Διπλωματική Εργασία

Money Laundering and its effects on the economy

του

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Abstract

This thesis reviews the literature on money laundering and its macroeconomic effects. Although money laundering existed for many centuries, the rise of terrorism increased the focus of regulatory bodies on implementing anti-money laundering measures worldwide. However, money launderers remain ahead of regulators as they constantly seek and find new methods to disguise their illicit proceeds and their

predicate crimes. Literature argues that there are three key effects of money laundering on the macroeconomy: the distortion and magnification of the shadow economy, the distortion of international capital flows and the reduction of tax revenue. The thesis also analyzes the 2019 Basel AML index which is a comprehensive index of the money laundering and terrorism financing risk that each country is exposed to. They main conclusion is that even countries that implement the most thorough counter measures remain significantly vulnerable to money laundering risk.

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Chapter 1. Introduction

1.1 Introductory comments

Disguising proceeds to avoid paying tax has been a common practice for thousands of years. However, as jurisdictions gradually increased regulation and control against criminal activities, criminals started adopting new methods to make their illegal proceeds appear as legitimate. Money laundering seems to have taken its name from the early days of US gangsters such as Al Capone who were setting up cash-based laundromat businesses that offered greater flexibility in hiding their illegal activities. While anti-money laundering frameworks keep growing and gradually are being implemented in emerging economies too, criminals continue to find new ways of hiding the source of their funds. Cryptocurrencies, money service businesses (as an alternative to banks), online banking, gambling and virtual gaming websites and wire transfers are only some of the contemporary methods that criminals use today.

Although it has been a constant problem, money laundering received greater attention in the past 20 years due to the rise of terrorism(Biersteker and Eckert, 2007). To facilitate their operational plans, terrorists need money. Terrorist organizations use their financing to purchase equipment such as guns, uniforms, vehicles etc. The source of the funds that help the plans of terrorists can be either licit or illicit, while financing usually is collected from numerous small donations rather than large amounts of money. Illicit sources of terrorists' funds often include the connection of terrorists to criminal activities such as drugs and arms trafficking or kidnapping. Terrorism financing not only threatens national security but also it undermines economic growth and financial stability. In recent times, terrorism financing has become synonymous with money laundering in terms of counter and control measures that jurisdictions take to eliminate the flow of financing to terrorists.

1.2. Scope and main research questions

Over the past 30 years, significant efforts have been made on an international scale to counter money laundering. Most jurisdictions across the globe are currently implementing some kind of control against money laundering. From border control to transparency requirements in the ownership of legal entities, every jurisdiction is being judged on the effectiveness of its anti-money laundering (AML) framework by

international organizations that focus on combating the disguise of illicit proceeds on an international level. Some of the organizations that fight money laundering are the Financial Action Task Force (FATF), the European Commission, the International Criminal Police Organization (Interpol) or the US Department of State that publishes the International Narcotics Control Strategy Report (INCSR). However, although combating money laundering is important for the safe operations of the global financial system, many suggest that implementing very tight controls against financial crime can prevent economic growth (Quirk, 1996). More specifically, some governments that try to liberalize their economic and financial sectors believe that these international efforts to strengthen sovereign AML frameworks are not in line with their economic expansion plans. On the other hand, the global institutions that try to counter money laundering argue that the liberalization of international financial markets promotes money laundering (FATF, 2019). Therefore, money laundering, AML measures and macroeconomic efficiency are strongly interconnectedand until today, no perfect remedy has been found against the disguise of illicit proceeds. Instead, regulators and policy makers try to take into account all potential consequences of the AML measures that they suggest to governments. As a result, policy making in this area requires a strong understanding of the macroeconomic implications of moneylaundering.

Criminals always find new methods to hide their illegal income and the predicate crimes related to their money laundering activities. Technological innovations in the financial markets that come with reduced regulations are particularly attractive to money launderers that have taken advantage of cryptocurrencies such as Bitcoin. As a virtual currency, Bitcoin is used by criminals because in certain deregulated online exchanges transactions are taking place in anonymity, while Bitcoin and other cryptocurrencies offer plenty of methods to launder money (Van Wegberg et al., 2018). Although, only a small fraction of global money laundering can be attributed to cryptocurrencies, it can be a real danger for the international financial system if it remains deregulated and the virtual currency market continues to grow (Elliptic, 2019).

Surprisingly, literature and empirical evidence on the macroeconomic effects of money laundering is very limited. This thesis discusses three key effects of money laundering on the macroeconomy as they are analyzed in literature: the distortion and magnification of the shadow economy(Blum et al., 1999; Schneider and Enste, 2002; Buehn and Schneider, 2007), the distortion of international capital flows (Baker, 2005; De Boyrie et al., 2005; Levi and Reuter, 2006) and the reduction of tax revenue(Quirk,

1996; Nash, 2011). More specifically, money launderers take advantage of small businesses in the shadow economy as they seek to disguise their illicit proceeds in the first stages of money laundering. The shadow economy that involves small legal businesses evading tax is very important for many developing countries and money laundering impedes its role. Also, international capital flows are significantly affected as money launderers seek to hide their illicit proceeds in foreign bank accounts. Finally, the traditional view is that government income from tax collection is considerably reduced by money laundering as by definition, tax evasion is an essential element of money laundering. However, this is not always true as money laundering increases economic activity and if launderers choose to disguise their money through a vehicle-company, they will pay tax.

The limited empirical evidence on the macroeconomic effects of money laundering is possibly associated with the lack of comprehensive quantitative measures.Measuring the amount of money lost from government revenue because of money laundering is very complicated and it requires the calculation of a wide range of aspects that capture all the approaches that criminals use, which are sometimes unknown since authorities fail to uncover them. One of the "safest" methods that criminals use to disguise their illicit proceeds is to transfer the money to another jurisdiction (country). However, measuring capital flows cannot always indicate the magnitude of money laundering as it can be simply capital flight instead of the transfer of dirty money. This thesis uses the 2019 Basel AML index to analyze the global and national state of money laundering risk. The index manages to combine five aspects of money laundering risk which are Quality of AML/CFT Framework, Bribery and Corruption, Financial Transparency and Standards, Public Transparency and Accountability and Legal and Political Risks. The index ranks all countries according to their risk scores. Real cases of money laundering though show that even countries with the lowest risk scores are significantly vulnerable to money laundering risk. It appears that regardless ofhow strict the AML framework of a country is, criminals always find ways to disguise their illicit proceeds, at least for a period of time.

1.3 Structure of the thesis

The rest of the thesis is structured as follows. Section 2 presents the definition, short history and main stages of money laundering. Section 3 outlines the reasoning behind fighting money laundering and terrorism financing. Section 4 describes eight of the biggest and most popular money laundering cases. Section 5 discusses the methods and implications of money laundering through cryptocurrencies.

Section 6 reviews the literature on the effects of money laundering on the economy. Section 7 presents the current risk exposure to money laundering on a national scale based on the Basel AML index of 2019.

