysis other values were substituted one at a time for the original values. For example, dist(3/3)att(1/1) should be read

$$Attractivenss = (GDP) * (3 * BS + GA + SWIFT + FD - 3 * CF - CR - EG + 10)$$

and

*Distance = language + 1*trade* + 1* *colonial background + physical distance*

The only change made was that now trade and colonial background are multiplied by 1. Table 18 should be read in this way. The output of each of these trials is a proportion of money flowing to each of the stated countries from the Netherlands based on the weights used.

Country	dist(3/3)att(3/3)	dist(3/3)att(1/1)	dist(3/3)att(1/3)	dist(3/3)att(3/1)	dist(1/1)att(3/3)	dist(1/1)att(1/1)	dist(1/1)att(1/3)	dist(1/1)att(3/1)
China	0.0002	0.0006	0.0001	0.0006	0.0002	0.0006	0.0001	0.0006
France	0.0115	0.0107	0.0111	0.0112	0.0155	0.0147	0.0153	0.0150
Germany	0.0102	0.0110	0.0114	0.0099	0.0135	0.0148	0.0154	0.0131
Italy	0.0090	0.0081	0.0084	0.0088	0.0112	0.0101	0.0106	0.0108
Luxembourg	0.0449	0.0409	0.0424	0.0436	0.0617	0.0573	0.0596	0.0598
Netherlands	0.4418	0.4718	0.4890	0.4298	0.3184	0.3463	0.3607	0.3088
Russia	0.0018	0.0018	0.0003	0.0029	0.0021	0.0021	0.0003	0.0034
Switzerland	0.0198	0.0161	0.0167	0.0193	0.0262	0.0217	0.0226	0.0254
United Kingdom	0.0079	0.0100	0.0062	0.0107	0.0109	0.0140	0.0088	0.0147
United States	0.0049	0.0062	0.0035	0.0071	0.0048	0.0062	0.0034	0.0068

Country	dist(1/3)att(3/3)	dist(1/3)att(1/1)	dist(1/3)att(1/3)	dist(1/3)att(3/1)	dist(3/1)att(3/3)	dist(3/1)att(1/1)	dist(3/1)att(1/3)	dist(3/1)att(3/1)
China	0.0002	0.0006	0.0001	0.0006	0.0002	0.0006	0.0001	0.0006
France	0.0111	0.0103	0.0107	0.0108	0.0163	0.0153	0.0160	0.0158
Germany	0.0098	0.0107	0.0110	0.0096	0.0142	0.0155	0.0161	0.0137
Italy	0.0087	0.0078	0.0081	0.0085	0.0117	0.0106	0.0111	0.0114
Luxembourg	0.0432	0.0396	0.0410	0.0421	0.0649	0.0598	0.0624	0.0629
Netherlands	0.4260	0.4572	0.4737	0.4146	0.3347	0.3618	0.3772	0.3244
Russia	0.0017	0.0017	0.0003	0.0028	0.0022	0.0022	0.0003	0.0035
Switzerland	0.0191	0.0156	0.0162	0.0186	0.0275	0.0226	0.0236	0.0267
United Kingdom	0.0076	0.0096	0.0060	0.0103	0.0114	0.0146	0.0092	0.0155
United States	0.0048	0.0061	0.0034	0.0068	0.0050	0.0064	0.0036	0.0072

dist= Distance; att=Attractiveness

Formulas: *Attractiveness*= (GDP per capita) * (3*BankSecrecy+ GovernmentAttitude+SWIFTmember+FinancialDeposits – 3*Conflict- Corruption- EgmontGroup+10)
Distance= language+3*colonialbackground+3*trade+physicaldistance
**How to read the table: For the distance formula (dist) all variables are held constant except trade and colonial background. For the attractiveness formula (att) all variables are held constant except Bank Secrecy and Conflict. Numbers in the parenthesis indicate the weights given to the indicator. Dist(3/3)att(3/3) should be read: in the distance formula colonial background gets a weight of 3 and trade gets a weight of 3; in the attractiveness formula, Bank Secrecy and Conflict get a weight of 3.*

3. HOW IS MONEY BEING LAUNDERED?

3.1 Forms of money laundering in the literature

In order to narrow down the potential positive and negative effects for the Netherlands, it is important to get an overview about how money is being laundered, and how specifically it is done in the Netherlands.

As a first phase, Smurfing and Structuring (breaking up a large deposit into smaller deposits which helps avoid the currency transaction reporting requirements) takes place. Then money can be put into the financial sector through different channels (second phase). In a third phase it can be placed into the real sector.

Money laundered in the financial sector

Capital market investments—The launderer can invest the money into financial assets so as to avoid having large amounts of cash. These assets, such as shares and bonds, are generally low risk and so the chances of losing money are small. Furthermore the assets are highly liquid, which means they can be converted back into cash very easily. Laundered funds are co-mingled with lawful transactions.

Bank transactions—The launderer can deposit small amounts of cash into a bank account. The small deposits will fall beneath the reporting thresholds. This is known as smurfing. These funds can then be transferred to a bank in a different country, ideally in one which has a high level of banking secrecy. These funds can be transferred again to any bank in the world. The process of making money transactions to different banks is known as layering, the more layers the harder it is to trace the origins of the money.

Correspondent banking is vulnerable to misuse for money laundering.

Correspondent banking— Correspondent banking is the provision of banking services by one bank (the "correspondent bank") to another bank (the "respondent bank"). By establishing multiple correspondent relationships globally, banks can undertake international financial transactions for themselves and for their customers in jurisdictions where they have no physical presence. Respondent banks obtain a wide range of service through the correspondent relationship, including cash management (for example, interest bearing accounts in a variety of currencies), international wire transfers of funds, cheque clearing, payable-through accounts and foreign exchange services. These relationships are vulnerable to misuse for money laundering. This indirect relationship means that the correspondent bank provides services for individuals or entities for which it has neither verified the identities nor obtained first-hand knowledge of the respondent's customers. In correspondent banking therefore, the correspondent institution must rely on the respondent bank's having performed all of the necessary due diligence and continuous monitoring of its own customers' account activity.

Shell banks, certain offshore financial institutions and banks from non-cooperative countries and territories (NCCTs) are of particular risk to legitimate correspondent banking relationships. (FATF, Report on Money Laundering Typologies, February 2002)

Loan at low or no interest rates—This allows the launderer to transfer large amounts of cash to other people and so avoid having to deposit the money into a bank or other institution. These loans will be paid back slowly and so avoid deposits hitting the reporting threshold. The receiver of the loan is likely to be aware of the dubious nature of the money, but will be put off from reporting it due to the benefits they receive from the preferential loan rates.

Insurance market—One way for the launderer to use the insurance market is to arrange insurance policies on assets, either real or phantom, through a dishonest or ignorant broker. Regular claims on this insurance can then be made to return the cash to the launderer. To reduce the risk of detection the launderer can ensure that the claims made are below the premiums paid so that the insurer makes a profit.

Travelers' cheques—Travelers' cheques can be bought using laundered money from a variety of institutions. It is then easier for the launderer to transfer money over borders especially since there is no requirement to report their movements. Several FATF members have indicated detecting use of travelers' cheques as an instrument for laundering of funds – either alone or in connection with other bearer instruments. In some instances, these cases have involved purchases (for cash) of large quantities of travelers' cheques. (FATF Report on Money Laundering Typologies, February, 2002) These travelers' cheques can then be converted back into cash – the fact that the travelers' cheques are issued by reputable companies means that suspicions will not be aroused.

Bank cheques and bank drafts—According to FATF, the use of bank cheques to move value between persons or jurisdictions is usually not reportable. In most cases, a bank cheque can be issued in any name, and, in many FATF members, identification requirements would not be invoked unless the transaction involved cash or an amount over a specific threshold (or both). (FATF Report on Money Laundering Typologies, February, 2002)

Collective accounts—Collective accounts can be used by dishonest professionals as a way to launder money. As the professional will have a reputable standing with the financial institution they can pay in large amounts of cash and pay it out to a variety of different people. These people will of course be associates of the launderer. This method is a more advanced form of smurfing.

Payable through accounts—This process requires the launderer to have a bank account with a foreign bank that has a payable-through account system with a bank of a different country, such as the US. These accounts give the launderer the ability to conduct business in the second country as if they had a bank account in that country, but not having to submit to those countries banking

regulations. For example, a launderer from, say, Colombia, can bank in the US if the Colombian bank has a payable-through account with a US institution but without having to notify the US financial authorities, which may require a greater degree of evidence of the origin of funds. These types of accounts are set up in the context of correspondent banking relationships.

E-cash—E-cash or electronic cash, is even harder to trace than real cash as the ease with which it can flow around the world makes it twice as hard for the authorities to pick up. Money becomes not a real commodity, but simply a line on a piece of paper or a computer screen. The launderer then does not have to worry about depositing large amounts of cash as the money does not physically exist. All payments and receipts are made electronically. See chapter 6 for futher detail of the risks these pose for the world's FIU's.

On-line banking–Online banking makes it easier for the launderer to conduct transactions as they can avoid having to go to banks and being seen or having to complete many forms. Furthermore, it is much more difficult to trace the operators of these accounts if they never go to banks.

Black market (of foreign currency)—The launderer uses the foreign currency black market both to remove the risk of transporting large amounts of currency and to avoid depositing large amounts of foreign currency in domestic banks – for instance a Mexican drug trafficker having large quantities of US dollars to deposit in a Mexican bank. These foreign exchange traders are used; they themselves are conducting an illegal enterprise and have no wish in attracting attention to themselves by reporting the activities of the money launderer. Furthermore, the exchange traders charge high levels of fees for their services. This costs the launderer money but removes some risk of having high levels of cash on them.

Exchange bureau—A legal way of exchanging money into the currency of choice. This usually requires a corrupt exchange bureau as the levels of cash would raise suspicions. Another way is for the launderer to operate an exchange bureau and thus incorporate the illegal cash as profits on money exchanging. Whilst the launderer would pay tax on these "profits" it gives the launderer a simple explanation on the high levels of cash held. The paid taxes also give an added layer of legality to the funds.

The weak link in the system appears to be with international correspondent banks.

International money transfers—In this context the weak link in the system appears to be with international correspondent banks due to the fact that usually insufficient effort is invested in evaluating the legitimacy of foreign, often developing, correspondent banks and also the fact that the system relies primarily on self-regulation. For example, Al Qaeda used the correspondent network of a Sudanese bank for cross border dealings. These cross border dealings included France's Credit Lyonnais, Germany's Commerzbank and the Saudi Bank in Jeddah in which ABN Amro of the Netherlands has a 40 percent stake (Nawaz, Shahid, 2002, Journal of Money Laundering Control).

Derivatives–These are financial assets and so can be purchased by the launderer in order to invest the cash in reputable enterprises. Again, a disreputable broker is probably needed. These assets are highly liquid and so can easily be resold in order to return the cash back to the launderer. However, derivatives are much more risky than traditional financial instruments.

Money laundered in the real sector

Gambling, casinos—A highly cash intensive business, the launderer can own a casino and claim that the large amounts of cash held are profits from their casino. This requires taxes to be paid but gives launderers a legal cover for their illegal activities. A launderer can also clean cash by converting it into chips at a casino, and then exchanging it back into cash to deposit at a bank and have a cheque from the casino showing a legitimate transaction.

Real estate acquisition—The launderer can invest the illegal cash into property which is generally a non-depreciating asset. This would normally require a real estate agent who is willing to overlook the fact that the launderer wants to pay cash for an expensive asset. This asset can then be sold fairly easily to show a legitimate source of cash.

The catering industry–The catering industry is often used by launderers as it is a highly cash intensive business. It often pays its employees in cash, who themselves often work illegally, and receives it receipts in cash – this provides a justification for the large cash deposits. Usually, the company would have to use various fraudulent accounting practices in order to succeed in such an operation. The cash that is to be laundered is incorporated as profits. Similar exploitation of apparently legal cash intensive businesses can also be found with reference to hotels, cinemas and so forth.

False contracts and documents—This is a way the launderer can avoid paying taxes on the money that has been incorporated as business income. The company enters into contracts with other entities, usually companies owned by the launderer as a way of reducing the taxable income of that company. The second company will either operate below the taxable threshold or in a lower tax bracket so as to reduce the tax liability. In addition, these contracts may be with fictitious entities so that no tax is paid by anyone.

Launders can avoid paying taxes.

Fictitious sales and purchases—This method entails the use of false sales and purchase orders. These can be with legitimate organisations who will have no knowledge that these purchase orders exist. Fictitious sales documents are created to explain the extra income showing in the accounts which has come from illegal activities.

The gold market—According to the FATF, gold offers the advantage of having a high intrinsic value in a relatively compact form. Gold can be bought and sold for currency with little difficulty in most areas of the world. Furthermore, it holds its value regardless of the form it takes – whether, for example, in bullion or as a finished piece of jewellery – it is thus often sought after as a way of facilitating the transfer of wealth. These advantages that gold provides are highly attractive to the money launderer, that is, the high intrinsic value, convertibility, and potential anonymity in transfers. It is used, according to the FATF experts, both as a source of illegal funds to be laundered (through smuggling or illegal trade in gold) and as an actual vehicle for laundering (through the outright purchase of gold with illegal funds).

Most laundering activities involving gold are linked to illegal narcotics trafficking, organized crime activities and illegal trade in goods and merchandise. (FATF Report on Money Laundering Typologies, 2002-2003)

The diamond market—Concealment of the illicit nature of funds is easier here as the identity of the transactor may not be publicly revealed. Furthermore, diamonds and other precious gems afford some of the advantages as those provided by gold –high intrinsic value in a compact form. Diamonds in particular can also be traded with little difficulty worldwide, although there is far more concentration for some aspects of the trade to certain regions. The ease with which diamonds can be hidden and transported and the very high value per gram for some stones make diamonds particularly vulnerable to illegal diversion from the legitimate channels for the exploitation and profit of criminals. (FATF Report on Money Laundering Typologies, 2002-2003)

Purchase of consumer goods for export—The launderer will invest in consumer goods (such television sets, kitchen appliances and so on) because such purchases can be easily transported across borders without arousing suspicions. These goods can then be sold abroad and produce what appear to be legitimate commercial revenues.

Acquisition of luxury goods–The launderer follows a similar logic as in the case of the purchase of consumer goods. These goods can either be kept for personal use or sold for export. One of the qualities of these products, which renders them extremely attractive is the fact that large amounts of cash can thus be transformed into a less conspicuous form. Moreover, it is not unusual for purchasers of luxury goods to pay by cash and questions are unlikely to be asked as the shop is unwilling to upset the purchasers with personal questions.

Over –reporting the revenues of a legal cash -intensive business—This laundering method is common in situations where the launderer uses a legitimate, cash intensive business as a cover for laundering. (such as an exchange business or a restaurant to help justify large currency deposits.) The owner commingles the dirty money with the business's actual revenues, depositing them together into a single bank account. The deposit will not raise suspicions given the cash-intensive nature of the business and the fact that the launderer will over-report the actual revenues, thus being able to justify the dirty proceeds.

Using currency to supplement an apparently legitimate transaction (for example the launderer could pay for a product worth €500.000 with a wire transfer of €300.000 and €200.000 in currency). The currency could be given to the seller under the table, who might be someone operating a currency-intensive business such as a restaurant.

Falsification of foreign trade prices

1. Overpricing imports—an importer who wishes to buy a machinery for 1 million dollars could request that the price be increased by 10 percent so that upon payment of 1.1 million dollars the extra 100,000 be placed into his private bank account in the exporter's country
2. Under pricing exports—an exporter of art works can sell her paintings to a foreign dealer for say 50 percent less than their negotiated value with the understanding that when the payment is made the extra 50 percent be deposited into her foreign bank account in the dealer's country.

Other forms of money laundering

Currency smuggling-This method refers to the physical movement of bulk currency across borders in order to disguise its source and ownership. A launderer smuggles ill-gotten cash into a country with lax (or nonexistent) money laundering laws. It is deposited in an offshore bank account and eventually wired back say, to the United States at a later date. Smuggled cash has been found in bowling balls, coffins and scuba diving oxygen tanks of supposed tourists.

Acquisition of arms—The acquisition of arms with ill-gotten proceeds is particularly common amongst terrorist circles.

Underground banking, informal money transfer networks-Due to their combination of informality, confidentiality, informal control, minimum request of information from customers (which can sometimes be for example, illegal immigrants or legal immigrants with an unclear working status) these informal, naïve channels are extremely attractive and open to abuse. Thus, the said channels might satisfy the demand for illegal financial services and more specifically, serve for purposes of money laundering and financing terrorism (Masciandaro 2004); see also Nawaz, Shahid 2002. If this is indeed the case, this technique might be particularly relevant in the case of the Netherlands due to a high presence of migrant workers and established informal money transfer networks.

Shell companies–These are businesses without substance or commercial purpose and incorporated to conceal the true beneficial ownership of business accounts and assets owned. A number of shell companies are set up in countries known for strong bank secrecy laws or for lax enforcement of money laundering statutes. They can also be in the form of Special Purpose Entities (SPE's) or International Business Companies (IBC's).

The dirty money is then circulated within these shell companies through two methods. The first is the loan-back system and the other the double invoicing system. With a loan-back, the criminal puts the funds in an offshore entity that he owns and then 'loans' them back to himself. According to researchers, this technique works because it is hard to determine who actually controls offshore accounts in some countries. In double invoicing-a method for moving funds into or out of a country-an offshore entity keeps the proverbial two sets of books.

3.2 Typical Dutch forms of money laundering

Most information for this section is sourced from the monetary side of money laundering. We interviewed experts in the Dutch National Bank (DNB) in the division of the capital balance, the division of monetary financial supervisionreports and the Centre for Expertise. These divisions conduct special investigations in banks to secure the integrity of the financial banking system in the Netherlands. The department on trust offices also provided information. This department checks the trust offices in the Netherlands and is now issuing licenses because of a new law introduced in 2003.[77] We presented the list of potential forms of money laundering to these experts and asked them about the specific forms of money laundering in the Netherlands.

- Bank transactions: For amounts less than €10.000, it is sufficient to go to the bank and tell the clerk to send the illegal money to an account in another country without automatically triggering a suspicious transaction report. This is very easy. However, they might get suspicious if the amount is usually large or if the transactor's behavior is seen as suspicious. One can also establish a regular business and use it for money transfers. But in order to do so one needs a bank guarantee.

- Back to back loans: this involves buying real estate in the Netherlands with a Dutch bank guarantee. For example a person takes your money in cash to Paraguay and deposits it in a bank account there. This money is then transferred to Switzerland. The person then purchases real estate in the Netherlands using the bank deposit in Switzerland as a guarantee.

€325 million of money transfers per year.

- Money transfers: via Western Union[78] and Money Gram[79] seem to be important for money laundering, but small in size. The total amount of money transferred by the existing 30 money transfer offices is €325 million per year. According to Kleemans (2002), these relatively expensive money transfers are mainly used for smuggling illegal immigrants and women. Though they are often expensive, they are fast. In 2004, there was for the first time a decline in reported unusual transactions for money transfers. This gave rise to fears of increased underground banking (see below). If we assume that not all money

[77] In Dutch this law is called: Wet op Toezicht Trustkantoren (Wtt), since 17 December 2003
[78] In the Netherlands there are three banks connected with Western Union: Postbank, Cash Express and Goffin Bank. (Kleemans, 2002, p.110)
[79] In the Netherlands there are three banks connected with Money Gram: Grens Wissel Kantoor (GWK), Thomas Cook and American Express (Kleemans, 2002, p.110)

transfers are illegal, this sector is not so important for criminal money flows. The destination of money transfers can be found in MOT annual Reports, listing suspicious transactions. Most of them are money transfers. In 2004 the largest amount of suspicious transactions went to the Netherlands Antilles and had a value of €43 million. With regard to transactions reported and judged suspicious, the nine most susceptible countries for money transfers are the Netherlands Antilles, Colombia, Turkey, Surinam, the Dominican Republic, Nigeria, Spain, Morocco and Brazil. A value of about €80 million was sent from the Netherlands to these countries in 2004.

- Money exchange offices[80]: are a source of illegal transactions (and are also used for tax evasion). Security coupons issued abroad (effectively, this includes bonds, shares and money certificates), mostly issued in Belgium and Luxembourg are exchanged at the Dutch border. The money exchange offices cash these coupons. Later they the coupons are in turn cashed back in Luxembourg and Belgium. The total money flow here is €350 million. This, again looks like a small amount to us. The Eu's savings tax directive (ESD) should reduce this problem in the future. However the ESD preserves banksecrecy arangements for Luxembourg and Austria in the EU and Switzerland outside.

€350 million flows through money exchange offices.

- Trust offices[81]: Trust offices in the Netherlands provide services on the field of tax and law for foreign companies. The foreign companies do not run businesses in the Netherlands; they are only placed in the Netherlands because of tax advantages on royalties or worldwide dividends. This is completely legal. They use a trust office in the Netherlands to manage their corporation. These trust offices have been in the news recently because of some international administration scandals at several multinationals (Gorkum and Carpentier 2004). Since 2003 there has been legislation to cover the supervision of trust offices[82], this supervision is now in the first phase, with the DNB responsible for licensing trust offices. Actual research is not started yet; this is probably the reason that no unusual business has yet been found. There were cases of trust office closures, while some of them did not seek a license. They might have disappeared underground. More might be found once the DNB starts actual research on the licenses. The total amount of money flowing through trust offices is about €8 billion per year.

€8 billion money flowing through trust offices.

- Casinos: Gambling is a sizable enterprise with: about 4500 employees, 12 casinos and a turnover of about €672 million in 2002. Six million visitors spend on average €111 per year (see Holland Casino, 2003). In the 1990s the Council of Casino gambling[83] wrote in a report to parliament that there were about 25 to 30 illegal casinos in the Netherlands who realized an estimated turnover of 50% from the legal

[80] see article about money exchange offices by Dirk van der Wal in DNB Report 2005
[81] In Dutch: trustkantoren
[82] In Dutch: Wet op Toezicht Trustkantoren (Wtt), since 17 December 2003
[83] In Dutch: Raad voor de casinospelen, later transformed into raad voor kansspelen

turnover. (College van toezicht op de kansspelen en Nederlands Kansspel Platvorm (2001), *van Dijck and R. Koning (20003) t' Veer, A. van (1998)).* The amount of illegal casinos seems to have fallen drastically. At the moment there are supposedly only three illegal casinos and by the end of 2005 there should be none.

Recently there has been much media speculation that Holland Casino was a major money laundering institution. The casino in Amsterdam alone was said to whitewash several million euro per year. Altogether it was estimated that about 80% of the money gambled in casinos is criminal money. This was particularly juicy news, because Holland Casino is a quasi-public enterprise. It is a foundation with a Council of Commissioners[84] appointed by the Minister of Justice.

However, if one looks closer at how casinos operate, this does not seem realistic. Holland Casino falls under the Wet MOT and must, therefore, report suspicious transactions (above €10.000). This leads to the preference of customer to stay slightly underneath this limit (Paauw, 2005). In 2003 1576 transactions have been reported of which 509 have been further reported to the Ministry of Justice.

Large winnings are not paid out in cash but are transferred to a bank account. Altogether Holland Casino deposited €17,5 million money directly to winner's bank accounts in 2003. From this, 7,5 million came from unregistered activities at gambling tables from 132 guests. This means that on average €27.000 are being deposited directly into clients bank accounts. (The other €10 million was from gambling machines and jackpots won by 149 guests). The tax authorities are informed, customers are registered at the entrance, a photographs are taken, more than 150 cameras record activities in the gambling hall and so on. Paauw (2005) estimates that not more than €1.5 million can be whitewashed by means of bank transfers through Holland Casino per year.

€1.5 million money laundering through casinos.

The estimates for money laundering through casinos range, between €1,5 million and €480 million (80% of turnover). Most experts interviewed think that money laundering through casinos is negligible and highly exaggerated in the media. A new loophole for money laundering is gambling via Internet. Legal enforcement of it is still very difficult (see Kaspersen, 2005).

[84] In Dutch: Raad van Commissarissen

- Underground banking: Underground banking can be considered as any financial operation outside the conventional or regulated banking and financial sector. Due to its multicultural background, underground banking is popular in the Netherlands. In particular the Surinamese community as well as those from Southeast Asia, South Asia and the Middle East use underground banking in order to send money back to their families. They often use currency exchange offices in food, telephone, and video shops as well as in other small business, which deliver local currencies to their relatives. While these systems have been traditionally used by transnational ethnic networks, globalization and the increased use of intermediaries, these informal systems are being increasingly used by those not normally associated with a particular ethnic group. Traditionally, these systems have been used for the legal purposes of sending money to relatives in other countries. Because these systems are unregulated and unchecked, they have become increasingly attractive to those who would like to be undetected when moving money such as drug traffickers, tax evaders, money launderers and terrorist financiers. Traditionally it was thought that these informal channels could not sustain the flow of large sums of money, but there is evidence, which suggests that these informal systems can indeed sustain large amounts of money (Passas, 2004). According to the DNB in 2003, € 188 million left the Netherlands through formal channels per year. The Police have indications that informal channels are at least this much or a multiple of this amount. According to Dutch experts, it is estimated that between 50 and 500 underground bankers are active in the Netherlands. It is important to realize that part of the money transferred through informal channels are legitimate proceeds but unknown proportions also constitute illicit funds.

Between 50 and 500 active underground bankers in the Netherlands.

- Drugs and cash money smuggled

Smuggling Cash Money out of a country to another country with minimal AML standards and then sending it back via official bank transfers is a popular method. However, there are two hindrances. First, cash is heavy and second, there is the danger of getting caught at the border.
The US government estimated that if two-thirds of illegal drug money (estimated to be 120 billion of US dollar per year) were placed in US banks, traffickers would have to place currency weighing about 1.685.000 lbs in 20-dollar bills. If a drug trafficker sells heroin for one million dollar, he or she must transport 22 pounds of heroin, but ends up with 250 pounds of currency (if there is an equal mix of 5, 10 and 20 dollar bills)(see Cuellar 2003, p.13). This means that there is great incentive to place money into the financial system or to use the cover of an existing cash-intensive business.

Second, smuggled cash is at risk of confiscation. In 1998 customs caught 231 people who tried to smuggle cash money over the border, totaling 34 million guilders. In the first 9 months of 1999 137 people were caught with a total amount of 29 million guilders. Often it was more then half a million guilders. (Kleemans et al. 2002 p. 107-108).

In comparison the latest reports show that the value of drugs confiscated at customs in the Netherlands amounted to about €1 billion.

Table 3.1: Value of drugs confiscated at customs in 2004

Drug	Kilograms confiscated by customs (XTC, # of pills confiscated)	Price per kilogram (XTC, price per pill) in euro	Total value of drugs confiscated by customs in euro
Cocaine	15.080	60.000	904.800.000
XTC	108.000	4,6	496.800
Heroine	332	60.000	19.920.000
Marijuana	6.190	6.000	37.140.000
Hash	10.205	6.000	61.230.000
Total			1.023.586.800

Sources: Drugs confiscated by customs: Beherrsverslag Belastingdienst (2004), Prices: from Smekens and Verbruggen (2004)

- The role of special purpose entities (vehicles)[85]

Special Purpose Entities (SPEs), also known as Special Purpose Vehicles, (SPVs) are companies settled in the Netherlands where non Dutch resident participants are able to earn foreign income in the Netherlands and then to redistribute it to third countries and entities incorporated in third countries. From the Statistical Bulletin of the DNB (June 2003) one can see that in 2001-2002 there were on average €4000 billion per year flowing through these corporations. BFI's are very often used by multinational companies for internal funds transfers between subsidiary companies. To give an example: Esso collects the receipts from all over the world in the Netherlands and then redistributes it to its branches or to financial institutions abroad. The reason why companies such as Esso are based in the Netherlands is very often to reduce global tax exposure. In 2002 there were 12.500 registered BFI's. Eighty percent of them were trust offices (as mentioned above). But these 80% only account for one quarter of all BFI transactions. The very large companies are not represented through trust companies including large oil conglomerates, banks, telecommunication and automobile companies. Data released from the US Commerce Department in 2001 showed that US$107.8 billion in profits from US multinationals has been shifted to SPE/BFI subsidiaries located in 11 top offshore destinations (Sullivan, 2004: 590). Of these the Netherlands held the most with US$ 24.6 billion in company profits, followed by Ireland

In 2002 there were 12.500 registered BFI's.

