

The Hidden Financial Flows of the Organized Crime: A Literature Review and Some Preliminary Empirical Results^{*)}

by

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Summary:

First the size and development over time of the financial means of organized crime organizations are presented. Second a literature review is provided about the financing of organized crime organizations, their sources and the various methods they use. Third the infiltration of organized crime is shown and some remarks about the Hawala banking system are made. Fourth some conclusions and policy recommendations are drawn.

Keywords: Financial flows of organized crime, Hawala banking, money laundering, organized crime

JEL-Code: Classification: K42, H56, O17

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1. Introduction

Until 2009, the development of the world economy and globalization made enormous gains in economic well-being possible, but this development has always contained risks, too. One of them is transnational or organized crime, which rose remarkably in the last 20 years¹. Among others this raises the following two questions: (1) How is organized crime financed, and what do we know about this financing? (2) Which economic implications does organized crime have? In this paper question (2) will be very briefly answered, the main focus lies on providing a much more detailed answer on the financing of organized crime – question (1). Moreover a detailed analysis of the finances of organized crime organizations is crucial to reduce their financial possibilities, so that the basis of their operations is at least limited. Such an analysis is also a goal of this paper.

The paper is structured as follows: Chapter 2 provides an literature review at about the kinds of organized crime financing. Chapter 3 shows the infiltration of the organized crime and the Hawala banking system. In chapter 4 some conclusions and policy recommendations are drawn.

2. The Kinds of Organized Crime Financing: A Preliminary Literature Review

The literature review is supposed to meet the two objectives: to widen the knowledge of this subject and the understanding of the main issues under debate and to focus on the literature closely related to the research topic. The body of literature on organized crime financing, and their mechanisms is diverse and quite often very descriptive, hence here only some and important contributions are summarized, of course this selection is subjective, but I think most areas are covered. This literature review can not be separated from the analyzis of the finances of the terrorist organization, because they often work closely together². Hence we start with common aspects and then with differences.

2.1 Some Common Aspects of Transnational Crime and Terrorist Groups Financing

Similarities between transnational crime and terrorist groups are fully described by Schneider (2008a, 2008b, 2009), Sanderson (2004); Gilmore (2004), Shelley (2005); Wilkinson (2005); Makarenko (2002, 2003a, 2003b, 2003c) and Koh (2006). They are.

¹ See for an example Walker and Unger (2009).

² Compare Schneider (2008a, 2008b, 2009), Makarenko (2002, 2003a, 2003b, 2003c), Koh (2006) and Masciandaro (2004).

- (1) Both are generally rational actors,
- (2) both use extreme violence and the threat of reprisals,
- (3) both use kidnappings, assassinations, and extortion,
- (4) both operate secretly, though at times publicly in friendly territory, and
- (5) both defy the state and the rule of law (except when there is state sponsorship).

According to Masciandaro (2004, 2005, 2006), Picarelli (2006), Shelly (2005) and Yepes (2008) the issues of transnational crime, money laundering, and the financing of terrorism have the following common aspects:

- (1) They can use wire transfers or electronic payment systems to move money through multiple jurisdictions.
- (2) They engage in a variety of criminal activities like traffickers and other criminal syndicates. However, the line is now becoming less defined, since terrorists often resort to crime and cooperate with criminals in generating money, obtaining arms and explosives. According to Makarenko (2003a, 2003b) criminals are likely to use terrorism tactics and random violence in pursuits of revenues:
 - (i) Drug, arms and human trafficking³, trading in precious stones (diamonds) and other commodities,
 - (ii) smuggled cash, cigarettes, and other addictive goods,
 - (iii) counterfeit goods, and
 - (iv) kidnapping.

