

The *fugazi* papers, or on the importance of false invoicing for organised crime and the money laundering market: an analysis of drivers, mechanisms and actors

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"All is fugazi. [...] Fugazi, fugazi. It's a whazy. It's a woozie. It's fairy dust. It doesn't exist. It's never landed. It is no matter. It's not on the elemental chart. It's not fucking real" (McConaughey acting in *The Wolf of Wall Street*, 2013)

Prosecutor: "Let me put the question even more simply: were these business transactions real or not?" Suspect: "No, all false invoices." (during a March 2024 court hearing - Tribunale di Milano, 2024)

ABSTRACT

False invoicing—or invoices for fictitious transactions (IFT)—is a widespread yet understudied financial crime technique that plays a pivotal role in contemporary organised crime (OC) and money laundering ecosystems, such as in trade based money laundering (TBML) schemes. Despite being commonly treated as a technical tax offence, IFT functions as a flexible, multi-purpose offence enabling a wide array of serious and organised crimes, such as laundering of criminal proceeds and products, corruption, the concealment of extortion and usury, the creation of slush funds, tax evasion, embezzlement, and illicit labour supply. Drawing on a qualitative analysis of 207 recent Italian investigations (2024–2025), this paper examines the drivers, mechanisms, sectors, jurisdictions, and actors involved in IFT schemes. The findings show (i) the centrality of shell companies—often located in Eastern Europe and China; (ii) the importance of cashback delivery systems managed by Chinese organizations, often employing underground banking networks and informal value transfers (*Fei ch'ien*); and (iii) the strategic interest of Italian mafia groups, which use IFT both to launder their own proceeds (by relying on Chinese suppliers), and to expand the range of services offered to legal entrepreneurs. In particular, by offering advantages to victims (e.g. tax reduction), IFT blurs boundaries between victimization and collusion and reshapes the typical relation between mafia actors and legitimate firms. The paper argues that IFT should no longer be treated as a minor administrative irregularity, but as a key enabler of serious crime, deserving greater criminological attention and integrated policy responses across tax, customs, AML, and law enforcement domains.

1. INTRODUCTION¹

There are some offences which, for various reasons, are neglected by crime research. They are labeled as minor felonies, less important than ‘serious crimes’; or they are deemed to be too technical – and therefore hard to analyze - or simply too boring for catching the interest of serious (crime) scholars. However, when one looks closely at these offences, they can reveal a wide variety of human and criminal behaviors, and they become a perfect lens for understanding the evolving nature of ‘serious crimes’ and of the interactions between criminal organizations, their victims, and their beneficiaries. This is surely the case of false invoicing – or invoices for fictitious transactions (IFT). IFT is normally classified as a form of tax crime – not even the most severe one - or a money laundering technique. This paper, among others, will argue that IFT is much more than that, and it has assumed a key role in the money laundering market and in the contemporary organised crime (OC) strategy. It suggests that IFT has the potential to reshape the nature of the relationship of criminal groups with other criminal organizations, and with other market actors, first of all legal entrepreneurs. In the eyes of OC actors, IFT is undoubtedly much more important than it is in those of OC researchers.

IFT consists in the issuance of invoices for services and transactions that are fictitious, or whose value does not correspond to the actual value of what is exchanged (see below). IFT serve for multiple purposes - reduce tax burden, create slush funds, launder money or products, conceal corruption and extortion payments – and also ease illicit financial flows across countries, for example in trade-based money laundering (TBML) schemes. Despite this is not a novel financial crime method - FATF already dedicated to this phenomenon a report in 2006 (FATF, 2006) – recent investigative and judicial evidence shows a strong interest by OC groups, including European mafia actors and Latin American cartels, towards this crime (U.S. Department of Justice, 2024; Europol, 2025, 2024); on the other hand, some providers, first of all Chinese criminal networks, are emerging promptly as specialized providers of IFT services combined with informal value transfer systems (IVTS). Recently, U.S. agencies have repeatedly warned about the use of IFT to wash Mexican cartels’ drug proceeds - in particular from fentanyl (FinCEN Advisory, 2025; US Department of the Treasury, 2024).

Despite its relevance, IFT is one of the most underrated crimes by research. Only few published studies exist which address this issue, but most of them do so from either a pure technical or a regulatory perspective (see Section 2). What is missing is an understanding of IFT from a criminological and sociological perspective, which would allow to shed light on *why* criminals heavily rely on IFT, *how* they employ it and *who* – in terms of which actors – is involved either as provider and beneficiary of IFT services, and how they interact among themselves.

This paper aims at starting to address this gap from an empirical perspective. It provides a qualitative analysis of more than 200 case-studies of IFT identified in the last two years in Italy, and highlights (i) the drivers which move criminals to employ IFT, (ii) the mechanisms adopted and the jurisdictions and sectors involved, (iii) the variety and the nature of actors involved and the interactions among them, with a focus on Chinese providers, on the one side, and Italian mafias,² on the other. The structure of the paper reflects these

¹ The author would like to thank Martina Duci, Giovanni Nicolazzo and Martina Renato, especially for what concerns the results of the analysis on shell companies (par. 4.2.4).

² For a discussion of the concept of “mafia” in the Italian context, which lies beyond the aims of this chapter and this volume, see, among others, Paoli (2020) and Sciarrone (2025). In summary, this paper refer to Italian mafias as peculiar criminal organizations, generally rooted or originating from a particular territorial context, whose cohesion is ensured by shared cultural and symbolic elements and by a structured system of defined rules and roles. Members of these organizations commit serious offences with the aim of maximizing profit (economic objectives) and expanding power and reputation (political objectives), through the use of violence—actual or threatened—and by mobilizing relational resources and exchange relationships with both internal members and external stakeholders.

objectives: Section 2 provides the context to the study of IFT, by offering (i) an illustration of how IFT works; (ii) a short literature review of past studies on IFT and the gap in research; (iii) background and data related to IFT in Italy. Section 3 presents the methodology. Section 4 the results of the analysis. Section 5 discusses the main research and policy implications for the anti-money laundering (AML) field.

2. THE MECHANISM, THE CONTEXT, AND THE RESEARCH GAP

2.1 The mechanism

IFT is the misrepresentation of the price or quantity of an exchanged good or service with the specific intent to obtain an illegal benefit – such as a tax advantage or the concealment of illicit money. Practically speaking, IFT consists in the issuance or the employment of invoices (or similar bills or documents) for goods or services which do not exist, i.e. are not exchanged (*whole* misrepresentation), or whose declared value does not correspond to their actual value (*partial* misrepresentation). In this latter scenario, *over-invoicing* refers to invoices in which the declared value is higher than the actual (or ‘fair market’) value of the goods or services exchanged; *under-invoicing* the opposite situation.³

IFT does not require necessarily cross-border operations, since also two counterparts trading in the same country can exploit false invoicing schemes for the same reasons for which IFT may be employed across borders. However, it has to be acknowledged that (i) according to where the fictitious transaction is placed (within a country v. across countries), IFT can generate different types of benefits, for example related to the different manner VAT is treated in domestic v. transnational exchanges; and (ii) in the AML context, IFT has probably received more attention when employed in cross-border operations than within the same country. In fact, in the AML debate, false invoicing is usually strictly associated to the issue of trade-based money laundering (TBML), which the FATF defines as “*the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins. In practice, this can be achieved through the misrepresentation of the price, quantity or quality of imports or exports*” (FATF, 2006, p. 4).⁴ Also the updated version of the FATF report (FATF - Egmont Group, 2020) focuses on global trade and does not address the domestic component of the problem. Here, IFT is covered at large, looking at both the transnational and the domestic dimension of it, which is also crucial for facilitating money laundering operations.

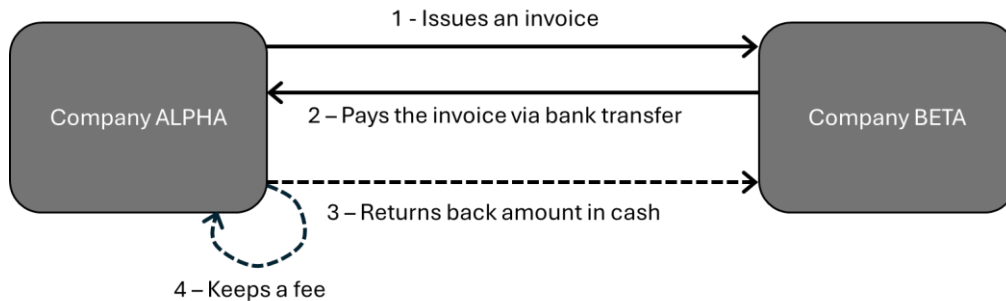
A variety of IFT schemes exist, whose structure depends on the scope, the context and the actors involved. However, a typical scheme, useful for understanding the mechanism and the drivers behind IFT, is the one depicted below (Figure 1). It can be considered a ‘baseline’ scenario, on which then several variations can be implemented and added. The scheme works as follows: (1) Company ALPHA (we can call it supplier)

³ Some jurisdictions – Italy, among them – make a further distinction between transactions which are fictitious from an *objective* point of view, in which the exchanged goods/services do not exist, i.e. in which there is no actual exchange; and from a *subjective* point of view, in which the transaction is carried out, but the declared counterparts (issuer and/or client) do not correspond to the actual ones. For what concerns the Italian situation, see Ministero dell’Economia e delle Finanze (2021).

⁴ In particular, according to FATF (2006): “*Over- and under-invoicing of goods and services [...] is misrepresentation of the price of the good or service in order to transfer additional value between the importer and exporter. By invoicing the good or service at a price below the “fair market” price, the exporter is able to transfer value to the importer, as the payment for the good or service will be lower than the value that the importer receives when it is sold on the open market. Alternatively, by invoicing the good or service at a price above the fair market price, the exporter is able to receive value from the importer, as the payment for the good or service is higher than the value that the importer will receive when it is sold on the open market.*”

issues an invoice to Company BETA (call it client) for a fictitious transaction (or overstating the exchanged good's or service's value); (2) Company BETA pays the invoice to ALPHA via a regular payment channel (e.g. bank wire transfer); (3) ALPHA returns back in cash to BETA the equivalent paid, off-the record, after (4) subtracting a fee for the illicit service provided.