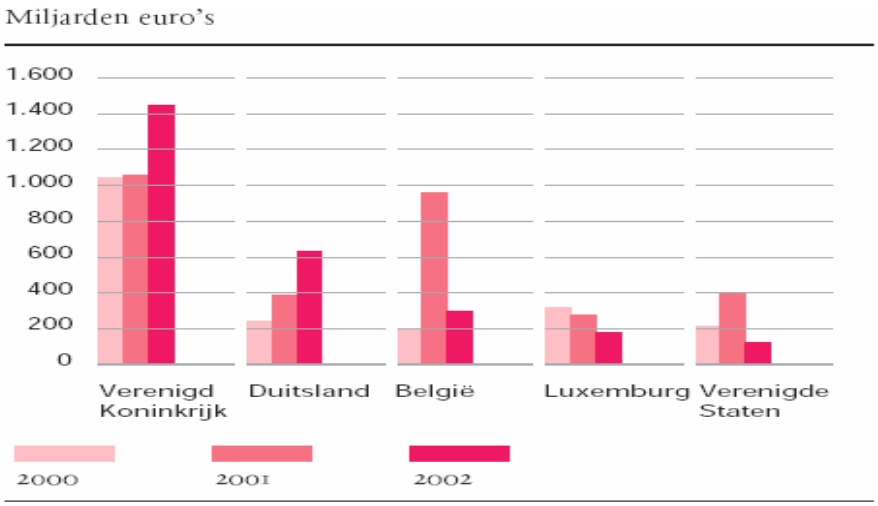
[85] In Dutch: bijzondere financiële instellingen (BFI's)

holding US$19,3 billion. In his analysis of these trends Martin Sullivan (2004: 589) stated that:

Recently released data from the Commerce Department indicate that the IRS cannot prevent U.S. companies from artificially shifting profits to tax haven countries like the Netherlands, Ireland, Bermuda, and Luxembourg. In 2001 subsidiaries domiciled in those four countries were assigned 30 percent of all foreign profits of U.S. corporations, despite accounting for only five percent of the productive capacity and three percent of the employment of foreign subsidiaries of U.S. corporations.

Because the amount that BFIs transfer is so huge they are not included in the balance of payments calculations. From the geographical distribution one can see that in 2002 most transactions went to the UK:

Graph 3.1: Geographical distribution of gross BFI transactions



Source: De Nederlandsche Bank (2003), p. 22

From the bilateral balance of payment for BFI's (Statistisch Bulletin 2003, p.23) one can see that Germany, the UK and the US are the countries where the BFIs have most of their credits; most debits are held in the UK and in many important offshore fiscal centers such as the Netherlands Antilles and the Cayman Islands.

The volume of these transactions is so huge that if only half a percent of the turnover would be used for illegal activities such as money laundering, the amount of criminal money flowing into the Netherlands that we have estimated (€ 18-25 billion) could flow through these entities. Some of the experts expressed that they would not be surprised if 1% of BFI transactions are used for money laundering But a deeper study is necessary in order to gather more evidence. BFIs can be useful and can be abused for criminal purpose.

- Buying jewels: Substantial revenues from wholesale and retail jewellery sales laundered US$ 1,2 billion for Colombian drug kingpins in 18 months in Los Angeles in the operation La Mina, the gold mine (see Cuellar 2003, p.14). In the Netherlands, diamonds might be an easy way to get lightweight valuables. However, as the spending behavior of criminals caught in the next section will show, criminals in the Netherlands do not spend their money very differently from ordinary Dutch people. But maybe, the big drug kings investing in diamonds do not get caught. Here, further research would be necessary**.**

- Changed behavior: Since unusual transactions have to be reported, offenders change money abroad. Other strategies include using third

  parties who have no criminal record, use of employees in the financial sector, investment in exchange offices, use of legal entrepreneurs to exchange criminal proceeds. After money is changed, it is transported abroad for investment in real estate or business. In these cases money does not have to be laundered through the banking sector. Physical transfers of money will do it. Sometimes this is done through bank transfers.

- Following money the Australian way?: Today it is not possible for the DNB to follow the money like AUSTRAC can, even if one would like to. In the past in the Netherlands it would have been in principle possible to trace every transaction, where it comes from, where it goes to, from whom the transaction was made, to whom, thus one could trace the money. But because of the present registration system this is now impossible. The number of reporting units went down from 40.000 to 2.000 in 2003 because of reforms

- Terrorist financing: Sometimes the police seek access to information for an individual case. Normally this is not allowed, but if it is about terrorism it is authorized by court order[86]. Then the DNB shows the police all transfers relating to this person. This was done after September 11, when the DNB got a whole list of suspected persons from the Ministry of Justice and scrutinized their transactions. Here national security comes before privacy protection. But without a court order this is not possible.

  In the Financieele Dagblad of 11 April 2005 there was an article where President Bush stated that he wanted a precise tracing of money in order to fight terrorism. For terrorists there are also questions on MOT reporting forms, there is a list of suspicious people available and transactions must be reported where they are made by these listed individuals.

Money laundering techniques by types of crime from case studies

[86] In Dutch: gerechtelijk bevel

In 52 cases Meloen et al (2003) researched the frequency and types of transactions that point to money laundering. They found out that in 46 of the 52 cases there were forms of dealing with criminal money that has a connection with money laundering. The specification of which form of money laundering they found by the different types of crime can be seen in the table on the next page.

Tabel 3.2: Frequencies of suspected types of money laundering

		Classification according to criminal categories (%)					
	N	soft drugs	hard drugs	multi drugs	fraud	fiscal fraud	other
1. Payment phase							
Exchange foreign countries	2			10%			
Exchange NL	2		6%	5%			
Payment foreign countries	6	12%		14%	4%		
Payment NL	5	6%	17%			6%	
Transfer to foreign countries	4	6%	17%				
Transfer to NL	2	6%			4%		
total of payment phase	**21**						
2. Cover up phase							
Money export	9	6%	22%	19%			
Cash withdrawal	4			5%	4%	6%	25%
Use of false documents	22	5%	6%	10%	32%	50%	50%
Use of false turnovers/ bookkeeping	6	5%	6%	6%	8%	6%	
Construction of legal persons	16	18%		5%	28%	25%	25%
Other ascription	3	12%		5%			
transposition into value bearers	4	6%	6%		8%		
Back loan construction	4	6%	6%	5%	4%		
total cover up phase	**68**						
3. Integration phase							
Real estate NL	2				4%	6%	
Real estate foreign.	2		6%	5%			
Real estate NL and foreign.	1			5%			
Moveable property NL and foreign.	2		6%		4%		
(irregular) business investments	5	12%	6%	10%			
total integration phase	**12**						
total % of cases		100%	100%	100%	100%	100%	100%
total number of cases	101	17	18	21	25	16	4

Only cases which are suspected of money laundering; not all real-estate-investments of the 52 cases; the total of the vertical percentages is more than 100% due to round offs.

Source: Table 15.1 in Meloen, J., R. Landman, H. de Miranda, J. van Eekelen, S. van Soest, m.m.v. P.C. van Duyne and W.A.C. van Tilburg, Buit en Besteding: een emperisch onderzoek naar de omvang, de kenmerken en de besteding van misdaadgeld, Studiereeks recherche deel 12, Elsevier overheid, 2003, p.259

Representativeness of the data

The 52 cases that are researched in 'Buit en Besteding' do not seem to be representative for the total population of criminals. The selection of the cases is based on the amount of information present in the files. The fact that this selection is biased seems to be logical only criminals who get caught are in the selection. This can lead to an over- or an underestimation. Criminal organizations who are successful and do not get caught could be larger and are making more profit from the crimes they commit than the criminals that get caught. On the other hand, if a criminal organization grows in size, this might increase the chances of detection, which would mean that big criminals get caught. The conclusion from this is that it is unclear if these 52 cases represent an over estimation or an under estimation.

An important further step suggest that it is important to get more information from criminal statistics, criminologists and criminal sociologists with regard to the underlying population from the sample. This would illustrate the probability of getting caught once or twice (and would not only be applicable for those who have been in prison already) for different types of crimes and could be used to calculate the population of criminals.

4 THE EFFECTS OF MONEY LAUNDERING IN THE LITERATURE

4.1 The literature search on the effects of money laundering

We first did a systematic literature research on the effects of money laundering. We started the literature survey with the pre-study ('voorstudie') of the Ministry of Finance and its references. We then researched the publications of international organizations involved in the topic: the IMF, the World Bank, and the OECD. On the website of the International Monetary Fund (IMF) we found 906 hits for the term "money laundering". The website of the World Bank did not reveal further interesting material, since the World Bank does much of its work on this issue with the IMF.

The Financial Action Task Force provided us with useful information especially in the form of FATF annual reports (1990-2004), the "FATF forty recommendations" and "Basic Facts about Money Laundering".

For more theoretically based articles, we then searched the economic search bank Econlit. Econlit is an electronic bibliography of economic literature throughout the world. It includes articles from over 750 journals[87] and over 44 thousand working papers. Searching for the term 'money laundering' gave us 56 hits.

To find relevant books about the effects of money laundering we searched in the libraries of Utrecht University. The search engine gave us 30 hits when searching for the term 'witwassen'[88] and 23 hits for searching for the term 'money laundering'. We extended this search by using the NNC. NNC is the 'Dutch Central Catalogue'[89], this is a database with the books of many Dutch libraries. In total there are around 14 million books and 500 thousand magazines included in this database. Searching for the term 'witwassen' gave us 119 hits, searching for 'money laundering' gave us 82 hits.[90] In addition to the searches made above, the Journal of Money Laundering Control and the journal of financial crime were searched for relevant articles dealing with economic effects.

As a next step we classified the literature we had researched. Although as mentioned above, we found numerous articles dealing with money laundering, the studies that actually discuss economic effects are far less numerous. In most studies, economic effects are briefly listed as an exemplification of the 'ills' of money laundering and thus, as indicative of the need for a stronger effort to combat this phenomenon. In the bibliography we refer to all the literature, which we found useful to classify. Altogether, we found 25 different effects of money laundering mentioned in the literature.

[87] For a complete list of all journals included in Econlit: http://www.econlit.org/journal_list.html
[88] 'Witwassen is the Dutch term for 'money laundering'
[89] This is a translation from: 'Nederlandse Centrale Catalogus'
[90] Obviously, there is a lot of overlap between these search results

Most of these studies remain speculations about what might happen. Only five of them seriously tried to empirically measure some of the effects of money laundering (see section 4.3). Below you will find an explanation of all the effects found in literature.

4.2 The effects of money laundering in the literature[91]

The following section gives an overview of the literature on the potential effects of money laundering. We could identify 25 different effects of money laundering during our literature survey. The first is the direct effect of crime on the victim and the perpetrator. The following (2-8) refer to effects on the real sector, i.e. on business activities, on relative prices, consumption, saving, output, growth. The next two (9-10) refer to effects on the public sector (revenues, privatization efforts). The next ones (13-17) refer to effects on the monetary economy and the financial sector. Then the social effects (18-21) are discussed such as increased crime, corruption and contamination of legal activities through illegal activities. The political effects (22-24) are mentioned, the undermining of political institutions. The last effect, terrorism, is dealt in more length, since there is an ambiguous relationship between money laundering and terrorist financing.

The 25 effects are listed below and summarized in a table at the end of this section. Many of the effects of money laundering do not occur immediately or in the short run but pose long-term dangers for the economy, the society and politics.

4.2.1 *Losses to the Victim and Gains to the Perpetrator*

Money laundering is associated with the commission of a predicate offence (i.e. fraud, theft, drugs, tax evasion etc). This entails that resources are illegally and unfairly transferred from the control of the victim to the offender. The illegal nature of the proceeds of crime renders the laundering activity necessary in order to make the wealth appear as if it was derived by legitimate means. Thus, money laundering contributes to the process of unfair reallocation of wealth from the good to the bad by rendering detection extremely difficult and allowing criminals to enjoy the fruits of their crimes undisturbed. As MacKrell (1997, p. 3) points out, "money laundering helps make crime worthwhile. It helps give legitimacy and even respectability to some of the most unworthy in society. It gives economic power to criminals and takes it from the law abiding tax payer" (see also Camdessus 1998, Walker 1995). That is to say, as a result of money laundering, crime pays off.

This direct effect of money laundering, the losses to the victims of crime and the gains to the perpetrators of crime are also mentioned by the IMF (Camdessus 1998, p. 2) and by AUSTRAC (the Australian FATF organization, see Walker (1995). The costs and gains of money laundering have been estimated by Walker (1992) in a survey for Australia.

[91] In the following, the term ip means that it is not the official page number used, but this is the page number that you will get if the document found on the Internet (without page numbers) is printed out.

4.2.2 *Distortion of consumption*

Once the money is transferred from the victim to the offender, the latter will use the money in a different way than the former. The spending patterns of criminals might be different from those of the ordinary citizens (Meloen et al 2003). Furthermore, the money laundering activity itself involves the purchase of assets such as real estate, jewelry, art and other luxury products, since such assets give launderers the possibility to conceal large amounts of illicit money without arousing suspicion (Barlett 2002, p. 19). These spending choices may differ from those of the victims who could have intended to use the money for their everyday expenses, old age, 'rainy days' (Walker 1995, p. 30). This triggers a multiplier effect through the economy from a) the reduced and different spending of the victims and b) the increased and different spending of the criminals. The net effect is, according to Walker (1995) who tries to measure this effect, the collateral damage to the national economy Thus, as Walker (1995, p. 31f) points out "those industries supplying goods and services to the superannuates will suffer a reduction for demand for their services, and this will ripple through their suppliers and their supplier and so on. At the same time, the industries supplying goods and services to the launderer will experience an increase in demand, which will ripple through their suppliers and so on." The effect of these two sets of ripples is a net loss to the economy as a result of money laundering operations.

In order to measure the multiplier effects from reduced consumption of the victims and from increased spending of the criminals empirically, Walker used input-output tables. (See section 4.3)

4.2.3 *Distortion of investment and savings*

The negative impact of money laundering on investment stems mainly from the fact that in their investment choices, money launderers are primarily guided by the desire to escape control and detection rather than by investment return maximizing considerations.

However, these investment choices can be detrimental to the economy because they lead to a redirection of funds to assets that generate very little economic activity or employment. (Barlett 2002, p. 19).

Money launderers tend to opt for investments that afford them the largest degree of concealment even if this entails lower rates of return. This diverges income from good investments to risky and low-quality investments.

Fullerton and Karayannis provide evidence that this is prevalent in the United States, where funds from tax evasion are directed to risky investments in the small business sector (Fullerton and Karayannis (1993) paraphrased in Quirk 1996).

Money laundering causes a misallocation of resources due to distortions in relative assets and commodity prices arising from money laundering activities (McDonell 1998 and McDowell 2001). Money launderers are not looking for the highest rate of return on the money they launder, but for the investment that most easily allows the recycling of the illegally obtained money. Money may move from countries with good economic policies and higher rates of return to countries with poorer economic policies and lower rates of return. This implies that the world capital is invested less optimally than would occur in the absence of money laundering (Tanzi 1997).

Money laundering redirects income from high savers to low savers or from sound investments to risky, low quality investments. There is evidence that funds from tax evasion in the US are channeled into riskier but higher yielding investments in the small business sector. Similarly, crimes against the person, such as thefts and kidnappings, seem likely to be directed at wealthier individuals and thus be biased against savings (Quirk 1997, p. 19).

4.2.4 *Artificial increase in prices*

Launderers have an incentive to invest their illegal proceeds in an attempt to disguise their illegal origin. Consequently, they are willing to pay for particular assets more than their actual worth as well as to purchase otherwise unappealing property or enterprises simply because it gives them the possibility to increase their share of a particular market and gain stronger foothold in a particular economy (Keh 1996, p. 5). This will lead to an artificial increase in prices. For example, in Colombia it appears that in the 1980s the Mendellin group bought large tracts of land, which pushed prices up from $500 to per $ 2,000 hectare (Keh 1996, p. 5). Similarly, investments in the capital market could work the same way leading to an artificial increase in share prices.

4.2.5 *Unfair competition*

Gresham's law that 'bad money drives out good money' seems to apply also to money laundering. Holding on to illicitly obtained cash is incriminating for offenders. Consequently, they will attempt to convert it into assets (i.e. real estate, business), which are less conspicuous and can give the appearance of legitimate wealth. To achieve this aim, money launderers engage in extensive purchases and due to their large availability of funds, they will be able to outbid potential honest buyers (Walker 1995, p. 33). Furthermore, since their interest in the respective asset does not stem from its actual value but rather from the benefits that accrue to them in terms of concealment, they are willing to pay far more than the true value of the asset. This will artificially drive purchase prices up and make them unaffordable to honest buyers (Walker 1995, p. 33).

Moreover, if launderers acquire and operate a business and use additional criminal funds to subsidize it, this provides them with a competitive advantage over legitimate ventures to the point where they will drive them out of business (Keh 1996, p. 5). This assertion can be substantiated by the study conducted by Arlacchi (1986) on the anti-competitive business behavior of the mafia. It appears that "the considerable capital sums acquired in the course of the mafia's illegal activity did in fact tend to be transfused into its legal entrepreneurial operations. (...) The mafia had access to a reserve of its own finance capital that far exceeded the firm's own present dimensions—and far exceeded what was available to non-mafia firms, which often found themselves squeezed by lack of credit and therefore subordinated to finance capital." (Arlacchi 1986, p. 102-103).

4.2.6 *Changes in imports and exports*

Money laundering activities can also bring about a distortion of a country's imports and exports. As mentioned above, money launderers tend to engage in (often imported) luxury consumption. As a consequence, there will be balance of payments problems. Such imports do not generated domestic economic activity or employment and can depress domestic prices, thus reducing the profitability of domestic enterprises. This appears to be particularly the case in developing countries (Barlett 2002, p. 20).

Furthermore, money laundering affects imports and exports in terms of prices. One of the most common tactics used for laundering money and generating illegal flight capital is to overprice imports and to under price exports (Baker 1999, p. 33). For example, an importer of particular foreign machinery could make an agreement with the seller that the purchase price be increased by a considerable margin (e.g. 30 %). The purchaser can pay the seller the whole sum in cash on the understanding that the addition in price (*i.e*. the 30%) be placed on his account in the foreign country. Clearly, if these activities are conducted recurrently and on a large scale this can artificially affect import and export prices.

4.2.7 *Negative (or positive) effect on growth rates*

Money laundering has a significant negative impact on growth rates. Since in the context of this activity, funds are redirected from sound to risky ventures, from productive to sterile investments and crime and corruption are facilitated, economic growth can suffer (Barlett 2002, p. 1). When a particular venture or industry is no longer appealing to launderers, they tend to simply abandon it, potentially causing the collapse of these sectors and serious damage to the respective economies (McDowell 2001). Moreover, through its damaging effect on financial institutions, which is crucial for economic growth, as well as through its distorting effect on the allocation of resources, laundering further dampens economic growth (Tanzi, 1997, p. 96). These assertions appear to be corroborated by the empirical study conducted by Quirk in 18 industrial countries for the period 1983-90, which found that reductions in annual growth rates were associated with increases in money laundering activities (Quirk 1997, p. 6).

Money laundering can also have positive effects on growth. For example, if a country is a transfer country for criminal money flows, additional value added is then created for financial services without the countries having to bear the costs of crime. Money is simply flowing through.

If money is transferred from the country with criminal activities to the laundering country, then the latter does not bear the negative effects of predicate crimes associated with money laundering. It benefits from crime abroad; it is a free rider on criminal activities. This is particularly the case for countries with less strict anti-money laundering regulations than neighboring countries because less strict regulation can have a positive effect on the capacity of attracting illegal capital. The reverse is true as well. The more strict the anti-money laundering regulations, the more the country will suffer from a negative externality effect, the inability to attract illegal capital (Bagella, Becchetti and Lo Cicero 2003).

4.2.8 *Effect on output, income and employment*

Money laundering also reduces output and employment by diverting resources, as mentioned above from sectors with high additional productivity (*i.e.* clothing, footwear) to sterile sectors (i.e. dwelling properties, jewelry, art). The multipliers for the latter are the lowest in terms of output, income and employment thus, resulting in a net loss to the total economy regardless of where the money would have otherwise been spent. Walker (1995, p. 32) tries to measure these effects by means of an input output model and he estimates that if $1 million of laundered money is invested in dwelling properties rather than in more productive sectors of the economy this would result on average in a net loss to the Australian economy of $ 1.126 million of output, $ 609, 000 of lost income and 25 lost jobs (Walker 1995, p. 33). Once these figures are multiplied by the actual amount of money laundered, the effects become stark indeed.

4.2.9 *Lower revenues for the public sector*

Money laundering can have a detrimental effect on government revenues by decreasing government income from tax. Money laundered, also represents income that evades taxes (Quirk 1996, p. 19 and Alldridge 2002, p. 315). Misreporting or underreporting income is one of the most common methods of conducting money laundering. Consequently, money laundering negatively affects tax collection efforts.

At the same time, an increase in predicate offences and money laundering demands public enforcement expenditure, which further draws on public revenues (McDonell 1998, p. 10). This will indirectly impact honest taxpayers by bringing about an increase in tax rates.

A point not mentioned in the literature is that money laundering can also increase the revenue of the public sector. Criminals want their money to be "legal". To pay taxes on income is a way of doing this. Non-existent high turnovers from restaurants with no clients in them are sometimes voluntarily declared to the tax authorities. This way, the illegal money is turned into taxed legal money.

4.2.10 *Threatens privatization*

Money laundering can have extensive detrimental effects to privatization efforts. First as discussed above in the context of unfair competition, money launderers can outbid honest purchasers for formerly state-owned enterprises (McDowell 2001). This will result in a large-scale criminal presence in the economy. Criminals are driven by other considerations than conventional business entrepreneurs and react to different stimuli. For example, "the criminal proprietor will occasionally shift output and pricing patterns according to non-economic factors: like feeling a police crackdown or changing investment locations because of the passage of constraining legislation" (Keh 1996, p.11). As a result, significant sectors of the economy could become insulated from market-oriented stimuli, which can further prolong the readjustment process of the newly privatized economy. Additionally, it will also bring about a speculative and anti-competitive approach to conducting business in these sectors.

Furthermore, as a result of structural economic change, these economies become highly susceptible to informal and illegal lending arrangements conducted by money launderers. Such developments have been extensively documented in reforming economies, Russia being a notable example (Keh 1996, p. 15-19). As part of the process of economic reform and liberalization process, governments liberalize prices. This brings about an increase in consumer and producer prices. Faced with a continued rise in producer prices and an associated decrease in consumer expenditure, firms lack the ability to finance production or alternatively are swamped in accumulated inventories of unsold output and increasing debt. As a result, firms display a stringent need to resort to credit.

However, banks of reforming economies have serious difficulties in meeting credit needs. Their portfolios are burdened by the extensive volume of debt of weak state enterprises and thus, will tend to cut back on lending as well as increasing lending rates (Keh 1996, p. 7). Unable to obtain the much-needed credit from the formal lending system, firms struggling with liquidity problems will seek credit in the informal system. Criminals and money launders do not face similar lending problems as domestic banks. The criminal lender has a great availability of funds and is not burdened by high transaction costs (i.e. repayment delays) (Keh 1996, p. 7). Consequently, they have a competitive advantage over domestic banks. They can afford to provide slightly lower lending rates as well as more attractive deposit rates and, thus, even drive legitimate lending institutions out of the market. To sum up, informal lending arrangements provided by money launderers and other criminals can prolong the adjustment process of privatizing economies. They particularly impact the

banking system and its reforming process. With criminal lending alternatives in the economy, commercial banks remain a marginal source of credit (Keh 1996, p. 17).

4.2.11 *Changes in the demand for money, exchange rates and interest rates*

Money laundering also affects the money demand. The IMF found that a 10 % increase in crime results in a 6% reduction in overall money demand (Quirk 1997, p. 3). A 10% increase in crime, will, furthermore, discourage the demand for this country's currency equally by 10%. Money laundering can, therefore, have a negative impact on the demand for money, on the exchange rate and on interest rates.

Traditionally, money laundering would bring about an increase in money demand but this trend has lately been inversed due to changes in money laundering methods from cash and the banking system to non-monetary instruments and barter (Quirk 1997, p. 3). Needless to say, these shifts in money demand and capital flows from one country to another are unanticipated and not related to economic factors and to this extent they bring instability to the world economy. In other words, they "could have internationally destabilizing effects because of the integrated nature of global financial markets. The destabilizing effects could arise because these capital movements would not be seen to reflect differences in economic fundamentals across countries. Thus, they send confusing signals to the world community." (Tanzi 1996, p. 8).

4.2.12 *Increase in the volatility of interest rates and exchange rates*

Money laundering leads to volatility in exchange rates and interest rates due to unanticipated inflows and outflows of capital (Tanzi 1996, p. 8, McDonell 1998, p. 10, Camdessus 1998, p. 2, FATF 2002a, p. 3 and Boorman and Ingves 2001, p. 9). As Tanzi points out, a large inflow of laundered money can result in the appreciation of the exchange rate and/or an expansion of the country's monetary base (Tanzi 1996, p. 8). An increase in exchange rates is associated with a reduction in exports and a heavier reliance on imports whereas an expansion of the monetary base would bring about an increase in prices (Tanzi 1996, p. 8). Additionally, as mentioned above, interest rates are also affected because launderers invest funds where their schemes are less likely to be detected rather than where lending rates are lower or rates of return are higher. Moreover, due to the unpredictable character of such choices impacting economic fundamentals, the soundness of economic policy is also affected (McDowell 2001).

4.2.13 *Greater availability of credit*

If there is an infusion of criminal funds, this could lead to a greater availability of credit even for legitimate businesses. As a result of money being laundered through banks, they will have more deposits, which will entail a greater availability of funds they could potentially loan.

If this effect is large enough, it could conceivably make interest rates go down. This argument holds for closed economies and for big countries that can still set prices and interest rates at the world market.

In a small open economy, however, this argument does not hold, since interest rates are determined at the global market and with indefinite capital mobility, funds available are almost unlimited.

4.2.14 *Higher capital in- and outflows*

Money launderers can channel funds towards financial institutions or countries in which the money can be most easily placed without too many questions asked. This can lead to capital flight from countries with sound economic policies and higher rates of return to countries with less efficient policies and lower rates of return (Tanzi 1996, p. 6). Thus, as Tanzi points out, "because of money laundering, the world capital tends to be invested less optimally that would be the case in the absence of money laundering activities."

Money laundering could have a reverse impact on economic policies recommended by the IMF, aiming at fighting inflation by means of a reduction of the money supply. In such circumstances, a strong influx of illegally obtained hard currency in the economy can conceivably be beneficial for employment by serving to increase the country's foreign reserves, decreasing its foreign debt as well as alleviating some of the difficulties associated with policies aimed at reducing expenditure (Keh 1996, p. 4). The anti-inflation policy however will be ineffective.

