

Money Laundering: The Case of Albania

Introduction

In recent years, the OSCE has stepped up its efforts to combat money laundering. When adopting the new OSCE Strategy Document for the Economic and Environmental Dimension at the Maastricht Ministerial Council in December 2003, OSCE participating States underscored once more that money laundering constitutes a threat to security and reaffirmed their commitment to combat it. In the first section of this contribution, we briefly describe the mechanisms by which money laundering affects the security and stability of a country or a region. The second section examines money laundering in Albania, considering the extent of the problem, its security implications, and the means used by the Albanian authorities to deal with it. Because a successful strategy to counter money laundering also requires an understanding of the genesis of the problem, the third chapter will focus on the root causes of money laundering in Albania, placing money laundering in a wider socio-economic and political context. Finally, the contribution will examine the role of the OSCE and opportunities for combating money laundering in the future.

Money Laundering and Its Impact

Money laundering is the financial sector of the criminal economy. The Financial Action Task Force on Money Laundering (FATF) defines money laundering as “the processing of criminal goods to disguise their illegal origin”.² Activities such as trafficking in human beings, drugs, small arms and light weapons, smuggling, counterfeiting, credit card fraud, and many others generate huge profits. Money laundering is a critical part of the criminal process, as it allows individual criminals, organized crime groups, recipients of bribes, public officials, corrupt politicians, and the like to distance themselves from criminal activity, and this makes it more difficult to prosecute them. By separating the profits from the criminal activity itself, the funds are protected from seizure by law enforcement agencies and can more easily be re-invested into further criminal activities or legitimate business enterprises.

1 The views expressed in this paper are made in a personal capacity and do not reflect the views of the OCEEA, the OSCE Presence in Albania, or the OSCE.

2 Financial Action Task Force on Money Laundering: Basic Facts about Money Laundering, at http://www1.oecd.org/fatf/MLaundering_en.htm. The FATF is an intergovernmental body associated with the OECD but independent of that organization.

In short, successful money laundering perpetuates criminality within an economy and facilitates its entrenchment within the local institutional infrastructure by transforming dirty money into effective purchasing power through its assimilation into legal channels. The more efficiently money is laundered, the lower the criminals' "overheads" and the greater their "productivity".³ However, money laundering does not only contribute to increasing the level of crime and the influence of organized criminal groups, it also fuels corruption within the institutions it penetrates. Similarly, money laundering plays an important role in enabling terrorists to finance their activities.⁴

Endemic criminality, pervasive corruption, and organized crime also have a negative effect on the economic development of a country.⁵ This is particularly true for transition countries, where the process of economic restructuring and reform is ongoing and market and public institutions are still developing. Crime and corruption have the potential to deter both local and foreign investment. They weaken public institutions and can encourage the mismanagement of already scarce public resources. Yet a sound business environment and good governance are essential preconditions for sustainable economic growth that can enable states to reduce poverty and inequality and increase social integration and opportunities for all.⁶ As long as poverty cannot be effectively addressed, crime can flourish⁷ and impact negatively upon economic development.

In addition to undermining a country's economic development by cultivating crime and corruption, money laundering can also have a direct economic impact on its institutional structures.⁸ Laundered money can contaminate and hamper the development of financial institutions, which are essential both to attract foreign investment and to address local capital needs. As laundered money tarnishes the integrity of the financial sector, potential depositors and investors lose faith and refrain from using its institutions. The impact of money laundering is thus reinforced by weakening the financial foundation on which a country relies for economic growth. Money laundering also thwarts economic development by diverting resources into less productive

3 See Donato Masciandaro, Money Laundering. The Economics of Regulation, in: *European Journal of Law and Economics* 238/1999.

4 See for example Jean-François Thony, *Money Laundering and Terrorism Financing: An Overview*, delivered at the IMF Seminar on Current Developments in Monetary and Financial Law, Washington, D.C., 7-17 May 2002.

5 See Brent L. Bartlett, The Negative Effects of Money Laundering on Economic Development, in: Asian Development Bank, *Manual on Countering Money Laundering and the Financing of Terrorism*, s.l. 2003.

