

Phenomenon of money laundering as threat to development of financial systems of CEE countries (case study of Poland)

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Abstract

The inclusion of Poland and other CEE countries into the process of the European integration combined with liberalization of commodity and service turnover as well as a free flow of technology, people and, above all, capital have had a stimulating effect on the development of financial systems in these countries. Nevertheless, all these factors also create opportunities for various businesses to use different elements of the systems in conducting some criminal activity and related to it money laundering. The development of the phenomenon of money laundering is mainly facilitated by differences existing between legal and financial systems of particular CEE countries and international standards as well as by achievements of the scientific and technological revolution. The commonness of a fast and efficient information transfer combined with an unlimited possibility of global travelling brings about a situation where money laundering assumes new and more refined forms. Therefore, the harmfulness of the phenomenon can neither be treated as a one-facet problem nor considered in isolation from other elements of an economic and financial pathology. Money laundering can pose a serious threat both to individual institutions and all market mechanisms on a regional and global scale. In this paper, author analyse phenomenon of money laundering, its nature and evolution as well as mechanisms of its development, factors contributory to the process of money laundering in the modern economy and threat posed by the phenomenon to the functioning of financial institutions in Poland, CEE countries and the whole world economy.

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Introduction

The financial sector is one of the most important elements of a socio-economic system of every country. Its significance and great complexity are revealed in the fact that the system constitutes a mechanism which ensures provision of services indispensable for the “circulation” of purchasing power in the economy. Hence, thanks to the financial system, non-financial business entities (companies and households) can participate in the creation of money and money can be freely transferred between them.

The fast crystallization of mechanisms of the market economy in post-communist countries of Central and Eastern Europe, including Poland, has been closely related to substantial changes occurring in financial systems of these countries. Within the last few years the structure, function and effectiveness of the financial institutions of CEE states have undergone radical transformations. Poland is a country where foreign investments have made their particular presence. On the one hand, the investments take the form of buyouts of already-existing financial institutions; on the other hand, new financial entities are being opened including foreign banks, insurance companies, or previously unknown institutions like

investment or pension funds, leasing companies and financial brokerage agencies. All these changes have been positively destabilizing the market where competition between national and foreign businesses is becoming more intense.

The inclusion of Poland and other CEE countries into the process of the European integration combined with liberalization of commodity and service turnover as well as a free flow of technology, people and, above all, capital have had a stimulating effect on the development of financial systems in these countries. Nevertheless, all these factors also create opportunities for various businesses to use different elements of the systems in conducting some criminal activity and related to it money laundering. The development of the phenomenon of money laundering is mainly facilitated by differences existing between legal and financial systems of particular CEE countries and international standards as well as by achievements of the scientific and technological revolution. The commonness of a fast and efficient information transfer combined with an unlimited possibility of global travelling brings about a situation where money laundering assumes new and more refined forms. Therefore, the harmfulness of the phenomenon can neither be treated as a one-facet problem nor considered in isolation from other elements of an economic and financial pathology. Money laundering can pose a serious threat both to individual institutions and all market mechanisms on a regional and global scale.

1. Money laundering – evolution and characteristics

Money laundering appeared for the first time in the twenties of the previous century in the United States of America. The phenomenon did not appear in the course of the evolution of crimes and transgressions of economic nature, but occurred as a new type of criminal activity which evolved together with the development of modern organized crime. High proceeds from illegal business and criminal operations, as well as threats following the investigation process against Alphonse Capone¹ forced the elites of the criminal world to legalize illicit funds (Bartosiak 2003, p. 16). The eighty-year-old history of money laundering, the history of an invasive character, can be divided into two stages of development. The first stage is characterized by the use of simple methods of funds legalization.² In the second stage of its development, money laundering evolved into specialized international criminal activity organized in a regular business defined as “full-time criminals” (Lerbell 1978, p. 68).

The main direction of the phenomenon evolution has been influenced by existing correlations between:

- a) the process of transformation of small local criminal groups into organizations of a regional range, as well as the transposition of some of the groups into organizations of a distinct organizational structure,
- b) fast-developing professional methods of activity of criminal groups,
- c) new fields and areas of interest of criminal circles and new possibilities provided by ongoing geopolitical changes,
- d) achievements of the scientific-technical revolution.

¹ Al. Capone, the founder of a modern criminal organization whose activity involved corruption of politicians and police representatives, extortions, illegal gambling, and management of brothels. The gigantic annual proceeds of 60 mln dollars of that time (at present it equals about 2 billion dollars) were gained through illegal alcohol trafficking in the whole area of the State of Illinois. Al Capone was sentenced to 10 years in prison for evading tax on winnings gained in an illegal casino.

² Al. Capone bought a chain of city laundries and introduced illegal money into the legal circulation through fictitious proceeds from fictitious services.