Furthermore, "drug money could be a potentially stabilizing force, as a source of capital without the strings of conditionality attached." (Keh 1996, p. 4). However, one should not be too quick in proclaiming the benefits deriving from money laundering. There are *always* a multitude of costs attached. The problem inherent in a heavy infusion of illegal hard currency is that they escape government control. As a result "spending behavior becomes influenced not only by the official money supply but by the infusion of informal credits as well. In turn, the demand for money in the official banking system reflects only a part of domestic economic activity. Interest rates become less useful as a barometer of money demand."

4.2.15 *Changes in foreign direct investment*

The damaged integrity of the financial sector as a result of its association with money laundering and the entrenched presence of organized crime can negatively impact foreign direct investment. Once a country's commercial and financial systems are perceived as being under the influence of criminal elements, this may compromise the jurisdiction's reputation and undermine investor's trust. Thus, appearing on the black lists published by the FATF and OECD can have serious detrimental effects for foreign direct investment (Boorman and Ingves 2001, p. 9).

At the same time however, if perceived as a lax regulatory environment and a tax haven, the respective country will increasingly attract capital of an illegal nature and can draw significant benefits thereof especially if the money is directly invested in the economy rather than simply transiting through the country (Boorman and Ingves 2001, p. 9 and Walker 1995, p. 34).

4.2.16 *Risks for the financial sector, solvability, liquidity*

The effect of laundering on the financial sector is of additional concern. When conducted in large amounts, it particularly impacts banking solvability or liquidity and hence, compromises bank soundness (McDowell 2001 and Alldridge 2002, p. 309). Launderers' economic behavior and choices are less predictable than those of conventional investors. Consequently, financial institutions or groups of such institutions could make wrong policy choices concerning the proportion of assets that they need to keep liquid, and as a result, become unable to satisfy unexpected solvability requirements and/or even collapse (Alldridge 2002. p. 310). Given the integrated and interrelated nature of the financial system this could further create risks of systemic crises and, monetary instability (McDonell 1997, p. 10).

4.2.17 *Profits for the financial sector*

The opposite argument could also hold true in certain circumstances. Banks, investment funds etc might actually regard launderers as desirable customers. As long as they are ensured secrecy, launderers will not be very picky about the rates of return provided. In other words, "they will not care whether or not the highest interest rates are available. They will be happy to receive a lower or even a negative rate. The bank need not make any risky investment with their money and it can conform easily to any liquidity requirements." (Alldridge 2002, p. 310).

4.2.18 *Reputation of the financial sector*

The great majority of authors are concerned with the effects of ML on the reputation of the financial sector. Organized crime can infiltrate financial institutions (FATF 2002a). Money laundering impairs the development of the financial sector for two reasons: First, it erodes financial institutions themselves; there is a correlation between money laundering and fraudulent activities undertaken by employees. Second, customer trust is fundamental to the growth of sound financial institutions. (Bartlett 2002).

Once a financial institution becomes involved in money laundering operations and this is subsequently detected, it will loose credibility and customer confidence (Barlett 2002). Due to the perceived risk of fraud and corruption associated with money laundering, economic agents will choose to avoid such institutions and conduct their business elsewhere. This negative effect is not restricted solely to the institutions implicated.

In the context of smaller countries, the involvement in money-laundering operations of several of its financial institutions can result in the loss of reputation of the financial system as a whole McDonell 1997, p. 9). Furthermore, even the potential for such an involvement is sufficient to damage financial credibility. As an illustrative example, McDonnell cites the Seychelles, which in 1996 passed legislation affording immunity from prosecution to anyone placing at least $10 million in certain investments. The aforementioned law was viewed by the international community as encouraging money laundering and brought about a warning to banks to deter from engaging in financial transactions with the Seychelles (McDonell 1997, p. 10). For a more recent update on the Seychelles see Rawlings and Unger (2005).

4.2.19 *Illegal business contaminate legal business*

Illegal transactions can contaminate legal ones. According to Quirk (1997, p.4), certain perfectly legal transactions involving foreign participants are reported to have become less appealing as a result of alleged association with money laundering. Quirk does not provide any evidence in support of his assertion, which was subsequently taken up as a given in the literature (FATF 2002a, p. 3 and Camdessus 1998). His contention seems, however, logically given that association with money laundering or even just the possibility of such an association leads, as discussed above, to erosion of other economic agents' confidence. On the other hand, it is also likely that such transactions and enterprises will become more appealing in launderer circles. By gaining a reputation of willingness to co-operate with launderers, they could potentially attract illegal capital (Alldridge 2002, p. 315).

4.2.20 *Distorting economic statistics*

Furthermore, money-laundering activities could bring about errors in macroeconomic statistics, which can subsequently give rise to errors in policy making (Tanzi 1997, p. 10). This happens primarily for two reasons. First, money launderers base their investment choices not on the usual economics considerations but instead they are primarily motivated by other factors such as avoiding detection, low penalties, etc. (Alldridge 2002, p. 306). Thus, capital movements associated with money laundering are often counter-intuitive from an economics point of view. As a result, policy makers could get confused and make erroneous policy judgments on the basis of these unusual capital movements. As Tanzi explains, "policy makers of a country, that, in the face of high inflation, overvalued exchange rate, and a large fiscal deficit experienced capital inflow might be less inclined to change their current policies." (Tanzi 1997, p. 96).

Second, money laundering can skew economic data due to the difficulty to measure the exact scope and implications of this phenomenon (Quirk 1997, p.4). When money laundering takes place on a significant scale, it is essential for the policymaker to take it into account. Failure to do so, or alternatively, an under or overestimation of the exact scope of this activity can lead, once again, to mistaken policy decisions.

4.2.21 *Corruption and bribery*

Money laundering promotes corruption and bribery not only in financial institutions but also in whole sectors of the economy. First, it affects the financial institutions through which criminal proceeds are being processed (FATF 2002a, p. 3, Barlett 2002, p. 2 and Schroeder 2001). Laundering needs not only financial institutions but also lawyers and notary publics who cooperate (see Kleemans 2000). These institutions and professions become vulnerable to corruption by launderers seeking to further infiltrate and gain a foothold in a particular market. Thus, "the (respective) institution could be drawn into active complicity with criminals and become part of the criminal network itself" (FATF 2002a, p. 3). This starts a veritable snowball effect and if successful, launders will expand and corrupt professionals (i.e. lawyers, bankers, accountants) (Alldridge 2002, p. 308) and public officials responsible for financial market regulation. "Money laundering activities can corrupt parts of the financial system and undermine governance of banks. Once bank managers have become corrupted by the sizable sums of money involved in laundering, non-market behavior can be introduced into operating areas other than those directly related to money laundering, which creates risks for the safety and soundness of banks." (Alldridge 2002, p. 308).

Hence, the corrupting effect is not restricted to the financial sector. Once launderers have infiltrated a particular economy, they will further invest or bribe public officials in order to gain control of large sectors of the economy (Alldridge 2002, p. 308). Once established, they will drive out legitimate business competitors and introduce a parasitic, anti-competitive approach to business (Keh 1996, p. 11). Also "the balances accumulated after laundering could be used to corner markets or even smaller economies to the extent that they remain controlled by large-scale organized crime interests." (Quirk 1997, p. 19). The growing economic and political influence of organized crime will affect not only the economy but also the society at large by eroding the social fabric and predating collective ethical standards (FATF 2002a, p. 3).

4.2.22 *Increases crime*

Money laundering can be regarded as a multiplier of criminal activities, giving economic power to criminals. As such, it makes crime worthwhile by permitting offenders to make use of the proceeds of their crimes (*i.e*. criminal proceeds are less valuable to the criminal than laundered funds) and hence, can further encourage criminal behavior (Mackrell 1996). Additionally, "there is the contamination bred by contempt for the law, because one aspect of law is broken, other financial infringements seem easier to make." (Quirk 1997, p. 19).

Money laundering can also facilitate crime because it provides criminal organizations with apparently legitimate funds, which they can use to subsidize, diversify and expand themselves (Levi 2002, p. 183). That is to say, "money laundering is inextricably linked to the underlying criminal activity that generates it. Laundering enables criminal activity to continue." (FATF 2002a, p. 3).

It is important to clarify, however, that this does not hold true for tax havens and countries with lax anti-money laundering regulations that purposefully try to attract criminal funds. In such countries, there is a negative relationship between crime and money laundering; the negative effects of crime are primarily suffered abroad (Masciandaro 2004a, p. 135-163). This becomes salient from a cost-benefit analysis. A policymaker will choose to pursue lax anti-money laundering regulations only if the expected national benefits

outweigh the expected national costs. If money laundering would be associated with a sudden increase in predicate offences, the costs of regulations that favor money laundering become too high and the policymaker will choose not to pursue it because it would lead to public dissatisfaction (Masciandaro 2004a, p. 135-163). Hence, "some countries which do not bear the costs associated with money laundering become predisposed to adopting lax regulations that facilitate money laundering. The other side of the coin is that both criminal and terrorist organizations and those who bear the costs stemming from money laundering will 'naturally' tend to be situated in countries other than the one where the regulations are adopted." (Masciandaro 2004a, p. 137).

4.2.23 *Undermines political institutions*

If a cartel of money launders manages to gain a hold over significant parts of the economy, they could further attempt to increase their political control as well as a means to furthering their goals and ensuring that the authorities do not introduce stricter anti-money laundering controls. These goals can be achieved through corruption, bribery or even tampering with national elections, which would affect the very core of the democratic process. As pointed out by Tanzi " these criminal elements may corrupt the political process of particular economies by financing candidates who may be more likely to let these elements have their way. When the money involved is so large and the pay off to the criminal elements so important, it seems realistic to expect that attempts will be made to install more friendly administrations" (Tanzi 1997, p. 99).

4.2.24 *Undermines foreign policy goals*

Money laundering impacts very heavily on developing countries, thus undermining US and European aid policies, as materialized in foreign aid, World Bank financing, IMF credits aimed at reducing poverty and promoting economic development. For example, the total of US, OECD and World Bank aid to developing and former communist countries is $50 billion a year but $100 million comes back from these countries to Western bank accounts (Baker 1999, p. 38-39).

4.2.25 *Increase in terrorism*

According to a 1999 FBI report, there had been over 14,000 international terrorist attacks between 1968 and 1999. The effect of terrorism today has much more of an international impact because of markets' interconnectedness and of the advanced technological capabilities of terrorists (Jerry, 2002). Money laundering can contribute to an increase in terrorism in two ways. First , laundered money can be used to fund terrorist activities. A typical example is the financing of terrorism with the proceeds from the production and marketing of narcotics (Masciandaro, 2001). Most experts agree that the sale and trade of drugs seem to be a sizable financial contributor to terrorist organizations. According to Schneider (2004), the origin of terrorist wealth can be broken into the following sources of financing: drug business (mainly transporting) 30-35%, donations or tribute payments of governments 20-30%, classic criminal activities (blackmail and in particular kidnapping) 10-15%, unknown 30-35%. The Taliban for example, profited from the trafficking of opium and taxing the drug trade in areas under its control and these funds were subsequently used to support terrorist organizations like al-Qaeda. Also, profits generated from the sale of opium and heroin have been used to buy weapons and to finance the training and support of terrorists around the world (Hedges, 2001) Usually, the drug money used for financing terrorism will be previously 'laundered'. This serves two purposes: concealing the illegal origin of the money as well as the illegal destination of the funds. In other words, "in those specific situations, at least on the logical level, the importance of transaction costs is at least doubled, since the need to lower the probability of incrimination concerns both the crimes that generated the financial flows and the crimes for which they are intended." (Masciandaro, 131)

However, it should be made clear that very often terrorism is financed not only with illegally derived funds but also with clean money, which was never connected to a criminal activity. These clean funds are provided by supporters, friendly governments and also unsuspecting benefactors. It is often the case that well-off individuals make donations to organizations that they believe to be real Islamic charities but which later on turn out to be a cover for supporting terrorism. The financing of terrorism with clean money involves a process completely different from money laundering: money dirtying (*i.e*. reverse money laundering). In that case, the funds are not derived from a criminal activity and need to be laundered in order to 'separate' it from the original crime but on the contrary, the money is clean and needs to be separated from its original source because it will be used for a criminal purpose (*i.e.* terrorism). This brings us to the second connection between money laundering and terrorism. Even if terrorism is financed with clean funds and one would be tempted to dismiss any connection between the two, such a conclusion would be erroneous. In this situation, there is, just in the case of money laundering, an incentive for concealment, a need to separate financial flows from their source and destination in order to avoid that the crime of terrorism will be discovered (Masciandaro, 131). "Money dirtying can also perform an illegal monetary function, responding to the demand for covertness expressed by individuals or groups proposing to commit crimes of terrorism" (Masciandaro, 131).

Thus, in their efforts to avoid detection, terrorists will exploit the same weaknesses in the international financial system as launderers and will tend to use the same channels. Banks with strict secrecy regimes, nations with sovereignty concerns, elected public officials citing freedom from government controls and financial control, intentionally or unintentionally created safe havens for the transfer and hiding of profits of organized crime and terrorism all represent avenues that are and will increasingly be used not only by launderers but also terrorists. The FATF finds that terrorists use the same money laundering methods as other criminal groups, which include cash smuggling, structure deposits and withdrawals from bank accounts, purchases of various type of monetary instruments, use of debit or credit cards, and informal financial networks. Thus, it can be said that although money laundering and terrorism are two distinct phenomena, they do share many of

the same characteristics including sources, techniques, adaptability, and risks. Schneider (2004) identifies some of the methods of terrorist financing and its concealment as follows: *Starburst*: a deposit of dirty money made in a bank with standing instructions to wire it in small random fragments to hundreds of other bank accounts around the world (both on shore and off-shore financial centers). *Boomerang*: money sent in a long arc around the world before returning to its country of origin. On the journey, the money travels through what money launderers refer to as 'black holes' (countries that lack the means or inclination to investigate banks). *Legal money*: may come from a wealthy individual, religious charity or donation from a country. Money may use underground banking system. *Tax optimization experts*: people who construct shell companies and other structures to hide wealth or dirty money and introduce clients to banks as new customers. Evidently, some of these strategies (*i.e.* starburst, boomerang and tax optimization) are methods used by launderers as well, showing a further indication of the connection between the two phenomena.

In recent years, terrorists have become very adaptable in their methods, being able to switch from traditional methods of disguising and transferring wealth to complex financial movements. There is evidence that terrorist financing networks operate globally and have the capability of infiltrating the financial systems in developed and developing countries and to exploit existing loopholes. The 'weak links' in the international financial system and its regulation, which were traditionally used by launderers, are already avenues for concealment of terrorist financing. Offshore banking centers have been considered a haven for terrorists to store large sums of money given that these centers are usually characterized by lax banking regulations and poor financial oversight. (Baldwin, 2002) The situation is rendered even more worrisome, given that these banks have correspondent relationships with some of the world's biggest financial institutions. International correspondent relations exist so that banks can provide a wide range of alternate services to the their clients in areas where they do not have branches. At the same time, as a result of the creation of these self-regulating banking relationships, terrorism-intended funds can easily be transferred from offshore lax jurisdictions to some of the largest Western banks.

As Johnson (2001, 131) states "correspondent banking arrangements allow the transfer of both illegally and legally derived money from the unregulated to the regulated financial institutions (…) through the back door of the regulated institutions." Thus, formal financial institutions become vulnerable to unknowingly facilitating money laundering and terrorist financing. It is thought that al-Qaeda moved money through poorly regulated financial centers until it was disguised sufficiently enough to move it to safer, large and reputable institutions. Nawaz (2002) points out, "investigations conducted into the financial dealings of al-Qaeda have disclosed that the terrorist network was able to use the 'correspondent network' of the Sudanese-based bank al-Shamal for cross-border transactions. These cross-border dealings have included France's Credit Lyonnais, Germany's Commerzbank, Standard Bank of South Africa and Saudi Hollandi Bank in Jeddah in which ABN Amro of the Netherlands has a 40 percent stake. Other known al-Qaeda dealings with correspondent banks have involved the movement of funds from the al-Shamal Bank through the Bank of New York to a Bank of America account in Texas." Consequently, laxity in the fight against money laundering can lead to the further establishment of such channels. (Masciandaro and Portolano 2004).

Since launderers and terrorist financers use many of the same avenues for moving and hiding money and represent similar threats to the financial system (Thony 2002), strategies put in place to fight money laundering can also be applied to fighting terrorist financing. In this context, the international response to terrorism and money laundering has been very important. In 1999, ten years after the Financial Action Task Force (FATF) developed its 40 Recommendations setting out measure national governments should take to implement effective anti-money laundering programs, the General Assembly of the United Nations adopted the International Convention for the Suppression of the Financing of Terrorism. Initially, few countries ratified the convention, but after September 11, 2001, a large number of states committed to the convention. At the end of 2001, the FATF also expanded beyond money laundering to terrorist financing. They initially called on countries to adopt their *Special Eight Recommendations*, which were later expanded to Nine Recommendations in October 2004. Also in 2001, the UN Security Council adopted Resolution 1373 that encourages states to prevent and suppress the financing of terrorist acts, to criminalize terrorist financing and to freeze terrorist assets.

Moreover, several important regional and international bodies and organizations began supporting and contributing to international efforts against terrorist financing (*i.e.* FATF-style regional bodies, the Egmont group of Financial Intelligence Units, the IMF, and World Bank). This global push helped to include larger numbers of countries in the fight against terrorist financing and to develop a consistent and integrated approach against money laundering (AML) and terrorism financing (CFT). Given the transnational character of both terrorism and money laundering, such a global approach to the issue is indispensable. As observed above, strong anti-money laundering regulations undertaken in only some jurisdictions will not protect them from the combined threat of money laundering and terrorism. As long as the international financial system as a whole remains vulnerable and as long as

other jurisdictions continue to adopt a lax approach to these matters, there remain loopholes in the system through which both clean and dirty funds can be channeled. Once into the system, these funds can be used, among other things, for terrorist financing, which will negatively affect jurisdictions regardless of having strict financial regulations put in place. This is due to the fact that terrorist financing will then be channeled through the backdoor of regulated institutions (*i.e.* correspondent banks from jurisdictions with lax regulation). In light of this, the fight against money laundering and terrorist financing has to be taken up in a global, integrated fashion.

4.2.26 *Empirical study on the effects of terrorism*

The empirical study of Blomberg, Hess and Orphanisdes (2004) uses panel data for 177 countries from 1968-2000. They use data for terrorist events and for external and internal conflict. By means of a cross sectional and a panel

growth regression analysis and the use of a structural VAR model, they estimate the following equations:

$$\Delta yi = \beta o + \beta 1\ D1 + \beta 2\ D2i + \beta 3 \ln y0 + \beta 4\ I/Yi + \beta 5\ T + \beta 6\ I + \beta 7\ Ei + \varepsilon i$$

Country i's average per capita growth Δ yi , depends on the log of initial GDP y0, Investment ratio I/Yi, Terrorism T, Internal Conflict I, external Conflict E plus two dummies D1 and D2 for non oil exporting countries and for Africa). In the US, there were 20.4 terrorist events per year on average, the second highest amount after Lebanon, followed third by Germany 19.3 and by France 17.9.

They find a strong positive correlation between terrorism and internal conflict (ρ=0.15) and between terrorism and income (ρ=0.20). The more internal conflict a country has and the richer the country, the more terrorist attacks it has to expect.

Terrorism leads to a slight decline in per capita growth. If there was one terrorist event every year, this would lead to a 1.5% reduction of per capita income growth over the whole period (1968-2000). One would have to divide this by 33 to get the effect estimated for a year. The effect is hence quite small, much smaller than from external conflicts. But terrorism has a strong negative impact on business investment. The Investment/GDP ratio falls by –0.5% points, while government expenditures increase by 0.4% points. Investment reacts more negatively to terrorism than other spending components and government expenditures get crowded in.

4.2.27 Conclusions

Most concern in the literature is given to three effects of money laundering. First, to the economic effect of a misallocation of resources through price distortions. Criminals who want to maximize their profit, have to do this under an additional budget constraint: namely that they do not lose their (illegal) business, assets or income by getting caught. This makes other investments more "profitable" than the ones for the honest investor.

Second, the social effect of ruining the reputation and integrity of the financial sector with all its consequences in the longer termed future such as a decline of foreign direct investment, bribe and corruption seems to be a major concern.

The third most concerned effect is, the political effect of an infiltration of institutions by criminal organizations and the political undermining of state authority and democracy through criminals.

In the table on the next page, we distinguished 1. the direct effect of crime, i.e. the losses to the victim and the gains to the perpetrator from 2. indirect effects. These indirect effects can be economic, such as price distortions, changes in consumption patterns, in the demand for money, in Foreign Direct Investment, in imports and exports, unemployment and growth. We prefer to call these kind of effects indirect economic effects. Fn: *Note, that some economists would call these economic effects direct effects of money laundering as opposed to indirect effects by which they understand social and political consequences of money laundering (see e.g. the pre-study of the Ministry of Finance).*

Next to indirect economic effects, there are indirect social effects from money laundering, such as a change in the morality of civilians, changes in the reputation and trust in the financial system. Finally, there are also indirect political effects such as undermining democracy through criminals.

The effects can also be classified in effects that relate to the real sector such as effects for consumers and investors, in effects for the financial sector and in effects for the public sector and monetary authorities. The last two columns distinguish short term and long-term effects of money laundering. It is evident that every short-term effect can also lead to some further long-term consequences.

The 25 effects in the following table have been mentioned by diverse authors. The authors are quoted on the next page.

Tabel 4.1: Effects of money laundering

Effect	Direct	Indirect			Real Sector	Financial Sector	Public & Monetary Sector	Short term	Long term
		Economic	Social	Political					
1. Losses to the victims and gains to the perpetrator	x				x			x	
2. Distortion of consumption		x			x			x	
3. Distortion of investment and savings		x			x				x
4. Artificial increase in prices		x			x			x	
5. Unfair competition		x			x			x	
6. Changes in imports and exports		x			x			x	
7. Negative (or positive) effect on growth rates		x			x				x
8. Effect on output, income and employment		x			x			x	
9. Lower revenues for the public sector		x					x	x	
10. Threatens privatization		x		x			x		x
11. Changes in the demand for money, exchange rates and interest rates		x					x	x	
12. Increase in the volatility of interest and exchange rates		x					x	x	
13. Greater availability of credit		x			x			x	
14. Higher capital inflows		x				x	x	x	
15. Changes in foreign direct investment		x			x		x		x
16. Risk for the financial sector, solvability, liquidity		x	x			x			x
17. Profits for the financial sector		x				x			x
18. Reputation of the financial sector			x		x	x			x
19. Illegal business contaminate legal business		x		x	x	x			x

20. Distorting of the economic statistics				x			x	x	
21. Corruption and bribe			x		x	x			x
22. Increases crime			x	x	x		x		x
23. Undermines political institutions				x			x		x
24. Undermines foreign policy goals				x			x		x
25. Increase in terrorism			x	x			x		x

Authors:

1. Boorman&Ingves(2001)p9; Camdessus(1998)ip2; Mackrell(1997)ip3; Walker(1995)ip30
2. Barlett (2002)p19; Mackrell(1997)ip2; Walker(1995)ip30,31,32
3. Aninat&Hardy&Johnston(2002)ip1; Bartlett(2002)p19; Camdessus(1998)ip2; Mackrell(1997)ip3; McDonell(1998)p10,11; McDowell(2001)ip1,3; Quirk(1997)ip4; Tanzi(1997)p95,96; Walker(1995)ip30
4. Keh(1996), p.5; Alldrige(2002), p.314
5. Mackrell(1997)ip3; McDowell(2001)ip2,3; Walker(1995)ip33,34
6. Baker(1999)p33; Bartlett(2002)p18,20; Walker(1995)ip33
7. Aninat&Hardy&Johnston(2002)ip1; Bartlett(2002)p18,19,20; Camdessus(1998)ip2; McDonell(1998)p10; McDowell(2001)ip4; Quirk(1997)ip4; Tanzi(1997)p92,96
8. Bartlett(2002)p18; Boorman&Ingves(2001)p8; McDowell(2001)ip2,4; Walker(1995)ip33
9. Alldridge(2002)p135; Boorman&Ingves(2001)p9; Mackrell(1997)ip2**;** McDonell(1998)p10; McDowell(2001)ip3,4; Quirk(1997)ip4
10. McDowell(2001)ip4; Keh(1996), p.11
11. Bartlett(2002)p18; Boorman&Ingves(2001)p9; Camdessus(1998)ip2; FATF(2002)ip3; McDonell(1998)p10; McDowell(2001)ip2,3; Quirk(1997)ip3; Tanzi(1997)p97
12. Tanzi(1996)p8; McDonell(1998)p10; Camdessus(1998)p2; FATF(2002)p3; Boorman&Ingves(2001)p9
13. Tanzi(1996)p6
14. Keh(1996)p4; Tanzi(1996)p6
15. Boorman&Ingves(2001)p9; FATF(2002)ip3; Walker(1995)ip34
16. Alldridge(2002)p310; Aninat&Hardy&Johnston(2002)ip1; Boorman&Ingves(2001)p9,11; Camdessus(1998)ip2; FATF(2002)ip3; McDonell(1998)p10; McDowell(2001)ip1,3; Tanzi(1997)p98
17. Alldridge(2002) p310;
18. Aninat&Hardy&Johnston(2002)ip1; Bartlett(2002)p19; Boorman&Ingves(2001)p9,11; Camdessus(1998)ip1; FATF(2002)ip3; Levi(2002)p184; McDonell(1998)p9; McDowell(2001)ip2,3,4; Quirk(1997)ip4; Tanzi(1997)p92,98; Walker(1995)ip34
19. Alldridge(2002)p315;Camdessus(1998)ip1,2; FATF(2002)ip3; Levi(2002)p184; McDonell(1998)p11; Quirk(1997)ip4

20. Alldridge(2002)p306;McDonell(1998)p10; Quirk(1997)ip4; Tanzi(1997)p96
21. Alldridge(2002)p308; Bartlett(2002)p18,19; Camdessus(1998)ip1; FATF(2002)ip3; Keh(1996)p11;McDowell(2001)ip1,4; Tanzi(1997)p92,99;Quirk(1997)p19; Walker(1995)ip33,34
22. Bartlett(2002)p18,19,20,22; FATF(2002)ip3; Levi(2002)p183; Mackrell(1997)ip3; Masciandaro(20024)p137; McDonell(1998)p9; McDowell(2001)ip1,4;Quirk(1997)p19
23. Camdessus(1998)ip1; FATF(2002)ip3; Mackrell(1997)ip3; McDonell(1998)p9; McDowell(2001)ip1,3,4; Tanzi(1997)p92,99
24. Baker (1999) pp.38,39
25. Masciandaro(2004)p131

4.3 Empirical estimates of the effects of money laundering in the literature

Most literature on money laundering effects is pure speculation. Some of the literature refers to estimates without ever mentioning the source. One good example for this is the work of Bartlett (2002). He lists all kinds of effects of money laundering, using sentences such as "it is clear from available evidence" that money laundering has such and such effects, without ever giving a hint where this evidence should be. Furthermore, similar to the papers on the amounts of money laundering, one source refers to the other source, without much of an empirical solid back up. There seem to be, so far, five sources in the literature, which can be more or less useful for further research

4.3.1 *The works of the IMF by Tanzi (1997)*

In 1984 it was estimated that US$ 5 billion per year was being taken out of the US in cash through the illegal drugs trade. This creates a potential instability for the world financial system because of the possibility that these dollars could be unloaded in exchange for foreign currency. In order to estimate these US$ 5 billion, Tanzi calculated the difference between the money printed and the money circulating in the US.