6 Cf. UNDP, *Political and Economic Institutions, Growth and Poverty – Experience of Transition Countries*, s.l. 2002; cf. also UNECE, *New Threats to Security in the Economic, Social and Environmental Dimensions*. A UNECE Report, Eleventh OSCE Economic Forum, Prague, 23-25 May 2003.

7 See for a detailed discussion on the possible economic causes of crime and violence François Bourguignon, Crime as Social Cost of Poverty and Inequality: A Review Focusing on Developing Countries, in: *Facets of Globalization. International and Local Dimensions of Development*, World Bank Discussion Paper 415/2001.

8 The following discussion draws on Bartlett, cited above (Note 5).

activities. Criminals who launder money through non-financial institutions often place their funds in low-productive investments – so-called “sterile” investments, such as real estate, art, antiques, jewellery, and luxury automobiles. For transition countries, the diversion of limited resources into sterile investments and imported luxury goods is seriously detrimental to growth and prosperity. In addition, the economic productivity of enterprises in which criminals have invested tends to fall as they are operated for money laundering purposes rather than profit maximization, thus acting as a brake on the economy as a whole.

As an integral element of criminality, money laundering can constitute a serious threat to national and regional security and stability. Particularly in transition and post-conflict countries, organized crime can endanger the process of democratization and the transition to fully fledged market economies. Should organized crime manage to infiltrate or even capture state institutions, the government’s capacity to address economic and political concerns will deteriorate, decreasing its capability to ensure the peaceful resolution of conflicts, and placing the rule of law and respect for human rights at risk.⁹ Furthermore, the impact of money laundering can exacerbate the socio-economic disparities within and among countries that might foster ethnic and religious tensions, fuel illegal migration and potentially contribute to global security threats such as terrorism. In turn, economic failure weakens the capacity of the state to create and maintain order and security, thus weakening its prospects for further development.¹⁰

Money Laundering in Albania

No one should be surprised by the existence of money laundering in Albania, which has a large informal sector, and a cash economy, coupled with a fragile financial system. The Albanian government has acknowledged that money laundering constitutes a problem that needs to be addressed. This is evidenced by the welcome afforded to the OECD’s offer of support in assessing the extent of Albania’s informal sector and proposing means to bring it under control.¹¹ Although quantitative data on the extent of money laundering is unavailable, the number of new buildings and hotels constructed throughout

9 See UNECE, *Enhancing Security in the Economic and Environmental Dimensions: The Analytical Framework*, an analytical paper based on the contribution of the participants at the Villars Seminar on A New Strategy for Enhancing Security in the Economic and Environmental Dimensions, organized by the UNECE in co-operation with the OSCE, Villars, Switzerland, 7-8 July 2003. See also the statement of Louis Shelly at the United States Senate Committee on Foreign Relations, Subcommittee on European Affairs, Hearing on Combating Transitional Crime and Corruption in Europe, 30 October 2003.

10 Cf. UNECE, *New Threats to Security in the Economic, Social and Environmental Dimensions*, cited above (Note 6); cf. also UNECE, *The Economic Dimension to Security: New Challenges and New Approaches*, s.l. 2002.

11 See, for example, the declaration made by Albania’s Economy Minister on this question, ATA, 13 August 2003.

the country might serve as an indicator. The boom in the construction industry is obvious to all who visit Tirana and Durres. As building licenses can be bought, most units are built illegally. There are also numerous newly established illegal bars, restaurants, and businesses, and rumours of drug money being invested into Tirana's apartment buildings.

The Extent of the Problem

The blatant and growing presence of money laundering within Albanian society has only begun to receive the serious attention of the Albanian government, media, and civil society in recent years. In 2001, the Bank of Albania started to take action against informal money changers operating on the country's streets. Over 800 money changers were drummed out of business in Tirana and about 2,000 throughout Albania. During that time, the Albanian government estimated that approximately 2.5 billion US dollars in so-called dirty money passed literally through the hands of the money changers each year.¹² There was a public outcry at the government's move to close down the informal money changing sector, which was seen as "leaving 8,000 people without bread to eat",¹³ and this prompted the Bank of Albania to take the positive step of requiring all money changers to be licensed and to legalize their operations. However, the practical measures introduced to fight money laundering to date go only so far and tend to be poorly enforced. In the 2001 Evaluation Report produced by Council of Europe experts, the banking and financial system was still described as underdeveloped and as representing one of the biggest contributing factors to the problem of money laundering. Cash accounts for 90-95 per cent of all transactions in Albania.¹⁴ In March 2002, a major operation by the police in Tirana netted a haul of 350-400 illegal money changers. However, the problem still persists.

