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Money laundering and the financing of terrorism: the role of offshore business

Abstract: Money laundering and the financing of terrorism are financial crimes with economic effects that enable offshore companies to make money around the world. It is estimated that the total annual amount of money laundered through offshore centers is around 8.5 trillion US dollars. The authors of this paper study the issue of money laundering and the financing of terrorism with particular attention to the role played by offshore business.

Keywords: money laundering, financing of terrorism, offshore company, business, economic effects

JEL: E44, F38

Introduction

By entering the 21st century, in the time of computers, iPhones, tablets, mobile phones, and above all the Internet, easy and fast money movements around the world were enabled. This kind of quick communication between money and its owner would not be a matter of the so-called. "Pure" money, earned by honest work. The problem is that high technology is misused for various purposes, the effect of which creates an invaluable damage to the economy of one country, its citizens, and finally to the rest of the world. As a result, the fight against money laundering, its masterminds and accomplices is more necessary than ever.

Money laundering and terrorist financing are financial crimes with economic effects. They can break the stability of a country's financial sector or its

external stability in general. Effective prevention of money laundering and the fight against terrorism financing are essential for protecting the integrity of the market: and the global financial framework that influence the mitigation of factors that facilitate financial abuse. "The action to prevent and combat money laundering and terrorist financing in this way reacts not only from the moral point of view, but also because of the economic need" – Min Jou, Deputy Director General of the IMF¹.

The question is, where does all this money end? For what purpose is it washed in so many quantities? For whose interests and what is his ultimate goal? It is not easy to give a simple answer to a few sentences on all these questions. The theme itself requires a comprehensive analysis and a multitude of data so that at least we can get to the required answers.

In order to seek accurate answers, it is impossible not to mention the offshore centers and their role in the global world. When a man speaks this word – offshore, he immediately thinks about a large amount of money. Keeping and protecting money is their primary mission, but their role in the world is much greater. As we enter deeper into the analysis of the outdoors, we come to the red curtains or the boundaries beyond which we can not go. Why is that so? What is their real purpose in the world? Why are they called the "black hole of the world economy" in the world? And in the end, why are they increasingly associated with terrorism?

It is estimated that the amount of money laundered in the world in one year ranges from 2-5% of GDP, i.e. from \$ 800 billion to \$ 2 trillion. The figures seem devastating, considering how much school, hospital, bridges, roads, and other public goods could be made with so much money. But given the origin of "dirty" money, it can easily be concluded that the purpose of this money is all but the financing of public and humanitarian goals.

And in the end: Terrorism – a topic increasingly talked about in the world. Of special importance to the public. About the phenomenon that is featured in numerous shows, articles, public gatherings and organizations, World No. 1 is the world's number one danger. Never has such attention been paid to this phenomenon in the world in recent years. A number of organizations have been created to fight terrorism, but also organizations that strengthen it.

In the case of terrorism, it is specific that all transactions of money that serve the purpose (financing of terrorism) can be influenced by some completely legal flows, such as: humanitarian organizations, donations, various associations, etc. This type of financing is fundamentally different from money laundering, which is always preceded by an illegal act, which complicates every investigation and prevention of such occurrences.

¹ IMF (2015): The IMF and the Fight Against Money Laundering and the Financing Terrorism, <http://www.imf.org/external/np/exr/facts/aml.htm>.

By its very nature, money laundering and terrorist financing is carried out secretly, and statistical analysis is not allowed. “Cleaners” do not document their scope of business, nor do they publish the amount of profits made, nor those who finance terrorism. In addition, these activities take place globally, and it is very difficult to carry out the assessment. “Perches” are used by various countries to hide their illegally earned revenues by exploiting the differences between countries in terms of the AML regime (The Anti-Money Laundering Regime). The same reliable estimates of the amount of money laundering and the problem of financing of terrorism on a global level are not available. Given that the IMF has announced that the volume of money laundering in the world ranges somewhere between 2 and 5 percent of global gross domestic product (roughly from 800 billion to 2 trillion US dollars), the magnitude of the problem is very significant and fully deserves the attention of every country.

1. The money laundering and terrorist financing process and the role of offshore centers

Concern about money laundering has occurred even in the illicit trafficking of narcotic drugs. The goal of drug smuggling is to convert smaller currency denominations into legal bank accounts, financial instruments and other assets. Illegally-generated profits produce a wide range of criminal activities – including political corruption, illicit arms sales, illegal trafficking and exploitation of people. Regardless of the crime, “washers” are used and go through all three stages of money laundering (placement, dissolution and integration) in the process of converting illegal revenues into legal money or goods².

Money laundering supports and facilitates global criminal activity. Financing terrorism is the basic mechanism for alleviating violent fanatic attacks. If we could ever reduce the financial flows that support these activities, we would be able to deal with the problem ourselves.

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Criminals and terrorists have no respect for laws, regulations, jurisdictions, or, ultimately, they have no respect for human life. They will do everything to wash their resources from their crimes, or in the case of terrorists, they will do their best to make them available at the time of their attack. Money laundering is a worldwide activity.

² World Bank (2003): Money Laundering and Terrorist Financing: Definitions and Explanations, <http://www1.worldbank.org/finance/assets/images/01-chap01-f.qxd.pdf>.