To calculate the money circulating in the countries of the Euro-zone is more difficult, in particular for cash money. Though Central Banks still publish the money supply per country (see e.g. De Nederlandsche Bank DNB, Statistisch Bulletin March 2005 which shows M3 including cash money to be about € 500 billion in January 2005), it is impossible to distinguish the money demand per country. By definition, the Euro does not have to be exchanged at country boarders within the Euro-zone. Therefore, one does not know how much of each country's money supply is circulating in which Euro-zone country. The Tanzi model can, therefore, not be applied for estimating the effect of money laundering on a single EU country.

4.3.2 *The works of the IMF by Quirk (1997)*

The IMF, and in particular Quirk (1997) also estimated the effect of money laundering on the demand for money. From this he concludes effects on the interest rate and the exchange rate. The same problems as with the Tanzi approach occur when one wants to apply this approach for a single EU country in the Euro-zone.

4.3.3 *The works of AUSTRAC by Walker (1995)*

A way to estimate the economic effects of money laundering on output, income, imports, and employment is suggested by Walker (1995). These effects refer only to money generated and laundered in one country not to the effects of inflows and outflows of money.

Walker uses input output data, from which he calculated multipliers per sector (see table below for Australia). Read the first line the following way: 1 million of additional expenditures for agriculture spills over through the whole economy (farmers have to buy more fertilizers, stimulating the chemical industry, etc....) increases output by 2.178 millions and (net) income by 0.38. Some part of this goes into imports (0.094) so that the domestic employment effect is 28 jobs.

He then calculates different scenarios, depending on the consumption pattern of victims and criminals. Suppose US$ 1 million is transferred from relatively poor victims, who reduce their consumption of clothing and footwear and is

laundered through real estate purchases. The loss of US$ 1 million in demand for clothing and footwear will lead to a total loss of 2.877 million in output,

692.000 in lost wages and salaries and 34 jobs. Almost half of it would be from the clothing and footwear industry, the other half from the rest of the economy. On the other hand, the 1 million increase in demand for real estate will increase output by 2.611 million, 786.000 extra wages and 29 new jobs. The net effect is a loss of 266,000 output, a gain of 94,000 wages and a decrease of five jobs.

Table 4.2: Input output multipliers, by sector of industry for Australia

Industry	**Output**	**Income**	**Imports**	**Employment**
$1 million increase in demand for industry in Column 1 produces the indicated total changes in output, income, imports and jobs:	**$million**	**$million**	**$million**	**# jobs**
01 Agriculture	2.178	0,38	0,094	28
02 Forestry, fishing, hunting	2.485	0,646	0,128	26
03 Mining	2.136	0,428	0,114	15
04 Meat and milk products	3.008	0,511	0,097	29
05 Food products nec	2.926	0,588	0,137	27
06 Beverages, tobacco prod.	2.629	0,495	0,132	22

07 Textiles	2.778	0,82	0,239	26
08 Clothing and footwear	2.749	0,692	0,282	34
09 Wood, wood products nec	2.877	0,704	0,202	34
10 Paper, printing etc	2.595	0,646	0,226	27
11 Chemicals	2.597	0,512	0,243	21
12 Petroleum and coal products	2.438	0,339	0,239	12
13 Non-metallic mineral prod.	2.630	0,564	0,145	22
14 Basic metals and products	2.642	0,463	0,154	16
15 Fabricated metal products	2.911	0,639	0,189	27
16 Transport equipment	2.554	0,552	0,265	22
17 Machinery etc nec	2.649	0,631	0,252	26
18 Miscell. manufacturing	2.641	0,601	0,239	26
19 Electricity, gas and water	2.386	0,459	0,078	17
20 Construction	2.694	0,632	0,158	27
21 Wholesale and retail	2.656	0,772	0,105	35
22 Repairs	2.549	0,759	0,165	33
23 Transport, communication	2.463	0,638	0,128	27
24 Finance, property,etc	2.611	0,786	0,094	30
25 Ownership of dwelling	1.558	0,14	0,032	5
26 Public admin., Defence	3.233	0,951	0,194	36
27 Community services	2.983	1,159	0,124	42
28 Recreational etc services	2.762	0,747	0,131	36

Source of data: Australian Bureau of Statistics, 1994, Australian National Accounts, Input-Output Multipliers 1989-90 (Cat. #5237.0)

Not knowing exactly how criminals spend their money, Walker states that if $1 million of laundered money is invested in dwellings this has the following results:

- A net loss of output from $578.000 to $1.675.000.
- A net loss of income from $199.000 to $1.019.000.
- Net imports will fall by $46.000 to $250.000.
- Net employment will fall by 7 to 42 jobs.

The Walker Model could be refined by using micro data from e.g. Meloen et al (2003) for the Netherlands, using criminal, files etc., which indicate how criminals spend their money.

The multipliers for the Dutch economy can be obtained from the CBS. This approach could be easily applied to the Netherlands, but it has one serious problem: the multipliers apply only to a closed economy. Walker discusses the effects of money laundering for Australia, which he assumes to be one big closed economy. But money laundering mainly refers to transferring illegal and laundered money all over the world. The big problem of the Dutch is not the illegal money generated and laundered in the Netherlands, but the money

coming from illegal activities abroad, which flows partly through the Netherlands, and is partly invested in the Netherlands.

Furthermore, the input-output multipliers do not replace a model for economic effects. They only concentrate on the amounts of demand in other sectors that are generated by an original stimulus of demand in one sector. These amounts are "technically" determined through the technical relations of the production function, which shows how much output can be maximally produced if one increases the input by one, but effects of changed behavior are missing.

4.3.4 *The works of the IMF by Quirk (1996)*

In another paper, Quirk 1996 found evidence that reductions in annual GDP growth rates were associated with increases in ML in the period 1983-1990. For this he uses a model originally developed by Barro for the effect of human capital on growth, and introduces a crime variable instead. In our empirical part for the Netherlands we will present this model in more detail and estimate the growth effects of money laundering for the Netherlands.

4.3.5 *The model of Masciandaro (1999*)

Masciandaro wants to analyze the effects of anti-money laundering policy. He analyzes the existing interactions between the criminal economy and financial markets. He wants to provide a theoretical analysis of the mechanisms ruling the growth of the illegal activity as well as of its ties with the development of a criminal economy.

1. He defines money laundering as a multiplier of criminal financial activites. This "polluting" element increases
    a) the lower the aggregate transaction costs of doing ML
    b) the larger the share of reinvestment in illegal activities
    c) the more the pressure to finance reinvestment with clean money
    d) the wider the difference between expected real returns between illegal and legal activities
    e) the larger the initial volume of illegal revenues that has to be laundered.

2. The legislator faces two (conflicting) goals. It wants to fight money laundering because of its negative economic, social and political effects; but he also does not want to burden and impose costs on the banking and financial systems with too strict anti-money laundering rules.

3. He assumes a closed economy, though no issue of money laundering would loose its significance if one introduces heterogeneous regulations in an increasingly integrated financial market.

4. He shows that money laundering can be seen as a multiplier of criminal activities who transform their illegal potential purchasing power into legal effective purchasing power.

5. Each laundering operation involves transaction costs for the criminal of CR. These transaction costs are a fixed proportion c of the amount of illegal funds that need to be laundered. Laundered money is a fixed proportion y of the initial amount of liquidity from criminal activity (ACI).

$$CR = c\ (yACI)$$

6. The laundered liquidity is what is left from the criminal money after laundering

$$(1\text{-}c)yACI$$

7. Criminals can now decide how much of the laundered money they want to spend, save and reinvest either on legal or on illegal markets. A fixed share q of laundered money is reinvested in illegal activities. This share q(r) is a function of r, the difference between the expected returns in the illegal economy ri and in the legal economy rl.

8. The new amount of money to be laundered includes also the revenue from the illegal reinvestment operations and is

$$q\ (1+ri)\ (1\text{-}c)yACI.$$

9. Crucial assumption: both legal and illegal activities must be financed (at least in part) by clean money.

10. If the proportions stay constant over time, then an infinite series of money laundering can be described by a multiplier which shows by how much an original amount of liquidity from criminal activity ACI increases the total amount of illegal financial flows AFI over time.

    Total amount of money laundered AFI = $(y/(1\text{-}q(1\text{-}c)(1+ri))\ ACI$
    multiplier times orginal crime money

11. If the supply of anti-money laundering regulation was costless, the policy maker's best decision would be to increase the costs of money laundering as much as possible so that c=1. But anti-money laundering has also costs, namely those to the banking sector and the entire economy. There is a trade-off between the effectiveness of anti-money laundering regulation, which increases the integrity of the financial sector and the efficiency of the banking sector (because of costs of regulations that make banking more cumbersome). The politician has to find the optimal level of regulation under these constraints.

The model allows predictions about the medium term relationship between the volume of money laundering and the growth of illegal markets. The key idea of the model is that financial activities include both legal and illegal transactions. Due to the presence of money laundering, financial flows are likely to be larger. In countries with much organized crime, financial flows should therefore be larger than in comparable countries with less crime.

Masciandaro (1999) does, unfortunately, not apply this model to Italy. After having explained the multiplier model, he suddenly jumps and does a cross-section analysis of the ties between bank deposits, the legal economy and illegal markets, instead of calculating the multiplier for Italy. He claims that bank deposits represent an outstanding feature of the Italian financial system.

The legal economy he measures with per capita GNP and for the illegal economy he uses per capita number of crimes. He does several correlations and regressions.

He finds a significant impact of the illegal economy and an increasing relationship between the growth of illegal activities and the involvement of banks in the money laundering business. Furthermore, he finds that the higher the diffusion of money laundering activities, the less effective are anti-money laundering regulations. We will estimate the Masciandaro model for the Netherlands.

Finally, there are also possibilities to measure corruption. See Bardhan (1997) and Lambsdorff (1999) for an overview.

4.4 Types of crime in empirical studies

If one looks at empirical studies done so far that relate to crime, costs of crime, money laundered or the effects of money laundered one can see that these studies do not only differ with regard to the definition of their research subject but also with regard to the types of crime they analyze.

Table 4.3: Types of crime in empirical studies

Types of crime	FATF Recommendations 2002	Walker 1995	Van der Werf 1997	CBS 2004	Meloen et al 2003*
Drugs	X	X	X	X	X
Prostitution	X		X	X	
Public Order (against persons)					
- Theft and Fencing (&burglary and robbery)	X	X	X	X	X
- Homicide	X	X			X
- Assault and sexual assault	X	X			X
- Participating criminal org.	X				X
- Possession of arms	X				X
- Terrorism	X				
- Environmental crime	X				
- Kidnapping	X				
- Extortion	X				
Smuggling					
- Smuggling goods	X				
- Trafficking in human beings	X			X	X
Financial Economic crime					
- Illegal activities in the labour market				X	
- Fraud and deception	X	X			X
- *Koppelbazerij*					X
- Terrorist financing	X				
- Counterfeiting currency	X				
- Insider trading and market manipulation	X				
Illegal Gambling			X	X	
Illegal Copying	X		X	X	
Corruption (bribery)	X		X		

* These categories are used with the 52 selected cases (1 million guilders and higher). For the calculation of the total proceeds of crime in the Netherlands the following categories are used: theft, drugs, economic crime, fraud and deception, public safety, sexual assault and participating in a criminal organization.

The studies concerned with monetary aggregates (Tanzi 1996, Quirk 1997) do not distinguish types of crime. The model of Quirk (1996) can in principle be applied to any type of crime, since one takes the amount of crime – specified what so ever – into the regression as a proxy for money laundering. The model of Masciandaro (1999) can also be applied for any type of crime, by defining the proceeds of crime ACI specifically for each type of crime.

In addition to the empirical studies mentioned, there have been additional studies done in the Netherlands, that have not been concerned with the effects of money laundering but with estimating the amount of the illegal economy. They also included or excluded specific types of crimes. In order to make our final results comparable to the other Dutch empirical studies done so far, we giver an overview over the differences of crimes studied in these works.

Furthermore, we added the FATF definition of money laundering and crime as an international point of reference.

The following table gives an overview of the types of crime listed in the Basic Facts of Money Laundering of the FATF (2002a), the types of crime used in the Walker (1995) model on the amount and effects of money laundering, the study of Van der Werf (1997), the study done by the CBS (2003) and by Meloen et al (2003). While the FATF recommendations list a great variety of types of crime that can lead to money laundering, Walker (1995) restricts himself to Drugs, Theft, Homicide, Assault and Fraud. Van der Werf (1997) deals with drugs, prostitution (illegal but not a crime in the Netherlands), theft, illegal gambling, illegal copying and corruption. The study of the CBS has at a goal to define the size of the illegal economy and not of money laundering or effects of ML. It includes drugs, prostitution, theft, smuggling, illegal workers, illegal gambling and copying. The micro case study of Buiten en Besteding by Meloen et al (2003) deals with drugs, theft, homicide, assault, participating criminal activities, possession of arms, smuggling, fraud, and illegal matching of people (koppelbazerij).

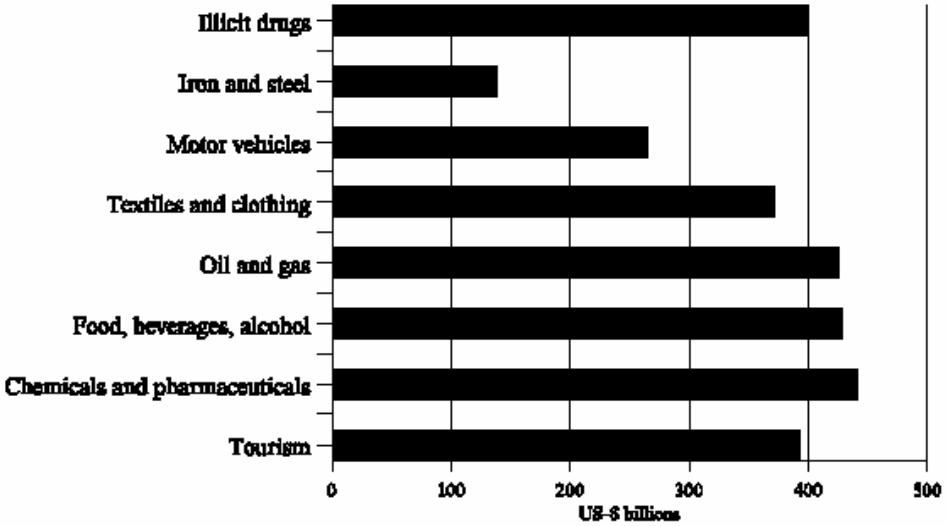
5. EMPIRICAL EFFECTS OF MONEY LAUNDERING FOR THE NETHERLANDS

5.1 Losses to the victims and gains to the perpetrator

Drug sector is the same size as global tourism

Money laundering is often related to drugs money. Drugs create problems for individuals but also for society. The UNDCP (1996, p.3) shows that the estimated annual illicit drug turnover in the 1990s was about $400 billion, 6 times higher than official development aid (69 billion in 1995). The drug sector accounts for about 8% of international trade. As can be seen from figure 5.1, it is larger than the global iron and steel industry, the motor vehicle industry or the textile and clothing industry and is about the same size as worldwide tourism.

Figure 5.1: Turnover of illicit drug trade compared to world exports in 1995



Source: UNDCP (1996, p.3, www.undcp.org)

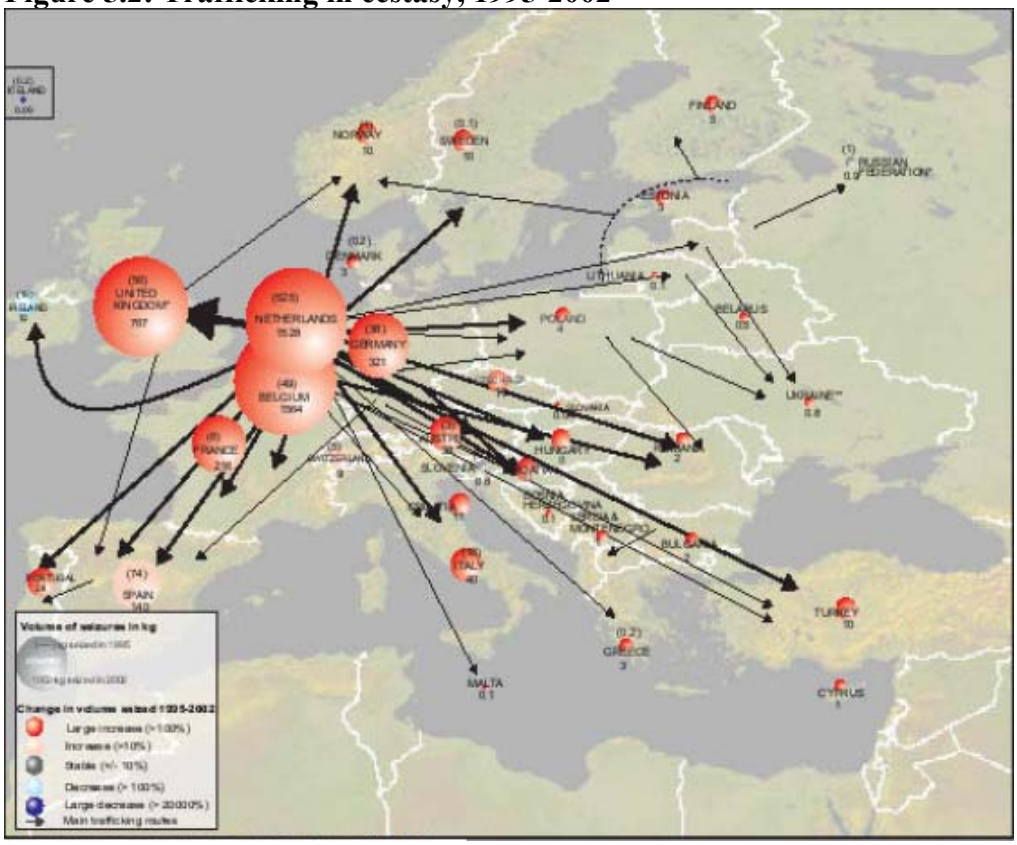
What are the benefits and what the costs of drugs in general and specifically for the Netherlands? Economic benefits of drug abuse and trafficking are mainly the profits of the suppliers and traffickers of illicit drugs. For example, one gram of 100 percent pure cocaine retailed for $4.30 in Colombia is finally sold between $59 and $297 in the United States. The gross profit margin, or value added, is hence between 93% and 98,5% of the retail value. Worldwide estimates of the "benefits" from illicit drugs to the US economy amounted to 6% of GDP. But about 90% of it went to the drug traffickers and only about 10% went to processing and farmers. The economic benefit to the industrialized countries from the production and processing of drugs is, hence, of much less importance than the amount of money circulating from it.

For the Netherlands, the growing domestic production and worldwide distribution of Ecstasy is the most important domestic drug problem factor (see UNODC 2004, p.2)

The use of this amphetamine type stimulant is the most popular drug among young adults. More than 70% of all reported clandestine ecstasy laboratory seizures in Europe were reported from the Netherlands (followed by Belgium (15%), the UK (8%) and Germany (2%)). From the 9.7 tons of ecstasy that were seized in Europe in 2002, 5.25 tons were seized in the Netherlands. About one tenth, 576 kilogram were confiscated at the custom in this same year (Beersverslag Belastingdienst 2004, p.38). Figure 5.2 shows that the Netherlands are t h e center for ecstasy distribution in Europe. It also shows the volume of seizure (the bigger the ball, the higher the seizure).

70% of all ecstasy seizures from the Netherlands

Figure 5.2: Trafficking in ecstasy, 1995-2002



Source: UNODC (2004) p. 2

Few comprehensive studies have been undertaken to measure the costs of drugs and drug abuse for the society. In Canada, the costs of illicit drug abuse were estimated at 1.1 billion US dollar in 1992, equivalent to 0.2% of GDP. These costs include law enforcement (29%), health care (6%), and productivity losses as a result of illness premature death (60%). Further costs, not included in this study are costs for society due to drug-related criminal activities, such as theft, damages etc.

The Australian estimated costs related to illicit drug abuse to be equivalent to 0,4% of GDP, i.e. double as high as in Canada for the same period. 32% were estimated to be due to reduced productivity, 26% to substance abuse related mortality, 18% to costs of the justice system (court, prisons), 13% to resources used in addictive consumption, and 9% to additional costs for police and customs. Also the UK estimated the cost of drug abuse to 0,4% of GDP in 1988. And a more recent study of Germany done in 1995 also came up with

costs of 0,4% of GDP. Based on these findings, the calculated costs per drug abuser from cocaine, heroin and synthetic drugs are approximately €30.000 per annum.

A study carried out in the State of California showed the following cost components of drug abuse: 35% for criminal justice system costs; 26% for stolen property losses; 17% for health and losses in productivity of the victims of drug related crime; 14% for costs of health care for the drug abuser and 8% for welfare and disability payments.

Drug abusers earn about 60% less than non-drug abusers for the same age and gender. Health expenditures are double as much as for non-drug abusers. The drug related mortality rate is between 0.3%-0.5% of hard core abusers About 22% of the world's HIV/AIDS population are drug injectors. In the Netherlands 10% of the HIV population are drug injectors (UNDCP 1996, p.33).

Beside the economic costs such as reduced productivity, higher expenditures for health, police, judges and prison, for insurances, damages from burglary and theft, there are also social costs due to lower education, environmental damages in third world countries that destroy forests for drug cultivation, corruption and other dangers for civil society.

50% of all theft & burglary drug related in the UK

There is a strong probability that drug addicts tend to be deeply involved in criminal activities, with daily users of drugs showing a significantly higher rate of criminality than non-drug users. The National Crime Victimization Survey of the United States revealed that 30 per cent of the victims of violent crime in 1992 perceived their attacker to have been under the influence of drugs or alcohol. In the UK a study a study revealed that 50% of all theft and burglary was drug related (see UNDCP p.33) The UNDCP gives a survey on international studies over cost benefit analysis on drugs. There is, unfortunately, no encompassing study of the Netherlands mentioned.

But if one applies the findings of international studies to the Netherlands, and assumes that drug abuse costs about 0,4% of GDP than the economic costs from drug abuse amount to €2 billion. If one combines this estimate with the German finding that one drug addict costs €30.000 per year, there should be about 67.000 people in the Netherlands, with drug problems. This amounts to about 5 times of the amount of drug incidents registered. The amount of drug incidents (Opiumwet) registered was 12.100 in 2001, (WODC, 2002, p.317).

51% of Dutch companies reported in a survey that they have been victim of some sort of crime in the three years preceding the survey. This does not necessarily mean that it relates to money laundering, but if – as we show later – money laundering stimulates more crime – the costs of it for the private and the public sector, as well as for society, need some consideration.

The direct losses for companies and institutions from crime in the Netherlands amounted to €1,3 billion in 2001 (Van der Heide and Eggen, WODC 2002, p.60). Evidently, not all of it relates to money laundering. But if one believes the UK study quoted above, almost 50% from burglary and theft are drug related. In an earlier chapter we found that fraud and drug are crimes, which necessitate a lot of money laundering.

Table 5.1: Damage per crime for all companies and institutions in 2001

Offence	Direct Damage (Million €)	Total Damage (Million €)
Burglary	340	400
Theft	345	405
Vandalism	140	160
Fraud	140	178
Computer crime	26	53
Violent offences	6	10
Other offences	47	82
Total	**1.044**	**1.288**

Source: Criminaliteit en rechtshandhaving 2001, WODC, 2003, p.60; taken from NIPO 2002

Total damage for Dutch companies € 2 billion

In order to prevent these kinds of crime, companies have to spend about 620 million Euro a year for alarm installations, internal control against fraud, etc. If one adds these prevention costs to the total damage, then it amounts to about 2 billion Euro a year. Still to be added are expenditures for the insurance fees Dutch companies spend for protection against crime.

Wealth offences include falsifying, theft, obscuring, fraud ('bedrog') and fencing. The number of wealth crime incidents has declined since the late 1990 according to the victims survey report (WODC, 2003, p. 47). If one counts however the amount of wealth crime registered at the court one finds an increasing amount. In 2001, there were 919.000 wealth offences registered.

If one takes into account the costs for society, for insurance, for the government, the health expenditures to treat drug addicts, the legal system, the judges, the lawyers, the costs of prison, the social consequences such as dismantling the family or corruption (see later point) the costs of crime related to money laundering are certainly higher than the ones estimated. From the numbers above one can also conclude that additional crime is costly both for companies and the society.

5.2 Distortion of consumption and savings

17% of criminals earn 88% of criminal profits

From criminal case studies we can learn something about the behavior of criminals and money launderers. Meloen et al (2003) did a research on crime money, the amount, the characteristics and the spending of it in the Netherlands

In the Netherlands and probably in most countries a small group of criminals makes a lot of money, while most criminals make small amounts of money. This can be seen from the following table, where 83% of suspects accounted for only 11,7% of criminal proceeds (the proceeds estimated by the judge, i.e. the WVV, the "wederrechtelijk verkregen voordeel"), whereas 2,1% of suspects accounted for 57,9% of proceeds.

Table 5.2: Total amount of crime money and number of suspects by size 1993 till 1999

	Number of suspects		Total crime money WVV[92] (guilders)	
	N	%	N	%
1 till 100.000 guilders	6236	83,1	118.710.841	11,7
100.000 till 1 million guilders	1107	14,8	308.057.368	30,4
1 million guilders and more	159	2,1	587.160.369	57,9
Total	7502	100	1.013.928.578	100

Source: Own calculations from Table 3.4 in Meloen et al. (2003) p.66

Meloen et al (2003) analysed 52 cases of criminals ('ontnemingszaken') with unlawful advantages WVV[93] of more than 1 million guilders per case. They divided the spending behavior of criminals into four categories: (1) hoarding the crime money, this is mostly temporarily (2) consumptive lifestyle with the spending on luxuries like jewelleries, art, expensive vehicles, boats or a plane (3) conventional investment, temporarily put it on a bank account or spend it on stocks, bonds or options or convert into loans or other securities (4) the investment by irregular business investments or reinvesting in a business, legal or illegal, to influence it or use it for own purposes.

Table 5.3: The spending behavior of 52 big criminal cases in millions of guilders:

Hoarding	19
Consumptive lifestyle	15
Conventional investments	127
Irregular business investments	51
Total	222

Source: own calculations from Meloen et al (2003)

[92] WVV is the proceeds estimated by the judge
[93] WVV are the proceeds of crime estimated by the judge.

This micro study can explain what happens with 222 million of guilders criminal money. From this we can estimate the amount of money being laundered. In the case of hoarding there will be no money laundering involved, because it has not given an apparent legal source. In the case of consumptive lifestyle there is also no actual money laundering as meant in our research, because no banking sector is involved. In the case of conventional investments there must be money laundering involved, because in order to buy bonds or investment items one usually must prove the origins of the money used. This also holds for the case of irregular business investments, where even for establishing illegal business at least some clean money is needed.

From the micro study we can easily compute the amount of crime money involved with money laundering. In these 52 "million cases" the amount of money laundered is (127 + 51) / 222 = 0,80, which amounts to 80%. The way of spending as described above in the 52 cases has similarities with some national statistics. The spending behavior of big Dutch criminals seem to follow a similar pattern as do national statistics with regard to consumption and investment shares. The spending behavior of poorer criminals also displays the same pattern as the one of honest Dutchmen, as the following table reveals.