Figure 1 – A typical IFT scheme



Source: Author's elaboration

This scheme is quite basic, and in fact much more complex articulations can be observed: usually, further firms are employed, which imply more payment triangulations and which eventually make the operations more difficult to trace; or the money can be delivered back not in cash but through regular payments, after the issuance of further false invoices from BETA to ALPHA (therefore, flipping the previous mechanism), usually via further third-party companies. However, in its simplicity, this chart already shows the many benefits which IFT can bring to both parties, which are summarized here below:

Supply-side: Company ALPHA (supplier of IFT)

- First, by providing an IFT service, ALPHA earns an extra profit which corresponds to the fees paid by the client. While no previous studies can be found which estimated the extra profits derived from IFT, this paper provides the average fee amount observed in some hundreds of IFT cases.
- Second, IFT inflates artificially the turnover of ALPHA, and this can serve to launder money, by providing the justification to declare, as legitimate business revenues, proceeds which in fact stem from predicate offences.
- Third, ALPHA can carry out certain fraud which require increased turnover, for example to obtain public funds or bank loans which could be accessed only if a firm possesses certain performance indicators. Increased turnover can help ALPHA also to improve its credit ratings, or ALPHA company managers to gain performance-related bonuses and career advancements.
- Four, through this mechanism ALPHA can conceal further criminal activities, such as the collection of payments related to extortion racketeering or to usury (see below). In this case the 'clients' are the victims, who, instead than paying in cash, transfer the money to the offender in a traceable manner after receiving a regular invoice: this mechanism is extremely clever, not just because it allows to get rid of high-risk cash transactions (therefore easing the placement and integration of criminal proceeds into the financial system), but because it offers the victim certain benefits (such as tax reductions or VAT credits) which have the potential to reshape the traditional offender-victim interaction, especially when mafia-type groups are involved (see Section 4 on this).
- Fifth, broadly speaking, IFT allows ALPHA to expand the network of clients, and therefore of potential supporters and beneficiaries of their criminal activity. This paper argues that this is a crucial benefit

for IFT providers, as it can serve, in turn, to expand consensus and power. It will be discussed in Section 4.

Demand-side: Company BETA (client of IFT)

The benefits for BETA, the client of the IFT scheme, are even broader:

- IFT artificially inflates BETA's costs, and this allows the company to reduce its profit margin and eventually squeeze the taxable income, therefore minimizing the tax burden.
- Second, it normally allows BETA to generate VAT credits which may be used to offset VAT liabilities; but, at least in some jurisdictions, also to offset other tax debits (the so-called 'cross-tax offset'): corporate income taxes, local government taxes, or even labour and social security contributions.⁵
- Third, at least in the scheme above depicted, the amount of cash off-the-record received by BETA from ALPHA represents slush funds which can be employed for various purposes: for example, diverting corporate funds for personal expenses (the BETA owner may buy an artwork or a Tesla with the company resources diverted via IFT), or creating off-balance reserves with which to pay bribes or irregular salaries to workers.
- Fourth, BETA can conceal corruption payments behind IFT, justified as regular bank transfers in response of a false invoice received from a firm indirectly link to the bribe taker.
- Fifth, BETA can also employ IFT to launder money itself: for example, it can simulate a 'round tripping' scheme in which the illegal money, transferred abroad as payment of the invoice to ALPHA, can then return back concealed as further fictitious trade operations (a typical TBML scheme).

Other benefits, or drivers, include the possibility to 'launder' illegal products, for example stolen goods, justified with IFT (and other fictitious documents, such as falsified custom declarations or transport bills) as products legitimately acquired, which can be sold back then on the legal market (see Transcrime, 2018 for IFT used to launder stolen medicines). IFT can also conceal the supply/acquisition of irregular workforce, which would be declared by the client as the purchase of a service (and not the hiring of third-party workers), thereby minimizing labour related taxes and social security obligations.

Obviously, IFT schemes have some costs and constraints. For example, by pumping up its revenues with false invoices, ALPHA increases its taxable income, and the amount due in terms of corporate taxes and VAT liabilities: these debts can be offset with other (false) tax credits and VAT credits - in this sense taking advantage of additional IFT schemes as 'client' - or simply by letting ALPHA go bankrupt without paying the amounts owed to the state. This is the typical case of the *missing trader* in carousel fraud; and it is also the reason why, in IFT schemes, the suppliers of false invoices are very often 'shell companies' that disappear shortly after doing their job – i.e. issuing invoices for fictitious transactions (see Section 4).

In summary, the criminal benefits produced by IFT go much beyond tax advantages or money laundering. IFT appears as a multi-purpose offence, with a great capacity to multiply the profit opportunities for the offenders and to generate economies of scale across a variety of criminal schemes and offences. But IFT has also the potential to generate new forms of social interactions between the parties involved in the scheme, or

⁵ In Italy, this is largely possible: the same firms can employ their VAT credits to offset a wide range of other taxes, including social security obligations under certain circumstances (see D.Lgs. 241/1997). In most of the rest of Europe, this is very limited or not allowed, but in some countries tax authorities can decide to net a company VAT repayment against other tax debts.

reshape existing ones. This peculiar nature of IFT has to be taken into account for a mature understanding of the importance of this offence in the broader strategy of OC and money laundering syndicates.

Table 1 – The drivers and the benefits of the two parties involved in a IFT scheme

<i>Supply-side: ALPHA (supplier of IFT)</i>	<i>Demand-side: BETA (client of IFT)</i>
<ul style="list-style-type: none"> • Make extra profit as IFT service fees; • Laundering money with artificial turnover increase; • Carrying out fraud which require increased turnover (e.g. bank loan fraud, public funds); • Concealing criminal schemes (e.g. usury, extortion racketeering); • Supplying irregular workforce; • Create a network of further potential supporters, expand consensus and power. 	<ul style="list-style-type: none"> • Reducing taxable income and tax burden; • Generating VAT credits (and offset VAT and tax liabilities); • Generating slush cash funds useful for various purposes (e.g. diverting corporate funds, paying irregular salaries, bribers); • Concealing corruption payments; • Facilitating TBML schemes; • ‘Laundering’ products (e.g. stolen or counterfeit goods) • Acquiring irregular workforce;

Source: Author's elaboration

2.3 (Lack of) studies on IFT

As mentioned, there is a dearth of literature on IFT. The few published papers can be classified into three main research strands. The first refers to legal studies, which address the regulatory definition of such offence. As mentioned, false invoicing sits at the boundary between administrative and criminal law because the same conduct can constitute either a regulatory breach or a criminal offence, depending on its scale, intent, and impact. This dual nature partly explains why criminologists and sociologists have paid limited attention to it. Because it often appears as a technical, compliance-driven issue rather than a clear-cut criminal phenomenon, it tends to fall into a disciplinary blind spot, attracting less conceptual and empirical interest than more overt forms of organised or economic crime.

The second literature strand includes those macro-economic studies which produced estimates of the magnitude of trade mis-invoicing within the international commercial system which could, among others, also represent a proxy of the extent of the use of false invoices in TBML. This approach has been introduced by Baker (2005), and then further improved and expanded by economic scholars (for a review: GFI, 2021; Aziani, 2018; Reuter, 2017). This has found a discrete success in institutional contexts, especially in supporting the attempts of World Bank, IMF, OECD and the FATF to estimate illicit financial flows (IFF) in accordance to United Nations Sustainable Development Goal 16.4. However, while very useful to provide gross figures of IFF, these studies lack granularity, in the sense that, first of all, they are not able to discriminate the exact fraction of cross-country gaps which can be attributed to false invoicing (and not to, e.g., measurement errors and biases); and secondly they do not carry out in-depth investigation of the mechanisms and *modi operandi* behind IFT practices.

The third research strand refers to those data science and technology-oriented studies which, by leveraging on the large amount of information now available to tax authorities, have been developing advanced

analytical models to early-detect anomalous fiscal practices, including IFT (see Zheng et al., 2024 for a review). Indeed, technological and policy developments in the tax domain – first of all the obligation of digital invoicing (or e-invoicing) introduced in certain countries, and of direct digital connections between store cash registers and national tax agencies’ servers – have dramatically increased the amount of real-time information now available to fiscal authorities, paving the way for the application of advanced analytics, including artificial intelligence (AI) models. Most of these studies make use of *transactional* data, i.e. information on the network of commercial transactions across firms (e.g. prices, quantity, description, timing, frequency as declared in invoices). However, some started employing *subjective* data, i.e. information on the characteristics of the firms and entities involved in these exchanges. In particular, in recent years, several studies have investigated the issue of ‘shell companies’ (or ‘papermill’ or ‘bogus’ companies), i.e. firms whose main – or even unique – scope is the production of false invoices (and other falsified documents), and which play a key role in IFT schemes. Some scholars identified, and empirically tested, typical financial and accounting patterns characterizing these firms (De Simoni & Pellegrini, 2025; Pellegrini et al., 2020), others enriched this with information on ownership structures or company lifecycle (Jofre et al., 2024). Some scholars have analysed the distribution of shell firms across regions and territories, also in relation to the online market of ‘shelf’ companies (Paquet-Clouston et al., 2024). While this research strand is very important to understand the role of a central enabler of IFT schemes, it misses exploring the broader network of social actors and interactions surrounding these firms, in particular in OC networks, and how IFT techniques are employed in illicit and money laundering flows.

2.3 The Italian context on IFT

In Italy, the use of IFT in organised crime and money laundering schemes has emerged promptly in recent years as documented by manifold judicial investigations, which also involved mafia groups (DIA, 2025, 2023; Direzione Centrale della Polizia Criminale, 2021; Commissione Antimafia, 2021). In numerous occasions, anti-mafia prosecutors’ offices have stressed the role that tax crimes play in the current strategy of criminal organizations, and mafias in particular, especially in Northern regions. According to the authorities, IFT has become one of the “*satellite economic crimes*”⁶ surrounding the ‘mafia planet’. The Head of the anti-mafia directorate of Milan once said “*Today the mafioso no longer shows up wearing a coppola hat with a shotgun slung over his shoulder. Mafiosi no longer present themselves with a menacing look, and it is harder than in the past to recognize them — but precisely for this reason they are far more insidious. [...] The F24 tax form has replaced the Kalashnikov*”⁷. Similar declarations can be found in other law enforcement reports, suggesting a sort of replacement effect between violent mafia methods with more subtle financial crime infiltration mechanisms, primarily tax offences.⁸ The latest annual antimafia police directorate’s report, which

⁶ Definition provided by the Tribunal of Milan in relation to an investigation targeting mafia infiltration into the supply-chain of food retail supermarkets and private security firms in Northern Italy (see (Transcrime, 2018))

⁷ Alessandra Dolci, Head of the Antimafia prosecutor’s office of the Tribunal of Milan, in a speech in May 2024, translation by the author (Morandi, 2024). The F-24 is the Italian tax payment form used to pay a wide range of taxes, and to indicate tax offset mechanisms.

⁸ The latest annual report of the antimafia police directorate, referred to 2024, for example says: “*the growing economic orientation of mafia groups combines — especially in the regions that drive the economy, where entrepreneurial activity is more widespread and financial exchanges more dynamic — with the willingness of certain business owners to evade taxes, seeking to circumvent the rules of fair competition and disregarding fiscally compliant behaviour.*” (DIA, 2025, p. 6, translation by the author). Or again, referred to Camorra: “*However, more recent investigative findings have identified a growing and widespread interest in high-profit, low-risk illegal activities such as the manipulation of bankruptcy auctions and real-estate foreclosure procedures, the use of so-called ‘shell companies’ to issue invoices for fictitious transactions in order to launder money, or to carry out tax fraud.*” (DIA, 2025, p. 20, translation by the author)

is the most detailed summary of police operations against Italian mafias (DIA, 2025), mention the word “false invoices/ing” 67 times in about 400 pages, and the word “shell company/ies” 26 times. These alerts by public agencies have not been corresponded by a substantial interest by scholars. Some sociological researchers occasionally mentioned IFT while investigating more broadly the new forms of interaction between mafias and legitimate entrepreneurs (Catino, 2018, 2020; Sciarrone, 2019; Riccardi et al., 2019; Transcrime, 2018) or the money laundering methods of Italian offenders (Nazzari, 2023; Nazzari & Riccardi, 2022) but none of them was fully dedicated to in-depth review of this practice. Other scholars described IFT schemes, but in relation to individual episodes (e.g. Parbonetti, 2021) or typologies (Riccardi, 2025 on loan sharking).

