

IS MONEY LAUNDERING THE MAIN FUNDING SOURCE FOR CIGARETTE SMUGGLING IN (NON) EUROPEAN COUNTRIES?

Rita REMEIKIENĖ^{1*}, Ligita GASPARĖNIENĖ², Özlem YORULMAZ³,
Greta GAGYTĖ⁴, Gabriela MENET⁵

^{1, 2}*Faculty of Law, Vilnius University, Vilnius, Lithuania*

³*Department of Econometrics, Faculty of Economics, Istanbul University, Istanbul, Turkey*

⁴*Faculty of Economics and Business, Mykolas Romeris University, Vilnius, Lithuania*

⁵*Department of Management, WSB University in Dąbrowa Górnicza, Poland*

Received 25 April 2021; accepted 7 January 2022

Abstract. Money laundering is the process of hiding or disguising the unlawful origin of property and hiding or disguising the true nature, origin, source, location, disposal, ownership or title of property. In other words, money laundering means “laundering” dirty money until it becomes clean. Corrupt officials and other criminals use money laundering techniques to hide the true nature of their income. Research shows that cigarette smuggling is linked to money laundering. The purpose of the article is to determine how money laundering is related to cigarette smuggling and which public authorities have a key role in combating these phenomena in Georgia and Serbia. Methods used in the study: literature analysis and focus group methodology. In addition, the EU member states were clustered into three categories by their HDI, CPI, GDP per capita and transaction reports indicators. Clustering indicated that the states attributed to the third cluster are most vulnerable to money laundering. An effective factor in the fight against smuggling is to increase the population’s intolerance to illicit goods and services, therefore, it will seek to extend the empirical study to the population’s perspective on money laundering and cigarette smuggling.

Keywords: money laundering, cigarette smuggling, focus group, Georgia, Serbia, clustering.

JEL Classification: H26, H29.

Introduction

Scientists who researched the phenomenon of the shadow economy (Remeikienė et al., 2018) did not pay sufficient attention to its types – cigarette smuggling and money laundering. Money laundering has become a global threat to the international stability and security, leading both to economic and social upheavals, and to an increase in terrorist threats (Levchenko et al., 2019, p. 492). Money laundering is one of the biggest obstacles to maintaining an efficient international financial system. Global phenomenon and international challenge – money laundering is a financial crime, often involving complex transaction cycles and multiple financial institutions in many foreign jurisdictions (Buchanan, 2004). The World Bank aims to help countries identify and respond to money laundering risks, with a strong focus on money laundering, including corruption, smuggling, tax evasion and organized crime. One of the World Bank’s goals is to help governments

develop systems to disclose assets to civil servants and protect them from money laundering. These efforts to create transparency and accountability also aim to ensure that clean public officials and businesses are recognized and that corruption and criminal sanctions are sanctioned (The World Bank, 2020).

Today, cigarette smuggling is widespread and well organized, posing a threat to public health. This threat arises in two main directions. First, smuggling makes cigarettes inexpensive, leading to an increase in consumption. One third of world exports goes to the smuggling market, which has a huge impact on consumption, increasing the burden of disease, especially in poorer countries. It also costs thousands of millions of dollars in lost tax revenue for the state treasury. Second, the tobacco industry is politically smuggling and lobbying governments to cut taxes, arguing that smuggling is caused by price differences (Joossens & Raw, 1998). Cigarette smuggling undermines

*Corresponding author. E-mail: rita.remeikiene@tf.vu.lt

politicians' efforts to curb smoking, while losing tax revenue. Policymakers around the world are trying better understand how to combat cigarette smuggling (Goel & Saunoris, 2018).

Countries with lower and middle incomes, such as Georgia and Serbia, lack research on tobacco smuggling and money laundering. Tobacco taxes are very important in reducing tobacco consumption and thus improving public health. However, the tobacco industry says tax increases will increase tobacco trafficking. Tax policy responds to tobacco control policy in Georgia due to the Framework Convention on Tobacco Control (FCTC) and the obligations of associate membership of the European Union. These taxes are a critical tool in reducing tobacco consumption and improving public health in Georgia (Little et al., 2018; Bakhturidze & Peikrishvili, 2019).

The main purpose of the article is to determine how money laundering is related to cigarette smuggling and which of the public authorities have a key role in combating these phenomena in Georgia and Serbia.

The following tasks are pursued: 1) to study the theoretical aspects of money laundering and smuggling; 2) to present methodology of the research; 3) to introduce the results of the empirical research on the links between money laundering and tobacco smuggling in Georgia and Serbia and results of clusterisation in EU countries. The methods of the research include systematic and comparative literature analysis and Focus group methodology.

1. Literature review

The history of the concept of money laundering is linked to the Great Depression in the United States in 1932–1935, when American criminals tried to legalize illegally acquired capital by buying laundries in Chicago and other cities. Illegally obtained money was recorded in the financial statements as laundry funds for services provided. This has become a convenient practice for criminals, as monitoring and controlling the provision of services is much more difficult than trafficking (United Nations Convention, 1998).

Money laundering conceals the illicit origin of criminal proceeds to make them appear legitimate. Money laundering does not in itself cause physical harm to an individual, as people simply use banking systems as a necessary commodity when laundering money through global financial institutions (Young, 2015). Nowadays, criminals are trying to find new ways to launder money in order to hide their illegal source of income, which has a significant impact on the economic development of the state. The process of money laundering is very important because it allows criminals to misuse profits without disclosing their source. There are many channels of profit from crime: arms trafficking, smuggling, and organized crime, including, for example, drug trafficking and prostitution (Karlov, 2018). The most worrying form of money laundering is corruption and organized crime. Corrupt public officials must be able to launder bribes, kidnappings, public funds and sometimes even development loans from international financial institutions.