Effects on Security and Stability

Albania's reputation as a centre of organized crime has grown considerably since the collapse of Communism. Albanian organized crime has succeeded in penetrating illegal markets worldwide, and is described by the Italian Anti-Mafia Report, for instance, as "very dangerous" due to the strong ties it has created with local mafia organizations. The growing volume and efficiency of the trade in drugs (among other trafficked commodities) carried out by Albanian criminal networks across the Adriatic to the Italian coast is resulting in

12 Cf. Bill Hayton, Albania cracks down on dirty money, BBC News, 26 October 2001, at: <http://news.bbc.co.uk/2/hi/europe/1621271.stm>.

13 Ibid.

14 Cf. Financial Action Task Force on Money Laundering (FATF), Annual Report 2001-2002, 21 June 2002, Annex D: Summaries of Mutual Evaluations Undertaken by the Council of Europe Select Committee of Experts on Evaluation of Anti-Money Laundering Measures, Albania.

tremendous profits being laundered into both illegal and legal business activities in Albania.¹⁵

The indisputable link between money laundering, criminal activities, and organized crime has already had serious implications for the stability of Albanian institutions and those of the surrounding region. The CSD Report on Smuggling in Southeast Europe underlines that “smuggling and other forms of trans-border crime, as well as the corruption they generate, have been among the most important obstacles to the successful transition to democracy and market economy”¹⁶ in South-eastern Europe. As previously outlined, strong democratic and market institutions are indispensable for effectively combating poverty and economic disparities, which themselves can contribute to weakening institutions and fostering an environment conducive to insecurity and instability.¹⁷ In Albania, poverty remains widespread. Average annual per capita income of 1,230 US dollars places Albania among the poorest transition countries, despite “the impressive performance of the economy”¹⁸ recently noted by the World Bank. At the same time, crime and corruption still constitute serious challenges for Albania. Together with the inadequacy of law enforcement and the slow pace of reforms, they jeopardize the country’s ability to sustain economic growth and alleviate poverty.¹⁹

Law Enforcement and Its Effectiveness

Recent pressure from the international community and Western countries has encouraged the Albanian government to intensify its efforts to deal with this problem and to implement institutional reforms. In response, the government of Albania has adopted a number of legislative measures. The Law on the Prevention of Money Laundering was enacted in May 2000. In 2001, the government established a government department to fight money laundering (Directorate of Co-ordinating the Fight Against Money Laundering/*Drejtoria e Bashkerendimit te Luftes Kunder Pastrimit te Parave*, DBLKPP) within the ministry of finance. It functions as Albania’s Financial Intelligence Unit (FIU).²⁰ Relevant legislation has either been amended to address money laun-

15 Cf. the Italian Mafia Report for the 4th quarter of 2003 as submitted to the Italian parliament and published in the Albanian newspaper *Republika* on 23 April 2004.

16 Marko Hajdinjak, *Smuggling in Southeast Europe. The Yugoslav Wars and the Development of Regional Criminal Networks in the Balkans*, Center for the Study of Democracy Report No. 10, Sofia 2002 p. 70.

17 See also Slavica Roceska, *Poverty, Unemployment and Social Stability in the Countries of South Eastern Europe*, 2000, paper given at the International Association for Official Statistics (IAOS) Conference on Statistics, Development, and Human Rights in Montreux, Switzerland, 4-8 September 2000.

18 World Bank, *Albania Poverty Assessment*, Report No. 26213-AL, 5 November 2003. p. XII.

19 Cf. European Commission, Commission Staff Working Paper. *Albania*, Stabilisation and Association Report 2004, COM (2004) 203 final.