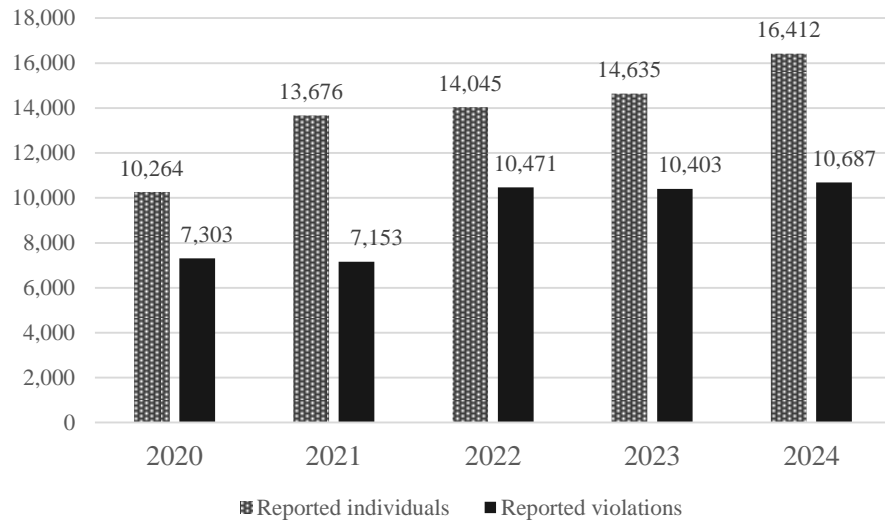
Most of the aforementioned studies build on few case-studies, and this is because of the difficulties in accessing granular data on this phenomenon. As a premise, most of the statistics globally available in this field generally depict the volume of tax fraud and tax crime at large, but do not provide details on IFT offences. In the European Union, some data is available on VAT fraud, including ‘carousel fraud’ (CASE & IAS, 2018) but this constitute only a sub-sample of the general IFT phenomenon. The latest EPPO annual report (European Public Prosecutor’s Office, 2025), which provides data of investigations on issues affecting the EU budget, shows that 488 investigations managed by EPPO in 2024 (18% of the total, but 53% of the overall estimate damage, equivalent to 13.1 billion euro) regarded VAT fraud. But, again, this is only part of the IFT story.

In Italy, IFT-related crimes, due to their hybrid criminal and administrative (fiscal) nature (see above), do not fall among the offences which are under the monitoring of the Italian police, and as such they are not annually reported by the national statistical office. The good thing is that in Italy IFT refer to specific violations foreseen in the tax legislative framework, namely by the Legislative decree 74/2000. In particular, Art. 2 (“*Dichiarazione fraudolenta mediante uso di fatture o altri documenti per operazioni inesistenti*”) refers to false tax declarations which employ IFT; and Art. 8 (“*Emissione fatture per operazioni inesistenti*”) refers to the issuance of IFT.⁹ Thanks to the cooperation of the Guardia di Finanza it was possible to access some aggregate figures (not publicly available) about people reported to the judicial authorities for these violations. They are depicted in the chart below (Figure 2a and 2b). More than 130,000 individuals have been reported to the judicial authority between 2015 and 2024 due to violations of Legislative decree 74/2000, for an overall amount of 115 thousands cases. Out of these, 46.4 thousands (40.4%) refers to violations of Art. 2 and 8, respectively employment and issuance of IFT; which become 52.8 thousands (45.9%) taking into account also Art. 10-quater. Interestingly, in the general ‘crime drop’ which can be observed in Italy, in line with most western countries, tax violations, and in particular those related to IFT, have instead grown significantly. The number of individuals reported to the authority has increased by 60% from 2020 to 2024; the number of violations by 46.3%. As regards the subset of offences more closely linked to IFT, issuance of false invoices (Art. 8) has increased by 110.3% since 2020; employment of IFT by 40.2%. Unlawful tax offsetting (Art. 10-quater) by almost 180%. These figures may highlight a greater capacity of the Italian authority to investigate and detect these criminal schemes, but clearly suggest a growing trend in these behaviors, especially since the Covid-19 pandemic (related also to Covid-19 related fraud, see below). Unfortunately, it was not possible to breaking down these statistics by nationality of the offender (e.g. to check the presence of certain ethnic-based criminal groups, such as Chinese). Also, due to the fact that statistics on IFT and criminal offences follow

⁹ Other violations foreseen by D.Lgs 74/2000 can also benefit from the employment of IFT mechanisms. For example the “*indebita compensazione*” (unlawful tax offsetting), foreseen in Article 10-quater, concerns the fraudulent use of fictitious or non-due tax credits to offset tax liabilities.

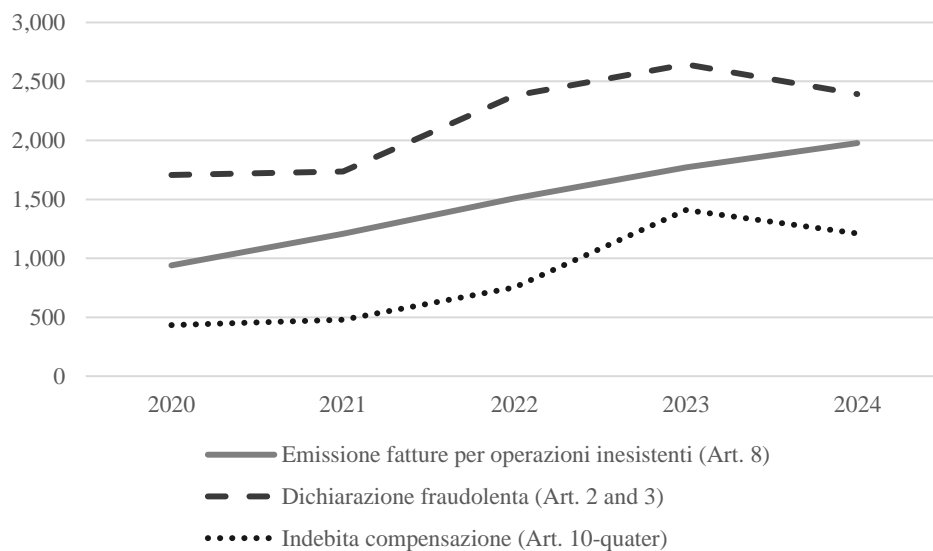
different statistical collection processes (and therefore pertain to different datasets), it was not possible to measure the co-occurrence between IFT and other serious criminal offences, first of all mafia-type crimes.

Figure 2a – Number of individuals reported to the authorities and number of offences in violation of Legislative decree 74/2000



Source: Author's elaboration of GDF data

Figure 2b – Number of offences in violation of Art. 2, 3, 8 and 10-quater of Legislative decree 74/2000



Source: Author's elaboration of GDF data

2.4 Research gap and questions

The elusive nature of IFT – in between a petty administrative violation and a criminal offence – and the lack of disaggregated (publicly available) statistics have not attracted to date the interest of scholars, especially those from the criminological domain. This lack of research contrasts with the numerous alerts raised by authorities, both in Italy and abroad, about the employment of this practice in OC and money laundering

ecosystems. This paper aims to start bridging this gap through an empirical analysis of case-studies of IFT in Italy. In particular, it addresses the following questions: (i) what are the main drivers behind the employment of IFT; (ii) what are the main techniques and *modi operandi* employed, including the use of certain types of schemes (e.g. cashback deliveries) and firms (e.g. shell companies); (iii) what are the most frequent sectors and foreign jurisdictions employed, if any; (iv) who are the main actors involved, either as suppliers or clients of IFT, and what are their relationships. In particular, the paper investigates the peculiar role played by IFT as money laundering as-a-service offered by Chinese organisations; and that played by Italian mafias, either as clients or suppliers of IFT. In this sense, it explores the role that IFT may potentially play in the wider array of ‘services’ offered by mafias to legitimate entrepreneurs, and the interactions between mafia groups, victims and beneficiaries at large.

3. DATA AND METHODOLOGY:

3.1 Analysis of IFT cases

Sampling

For addressing these questions, this paper adopts a case-study analysis approach. In the context of this paper, ‘cases’ refer to investigations carried out by Italian authorities which involved episodes of IFT disclosed in the period spanning between January 1st, 2024 and June 30th, 2025.¹⁰ Cases were identified on the basis of a systematic review of (i) judicial documents issued by Italian authorities (arrest and pre-trial detention orders, seizure orders, and judicial administration decrees) available in Transcrime archives or to the author; (ii) police reports and press releases, published by law enforcement agencies; (iii) news and media reports, collected through specialized providers and news aggregators such as Lexis Nexis Metabase¹¹ or search engines (e.g. Google news). In so doing, this paper adopts the same approach already employed by previous studies in this and similar firms (e.g. Aziani et al., 2023; Matanky-Becker & Cockbain, 2022; Nazzari, 2023; Nazzari & Riccardi, 2022). The following steps were followed. First, relevant documents (judicial acts, police reports, news) were identified on the basis of the following criteria:

- If they mentioned Art. 2, 3, 8 and 10-quater of the Legislative decree 74/2000 as a legal basis for investigation or prosecution of natural and legal persons;
- If they mentioned selected Italian keywords related to IFT (e.g. “*fatturazioni per operazioni inesistenti*” and all possible variants¹²).

¹⁰ ‘Disclosed’ means that the IFT case was either (i) initiated or (ii) reached a judgment. It is not always feasible to understand the exact timespan in which the IFT scheme deployed. For example, investigations started in 2025 may refer to sche

¹¹ Lexis Nexis Metabase is the largest available repository at global level of international, national, and local news sources, consisting of more than 85,000 sources in over 100 countries. It delivers via API daily feeds of news (4.5 million news on a daily basis) in a structured format which can be then filtered and processed using any type of text mining technique, including more advanced NLP approaches. For more details see <https://www.lexisnexis.com/en-gb/glossary/metabase-api>

¹² Keywords were combined using Boolean operators. The complete list is the following: (fattur* AND "operazioni inesistenti"), (fattur* AND fals*), (fattur* AND fasull*), (fattur* AND inesistent*), "sovra-fatturazioni", "sovra-fatturazione", sovralfatturazione*, ("frode fiscale" AND fattur*), (fraud* AND fattur*), "omesse dichiarazioni" (fattur* AND "prezzi incongrui"), "operazioni non realmente effettuate".