The legalization of big sums of money has become a necessity for members of criminal groups, as it is the “laundered” money that can ensure the “consumption of fruits” of criminal activity and guarantees its further development. Illegal funds come from two main sources of criminal activities:

- 1) traditional activities,³
- 2) activities which evolved with new trends, as a consequence of system transformations of Central and Eastern Europe countries and a new process of international integration within the European Europe.

Traditional offences and crimes which constitute a source of illegal funds comprise:

- 1) All types of drug crimes.
- 2) Tax frauds.
- 3) Customs crimes.
- 4) Arms trading, especially nuclear materials.
- 5) Organized prostitution including children prostitution and procurements.
- 6) International terrorism and contract murders.
- 7) Extortions and ransoms.
- 8) Trading children, women and life body organs.
- 9) Forgery of money, securities and personal documents.
- 10) Theft, smuggling and fencing stolen arts, antiques and luxury items.
- 11) Illegal transfer of people over international borders.
- 12) Production and trading of illegal software and counterfeited CDs and DVDs.

The second group of crimes which have been evoked by geopolitical changes comprises:

- 1) Activities directly related to business and financial operations in the field of privatization being part of a system transformation of CEE countries.
- 2) Frauds connected with a structural policy, particularly the embezzlement of the EU funds (Jasinski 2002, p. 12).

The process of money laundering consists in the introduction of means of payment, securities or other currencies of unknown origin into the legal circulation (Pracki 1995, p. 45). The executive activities may differentiate depending on the country where the money is laundered and on the profile of criminal activity. Nevertheless, these activities are always subjected to goals which can guarantee effective legalization of financial means:

- 1) hiding a real source of funds and identity of their owner,
- 2) constant supervision and necessary safety of illegal money in the process of its legalization.
- 3) legalization of illegal proceeds through their introduction into the official financial system.

The process of money laundering has been based on a three-stage model (Gilmore 1999, p. 36) for the sake of a precise description of stages, characteristic features and rules of the process functioning. Thanks to this, it is possible to define the areas of operational activities of money laundering, and, above all, to expose the weak points of the mechanism whereby the probability of identifying suspicious financial operations is bigger.

³ The name is justified historically through crimes of primary nature.

Table 1. Stages and main objectives of the process of money laundering

Stages of the process	Main objectives of the stages of a classic process of money laundering
Placement	Disposal of illegal money through: <ul style="list-style-type: none"> - purchase of luxury items or real estate - purchase of financial instruments - different forms of deposits with financial institutions
Layering	Separation of illegal money from the source of its origin through: <ul style="list-style-type: none"> - purchase of short-term deposits, - very frequent financial operations , - artificial extension of the duration of financial transactions.
Integration	The introduction of illegal money into the legal circulation through assimilation of the illegal and legal funds.

Source: Author's elaboration based on Wasowski and Wasowski 2001, p. 16 and Bilmore 1999, p. 19.

The revealed and examined cases of the legalization of illicit funds show that the process of money laundering can be conducted with the omission of particular stages,⁴ the stages may exist simultaneously or else they may overlap (Gilmore 1999, p. 37). Nevertheless, the executive activities always demonstrate the following features:

- 1) Complex forms of operational activities.
- 2) The use of a perfect camouflage.
- 3) Character of participants of the process.
- 4) The main objective of the operation.
- 5) A cross-border strategy of the operation.

In view of the growing importance of globalization of the world economy, the cross-border character of the process of money laundering is gaining still more significance. The international character of money laundering is presented in Table 2.

Table 2. Characteristic features of the process of money laundering

No	Characteristics of crime defined as a business
1.	Complex forms of operational activities are characterized by high adaptability to a dynamic changes occurring in the environment and by high flexibility of functioning, which is developed through the use of the most recent technological and scientific achievements. All this is reinforced by extremely strict internal discipline within criminal organizations.
2.	The use of a perfect camouflage - refined appearances of a legal operation.
3.	The character of the process participants. These are not "people from a social margin" but "high-class specialists in banking and law whose activities are supported by state legislators.
4.	The main objective of the operation; a cut-throat pursuit to maximize profits.
5.	A cross-border strategy of the operation pursued within the international criminal operation enables launderers to use all types of loopholes in order to facilitate the concealment of illegal funds and their origin.

⁴ The omission of the first stage may occur due to:

1. Lack of possibility of purchasing financial assets: shares, bonds, banker's and traveller's cheques.
2. The use of deposit services provided by banks and deposit institutions "...exceptional attractiveness of deposit institutions for criminal groups as a result of a wide range of services which give "launderers" a possibility to hide deposits and legitimize incomes, in other words, to launder money through the second and third stage.