20 The establishment of Financial Intelligence Units was based on a recommendation of the FATF. They have so far been created in 70 countries worldwide. The umbrella organization for international FIUs is the Egmont Group, see: <http://www.egmontgroup.org/>.

dering or updated to reflect current conditions, including the Penal Code of the Republic of Albania (Law No. 7895 dated 27 January 1995), the Penal Procedure Code of the Republic of Albania (Law No. 7905 dated 21 March 1995) and the Law on the Prevention of Money Laundering (No. 8610 dated 17 May 2000). Most recently, an inter-ministerial committee on the fight against money laundering chaired by the prime minister has been established, which held its first meeting in March 2004.

In addition, several important international conventions, including the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (Strasbourg Convention), the UN Convention against Transnational Organized Crime and its two additional protocols, the UN Convention against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and the UN International Convention for the Suppression of the Financing of Terrorism have been ratified by the parliament. In August 2003, Albania became a member of the Egmont Group.

While Albania's legislation on money laundering has improved, implementation and enforcement remain weak and of limited effectiveness due to a lack of expertise, co-operation, and resources within the Albanian supervisory authorities and judiciary and law enforcement agencies. Since 2001, the FIU has frozen the assets of 44 bank accounts and confiscated two office buildings.²¹ The limitations affecting enforcement can also be attributed to the low proportion of Albania's money that circulates within the banking system and can thus be effectively monitored. Other problems exist with regard to the inadequate licensing and regulation procedures for financial institutions under the country's commercial law. The process of identifying suspicious business transactions is greatly hindered by the lack of proper implementation and enforcement.

Moreover, there is a lack of co-operation between the police and judiciary in the tracking of cash flows resulting from illegal activities. The system of information exchange between the FIU and the prosecutor's office is not very effective at tracking financial transactions. In general, those believed to be perpetrators of financial crime are convicted of other offences, such as drug trafficking, fraud, or corruption, rather than money laundering, and no attempts are made to discover what became of the profits generated by the illegal activity. This is partly also due to a lack of financial expertise within the prosecutor's office and the courts, which makes it impossible to properly ascertain what constitutes a financial crime, and to identify money laundering schemes in particular.

21 According to the Minister of Finance of Albania at the Regional Conference on the Fight Against Money Laundering and Financing of Terrorism on 26-27 January 2004.

The Root Causes of Money Laundering

The role money laundering plays in Albanian society must be seen in the broader context of the political and socio-economic environments that contribute to its influence and operational capacity. The potential legitimization and entrenchment of laundered money within the structures of Albanian society gives cause for concern, as the country struggles with democratic and market reforms with a view towards closer integration with European structures. Issues such as poverty, weak governance, endemic corruption, organized crime, regional conflicts, and the Communist legacy are just some of the factors that warrant examination if a better understanding of the nature of money laundering in Albania is to be achieved.

Legacy of Dictatorship

Albania's development into a hub of organized crime has been facilitated by a history of dictatorships, which has helped breed an environment conducive to crime, nepotism, and corruption.²² The dictatorial, highly repressive, and isolationist regime of Enver Hoxha was instrumental in destroying much of the traditional social fabric that forms the basis of community life. Over the course of 45 years, government propaganda and the politics of fear served to undermine moral principles and corrode value systems, resulting in Albania's current difficulties in adopting democratic reforms.²³ Similarly, the dire state of the economy during this period and the ensuing poverty – aggravated by political polarization – created an environment conducive to crime and corruption, which has spread throughout the country's institutional structures since the fall of Communism.

Crime, Corruption and State Capture

Historically, smuggling and banditry have always been present in the Balkans, and this did not change under Communist rule. Albania itself has always been part of the Balkan Route used by smugglers and criminals to transport drugs from the Far East to Europe. With the demise of Communism, economic collapse, and the outbreak of civil wars following the disintegration of Tito's Yugoslavia, organized crime began to flourish. During the UN sanctions of the Socialist Federal Republic of Yugoslavia (SFRY), Albania functioned as a transit country for the smuggling of oil and other valuable

22 Cf. Senator Alberto Maritati, *Organized Crime in the Balkans with Reference to Albania*, paper delivered at the Conference on Organized Crime in Southeast Europe, The American University of Rome, 15 November 2002.

