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INTERNATIONAL INDICES IN REDUCING THE SHADOW ECONOMY LEVEL

Abstract. The article investigates theoretical and practical aspects of the evaluation of the financial monitoring organization system. The article also identifies a number of drawbacks in the organization of national financial monitoring, based on the analysis of existing methodological tools used for assessing the efficiency of the anti-money laundering system of the country. The main ones of these drawbacks are: the absence of a list of indicators established at the legislative level, the limited statistical base and analytical data available for analysis. The article substantiates expediency of the use of additional indicators of the effectiveness of the financial monitoring system's functioning by a set of international indices such as: Global Terrorism Index, Corruption Perceptions Index, AML (Anti-Money Laundering Index) and level of the shadow economy. It has been established that the use of these indicators will help to set up guidelines for developing the main principles of the anti-money laundering strategy, as well as determining the efficiency of the activities of authorized state bodies and specially created state institutions in the system of economic unshadowing. The analysis of international criteria allows authors to determine the positions of each country selected for research in the international and global environment and to rank them (within each indicator), depending on the measures taken to reduce the shadow economy. Apart from that, the results of grouping the values of international indices allowed authors to systematize the selected states by the level of efficiency of organization of financial monitoring in the countries, characterized by high, average, low and imperfect financial monitoring system. The usage of international indexes as indicators of the level of organization of financial monitoring should be considered as a component of the rapid diagnosis of money laundering, financing of terrorism and the level of corruption. The implementation of these indicators will strengthen the governing principles for determining the efficiency of the work of authorized state specialized institutions.

Keywords: reducing the shadow economy, financial monitoring, shadow economy, international indices.

JEL Classification E58, F53

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МІЖНАРОДНІ ІНДЕКСИ В СИСТЕМІ ДЕТИНІЗАЦІЇ ЕКОНОМІКИ

Анотація. Досліджено теоретичні та практичні аспекти оцінювання системи організації фінансового моніторингу. На основі проведеного аналізу наявного методичного інструментарію оцінювання результативності системи протидії відмиванню грошей країни було встановлено низку недоліків в організації національного фінансового моніторингу, основними з яких є: брак установленого на законодавчому рівні переліку індикаторів, обмеженість статистичної бази та аналітичних даних для аналізу. Обґрунтовано доцільність використання як додаткових індикаторів ефективності функціонування системи фінансового моніторингу сукупність міжнародних індексів, таких як: Індекс глобального тероризму, Індекс сприйняття корупції, Індекс протидії відмиванню грошей та рівень тіньової економіки. Установлено, що використання цих показників сприятиме формуванню орієнтирів для розроблення основних засад стратегії боротьби з відмиванням грошей, отриманих злочинним шляхом, а також визначення результативності діяльності уповноважених державних органів і спеціально створених державних установ у системі детінізації економіки. Проведений аналіз міжнародних критеріїв дозволив визначити позиції кожної країни, обраної для дослідження, у міжнародному і глобальному середовищі, та здійснити їхнє ранжування (у межах кожного показника) залежно від заходів, які були вжиті для зменшення тіньової економіки. Результати групування значень міжнародних індексів дозволили систематизувати держави, які були обрані для аналізу, за рівнем ефективності організації фінансового моніторингу на країни, що характеризуються високою, середньою, низькою і недосконалою системою фінансового моніторингу. Застосування міжнародних індексів як індикаторів рівня організації фінансового моніторингу слід розглядати як складову експрес-діагностики рівня відмивання брудних грошей і фінансування тероризму і рівня корупції. Упровадження цих показників посилить керівні принципи для визначення ефективності роботи уповноважених державних спеціалізованих інститутів.

Ключові слова: детінізація економіки, фінансовий моніторинг, тіньова економіка, міжнародні індекси.

