

## TRAFFICKING FOR SEXUAL EXPLOITATION IN BULGARIA: CRIMINAL FINANCES AND CAPACITY FOR FINANCIAL INVESTIGATIONS

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Trafficking in human beings (THB) for the purpose of sexual exploitation has become one of the largest Bulgarian criminal markets since the beginning of the new millennium. After the lifting of Schengen visas for Bulgarian nationals in 2001, Bulgaria became a major country of origin for the trafficking in human beings exploited in the EU. THB and prostitution not only generate huge incomes for Bulgarian organised crime but also have detrimental social and economic impact on local communities. The changing nature and the level of sophistication of some trafficking operations is posing new challenges to law enforcement and judicial authorities. Apparently, none of them are fully equipped to meet these challenges. This is particularly true with regard to financial investigations, which struggle with a variety of impediments, such as the lack of sufficient resources and functional and structural gaps in the institutional setup.

The accession of Bulgaria to the European Union in 2007, and the lifting of the restrictions for access of Bulgarian citizens to the common EU labour market in 2013 resulted in significant transformations of THB phenomenon. The freedom to travel to and legally work in EU member states barred criminal networks from controlling victims' access to the common European labour market, including that of sexual services. In addition, as European and Bulgarian law enforcement and judiciary bodies stepped up cooperation with their counterparts on an international scale, criminal networks became less prone to use violence against THB victims and, therefore,

### KEY POINTS

- Trafficking in human beings remains a highly profitable criminal market for Bulgarian organised crime.
- Unlike independent traffickers, organised crime groups often make significant initial investments and incur operational costs (e.g. for client acquisition, monitoring, protection and concealment).
- Information and communication technologies have transformed both the modus operandi and the cost structure of human trafficking operations.
- The 'follow-the-money' doctrine has still not been fully institutionalized in Bulgaria and money-laundering investigations are rarely carried out in parallel with criminal investigations of trafficking in human beings.
- Recruitment, training and deployment of additional police officers able to conduct complex financial investigations must be prioritised.
- There is an urgent need to develop effective mechanisms for coordination between criminal and financial investigations within the prosecution, as well as with the other relevant institutions.
- In the long term it should be considered to bring non-conviction based forfeiture of illegal assets within the remit of institutions charged with investigating and prosecuting the predicate offenses in order to avoid duplication of resources and streamline parallel financial investigations.



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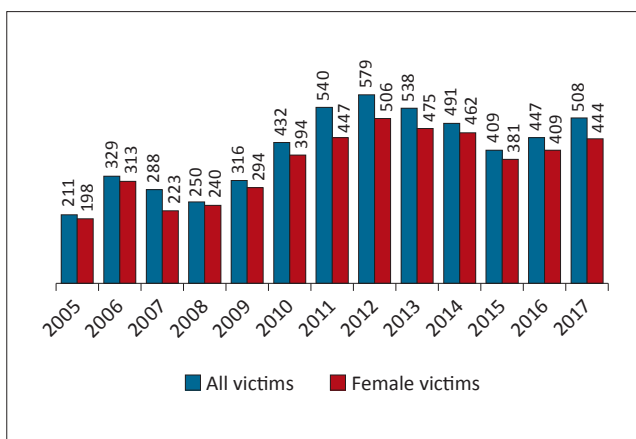
less efficient in controlling and exploiting already recruited victims. The socio-demographic changes such as the smaller number of children born after 1990 and migration towards big cities also contributed to shrinking the pool of persons vulnerable to THB, as has the almost double growth of incomes even in smaller towns and rural areas in the post-accession years.<sup>1</sup>

## The Criminal Market Size

The most recent estimates on the scale of cross-border trafficking of victims indicated that in the period 2005 – 2009 between 11,000 and 21,000 sex workers from Bulgaria worked in other EU countries and generated about €1.5 billion, which is roughly equal to 2.6 – 2.7 % of the national GDP for the same period. The domestic market was estimated to generate €123 – 205 million in 2012, with 6,000 – 10,000 sex workers.<sup>2</sup>

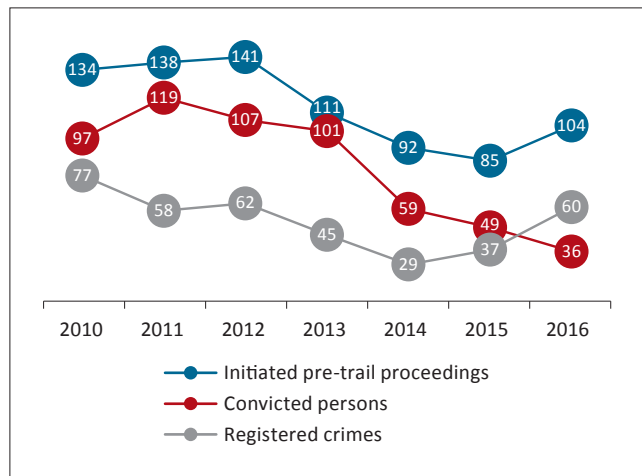
However, latest public data from several EU member states reveal a dwindling number of victims from Bulgaria since 2012. The Dutch and German data on recorded THB victims indicate that the number of victims from Bulgaria has shrunk almost twice in 2016 compared to 2012. At the same time, the number of victims identified by the Bulgarian authorities also dropped by 22 % in the period 2012 – 2016, although slightly increased in 2017 (see Figure 1).

**Figure 1. Victims of trafficking involved in court proceedings, 2005 – 2017**



Source: Prosecutor’s Office data.

**Figure 2. Registered crimes, pre-trial proceedings and convicted offenders for THB, 2010 – 2016**



Source: Prosecutor’s Office annual reports, MoI annual statistics (2010 – 2017).

Apparently, at least for Bulgaria the decreasing number of victims registered by the Prosecutor’s Office can be linked to the dwindling number of the pre-trial proceedings initiated. Thus, the new proceedings plummeted from 141 in 2012 to 85 in 2015 and then slightly increased to 104 in 2016. Several factors related to law enforcement institutions have contributed to this significant drop in the investigations in the last 5 years. In 2013, the Directorate General Countering Organised Crime (GDCOC), the agency most actively involved in THB investigations, was merged with the State Agency National Security (SANS). The internal reorganisations after the merger led to the suspension of a number of cases, the dismissal and retirement of many senior officers experienced in THB. Two years later GDCOC was reinstated as a specialised Ministry of Interior (MoI) directorate, but its staff was cut by half and many of its regional units have not been re-established and thus their overall number was reduced from 28 to 12. Some of the regional directorates that ceased to exist used to cover regions with a long tradition in the trafficking in human beings. Cities such as Pazardzhik, Dobrich, Razgrad, Pernik, Yambol, Shumen, etc., currently do not have any local units dispatched, despite the large number of victims and OCGs involved in THB. Moreover, most of the current GDCOC’s regional units have limited resources and often only a single officer is responsible for working on THB cases.

<sup>1</sup> Bezlov, T., Yordanova, M., & Stoyanova, N. *Corruption and trafficking in women. The case of Bulgaria*. Sofia, 2016.