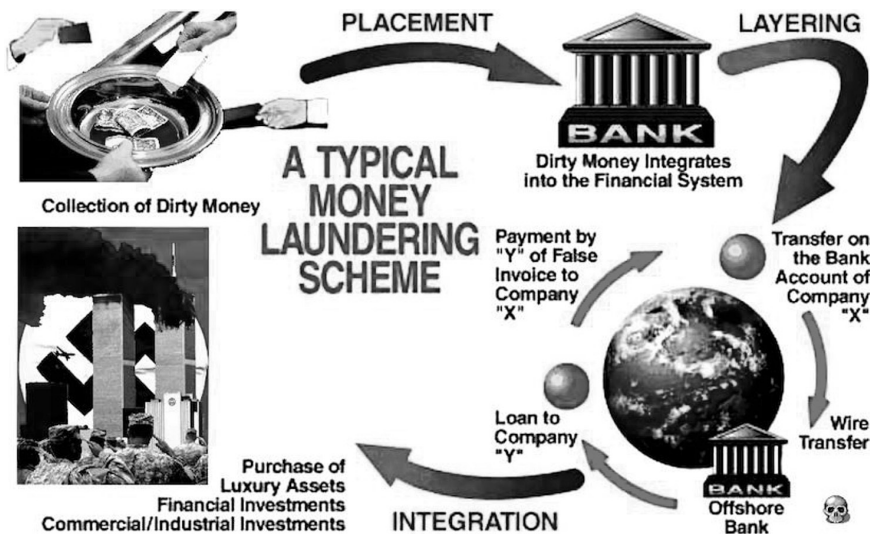
Criminals have adapted to the global economy of the 21st century more quickly and efficiently than many world governments and legislators. Countries continue to think about this problem at the national, instead of internationally. Anti-money laundering and terrorist financing can only be effectively fought through continuous and effective co-operation between countries and their organizations, with emphasis on issues such as common laws, information exchange and cooperation between police forces and other affected countries.

By the attack on the United States on September 11, 2001, the world has changed. Very soon after these terrible events, attention was paid to the financing of terrorism³.

In the modern world, terrorist activities are financed in various ways, through various forms and with the help of various methods of legal as well as illegal business, as well as by carrying out various criminal acts in the field of classical, political and economic crime.

Regarding the relationship between the financing of terrorism and the phenomenon of money laundering, in practice, the fact that they are inseparably linked the issue of securing funds necessary for financing terrorist organizations and their actions. It is necessary that money be acquired by crime, as well as the money that is used for organizing and carrying out illegal activities, legalizing and, later, unimpeded use.

Figure 1. Money Laundering and Terrorist Financing and the role of OFC



Source: The Prevention of Money Laundering Act (PMLA), 2002, <http://legal.xpertxone.com/prevention-of-money-laundering-act/>.

³ Lilley P., *Dirty Dealing – The Untold Truth About Global Money Laundering International Crime And Terrorism*, Kogan Page Limited, London, 2000, pp. 17-18.

Today, in order to smooth, timely and safe financing of their activities, terrorists are increasingly choosing to use completely legal money channels for the transfer of their funds, in addition to illegal flows. For this purpose they use the services of legal financial institutions, such as commercial banks, offshore banks and other financial institutions such as savings banks, credit organizations, leasing companies, organizations specializing in electronic money transfers, insurance companies, brokerage companies, investment funds, auction houses.

The money laundering terrorism financing Figure 1 shows the creation of income through the operation of small shops or major retail chains, restaurants, the provision of tourist services.

These are activities that have large amounts of cash and money. The realized income is transferred to the accounts of the owner or connected persons, but also for real estate investments. Funds are also directed to humanitarian organizations, they are used for concluding contracts on life or non-life insurance, invest in stock exchange transactions all over the world, as well as front companies' accounts. The fictitious costs of non-governmental organizations, simulated insurance contracts, frauds of insurance companies, fixed Internet auctions, but also completely legal electronic transfers, are channeled by geometric progression to a large number of international bank accounts⁴.

Such spreading funds are then re-deposited on new and new bank accounts of legal entities and individuals worldwide through international bank transfers. Credit cards, check-issuers or online banking transfers, online auctions, online gambling or simple online purchases can be easily and impenetibly easily washed and transferred to worldwide destinations, terrorist organizations and terrorists.

Particular attention in the study of terrorism, as well as in taking action to combat the financing of terrorism, should be addressed to the so-called tax havens. Today, it is customary for tax havens, tax havens or hiding places to be called places where taxes, or all public dues are low or not at all, and procedures are extremely simple, with the presence of a prominent protection of financial privacy.

When using the services of a financial intermediary, the owners of the funds are deposited in the offshore centers, and they are subsequently placed through intermediaries in the form of loans or investments, with which they later end up mainly in the countries from which they were initially transferred. Although using this method is not avoided taxation in the state principally, it is possible for the owner of the funds to, using the legislation of the country's home country and the country, not be subject to additional taxation. As far as criminals and terrorists are concerned, they are successfully covering up only

⁴ Muminović S., Ljubić M., (2013), *Prevenција pranja novca u Srbiji – iskustva i izazovi*, časopis Revizor, – God. 16, br. 61 (2013), pp. 9-23.

the origin of funds, and putting them into legal financial channels around the world allow future financing of their illegal activities.

