

THEORETICAL AND METHODOLOGICAL APPROACHES TO THE FORMATION OF A MODERN SYSTEM OF NATIONAL AND INTERNATIONAL ENTERPRISES, ORGANIZATIONS AND INSTITUTIONS' DEVELOPMENT

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APPARATUS FOR MANAGEMENT OF CASH TURNOVER UNSHADOWING

ABSTRACT:

The reasons, features and consequences of using cash as a money laundering tool are studied. The most common schemes of money withdrawal to the shadow turnover and their volumes have been analysed. The need for systematic review and optimization of the legal regulations concerning cash turnover and cash instruments in accordance with the recommendations of relevant international institutions in the field of countering money laundering and terrorism financing has been proved. Tools for the management of cash turnover unshadowing with the aim of countering the use of cash in the shadow withdrawal of capital have been proposed. It has been established that legal instruments are basic for other groups of instruments, the administrative instruments are used in response to the detection of shadow cash transactions, and the economic and organizational instruments are applied to achieve the corresponding effects in the context of cash turnover unshadowing.

INTRODUCTION.

The world practice has witnessed a slight reduction in the volume of cash payments in the context of the development of non-cash payment technologies. All-European trends indicate that the total value of euro notes in turnover continues to increase annually, moreover, the mentioned growth rate is higher than the inflation rate in the eurozone. Global trends indicate that banknotes of small denomination are used to pay for goods and services of small value, which comprises only 1/3 of the value of banknotes in turnover. At the same time, there is a steady demand for high-denomination banknotes, the use of which may be associated with the illegal activities of organized criminal groups. When studying the use of cash at the supranational level, there is a significant lack of information on its use for both legal and illegal purposes. Cash

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utilization remains the main reason for suspicions about financial transactions that are carried out in the financial and economic systems of both EU countries and Ukraine.

This need for this study is conditioned by the significant public danger and threats to Ukraine, which is due to the high percentage of the cash component in the structure of the total money supply in turnover and, accordingly, the opportunities for criminals to legalize their illegal income using cash.

Therefore, cash management is an urgent task of state regulation of the national economy unshadowing in the context of countering its use in the shadow withdrawal of capital. Systematization of management tools aimed at unshadowing cash turnover will make it possible to assess the sufficiency of preventive actions of the Government in countering the use of cash in illegal schemes of capital withdrawal.

CAUSE-AND-EFFECT RELATIONSHIP OF SHADOWING OF CASH TURNOVER.

The country's shadow economy is growing in the context of updating the use of cash as an anonymous means of payment. In addition, the state bears high costs of manufacturing cash and maintaining its turnover. Therefore, the National Bank initiates the implementation of measures to narrow the scope of cash use [1].

The most common schemes for money withdrawal into the shadow turnover, according to the financial intelligence unit (FIU) of Ukraine, are the following: cashing out on credit agreements, deposit operations, international economic operations [2]. The total volume of financial transactions related to money laundering amounted to 9384,8 million UAH, including cash withdrawal – 8 876,4 million UAH, in particular, for the following purposes (Fig. 1).

Shadow activity in the monetary sphere is primarily associated with illegal conversion of money, illegal issuance of bank securities, bill circulation, embezzlement of non-cash money and budget funds by falsifying data on the financial and economic activities of enterprises, collateral (assessment of its value or availability), application of a fraudulent bankruptcy mechanism, etc. This leads to the loss of effectiveness of the monetary policy due to the considerable amount of money supply that is not subject to regulation, and the effectiveness of fiscal instruments, reduction of tax revenues, capital outflow, destabilization of the currency system, deterioration of the investment climate and reduction of the capacity to service the external debt [4].