<sup>2</sup> Center for the Study of Democracy. *Serious and Organised Crime Threat Assessment 2010 – 2011*. Sofia, 2012.

## Modus Operandi of Trafficking Networks

Since the 1990s, no criminals from other nationalities have ever had noticeable presence in the country or played any role in cross-border trafficking. Four types of criminal actors can be distinguished: large, hierarchically structured organisations; loose networks of collaborating independent traffickers; family/clan-based organisations; independent traffickers.

**Hierarchically structured organisations:** whereas in the past these organisations were exerting control on the access to the market by coercion and enforcing protection fees to all independent actors, nowadays they would rather contract the sex workers as employees and exert control through the use of market mechanisms, such as providing access to profitable locations or venues, and securing protection against rival competition and police authorities. Depending on the size and sophistication of the organisation, its leaders might have invested in several venues both in Bulgaria and abroad, or only in a single venue.

The **loose networks** usually comprise of several independent traffickers, wherein each of them independently recruits women from Bulgaria or elsewhere, as a rule with their consent. Each trafficker takes care of all aspects related to the business (such as securing a location, protection from violent clients, residence permits and licenses).

**Family/clan-based organisations** are typical for traffickers from the Roma community, where usually members of the organised crime group are part of the extended family. The structure usually follows the familial links with an elder authority at the top of the organisation and specific tasks divided between the members of the family. These organisations usually traffic women from the same ethnic group and even other family members.

The **independent traffickers** are usually a couple (married or not) or a trafficker with 2-3 sex workers, who operate as a family/small business. The women solicit customers and provide sexual services, while the men provide protection and facilitation. Independent traffickers do not share their earnings with some criminal organisation but may pay a fixed fee to them in order to obtain the right to work at a particular location. Thus, they keep all the revenues for themselves, but risk extortion demands and violent

assaults from other competitors or being reported to local authorities as there is no group or network to protect them.

All types of trafficking organisations use the same strategy to reduce risk of detection and apprehension by the police, which involves acquiring consent of the exploited women and pre-negotiating the division of their earnings, using violence only in exceptional cases, and often posing as their friends or spouses. Overall, trafficking networks offer sex workers both economic and safety advantages. Women who try to work on their own appear to be more likely to become victims of violent incidents or to earn less because of their limited access to more profitable locations in central and western Europe.

## Market Structure

Once extensively controlled by organised crime and practically cartelised in all big cities and resorts, the prostitution market in Bulgaria is now rather fragmented and decentralised. Similar tendencies have been reported for cross-border trafficking. Despite the fragmentation of the prostitution market and the increased share of independent actors, the human trafficking business in the country and abroad still remains largely controlled by Bulgarian organised crime.

### The Domestic Sex Market

The domestic prostitution market in Bulgaria can generally be divided among three main segments – outdoor, indoor and high-end prostitution. The market segments can be distinguished based on the place where sex services are delivered, the price range, and the clientele.

The lowest market segment in Bulgaria is **outdoor prostitution**, which comprises of sex workers who offer sex services mostly in public, open spaces. One group focuses on frequented places in big cities such as railway and bus stations, bridges, shoddy hotels, byways and side alleys parallel to main streets. Some of them migrate to the outskirts of resorts during the tourist seasons. The second group works along highways, main roads and the roads close to border crossings, mostly at parking lots, motels, crossroads and the like. Their main clients are truck drivers. This segment is mostly occupied by the family-based organisations from the Roma ethnicity, as well as some independent traffickers.

The largest number of sex workers operates in the **indoor prostitution segment**, which can be provisionally divided in several substrata. The bottom one is occupied by the so called “apartment prostitution”, performed in rented flats on the first floors of residential buildings. VIP or escort clubs occupy the next substratum at which prices are higher and control over prostitutes is more lenient. The segment also includes the escort services. The most luxurious substratum comprises erotic bars and adult clubs. Sex workers at such erotic bars take in additional revenue in the form of soliciting drinks from customers and dancing. The owners of such venues as a rule pre-select the sex workers before contracting them and tend to regularly replace them with new ones.

This market segment is dominated by hierarchical groups, who usually invest in sex venues at lucrative locations – in the city centre of Sofia or some of the big cities, as well as in the Black Sea and mountain resorts. However, in the period 2010 – 2012 the controlled chains of apartment brothels in big cities disappeared giving way to independently working (mostly in pairs) prostitutes renting their own living space, increasingly offering their services online, and occasionally paying criminal networks security fees to guard them against possible threats from clients. Many independent procurers have also started to operate in this market segment running apartments with their own sex workers or providing call girl services with extensive use of online advertising.

The **high-end prostitution** market segment accommodates various legal business structures that are used as cover for offering exclusive sex services. Typical businesses used in this market segment include fashion, model and advertising agencies, as well as talent managing companies working with dance troupes and pop folk performers. However, many of the women hired on permanent or temporary contracts are enticed to perform sex services and thus the line between their duties as models and as escorts becomes blurred. This segment is also dominated by hierarchical organisations which in many cases operate in the indoor segment as well.

## Cross-Border Trafficking for Sex Exploitation

The structure and functioning of the cross-border THB closely resembles the domestic prostitution market. Street sex workers would be commissioned to work on selected streets, parking lots and open spaces in

large European cities. Sex workers in the indoor segment are exploited in a variety of sex venues such as brothels, hotels, sex clubs, bars and windows, after traffickers negotiate access with the respective owners or criminal organisations in control of the venues. Criminal organisations operating at the high-end prostitution level solicit foreign clients during the modelling agencies’ tours abroad, usually in neighbouring countries such as Greece and Turkey, more exclusive destinations such as Dubai, and less often in Italy and France. Subsequently the sex workers are secured engagements in leisure events or business conferences.

Some of the big hierarchical organisations operate both at the domestic and foreign prostitution markets. However, regional trafficking networks in most cases do not have presence at the domestic market, but prefer to organise only cross-border trafficking to EU countries, Switzerland or Norway. They recruit sex workers from the respective region and traffic them to particular European cities. For instance, criminal networks from Sliven, Pazardzhik, Stara Zagora, Haskovo, Plevan, Ruse, Dobrich, Vidin, etc., have established trafficking channels to Brussels, Strasbourg, Rotterdam, Oslo, Cologne, Vienna, Valencia, Rome, Koblenz, etc. To escape dependence and payment of protection fees, the regional procurement networks operate independently from the big hierarchical organisations, when supplying sex workers to the EU.

The big hierarchical organisations with established presence on the domestic market, on the other hand, have a different business model that guarantees better control over the sex workers. The newly recruited women first work in some of the bigger Bulgarian cities or resorts and after proving their loyalty and accountability are commissioned to more profitable locations abroad. The sex workers periodically return to work back in Bulgaria upon completion of a certain period abroad or whenever problems arise (e.g. extortion demands from other criminal groups, conflicts with competitors, police operations, etc.).