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МЕЖДУНАРОДНЫЕ ИНДЕКСЫ В СИСТЕМЕ ДЕТЕНИЗАЦИИ ЭКОНОМИКИ

Аннотация. Исследована оценка системы организации финансового мониторинга. Обоснована целесообразность использования международных индексов в системе оценки эффективности финансового мониторинга, анализ которых позволяет определить позиции каждой страны в международной и глобальной среде, а также их рейтинг (в пределах каждого показателя) в зависимости от действий, которые были приняты для уменьшения теневой экономики. Результаты группировки значений международных индексов позволили систематизировать страны, которые были выбраны для анализа, по уровню эффективности организации финансового мониторинга в стране. Внедрение этих показателей усилит руководящие принципы для определения эффективности работы уполномоченных государственных специализированных институтов.

Ключевые слова: детенизация экономики, финансовый мониторинг, теневая экономика, международные индексы.

Формул: 0; рис.: 0; табл.: 2; библи.: 11.

Introduction. In the public life of Ukraine there are certain phenomena and processes that negatively affect the political and economic image of the country. There are some processes that have to be highlighted: growth of the shadow economy, facts of the financial terrorism and money laundering that is illegally obtained; presence of the illegal money exchange centers; increasing level of the government corruption. These phenomena cause danger to the financial stability and security of the economy functioning in general and the financial and credit system of the country that, in particular, is the most attractive area of money laundering.

An important instrument for legitimization of economic activity is to develop a system of measures to improve monitoring of cash flow and to provide an economy stabilization. Creating a complex and effective financial monitoring system able to identify and eliminate any factors connected with shadow economy and corruption in AML is a pressing issue.

Literature review and the problem statement. Foreign and domestic scientists have made a research to the problem of the essence, condition and development of the shadow economy and its impact on economic growth.

The theoretical prerequisites of stress testing in insurance are scientific works of national and foreign scientists, such as F. Schneider [1], De Soto E. [2], A. Dreher [3], D'yakonova I. and Shiyani D. [4], Khvalinsky S. [5] Kurishko O. [6] etc.

The result of making an analysis of methodological tools of the AML system (Anti-Money Laundering) efficiency has shown a number of such drawbacks as: absence of the indicators list which is laid down the law, limitation of the statistical and analytical data for assessment.

The results of the research. In our opinion, it will be expedient to use a international indexes and ratings as additional indicators in the system of financial monitoring which are widely used for assessment the efficiency of anti-money laundering and terrorist financing: The Global Terrorism Index, Corruption Perceptions Index, AML index, Shadow Economy Level. Characteristics of these indices presented in Table 1.

In our opinion, using such indicators will strengthen guidelines for determining the efficiency of the authorized state bodies and specially created government institutions which are based on the dynamic of the annual assessments according to the unified standard indicators.

The research study was made in the context of the countries that border with Ukraine or have a strategic common goal for cooperation. The value of this index can vary from 10 — for countries where quantitative indicators of terrorist events are significant, to 0 — for countries where terrorist operations are not available.

Among the countries that have been monitored in 2015 the highest level of terrorist activity is being observed in Ukraine and it is 7.132, first of all, because of the unstable situation in the east. It should be noted that in 2011 Ukraine took 61 place but by the end of 2015 it has risen by 50 steps up and took 11th place which is one of the worst results since independence.

It should be noted that the frequency of happening a terrorist acts in such countries like

Lithuania and Latvia is equal to zero. That's why these countries take 124 place in general rating. The most dangerous country in this list is Estonia that takes 92 place in general rating.

Table 1

Indices and indicators for assessment the efficiency of financial monitoring of the countries

Index	Creator	Index components	Characteristics
The Global Terrorism Index	The Institute for Economics and Peace (University of Sydney)	A number of terrorist acts; a number of fatalities; a number of victims; a level of material damage	Shows the level of terrorist activity within a country
Corruption Perceptions Index	Transparency International	The results of surveys and assessment of corruption collected by influential organizations around the world	Examines corruption in the public sector and takes measures to reduce it
Anti-Money Laundering Index	Basel Institute on Governance (Basel Institute)	Money Laundering / Terrorist Financing Risk; Corruption Risk; Financial Transparency and Standards; Public Transparency and Accountability; Political Risk	It contains information on risks related to money laundering
The level of the shadow economy as a percentage of GDP	Public authorities that regulate the national economy	A volume of the shadow economy, GDP volume	Shows a share of shadow economy

Source: Developed by authors on the basis of [7, 8, 9, 10]

Among the selected European countries only Bulgaria and Hungary had terrorist acts during the 2011-2015 periods but the number of victims was low, as evidenced by a fairly low value of the Global Terrorism Index. During the last decade, there weren't terrorist acts in such countries of European society like Poland, Slovenia, Slovakia and Romania.