In particular, they offer special services through the use of international financial services (IFC) services, such as London, New York or Tokyo. These financial centers provide customers with a versatile service system and an advanced payment system, supported by strong domestic economies with well-developed and liquid markets. For example, the lay public is a little-known London's role in outsourcing. However, those who are somewhat better informed about this issue know that various financial scandals have been happening in London not long ago⁵. The collapse of the Bank of Credit and Commerce International, which carried out the transfer of drugs and drug traffickers through the London branch, was devastating and had global consequences for the reputation of London's financial circles. Through these events, London appeared in the right light: on the one hand, as a financial outsourcing center serving the interests of problematic clients and, on the other hand, as a center that at the same time emphasizes that it has regulations and regulations that place it in the very top of the world's jurisdiction. His status as a financial offshor center is accentuated by the large number of foreign banks and their affiliates, who placed their seats in the City of London.

London's vulnerability to money laundering is not inadequate, not in the weakness of legislation, but in the fact that it is not applied. Authorities did not invest in time for training and training of experts in charge of implementation of regulations. This did not happen due to lack of funds, but for pragmatic reasons. More precisely, the UK economy did not want to renounce significant revenue from the invisible financial sector overnight. However, a series of financial scandals have changed the attitude of the authorities, and a series of regulations and measures in the field of anti-money laundering have been adopted in order to bring the financial system in line with international standards in that field. In the event that a bank is caught in non-enforcement of regulations, it is obliged to face sanctions, such as fines or loss of business reputation. The first among the banks that felt the blade of new regulations was The Royal Bank of Scotland, which was fined 750,000 British pounds. As a result, banks have chosen to monitor their clients, i.e. their business, and submit reports of suspicious transactions and activities (SAR) to the National Police Intelligence Service (NCIS) police agency⁶.

⁵ Ljubić M., Pavlović V., (2016), The Role of the Accounting Profession in Prevention and Detection of Financial Statement Fraud, ACADEMY OF CRIMINALISTIC AND POLICE STUDIES, INTERNATIONAL SCIENTIFIC CONFERENCE "ARCHIBALD REISS DAYS" THEMATIC CONFERENCE PROCEEDINGS OF INTERNATIONAL SIGNIFICANCE", 10-11. mart 2016. Reiss 2016, Editor-in-Chief DRAGANA KOLARIĆ, PhD Academy of Criminalistic and Police, pp. 87-100.

⁶ <http://www.nationalcrimeagency.gov.uk/>.

Profitable individuals and multinational companies hold their capital in the countries of tax havens, among other things, because of the desire to protect themselves from the potential control of the origin of assets as well as their purposes. Additionally, opening an account in an outsourcer to a financial institution represents a means of choice for them, as far as the confidentiality of information is concerned, both on their own account and on their means. One of the determining factors for using tax services is certainly the fear of confiscation and confiscation of assets and assets or protection provided to them in this regard in these areas.

In addition, taking into account the non-transparent working environment, which includes a high level of guaranteed anonymity, or the elimination of providing any information to the prosecuting authorities and prosecuting the country of residence of a non-resident, it becomes clear why, besides the owner of the capital, and financiers of terrorist organizations. The answer is simple, and both countries and tax havens provide unlimited opportunities for performing dubious businesses, such as tax fraud, money laundering or terrorist financing.

In addition, it is evident that in the present time the so- tax regimes have a multiple and very important role in all forms and forms of illegal activities, especially in money laundering processes, as one of the most important forms of financing terrorism and organized crime. In order to finance their activities, terrorist organizations actively and repeatedly use the abovementioned possibilities in order to dispose of their funds and resources without the presence of any serious fear that they will be detected and prevented, that is, that their assets will be seized and confiscated, which would be disabled or significantly endangered⁷.

2. States, territories and jurisdictions with offshore financial centers

According to the 1999 IMF survey, the following table lists 69 areas (states, territories and jurisdictions) for which researchers [Errico & Musalem] have been ordered to submit to the characteristics of OFC⁸.

⁷ Sandić K., *Finansiranje terorizma putem pranja novca*, Nauka i društvo, Beograd, 2011, pp. 105-386.

⁸ Joksimovic M., Budjevac N., Spasojevic M., *Increasing The Profitability of Multinational Companies Through Tax Havens*, Economic and Social Development 21th International Scientific Conference on Economic and Social Development, Book of Proceedings, ISSN 1849-7535 Belgrade, 18-19 May 2017, Editors: Ana Jurcic, Dijana Oreski, Mihaela Mikic, Varazdin Development and Entrepreneurship Agency, Varazdin, Croatia University North, Koprivnica, Croatia John Naisbitt University, Belgrade Serbia, pp. 283-291.

Figure 2. Countries, territories and jurisdictions with offshore financial centers

Sours: A Guide to the Top 20 Offshore Fund Locations <https://ct.wolterskluwer.com/resource-center/articles/guide-to-top-20-offshore-fund-locations>.