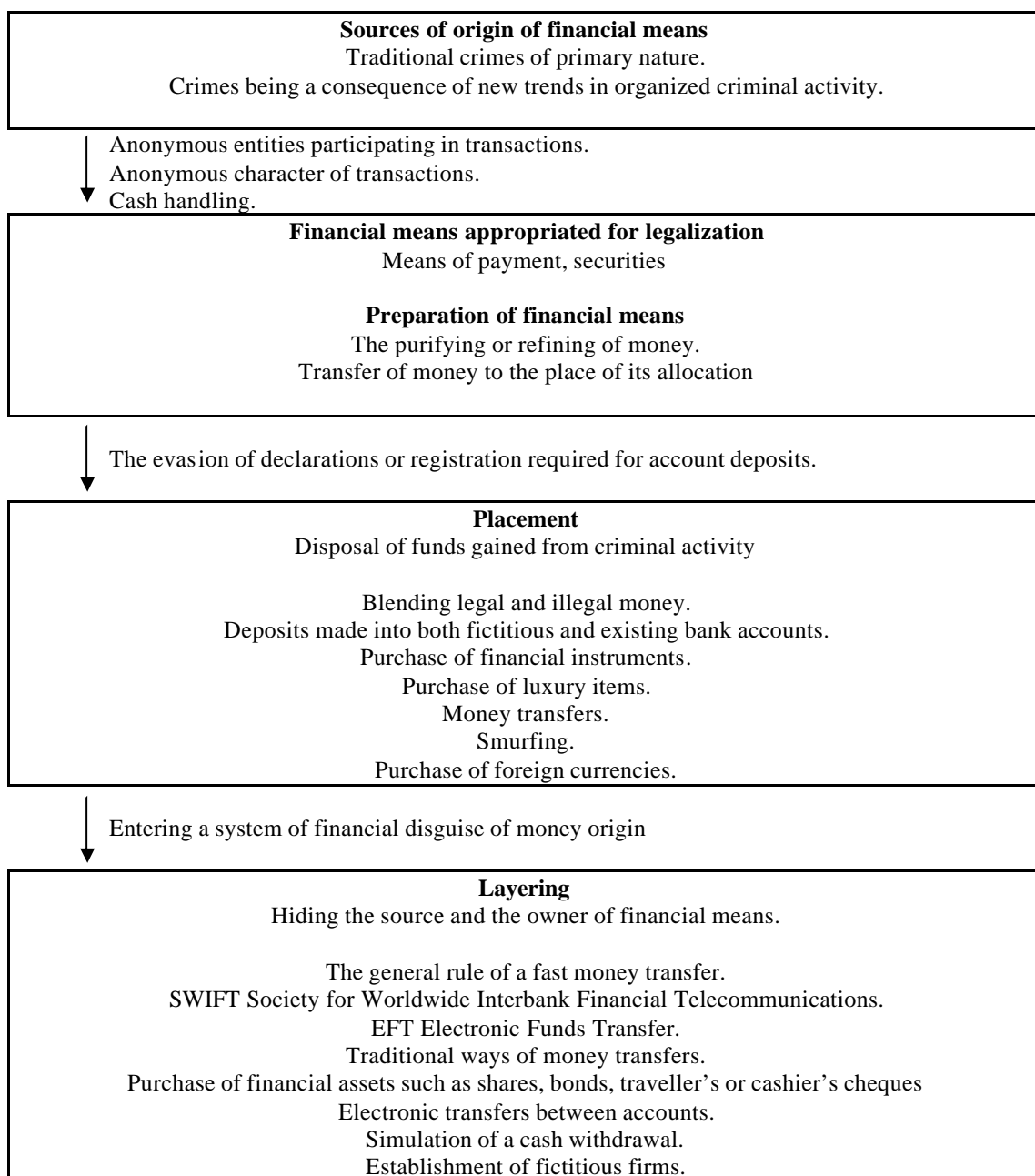
Source: Author's elaboration based on Lernell 1978, p. 28 and Jasinski 2002, p. 13.

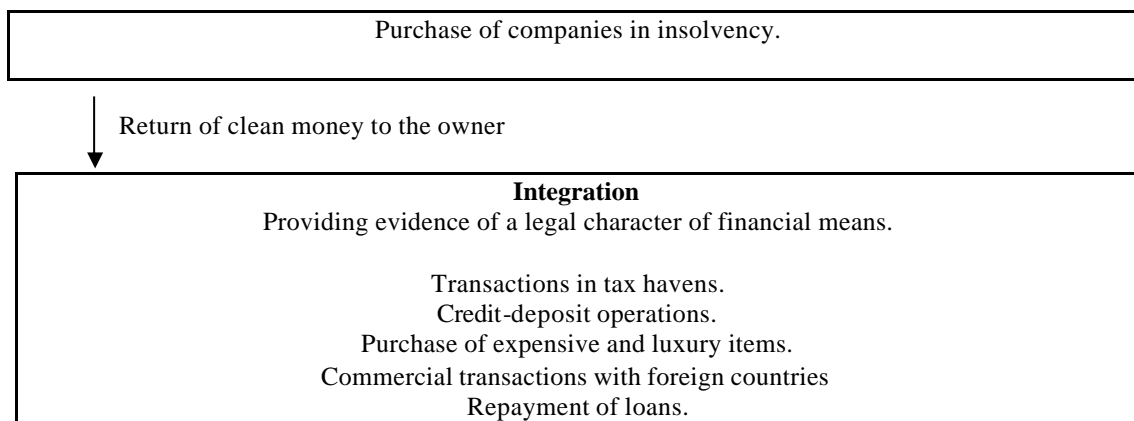
The high adaptability of the process participants to new geopolitical conditions and their ability to use scientific and technological achievements contributes to the development of natural mechanisms which facilitate further evolution of money laundering.