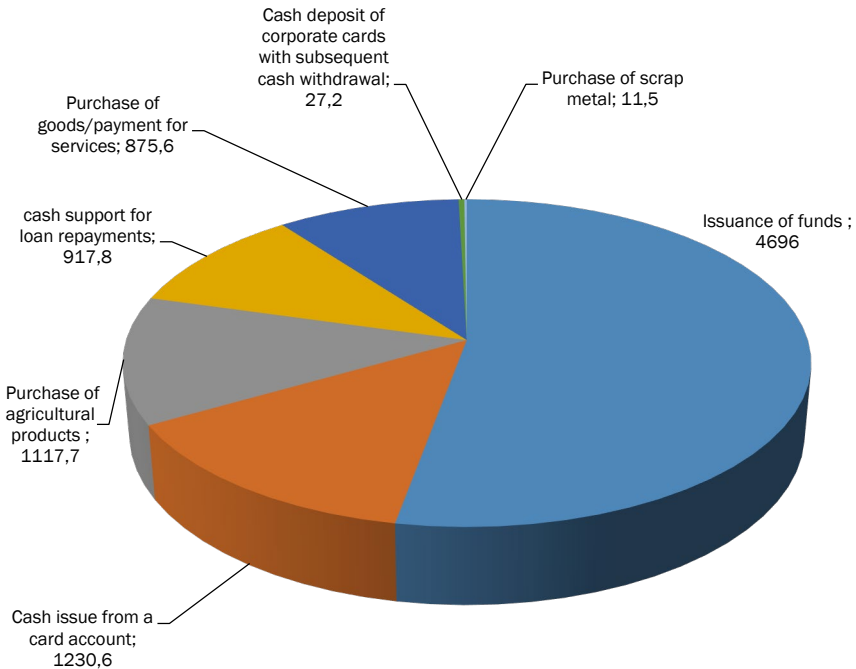


Fig. 1. Use of cash in financial money laundering transactions in 2019 (million UAH)
taken from [3]

The main factors fostering the use of cash are: significant share of unofficial incomes of individuals and legal entities; low level of non-cash payments of the population for goods, works and services; the high level of payment dollarization; wide use transactions involving offshore companies by business and banking institutions; the application of financial instruments with payment to bearer; underdeveloped insurance segment of the financial market; creation and use of bogus firms; underdeveloped secondary stock market; presence of hidden channels for exporting foreign currency abroad; positive balance of purchase and sale of foreign currency used by the population as savings, as well as in shadow turnover, with the participation of legal entities and individuals [5].

The reasons, typical processes and operations involving the use of cash in shadow purposes are summarized (Fig. 2).

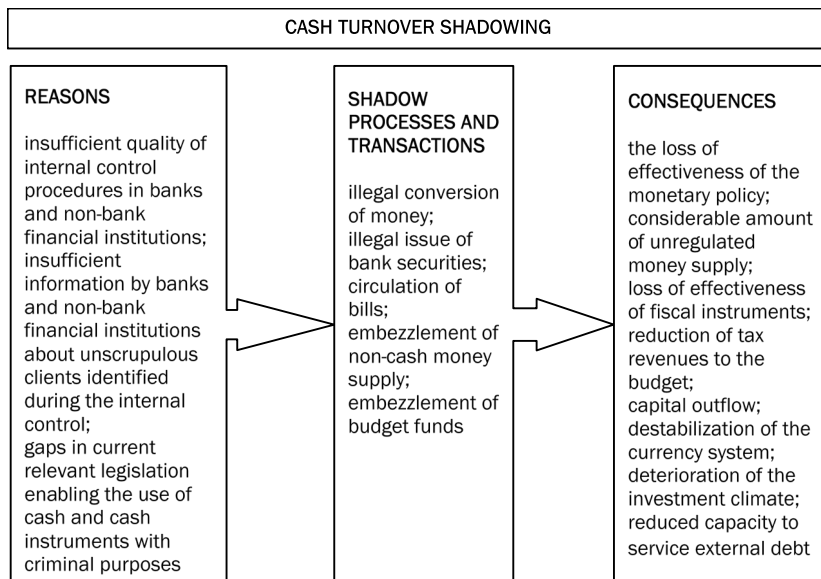


Fig. 2. Cause-and-effect relationship of shadowing of cash turnover
taken from [3]

The main directions of cash utilization by the population: savings in foreign currency that are less inflation-risky, maintenance of shadow trade within the country, and financing of "shuttle" trade. At the same time, the need for significant amounts of cash that is in the non-banking system determines the development of various schemes and structures for obtaining them, in particular, the creation of sham businesses, shell banks, conversion centers, mixed enterprises with branches located in offshore zones.

