

# Typological analysis in the field of financial monitoring on the example of import-export operations

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**Аннотация.** The relevance of the study is due to the fact that despite the high level of state control, the sphere of international trade is attractive to malefactors and can be used to withdraw dirty money abroad, or invest it in the legal economy under the guise of honestly earned income. To successfully solve the problem of laundering the proceeds of crime in the course of foreign economic operations, a systematic approach and scientific understanding of the empirically obtained results are required. In this connection, the author sets the purpose to study current trends in the laundering of proceeds of crime in foreign economic activity, and methods of counteraction. The research was carried out using the typology method. The application of typological analysis in economics and other sciences is considered. The paper considers and systematizes the typologies of money laundering through import-export and transit operations. This includes «carousel» trading schemes, making transit transfers for fictitious imports and fictitious exports, transit of goods through the customs territory of the state. It is concluded that the money laundering schemes have typical features, and the typological analysis can increase the effectiveness of the efforts of state bodies in the fight against illegal operations. The research results can be used for automatization the detection of fraudulent schemes and deviant economic entities.

**Ключевые слова:** import-export operations; typological analysis; financial monitoring.

**JEL codes:** B17; B27

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## Introduction

The problem of money laundering by means of foreign trade is global, and its solution requires the combined efforts of many countries. In the Russian Federation, the Federal Customs Service is in charge of countering offenses in the field of foreign trade, and Rosfinmonitoring is in charge of combating money laundering. Analysts of Rosfinmonitoring and the Federal Customs Service of Russia in their professional activities have to deal with the processing of large heterogeneous information arrays. One of the ways to improve the efficiency of detecting and suppressing violations in foreign trade is typological analysis.

## Purpose of the study

Despite the high level of state control, the sphere of international trade is attractive to criminals and can be used to withdraw «dirty» money abroad, or invest it in the legal economy under the guise of honestly earned income. The economic and political integration of countries is conducive to the liberalization of trade relations between them, which, in addition to a positive effect, can lead to the emergence of new income legalization schemes.

The sources of income can be both “traditional” for criminal elements, such as trafficking in drugs, weapons, people, as well as misappropriation of public funds, bank loans issued under forged documents.

Part of the money can be received as a result of illegal foreign trade operations, and then sent to maintain and expand legal business. Such foreign trade operations can be carried out to disguise illegal fraud, including smuggling, the income from which is transferred to controlled foreign companies or to accounts

in foreign banks .

At the same time, a systematic approach and scientific understanding of the empirically obtained results are required to successfully solve the problem of laundering the proceeds of crime in the course of foreign economic transactions. Therefore, the purpose of the work is to study current trends in the laundering of proceeds from crime in foreign economic activity, and methods of counteraction.

### **Methods**

Typology is a method of scientific knowledge based on the analysis of systems of objects and their synthesis based on a model or type. The result of typological description and comparison is also called typology .

Typology as a method of scientific knowledge is applicable in all sciences related to the description, comparison and categorization of heterogeneous objects. An illustrative example is biological taxonomy, a scientific discipline dedicated to the development of principles for describing and systematizing all existing and extinct organisms.

Upon reaching its theoretical maturity, typology conveys the structure of the system under study, the patterns of its functioning, and allows predicting the existence of new, not yet identified objects.

The typological approach is applicable in geographical, economic and geographical research, as well as research in the field of regional and sectoral economics. In particular, works are devoted to the typology of the socio-economic development of regions [1-5].

Typological analysis is widely used in empirical sociology, for example, in the works of T. Parsons [6], J. Ritzer [7], G. Hofstede , S. M. Pyastolov [8].

The economy typological approach began to use Saint-Simon [9] Marx [10] and then it was developed in theories Comte, E.Djurkgejma [11], Aron [12] J. Galbraith [13] and other researchers. Articles [14-20] are devoted to the study of typologies of the informal sector of the economy.

