CHALLENGES OF NEW METHODS OF MONEY LAUNDERING FOR THE IRAQI BANKING SYSTEM

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ABSTRACT

Black (or dirty) money: It is money obtained from illegal activities, and the process of legalizing that money is known as "money laundering". The world and Iraq suffered from this crime and its consequences until it became a serious threat to the banking sector and the economies of most countries. In the current years, the launderers have benefited from the use of technology, globalization and communications to invent new ways to launder their dirty money. This research is an embodiment of this case. Where modern methods (in addition to traditional methods) used by money launderers, and their impact on banks and the economy, were presented and discussed, with special reference to Iraq.

Keywords: Money Laundering, Dirty Money, Black Money, Iraqi Banks.

INTRODUCTION

Money laundering and money laundering methods occupy an important place in today's crime economy. Because money launderers are harming the economy and social structure and also change economic indicators in an unusual way. People involved in illegal acts generally try to hide the proceeds of the relevant sources, and therefore the revenues collected are included in the system through money laundering methods, by showing that they were obtained from legal sources. In particular, globalization and technological developments add new methods to traditional money laundering methods and cause profound effects on the economic structure, thus decreasing confidence in economic data and shrinking the state.

The increase in the amount of black money day by day has led to the need for countries to develop new policies in the field of combating black money. The amount of enrichment generated by the proceeds of black money has made the economic, social and political systems of the countries more threatening than before. With the impact of technological developments, the development of new methods of money laundering began and the need to move to a different stage and bring out new policies in terms of the effects of money on the economy and the fight against money appeared. As a matter of fact, the volume of black money and the current negatives arising from the international circulation of the money in question are disturbing many countries of the world.

Effective struggle against traditional and new methods of money laundering requires a successful analysis of the process and methods of money laundering and the effects of money laundering on the economy. It is important for policy makers and executives in the banking sector to be familiar with the new methods of money launderers, so that they can reduce them and make their banks clean of dirty money.

Definition of Black Money

The term "*money*" emerged in color features such as black, gray and white, with the classification of money according to its source. According to the generally accepted definition, white money is income that is legally earned and taxed, and gray money is income that is legally earned but not taxed.

In order to avoid this, it can be expressed as unregistered income, and black money can be expressed as illegally earned income in general (Karadoman, 2013: 4). Among them, black money is the most popular and well-known term.

Black money is not a narrow concept that can be explained by relating it to a single field. Definitions of black money differ (Ozturk, 2003: 146);

In economic terms: income resulting from ignoring and violating the general rules of the economy.

In the social sense: It is the income obtained from all kinds of work that is not suitable for the society and harmful to social life.

In the moral sense: It is the income obtained from the conduct of activities contrary to moral values that are not accepted by the society or that are accepted even if not prohibited by law.

In the legal sense: Income from the commission of previous offenses determined by the state. Black money is legally black money.

In Article 1 of the European Council Directive 91/308/EEC, a narrow definition of drug-based black money is made by saying “all kinds of gains from and participation in drug-related activities”. Following the idea of expanding this definition and as directed by the Council of Europe in the Vienna Convention; He tried to expand the definition by saying, “*All kinds of tangible or intangible, movable or immovable goods with economic value and these vehicles are considered black money if they are obtained from activities considered criminal*” (Epek, 2000:3).

Money laundering

Money laundering describes everything that is made from a structure obtained from the ways used as the proceeds of crime (De Koker, 2007: 4). Money laundering activities (2000 18): According to another definition, money laundering, organized crime, which emerges with the road trip to becoming a legal entity, is estimated to be legalized by integrating the income obtained into the system (Ergulle, expressed). In the definitions are the concealment of illegally obtained money and the definitions of legal starting points.

Money laundering, with its English equivalent “*money laundering*”, is a concept that first emerged in the USA. In the 1920s, the head of the FBI, who was fighting organized crime in the USA, was examined about the products of Al Capone. Because of this accident, Al Capone was convicted of tax evasion, "*money from laundries*" to prepare to prepare his income from the crime.