Second, the identified documents were then checked and validated manually, in order to drop false positives and be sure they were actually referring to IFT practices.¹³ Third, the documents referring to the same operation or event were grouped in clusters, each cluster referring to one ‘case’. As a result, each case was associated with several sources (either news, press releases, judicial files). The sources were then processed and coded in order to extract desired variables (see below), and a summary was then produced for each case. Finally, a repository (including also coded information, see below) was set up. Cases may involve more than one person (usually they do), both individuals and legal persons, can refer to an occasional IFT activity or to a systematic mechanism spanning over years, refer to a variety of stages in the investigation and prosecution process. Cases can also be also linked between each other - e.g. one investigation can be spurred by another one. Therefore, the ‘case’ perimeter was somehow artificially determined. Usually, one ‘case’ refers to a single police operation, or group of events. As a result, 207 IFT cases were eventually retained.

Coding and classification

Each case was processed, coded and classified in order to extract certain patterns, namely:

- *Drivers*: i.e. the motivations or the benefits which were pursued through the IFT scheme, either declared by the authorities (and therefore reported by the source) or which can be inferred from the events. The following categories were identified (see 2.1): (a) Reducing tax burden; (b) Generating VAT and tax credits; (c) Generating slush funds; (d) Money laundering; (e) Fraudulently gaining public funds; (f) Supplying illegal labour; (g) Laundering products; (h) Extortion racketeering; (i) Concealing corruption payments. These drivers may be simultaneously present (usually they are, and this is exactly the added value of IFT). Depending on the amount of information, it was not always possible to easily discriminate among them, so they have to be treated cautiously.
- *Modi operandi*: The following schemes were identified: (i) Use of foreign companies / foreign bank accounts, (ii) Involvement of foreign individuals (among them, Chinese), (iii) Use of cashback delivery and of underground banks, (iv) Use of shell companies, (v) Use of ‘reservoir’ companies.¹⁴
- *Sectors*: business sectors of the firms involved in the IFT scheme. When the exact list of firms was not available (most cases), information on the sectors was taken from the sectoral description provided by the source, harmonized and classified according to the EU-specific NACE classification, and alternatively via a personal elaboration of it. It was not always possible to discriminate between the sectors of the providers and clients of IFTs, therefore a single list of sectors was produced.
- *Geography*: countries, regions and provinces reported in the source, referring to where the IFT scheme deployed, i.e. location of the entities (individuals or firms) involved as either suppliers or beneficiaries of false invoices. In particular, if a case entailed employment of foreign firms or bank accounts, the indication of the foreign jurisdiction was collected.
- *Actors*: type of actors involved, and in particular: (i) who acted as supplier and who as client of IFT; (ii) whether foreign individuals were involved (if so, of which foreign nationality and with which role,

¹³ For example, at an initial stage also keywords referring to the presence of shell or front companies were employed (e.g. “*società schermo*”, “*cartiera*”, “*cartiere*” etc), but the number of false positives produced was very high, not only because these words identify also paper manufacturing companies, but also because some cases involving ‘shell companies’ did not involve in fact IFT.

¹⁴ See Paragraph 4.2 on this.

if reported), and (iii) whether Italian mafia organizations were mentioned as part of the scheme (if so, which one¹⁵).

Limitations

The resulting dataset, due to its limitations, is not adapt for any type of inferential analysis, but only for a qualitative analysis and, at most, for some basic descriptive statistics, which however should be read carefully keeping in mind the caveats. In particular, the weaknesses of the approach employed by this paper are typical of all those studies in the field of crime and terrorism which make use of open sources. First, sampling biases: news sources are subject to *newsworthy principles*, i.e. they are inclined to prioritize reporting of more sensationalist and harmful events, or episodes more culturally/geographically inclined to the audience, and not to report petty events (Galtung & Ruge, 1965; Ditton & Duffy, 1983). Second, it is unclear how some news repositories or search engines (e.g. Google News) sample and index their results, while the selection criteria adopted by Lexis Nexis Metabase are much more transparent. Third, the quantity and quality of information and details for each identified case largely varies: for some of them both judicial documents and news coverage is available (the minority); for others only news are available, with a generally narrower amount of details. Given these limits, it would be incorrect to infer definitive conclusions on the IFT phenomenon from this data set. However, the sample offers the opportunity for a sociological and criminological analysis, which allows to extract quite nuanced information and highlight some relevant emerging patterns.¹⁶ Indeed, several studies have highlighted the validity of open sources for the analysis of criminal events, especially thanks to the richness of information they usually entail (Ozkan et al., 2018; Parkin & Gruenewald, 2017; Aziani et al., 2023; Savona et al., 2018; Riccardi, 2022).

In-depth case study analysis

The paper also presents the results of an in-depth review of one single case-study which is deemed to be particularly paradigmatic of the emerging trends of IFT, and on the newly relationship between local criminal groups, in this case related to ‘Ndrangheta, legitimate’ entrepreneurs, and Chinese criminal networks. This is an investigation named *Torre di contanti* (i.e. ‘Cash tower’), executed by the Prosecutor’s office of Brescia in Northern Italy (Tribunale di Brescia, 2025).

3.2 Analysis of shell companies

Building on the patterns identified in the IFT cases, and also as a form of empirical validation of the analysis of the geographic patterns, the paper presents the results of an on-going Transcrime investigation of European firms at high-risk of being employed as shell companies by Italian individuals (Transcrime, 2025). These are being identified on the basis of selected patterns, as retrieved from the literature in this domain and in particular by revising and applying a composite indicator of shell company risk developed by the Italian FIU (Pellegrini et al., 2020) enriched with further anomaly factors stemming from previous research. Namely:

- *Financial and accounting anomalies*: related to a potential activity as shell and non-productive company (Pellegrini et al. 2020; De Simoni and Pellegrini, 2025). These are operationalized as an

¹⁵ In particular, ‘Ndrangheta, Cosa Nostra, Camorra, Sacra Corona Unita.

¹⁶ In this sense, recently some scholars employed the archive of the Court of Cassation in Italy, which is publicly available under certain conditions (see e.g. De Simoni and Pellegrini, 2025). However, Cassation judgments are quite synthetic and usually do not provide details about *modi operandi*, nature of the actors, relations and interactions which would be necessary for an investigation such as the one presented here.

array of five financial ratios calculated in firms' income statement and balance sheet, namely: (i) low levels of fixed assets, (ii) low capital, (iii) low added value, (iv) low personnel costs and (v) low finance costs.

- *Mass registration patterns*: location of the firm's legal seat at an address where already a high number of other firms – both active or ceased/bankrupt – are or were.
- *Exposure to mafia territories*: owners, beneficial owners and managers born in Italian municipalities at high risk of mafia infiltration, as mapped using Transcrime's mafia presence index (Dugato....).

The stemming composite indicator was applied to more than 250 millions of firms in Europe, identifying those at highest risk, and then grouping them by country as a ratio on all registered firms having Italian owners.

4. RESULTS

4.1 Drivers and benefits

It is hard, as said, due to the varied quality of available information, to discern clearly the purposes of the IFT scheme within each case. However, the analysis reveals that (i) IFT was employed for achieving a wide variety of benefits and (ii) the same case can correspond to multiple benefits - in fact, this is exactly the added value of IFT as a multi-purpose offence. Tax crimes – and in particular evasion of corporate income taxes and VAT fraud – are observed in more than two thirds of the cases. In case C112 (investigation *Minefield*), a criminal association, through the employment of shell companies (located among others in Bulgaria and Greece), provided IFT services to more than 251 Italian legitimate entrepreneurs to reduce their taxable income. Investigation *Hidden Gain* (C108) revealed a network of 18 shell companies, managed by Chinese individuals, offering services to more than 600 Italian firms which reduced their corporate tax burden and generated VAT credits for an estimated amount of 87 million euro. In other episodes, the same subjects willing to reduce their tax burden set up shell companies themselves - often entitled to figureheads (e.g. C180 or C023).

The artificial generation of VAT credits serves for two main purposes: first, for offsetting other tax liabilities, including social security contributions (e.g. C006, C041, C054, or C023), reason why IFT is frequently associated to illegal workforce supply. Second, for cashing out through the monetization of the credits, transferred to either colluded or unaware firms (e.g. C052, C072, C200 and others). The latter scheme is often associated to those fraud schemes involving certain support programs (in particular the *Superbonus* and *Sismabonus*) introduced since 2020 by the Italian Government to foster building renovation, energy efficiency upgrades and stimulate the economy during and after the COVID-19 crisis (e.g. C052, C092, C104, C122 with entrepreneurs affiliated to OC). Other types of fraud employing IFT involved the artificial increase of firm revenues in fiscal year 1 so as to demonstrate a greater revenue reduction in year 2, in this way benefiting from public subsidies made available by the Italian government for those businesses which suffered significant turnover shrinkage during Covid-19 (e.g. C062).

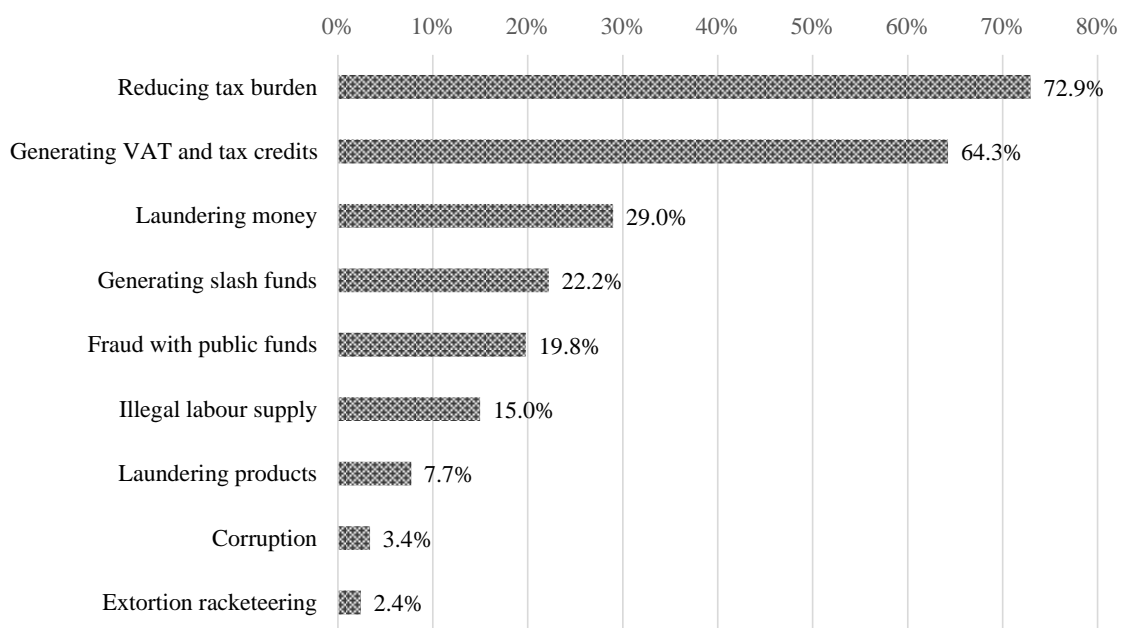
The use of IFT to launder criminal proceeds can be explicitly observed in almost 30% of the sample, although this refers specifically to all those cases in which offenders relied on IFT provided by third parties to launder funds generated by other predicate crimes. In fact, IFT itself produce crime proceeds (from tax offences) which should be eventually laundered; and this can be done through a variety of typologies, although it is quite common – and convenient – to do so via further false invoices, as funds are already placed in the

system. In case C005, some entrepreneurs related to Camorra laundered the revenues of illicit waste trafficking via a false invoicing scheme which entailed shell firms and bank accounts set up in China. In C185, a human smuggling ring relied on a IFT scheme set up by colluded professionals to launder the payments collected from irregular migrants. In C204, a group of Italians (some of them affiliated of the Sacra Corona Unita) and Chinese individuals provided money laundering services via IFT to an Albanian OC group involved in the trafficking of cocaine from South America. In C035, an ‘Ndrangheta group relied on IFT provided by Chinese organizations to launder criminal proceeds, and in turn offered itself IFT services to Italian entrepreneurs (see Paragraph 4.4 below).

