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Money laundering through public contracts and fiscal stability

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Abstract

Money laundering through public contracts constitutes one of the most complex forms of financial crime, significantly affecting fiscal stability and institutional integrity. This study examines the intersection between criminal law and public finance within the context of public procurement, identifying the mechanisms through which illicit funds are integrated into the formal economy. Although existing literature primarily addresses money laundering from a banking and financial perspective, this article focuses on public contracts as an alternative and comparatively underexplored channel. The methodology includes an analysis of the international and European legal frameworks, as well as a comparative examination of institutional practices. The findings indicate that the lack of transparency in public procurement procedures, the use of offshore companies, and weaknesses in the verification of beneficial ownership are among the principal factors facilitating money laundering activities. This phenomenon has direct consequences for fiscal stability, as it distorts market competition and reduces public budget revenues.

Keywords: money laundering, public procurement, fiscal stability, transparency, financial crime.

1. Introduction

In recent decades, money laundering has emerged as one of the most significant challenges facing modern economies and the effective functioning of the rule of law. Economic globalization, the expansion of financial systems, and the increase in international transactions have created new opportunities for concealing and legitimizing proceeds derived from criminal activities. In this context, public contracts and public procurement procedures are considered among the sectors most vulnerable to corruption and money laundering schemes due to the substantial circulation of public funds, procedural

complexity, and insufficient institutional transparency. Money laundering refers to the process through which proceeds generated from illegal activities are integrated into the formal economy in order to conceal their illicit origin. This phenomenon extends beyond its criminal dimension, producing significant economic, fiscal, and institutional consequences. One of the most sophisticated methods of laundering illicit funds involves the misuse of public contracts, whereby individuals or entities connected to criminal activities benefit from public resources through manipulated tender procedures, fictitious companies, inflated project costs, or questionable subcontracting arrangements.

Public procurement plays a fundamental role in the economic and social development of a country by enabling strategic investments in infrastructure, healthcare, energy, education, and other sectors of public importance. However, when procurement procedures are characterized by limited competition, weak oversight mechanisms, and political influence, they may become instruments of corruption and money laundering. As a result, public funds are diverted from their intended developmental purposes and instead serve private or criminal interests, thereby undermining the efficiency of public expenditures and threatening the economic stability of the state. The impact of money laundering through public contracts is directly reflected in a country's fiscal stability. Fiscal stability refers to the state's capacity to sustainably manage public revenues and expenditures, maintain control over budget deficits and public debt levels, and ensure the efficient allocation of financial resources. When public funds are misused through corrupt or criminal schemes, the likelihood of fiscal deficits increases, the effectiveness of public investments declines, and public trust in governmental institutions and financial systems is weakened. Furthermore, money laundering within the public procurement sector negatively affects market competition and the functioning of the economy. Companies operating with illicit capital obtain unfair advantages over legitimate businesses, thereby distorting competition and impeding the growth of the formal economy. This situation contributes to the expansion of the informal economy, reduces tax revenues, and weakens the fiscal capacity of the state. International organizations such as the Financial Action Task Force, World Bank, and International Monetary Fund have consistently emphasized that corruption in public procurement and lack of transparency are key factors facilitating money laundering and increasing fiscal risks, particularly in developing countries and transitional economies. Numerous international reports have highlighted that institutional weaknesses, insufficient verification of beneficial ownership, and inadequate financial oversight create favorable conditions for the infiltration of criminal capital into public projects. The purpose of this study is to analyze the mechanisms through which public contracts are used for money laundering activities and to assess the impact of these practices on fiscal stability. In addition, the study seeks to identify the institutional and legal weaknesses that facilitate such practices and to provide recommendations for strengthening transparency, financial control, and anti-money laundering mechanisms within the public sector.

To achieve these objectives, the study addresses the following research questions:

- How are public contracts utilized to facilitate money laundering schemes?
- What are the economic and fiscal effects of this phenomenon?

- How effective are the existing control and oversight mechanisms?
- What measures can be implemented to reduce the risk of money laundering in public procurement?

