

The impact on the economy of money laundering in the real estate market: the case of albania

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ABSTRACT

The goals of this qualitative phenomenological and quantitative study explored the attitude of Albanian real estate companies towards economic and social issues such as money laundering or tax evasion in Albania. The purpose of this research was to reveal the beneficial elements of economic values to Albanian real estate companies. The literature review revealed the problems of money laundering related to property prices in the Western Balkans market compared to those in Albania, mainly in Tirana.

The researcher interviewed 6 Albanian employers and 9 managers from the real estate industry. The researcher presented the results, which showed that Albanian real estate companies operating in Albania have tax evasion and do not represent or declare real profits and sales to the Government as a result of money laundering as part of criminal activities in Albania. The results showed the need for more focus towards government control over these companies, along with the integration of the real estate market, and to identify its advantages.

Recommendations from the study included the need to implement scrutiny by government institutions, where the information obtained should be current, particularly in relation to future research

Keywords: Business Administration, Economy, Ethics, Fiscal Evasion, Morality, Social Responsibility, Sustainability, Diversity, Social Responsibility.

THE IMPACT ON THE ECONOMY OF MONEY LAUNDERING IN THE REAL ESTATE MARKET:

1.1 Introduction

Albania has shortcomings in the fight against money laundering and is on the gray list of Maneyval, a structure of the Council of Europe for evaluating anti-money laundering measures

(Picari, 2021). This organization asks the Albanian government for improvements in several areas related to the reduction of informality and the monitoring of cash in the economy (Picari, 2021). Experts, based on some indirect data, raise doubts that money is laundered in some sectors such as construction or the real estate market. According to the official data of the Money Laundering Prevention Directorate, in a high percentage of identified cases, the origin of the dirty money is unknown and in 30% of the known cases, it comes from drug trafficking (Picari, 2021). In an interview for the Voice of America, Fatjona Mejdini, Coordinator of the Global Initiative Against International Organized Crime, for the Balkans, states that "How is it possible when many other sectors such as agriculture or tourism, vital for the country, managed to decrease and were in the conditions of survival, while the real estate sector saw an increase. This is an indicator that shows the fact that these buildings are being used as an illegal way of parking and storing dirty money."

Today's Tirana has almost nothing left of what it was 30 years ago. Green spaces have narrowed. New buildings are being erected every day. After 2016, the construction entered a new "unexpected" growth cycle, which does not know how to stop. In 2021, the area of construction permits granted in the capital reached 1.4 million square meters, which may be the highest in these 30 years of transition (monitor.al, 2022). But estimates are that 40% of construction circulates informal money, from several companies, mainly in expensive towers. The informal money benefited from the criminal activities that have increased in Albania seems to have been the main lobbyist to increase the area with construction permits, but also to rush the constructions to areas near the center, where the expected profit rates are even higher. It is to point out that Tirana is being destroyed, because there are some individuals who do not know where to "park the money" (monitor.al, 2022). The market operators themselves claim that, most

of them, they have no interest in selling, but keep them for investment, to rent them, or to resell them later, when the price increases. In fact, this "walling" of money has been one of the factors, along with the increase in the costs of raw materials, that has influenced the rapid increase in the price of apartments in recent years, at rates much higher than income, making almost impossible for a normal family to buy an apartment in a good area (monitor.al, 2022).

All these figures mentioned above have a chain factor in financial institutions like banks. Another factor that further helps the growth of fiscal evasion or money laundering is also played by banks, where referring to the report "they play a key role in money laundering, as they often act as gatekeepers of the financial system". This occurs from small amounts of illegal money simply being sent to the bank, to the banks' roles as important intermediaries in larger transactions and to offshore accounts. (Nuttall, 2021). According to a report of the Directorate of Prevention and Money Laundering, since 2016, more than 55 million euros suspected to belong to the world of crime have been blocked in banks. But the amount of blocked money has been decreasing from year to year. From around 29 million euros in 2016 to just over 1 million last year (Picari, 2021).

According to Mr. Elvis Koçi, the Director of the Money Laundering Prevention Directorate, there is no analysis of this worrying phenomenon, since the institution he leads only examines suspicious cases reported by the Banks themselves. He clarifies that many of the transfers they may have avoided without having to report them (Picari, 2021).