Washing or “*money laundering*” (in English money laundering) entered the literature. Today, money laundering has become a common problem of all countries (Gorgun, 2011: 6).

In order to understand the money laundering process, the subject should be evaluated together with the concepts of "*preliminary crime*" and "*proceeds of crime*". In order to talk about laundering in general (MASAK, 2018);

1. A crime has been committed (premise crime),
2. Any economic value has been obtained as a result of this crime (crime revenue),

3. Acts aimed at removing these economic values from their illegal nature and giving them a legal appearance must have been committed.

It is possible to evaluate money laundering in two ways. Initial income may be illegal from the start. In this case, we are talking about money that is obtained from the commission of a crime in an organized way or alone and that is "*black*" from the beginning. Secondly, the value of the assets acquired through legal means is laundered by concealment. In other words, the income obtained in accordance with the law later becomes black money. The asset value that is the subject of laundering here is actually obtained through legal means, but it is hidden in order to avoid the tax amount to be paid by the tax legislation (Yücebaş, 2011: 102).

Developing countries including Iraq have lost control of their domestic economic policies due to illegal capital accrued from money laundering activities and other economic and financial crimes. Policy errors of money laundering on financial behavior and macro-economic performance due to measurement errors in national account statistics; volatility in foreign exchange and interest rates due to unexpected cross-border transfers of funds; monetary instability due to unhealthy asset structures; reduction in tax revenue and change in public expenditure allocation by creating a tax gap due to incorrect and incomplete income declarations; resource inefficiency due to distortions in asset and commodity prices; Due to the perception of being associated with crime, it can have effects in different forms such as pollution. It has been proven that these effects result in the loss of control of national economic policies in developing countries (Aluko and Bagheri, 2012: 444)

Money laundering stages

The stages of money laundering have been likened to washing dirty clothes. In the first stage, it is placed in the washing machine, in the second stage it is washed and separated, in the third stage it is removed from the washing machine and the process ends with the integration stage. These stages are explained one by one below.

Assignment

The deposit stage, also called diversion or prewash, is the most difficult stage in criminals' money laundering activity and the most important for public officials. Because at this point, there is a very close relationship between the value of the asset and the illegal source from which this value is obtained. At this point, it is very easy to establish the relationship between the value of the assets arising from crime and the crime that is its source (Aydın and Yılmazer, 2014: 457). Because at this stage, it can be detected from the source of black money and prevented from moving to other stages. Money at the placement stage; It can be taken physically from abroad and deposited in a bank in countries with low supervision, or it can be divided into small amounts (less than the notification amounts) and deposited in different banks in the country, in accounts opened in their name from different people. It can be used to buy real estate, luxury cars, jewellery, antiques or works of art. It can be converted into financial instruments such as stocks, bonds, bills, checks and policies before depositing money into bank accounts.

Decomposition stage (layering)

At this stage, a series of financial transactions, similar to legal transactions in terms of frequency, volume and complexity, are carried out in order to hide that the source of the fund is black, that is, to separate the illegal income from the source, and by hiding the real identities of the owners of the black money. In order to minimize the risk of tracking the transaction volumes and qualities, care is taken to make too many transactions. In other words, the control mechanism is tried to be overcome by using complex financial transactions. Indeed, after many transactions, the investigator loses sight of the starting point of financial circulation (Ergül, 2001: 10). Since actions are based on the motive to create complex transactions, the more transactions are made, the more solidly the purpose of concealment is achieved. This stage requires a complex banking bureaucracy. Once the money, divided into small amounts, enters the banking system, it begins to be transferred from bank to bank, from country to country. In order not to arouse suspicion, it is kept in each for short periods, and sometimes this process is compounded with other quantities. This phase can sometimes occur simultaneously with the first phase. For example, income can be both placed and transferred if financial institutions cooperate with launderers (MASAK, 2018).

Integration phase

In the integration phase, black money, disconnected from its illegal source, enters the financial system without arousing suspicion. At this stage, the money is ready to be used. It is no longer possible to know that the history of money is illegal. At this stage, it is possible to purchase movable or immovable property, purchase stocks, treasury bills or bonds, pay debts or show collateral with black money. Again, it can be shown as the legal income of the company established as a front, mixed with legal gains, and integration can be achieved by taking loans from off-shore banks (Taşdelen, 2003: 39). At this stage, the money is reused or directed to investments, thus providing a kind of return to home.