The central hypothesis of this paper is that the lack of transparency and weak institutional oversight in public procurement procedures create favorable conditions for money laundering, thereby negatively affecting fiscal stability and the efficiency of public financial management. This study is based on theoretical and empirical analyses of scientific literature, international reports, relevant legislation, and public procurement case studies, with the objective of highlighting the relationship between corruption, money laundering, and fiscal stability in modern economies.

2. Theoretical meaning of money laundering

2.1 Definition of money laundering

Money laundering constitutes one of the most complex forms of economic and financial crime in the modern global economy. This phenomenon refers to the process through which proceeds derived from illegal activities are transformed and integrated into the formal economy in order to conceal their criminal origin. In essence, money laundering seeks to provide a “legitimate appearance” to funds generated through criminal activities such as corruption, drug trafficking, smuggling, tax evasion, financial fraud, organized crime, and corruption within the public sector. From a legal perspective, money laundering is considered a criminal offense involving the concealment, transfer, conversion, or use of assets obtained through unlawful activities. From an economic perspective, however, the phenomenon represents the infiltration of criminal capital into the legitimate economy, thereby distorting market competition and undermining the normal functioning of financial and public institutions. According to the standards established by the Financial Action Task Force, money laundering encompasses any act intended to conceal or disguise the illicit origin of criminal proceeds with the objective of avoiding criminal prosecution and integrating such proceeds into the economic system. This definition has been widely adopted within national legislation and by numerous international organizations. The phenomenon of money laundering has acquired global dimensions as a result of technological advancements in the financial sector, market liberalization, and the increased international movement of capital. In this context, financial crime is no longer confined to the banking system but extends to sectors such as construction, real estate, public investment, offshore companies, and public procurement contracts.

2.2 Stages of money laundering

The money laundering process generally occurs in three interconnected stages, each designed to progressively eliminate the connection between criminal proceeds and their illicit source. These stages are commonly identified as placement, layering, and

integration.

Placement Stage

The placement stage represents the initial phase of the money laundering process and is considered one of the most vulnerable stages for offenders. During this phase, funds obtained through criminal activities are introduced into the formal financial or economic system for the first time. This may be accomplished through:

- Bank deposits;
- Investments in businesses;
- The purchase of assets;
- The use of commercial enterprises; and
- Fictitious payments through public contracts.

The primary objective of this stage is to avoid suspicion regarding the origin of the funds while initiating the process of legitimizing illicit proceeds.

Layering Stage

The layering stage involves the execution of numerous financial transactions intended to obscure the criminal origin of the funds. This phase is considered the most complex, as it entails the movement of assets through multiple institutions and jurisdictions in order to conceal the audit trail. Common techniques include:

- International financial transfers;
- The use of offshore companies;
- Fictitious contracts;
- Multiple subcontracting arrangements;
- Shell companies; and
- Inflated invoices and project costs.

In the context of public contracts, layering may occur through the establishment of complex networks of companies that receive public funds and subsequently transfer them through various transactions to obscure their original source.

Integration Stage

The integration stage constitutes the final phase of the money laundering process, during which illicit funds are reintroduced into the economy as apparently legitimate income. At this stage, the funds are perceived as “clean” and may be utilized without generating immediate suspicion. Integration may occur through:

- Real estate investments;
- Commercial enterprises;
- Infrastructure projects;
- Public and private investments; and
- Lawful financial activities.

Through this process, criminal capital becomes intertwined with the formal economy, making it increasingly difficult to identify its true origin.

2.3 Modern forms of money laundering

With the development of the global economy and advancements in financial technology,

traditional methods of money laundering have become increasingly sophisticated and more difficult to detect. Criminal networks have adapted to modern financial systems by exploiting legal entities, public procurement mechanisms, offshore jurisdictions, and digital technologies to conceal the origin of illicit funds.

a) Shell Companies

Shell companies are entities that formally exist as legal businesses but conduct little or no genuine economic activity. These companies are commonly used for:

- Concealing beneficial ownership;
- Transferring illicit funds;
- Securing public procurement contracts; and
- Conducting fictitious transactions.