3. The best world tax systems

The Financial Secrecy Index completed by the Tax Justice Network ranked 82 of the world's largest tax havens on the basis of two factors: results of the financial secrecy of jurisdiction; and its share in the world market for offshore financial services, scale their activities.

The Financial Secrecy Index reveals that the traditional stereotype of tax havens as a minor jurisdiction is wrong. On the contrary, the most important providers and providers of anonymity and secrecy are one of the largest and richest countries. This shows that the illegal financial flows that make developing countries are poor, largely facilitated by wealthy OECD members and their satellites, who are also the main winners and conductors of these illegal flows. The US \$ billions of capital outflows made annually by developing countries are compared to just \$ 130 billion in global foreign aid. So for every dollar of aid provided by the OECD countries to developing countries, \$ 10 will be returned to the OECD countries and their offshore satellites. For too

long, governments and activists have been involved in cross-border funding and focus on money laundering and terrorist financing, ignoring much larger flows, such as tax evasion, trade in prices and a host of other abuses. These problems work through exactly the same mechanisms, through the outsourcing of financial secrecy. The only real way to solve these problems is to solve them from the root: directly confronting the outsider's secrecy and the global infrastructure it creates. The first step towards this goal is to identify the precise jurisdictions that operate by providing offshore services⁹.

Diagram 1. Showing the best tax havens in the world according to the Financial Securities Index

RANK	Jurisdiction	FSI Value ⁴	Secrecy Score ⁵	Global Scale Weight ⁶
1	Switzerland ²	1,466.1	73	5.625
2	Hong Kong ²	1,259.4	72	3.842
3	USA ²	1,254.8	60	19.603
4	Singapore ²	1,147.1	69	4.280
5	Cayman Islands ^{1,2}	1,013.2	65	4.857
6	Luxembourg ²	817.0	55	11.630
7	Lebanon ²	760.2	79	0.377
8	Germany ²	701.9	56	6.026
9	Bahrain ²	471.4	74	0.164
10	United Arab Emirates (Dubai) ^{2,3}	440.8	77	0.085

Sours: <http://www.financialsecrecyindex.com/introduction/fsi-2015-results>.

1. The territories marked in Dark Blue are Overseas Territories (OTs) and Crown Dependencies (CDs) where the Queen is head of state; powers to appoint key government officials rests with the British Crown; laws must be approved in London; and the UK government holds various other powers (see here for more details: www.financialsecrecyindex.com/PDF/UnitedKingdom.pdf). Territories marked in light blue are British Commonwealth territories which are not OTs or CDs but whose final court of appeal is the Judicial Committee of the Privy Council in London (see here for more details: http://www.taxjustice.net/cms/upload/pdf/Privy_Council_and_Secrecy_Scores.pdf). If the Global Scale Weights of just the OTs and CDs were added together (5.70% of global total and 23.10% with the United Kingdom included), and then combined either with their average secrecy score of 65.90 (63.62 with the UK) or their lowest common denominator score of 71.27 (Turks and Caicos Islands), the United Kingdom with its satellite secrecy jurisdictions would be ranked first in the FSI by a large margin with a FSI score of 1580 or 2221, respectively (compared to 1466 for Switzerland). Even a weighted average, which emphasises the relative transparency of the UK over its secrecy network, would put the combined group in 9th place on the FSI. Note that this list excludes many British Commonwealth realms where the Queen remains their head of state.

2. For these jurisdictions, we provide special narrative reports exploring the history and politics of their offshore sectors. You can read and download these reports by clicking on the country name.

3. For these jurisdictions, we took the secrecy score for the sub-national jurisdiction alone, but the Global Scale Weight (GSW) for the entire country. This is not ideal: we would prefer to

⁹ Tax Justice Network (2013): Financial Secrecy Index, Financial Secrecy Index., <http://www.financialsecrecyindex.com>.

use GSW data for sub-national jurisdictions – but this data is simply not available. As a result, these jurisdictions might be ranked higher in the index than is warranted.

4. The FSI is calculated by multiplying the cube of the Secrecy Score with the cube root of the Global Scale Weight. The final result is divided through by one hundred for presentational clarity.

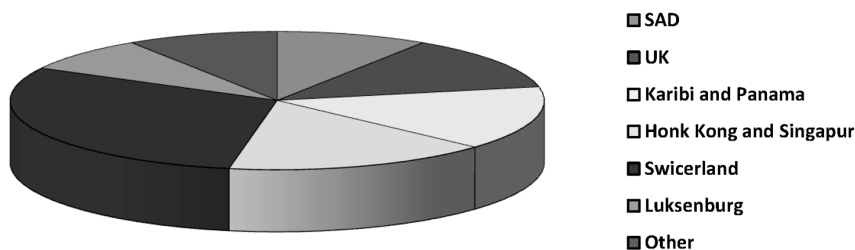
5. The Secrecy Scores are calculated based on 15 indicators. For full explanation of the methodology and data sources, please read our FSI-methodology document, here: www.financialsecrecyindex.com/PDF/FSI-Methodology.p.