Table 5.3: The behavior of criminals in the 52 "million cases"

	WVV-segments Rapsody (the amount of crime money)					
	1 till 100.000		100.000 till 1 million		1 million and more	
Spending Pattern CEBES	guilders	%	guilders	%	guilders	%
Hoarding						
1 Cash Money NL	**3.565.220**	**36,2%**	**9.659.836**	**41,9%**	**11.487.907**	**24,0%**
2 Cash Money Foreign	541,583	5,5%	878,011	3,8%	2.820.971	5,9%
Consumption						
3 Consumptive Lifestyle	8,095	0,1%	1.300	0,0%	9.370	0,0%
4 Consumption Goods	311,335	3,2%	1.999.370	8,7%	694.477	1,5%
5 Jewellery, Musical Instruments, Art	667,787	6,8%	948,484	4,1%	1.012.104	2,1%
6 Vehicles	**1.672.090**	**17,0%**	**2.874.646**	**12,5%**	3.179.762	6,7%
7 Planes, Boats	172,805	1,8%	829,598	3,6%	227.435	0,5%
Investment						
8 Bank Accounts	**1.334.454**	**13,6%**	902,294	3,9%	632.213	1,3%
9 Immovable Property NL	718.850	7,3%	**4.527.500**	**19,6%**	**13.476.500**	**28,2%**
10 Securities			69,157	0,3%		
11 Fixed Interest Assets	854.516	8,7%	375,963	1,6%	**14.246.988**	**29,8%**
Total	9.846.753	100,0%	23.066.158	100,0%	47.787.727	100,0%
Total Hoarding	4.106.803	41,7%	10.537.847	45,7%	**14.308.878**	**29,9%**
Total Consumption	2.832.112	28,8%	6.653.398	28,8%	**5.123.148**	**10,7%**
Total Investment	2.907.821	29,5%	5.874.913	25,5%	**28.355.702**	**59,3%**
Total	9.846.753	100,0%	23.066.158	100,0%	47.787.727	100,0%
Total Number of Cases	2,399		2,786		1,666	

[1] *Source: Own calculations from Table 5.5 in Meloen, J., R. Landman, H. de Miranda, J. van Eekelen, S. van Soest, m.m.v. P.C. van Duyne and W.A.C. van Tilburg, Buit en Besteding: een emperisch onderzoek naar de omvang, de kenmerken en de besteding van misdaadgeld, Studiereeks recherche deel 12, Elsevier overheid, 2003, p.116.*

Households with a low income will spend more of their income on consumption than households with a higher income. A household with a higher income will invest more of its income since there is a limit of the amount of cars, luxury goods, jewels airplanes etc which one person can consume with joy. This logic of behavior can also be seen from criminal behavior.

Table 5.3 also tells us something about the laundering of money by different sizes of crime money. Money laundering is more important for the rich criminals than for the poor, as the relative shares of investment in these two categories reveal.

Table 5.4: Spending behavior of drug dealers and fraud committers

Type of spending	Form of Spending	26 drug cases		22 fraud cases		4 other cases	All 52 cases	
		Number	%	Number	%	Number	Number	%
Hoarding	Cash Money NL	20	**77%**	5	**23%**	3	28	**54%**
	Cash Money Foreign	13	**50%**	2	**9%**	1	16	**31%**
Consumption	Luxurious Lifestyle	8	**31%**	7	**32%**	0	15	**29%**
	Consumption Goods	11	**42%**	5	**23%**	0	16	**31%**
	Jewellery, Music instruments, Art	10	**38%**	7	**32%**	2	19	**37%**
	Vehicles	21	**81%**	17	**77%**	3	41	**79%**
	Planes, Boats	11	**42%**	6	**27%**	0	17	**33%**
Conventional Investment	Bank Accounts NL	17	**65%**	13	**59%**	1	31	**60%**
	Bank Accounts Foreign	16	**62%**	9	**41%**	1	26	**50%**
	Immovable Property NL	8	**31%**	9	**41%**	0	17	**33%**
	Immovable Property Foreign	8	**31%**	9	**41%**	1	18	**35%**
	Securities	9	**35%**	12	**55%**	2	23	**44%**
	Fixed Interest Assets	18	**69%**	15	**68%**	2	35	**67%**
Irregular Business Investment	Busines Activities NL	20	**77%**	15	**68%**	1	36	**69%**
	Busines Activities Foreign	12	**46%**	8	**36%**	1	21	**40%**
	Reinvestment	8	**31%**	5	**23%**	2	15	**29%**

Percentages have to be read horizontally. For drug cases 100 % equals 26 cases; for fraud cases' 100% equals 22 cases; For the total of 52 cases 100% equals 52 cases; 'For "other cases' no percentages have been attributed since there are too few cases.
Source: Own calculations from Table 14.2 in Meloen et al. (2003) p. 246

In the 52 cases that are researched in Meloen et al (2003) there are 26 cases with drugs involved and 22 cases with fraud involved, so there are 4 cases of other types of crime. The question `is there a difference in the spending of a criminal by different types of crime´ can therefore only be answered for the cases of drugs in relation to fraud. But since these two categories are the most important in amount and for money laundering also according to our macro-studies, it seems worthwhile to investigate them.

The most remarkable difference in spending behavior is in the frequency of money being hoarded. For drug money, in 20 out of 26 cases, i.e. in 77% of cases some of the money is hoarded in order to reinvest in new drug sales. Much less so in fraud cases. The other types of spending are too small in number in order to draw any conclusions.

There can only be a distortion of consumption and savings, if criminals behave different from normal people with regard to consumption and savings. If one compares the case studies on criminal spending behavior from Meloen et al (2003) shown above, with Household Spending Behavior according to the Tilburg study done by Alessie, Hochguertel and van Soest (2002, Chapter 9) one can see that criminals do mainly behave like normal people.

Dutch households own €134.000 of assets of which 72% is non financial

With regard to assets, Dutch households show the following picture in 1998. On average they possess 295.000 guilders, i.e.134.000 Euro. They hold about 37.000 Euro in financial assets (27.6% of their total assets) and about 97.000 Euro (72.4% of their total assets) in non-financial assets. The largest part of financial assets is held in checking and savings accounts (35% of their total financial assets) and in stocks and mutual funds (23.8% and 13.3%). The largest part of non-financial assets is in real estate. About 5%, i.e. 6.700 Euro are held as a stock of durable goods (Alessie, Hochguertel and van Soest 2002, p.358). When distinguished by net worth quartiles, one can see that the richer households are, the more likely they are to hold a smaller amount of cash and a larger amount of stocks, business equities, and other real estate (other than houses). The share of durable goods gets smaller in the portfolio.

Table 5.5: Asset ownership of Dutch households from survey data in 1998

Assets	As a percentage of total financial assets
Checking and saving accounts	35,1
Bonds	2,2
Stocks	23,8
Mutual funds	13,3
Defined-contribution plans	7,9
Cash value of life insurance	10,4
Employer-sponsored saving plans	2,9
Other financial assets.	4,5
Total financial assets (average amount in guilders)	81563
	As a percentage of total assets
Total financial assets.	27,6
Total non-financial assets.	72,4
Real estate	63,8
House	58,8
Other real estate	4,9
Business equity	3,7
Stock of durable goods	4,9
Total assets (average amount)	295000

Source: Alessie, Hochguertel, van Soest (2002) p. 358 / Table 9.4

Table 5.6: Asset rates of Dutch households from survey data in 1998

Assets	By % of households
Total financial assets	95,4
Checking and savings accounts	93,2
Bonds	3,5
Stocks	15,4
Mutual Funds	21,6
Defined-contribution plans	17,5
Cash value of life insurance	23
Employer-sponsored savings plans	35,8
Other financial assets	14
Total non financial assets	79,2
Real estate	51,6
House	50,8
Other real estate	4,5
Business equity	5,1
Stock of durable goods	72,7
Total assets	97,1

Source: CentER Savings Survey, sampling years 1993-1998, in Guiso, Haliassos, and Jappelli (2002) Household Portfolios, p.356

The table on asset ownership shows the percentage of Dutch households that hold specific assets, according to a survey among them. It reveals that 95.4% of households have checking and saving accounts. Bank accounts are also attractive for money launderers. 60% of cases of laundering studied by Meloen et al (2003) made use of bank accounts.

Real estate is popular with both households and criminals

With regard to real estate, more than 50% of Dutch household own real estate. About 30%-40% of criminal cases laundered by putting money into immovable property. The data on criminals and on Dutch households are not directly comparable. First, the Dutch household data do not include consumption patterns. Second, most of the criminal spending statistics stem from 52 cases of rich criminals, whereas the Dutch data are for the average Dutch household.

A more precise study has to be done to reach solid conclusions. In particular, the consumption patterns also have to be included. But, at a first glance, the patterns seem to be not extremely diverse. Distortions of consumption and savings from money laundering is, given the relatively similar spending and saving pattern of Dutch households and of money launders, not to be expected to be large in the Netherlands.

5.3-5.5 Distortion of investment, artificial price increases and unfair competition: The real estate sector

In which sectors do criminals invest? Criminals reinvest their criminal proceeds in companies and real estate with the purpose to make further profits, legal or illegal. Most of these investments are in sectors that are familiar to the criminal, such as bar, restaurant, prostitution, cars and transport. (Kleemans et al 2002, pp.124-136). Criminals tend to invest in the country of their origin or were they do their criminal activities. Dutchmen have a tendency to invest in the Netherlands, Turks in Turkey. In the Netherlands, the real estate sector is the largest and most vulnerable sector for money laundering. Another sector, that will not be studied here, but also seems interesting, is the insurance sector.

Real estate is attractive for laundering

Real estate is important for money laundering because it is an nontransparent market, where the values of the objects are often difficult to estimate and where big value increases can happen. In the last years, the real estate sector got a lot of attention due to the killing of the real estate agent Willem Endstra. He was shot on the open street in Amsterdam in May 2004. He was suspected of fencing and of being connected to the Mafia.

Meloen et al (2002) showed that 29 out of the 52 cases analyzed, invested in immovable property. 19 in housing, ranging from apartments too villas. Second, investments took place into coffee shops, shops, brothels and hotels. Sometimes these are only financial investments, sometimes the goal is to earn on business. Also investments in big construction projects are popular. The WODC (Kleemans et al 2002, p.132) also finds, from analyzing 80 cases, that investment in real estate is an efficient method to place large amounts of money. The price increase in real estate is profitable and the annual profits on real business create a legal basis for income.

Nelen (2004) points out that investment in real estate has the following features, which make it attractive for criminal money:

- it is a safe investment
- the objective value is difficult to assess
- speculation is a tradition in this market
- it allows to distinguish legal and the economic ownership
- it allows to realize “white” returns
- it can be used to do criminal activities

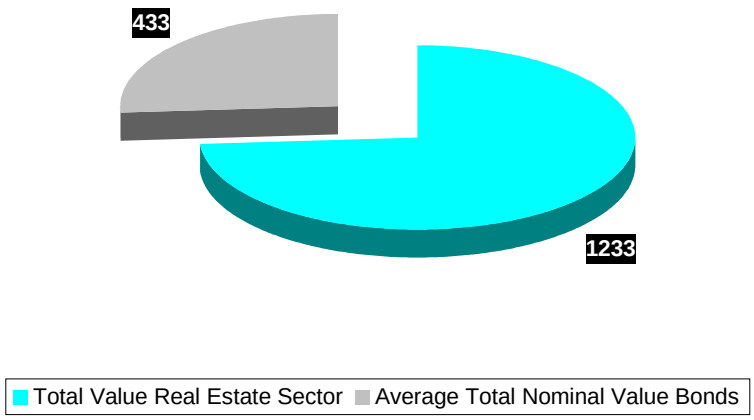
Abuse of legal persons can happen because

- they can buy sleeping enterprise licenses
- there is no central registration of foreign corporations
- it is unknown what Dutchmen do with foreign legal persons abroad
- the European Court necessitates that foreign legal persons cannot be refused

The real estate sector is larger than the bond market

Eichholtz (2004) points out that the real estate sector has the biggest value and exceeds the size of the bond market. It, therefore, attracts big wealth, both from legal and from illegal sources. Compared to the bond market the real estate sector is less transparent

Figure 5.3: Size real estate sector and bonds market in 2004 (in billion €)



According to the CBS, the total value of all real estate in the Netherlands in 2004 was 1.233 billion euro (CBS, 2005)[94]. The largest part, 913 billions of it is housing, 320 billions are for the non-housing sector (business objects etc). The average price per real estate object was 156.000 Euro. The nominal value of all bonds of Dutch companies and the Dutch state was 433 billion Euro in 2004 (CBS, 2005)[95].

The different parties at the market are the project developers, whose profit can range between 10 and 275 Euro per square meter depending on the location and use. The individual investors can earn from small enterprises that they run themselves, or from trading with objects, from renting houses. The return is stable but not spectacular, maximum 10%-15%. Institutional investors are insurance companies and pension funds, who hold long term portfolios. There is a strict control and a low risk profile. Profits are less than 10%.

The danger that the real estate market is used for money laundering lies in the fact that buyers can pay a far too high price in order to disguise criminal money. This means that artificial price increases and unfair competition are connected with it. For buying and selling objects there is always a notary public necessary. Therefore, the cooperation of this profession to report suspicious transactions is very important.

[94] Centraal Bureau voor de Statistiek (2005). *'Waarde onroerende zaken'*. Statline Database: www.cbs.nl. This is a provisional number. Taxations of real estate for real estate taxes (onroerend zaak belasting) were used as value per real estate object.
[95] Centraal Bureau voor de Statistiek (2005). *'Nominale waarde obligaties op Euronext Amsterdam'*. Statline Database: www.cbs.nl. Nominal value of all outstanding bonds of Dutch companies and the Dutch public sector quoted at Euronext Amsterdam.

5.6 Changes in exports and imports

The Dutch expertise in logistics and the excellent location make the Netherlands a perfect place to use the existing business structure for criminal purpose. Money laundering activities intermingle with legal export and import business. In order to estimate this effect a deeper analysis of customs and tax authorities reports would have to be studied.

In order to measure the macroeconomic consequences of, say, additional 30 billion Euro of money laundering in the Netherlands, as has been estimated in the first part of this project, also has effects on imports. For example, if this additional money supply lowers interest rate, stimulates investment and output and as a consequence, increases imports. But in the Netherlands is no longer a model, which measures the effect of changes in the money supply or demand (see e.g. the Morkmon model of the DNB, or the Jade model of the CPB). This has to do with the fact that the Netherlands is part of the Euro-zone and has no control over the money supply any longer. But this also means that macroeconomic effects of monetary aggregates cannot be evaluated any longer. Both, the Morkmon and the Jade model only allow for effects of changes in the world interest rate, see further comments under 5.11-17.

5.7 Growth effects

For the purpose of this project, Ferwerda and Bosma (2005) did an empirical research on the effect of money laundering on economic growth. This study will be presented in chapter 6.1.

5.8 Output, income and employment

Walker (1995) has estimated for Australia that 1 million laundered money decreases output by 1.2 million, reduces income by 0.6 million and reduces jobs by 25 jobs. His idea was that criminals and victims have different spending behavior, in particular that criminals spend and invest the money less productively. As already mentioned in chapter 4, his model is designed for a closed and not for a small and open economy, like the Netherlands.

In order to measure macro economic output and employment effects one would need to know about the effects of large amounts of extra money supply flowing into the Netherlands through laundering. However, as already mentioned under Changes in Imports, such a model is no longer available for the Netherlands.
Most likely, the Dutch profit from money laundering. The large amount of money flowing through the country stimulates financial services, employs lawyers and financial experts. These are among the highest paid and, hence, highest productive jobs.

5.9 Revenues of the public sector

The largest concern here is money laundering in connection with tax evasion. For more then 25 years there have been rough estimations on the amount of fiscal fraud. There are estimations of 15 % of the GDP (70 billion euro), but these estimations seem to be too high. The CBS estimated the a size of approximately 20 billion euro. (de Kam, 2004)

It can be that the public sector also profits from money laundering. If criminals pay deliberately taxes in order to make their income from criminal activities appear legal.

The Netherlands is popular for its tax advantages

The Netherlands is one of the most popular countries for multinationals because of low taxes. As already shown in chapter 3, the Dutch are classified by the American tax authorities IRS as one of the biggest tax havens in Europe. `Internal Revenue Service cannot prevent companies from artificially shifting their profits to tax haven countries like the Netherlands, Ireland, Bermuda and Luxembourg. Subsidiaries in these four countries were assigned 30% of profit of US corporations` (Sullivan 2004, p.589). Also other organizations such as the OECD (1998) on Harmful Tax Practices or the Primarolo Rapport by the European Union classify the Netherlands as an intense tax competitor.

The Dutch government announced in 2004 that it would cut the country's corporate tax rate to 31,5% in 2006 from 34,5%, with a further cut to 30% slated to take place by 2007. The Netherlands has 100 tax treaties in place. (Belgium has 66, Denmark has 78 and the UK has 110). The greater a country's network of double taxation treaties the greater its leverage to reduce withholding taxes on incoming dividends. An elaborate network of double taxation treaties is thus a key factor in the ability of a territory to develop as an attractive holding company jurisdiction.

Where a Dutch holding company comes within the "participation exemption rules" all income received by the holding company from the subsidiary whether by way of dividends or otherwise is tax-free. The criteria that have to be fulfilled in order to qualify for the participation exemption rule are e.g. the 5% rule: the Dutch holding company must hold at least 5% of the subsidiary's shares. This share is much lower than in many other countries and makes the Netherlands very attractive for holding companies and other investors (see http://www.lowtax.net/lowtax/html/offon/netherlands/nethold.html).

Though tax rates might be low, and many holding companies are tax free, the large volume of transactions will nevertheless create extra tax income, and if only from employing additional Dutchmen in the financial sector.

The suspicion is that a lot of money laundering takes place through these big entities. The public sector does not loose income because the Netherlands are a transit country for money laundering and do not suffer from the negative effects of it.

According to de Kam (2004) the Netherlands receive taxes of 500 million euro from being a tax haven.

5.10 Threatens privatization

The argument that criminals strategically buy up state enterprises when they get privatized does not seem to hold for the Netherlands any more, since a large part of the Dutch economy is already privatized. In other countries, where trains, steel, construction, telecommunication, electricity and gas, postal services etc are still state owned, this point might be of greater relevance.

5.11 to 5.17 Monetary and financial sector effects

Quirk (1996) runs the following regression Mi = Mi (y, ep, id, Lj) . The demand for money Mi depends positively on income (y), negatively on the expected inflation (ep), the deposit interest rate (id) and on money laundering (Li). Separate proxy variables can be included for money laundering associated with crime (L1), with tax evasion (L2) and with unemployment and labour participation (L3). Proxies for ML are crime, fraud and drug offenses. His results are that a 10 percent increase of crime will lead to a 6% reduction of money demand.

These effects can partly not be measured for the Dutch economy anymore, since monetary aggregates and their effects cannot be isolated for one of the Euro zone countries any longer. Furthermore, Dutch econometric models only reveal effects of world or Euro interest rates but not of an increase in the money supply.

Chinn and Frankel (2005) give an overview of the actual debate on the relation between the world interest rate and the national interest rates. There is an ongoing debate in economics whether interest rates are almost entirely determined on global markets, due to high capital mobility and the integration of capital markets or whether national factors are still important. The first group is represented by Barro and Sala-i-Martin (1990), the second by Breedon, Brian and Williams (1999) to give an example. Many of these studies relate to the question whether national public debt affects national interest rates. Chinn and Frankel (2005) do find a relation between the expectations regarding public debt and national interest rates (p.23). Government bond markets do, therefore, not to be fully integrated.

The role of expectations might also play an important role with regard to criminal money. 30 billion of criminal money will per se not affect interest rates by much, in the Euro-area. However, if financial investors suddenly get suspicious with regard to the source of this money, this could have a strong effect on expectations.

The expectations regarding Dutch money, the perception of it, might change and then have a similar effect on national interest rates as had expectations regarding public debt.

The recently published GEM-model by the IMF (Bayoumi 2004) takes into account international spill overs. They find that within 2 years, real effects of the US interest rate on national economies will vanish.[96]

But, whether one is part of the club of the proponents or of the opponents of national interest rate effects in a global market, the fact that the Dutch experience most of the criminal money as through flow, makes it very likely, that the macroeconomic effects will be negligible if not zero.

The effects of additional capital inflows, both portfolio and foreign direct investment, of about €26 billion of still have to be studied. However, since most of the money is only a through flow, the net effect will most likely not be very big.

5.18 The reputation of the financial sector

The international reputation of the Netherlands is that it is one of the most efficient financial centers and a tax haven (see under Revenues of the Public Sector, chapter 5.9). Dangers for the reputation can occur when a country deliberately declares to want to attract criminal money.

Seychelles effect not to be expected

Rawlings and Unger (2005) call this the Seychelles effect. This refers to the declaration of the Seychelles in 1995 to want to attract additional investment. One of the incentives provided was complete immunity from prosecution in criminal proceedings and the protection of assets from forfeiture even if investment were earned as a result of crimes committed outside the Seychelles. An investor could deal in drugs or commit violent offences anywhere else in the world and then safely invest the proceeds in the Seychelles free from forfeiture or prosecution. All the individual had to do was invest a minimum of US$10 million and the Seychelles government would grant immunity from prosecution. The effect was that Foreign Direct Investment was reduced rather than increased, because legal investors lost confidence in the country.

To compete with lower taxes as the Dutch do with regard to the corporation tax, seems still a different issues than to deliberately declare to compete for criminal money. A Seychelles effect is, therefore, not to be expected for the Netherlands.

[96] I owe this point and the literature references on interest rate effects to Frank van Erp

5.19 Illegal business contaminates legal business

Fijnault et al. (1998) identified the must vulnerable economic sectors of the Dutch economy for the infiltration of crime to be transport, harbors, the automobile sector, slot machines, hotel, restaurants, night clubs and industries that are controlled by organized crime in other countries; the construction industry, the waste disposal industry, the garment industry, the insurance sector, the wildlife sector and the smuggling of nuclear material.

There were some infiltrations in the transport sector (for drug transport overseas, by air and by land). Criminal groups set up their own haulage companies to import and export drugs; they use Schiphol and the port of Rotterdam.

By trying to control the hotel, restaurant, nightclub and pub sector, criminal groups control not only this sector but use the infrastructure for other illegal activities such as selling drugs, laundering money and installing illegal slot machines (Fijnault etc 1998).

Legal profession contaminated by crime

Legal professions can also get contaminated by crime. Money laundering needs lawyers. As Nelen and Lankhorst (2003, p.45-53) point out, for lawyers the specific interest of a client is more important than the general interest of society. They have to find a balance between this partiality and the code of conduct, which says that entanglements of interests due to financial or personal relationship should be avoided. Lawyers can assist money launderers in the following way:

- create complex legal arrangements such as trusts
- buy or sell property
- perform financial transactions
- give financial and tax advice
- provide introductions to financial institutions
- receive cash and proved the client with cash
- pay money to third parties for transactions not connected with the laywer's underlying retainer
- passing money through their own personal or business accounts
- assist criminals to launder from prison
  (see Nelen and Lankhorst (2003, p.47f).

Another profession that can get contaminated by crime is financial services, since money laundering necessitates their cooperation, as is the case with lawyers and note republics (see under corruption and bribe).

Fijnaut et al (1998) conclude that *no criminal groups have gained control* over legitimate sectors of the economy. Other studies such as Kleemans (2002 and 2004) and Stichting Maatschappij en Politie (1991), Fijnault et al (1998) confirm this.

5.20 Distortion of statistics

There were some estimates of how much official statistics get distorted through the shadow economy. For example the overestimation of unemployment rates due to fact that unemployed receive unemployment benefits but nevertheless do illegal jobs. For the distortion of statistics through money laundering, however, no such estimates exist.

5.21 Corruption and bribery

The Netherlands amongst the least corrupt

Transparency International (2003) published a Corruption Perception Index, in which the Netherlands turned out to belong to the four countries perceived the least corrupt within the European Union. The Ranking refer numbers to the world wide ranking. Malta is not available.

5.7: Corruption perception index for the European Union countries

Country	Ranking	Country	Ranking	Country	Ranking
Finland	1	France	23	Czech Republic	56
Denmark	3	Spain	24	Latvia	58
Sweden	6	Portugal	25	Slovakia	63
Netherlands	7	Cyprus	28	Poland	65
Luxemburg	12	Slovenia	29		
United Kingdom	13	Estonia	33		
Austria	14	Italy	35		
Germany	16	Hungary	40		
Belgium	17	Lithuania	41		
Ireland	18	Greece	51		

Source: Transparency International (2003)

Several police corruption reports showed that there is very little bribery in the Netherlands. Only 25 cases out of 1600 investigated by the Bureau of Internal Affairs in 1999-2000 had some connection with bribery. Bribery at Schiphol is necessary for drug dealers, whereas ports need less of it (Kleemans 2004, p.323f).

Several other studies such as Nelen and Nieuwendijk (2003) (for an overview see Kleemans 2005) also conclude that there is little corruption and bribery in the Netherlands.

5.22 Money Laundering Increases Crime

Masciandaro (1999) assumes that money laundering triggers financial flows, which lead to more investment in illegal activities in the country. There is, hence, a spill over mechanism from criminal money to crime. Because of the possibility of money laundering in the financial sector, reinvestment of the money in illegal activities in the real sector will be the consequence. This model and estimates for the Netherlands will be presented in chapter 6.2.

5.23 Undermines political institutions? The Dutch are a transit country for crime.

Criminals use Dutch expertise in logistics

In the Netherlands, mafia like organized crime as is the case in Italy or the US is not present. Criminal groups have not taken over specific sectors, regions or political institutions and do not act like "alternative governments". Criminal groups join in with the legal real and financial sector. The Dutch expertise in *logistics* and the excellent location make the Netherlands a perfect place to use the existing legal nodes and networks for organized crime. The nature of organized crime in the Netherlands can be described as *"transit crime"***.** The international exposure of the Netherlands in legal trade makes it also attractive for international illegal trade. Many forms of organized crime have to do with international smuggling activities – drugs, illegal immigrants, women for prostitution, arms, stolen vehicles, cigarettes – and other transnational illegal activities such as ML and fraud. (Kleemans, Brienen and van de Bunt, 2002 and Kleemans, 2004). The large amount and variety of immigrants, ethnic groups facilitate in particular drug trade. Family ties are important for international criminal associations. The Dutch good infrastructure combined with the social links of Colombian cocaine, Turkish heroin and Moroccan hashish make the Netherlands an important transit country for drugs in Europe (Kleemans 2004, p.308). In addition, Dutchmen produce and trade synthetic drugs. The WODC has analyzed 80 cases from the WODC monitor and found that the organisation of crime does not follow the "mafia" hierarchic pyramid structure with the "godfather" at the peak of the organisation, but rather a network with some individuals plus facilitators such as underground bankers, money exchangers, and forgers of document reappearing as the main "nodes" in the network again and again.

Violence is associated mainly with *drug trafficking* where it is used for intimidation and establishing a violent reputation. With money laundering it is mostly absent. In the Netherlands, according to the Dutch Central Criminal Intelligence Service the number of killings lies between 20-30 per year (1992-1998) where 75% of the victims are born outside the Netherlands. Especially Turkey (21%), Suriname and Netherlands Antilles (11%), Morocco (7%), China (7%) and other countries (21%). It is difficult to establish a clear link of these murders with organized crime since the reason of killing remains often unclear.

The Netherlands is also more a transit country for *smuggling illegal immigrants* rather than a country of destination (because of extensive registration for housing, work and taxes). Smuggling rings and clients often share the same ethnic background. Many of the prime suspects for smuggling people are also involved in forging documents (Kleemans, 2004, p.213). Forged documents are also an important way to open a bank account for ML purposes.

