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Interdependence between illegal trade in tobacco and corruption, money laundering and organized crime

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CONTENTS

INTRODUCTION	3
1. COUNTRIES' DESCRIPTION FROM THE CIGARETTE SMUGGLING POINT OF VIEW	5
1.1. Armenian case.....	5
1.2. Georgian (Sakartvelo) case	6
1.3. Moldovan case	6
1.4. Albanian case	7
1.5. Serbian case.....	7
1.6. Ukrainian case.....	9
2. RESULTS OBTAINED BY MULTI-CRITERIA EVALUATION METHOD.....	10
3. ASSESSING TAX MORALE	11
4. DEVELOPMENT OF THE MODEL OF THE CAUSATIVE AND CONSEQUENTIAL FACTORS OF THE IMPACT OF ILLEGAL TURNOVER OF TOBACCO PRODUCTS ON CORRUPTION, MONEY LAUNDERING AND ORGANIZED CRIME IN THE CONTEXT OF EAST EUROPEAN COUNTRIES	12
4.1. Illegal smoking in Albania.....	12
4.2. Illegal smoking in Armenia.....	14
4.3. Illegal smoking in Georgia.....	15
4.4. Illegal smoking in Moldova	16
4.5. Illegal smoking in Serbia	17
4.6. Illegal smoking in Ukraine.....	19
5. RESULTS OF EXPERT EVALUATION IN THE FOCUS GROUPS	20
5.1. Results of the expert evaluation for Georgia	20
5.2. Results of the expert evaluation for Serbia	21
5.3. Results of the expert evaluation for Albania.....	21
5.4. Results of the expert evaluation for Moldova.....	22
5.5. Results of the expert evaluation for Ukraine	23
5.6. Results of the expert evaluation for Armenia	24
6. LONG-TERM STRATEGY DIRECTIONS FOR REDUCING CORRUPTION, SMUGGLING, MONEY LAUNDERING AND ORGANIZED CRIME	25
CONCLUSIONS.....	28
REFERENCES.....	30

INTRODUCTION

Scientific research results indicate that the links between cigarette smuggling and organised crime are largely confirmed in terms of cigarette smuggling financial management and marketing, and sometimes – in terms of cigarette smuggling networks and channels. When analysing the links between cigarette smuggling and corruption, it was found that corruption promotes tobacco smuggling by creating favourable conditions for the development of distribution channels and providing smuggling beneficiaries an opportunity to buy political protection, but the impact of declining tobacco tax tariffs on corruption was not found. A substantial number of previous studies confirmed existence of the links between cigarette smuggling and money laundering, but no links between criminal liability for smuggling and money laundering in criminal cases were identified. It was also found that illicit trade in tobacco products can be funded not only through money laundering schemes, but also through unjustified public authority contracts with large tobacco corporations for compensation of unpaid taxes in case of seizure of smuggled tobacco products. This suggests that the link between cigarette smuggling and money laundering is plausible, but not fully established, thus the project was aimed at to assess the impact of illegal turnover in tobacco products on corruption, money laundering and organised crime in Ukraine, Armenia, Serbia, Georgia, Moldavia and Albania.

The main findings and results:

1. Statistical calculations have clearly shown that corruption is one of the main problems hindering the economic well-being of all countries.

2. The scales of cigarette smuggling as well as the links between cigarette smuggling and corruption, money laundering and organized crime have not been evaluated, but PEST analysis has shown that these phenomena are closely linked and feed each other.

3. In the countries where civil strikes, unrests and revolutions take place, the public are beginning to realize that namely they tolerate the illegal phenomena and, as a result, suffer from poorer economic well-being of their families. The research has indicated that Georgia and Serbia are making the most significant progress in the fight against corruption. Their reforms have already brought about some positive changes in the corruption perception index. The index has not changed in Armenia, but the media and the public want to know and hear about it.

4. The Moldovan case is based on a partially unstable political situation, corruption in the authorities and law. As a result, it is difficult to implement anti-corruption measures, to reduce smuggling, and to identify money laundering and organized crime schemes.

5. In the case of Ukraine, the calculations provided most of the indicators required, such as illicit trade in tobacco products or the number of organized crime cases recorder by public authorities. However, the unstable political situation and frequent changes of power do not bring about any positive results in the areas that have been examined.

6. The links established between cigarette smuggling and corruption in Georgia revealed that corruption, through prevalence of bribes, various mutual agreements, low responsibility and spread in public institutions, promotes cigarette smuggling; the relationship between cigarette smuggling and money laundering is based on satisfaction of personal needs, while the relationship between organised crime and cigarette smuggling is based on fast turnover, high income, difficult detection of criminal groups and low liability for crimes.

7. According to the experts representing public institutions, the relationship between corruption and cigarette smuggling in Serbia manifests through poor infrastructure and a lack of modern technologies, low salaries of border and customs officers, and poor control of officials, while the experts representing the business sector indicated that the relationship between cigarette smuggling and corruption is determined by low qualifications of officials. As in the case of Georgia, cigarette smuggling and

organised crime in Serbia go hand in hand due to the fact that cigarette smuggling generates funds for organised crime, both activities are hard to detect, they generate high income and provide funding for other crimes such as terrorism, drug and/or human trafficking. Cigarette smuggling and money laundering are committed for personal gain.

8. The main determinants of the relationship between cigarette smuggling and corruption in Albania include a lack of modern technologies and poor infrastructure, low salaries of border and customs officers, favouring friends and acquaintances, and low competence of officials. Both expert groups expressed different opinions concerning the main determinants of the relationship between cigarette smuggling and organised crime: representatives of the public sector highlighted the significance of the gaps in legal regulations impeding the fight against organised crime, while representatives of the business sector noted that the relationship between the above-mentioned phenomena is determined by the fact that smuggling is a source of funding for organised crime; they also indicated low probability of being detected and low criminal liability as other relevant determinants. According to the experts from the business sector, organised crime is often accompanied by terrorism, human and/or drug trafficking, etc. The relationship between cigarette smuggling and money laundering in Albania exists because it contributes to both personal gain and legalisation of the money earned in black markets by investing it in business.

9. In Moldova, representatives of the business sector did not identify any strong links between corruption and cigarette smuggling, while representatives of the public sector indicated low salaries of border/customs officers and poor employee control and management as key determinants of the relationship between the above-mentioned phenomena. It was also noted that both of the phenomena are promoted by insufficient border/customs infrastructure and a lack of modern technologies. The relationship between cigarette smuggling and organised crime in Moldova takes two forms: first, cigarette smuggling funds organised crime; second, cigarette smuggling and organised crime go hand in hand due to high income, fast turnover and low criminal liability. Cigarette smuggling and money laundering are interlinked mainly through legalisation and funding of corruption schemes.

10. In Ukraine, the relationship between cigarette smuggling and corruption manifests through low salaries of border/customs officers, favouring friends and acquaintances, and poor control of supervising officers. The relationship between cigarette smuggling and organised crime is mainly determined by funding of organised crime groups, high income and low criminal liability. Although the relationship between money laundering and cigarette smuggling is not very clearly expressed, the interaction between the two phenomena is mainly based on personal gain.

11. Classical cigarette smuggling is almost non-existent in Armenia, although it can be presumed that imported famous Western brands can be counterfeit. The main directions of cigarette smuggling from Armenia are Georgia, Iran, Turkey and Iraq. The most common scheme of cigarette smuggling across Armenian-Georgian border works as follows: a person crosses the border several times in a short run with a permitted quantity of cigarettes under Georgian law. In many cases, the permitted quantities are exceeded. If the case of smuggling is detected, a person pays a fine as for an administrative offence.

12. The links between cigarette smuggling and corruption, money laundering and organised crime in the countries under consideration mainly manifest through the mentality typical of Eastern Europe states when societies lack the awareness not to participate in criminal activities. The extent of corruption is evident in political and state institutions; as a result, the countries lack a good practice among the public to follow the examples of intolerance of smuggling, corruption and other criminal activities.

Research methods: Correlation and regression analysis, multicriteria-evaluation method, PEST, surveys, focus groups.

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1. COUNTRIES' DESCRIPTION FROM THE CIGARETTE SMUGGLING

POINT OF VIEW

1.1. Armenian case

Armenia is classified as a lower-middle income country where about 30 percent of the population lives below the national poverty line, meaning that their income is about 100USD per month. According to the International Monetary Fund (2016), the Armenian economy has been declining in recent years due to regional and global economic conditions. According to the Fund, public debt is 55 percent of GDP and fiscal revenue is 22 percent of GDP, resulting in severe fiscal shocks for the country. Starting from 2018, Armenia has become an upper-middle income country.

Analysing Armenia from the aspect of cigarette smuggling, it can be stated that within a five-year period, cigarette smuggling has almost disappeared. According to the data from the Transparency Organization in Armenia, high-quality, high-volume tobacco products, their low prices, and the establishment of the most popular Western cigarette brands (Winston, Marlboro, Hill, Phillip-Morris) and their official distributors in Armenia have resulted in almost no cigarette smuggling into Armenia. However, smuggling from Armenia to other countries (Turkey, Georgia, Germany, Iran, Iraq) is thriving. In May, 2016 the Armenian Parliament decriminalized smuggling of most of the goods (including cigarettes) to Armenia. Since 1993, smuggling has ceased being an administrative offence. After 2016, the criminal statistics started treating the cases of smuggling as a kind of illegal entrepreneurship or business activities (together with other types of this crime).