6. The Global Scale Weight represent a jurisdiction's share in global financial services exports. For full explanation of the methodology and data sources, please read our FSI-methodology document, here: www.financialsecrecyindex.com/PDF/FSI-Methodology.p.

4. List of offshore states with the greatest wealth

A report by the Taxation Network (TJN) has reported that Switzerland is the main shelter of the world that avoids paying taxes. After Switzerland, the financial transparency made by the TJN goes to the Cayman Islands, Luxembourg, Hong Kong and the United States. Then, according to the TJN, the island of Jersey, Japan, Germany and Bahrain. Almost all of the major economically developed countries came to the list of offshoots: the United States, Germany, Japan, Switzerland, the United Kingdom (this latter is in fact controlled by a Jersey island that is only formally outside British jurisdiction)¹⁰.

Diagram 2. Displaying the total wealth of private clients in offshore jurisdictions in percentages



Sours: Boston Consulting Group, Aite Group.

As the offshore becomes a dirty word for global asset management, Aite Group's report published in April 2014 shows who is in the offshore wealth in the world rich. According to the report, without surprise Switzerland has the largest share of offshore wealth of private clients. The value is estimated at 8.5 trillion US dollars globally, and in percentages, we see Diagram 2, Switzerland owns 26% of private client funds, which is about \$ 2.1 trillion. Hong

¹⁰ Katasonov V., (2013): Crne rupe u svetskoj ekonomiji, Preuzeto sa sajta Fond strateške kulture Info: srb.fondsk.ru.

Kong and Singapore have a combined 14%. Islands of Chennai, the Caribbean, Panama and Dublin – each of these has a 13% share. Great Britain is in fifth place with 11%. The US has only 8% more than Luxembourg, which accounts for 7% of the \$ 8.5 trillion US dollars. The UK market is dominated by the wealth of the Middle East, worth about \$ 900 billion, which is 35%, Asia Pacific 28%, while Eastern Europe has only 5%, which raises the question of where Russian money is kept?¹¹

5. Threat to economic and financial stability

The international community has highlighted the fight against money laundering and terrorist financing as a priority. The IMF is particularly concerned about the possible consequences of money laundering and the financing of terrorism and their related activities that affect the integrity and stability of the financial sector and the wider economy. These activities could jeopardize the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. They can have negative consequences for the country's financial stability and macroeconomic performance, which leads to loss of well-being, outflow of resources from productive economic activities, and destabilizing spillover effects on economies of other countries.

In an increasingly connected world, the negative effects of these activities are global, and their impact on the financial integrity and stability of the country is widely recognized. Money launderers and terrorist financiers use all of the complexities of the global financial system, as well as the differences between the national anti-money laundering (AML) and CFT (Counter-Terrorism Financing Act) laws and systems. They also attract jurisdictions with weak and inefficient controls, where assets are easier to move without disclosure. In addition, problems in one country can quickly spread to other countries in the region or elsewhere in the world.

Strong AML / CFT regimes improve the integrity and stability of the financial sector, which in turn facilitates the integration of countries in the global financial system. They also strengthen management and fiscal administration. The integrity of national financial systems is essential for the financial sector and macroeconomic stability, both at the national and international levels¹².

Initially, the issue of money laundering was a problem that was solely related to drugs. All narcotics have been found in human nature for a long time. The use of drugs and narcotic derivatives, as well as synthetic drugs, is

¹¹ Avery H., (2015): Country hot-list in offshore wealth revealed, <http://www.euromoney.com>.

¹² IMF (2015): The IMF and the Fight Against Money Laundering and the Financing of Terrorism, <http://www.imf.org>.

very diverse. Their main use, however, is aimed at making life viable, at least in brief. The term “drug” comes from the Dutch word “droog” which means “dry” (dried plant). Drugs are substances that modify one or more functions in our body. They are usually classified as:

- ❑ substances for creating euphoria: opium and derivatives (morphine, heroin, codeine, coca and cocaine);
- ❑ hallucinogenic: mescaline, cannabis and muscarin;
- ❑ adjuvant substances: alcohol, ether, chloroform, benzene;
- ❑ hypnotic substances: chloral, veronal, caucasian;
- ❑ stimulative substances: coffee, tea, car, tobacco.

It sounds unusual when in this division we see a brand such a famous brand as Coca Cola. Should she also be considered a drug? Has that brand produced millions of addicts? Tobacco is tolerated, although this is clearly a narcotic, at least as far as the generic term is concerned. The same can be said for alcohol. Where should I draw a line? What is the difference between light and heavy drugs? In this respect, traditions and cultures differ greatly on this planet. The issue is not the drug itself, but the consequences of trade and trafficking, as well as their proven connection to crime¹³.

Money laundering is often a part of organized crime (Italian mafia, Japanese jakuza, Colombian cartels, Russian and Eastern European criminals, American ethnic gangs and other groups and forms of association. They often have a foothold in the police, judiciary and among politicians). In general, drug trafficking is considered the largest single source of dirty money. In the United States, according to street sales estimates, annual sales of cocaine are worth \$ 29 trillion, heroin sales of \$ 10 trillion and sales of cannabis 67 billion dollars a year. According to FATF, annual revenues from the sale of cocaine, heroin and cannabis in the US and Europe amount to about \$ 122 trillion a year, of which 50-70% about \$ 85 trillion is a part of the dirty money flowing through financial channels to “wash”, i.e. for inclusion in legal business activities.