Trafficking of women for prostitution also show that about 75% of the women arrested, were born abroad. Yugoslavia (13%), Nigeria (8%), Turkey (7%), Bulgaria (4%), Morocco (5%), Albania (4%0, Czech Republic (3%) and Germany (3%). and 25% from other countries. The Netherlands seems to be a special distribution point for Albanians who buy and sell victims from Eastern Europe in the Netherlands.

Trafficking in Arms The total number of firearms smuggled into the Netherlands is estimated at 9.000-18.000 per year of which 2000-4000 firearms, the rest are small arms. The latter originate from former Eastern Bloc countries. About 15-25 importers are involved in this activity; mostly they are also involved in other types of criminal activities (Spapens and Bruinsma, 2002). The profits that are made with trafficking arms are relatively modest compared to drugs. But it enhances one's reputation in the criminal world. From interviews with prisoners one found out that "middlemen" earn about *25-75 Euro per weapon,* and large scale traders about *€225 per weapon.* Very often arms smuggling is combined with drug smuggling. Dutch criminals and former Yugoslavian mainly do the trade in arms. (Kleemans, 2004, p.317)

Trafficking in Stolen Vehicles About 30.000-35.000 cars and lorries are stolen in the Netherlands every year. About 5000-7000 cars and 200 lorries disappear permanently. Dutch groups work in teams of 5 sharing labor (stealing, changing license plates etc.) foreign groups are larger (from Russia, Latvia, the Ukraine and former Yugoslavia). The Dutch criminal groups steal about 10-15 cars per year for local and regional sale. Mostly a legal car businessman is part of the group for "recycling " the car back into the legitimate world. If 5 people steal 15 cars per year the amount of money seems too small to be interesting for ML.

Eastern European Crime The Netherlands and the Dutch Antilles are very attractive for the Russian mafia, for flight capital, cigarette smuggling (as a transit country for the UK), trafficking in women for prostitution, violence, the growing drug trafficking related to Eastern Europe and the rise of organized theft such as "hit and run" robberies". (Kleemans 2004, p.319).

5.24 Undermines foreign aid

In 2003 the Dutch spent $3981 million or €3524 for Foreign Aid (net ODA) all together.

The Dutch are the most important donor of gross ODA (Official Development Aid) for Suriname $21,8 million were sent to Suriname in 2003, a country with a GNP per capita of about $2000 a year. Dutch foreign aid is generous and by far the highest, compared to the $1,4 million coming from the EU and $1 million from the US (OECD, World Bank, www.oecd. org/dataoecd/63/53/1868905.gif and DAC www.oecd.org/dac)

More than double of foreign aid goes to the Netherlands Antilles, ($56 million) and to Aruba ($52 million).

But how much money flows back to the Netherlands in form of money laundering? All three countries are susceptible to a large amount of money laundering.

Table 5.8: Dutch foreign aid and criminal money flows in million €

Country	Dutch foreign aid (million $)	Net flows of money from the balance of payments	Suspicious transactions from the country to the Netherlands	Money laundering inflows estimated in Chapter 2	Net effect= foreign aid minus inflows back to the Netherlands
Netherlands Antilles	44 (56)	-6436	42,8	2,8	+
Suriname	16 (21.8)	+19	5,4	10,7	at the edge
Aruba	42 (52)	-104	..	..	

Source: OECD DAC databank, Siegel (2005), DNB bilateral balance of payment data.
Explanation: As net flows from the balance of payments the statistical difference was taken. Knowing that all errors and omissions are also in this number, it is not very reliable. But to give an indication of size and sign it seems sufficient here.

At a first glance, there is no danger that capital flight of the Netherlands Antilles and Aruba undermines Dutch foreign aid policy. Just the opposite, far more than only foreign aid money flows from the Netherlands to the Netherlands Antilles in terms of official money flows. In total there is 6 billion Euro more going out than going in. The number of suspicious transactions from the Netherlands Antilles to the Netherlands, however, amounts to about the same size as the Dutch foreign aid. This would mean that money laundering counterbalances the positive effect of foreign aid. Our own calculations show, however, much less money laundering. This could indicate an over reporting of banks of transactions from the Netherlands Antilles. For Aruba the official data indicate an outflow and not an inflow to the Netherlands. Suriname, however, might indeed suffer from the fact that the amount flowing into this poor country (16 million Euro) is counterbalanced by the additional money flows back into the Netherlands of 19 million. But both, the suspicious transactions of the MOT data and the money laundering inflows to the Netherlands from Suriname do not exceed Dutch foreign aid. As a rough first estimate one can hence say that the undermining of foreign (aid) policy is not a big issue for the Netherlands.

5.25 Increases Terrorism

One terrorist event sets back the economy by 1.5% after 30 years.

An empirical panel data study have been done by Blomberg, Hess and Orphanisdes (2004). They use panel data for 177 countries from 1968-2000 from Penn World Table, ITERATE data set for terrorist events and data sets of external and internal conflict. They do cross sectional and panel growth regression analysis and use a structural VAR model.

They estimate

$$\Delta y_i = \beta_o + \beta_1 D1 + \beta_2 D2_i + \beta_3 \ln y_0 + \beta_4 I/Y_i + \beta_5 T + \beta_6 I + \beta_7 E_i + \varepsilon_i$$

country i's average per capita growth = f (log of initial GDP y0, Investment ratio I/Yi, Terrorism T, Internal Conflict I, external Conflict E plus two dummies D1 and D2 for non oil exporting countries and for Africa). In the US 20.4 terrorist events per year on average, second highest after Lebanon, followed by Germany with 19.3 and France with 17.9. Terrorism mainly takes place in the US and Europe (this might have changed with Irak, Israel and so, though).

They find a strong positive relationship between terrorism and internal conflict (ρ=0.15) and between terrorism and income.(ρ=0.20). Terrorism leads to a slight decline in per capita growth. If there was *one terrorist event* every year, this would *lead to a 1.5% reduction of per capita income growth over the whole period (1968-2000).* One would have to divide this by 33 to get the effect estimated for a year. The effect is hence quite small, much smaller than from external conflicts. But terrorism has a strong negative impact on business investment. *The Investment/GDP ratio falls by –0.5% points, while government expenditures increase by 0.4% points.* Investment reacts more negatively to terrorism than other spending components and government expenditures get crowded in.

For the Netherlands a small effect has to be expected. Furthermore, we think that the connection between money laundering and terrorism is only a very loose one (see chapter 4 on theoretical effects of money laundering).

Table 5.9: Effects of money laundering summarized

Effects from the literature	Important Sources	Remarks and suggestions for further research	Major findings
1.Losses to the victims and gains to the perpetrator economic and social costs	WODC (2002) NIPO (2002) Stichting Maatschappij en Politie, SMP (1991) UNDCP (1996)	For households the value of damage is missing, victim rapports refer to number of cases but not to the value of damages. Many international studies. A Dutch comprehensive cost benefit analysis is not mentioned by NUDCP (1996).	The losses for companies from different types of crime amount to about 2000 Euro per year. Costs of drug abuse are about 0.4% of GDP.
2. Distortion of consumption and savings	Meloen et al (2003) show criminal spending behavior from case studies. Alessie et al (2002) show household spending behavior from survey data	A more careful look could be given to the consumption pattern, e.g. for detailed luxury goods such as diamonds.	A comparison of criminal spending behavior from case studies with household panel data shows that spending pattern is similar. No big effect to be expected.
3. Distortion of investment 4. Distortion of relative prices 5. Unfair competition	Eichholtz (2004) for the real estate sector	A deeper study of the real estate sector and the insurance market is recommended.	Real estate sector largest in value and highly non transparent. Very susceptible for money laundering.
6. Changes in imports and exports	Information missing	More information from custom and tax authorities necessary.	Very likely that criminal activities and money laundering mix with regular export and import business
7.Negative or positive effect on growth rates	Quirk 1996, IMF	Quirk estimated that a 10% increase of crime leads to 0.1% less growth. This would be a very large effect. We modified the model.	Money laundering itself does not dampen economic growth, it is the crime that is intermingled with it that does.

8. Negative or positive effects on output, income and employment	Walker (1995)	For Australia: 1 million laundered money decreases output by 1.2 million, reduces income by 0.6 million and costs 25 jobs.	Most likely positive effect for the Netherlands.
9. Lower revenues for the public sector	de Kam (2004)	Since the Netherlands is a transit country for crime and money laundering, also positive income effects from financial sector to be expected. Has to be studied in more depth.	The public sector looses revenues from tax evasion of approximately 20 billion Euro. But the public sector also gains approximately 500 million from being a tax haven.
10. Threatens privatisation	Not relevant for the Netherlands anymore.	-	-
11. Changes in the demand for money, interest rates and exchange rates	Quirk 1996 regression. Problem: In the Euro zone no more Dutch money demand identifiable	10 percent increase of crime will lead to a 6% reduction of money demand.	-
12. Increase in the volatility of interest rates and exchange rates	Bayeami (2004)	Not identifiable for one Euro zone country alone.	-
13. Greater availability of credit	Does not hold for small open economies	-	-
14. Higher capital in- and outflows, instability	Walker (1998) plus our findings from chapter 2	Still has to be studied	14-21 billion Euro of additional capital inflows. If there is a through flow, there is no danger
15. Changes in foreign direct investment	According to DNB not visible in data	-	-
16 Risk for the financial sector, solvability, liquidity	-	Effect of a strategic once and for all removal of criminal money.	Not big. NL is a transit country for crime. Problem: in the long run a strategic attack.
17. Profits for the financial sector	-	Still has to be studied.	
18. Reputation of the financial sector	Rawlings and Unger (2005)	Seychelles effect.	Not likely for the Netherlands.
19. Illegal business contaminate legal business	WODC studies on organized crime	More sectors and case studies needed.	Real estate sector, transport sector and Schiphol. In total small effect.
20. Distortion of economic statistics	Some estimates on false statistics for	-	-

	shadow economy available but not for money laundering.		
21. Corruption and bribery	WODC study, Kleemans (2004)	Study on the financial sector needed.	Only financial sector and Schiphol relevant
22. Money laundering increases crime	Masciandaro multiplier	Money laundering multiplier for different scenarios, partly solid data	Money laundering increases crime so that finally 10%-25% more money laundering will take place.
23. Undermines political and democratic institutions	WODC study on organized crime, Kleemans (2002 and 2005)	-	No evidence for the NL
24. Undermines foreign policy	OECD Foreign Aid Statistics DNB Balance of Payment Statistic	Capital flowing back from developing countries might be larger than Dutch foreign aid. Differs from country to country.	Not exactly proven. Might be the case for Surinam.
25. Increases terrorism	Blomberg et al (2004) regression	1,5% less per capita growth in 30 years discourages business but stimulates government expenditures. Little effect.	Only loose connection between money laundering and terrorism. They use the same channels but for different purpose.

6 GROWTH AND CRIME EFFECTS OF MONEY LAUNDERING

6.1 Growth effects

For the purpose of this project, Ferwerda and Bosma (2005) did an empirical research on the effect of money laundering on economic growth.

The only empirical research in this field was done so far by Quirk (1996) and was taken as a starting point. He based his estimations on the work of Barro (1991). The latter estimated whether initial GDP and human capital played a role for economic growth, by using cross-section data of 98 countries for the period 1960-1985. For human capital Barro (1991) used school enrolment rates at the secondary and at the primary level as proxies. Barro (1991) ran several regressions alternating these variables, adding or leaving out some new ones such as fertility rate, life expectancy, government expenditures, political instability, economic systems and market distortion. He showed that initial growth and human capital play an important role for growth in 98 countries, for the period 1960-1985.

Money laundering is closely related to government consumption.

Quirk (1996) extended the model and replaced human capital with a proxy for money laundering, the level of crime. Quirk (1996) found that the most significant difference of the regressions he ran emerged, when he excluded government consumption. Instead of being positive and significant the sign became negative. According to Quirk (1996) this implied that money laundering was closely and positively related to the level of government consumption. The more the government consumed, e.g. the more civil servants were employed, the higher was money laundering. Knowing this, Quirk (1996) estimated the effect of money laundering on economic growth by the following equation:

$$DGDP = C + \beta 1(PI) + \beta 2(TER) + \beta 3(CRIM) + \varepsilon$$
$$DGDP = -1.94 + 1.06(PI) + 0.068(TER) + -0.015(CRIM) + \varepsilon$$

DGDP = Growth of GDP, 1983-1990
PI = Private gross domestic capital formation in constant prices
TER = Student enrolment at the tertiary level (in millions)
CRIM = Total number of offences contained in national statistics

From this equation Quirk (1996) concluded: “The elasticity at the means in the equation is an estimated 0,1 percentage point reduction in industrial country annual GDP growth rates for each 10 percent rise in money laundering associated with crime.” (Quirk, 1996, p.20).

The problem of Quirk’s result are that they are outdated and due to his elasticity approach, cannot be applied to other countries Money laundering has increased substantially since the 1980s. Furthermore, some improvements can

be made such as relating crime to the size of the population or per 1000 of population, in order to account for the country size.

Because money laundering worldwide is "heavily concentrated in Europe and North America" (Walker, 1999), the dataset that will be constructed here will be restricted to Europe (EU-15[97]) and North America (US and Canada). The advantage of selecting these countries is that they have the same economic structure and forms of development and they have the best international comparable crime statistics. Taking these countries into account results in a similar number of countries than the Quirk study (1996)[98]. Better data for money laundering have been collected, and a pooled regression has been done. The pooled data set contains the 17 countries mentioned above and 6 years, from 1995 till 2000. This gives a total of 102 observations.

The growth of GDP was taken as an indicator for economic growth. The disadvantage of using GDP growth is that demographic trends show up in the variable. To solve this, TFP (total factor productivity)-growth can be used as a dependent variable.[99] The reason, why we opted for GDP growth instead of TFP also has its problems. Money laundering could, indeed, decrease the total factor productivity (TFP), but money laundering could also have an effect on e.g. the capital accumulation in a country. Because it is not exactly clear which part of the economy is affected by money laundering, we opted for GDP growth as the dependent variable. Another advantage of using GDP growth is that the comparison with Quirk (1996) is made easier.

Quirk (1996) used 5 control variables; GDP per capita, investment, government consumption and two human capital variables[100]. He ran several regressions all with different control variables. The regression that is used to estimate the effect of money laundering on economic growth is a regression with two control variables; investment and a human capital variable[101]. We used at least these two control variables as well as the other control variables used by Quirk (1996, if these variables were significant. In order to avoid causality problems, the control variable used in their regressions was lagged by one year, because investment and human capital accumulation in year 1 do not have an effect on the economic growth in year 1 but in the year(s) after.

Quirk (1996) presented the result of his regression as elasticity for industrialized countries. It is not possible to transfer the conclusion of the countries in the regression to other countries, since this elasticity depends on the absolute size of the crime variable. Firstly, this variable is not scaled to the size of the country and secondly the elasticity is not constant when the absolute

[97] EU-15 is Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and the United Kingdom.
[98] In this paper the number of countries is 17, while Quirk (1996) used a dataset of 19 countries.
[99] We owe this possible solution to Ben Geurts, Ministry of Finance.
[100] These human capital variables are school enrolment figures on the second and third level of education.
[101] This was the school enrolment figure for the third level of education.

number changes.[102] We will pay (more) attention to the interpretation of our result(s).

The inclusion of a better proxy for money laundering was a major improvement.

The most important improvement done in our project, was the inclusion of a better proxy for money laundering. This proxy was calculated following the calculation of the Walker (1999) model and the revised Walker Model (as presented in chapter 2), also the results of the Walker Model were used. For a comparison with the model of Quirk (1996) also the level of crime was included as a proxy for money laundering.

So this would mean that the following variables will be used as a proxy for money laundering:

- Crime statistics
- Money laundering based on the percentages given by Walker (1999)
- Money laundering calculated with the attractiveness index of Walker (1999)
- Money laundering calculated with the attractiveness index of this project (the revised Walker Model as presented in chapter 2)

Quirk (1996) used the crime statistics of Interpol, the International Crime Statistics. This source is not available for research purposes anymore. Therefore, they used the European Sourcebook of Crime and Criminal Justice Statistics (WODC, 2003), and the data from the United Nations Office on Drugs and Crime (UNODC).[103] [104]

In the datasets of UNODC and WODC the number of times each crime was reported are only partly published. Which means that for some countries the number of times a specific crime is recorded is not published. This problem is solved in two ways:

- First, by filling in the missing data. The used sources *do* provide the total number of times a crime is recorded, for all countries. The percentages of each crime reported also are published. They filled in the missing data with the mean of the other countries. In table 6.1 these percentages are shown and filled in for the percentages marked with a *. This way of completing the data will be called ‘original’.

- Second, by assuming that the relative amount of each crime (as a percentage of total recorded crimes) is constant over countries and over years. The relative amount of each crime does not seem to change significantly between 1995 and 2000 for the EU-15 and North America.

[102] We owe this point to Ben Geurts, Ministry of Finance.
[103] This can be retrieved from the internet: http://www.unodc.org
[104] To check the robustness of this data we compared it with some figures available on the internet: Fact book Crime: Drug War Facts (http://www.drugwarfacts.org/crime.htm) and Disaster center: United States crime rates 1960-2000 (http://www.disastercenter.com/crime/uscrime.htm), these sources do present comparable data, although this might be the fact because they use the same source, this is an indication that these numbers can be trusted.

> But the relative amounts *do* differ over countries. It is hard to tell the reason of these differences, because countries differ in the way they define their legal concepts and the way they collect and present their statistics. (WODC, 2003, p.19) Also the change of being caught could differ between countries. They assumed that these problems explain the differences in the relative amounts. Which means that they can assume the relative amounts to be the same over countries. The mean of the known percentages of each crime in 1995 will count as the relative amount of each crime. In table 6.1 these percentages are shown in the lower row. This way of completing and harmonizing the dataset is called 'average'.

Important to point out is that, in their research the 'original' and 'average' percentages are used to calculate generated money. Which gives them two estimations on money laundering after each calculation.

Table 6.1: The percentage each crime is reported (in 1995).

Country	Drugs	Total fraud	Theft	Robbery	Burglary
Austria	2.4	2.6*	43.9	0.4	14.6*
Belgium	4.1	0.9	46.5	1.8	14.6*
Canada	2.3	2.6*	31.5	1.1	14.3
Denmark	0.1	2.0	52.3	0.4	19.8
Finland	1.8	3.9	20.4	0.4	19.3
France	2.2	2.6*	62.5	2.0	14.6*
Germany	2.4	2.6*	57.7	1.0	14.6*
Greece	0.9	2.6*	24.1	0.4	12.7
Ireland	3.8	2.8	50.7	2.6	30.3
Italy	1.7	2.6*	59.0	1.3	14.6*
The Netherlands	0.3	2.0	58.6	1.3	9.9
Norway	5.9	3.4	45.6	0.2	1.0
Portugal	2.0	2.4	22.0	4.4	15.5
Spain	1.3	2.6*	40.3	9.0	15.6
Sweden	2.5	4.3	29.3	0.5	12.4
United Kingdom	0.4	2.6*	72.4	1.3	14.6*
United States	5.7	1.7	30.7	2.2	9.9
Mean	**2.3**	**2.6**	**44.0**	**1.8**	**14.6**

* These percentages are filled in by the corresponding mean of that crime

The regressions[105] show that the two control variables Quirk (1996) left out, GDP per capita and government consumption, are not significant in their regressions, for this reason these variables will (also) not be included in their regressions, as pointed out earlier. The control variables that are included by Quirk (1996), investment and human capital, are also significant in their regressions.

[105] The results of the regressions are presented in table 6.2

This means that the regression that is estimated is the following:

$$GRGDP = C + \beta1(GRPOP)t\text{-}1 + \beta2(INV/Y)t\text{-}1 + \beta3(ML\ variables) + \varepsilon$$
(regression 1-6)

If one takes a look at the separate effect of each control variable, one finds that the relation between population growth and economic growth is always positive with a beta between 280 and 350, indicating that a one percent of population growth would increase the growth of GDP by 0.28-0.35%. This is an effect, which has to be expected here, because if the population rises, the amount of human capital goes up, which will lead to a higher steady state, which again will lead to higher economic growth.

The negative coefficient of the investment share is harder to interpret, this would mean that if the investment share of GDP increases, and thus the (government) consumption share of GDP decreases, the economic growth will decline. The negative effect of the investment share may be due to measurement problems, the short time period of only 6 years (business cycle effects) and the estimation method used. The high constant C may be a sort of trade off for the neg. investment effect[106]. If one uses a pooled OLS model, without taking country dummies into account, the growth rate will be estimated not as a result of a change of the investment share from one year to the other but really as a result of a change in investment shares (since the computer treats all pooled observations equally, and is not told that one is dealing with one specific point in time or country).

The model presented here can in later steps definitely be refined and much richer results can be exploited form it by introducing country dummies and doing fixed effect pooled regressions. For this, one has to increase the time span in order to get more observations. This would allow us to say something about differences between countries and differences in one country over time.

The diverse proxies for money laundering together with some control variables were included in a regression with real GDP growth as the dependent variable, as mentioned above. The results of these regressions are that money laundering dampens economic growth. If money laundering increases from its initial level with 1 billion (US$) the economic growth will decrease by 0,03 to 0,06 percent points.[107] This is the result that is suggested by the literature on the effects of money laundering, as mentioned in chapter 4, and by the only empirical estimation on the effect of money laundering on economic growth, Quirk (1996).

Also crime was included in the regressions instead of the (other) proxies for money laundering (regression 7). This led to the result that if crime increases from its initial level by 1%, the economic growth will decrease by 0,12 percent

[106] No causal relationship should be attached to the constant. If all independent variables would not grow at all, this does not mean that the growth rate would be 6.46% in equation 1 table 6.2. Since the cloud of observations might be very far away from the intercept and the results not valid in the intercept area.
[107] This relation is only applicable for the 17 countries in this regression.

points. This is comparable with the 0,1 percent points Quirk (1996) found in his regression. The country size effect seems, therefore, negligible.

The most interesting point in our research is that one can theoretically[108] separate the effect of money laundering on economic growth from the effect of crime on economic growth (regression 8-13). All these regression results show that money laundering has a positive effect on growth. Money laundering increases growth rates between 0,06% to 0,14%, depending on the proxy for money laundering chosen (see table 6.2. regression number 8-13). Three of the estimated money laundering coefficients are significant at the 5% level. But while money laundering increases growth, crime dampens it. The coefficients of crime have a negative sign in all regressions. An increase of crime by one percent reduces growth by 0,26-0,48%. When one compares the results of regression 7 (crime alone) with the following ones, one can see that the crime coefficient increases when money laundering is introduced in the regressions (8-13). However, since money laundering and crime are not independent of each other, the interpretation of separate effects must be done carefully. Regression 8-11 include money laundering proxies which are calculated from the proceeds of crime, hence definitely dependent on crime. In order to find a somehow independent indicator for money laundering, we took the attractiveness indicator as a proxy in regression 12 and 13. As the significant results in regression 12 show, money laundering has a very small but positive effect of 0,06%points on growth, but crime dampens growth by 0,45%points. The overall effect of on the one hand a positive effect of money laundering on growth and on the other hand a negative effect of crime on growth is negative, since the crime effect outweighs the money laundering effect. Therefore, we conclude:

money laundering per se is not harmful for growth

crime that goes with money laundering reduces growth

> *"Money laundering itself does not dampen economic growth, it is the crime that is intermingled with it that does."*

The danger of money laundering on the economy is not that directly it affects macro economic variables such as output, employment, or growth. The danger lies in the fact that money laundering increases crime. And it is crime that has negative effects on the economy. Crime reduces growth by -0,12 to –0,45%.

It is, therefore, very important to study the relationship between money laundering and additional crime.

[108] The separation of money laundering and crime is theoretically because there are three ways of how money laundering and crime is intermingled; the proceeds of crime are laundered, money laundering is a crime and money laundering attracts crime, as mentioned earlier.

Table 6.2: The regression output of Ferwerda and Bosma (2005)

	Dependend Variable	Control Variables			Money Laundering Variables						Regression Statistics			
		C	Pop gr (t-1)	I/Y (t-1)	Crime	Our	Our (aw)	Walker	Walker (aw)	Unger	Unger (aw)	F-statistic	Adj. R-squared	DW	n
#															
1	GDP growth	**6.46**	**326.08**	**-0.2**		**-0.03**						7.37	0.16	1.4	102
		(3.63)	(4.36)	(-2.45)		(-2.28)									
2	GDP growth	**6.67**	**332.41**	**-0.21**			**-0.04**					8.02	0.17	1.42	102
		(3.77)	(4.53)	(-2.58)			(-2.62)								
3	GDP growth	**6.56**	**339.89**	**-0.2**				**-0.04**				8.37	0.18	1.44	102
		(3.73)	(4.63)	(-2.52)				(-2.79)							
4	GDP growth	**6.63**	**344.02**	**-0.2**					**-0.06**			8.63	0.18	1.44	102
		(3.78)	(4.69)	(-2.56)					(-2.9)						
5	GDP growth	**6.52**	**330.1**	**-0.2**						**-0.02**		8.28	0.18	1.43	102
		(3.71)	(4.57)	(-2.54)						(-2.74)					
6	GDP growth	**6.7**	**335.45**	**-0.21**							**-0.03**	8.9	0.19	1.45	102
		(3.83)	(4.70)	(-2.64)							(-3.02)				
7	GDP growth	**6.99**	**344.33**	**-0.22**	**-0.12**							9.79	0.21	1.48	102
		(4.01)	(4.87)	(-2.79)	(-3.38)										
8	GDP growth	**7.91**	**285.08**	**-0.26**	**-0.48**	**0.14**						10.43	0.27	1.63	102
		(4.67)	(4.06)	(-3.39)	(-4.02)	(3.12)									
9	GDP growth	**7.28**	**311.91**	**-0.23**	**-0.41**		**0.11**					8.87	0.24	1.55	102
		(4.25)	(4.41)	(-2.99)	(-3.06)		(2.23)								
10	GDP growth	**7.32**	**323.96**	**-0.23**	**-0.26**			**0.05**				7.75	0.21	1.5	102
		(4.16)	(4.47)	(-2.96)	(-2.21)			(1.22)							
11	GDP growth	**7.21**	**327.21**	**-0.23**	**-0.24**				**0.06**			7.56	0.21	1.49	102
		(4.10)	(4.49)	(-2.90)	(-1.91)				(0.95)						
12	GDP growth	**7.9**	**330.05**	**-0.25**	**-0.45**					**0.06**		8.77	0.24	1.55	102
		(4.49)	(4.74)	(-3.19)	(-2.9)					(2.16)					
13	GDP growth	**7.34**	**340.14**	**-0.23**	**-0.34**						**0.06**	7.77	0.21	1.5	102
		(4.17)	(4.82)	(-2.94)	(-1.92)						(1.25)				
	All the coefficients are significant at a 5 % level except for those underlined														
	The t-values are presented under each coefficient between parantheses														

The variables explained for table 6.2

Pop gr (t-1) = Population growth in percentages lagged by one year

I/Y (t-1) = Investment share of GDP lagged by one year

Crime = Total number of recorded crime offences in million offences

Our = Calculation of the money laundering variable based on their calculations and the attractiveness index published by Walker (1999) with the 'original' generated money calculation.

Our (av) = Calculation of the money laundering variable based on their calculations and the attractiveness index published by Walker (1999) with the 'average' generated money calculation.

Walker = Calculation of the money laundering variable based on the percentages published by Walker (1999) with the 'original' generated money calculation.

Walker (av) = Calculation of the money laundering variable based on the percentages published by Walker (1999) with the 'average' generated money calculation.

Unger = Calculation of the money laundering variable based on their calculations and the attractiveness index in this paper with the 'original' generated money calculation.