When it comes to buying an apartment, banks normally have to finance 50-70% of the value of an apartment where the rest will be financed by the buyer based on his income. Based on this rule, banks must reject the buyer if he does not meet the rates set by the bank. But the

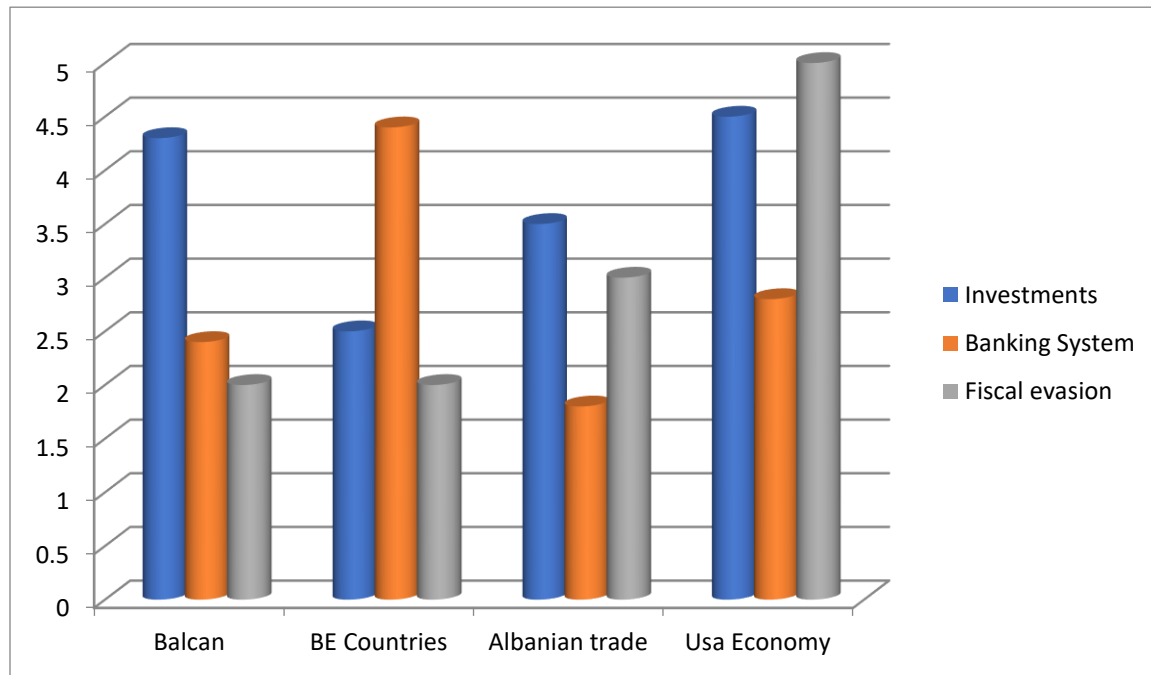
truth is different where banks have allowed such purchases, with dry money (cash) without reporting the source of income or transparency in the process.

An important component in the flow of illegal money in Albania is fiscal evasion. This is related to the avoidance of paying taxes by these real estate companies or the minimization of taxes on behalf of the Albanian state. At the end of the materials found in various sources as above, it is worth highlighting the main factors as a result of the increase in criminal activities, money laundering, non-control of banks in their activities, non-declaration of income or sales, etc. which have led to this increase in fiscal evasion of Albanian companies and those of the region in the Western Balkans.

2.1 Methodology

The method used in this study is the qualitative phenomenological method. This method was used as it was seen as the most suitable for achieving the goals and meeting the intended objectives. Also, this method was used because through the initial study of theories, reports and literature we will arrive at more important, fairer and more valuable conclusions and recommendations. For the realization of the topic, studies of various articles on the Internet, magazines, reports of non-governmental institutions, etc. have been done. In addition to this method, another tool used for data collection was the questionnaire drawn up in 6 real estate companies, to identify the problems and opinions of different people on this issue, which enabled obtaining important information regarding this vital and current problem of Albania. In order to understand the phenomenon of this study, we must first understand the attitudes and perceptions of Albanian employers and managers in the real estate sector in Albania towards the phenomenon of illegal money laundering, which was important for this study. Different facts from the second part of article, showed that the consequences of organized crime in Albania and the Western

Balkans, such as money laundering, banks, property investments, etc., showed the reasons why there is fiscal evasion in this sector.



The purpose included information about the various motives behind these problems, which included price comparisons with other countries in the region. The phenomenon of the increase in organized crime and the laundering of illegal money has resulted in the non-declaration of income and the sale of property in Albania.