Organized crime groups need to be able to launder the proceeds of drug trafficking and smuggling of goods (United Nations Office on Drugs and Crime, 2019). According to Hopton (2009), money laundering has traditionally been seen as a process by which criminals try to conceal the origin and ownership of the proceeds of their criminal activities. The goal is to give them the ability to stay in control of income and ultimately cover their income and assets. This has led people to believe that money laundering can be described in one of the following ways:

- Turn dirty money into clean money.
- Money laundering for drugs.
- Disguise the proceeds of crime.

According to the European Commission (2021), money laundering is the process by which criminal proceeds are “cleansed” in order to conceal their illicit origin. This is usually associated with the types of organized crime that generate huge net profits, such as drug, arms and human trafficking, and fraud. Although money laundering cannot be assessed as a legitimate economic activity, the scale of the problem is considered enormous.

Many governments have already developed comprehensive anti-money laundering regimes. These regimes aim to raise awareness of this phenomenon in both the governmental and private business sectors, and then to provide the necessary legal or regulatory tools to the authorities responsible for tackling the problem. Large-scale money laundering schemes always have cross-border elements. The International Money Laundering Task Force (GTF-AML) collaborates with money laundering prevention experts and organizations such as the Financial Action Task Force (FATF), the World Bank, the International Monetary Fund (IMF), the United Nations Office on Drugs and Crime (UNODC), Interpol, Transparency International. GTF-AML has developed an additional approach to combating money laundering, in particular corrupt money laundering, and encourages the use of practical tools and techniques to curb or arrest such activities. As money laundering is an international problem, international cooperation is needed to combat it. Numerous initiatives have been taken to address the problem at the international level (FATF, 2019).

International organizations such as the United Nations or the Bank for International Settlements took some initial steps to address the problem in the late 1980s. In 1989 with the creation of the FATF, regional groupings – the European Union, the Council of Europe, the Organization of American States, to name but a few – have set anti-money laundering standards for their member states. The Caribbean, Asia, Europe, and Southern Africa have established regional anti-money laundering task force-like organizations (FATF, 2019; Global Organization of Parliamentarians, 2020).

Smuggling and illicit distribution of cigarettes is a global phenomenon. This can be seen in one form or another on every continent, and there are several schemes spanning the world that connect such distant places as the secret Chinese factory that makes counterfeit cigarettes

and the streets of London where these cigarettes are eventually sold to consumers. Illegal trade in cigarettes is evasion of excise duties and customs duties. Excise duties are taxes levied on certain goods produced or sold domestically. Duties are applied to goods imported from another country (Natarajan, 2019).

Globalization and recent technological developments have allowed criminal networks to expand the scope of their operations and undermine the rule of law by exploiting loopholes in legislation. The smuggling of cigarettes and other tobacco-related products, as part of the global illicit trade, generates particularly high profits and is one of the best-selling products on the black market. It is a well-organized criminal activity in which experienced cross-border criminals continue to operate and thrive with high profits due to relatively easy production and movement (Southeast European Law Enforcement Center, 2019).

Cigarettes are one of the most legal “smuggled” goods in the world, and cigarette smuggling is a form of international organized crime. Also, the illicit trade in tobacco, including cigarettes, is linked to the financing of terrorist organizations. In some cases, smugglers trade in cigarettes and other illicit goods such as drugs, weapons, wholesale cash smuggling, stolen antiques, diamonds, and counterfeit goods. In many cases, criminals also engage in identity theft, money laundering and large-scale smuggling of cash in order to continue operating in illegal businesses or to exploit illegal profits.

Every year, huge sums of money come from illegal activities such as drugs, racketeering, child abduction, gambling, the purchase of women and children, smuggling and armed robbery. These illicit funds require a process called money laundering to make it look legally received and usable. Behind the concept of money laundering lies a number of criminal acts aimed at making a profit for the person or group who engages in that act. Criminals do this by hiding sources, changing their form, or moving funds from their place of origin to another place to get less attention. These activities allow the offender to use these profits without compromising their source (Sarigül, 2013).

Cigarettes are one of the most taxed commodities and are a significant source of revenue for governments. Although the level of taxation varies from jurisdiction to jurisdiction, in many countries, taxes range from 70 to 80 percent of the price smokers pay for packaging at a legitimate retail store. By applying various schemes, suppliers and customers circumvent cigarette taxation (Joossens & Raw, 1998).

Almost a third of all cigarette exports go to the illicit smuggling market. This picture is assessed by looking at the differences between global exports and imports, the smuggling of almost all “missing” cigarettes. Smuggling of goods is often carried out for one or both of two reasons: to avoid excise duties and to avoid rules prohibiting the sale of such goods (e.g., although most foreign brands of cigarettes are banned in China, these goods are easily found and advertised in China). When similar products

are sold at substantially different prices in different locations, there is an incentive to move the product from lower prices to the higher price market. Therefore, smuggling can be defined as the avoidance of excise duties on goods by avoiding border controls (Yurekli et al., 2001). The fight against corruption, smuggling and other illegal activities should be the sole responsibility of the government, as collective management is never effective. It is also necessary to increase the salaries of the staff of these institutions and to introduce bonuses for the detection of particularly significant violations (Shalutashvili et al., 2007).

According to the World Bank Group (2019a), Georgia is an example of a country that has successfully implemented control of the illicit tobacco market due to gradual economic reforms that have directed, among other institutions, its revenue and customs services. In a relatively short period of time, Georgia has succeeded in reducing corruption, establishing effective tax administration and enforcement, and establishing strong border controls as key components of its strategy to control the illicit trade in tobacco products. As a result, Georgia has succeeded in substantially reducing tax evasion through various administrative measures and a policy of regular increases in excise duties on cigarettes.

Tobacco taxation policies in Serbia have contributed to health goals aimed at reducing tobacco consumption. However, it is clear that the decline in tobacco revenues in 2014 led to a huge increase in sales of illegal cigarettes, driven by “too high” excise duties. This speculation probably affected the government’s tobacco excise policy. Thus, a very small increase in excise duties was planned for 2017 and the following years. Such a policy of small increases in excise duties can neither reduce tobacco consumption nor increase revenue from tobacco excise duties. Serbia has the sovereign right (gradually fulfilling EU commitments) to determine and determine its tax policy, including the level of applicable tax rates, the structure and system of tobacco taxes, taking into account national circumstances for public health, fiscal and other purposes (World Bank Group, 2019b).