Unger (av) = Calculation of the money laundering variable based on their calculations and the attractiveness index in this paper with the 'original' generated money calculation.

6.2 Money laundering increases crime

Money laundering leads to more investment in illegal activities.

Masciandaro (1999) assumes that money laundering triggers financial flows, which lead to more investment in illegal activities in the country. There is, hence, a spill over mechanism from criminal money to crime. Because of the possibility of money laundering in the financial sector, reinvestment of the money in illegal activities in the real sector will be the consequence.

As is shown in figure 6.1 below, there is an original amount of liquidity from crime ACI. One can interpret ACI as stock and as flow. Masciandaro himself seems to have a flow in mind when he talks about the liquidity from crime. One can interpret this as the proceeds from crime. But one can interpret ACI also as the stock of criminal money. A fixed proportion y of this illegal money has to be laundered, since even criminal activities need some legal money. A part c of the criminal money gets lost in the verge of the money laundering process. These costs c include both legal regulations (which increase c for the launderer) and costs for the individual criminal who tries to bribe somebody, has to buy a false passport, has to find somebody to bring the money over the border, loses some money while whitewashing it in the casino etc. The laundered money can be reinvested in either legal or illegal activities. A fixed share (q) of it goes back into the illegal sector and bears an interest of ri, (1-q) gets reinvested in the legal sector and has an interest rate rl. If the decision of how much money is put into the illegal sector (q) depends on the difference of the interest rate between the illegal and the legal sector ri-rl, than this interest difference must stay constant over time (otherwise the multiplier would not work the way Masciandaro designs it).

The last part of the Masciandaro graph is not convincing. Why should the return from money reinvested into illegal activities not also be split between criminal and legal activities but entirely be laundered? It seems more consistent to assume that only a share y of the return from reinvestment into illegal activities q (1-c) (1-ri)y ACI is laundered at cost c whereas the rest (1-y) q (1-c) (1-ri)y ACI is put on the illegal market.

The original multiplier of Masciandaro was:

Total amount of money laundered AFI = $y/(1- (q(1-c)(1+r_i))$ ACI

Multiplier times original crime money

When the reinvested money is again split into y share for the illegal market and (1-y) for the legal, the new modified multiplier becomes:

AFI = 1/ (1- (y q (1-c) (1+ri)) ACI

Assumptions: y = fixed proportion of crime money that needs to be laundered
c = fixed proportion of transaction costs of laundering
q = fixed share of laundered money is reinvested in illegal activities (depends on difference between r_l and r_i)
r_l = return in legal economy
r_i = return in illegal economy

Note that $1 > y, q, c > 0$ since they are shares by definition. But the interest rate r_i has basically no "natural" restriction. However, it is limited by the model constraints.
An indefinite series $x + x^2 + x^3 + ...x^n$ with $n \rightarrow \infty$ can be approximated with limes $n \rightarrow \infty$ $1/(1-x)$ as long as $0 < x < 1$.

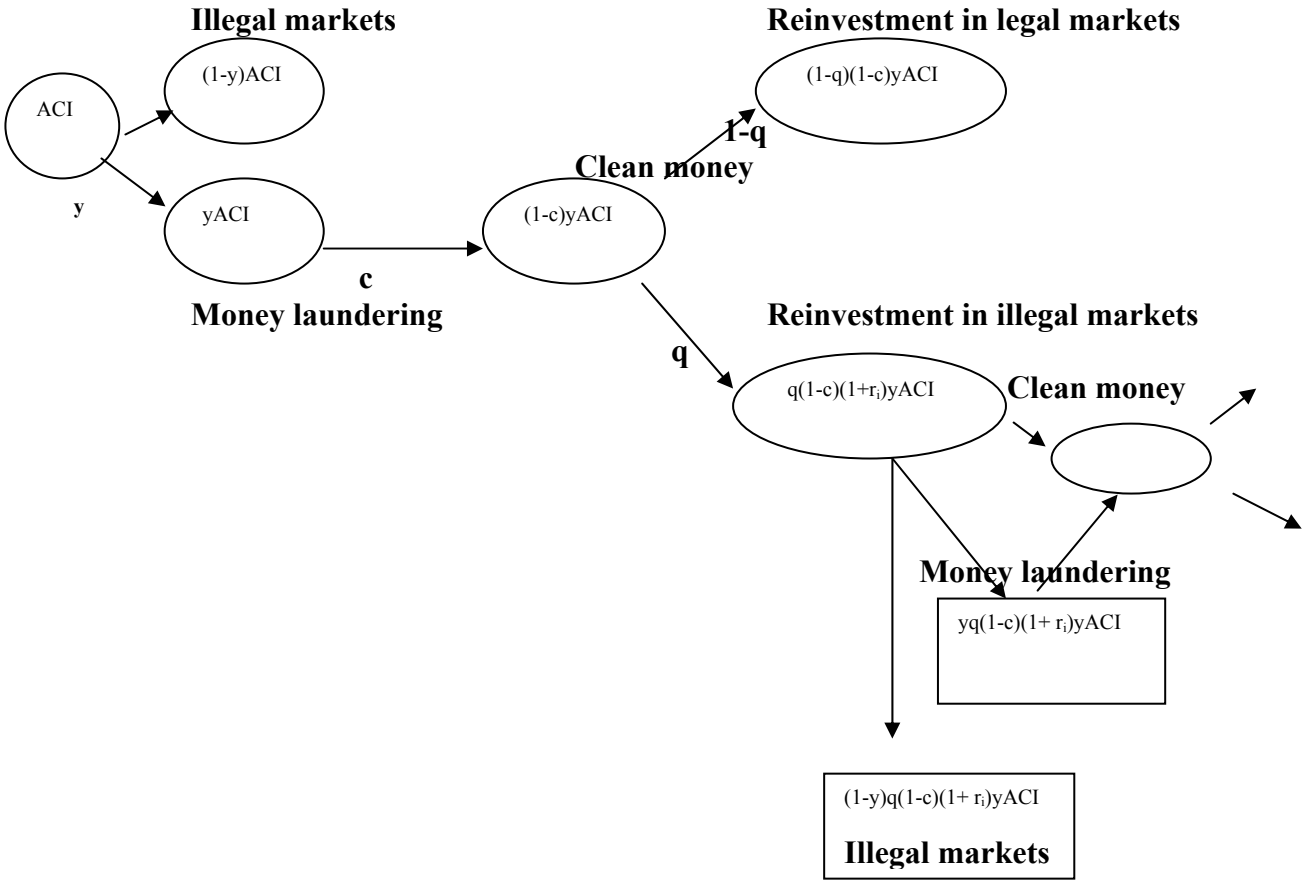
If this condition is applied to our problem, this guarantees that the multiplier is positive and that the model does not explode. For the original multiplier of Masciandaro (1999) this means that $q(1-c)(1+r_i) < 1$. (For example, if q and c have high values (say 0.9 both) than the maximal value the interest rate on criminal activities r_i can have so that the model does not explode is 23%. With higher r_i the nominator would become negative).

If this condition is applied to the modified multiplier, this means that
$y\,q(1-c)(1+r_i) < 1$. (For example, if y, q and c have high values (say 0.9) than the maximal value for r_i is 37%. If y=0.7, and q and c are 0.9, the maximal return on criminal activities r_i is 76%).

The model is hence relatively robust within a range of "normal" numbers, but once criminal returns get exorbitantly high it would not hold anymore.

Note also that the modified multiplier is larger than Masciandaro's and it might be for reasons of realistic results that he opted for the smaller one. (See below under operationalization that for the assumptions of y=0.7, c=0.5, q=0.2 and r_i=0.5 Masciandaro's multiplier is 1.11 while ours is 1.35).

Figure 6.1 The model of Masciandaro (1999) modified



6.2.1 Possible operationalization of the variables

The fixed proportion of crime money (y) that needs to be laundered is 70% (from CBS 2004) and 80%(from Walker 1995). It depends on the type of crime. A large percentage of crime money from drugs and fraud is being laundered. Whereas other types of crime like theft, burglary, robbery etc lead to proceeds of which only about 10% are being laundered. But since drugs and fraud are the largest components of crime, which are relevant for money laundering, we will assume y in the range of 0.70-0.80. The way in which we will presents the multiplier allows us, nevertheless, to look also at other possible proportions to be laundered.

c.....transaction costs of laundering. Which percentage of money is lost through the laundering process? It depends among others also on anti money laundering policy. If money is laundered through the casino, the expected return is 46% (except if you play red and black only, then it is definitely higher, almost 100%, except for the zero, but this might be too conspicuous). If you only have to declare the gains, which are then whitewashed, and forget about the losses, playing in the casino seems the best strategy. But this strategy is not good for very large amounts. You get videotaped, the casino does not hand out larger

amounts in cash, reports suspicious transactions to the authorities etc. But laundering in the casino means that the expected return, c, is 46%. Another argument we found is, that money laundering means that the criminal does want to pay taxes. There should, hence, be at least the loss of the corporate tax of 34% (in the Netherlands) plus some fees for the bank or the (Dutch) income tax rate of maximum 52%.

Altogether, this means that it seems quite reasonable to assume c=0,5. Half of the criminal money is lost when it is laundered, either through casino losses or through taxes. When you take the criminal money over the border and then place it on a bank account, the transaction costs c might be substantially lower and the share of money successfully laundered (1-c) might be much higher (1-c= 0,9)

q... laundered money reinvested in illegal economy. This variable is difficult to evaluate. Experts of the DNB think that there is a high incentive to make money dirty again because of the high profits in the criminal sector. There will be less of an incentive though to reinvest clean money into dirty business than the other way round, except for terrorism financing or if return differences are very high. But even with high returns on criminal activities, it still, seems more likely to hoard some of the illegal money for further illegal business purpose rather than running through the risky laundering process for reinvesting the clean money illegally again. Following Masciandaro, however, one needs always some clean money to do illegal business. In the following we assumed that 20-50 percent of the laundered money is made dirty again, q=0,2, q=0,5.

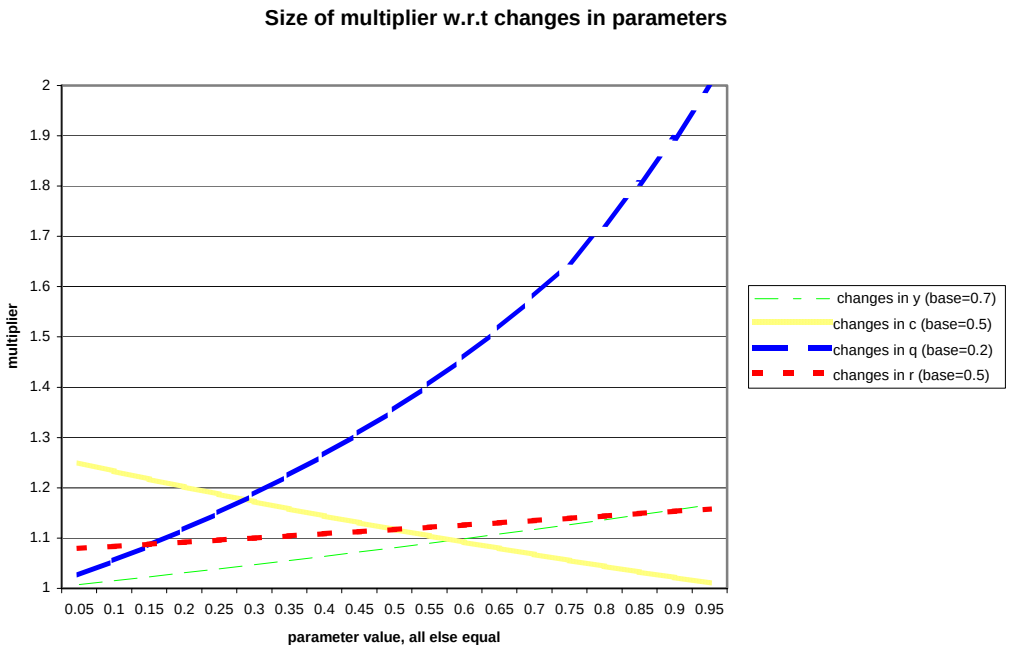
ri..... The average return of illegal business is also difficult to estimate. For drugs the sales value of 1 kg of heroine can exceed the costs of production by 600%. But for cocaine the difference between wholesale and retail price or the value added is about 100%. For example, one gram of 100 percent pure cocaine retailed for $4,30 in Colombia is finally sold between $59 and $297 in the United States. The gross profit margin, or value added, is hence between 93% and 98,5% of the retail value (see UNDCP 1996, p.3). For other sorts of crime much lower rates of return might apply. We assume r to be between 50% and 100%.

The following graphs display the multiplier for different assumptions on the variables mentioned above. Read the graphs (figure 6.2-6.4) as follows: along one line (for example changes in q, top line in the figure 6.2) one can read how big the multiplier is if q changes, as long as the other three variables stay at their level (in the first graph y=0,7, c=0,5 and ri=0,5). If q=0,2, the multiplier is about 1.1. If – given the three other variables do not change – q increases to 0,95, the multiplier is 2. If q=0,4, the multiplier is 1,25. Along the upwards sloping, top blue line the change of the multiplier can be seen for all values of q. In the same way one can look at the downwards sloping, yellow line for c, the share of money lost with laundering. If the other three variables stay at y=0,7, ri=0,5 and q=0,2 the multiplier is 1,25 if only 5% of money is lost for laundering, it is 1,1 if 50% is lost and it is 1 if 95% of money is lost through laundering. In the same way variations of y and ri can be analyzed.

The second graph, figure 6.3, is plotted for illegal returns ri=100%, i.e. double as high as in the figure 6.2. One can see that the multiplier gets a little bit higher than before.

In the third graph, figure 6.4 the interest rate r=600% and this violates the condition that the nominator of the multiplier has to be less than 1. The third multiplier, figure 6.4, is not valid from certain parameters on. The model explodes if the parameters exceed certain amounts. In particular the interest rate, which is not necessarily smaller than 1.

Figure 6.2: The crime multiplier with an interest rate of 50%



This means that criminal money will attract more crime because financial returns of it will partly be reinvested in additional criminal activities.

The Masciandaro (1999) model is a closed economy model. Money that is being laundered will be reinvested in the closed economy. In an open economy, as long as the reinvestment in illegal activities happens abroad, the country, which accepts money laundering, will not suffer. But, it seems more likely, that opportunities to launder will eventually also attract the criminals.

Countries that have few ML regulations free ride on those who suffer from high crime.

Countries that have little regulations against money laundering are in principle free riding on those countries, which suffer from high crime. They accept the returns from crime as investments, but this goes either at the cost of other countries or - and this seems more likely - will backfire eventually.

Once crime is settled, the economic, social and political consequences can reach from the control of entire economic sectors, to corruption and bribery till the undermining of politics through criminal organizations. As Kleemans (2005) pointed out for the Netherlands, the criminal consequences of money laundering are not necessarily the establishment of a hierarchic criminal

organization, such as the Italian mafia, but can also be the emergence of flexible network organizations that emerge through a "snow ball effect" between relatives of ethnic groups. Both forms of organized crime will eventually undermine and erode social and political values and norms.

Figure 6.3: The crime multiplier with an illegal interest rate of 100%

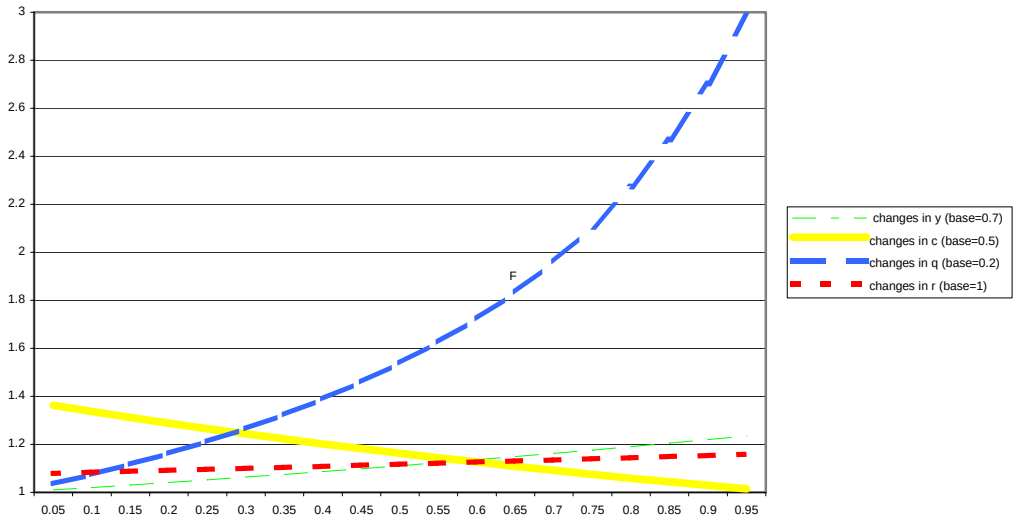
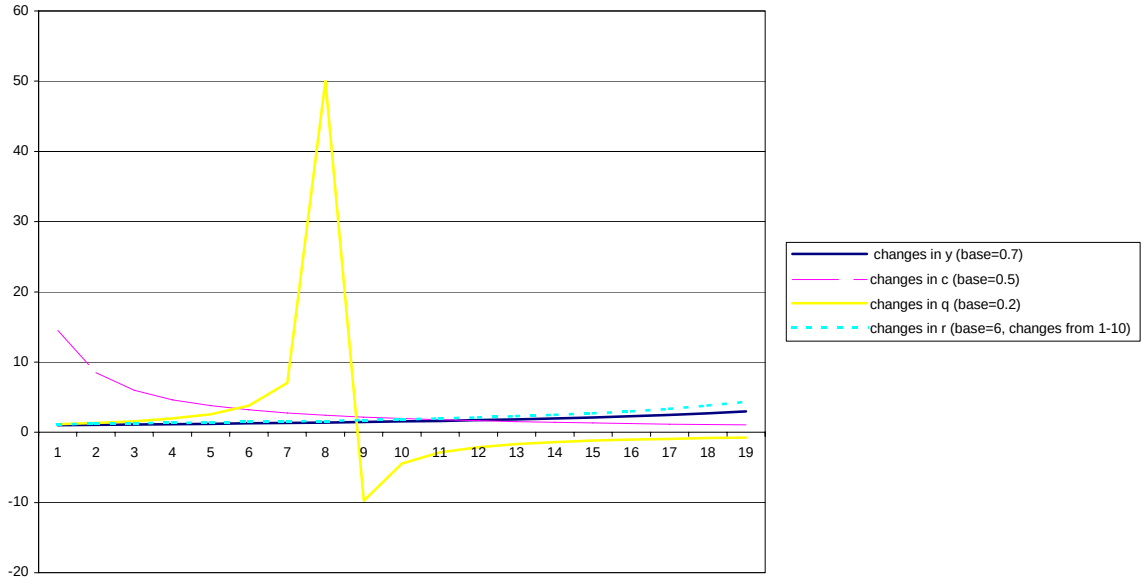


Figure 6.4: The crime multiplier explodes



Money laundering triggers an additional 10-25% for laundering.

The Masciandaro multiplier lies between 1 and 3, in most of the cases and under more likely assumptions it is about 1.1-1.25. This means that proceeds from crime will increase through money laundering by about 25% of the original amount. Money laundering triggers an additional 10-25% of more laundering through an increase in illegal activities.

7 ANTI-MONEY LAUNDERING NETWORKS: THE AUSTRALIAN MODEL

7.1 Introduction

This chapter provides an overview of the regulatory framework of today's anti money laundering systems in Australia. It examines key anti money laundering legislation, namely the Financial Transactions Reports Act (FTR) of 1988 and the Financial Intelligence Unit (FIU) established to give effect to this legislation – The Australian Transaction Reports and Analysis Centre (AUSTRAC). Details are provided of the entities that are required to report under the FTR Act and the agencies where information is disseminated. Statistics from 1999-2004 are provided for four categories of financial transaction. This chapter then examines the potential risks faced by all FIUs around the world by new forms of electronic commerce and banking systems that may escape detection and aid money launderers. These include financial proprietary systems, electronic settlement systems and internal bank payment procedures with offshore subsidiaries.

Australia has an efficient network in combating money laundering.

The Australian anti money laundering system was chosen by way of comparison for two reasons. First, the model that we have used in this report, the Walker Model, was first developed in the Australian regulatory context. It therefore seemed appropriate to provide an overview of the way anti money laundering policy operates in Australia. Secondly, Australia has an efficient network of interagency cooperation between the private and public sectors in combating money laundering that may be of interest to other FIUs. In assessing Australia's anti money laundering regulatory systems, Cuéllar (2003:379) observed that:

> *'The Australian government's anti-money laundering system…provides wire transfer and currency reporting information to the Australian government's financial intelligence unit (AUSTRAC), almost in real time. Instead of relying almost entirely on subjective suspicious activity reporting, AUSTRAC uses expert systems and link analysis to analyze all currency transaction reports and international wire transfers.'*

7.2 Financial intelligence legislation: the position of AUSTRAC

In 1988 the Commonwealth Government (the Federal Government, known as "the Commonwealth") of Australia passed the Cash Transaction Reports Act, which in 1991 became the Financial Transaction Reports (FTR) Act (AUSTRAC 2004:1). The Australian Transaction Reports and Analysis Centre (AUSTRAC) was established to manage compliance with the reporting requirements of the FTR act in 1989 (Hackett 2003; AUSTRAC 2004). AUSTRAC is Australia's key anti money laundering regulator and specialist FIU. AUSTRAC's mission is to make a "valued contribution towards a financial environment hostile to money laundering, terrorist financing and tax evasion" (Hackett 2003).

In doing so it monitors the changing financial and gaming sectors and shares information with state and federal government and statutory agencies in efforts designed to maintain and enhance law enforcement strategies, revenue collection, national security and social justice. In particular AUSTRAC has a series of goals that are provided in the following table. By way of comparison Dutch anti money laundering goals are also included here, using these stated aims from the annual MOT report:

AUSTRAC GOALS	**MOT GOALS**
• Reducing tax evasion;	• Manages government determination to put the lid on the influence of criminal money on society, nationally as well as internationally;
• Improving law enforcement, especially people smuggling and drug trafficking offences;	• Combating money laundering;
• Restricting and reduce money laundering in and through Australia and internationally;	• Preserve the integrity of the financial system (MOT 2003)
• Tightening national security measures, particularly tracking and preventing terrorist financing (AUSTRAC 2004:2).	

AUSTRAC has three main branches: money laundering deterrence, money laundering targeting and information technology. This paper is primarily concerned with money laundering deterrence, as it is at this point that data on financial transactions are collected, collated and disseminated to commonwealth, state and territorial agencies.

7.3 Reporting requirements

The FTR Act requires designated *cash dealers* to report specified categories of financial transaction that can be disseminated or referred to federal, state and territorial government agencies and statutory bodies where they can be further investigated if there is evidence of criminal conduct or money laundering. These cash dealers include:

- Banks;
- Credit Unions;
- Building Societies;
- Insurance Companies;
- Trust Companies;
- Securities and Derivatives Dealers;

- Casinos;
- Bureaux de Change;
- Bookmakers (FTR Act, s. 3).

These cash dealers, along with members of the public, are required by the FTR Act to report the following categories of financial transaction to AUSTRAC within specified periods of time:

- Suspect transactions – any transaction that arouses suspicion with the cash dealer due to either the monies or entities involved in the transaction;
- Significant cash transactions – any transaction involving a cash component of [AUD] $10.000[109] or more, or the equivalent in foreign currency;
- International funds transfer instructions[110] - any instruction transmitted electronically either into or out of Australia, for the transfer of funds; and
- International currency transfers – a report of physical currency (cash) of $10.000 or more, or the foreign equivalent, leaving or entering Australia by carriage, mailing or shipping (AUSTRAC 2004: 3).

Cash dealers are able to lodge these four categories of financial transaction over a secure EDDS website. In excess of 99.9% of all reports are now submitted electronically using this facility. Using an automated monitoring system (TargIT) AUSTRAC can detect and identify suspicious or unusual transactions almost in real time. Data is then disseminated to commonwealth, state and territorial agencies. It is also stored in AUSTRAC's Transaction Reports Analysis and Query (TRAQ) database, which provides authorised staff in commonwealth, state and territorial agencies with direct online access to this data.

7.3.1 Distribution of financial intelligence data: partner agencies

AUSTRAC provides this FTR intelligence to 28 commonwealth, state and territorial government agencies and statutory authorities by way of Memoranda of Understanding (MOU). They are known as AUSTRAC *partner agencies*. They are:

- Australian Crime Commission;
- Australian Customs Service;
- Australian Federal Police;

[109] AUD$10.000 = EUR €5.664. All currency used in this chapter refers to Australian dollars, unless other specified.
[110] Also known as Telegraphic Transfers (TT/s), though electronic automation of international currency transfers had made the use of telegraphed instructions obsolete.

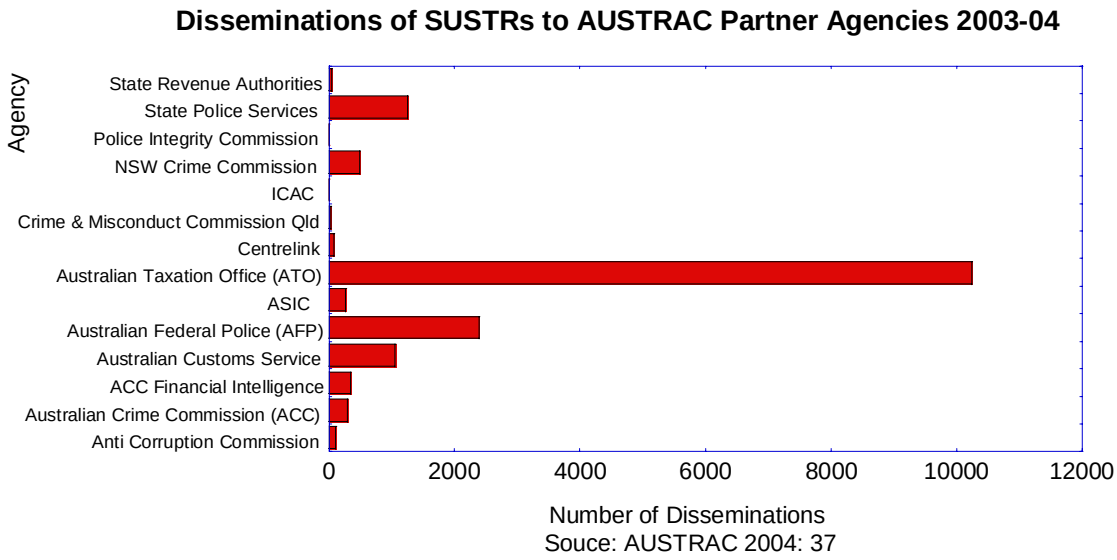
- Australian Securities and Investments Commission;
- Australian Security Intelligence Organisation;
- Australian Taxation Office;
- Centrelink;
- Child Support Agency;
- Crime and Misconduct Commission (Queensland);
- Corruption and Crime Commission (Western Australia);
- Independent Commission Against Corruption (New South Wales);
- New South Wales Crime Commission;
- Police Integrity Commission (New South Wales);
- State and Territory Police Services (7);
- State and Territory Revenue (Tax) Authorities (8) (AUSTRAC 2004:12).

Tax evasion is the largest number of suspicious transactions.

There is debate over whether or not tax evasion constitutes money laundering. In some countries such as France tax evasion is included in money laundering as the predicate offence is of a criminal nature. However, the criminalization of tax evasion varies between countries.