23 Cf. Eno Trimcev, *Organized Crime in Albania: An Unconventional Security Threat*, in: *Crushing Crime in Southeast Europe: A Struggle for Domestic, Regional and European Dimensions*, 6th Workshop of the Study Group "Regional Stability in Southeast Europe", Partnership for Peace Consortium of Defense Academies and Security Studies Institutes, Vienna, May 2003.

commodities to the SFRY. At the same time, Albanian crime groups managed to take control of the drug trade into Western European countries.²⁴

The long unmet needs of the Albanian people helped spur the development of an informal economy and led to a rapid growth in criminality. The fall of Communism unleashed an exodus of people from Albania and gave criminal groups the opportunity to flourish by smuggling people cross the Otranto channel (to Italy) as well as by engaging in the transport of drugs, arms, and trafficked persons. In a relatively short space of time, Albania's criminal fraternities reached a level of "efficiency" that rivalled even the established mafias of Italy, Turkey, and Russia. Given the geographic proximity of the two countries, co-operation between Albanian and Italian mafia groups was quick to develop, which enabled the Albanian groups to conduct business with other criminal networks worldwide. Weak government institutions also contributed to rendering Albania highly susceptible not only to criminal activities such as trafficking in drugs, arms, and human beings, vehicle theft, smuggling, and organized prostitution, but also corruption.²⁵

Corruption is endemic and extends beyond classical administrative corruption affecting public servants, to influence many other aspects of Albanian daily life.²⁶ Receipt of health care is often contingent upon paying a bribe to the medical or administrative staff. The education system is also affected, with only those with the "proper" means able to gain entrance to institutions of higher learning. The judicial system has also been contaminated by a degree of corruption that affects judges, prosecutors, attorneys, and administrative staff. The system, already weakened by a lack of professional capacities and infrastructure, is itself not respected by the public, and is therefore incapable of promoting respect for the rule of law. This view is supported by the low level of prosecutions and convictions, particularly among high level politicians and criminals. There were no convictions for money laundering-related crime in 2002 and only four in 2003.²⁷ In this regard, the Reformed Democratic Party deputy, Nard Ndoka, commented on the EU's corruption report on Albania: "There are very few instances of criminal proceedings; [...] corruption is tangible everywhere [...] the government is not really pre-occupied with fighting corruption in every cell and with the eradication of the roots of corruption, because it is widespread in all walks of life [...] The government has never condemned the persons who have committed violations and has not dismissed them accordingly."²⁸

24 Cf. Woodrow Wilson International Center for Scholars, Meeting Report 269 on an East European Studies seminar on "Organized Crime in the Balkans", 22 January 2002. Cf. also Hajdinjak, cited above (Note 16).

25 Cf. Maritati, cited above (Note 22).

26 Cf. GRECO, *First Evaluation Round. Evaluation Report on Albania*, Strasbourg, 13 December 2002, Greco Eval I Rep (2002) 9 E Final.

27 Cf. European Commission, Commission Staff Working Paper. Albania. Stabilisation and Association Report 2004. COM (2004) 203 final.

28 BBC Worldwide Monitoring, Albanian Politicians Comment on EU Draft Report, 26 March 2004.

Pervasive corruption²⁹ facilitates state capture by individuals or groups that try to influence the formulation of laws, regulations, and policies to secure special advantages. Even if the extent of state capture by organized crime in Albania remains to be quantified, there is strong evidence that criminal interests have infiltrated the country's political establishment.³⁰

The Political and Financial Collapse of 1997

The pyramid schemes that resulted in Albania's economic and political collapse in 1997 are by far the most illustrative example of the degree to which the Albanian state and government system have been subjected to state capture. These financial schemes, believed to be a means of laundering money from arms trafficking during the Balkan wars and illegal oil sales to the SFRY during the UN sanctions, were linked to Kosovo drug gangs and the Italian mafia. The schemes were later perpetuated by investments from even the poorest of the population. They were attracted by artificially high interest rate, which reached 44 per cent per month at their peak. The total amount of money invested in these schemes was almost two billion US dollars – approximately 50 per cent of Albania's 1996 GDP. The collapse of the schemes in early 1997 led to nationwide anarchy, riots, looting of the state armouries, prison breaks, and the deaths of over 2,000 people.³¹