Armenia is not an important regional financial centre, and, therefore, the risk of money laundering is not very high, but its geographical location makes it vulnerable to various forms of trafficking (human trafficking, women trafficking for sexual exploitation to the UAE, Turkey). Money laundering in Armenia uses particular remittance systems for compatriots living abroad; this is especially noticeable in real estate and gold markets. Also, the fact that Armenia is a 'cash' country makes it extremely difficult to combat money laundering (Transparency International, 2013).

1. Cigarette smuggling was decriminalized by the Armenian Parliament in 2016 and became kind of illegal entrepreneurship or business. This is the country that, according to the data for 2017, export than import more manufactured tobacco products. In addition, profound social smoking habits contribute to the consumption of tobacco products in the country (the number of smuggling cases will be estimated only through the qualitative research). Because of the low cigarette prices, so-called reverse smuggling exists in Armenia; cigarettes from the country travel to Russia, Georgia, Iraq, Iran and Turkey.

2. The risk of money laundering is small due to the prevalence of cash, but it is promoted through the use of remittance systems.

3. The Velvet Revolution has radically improved public confidence in the authorities, but the difficult situation with the fight against corruption and organized groups still remains unsolved. This is illustrated by the ineffective implementation of anti-corruption and tobacco control strategies. The rooting of corruption in political parties has a negative impact on the development of the country's economy, on raising public awareness and on building trust in the authorities.

1.2. Georgian (Sakartvelo) case

The new century represents a new crossroad with its numerous branchings, roads and paths. Every individual, nation, state, region and the whole mankind faces its own crossroad. The world order with its international democratic institutions and mechanisms – the result of colossal political and financial effort – is already becoming a possession of history.

Situated between Russia, Azerbaijan, Armenia and Turkey, Georgia emerged as an independent republic following the collapse of the Soviet Union in 1991. Although the country has been independent since 1991, Russian forces have still had a significant impact on the Georgian territory – West (Abkhazeti) and Central North (so-called South Ossetia – Samchablo). These two territories are supported by Russia.

Georgia has a population of about 3.7 million people. By the level of its economic development, Georgia is considered to be under the middle level of development (according to the World Bank classifier).

Though Georgia is not a member of the EU, it sits at the EU borders. In 2000, the Georgian Government signed an Association Agreement with the EU, this way advancing the priority of the country's EU integration. Georgia's European integration has resulted in some policy reforms and a market-oriented progress (The World Bank Reports), but living standards in the country remain unstable.

Based on the PEST analysis for Georgia, it can be concluded that Georgia is on the right way for development, but it is still facing the following challenges: catching up with the globalization pace; economic development (economic growth and distribution of wealth); innovations and technologies; the role of applied sciences in the process of development. The problems in the occupied territories and low population's income should be noted as the main threats. High unemployment rate along with inability to cope with the existing criminal mentality creates opportunities for the rise in illegal trade in tobacco products. Although Georgia's economy looks vulnerable and salaries are low, corruption rankings are improving every year. According to "Transparency International", Georgia shares 44th place with Latvia in the list of best anti-corruption countries. Even the current president of Georgia, G. Margvelashvili, says that this is the merit of Mikheil Saakashvili: as a leader of the country, he made great efforts to reduce corruption.

1.3. Moldovan case

Situated between Romania and Ukraine, Moldova emerged as an independent republic following the collapse of the Soviet Union in 1991. Although the country has been independent since 1991, Russian forces have still had a significant impact on the Moldovan territory east of the Nistru (Dnister) River and have supported the Slavic majority of the population.

Moldova has a population of about 3.5 million people. By the level of its economic development, Moldova is considered to be one of the poorest countries in Europe, with its economy relying heavily on low-productivity agriculture (BBC News, 2019).

Though Moldova is not a member of the EU, it sits at the EU borders. In 2014, the Moldovan Government signed an Association Agreement with the EU, this way advancing the priority of the country's EU integration. Moldova's European integration has resulted in some policy reforms and market-oriented progress (The World Bank, 2017), but both the political and economic situation in the country remain unstable.

Moldova, as the long-titled achiever of the European Union's Eastern Partnership program, was expected to change its geopolitical choice in the near future to move on the path of European integration. However, the events in 2019 showed that the pro-Russian party won the election. Moldova is one of the poorest countries in Europe. In 2018, the country's GDP per capita was four times lower than the neighbouring Romania. Perhaps a major stumbling block to Moldova's development is the massive political corruption that emerged in 2015 during the so-called "billion case". Moldova is urged to ensure judicial authorities and specialized anti-corruption authorities, including the Superior Council of Prosecutors, the National Anti-Corruption Centre and the Anti-Corruption Prosecutor's Office, the National Integrity Control Authority and the Criminal Asset Recovery Agency, that they are independent, impartial and effective, and in particular, continue to provide them with adequate resources to assure transparent selection procedures with the involvement of independent recruitment professionals, accept constitutional amendments based on the recommendations of the Venice Commission, in particular to abolish the initial term of five years for the appointment of judges, change the composition of the Supreme Council of Magistrates and increase its role, and abolish the power of the Moldovan Parliament to appoint Supreme Court judges.

The following risk – selective justice practices applied by Moldovan judicial authorities - point out that, according to recent Transparency International reports, the independence of the judiciary from the executive authority is limited and is used as a tool against political opponents in the pursuit of business interests. Achieving reliable results of investigations of corruption cases, including high profile cases, is crucial.

1.4. Albanian case

The phenomenon of money laundering has become a very sensitive topic for responsible law enforcement authorities and reporting entities. The issue needs to be addressed effectively and systematically regardless of the overall economic, financial and fiscal situation in the country. Preventing and mitigating the constant threat posed by criminal activities is of particular importance. In this context, financial institutions and non-financial professions are required to comply with applicable legal and regulatory requirements. Albania is characterized by very high levels of perceived corruption, which manifests itself at all levels of government. Both petty and grand forms of corruption are prevalent in the country, while political corruption affects the quality of the democratic processes. The health sector, customs and tax officials are often referred to as the most corrupt institutions, followed by the police and the judiciary. Other problem faced by Albania is the illegal trade of tobacco considered as one of the major issues for Albanian law enforcement; it poses a multitude of challenges and issues beyond the ones discussed for legal tobacco consumption.

In conclusion, steps are being taken in Albania, although very slowly (by installing modern border scanners to detect smuggled cigarettes, banning smoking in public places, raising excise duty on cigarettes by 11%, as in 2019), to raise public health awareness and fight tobacco smuggling. The deep-rooted stereotype that smuggled cigarettes are higher quality than the ones provided by domestic manufacturers is not easily and quickly dispelled, and by reducing corruption and the shadow economy, which are among the largest in Europe, Albania can only gradually change public perceptions of the quality and transparency of the governmental work. Unfortunately, Albania is struggling with anti-corruption strategies, which have been changing every year since 2008. To this day, the scale of cigarette smuggling is huge (according to the 2012 data, 45% of cigarettes are smuggled).

1.5. Serbian case

Starting from 2001, the Republic of Serbia has become a member of all key international organizations (UN, OSCE, IMF, World Bank, EBRD, Council of Europe, CEFTA and the Partnership

for Peace program of NATO). Also, it has made gradual progress in EU accession in the new millennium. In April 2008, the Stabilization and Association Agreement was signed. After that, in early 2010 the Republic of Serbia submitted a formal request - candidacy for the EU membership, and since then actively worked towards meeting the action plan to accelerate gaining of a candidate's status. As a result, in March 2012 it was finally granted a candidate's status for the EU membership.

The entire Western Balkan region is heavily rooted in historical heritage, which caused delays in the transition processes. The inheritance from the 90s of the 20th century has particularly negatively affected the implementation of market-oriented reforms in the Republic of Serbia. The wars, economic sanctions, and poor economic situation worsened regulatory and institutional environment and created a favourable climate for the development of many forms of illegal activities, above all organized crime and corruption.

At the very beginning of the democratic changes (in 2000), the Republic of Serbia implemented numerous reform processes to establish a market economy. Implementation of the necessary reforms implies the adoption of market-oriented legislation and establishment of appropriate institutions responsible for enforcement of this legislation. As a part of these reforms, the fight against organized crime, smuggling and corruption was intensified. The regulatory framework for fighting against these illegal activities was established (by benchmarking experiences of other countries that have shown good results). Also, the interstate cooperation at both the regional and global level, through the adoption of international conventions and standards, was intensified.

Like in many other transition countries, the factors that encourage illegal activities are numerous, but poverty, high-income inequality, high unemployment rate, geographical position of the country, no or low implementation of laws, lack of professionalism and ethics are predominant. However, the process of perceiving the real threat of organized crime in Serbia has been relatively long, and the political situation in the country and instability in the region have had a big impact on it.

Although, according to the latest European Commission report, Serbia has achieved a certain level of preparedness in the fight against corruption, a limited progress in this area has been made. Until now, there has been no measurable impact of reforms aimed at the fight against corruption. The revised Anti-Corruption Law (also known as the Anti-Corruption Agency Act) was adopted on May 2019. When it comes to the suppression of corruption, the Law on Organization and Competences of State Organized Crime, Terrorism and Corruption Prevention (which came into force in March 2018) is being implemented, but it is too early to fully assess its effects. Law enforcement authority and judicial authorities still need to achieve the results of independent prosecutions and finalized cases of high-level corruption. Unfortunately, corruption prevails in many areas and remains an issue of concern. Also, the Republic of Serbia has achieved a certain level of preparedness in the fight against organized crime. Some progress has been made during the last year.