There are empirical and theoretical typologies. The first ones are based on processing, analyzing and generalizing experimental data, identifying stable signs of similarity and difference, their systematization and interpretation. Theoretical typologies require the development of a model of an object based on generalized features, principles of taxonomic description of a set of objects under study. Theoretical typology serves as the main means of explaining an object and developing its theory .

In the field of financial monitoring, the typologies are empirical - based on the accumulated knowledge of experts about the field of research, carried out investigations, and judicial practice.

A typology in the field of financial monitoring is a combination with similar characteristic features of objects or groups of objects, which are combined into stable structures with internal unity and stereotyped behavior, and are aimed at legalizing income.

### **Money laundering scheme in foreign trade activities**

Trade legalization schemes are based on the ability of the organizers of a crime to hide the visible link between the proceeds and their source of origin. With the help of shell companies, they organize networks of legal organizations around the world that conduct transactions in financial institutions .

When carrying out export-import and transit operations, legalization can be carried out in the form of «carousel» trading schemes, making transit transfers for fictitious import and export, transit of goods through the customs territory of the state.

### **Results**

A fairly common scheme for carrying out smuggling is the registration of documentation for the transit of goods through the customs territory. After crossing the border, these documents are destroyed and are made new, supposedly on the basis of the agreement between residents, which gives the smuggled goods «legitimate» form .

In order to legalize the smuggled goods are often used dummy companies - they draw up a contract,

and make payments on their accounts.

Example. Smuggling and tax evasion. The US resident company accepted shipments of alcoholic beverages and tobacco from domestic and foreign suppliers and placed them in bonded warehouses and free trade zones (FTZs). The company repackaged the products and shipped them on behalf of another organization to other bonded warehouses and other FTZs. As a result, the products were effectively smuggled into the markets. The income was legalized mainly through the acquisition of real estate in different countries.

It turned out that in the implementation of criminal schemes based on smuggling, transshipment and sale of tobacco products without paying taxes, the company used double invoicing, fake customs documents, fake stamps and signatures of customs officers. The scheme also included marketing to foreign diplomats.

During a search in the office of a US resident company, law enforcement agencies seized alcohol and tobacco in the amount of 947 thousand dollars. United States prepared for smuggling out of the country.

As a result of the investigation, 12 people were arrested and sentenced, who also collaborated with an organization involved in arms and drug trafficking and associated with the terrorist group operating in the Philippines, Abu Sayyaf. .

The above example illustrates vulnerabilities in the management of customs warehouses and FTZs. Operations within the zone are not properly monitored. Containers and cargo are delivered to the organization's warehouse in the free zone, where the products are repackaged and labeled with new labels. This changes the country of origin of the product, the name of the organization and the product, its quantity and cost. Insufficient control in the FTZ creates an opportunity to import and place products in a customs warehouse or smuggle them out.

### **Carousel product schemes**

Carousel scheme gets its name due to repeated the same type of transactions between its participants. The scheme is based on the possibility (in order to avoid double taxation) to return VAT from the budget for exported products. To imitate foreign economic activity and create the appearance of the right to receive VAT refunds, fraudsters forge documents confirming the performance of export and import operations.

Primary financing of the scheme can be carried out through offshore companies, or upon obtaining a loan from a bank or a loan from a legal entity in the amount of the estimated VAT .

Among the goods that are most often used in such circuits are mobile phones, computer microcircuits, as well as goods that are small in size and high in value. If goods are in short supply, valuable products are replaced with boxes of sand. In some cases, a fraudulent operation is carried out only by documents without actually moving the goods [21].

Simplified, the "carousel" scheme looks as shown in the figure below (see figure 1), and consists of several stages: the exporter receives funds from a non-resident importer; breaking the «chain» of transactions when transferring funds to the importer; and transfer of funds to a non-resident for further «scrolling». Thus, funds transferred abroad are returned by non-residents to the country.