Money laundering methods

The above-mentioned three-stage classification-based approach falls short of explaining the problems posed by money laundering above some levels. This approach assumes that laundered funds will be automatically reinvested in some traditional activity (consumption, productive investment). However, over some amounts, the opposite of what seems reasonable occurs. Introducing large amounts of black money into the financial system requires advanced methods (Ergul, 2001: 14). So much so that most of the time, the laundering method is determined according to the amount of money. Laundering methods vary from country to country, depending on the variety of instruments used in financial systems. In addition, today, those who earn illegal income no longer launder their own money; they use professional launderers in this business. Those dealing with money laundering are accountants, bankers, lawyers, financial advisors, etc. who know their job very well. (MASAK, 2018). Many of the laundering methods, the number of which is not known exactly, are the classical methods known by the market actors. However, the wave of globalization and technological developments has added new ones to these methods.

Classic money laundering methods

The money laundering method is quite large in number. Some of the most widely known methods will be described here.

The smurfs (smurfing) method

Smurfs are the most well-known method of money laundering. It requires the participation of a large number of people whose job it is to deposit cash or provide bank policies below the amount that requires notification. The use of this technique is used in the USA where there is an obligation to report cash transactions over a certain amount ($ 10,000) and above) and is common in Canada (Ergul, 2001: 30). The word smurfs is translated from the cartoon character. The Smurfs (The Smurfs) are a large group of independent beings. The inventor of the translation of this word is Miami-based lawyer Gregory Baldwin (Mavral, 2001: 66). In the Smurfs method, people who generate income from crime try to avoid the reporting obligation by dividing the funds they have obtained into amounts close to the limit, through many people, in a way that will remain below the limits set by the public authority. In this method, the proceeds of crime are usually divided into amounts close to the limit and deposited by many people in many banks or different branches of the same bank. Since the said amounts are below the determined limit, the bank does not have a notification obligation (Gorgun, 2011: 38). In this method, it is possible to escape the control mechanism by creating too many transactions.

Structuring method

It may not always be possible to find a large number of people (smurfs) to divide the funds into small amounts and deposit them in the bank. In this case, it may be possible to avoid notification by increasing the number of transactions instead of the number of people. In this method, the technique of dividing the transactions is used in order to avoid notification or leave no trace. A transaction based on a very high amount is divided into multiple transactions based on small amounts. For example, an amount of 29 million dollars was laundered by transferring more than 40,000 transactions of 600 dollars each to Ecuador (TBB, 2013: 19-20). Although the shredding method is similar to the smurf method, it differs from the aforementioned method in terms of using fewer people.

Onshore banking – tax havens (off-shore) method

Tax havens are places where money laundering is easy and used, especially through offshore banking and shell companies. Offshore banking is a type of banking that operates in centres established in free zones and provides attractive working conditions thanks to the financial and legal advantages brought by excluding it from the scope of the legal regulations to which the banking system in the country is subject. Coastal banks are not private banks, but basically collect deposits, make loans and conduct fiduciary transactions like other banks. However, the deposits deposited in these banks are not guaranteed by the state (Bahtiyar, 2000: 196).

Many of the features of tax havens include little or no taxation of income, regardless of its source, practice of banks or trade secrets, absence of foreign exchange control, ease of founding or owning companies, banks, or insurance companies (regularly in well-known western newspapers and on the Internet). Advertisements are published). Other factors that play an important role in the selection of tax havens for money laundering include political and monetary stability, transportation facilities, availability of modern means of communication, ease of transportation, proximity to developed countries in terms of geographical location, expert personnel (tax consultants, lawyers, etc.). Ergul, 2001: 31). The tax havens preferred by those who avoid transparency and accountability are determined by money launderers according to the aforementioned factors.