At the start of the century the newly formed regional hierarchical groups and loose networks would stick to a certain European city or region, which they get to know well, and then they consider expanding to new cities. In recent years, the number of trafficking destinations has doubled. Whereas in the past, a few big organisations and networks controlled the trafficking channels, currently various traffick-

ing organisations are investing abroad in order to exert direct control over the victim's workplace by purchasing/renting sites such as bars, restaurants, hotels, night clubs, windows, escort portals and escort companies. This strategy involves establishing of legal business structures as a front of their operations and along with the advantages of the enhanced control over the victims, it also offers a better cover from police scrutiny.

## Financing and Financial Management

There is a widely shared belief that human trafficking is practically low-cost criminal activity bringing huge profits, wherein market entry does not require any particular investment. The collected information to a large degree refutes this common myth at least in the Bulgarian context.

### Sources of Capital

The need for initial investment to enter the market of THB for sexual exploitation varies widely depending on the selected business model. While small scale, one-off procurement of a victim may require no investment at all, renting a profitable location for a sex worker in the indoor segment may involve upfront payment of €1000 – €3700 in the domestic market and €2000 – €4000 abroad. In addition, initial costs include recruitment, transportation and lodging for the victims. Certainly, larger sex venues (brothels, adult clubs) demand significantly higher advance payments, ranging from €60,000 for a club on the Black Sea coast, to a million Euro investment in Spain.

The initial capital for a market entry, or a market expansion, may be loaned to the newcomer from actors who are already established in the THB business, be it social contacts, friends or family members. Being connected to insiders appears to be a crucial element in securing initial financing and overcoming the barriers to market entry.

The observed differences in the **source of initial capital** are closely correlated to the type of market entry, i.e. independently or through an already established network or criminal organization, as well as on the market segment – outdoor, indoor or high-end. Independent traffickers may need to raise initial capital to

secure access to clients (e.g. place on the street or in a brothel, window in a red-light district, etc.), logistics (e.g. transportation, lodging, work permit, etc.) and visual make-over of the trafficked person, e.g. high-end clothing, accessories, cosmetics, hair and body care, etc.

Criminal entrepreneurs joining established trafficking networks do not need to cover all these cost by themselves, since the network can grant access to the venues and at least provide initial operating capital for business expenses. The investment is then repaid from the sex worker's earnings.

Joining an established trafficking/procuring operation provides a number of advantages for both the sex workers and the procurers. Networks and groups have more available capital which can cover recruitment, transport and accommodation costs. They also have social connections and a line of credit in case of urgencies. On the other hand, starting an independent operation entails a number of risks. Independent sex workers are vulnerable to violent or fraudulent customers or to networks or groups trying to subdue them to their control. Independent procurers and traffickers have to perform themselves all activities associated with the business. They often choose to control (or appear to control) a limited number of sex workers (up to 3), to avoid both higher costs and threats from larger trafficking networks.

Borrowing money is also a tactic used to weather out difficult moments. However, borrowing from loan sharks is risky due to the exorbitant interest rates and both procurers and sex workers try to avoid it. Generally, traffickers prefer to settle such situations through borrowing from other members of their network. Sex workers rely on a broad creditor base that includes procurers, colleagues and in some cases clients. These intra-industry/network loans come with more favourable interest rates than those of loan sharks, usually in the range of 10 – 20 %. Rates may be higher for novices who have yet to prove trustworthy.

### Settlement of Payments

While settlement of payments may take various forms, as a rule all transactions within a trafficking network and with external actors are completed in cash. Clients pay cash to sex workers (before or after the service) and the money is subsequently transferred to the higher levels of the organisation. Sex workers report



and account for their earnings “day by day”, often via coded messages through messaging services or SMS. They receive their shares periodically in cash from their traffickers/procurers or trusted persons. Cash proceeds are then transferred up the chain through trusted payment facilitators, which appear to be insiders rather than the typical money mules. Exceptions do exist as sometimes clients can pay for sexual services via bank transfer/credit card, whereby such payments are registered as a legitimate service, e.g. massage. This is particularly the case when trusted clients based in Western Europe order sex services from sex workers based in Bulgaria. The wired money is used for travel and advance payment for the sexual services.

It should also be noted that in the domestic indoor and high-end prostitution segment, many sex workers have also fictitious contracts as office assistants, masseuses, waitresses, hostesses, barmaids, exotic dancers, receptionists, hotel maids, etc. The contracts are usually signed with bogus companies and fixed at minimum wage and for minimum working hours. They do receive payments under these contracts and all respective social and healthcare benefits are covered, with at least some of them being paid via bank transfers. In this way traffickers try to conceal the true nature of their activities and avoid raising suspicion in law enforcement or other regulatory agencies.

Procurers and traffickers transferring profits from abroad may use money transfer services, such as Western Union. However, they will take a number of precautions, such as using intermediaries (money mules) to withdraw the money and deliver the amounts to the intended recipients. Western Union transfers is also the preferred method for sex workers who send small sums to their families. Another method for sending money to Bulgaria is through van drivers servicing cross-border routes (some of them may be part of other criminal networks, e.g. smuggling cannabis from the Netherlands).

Procurers and traffickers may use trusted third parties for settling payments with facilitators outside of the networks such as club owners or corrupt police. In some cases, more sophisticated schemes are used, involving bank transfers through a multitude of bank accounts controlled by a network boss and registered to dummy entities or shell companies. The dummy accounts are employed on a rotating basis to avoid suspicion. Cash mules are also used, particularly for international payment settlements.

When operating abroad some traffickers are wary of getting directly involved in the payment settlement activities, as being seen around sex workers and in particular known clubs and hotels may arouse suspicion. Therefore, settlements with clubs and hotels may be delegated to the sex workers who deal directly with the owners of the establishments where sex services are performed. Settlements in the domestic market seem to be conducted in cash directly between the trafficker, or trusted person, and the owner of the club/hotel where sexual services are provided.

The high-end prostitution segment displays some subtle differences in the patterns of payment settlements. The assumed exclusivity of sexual services performed by “models” and the parallel operation of the fashion agency as a cover business provide a certain distance between the consumer and the sex worker, particularly in terms of the financial transactions. The contacts are usually handled by a central figure inside the agency, the so-called booker. Often the booker also receives the payment directly from the client. In such cases the women perform a pre-arranged and pre-paid service without coming into contact with money. Still, there are exceptions for regular clients who may pay directly to the sex workers.

## The Costs of Doing Business

Trafficking operations involve a variety of different costs at each stage of the process: recruitment, transportation and exploitation. Some of these costs are one-off and might be categorised as investment costs, whereas others are recurring, or operational. The costs structure of trafficking operations varies depending on the modus operandi of the traffickers.

**Recruitment of new sex workers** in most cases entails an investment of both financial resources and time. Independent traffickers, family-based organisations and loose networks often employ the so called “lover-boy” method or similar strategies involving deceit and manipulation. This method includes courting, befriending and manipulating the potential victim by the recruiter into a relationship of trust.

In some instances, the process of trust-building may last up to nine or more months, thereby the lover-boy incurs sustained additional expenses. Very often recruiters identify and pick good looking women from poor backgrounds who can easily be impressed with a luxury lifestyle. The related costs include expenditures for restaurants, vacations, clothes and other gifts. To

display a luxurious lifestyle, the recruiter needs an expensive automobile, branded clothing and accessories, an expensive smart phone and well-maintained physique.