Sali Berisha's ruling Democratic Party (DP) publicly supported the financial schemes. Berisha, the then president, even came to their defence when it was suggested that they were linked to money laundering by the Italian mafia. The parliamentary elections of 1996, which the DP won under suspicious circumstances, helped push interest rates to unsustainable levels, thus accelerating the growth of the pyramid schemes. Vefa Holding, the largest of the eleven schemes, had strong connections with the DP and was considered to have played a role in its political campaign financing. Despite regular warnings issued by the Bank of Albania to the government on the unsustainable rates of interest and the lack of proper licensing of some of the schemes, the government was a passive observer of the speculation frenzy. Its first public warning of the risks involved in the pyramid schemes was only made in October 1996. Government hypocrisy and probable collusion allowed some of the largest pyramid schemes to continue to operate, and even to advertise on television, after the passage of a law banning their existence and during the period of violent civil unrest.³²

29 In Transparency International's 2004 International Corruption Perceptions Index Albania ranks a poor 108th of 146 countries, see: <http://www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>.

30 Cf. Trimcey, cited above (Note 23).

31 Cf. Chris Jarvis, *The Rise and Fall of the Pyramid Schemes in Albania*, International Monetary Fund Staff Paper 47/2000.

32 Cf. *ibid.*

The disintegration of the Albanian state in 1997 was indicative of a political establishment and a political culture at an embryonic stage of development and an underdeveloped sense of community values. The Albanian political experience has been one of authoritarianism, whether under Turkish rule, the reign of King Zog, Hoxha's Communism, or Sali Berisha's leadership. None of these regimes was conducive to the development of a national identity, encouraging instead the resentment of the state that reinforced the clan-like culture and north-south polarization that characterized the country at the end of the Communist era and, to an extent, still does so today.³³

Although bloodshed was avoided, the end of Communism led to social chaos, economic destitution, and political in-fighting. The elected government of Sali Berisha, Albania's first non-Communist president, continued to demonstrate the clan-like behaviour of past regimes, and the transition and privatization processes featured considerable nepotism and favouritism. Ultimately, resignation at the lack of political change, coupled with the absence of alternative institutions for citizen participation in decision making and governance, created an environment favourable to the penetration of crime into politics.³⁴ The withdrawal of motivated individuals from the political scene and the prohibitive cost of political campaigning has resulted in a breed of businessmen-politicians who finance their own parties and pay young people to become members. This practice of buying support further cultivates a system of crime and corruption that is rooted in Albania's poor socio-economic state and entrenched political leadership.

Albanian civil society, which, given its short history, naturally remains weak, has a limited ability to challenge political parties and government institutions. In this environment, Transparency International (TI), for example, has not been able to establish a local office due to the inability to identify a respectable partner base.³⁵

The entrenchment of Albanian politicians is responsible for the constant political instability and incremental and often regressive nature of reforms. The Albanian political landscape has changed little since the fall of Communism. Fatos Nano (Socialist Party) served as the country's first prime minister and, at time of print, is currently serving his third term, despite there having been periods when he was discredited, faced allegations of corruption, and was even imprisoned. Similarly, the current opposition leader, Sali Berisha of the Democratic Party (DP), who was president at the time of the 1997

33 Cf. Klarita Gerxhani/Arthur Schram: Albanian Political-Economics: Consequences of a Clan Culture, in: *Journal for Institutional Innovation, Development and Transition*, Volume 4, 2000, pp. 5-14.

34 Cf. Trimcev, cited above (Note 23).

35 Cf. International Crisis Group (ICG), *Albania: State of the Nation 2003*. Balkans Report No. 140, 11 March 2003.

pyramid-scheme debacle, continues to be active on the political scene despite being blamed for the country's mayhem.