Auto finance loan-back method

In this method, the black money delivered to the offshore centres through the existing financial institutions is returned to the owner as a loan. The transactions can be listed as follows (TBB, 2013: 23);

1. The money launderer goes to the offshore center and deposits the money in bank an operating there (which he can then transfer to bank B in another country).
2. Then, applying to bank C in his own country, he requests a loan by providing collateral to his account in bank A (or B). Bank C also gives this loan to itself.
3. He makes any investment he wants with the loan he has received (he can buy a hotel, etc.)
4. Does not repay the loan to bank C. Bank C also seize the money of this person in bank A (or B) to which he is collateral.

Thus, this person's money turned out to be laundered in the form of a hotel or other investment.

Imaginary export - laundering method by import

The main purpose of fictitious export, which is a concept that entered our agenda after the 1980s, especially with the opening of our country's economy to the world market as a result of globalization, is to receive unfair tax refunds. A product with a very low value is sent abroad as if it were a valuable product with high quality standards. The difference between the value shown in the fake documents and the actual value of the product shows the amount laundered. In order not to attract the attention of the investigative authorities, the black money should be sent by a front company established in the tax haven (İpek, 2000: 27). For example, 1 TL of goods is shown as exported for 25 TL. After this transaction, with the assumption of 20% tax refund, both 5 TL tax refund is received and 24 TL black money can be shown as export income. However, in order not to give a deficit in possible investigations and due to the necessity of introducing black money into the financial system in some way, black money; it should be subject to a process such as sending it by the company to which the so-called export is made (Ergül, 2001: 40).

The method of using casinos

Casinos, which enable many financial transactions such as loan opening, maturity extension, safe deposit box service, and endorsement of checks, are workplaces with large amounts of cash and cash-intensive. Launderers can place large sums in the casino and ensure that no notice is given, threatening to take their money elsewhere. The money deposited in this way can now be withdrawn or transferred with casino checks at any time (Murphy, 2013: 12). This method is often used in countries where it is legal for casinos to operate.

Front – establishment of imaginary companies

These companies are companies that do not engage in any trading or manufacturing activities and are usually established in cross-border centres. They are different from token companies; although there is a money laundering purpose in show companies, there is a legal activity and a workplace. However, these companies exist only on paper (desk, safe, address, short companies) and the purpose of their establishment is to make it difficult to trace at the time of examination by passing the fund transfers through these companies during the separation stage. A few hundred dollars is sufficient to establish a front company in many cross-border centres (TBB, 2013: 21-22). These companies, which exist only on paper, carry out a series of financial transactions that resemble legal transactions in terms of volume and complexity.

Method of physically removing proceeds of crime abroad

The basis of this method is to transport cash via couriers to countries where there is no sufficient control over the financial system, where bank secrecy is essential and where there are institutions to cooperate, by using various means of transportation such as land, sea and air, and inserting it into the financial system of those countries. Thus, cash by using the financial institutions of the country in which the money is included in the financial system, by transferring it to the country of origin or to other countries, the bond with the source of the money is weakened and laundering action is carried out (Mavral, 2001: 62).

Physically removing the proceeds of crime abroad is a more difficult and dangerous method compared to other methods. In this method, which works on the basis of trust in the courier, although the probability of being caught is high, most countries have tried to prevent the easy outflow of crime revenues abroad by imposing a ceiling limit on the process of issuing physical money.

New money laundering methods

The emergence of new technologies that ensure user privacy and enable the transfer of funds without the need for any intermediaries paves the way for the development of new methods in money laundering. The internet, online banking, smart cards, electronic commerce and electronic money, which have been developing rapidly in recent years and increasing the number of users day by day, can be new and attractive laundering methods for money launderers. Because these systems eliminate the "*physical movement of large amounts of cash*", which is the biggest problem of launderers. In addition, the globalization of such payment systems offers the opportunity for launderers to benefit from the differences in the national security standards of the countries and thus to hide the movement of their illegal funds from the authorities (Yazıcı, 2008: 158). Smart cards, electronic money, stock market activities and the use of the internet can be listed as new money laundering methods.