Hierarchically structured organisations usually pay to specialised members of the organisation to perform these activities or pay to external actors on fee-for-service base. Persons in charge of recruitment receive a specific sum per new recruit and a bonus if the sex worker performs well. The fees vary between €100-250 per recruit and the bonus may be as high as €500. The money invested in recruitment activities are considered as running costs for the business and are covered out of the generated revenue. In some cases, these recruitment costs may be saved, for instance by coercing or manipulating an independent prostitute to work for the network, or in cases where women seek out such employment themselves.

A common expense that is closely related to the recruitment stage are the costs for make-over and personal care of the newly recruited victims (purchase of brand clothing, accessories and cosmetics). These expenses range from €500 to €1,500, depending on the modus operandi of the traffickers. The outdoor segment is less demanding, whereas for the indoor and the high-end prostitution segments these expenses are critical. For high-end sex workers, more costly investments, such as plastic surgery, may be needed.

**Transportation costs**, both domestically and abroad, apparently play a minor role for the operations of Bulgarian traffickers, since Bulgarian citizens are entitled to a visa-free travel in the EU and the costs of intra-community travel have significantly decreased with the advent of low-cost flights. At the domestic market, if the provision of the sex service necessitates transportation to another location, it is either covered by the sex worker or the procurer or is added to the price for the service. Procurers might enter into specific arrangements with taxi drivers or might provide transportation themselves. Transportation costs in cross-border trafficking are usually covered by the traffickers.

The most substantial costs sustained by the traffickers are related to the **exploitation stage**. These costs include lodging, expenditures for client acquisition, monitoring and control of sex workers, protection, concealment of criminal activities, corruption, and facilitation of money laundering.

**Client acquisition costs**, i.e. securing access to clients, is one of the most significant costs for trafficking operations. Depending on the modus operandi these costs might include costs for acquiring access to a profitable location on the street, a window in a red-light district or a place in a well-established adult club, brothel, or massage parlour. Online advertising costs and payments to taxi drivers, hotel porters or concierges for referring clients can also be included in this category.

Profitable locations in hotels, motels and clubs abroad and in Bulgaria are often controlled by hierarchically structured groups and access to these for other trafficking actors is usually granted upon payment of certain fee. Even if the location is not controlled by some organised crime group, to secure undisturbed access for sexual services traffickers and procurers have to pay a fee. The fee, paid to the owner or manager of the location, may be flat or based on the number of clients served (e.g. €5 per client).

Seasonal prostitution at hotels in resorts on the Black Sea coast seems to be characterised by strong competition, which drives prices up, while at the same time some hotel managers may require payment in advance for the prostitutes to work in a protected environment with access to clients. The fee for one prostitute to work in a Black Sea resort hotel may range from €2,500 to €3,125 per sex worker per month (or €125 per night for a beachfront hotel) and is payable in advance. The closer the hotel is to the beachfront, the higher the fee. The fee for working in adult clubs is around €1,125 per sex worker per month. In some cases, traffickers are required to pay a fixed fee upfront, followed by a monthly or weekly payment. Alternatively, a lump sum may cover a certain period of time, e.g. a season. The amount differs depending on the location and reputation of the establishment. While hotels and clubs in top Bulgarian summer resorts may cost up to €3,750 per month, smaller and remote hotels or motels used by the outdoor segment by the hour might charge as little as €2.5 to €5 per service.

Securing access to profitable windows, brothels, massage parlours and similar establishments in the red-light districts of western European cities, where prostitution is legal, also often entails payment of fees in advance. Reported one-off costs are between €2,000 and €3,000 and are paid to brokers who have been active in the business for a long time and possess the necessary social and business connections.

Another option for traffickers is to rent apartments or houses where sex workers can bring clients. Costs vary greatly depending on the location. This option is more prevalent in the indoor and high-end prostitution segments and may be used in both domestic and cross-border trafficking.

Finally, many trafficking organisations rely extensively on online advertising for solicitation of clients. Various websites, social platforms and online mobile applications are used to advertise the sex services. Online advertising may cost from nothing to a few euro per week, which is negligent compared to the fees for placement at brothels or similar sex venues. The sex services can be provided in any rented apartment, at the place of residence of the client or in a hotel. However, in high-end prostitution organisations, organisers may also invest in marketing their “models”, i.e. increase their popularity, hence marketability, through investing in professional photo sessions, magazine cover appearances, fashion shows, and beauty contests.

Client acquisition costs may also include payments to external facilitators that refer clients. For instance, in Bulgarian summer resorts a trafficking network would pay €15 per referred client to taxi drivers, hotel porters and casino workers.

**Monitoring, supervision and control of sex workers** are the other type of costs associated with the exploitation stage, although they are not always easily quantifiable. These costs are primarily related to the strict accounting of the clients served and the due collection of the pre-agreed portion of earnings from the sex workers. In more coercive arrangements the tasks for monitoring and control also involve preventing the victim to run away or turn to the authorities. Depending on the complexity of the trafficking operation, these tasks may be performed by the traffickers themselves or by other trusted persons. Independent traffickers and members of loose networks often carry out these tasks by themselves.

Hierarchically structured organisations usually have trusted persons that are managing the day-to-day schedule of the women, as well as the daily collection of the earnings. Use of such supervisors and money collectors also serves the purpose to conceal the direct link between the sex workers and the organisers of the trafficking operation. In Bulgaria the money that has been earned by the women is usually collected in cash daily by the persons in charge of

protection and transportation. In the high-end prostitution segment, these tasks are carried out by the bookers, who are handling the contacts between the women and the customers (BG-E6). A different *modus operandi* is used by Bulgarian traffickers in western Europe, where this role is often assigned to some of the trusted sex workers (the so called “first girl”), the managers of the sex establishment where the victims are placed or the “madams” at the windows at red light districts in Belgium and the Netherlands.

Closely related to monitoring and control are the costs for **protection of sex workers**. Independent traffickers and family-based groups personally take care of the safety of the women and their earnings from abusive clients and rival competition. However, especially in the outdoor segment they are often subjected to protection racket by larger organised crime groups specialised in the use of violence. As an example, a trafficker may pay €8 per night (or €60–€65 monthly) for each of his six workers working on the street.

Similarly, members in loose networks are responsible for their own sex workers but cooperate with each other when they have to deal with rival groups. When traffickers pay for placement of their sex workers at brothels or other sex venues, the protection is included in the price. Hierarchically structured groups usually have members assigned with such tasks and, as mentioned above, often they are also responsible for monitoring and control of the sex workers, money collection and transportation. For every five to six sex workers there are two persons performing day-to-day management, coordination, supervision and money collection. Most of the hierarchical groups also seem to retain within their ranks the so called “punitive brigades” that are part of the operating group and on the monthly payroll and specialise in use of violence.