Serbia has begun to implement the new economic chapter of the Criminal Code and the Law on Organization and Competencies of State Authorities in the Fight against Organized Crime, Terrorism and Corruption, and adopted the Strategy for the Fight against High-Tech Crime for the period 2019-2023. The Republic of Serbia still needs to obtain the effective investigations, prosecutions and enforceable judgments of organized crime cases and financial investigations that will result in freezing and confiscation of assets acquired through crime. The number of convictions for organized crime (primarily in the fight against human trafficking) remains very low.

Besides corruption and organized crime, other illegal activities are also present in the Serbian economy and affect its level of development, like money laundering and smuggling. Until 2019, the Republic of Serbia was on the grey list of FATF as a country with a high risk of money laundering and pro-terrorism funding. Some important regulatory acts in this area have been implemented - New Law on the prevention of money laundering and the financing of terrorism, Law on Money Laundering Risk Assessment and Assessment of the Risk of Financing Terrorism, the Action Plan for the implementation

of the law on Money Laundering Risk Assessment and Assessment of the Risk of Financing Terrorism. These regulatory changes indicate the will of the government to fight against this negative phenomenon, so FATF changed the status of the Republic of Serbia. The concrete actions in these areas still need to be implemented to affirm a serious intention to deal with this problem.

When it comes to the illegal trade of tobacco and tobacco products, it can be noted that Serbia traditionally suffers from the fairly high illicit trade of tobacco and cigarettes, which has been a serious problem for large tobacco producers. To ensure a favourable business environment for operations of these companies, the officials in Serbia, before all police and border controls, started to pay greater attention to the problem, which in turn led to reduction in illicit trade during the recent year. However, the illegal trade level is still relatively high, primarily due to high excise taxes on tobacco products (due to the need to harmonize the excise policy with the one that exists in the EU) and, consequently, high prices of cigarettes.

In the end, some general conclusion can be drawn - although the adoption of the laws and their implementation goes very slowly, the fact that the Republic of Serbia has recognized the problems and raised awareness promise a lot in this serious fight.

1.6. Ukrainian case

Ukraine emerged as an independent republic following the collapse of the Soviet Union in 1991. It has a coastline at the Black Sea and the Sea of Azov, it is bordered by Russia in northeast and east, Belarus in northwest, Poland and Slovakia in west, Hungary, Romania, and Moldova to the southwest. Ukraine covers an area of 600,000 km² making it the second largest country in Europe after Russia.

The country has a population of 42.1 million people (as of January 1, 2019), the capital and largest city is Kyiv, the main spoken languages are Ukrainian and Russian, which is widely spoken in particular in the eastern and southern parts of the country. The Crimean Autonomous Republic – encompassing the Crimean Peninsula, or Crimea, in the south was included in Ukraine's borders, but is now it is occupied by Russia. In accordance with the Law of Ukraine “On the special order of local self-government in separate regions of Donetsk and Luhansk regions”, a special order of local self-government is introduced in separate regions of Donetsk and Luhansk regions (ORDLO). On March 17, 2015, the Verkhovna Rada of Ukraine recognized the territory of certain areas in Donetsk and Luhansk Oblasts as an occupied (by Russia) territory.

Ukraine is not a member of the EU, but on September 1, 2017, the EU–Ukraine Association Agreement entered fully into force after a long period of ratification. Today, Ukraine is in a deep political, economic and social crisis. In addition to the impact of the global economic and financial crisis, Ukraine is overwhelmed with oligarchic groups which struggle for political spheres of influence.

In any case, the problem of smuggling and trafficking in tobacco products is public because such actions contribute to the spread of the tobacco epidemic, which has dangerous consequences for public health, affect the efficiency of state customs and tax policy, create conditions for the development of the shadow economy and corruption, undermine the image of Ukraine on the international scene, can be a source of financing for organized crime and terrorism, etc.

It is no coincidence that the Cabinet of Ministers of Ukraine in 2017 defined their main directions in the Strategy for combating the illicit production and circulation of tobacco products for the period up to 2021:

a) a clear distinction between criminal and administrative responsibility for the commission of offenses in the sphere of illicit manufacture and circulation of tobacco products, unification of the conceptual apparatus used in the legislation on criminal responsibility and legislation on administrative offenses;

b) introduction of criminal responsibility for the illegal movement of tobacco products across the customs border of Ukraine.

Following this approach, in the near future, serious changes to the CCU should be expected in terms of criminalization of smuggling of goods, which inevitably should affect the reduction of crime in Ukraine.

2. RESULTS OBTAINED BY MULTI-CRITERIA EVALUATION METHOD

Observed countries have different business environment, which directly affects the occurrence and development of money laundering, organized crime, cigarette smuggling and corruption. Table 1 presents the most cited factors contributing to prevention of the above-mentioned problems, according to existing literature.

Table 1. Factors contributing to prevention of the above-mentioned problems, according to existing literature (for 2017)

	Price of most sold brands of cigarettes	Tax revenue (as a % of GDP)	Government effectiveness	Human Development Index	Trading across the borders score	GDP, PPP (constant 2011 international \$), billion	Trade openness	World press freedom index	Higher Education and Training	Technological readiness	Innovation	Financial market development	Macroeconomic environment	Strength of auditing and reporting standards	Ethical behaviour of firms
Serbia	5.38	36.1	0.1915	0.79	96.64	15289	107.67	28.05	4.6	4.2	3.1	3.6	4.6	3.9	3.4
Armenia	3.06	20.8	- 0.0966	0.76	86.45	8744	86.83	30.38	4.4	4.1	3.3	3.9	4.1	4.5	4
Albania	5.23	18.9	0.0753	0.79	96.29	11803	78.16	29.92	4.8	4.1	3.2	3.8	4.6	4.3	4.3
Georgia	2.76	23.8	0.5703	0.78	90.03	9702	112.51	27.76	4	4.3	2.8	4.1	5.1	4.5	3.9
Moldova	2.79	17.4	- 0.5110	0.70	92.32	6234	85.63	30.41	4.1	4.6	2.6	3.1	4.5	3.7	3.3
Ukraine	2.25	20	- 0.4598	0.75	72.96	7906	103.71	33.19	5.1	3.8	3.4	3.1	3.5	3.6	3.4

As it can be seen from Table 1, it is about economic, social and political factors that shape the conditions for development of the above-mentioned negative phenomena. In order to evaluate which country has most favourable business environment for prevention money laundering, organized crime, cigarette smuggling and corruption, and which, on the contrary, has most unfavourable business environment in that sense, the multi-criteria methodology was applied. One of the most commonly used methodologies is PROMETHEE method, which was developed by Brans and Vincke (1985).

An effective solving of the multi-criteria decision-making problems requires an adequate approach of weight coefficients determination, because they can greatly affect the ranking of alternatives. In this case, weights are defined objectively, by usage of entropy method. Information entropy is a measure of the system disorder (Meng, 1989). It allows measuring the amount of useful information in the collected data. When there is a high difference among the values of observed data on a particular indicator, entropy is low, indicating that this indicator provides more information and the weight coefficient of this indicator should be higher. On the other hand, if the difference is lower and the entropy is higher, the weight coefficient of an indicator will be lower (Qiu, 2002).

It can be concluded that Georgia has the most favourable business environment for preventing money laundering, organized crime, cigarette smuggling and corruption. This country is the only one that has the positive net preference flow (0.0019), indicating that advantages of business environment in this country overperform the disadvantages. It is followed by Serbia, Moldova, Albania and, at the very end, Armenia. Armenia has the lowest net preference flow, which points out that disadvantages of business environment in this country are numerous.

3. ASSESSING TAX MORALE

In order to implement the second step of the first phase, the aim was to measure the tax morale of society. Colleagues were collecting the information on cigarette smuggling and corruption from press for the period of several years. It was not possible to statistically assess tax morale of the public through the tax prism, because existing taxes were constant for a long period of time, and the data on how much and what kind of fines people pay, was not provided.

The following are the summaries of news reports.

Serbia. The online sources over the period 23.01.2017 - 14.08.2019 published many articles on cigarette smuggling and number of arrests. Most commented articles included “Arrested for smuggling cigarettes worth 2,600,000 RSD” and “Old lady from Novi Sad suspected of smuggling cigarettes - 90,000 packs in the garage”; the number of views is difficult to comment on because not all articles have this information available. The articles about cigarette smuggling attract attention of readers; people, even though passively, comment on provided information, thus revealing the need to inform the public about the amount of smuggled cigarettes that are caught. All of this raises public confidence in officials. Of course, individual information cases (2017 – 9 reports; 2018 – 11 reports; 2019 -22 reports) will not change public confidence, but the rise in the number of their appearance in 2019 has a positive impact on rising public confidence and, consequently, tax morale.

Ukraine. Articles related to smuggling cases, which concern human lives, are of most interest to the Ukrainian media. People are killed while smuggling cigarettes through the water. State Border Command promises to tighten surveillance not only in border areas but also in households and other hot spots where cigarette smuggling is detected. The article of January 24, 2019, which identified a place where illegal cigarette production took place, received enormous readability and comments. Up to 3 million packs of cigarettes per week were manufactured. There was considerable media’s interest in money laundering in the defence sector in March 2019, which was widely reported in all media and resulted in strike. Even the countries with strong anti-corruption institutions may have other services with a significant anti-corruption role. The Office of the Business Ombudsman's for the Prevention of Corruption and the recently established National Anti-Corruption Bureau of Ukraine will carry out law enforcement functions with the expectation of effective results and transparent disclosure of the cases of corruption.