3.1 Research Question

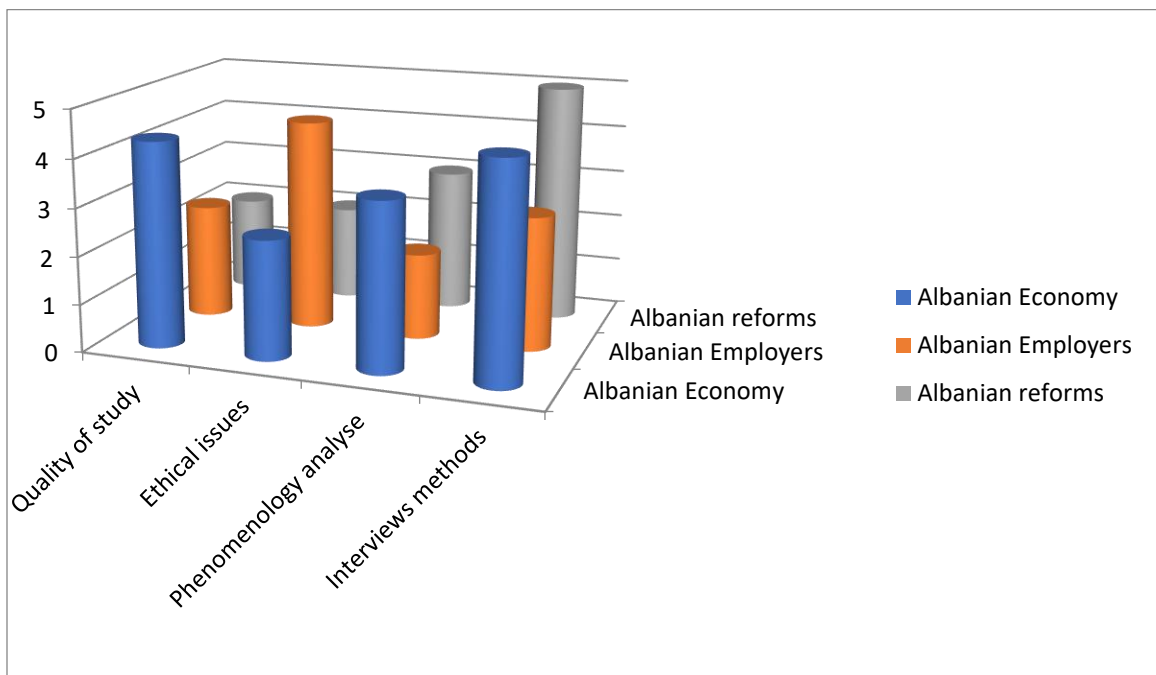
The main research question gives us a clear basis for the purpose of this research

How much does money laundering in the real estate market affect the Albanian economy?

- The research question helps us to identify the economic growth of Albania, the positive or negative consequences of money laundering or its components such as fiscal evasion in the real estate market.

3.2 Purpose of the study

The goals of this phenomenological study investigate the attitudes of Albanian real estate companies in Albania regarding the existence of fiscal evasion, money laundering, and the values it has in the development of the economy in Albania. This phenomenological study included research questions and participants of Albanian employers and managers. During this research, the data analysis technique used for this particular research study was identified, along with the quality, reliability and ethical issues (privacy of interview participants) involved in this study.



According to a report by the Global Initiative against Transnational Organized Crime, the real estate and construction sectors are being used to launder illicit money from the drug trade and migrant smuggling in the Western Balkans, leading to a rise in property prices. The property "can be a place to store a significant amount of capital, potentially to appreciate in value and improve the quality of the criminal's lifestyle," the report said. He notes previous research showing that investment in construction and real estate "has a long history of absorbing illicit income in the Western Balkans, given that the sector is both meaningful in terms of economic weight and poorly arranged". (Nuttall, 2021). This report features some of the money laundering hotspots in

the region that have seen strong increases in property prices in recent years. The information in the table below was obtained from local companies where it shows the difference in prices of different countries in the Western Balkans and the main cities in these countries. As can be seen from figure 1, after Belgrade, the city of Tirana comes in second place for the highest prices in the Western Balkans.