**Corruption costs** also generally fall into the category of cost of protection. Different trafficking actors make use of corruption to different degrees, corresponding to their specific needs. Corruption payments become much more necessary in cases of incidents, complaints by family members and initiation of investigations by the police and judicial authorities. Such payments are made either directly or through the help of intermediaries. Typical targets of corruption are law enforcement officers and to a lesser extent judicial authorities. Extortion fees imposed by police officers to outdoor and indoor sex workers and their procurers are a regular practice.



**Table 1. Examples of costs associated with starting and running a trafficking operation**

Cost type	Value	Notes
Make-over costs I	from €1,500	Hairdresser, brand clothing, accessories, cosmetics, etc.
Make-over costs II	€3,600 – €4,500 euros	Breast enlargement
Logistics I	from ~€100	Airfare to a major western European city with a low-cost airline
Logistics II	from ~€250	Fuel and one stop motel per 2,000 km
Logistics III	from ~ €120	Single bus fare from Sofia to major western European city
Rent	from €550/month	Multi-bedroom apartment in the red-light district of a major western European city
Interest rates I	10% to 20% per week	When borrowed from the wider trafficking network
Interest rates II	50% or more per week	When borrowed from a loan shark
Money transfer fees	€10 – €100	Per transaction, depending on the amount sent
Advanced payment for placement of one sex worker in adult club	€1,125/month	Bulgaria, south Black Sea resorts
Use of a hotel room with a client per hour	€3 – 5 /client	hotel, low segment, inner city
Advanced payment for placement of one sex worker in adult club (top location)	€7,500 /season	Bulgaria, south Black Sea resorts
Advanced payment for placement of one sex worker in a hotel with access to clients	€2,500 to €3,125/month	Bulgaria, Black Sea resort hotel
Broker's fee for placement of one sex worker at a red light district window	€2,000 – €3,000/ per prostitute	Red-light district window of a major western European city, one-time fee
Hotel rooms rental (permission to do business)	€1,000 per week per sex worker	In major western European city, depending on the hotel
Protection fee (racket)	€2,500 per week per person	Hotel in major western European city
Red-light district window rental	from €500 per week	Red-light district (major Belgian and/or Dutch city)

*Source:* CSD (Interviews with traffickers and sex workers).

Hierarchically structured groups sustaining more sophisticated trafficking operations incur additional **costs related to the concealment of their activities** from the authorities. In the high-end prostitution segment such costs may include investing in elaborate schemes of legitimate business structures – appointment of straw persons for owners and managers, registering front businesses such modelling or fashion agencies, and organizing model castings, fashion shows, or advertising campaigns. However, use of legitimate business structures is not limited to this segment. Criminal groups, which invest in and

control adult clubs, massage parlours and similar establishments employ similar methods and register bogus companies with straw persons appearing as owners and managers. Women working in such adult clubs, hotels and other establishments have employment contracts as dancers, masseuses, office assistants or housekeepers. Using such legitimate companies as a front also entails a number of other costs typical for all normal legitimate businesses – office rents, accounting and legal services, utilities, staff salaries, etc. In recent years, trafficking networks that have established a foothold abroad also

exhibit trends of attempting to use legitimate business structures through renting or investing in bars, clubs, restaurants and sex establishments in various western European cities.

### Profits and profit sharing

Similarly, to the costs for doing business, the revenues from trafficking operations vary depending on the modus operandi of the traffickers, the market segment, and the country of operation. The profit sharing arrangements between traffickers and sex workers also vary depending on the modus operandi.

Prices in the domestic market are significantly lower compared to the prices abroad. The sex workers in the domestic outdoor segment, which work on the street or bring their clients in low-end motels or hotels, charge between €7 and €15 depending on the service. Services in the indoor segment performed in clubs, hotels, rented apartments and private residences cost between €50 and €200. In summer and winter resorts the prices might go up to €200 per session. The high-end prostitution segment, which includes women procured to rich clients by model agencies can range from €300 to €500, depending on the length of sessions (e.g. 2-4 hours, overnight stay or weekend). Abroad, the prices vary by country (e.g. prices in Greece are lower than prices in Germany) and depending on the location (e.g. window prostitution vs. call girl services). The prices in the outdoor segment are €30 to €50 per session. The prices in the indoor segment fluctuate significantly, from €50 to €100 per hour in low-end motels or hotels, to €150 – €400 for red light district windows, rented apartments and well-placed hotels. Prices of high-end sex workers abroad start from €400 up to €3,000 but they also have longer engagements – e.g. over-night stay, weekend, etc. Regular customers can receive discounts, usually about 5 %.

Sex workers in the different market segments also handle different number of clients. Whereas a sex worker in the outdoor segment will handle 7-20 clients per day, clients in the indoor segment are usually between two and six men per day. High-end escorts work with between one and six clients per week and have 5- or 6-day weeks. The number of clients fluctuates from sex worker to sex worker but also depends on a number of other factors – location, day of the week, season; therefore, traffickers are constantly looking for more profitable locations or better performing sex workers. Nevertheless, traffickers operat-

ing in the indoor segment abroad estimate their **average monthly revenue per sex worker at €15,000 to €45,000.**

**Table 2. Price ranges for sex services by market segment**

Market segment	Price ranges (EUR)		Number of clients per sex worker
	Domestic market	EU/Western European	
Domestic outdoor	€7 – €15	€30 – €50	7-20 per day
Domestic indoor	€50 – €200	€50 – €400	2-6 per day
Domestic high-end	€300 – €500	€400 – €3,000	1-6 per week

Source: CSD.

Revenue sharing arrangements differ depending on the type of the trafficking organisation and the modus operandi of the traffickers. Independent traffickers and family-based groups more often tend to withhold all earnings from the sex workers under different pretexts: either because the trafficker and the victim have some kind of intimate relation and he pretends to look after the “family money,” or because the traffickers pretend to collect and safeguard the money on behalf of the victim until she returns to Bulgaria. In many of these cases deception, manipulation, coercion and even physical violence against the victim are also used by the traffickers. The procurer in this case will cover all costs of the trafficking operation from the earnings of the sex workers and keep the profit for himself.