According to Ramos (2009), the illicit cigarette market is a huge source of revenue, but compared to drug and arms trafficking, few criminals are prosecuted for it. As a result, gangs involved in illicit trafficking tend to enter the cigarette business, and smugglers pass on their knowledge to other companies engaged in illegal activities. This creates illegal networks that share money laundering logistics, contacts and resources to expand and consolidate their markets.

According to Shelley (2009), the illicit trade in tobacco products is a chain of illicit activities that can include unlicensed production, smuggling, and tax evasion. Illicit trade requires money laundering, corruption and various frauds and related crimes in order to “transfer” illicit goods and money through various transit and financial systems. Each link in this illegal activity causes direct or indirect damage, e.g. the sale of illicit tobacco products

deprives the state of revenue from excise duties and value added, as well as general sales taxes. It also deprives legitimate producers, suppliers and distributors of income, often provides financial support to corrupt officials, undermines investment in innovation and reduces formal employment. In addition, it raises public health concerns around the world and the security of vulnerable states, as its revenues are often reinvested to fund other criminal or terrorist organizations.

According to the FATF (2010), free trade areas (FTZ) have been linked to the illicit trade in tobacco products as an intermediary or as an important trade and economic area used by criminals. The scale of smuggling has changed around the world, drawing attention to the FTZ, which was created to facilitate legitimate business and economic growth but has proven vulnerable to illegal activities and international crime. FTZ offers a favourable environment for production, wholesale, warehousing, import and export facilities, and goods entering the zone can undergo a variety of economic operations, including collection, processing, repackaging and transshipment. Criminals and organized crime can use this environment.

Corruption, border security, law enforcement efficiency, and other variables affect large-scale smuggling operations. Various forms of illicit tobacco trafficked in large-scale smuggling operations can be linked to other crimes, such as commercial money laundering schemes. The ability of governments to detect an illegal product is related to its ability to manage and guard its borders (Melzer & Martin, 2015).

In 2015, The Federal Government of Canada has taken the initiative to develop and publish a national money laundering and terrorist financing risk assessment, in part in line with the requirements of the FATF Guidelines. The report assessed the threat of money laundering according to 21 different criminal activities, mainly related to the accumulation of proceeds of crime. Nine activities were considered very dangerous, one of which was tobacco smuggling and trafficking. Organized crime groups and professional money launderers are key players in money laundering in Canada. Professional money launderers tend to pursue organized crime for the sake of substantial profits from drug and tobacco trafficking (Leuprecht, 2019).

The value chain in the tobacco industry indicates that various state institutions are participants in the tobacco market in Republic of Serbia and directly and indirectly affect level of cigarette smuggling and most influential are Tobacco Administration and Customs Administration, as an integral parts of Ministry of Finance (Zubović et al., 2020).

Tobacco Administration was established in accordance with the Law on Tobacco and it is under the direct jurisdiction of the Ministry of Finance. Its competencies are issuing licenses for production, processing, import and export of tobacco and tobacco products, keeping a register and records of the list of producers, processors and distributors of tobacco, as well as producers and distributors

of tobacco products; market monitoring as well as in the preparation of regulations and bylaws in the field of tobacco industry. In addition, Tobacco Administration, cooperates with bodies and organizations responsible for combating illegal trade in tobacco, processed tobacco, processed tobacco and tobacco products. During 2019, the it took part in Working Group for the Fight against Tobacco Smuggling, which had positive results in stabilizing the market and reducing illegal areas of tobacco plantations.

The Customs Administration, as an administrative body within the Ministry of Finance, performs state administration and professional tasks related to: customs clearance of goods, customs supervision and other tasks of passenger control and trade in goods and services with foreign countries, as well as other tasks determined by law. The Customs Administration continued to strengthen its administrative and operational capacity. The collection of customs duties increased by an additional 10% in the first nine months of 2018. The strategy for IT development of the Customs Administration should be updated in accordance with the new business strategy and the accompanying action plan for the period 2017–2020. Strategic and modern management techniques, including quality assurance and change management, are lacking. Work has progressed to establish a functional, interconnected IT system, but qualified personnel continue to leave the IT sector. A system for retaining qualified IT engineers needs to be established. Significant efforts and investments are needed to ensure interconnectivity and interoperability with EU IT systems. These investments should be appropriately budgeted over the coming years. The risk management system needs to be strengthened. Risk analysis before arrival or departure should be carried out consistently and comprehensively and in line with the Union Customs Code (European Commission, 2019).

The legislative in this area has been continuously improved and adjusted to EU legislation, having in mind that Republic of Serbia strive to be full member of EU in the future. The most important laws that regulate market of tobacco products are:

- Law on tobacco,
- Law on excise duties,
- Law on Ratification of the Protocol on the Elimination of Illicit Trade in Tobacco Products,
- Customs law.

In 2017, in close cooperation with the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs of Georgia (“the Ministry”), National Center for Disease Control and Public Health (NCDC) and other Governmental Institutions, the United Nations Development Program (UNDP), the Framework Convention for Tobacco Control (FCTC) and the World Health Organization (WHO) made the first economic research in the field of tobacco control policies – so-called “Investment Case”. Based on the above-mentioned the burden of tobacco on health and the economy was defined, tobacco control interventions priority advantages under the agenda for sustainable development

goals were calculated within the framework of saving the state budget and tobacco-induced morbidity and premature death prevention, as well as just as the cost of inactivity was assessed.

Four priority tobacco control interventions in Georgia, namely the implementation of four priority articles of the Framework Convention for Tobacco Control (FCTC) were defined:

- Taxation of tobacco products;
- Complete prohibition of smoking in the public area;
- Complete prohibition on the advertising, promotion and sponsorship of tobacco products;
- Tobacco product packaging and labelling.