In addition to drug trafficking, organized crime generates funds from green jobs, illegal gambling, extortion, prostitution, illegal arms trafficking and “white slaves”, and it often happens that it has a stake in legal business firms used to hide illicit funds, as well as for their investment¹⁴.

6. International cooperation in the field of money laundering

It is noticeable that money laundering is increasingly becoming an international problem, and it is justifiable and logical that the international

¹³ Claessens R., *Ethics, Corporate Values and Prevention of Money Laundering*, UBS, 2006, pp. 13-14.

¹⁴ Fijat Lj., *Otkrivanje i sprečavanje pranja novca*, Stručni časopis – Svet finansija, Novi Sad, 2003, pp. 28-33.

community actively engaged in the fight against this socially harmful and criminal phenomenon. The existence of a certain legal framework consisting of multilateral and bilateral international legal acts, as well as the existence of relevant international organizations and institutions through which cooperation at the operational and strategic level is promoted, is a framework of international cooperation in the field of money laundering. In this context, it is important to look at some important international acts that have contributed to the establishment of standards in this area.

- ❑ UN Convention against the Illicit Traffic in Narcotic Drugs and Psychotic Substances, so-called Vienna Convention, dated 19.12.1998. Years of development are laid out, as is usually stated, a coordinated response to money laundering. The convention envisioned a series of measures whose adoption creates mechanisms for the effective seizure of illegally acquired revenues and at the same time facilitate the procedures for investigating money laundering.
- ❑ Convention on Laundering, Trading and Temporary Confiscation of the Proceeds from Criminal Offenses Adopted by the Council of Europe on November 8, 1990. In Strasbourg, an important step has been made in defining an international legal framework for cooperation in countering money laundering globally. In its preamble, the Convention points to the need to combine efforts to combat money laundering and other forms of crime: through the conduct of a common criminal policy, the use of modern methods at the international level in the fight against serious crimes, the deprivation of the perpetrator of criminal acts of illegally acquired proceeds by crime and the establishment of an effective system of international cooperation.
- ❑ The UN Convention Against Transnational Organized Crime (2000 Palermo Convention) set the absolute standards in the fight against organized crime. This Convention promotes the establishment and maintenance of international cooperation with a view to more effectively preventing and combating transnational organized crime. It is also intended to provide greater standardization or coordination of the approach of state policy, legislation, administration and police authorities to the problem of combating transnational crime in order to achieve greater efficiency and effective global efforts for its control. The convention prescribes four specific crimes (participation in organized crime groups – Article 5, Money Laundering – Article 6, Corruption – Article 8 and Obstruction of Justice – Article 23), which foster the fight against those areas of crime that serve as support for transnational activities organized crime¹⁵.

¹⁵ Bjelajac Ž., *Pranje novca kao faktor ekonomske destabilizacije u nacionalnim i međunarodnim razmerama*, 2011, pp. 162-163.

The International Convention for the Suppression of the Financing of Terrorism, adopted on December 9, 1999 in New York, regulates the prevention and detection of money laundering related to terrorism. This convention envisages a mandatory incrimination of terrorist financing, which for the first time promotes a new approach to countering terrorism globally, by destroying the economic leverage of the power of terrorist organizations. Article 8 of the Convention provides for the seizure of funds that were used or intended for the commission of the criminal offense of financing terrorism or which constitute the property gain acquired by the commission of such a work. The United Nations Security Council adopted in 2001 and Resolution 1373, which requires the implementation of measures by member states that allow the blocking and freezing of funds and assets of terrorists.

Three directives were adopted at the level of the European Union: Directive 91/308 / EEC on prevention of the use of the financial system for money laundering from 1991; Directive 2001/97 / EC of 2001 amending Directive 91/308 / EEC and Directive 2005/60 / EC on the prevention of the use of the financial system for money laundering and terrorist financing in 2005. These directives define the money laundering and financing of terrorism at the EU level, regulate the rights and obligations of financial and non-financial organizations and professions in the area of prevention and detection of money laundering and terrorist financing, regulate the supervision of members and regulate the rights and obligations of the Financial Investigation Unit of the member states.

The Council of Europe Convention on Laundering, Detecting, Seizing and Confiscating the Income of Punishable Work and the Financing of Terrorism, adopted in Warsaw in 2005 and the Council of the European Union Framework Decision on confiscation of revenues, funds, has a special significance for the development of a coordinated international response to the problems of countering money laundering and terrorist financing and crime-related assets brought in the same year, as they sublimate the long-standing experience of the international community in the implementation of measures to counter money laundering and terrorist financing.

7. International organizations in combating money laundering

In order to make international cooperation more effective in combating money laundering, international organizations have a special role in coordinating activities at the strategic and operational level.

The United Nations was the first international organization to undertake anti-money laundering activities globally. Namely, within this international organization, the Global Program Against Money Laundering (GPLM) is actively implementing, which is part of a broader strategy of combating

crime globally. This program aims to improve the efficiency of the fight against money in global frameworks, primarily through technical support and training.