Chapter 2. The Basics of Money Laundering: Definition, History and Stages

2.1 Definition

The analysis of the money laundering causes, processes and effects requires an accurate definition of this action. Masciandaro (1999) structures the definition of money laundering upon its two key characteristics: illegality and concealment. The illegality feature of money laundering refers to the use of money that has been generated through an illegal activity. This first characteristic differentiates the money laundering process from the criminal activity that revenue is originating from. In this way, money laundering holds an autonomy and it is not considered responsible for the criminal activities that took place before the money was laundered such as fraud, corruption, kidnapping etc. The concealment feature implies that the main goal of money launderers is to disguise the original illegal source of this money. The second characteristic shows the central economic function of money laundering which is to turn illegal funds into legal. Therefore, the essence of money laundering's economic function is to create purchasing power, as the money originating from illegal activities cannot directly facilitate the consumption, investment or saving needs of the people who hold it.

Previous research on the different forms of money laundering has showed that the criminal activity generating illegal revenue is not necessarily related to this phenomenon as it stands completely independent in several cases (Savona and De Feo, 1994). This autonomy of money laundering can be seen in all cases of people who want to avoid the risk of their illegal funds being discovered such as in political and administrative corruption, tax evaders etc.

2.2 History

Historians are debating regarding the first appearance of the money laundering process. Seagrave (1995) argues that the first signs appeared more than 3000 years ago, when Chinese merchants would hide the wealth that they had earned by trading goods so that rulers wouldn't take their money. He supports that the merchants would use money laundering techniques that are still being used today.

Those included investing money to companies that belonged to another jurisdiction, converting their money into different types of assets or taking advantage of inflated prices to move their money abroad (Morris-Cotterill, 2001). As a result, the motivation to avoid paying tax to the government and retain as much as possible from the earned income established this primitive form of money laundering. Since then, the mechanisms of money laundering have changed significantly and have become more sophisticated but the principles of hiding moving and investing money despite the fact that someone else has a claim have remained the same throughout the passage of time.

In the US, a significant increase in financial crime was observed when those prepared to break the law took advantage of mechanisms involving gambling. These mechanisms were used to hide the origin or large sums of money which was usually made by importing alcohol. Ironically, money launderers used legal gambling as one of the waystodisguise the source of the money. The problem of criminals was that they received the money in cash, often in low denomination currency, which in turn brought them a difficult position as they couldn't deposit the money to the bank. Should large amounts of money be deposited to the bank questions would be asked by tax authorities as to where the money came from. Therefore, the obvious thing to do for most criminals was to open a cash business. The most often types of cash businesses used by criminals were slot machines and laundries (which according to the rumor is where the origin of the term "money laundering" lies) (Money Laundering Compliance, 2019).

However, soon criminals wanted to get businesses where they would get greater returns. So, they started buying everything from film studios to banks and even sometimes governments. If for whatever reason they could not buy the entire business they would seek to start a co-operation with the people within the company.

Yet, money laundering was not only developed to avoid paying tax or hide criminal activities. In many cases, money laundering has evolved to practically facilitate trade. In countries with tight exchange control systems or strict customs inspection, traders had to find ways to operate their businesses offshore. The same takes place to a few countries with strict currency transaction requirements (Money Laundering Compliance, 2019). However, as soon as these money laundering systems that facilitate the needs of traders become known to criminals, they tend to be dominated by them who are always seeking ways to hide their illegal activities.

The term money laundering started appearing more predominantly in the early 1900's when gangsters such as Al Capone where trying to legalize their income. More specifically, Al Capone is said to have used

actual laundromats to funnel his "dirty" money and mix the case with the revenues of a legitimate business. In this way, Al Capone and other criminals were successfully hidingboth theirincome as well as their illegal activities such drug trafficking and prostitution from law authorities.

Today, only the term "money laundering" relates to the past financial criminal activities. As anti-money laundering policies and procedures became stronger, criminals needed to find new ways to hide their money. The rise of fintech gave an important new asset to their hands and with the use of latest technologies money laundering is no longer so straightforward as in the past. Although online systems make detection of fraud easier in conservative methods of payment, modern money launderers manage to stay ahead of financial institutions and regulators. They use modern sophisticated financial and accounting tools to trick the existing financial systems into accepting their money coming from illegal activities (NATCNC, 2017).

2.3 Types of Money Launderers

BAE Systems (2019), a British defense and security company, that is one of the largest defense contractors in the world, has identified six common profiles of money launderers after analyzing thousands of customer data.

1. The Source: Top notch fraudsters that make consistent revenues from criminal activities and therefore need to make their money look legal.
2. The Leader: Usually, political leaders that are in power for years and make money by stripping their nation of wealth to become richer. They want to hide their activities and use part of the money to remain in power.
3. The Bystander: People that do not take part in a criminal activity but are happy to help criminals disguise their money to make a profit for themselves.
4. The Watched: People who are suspected for corruption and fraud and are on international watch lists.
5. The Shark: Usually people in the banking system that help the legalization of illicit revenue for a price.
6. The Shop Front: Companies that look perfectly legal and are used to launder money.

2.4 Stages of Money Laundering

All money laundering processes (traditional or modern) are characterized by three common stages: placement, layering and integration (ICAS, 2019).

Placement

The stage of placement refers to moving the cash from its original source. The primary goal in this stage is to disguise the source of the money which is often a criminal activity. Then, the money needs to be placed into the economy's circulation with the use of financial institutions, currency exchange shops, casinos and many other types of businesses that can be based locally or abroad. This stage of money laundering can be accomplished through many processes such as:

*Currency Smuggling:*This refers to the illegal transfer of money to other countries. "Currency smugglers" use various methods to make sure that they do not leave audit trails behind them when they move their money transnationally.

Bank Complicity: This method of placement refers to the ownership or control of a financial institution, usually a bank, by corrupt individuals who are suspected to be helping criminals. Considering that for many years the finance industry was deregulated, money launderers were given this leeway to complete their tasks.

Currency Exchanges: In transitional economies, as it is the case for some South-East European countries, the liberalization of foreign exchange markets offers the opportunity to money launderers to easily exchange their money for another currency. Although this method does not completely disguise the money, it is an important tool in their hands.

Securities Brokers: Another way to hide the origin of funds, is to funnel it through financial securities.Similar to bankers, securities brokers can use the financial markets to disguise the origin of large deposits.

Blending of Funds: One of the best methods to hide cash is to blend it with a larger amount of cash. This can happen either by blending it with cash at the bank or by using it to set up front businesses. In this way, funds from criminal activities are obscured in legal transactions.

Asset Purchase: Using money from illicit activities to buy physical assets of the same value that are less conspicuous has also been a very successful method of placing money in this process. However, the rise of credit card and electronic scrutiny of payments in the last decades has made this method more difficult to use.

Layering

The goal of layering, the second stage in the money laundering process, is to make the process as untraceable as possible by the authorities. Launderers use several methods in stage as well such as:

Converting Cash into Monetary Instruments:Upon successful placement of the money coming from an illegal activity into the institutions and business as described earlier, launderers may try to convert this money into monetary instruments with the help of the bank's drafts and money orders.

Purchasing and Selling Physical Assets: As discussed earlier, money launderers may purchase physical assets as a first step to place their money into the economy. However, in order to make the money undetectable, the may also seek to sell these assets to hide the origin of the money. The more times the money is used in this process, the more difficult it is for the authorities to trace their origin.