2. The model of money laundering process

In order to precisely define the nature of particular stages of the process and the existing relations between them, the model has been presented in a block diagram as in Figure 1.

Figure 1. The classic process of money laundering





Source: Author's elaboration based on Gilmore 1999, p. 24.

The process of money laundering is directly preceded by activities which aim at the adjustment of the money denomination to the most favourable value defined by one of the two procedures of further conduct:

- 1) The provision of funds to the place where attempts are made to introduce the funds into the banking system.
- 2) Placement – the first stage of the classic model of money laundering.

The provision consists in the transfer of illegal money from the place of illicit income to the place of money laundering. These are often tax havens where the focus is put on discretion and anonymity, regulations allow for cash deposits and the money exchange is not subject to monitoring. The provision is most frequently made through:

- 1) A physical transfer of money.
- 2) The change of money into luxury items which are most frequently sold at cut prices after transportation.

The main objective of activities undertaken within the first stage of money laundering, referred to as placement, is the introduction of means of payment into the financial system by virtue of three types of operations:

- 1) Physical deposits into accounts (transaction structuring).
- 2) Deposits made into accounts through smurfing (smurfing).
- 3) Blending legal and illegal money (blending).

Physical deposits made into accounts (a proper definition of transaction structuring) consist in making various financial operations at the stage of placement. Deposits are made into all types of accounts, including fictitious accounts of non-existent companies, organizations and natural persons. This method, however, is restricted by the obligation to identify the ordering party of an operation and to register transactions over the equivalent value of 15,000 euros. In order to evade the obligation, combined transactions are used, where series of deposits below a certain regulatory cash limit are made into definite accounts. Thus, the accumulated funds are wired into collective accounts (Kowalski 2001, p. 15).

“Smurfing” is a form of a physical deposit and constitutes one of the safest, the most developed and the best organized technique of money laundering. It is also the most difficult to divulge, but at the same time very laborious and time-consuming. The method is used on all continents, especially in Asia and Europe. “Smurfing” involves splitting and distributing illicit money among “smurfs” who either pay the money into bank accounts below some limit sum or buy traveller's cheques.

“Blending”, in other words mixing illicit money with legal funds, constitutes the oldest and the simplest method of money laundering at the placement stage. The blending of financial means is performed within three methods:

- 1) Supporting criminal activity.
- 2) Company takeovers.
- 3) Cooperation defined by terms and provisions stipulated in the agreement between the management of a company and leaders of a criminal group.

The method of blending illicit funds with legal proceeds of service companies, where cash flow (turnover) is very big and its volume is hard to estimate by law enforcement agencies, is defined as “supporting criminal activity”. If a company belongs to a criminal organization, it serves an extra function of an official place of employment for members of such an organization. The history of money laundering has witnessed cases where contracts were signed between owners of companies and organizers of the process of money laundering. Such indicative data as high turnovers and due settlement of VAT and income taxes have made the procedure extremely safe. Only sudden appearance of big volume turnovers, which are incompatible with the company’s size and potential, and an in-depth analysis of the company’s business activity may raise some suspicions which are, however, extremely difficult to confirm (Czajkowski 2002, p. 24).

The main objective of undertaken activities within the second stage of money laundering, referred to as layering, is the separation of funds from a source of their origin. This is achieved through various fast banking operations. The duration and number of performed transactions are subjective and launderers must be absolutely sure that the establishment of a real source of money origin is not feasible. In order to achieve this, the following methods are employed:

1. Fast transfers with the use of electronic tools:
 - a) SWIFT (Society for Worldwide Interbank Financial Telecommunication),
 - b) EFT (Electronic Funds Transfer) and traditional methods of money transfer.
2. The purchase of financial assets and the change of their form.
3. Setting up fictitious companies - even for one financial transaction.

Very fast performance of electronic orders and easy access to SWIFT and EFT make these tools perfect for layering interdepartmental, inter-bank and international operations with a simultaneous change of their name and owner (Wójcik 2002, p. 11).