Both groups benefit from: shell companies, offshore bank facilities. Money laundering experts⁴, for instance, argue that both groups use a technique known as a “starburst”: A deposit of dirty money is made in a bank with standing instructions to wire it in small, random fragments to hundreds of other bank accounts around the world, in both onshore and offshore financial centers. Tracking down the money becomes very difficult, since getting legal permission to pursue bank accounts in multiple jurisdictions can take years. Napoleoni (2005, p.33) argues, “You build a long chain of representative offices at the end of which there is a

³ Makarenko (2003a), p. 66 writes: “The most common criminal activity terrorist groups have been involved in is the illicit drug trade. Since the 1970s groups such as FARC, Basque Fatherland and Liberty (Euzkadi Ta Askatasuna – ETA), the Kurdistan Workers Party (Partiya Karkaren Kurdistan – PKK) and Sendero Luminoso have all been linked to the drug trade by well-documented evidence. Since the early 1990s additional groups such as Hizbullah and the IMU have also realised the financial utility of participating in the illicit drugs trade. It is alleged that Hizbullah continues to protect heroin and cocaine laboratories in the Bekaa Valley; and evidence strongly indicated that the IMZ – prior to the Afghan campaign – controlled drug trafficking routes into Central Asia from northern Afghanistan”.

⁴ See: Koh (2006), Schneider (2004, 2008a, 2008b, 2009) and Masciandaro (2004).

shell company registered offshore, and you are lucky, if you get to the end of the chain. Financial investigations often run into a blind alley always through, somewhere, in a tiny offshore office”.

2.2 The Main Differences between Organized Crime and Terrorist Groups Financing

It is obvious that there are many differences between organized crime and terrorist groups with respect to financing. To some extent it is possible to make a distinction in the roots and operational characteristics:

(1) Terrorist Financing

A number of scholars (Napoleoni, Krueger, Yepes) explain terrorism through religion, development of socio-political causes, and even the economy is sometimes important.

Typical operational characteristics of terrorist groups and their financing are:

- (i) low costs / low technology made possible some recent attacks with a great impact on human lives, on nations, and on economies (e.g. 9/11 New York, Madrid, London and Mumbai).
- (ii) Flexible and decentralized organizations with independent decisions and actions.
- (iii) Common ideology with indiscriminate targets (no purpose related to profit).
- (iv) Financial means are needed to plan and execute (future) terrorist attacks; there is only a limited need to hide assets.
- (v) Self-financing with possible criminal activities but also obtaining money from legal sources (e.g., donations and charity organizations). Terrorists use different sources of money, depending on their motivations, their mode of operations, and the resistance they face from law enforcement. Quite often the money starts off clean, becoming “dirty” only when the terrorist crime is committed later on. Hence, terrorist enterprises use clean money to commit crimes. The money sometimes consists of legally obtained resources that are used for a limited period of time and of smaller amounts of money to prepare attacks.

(2) Organized (Transnational) Crime Turnover and Money Laundering⁵

Dirty money is earned through various criminal activities, like drug, weapon and human trafficking. How much illicit crime money in all its forms can be observed? Baker (2005) estimates the illicit money to range between US\$ 1.0 and 1.6 trillion a year. This estimate has been adopted by the World Bank. Moreover, Baker estimates that half – US\$ 500 to 800 a year – comes out of developing and transitional economies. These are countries that often have the weakest legal and administrative structures, the largest criminal gangs of drug dealers, and, far too often, economic and political elites who want to take their money out by any means possible.

In table 2.1, the global flows from illicit activities worldwide are shown. In cross-border illicit financial flows, the proceeds of bribery and theft are the smallest, at only perhaps three percent of the global total. Criminally generated funds account for some 30 to 35 percent of the global total. Commercially tax evading money, driven in particular by abusive transfer pricing and faked transactions as well as mispricing is by far the largest component, at some 60 to 65 percent of the global total.