Integration

The third and last stage of money laundering is integration and it refers to the movement of money that has been previously laundered within the economy to make it look as legitimate business income. This is not the same as layering because in this stage detection of funds comes from informants since the money has already been successfully placed into the economy and launderers have used a first layering to cover their tracks. Common methods of integration are:

Property Dealing: Selling property to integrate money in the economy is a very common practice by money launderers. By usually employing shell companies to purchase property, criminals can later sell the property and have money that is considered legitimate by the authorities.

Front Companies: Launderers may also use front companies which then are incorporated in legislations with strong corporate secrecy laws. A common practice is to use false loans; lend themselves money from stemming from illegal activities.

Foreign Bank Complicity:Higher level of sophistication in money laundering can be added with the use of foreign banks as they are a very difficult law target.If foreign banks are willing to help the criminals, the scrutiny job by law authorities becomes a lot harder.

False Import and Export Invoices:Another effective way of integrating criminal proceeds into the economy is the use of false import and export invoices by trading companies. A common practice is to overvalue the price of goods that enter the country as in this way they justify the excess amount that they actually earned by engaging in criminal activities.

Chapter 3.Regulation and Prevention of Money Laundering

The criminalization of money laundering gives the power to law enforcement agencies (LEAs) to identify and arrest criminals. The authorities have the power to prosecute criminals not only for their illegal activities/ crimes but also for money laundering offences. The offenders have the opportunity to defend themselves with the "reversal of the burden of proof" (Stessens, 2000). Money laundering prosecution is different than conventional prosecution in this regard. In conventional prosecution, the offender is presumed as innocent and the prosecution has to provide all evidence that the offence took place. However, in money laundering prosecution, offenders are given the burden of proof, which means that they have to prove the legitimate source of the money. Hence, if they fail to provide adequate evidence regarding the source of their funds, they will be charged with the money laundering offence.

3.1 Why Fight Money Laundering?

People who engage in criminal activities are able to accumulate a significant level of wealth by committing serious crimes such as human and drug trafficking, corruption, investment fraud, extortion etc. Disguising the proceeds of these activities is a real danger to the legitimate part of the economy puts the integrity of important financial institutions and their role at risk. Also, money laundering can negatively affect the economic power of entire industries or sectors(U.S. Department of justice, 2021). If regulators do not attempt to combat money laundering, it has the power to utterly corrupt society. According to OECD (2019) combating money laundering serves a group of significant purposes that are outlined below:

Societal Importance

A criminal activity can have both tangible and intangible consequences for individuals and organizations that were not involved in these activities which eventually hurts society as a whole. This is because when money laundering is widely used it can shutter the confidence of the public in essential institutions such as banks, hospitals or the government as well as in professions such as lawyers or accountants. Also, when criminals invest their "dirty" money in businesses they can distort the structure of entire industries and cause malfunction. Finally, money laundering enables criminals to have a very successful career and life since it allows them to grow their illegal business. This aspect though, may be perceived by society as a good option for people and that everyone should start a criminal career since it pays significantly more than having a legitimate job or business(OECD, 2009).

To SpotTax and Other Financial Crimes

Combating money laundering involves at a great extent the identification of unusual transactions which is a common method for spotting tax evasion. However, taxing the money that comes from criminal activities does not solve the problem. Instead, detection of these transactions may lead to the identification of the people who are involved in crimes so they can later be arrested and stop their illegal actions. This process involves a lot sharing information among law enforcement authorities and financial institutions that are asked to help(OECD, 2009).

Locating Criminal Assets

Arresting the criminals behind money laundering is not always an adequate solution. In many occasions, authorities are focused on finding criminal assets too such as bank accounts, real estate, vehicles etc. Identifying those assets can help the law enforcement authorities not only to confiscate them but also to uncover partners of the criminals that engage in similar illegal activities(OECD, 2009).

Legal Context and Tax

Nowadays, in most countries, money laundering is combatted by an established legal framework that deems money laundering as an individual criminal offense. The penal code of each legislation mentions explicitly which activities related to disguising proceeds from criminal actions are prohibited along with a list of all relevant crimes connected to money laundering (predicate offences). The latter can either be defined as all the offences in the penal code or just as certain targeted criminal offences. Although the Financial Action Task Force (FATF) suggests that tax crimes should be considered as predicate offences

to money laundering, in many cases this does not happen. This is the case when for instance tax evasion is the sole illegal action (e.g., under-reported sales) as in these scenarios the action is not connected to another criminal activity's proceeds. Yet, tax administration has the power to detect indicators of money laundering and it is very important to not only identify the tax avoidance but also to communicate them to the relevant authorities as these indicators could uncover money that has been made through serious criminal offences(OECD, 2009).

3.2 Money Laundering and Terrorism Financing

Since 1989, when the "fight" against money laundering started, few researchers dedicated their work to studying the implications of dirty money in the economy (Van Duyne, 1998; Sheptycki, 2002). However, this changed significantly after 9/11, when a shocking terrorism hit at the heart of New York forced the Bush administration to declare a war against terrorism which would incorporate considerable financial constraints for terrorists, aiming to eliminate their operations (Biersteker and Eckert, 2007). Since then, terrorism became even more connected to money laundering as institutions that were previously focused on anti-money laundering activities, have now been assigned to fight the financing of terrorists. As a result, these institutions employed their high-level expertise that they had developed in other important combats against crime such as the "war on drugs" (Heng and McDonagh, 2009). Consequently, this led to significant strengthening of the surveillance of international capital flows since 2001.

Favarel-Garrigues et al. (2011) show that after 2001 French banks have been involved in anti-money-laundering considerably more than previously. They argue that it is mostly large retail banks that become essentially involved because in contrast to corporate or investment banks, retail banks are more concerned with customer-screening activities. The banks that participate in this process usually rely a lot on a risk-based management approach and use a different kind of measures to analyze financial flows. Very often these banks also employ specialized software which they purchase from external partners. All around the world, banks had to gradually start using these systems to secure their reputation and auditability (Ericson, 2006). However, usage of such software has also driven banks to exclude people with certain characteristics that have been targeted by the new tools.

In recent years, the biggest global terrorism threat is ISIS. To eliminate this threat, FATF suggests that all countries implement its standards and advises to successfully combat the financing of terrorism. More

specifically, FATF (2019) emphasizes on the implementation of certain recommendations for this particular case as the following:

FATF Recommendation 5: All countries should be thoroughly investigating the financing of both individuals and organizations that are connected to terrorism even when there is no direct terrorist act.

FATF Recommendation 6: International financial sanctions must be solidly implemented with no delays against individuals and organizations and countries should identify the new targets that meet the designation criteria.

FATF Recommendation 8: Countries must make sure that terrorists do not take advantage of or abuse non-profit organizations to facilitate their financial needs.

FATF Recommendations 10, 13 and 16: The international financial system of a country should be protected against ISIS with several preventive actions such as wire transfer control or due diligence.

FATF Recommendation 14: All individuals that are employed in money transfer services should be licensed, monitored and prohibited in case they do not comply with the regulations.

FATF Recommendation 32: Designated officials should have the authority to request explicit information regarding the origin and destination of currency in the case international cash transactions. When authorities suspect that a transaction is related to terrorism, they should confiscate the money.

FATF Recommendations 37, 39 and 40: Countries should make themselves available for international cooperation with anti-terrorism agencies from other countries to help them with investigation or prosecution of individuals of organizations suspected for terrorist activities.