These interventions will prevent Georgia from the death of 53,100 people in 15 years and by 2033 reduce the overall economic costs associated with tobacco by GEL 3.6 billion.

In summary, money laundering and cigarette smuggling are interlinked financial crimes, the main causes of which are the concealment of the origin of money and tax evasion. Illicit trade in tobacco products and money laundering constitute a chain of illegal activities that, by acting together, generate significant revenues for criminals, while states lose a large share of excise duties and value added taxes. Globalization and rapid technological change are allowing criminals to expand the scale of money laundering and cigarette smuggling operations, which is why the governments of each country, as well as international organizations, are paying close attention to the fight against money laundering and cigarette smuggling.

2. Research methodology

Focus groups are often used as a qualitative method to gain a deeper understanding of social issues. The aim of this method is to obtain data from a group of targeted individuals rather than from a statistically representative sample of the wider population. Although this method has been widely applied in conservative studies, there is no critical evaluation of the application of the method (Nyumba et al., 2018). The focus group consists of participants who participate in the discussions of the target group according to pre-arranged questions. Focus groups focus on a clearly defined topic and try to gather information and opinions from group members. The focus group format has several advantages: it is relatively inexpensive. Also, in a facilitated discussion, participants draw on each other's ideas, making the target group very useful for the purposes of needs assessment and project evaluation (Leung & Savithiri, 2009; Threlfall, 1999).

According to Morgan (1988), focus groups consist of four main steps:

1. Research planning. At this stage, the following key aspects can be identified:
 - Definition of research objectives.
 - Defining the goal of the target group.
 - Preparation of a list of key issues.
 - Seeking ethical approval.

- Identification of participants.
- Decision on the number of participants (9–15 participants).
- Determining the right location: selection of affordable, reasonably sized space away from distractions.
- Provision of materials (recording equipment, consent forms, name tags, etc.).

2. Data collection.

3. Analysis.

4. Results report.

The focus group developed for this research in Georgia involved 13 participants: 5 project team members, 3 experts and 5 participants with extensive professional experience working in various Georgian state authorities which are working against with the corruption, cigarette smuggling, money laundering and organized crime.

In Serbia, in the focus group developed for this research, there were 16 participants from state institutions and entrepreneurs. There were 6 experts from the court, 2 experts from the customs, 3 experts from the police and 5 entrepreneurs. When it comes to the structure of the respondents from the court, there were two judges with over 30 years' professional experience and one judge's assistant, a judicial associate, a court secretary and a senior judicial associate, who work in this institution for up to 15 years. All respondents from the police are inspectors for the suppression of economic crime, with professional experience of 5 to 15 years. Regarding customs, a customs office manager with over 20 years' work experience and a junior customs inspector with 13 years' experience participated. There were three owners and two managers in the structure of the entrepreneurs, who are representatives of companies in the field of manufacturing, hotel and service activities. Most of them have work experience between 10 and 20 years.

The questionnaire has been designed for encouraging the attendees to discuss and draw up their opinions. The participants of the focus group were asked the following questions: "What phenomena do You face/deal within your professional environment?"; "What do You think are the reasons behind the involvement of people from your work environment in cigarette smuggling?"; "How is money laundering related to cigarette smuggling?"; "What measures do You think would be most effective in reducing cigarette smuggling in Your country? What measures implemented in the country were the least successful or unsuccessful?"; "What measures do You think would be most effective in reducing money laundering in Your country? What measures implemented in the country have been the least successful or unsuccessful?"; "In Your opinion, what is the public attitude (tolerant, negative or otherwise) towards cigarette smuggling? Money laundering?"

Also, to cluster the EU-28 states by the four criteria under consideration (Human Development Index (HDI), Corruption Perceptions Index (CPI), GDP per capita and transaction reports), the states were classified into three

groups. Hierarchical clustering methods based on average linkage algorithm with the squared Euclidean distance as a similarity measure was conducted to classify countries according to aforementioned four variables. Clustering methods divide observations of a dataset into a specific number of groups. To minimize within-cluster differences. Since the scales of variables are different standardized values were used.

2.1. Empirical results from the research

The empirical research is aimed at identification of the links (if any) between money laundering and cigarette smuggling in Georgia and Serbia. Further in this section, the experts' answers and insights are provided.

2.2. Empirical results from the research in Georgia

“What phenomena do You face/deal with in your professional environment?”

6 participants are exposed to money laundering in their professional environment. 5 participants are exposed to organized crime and cigarette smuggling in their professional environment. 4 participants are exposed to corruption in their professional environment.

“What do You think are the reasons behind the involvement of people from your work environment in cigarette smuggling?”

The first expert noted that there were the acute problems with the above-mentioned issues in Georgia in the past period, but recently these problems are already mostly resolved. Cigarette smuggling was common in all countries all over the world, but it is no longer the reason that can cause the serious problems for the development of the country. The issues such as money laundering and cigarette smuggling are more or less solved, but they still do exist and they need to be revealed, that is why the discussion and the summarizing estimations of the field experts are necessary. The second expert continued the discussion and noted that Georgia had made significant progress in tackling corruption in the country. Expert assumes that the main reason of corruption in Georgia is the old experience, which is followed by some part of society, but step by step the number of such kind of accidents is getting more and more less. In addition, organized crimes are more or less extirpated as well. The participants mentioned the money laundering problems in Georgia as the most severe one among the other issues. The third expert pointed out that if such an increase in excise tax rates continue, cigarette smuggling could become one of the major problems in vulnerable border conditions. Accordingly, the frequency of imported cigarettes without excise will be increased. There was noted that nowadays the source of the problem comes from two uncontrolled regions (the borders of Abkhazia and Armenia, there was mentioned Azerbaijan too). One of the participant answered that the main reason why people are involved in cigarette smuggling is the difficult economic situation on a lower

level and big profits on a higher level in a society. The rest participants of the meeting agreed with him and in their opinion, the punishment should be appropriate in the country separately for the both levels.