Shell companies are frequently established in offshore jurisdictions characterized by limited financial transparency and weak regulatory oversight. Their complex ownership structures make it difficult for authorities to identify the individuals ultimately controlling the assets and financial transactions.

b) Use of Public Contracts

Public contracts constitute one of the most frequently exploited mechanisms for the legalization of criminal proceeds. Through public procurement procedures, illicit funds may be integrated into the formal economy by means of:

- Manipulated tender procedures;
- Artificial inflation of project costs;
- Payments for fictitious services; and
- Suspicious subcontracting arrangements.

In such cases, public funds may be transferred to companies or individuals connected to criminal activities, thereby transforming illicit proceeds into apparently legitimate income. The complexity of procurement systems and inadequate oversight mechanisms often facilitate these practices.

c) Offshore Jurisdictions

Offshore jurisdictions play a significant role in international money laundering schemes by providing:

- Financial secrecy;
- Anonymity of beneficial owners;
- Favorable tax regimes; and
- Limited regulatory control.

These jurisdictions are frequently used to transfer, conceal, and protect criminal assets from detection by domestic authorities. The lack of transparency and international cooperation in certain offshore financial centers complicates efforts to trace illicit financial flows.

d) Technology and Electronic Transactions

The rapid development of financial technology has introduced new methods of money laundering through:

- Electronic transfers;
- Online financial platforms;

- Digital payment systems; and
- Cryptocurrencies.

These technological instruments increase the speed and complexity of financial transactions, making it more difficult for regulatory and law enforcement authorities to monitor and trace illicit activities. In particular, cryptocurrencies and decentralized financial systems create additional challenges due to their cross-border nature and varying levels of anonymity.

2.4 Economic and institutional consequences of money laundering

Money laundering is not solely a criminal issue; it also generates extensive economic, fiscal, and institutional consequences that negatively affect the functioning of the state and the stability of the economy. The impact of this phenomenon extends beyond illegal financial activities, influencing market competition, public finances, and public trust in institutions.

a) Economic Consequences

Money laundering produces significant distortions within the economy, including:

- Distortion of market competition;
- Expansion of the informal economy;
- Obstruction of legitimate investments; and
- Destabilization of financial markets.

Businesses financed through illicit capital often gain unfair competitive advantages over legitimate enterprises, thereby undermining fair competition and discouraging honest investment. In addition, the infiltration of criminal funds into the economy contributes to financial instability and reduces the efficiency of market mechanisms.

b) Fiscal Consequences

The fiscal consequences of money laundering directly affect the state's financial capacity and public budget management. These consequences include:

- Reduction in tax revenues;
- Increased levels of corruption;
- Misuse of public funds; and
- Growth of fiscal deficits.

When criminal funds circulate through the formal economy without proper taxation or oversight, governments experience reduced fiscal revenues and weakened budgetary performance. Furthermore, corruption associated with money laundering contributes to inefficient public spending and undermines fiscal discipline.

c) Institutional Consequences

Money laundering also has profound institutional implications, including:

- Weakening of the rule of law;
- Decline in public trust in state institutions;
- Capture of public institutions by private or criminal interests; and
- Expansion of systemic corruption.

The penetration of criminal capital into public institutions compromises the integrity

of governance structures and reduces the effectiveness of public administration. As a result, institutional accountability and democratic governance are significantly weakened. In particular, when money laundering is conducted through public contracts and procurement procedures, the resulting damage directly affects public finances and undermines the efficiency of the state's economic and development policies.

2.5 International Anti-Money Laundering Framework

Due to the transnational nature of money laundering, the international community has established global mechanisms and standards aimed at combating this phenomenon. International cooperation is considered essential for preventing the movement and concealment of illicit financial flows across jurisdictions.

Among the principal international institutions involved in anti-money laundering efforts are:

- Financial Action Task Force;
- International Monetary Fund;
- World Bank;
- United Nations; and
- European Union.

These organizations have developed:

- International legal standards;
- Monitoring and evaluation mechanisms;
- Recommendations concerning financial transparency; and
- Policies for identifying beneficial ownership and monitoring suspicious transactions.

At the national level, states are required to harmonize their legislation and institutional practices with international anti-money laundering standards in order to prevent the infiltration of criminal capital into the economy and the public sector.