Chapter 4.Cases of Money Laundering

4.1 Introduction

This section elaborates on some of the most prominent money laundering schemes that have taken place around the world from the early decades of the 20th century to 2019. The description of each case not only shows the motives of those engaging in criminal activities but also the creative methods that they used to hide from the law, the impact of money laundering on society and the absence of adequate control and regulation in important financial institutions. Some of these institutions had to pay massive penalty fees to maintain their operations while others were so fraudulent that had to seize their operations.

4.2HSBC

In 2012, HSBC holdings plc, the largest bank in United kingdom and one of the largest in the world, was forced to pay $1.9bn to settle allegations that it didn't prevent drug traffickers to use its financial services(Treanor and Rushe, 2012). According to the estimates of the investigators of the case, Mexican and Colombian drug traffickers managed to deposit at least $881m of their illegal proceeds which allowed them to circulate this money into the international financial system. This is a significant amount considering that HSBC's Mexican branchestransferred almost $7bn into the US financial system, which when tied to drug money, it can have important effects on the US banking system and economy.

Despite the obvious increased risk in money laundering that Mexico is associated with, the bank had severely understaffed its branches. This enabled criminals to deposit their money without any significant scrutiny by the compliance department of the bank which was not able to implement an effective anti-money laundering scheme based on international regulatory guidance. In this way, money launderers found a way to use a complicated scheme called the Black Market Peso Exchange (BMPE) to make their proceeds appear as legitimate in the financial system(Mollenkamp and Wolf, 2012).

Apart from the significant fine, the penalty imposed by the US department of justice included a 5-year agreement which required from the bank to set up an independent monitor to evaluate the new internal controls. Also, for the same period, most of the bank's executives' bonuses were deferred while a large part of previously paid bonuses were asked back from those involved in the case. The bank avoided criminal prosecution which would be catastrophicsince it would mean that the bank couldn't

operate in the US anymore. Immediately after the decision of the court, the bank spent approximately $300m to improve its compliance systems and prevent a repeat of this case.

4.3 BCCI

Founded in 1973 in Pakistan, the Bank of Credit and Commerce International (BCCI) was one of the most reputable titans in the financial services industry. The bank had $25 billion in assets while it operated in 78 countries with more than 400 branches(Mufson and McGee, 1991). However, the bank became so corrupt that eventually it shut its operations.Reportedly, more than 1.2 million depositors had trusted their money with BCCI. Considering that most of them were located in third world countries, the impact of the shut down of the bank was significant.

Apart from hiding deposits, losses and giving ill-advised loans, BCCI also assisted a wide range of criminals with their financial needs including terrorists, spies, drug traffickers and dictators(Mufson and McGee, 1991). Many of the questions on how the bank managed to cover such a huge scandal for so long remain unanswered today. More specifically, a massive $5 billion hole in the balance sheet of the banks left everyone wondering whether executives were just trying to keep the bank running by hiding losses or they stole the money for their own benefit. The absence of effective control and regulation over BCCI's activities initiated a set of new rules for banks to follow.

On July 5, 1991, after significant efforts to clean up the bank and help it continue its operations, the Bank of England decided to seize BCCI's operations because the level of fraud that was taking place was so big that the bank couldn't be reformed. Robin Leigh-Pemberton, former governor of the Bank of England argued that "The culture of the bank is criminal"(Mufson and McGee, 1991).

BCCI's fraud was committed on a massive scale. It appears that the bank was keeping books for a "separate bank" within the bank that was handling all the illegal and fraudulent transactions. Also, the bank was paying ridiculous amounts of money to its managers to silence them off, it was using client accounts to cover up its own losses and it was transferring money among affiliated banks to hide the bank's real financial condition.

One of the real fraudulent actions by BCCI that became available to the public was the First American case. Prominent individuals from the Middle East would serve as BCCI's fronts to help it gain control of

First American in 1981. The shares in First American, although legally held, were used as collateral by BCCI to issue another $600 million in new loans, money that was later used to disguise the bank's losses.

4.4 Wachovia

Following the discovery of 5.7 tons of cocaine in a jet landed on the Gulf of Mexico, the US Drug Enforcement Administration began an investigation that lasted almost two years(Vulliamy, 2011). The results of the investigation showed that the drug traffickers had bought the airplane with money that they laundered through one of the largest banks in the US: Wachovia.

This initiated a further investigation of Wachovia which showed that billions of US dollars had been transferred through the bank's accounts in wire transfers, traveler's cheques and cash shipments. Interestingly, Wachovia's failure to operate effectively an anti-money laundering program coincided with start of escalating violence in the border of US and Mexico in 2004 which triggered the drug war that followed.

Wachovia faced criminal proceedings but the case never reached court and no individuals were prosecuted. The bank's deferred prosecution was later expired which let it maintain its operations. However, the bank had to pay to the authorities $110m for assisting the transactions connected to drug smuggling to go through as well as a fine of $50m for not monitoring a large amount of cash that was used to move around 22 tons of cocaine(Vulliamy, 2011).

However, more shocking is the amount that is estimated to have been laundered in total for the period under investigation which officials believe to be close to $378.4bn, approximately 30% of Mexico's gross national product. Nevertheless, despite the significant implications of these activities, the bank got away with a total fine of less than 2% of its profit for 2009 which didn't have any significant impact on the Wells Fargo stock (its later parent company)(Vulliamy, 2011). After the financial crisis, Wachovia was bought by Wells Fargo which received $25bn to be bailed out with taxpayers' money(Dugan, 2017). This shows the priority of the federal authorities to maintain an undisrupted financial system against punishing those that broke the law and put the system in greater danger.

4.5 Standard Chartered

Standard Chartered PLC is a banking and financial services multinational company which is headquartered in London, England. The bank has a long history of being entangled in money laundering schemes and it has been accused and fined for poor control multiple times.

Most recently, in 2019, Standard Chartered was asked to pay a total of $1.1bn by US and UK banking authorities for failing to control transactions by money launderers as well as not complying with sanctions against countries such as Iran(Makortoff, 2019). While the US authorities fined the bank mainly for breaching the sanctions against Iran, UK authorities (the Financial Conduct Authority) were focused on the anti-money laundering breaches. More specifically, Standard Chartered was accused that it failed to counter terrorism in the Middle East, a geographic area that the bank is heavily focused on and it was ordered to pay the second largest fine for anti-money laundering failure ever imposed by UK authorities. Reportedly, between 2009 and 2014, the bank processed transactions that are approximately worth $438m from Iran to US through its Dubai branches(Makortoff, 2019). While Standard Chartered took responsibility for its wrongdoings, it also blamed partially two former junior analysts who worked with Iranian connections to break the law and violate the bank's policies. By breaching international sanctions and failing to control transactions by money launderers again, Standard Chartered also extended its issues with the deferred prosecution agreement (DPA) given to the bank in 2012. DPAs allow financial institutions to face charges by national authorities without a criminal prosecution. Instead, companies must undertake other forms of penalties which usually include a fine and being under close monitoring for a specified period of time. In 2012, the bank had again been penalized for breaching sanctions against Iran by US regulators with a total fine of $670m(Treanor, 2012). Only for a few days, Standard Chartered's DPA from 2012 hadn't expired in 2019 when the new fine was imposed which led to the extension of monitoring to April 2021. This means that for the following two years, the bank will continue to be on probation, effectively giving the state authorities the right to a criminal prosecution in case the bank breaks the law again.