Comparison of data of individual countries on a scale created by the Transparency International makes it possible to range them on the terrorism level: in the first group, the level of terrorist acts is equal to 0 (Poland, Slovenia, Slovakia, Romania, Lithuania, Latvia); the second group has a low level of terrorism, it ranges from 0,1 to 3 (Bulgaria, Hungary, Estonia.); the third group has a medium level of terrorism, it ranges from 3,1 to 7; the fourth group has a high level of terrorism, it ranges from 7,1 and higher (Ukraine in the last 2 years).

The assessment of the corruption level on the macroeconomic level is based on the calculation and comparison of the index value of perception of corruption which is determined and formed annually by the Transparency International. The country's points indicate on the Corruption Perceptions Index in the public sector on a scale from 0 to 100 where 0 is a high corruption level and 100 — absence of the corruption level. The country's rating determines its position in relation to other countries on the Corruption Perception Index and can vary depending on the specific number of countries covered by the given criteria.

According to the data in 2015 the least corrupt country was Estonia in which a Corruption Perception Index was 70 points. In the overall ranking Estonia takes the 23 place out of 175 countries that were selected for monitoring.

European countries actively fight against the abuse of authority in the public sector for satisfaction of their personal goals. Thus, Poland, Slovenia, Romania, Slovakia, Hungary are included into the 50 countries with the lowest corruption level of the government. In the overall ranking only Bulgaria takes 69 place in which Corruption Perception Index is 41.

It should be noted that Ukraine has critical situation because it is included to the group of countries which are called "Heightened risks" and apart from that it has the worst index among the European countries.

In 2015 Ukraine took the 130 place in general ranking list. The positive moment is that Ukraine rose by 12 positions up in general ranking compared to the 2014 indices and it affirms about slight improvement in taking measures of reducing the corruption level.

According to the Corruption Perception Index the following countries can be divided into three groups: the first group has a low, it has more than 66 points (Estonia (70)); the second group has a medium it ranges from 31 to 65 points (Poland (62), Lithuania (61), Slovenia (60), Latvia (55), Slovakia (51), Hungary (51), Romania (46), Bulgaria (41)); the third group has a high level it is about 30 points (Ukraine (27)).

The organization of the national financial monitoring system, in general, determines position and efficiency of anti-money laundering, taking effective measures in order to reduce economic crime and to reduce growing of shadow economy level. That's why, the research of the shadow economy indices allows us to determine the level of effective functioning of the national financial monitoring system in the country

The lowest level of shadow economy according to the data of 2015 year is observed in such countries: Slovakia — 14,0 % of GDP, Hungary — 21,0 % of GDP.

The level of shadow economy varies at the margin of 23-28 % of GDP that does not exceed the limit of 30 % of the index. It should be noted that only in Bulgaria the level of shadow economy exceeded the permissible value and amounted to 30,6% of GDP. There is a positive tendency for the reduction of the shadow economy level in the EU countries during the period of monitoring [11].

According to the 2015 data the shadow economy level in Ukraine amounted to 40 % of GDP. It was down by 3 % compared to 2014 and up by 6 % compared to 2011. It should be mentioned that the maximum level of shadow economy in Ukraine observed in 2014 and amounted to 42 % of GDP. This situation is caused by such factors like the military conflict on the territory of Ukraine, financial destabilization, an increase of administrative management, and "panic" in the business environment.

According to the shadow economy index (more than 40 %) Ukraine has become equal to the African countries and countries of the Latin America.

According to the shadow economy gradation selected countries can be divided into three groups: the first group has a low shadow economy level which doesn't exceed 19 % of GDP (Slovakia — 14 %); the second group has a critical shadow economy level — it ranges from 20 to 40 % of GDP, which includes all the monitored countries except Slovakia and Hungary; the third group has catastrophic shadow economy level it exceeds 40 % of GDP (Ukraine (40,0)).