Despite being less frequent, noteworthy are also the cases involving IFT to launder products and to cover corruption, extortion and usury schemes. The issuance of false invoices, together with the production of other falsified documents (e.g. custom declarations, declarations of origin, transport bills), can provide an appearance of legitimate purchase and trade of products which are in fact illegal: for example, stolen or smuggled iron and metals (e.g. cases C005, C044, C045, C049, C077, C081), smuggled pallets and wooden packaging (C002, C051), stolen cars and motor vehicles (C061, C164), luxury items and watches (e.g. C053) and contrabanded oil, which also allow to carry out excise fraud (C063, C076, C162).

On the other side, IFT can conceal corruption payments, with firms indirectly related to the bribe taker issuing false invoices (or over-invoicing) to the payer so as conceal the bribe behind a formal regular transaction. Corruption-related IFT can be observed at various levels, involving national and supranational institutions (e.g. C041), army bodies (C174), small local municipalities (C086), and entailing a variety of sectors, such as real estate (C086), waste management (C096, C102), cleaning services (C174), and information technology providers (C040, C096, C105). The use of IFT to cover usury and extortion payments is particularly interesting when discussing the role of IFT for mafias, which will be discussed in paragraph 4.3 below.

Figure 3 – Drivers of IFT observed in the analysed cases (N = 207)



Source: Author's elaboration

4.2 Mechanisms and *modi operandi*

4.2.1 Cash-back delivery

In the basic IFT scheme above depicted (Figure 1), company ALPHA returns back to BETA the equivalent in cash, off-the-record. In this way, clients of false invoicing monetize the benefits of the mechanism, and at the same time providers have the chance to employ cash of presumably illicit origin, which are declared as legitimate business revenues, and therefore laundered. In more than 20% of cases a cash-back delivery was explicitly reported by the investigation file, although in many more cases there was a reference about cash withdrawal or cash use. In fact, in some cases the cash-back was made available to IFT clients in certain locations, usually street shops (a sort of ‘grab-and-go’ service); in other circumstances, cash couriers and money mules were employed to deliver back the money to the beneficiary’s door. Frequently, couriers have a foreign origin, primarily from China (see below) but also Pakistan (C053), Kosovo (C061), Albania (e.g. C058, C032), United Kingdom (C036) and North Africa (e.g. C106). Interestingly, in C151, Chinese IFT suppliers hired an Italian money mule, employed in more than 556 cash smuggling trips: he generally travelled from northern eastern Italy to Slovenia, where he stopped for less than an hour before going back home with cash. In C004, during a police house search, Chinese individuals launched 215 thousands euro outside a window.

4.2.2 Shell companies

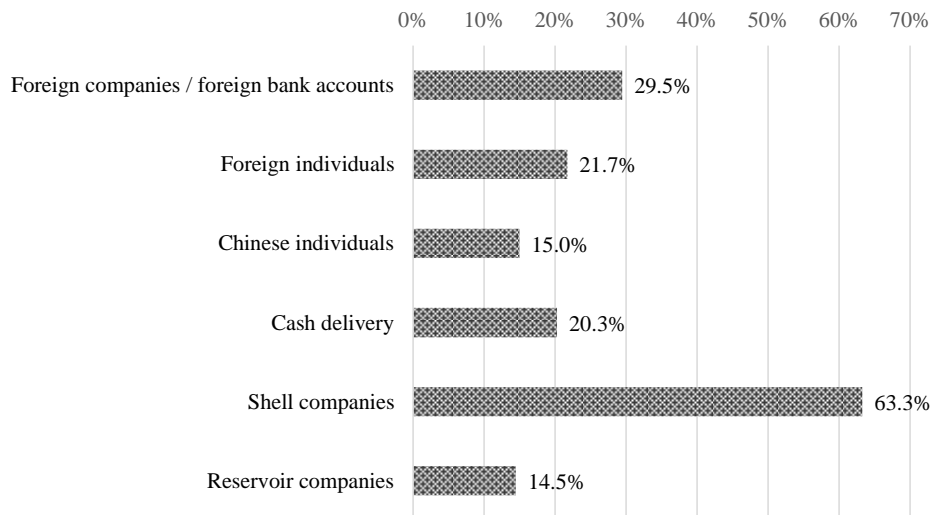
Any legitimate business in the world can act as IFT supplier, i.e. can issue a false invoice to any other company. However, it is evident that IFT can be issued also by firms which have a mere formal appearance without any real productive nature – i.e. the so-called ‘shell companies’ (see Paragraph 2.2). Shell companies can be set up in any jurisdiction, and can be managed from any location, even far from where the firm has its declared legal seat and where the IFT scheme is actually deployed (see the case-study below). Shell companies are employed in more than 60% of the cases in the sample, and in about half of them they are established abroad (Figure 4). The *modi operandi* with these firms is quite consistent: firms are first established, then employed for a certain period of time (usually, 6-18 months) to issue fictitious invoices, and eventually shut down leaving tax liabilities.¹⁷ Then, new ones are incorporated, in the same country or in other jurisdictions, entitled to the same person or more often to figureheads. Often, shell companies are registered at the same address (which explains why ‘mass registration’ is an anomaly indicator taken into account when early-detecting shell firms, see Section 3).

‘Reservoir’ companies are instead those firms which are characterized by abundant manpower (often under-paid) and which are employed in illegal labour supply schemes. Usually, these firms sell their workforce as a service to other firms (‘buffer’ companies) which in turn resell the service to final clients, often well known multinational firms in the logistics, private security or luxury industry. This scheme allows these clients to reduce their labour costs, and simultaneously gain tax advantages. ‘Reservoir’ companies can also make use of IFT to generate VAT credits with which to offset their social security taxes (see above), therefore reducing their average labour cost. Alternatively, are wound up, leaving behind substantial tax liabilities, and then re-opened under new names and forms. Victims of these schemes are usually the workers, who end up moved from one ‘reservoir’ to another, and do not get their social contributions paid by the employer. Numerous cases of this kind can be observed, for example in the hoteling sector (e.g. C020, C054, C065, C073), logistics and

¹⁷ This is because, as mentioned, firms issuing IFT generate artificially VAT liabilities which should either be offset

food retail (e.g. C041, C110, C115, C140), construction (e.g. C023, C059, C068) and luxury clothing. The latter involved famous *maisons* such as Christian Dior, Valentino, Loro Piana, Alviero Martini as ultimate beneficiaries of these schemes, albeit not directly involved in labour exploitation – and for these reasons put under judicial administration by the Milan’s Prosecutor’s office. Interestingly, in this sector, the owners of reservoir firms (and the workers exploited in the workshops) was often of Chinese origin. According to judicial and investigative sources, the provision of IFT services and of illegal labour by Chinese in Northern Italy “*are driven by the same brain*”.¹⁸

Figure 4 – Mechanisms and modi operandi of IFT observed in the sample (N=207)



Source: Author's elaboration

4.2.3 Amounts and fees

The consulted sources often reported the amounts involved (in 110 cases, i.e. 53%) and more occasionally the fees applied by IFT providers (in 16 cases, i.e. 7.8% of the sample). As regards the monetary values, sources either referred to the overall amounts involved in terms of funds exchanged, i.e. of the fictitious revenues or costs generated, or to the VAT savings which resulted from the offset compensation scheme. Unfortunately, not much details are available about how authorities calculated these figures, which means that the numbers reported here have to be read very cautiously. Overall, the 207 cases correspond to a rough estimate of 11.5 billion euro of fictitious revenues (and corresponding fictitious costs), with an estimated evaded VAT of 2.5 billion euro.¹⁹

The average IFT commission fee applied (available in 16 cases) is 8.3% of the amounts exchanged, ranging from a minimum of 1.5% to a maximum of 22%. As it will be discussed later, the fee much depends on the provider, as Chinese IFT suppliers usually apply much lower commissions. The 22% commission is also interesting, as it corresponds exactly to the evaded VAT by the client company: in this sense, IFT appears

¹⁸ From a confidential conversation with representatives of the Milan’s public prosecutor’s office.

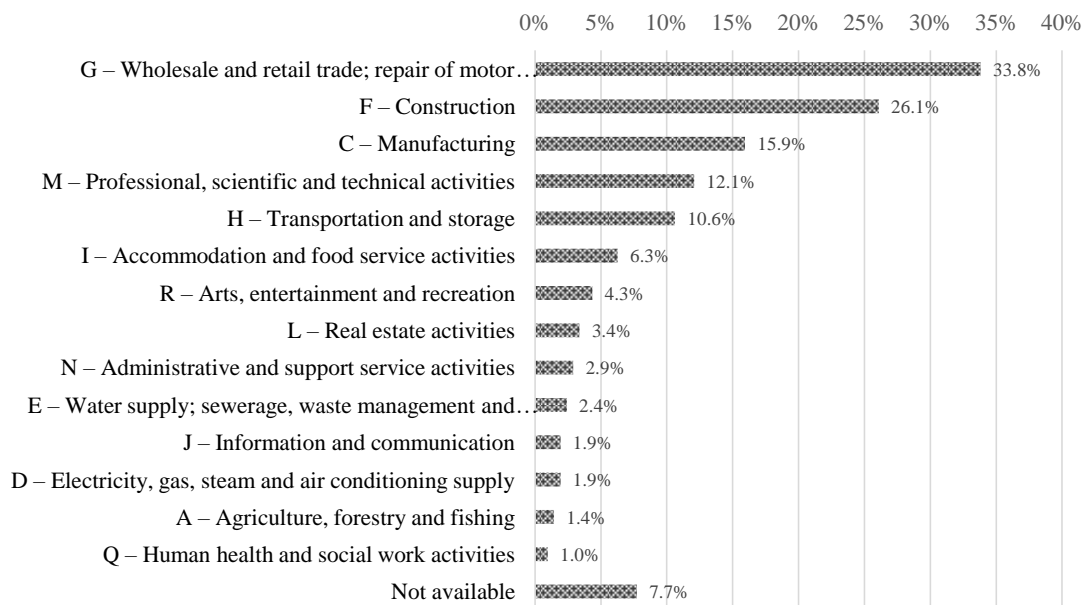
¹⁹ If the evaded VAT was not reported, this was calculated roughly by applying an average VAT fee of 22% (which is the ‘regular’ VAT rate in Italy, although for some items it is 4% or 10%). This is a very rough calculation, useful only to have an overall idea of the approximate amounts involved.

as a shift of resources from the state to the IFT provider's pockets (a replacement which will be also discussed later when discussing mafias' involvement). These fees suggest indeed low costs if compared to other money laundering typologies: for example, in a study of cash smugglers between the Netherlands and Colombia, Reuter and Soudijn observed a 10%-17% commission (Soudijn & Reuter, 2016), and literature usually reports money laundering costs ranging between 10-20%. By making a rough calculation, if one applies the average commission (8.3%) to the total amount entailed (11.5 billion euro), then the total revenue generated by the IFT suppliers for the provision of the services comes to nearly 1 billion euro.