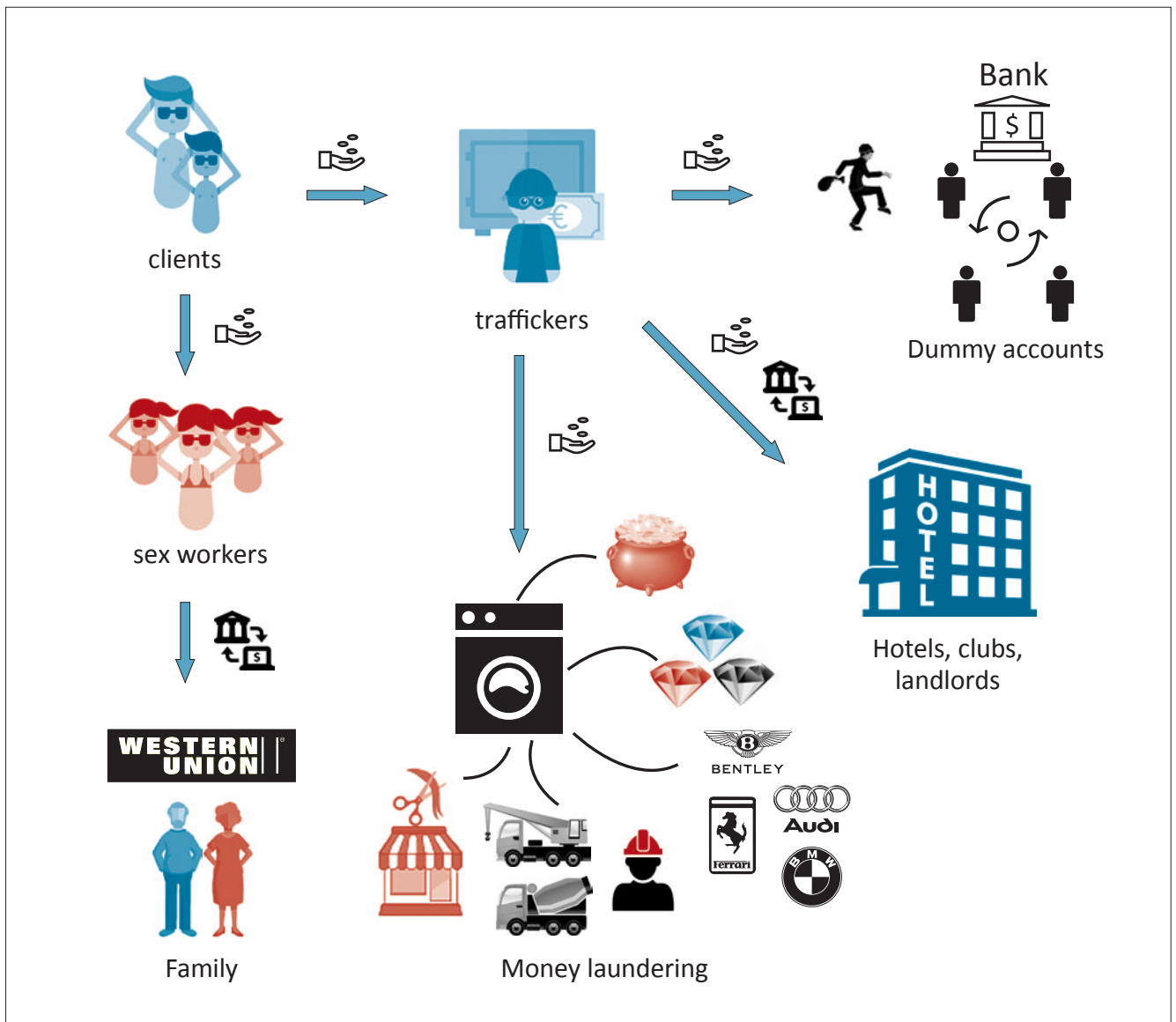
Hierarchical groups and loose networks as a rule employ less often coercive methods and agree in advance on the split of proceeds with the sex workers. The share of earnings remaining in the sex workers varies between 20 % and 50 %. Most of the respondents report that the traffickers are supposed to cover all related expenses from their share – acquisition of clients, protection and monitoring, transport and lodging. In general, the sex workers usually keep gifts and tips they receive. Sex workers who generate more revenue can also be rewarded with a bonus, either with an increase in the share of earnings (although this share never goes above 50 %), or other perks such as an extra holiday).

Hierarchically structured organisations, which controlled brothels or other sex venues (especially such in a profitable location), follow a different arrangement for profit sharing. Instead of pre-agreeing on the split of the earnings, they demand a fixed advanced payment. For example, organisations controlling erotic clubs at Sunny Beach resort in Bulgaria demand an advanced payment of €7,500 per sex worker for three months during the summer season. Similar arrangements based on advanced payments ranging from €2,500 to €7,000 on a monthly basis were reported about hotels, adult clubs in other resort areas and abroad. The advanced payments supposedly cover their costs for renting the venue, providing protection against violent clients, rival groups and state authorities. The beneficial owners of such well-located

adult clubs at the Bulgarian sea coast reportedly receive about €30,000 on a monthly basis in the form of rent.

The enforcement of the revenue sharing arrangements is very strict and traffickers often impose tight daily accounting and control. For example, when the appointments with clients are made through the internet, the persons in charge of protection and revenue collection are granted access to the profiles of the women and sometimes communicate with the customers directly. In other arrangements, sex workers have supervisors who closely account for their clients and earnings on a daily basis. Women who are caught trying to hide revenue are penalised by working for a certain amount of time without receiving any

Figure 3. Typical flows of the proceeds of trafficking



compensation. In rare cases they might be subject to physical violence, although it appears that this method is generally avoided, as sex workers may report the abuse to the authorities.

The methods for **money laundering and the re-investment of proceeds** from human trafficking are rarely sophisticated, especially in the case of independent traffickers and loose networks. Much of the money is spent on a lavish lifestyle or supporting a drug habit. Money earned abroad is returned to Bulgaria and laundered through the purchase of designer clothing, electronics and luxury cars. Purchasing real estate and land in Bulgaria remains popular with both traffickers and sex workers.

Traffickers who are part of more sophisticated organisations tend to invest in various commercial establishments such as restaurants, small shops, or hair salons. Investments into legitimate enterprises can serve a number of purposes, including laundering of proceeds and providing a legitimate reason for residing abroad. Hair salons and massage parlours can also be used for recruitment of new sex workers. Value transfers in the form of multiple donations and/or re-sales through a ring of dummy recipients are also deployed. Organisers in hierarchically structured groups, on the other hand, engage in developing more sophisticated and diversified legitimate business portfolios with multiple stakes in sectors such as hospitality, construction, agriculture, jewellery trade, fitness gyms, etc. Construction in and around popular winter and summer resorts as well as larger cities is a widely used method of laundering.

Generally, most of the proceeds are invested and laundered in Bulgaria but a tendency to invest abroad is beginning to be discerned. Previous research showed that in the 2010s there have been many instances of investment in real estate in Greece, Cyprus, and even in Spain, Italy, and Germany.<sup>3</sup> There are strong indications of a positive relationship between the sophistication of an OCG and its propensity to invest in real estate and businesses abroad, both as cover and investment for trafficking sustainability and expansion. These investments may include bars, clubs and cafes used often for criminal social networking and/or pro-

vision of sexual services. Some experts believe that a similar trend is emerging among independent traffickers as well.

## Impact of Internet on Human Trafficking Activities and Finances

The extensive penetration of internet-based services, such as (anonymised) instant messaging and social networking websites, has impacted sex trafficking in Bulgaria and abroad in a variety of ways. First of all, online advertising has created opportunities to lower costs for client acquisition, since it reduced the competitive advantage of having access to established and profitable locations. Thus, especially in Sofia and abroad, it effectively contributed to the gradual disintegration of the existing cartelisation of the sex service market by organised crime and the increasing share of independent procurers and sex workers.<sup>4</sup> Furthermore, it allowed to expand the access to potential new recruits, since it provided a whole new bundle of opportunities to target and reach out to potential victims.<sup>5</sup> However, internet has also increased the risk for independent traffickers and sex workers, since they can be easily traced and eventually targeted by hierarchically structured groups, other rival competitors or law enforcement authorities. The latter is especially true for cities with relatively small prostitution markets.