4.6 Nauru

Nauru is a different case to the others. Instead of a fraudulent financial institution, it is a country. Nauru is a very small island in Micronesia, close to Australia which had been very rich in the past. However, when the country couldn't meet its loan obligations it started spending years in penury. Its central bank

defaulted, real estate in foreign states was repossessed, while even its planes were seized by creditors(Davies and Doherty, 2018).

As the situation was worsening, the state decided to take advantage of its sovereignty. In this way, during the 1990's, Nauru became a money-laundering haven. The country had built a business that was selling from passports to banking licenses to very wealthy criminals from abroad, including Al-Qaida and the Russian mafia. Investigators estimated that in 1998 alone, Nauru's banks facilitated transactions of up to $70bn coming only from the Russian mafia(Davies and Doherty, 2018). In 2002, the US treasury suggested officially that Nauru is amoney-laundering state, along with Ukraine, and imposed on it strict sanctions comparable to those imposed on Iraq at the time. Reportedly, Nauru was allowing the establishment of offshore banks that lacked physical presence not only in Nauru, but also in other countries. As a result, these banks were facilitating transactions that no jurisdiction could review and control. The evidence from investigations indicated that these banks were not supervised adequately by any country's official authority.

To fix these issues, the Financial Action Task Force (FATF), started to work with the state of Nauru to help the country escape the vicious financial path that it had taken. In this way, by 2004, Nauru had established anti-money laundering and anti-terrorism financing laws. The new regulations made the offshore banks to disappear as quickly as they had appear. In 2012, when FATF evaluated the case of Nauru, there were just 59 corporations under Nauru jurisdiction with many of them waiting to withdraw their registry, while less than five corporations every year had been registering under Nauru law from 2007 to 2012(Davies and Doherty, 2018).

4.7 Al Capone

Al Capone (1899-1947) was one of the most notorious gangsters in American history and he's being accredited with the term "money laundering" for the innovative then ways to hide proceeds from illegal activities that he and his associates found(Messick and Goldblatt, 1974). Living a life into street gangs from a very young age, Capone eventually took a leading position in mafia which escalated to an extremely profitable empire of organized crime. Reportedly, Capone's illegal proceeds were totaling approximately $100m on an annual basis (today's equivalent is $1.4bn). His "dirty" businesses were involved into illegal gambling, trading alcohol, prostitution and extortion. According to the Chicago Daily

Tribune, 33 people are believed to have lost their lives because of Al Capone's actions, which included killing testifiers against him, people hired to assassinate him, people that owed him money and massacres against rival gangs(Kobler, 2003). Although the American authorities never found the money that Capone was making, it is believed that his businesses laundered up to $1bn(Messick and Goldblatt, 1974). Capone and his associates were disguising their illegal proceeds through several investments such as cash-only laundromats (Capone's laundromats are believed to be the origin of the term "money laundering").

Although Capone was America's most well-known mobster and had created chaos all around Chicago, police was unable to arrest him and put him on trial to face charges for his criminal activities. Instead, an assistant attorney general at that time suggested that mob figures were enjoying lavish lifestyles with their criminal proceeds and not paying any tax(Kobler, 2003). In this way, the IRS started investigating Capone and initially arrested his brother Ralph. In the following weeks, Capone decided to declare that he had an income of $100000 for 1928 and 1929 and was willing to pay tax on it. Eventually, in 1931, Capone was charged for tax evasion and was sentenced to 11 years in prison and fined $50000 with $200000 in interest(Messick and Goldblatt, 1974). Capone's case shows that money laundering does not only distort financial markets, but it can be used to hide serious criminal activities that threaten human life and society's well-being.

4.8 Meyer Lansky

Although Al Capone attracted much of the public's attention as a money launderer because of his killings and criminal activities, the mastermind behind disguising illicit proceeds was Meyer Lansky. Lansky was different to Capone because he didn't believe that he would solve any of his illegal business' issues with violence, as murders often led to public outrage and attracted the attention of authorities. Instead he trusted that when all involved receive their fair share business flourishes(NY Times, 1983).

Lansky's businesses were mostly focused on bootlegging and gambling. Making large sums of money, he then found multiple ways to hide from authorities. However, Lansky also saw an opportunity in lending money to people that were refused by banks. For instance, back then, bankers were reluctant to lend money to businesses from the garment industry because they were usually owned by financially struggling immigrants. Because these shops didn't work with preorders, they were in need of money to produce the clothing to have it ready to be sold in the store. Lansky exploited bankers' mistrust of

immigrants and started providing short-term loans to them to facilitate their business with the proceeds from his illegal businesses. The difference to other criminal lenders though was Lansky did not seek collection of the loan with the use of violence. Instead, when his borrowers couldn't pay back their loans, he simply asked from the owners to transfer him a share of the business and its profits. As a consequence, he was using these acquired clothing shops as fronts for his illegal proceeds(NY Times, 1983).

Despite the fact that Lansky was known as "Mob's Accountant", he is not responsible for inventing the complex money laundering methods that were widely used by criminals of his time. This probably can be attributed to New York attorneys who were being helpful to tax dodgers in the 1920's(Messick and Goldblatt, 1974). Yet, Lansky played a key role in industrializing America's organized crime. Lansky helped many criminals to hide their money trails, including Al Capone by sharing his principles and methods. By teaching gangsters how to transform their illicit gains into legitimate businesses in the eyes of the law, Lansky helped billions to circulate in the US economy.

4.9 Danske Bank

The Danske Bank scandal is one of the most recent cases of money laundering as it became widely known in 2018, with the repercussions still ongoing(Bjerregaard and Kirchmaier, 2019). Considering the amount of money that was involved, it is believed to be the largest money laundering case that ever took place in Europe. Danske Bank, headquartered in Copenhagen, is the largest bank in Denmark while it provides a lot of retail banking services in many northern European countries too.

The story begins in 2007, when Danske Bank opened its first and only branch in Estonia. Danske Bank decided to invest in the Estonian market by taking over Sampo Bank which included the latter's Estonian branch. Just a few months after the branch was operating under the Danske Bank brand, the bank started having serious issues. More specifically, the finance minister of Estonia had put the branch under questioning for its practices because Russia's central bank was sending warnings regarding large transactions which could be connected to money laundering(Milne and Winter, 2018). However, these initial warnings did not lead to something as the bank continued to operate normally. By 2010, Danske Bank's top management was well-informed about the significant amount of deposits that were being transferred from Russia to the bank's Estonian branch, but they decided against taking any action. As the bank continued to accept these deposits with no intervention or control, by 2013, almost all of the

bank's profits were stemming from non-Estonian residents, mainly from depositors coming from Russia as well as other ex-Soviet states. At the end of 2013, the bank's top management was warned again about the malicious nature of the source of these deposits by a whistleblower, but again the bank decided to disregard the warning(Bjerregaard and Kirchmaier, 2019).