Moldova. The analysis of the articles in the media shows that most widely read are the articles that are related to smuggling and illegally earned money from smuggling flows. There is public interest in this issue, as evidenced by the number of article views. There are also relevant articles that disclose the corruption links and arrests of customs officials and government officials. A significant percentage of articles concern the cases of smuggling detected at the Romanian border and the officials dismissed after identification of their corrupt links to illegal activities. The articles about how much the budget has lost due to smuggling are no less relevant, but the most readable article was the September 2015 article on how the Gaburici government in April 2015 passed legislative changes favouring the creation of a cigarette smuggling scheme through the separatist region. Around 2018, a high-profile of publications and detected cases can already be found. For instance, a criminal group of large-scale criminalization of cigarette smuggling, was detected and destroyed in a large-scale operation carried out by PCCOCS

Northern Bureau prosecutors in cooperation with the Special Investigation Directorate of the Ministry of the Interior. According to the criminal file, the criminal group involved citizens of the Republic of Moldova, who came from the Edinet district and Romania. Smuggled cigarettes were imported into the country, by passing Moldovan customs controls. The articles on how law enforcement officials stop large scales of cigarette smuggling activities conducted by criminal groups in Romania, got a lot of attention in Moldova.

Armenia. Armenian media are most focused on the articles with extremely high rates and amounts of corruption. Most often these cases involve former or existing government officials who are mentioned in corruption cases with public authorities, cases of bribery recorded in the Attorney General's Office, health organizations, or cases of the employee abuse when implementing certain projects. According to Varuzhan Hochtanyan, head of the Armenian Anti-Corruption Programs Centre, the fight against corruption in the country will not be effective until senior officials are brought to justice, especially given the fact that corrupt crimes are repeated in government structures. They must be publicized and punished.

Georgia. Websites received the highest number of notifications in 2019, with a significant improvement in the Corruption Perception Index (41st out of 175 countries), indicating a clear advance in reducing corruption in the country. Other announcements in 2019 were about the rise in excise taxes on cigarettes, which would again increase smuggling and smoking bans inside public areas. Public opinion is being formed in 2018 that cigarette smuggling is diminishing the country's budget, other articles inform residents that cigarette smuggling has increased significantly. Only one report has been published on arrest of smuggled cigarettes. The conclusion is that the improving corruption perception index might show that corruption is being curbed, but authorities are still struggling to reduce smuggled cigarette flows, although the number of arrested smuggled cigarettes in 2017 is on the rise.

Albania. Albania's partners provided the poorest list of online reports on the phenomena in question, showing how little information about corruption, cigarette smuggling, money laundering and organized crime is available in the public sphere. There were no comments on the articles, meaning that both the media and the public are in the primary democratic process.

4. DEVELOPMENT OF THE MODEL OF THE CAUSATIVE AND CONSEQUENTIAL FACTORS OF THE IMPACT OF ILLEGAL TURNOVER OF TOBACCO PRODUCTS ON CORRUPTION, MONEY LAUNDERING AND ORGANIZED CRIME IN THE CONTEXT OF EAST EUROPEAN COUNTRIES

The following hypotheses were raised during empirical study:

H₁: The 'hot spots' for smuggling cigarettes are in markets and border areas.

H₂: Corruption promotes the resolution of societal problems.

H₃: Most often bribes are given by state inspectorates and hospitals.

H₄: Higher salaries would reduce the consumption of smuggled cigarettes.

H₅: Placing relatives and friends to particular jobs or positions as well as bribery are the main forms of corruption in the countries under consideration.

4.1. Illegal smoking in Albania

Survey methodology

- Survey was carried out on June, 2019.
- 1000 respondents aged 18 + were interviewed.

- Study was carried out as CATI Omnibus survey.
- Only statistically significant differences are reported in the descriptions *for all countries*.

Statistically significant differences, depending on the type of variables tested, were determined using either Chi-square test and z-test, t-test, or variance analysis (ANOVA) using the Bonferoni post-hoc criterion.

CATI in market research stands for Computer Assisted Telephone Interviewing. CATI means that the interviewer conducting the survey over the phone follows a script on the computer while clicking responses and typing open-ended comments from the respondent into the program.

Summary of the research:

1. 8.5 percent of the respondents in their environment know people who smoke contraband cigarettes.
2. 21.9 percent of the respondents think that streets and official stores (19.5 percent) are the main points of contraband cigarette sales.
3. The respondents who were asked to indicate a statement, which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (78.2 percent).
4. 75.0 percent of the respondents think that people usually give bribes in hospitals and clinics.
5. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned that there should be “high control in customs, state control” (45.0 percent).
6. The respondents who were asked to indicate which forms of corruption are most prevalent in their country, mostly mentioned that it is “misuse of power/state duty/corruption in politics” (61.8 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

In the case of Albania, **H₁ has not been confirmed.**

- **Hypothesis H₂ was not confirmed** in the Albanian case.
- **Hypothesis H₃ was confirmed** in the case of Albania
- **H₄ was not proved true in the case of Albania.**
- **H₅ was only partly confirmed.**



Figure 1. Framework for Albania from the research results

The survey revealed that the main “hot spots” of smuggled cigarettes are streets, official shops and bars/night clubs. Corruption is most prevalent in the health care and protection, and police sectors. Corruption is a huge problem, rooted in political circles, which makes a sufficiently serious threat and a precondition for cigarette smuggling.

4.2. Illegal smoking in Armenia

Survey methodology

- Survey was carried out on June, 2019.
- 1007 respondents aged 18 + were interviewed.
- Study was carried out as CATI Omnibus survey.

Summary:

1. 3.4 percent of the respondents in their environment know people who smoke contraband cigarettes.

2. 3.2 percent of the respondents think that kiosks are the main points of contraband cigarette sales. 86.7 percent of the respondents say that “None / Don’t know”.

3. The respondents who were asked to indicate a statement which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (52.0 percent).

4. 15.3 percent of the respondents think that people usually give bribes in hospitals and clinics.

5. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned that there should be “more information on how smuggled cigarettes pose a much greater risk to health than officially purchased cigarettes” (7.2 percent).

6. The respondents who were asked to indicate which forms of corruption are most prevalent in their country, mostly mentioned that it is “giving bribes (for medical treatments, public services” (40.8 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

- In the case of Armenia, *H₁ was not confirmed.*
- *Hypothesis H₂ was not confirmed* in the Armenian case.
- *Hypothesis H₃ was only partially confirmed* in the case of Armenia.
- *H₄ was not confirmed in the case of Armenia.*
- *H₅ was only partially confirmed.*



Figure 2. Framework for Armenia from the research results

Summarising, it can be stated that corruption is widespread in Armenia, and Armenian society itself recognises it as a huge social problem with high levels of bribery in the health care and public sectors. Although, according to the respondents, the quantities of smuggled cigarettes are comparatively small, they are sold in kiosks. Armenia is a donor of smuggled cigarettes to Georgia, Turkey and Iran.

4.3. Illegal smoking in Georgia

Survey methodology

- Survey was carried out on June, 2019.
- 1004 respondents aged 18 + were interviewed.
- Study was carried out as CATI Omnibus survey.

Summary:

1. 4.0 percent of the respondents in their environment know people who smoke contraband cigarettes.
2. 17.4 percent of the respondents think that border zones of the country are the main points of contraband cigarette sales.
3. The respondents who were asked to indicate a statement which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (57.4 percent).
4. 4.2 percent of the respondents think that people usually give bribes in state institutions. 79.0 percent of the respondents note that it is hard to answer/they don’t know.
5. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned that “cigarette with excise should be cheaper/price should be lower” (22.4 percent).
6. The respondents who were asked to indicate which forms of corruption are most prevalent in their country, mostly mentioned that it is “nepotism - placing one’s own family member/friend/relative to a job or position” (49.6 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

- A very small minority of the respondents reported ‘hot spots’ in the border area (0.7%, 95% CI [0.28%; 1.43%]) and in bazaars (0.5%, 95% CI [0.16%; 1.15%]). 4.07% of the respondents marked the alternative “Other places”.
- In the case of Georgia, *H₁ was only partially confirmed.*
- *Hypothesis H₂ was not confirmed* in Georgian case.
- In the case of Georgia, *hypothesis H₃ was not confirmed.*
- *H₄ was not confirmed in the case of Georgia.*
- *H₅ hypothesis was only partially confirmed.*

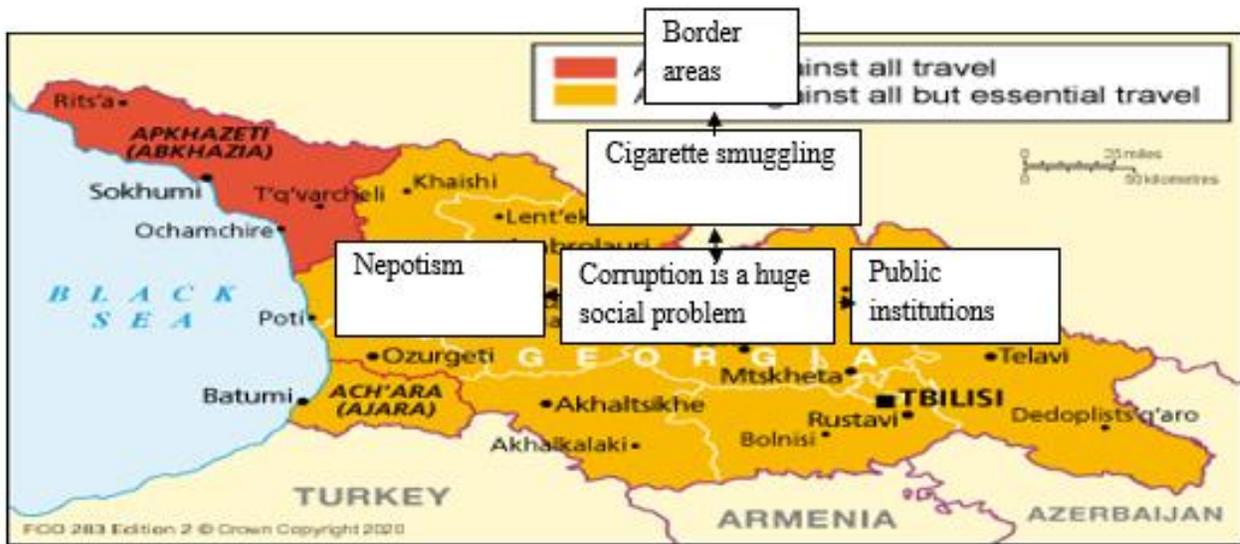


Figure 3. Framework for Georgia from the research results

In summary, although Georgia has made a significant progress in reducing the level of corruption, the country’s citizens still believe that corruption is a huge social problem, with highest levels of corruption observed in public institutions that are responsible for cigarette smuggling control and prevention. Border zones are the main “hot spots” for buying smuggled cigarettes. This substantiates the assumption that corruption “feeds” cigarette smuggling, so it is first necessary to prevent the spread of corruption in public institutions.