3. Public contracts as a mechanism for money laundering

Public contracts and public procurement procedures are considered among the sectors most vulnerable to corruption and money laundering because of the substantial financial resources involved, the complexity of administrative procedures, and the extensive interaction between the public and private sectors (Organisation for Economic Co-operation and Development [OECD], 2016). In many countries, institutional weaknesses, lack of transparency, and insufficient financial oversight have created favorable conditions for the infiltration of criminal capital into public projects (Financial Action Task Force [FATF], 2021).

Public procurement refers to the process through which state institutions acquire goods, services, and public works in order to fulfill economic and social functions. In principle, this system is intended to ensure fair competition, efficient allocation of public resources, and administrative transparency (World Bank, 2020). In practice, however, public contracts are frequently exploited as instruments for corruption,

economic favoritism, and the legalization of illicit proceeds (OECD, 2016).

Money laundering through public contracts is commonly carried out through the manipulation of procurement procedures and the use of companies connected to criminal activities. Such practices occur when certain entities secure public contracts not through genuine competition, but through bribery, political influence, falsified documentation, or corrupt arrangements with public officials (United Nations Office on Drugs and Crime [UNODC], 2019). As a result, public funds are transferred to companies that serve as vehicles for legitimizing criminally derived capital.

One of the most common methods of money laundering in public procurement is the artificial inflation of project costs. In these schemes, the actual value of a public contract is unjustifiably increased through inflated invoices, unrealistic pricing, or payments for incomplete or nonexistent work. The difference between the real cost and the reported expenditure is subsequently used to conceal and legalize illicit funds (FATF, 2021). This practice is particularly prevalent in sectors such as construction, infrastructure, energy, and healthcare, where projects involve large-scale financial investments and technical oversight is often insufficient.

Another significant mechanism involves the use of shell companies or fictitious enterprises. These entities are formally registered as legal companies but engage in little or no legitimate economic activity. They are often used to participate in public tenders, conduct fictitious transactions, and transfer public funds across multiple financial jurisdictions (OECD, 2016). In many cases, the beneficial ownership of such companies is concealed through offshore jurisdictions or complex ownership structures, making it difficult for authorities to identify the ultimate beneficiaries (FATF, 2021).

Subcontracting practices also represent a common mechanism for laundering illicit funds through public procurement. Companies awarded public contracts may transfer portions of the contracted work to affiliated entities without adequate transparency or institutional supervision. Through these chains of transactions, the origin of the funds becomes increasingly difficult to trace, thereby facilitating the concealment of suspicious financial activities (World Bank, 2020).

A further concern relates to the lack of genuine competition in procurement procedures. In numerous cases, public tenders are characterized by the presence of a single bidder, discriminatory qualification criteria, or manipulated procedures favoring specific companies (OECD, 2016). Such practices violate the principle of equality in the market and create favorable conditions for corruption and the legalization of criminal proceeds. Beyond the economic implications, the misuse of public contracts for money laundering generates serious institutional and fiscal consequences. Public resources are diverted from projects serving the public interest toward private or criminal objectives, thereby reducing the efficiency of public spending and undermining citizens' trust in public institutions (UNODC, 2019). At the same time, market competition is distorted because companies financed through illicit capital obtain unfair advantages over legitimate economic operators.

International organizations such as the Financial Action Task Force, Organisation for Economic Co-operation and Development, and World Bank have consistently identified

public procurement as one of the sectors most exposed to corruption and money laundering risks. Their reports emphasize the importance of strengthening transparency mechanisms, verifying beneficial ownership, and implementing electronic systems for monitoring procurement procedures and public contracts (FATF, 2021; OECD, 2016). In this context, combating money laundering in the public procurement sector requires not only criminal and financial enforcement measures but also comprehensive institutional reforms that ensure transparency, accountability, and effective oversight of public expenditures. Only through robust control mechanisms and enhanced interinstitutional cooperation can the risk of criminal capital infiltrating the public economy be reduced and the fiscal stability of the state protected.