“How is money laundering related to cigarette smuggling?”

All the experts and participants identified personal needs as the answer.

“What measures do You think would be most effective in reducing cigarette smuggling in Your country? What measures implemented in the country were the least successful or unsuccessful?”

One of the expert highlighted improvements in administration and encouragement of administration through rewards and bonuses. It was pointed out one noticeable statistical finding that the daily consumption of cigarettes in Georgia is 1,200,000 boxes per day, smuggling accounts for 0.5 day consumption.

“What measures do You think would be most effective in reducing money laundering in Your country? What measures implemented in the country have been the least successful or unsuccessful?”

The first expert thinks that the National Bank of Georgia has an effective lever for the management of money laundering. The expert also noted that there is a tax risk management in the House of Justice of Georgia that has a strong collaboration with the international organization working in the same field. The second expert assumes that there is necessary to make the regulations stricter in this way and draw the effective anti-money laundering program to follow of struggling with this problem. The third expert thinks that the most effective way in reducing money laundering in Georgia would be the bureaucratic changes in the organizations. One of the participant admitted that it would be effective if the governmental institutions will follow the world standards in this way. That means to develop the appropriate programs in order to study the cases of money laundering and detect them in a program way. Also, implement some innovative measures to make the detection process more fast and effective.

“In Your opinion, what is the public attitude (tolerant, negative or otherwise) towards Cigarette smuggling? Money laundering?”

All the experts had the same opinion that the public attitude to cigarette smuggling and money laundering is indifferent, apathetic. There is no clearly negative attitude towards the above-mentioned problems in our society. However, it should be noted that the society has a more negative attitude towards money laundering as it relates to banks and the public attitude towards the banks in Georgia is not so positive.

2.3. Empirical results from the research in Serbia

“What phenomena do You face/deal within your professional environment?”

The experts were first asked to answer a question about the most common phenomena encountered at work.

Experts from the court have stated that most commonly encountered at work are smuggling and corruption, customs experts are most likely to encounter smuggling and money laundering, while police experts also encounter corruption and money laundering and smuggling. When it comes to entrepreneurs, they have not commented on this issue, based on which it can be concluded that they do not encounter such phenomena in their professional environment, which is logical, given the field of their business.

“What do You think are the reasons behind the involvement of people from your work environment in cigarette smuggling?”

Subsequently, the experts who encountered cigarette smuggling expressed their opinions on a scale from 1 to 5 regarding the most common reasons for dealing with cigarette smuggling. Table 1 gives a comparative overview of the mean values of the respondents' answers regarding their statements by state institutions and entrepreneurs.

Table 1. Mean value of experts' answers for each institution and entrepreneurs about motives for engaging in cigarette smuggling (source: compiled by authors)

No.	Statement	Court	Customs	Police	Entrepreneurs
1.	Big profit	2.50	4.50	4.00	4.33
2.	High potential for liability avoidance	2.33	3.00	3.00	3.33
3.	Difficult economic situation	1.67	4.50	4.00	3.33
4.	Easy/simple border crossing procedure	1.00	1.00	3.00	3.00
5.	Border/customs officers corruption	1.17	2.00	5.00	4.33
6.	Public tolerance	1.83	2.50	3.00	4.00
7.	Simple acquisition of goods in a foreign market	1.67	4.00	4.00	3.67
8.	Operation of the Organized Crime network	2.17	2.00	3.50	3.67
9.	Other (insert)	/	/	/	/

Based on the mean values of the experts' answers presented in Table 1, it can be seen that the court representatives generally rated each of these factors low, which means that they were not considered to be the real reasons why people engaged in cigarette smuggling. This can be justified by the fact that they encounter very little of this phenomenon in their workplaces. Customs representatives stated that big profits, difficult economic situation and simple acquisition of goods in a foreign market are the most common reasons for involvement cigarette smuggling in Republic of Serbia. Police representatives also share their opinion. If the answers given by representatives of state institutions are compared with those of entrepreneurs, it can be noted that there is a difference in their opinion on this topic. Entrepreneurs believe that, in

addition to big profit, a very important role is played by border/customs officers' corruption, which is exactly what customs representatives disagreed with. All respondents were offered the opportunity to add a reason that they considered to be significant for cigarette smuggling, but no response was obtained here.

When the individual responses within the same institutions are considered, it can be concluded that there are some differences in their opinions. Among the court's representatives, the most disagreement was with statements 1, 2 and 8, where half of them gave extremely low marks and the other half the highest marks for this statement. Customs officers generally had more or less similar thinking. Police inspectors generally share opinions. The only drastic difference was observed in statement 3, where one police inspector with less professional experience does not fully agree that a difficult economic situation is a reason for dealing with cigarette smuggling, unlike others who have far more experience in this business and believe that this is a very significant reason.

“How is money laundering related to cigarette smuggling?”

When asked how money laundering is related to cigarette smuggling, some respondents gave multiple answers. The most important to note is that all of them agreed that these two phenomena are very closely related. Out of the 16 respondents, 57% agree that the money obtained from smuggling cigarettes is further used to meet personal needs, from which, only two court representatives choose this answer, while police inspectors and customs officials were united on the matter. 79% of respondents agreed that money obtained from cigarette smuggling is than been legalized and used to develop legal business, while only 43% think that this money is being used for future criminal activities and financing corruption schemes. Analysing the individual responses of the respondents, it can be seen that at the institution level only the police inspectors were united and they consider that money obtained from cigarette smuggling could be and is being used for all three purposes.

“What measures do You think would be most effective in reducing cigarette smuggling in Your country? What measures implemented in the country were the least successful or unsuccessful?”