The reliance on and use of the internet for sex trafficking, including recruiting and client acquisition, is anchored in the interplay of trustworthiness, opportunism and caution of exposure. For example, whereas the internet may present countless opportunities for recruitment and clientele expansion it is void of the typical offline mechanisms for establishing trust. This is why, it is not surprising that both traffickers and sex workers exhibit diverse attitudes toward the online environment depending on subjective preferences and risk perceptions, as well as experiences with rival competitors and law enforcement. While some rely exclusively on internet channels, others completely disregard them. Still, for some opera-

<sup>3</sup> Bezlov, T., Yordanova, M., & Stoyanova, N. *Corruption and trafficking in women. The case of Bulgaria*. CSD, Sofia, 2016.

<sup>4</sup> Center for the Study of Democracy. *Serious and Organised Crime Threat Assessment 2010 – 2011*. Sofia, 2012.

<sup>5</sup> Ivanova, S. *Improving and sharing knowledge on the Internet role in the processes of human trafficking and smuggling*. Sofia, CSD, 2017.

tions the internet proves sufficiently valuable to employ external facilitators, such as IT experts, who ensure that traffickers can fully enjoy the benefits and minimise the risks of internet exposure.

Internet services are primarily used for client acquisition. Many independent traffickers and sex workers market their services and solicit clients on various online channels. Social media accounts (usually with fake names) are used for customer solicitation, whereby sex workers engage in maintaining flirtatious communication with their clients. Thus, sex workers may organise themselves into Facebook groups, wherein sexual services are negotiated and arranged with customers within the social media. Facebook pages are being created where girls advertise their legal front business, such as massage services. The details of the transaction are usually carried out through a conversation over Skype or another medium which allows the customer to be seen and assessed for reliability.

Organised trafficking and prostitution networks also tend to use the internet for supervision and control of sex workers. Victims may be instructed to register accounts and profiles on online dating sites that are popular in the country where they work, such as Badoo, eLove Dates, Tinder (for western Europe) and Gepime, Elmaz, Adam and Eva (for Bulgaria). The accounts are controlled by the traffickers, whereby in some instances the organiser will hire an expert to deal with the technical details of account management, including for profiles in social media such as Facebook. Such experts are usually external to the network and are not involved on a full-time basis. The control and supervision activities include operating with the sex workers' accounts, messaging on their behalf, instructions not to delete chat messages with clients, regular inspection of the contents of chats. Thus ICT technologies have also reduced costs for supervision and control.

Hierarchical organisations are also known to take advantage of internet to trace and recruit independent sex workers who use online dating sites. The recruiters would regularly scan the known websites and identify potential new recruits to be convinced to join their network. Once a victim is identified then the typical recruitment tactics of manipulation and coercion

will ensue. The independent offering of sexual services through online dating and other sites is usually a short-term experience lasting up to several months, before the sex worker is spotted by a local criminal group or network.

## Financial Investigations of THB Crimes

Trafficking in human beings is a highly profitable criminal activity, which is driven by both profit and demand, thereby yielding significant proceeds. This has prompted the European Commission to emphasise the need to follow the money in THB investigations. Article 9 of the Anti-trafficking Directive provides that member states shall take all the necessary measures to ensure that effective investigative tools are available to investigation and prosecution authorities, and that investigation and prosecution should not be dependent on reporting or accusation by the victims.<sup>6</sup>

Nevertheless, the deficiencies in the Bulgarian authorities' investigative capacity to tackle complex financial crimes and conduct effective financial investigation remain endemic in the responsible enforcement, investigative and prosecuting structures. The insufficient capacities have been ascertained in external evaluations, as well as recognised internally. With regard to investigating and prosecuting money laundering (ML) offences, the Prosecutor's Office concedes in its 2017 annual report that such cases are problematic due to ineffective prosecutorial supervision over ML investigations; transfer of cases to the regional prosecution offices, which leads to re-assignment and delays of investigations; difficulties in evidencing the predicate offences and submitting indictments to the courts; insufficient efforts toward the thorough and timely identification and seizure of the assets of the investigated entities and/or natural person. A study by the Structural Reform and Support Service of the European Commission in 2016 concluded that "there is a big gap in expertise in modern financial investigative techniques in Bulgaria by law enforcement".<sup>7</sup> With regard to police investigations related to ML, the report further notes that the police lack their own financial experts and often rely of external specialists

<sup>6</sup> Directive 2011/36/EU of the European Parliament and of the Council of 5 April 2011 on preventing and combating trafficking in human beings and protecting its victims, and replacing Council Framework Decision 2002/629/JHA, OJ L 101, 15.4.2011.

<sup>7</sup> Structural Reform and Support Service, European Commission. *Independent analysis of the structural and functional model of the Prosecutor's Office of the Republic of Bulgaria*. Brussels, 2017.



**Table 3. Sentencing for select offenses in Bulgarian courts in 2016**

Types of criminal activity	Type of sentence				
	Effective	Suspended	Probation	Fine	Other
Corruption	26	225	103	113	63
Organised crime	52	68	1	4	6
Human trafficking	12	23	1	8	0
Drug trafficking	556	1,136	62	1,486	111
Money laundering	7	6	1	7	0
Crimes against the tax system	84	943	65	298	67
Counterfeit currency and payment instruments	65	207	5	64	7
Misuse of EU funds	7	23	2	45	0
Total	809	2,631	240	2,025	254

*Source:* Prosecutor's Office, 2016.

with minimal financial qualifications and experience sufficient to “translate” and interpret financial documents, but inadequate to conduct or facilitate a full-fledged financial investigation.

The difficulties with conducting financial investigations and bringing complex financial crimes to court are reflected in the national judicial statistics. Sentencing ML in Bulgaria remains low when compared to other types of crime (see Table 3). It should be noted that the practice of initiating the financial investigation simultaneously with the criminal investigation remains rarely used. At the same time, investigating and proving ML offences in court remains challenging. This is confirmed by the low volume of ML sentences, compared to other types of crimes, despite the fact that the majority of crimes are profit-driven and employ ML mechanisms in the various stages of the money laundering process.

The volume of suspicious transaction reports received by the country's financial intelligence unit – the Financial Intelligence Directorate at the State Agency National Security – and the number of registered money laundering indictments in a year may be cautiously considered as another proxy indicator for the effectiveness of the financial investigation environment in a country. In 2016, the Directorate registered 2,987 suspicious transaction reports, while in the same year

14 ML indictments were registered in Bulgarian courts by the prosecution.<sup>8</sup>

Data from the conducted interviews largely depicts a general environment of deficiency in financial investigations, while adding valuable specific insights into the particulars of THB investigations. As a rule, the financial investigations at GDCOC and the National Police are conducted on a case-by-case basis, rather than systematically. Usually, financial investigations related to THB are limited to asset recovery investigations, which fall under the remit of the Commission for Combatting Corruption and Illegal Assets Forfeiture.<sup>9</sup> Most often financial investigations arise out of joint investigation teams and other international frameworks for law enforcement assistance. Financial investigation is still considered as an area for specialised experts, rather than an integrated method to be used by the investigating authorities.