In 1990, the Financial Action Task Force (FATF) defined the Forty Recommendations, which constituted a framework for the implementation of measures to counter money laundering and seizure of crime-related incomes on national and international levels.

The Financial Action Group adopted in 2001 and eight Special Recommendations on the Financing of Terrorism, thus joining global efforts to combat the financing of terrorism.

The international police community, aware of the needs of combating organized crime and taking away the proceeds of crime, has adopted numerous international acts regulating this area. This effort was also supported by Interpol, which, by its resolutions (AGN / 52 / RES / 8, 1983, AGN / 57 / RES / 8, 1988; AGN / 66 / RES / 17, 1997).) urged member states to focus their focus on the identification, monitoring and confiscation of illegally acquired revenues from criminal organizations. These resolutions also urge members to improve the exchange of information in this field and instruct governments of member states to enact laws that will allow access to financial records and confiscation of proceeds from crime. As a part of the efforts of the international police community to counter money laundering, a specialized branch within the police department of the General Secretariat Interpol, called FOPAK (FOPAC), is a French abbreviation for the Fonds Provenant d'Activites Criminelles, formed by the General Assembly of Interpol in Cannes in 1983.

The Financial Action Task Force (FATF) was established at the G-7 Summit in Paris in 1989, as a coordinated international response to money laundering in international frameworks. The following groups of financial actions groups were given the following tasks: studying ways and trends of money laundering in global frameworks; Evaluation of measures to counter money laundering undertaken on national and international level and defining measures to counter money laundering on national and international level. In its work, this international organization monitors progress on implementation of measures to counter money laundering in member states, develop money laundering in global frameworks and defines adequate countermeasures to counter money laundering.

The elected Committee of Experts on the Evaluation of Anti-Money Laundering Measurements was established in 1997 with the aim of establishing effective anti-money laundering and terrorism financing systems in the member states. The activities of this international body are focused on assessing whether its members comply with the relevant standards related to combating money laundering, confiscation of proceeds from crime and terrorist financing. MONEYVAL has 27 members and 2 provisional members, and as a regional body in the EU area for the fight against money laundering, actively partici-

pates in the work of the Group for Financial Actions, the World Bank and the IMF in their efforts to combat this negative phenomenon in a global context.

The most important international regional organizations in the field of money laundering are: Asian / Pacific Group on Money Laundering (AGP); The Caribbean Financial Action Task Force (CFATF); East and Southern Africa Anti-Money Laundering Group (ESAAMLG); Financial Action Task Force on Money Laundering in South America – GAFISUD; The Organization of American States (OAS) and the Commonwealth Secretariat.

8. The role of the IMF in the fight against money laundering and terrorist financing

The IMF has been engaged in the fight against money laundering and terrorist financing since the beginning of 2001. Over the past ten years, IMF efforts have helped to shape measures and actions to prevent money laundering and terrorist financing at the international level, and have produced over 70% of anti-money laundering and terrorist financing systems, as well as a large number of projects technical assistance and research. The broad experience that the IMF has in assessing the financial sector, providing technical assistance in the financial sector, and overseeing the economic systems of the member states have particularly contributed to assessing the compliance of States with international standards for the prevention of money laundering and terrorist financing and in the making of a program by which states to solve the observed shortcomings.

The IMF program for the prevention of money laundering and terrorist financing was gradually evolving in line with the response of the international community to these phenomena and with the growing awareness of the importance of these issues by the IMF. The IMF Executive Board in 2004 agreed that the estimates of the SPN / SFT system and technical assistance became a regular part of the IMF's work. In 2006, the Executive Board confirmed the general principle that each Financial Sector Assessment Program (FSAP) and the Offshore Financial Center Assessment (OFC) should include a full assessment of the SPN / FT system. The IMF is an important factor in this area by cooperating with FATF and FSRB (regional bodies similar to FATF, for example, Manival) and assessing the SPN / FT system in conjunction with the evaluation made by FATF and FSRB over its members with regard to compliance with Recommendations FATF 40 + 9, provides technical assistance and contributes to policy making and research.

On June 1, 2011, the Executive Board of the IMF discussed a paper titled Prevention of Money Laundering and Terrorist Financing – a report on the effectiveness of the program's analysis, conducted by the Legal Issues Depart-

ment of the IMF. This report analyzes the evolution of the IMF program in the past five years and looks at what further.

We can use Bedford Law to discovered Money Laundering in company¹⁶.

The IMF presented the Donor Fund in 2009, the first in a series of so-called. Thematic Funds (TOPICAL Trust Funds – TTF) to finance technical assistance in the SPN / FT plan. Canada, France, Japan, Korea, Kuwait, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland and Great Britain have committed to providing 25.3 million US dollars for TTF financing for five years, contributing to strengthening a global anti-PN / FT system, using proven expertise and infrastructure of the IMF. Two and a half years after the establishment of the TTF, projects were approved in 49 countries and seven regional workshops were held. In its further work, TTF will continue to support technical assistance projects for SPN / FT worldwide¹⁷.