Money laundering method via smart cards

Smart card, in other words electronic wallet, was developed as an alternative to paper and coins. A certain monetary value is electronically loaded into the electronic chip inside the smart card and the person concerned is allowed to spend up to the said monetary value. Smart card systems are in the preliminary product (prototype) or trial phase in many countries. These systems vary in terms of their operating characteristics. While some of these systems are designed to provide transaction confidentiality, some of them cannot provide transaction confidentiality; on the contrary, they are arranged in a way that shows which transactions are made (Dursun, 2008: 117). What is essential in smart cards is that they have a controlled access feature that enables authorized persons to view personal and commercial information.

In order to prevent money laundering via smart cards, card manufacturers or operators have taken some precautions. In the UK, for example, manufacturers issuing smart cards have limited the value of the monetary value inside the cards to between £50 and £500. In addition, card operators in most countries have also installed a system that prevents money transfers from one smart card to another as a precaution. Card manufacturers, who are not concerned about preventing money laundering; have established a system that can transfer money between cardholders without the need for the intermediary of a financial institution, Limitations on the business visuality of the smart card are generally not implemented by a national regulatory agency, but by the initiative of the organs that issued the card (Dursun, 2008: 118).

Money laundering method through electronic money

Electronic money (e-money) is a new form of payment that consists of transferring the economic value of the country's money to the electronic environment (Sarıakçalı, 2008: 113). In a broader sense, electronic money (digital currency, digital currency or electronic currency) is a digital element, a medium of exchange, such as traditional paper money or coins, which is useful for value, acceptability, trade, and hoarding and lending but still has some differences. is a currency type.

Electronic money also provides the opportunity to make payments in even the smallest coin, so that with this type of payment method called micropayments, for example, it is possible to read only parts of a newspaper presented in electronic form. However, most existing payment systems are uneconomical for making such micropayments. In the e-money system, as in the smart card system, the customer purchases a certain fund value from an authorized service provider, but unlike the smart card, the purchased value is stored either on the customer's computer or online in a secure account (Dursun, 2008: 119).

Electronic money is attractive to money launderers due to its features. These are (Yazıcı, 2008: 162):

1. Unlimited amounts of e-money can be loaded onto smart cards or software-based mechanisms, and transfer from card to card is possible. Thus, the volumetric size created by cash money is eliminated.
2. E-money can be transferred between smart cards and over the internet in a few seconds.
3. No records are kept for these transfers.
4. E-money provides identity privacy compared to cash. Because paper money can be easily tracked thanks to its serial numbers, and it also requires face-to-face transactions. On the other hand, in e-money, the use of encryption techniques and remote transfer transactions allow the identities of the parties to be hidden more easily.

The most indispensable feature of electronic money for launderers is that it can be transferred easily and quickly. In this way, black money is quickly transferred to any account anywhere in the world.

Money laundering method through exchange

Black money can be included in the system by manipulation or insider-training. In addition, the value of stocks can be increased or decreased by speculating about stocks. Thus, while one party loses money, the other party gains money. On the other hand, intermediary institutions can easily be used for money laundering. Through a collaborative exchange officer, stocks and bonds can be purchased with dark funds. These promissory notes can be in the name of any name or a front company. With respect to bearer notes, no registration is required. Legislation regarding foreign exchange officers and the stock market varies from country to country. In some countries it may be easier to launder funds through a foreign exchange officer.

However, even in countries with very strict legislation, foreign exchange officers who do not act meticulously can facilitate money laundering (Ergül, 2001: 46).

Internet money laundering method

The emerging new trend of laundering in the world is the use of the internet, which offers wide anonymity to its users and does not reveal its identity, in laundering activities (MASAK, 2018). It is now recognized by almost all experts that the Internet is vulnerable to money laundering. Although money launderers widely use the internet for money laundering, countries cannot develop robust measures against money laundering acts committed via the internet (Dursun, 2008: 110).

Considering the rapid increase in financial services offered over the Internet, the area where the risk of being used in money laundering is most intense is the possibilities of making online transactions. On-line transaction services are offered by an increasing number of commercial banks and "pure internet banks". Potential money laundering risks arise from the inability of financial institutions to properly identify certain transactors or even the location of the perpetrator (Ergül, 2001: 25).