4.2.4 Sectoral and territorial distribution

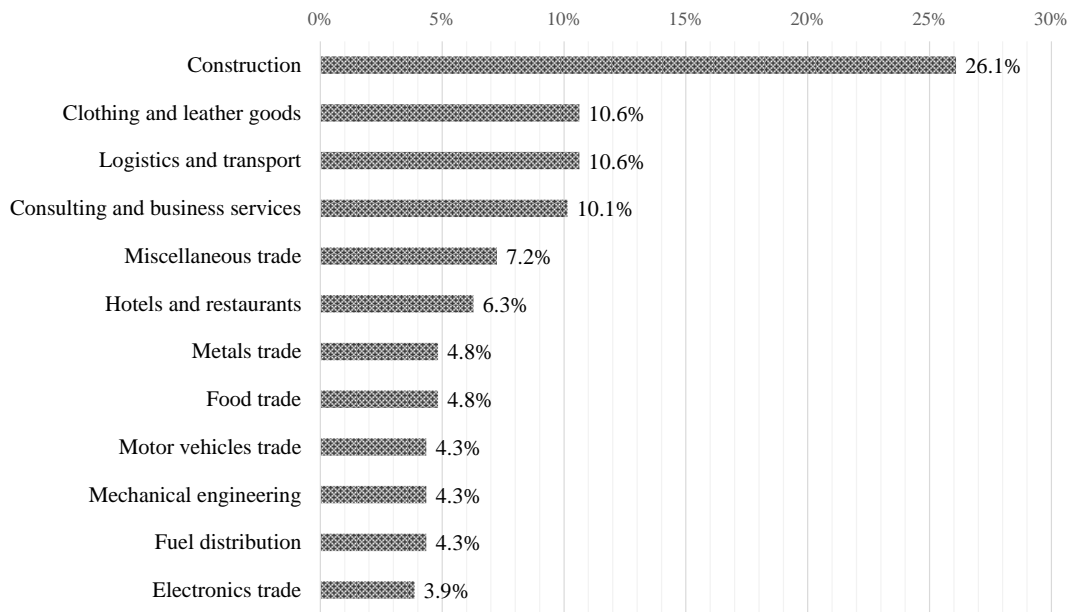
The economic sectors most frequently involved in IFT sample are reported in the figures below (a single case can involve more than one sector). Figure 5a represents the official EU NACE classification (at the 'Section' level), while Figure 5b the top 15 sectors in detail. Wholesale and retail trade – in particular of clothing and leather products, of metals, of motor vehicles, of electronic products, of plastic materials, and fuel distribution – is the prevalent industry, followed by Construction and Manufacturing.

Figure 5a – Sectors most frequently involved, NACE classification. Percentage on the 207 cases



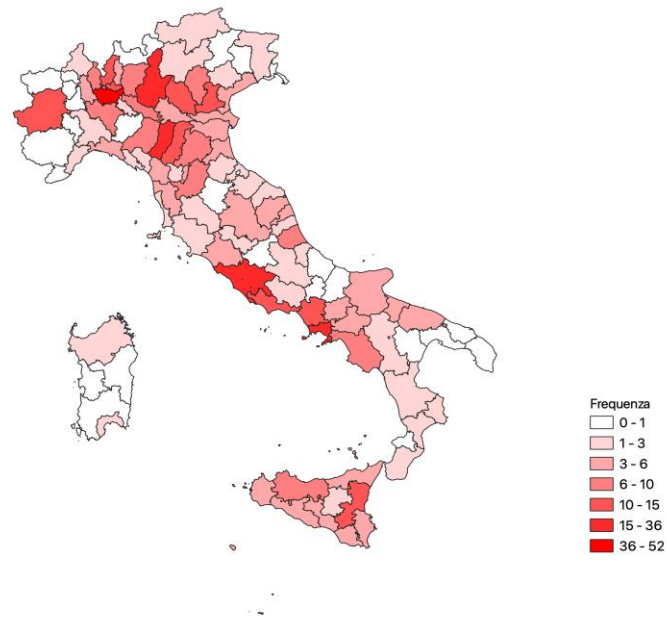
Source: Author's elaboration

It has to be noted that, depending on the presumed driver of IFT, the sectors change slightly: trades of fuels and of motor vehicles are widely employed in excise duty fraud, while trade of plastic materials and electronics is frequent in VAT carousel fraud; the same for metal products, for which however IFT was employed also to justify the acquisition of stolen or irregular iron and copper (see above). Construction is largely present in IFT cases of fraud with public funds. In money laundering cases, no clear sectoral pattern could be observed, in the sense that many different sectors were employed.

Figure 5b – Sectors most frequently involved. Detailed reclassification. Top 15 sectors

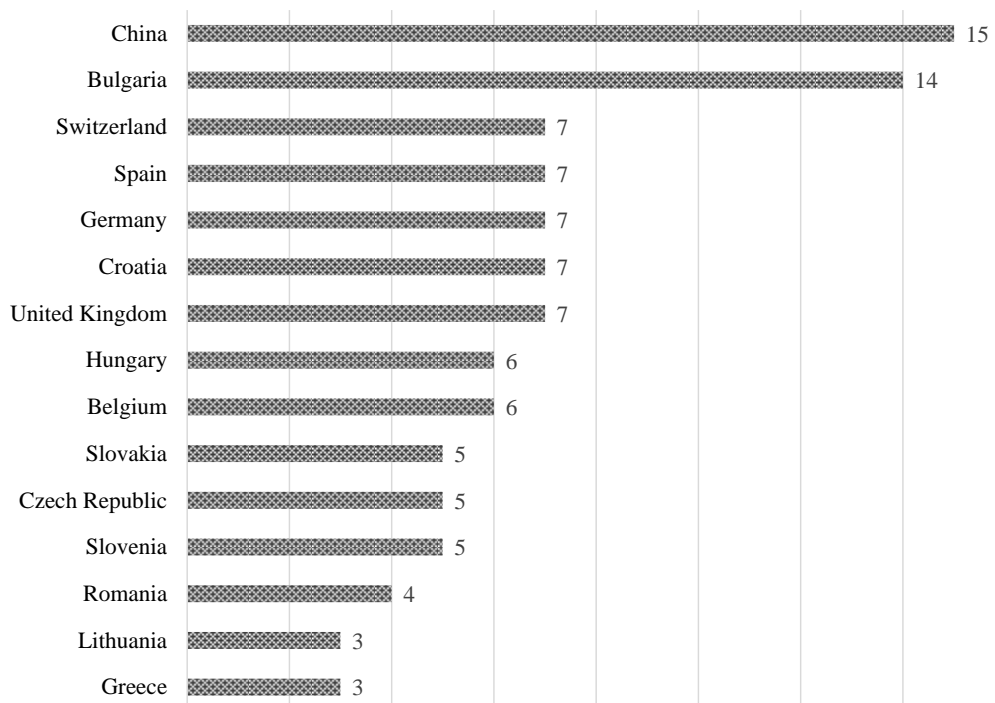
In terms of territorial patterns, most of IFT cases of the sample involve Northern Italy, in particular Lombardy provinces such as Milan (ranking first, and involved in 25% of cases, i.e. more than 50 cases), Brescia (11%), Monza and Brianza (nearly 7%) and Como (nearly 6%). These are rich and affluent business intensive areas, with the highest GDP in Italy. They are not the historical regions of mafia establishment, but a regular destination of the mobility of mafia groups, especially ‘Ndrangheta. And, at least according to some prosecutors, these provinces show a well-known attitude towards abusing IFT by local entrepreneurs: during a courtroom hearing in Brescia, a prosecutor said to a defendant: *“Here in Brescia we all know it: we all live on bread, iron rods, and false invoices”* (Tribunale di Milano, 2024). The same could be said about Reggio Emilia (involved in 10% of the cases), which experienced in recent years a surge in false invoicing schemes, which can be attributed also to the intensive activity of an ‘Ndrangheta clan – the Grande Aracri family – who was specialized in the provision of IFT services to local businesses (for a summary see DIA, 2025, p. 143). Apart from Rome (involved in 17% of cases), in the center-south of Italy, the most frequent provinces are Naples (14%) and Caserta (7%), often mentioned as locations of shell companies employed to issue IFT to Northern Italian firms.

Figure 6 – Distribution of IFT cases across Italian provinces



Source: Author's elaboration

Figure 7 – Jurisdictions most frequently mentioned in the IFT sample, by number of cases. Top 15 countries

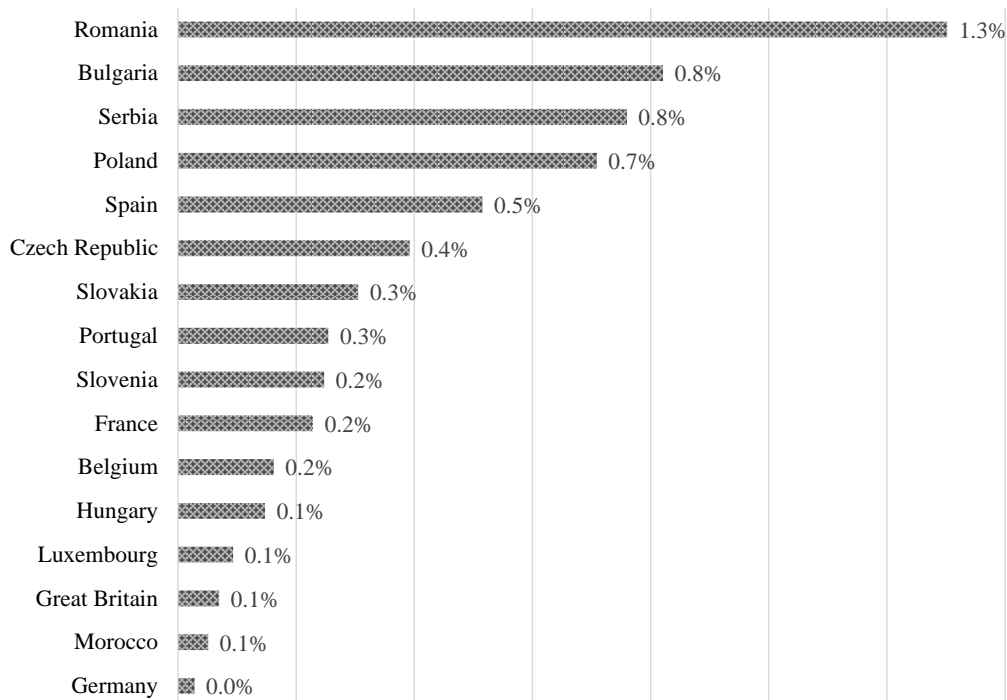


Source: Author's elaboration

In terms of country exposure, apart from Italy, 38 further different jurisdictions were involved in the IFT schemes, mainly as countries hosting the shell companies acting as IFT providers or as locations for bank accounts where payments were settled. Figure 5 reports the top 15 most frequently involved jurisdictions.²⁰ China was directly involved in more than 7% of the cases (although Chinese individuals are present in 15% - see below). But the most frequent region is represented by Eastern Europe (almost 30% of cases overall), with Bulgaria, Slovakia, Croatia, Czech Republic and Hungary as preferred locations for establishing shell firms.