Many of these deficiencies are rooted in the current structural and functional models of the responsible institutions and specifically GDCOC and the Prosecutor's Office. Following the series of re-structuring of the GDCOC, currently the Directorate has a highly centralised structure with limited resources for carrying out independent investigations at the local level. The investigative powers and expertise remain centralised in Sofia, thereby resulting in most major and

<sup>8</sup> SANS. *2016 Annual Report for the Activity of Specialized Administrative Directorate Financial Intelligence*. Sofia.

<sup>9</sup> Operational since 19.01.2018, previously Commission for Illegal Assets Forfeiture.

complex cases being investigated from Sofia, wherein many investigations lose the advantage of having on-site specialists with expert local knowledge and situational awareness.

All ML expert operatives of the agency are concentrated at the GDCOC HQ in Sofia, wherein a limited number of experts have to cover ML investigations related to all organised crime activities. Reportedly the financial investigations related to THB cases are two or three annually and usually are conducted within joint investigation teams or within other international mutual police assistance arrangements. Generally, the assumption is that financial investigations have a role in cases related to cross-border trafficking, whereas the cases related to domestic trafficking fall in the remit of the Commission for Combatting Corruption and Illegal Assets Forfeiture. In many cases, the lack of sufficient resources and in-house expertise at GDCOC limit the scope of financial investigations, particularly those with strong international dimensions, to simple network analysis such as tracing cross-border payments via money transfer services. Usually, no further analysis is undertaken. Investigations on the use of legitimate business structures for concealing criminal activities and proceeds of crime is also hampered due to the legal restrictions on access to tax information by law enforcement officers. Insufficient staffing and lack of specialisation of investigating police officers generally leads to disregarding the financial aspects of THB.

Structural and functional impediments impact also the work of the Prosecutor's Office. Currently, cases related to money laundering involving organised crime are handled by the Specialised Prosecutor's Office, whereas all other cases fall into the remit of the Regional Prosecutor's Offices. However, the most recent data indicates that for 2016 the Specialised Prosecutor's Office had initiated only five new pre-trial investigations on money laundering, whereas the biggest portion of such investigations is handled by the Sofia City Prosecutor's Office.

Part of the problem is the functional division of tasks within the prosecution in Bulgaria, wherein cases of human trafficking are usually handled by the District Prosecutor's Offices and money laundering cases by the Regional Prosecutor's Offices. Similarly, in the Special Prosecutor's Office usually the ML investigation is separated from the one for the predicate offence and tasked to a different prosecutor. The Specialised Prosecutor's Office, like GDCOC, is a centralised structure

and does not have any regional offices, which among other things ensues various logistical and practical impediments, when pre-trial investigations outside Sofia need to be handled.

The usual practice during pre-trial investigations is that the financial investigation materials are separated by the materials on trafficking in human beings and compiled into a separate file. The ML file is then handled by a different prosecutor at the Regional Prosecutor's Office or at the Specialised Prosecutor's Office, as per the functional and structural requirements of the workflow in the prosecution. This leads to interruption in the investigative work, which results in a low number of completed ML investigations. Moreover, the structural requirement of separating the prosecutorial authority over the predicate and the ML cases, from the regional to the district prosecution office, may decrease the incentive for collecting evidence for financial investigation in the original predicate prosecution. To further complicate the situation, in many cases judges require a conviction for the predicate offence in order to consider a ML case.

The system for random assignment of cases in the prosecution has also had the unintended consequence of hampering efficiency of ML investigations. This system was implemented with the main purpose of preventing corruption, conflicts of interest and influence trading. However, in terms of the quality of investigating practices the random assignment system may prove to have a detrimental effect as it appears to hinder specialisation among the magistrates. Firstly, the system allows for highly complex and sophisticated cases to be randomly assigned to inexperienced prosecutors, thereby jeopardising a successful investigation. Secondly, the random assignment means that a prosecutor may not be able to develop practical experience and expertise in ML cases, as there is no assurance that the prosecutor would continue to work in that specific crime field. This also proves particularly important in financial investigations, e.g. money laundering, which may require specific skills and expertise often gained exclusively through experience.

## Institutional Framework

Clearly, effective countering of the human trafficking phenomenon is impossible without targeting its financial underpinnings. Hence, financial investigations

have an indispensable role in the criminal justice response, which has been recognised both on European and international level. Bulgarian authorities have formally embraced the so called ‘follow the money’ approach, although the rapidly adapting organised crime actors, as well as certain deficiencies in the existing legal and institutional set-up curtail its full and effective implementation.

A side effect of the growing use of legal business structures to enable and facilitate THB for sexual purposes is a higher level of sophistication of criminal finances as licit and illicit financial flows become intertwined in the process of money laundering. These new trends are coupled with lack of financial investigation expertise in law enforcement, which is currently compensated by contracting of external experts with uncertain expertise and efficiency. In order to address this, **recruitment, training, and deployment of additional police officers** able to conduct **complex financial investigations** is much needed.

The current institutional setup and particularly the functional division of tasks within the prosecution, whereby investigations of predicate and ML offence are usually handled by different prosecutors, hinders parallel financial investigations, which are paramount for the timely tracing and freezing of criminal assets. In this regard, the follow-the-money doctrine should be institutionalised so that ML investigations are conducted in parallel with all THB investigations. In the short term, this could be achieved through **establishing better working mechanisms for coordination** within the prosecution, as well as with other relevant institutions such as the Commission for Countering Corruption and Illegal Assets Forfeiture. Furthermore, **a modification of the random allocation principle at the Prosecutor’s Office** should be considered to en-

sure that casework on ML offences is managed and supervised by prosecutors with the appropriate experience and skill-set.

To ensure the early identification and freezing of relevant assets, especially in organised crime cases, the lead prosecutors at the Specialised Prosecutor’s Office need to supervise both criminal and financial investigations more proactively by instructing suitably trained officers and investigators to collect the relevant financial evidence and ascertain the full extent of assets of suspects. Establishing **regional departments of the Specialised Prosecutor’s Office** would improve coordination and monitoring of investigations and speed up collection of evidence.

Currently, the bulk of the financial investigations with the purpose of asset recovery related to organised crime cases are streamlined through the Commission for Countering Corruption and Illegal Assets Forfeiture. However this creates much difficulties related to coordination of criminal and financial investigations and timely tracing and freezing of criminal assets. Non-conviction based forfeiture of illegal assets is a powerful tool in the combating of organised crime, but the international experience shows that structures with a remit to implement this tool against illegally acquired assets are best institutionally and operationally situated within the prosecution or the police. In Bulgaria, the structural approach to illegal asset seizure has shifted sharply away from these established practices and vested these powers in an independent agency. In the long term, consideration should be given to bringing **non-conviction based forfeiture** also within the remit of institutions charged with investigating and prosecuting the predicate offences supposedly yielding the proceeds to be seized.