In the Walker Model tax evasion can constitute money laundering (Walker 1995: 2). Following this, by far the largest number of disseminations of Suspect Transaction Reports (SUSTRs) to AUSTRAC partner agencies were to the Australian Taxation Office (ATO). The ATO received 10,241 reports, followed by the Australian Federal Police (AFP) who received a distant 2,399 SUSTRs.[111] The predominance of disseminations to the ATO is reflected in the following:

[111] A number of these reports may have been disseminated to more than one agency, which explains the discrepancy with the total number of reports.



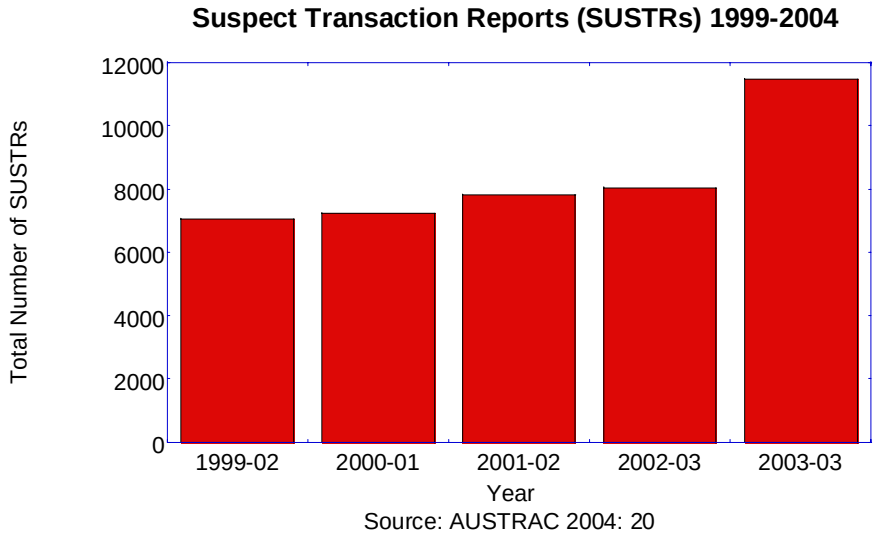
FTR trends for the past four years capture the volume of the four categories of financial transaction that the act triggers reporting requirements for. These are Suspect Transaction Reports (SUSTRs); Significant Cash Transaction Reports (SCTRs); International Funds Transfer Instructions (IFTIs) and International Currency Transfer Reports (ICTRs).

7.3.2 Suspect transaction reports (SUSTRs)

SUSTRs are the only part of the key reporting requirements that are based on a cash dealer's subjective assessment of the transaction or the person/entity making or attempting to make a transaction. Where a cash dealer has reason/s to be suspicious about the circumstances, entities or monies involved in a transaction or attempted transaction they are required to report their suspicions to AUSTRAC as soon as possible, complete with as many details regarding source, destination and origin of funds that are available. In the 2003-04 financial year AUSTRAC received 11,484 SUSTRs [112], an increase from 7,068 in 1999-00. Trends over the last five years are as follows:

Any transaction that seems suspicous must be reported.

[112] See note 5 previous page.



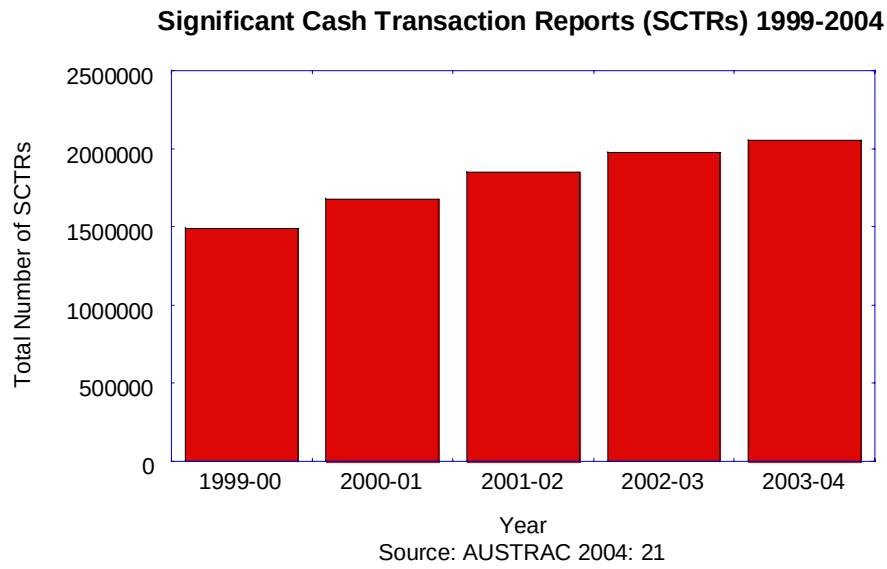
Source: AUSTRAC 2004: 20

The remaining three categories of financial transaction reportable to AUSTRAC do not involve a subjective assessment of relative suspicion, but instead set objective criteria under the FTR Act (namely monetary thresholds and international transfers) upon which to mandate a reporting requirement. This enables AUSTRAC and its partner agencies to implement and link its expert systems and analyse currency transfers and international fund transfers, detecting possible instances of money laundering.

7.3.3 Significant cash transaction reports (SCTRs)

The exchange of cash of more than $10.000 is reported.

A Significant Cash Transaction Report (SCTR) is triggered by any exchange of cash (for the purchase, production, consumption or distribution of goods and/or services) that involve a cash component of $10.000 or more, or its foreign currency equivalent. Cash dealers are required to report such transactions to AUSTRAC within a specified period of time. In 2003-04 there were 2.056.614 SCTRs, up from 1.492.935 in 1999-00.

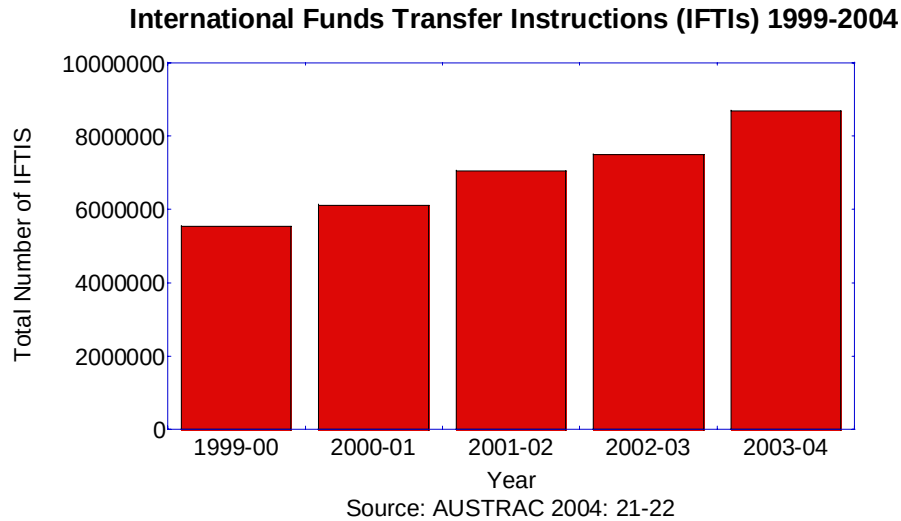


Source: AUSTRAC 2004: 21

7.3.4 International funds transfer instructions (IFTIs)

All electronic transfers are reported.

International Funds Transfer Instructions (IFTIs) are also known as Telegraphic Transfers and in the United States as Wire Transfers. For FIU reporting purposes they include instructions to remit or receive funds transmitted electronically into or out of Australia. IFTI reporting requirements give AUSTRAC access to information on almost all funds that are channelled through Australia, with information on origin, destination and source. In 2003-04 AUSTRAC received 8,685,843 IFTIs, an increase from 5,538,043 reported in 1999-00.



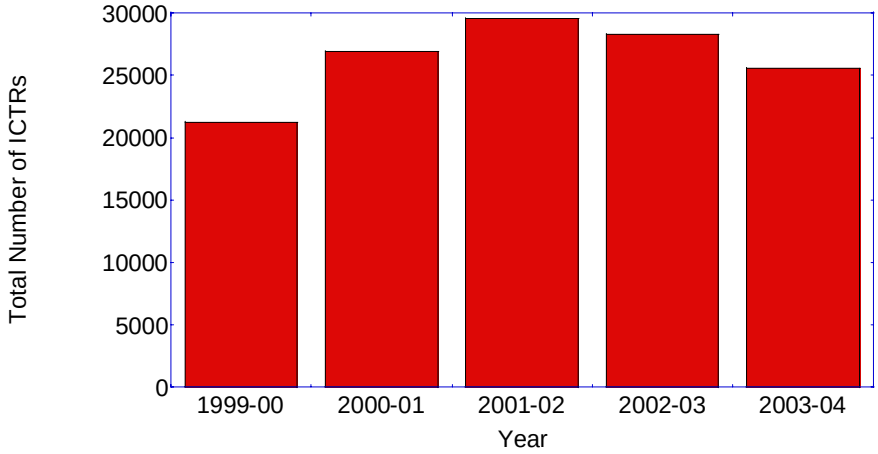
Source: AUSTRAC 2004: 21-22

7.3.5 International currency transfer reports (ICTRs)

Cash transfers of $10.000 or more are reported.

International Currency Transfer Reports (ICTRs) involve cash. Individuals and entities (such as companies) are required to lodge a report when carrying, mailing or shipping $10.000 or more (or its foreign currency equivalent) into, or out of, Australia. Most of ICTR reports are declared to Australian Customs Service by individuals as they enter and depart Australia through its airports. Unlike the United States, these requirements only apply to cash, not monetary instruments such as cheques, drafts, letters of credit or bearer instruments (shares, bonds or debentures). This is the only transaction reporting category to have decreased in the last two years. This may indicate a decline in cash transfers in favour of electronic/other monetary instrument transfer methods, some of which are less detectable. In 2001-02, 29,538 ICTRs were reported, but by 2003-04 this had fallen to 25,579 ICTRs.

International Currency Transfer Reports (ICTRs) 1999-2004



Source: AUSTRAC 2004: 22

None of these four categories of transaction reports indicate money laundering per se. AUSTRAC collects information on suspicious transactions and uses these as risk management tools for further investigation. It does not claim that all SUSTRs or any other reportable category of transaction equates to money laundering. Instead reporting requirements provide AUSTRAC with regulatory tools for screening the flow of funds in and out of Australia by monitoring international transfers and within Australia by monitoring large cash transactions. This provides data to investigate possible instances of money laundering. They allow AUSTRAC and its partner agencies to manage the risk of money laundering by detecting irregular and unusual transactions and then following them up with further investigations. In 2003-04 FTR information was used in 1,743 investigations. Of these 362 were referred to for further significant investigation. Most of this information was used for tax purposes, with the ATO collecting more than AUD 75 million in extra revenue in 2003-04 as a result of these investigations (AUSTRAC 2004: 43).

These reporting requirements capture a large amount of financial intelligence, particularly remittances into and out of Australia. However, the growth of alternative cyber settlement systems and electronic commerce that can be oblivious to jurisdictional regulation may now pose challenges to detecting financial transactions which are used to investigate instances of alleged money laundering. These are the use of proprietary systems, electronic payment and access methods and internal bank settlement protocols. They pose potential money laundering risks to all FIUs located around the world.

7.4 New money laundering risks

Proprietary systems refer to a specific set of payment and funds transfer rights owned and patented, with intellectual property protections, to a financial services provider located anywhere in the world. Proprietary systems enable customers to access electronic banking or funds transfer routing systems located offshore and hence avoid local reporting requirements such as those specified in the FTR Act. This does not mean that customers are engaging in money laundering, but it does mean that customers can make undetectable financial transactions that may increase the risk of money laundering. These proprietary systems may include international funds transfers between offshore accounts/entities, cheque writing, trading facilities, letters of credit and securities trading. They also involve alternative payment systems with the conversion of funds into a virtual currency with e-credits, Pay PAL and e-gold. Funds can then be disbursed offshore without triggering the reporting requirements of the FTR Act (Hackett 2003: 3).

The FTR Act does not readily capture activities and transactions that proprietary systems can facilitate. Users of proprietary systems can directly access the financial service provider's global routing payment instructions for settlement. Under section 17B of the FTR Act it is uncertain whether or not customers and financial service providers (who may not come under the definition of cash dealers if located offshore) are under any reporting obligations. Any attempt to calculate volumes of money laundering nationally and/or globally should consider the risks posed by these new proprietary systems to enter into transactions that are largely invisible.

Related to the growth of proprietary systems that potentially escape reporting requirements and detection strategies is the use of electronic offshore access and payment methods. This involves accessing overseas accounts, trusts and companies. Money is permanently kept offshore and shifted between offshore jurisdictions that have a high degree of bank secrecy. These overseas accounts are then accessed at ATMs using offshore debit/credit cards, which can also be used to make local purchases. Entities such as trusts, banks and International Business Corporations, also established offshore, then repay the credit cards and continue to deposit funds into them on a regular basis.

In 2002 the United States Internal Revenue Service (IRS) found that MasterCard alone processed 1.7 million offshore transactions for 230,000 US resident account holders with offshore debit/credit cards issued in 30 countries with strict bank secrecy laws and minimal FTR requirements (US Department of Justice 25 March 2002). In Australia the current FTR Act will only direct AUSTRAC to collect information on credit card transactions if suspicious activities are reported by a local cash dealer or if there is a withdrawal in excess of $10,000. Even if withdrawals exceeding $10,000 are made and reported on an overseas card, the bank may not be able to record accurate identifying features if the card is from a bank located in an offshore jurisdiction with strict secrecy legislation and minimum FTR reporting requirements. In a submission to a parliamentary inquiry into cyber crime, AUSTRAC suggested that:

> *'Such an arrangement may allow the person to make use of funds, which, because they have not been directly transferred into Australia, will not be reported to AUSTRAC, and thus are invisible to AUSTRAC's partner agencies'* (Hackett 2003: 4).

There is a potential to transfer funds offshore or between different accounts using internal bank payment settlement systems and protocols in a way that will avoid detection and reporting requirements. For example Bank A in a country with strong FTR requirements maintains Bank B as a subsidiary in an offshore jurisdiction that has bank secrecy provisions and minimal FTR requirements. A customer can open an account in Bank B either in person, by fax or through Bank A operating as an intermediary. Bank A then allows the customer to deposit money directly into Bank B at a local branch. There is no need to make a telegraphic transfer or receive an IFTI. Bank A settles the payment with Bank B with a ledger transfer. It is unclear as to whether or not this reportable under FTR legislation. Even if it is reportable, once funds are transferred into Bank B they become legally domiciled in a country that protects information about the use of funds by bank secrecy and weak FTR requirements. The FIU can not gain access to information about this account even though the funds are still part of the same overall banking network. Money could be conceivably laundered using this method.

Similar concealment methods can be used with internal bank management accounts with large transactions taking place without arousing suspicion and thus escaping detection. In *The Commonwealth of Australia v Nachum Goldberg*, a fraud case involving the laundering of $39.894.808,[113] the court considered the following evidence in its decision:

> *'20. One of a number of remarkable features about this account and the manner in which it was operated, is that it was an internal bank management account. Moneys passing through it were relatively unlikely to attract the attention of regulatory authorities which would have little reason to suspect that they were other than normal inter-bank or intra-bank commercial transactions. Importantly from the respondent's perspective, the name of the actual holder would not be recorded on the Austrac database. How he came to secure such an arrangement is unknown to the Court, but it is highly unlikely to have been unintended and is suggestive of the possession of detailed knowledge of the bank procedures, a level of co-operation from within the bank itself, and an understanding of the Austrac operation and processes' (The Commonwealth of Australia v Nachum Goldberg).*

New proprietary systems, electronic access and payment methods and interbank settlement protocols are all ways that transactions can be concealed. The extent of their use for money laundering is unclear. However, it might be appropriate to consider these new technologies when determining which variables and values to use in the measurement of money laundering. They also point to areas where FTR legislation could be amended enabling them to extend their regulatory capacities and monitor transactions that use electronic commerce and new payment technologies. In Australia, as with most other OECD economies, the FTR Act, and FIU information gathering reflects the banking practices of the 1980s (Hackett, 2003). It needs to be considered whether or not money laundering is now taking advantage of the banking practices and technological advancements of the 21st century.

[113] AUD$39.894.808 = €EUR 23.542.173.

8 CONCLUSIONS AND POLICY RECOMMENDATIONS

The goal of this study was to give a broad overview of the amounts and effects of money laundering that have been estimated so far. We contributed to money laundering research by calculating the amount of money laundered in the Netherlands and by making improvements underlying model and making it more transparent. Furthermore, we calculated the effects of money laundering on growth and crime. For the rest we restricted ourselves to giving an encompassing, multidisciplinary summary on money laundering. We collected definitions, data, and research results from law, criminology, economics, and cognate social sciences. We also conducted interviews with both national and international experts in the field from organizations such as: national banks, ministries, research departments, investigating authorities, and universities. Here we also identify important areas for future research. See the Introduction for the major findings of this project.

Money laundering, financial crime and terrorist financing have shattered the myth of capital neutrality. The ability of money to flow freely within markets and between countries has produced enormous benefits, allowing companies to engage in forms of flexible financing that led to investment in infrastructure, jobs and new technologies. These positive effects have encouraged countries to compete for highly mobile capital that moves from one market to the next in search of investment opportunities. This has also brought with it new risks. Criminals, corrupt officials, unscrupulous entrepreneurs, suspect company officers and terrorists are all able to abuse the financial system and engage in money laundering. This poses new risks to the stability, integrity and reputation of the financial system. It also has the potential to undermine social capital and corrode economic, political and social institutions and citizens' trust and confidence in them. The IMF has estimated that total global money laundering accounts for one to two per cent of world GDP and more recently increased this estimate to two to five percent of world GDP. We have found that between €3,2 and €4,2 billion is laundered in the Netherlands alone, while €14 to 21 billion flow into the Netherlands for laundering from the top twenty countries that generate money for laundering.

In the past twenty years law enforcement authorities and FIUs in OECD countries have made major progress in identifying the ways money laundering works. However, much emphasis continues to be placed on relatively small money laundering operations that tend to highlight the predicate crime (such as drug dealing and fraud). There is still not enough knowledge about how large sums of money are laundered. There are glimpses of this in official reports, but by far the most public attention is directed to the most sensationalist cases. Yet, while they may be scandalous, they do not always involve vast sums of money. New measures and further investigation is needed in order to assess ways in which large sums of money are being laundered. In 1999 it was revealed that $70 billion in Russian funds were channeled through Nauru, the world's smallest republic with some 10.605 people and, at that time, 400 banks. In scholarly analysis of this problem, de Boyrie, Pak and Zdanowicz (2005) estimated the average volume of capital flight from Russia to the United

States from 1995-1999 to be between $1,86 billion and $8,92 billion. They suggested that this could be attributed to either money laundering and/or tax evasion. Such research analysis gets behind the headlines. Furthering our understanding of money laundering requires further research to aid policy formulation.

- While there is good data for how relatively small sums of money are laundered, further research is needed on how large volumes of money are laundered. In laundering large sums of money, the commingling of funds between lawful and illegal fractions becomes paramount. It makes good policy to establish exactly how much money is laundered in large transactions using established commercial institutions. The Netherlands already has good reporting mechanisms in place designed to detect unusual transactions involving large fund transfers between institutions. For example inter-institutional transfers involving amounts that exceed € 4 million must be reported to MOT. We need to know if such inter-institutional transfers do indeed pose a serious money laundering risk and if so how. Also do conventional money laundering processes, such as smurfing apply in large transactions? More information in this area would help in devising regulatory policy to more effectively manage this risk.

  In order to find out more about large flows of capital, it would be important to analyze balance of payments data in more detail and more intensely. Though there are bilateral balance of payment data available at the DNB (and for the current account at the CBS), these data are not detailed enough to draw conclusions about money laundering. We have suspicions about where the illegal money might be hiding in the official data of the balance of payments. The items in the balance of payments that are most suspect for money laundering are income from wealth in the current account. From the financial accounts it is shares and bonds (aandelen en kapitaalmarktpapier), other financial transactions (overig financieel verkeer), which should be split into central bank, bank, public sector, and private transactions. Large amounts of money laundering can be concealed in other items of the capital balance.

  Economically speaking, laundered money is diluted like a drop of ink in the flow of finance making it difficult to detect. This means that it is hidden in official data. One way to approach this problem is to do mirror balances (spiegel balansen) where one looks at how far the outflow of one country to another corresponds with the inflow this country has received. Differences in booking and accounting might give hints of unusual transactions. Also, a sudden diversion of flows might give hints of unusual transactions.

  Boyrie, Pak and Zdanowicz (2005) show how one can estimate capital flight due to abnormal pricing in international trade. They also give an overview of how to measure capital flight. In particular what they call the "hot money measure" follows the balance of payment identity (other measures make use of factors such as public debt, foreign direct investment and so on). They take errors and omissions and private short-term capital figures from the balance of payments.

Though we also used errors and omissions for calculating money flows back from Aruba, Suriname and the Netherlands Antilles in chapter 5 on undermining foreign policy, we have stressed the point that this number includes so much counting, reporting and other mistakes, that it still needs to be improved.

- One should also be aware that export under invoicing and import overpricing are forms of money laundering that will be hidden in the current account. We do not know the precise role double invoicing, transfer pricing and illegal commissions play in money laundering. More research could be carried out to establish exactly if, how and why these methods are used in money laundering.

- More information is required to determine the magnitude of money laundering in specific sectors including insurance, derivatives trading and the stock market.

- An important step of further research should, therefore, be directed towards estimating big capital flows originating from illegal activities. For the Netherlands, in particular, it would be important to identify the through flow niches. In our study we assume that special purpose entities are important for the through flow of money laundered, but more research and more in depth analysis has to be done here.

- Money laundering involves a range of techniques. Not enough is known about the risk posed by bearer instruments, correspondent banking and new forms of cyber technology in money laundering. These areas would benefit from further investigation. Knowledge about how they contribute to money laundering could be used to develop regulatory policies designed to contain the risks posed by such techniques.

- Trust companies pose a risk in money laundering because of their capacity to conceal the beneficial ownership of the legal persons behind the entities they manage. This has been regulated in the Netherlands as of 2003. It would make a valuable contribution to policy formulation to determine how successful these new regulations have been in combating and reducing money laundering. The Netherlands is one of the first countries in the world to introduce specific legislation that regulates the governance of trust companies and as such may contribute to providing important standards for such regulation elsewhere.

- This report identified that money laundering using the real estate sector may well be a significant problem. However, additional data on money laundering through the real estate sector is required as this is currently under explored. Recent cases have only hinted at the potential scale of the problem.

- Another area particularly susceptible to money laundering is the insurance sector, which is also much less regulated than banks. Further research as to the extent of money laundering and dangers faced by money laundering in this sector should be investigated.

- Bribery and corruption do not play a large role in money laundering in the Netherlands. Therefore we need more data on the part played indirectly by third parties in laundering processes such as accountants, lawyers, bank officers and real estate agents who through unintentional non-compliance (with reporting suspicious transactions for example) inadvertently aid criminals. How extensive is this problem?

- Furthermore, a study of the precise link between money laundering and corruption and bribery in the financial sector seems important. The magic number that one million of laundering needs one collaborator in the financial sector should be questioned and replaced by facts for the Netherlands.

- Terrorist financing has been slotted into money laundering because of the urgency of this problem. However, terrorist financing often uses clean money to begin with and then transforms it into criminal money through acts of political violence. This needs further investigation.

- An effective system of activity monitoring should be adopted for the informal banking sector.

- The information on money laundering is still split between customs, fiscal departments, the DNB, FIOD-ECD, the banking sector, the police, the courts and MOT. These different information need to be identified step by step in order to find out about how they are linked with each other. This will help improving these linkages.

- There are specific countries that are more dangerous for the Netherlands with regard to Money Laundering. Specific studies between the Netherlands and particular countries should be conducted to gain information about specific situations and how to better decrease money laundering activities.

- More emphasis should be put on fighting economic crime in investigations. Since the goal of law enforcement is to fight crime, it is more efficient to go after the money laundering infrastructure that facilitates the crime.

- The Netherlands should be a leader in the fight against money laundering and put on the table in the international arena, areas of harmonization of policies to close international loopholes and facilitate international co-operation to a greater extent. Because international harmonization is difficult, the Netherlands could begin their efforts within the European Union.

Areas for further research

The following areas would greatly benefit from future research and would enable the formulation of improved money laundering policy.

- Further investigation is needed in the assessment of where large amounts of laundered money are hiding and how they are laundered.
- International trade and money laundering should be further researched in depth since this is a large and important area for the Netherlands.
- Sector studies of money laundering and risks should be done for real estate and insurance.
- An in depth look should be taken at the role third parties play in money laundering.
- The balance of payment should be thoroughly scrutinized for money laundering.
- Further analysis of special purpose entities and trust companies should be carried out and their involvement with flows of money laundering.
- New techniques (bearer instruments, correspondent banking, cyber technology) and risks of these techniques should be investigated.
- The link between money laundering and terrorist financing should be evaluated in more detail with respect to the Netherlands.
- A more careful look at underground banking and informal transfer systems should be conducted to see as to what extent this plays a role for Dutch money laundering.
- Research should be conducted with regard to specific channels (specific countries) that are suspected of having high money laundering activity i.e. Netherlands-Netherlands Antilles, Netherlands-UK, Netherlands-US, etc.

List of interviewed people

Name	Department/Function	Institution	Interviewed by
F. van Proosdij	Division Supervision banks and other financial institutions / Expert Center Integrity	Dutch National Bank	Brigitte Unger Joras Ferwerda
J.M. de Rooij	Division Supervision banks and other financial institutions / Expert Center Integrity	Dutch National Bank	Brigitte Unger Joras Ferwerda
P. Claassen	Balance of Payments and Financial Accounts	Dutch National Bank	Brigitte Unger Joras Ferwerda Kristen Wokke
D. van der Wal	Statistical Information and reports	Dutch National Bank	Brigitte Unger Joras Ferwerda Kristen Wokke
W. Steensma	National Criminal Intelligence Department	BLOM	Melissa Siegel
F. J. Hoevers	Criminal Intelligence Department	BLOM	Melissa Siegel
M. Smekens	Division Macroeconomic Statistics and Publications	CBS	Melissa Siegel
B. ter Haar	Director of Financial Markets	Ministry of Finance	Brigitte Unger
L. Nieuwenkamp	Policy Employee	MOT	Kristen Wokke
E. Kleemans	Department of law enforcement	WODC	Brigitte Unger Melissa Siegel Joras Ferwerda Kristen Wokke
D. Moolenaar	Statistics Department	WODC	Brigitte Unger Melissa Siegel Joras Ferwerda Kristen Wokke
Anonymous	Forensic Accountant	FIOD-ECD	Melissa Siegel Joras Ferwerda Kristen Wokke
P. Verrest	Criminal Investigation Policy Department	Ministry of Justice	Melissa Siegel Kristen Wokke Joras Ferwerda
J. Mahr	Director of the money laundering reporting institute	Federal Criminal Investigations Office of Austria and FIU	Brigitte Unger
G. Dari-Mattiacci	Associate Professor of Law and Economics	University of Amsterdam	Melissa Siegel
E. Hille*	Capital balance	Austrian National Bank	Brigitte Unger
P. van Els*	Scientific research	Dutch National Bank	Brigitte Unger
J. Smeehuijzen*	Statistical Department	Dutch National Bank	Brigitte Unger
H. Schuberth	Economic Department	Austrian National Bank	Brigitte Unger
E. Stohanzl	Hofraetin, Tax Controller for Large Companies	Austrian Ministry of Finance	Brigitte Unger
J. Vervaele	Professor of Criminal Law	Utrecht University	Brigitte Unger Madalina Busuioc

**Telephone Interview*

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