Moreover, the functioning of sham enterprises increases the risks and threats to the financial security of the state, in particular, it creates conditions for the expansion of unscrupulous competition and illegal conversion of non-cash funds into cash, legalization (laundering) of illegally obtained money, concealment of the facts of illegal activities, tax evasion.

CASH MANAGEMENT IN THE CONTEXT OF DE-SHADOWING OF CASH TURNOVER.

Considering the threats associated with cash turnover, it is important to develop approaches to cash management in order to counteract its shadow withdrawal. Constant monitoring and assessment of the sufficiency of the



measures taken for regulating the effectiveness of control mechanisms, taking into account the new recommendations of the Financial Action Task Force (FATF) is an urgent task in the context of cash turnover unshadowing in Ukraine.

In the context of countering the use of cash with the aim of laundering, legalization of illegal income, terrorism financing, corruption, etc., it is crucial to systematically optimize the legal provisions that regulate cash turnover and cash instruments in accordance with the recommendations of relevant international institutions in the field of countering money laundering and terrorism financing. The next important step is to improve the system of financial control in order to exclude or prevent schemes of using cash for shadow purposes.

In order to effectively counter the use of cash in the shadow economy and prevent crimes associated with cash turnover, it is necessary to increase the convenience of paying for government services, taxes and other payments using cards; expand the possibilities of making non-cash payments in retail establishments and service outlets; increase the security of non-cash payments; continue developing mobile payments and mobile applications; increase the level of people's trust in the banking system of Ukraine [6].

In order to develop approaches to cash management in the context of countering its use in shadow capital withdrawal, we suggest to group the existing management tools of cash turnover unshadowing (Fig. 3) and differentiate them based on the manner of action in order to identify the most effective and efficient ones, as well as and their strengths and weaknesses in the context of the policy of cash turnover unshadowing.

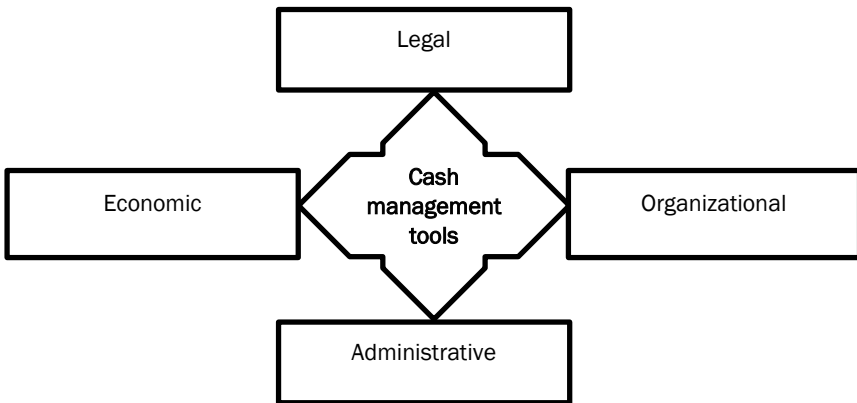


Fig. 3. Cash management tools in the context of unshadowing cash turnover author's development