Table 2.1: Global Flows from Illicit Activities worldwide, years 2000/2001

Global Flows	Low (US\$ bn)	%	High (US\$ bn)	%
Drugs	120	11%	200	12.5%
Counterfeit goods	80	7.5%	120	7.5%
Counterfeit currency	3	0.2%	3	0.2%
Human trafficking	12	1.1%	15	0.9%
Illegal arms trade	6	2.0%	10	0.6%
Smuggling	60	5.6%	100	6.3%
Racketeering	50	4.7%	100	6.3%
<i>Crime subtotal</i>	331	31.2%	549	34.3%
Mispricing	200	18.9%	250	15.6%
Abusive transfer pricing	300	28.3%	500	31.2%
Fake transactions	200	18.9%	250	15.6%
<i>Commercial subtotal</i>	700	66.0%	1,000	62.5%
<i>Corruption</i>	30	2.8%	50	5.1%
Grand Total	1,061	100.0%	1,599	100.0%

Source: Baker (2005)

⁵ For a detailed analysis see Schneider (2008a, 2008b and 2009), Schneider and Windischbauer (2008), Schneider, Dreer and Riegler (2006), and Takats (2007).

In the next step the main characteristic of money laundering is to make dirty money appear legal (compare Walker (1999, 2000, 2004, 2007)). There are numerous methods of money laundering; in table 2.2 the 12 most important methods are shown. Which of these methods is mostly used, depends on the crime activity and on the specific institutional arrangements in a country where the criminal money is “earned”? For example, in the drug business method 8, business ownership, is quite often used. In the drug business and in big cities smaller amounts of cash are earned by drug dealers in a lot of different spaces, which they infiltrate in to cash intensive operations such as restaurants which are especially well suited for money laundering purposes. But also cash deposits (the so called smurfing method) or illegal gambling is quite often used. Obviously, these methods clearly show, there are a number of ways to launder money. It might be more efficient to reduce the crime activities then to fight against these methods.

Table 2.2: The Methods of Money Laundering¹⁾

1)	Wire transfers or electronic banking	The primary tool of money launderers to move funds around in the banking system. These moves can conceal the illicit origins of the funds or just place the money where the launderers need them. Often the funds go through several banks and even different jurisdictions.
2)	Cash deposits	Money launderers need to deposit cash advances to bank accounts prior to wire transfers. Due to anti-money-laundering regulations they often 'structure' the payments, i.e. break down large to smaller amounts. This is also called 'smurfing'.
3)	Informal value transfer systems (IVTS)	Money launderers need not rely on the banking sector, other transfer providers, such as the Hawala or Hindi are readily available to undertake fund transfers. These systems consist of shops (mainly selling groceries, phone cards or other similar items), which are also involved in transfer services. IVTSs enable international fund transfers, as these shops are present in several jurisdictions.
4)	Cash smuggling	Money launderers might mail, Fedex or simply carry cash with them from one region to another, or even to different jurisdictions.
5)	Gambling	Casinos, horse-races and lotteries are ways of legalizing funds. The money launderer can buy (for 'dirty' cash) winning tickets – or in the case of casinos chips – and redeem the tickets or the chips in a 'clean' bank check. Afterwards, the check can be easily deposited in the banking sector.
6)	Insurance policies	Money launderers purchase single premium insurance (with dirty cash), redeem early (and pay some penalty) in order to receive clean checks to deposit. Longer term premium payments might make laundering even harder to detect.
7)	Securities	Usually used to facilitate fund transfers, where underlying security deals provide cover (and legitimate looking reason) for transfers.
8)	Business ownership	Money might be laundered through legitimate businesses, where laundering funds can be added to legitimate revenues. Cash-intensive operations, such as restaurants, are especially well suited for laundering.
9)	Shell corporations	Money launderers might create companies exclusively to provide cover for fund moves without legitimate business activities.
10)	Purchases	Real estate or any durable good purchases can be used to launder monies. Typically, the item is bought for cash and resold for clean monies, like bank checks.
11)	Credit card advance payment	Money launderers pay money in advance with dirty money, and receive clean checks on the balance from the bank
12)	ATM operations	Banks might allow other firms to operate their ATMs, i.e. to maintain and fill them with cash. Money launderers fill ATMs with dirty cash, and receive clean checks (for the cash withdrawn) from the bank.

¹⁾ Source: Unger (2007, pp.195-196).