Another method of money laundering at the stage of layering involves the purchase of financial assets which could not be bought in the previous stage. In this case the separation of illicit funds from their source occurs at the moment of purchase or during the change of a deposit form. Every restructuring of invested capital poses a threat of capital loss or its value change. The process of money laundering also employs a method which involves setting up fictitious companies or saving insolvent businesses whose accounts are used to conduct previously discussed activities (Zadworny 2002, p. 9).

The main objective of activities at the stage of integration is to legitimize both the criminals’ wealth and their high incomes. This is achieved through the introduction of both illegal and legal money into the joint circulation by means of the following methods:

- 1) Purchase and sale of luxury items and tangibles.
- 2) Repayment of loans.
- 3) Saving companies in bankruptcy.
- 4) Foreign trade transactions and transactions using transfer prices.
- 5) Credit-deposit activity (Gilmore 1999, p. 51).

The mechanism of money laundering through the purchase and sale of luxury items and tangible assets below the market price works in the following way: the payment of financial liabilities resulted from the purchase is effected from two sources:

- 1) the legal source with respect to the official price defined by the purchase-sale agreement.
- 2) the illegal source, with respect to the difference between the market price and the prices stipulated in the agreement (Fijalek 2001, p. 11).

The sale legalizes and justifies the profit. The method engages all kinds of real estate agencies as well as companies involved in selling means of transport, even without their knowledge of the game which they are part of. The repayment of loans with illicit funds is another method of money laundering at the stage of integration. The means obtained from the loan are proved legal, whereas the repayment is effected with funds from secret sources. The method is extremely effective and difficult to reveal, particularly when institutions applying for a loan are managed or controlled by criminal groups.

Another technique of money laundering at the integration stage consists in the introduction of financial means from a criminal activity into an insolvent company with an apparent intention of saving it. The procedure is facilitated by some attitudes of managers who are in charge of an insolvent company or its assets. They usually do not scrutinize the origin of saving funds, or else deliberately enable their legalization (Zadworny 2002, p. 23).

Some other methods of money laundering at the integration stage comprise international commercial transactions which use:

- 1) Double sources of import financing.
- 2) Manipulative changes of prices of imported goods.
- 3) Deliberate and planned lack of correspondence of a declared value and volume of imported goods to the market price and volume of goods delivered by the exporter (Matusz 2002, p. 10).

Such actions allow for the manipulation of customs duties whose lowered value is a decisive factor during the identification of suspicious transactions.

The technique of a double source of financing involves the introduction of illegal money into the circulation at the stage of payment for imported goods. This is performed by means of two sources of money:

- 1) The legal source, used to pay for imported goods at reduced prices according to invoices.
- 2) The illegal source, used to pay the difference resulted from a real value of imported goods and the legal payment (Kesicka 1993, p. 16).

The method of transfer price manipulation is based on a deliberate change of the price value and most frequently constitutes one of the elements of wider-range criminal activities. The planned change of transfer prices and the use of differences in particular areas of taxation, which are obligatory for both importers and exporters, lead to the development of informal financial relations between institutions participating in the process. The relations are of informal and mutual character, and their existence is known exclusively to the authors of the process. All this ensures an increase of the value of illegitimate money transfer by means of higher and lower taxation within:

- 1) Mutual provision of fictitious services.
- 2) Fictitious complaints concerning quality of a product or service.
- 3) Licence fees (Matusz 2002, p. 12).

The credit-deposit method of funds legalization at the stage of integration involves the use of illicit money as long-term deposits or low-interest loans. Illegal money deposited mainly with foreign banks in the form of long-term deposits constitutes a perfect security or a source of repayment of a loan granted mostly in a home country. The second element of the strategy comprises granting long-term and low-interest loans either by institutions participating in money laundering or directly by criminal groups. The borrowers are companies which have been denied credit facilities by other banks due to lack of credibility with respect to sources of loan repayment and to their financial and economic standing.

Money laundering is a process comprising a series of financial activities undertaken by the same “work group” and for the same reasons, expressed through repeated correlations and producing definite socio-economic results. The authors of the process are top specialists in banking and vast areas of law who aim at creating more effective and better concealed methods of money legalization. Hence, it can be presumed that there exist other, so-far undiscovered methods reaching beyond the popular techniques of money laundering.

3. Factors stimulating the process of money laundering

The development of the international process of money laundering as a specialized area of organized criminal activity is fostered by the following factors:

- 1) Different legal and financial systems of states or state unions.
- 2) The role of progress being a result of the scientific-technical revolution initiated in the second half of the previous century.