In order to ensure more effective control of cigarette smuggling, most experts agree that penalty policy in this area is not sufficiently restrictive, so higher penalties should be imposed. Also, most of them agree that stricter tax, customs and police controls should be introduced to reduce the illegal flow of these goods. Contrary to these common beliefs about methods of combating cigarette smuggling, the experts also mentioned some specific measures that are consistent with the institution in which they operate. Thereby, the customs officials stressed out that efficient combating against cigarette smuggling implies introduction of X scanners, increasing number of customs officers at border crossings (especially at those where risk of cigarette smuggling is high), and organization of the quality

and more frequent training for customs officers to increase their competencies for easier detection of cigarette smuggling. On the other hand, the police representatives emphasized the need to reduce excise duties on cigarettes (which would reduce the motivation of people to participate in such activities), increase the salaries of customs officers (which in turn reduce the possibility of corruption) and improve the technical equipment of border crossings. Entrepreneurs, generally, share the opinion of experts that it is necessary to tighten control, amend the regulations in this area, introduce stricter penalties and obtain modern equipment for detecting smuggled cigarettes.

“What measures do You think would be most effective in reducing money laundering in Your country? What measures implemented in the country have been the least successful or unsuccessful?”

The more diverse responses, and therefore a broader set of measures, have been identified in the area of money laundering. Most of the experts agree that stricter controls on cash flows need to be introduced. In the opinion of the court’s representatives, the adoption and comprehensive and consistent implementation of Law on the origin of property is of particular importance for improving the situation in this area. In addition, they pointed out that tax rules in this area should be tightened, the work of police and other institutions involved in this area should be improved, and transparency of financial flows should be increased. The customs representatives, however, emphasized that it is necessary to increase the salaries of the employees in competent institutions, to provide an adequate education for civil servants on current money laundering practices and ways to facilitate their identification and to ensure better cooperation of institutions involved in this field. The police representatives agree with the customs representatives that it is necessary to provide adequate education to civil servants in the field of money laundering. They also agree with the court representatives that it is necessary to adopt and implement the Law on the origin of property as soon as possible and increase the transparency of banks’ operations, especially in terms of more frequent reporting to police about cash flows. In addition, they particularly emphasize the importance of seizing illegally acquired property, which should discourage people from engaging in such activities. Entrepreneurs, on the other hand, see a solution to this problem in the improvement of legislation in this area and the more consistent application of legal regulations (primarily the Law on the origin of property), but also in the introduction of higher penalties for offenders in this area.

“In your opinion, what is the public attitude (tolerant, negative or otherwise) towards Cigarette smuggling? Money laundering?”

Cigarette smuggling. Most of the respondents think that the public attitude towards cigarette smuggling is negative. Exceptions are two respondents employed in court and one employed in the custom that considers the public as tolerant to the cigarette smuggling. In addition, all respondents employed in the police agree that the general public

attitude is tolerant and indifferent, with the explanation that it is a consequence of the lack of information about the high earnings of some individuals.

Money Laundering. According to the obtained answers, money laundering usually has negative treatment from the public. However, some of the entrepreneurs and inspectors for the suppression of economic crime think that the public attitude is tolerant, while one respondent from the customs, one entrepreneur and one inspector answered that the public is neither interested nor familiar with this phenomenon and its presence.

The Focus group survey was oriented towards the problems of money laundering and cigarette smuggling in Georgia and Serbia; both of these phenomena are a part of the shadow economy. The size of the shadow economy is at a high level: over the 1999–2013 period, it averaged 46.85 percent of GDP in Georgia and 34.23 percent of GDP in Serbia (based on the calculations performed by Schneider, 2016). The Focus group survey in the countries under consideration revealed that public attitudes towards money laundering and cigarette smuggling in Georgia are apathetic, which proposes that the country’s top authorities should pay close attention to educating the population about the above-mentioned phenomena and their effects on the national economy. Meanwhile, the Focus group survey in Serbia revealed that public attitudes towards money laundering and cigarette smuggling are negative. The negative public attitudes towards money laundering and cigarette smuggling are crucial in combating these phenomena that have a destructive impact on the national economy.

To understand the relationship between the development levels of countries and number of transaction reports (TR) of countries, Human Development Index

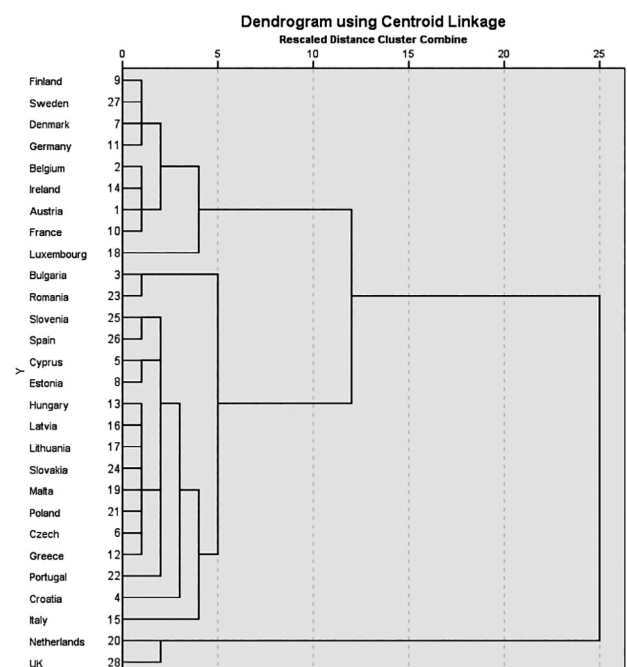


Figure 1. Dendrogram depicting the results of Cluster Analysis

(HDI), Corruption Perception Index (CPI) and GDP per capita were considered for 28 EU countries between the years of 2006–2014. Human development index, corruption perception index and GDP per capita are the major indicators of the size of the shadow economy.

Clustering analysis also use El Idrissi et al. (2020) in their study. Instead of analyzing all years one by one, the median value was calculated for between the years of 2006–2014, and taken into account in the analyzes. As can be seen dendrogram in Figure 1, EU 28 countries are classified into three groups.