Schneider (2008a, 2008b) estimates with the help of the MIMIC estimation procedure that money laundering from organized transnational crime has increased from 1995 USD 273 billion (1,33% of official GDP) to USD 603 billion (or 1,74% of the official GDP) in 2006 for

20 OECD countries (Australia, Austria, Belgium, Canada, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Switzerland, Spain and the United States). On a world wide basis in 2006 USD 600 billion are estimated to be laundered coming only from the drug (crime) business.

Unger (2007) estimates the amount of laundered money and their top 20 destinations, which is shown in table 2.3 over the time span 1997-2000. Here two estimates are presented, one by Walker (1999, 2007) and one by the IMF. The Walker figure is with 2.850 billion USD much larger than the IMF figure with 1.500 billion USD (both figures are for the year 2005). Walker's figures have been criticized as much too high which was one reason why the IMF estimates have been chosen, too. Table 2.3 clearly shows that two thirds of worldwide money laundering was sent to the top 20 countries listed. One should realize, that most of these countries are very established, well developed and have a quite sizeable legal/official economies. What is also amazing, that there are only a few microstate offshore countries (OFCS) and tax heavens among them (Cayman Islands, Vatican City, Bermuda and Liechtenstein)⁶. The majority of countries that attract money laundering flows are economic prepotencies at not tiny unimportant countries. The United States has the largest worldwide share of money laundering of almost 19%, followed by the Cayman Islands (4,9%), Russia (4,2%), Italy (3,7%), but also smaller countries like Switzerland (2,1% of worldwide money laundering), Liechtenstein (1,7%) and Austria (1,7%) are also quite attractive. If one takes the lower IMF value for Austria, Switzerland and in the United Kingdom, roughly 5.5 % of the total amount is laundered, which comes close to roughly 10% of official GDP of the three countries. However, it should be clearly stated that it is not clear whether this money is only laundered in these countries or stays in these countries. It might leave these countries when it was laundered. In general, table 2.3 clearly demonstrates, how important the amount of laundered money is and that two thirds of this are concentrated in 20 countries.

Bagella, Busato and Argentiero (2009, pp.881) use a theoretical two-sector dynamic general equilibrium model to measure ML for the United States and the EU-15 macro areas over the sample 2000:01-2007:01 at a quarterly frequency. Their series are generated through a fully micro-founded dynamic model, which is appropriately calibrated to replicate selected stochastic properties of the two economies. Their model (and the analysis) has a short run perspective, and for this reason, the paper discusses the stochastic properties of the Hodrick-

⁶ Compare also Masciandaro (2005, 2006), Zdanowicz (2009), Truman and Reuter (2004), and Walker and Unger (2009):

Prescott filtered series. Bagella et al. (2009, pp.881) got the following results: First the simulations show that ML accounts for approximately 19 percent of the GDP measured for the EU-15, while it accounts for 13 percent in the US economy, over the sample 2000:01-2007:04. Second, the simulated ML appears less volatile than the corresponding GDP. As regards the EU-15 macro area, the simulated statistics suggest that ML volatility is one-third of the GDP ones; for the US economy, the same statistics produce a figure of two-fifths. Considering these estimates one must admit, that they are pretty high and unfortunately no consistent check was done by Bagella et. al, whether such figures are plausible.

Table 2.3: The Amount of Laundered Money and Top 20 Destinations of Laundered Money, Year 2005¹⁾