Economic State of Affairs

High levels of poverty, aggravated by very poor infrastructure and regular power shortages, has contributed to the growth of an informal economy and given rise to crime and corruption in Albania. Some ten per cent of the labour force participates in the informal sector, often for an extended period of time, rising to around 24 per cent in urban areas. The overall poverty rate in 2002 was 25.4 per cent. Per capita GDP of ca. 1,230 euros placed Albania among the poorest of the transition countries. The unemployment rate in 2003 reached 16 per cent, although unofficial figures suggest a higher figure.³⁶

The worst indices of poverty are concentrated in rural areas and the northern part of the country, where poverty levels are 66 per cent higher than in Tirana and 50 per cent higher than in other cities. Fifty-three per cent of Albanians live in rural areas. The average income in such areas is only two thirds of that in urban zones, increasing the dependency on private money transfers from abroad (remittances). Moreover, these mountain regions suffer a great deal from economic isolation due to the lack of effective transportation infrastructure. The difficulty of sustaining a predominately agrarian economic base in an unfavourable climate is also pronounced. Security problems in adjoining countries have complicated the situation thanks to the limited effectiveness of border controls, and this has created a haven for arms smuggling and other illegal activities. Largely due to the dismal economic situation, rural areas are also affected by extremely low levels of school attendance, with only about 25 per cent of secondary school-aged children enrolled in classes. This phenomenon has serious implications for crime and (sub-regional) stability, as widespread desperation leads families and individuals to support illegal activities as a means of survival.

A distinct feature of Albanian society is the financial dependence on remittances from abroad. The result of high emigration rates in earlier periods, the Albanian diaspora helps fuel the formal and informal economies. Approximately 22 per cent of households receive remittances, which are worth 47 per cent of the average annual household income. Much of this money is received and kept in cash, epitomizing Albania's cash economy.

A weak and poorly regarded banking sector reinforces Albanians' preference for cash, which accounts for 90-95 per cent of transactions.³⁷ This explains, in part, Albania's incapacity to combat money laundering: It is simply unable to monitor and regulate the large flows of income and profits stem-

36 Cf. World Bank, *Albania Poverty Assessment*, cited above (Note 18).

37 Cf. Financial Action Task Force on Money Laundering (FATF), *Annual Report 2001-2002*, Annex D, cited above (Note 14).

ming from cash-based business activity in the informal economy and outside the banking system.

Conclusion: Opportunities for the Future

Money laundering in Albania represents a major challenge for the government and other stakeholders in Albanian society. Breaking the cycle of weak institutions, corruption, political entrenchment, and profit-driven criminal activity that perpetuates money laundering in Albania will require a major commitment by both politicians and the general public, as well as the support of the international community. A comprehensive, multi-sector approach that addresses the root causes of money laundering would be a key means of assisting Albania to overcome this debilitating scourge and providing it with a solid foundation to constructively develop its political, economic, and social systems.

The OSCE recognizes the destabilizing impact of money laundering and assists its participating States in combating it. Guided by Decision No. 1 on “Combating Terrorism” adopted at the Ninth OSCE Ministerial Council in Bucharest in December 2001, Decision No. 1 on “Implementing the OSCE Commitments and Activities on Combating Terrorism” adopted at the Tenth OSCE Ministerial Council in Porto in December 2002, and in accordance with the OSCE Strategy Document for the Economic and Environmental Dimension adopted at the Eleventh OSCE Ministerial Council in Maastricht in December 2003,³⁸ the OSCE co-operates closely with the United Nations Office on Drugs and Crime (UNODC) in supporting the efforts of OSCE participating States to strengthen their ability to combat money laundering. The co-operation between the UNODC Global Programme against Money Laundering (GPML) and the Office of the Co-ordinator of OSCE Economic and Environmental Activities (OCEEA) started in 2002 as a direct implementation of the Programme of Action endorsed at the December 2001 Bishkek International Conference. An initial joint activity was a working session on these issues in the framework of the Tenth OSCE Economic Forum in Prague in May 2002. On 11 July 2002, as a follow-up to this event, the 55 OSCE participating States committed themselves by means of Decision No. 487 of the OSCE Permanent Council to complete the FATF self-assessment ques-