Legal instruments are fundamental for other groups of instruments, since they define the regulatory and legislative basis for all tools for countering shadow capital withdrawal in Ukraine. These include: the Comprehensive Program of Ukrainian Financial Sector Development Until 2025 [7]; the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction" № 361-IX dated December 6, 2019 [8]; the Law of Ukraine "On the National Bank of Ukraine" dated May 20, 1999 № 679-XIV [9]; the Law of Ukraine "On banks and banking" dated December 07, 2000, № 2121-III [10]; the Law of Ukraine "On the National Anti-Corruption Bureau of Ukraine" dated October 14, 2014 № 1698-VII [11]; the Provision on the State Financial Monitoring Service of Ukraine (Resolution of the Cabinet of Ministers of Ukraine dated July 29, 2015 № 537) [12]; the Regulation on the procedure by authorized institutions of the analysis and verification of documents (information) on currency transactions dated January 02, 2019, № 8 [13]; the Regulation on the Implementation of Financial Monitoring by Banks (Resolution of the Board of the National Bank of Ukraine № 65 dated May 19, 2020) [14] etc.

Administrative tools are interlinked with economic, legal, and organizational tools, and are used in response to the detection of shadow cash transactions. For example, these include:

1. Interventions based on the results of supervision on financial monitoring (applied to banks) – including fines for inadequate risk management of legalization of criminal income/financing of terrorism, failure to fulfil the duty of careful studying of customers, the ongoing lack of implementation of the analysis of financial transactions by bank customers taking risk-oriented approaches into account; written warnings for failure to identify/untimely identification of the client's affiliation to public entities; conducting operations that violate the constraints imposed by sanctions; penalties for the failure of banks to properly analyse the financial transactions of their clients; penalties for the failure of a non-bank financial institution to provide information necessary to carry out the functions of state supervision over this institution at the request of the National Bank of Ukraine, etc.

2. Regulations on identification and verification for the non-bank financial market (expected to be developed by the National Bank by July 28, 2020 in accordance with the requirements of the Law of Ukraine "On Prevention and Counteraction to Legalization (Laundering) of Proceeds from Crime, Terrorism Financing and Financing of Proliferation of Weapons of Mass Destruction").

3. Restriction of cash payments by the amount of the transaction (Resolution of the NBU Board dated 07.05.2020 № 59 [15]) - for participants of cash payments, such restrictions apply to the amount of transactions within 1 day:

- 10 thousand UAH. (legal entity - legal entity, legal entity - individual entrepreneur, individual entrepreneur - individual entrepreneur);

- 50 thousand UAH. (individual entrepreneur - natural person; legal entity - natural person; natural person - natural person in the case of a notarised purchase-sale agreement; legal entity - person engaged in independent professional activities (not registered as an individual entrepreneur); individual entrepreneur - person engaged in independent professional activities (not registered as an individual entrepreneur); natural person - person engaged in independent professional activities (not registered as an individual entrepreneur); between two persons engaged in independent professional activities (not registered as individual entrepreneurs)).

4. Restrictions when withdrawing cash from a bank account for settlements with natural persons (Updated rules of financial monitoring, Law dated 06.12.2019, № 361) - mandatory identification of payers' identity when conducting cash transactions in the amount of more than 5 thousand UAH; threshold status of cash transactions over 400 thousand UAH, subjects of financial monitoring accumulate additional information on such transactions if they are not typical for a particular payer.

The use of economic instruments implies the achievement of such effects in the context of instruments:

1) pilot project "Introduction of e-hryvnia - electronic money" [1] - reducing the use of cash. This tool has the potential to significantly change the ecosystem of the Ukrainian payment market and redistribute the existing roles of market participants.

2) the Cashlesseconomy project [16] - for the state (increasing the tax base, reducing the volume of the shadow economy and decriminalization, reduction of expenses: servicing money turnover, printing banknotes, non-cash funds are in the economy, monetization of benefits); for business (reduction of operating expenses (for cash-in-transit services, cashiers), knowing your client: expanding the client base through additional benefits, promotions (cross-sales, co-brand, cash-back rewards), increasing commission income, liquidity, increasing the average receipt, increasing protection against fraud, offering new services and functionality); for the population (ease of use, access to additional services and features, increased protection against fraud).