Due to advances in internet technology, states face great difficulties in controlling financial transactions. Today, a bank customer can easily connect to the computer of the bank with which he/she has an account via the internet, and can easily send money transfers from his/her own account to another bank's account. In this mechanism, the bank computer, which receives the order to send money order from the person, requests assistance from the clearing bank for the transaction. Naturally, during the execution of these transactions, no one meets face-to-face with another person, and transactions are carried out electronically (Dursun, 2008: 114). Of course, it is not possible to audit all electronic transactions, the number of which reaches millions.

In addition to on-line banking activities, methods that provide technological means are used in the money laundering process by making payments on the internet, establishing a company, using gambling and betting sites. Some features of the Internet lead money launderers to money laundering via the Internet. These are (Yazıcı, 2008: 161):

1. The speed of electronic transfers,
2. Accessibility,
3. Ease of transactions made via the Internet,
4. The customer and the bank do not interact with each other, so there is customer confidentiality,
5. Ease of expanding/crossing national borders.

Those who launder money via the Internet benefit from:

Provides:

1. The identity of the person making the transaction cannot be determined and the person establishing the connection does not have the opportunity to verify their identity.
2. It is not possible to determine from where the person making the transaction performed this transaction, therefore, a person who wants to hide his real identity has the opportunity to connect and control his account from anywhere in the world,
3. Difficulty in tracking and reporting suspicious transactions, since no records are kept of the transactions made and therefore the transactions cannot be monitored by the authorities,

4. The ability of launderers to change computer software at frequent intervals and also to use high-level encryption techniques in order to prevent official tracking.

Effects of Black Money on the Economy

Black money is an international and persistent problem that affects the whole world. There are some opinions in favor of black money that black money can be beneficial to the economy, and that the laws enacted to prevent laundering have negative effects on the development of especially developing and underdeveloped countries. Although these views are put forward, black money obtained from criminal acts will only provide short-term economic development, but it will cause deterioration in both the financial system and the social structure in the long run (Mavral, 2001: 300).

Because black money usually arises as a result of activities those are considered criminal. Therefore, it is necessary to cut off the relation of black money with its sources and make it usable by laundering. In this laundering process, money goes to countries whose legal and financial structures are suitable for laundering and returns to the host country after assuming a legal identity in these countries. This situation includes serious instability and damages for countries with weak legal and financial structures (Yıldırım, 2007: 170). This difference in the legal structures of countries hinders the fight against money laundering and makes launderers act more courageously.

Black money; Economic effects can be listed as money demand, growth rate, income distribution, tax revenues, financial institutions, employment and competition.

Effect on money demand

Black money, which was benefits from the ease of movement in financial markets; chooses countries where laundering can be done easily and the risk of being caught is minimal. Economies where there are no regulations regarding laundering, where bank or customer information is kept, a system where banking secrecy is strictly enforced, where the ratio of the informal economy to the national economy is high, and where cash inflows and outflows are easy, are preferred for launderers (Aydemir, 1995: 35).

As a result of rapid and uncontrolled money inflow to the country, luxury consumption rates increase with normal consumption, and parallel to this, a decrease in exports, imports, foreign payments deficit, and inflation, interest and unemployment rates may increase in the country (Mavral, 2001: 209). These instabilities in money demand due to black money will naturally have a negative impact on monetary policy.

False signals given by money laundering activities prevent the necessary measures to be taken to solve problems such as budget deficit and high inflation, especially in developing countries, and adversely affect the effective management of the economy. In addition, these activities affect the stability of the markets due to their global nature, and raise the possibility of a financial crisis in one country to be reflected in other countries. For this reason, cooperation between both national and international institutions gains importance in the fight against money laundering activities (Erçel, 1999: 3).

The effectiveness of central banks' monetary policies depends on whether the demand for money is predictable. The negative effect of black money on money demand also negatively affects the policies of central banks and causes them to make unsuccessful decisions.