4.4. Illegal smoking in Moldova

Survey methodology

- Survey was carried out in June, 2019.
- 1026 respondents aged 18 + were interviewed.
- Study was carried out as CATI Omnibus survey.

Summary:

1. 4.4 percent of the respondents in their environment know people who smoke contraband cigarettes.
2. 9.4 percent of the respondents think that country border area and official stores are the main points of sale for contraband cigarettes.

3. The respondents who were asked to indicate a statement, which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (78.9 percent).
4. 49.6 percent of the respondents think that people usually give bribes in hospitals and clinics.
5. The respondents, who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned “bigger fines/penalties” (15.9 percent).
6. The respondents, who were asked to indicate which forms of corruption are the most prevalent in their country, mostly mentioned that it is “giving bribes (for medical treatments, public services)” (24.1 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

- *Hypothesis H₁ was confirmed.*
- *Hypothesis H₂ was not confirmed.*
- *Hypothesis H₃ was not confirmed.*
- *Hypothesis H₄ was not confirmed.*
- *Hypothesis H₅ was not confirmed.*



Figure 4. Framework for Moldova from the research results

In Moldova, in contrast to Armenia, Georgia and Albania, the respondents indicated more “hot spots” for selling smuggled cigarettes, such as border area, official stores, bars and night clubs, and bazaars. Corruption in the country is rooted as a huge social problem which mainly manifests through bribery and misuse of power. Corruption is closely linked to cigarette smuggling which is proved by indicating the border area as a “hot spot” for selling smuggled cigarettes.

4.5. Illegal smoking in Serbia

Survey methodology

- Survey was carried out on June, 2019.
- 1000 respondents aged 18 + were interviewed.
- Study was carried out as mix of CAWI/CATI Omnibus survey.

CAWI - in market research, CAWI stands for computer assisted web interviewing - a technique where a respondent follows a questionnaire script provided on a webpage. CAWI allows for the display of images, videos, sounds and even other webpages as visual aids to ensure respondents understand the product or service they are being asked about. CAWI surveys are designed to be self-routing, so respondents are moved through the survey depending on their answers to previous questions.

Summary

1. 20.1 percent of the respondents in their environment know people who smoke contraband cigarettes.
2. 44.9 percent of the respondents think that the bazaar (open market) is the main point of sale for contraband cigarettes.
3. The respondents who were asked to indicate a statement which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (74.6 percent).
4. 68.6 percent of the respondents think that people usually give bribes in hospitals and clinics.
5. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned “higher pay/salaries” (20.9 percent) or “bigger fines/penalties” (13.5 percent).
6. The respondents who were asked to indicate which forms of corruption are the most prevalent in their country, mostly mentioned that it is “placing relatives and friends to a job or position” (42.6 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

- *Hypothesis H₁ was only partly confirmed.*
- *Hypothesis H₂ was not confirmed.*
- *Hypothesis H₃ was confirmed.*
- *Hypothesis H₄ was confirmed.*
- *Hypothesis H₅ was confirmed.*



Figure 5. Framework for Serbia from the research results

In Serbia, compared to other countries, the largest proportion of the respondents admitted knowing in their environment the people who smoke smuggled cigarettes. Corruption in Serbia is a huge social problem, mainly manifesting in the health protection sector, public sector (police) and education sector (universities, kindergartens, schools); the most common form of corruption is placing relatives and friends to a job or position. Bazaars and streets are main “hot spots” for selling smuggled cigarettes.

4.6. Illegal smoking in Ukraine

Survey methodology

- Survey was carried out on June, 2019.
- 1003 respondents aged 18 + were interviewed.
- Study was carried out as online panel Omnibus survey.

Online panel is a group of selected research participants who agreed to provide information at specified intervals over an extended period of time.

Summary

1. 20.1 percent of the respondents in their environment know people who smoke contraband cigarettes.

2. 44.9 percent of the respondents think that the bazaar (open market) is the main point of sale for contraband cigarettes.

3. The respondents who were asked to indicate a statement which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (74.6 percent).

4. 68.6 percent of the respondents think that people usually give bribes in hospitals and clinics.

5. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned “higher pay/salaries” (20.9 percent) or “bigger fines/penalties” (13.5 percent).

6. The respondents who were asked to indicate which forms of corruption are the most prevalent in their country, mostly mentioned that it is “placing relatives and friends to a job or position” (42.6 percent). 29.2 percent of the respondents in their environment know people who smoke contraband cigarettes.

7. 24.7 percent of the respondents think that the bazaar (open market) is the main point of sale for contraband cigarettes.

8. The respondents who were asked to indicate a statement which most closely matches their opinion about corruption, mostly indicated that “Corruption is a big social problem” (80.8 percent).

9. 52.9 percent of the respondents think that people usually give bribes in hospitals and clinics.

10. The respondents who were asked to indicate what should happen so that people would stop smoking contraband cigarettes, mostly mentioned “lower price/taxes of officially purchased cigarettes” (26.5 percent).

11. The respondents who were asked to indicate which forms of corruption are the most prevalent in their country, mostly mentioned that corruption manifests at all levels, everywhere (32.6 percent).

In order to confirm or reject the hypotheses, the questionnaire data of the interviews were analysed:

- *Hypothesis H₁ was only partly conformed.*
- *Hypothesis H₂ was not confirmed.*
- *Hypothesis H₃ was confirmed.*

- *Hypothesis H₄ was not confirmed.*
- *Hypothesis H₅ was not confirmed.*



Figure 6. Framework for Ukraine from the research results

Summarising, it can be stated that corruption in Ukraine is rooted at all levels, which helps cigarette smuggling to flourish. Corruption mainly spreads through bribes and misuse of power. Smuggled cigarettes are most easily found in kiosks and bazaars.

1. The largest proportion of the respondents in Serbia and Ukraine indicated that they in their environment know people who smoke smuggled cigarettes.

2. In all the countries under consideration, corruption was identified as a serious social problem, which is most ingrained in hospitals and clinics (Albania, Serbia, Ukraine, Moldova), courts (Albania), police (Moldova, Serbia), customs (Moldova), the education sector (Ukraine, Moldova), state institutions (Moldova and Serbia). The major forms of corruption are bribery and misuse of power.

3. “Hot spots” for sales of smuggled cigarettes vary from country to country: bazaar of the main “hot spot” in Serbia and Ukraine, border area – in Georgia, official stores and bars/night clubs – in Albania, streets – in Serbia and Albania, kiosks – in Ukraine.

4. According to the respondents, most effective measures to reduce the flows of smuggled cigarettes could be reduction of excise duty, closure of kiosks, legalization of smuggled cigarettes, and strengthening of law enforcement. Only in Serbia, a bigger part of the respondents indicated that higher salaries could help to solve this problem.

5. RESULTS OF EXPERT EVALUATION IN THE FOCUS GROUPS

5.1. Results of the expert evaluation for Georgia

1. In Georgia, cigarettes are smuggled mainly for two reasons: first, difficult economic situation in the country; second, good earnings. The extent of cigarette smuggling in the country is mainly increasing due to the excise rate being raised, which proposes that currently rising excise duty on cigarettes will lead to even higher volumes of cigarette smuggling.

2. The link between cigarette smuggling and corruption in Georgia exists through the prevalence of bribes, various agreements, low responsibilities and corruption, mainly observed in public institutions.

3. The “hot spots” of selling smuggled cigarettes are border zones. In this case, the opinions of the experts were in line with the consumer survey who also indicated border zones as the “hot spots” of selling smuggled cigarettes. In addition, such channels for illegal purchasing of cigarettes as Facebook and online stores, were indicated.

4. The link between cigarette smuggling and money laundering is based on satisfaction of personal needs.

5. The link between cigarette smuggling and organized crime is based on fast turnover, high income, difficulties in catching organized criminal groups and low liability for the crimes committed.

6. Public attitudes towards the phenomena under consideration are indifferent and apathetic, which makes it difficult for the government to combat these phenomena without public involvement and assistance. Of all the phenomena examined, public has the most negative attitude towards money laundering as it is related to bank activities, and public attitude towards banks is extremely negative.

7. The major mistakes in the fight against cigarette smuggling, corruption, money laundering and organized crime, according to the experts, are made by law makers.