Expected effects from the implementation of organizational tools:

1) The concept of organization of monetary circulation in Ukraine - reducing the government's spending on cash turnover and assistance in the development of a competitive market for cash-in-transit services (Decision of the NBU dated 11.08.2016 № 207-pШ) [17];

2) Development of payment infrastructure and improvement of non-cash transactions - optimization of money turnover and reducing the growth of cash in circulation, prevalence of non-cash transactions with use of payment cards; enhancement of the transparency and reliability of transactions;

3) Remote client identification and verification system [18] - provision of technical opportunities as to the growth of the transparency and reliability of transactions, increasing the protection against fraud;

4) The "Split" project - performing the functions of regulating non-bank financial services [19] - prudential supervision and monetary stability; prevention of shadow withdrawal of capital from insurance, non-bank and other channels;

5) Conducting the measures to create habits and motivation of consumers - increasing the number of non-cash transactions using payment cards, spreading the practice of keeping the savings in banking institutions on current and deposit accounts, increasing credibility of banking institutions.

Considering the current rapid intromission of digital technologies into all areas of activity, it is necessary to study the impact of these processes on the monetary flow. Countering the laundering of illegal income should also include methods of solving the issue of cybercrime. Cybercrime is rapidly spreading in the area of monetary flow in the form of cyber-laundering which is carried out using various types of operations and providers of financial services: bank transactions, cash deposit and withdrawal, use of electronic money, money transfer services.

The strategic initiatives of the National Bank and the plans for 2020 in the field of cash-in-hand turnover include the following: the transformation of the Concept of cash flow organization into the Program "Development of cash turnover in Ukraine", which will enable to combine the projects of the National Bank aimed at the development of the principles of cash flow; the creation of conditions for facilitating the reduction of the share of cash flow in favor of non-cash and the effectively meeting the needs of the economy in cash during the implementation of the Program "Development of cash turnover in Ukraine"; expansion of the number of domestic banks authorized to store cash reserves of the National Bank, with the aim of providing cash to banks and other

participants of the cash flow; expanding the list of participants of cash turnover (CIT companies) which will enhance the liquidity of banks and reduce the use of cash; strengthening the control over the activities of designated banks, which will serve as a powerful tool for providing quality cash to consumers of financial services; the establishment of innovative elements of logistics and increasing the degree of automation in cash handling; completion of the optimization of the nominal banknote and coin series (in particular, through the introduction of 200 hryvnia banknotes from 2019 and current 10 hryvnias coins into circulation); continuation of the improvement and completion of software “Conduction of operations of transferring cash reserves of the National Bank of Ukraine for storage to the authorized banks”; creation of a competence center in the National Bank, aimed at countering money counterfeiting, with centralized research and analysis of counterfeit national and foreign currencies; implementation of a new channel for the realization of numismatic products of the National Bank by means of a website [20].

A necessary step as to counteracting shadow capital withdrawal lies in finalizing the Draft Law on the financial investigations Bureau [21] and final creation of this Bureau which will ensure the state's financial security by creating a system based on the use of new risk-oriented methods of criminal analysis, aimed at timely detection and elimination of systemic threats in the field of public finance and preventing their occurrence in the future.

CONCLUSION.

Considering the significant dependence of the Ukrainian economy on the decisions of international financial institutions, coordination of economic, organizational and regulatory tools of countering shadow cash turnover is a necessary basis for improving the state's reputational image in the global community.

Thus, the mechanism for countering shadow capital withdrawal should include different tools that will facilitate the improvement of the policy of cash turnover unshadowing in order to prevent the use of cash in illegal schemes.

Sum it up so far, it can be concluded that the efficiency of the cash turnover unshadowing policy and ensuring the financial stability of Ukraine will allow to achieve a synergistic effect by means of the implementation of a comprehensive strategy of strengthening the key parameters of the state's financial security through the unshadowing of its manifestations, including monetary and credit relations.

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