4. Impact on fiscal stability

Money laundering through public contracts constitutes not only a criminal and institutional problem but also a serious threat to fiscal stability and sustainable economic development. Fiscal stability refers to the government's ability to manage public finances effectively, maintain a balance between public revenues and expenditures, and control budget deficits and public debt levels (International Monetary Fund [IMF], 2020). In this context, any phenomenon that undermines the efficient use of public funds and reduces state revenues directly threatens the fiscal sustainability of a country.

Money laundering within the public procurement sector negatively affects fiscal stability by diverting public funds from their legitimate economic and social purposes. When public contracts are exploited for corrupt or criminal interests, state resources are no longer directed toward productive and developmental investments but are instead transferred to private entities connected to illicit activities (Organisation for Economic Co-operation and Development [OECD], 2016). Consequently, inefficient public spending increases while the quality and effectiveness of public investments decline.

One of the principal fiscal consequences of this phenomenon is the increase in budget deficits. The artificial inflation of project costs and payments for incomplete or fictitious services lead to unnecessary growth in public expenditures (World Bank, 2020). In many cases, governments are compelled to finance projects whose costs significantly exceed their actual value, thereby creating pressure on public budgets and limiting the capacity to fund priority sectors such as education, healthcare, and social infrastructure. Furthermore, money laundering reduces fiscal revenues because of its close association with the informal economy and tax evasion. Entities involved in laundering criminal capital through public contracts frequently avoid tax obligations, manipulate financial statements, or transfer profits to offshore jurisdictions (Financial Action Task Force [FATF], 2021). This situation narrows the state's tax base and weakens the ability of fiscal authorities to collect public revenues efficiently.

Another important consequence concerns the increase in public debt. When public funds are misused and public investments fail to generate the expected economic outcomes, governments are often forced to finance fiscal deficits through domestic or international borrowing (IMF, 2020). In this manner, corruption and money laundering

in public procurement indirectly contribute to rising public debt burdens and weaken long-term fiscal sustainability.

Money laundering also distorts the economic priorities of the state. In many instances, public projects are selected not on the basis of genuine economic or social needs but according to the opportunities they provide for corruption and illicit financial gain (OECD, 2016). As a result, investments tend to concentrate in sectors characterized by large financial flows and limited institutional oversight, while sectors with long-term social and developmental importance are neglected.

The negative effects of this phenomenon also extend to the broader economic and investment climate. The presence of corruption and money laundering within public procurement systems diminishes the confidence of domestic and foreign investors by creating perceptions of a nontransparent and noncompetitive market environment (World Bank, 2020). Companies supported by illicit capital obtain unfair economic advantages, thereby undermining fair competition and obstructing the development of the formal private sector.

From an institutional perspective, money laundering through public contracts weakens the rule of law and reduces citizens' trust in public institutions. When public resources are diverted toward corrupt interests, public confidence in state administration, fiscal systems, and institutional justice declines (United Nations Office on Drugs and Crime [UNODC], 2019). This environment contributes to the perception of systemic corruption and weakens the institutional legitimacy of the state.

International organizations such as the International Monetary Fund, World Bank, and Organisation for Economic Co-operation and Development have consistently emphasized that corruption and money laundering represent major destabilizing factors for public finances and economic development. According to these institutions, insufficient transparency in the management of public contracts reduces fiscal efficiency, increases governance costs, and hinders long-term economic growth (IMF, 2020; OECD, 2016). In this context, ensuring fiscal stability requires strengthening financial control mechanisms, enhancing transparency in public procurement systems, and effectively implementing anti-money laundering legislation. Only through strong institutions, effective auditing mechanisms, and continuous monitoring of public expenditures can the negative impact of criminal capital on public finances and the national economy be reduced.

5. Case and data analysis

The analysis of case studies and empirical data constitutes an essential component for understanding how public contracts are used as mechanisms for money laundering and for assessing the impact of this phenomenon on fiscal stability. In many countries, particularly transition economies and states characterized by high levels of corruption, the public procurement sector has been identified as one of the areas most vulnerable to the infiltration of criminal capital and the misuse of public resources (Organisation for Economic Co-operation and Development [OECD], 2016).