8. The experts noted that inter-institutional, business and science cooperation in the area of analysing the motives, scale, specificity, forms and preventative measures of the phenomena under consideration is observed, but it needs to be strengthened.

9. The most effective measures, according to the experts and customers.

5.2. Results of the expert evaluation for Serbia

In general, it can be stated that insufficient control of trade and money flows, lenient penalty policy and weak cooperation among institutions are responsible for poor fighting against corruption, money laundering, illicit trade and organized crime. Having that in mind, it can be concluded that strengthening control, more consistent application of the law, better cooperation among state institutions and increased penalties are the key measures to combat all the phenomena under consideration. According to the results obtained, engaging in these illegal activities in the Republic of Serbia seems still profitable and related to a relatively low risk. For this reason, the solution to this problem in the future should be based, first of all, on the application of more restrictive measures and stricter controls; on the one hand, it should be based on raising the standards for civil servants and the population in general. This would reduce the motivation of people to engage in these illegal activities and increase the risk of those who nevertheless decide for this type of benefits and income generation.

5.3. Results of the expert evaluation for Albania

1. The experts identified the main reasons for cigarette smuggling in Albania: difficult economic situation, high profits with a low risk of criminal liability, and simple border-crossing procedures accompanied with customs/border officials’ corruption. In addition to the reasons already listed, business representatives also noted a positive public attitude towards cigarette smuggling and disregarded risk for health. Residents mostly justify cigarette smuggling because of lower prices of smuggled cigarettes.

2. The experts unanimously agreed that the hot spots for smuggled cigarettes are border areas and bazaars. Some experts also mentioned streets. In the latter case, the results are in line with the consumer survey because streets as hot spots for sales of smuggled cigarettes were indicated by the participants of the consumer survey in Albania.

3. Both expert groups agreed that the major reasons for the link between cigarette smuggling and corruption are as follows: lack of modern technologies and poor infrastructure, low salaries for customs and border officers, favouring friends and acquaintances, and low employee competence.

4. When assessing the views of both expert groups, it should be noted that the expert opinions on the major reasons for the links between cigarette smuggling and organised crime diverged. Representatives of the public sector indicated gaps in the laws regulating dealing with organised crime as the major reason for the links between cigarette smuggling and organised crime, while business representatives indicate the fact that smuggling is a source of funding for organised crime and note low detection risk and low criminal liability as other important determinants of the links between cigarette smuggling and organised crime. Organised crime, according to business experts, is accompanied with terrorism, human trafficking, drug trafficking, etc.

5. Based on the unanimous opinion of the experts, the links between cigarette smuggling and money laundering exist because they contribute to both meeting personal needs and legalising the money earned in the black markets with a view to investing this money in business.

6. According to the experts, public attitudes towards cigarette smuggling are positive; an increase in excise duties would raise the share of the shadow economy and would reduce budget revenue collection which has been negative for a long time already. The public is reluctant to assist authorities in the fight against cigarette smuggling.

7. Experts' opinions concerning public attitudes towards corruption, money laundering and organized crime diverged. According to the first expert group, the public has a negative view of corruption (which was confirmed by the public survey, while according to the second expert group, corruption is still rampant at all levels because bribery helps to solve many problems. The situation is similar with the public attitude towards money laundering. According to the first expert group, the public is aware of the consequences of money laundering for themselves; on the other hand, the phenomenon of money laundering is tolerated. Even if the cases of money laundering are detected, the assets of the accused (especially of politicians) are not seized. The first group of the experts note that the difficult economic situation makes involvement in organized crime extremely easy, but it is partly prevented by young people's parents; the second group of the experts note that involvement in organized crime is promoted by low criminal liability and easily earned income.

8. Cooperation among science, business and public authorities is only formal; a truly integrated cooperation strategy would mitigate the negative effects of the phenomena under consideration, but it is difficult to implement. The decisive mistakes, according to the experts, are made by executive organisations and courts.

5.4. Results of the expert evaluation for Moldova

1. Moldovan-Romanian border is most favourable area for the spread of cigarette smuggling. Typically, people living at the border transport cigarettes from Moldova to Romania for price differences (the price of a pack of cigarettes in Moldova or Ukraine is six times lower than in Romania). According to the representatives of the public sector, high probability of avoiding criminal liability, high profits and a simple border crossing procedure are the major determinants of cigarette smuggling.

2. The main "hot spots" for sales of smuggled cigarettes include official stores, border areas and bazaars. The largest sales of smuggled cigarettes are recorded when people are leaving the country and crossing the Moldovan-Romanian border. The "hot spots" for sales of smuggled cigarettes that were identified during the expert evaluation are in line with the results of the consumer survey. Nevertheless, consumers pay more attention than experts to the purchase of smuggled cigarettes in bars and nightclubs.

3. The views of the expert groups on the links between cigarette smuggling and corruption differed, i.e. business representatives did not identify any strong links between corruption and cigarette smuggling, while representatives of the public sector identified low salaries of customs/border staff as well as poor staff control and management as the main determinants of the link between the above-mentioned phenomena. These determinants are followed by insufficient customs/border infrastructure and a lack of innovative technologies.

4. Both business and public sector representatives agree that the link between cigarette smuggling and organised crime manifests in two different forms: first, cigarette smuggling funds organised crime; second, cigarette smuggling and organised crime activities are conducted together for high income, fast turnover and relatively low liability.

5. 8 out of 9 experts unanimously agreed that cigarette smuggling and money laundering are interrelated, mainly through money legalisation and funding of corruption schemes.

6. The major measures which are proposed as the ones that could help reduce the flows of smuggled cigarettes are as follows: amending the Customs code of the Republic of Moldova, withdrawing the licence and the right to operate for any duty-free stores in Transnistria, greater control of border crossing points through imposing tougher fines and penalties, improving the existing law on the prevention of and fight against cigarette smuggling, strengthening inter-institutional cooperation between public authorities and business, and educating the public about the negative effects of smuggling on health and the state budget.

7. The measures that are most conducive to reducing corruption, money laundering and organised crime were also identified. Firstly, the above-mentioned phenomena are most prevalent within political parties and among governing officials. One of the examples proposes that if an agent wants to start-up or develop a business in Moldova, this agent must have strong ties with politicians or belong to a political party. The experts recommended the immediate dismissal of corrupt officials, depriving deputies of their political immunity, strengthening criminal liability, raising the competence and salaries of public officials in such a way that job retention would be a more attractive alternative than taking a bribe. According to the experts, the most attractive measures to prevent money laundering are promotion of inter-institutional and international cooperation, ensuring the implementation of good practices, and a more effective response to money laundering cases.

8. The public attitude towards the negative phenomena under consideration is generally positive; nevertheless, although most of the respondents do not support corruption, they would engage in corrupt activities if they found themselves in a certain situation. The population seems to justify money laundering, but there are assumptions (uprisings in the country) that people are beginning to realise the negative effects of money laundering on their own well-being and on the state. The fear that the expression of an open opinion will ruin their or their family members' lives and/or damage current living conditions, stops people from more pronounced resistance to the public corruption processes observed within political parties.

9. The decisive mistakes in combating the negative phenomena, according to the experts, are made by the government, Parliament and courts. Trying to survive, business tolerates the negative phenomena and thus continues to support the penetration of these phenomena at the highest levels of government.

5.5. Results of the expert evaluation for Ukraine

1. The main determinants of the booming cigarette smuggling in Ukraine are public tolerance, a very high probability of avoiding criminal liability, high profits, and the activities of the organised crime network that facilitate cigarette smuggling. In addition, other significant motives include a lack of technological equipment and electronic scanners for detecting illicit cigarettes at customs, nepotism, low salaries of customs staff, and a lack of control.

2. The main hot spots for sales of smuggled cigarettes are border areas, bazaars, official stores as well as small country shops, bars, night clubs and streets. The Ukrainian government is currently implementing the system of electronic verification of cigarettes and introducing a new type of excise stamps.

3. According to the experts, the link between cigarette smuggling and corruption manifests through low salaries of customs officers, favours to friends and acquaintances, and poor control of supervising officers. As in the case of Moldova, the link between cigarette smuggling and organised crime mainly manifests through funding organised crime groups, high earnings, low detection level, and low degree of criminal liability. Although the link between money laundering and cigarette smuggling is not very obvious, the interrelation between these two phenomena is mostly based on satisfaction of personal needs.

4. The major cigarette smuggling reduction measures that could deliver effective results are as follows: introduction of a centralised and combined customs and tax service systems where no sales (including cigarette sales) can be made without customs control, and introduction of the Track&Trace system where each pack of cigarettes has its reference number and enters a common tracking system. The opinions on an increase in excise duty rates were ambiguous: on one hand, high excise rates could lead to smuggling from Russia and Belarus, as happened in 2000; on the other hand, this decision forced producers to reduce cigarette prices, and as a result, an increase in the excise duty rate in 2018 led to reduction in the price of a pack of cigarettes by 3 UAH.

5. According to the experts, the best measures to curb corruption are creation of a common system for declaring income and controlling expenditure, adherence to the uniform law enforcement principles for all corrupt officials, and streamlining the judiciary. For identification and control of money laundering cases, the experts propose introduction of appropriate procedures for control and supervision of financial institutions, strengthening criminal liability depending on the amount of the money laundered, duration of the activity, etc., introduction of special procedures for financial institutions to identify their customers and properly keep records, FATF membership and alignment of Ukrainian laws and practices with the FATF standards obliging banks, insurance companies and financial intermediaries to disclose customer information. In order to reduce the number of organised crime groups, it is necessary to approve the draft strategy for the fight against organised crime which would set out the directions of the state policies to combat this criminal phenomenon. It is also necessary to separate politics and business.