With the exception of China, it is evident that geographic proximity plays a key role in IFT schemes, as it is with money laundering (Riccardi, 2022, 2025). The EU status and the ease to set up businesses may be driven by the need to employ EU jurisdictions in VAT fraud which exploit the differentials between intra-EU and domestic transactions. However, this does not explain the preference for Eastern European countries as location of shell firms; especially the presence of certain jurisdictions, such as Bulgaria, which do not have historical, cultural, trade or investment links with Italy. In order to further validate these findings – and check whether they are just the product of a sampling bias – this list is compared to the array of countries which emerge from an on-going Transcrime analysis (Transcrime, 2025) about the distribution, in Europe, of firms characterized by patterns which may point out to shell company activity, and in turn have, as shareholders or beneficial owners, individuals born in Italian municipalities at high-risk of mafia infiltration (see Paragraph 3.2 for details). Results are reported in Figure 8: again, Eastern Europe emerges promptly, with Romania, Bulgaria and Serbia ranking on top.

Figure 8 – European jurisdictions with the highest percentage of firms with shell company patterns and owners from high-risk Italian municipalities – Ratio on local firms with Italian owners



Source: Author's elaboration

²⁰ In about 8% of the cases, the sources mentioned the employment of firms and bank accounts in 'foreign countries' without specifying them.

4.3 Actors and social interactions

From a sociological perspective, the most interesting element is probably that related to the nature of the actors involved in false invoicing schemes, and on the social interactions between suppliers and clients, on the one side, and between criminal organizations, on the other. The sample of cases demonstrates that IFT benefits a wide spectrum of subjects, ranging from unknown Italian entrepreneurs with no affiliation to organised crime, to Italian ‘lone’ white collar criminals, foreign criminal networks and notorious mafia organizations. Here, I focus on two actors: (i) Chinese networks and (ii) Italian mafias.

4.3.1 Chinese networks

Chinese individuals are involved in 15% of the cases (Figure 3), even when the IFT scheme is carried out exclusively in Italy, suggesting a rooted presence in the country and a well-established and acknowledged role in this field. Most of the Chinese individuals mentioned in the cases were residents in Italy (often in Milan, Rome or in Prato) and played a variety of roles, namely:

- i) Beneficiaries of IFT, often set up by themselves: for example, in case C042, a Chinese entrepreneur active in the clothing sector set up three shell companies (formally owned by figureheads) which issued false invoices he benefited from. Similar mechanism was observed in C119, C132.
- ii) As direct suppliers of IFT to Italian entrepreneurs: for example, investigation *Hidden Gain* (C108) revealed a network of 16 Chinese individuals (managing 18 shell companies) which offered IFT to 600 Italian entrepreneurs willing to reduce their tax burden. *Fast & Clean* (C116) involved Chinese and Italian suppliers who offered false invoices to thousands of Italian businesses through more than 140 shell companies. Similar schemes, of smaller scale, in C009, C011 and others.
- iii) As sub-contractors of third party IFT providers: In C017, Italian businesses in the leather industry offered IFT services to Italian peers, and involved Chinese for the cashback delivery stage. Similarly, in C049 Italian metals trade companies offered false invoices to other Italian firms, supported by Chinese networks. Same sector (metals trade) and mechanism in C077 (investigation *Iron Family*), and in cases C004, C019.
- iv) As sub-contractors of Italian mafias: Chinese are employed in some stages of the IFT supply chain by the Camorra (e.g. C005, C033), ‘Ndrangheta (e.g. C035, C053, C133), Sacra Corona Unita and Albanian OC groups (C204). In case C060 (investigation *Hydra*) Chinese supported a consortium of affiliates of Camorra, ‘Ndrangheta and Cosa Nostra jointly offering services to legitimate entrepreneurs in Northern Italy. This cooperation is in line with what observed already in Mexico and the US (see Introduction).

In most of these investigations, including those in which Chinese do not appear as direct suppliers of Italian clients, but as sub-contractors of local organizations, the main role of Chinese is the cashback delivery, i.e. the monetization, withdrawal and return of cash to the final beneficiaries. This service is often referred to as ‘clandestine banking’ or ‘underground banking’ (e.g. C017, C116, C151). Cash is either withdrawn from bank accounts, after a round tripping scheme involving various layers of shell companies (in Italy and then China), or it employs informal value transfer systems (IVTS), namely the Chinese version of Hawala, *Fei ch’ien* - or ‘flying money’ (for a review, see Westmore, 2025). Local Chinese contact points in Italy deliver back the cash amounts to the Italian clients as soon as their counterparts abroad, often located in China, confirm they received the wire payments entailed in the IFT scheme (see the case-study discussed below). Some

sophistications can be observed: in case C151, the organization made use of encrypted messaging systems (e.g. Telegram, Signal, WeChat, DingTalk), secret coding, rent of different cars so as to disguise the cashback delivery. In another case, Chinese employed cryptocurrency-based money laundering services, specifically stablecoins (USDT_TRX) (Procura della Repubblica di Prato, 2025).

It has to be noted that when Chinese groups are involved as IFT suppliers, reported fees appear to be substantially lower than when managed by Italian peers, as they range between 1% and 2% (against an average of 8.3%, see above). This result is in line with some investigative literature and intelligence (Westmore, 2025; Mavrellis, 2023; Rotella & Berg, 2022) and is normally explained by the ability of Chinese groups to profit on the differential with the average fee they apply in the home country. In China, the controls on capital movements imposed by the government have generated a demand from wealthy Chinese individuals who want to access foreign currencies (US dollars or euro) and therefore need to move funds out of the country. Apparently this service is offered by local criminal organizations at a very high fee (up to 25%-30%) which allows them to apply very low – or even null – fees on the European or US side of the system.

4.3.2 Italian mafias

Involvement of Italian mafias in IFT cases is explicitly declared in 15% of the cases in the sample, two thirds of which are related to 'Ndrangheta groups (21 cases), followed by Camorra (8 cases). This percentage may be underestimated due to the lack of information when it was not possible to access directly the relevant judicial files: sometimes news mentioned 'links with organised crime' without specifying which ones. As discussed in Paragraph 2.3, Italian authorities have stressed the increasing involvement of mafias in tax offences (DIA, 2023, 2025; Commissione Antimafia, 2021, among others), with the latest annual report of the antimafia police directorate (DIA, 2025) mentioning the word "*false invoices/ing*" 67 times in about 400 pages, and the word "*shell company/ies*" 26 times. Indeed, rather than checking how many of the IFT cases involve Italian mafias, one should check how many of mafia investigations entail IFT. But this is not the scope of this paper – and this dataset would not be proper to answer this question.

Mafias are involved both as (i) users of IFT, in particular for laundering money stemming from other offences, and (ii) providers of IFT to clients normally not affiliated to the criminal group. The second is undoubtedly the most interesting part of the story, at least from a sociological point of view. Some criminal groups, such as the Grande Aracri clan related to 'Ndrangheta (heavily active in Emilia Romagna) seem to have specialized in this service, as demonstrated by numerous investigations such as *Aemilia*, *Grimilde*, *Ombromanto*, *Ten*, *Ciclope*, and others (for an overview on Emilia Romagna see DIA, 2025, p. 143). The same can be said to certain 'Ndrangheta groups active in Lombardy, in particular in the province of Brescia, Mantova, Milan.

On the basis of the collected cases involving Italian mafias – and of other judicial and police intelligence – the reasons why mafias can be interested in providing IFT services are summarized as follows. First, as widely described earlier, providing IFT allows to launder criminal money, justified as business' legitimate revenues. Second, false invoicing generates extra profits stemming from the fees paid by IFT clients to the supplier, which could be very significant in terms of amounts (see above). Third, if compared to other illegal market services provided by mafias (e.g. usury, extortion, or drugs), IFT generally entails very reliable and desirable clients. On the one hand, these are legal entities, reluctant to enter fully the criminal market and not used to violence. On the other hand, if an entrepreneur wants to reduce their taxable income, it means the business has a profit margin and is therefore in a favourable economic condition. This is crucial in a context

— that of illegal markets — where one must ensure that clients will pay the goods or the services in the absence of legal or contractual guarantees (Reuter, 1983). Therefore, beyond the exercise of illegal coercion, it becomes essential for criminal suppliers to conduct a thorough assessment of the client's solvency and reliability. This appears to be easier in IFT schemes.

But related to this, there is a further, crucial element. Provision of IFT services has to be read in the broader strategy of mafia organizations with the legal economy, i.e. as part of the spectrum of services provided by mafias to entrepreneurs. These range from activities whose victimizing nature seems to be very clear — e.g. extortion — to others in which the client pays for a customized service at a very high and 'unfair' cost — e.g. usury — to others that appear to offer only benefits — such as reducing the tax burden through false invoices, or providing irregular labour. IFT is not just one of them, but the glue that technically enables mafias to place all these illegal services along a continuum and, at the same time, to blur the boundaries between victimization and benefit.

Some examples: in case C025, an 'Ndrangheta group used over-invoicing to impose a 3% extortion fee on legitimate entrepreneurs willing to operate in a public work related to a road construction in Northern Calabria. The *pizzo* had to be paid by firms in the form of false invoices to 'Ndrangheta companies. In this way, the criminal group concealed extortion profits as legitimate revenues, and victims could inflate artificially their costs and pay less taxes. In C068 an entrepreneur linked to 'Ndrangheta but operating in Reggio Emilia concealed extortion and usury payments behind IFT schemes; similarly in C071 some mafiosi employed IFT to extort payments from colluded financial brokers. In an interesting case occurred in the Apulia region (not included in the sample because outside the time range), an entrepreneur was victimized by a mafia group to which he had to regularly pay a kick-back in cash. After complaining to the criminal group, the payment arrangement was changed, and now he had to pay back through false invoices. There are several wiretapped phone conversations in which he expressed his satisfaction to his secretary about the new payment method, which allowed him to 'pay clean' and reduce the tax burden.²¹ This effect is also acknowledged by Italian authorities. For example, the anti-mafia directorate, in its latest annual report, says: *"these are phenomena that are difficult to detect because, in many cases, entrepreneurs do not remain innocent victims of the mafiosi but in some way become complicit with them. When, in fact, the kickbacks imposed by the criminal groups are covered by fictitious invoices, shifting the cost of the imposition onto the fiscal advantage, the victimized entrepreneur has an incentive not to report the extortion"* (DIA, 2025, p. 6).²²

IFT also allows mafias to rapidly shift from one type of service (e.g. tax reduction) to another (usury or extortion). In C133, an entrepreneur in the metals trade industry, facing some financial difficulties, was put in contact with some Swiss financial brokers linked to 'Ndrangheta, who started offering him some cost savings which employed false invoices. This service rapidly transformed into intimidation and extortion, with the criminals imposing on the entrepreneur mafia methods and violence. Similarly, in another case (not included in this sample), an entrepreneur was firstly extorted by an 'Ndrangheta affiliate, and then colluded with him by setting up an IFT scheme involving his firm and others (Tribunale di Milano, 2022). The same applies to usury. Parbonetti (2021) and Riccardi (2025), by referencing to some case-studies, show how IFT can be easily

²¹ *"You pay as a consultancy fee, you know [...] These are clean [payments] and I get out from tarantelle"* (i.e. problems) (Tribunale di Bari, 2016, p. 42)

²² Translation by the author

employed to conceal loan sharking payments, and to conceal, in the form of commercial transactions, the stripping of the usury victim's assets when they are unable to repay the illegal loan.