Differences between financial and legal systems of countries and international standards are the most significant factor stimulating the process of money laundering. The differences refer to four areas of the systems:

- 1) Competition – liberalization of regulations with respect to tax and banking law through implementation of governmental programmes concerning the creation of favourable conditions for entrepreneurship.
- 2) Legislation – lack of uniform international legal and financial standards with respect to: what is banned and what is allowed in a country.
- 3) Prevention – lack of international cooperation of specialized national law enforcement agencies with respect to continuation of prosecution of transgressions and crimes committed abroad.
- 4) Jurisdiction – the application of the principle of territory, which hinders effective adjudication also with respect to some organized crime including money laundering (Bojarski 2001, p. 64).

The deliberate exploitation of the above-presented differences by state governments contributes to the creation of tax havens whose numerous sophisticated legal and economic mechanisms open the way to the development of private enterprises. The liberalization of tax regulations and lack of bureaucratic management barriers attract foreign investors who foster economic development through commercial and investment operations. All this leads to the establishment of agencies of specialized law and auditing companies, as well as world banks and insurance companies. The agencies, which represent transnational organizations managing multibillion deposits, offer the most sophisticated financial services and, at the same time, ensure total anonymity of participants of banking operations and discretion of conducted transactions. The nineties of the 20th century witnessed the greatest boom

of tax havens. Business operations which intend to open their activity in tax havens or are already present on their territory are offered competences such as:

- 1) Tax savings - people who run their own legal business can be relieved from any forms of taxation.
- 2) Discretion and anonymity - most institutions rendering financial services conform to the legal norm according to which any disclosure of information about owners of a company is deemed a penal act.
- 3) Protection of assets - majority of jurisdictions of tax havens has many legal norms protecting company assets or owners. Any court executions or verdicts passed by organs of other jurisdictions are subject to objection (Niklewicz 2002, p. 19).

Whatever their geographical locations, tax haven share the same characteristic features.

Table 3. Features of tax haven share

Feature	Structure of the feature
Liberalization of banking law	Liberal regulations with respect to the banking law enable anonymous bank account openings. Banks of Luxemburg, for example, accept cash deposits without asking any questions, which is unthinkable in other countries of the European Union. The authorities argue that similar regulations are obligatory in the competitive Switzerland, and as long as they are in force there, Luxemburg will not change its own regulations.
The change of interest taxation into fees and taxes of a symbolic value.	Tax savings are a consequence of the following facilities: <ol style="list-style-type: none"> 1. Payment of small administrative charges. 2. The change of all kinds of interest taxes such as profit tax, capital tax, capital transfer tax, inheritance or vat tax into lump-sum tax.
Strict banking secrecy	Within the cooperation with the judiciary, the disclosure of the banking secret is restricted; the secret can be revealed in the case of the most serious crimes.
The guarantee of security	Tax havens are located in areas which are free of military operations and in the vicinity of big markets. They are characterized by great economic and political stability of an economic region or a country.
Excellent technical facilities	Excellent technical facilities enable to carry our transactions by means of the most advanced tools. Tax havens have excellent transport infrastructure including air connections with the most strategic places of the world.
Favourable law regulations for launderers of dirty money	The law regulations are so designed as to protect and obtain capital. The authorities consciously allow for regulations conducive to money laundering. In 1962 president Charles de Gaulle threatened to deprive Monaco of water and electricity and imposed customs union on the principality. In 2000 Monaco was threatened again with legal sanctions by the French Ministry of Finance.

Source: Author's elaboration based on Wasowski and Wasowski 2001, p.22 and Wotava 2000, p. 20,

According to experts of International Monetary Fund, tax havens manage the deposit sum of over 5 thousand million dollars, which is half of the funds invested outside the states of the funds origin. It has been estimated that due to the existence of tax havens the third part of incomes of the global economy is not taxed. This does not mean, however, that tax havens are popular exclusively with criminal groups, as they provide a good place of investment for international corporations and people of high incomes, who want to optimize their tax expenses within legal regulations. Special Economic Zones created in Poland in order to attract foreign investors are also some

kind of substitute for tax havens. Under the amendment of tax regulations of the year 2000, the Minister of Finance issued the order which classifies tax havens into:

- 1) Countries and territories recognized as tax havens due to their harmful competitive taxation.
- 2) Countries and territories considered tax havens with respect to transactions carried out within administrative services and other non-material services.
- 3) Countries and territories regarded as tax havens due to services of a financial character (Koscinski 1996, p. 18).

The aim of the published order was to help tax offices deal with income tax issues concerning personal and corporate income tax payers who cooperate with businesses registered in tax havens.