It wasn't until 2016 when regulators decided to put an end to this. Danske Bank's Estonian branch suddenly stopped doing business with the non-residents depositors. Reportedly, from 2007, around €200bn were transferred through the branch(Milne and Winter, 2018). In 2017, the story started reaching the news and it was time for the bank to pay for its illegal activities. Danske Bank was banned from doing business in Estonia and gradually in other three countries where the bank was also suspected. The bank's executives were charged and fined by the Danish authorities while regulators are still trying to decide how much the bank is going to be fined for the largest money laundering case in European history.

Chapter 5.Money Laundering Through Bitcoin and Other Cryptocurrencies

Bitcoin is a decentralized digital currency that facilitates the transfer of money on the peer-to-peer bitcoin network without the use of intermediaries and without the administration of a central bank or any single entity. According to Van Wegberg et al. (2018) Bitcoin has been established as a single common currency for cybercriminals within the EU. The virtual currency is very attractive to criminals who want to disguise their illicit proceeds because the transactions are taking place in anonymity and there are plenty of methods to launder money using Bitcoin and other cryptocurrencies. Also, Van Wegberg et al. (2018)argue that cryptocurrencies are becoming more attractive to criminals because they can lower the cost of money laundering. Potentially, with Bitcoin, cybercriminals avoid the strict requirements of financial institutions and operate in greater freedom. While the impact of Bitcoin on money laundering remains small relative to cash transactions, a significant amount of money has been laundered so far. Reportedly, so far, $829m have been spent on the dark web through bitcoin transactions(Elliptic, 2019). Although this accounts for only 0.5% of all bitcoin transactions to date, if left unregulated, it could be a real danger for the global economy andsociety. Today, many money services businesses (MSBs) that facilitate cryptocurrency transactions have an obscure role in anti-money laundering. They are unaware of how to prevent money laundering by using formal processes such as Know Your Customer (KYC) identity verification, or they may even argue that it is not their burden to identify transactions with illegal money. Therefore, MSBs might choose to simply not implement any process to prevent money laundering which can be a serious problem.

5.1 Stages of Money Laundering with Cryptocurrencies

According to Elliptic (2019), similar to more traditional money laundering techniques, disguising illicit proceeds with the use of cryptocurrencies is organized in certain stages: placement, hiding and integration.

Placement

Cryptocurrencies are usually purchased with either cash or other cryptocurrencies at trading exchanges. However, the level of compliance with regulatory frameworks on financial transactions varies significantly in these exchanges. The more legitimate exchanges follow at a great extent the requirements set by law, especially regarding identifying the identity of users and the source of funds. Yet, other exchanges are not so compliant with anti-money laundering regulations. The problem with

these exchanges is not that they do not want to be compliant but that they do not possess the right tools to implement such processes. As a result, money launderers take advantage of the vulnerability of such exchanges to control their transactions. Regulators require from exchanges to implement KYC policies to their customers in order to make sure that transaction data is matched with the right customer and eliminate the anonymity in cryptocurrency transactions.

Hiding

After purchasing cryptocurrencies such as Bitcoin, criminals need to find ways to disguise their identity. Generally, transactions with cryptocurrencies can be monitored with blockchain. However, anonymity can be achieved by criminals who use specialized anonymizing services to disguise the source of their illicit proceeds. In this way, criminals are able to break the links between cryptocurrency transactions. Usually, a common argument in favor of using these services and transferring money in anonymity is the protection of personal privacy. Using specialized anonymizing services can be easily accomplished on a regular crypto exchange. Criminals however also use Initial Coin Offerings (ICO) because there you can use one cryptocurrency to purchase another which obfuscates the origin of the money.

Integration

As in traditional money laundering methods, integration is the stage at which authorities can no longer trace the origin of illicit proceeds as they have been integrated into the global cryptocurrency system. Although the sources of the funds has been hidden in the previous stage, money launderers still might be audited by regulators who will ask questions regarding the way the former came into possession of such wealth. This is being accomplished with integration methods. A simple method of integration is present illicit proceeds as the profit of a legitimate venture or as the result of the appreciation of another currency. A method similar to the laundromats that Al Capone used to integrate his money into the economy, makes it very difficult for authorities to uncover. Alternately, as dirty money can be laundered with an offshore bank account (e.g., the Nauru case discussed earlier), crypto money launderers can use online companies that accept cryptocurrency payments. By holding a passive stance, online companies help money launderers completely disguise the funds' source and make it appear as legitimate.

5.2 The First Conviction for Money Laundering by Using Bitcoin in New York

Aconviction for money laundering by using Bitcoin took place for the first time in New York in April 2019 in a case that involved several millions of US dollars in Bitcoin and Western Union transactions (Khatri, 2019). Reportedly, the two defendants managed to launder about $2.8m that they earned by selling controlled substances through the internet. More specifically, over the period from 2013 to 2018, the two criminals were selling mostly steroids but also other types of drugs such as Viagra across the United States. By using their website called "NextDayGear" as well as the dark web they managed to sell over 10,000 packages of drugs and receive the respective payments either in cryptocurrency or fiat money via Western Union.

According to the Attorney's Office, the criminals laundered their illicit proceeds through multiple intermediary cryptocurrency wallets to disguise the origin of their funds. They converted the cryptocurrency to US dollars through a cryptocurrency exchange platform and later deposited the money to bank accounts. On the other hand, they laundered the proceeds from Western Union payments by using either fake identities or by sending the money to receivers abroad through international wire transfers. The two criminals pleaded guilty and faced multiple years in prison for their illegal activities and money laundering their illicit proceeds (Khatri, 2019).

5.3 Crypto Capital

In October 2019, Crypto Capital's head was arrested by Polish authorities and was charged with significant money laundering offences(Perez, 2019). Ivan Manuel Molina Lee, that was initially arrested in Greece, was transferred to Warsaw by Polish police. The offender was accused of participating in a drug cartel with international presence. Lee was reportedly assisting the money laundering operations of the cartel by using the cryptocurrency exchange Bitfinex to transfer the cartel's illicit proceeds between Europe and Latin America. According to the Polish authorities, Lee was prosecuted for laundering approximately $390,000,000 that originated from illegal activities. Crypto Capital appears to have deposited funds in Bank Spółdzielczy (a Polish bank) and along with Bitfinex they are both accused of trying to disguise illicit proceeds across Poland.

Yet, this is not the first time that Lee was involved in a controversial cryptocurrency case. Crypto Capital, his company, seems to have lost $850m of Bitfinex's money in the sale of a $1 billion token. Also, recently, Bitfinex and Tether (its sister company) were accused of manipulating the cryptocurrency

market. Crypto Capital was also involved in this case and it is estimated that damages to the digital currency market exceeded $1 trillion(Perez, 2019). Polish authorities suggest that this was their largest effort to prevent money laundering and limit losses connected to criminal activities. The magnitude of the case shows the impact that cryptocurrency-assisted money laundering can have on a country as well as internationally.

Chapter 6.Money Laundering's Effects on the Economy

Literature has not discussed the effects of money laundering on a country's economy to a great extent while there is a significant lack of empirical evidence too (Hendriyetty and Grewal, 2017). For instance, Ferwerda (2013) analyzes the long-term indirect effects of money laundering but does not provide any empirical analysis. On the other hand, Quirk (1997) provides some empirical evidence that tax evasion (or the underground economy) has a significant effect on the macroeconomy. This section reviews the limited discussion around the effects of money laundering on the economy that currently exists in literature.