Cluster 1 consists of Netherlands and United Kingdom, Cluster 2 consists of Finland-Denmark-Sweden-Germany-Belgium-Ireland-Austria-France-Luxembourg, whereas Cluster 3 consists of Bulgaria-Romania-Slovenia-Spain-Cyprus-Estonia-Hungary-Latvia-Lithuania-Slovakia-Malta-Poland-Czech-Greece-Portugal-Croatia and Italy. To verify the robustness of the cluster groups, a k-means cluster analysis was employed (Breckenridge, 2010). K-means cluster groups verifies the existence of three groups. The cluster means of three groups are presented in Figure 2.

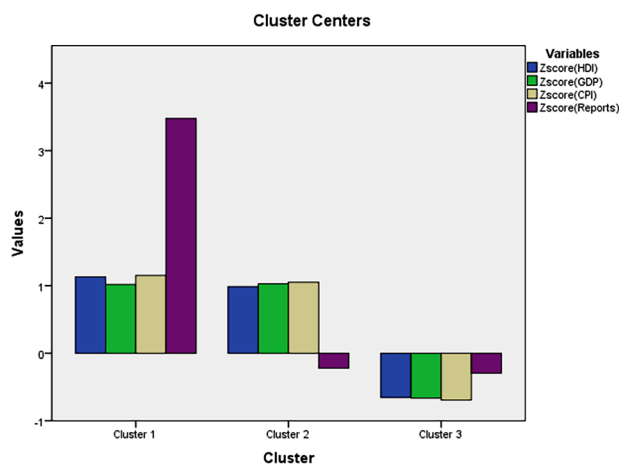


Figure 2. Bar Chart based on Cluster Means

Figure 2 suggests that Cluster 1 includes countries who have very high number of transaction reports. Countries in Cluster 2 and Cluster 1 have similar values on HDI-GDP per capita and CPI, while countries in Cluster 3 have low (below the EU average) values on HDI, GDP per capita and CPI. Countries both in Cluster 2 and 3 have similar number of transaction reports. Thus, when assessing the situation with money laundering, it can be stated that the countries in the third cluster are facing the greatest risk of money laundering. The research, based on the Focus group survey and clustering methods, revealed that although Georgia, Serbia and the EU countries have different levels of development, they encounter similar problems: money laundering, cigarette smuggling and corruption. HDI, CPI and GDP per capita indicators show that more educated EU countries are less affected by the above-mentioned phenomena.

Conclusions

Focus group in Georgia showed that cigarette smuggling is no longer the reason that can cause the serious problems for the development of the country. In the money laundering, National Bank of Georgia has an effective lever for the management. These phenomena could be reduced, because there is a tax risk management in the House of Justice of Georgia that has a strong collaboration with the international organization working in the same field.

Talking about Serbia, it can be concluded that strengthening control, more consistent application of the law, better cooperation among state institutions and increased penalties are the key measures to combat all the analysed phenomena. According to obtained results, engaging in these illegal activities in the Republic of Serbia seems still profitable and related to a relatively low risk. For this reason, the solution to this problem in the future should be based, first, on the application of more restrictive measures and stricter controls, on the one hand, but also on raising the standards of civil servants and the population in general, on the other. This would reduce the motivation of people to engage in these illegal activities and increase the risk of those who nevertheless decide for this type of benefits and income generation.

So far, there has been a lack of research into money laundering and cigarette smuggling in Georgia and Serbia. The study revealed that public attitude in these phenomena in Georgia is apathetic, although the society has more negative attitude towards money laundering as it relates to banks and the public attitude towards the banks in Georgia is not so positive. Meanwhile, research has shown that Serbian society has a negative attitude about cigarette smuggling and money laundering phenomena. In addition, experts from Serbia confirmed that money laundering and cigarette smuggling related phenomena.

References

- Bakhturidze, G., & Peikrishvili, N. (2019). Tobacco taxation and illicit tobacco in Georgia. *Tobacco Prevention & Cessation*, 5(Supplement), A131. <https://doi.org/10.18332/tpc/105140>
- Breckenridge, J. N. (2000). Validating Cluster Analysis: Consistent replication and symmetry. *Multivariate Behavioral Research*, 35(2), 261–285. https://doi.org/10.1207/S15327906MBR3502_5
- Buchanan, B. (2004). Money laundering – a global obstacle. *Research in International Business and Finance*, 18(1), 115–127. <https://doi.org/10.1016/j.ribaf.2004.02.001>
- El Idrissi, N. E. A., Zerrouk, I., Zerrari, N., & Monni, S. (2020). Comparative study between two innovative clusters in Morocco and Italy. *Insights into Regional Development*, 2(1), 400–417. [https://doi.org/10.9770/IRD.2020.2.1\(1\)](https://doi.org/10.9770/IRD.2020.2.1(1))
- European Commission. (2021). *Money laundering*. https://ec.europa.eu/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/money-laundering_en
- European Commission. (2019). *Serbia 2019 Report*. <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-serbia-report.pdf>