Rank	Destination	% of worldwide money laundering	Walker estimate 2.85 trillion US\$ Amount in billion US\$	IMF estimate of 1.5 trillion worldwide Amount in billion US\$
1	United States	18.9%	538,145	283,500
2	Cayman Islands	4.9%	138,329	73,500
3	Russia	4.2%	120,493	63,000
4	Italy	3.7%	105,688	55,500
5	China	3.3%	94,726	49,500
6	Romania	3.1%	89,595	46,500
7	Canada	3.0%	85,444	45,000
8	Vatican City	2.8%	80,596	42,000
9	Luxembourg	2.8%	78,468	42,000
10	France	2.4%	68,471	36,000
11	Bahamas	2.3%	66,398	34,500
12	Germany	2.2%	61,315	33,000
13	Switzerland	2.1%	58,993	31,500
14	Bermuda	1.9%	52,887	28,500
15	Netherlands	1.7%	49,591	25,500
16	Liechtenstein	1.7%	48,949	25,500
17	Austria	1.7%	48,376	25,500
18	Hong Kong	1.6%	44,519	24,000
19	United Kingdom	1.6%	44,478	24,000
20	Spain	1.2%	35,461	18,000
	SUM	67.1%	1,910,922	1,006,500

1) Source Unger (2007, page 80)

From a global perspective for 2000, the IMF (2003, 2001) as well as the World Bank estimate that 2-4% of the world gross domestic product (GDP) stem from illicit (criminal) sources. Agarwal and Agarwal (2006) estimate from economic intelligence units, that global money laundering amounts to more than 2.0 to 2.5 trillion US\$ annually or about 5-6% of World

GDP in 2006 (4,444 trillion US\$ in 2006) to be contrasted against an observed figure of US\$ 500 billion to one trillion in 2004 from the same authors (Agarwal and Agarwal (2004)). Recent IMF estimates on money laundering by the drug traffickers, who “introduce” the proceeds gained through the selling of drugs into the legitimate financial market, amount to 600 billion annually. The IDB (2004) reaches the conclusion that for Latin America a rough estimate appears to be somewhere between 2.5 and 6.3 % of annual GDP of Latin American countries.

In their latest study again Walker and Unger (2009, page 821) undertake an attempt, measuring global money laundering and the proceeds of transnational crime that are pumped through the financial system worldwide. They criticize those methods such as case studies, proxy variables, or models for measuring the shadow economy all tend to under- or overestimate money laundering. They present a model, which is a gravity model which makes it possible to estimate the flows of illicit funds from and to each jurisdiction in the world and worldwide. This “Walker Model” was first developed in 1994, and used and updated recently. The authors show that it belongs to the group of gravity models, which have recently become popular in international trade theory. Using triangulation, they demonstrate that the original Walker Model estimates are compatible with recent findings on money laundering. Once the scale of money laundering is known, its macroeconomic effects and the impact of crime prevention, regulation and law enforcement effects on money laundering and transnational crime can also be measured. Walker and Unger (2009, p. 849-850) conclude, that their model still seems to be the most reliable and robust method to estimate global money laundering, and thereby the important effects of transnational crime on economic, social and political institutions. Rightly they argue, that the attractiveness and distance indicator in the Walker model are a valid first approximation, but are still quite ad hoc. A better micro-foundation for the Walker Model will be needed in the future. For this, the behavior of money launderers, and in particular what makes them send their money to a specific country, is important. Hence, Walker and Unger (2009, p. 850) argue that an economics of crime micro-foundation for the Walker Model would mean that, similarly to international trade theory, behavioral assumptions about money launderers have to be made. The gravity model must be the (reduced form) outcome of their rational calculus of sending their money to another country and possibly getting caught, but potentially making large profits.

2.3 The Sources of Organized Crime Financing

(1) Drug Trafficking

According to Yepes (2008) in May 2002 a report called “Global Overview of Narcotics-Funded Terrorist and Other extremist and transnational crime groups” was launched, prepared by the Federal Research Division of the Library of Congress and the US Department of Defense. The report examined connections between extremist groups and narcotics trafficking in the following regions of Latin America: Triborder Region (Argentina, Brazil, and Paraguay), Colombia, and Peru; in the Middle East: Lebanon, in Southern Europe (Albania and Macedonia); in Central Asia: Kyrgyzstan, Tajikistan, and Uzbekistan and in East Asia: The Philippines.