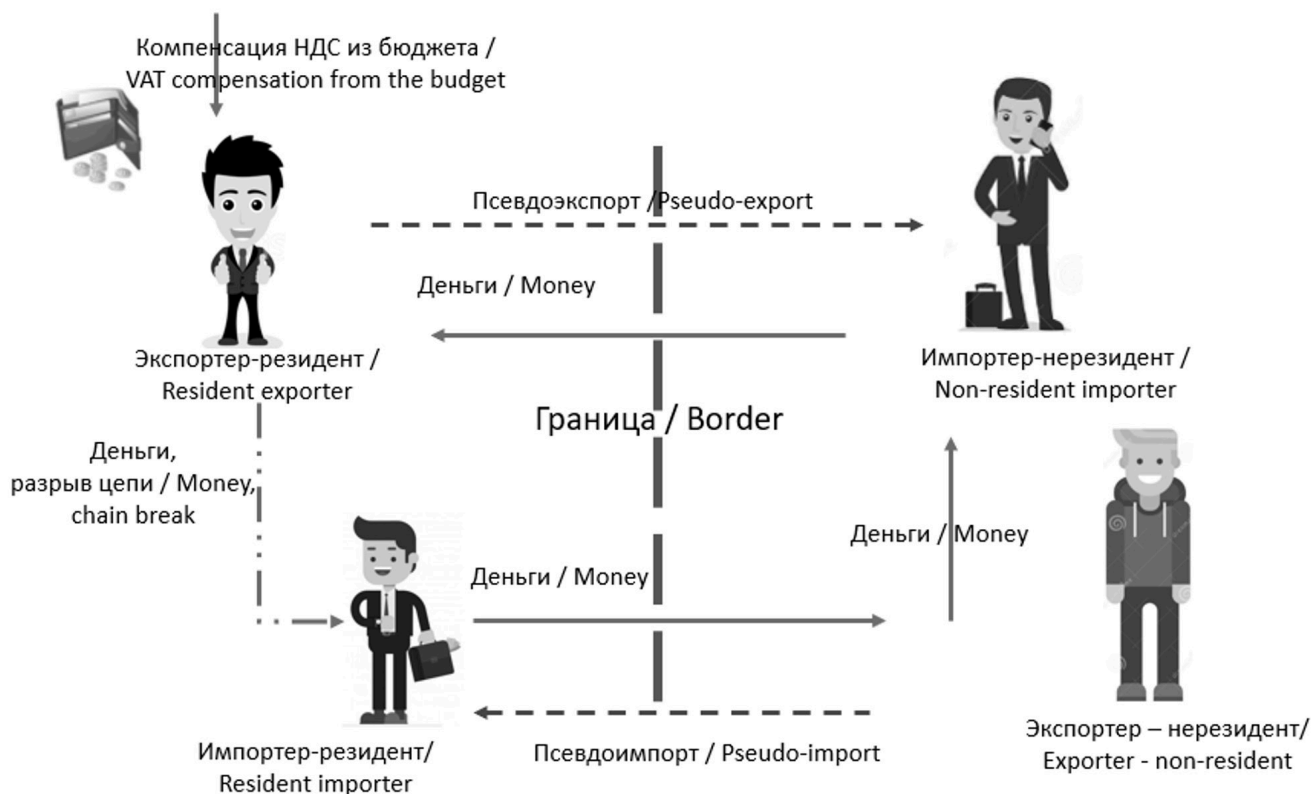
Since the export of goods is subject to a zero VAT rate, the lower part of the diagram is hidden. After the transfer of funds by the exporter to the importer, all documentary traces are destroyed.

When conducting export operations, attackers give preference to foreign counterparties from offshore companies.

Securities transactions can be used to transfer money from the exporter to the importer, thus breaking the link with the source of the funds.