6. The public attitude towards the phenomena under consideration is apathetic, although the public is inclined to have negative attitudes towards banks and money laundering. Corruption is treated as negative, although a lot of people prefer to use corruptive ways to solve their problems, and civil officers wish to be appointed to the positions where they could be involved in corruption.

7. The decisive mistakes in the fight against corruption, smuggling, money laundering and organised crime are made by courts and executive organisations, but inter-institutional cooperation is carried out through intermediation of science. As it is not sufficient, cooperation strengthening is a necessary process.

5.6. Results of the expert evaluation for Armenia

1. Classical cigarette smuggling is almost non-existent in Armenia, though it can be assumed that imported famous Western cigarette brands can be counterfeit. There are no specialised laboratories on the Armenian border to verify whether the cigarettes are genuine or counterfeit. The main directions of cigarette smuggling from Armenia include Georgia, Iran, Turkey and Iraq. The most common scheme for crossing Armenian border with smuggled cigarettes works as follows: an individual crosses the border several times in a short period transporting permitted quantities of cigarettes under Georgian law. In the

cases when permitted quantities of imported cigarettes are exceeded, an individual pays a fine for an administrative offense.

2. In Armenia, high prevalence of smoking among the public is associated with a low level of civic consciousness which is directly correlated with behavioural patterns of political leaders. A similar situation can be observed regarding the size of corruption in the country, i.e. the pro-corruption nature of political leaders certainly does not help to reduce the level of corruption among the population. The experts indicated that corruption is exacerbated by low professionalism of public servants, nepotism, bureaucracy, and lower and middle-level bureaucrats who have retained their positions even after the revolution. Corruption is exacerbated by such state institutions as Yerevan Municipality, Ministry of Public Health and the National Security Service. Passport-Visa Administration of the Police has been a positive shift in the area of public service provision since the revolution.

3. In order to reduce the level of corruption, senior government and lower-level positions must be held in a transparent manner, in accordance with all the requirements for a position; apart from professional and structural knowledge in a particular area, governors must possess managerial and economic knowledge. Another measure of reducing corruption is society's education and implementation of transparent media principles.

Analysis of the qualitative and quantitative research results allowed developing a model of the interaction between cigarette smuggling, corruption, money laundering and organised crime.

First of all, cigarette smuggling, corruption, money laundering and organised crime are closely interrelated and feed/complement each other. Cigarette smuggling unequivocally funds organised crime with the result that the likelihood of detecting organised crime in the countries under consideration is low, which makes cigarette smuggling easier and simpler. The greater is corruption in the countries, the easier it is to commit cigarette smuggling; at the same time, the proceeds of cigarette smuggling fund corrupt officials. The public in all countries understand that corruption is a negative social phenomenon, but get engaged in corrupt activities because otherwise it would be more difficult to carry out daily activities. Cigarette smuggling also involves money laundering to meet personal needs, legalize money in official markets and fund corruption schemes. Public attitudes towards money laundering and organised crime are apathetic because the public do not believe that those accused of illegal activities will be punished accordingly, not only by removing them from an office, but also by seizing their property and prosecuting.

The interaction between the above-mentioned phenomena is affected by the difficult economic situation in the countries under consideration, public tolerance and low level of civic consciousness, high earning potential, soft sanction policies, inadequate trade and cash flow controls, easy border crossing procedures, cigarette price differences, excise duty increase policies, ethical determinants and historical events.

Armenia can be mentioned as an exception because, unlike the other countries under consideration, it is a donor of smuggled cigarettes. Nevertheless, it is particularly prone to corruption and other illegal activities that require long-term measures to be curbed (see the next section).

6. LONG-TERM STRATEGY DIRECTIONS FOR REDUCING CORRUPTION, SMUGGLING, MONEY LAUNDERING AND ORGANIZED CRIME

- The representative research and surveys in Armenia, Georgia, Moldova, Albania, Serbia and Ukraine propose that the countries under consideration should increase transparency, reduce and eliminate manifestation of corruption in different areas, including procurement through joint projects of science, business and the public sector as well as outsourcing research. It is necessary to enhance inter-institutional cooperation through scientific research.

- The countries must raise public intolerance of corruption and promote public involvement in anti-corruption activities.
- It is important to raise public intolerance of illegal goods and services through education, scientific research and cooperation with business institutions.

Priority areas: legislation, activities of courts and law enforcement institutions, supervision of the activities of economic entities, public procurement, health care, state supervision of territorial planning and construction, public administration and public service, anti-corruption education.

Special state services should develop strategies for inter-institutional cooperation and cooperation with stakeholders in other countries, for instance, in the area of public procurement for detection of the cases of corruption.

Due to the global spread of corruption, not only state-level, but also international cooperation of anti-corruption institutions as well as exchange of information, experience, and specialisation in different areas of anti-corruption activities are required. The countries under consideration need to focus on identifying, analysing and preventing the root causes of corruption. They should be interested in the best practices of foreign countries and conduct comparative analyses of their legal systems and practical experience.

The Governments of the countries under consideration, based on the best foreign practices, scientific and commissioned research, should develop instructions to municipalities on how to expand anti-corruption activities.

Following the example of the United Kingdom, it is proposed to set up a register of personal financial interests alongside the Code of Conduct for Politicians. The main purpose of the register is to keep the public informed about the financial interests of particular individuals that may influence their behaviour and/or actions. The following interests are registered: paid management positions, paid work, service, profession, customers, sponsorship grants, gifts, benefits, hospitality, foreign trips, land and property, stocks.

Following the example of the United Kingdom, it is proposed to establish an Asset Recovery Office with the power to recover illegally acquired assets in civil proceedings following a failure of prosecution; it is also proposed to tax the funds that can reasonably be considered to have been obtained from criminal activities.

To Chief Official Ethics Commission. It is proposed to develop a concept of an anti-corruption education system for politicians and public servants so that they would receive the training of appropriate behaviour, appropriate conduct and ethics, as is provided by the UK Commissioner for Standards.

To all state and private institutions.

In order to improve the results of state-wide corruption control in the institutions of the countries under consideration, the state institutions themselves should enhance the initiative of corruption control. For this purpose, the institutions should make greater use of the capacity of their structural units (immunity departments, internal investigation services, etc.). This would draw attention to the fact that criminal offenses of a corrupt nature actively involve both parties; therefore, preventive work must cover preventing criminal offenses of a corrupt nature and appealing to both parties of this relationship – a bribe-taker and a bribe-giver. It is expedient to implement these regulatory legal provisions by supplementing the laws and other acts accordingly, adjusting them to each of the countries under consideration.

ALBANIA, SERBIA

1. Albanian and Serbian local government units should create their own strategies on internal risk management and keep them updated. These strategies could be prepared according to the manual for Financial and Control Management issued by the Ministry of Finance. In addition, the governments

should establish internal and whistle-blowers' protection rules for collection of the regular data on the risk of corruption.

2. Albanian and Serbian local government units should strengthen their administrative capacities through capacity building trainings on local governance and anti-corruption issues, and also, increase their knowledge regarding the current legislation; the countries should also increase their transparency by taking concrete actions as defined in relevant legislations, such as improving citizens' access to information and strengthening the electronic infrastructure of the municipalities.

3. Civil society organizations in both countries must raise their organizational capacities, manage and implement municipal projects in a transparent manner, continuously improve the knowledge of anti-corruption and good governance, and share practices with other institutions.

4. Local governments should adopt regulations on corruption reporting, keep the reporting up to date and supplement it in line with international standards. The authorities should work in close contact with global institutions that are seeking to reduce corruption.

5. The responsible authorities should develop specific measures for corruption prevention, control and recording, and shall designate those responsible for updating these measures and ensuring public communication.

GEORGIA, UKRAINE

1. Local governments should take advantage of the recommendations and support for the development of tobacco control expertise; this is available to the FCTC Parties and under the Association Agreement between Georgia/Ukraine and the European Union.

2. Tobacco control and policy makers as well as health professionals should be introduced with all international standard compliance training programs and keep close collaboration with European and other institutions.

3. Local governments should put some effort to reduce the demand for tobacco products and ensure similar regulation of currently traded tobacco products. Meanwhile, the governments should ensure that tobacco industry would have no interventions in the introduction and implementation of tobacco control measures.

4. Local government units should support and foster the cities which are tobacco-free.

5. The governments should support ongoing research on the health effects of tobacco, tobacco damage to the country's economy, and announce the research results to society.

MOLDOVA

1. Creating a common and efficient mechanism to achieve inter-institutional cooperation of law enforcement authorities, aiming to prevent and combat smuggling, corruption, money laundering and organized crime.

2. Implementing all the operational and organisational measures which would annihilate smuggling networks and finding solutions to the position of the Transnistria Separatist Region in the Republic of Moldova, where the quantities of cigarettes are much higher than storage and consumption capacities.

3. Amending the Customs Code of the Republic of Moldova, to withdraw the license and the right to operate any duty-free stores in Transnistria.

4. A more rigorous and frequent control of all spheres that could be involved in cigarette smuggling, including customs control as well as stiffer penalties and fees.

5. Facilitate cross-border cooperation - at international level, states must ensure that there are agreements on the rapid exchange of information regarding the relations between financial institutions.