6.1 Money Laundering Distorts and Magnifies the Role of Shadow Economies

Not paying tax is not the same offence for all entities. When tax is not paid for proceeds from illegal activities, this is referred to as the underground economy. However, when tax evasion involves legal activities, this is referred to as the shadow economy. For instance, very often in developing economies many self-employed people or small businesses run informally as they are not registered and do not pay any tax. Therefore, they are part of the country's shadow economy. Money launderers take advantage of these small businesses in the shadow economy as they seek to disguise their illicit proceeds in the first stages of money laundering. Blumet al. (1999) describe this process as an interaction between informal and legitimate businesses that leads to the concealment of illicit proceeds. For instance, sweatshops that run with illegally smuggled workers usually make products of good quality at a lower price. These products might usually be banned from the market as counterfeits. The owners of this shadow economy business that is not registered cannot take a loan from the bank and therefore, they turn to "loan sharks" to finance their operations. Loan sharks usually acquire their wealth from illegal activities as drug trafficking which creates a connection between the underground and shadow economies. This simple but realistic example shows how money launderers use the shadow economy to clean their dirty money, at least on a first stage.

Shadow economies are usually comprised of self-employed workers or small business that intentionally keep their operations at a small scale to avoid scrutiny by the authorities who will then ask them to register and start paying tax as well as pay a penalty fee for the tax that has not been paid until discovery of the tax evasion. However, when money launderers start using the shadow economy to hide their money, shadow economy expands which creates more problems for the government and the legitimate economy. The larger the shadow economy, the larger the amount of dirty money that circulates the economy is and the harder it is to trace criminals and differentiate between legal and illegal transactions. Blum et al. (1999) argue that as the interaction between formal and informal economies increases, informal economy turns into an intermediary for money launderers and puts obstacles to authorities that can no longer identify the source of suspected funds and conduct an effective due diligence.

Money laundering also has a magnifying effect on the shadow economy. In the presence of anti-money laundering (AML) tools and regulations, criminals will start avoiding the conventional financial institutions such as banks and start using more informal/deregulated methods. El Qorchi et al. (2003) suggest that using cash is preferred in the underground economy. Lippert and Walker (1997) argue that in the underground economy trading goods (often stolen) is also very popular in informal economies which includes gambling, prostitution, drug dealing etc. In recent times, trading with cryptocurrencies such as bitcoin has also been accepted as an alternative route of money transfers in the shadow economy due to the anonymity that it offers under certain conditions.

However, the growth of the shadow economy due to money laundering has significant consequences for the official economy too. More specifically, according to Schneider and Enste(2002) the increase of shadow economy activities reduces the official economic growth of the country by taking away important activities that cannot be recorded and by reducing the currency supply in the official market as most transactions in the shadow economy are conducted in cash. It also increases the official unemployment rate because of the increasing number of workers in the shadow market sectors. Moreover, the growth of the shadow economy reduces the extent to which governments can provide social support by decreasing the tax revenue. At the same time, the cost of social security increases because people that work in the unofficial sector continue to receive unemployment benefits as if they are not working. However, other studies argue that the shadow economy can boost economic growth

too (Van Stel et al., 2005; Buehn and Schneider, 2007). According to Buehn and Schneider (2007), while unofficial activities directly reduce tax revenue, at least two-thirds of the money generated in the shadow economy is later spent in the official economy. Subsequently, this translates into higher expenditure and increased tax revenue by the government, even in an indirect way.

Finally, the growth of the shadow economy is likely to deteriorate the effectiveness of the financial system's anti-money laundering system while it also increases the inflows of dirty money that finance more illegal activities. The study of Thoumi and Anzola(2012) that investigated the Colombian shadow market showed that the AML system implemented in Colombia is not effective in fighting money laundering and the criminal activities behind it due to the weak governance methods and the corruption that characterizes the Colombian government. Surprisingly, Colombia's AML system was previously evaluated as highly compliant with international standards set by FATF with only two FATF recommendations being absent from the AML system (GAFISUD, 2008). In Colombia, the large size of the shadow economy allows criminals to complete cash transactions that many times exceed 7 figures in US dollars. Criminals in Colombia have no need to try to transfer their money out of the country since the control of the oligopoly that exists in the financial sector is very limited and corrupt. Unlike the case of Mexico and Wachovia were huge outflows of dirty money to the US caused the US authorities to intervene, in Colombia outflows are not an issue.

6.2 Money Laundering Distorts International Capital Flows

While in countries such as Colombia money launderers are "free" to hide their illicit proceeds domestically, income from illegal activities often requires that money is laundered abroad to try to eliminate traces that lead to the origin of the funds or the predicate criminal actions (Levi and Reuter, 2006). Although illicit capital flows constitute a part of international capital flight, there is actually an important distinction between the two.The difference is that capital flight may originate from both legal and illegal activities while illegal capital flows stem only from illegal activities from which the proceeds are transferred abroad to hide them. The goal of capital flight is by using rational economic reasoning to transfer capital in order to protect it from high levels of risk and eventually to maximize wealth. On the other hand, illicit capital flows are not associated with wealth maximization or any rational economic

decisions. Illicit capital flows are clearly based on money laundering with money originated from criminal activities (McSkimming,2010). Also, while the effects of capital flight on the economy of the country of origin are ambiguous (McSkimming, 2010), money laundering clearly has an impact on investment (Quirk, 1996) and consumption (Walker and Walker, 1995).

Baker (2005) investigated illegal capital flows by interviewing 550 top management executives from 11 countries in the 1990s. His findings showed that between 1 and 1.5 trillion US dollars that was transferred internationally during the period of research is considered as illegal capital flows while half of those transfers flowed from developing to transition economies. The study also estimates that 60% of capital flight was originated from legal activities while the rest was deemed as illicit proceeds. The most common methods of transferring illicit proceeds internationally are fake transactions, transfer pricing and mispricing among others. The majority of illicit proceeds outflowed from developing countries are strongly connected to money laundering because of the need to disguise the illegal origin of the money (Baker,2005). Therefore, illegal capital flows act as an important tool of hiding income from criminal activities. Although theoretically distinct, practically it is difficult to separate illicit capital flows from the more general capital flight. However, trade mispricing offers the opportunity to study the association of illicit capital flows and money laundering.

The favorite method of money launderers to disguise their money on an international level is mispricing. The reason is that in recent years financial regulation has expanded and increased the risk for money launderers that use other methods to be uncovered by the authorities (Delston and Walls, 2009). FATF and the International Bank Association have published detailed guidelines for detecting illicit capital flows in the international market so that financial institutions can isolate and report possibly illegal transactions. However, bank officers often have limited capabilities and knowledge to prevent banks from finding clients that use international transfers to disguise the origin of their money. McSkimming (2010) argues that policymakers are too busy to force financial institutions to identify fraud in international trade. At the same time, financial institutions cannot provide SuspiciousTransaction Reports on trade-based illegal transactions because they are not directly financed. McSkimming (2010) suggests that AML regulators should introduce specific detection requirements for uncovering money laundering in freight sectors as they constitute an important source of risk in international trade.