- Financial Action Task Force. (2010). *FATF report money laundering vulnerabilities of free trade zones*. Financial Action Task Force, Paris. <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf>
- Financial Action Task Force. (2019). *What is money laundering?* <https://www.fatf-gafi.org/faq/moneylaundering/>
- Global Organization of Parliamentarians. (2020). *Against corruption*. <http://gopacnetwork.org/programs/antimoney-laundering/>
- Goel, R. K., & Saunoris, J. W. (2018). Cigarette smuggling: Using the shadow economy or creating its own? *Journal of Economics and Finance*, 43, 582–593. <https://doi.org/10.1007/s12197-018-9454-x>
- Hopton, D. (2009). *Money laundering. A concise guide for all business* (2nd ed.). Routledge.
- Yurekli, A., Beyer, J., de, & Merriman, D. (2001). Understand, measure, and combat tobacco smuggling (English). In *World Bank economics of tobacco toolkit; No. 7. Smuggling*. World Bank Group. <http://documents.worldbank.org/curated/en/418961468163740317/Understand-measure-and-combat-tobacco-smuggling>
- Young, M. A. (2015). The dark figure of money laundering. *Journal of Financial Crime*, 22(4). <https://doi.org/10.1108/JFC-07-2015-0035>
- Joossens, L., & Raw, M. (1998). Cigarette smuggling in Europe: Who really benefits? *Tobacco Control*, 7, 66–71. <https://doi.org/10.1136/tc.7.1.66>
- Karlov, R. G. (2018). The impact of new methods of money laundering on the economy of the State. *KnE Social Sciences*, 3(2), 491–500. <https://doi.org/10.18502/kss.v3i2.1581>
- Levchenko, V., Boyko, A., Bozhenko, V., & Mynenko, S. (2019). Money laundering risk in developing and transitive economies: Analysis of cyclic component of time series. *Business: Theory and Practice*, 20, 492–508. <https://doi.org/10.3846/btp.2019.46>
- Leung, F. H., & Savithiri, R. (2009). Spotlight on focus groups. *Can Fam Physician*, 55(2), 218–219. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2642503/>
- Leuprecht, C. (2019). *Taken to the cleaners: How Canada can start to fix its money laundering problem. True North in Canadian public policy*. A Macdonald-Laurier Institute Publication. https://macdonaldlaurier.ca/files/pdf/Leuprecht__Financial-Crimes_FWeb.pdf
- Little, M., Ross, H., Bakhturidze, G., & Kachkachishvili, I. (2018). Illicit tobacco trade in Georgia: Prevalence and perceptions. *Tobacco Control*, 29(4). <https://doi.org/10.1136/tobaccocontrol-2018-054839>
- Melzer, S., & Martin, C. (2015). A brief overview of illicit trade in tobacco products. In *Illicit trade: converging criminal networks*. <https://www.oecd-ilibrary.org/docserver/9789264251847-8-en.pdf?expires=1585865188&id=id&accname=guest&checksum=1B69821DFCDB81A3E958E65B85E75909>
- Morgan, D. L. (1988). *Focus group as qualitative research*. Sage Publications Inc.
- Natarajan, M. (2019). *International and transnational crime and justice* (2nd ed.). Cambridge University Press. <https://doi.org/10.1017/9781108597296>
- Nyumba, T. O., Wilson, K., Derrick, C. J., & Mukherjee, N. (2018). The use of focus group discussion methodology: Insights from two decades of application in conservation. *Methods in Ecology and Evolution*, 9(1), 20–32. <https://doi.org/10.1111/2041-210X.12860>
- Ramos, A. (2009). Illegal trade in tobacco in MERCOSUR countries. *Trends in Organized Crime*, 12, 267. <https://doi.org/10.1007/s12117-009-9078-9>
- Remeikienė, R., Gasparėnienė, L., Chadyšas, V., & Cepel, M. (2018). Identification of the shadow economy determinants for the Eurozone member states: Application of the MIMIC model. *Journal of Business Economics and Management*, 19(6), 777–796. <https://doi.org/10.3846/jbem.2018.6276>
- Sarigül, H. (2013). Money laundering and abuse of the financial system. *International Journal of Business and Management Studies*, 2(1), 287–301. https://www.researchgate.net/publication/256040462_Money_Laundering_and_Abuse_of_the_Financial_System
- Shalutashvili, A., Ross, H., Watt, J., Hilborn, S., Bakhturidze, G., Kobeshavidze, G., & Grigalashvili, Z. (2007). *Tobacco economic study in Georgia since the Fall of the Soviet Union*. FCTC Implementation and Monitoring Center in Georgia. https://www.researchgate.net/publication/332231011_Tobacco_Economic_Study_in_Georgia_since_the_Fall_of_the_Soviet_Union
- Shelley, L. (2009). Illicit trade: A security challenge – a case of cigarette smuggling. In *International Tax and investment Center (ITIC) Anti-Illicit Tobacco Trade, Brussels Conference Paper, ITIC*. Washington DC.
- Schneider, F. (2016). *Estimating the size of the shadow economies of highly developed countries: selected new results* (CESifo DICE Report 4/2016 (December)). <https://www.ifo.de/DocDL/dice-report-2016-4-schneider-december.pdf>
- Southeast European Law Enforcement Center. (2019). *Report on the Situation of cigarettes and tobacco smuggling in Southeast Europe*. https://www.selec.org/wp-content/uploads/2019/08/SELEC_2019-Annual-Report-on-the-Situation-of-cigarettes-and-tobacco-smuggling-Public-version.pdf
- The World Bank. (2020). *Anticorruption fact sheet*. <https://www.worldbank.org/en/news/factsheet/2020/02/19/anticorruption-fact-sheet>
- Threlfall, D. K. (1999). Using focus groups as a consumer research tool. *Journal of Marketing Practice: Applied Marketing Science*, 5(4), 102–105. <https://doi.org/10.1108/EUM0000000004560>
- United Nations Office on Drugs and Crime. (2019). *Introduction to money-laundering*. <https://www.unodc.org/unodc/en/money-laundering/overview.html>
- United Nations Convention. (1998). *Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention)*. https://www.unodc.org/pdf/convention_1988_en.pdf
- Zubović, J., Djukic, M., Jovanović, O. (2020). *Economic aspects of tobacco control and empirical findings in Serbia* (pp. 189–191). Institute of Economic Sciences, Belgrade.
- World Bank Group. (2019a). *Confronting illicit tobacco trade. A global review of country experiences*. http://documents.worldbank.org/curated/en/677451548260528135/pdf/133959-REPL-PUBLIC-6-2-2019-19-59-24-WBG_Tobacco_Illicit_Trade_FINAL_web.pdf
- World Bank Group. (2019b). *Serbia overview of tobacco use, tobacco control legislation, and taxation a country brief*. <https://openknowledge.worldbank.org/handle/10986/31951>