6. Increasing the level of legal awareness of citizens, increasing transparency and merit-based selection for positions.

ARMENIA

1. Educating the public about the negative effects of corruption on the state and a family.
2. Reviewing the electoral procedures for political parties and leadership positions to ensure government transparency.
3. Carrying out laboratory tests to identify the origin of imported tobacco, i.e. to find out whether or not cigarettes are smuggled.
4. Facilitate cross-border cooperation - at international level, states must ensure that there are agreements on the rapid exchange of information regarding the relations between financial institutions.

CONCLUSIONS

1. In Armenia, cigarette smuggling was decriminalized in 2016, so it can be stated that within five years cigarette smuggling has almost disappeared. After 2016, the criminal statistics started treating the cases of smuggling as a kind of illegal entrepreneurship or business activities. According to the data from the Transparency Organization in Armenia, high-quality, high-volume tobacco products, their low prices, the establishment of the most popular Western cigarette brands (Winston, Marlboro, Hill, Phillip-Morris) in Armenia and official distributors of these brands have resulted in almost no cigarette smuggling into Armenia. However, smuggling from Armenia to other countries (Turkey, Georgia, Germany, Iran, Iraq) is thriving. Corruption is deeply rooted in Armenia and combating money laundering and organized crime is a challenge. Due to the existence of a political criminal world, the country failed to implement the 2003-2007; 2009-2012 and 2015-2018 anti-corruption strategies. This is illustrated by the Corruption Perception Index (35 out of 100 possible in 2018), which has not changed significantly in recent years. The Velvet Revolution has had a positive impact on public confidence in the authorities, but organized crime and money laundering schemes are difficult to detect due to high levels of corruption. Therefore, corruption and its accompanying phenomena (tax evasion, money laundering) pose a serious threat to the country's economic and political structure by making the low cost of living and causing extremely low confidence in government officials.

2. In Georgian case, the statistically significant links were obtained between production of cigarettes / legal turnover of tobacco products / excise tax paid on cigarettes and the corruption control indicator and the taxes collected on tobacco products from total taxes. Formation of the above-mentioned links was related to tax reforms in the country. Since 2011, the New Tax Code came into force, streamlining the tax process, which has had a positive impact on reducing corruption in the country through anti-smuggling efforts. Although Georgia has made great progress in reducing corruption (58 points in 2018 from 52 points in 2015), cigarette smuggling is a major threat to Georgia's security. The highest levels of smuggling have been recorded since 1998 and continue to this day. The main flows of smuggled cigarettes travel from the occupied territories of the Russian Federation: Abkhazia and South Ossetia. Cigarette smuggling is booming as it has long been fuelled by corruption, powerful criminal groups, cooperation between political interest groups and criminal networks. Due to the low standard of living, some people in poverty also engage in criminal activities, which is tolerated by society because of difficult living conditions.

3. In Moldova, cigarette smuggling ranks third in terms of profitability. This can be justified by corruption (33 points out of 100 in 2018), which is one of Moldova's main problems. Moldova is one of the poorest countries in Europe in terms of economic development. The problem of corruption is exacerbated by the fact that as many as 78% of Moldovan citizens do not trust the country's government (the data for 2018). Tobacco smuggling, including counterfeit products, is presently assessed as one of the most serious risks to border security at the Moldovan-Ukrainian border and takes many forms, starting with small scale packages being hidden in vehicles, and ending with larger scale consignments being clandestinely transported over the "green" border. The large quantities discovered and the ways in which their introduction / removal was attempted in the country demonstrate that this smuggling

continues to be alarming. The worst is the fact that a lot of cases of smuggling remain undiscovered and traffickers rely on the "impressive" profits and gains from "black" sales markets, given price differences and tax evasion.

4. In the case of Albania, the increase in cigarette excise duty over the period considered has led to an increase in the corruption control index (the level of corruption in the authorities has tended to decrease). A crucial role in fighting corruption has been played by implementation of the anti-corruption strategy as a part of the National Strategy for Development and Integration (NSDI). The adoption of the new Crosscutting Strategy for the Prevention and Fight against Corruption and for Transparent Governance 2008-2013 has been considered a positive development for Albania. Moreover, it focuses on the progressive and sustainable reduction of corruption by increasing the institutions' integrity and promoting good governance and transparency. Finally, since 2015, Albania has been pursuing and implementing the Inter-Sectoral Strategy against Corruption. The main objectives of the anti-corruption strategy are prevention, punishments and public awareness / education on corruption. In summary, of all the independent variables, only the corruption control indicator showed a statistically significant relationship with the average excise tax on cigarettes, i.e. with decreasing prevalence of corruption among the authorities (the values of the corruption control indicator were increasing), the average excise taxes on cigarettes tended to increase. The analysis found that tax administration in Albania has discovered tax evasion schemes, which have circulated millions of dollars. The level of the informal economy creates the opportunity for the funds generated by tax evasion or criminality activities to be integrated into the formal economy, and thus creates favourable conditions for the second phase of money laundering, stratification, or third - integration of funds into the financial and economic system of the country. An important factor influencing money laundering is awareness of corruption that has increased in Albania and has become an important priority in the political agenda of the country. Successive Albanian governments have committed themselves to fighting corruption and key steps have been taken to address the issue, in part because of commitments deriving from the European Union accession process and the subsequent need to adapt national legislation to the *acquis Communautaire*.

5. Despite the strategies and reforms being implemented, the level of illegal trade in Serbia is still relatively high, primarily due to high excise taxes on tobacco products (due to the need to harmonize the excise policy with the one that exists in the EU) and, consequently, high prices of cigarettes. Corruption Perception Index (2018) had a score of 38 out of 100, and demonstrated a very slight improvement compared to last year (+2 points than in 2017). As in the other countries examined, the factors contributing to cigarette smuggling, corruption, money laundering include poverty, income inequality, high unemployment, geographical location, low enforceability of laws and political instability. However, the process of perceiving the real threat of organized crime in Serbia has been relatively long, and the political situation in the country and instability in the region have had a big impact on it. Besides corruption and organized crime, other illegal activities, like money laundering and smuggling, are also present in the Serbian economy and affect its level of development. Until 2019, the Republic of Serbia was on the grey list of FATF as a country with a high risk of money laundering and pro-terrorism funding country. Some important regulatory acts in this area have been implemented (New Law on prevention of money laundering and financing terrorism, Action Plan for the implementation of the law on Money Laundering Risk Assessment and Assessment of the Risk of Financing Terrorism). These regulatory changes indicate the will of the government to fight against the above-mentioned negative phenomena, so FATF changed the status of the Republic of Serbia. The concrete actions in these areas still need to be implemented to affirm a serious intention to deal with these problems.

6. In the case of Ukraine, the calculations provided most of the indicators under examination, such as illicit trade in tobacco products and the number of organized crime cases recorded by public authorities. In the area of the fight against corruption, there are very many things that remain unchanged in this country. Institutions have been set up, officials have been appointed, more attention has been paid

from abroad, assistance in the prevention of money laundering has been provided, and foreign consultants have been sent. So, there is certainly more focus on the issues under consideration, but eradication of corruption and quick changes of the situation cannot and will not happen soon. This is one of the main challenges for the Ukrainian state. Of course, the most important current problem is military aggression, but corruption is the "second front of Ukraine". In 2017, the Government of Ukraine has defined the main directions of the strategy for the illegal trade in tobacco products until 2021: 1) a clear distinction between criminal and administrative responsibility for the commission of offenses in the sphere of illicit manufacture and circulation of tobacco products, unification of the conceptual apparatus used in the legislation on criminal responsibility and legislation on administrative offenses; b) introduction of criminal responsibility for the illegal movement of tobacco products across the customs border of Ukraine. In this approach, in the near future, serious changes to the CCU should be expected in terms of the criminalization of smuggling of goods, which inevitably should affect the reduction of crime in Ukraine.

7. It can be stated that all the countries under consideration are facing the problem of smuggling which, in its turn, presupposes other negative phenomena such as corruption, money laundering and organised crime. The above-mentioned phenomena constitute huge social problems that overlap with each other. Although Armenia is the only country to say that they do not have smuggling, the research revealed that the country is a donor for smuggled cigarettes to Georgia, Turkey, Iran and Iraq. This issue could become an additional area of consideration that is very sensitive because the research revealed not only this, but many other relevant issues.

8. The surveys disclosed that people are afraid of being caught, punished or otherwise detected in the area of smuggling; in many cases, they are even afraid to say that they have smoking acquaintances in their environment. In the case of Moldova, the research is indeed original and useful; the originality of the research is reflected in the fact that the primary information on the country's situation concerning the phenomena under consideration is hardly available in any other sources. The Moldovan society is entangled in ethical and moral manifestations of fear. The scientist who came to Lithuania to discuss implementation of the project and share the results, was forced to hide the purpose of the visit to Lithuania because the topic itself is presented among public servants and scientists in a way that is more convenient to the government. The expert surveys in focus groups are representative and relevant in terms of science/business. In Moldova, in contrast to Armenia, Georgia and Albania, the respondents indicated more "hot spots" for sales of smuggled cigarettes. Corruption, rooted as a major social problem, manifests mainly through bribery and abuse of power.

9. The statistical-mathematical calculations for five countries indicate that corruption affects their tobacco industry. Some countries, such as Georgia, are sufficiently effective in engaging anti-corruption reforms, which are already having a positive impact on the public's perception to authorities. In other countries (Armenia, Albania, Moldova), preventive measures against corruption are still at an early stage. The situation in Armenia and Moldova is based on political instability and civil unrest. In Albania, social factors (public tolerance for smuggling, public acceptance of illegal phenomena) are key criteria for stopping progress in the fight against corruption and cigarette smuggling.

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