International studies indicate that public projects involving substantial financial value,

particularly in sectors such as infrastructure, energy, construction, and public-private partnerships (PPPs), present an increased risk of corruption and money laundering (World Bank, 2020). This vulnerability is associated with the complexity of contractual arrangements, lack of transparency in procurement procedures, and insufficient oversight during project implementation.

In the case of the Western Balkan countries, international reports have consistently highlighted several recurring problems in public procurement systems, including:

- Tenders with a single bidder;
- Lack of genuine market competition;
- Inflated project costs;
- Conflicts of interest; and
- Limited transparency concerning the beneficial ownership of winning companies (European Commission, 2023).

One of the most debated sources of fiscal risk in the region relates to PPP projects and public concessions. In numerous cases, these contracts have been associated with allegations of economic favoritism, overestimated project costs, and inadequate cost-benefit analyses (International Monetary Fund [IMF], 2020). Due to their high financial value and long-term contractual nature, PPPs are considered mechanisms with substantial potential for the transfer and legalization of suspicious financial resources.

In Albania, reports issued by audit institutions and international organizations have raised concerns regarding the management of public contracts and the transparency of procurement procedures. According to reports published by Transparency International and the European Commission, the principal concerns include:

- Procurement procedures characterized by limited competition;
- Frequent use of accelerated or emergency procedures;
- Weak oversight of contract implementation; and
- Insufficient verification of beneficiary companies (European Commission, 2023; Transparency International, 2022).

Public audit reports have also identified cases involving inflated investment costs and payments for incomplete or partially executed works. Such practices create opportunities for corruption and money laundering while simultaneously undermining the efficiency of public expenditures and increasing fiscal risks (Supreme State Audit of Albania, 2022). From a statistical perspective, empirical evidence demonstrates a significant relationship between corruption levels and the deterioration of fiscal indicators. Countries experiencing higher levels of corruption are generally characterized by:

- Higher budget deficits;
- Increased public debt levels;
- Less efficient public investments; and
- Lower tax revenues (IMF, 2020).

Empirical studies conducted by the International Monetary Fund and the World Bank indicate that corruption in public procurement substantially increases the costs of state investments. In some instances, public projects may become 20–30% more expensive as a consequence of corrupt practices and financial manipulation (World Bank, 2020).

This situation directly contributes to fiscal imbalance and increases the need for public borrowing.

Another critical issue concerns the lack of transparency regarding the beneficial ownership of companies participating in public tenders. In many cases, winning companies are indirectly controlled by individuals linked to criminal organizations or political interests (Financial Action Task Force [FATF], 2021). The use of offshore jurisdictions and complex ownership structures significantly complicates the identification of the ultimate beneficiaries of public funds.

Data analysis further indicates that the construction and public infrastructure sectors are among the sectors most vulnerable to money laundering risks. This is associated with:

- High capital turnover;
- Difficulties in verifying actual project costs;
- Extensive use of subcontracting arrangements; and
- Limited technical oversight of project implementation (OECD, 2016).

At the international level, organizations such as the Financial Action Task Force and the Organisation for Economic Co-operation and Development have recommended strengthening public procurement oversight through:

- Full transparency of public contracts;
- Establishment of beneficial ownership registers;
- Electronic monitoring systems for tenders;
- Independent financial auditing; and
- Enhanced interinstitutional cooperation (FATF, 2021; OECD, 2016).

In conclusion, the analysis of empirical evidence and case studies demonstrates that public contracts represent a high-risk mechanism for money laundering and institutional corruption. Weaknesses in transparency, financial control, and administrative oversight create opportunities for the legalization of criminal capital and the diversion of public funds. These practices negatively affect fiscal stability, reduce the efficiency of public investments, and undermine citizens' trust in state institutions.

6. Challenges in the fight against money laundering

The fight against money laundering constitutes one of the greatest challenges for modern states and international institutions, particularly in the context of economic globalization and the expansion of international financial systems. Despite the strengthening of legal frameworks and the establishment of financial control mechanisms, money laundering continues to remain a complex and difficult phenomenon to prevent (Financial Action Task Force [FATF], 2021). In particular, the use of public contracts and public procurement procedures as mechanisms for the legalization of criminal proceeds has exposed numerous institutional, administrative, and legal weaknesses that undermine the effectiveness of anti-money laundering efforts.