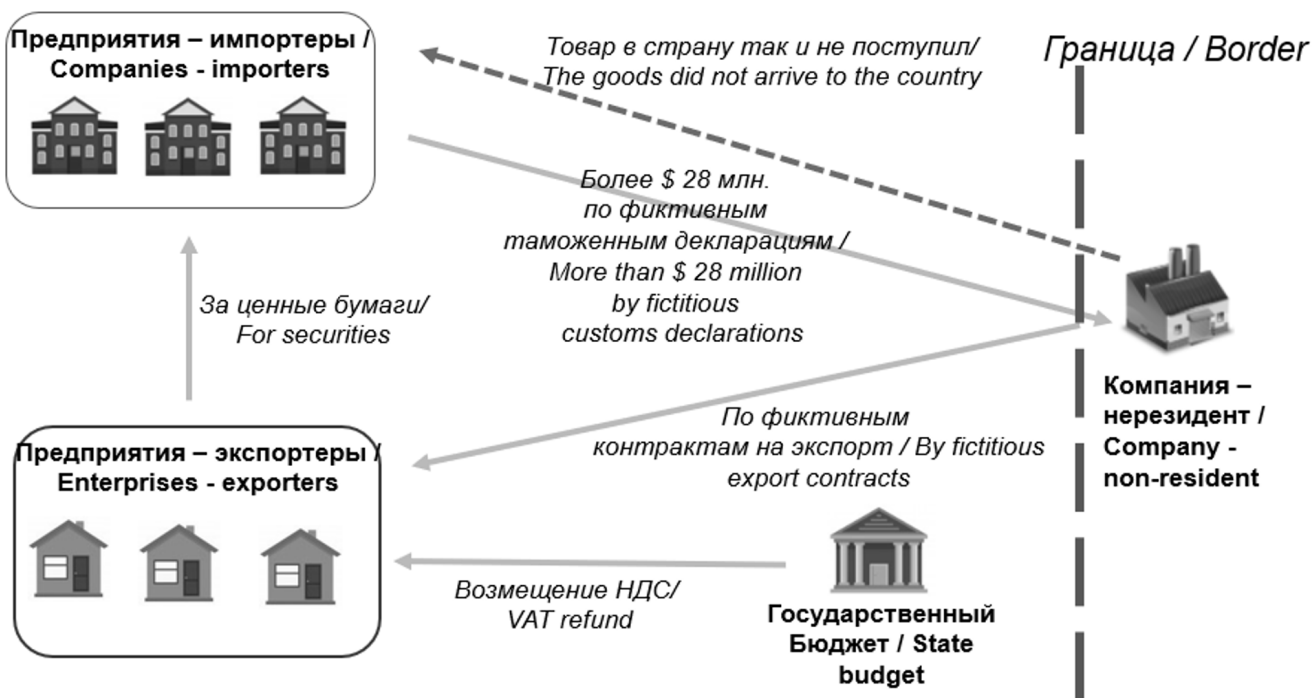
Example. Two importing organizations, under the guise of payment for the goods, transferred money to a non-resident organization abroad in the amount of 28 million US dollars (see figure 2).

The importers submitted customs declarations to the bank. The check showed that these declarations were fake, and there was no real supply of goods to the country.



**Рисунок 1 / Figure.1** «Карусельная» товарная схема / «Carousel» product scheme

Источник / Source: составлено автором по материалам / compiled by the author based on materials<sup>5</sup>



**Рисунок 2 / Figure.1** Пример «карусельной» схемы с незаконным возмещением НДС / An example of a «carousel» scheme with illegal VAT refunds

Источник / Source: составлено автором по материалам / compiled by the author based on materials<sup>9</sup>

Under the guise of fulfilling the conditions under export contracts, funds were returned to the country to the accounts of exporting organizations. At the same time, fake contracts were used and claims were made

for VAT refunds.

Then, through the sale and purchase of bills and savings certificates, the exporting organizations transferred these funds back to the accounts of the importing organizations. So the money was «scrolled» several times.

Transit payments

There are cases of transit of funds through the country through the conclusion of fake import and export contracts.

Example. The FIU of country X has identified transactions of a newly formed company «A», which was founded by an eighteen-year-old citizen.