The achievements of the scientific-technical revolution have stimulated the dynamic development of tools and technological means used to conduct criminal activity. The commonness of a fast and efficient information transfer combined with unlimited possibilities of global travelling has contributed to the emergence of cross-border organized crime. Electronic systems of money transfer have made money laundering an anonymous process, which is very difficult to identify. The phenomenon of legislative inertia has become a serious problem requiring some solutions in order to effectively prevent the process of money laundering. There are still no sufficient legal regulations concerning the issuance, circulation and purchase of electronic money (Wasowski and Wasowski 2001, p. 47), which is a virtual record on special SVC cards or on computer hard discs. According to the Bank of International Clearing in Basel, the electronic money should be “an untraceable and anonymous payment instrument to the bearer, allowing for an easy payment made to another person in any conditions and without participation of intermediary institutions.” The use of SVC cards with the microprocessor opens new possibilities for money launderers such as: payment for services and goods, transfer of money between accounts anywhere in the world and change of the money into classic means of payment without leaving any accounting trace. Unlike on-line transactions, the off-line ones preserve the anonymity of trading partners. In such cases the electronic money is usually issued for one transaction only. The so-far attempts of supervising the cyberspace have failed due to two reasons:

- 1) Technical limitations – the computing power of monitoring systems. According to some estimation by Interpol, the number of international transactions per day amounts to 70,000 and their total value equals 2 thousand million US dollars.
- 2) A protest of cyberspace users – an attack on the Internet users’ freedom (Koscielniak 1999, p. 11).

According to Bill Gates, the situation is dramatic, as the development of Internet techniques have annihilated the 25 year-old efforts of counteracting money laundering. The modern tools provided by the achievements of the scientific-technical revolution and the processes of the international integration have created possibility areas for organized crime.

4. The influence of money laundering upon modern economic and financial systems

It is impossible to provide an explicit definition of the negative influence of money laundering on banking systems and market mechanisms, as the processes of funds legalization are one of the integral elements of organized criminal activity. No part of a finely created construction of organized crime, perfectly working in intricate

mechanisms of the market games, can function in isolation. The neutralization of at least one link of the relation chain of illegal operational activities will precipitate its failure. The denial of access to the consumption of illegitimate goods can render informal businesses insolvent, and thus cause their natural disappearance. Even a perfunctory analysis of the events in Columbia supports the thesis that the harmful influence of money laundering cannot be considered in isolation from other component pathologies of economic-financial character. The process of money laundering should be treated as a very serious threat to banking systems and market mechanisms on the macro-regional and global scale, especially when one takes into consideration the goals of organized criminal groups, the strategic significance of money laundering and the methods of its achievement.

Table 4. The influence of money laundering on modern economic and financial systems

Area of influence	Range of influence			Structure of the area of influence
	micro	region	glob	
Corruption	yes	yes	yes	Corruption of politicians, state executives and bankers who are decision makers in the management of businesses functioning in the interest area of organized crime. Such a state of affairs provokes negative opinions and undermines credibility of state banking and financial systems.
Financial policy		yes		Lack of stabilization of a monetary system caused by unbalanced liabilities and bad assets structure, which may lead to system crises.
		yes		Unstable foreign currency and interest rates caused by sudden and short-term international money transfers.
		yes		Unexpected changes in money demand.
	yes			A risk of undermining the bank stability.
			yes	Erroneous capital allocation in global terms decreasing the value of a global product.
Rules of fair competition		yes	yes	The infringement of fair competition rules. Whatever the costs, the safe turnover of illicit funds is of prior importance to operational activities of money laundering. The infringement leads to market dominance and may give rise to a partial monopoly of laundering companies.
		yes		The disturbance of balance of goods and real estate prices causes market destabilization through a deliberate price change by applying one of money laundering methods.
		Yes		The negative influence on people's motivation to conduct a legal business activity in view of competition from secret and informal businesses which are not subject to any charges and duties in favour of the state and their personnel.
Fiscal policy		yes		Mistakes in the formulation of a fiscal policy caused by the use of erroneous statistical macroeconomic parameters.
		yes		A wrong fiscal policy demonstrated through ineffective tax collection from business enterprises, which results in wrong allocation of public expenditure.

Source: Author's individual elaboration based on Wasowski and Wasowski 2001, p. 22 and Wójcik 1997, p. 4.

The feedback between the closest environment of the process of money laundering and the process itself consists in stimulating the process in the first stage of

the relation and counteracting it through defensive mechanisms in the second one. A full definition of the feedback “paradox” requires some assessment of the process in three topic areas:

- 1) As a new mechanism which developed at the beginning of the 20th century, and which was not a consequence of the evolution of criminal activity. The mechanism was subject to transformations evoked by achievements of the scientific-technical revolution.
- 2) As a mechanism of appropriation defined through the infringement of narrow boundaries of lawful properties established by the socio-economic system.
- 3) Creation of new ethical and moral attitudes as a consequence of evolution of long-term development of the European cultural heritage (Jackson 2004, p. 173).

The human behaviour, which is determined by the process of evolution from the collecting era to the era of globalization, has been always expressed by a conflict between duties to the society and people’s individual needs. Money laundering as a process of the European heritage development requires some assessment with respect to:

- 1) Laws in force.
- 2) Motivation and justification of the human behaviour.