Effect on Growth Rates

Real sectors, which are the locomotives of the countries, can suffer from much negativity, as well as from financial instability. Today, when domestic resources are not enough for companies, it has become important to attract the attention of foreign investors. However, it is difficult to attract foreign investors in countries where money is laundered. Because the price instabilities caused by black money in the financial system will also affect the credibility of the economy in the external environment, rational entrepreneurs will not mind investing in the country because they will also consider the country risk while investing they will find. Therefore, Gresham's Law, which can be roughly summarized as "*bad money drives good money out of circulation"*, will operate in another way; black money will start to repel money coming into the country through legal means. If the legal money escapes from entering the country, it will result in the investment rates not increasing. This situation will mean that a sustainable growth will decrease in the long term (Yıldırım, 2007: 171).

As a result of the liberalization of capital in the global world, the increase in technological opportunities, and the rapid availability of information, international investors in particular examine the economies of the countries they will invest in very meticulously. Countries where stability is dominant in their markets and which have a solid financial structure in the face of crises are in the first place in the investments to be made by such investors (Karaal, 2008: 114). Countries with high black money volume are considered risky places for investors. For those who want to attract international capital to their countries, the fight against black money is an important message that provides confidence for investors. Thanks to the effectiveness of the struggle, investments will increase, which will positively affect growth rates and the economy.

Effect on Income Distribution

The serious losses caused by black money, especially in income sources, cause significant problems in the functioning of the financial system. The disease, which has become widespread in this economy, also causes social wounds. The gradual enrichment of certain individuals and groups and the increase in moral problems of young generations are in particular degenerate social ethics and cause social degeneration (Ozdemir, 1999: 32).

One of the most difficult to detect damages of black money is its negative effect on income distribution. Although it is difficult to measure the negative impact of the decrease in income sources and the differentiation in income distribution, it becomes very difficult to compensate for the social damages to the society. The gap between individuals in terms of income distribution increases the tendency to commit crimes and makes black money more attractive.

In economies where money is concentrated, launderers will prosper much faster than individuals who earn legal income. Criminal organizations will earn many times the income compared to the earnings of individuals who do not get involved in crime with the large amount of unjust gains they distribute to their members thanks to the large revenues they earn (Karaal, 2008: 114). In addition, since black money affects competition negatively, those operating in the registered sector are penalized in a way. Since tax evasion is common in informal economies, the tax burden of those operating in the official sector increases and income distribution is negatively affected (Mavral, 2001: 301).

Effect on Tax Revenues

The revenue from taxes has the most important share in public revenues. If this income is low, it will reveal the possibility that public revenues cannot meet public expenditures, and if this possibility occurs, budget deficits will arise (Ergül, 2001: 61). The income generated by black money is the income that countries cannot tax. As the ratio of these earnings to national income starts to increase, the tax revenues of countries will decrease. Decreasing tax revenues will reduce public revenues, and deficits may occur in the economy as a result of public revenues not being able to meet public expenditures and expenditures (Boybaşı, 2005: 16). In countries where tax revenues are negatively affected by black money, a fair distribution of tax is not possible. The volume of the informal economy is gradually increasing in countries that want to get more taxes because tax revenues are decreasing.

The state with decreasing tax revenues has two options; the first of these is debt. The state, which attracts the productive investments of the private sector as a result of borrowing, reduces the productive investments of the private sector with the effect of crowding-out. In addition, with the increase in the value of bonds as a result of borrowing, the interest rates in the market increase and as a result of this mechanism, the country faces many problems with the increase in the inflation rate. The results of the emission policy, which is another way of closing the deficits, will not be different from the ones described (Kıldiş, 2000: 195). Therefore, both options have negative effects on the economy.

Impact on Financial Institutions

Sudden changes may occur in the assets and liabilities of financial institutions that are used unknowingly in money laundering, and this situation will create a risk for institutions. If the news that these financial institutions are money laundering attracts the attention of the public authority, pressures will increase for these institutions in the field of supervision and the reputation of the institution will be damaged (Yıldırım, 2007: 173).

In addition, a crime must be committed for black money to arise. This will naturally create many victims or harmed people. The litigation, court and prison expenses allocated to these people from the budget are cost factors for the society (Yetim, 1999: 303). Since such costs are reflected to all segments of the society, each individual takes his share from the negative effects of black money.