38 Cf. Organization for Security and Co-operation in Europe, Ninth Meeting of the Ministerial Council, Bucharest, 3 and 4 December 2001, in: Institute for Peace Research and Security Policy at the University of Hamburg/IFSH (ed.), *OSCE Yearbook 2002*, Baden-Baden 2003, pp. 391-417, here, pp. 393f.; Organization for Security and Co-operation in Europe; Tenth Meeting of the Ministerial Council, Porto, 6 and 7 December 2002, in Institute for Peace Research and Security Policy at the University of Hamburg/IFSH (ed.), *OSCE Yearbook 2003*, Baden-Baden 2004, pp. 421-455, here, pp. 442f.; and Organization for Security and Co-operation in Europe, Eleventh Meeting of the Ministerial Council, Maastricht, 1 and 2 December 2003, MC.DOC/1/03, 2 December 2003, at: <http://www.osce.org>.

tionnaire by 1 September 2002.³⁹ Since 2003 OCEEA and GPML have been implementing national workshops on combating money laundering and suppressing the financing of terrorism in a number of OSCE participating States.

In the case of Albania, the OSCE supports the government's efforts to combat money laundering and organized crime by providing technical assistance to the ministry of finance's FIU. Activities aim at building technical capacities by training staff in analysis techniques and developing financial analysis software. Support is also provided for efforts to increase awareness and co-operation among all the government agencies, banks, and other institutions subject to the Law on the Prevention of Money Laundering. In attempting to promote dialogue and co-operation, the OSCE provided the government with financial and technical assistance for the organization of a Regional Conference on the Fight against Money Laundering and Financing of Terrorism held in Tirana in January 2004, with the co-operation of the US Treasury Department, the Police Assistance Mission of the European Community to Albania (PAMECA), and the FIUs of the Balkan states.

In addition, the OSCE hopes to continue to support projects that aim to address the root causes of money laundering as a means of promoting socio-economic development and stability by encouraging the younger generation to better understand the implications of crime and corruption for their country. A recent effort of this kind was the development of a business ethics curriculum for university students, which was accompanied by a series of open classes. It is hoped that this project, which was financed by the German government in 2003, will be expanded to universities throughout the country in 2004 and beyond.

Including recommendations of the regional money laundering conference mentioned above, the following are key steps that would contribute to the fight against money laundering in Albania:

- Completion of the legal framework, including establishing specialized and qualified structures for implementation and enforcement.
- Creating a better understanding of the links between corruption and organized crime as a prerequisite in the fight against money laundering.
- Strengthening Albania's banking and financial sector and promoting its use among the public; eliminating illegal foreign exchange operations and encouraging proper enforcement of legal exchange offices.
- Establishing joint training and capacity building programmes for representatives of the police, customs, the prosecutor's office, and the judiciary to develop the expertise needed for proper identification of money laundering schemes and the efficient prosecution of financial crime, including the tracking and confiscation of financial profits.

39 Cf. Organization for Security and Co-operation in Europe, Permanent Council, Decision No. 487, Financial Action Task Force (FATF) Self Assessments on Terrorist Financing, PC.DEC/487, 11 July 2002.

- Enhancing dialogue and information exchange on a national level among the FIU, police structures, prosecutors, and courts.
- Increasing regional and international co-operation in the area of identification, seizures, and confiscation of criminal assets.
- Amending legislation to comply with international conventions and the 40 recommendations made by the FATF.⁴⁰
- Monitoring and regulating business formation, in order to better track sources of money relating to new business proposals.

Implementing these and other measures and enhancing regional and international co-operation will help build the necessary capacity and infrastructure needed to tackle the growing problem of money laundering in Albania.

40 Albania is a member of MONEYVAL, the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures in Council of Europe member countries that are not members of the Financial Action Task Force (FATF), see: http://www1.oecd.org/fatf/Ctry-orgpages/org-pcrev_en.htm. MONEYVAL has observer status within the FATF. The FATF's 40 recommendations can be found at: http://www1.oecd.org/fatf/pdf/40Recs-2003_en.pdf; cf. also Note 15.