The research of the shadow economy level in the context of formal Soviet countries that have been selected for comparative analysis has not been performed due to information lack.

Anti-Money Laundering Index contains information on the risks which connected with money laundering and shows the geographical location of the criminal revenues. In addition to that, it should be noted that the lowest anti-money laundering level is equal to 0 points, the highest anti-money laundering level is equal to 10 points.

Such countries like Lithuania, Estonia, Bulgaria have the lowest level of the criminal revenues (the index is below 4 points) according to the Anti-Money Laundering Index in 2015. Ukraine has a quite high level of the Anti-Money Laundering Index 6,57 among the countries that were monitored.

Some groups were highlighted by us according to the criterion of ALM: the first group has a low ALM level, it ranges from 0 to 2; the second group has a medium ALM level; it ranges from 2,1-4,5 Lithuania (3.62), Estonia (3,82), Bulgaria (3,83); the third group has a moderate ALM level, it ranges from 4,6 to 7,0 Slovenia (4.06), Hungary (4.15), Poland (4.40), Romania (4.46), Slovakia (4.88), Latvia (4.91), Ukraine (6.57); the fourth group has a high ALM level it ranges from 7 and higher.

4. Results

Taking into account the obtained results concerning grouping of countries depending on the values of international indices which were chosen for the study, we propose to systemize them in terms of the efficiency level of the financial monitoring organization in the country.

The result of the analysis of the international indicators in the system of financial monitoring are presented in Table 2.

Table 2

The assessment of the financial monitoring system in the EU,
former Soviet countries and in Ukraine

Country	Level				Symbol
	The Global Terrorism Index	The Corruption Perceptions Index	The Shadow Economy Index	The Anti-Money Laundering Index	
Poland	A	M	Cr	Mod	AMCrMod
Slovenia	A	M	Cr	Mod	AMCrMod
Slovakia	A	M	L	Mod	AMLMod
Romania	A	M	Cr	Mod	AMCrMod
Bulgaria	L	M	Cr	M	LMCrM
Hungary	L	M	Cr	Mod	LMCrMod
Lithuania	A	M	Cr	M	AMCrM
Latvia	A	M	Cr	M	AMCrM
Estonia	L	L	Cr	M	LLCrM
Ukraine	H	H	C	M	HHCM

C — catastrophic, Cr — critical, H — high; Mod — moderate, M — medium, L — low, A — absent.
Source: author's development

According to the analysis the selected countries can be united into such groups:

- first group includes the countries with a high level of the efficiency of the financial monitoring system (AMLMod) because the value of the index is the lowest in the aggregate sample;
- second group includes the countries which have a well-developed financial monitoring system and has an average level of efficiency (AMCrMod, LLCrM, AMCrM) because according to the same characteristics we can observe a manifestation of the negative facts of misconducting of the main principles of transparency and democratic economic processes;
- third group includes the countries with a low level of organizing of the financial monitoring system (LMCrMod, LMCrM) which is evidenced by the presence of destabilizing facts and expression of negative effects in terms of combating with a terrorist financing and money laundering crime;
- fourth group includes the countries with imperfect system of financial monitoring (HHCM) in which the value of the international indices in aggregate are the worst.

Conclusions. In addition to that, according to the international indices analysis, the national financial monitoring system of Ukraine is imperfect and have a need in a further development and implementation of measures to ensure their effectiveness.

Thus, using the international indices in the system of the financial monitoring assessment, in our view, helps to implement an express diagnostic of the terrorism level and anti-money laundering level, level of illegality of the financial flows, level of corruption in business and government. In our opinion, in order to improve the efficiency of the financial monitoring system of Ukraine it is necessary to implement the international system measures against money laundering which should take into account the interests of all members of the international community to apply modern methods against money laundering and promote the harmonization of the national policy in this area. To conclude, we'd like to say that international indices are influential factor of international politics, an important resource and the object of foreign countries policy. Implementation of international indices will provide delineation the main priorities of creation a positive international image of the state.

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