This assessment should be made right at the turn of the centuries and at the moment of socio-geopolitical changes which are expressed through long-term trends characterized by revaluation.

Conclusions

The following paper, like many others, is not able to provide an objective and statistical presentation of the role and significance of particular factors stimulating the expansion and evolution of the process. This is due to the following reasons:

- 1) An interdisciplinary character of the research problems.
- 2) A short period of global and social recognition of the phenomenon as a threat to national and international systems.

Therefore, the following paper unit has focused on the presentation of the feedback nature in the following areas:

- 1) The influence of the scientific-technical revolution on the evolution of money laundering.
- 2) The role and importance of the interstate tax competition in the evolution of funds legalization.
- 3) Threats posed by the process of money laundering to economic systems.
- 4) The concept range of the feedback assessment.

The achievement of the concept uniformity of international standards and regulations of organizational-legal systems of countries is an absolute necessity for the development and implementation of an effective system of preventing money laundering with respect to cooperation of specialized institutions with the administration of justice. The turning point in the Polish system of combating the process of money laundering was marked by the adoption of law preventing the introduction of money from illegal or unknown sources into the official circulation. The law constitutes a basis for the legal and organizational system with regard to counteracting legalization of financial means. The system is composed of consistent penal, banking law and cautionary norms. One of the elements of the money laundering prevention system is effective functioning of the financial intelligence unit - the General Inspector of Financial Information –under the supervision of the Vice-

Minister of Finance. The Inspector is responsible for obtaining, collecting, processing and analyzing information, as well as undertaking activities which prevent the introduction of illicit funds into the legal circulation. The unit controllers, who act on behalf of the General Inspector of Financial Information, monitor the proper application of procedures referring to:

- a) registration of financial operations under official regulations,
- b) disclosure of information about suspicious transactions.

The process of monitoring is also conducted by institutions empowered by law to carry out such activities within the supervision of the obliged institutions.

In order to prevent the concealment of criminal sources of property means in other economic areas and to foil legalization of the means, some other institutions have been obliged to strictly cooperate with the General Inspector of Financial Information. They include:

- a) state and local administrative units,
- b) tax and customs offices, customs inspection agencies,
- c) the public prosecutor's office and the Office for State Protection

The cooperation between the institutions involves reporting suspicions about introduction of funds of illegal or unknown origin into the official circulation and informing about pending lawsuits of financial crimes. The information from a reliable database of the financial intelligence unit is made available within the following four procedures:

- a) it is accessed automatically, in case of a confirmed suspicion of a crime referred to in position 299 of the penal code,
- b) it is supplied at the official request,
- c) it can be supplied at the official request,
- d) it is disclosed on one's own initiative.

In case of a confirmed suspicion of money laundering, the General Inspector of Financial Information is obliged to reveal the information to the public prosecutor's office in order to commence penal proceedings. With regard to the second procedure, the information is made available at the official request of:

- a) Head of the Office for State Protection or his/her deputy – in order to exercise legislative competence,
- b) Minister of Internal Affairs – in order to exercise the legislative competence.

The third procedure is mainly addressed to:

- a) Directors of tax chambers and tax offices - only in matters concerning tax duties,
- b) the General Customs Inspectorate – only with respect to counteracting crimes and transgressions within international trading,
- c) President of the Supreme Chamber of Control – with respect to the controlling process,
- d) Head of Military Information Services – in order to exercise legislative tasks,
- e) Managers of the "obliged" institutions.

The law of 11 November 2000 not only provided modern and EU compliant regulations concerning the problem of money laundering, but also initiated the process of law adjustment in the following areas:

- a) the protection of database
- b) insurance activity
- c) law on public turnover of securities
- d) banking law
- e) notary public law
- f) law on games and mutual wagering

g) the penal code providing regulations concerning the crime of money laundering.

The law also regulates the liability of the personnel of financial institutions with regard to improper registration and filing of transactions. It is noteworthy that the organisational and technical support provided by a strategic programme of money laundering prevention is indispensable for the performance of professional teams using the help of specialized institutes. The support involves:

- 1) The international exchange of experience.
- 2) Modern technical equipment.
- 3) Current legal norms.

Summarising the paper should be underline that it is impossible to define explicitly the negative influence of money laundering on the functioning of particular financial institutions and on the market mechanism in a regional and global dimension. It is presumed, however, that managers of financial institutions regard the legalization of illegal funds as a threat mainly to the global economy. In their opinion, the phenomenon leads predominantly to wrong allocation of capital in global terms and to the weakening of the effectiveness of the market mechanism. Hence, the presumption can be made that managers overlook the threats of money laundering to the functioning of market mechanisms or financial institutions on a regional scale. They deny the existence of the phenomenon in CEE countries and consider the so-far applied methods of counteracting the phenomenon to be sufficient.

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