Figure 1: Prices per m2 in 6 countries in the Western Balkans

Location	Price per square metre	
	2017	2020
Albania		
Tirana (city centre)	€861	€1 400–€2 000 (prices reach €4 000 in the newly built skyscrapers in the city centre)
Vlora (waterfront)	€700–€800	€1 000–€1 200
Durres (residential complexes)	€850–€900	€850–€900
Bosnia and Herzegovina		
Sarajevo (old town and centre)	€600–€2 250	€575–€2 750
Banja Luka	€750–€1 250	€978–€1 183
Tuzla (city center)	€1 150	n/a
Kosovo		
Pristina	€600–€2 500	€1 000–€1 100
Peja	n/a	€500–€550
Prizren	n/a	€600–€660
Montenegro		
Podgorica	€1 123	€966
Coastal region	€1 159	€1 401
Northern region	€639	€720
North Macedonia		
Skopje (centre)	€887	€973–€1 021
Bitola	€376	€559–€612
Strumica	€500	€472–€534
Serbia		
Stari Grad, Belgrade	€1 878	€2 499
Nis	€794	€914
Novi Sad	€1 007	€1 204

Based on the research method being used in this study, a questionnaire was delivered to 6 Albanian companies that operate in real estate market. Below the questions:

4. Conclusions and Recommendations

In order to understand the phenomenon of this study, we must first understand the attitudes and perceptions of Albanian employers and managers in the real estate sector in Albania towards the phenomenon of illegal money laundering, which was very important for this study. The results of this study provide an integrated view of what causes Albanian companies to commit tax evasion and the impact they have on the Albanian economy. This study provides useful data that can help establish areas of further research in the future. Based on the attitudes of Albanian employers and managers and the results of the study, this study recommends the following statements which may be useful to avoid this phenomenon.

After analyzing the data, the recommendations follow as follows:

- 1) In all interviewed real estate companies operating throughout Albania, money laundering and tax evasion is a very worrying problem for both citizens and businesses. The findings show that 100% of the participants basically agree that there should be an analysis and comparisons with more advanced countries. At this stage, it is recommended to cooperate with other countries that offer fair and essential practices in preventing the phenomenon of money laundering or fiscal evasion.
- 2) Based on the results of the study, where all participants agreed, a different methodology should be implemented where the information received from real estate companies is current, transparent and real from banks or financial institutions. Based on the results of the study, almost 90% of the participants agree in principle that there should be a control in the form of an audit of companies (real and not fictitious financial statements), banks with transaction movements as well as the information that banks should provide to companies of assets real estate. As a result

of the data, an assessment is recommended on the activity of the entities licensed by it and assesses the applicability of legal and regulatory acts on the prevention of money laundering.

3) Based on the results of the study, a coordination of state structures (such as the General Prosecutor's Office, SPAK, etc.) is needed with businesses in the exchange of information and for the execution of each party in accordance with the rights of the citizen, which includes privacy or personal information.

4) Regarding the impact of the development of the economy from the phenomenon of money laundering or fiscal evasion, there are different opinions from the participants in the study, where some think it has a positive impact, some think it has no impact on the economy. For this reason, it is recommended that stricter measures should be implemented in the way this illegal money is invested and the effects they have in the short or long term in the economy.

5) Special studies should be undertaken by experts in the field of economics regarding the impact on the economy and the development of fiscal policies regarding the development of the real estate industry from the phenomenon of money laundering and fiscal evasion.

The knowledge and results found in this qualitative phenomenological study as well as descriptive statistics can help future Albanian real estate companies implement new innovative practices in their businesses and can help encourage organizations to integrate business processes of fair trading, fair financial trading and avoidance of fiscal evasion. Also, this study shows us that crime for economic gain, and organized crime in particular, damages productive economic activities, disrupts competition, and discourages investment and entrepreneurship. Organized crime goes hand in hand with corruption and weak governance as criminal groups constantly try to sabotage the rule of law, the justice sector, and want to manipulate political structures to suit their needs. This results in legal non-payment of taxes, concealing income, illegal money

laundering, fiscal evasion or simply reporting expenses illegally. All the above factors make both real estate companies and individuals do tax evasion, but of course there is a big difference between the scale and their impact on society or economy. Analysis of data obtained from interviews (open and closed answers), questionnaires, or descriptive statistics help us with clearer ideas for providing conclusions, recommendations in the future for state institutions or private real estate companies.

They reduce the amount of money that the state collects from taxes, and make it difficult for the government to achieve its social and economic objectives in the country. They damage the credibility of state institutions, and sabotage the rule of law. Money laundering and tax evasion also exacerbate social inequality in terms of livelihoods, and allow the rich to hide their wealth at the expense of the poor. Finally, money laundering and tax evasion can entice public officials, financial institutions, and private companies to increase their profits by violating laws and regulations. For these reasons, it is necessary to apply the aforementioned recommendations to both state institutions and private real estate companies.

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