(2) Oil Smuggling

According to Johnson (2001) and Napoleoni (2005) another business is oil smuggling, where terror, criminal, and legitimate economies interact. Countries, where oil smuggling is a significant problem are Thailand, China, Russia, Cambodia, Iran and Tanzania. In all these countries oil smuggling earns for themselves significant profits, a substantial portion of which enters the laundering cycle. Oil smuggling is also related to arms trade.

(3) Arms / Diamonds Trafficking

Besides drugs trafficking according to Levi and Gilmore (2002), Schneider (2004, 2008a, 2008b, 2009) and Yepes (2008) arms trafficking, and illegal diamonds trade are some of the most important illegal sources of funding of organized crime groups. The illicit arms trade demonstrates how comparatively easy it is to obtain false documentation accompanying arms shipments, especially end-user certificates. Inconsistent documentation requirements between states, and inefficient control in customs and port authorities in many states, have created an environment in which the illicit arms trade does not need to rely entirely on criminal activities:

- (1) When a state is involved in supplying arms to an embargoed state, payments often come in the form of commercial payments, such as “oil for arms” deals to avoid bank involvement.
- (2) When an arms broker supplies weapons to an embargoed state, banks are often used because shipments are usually paid for in the form of letters of credit or by the direct transfer of hard-currency funds. In this case, money laundering becomes an important

factor to ensure that the final arms destination is disguised. It is at this point that offshore banks play an important role because their facilities can ensure that any deposit or transfer is routed via several intermediary institutions; and deposits or transfers can be conducted in the name of a series of shell companies. Both of these techniques are used to hide the financial trail behind multiple administrative layers.

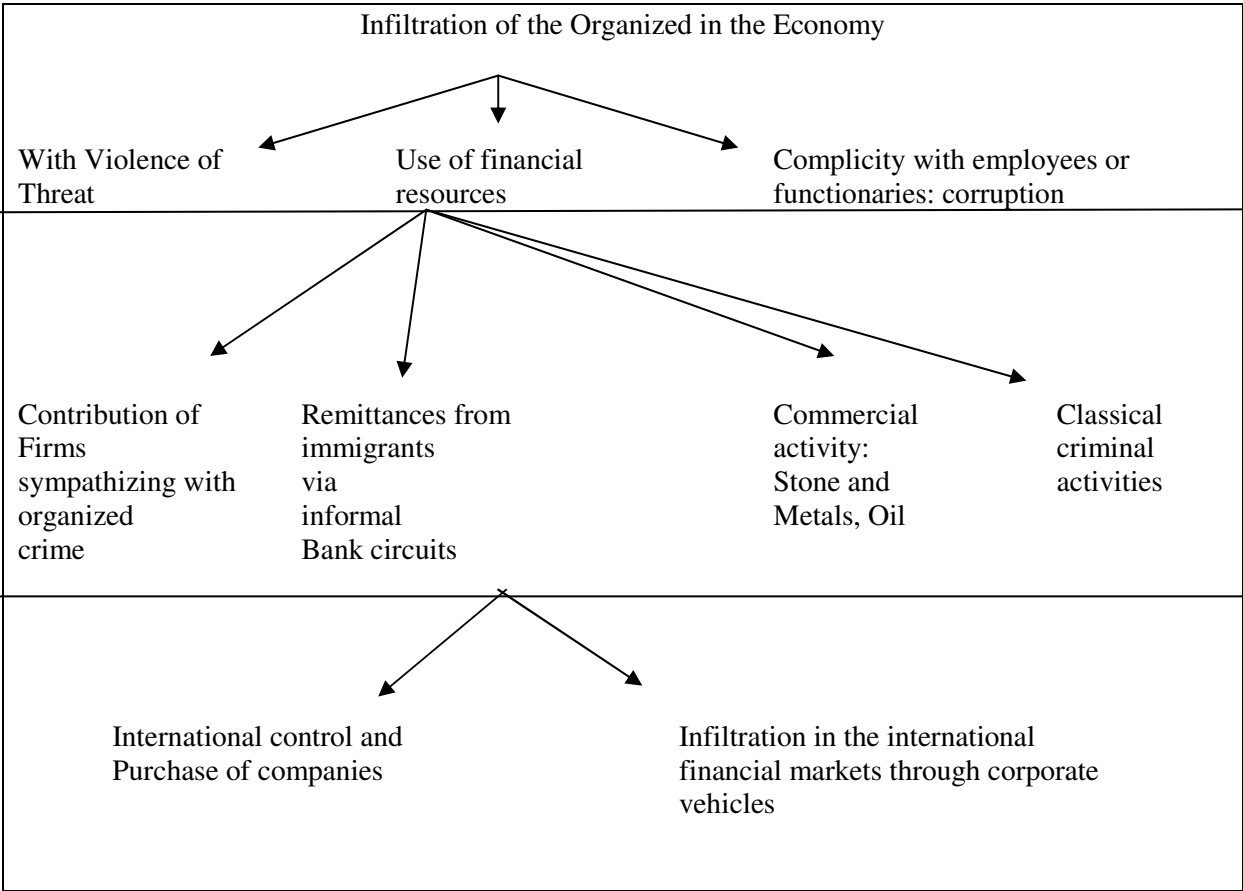
- (3) In situations where access to normal banking channels is very difficult (for example, as with most non-state actors), the financing of arms deals often takes a different form, most often through commodity exchanges. According to Smillie et al (2000), illicit arms transfers to Liberia and Sierra Leone were often financed with diamonds and timber concessions.