Conclusion

“Control the oil and control the land. Control food and control people. Control the money and control the whole world!” – Henry Kissinger, American politician and diplomat, winner of the Nobel Peace Prize in 1973.

The last sentence of Henry Kissinger, US Secretary of State (from 1969 to 1977), pronounced in 1970, “that the one who controls money controls the whole world” is the most concrete answer to all the problems that the world faces, which is that Money is the driving force of everything, and everything else is created as a consequence of this trigger for which the entire world is being attacked.

Taxes are synonymous with the security of money. Through their tax policies and banking secrecy policies, for years, they have successfully attracted wealthy clients to keep their money in these countries (which are led as tax regimes). In this way, they have made their economies more competitive in the global market. It is enough to look at a number of data that tells half of the world’s money to go through these financial institutions and conclude how much their role is in the global market. For this reason, the number of

¹⁶ Joksimović D., Knežević G., Pavlović V., Ljubić M., V. Surovy (2017), *Some Aspects of the Application of Benford’s Law in the Analysis of the Data Set Anomalies*, Chapter 4 in the Book ID: KNOWLEDGE DISCOVERY IN CYBERSPACE Title: STATISTICAL ANALYSIS AND PREDICTIVE MODELING, Nova Science Publishers, New York, Editors: Kristijan Kuk and Dragan Randelović, USA, pp 85-120. Joksimović D., Knežević G., „Benford’s law and the analysis of the numerical data”, International Scientific Conference “Archibald Reiss Days”, Belgrade, 10-11 March 2016, Thematic conference Proceedings of International Significance, Volume III, pp. 293-306, Publisher Academy of Criminalistic and Police Studies, Belgrade.

¹⁷ Uprava za sprečavanje pranja novca (2011): Uloga MMF-a u borbi protiv pranja novca i finansiranja terorizma, MMF, Ministarstva finansija, 07.08.2016. god. Info: <http://www.apml.gov.rs>.

opponents of tax races is growing. These are primarily developed countries with a sharp tax policy that exert great pressure on the international community to deal more seriously with this issue. The international community is trying through the OECD and the Taxation Network to control financial flows and stop banking secrecy. So far, in part, it has been a success. OECD estimates over the past two years, under the voluntary disclosure program, more than half a million taxpayers have voluntarily disclosed more than \$ 37 billion in revenue and wealth, hidden from tax authorities. Of course, this is only the first step, more cooperation is needed in terms of data exchange between countries.

The advantages of tax districts such as: simple establishment of a company, minimum or zero tax payments, economic and political security and high discretion are often misused, and it should be noted that the use of tax systems is not only used for legal purposes, but for some much darker purposes. Terrorist organizations use a number of "advantages" of tax havens to finance their activities. The use of fictitious companies or offshore trust companies to protect the true identity of the entity or entity involved in the financing of terrorism constitutes a difficult problem for those institutions that attempt to regulate business transactions. Terrorists are skillfully used to businesses registered in tax havens that serve them as a "wall" for committing a number of criminal acts, fraud and the transfer of cash to individuals or entities in other countries that expect this payment to commit terrorist attacks. There are numerous examples of al-Qaeda and other terrorist groups that participated in that. Of course, since this is a large amount of money kept in tax havens (forecasts are in trillions of US dollars) it is difficult to follow all the financial activities of tax havens because of their secrecy policy.

Money laundering, and within it, the financing of terrorism represents two extremely negative phenomena that leave behind many social hazards. The first time they were connected was after the attack on the World Trade Center on September 11, 2001. Since then, the world has been continuously fighting, in the form of legal regulations and supervision applied in the financial systems of most countries, including Serbia.

Money launderers and terrorist financiers use a number of legal shortcomings and ineffectiveness of legal order in order to carry out a number of malware and in this way provide for themselves a property benefit. In order for terrorists to organize a terrorist attack, they need financial means. The biggest problem that arises in this situation is how to get money and how to make his safe transfer. Given that such attacks require a lot of costs, in the people, what in the equipment, they come to the law in a legal way ("membership fees", "donations"), illegal way (drug trafficking, slave trade, kidnapping, theft, fraud, prostitution, extortion, smuggling), or with the financial support of a particular state. When they provide this "dirty" money they look for a way to "wash" it and safely transfer it to the desired location. Methods used

by terrorist groups for washing “dirty” money are often used by organized criminal groups. The only thing that makes terrorist groups different from criminal ones is their ultimate motive. Criminals are interested in material gain while terrorists do not have such tendencies. Their ultimate motive is an attack on people who identify themselves as victims in an avalanche battle against their states.

After September 11, 2001, the world looked at this problem differently. Many Conventions, Directives, Laws, Recommendations have been adopted (of which the most important are: Forty Recommendations of the Financial Action Group as a global framework for combating money laundering and financing of terrorism). The biggest problem with these measures was their implementation. Before the attacks on the US, the implementation of measures related to these issues was at the national level, which created a lot of difficulties. Today, establishing international cooperation and faster exchange of information between countries (financial intelligence units) leads to a faster and more efficient resolution of these issues. Of course, all this is still insufficient, because in addition to the competent institutions, it is necessary to involve citizens in this fight and thus to create a unique system in the struggle for peace and stability of the planet.

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