It turned out that company «A» entered into contracts for the supply of goods with company «B» from country Y, which transferred funds to company «A».

Company «A» also transferred funds to companies that have accounts in banks in Cyprus and Switzerland under foreign trade agreements for the supply of goods.

It turned out that the goods did not leave the country of production.

It was found that the funds in favor of the company «B» are transferred by the companies' resident of country Y, acting as a «accumulator» of dirty money, by one-day firms. It became known that the bank in which the accounts of these organizations were opened had its banking license revoked due to non-compliance with the requirements of anti-money laundering legislation.

So, over a period of about 9 months, 756.4 million dollars were transferred through country X. The beneficiary firms had accounts in six EU countries.

Based on the materials of the financial investigation, a criminal case was opened, and the funds on the accounts were blocked.

Discussion

The above examples allow highlighting the following indicators of money laundering schemes using foreign trade transactions:

- recurring transactions with the same (or nearly the same) value of goods (for example, \$ 100 per item);
- minimum payment terms (sometimes within one day);
- It takes no more than one day to process the confirmation of delivery by different companies participating in the scheme;
- the scheme contains settlements with dummy companies;
- the settlement accounts of the supplier and the buyer are in the same bank;
- lack of economic effect in settlements with promissory notes, bearer securities;
- falsification of imports of goods;
- obtaining a loan from a bank or a loan from an organization in an amount equal to the refundable VAT;
- significant discrepancy in the declared value of products at the customs of different countries during the export and import of products;
- transit transfer of the same amount of funds along the chain from one to another participant in the scheme within one day;
- demand for VAT refund from a company, whose partners include organizations with signs of dummy companies;
- trade turnover has grown significantly in a short period of time;
- withdrawing large amounts of cash from the account;
- making an advance payment under foreign economic contracts and the subsequent termination of these contracts;
- provision by a non-resident of an interest-free loan in foreign currency for a long term.

### Conclusion

As a conclusion, it can be noted that a specific scheme of money laundering is determined by various



conditions, including the «specialization» of criminal activity that is the source of laundered funds, its scale and geography, professional and ethnic composition of the criminal group.

The methods of legalization of income are very diverse and are constantly updated as technology and information technologies develop, as well as changes in geopolitics and legislation. At the same time, money laundering schemes have typical features, and typological analysis can increase the effectiveness of government efforts in the fight against illegal operations.

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# Типологический анализ в сфере финансового мониторинга на примере импортно-экспортных операций

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**Аннотация.** Актуальность исследования обусловлена тем обстоятельством, что, не смотря на высокий уровень контроля со стороны государства, сфера международной торговли является привлекательной для злоумышленников и может быть использована для вывода «грязных» денег за рубеж, или инвестирования их в легальную экономику под видом честно заработанных доходов. Для успешного решения проблемы отмывания доходов, полученных преступным путем при совершении внешнеэкономических операций, требуется системный подход и научное осмысление полученных эмпирически результатов. В связи с чем автором в работе поставлена цель исследования актуальных тенденций отмывания доходов, полученных преступным путем, при ведении внешнеэкономической деятельности, и методов противодействия. Исследование проводилось методом типологии. Рассмотрено применение типологического анализа в экономике и других науках. Рассмотрены и систематизированы типологии легализации денежных средств при помощи импортно-экспортных и транзитных операций. Сюда входят «карусельные» торговые схемы, совершение транзитных перечислений по фиктивному импорту и фиктивному экспорту, транзит товаров через таможенную территорию государства. Сделан вывод о том, что схемы по отмыванию доходов обладают типичными признаками, а типологический анализ способен повысить эффективность усилий государственных органов в борьбе с незаконными операциями. Результаты исследования могут быть использованы в целях автоматизации выявления мошеннических схем и недобросовестных хозяйствующих субъектов.

**Ключевые слова:** импортно-экспортные операции; типологический анализ; финансовый мониторинг