3. The Infiltration of Organized Crime and the Informal Money Transfer (Hawala) System

3.1 The Infiltration of Organized Crime

In figure 3.1 the various channels of the infiltration of the organized crime groups are summarized. Figure 3.1 concentrates on the use of financial resources and clearly demonstrates that the financial means / flows stand on 5 pillars ranking from legal investments to classical criminal activities.

Figure 3.1: Infiltration of the Organized Crime in the Economy



3.2 The Informal Money Transfer (Hawala) System

Especially during the 1990s, international concern grew over the “underground banking” and its abuse by serious offenders. Some academic works by Williams (2007), Savona (1997) and El-Quorchi (2003) have explained how informal systems operate, including their risks. The Informal Value Transfers Systems (IVTS) changes from region to region (Hawala or door-to-door). Some scholars (Williams (2007), El-Quorchi (2003)) argue that Hawala is vulnerable to criminal abuse, and like the other financial institutions, there is evidence that money derived from drug trafficking, illegal arms sales, body part trade, corruption, tax evasion, and all kinds of fraud have indeed moved through Hawala networks.

Hawala banking still takes place up to now and there is some of literature (Passas (2005), Bunt (2007)) about the Hawala banking system, where these authors point to the need for a regulation of the Hawala system. As argued, another way to transfer criminal financial flows is the Hawala banking. According to Bunt (2007), Hawala bankers⁷ are financial service

⁷ Several traditional terms, like Hundi (India) and Fei-ch’ein (China) remind one of the fact that hawala banking came up independently in different parts of the world. At present, a range of other terms is used to refer to the same phenomenon, such as ‘informal banking’, ‘underground banking’, ‘ethnic banking’ or ‘informal value transfer system’.

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

To summarize: Through the Hawala system that forms an integral part of the informal black market economy, underground bankers ensure the transfer of money without having to move it physically or electronically. When a payment needs to be made overseas, the underground banker will get in touch with a courier (or more recently using email, fax or phone) in that country informing him of the details of making the payment. If the recipient of the payment wishes to personally obtain the money, a code referring to the underground banker in the country of payment is given to the recipient. Such a system is almost untraceable since it leaves little if any paper trail. Transaction records are, if they are kept at all, being kept only until the money is delivered, at which time they are destroyed. Even when there is a paper or electronic record of sorts it is often in dialects and languages that serve as de facto encryption system.