Impact on Employment

Money laundering will also lead to income and wealth concentration, which will have negative effects on income distribution. While money laundering causes income and wealth concentration, causes the funds to be collected in certain hands and increases the welfare level of the people who make money, on the one hand, it disrupts the moral and ethical values of the society and on the other hand, it has negative effects on production and investments (Erdoğan, 2009: 111).

Black money economy, on the one hand, drugs, gambling, etc. While they cause individuals to be isolated from society and production as a result of bad habits, on the other hand, they cause resource loss in economies by withdrawing the manpower, raw materials and other production tools used to create a crime economy from the legal economies that constitute the national income (Yazıcı, 2005: 79).

Impact on Competition

Every element of the economy has a structure that is interconnected and influencing each other. For example, a change in income distribution can directly affect employment, investment or monetary policy. Therefore, the negative effect of black money on economic actors can naturally harm the competitive environment. Money and money laundering affects the correct functioning of the financial sector, and has effects that disrupt confidence and efficiency in the markets. Illegal money transfer also puts companies operating legally in trouble. This situation pushes companies operating legally out of the market. Market rules are constantly violated. Laundering will also cause illegal activities or tax evasion by legal firms. With the deterioration of the competitive structure, the factors of trust and efficiency in the markets will be damaged (Yılmaz, 2006: 32).

The effect of black money on income distribution is similar to the effect it creates in a competitive environment. Just as black money distorts the income distribution and makes some segments richer, it also damages the competitive environment, making some companies stronger and bringing the rest to the point of being wiped out from the market.

CONCLUSIONS

While black money is defined as income obtained illegally, the activity of introducing this income into the economic system and gaining legitimacy by showing it as being obtained through legal means is called money laundering. The purpose of money laundering is to hide that the income is derived from illegal activities. In order to talk about the existence of money laundering, a crime must first be committed and an income must be obtained as a result of this crime. Afterwards, the act or actions should be carried out to give this situation a legal appearance. Stages of money laundering process are; placement, separation and integration.

With the effect of globalization, international borders have been removed and money laundering activities have spread over a wider area. These activities harm the national economy and cause significant costs. Developing technology has changed the structure of money laundering activities and added new ones to traditional money laundering methods. The intensive use of the internet, the activities in the stock market, the spread of electronic money and smart cards have not only facilitated the transfer of income between regions by providing new methods and new laundering opportunities to money launderers, but also caused the inspection activities to become ineffective.

The effect of black money on the economy has spread to every lower level of the field in question. Black money has negative effects on employment, competition, tax revenues, money demand, income distribution, growth rate and financial institutions. Moreover, due to the interconnectedness of the economic elements, even a negativity that can be experienced only in the money demand or only in the income distribution is enough to adversely affect all the remaining economic actors. These negative events in the financial markets reduce the trust in the economies of the countries and this situation causes negative consequences on the social structure as well as the economic effects.

States should be in favor of international cooperation in the fight against money laundering. The efforts of a small number of countries in this area lead the black money to countries with weak struggles, but all countries are affected by the negativities in the current system. What needs to be done here is to harmonize the laws of the countries with each other, to keep the channels of communication open despite new developments, and to develop strategies for combating with international organizations. On the other hand, in the fight against black money, Banks also have important responsibilities. The fact that black money is mostly directed to online transactions makes it necessary to closely monitor banking business and transactions. It is important for the success of the struggle that the banks are alert for the immediate implementation of the necessary legal procedure in suspicious cases. It is also an essential issue for banks to set up their systems as a reliable and not open virtual space.

In this context, it is important that governments, international organizations and non-governmental organizations fight against black money as a whole. Technological developments should not only offer opportunities to launderers, but also technological opportunities should be used in the fight against money laundering. The current legislation should be kept dynamic to prevent new methods used in money laundering and the process should be followed closely. However, the deterrence of penalties should be brought to the fore and the inspection process should be made more effective. Thanks to the measures to be taken, the attraction of money laundering will decrease and this will provide great benefits both socially and economically.

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