One of the principal challenges concerns the lack of transparency in public procurement procedures. In many cases, information regarding public tenders, selection criteria, and awarded contracts is not fully published or accessible to the public (Organisation for

Economic Co-operation and Development [OECD], 2016). This lack of transparency creates opportunities for procedural manipulation, favoritism toward particular companies, and the concealment of suspicious financial transactions. The problem becomes even more serious when companies participating in public tenders employ complex ownership structures or offshore jurisdictions to hide the real beneficiaries of public funds.

Another major issue relates to weaknesses in supervisory institutions and financial oversight mechanisms. In many countries, institutions responsible for auditing public contracts, controlling public expenditures, and monitoring suspicious financial transactions face limitations in professional expertise, human resources, and institutional independence (World Bank, 2020). As a result, their ability to identify sophisticated money laundering schemes and effectively investigate corruption and financial crime is significantly reduced. The lack of interinstitutional coordination also remains a persistent challenge. Effective anti-money laundering measures require close cooperation among financial institutions, tax administrations, financial intelligence units, judicial authorities, and public procurement agencies. In practice, however, deficiencies in information sharing, bureaucratic delays, and weak operational coordination among responsible institutions are frequently observed (United Nations Office on Drugs and Crime [UNODC], 2019). These deficiencies create gaps within the control system and facilitate the evasion of financial monitoring mechanisms.

Another significant challenge is associated with the use of offshore jurisdictions and international financial structures to conceal criminal assets. Financial globalization has facilitated the transfer of funds to jurisdictions that provide banking secrecy and limited transparency concerning beneficial ownership (FATF, 2021). Consequently, identifying the true origin of funds and tracing suspicious transactions across borders becomes increasingly difficult for national authorities.

The rapid development of financial technology and the digitalization of financial transactions have also introduced new challenges for supervisory institutions. The use of electronic platforms, digital payment systems, and modern financial instruments has accelerated the movement of capital and complicated the monitoring of transactions associated with money laundering (International Monetary Fund [IMF], 2020). In many instances, public institutions lack the technological capacity and specialized expertise necessary to supervise complex financial transactions in real time.

One of the most serious obstacles remains institutional corruption and political influence within public administration. When public officials are involved in corrupt practices or exert influence over procurement procedures, control mechanisms become ineffective (OECD, 2016). Corruption at senior administrative levels creates a climate of impunity and facilitates the infiltration of criminal capital into the public economy. Under such conditions, anti-money laundering efforts cannot be successful without ensuring judicial independence and strengthening the rule of law.

Another important issue concerns the insufficient control of beneficial ownership. In many cases, companies participating in public procurement procedures are indirectly controlled by individuals connected to criminal organizations or political interests, while

the real ownership structures are concealed through intermediaries or offshore entities (FATF, 2021). The absence of transparent beneficial ownership registers complicates the identification of individuals who ultimately benefit from public funds and obstructs financial investigations.

From a legal perspective, harmonizing national legislation with international anti-money laundering standards remains a continuing challenge. Although numerous countries have adopted modern legal frameworks in this field, their practical implementation often remains weak because of limited institutional capacity and inefficient investigative procedures (UNODC, 2019). Furthermore, the complexity of modern financial schemes and the transnational nature of money laundering require continuous legal and operational cooperation among states.

International organizations such as the Financial Action Task Force, World Bank, and International Monetary Fund have emphasized that effective anti-money laundering strategies should focus on:

- Strengthening financial transparency;
- Monitoring beneficial ownership;
- Increasing institutional independence;
- Digitalizing control and monitoring systems; and
- Enhancing international and interinstitutional cooperation (FATF, 2021; IMF, 2020).

In conclusion, the challenges associated with combating money laundering are closely connected to institutional weaknesses, lack of transparency, corruption, and the complexity of contemporary financial systems. Effective prevention and control of this phenomenon require not only comprehensive legal frameworks but also independent institutions, efficient financial oversight mechanisms, and continuous cooperation at both national and international levels.