According to Fischer (2002,p.17) the annual turnover of the Hawala banking system in the early 70ties was already 60 billion USD in the Arabic countries; e.g. six million foreign labourers in Saudi Arabia, who are sending home 40 billion USD a year home, make substantial use of the “ethnic” Hawala system. Fletcher and Baldrin (2002, p. 119) estimate with regard to Pakistan that 2.5 billion USD inherit the country in remittances via the Hawala system in 2001; the amount of money in India’s Hindi system was 50 billion USD in 1971. Despite the growing competition by formal remittance services, the use of Hawala banking has probably not declined. According to a recent estimate by the IMF, (especially Asian) migrants transfer 100 billion dollars per annum to family members and relations in their country of origin through the official financial system. In addition, a similar amount of money is transferred in the form of goods, cash, and through underground bankers (IMF 2005).

According to Bunt (2007), there are at least two different perspectives on Hawala banking. From the first point of view, Hawala banking is regarded as a centuries-old institution which has not yet outlived its usefulness. Low-income workers and migrant workers in particular

supposedly put more trust in Hawala bankers than in formal banks. This viewpoint emphasizes the problem associated with subjecting Hawala banking to the same rules as formal banks. Regulation either through registration or licensing is seen as ineffective because it will simply push the system further into the underground, further complicating the already problematic task of controlling Hawala transactions (Razavy (2005), p.292; Perkel (2004), p.210-211)). Hence, Hawala banking might be the closest thing of a free market banking, without government regulation and it functioned well for centuries. One should clearly emphasize these advantages of Hawala banking when criticizing it. From the opposite point of view, Bunt (2007) argues that Hawala banking is described as ‘underground banking’, a system that flies under the radar of modern supervision of financial transactions. Underground banking is considered a threat to the effectiveness of anti-money laundering measures and the fight against terrorist financing. To prevent underground bankers from becoming a safe haven for criminals and terrorists, they should be subject to the standard regulations regarding record keeping, disclosure of unusual transactions and identification of clients⁸.

3.3 The Principal Sources of Organized Crime Financing

The sources of organized crime financing, which are channeled through formal and informal systems, come from a variety of origins, some criminal, some not. As discussed the most important are:

- (1) Domestic – individual and corporate: black mail and corruption
- (2) Diaspora-migrant communities: contributions for protection
- (3) High level organized crime: fraud, illegal production and smuggling of drugs, kidnapping, armed robbery, trafficking in human beings; and
- (4) Investments and legitimate business: money is used to acquire enterprises and engage in trade with profits being used to finance terrorism.

⁸ Compare also Richard (2005) and Rider (2004).

4. Summary and Conclusions

In this paper an attempt is made to review the literature of the finances of organized crime, the aspect of and to tackle the quite difficult topic of estimating the volume of the finances of organized crime. The paper reaches the following two major results:

First, the necessity of money laundering is obvious as a great number of illegal (criminal) transactions are done by cash. Hence, this amount of cash from criminal activities must be laundered in order to have some “legal” profit, to do some investment or consumption in the legal world. Also first estimates are shown.

Second, to get a figure of the extent and development of the amount of the financial means of organized crime over time is even more difficult. This paper collects all available findings and shows that money laundering from organized crime has increased from 1995 273 billion USD (or 1,33% of official GDP) to 603 billion USD (or 1,74% of official GDP) in 2006 for 20 OECD countries (Australia, Austria, Belgium, Canada, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Switzerland, Spain and the United States). On a worldwide bases in 2006 600 billion USD are estimated to be laundered coming only from the total drug (crime) business. These figures are very preliminary with a quite large error, but give a clear indication how important money laundering and the turnover of organized crime nowadays is.

From these preliminary results I draw the following three conclusions:

- (1) The revenues of organized crime are scientifically extremely difficult to tackle. It's defined almost differently in every country, the measures taken against it are different and vary from country to country and it is not so all clear what really money laundering from the revenues of organized crime are.
- (2) To fight against organized crime is also extremely difficult, as there are no efficient and powerful international organizations, which can effectively fight against organized crime.
- (3) Hence, this paper should be seen as a first start/attempt in order to shed some light on the grey area of the revenues of organized crime and to provide some better empirical bases.

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