In this sense, IFT are able to capture the wide variety of interactions that can develop between mafias and legitimate entrepreneurs (see e.g. Sciarrone, 2019, 2009; Catino, 2020, 2018), and to blur the boundaries between collusion and victimization, between costs and benefits, between being the victim of a crime and the beneficiary of a highly personalized service. This elusive and dual nature is the key principle that explains the social relations of mafias with legal entrepreneurs – and more generally with societal actors. As Leopoldo Franchetti and Sidney Sonnino already observed in 1876 in their famous 'Inchiesta in Sicilia', in the mafia culture *"the distinction between the harm avoided and the benefit conferred is, to a certain extent, artificial"*. False invoices are an instrument that makes this dynamic possible. For this reason treating them just as minor highly-technical felonies misses the point about their key role in the broader OC strategy.

4.4 Case-study: the *Cash tower*

This case-study is paradigmatic of what above discussed. It refers to a large investigation carried out by the prosecutor's office of Brescia, in northern Italy, named *Torre di contanti* - i.e. 'Cash tower' (Tribunale di Brescia, 2025). An Italian individual, resident in Northern Italy but affiliated to 'Ndrangheta family in Calabria, is in business with two other people – an Italian not-related to mafia and a Vietnamese guy – to provide IFT services to a large number of local entrepreneurs who want to reduce the tax burden or are seeking for cash off-the-record. For doing so, they employ shell companies located in foreign countries, mostly Bulgaria, and 'buffer' companies located mostly in Italy. All instrumental firms, even those incorporated abroad, are managed from a single office in Brescia. The 'Ndrangheta affiliate becomes aware of the lucrative sector (able to move more than 10 millions euro per month, according to the authorities) and decides to oust the other two partners and take control of the operations. He does so by relying on accomplices, also affiliated with the 'Ndrangheta, and by extensively using intimidation, threat of violence, and mafia methods. While his Italian partner immediately understands the threat and quickly exits de facto the consortium, the Vietnamese partner resists. So the 'Ndrangheta member begins to threaten him verbally (*"do you want a Calabria vs. Vietnam war?"*) and then with actions: first by staging a robbery against a cash courier, and then by forcing the change of the passwords of the shell companies' bank accounts in Bulgaria, thereby preventing his former partners from accessing the accounts and withdrawing the wire transfers made by IFT clients.

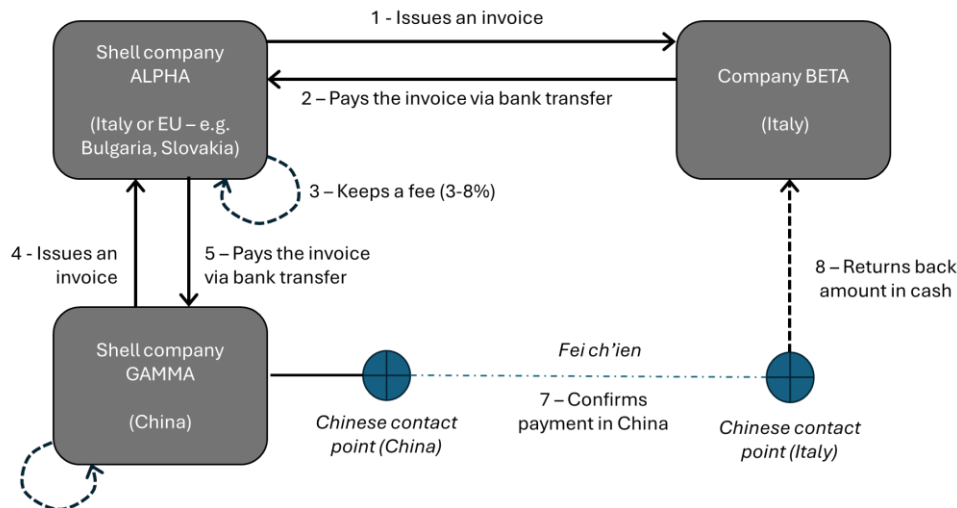
Once he effectively takes control of the scheme, he establishes a partnership with Chinese groups for the return of cash to the clients of the IFT services. He relies on some Chinese residents in Milan, who handle the receipt of the false invoices (directly from the clients or from the Italian shell and buffer companies) and eventually deliver the cash via couriers to the clients. The scheme is represented in the Figure 9 below. In summary, it consists of five steps (Tribunale di Brescia, 2025):

- i. The client, i.e. the IFT beneficiary (usually, an Italian businessman not related to organised crime) 'books' the desired amount they want to receive in cash – in this sense this is referred to as a 'clandestine bank';
- ii. The criminal group, i.e. the IFT issuers, takes care of all the paperwork needed to justify the transaction: false invoices, fake transport documents, fake custom documents;

- iii. The clients receive an invoice from a shell company (normally based in Bulgaria, Slovakia or in the EU) or from a buffer company based in Italy but in turn linked to the shell company. They pay it in the form of bank transfer, normally to a foreign bank account;
- iv. In order to collect the cash amounts, the shell companies based in the EU, and controlled by the 'Ndrangheta affiliate, then make a bank transfer to shell companies, normally based in China, controlled by the Chinese partners, which have issued a further false invoice to the EU shell companies;
- v. Once they receive the wire transfer in China, the Chinese individuals located in Italy deliver back, via couriers, the cash amounts to the Italian final clients, employing the typical *Fei'n chien* mechanism, described in Paragraph 4.3 above.

The fees charged by the Italian criminal group (IFT issuers) to the final client were between 6-8%; the one charged by Chinese to the Italian around 2%; which mean roughly a mark-up of 5% by the Italian group. The IFT scheme therefore appears as a slight sophistication of the one depicted in Figure 1 above.

Figure 9 – The IFT scheme employed by criminals in the ‘Cash tower’ operation



Source: Author's elaboration

Conclusions

The paper offers empirical insights into the employment of IFT services for money laundering, organised crime and financial crime purposes in Italy. There are two sets of implications which can be derived from this analysis, one on the sociological/criminological side, and another one on the AML policy side.

First, it is evident that IFT appears as a multi-purpose offence, useful for enabling, concealing – and in some cases simply making it possible – a variety of crimes: tax fraud, money laundering, embezzlement of public or corporate funds, corruption, extortion, usury, laundering of stolen or illicit products. As well as a kitchen robot can do a lot for (especially bad) cooks - chopping, heating, stirring, etc -, then IFT can do much for criminals. The high (economic, organisational and social) return of IFT compared to the low (legal) risk makes it appealing for both lone criminals and tax evaders, but also for well-established OC groups, already involved in traditional serious crimes, who employ IFT both as (i) users/beneficiaries (for example to launder

drug proceeds) and (ii) *providers* of IFT services, by monetizing their wide availability of dirty cash, and benefiting from the large demand of IFT from legal entrepreneurs.

In this sense, IFT can be employed strategically by criminal groups – first of all mafia-type organizations – to enlarge the array of services they offer to legitimate entrepreneurs, reduce the costs these may entail, expand the (perception of) benefit and ultimately increase the client base and social consensus. As documented in this paper, when entrepreneurs pay kickbacks to OC groups in the form of IFT, they can reduce their tax burden, and therefore they receive a clear advantage which in traditional extortion is absent. This eventually turns criminals in the eyes of entrepreneurs from ‘tax collectors’ to ‘tax consultants’. And simultaneously allow OC groups to launder their money.

Second, this paper shows very frequent cooperation between Chinese criminal networks and Italian criminal associations, including mafias. This confirms what is being observed in other countries, in particular in the United States, where the cooperation between Mexican cartels and Chinese OC groups for laundering money via IFT and TBML (combined with *Fei ch'ien*) is, at least according to authorities and investigative evidence, very significant (FinCEN Advisory, 2025; U.S. Department of Justice, 2024; Mavrellis, 2023). This opens interesting questions from a criminological perspective on the relation between domestic incumbent groups and foreign ones, because, at least until few years ago, the fact that ‘Ndrangheta could rely so systematically on a foreign actor to move their illicit money would have been unplausible. It would be interesting to understand if this happens just because of the unbeatable pricing offered by Chinese IFT suppliers, or because of other reasons (e.g. better logistics or better trust than with other intermediaries).

For these reasons – and because of the key role that IFT seems to play in contemporary OC strategy and money laundering market - this paper argues that IFT shall not be treated just as a minor administrative felony, but as a primary offence which would deserve the attention of sociologists and economists working in the crime research domain.

The second set of implications regards AML efforts and policies. IFT is particularly hard to detect due to a number of reasons, the most important being the difficulty for AML public authorities (but also banks and other obliged entities) to access invoice data and custom information. This gap makes these agencies unable to discriminate effectively between true and fake commercial transactions. This calls for strengthening the cooperation – and primarily the data exchange - between FIUs, tax authorities and custom agencies, and in particular for innovative ways to combine banking data with tax information and custom declarations, so as to help the early-detection of fake transactions.

On another hand, the analysis demonstrates the crucial role played by (a) cash and (b) shell-companies in IFT schemes. Often, the critics against AML cash reduction policies leverage on the assumption that OC moves only “big amounts of money”, so they are not interested in variations in cash-use limits. In fact, the cases analysed here show that IFT clients manage also small amounts of cash, whose multiplication makes the IFT system working extremely well. Acknowledging this mechanism brings to reconsidering the importance of imposing low cash thresholds, which would make it hard for IFT beneficiaries to spend their cashback money in the legal economy. As regards shell companies, the analysis calls for improving the instruments in place to early detect the setting up of bogus firms, for example by employing those analytical models already proposed by various scholars (see e.g. De Simoni & Pellegrini, 2025; Pellegrini et al., 2020; Jofre et al., 2024). While selected authorities and banks already occasionally employ these detection techniques, it is recommended that also business registers could take a front role in enhancing due diligence of firms at high

risk of being misused for IFT. For example, they may be attributed powers to deny the incorporation of companies which cannot prove a real economic activity - or even dispose their closure. But this may be in conflict with the freedom of entrepreneurial initiative, which is a cornerstone of democratic systems.

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