7. Final recommendations

The analysis of money laundering through public contracts and its impact on fiscal stability highlights the necessity of strengthening institutional, legal, and financial mechanisms aimed at ensuring transparency and protecting public finances. Given that public procurement constitutes one of the sectors most vulnerable to corruption and the infiltration of criminal capital, combating this phenomenon requires coordinated interventions at legal, administrative, technological, and institutional levels (Organisation for Economic Co-operation and Development [OECD], 2016).

One of the primary recommendations concerns increasing transparency in public procurement procedures. Public institutions should ensure the full and real-time publication of all stages of the tendering process, including selection criteria, financial offers, awarded contracts, and the implementation of contractual obligations (World Bank, 2020). Greater transparency in the management of public resources reduces opportunities for procedural manipulation and strengthens public oversight regarding the use of state funds.

Another important measure involves strengthening oversight of the beneficial ownership

of companies participating in public procurement procedures. The establishment of mandatory and transparent beneficial ownership registers would facilitate the identification of individuals who ultimately control winning companies and would reduce the misuse of shell companies and offshore structures for concealing criminal capital (Financial Action Task Force [FATF], 2021). In this regard, cooperation among tax administrations, financial intelligence units, and procurement authorities should be enhanced and institutionalized.

It is also recommended to strengthen financial auditing and internal control mechanisms within public institutions. Auditing procedures should focus not only on the formal legality of procurement processes but also on the economic and financial analysis of public contracts in order to identify:

- Artificial inflation of costs;
- Unjustified payments;
- Suspicious subcontracting arrangements; and
- Conflicts of interest.

The independence of audit institutions and the enhancement of their professional capacities are essential for guaranteeing effective financial supervision and accountability (United Nations Office on Drugs and Crime [UNODC], 2019).

From a technological perspective, the implementation of electronic procurement and financial monitoring systems represents a significant instrument for reducing corruption and money laundering risks. The digitalization of procurement procedures:

- Increases transparency;
- Reduces direct interaction between economic operators and public officials;
- Creates traceable financial records; and
- Facilitates the identification of suspicious transactions.

In this context, the use of integrated databases and automated risk-analysis systems can assist public institutions in detecting potential corruption and money laundering schemes more effectively (OECD, 2016).

Another important recommendation concerns strengthening the legal framework against money laundering and corruption in the public sector. National legislation should be continuously harmonized with international standards established by the Financial Action Task Force and the European Union, ensuring:

- More effective investigative procedures;
- Proportionate and effective sanctions;
- Confiscation of assets derived from criminal activities; and
- Protection for whistleblowers reporting corruption and financial crimes (FATF, 2021).

It is equally necessary to strengthen interinstitutional and international cooperation in combating money laundering. Because criminal capital is frequently transferred through multiple financial jurisdictions, effective investigations require continuous information exchange among:

- Financial intelligence units;
- Tax authorities;
- Judicial institutions; and

- International organizations.

Regional and international cooperation is particularly important for identifying criminal networks and tracing illicit financial flows transferred abroad (International Monetary Fund [IMF], 2020).

From an institutional perspective, strengthening the independence of the judiciary and financial oversight institutions remains essential. Anti-money laundering efforts cannot be effective if public institutions are influenced by political or economic interests. For this reason, guaranteeing the rule of law, judicial independence, and the effective prosecution of high-level corruption cases are necessary conditions for protecting public finances and ensuring fiscal stability (World Bank, 2020).

From an economic standpoint, governments should adopt policies aimed at increasing the efficiency of public expenditures and minimizing fiscal risks associated with public contracts. Such measures include:

- More rigorous evaluation of public investment projects;
- Stronger oversight of public-private partnerships (PPPs) and concessions;
- Continuous monitoring of public investment implementation; and
- Transparent assessments of project costs and economic benefits.

In conclusion, combating money laundering through public contracts requires an integrated approach that combines legal reform, institutional transparency, financial oversight, and international cooperation. Only through strong institutions, effective management of public finances, and the impartial application of the law can the influence of criminal capital on the public economy be reduced and fiscal stability and sustainable economic development be ensured.

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