FATF clearly suggests that the international trade market is being used by money launderers to hide their illicit proceeds. FATF definestrade-based money laundering as the process of hiding proceeds that originate from criminal activities and transferring value by using trade transactions in order to legitimize the origin of the money. According to FATF trade-based money laundering can be achieved by misrepresentation of trade prices or altering the quantity/quality of imports and exports. The actions abuse the financial system with illegal transactions and a wide range of money transfer mechanisms such as wire transfers. FATF suggests that a country's vulnerability to trade-based money laundering can be measured with market data between trading partners. The following studies have used such methods to research the impact of money laundering on the international trade market.

De Boyrie et al. (2005) study the effects of money laundering on illicit capital outflows, comparing the cases of Switzerland and USA. They use Bhagwati's (1974) model of trade mispricing with data for the two countries that ranges from 1995 to 2000. In October 1997, authorities in Switzerland introduced the Federal Act on The Preventionof Money Laundering in The Financial Sector which was applied six months later.De Boyrie et al. (2005) found that outflows increased significantly in the period from 1998 to 2000 compared to the outflows levels before the new regulations were enacted. This finding also shows that AML systems are not always effective as focus on financial institutions can give space to money launderers to move their illicit proceeds internationally. Pak et al. (2003) used the same trade mispricing model and found that 4% of the Greek GDP outflows to USA can be attributed to international trade. They argue that these outflows could be either from capital flight or for tax evasion purposes. They conclude that these outflows can result in promoting money laundering and strengthening the financing of terrorism. Finally,

Zdanowicz (2009) uses this methodology too to analyze US illicit outflows transferred with trade-based moneylaundering by looking into the differences between trade data (exports and imports) from US and partner countries for certain types of products and services. The findings showed that some of the export products from the US were recorded at prices significantly lower than the world average while import prices were recorded significantly higher compared to rest of the world. The study also focuses on US illicit outflows connected to Al Qaeda's terrorist attack on September 11, 2001. The investigation revealed that import and export prices have been abnormally high and low respectively for trade flows between US and 16 of the countries on the watch list for Al Qaeda.

6.3 Money Laundering reduces tax revenue

Quirk (1996) suggests that tax evasion is a significant threat to the stability of the macroeconomic environment since governments rely a lot on revenue collected from taxpayers. Subsequently, reduced tax revenue increases the country's budget deficit, a key indicator of a country's financial wellbeing. The anti-money laundering system has been designed to trace income from tax evasion as tax evasion is an important part of the money laundering process. Nash (2011) argues that although these two different crimes, they are usually interrelated as money launderers need ways to avoid paying tax and tax evaders need to hide their proceeds by using money laundering methods. As a result, studying the impact of money laundering on tax revenue must take into account that tax evasion and money laundering are not two mutually exclusive actions. Tax evasion creates more money that needs to be laundered and more money laundering increases tax evasion. Even though money laundering and tax evasion are practically interrelated, very few studies in literature have focused on the empirical analysis of their relationship. So far, literature has mostly focused on investigating the absence of anti-money laundering systems and the characteristics of tax havens (e.g., Quirk, 1996; Dharmapala , 2008; Rose and Spiegel, 2007; Masciandaro, 2008).

6.4 Other Macroeconomic Implications of Money Laundering

Quirk (1996) uses cross-sectional data from 19 industrial countries and Interpol data on crime to analyze money laundering. The author attempts to estimate conventional money demand by using a combination of money laundering variables connected to unemployment, tax evasion and criminal activities. The main finding is that tax evasion and money demand are not related with a strong association in industrial countries. Additionally, the author's analysis shows that tax evasion is well connected to money laundering's predicate crimes as well as that money laundering does not rely exclusively the hiding process on cash transactions. This finding suggests that money laundering methods have progressed from simple cash transactions to more complicated methods that involve securities and commodities markets, life insurance, sophisticated financial instruments such as derivatives as well as bartering.

A related study conducted by Schwarz (2011) investigates the relationship between money laundering and tax evasion from the perspective of a tax haven. The author uses a money laundering regulation dataset and finds that tax evasion and money laundering services take place in the same country as the

presence of regulative instruments that make more efficient the detection of money laundering, prevent tax evasion. Schwarz (2011) suggests that tax haven nations avoid the cooperation in global anti-money laundering systems in order to attract more money into the country. He attributes this phenomenon to the false friend effect as introduced by (Masciandaro, 2005), in which tax havens are very successful in making their formal rules to be in line with international money laundering regulations but in reality their control is very relaxed against money laundering and tax evasion. This strategy makes the tax haven attractive to money launderers and it is also relatively cheap to implement. Finally, Schwarz (2011) finds not all tax havens have relaxes anti-money laundering policies. It is rather the economically weak tax havens that provide a more welcoming environment to money launderers.

Yet, other studies suggest that tax havens are not only bad. For instance, Dharmapala (2008) argues that tax havens help reduce competition, while Rose and Spiegel (2007) find that tax havens help industrialized countries have more effective financial markets. Also, Gordon et al.(2013) argue that offshore financial centers (OFCs) have significant benefits for the macroeconomy. They suggest that tax haven countries encourage international financial flows that are useful to international trade as they offer financial privacy, allow tax planning and reduce jurisdictional costs.

To identify whether 222 countries were in the black list of international anti-money laundering organizations, Masciandaro (2008) investigated the degree of regulatory compliance and policy makers' political risk. Organizations such as FATF, the Financial Stability Forum (FSF) and OECD take measures against countries that appear to threaten the integrity of the global financial system. A common practice is to blacklist a country that attracts money for money laundering and tax evasion purposes. More specifically, FATF guidelines are used to prevent money laundering, FSF's actions aim to protect the financial stability and OECD blacklists countries to eliminate malicious tax practices. Masciandaro (2008) finds that offshore financial centers were mainly chosen by politically stable developing countries that implement common law. His findings also suggest that the approach of "name and shame" is convincing for countries that need to change their formal regulatory structure and be removed from international blacklists. Yet, while these countries implemented the regulatory reforms demanded by international organizations, they continued to find ways to not apply effectively anti-money laundering systems and processes. Masciandaro (2008) argues that the use of harmonious competition between onshore and offshore jurisdictions can achieve greater stability in the international money laundering and tax evasion scene than the "name and shame" approach.

To examine the flows of cross-border asset holdings in OFCs and the causes and consequences of OFCs, Rose and Spiegel (2007) use a gravity model with bilateral data from more than 200 countries. They find two contradictory results. More specifically, OFCs promote bad behavior in source countries as they encourage money laundering and tax evasion. Encouraging the source country to engage in activities that are detrimental to the economy's well being suggests that OFCs are not a positive influence. On the other hand, they find that the existence of OFCs has a positive effect on the local banking sector's competitiveness. The authors show that OFC proximity can improve the monopoly bank's competitive behavior as well as to enhance overall welfare.

Unger et al. (2016) and Ferwerda (2010) argue that money laundering doesn't have significant negative effects on the recipient developed countries. However, money laundering can deteriorate situations of weak governance, lack of efficient law enforcement as well as where the criminal activities connected to money laundering take place. Many developing economies are prone to significant capital flight that is used by money launderers to disguise tax evasion or the predicate crimes of money laundering. For instance, Subashi (2013) suggests that approximately $1.3bn has left Albania as capital flight, 60% of which is connected to tax evasion. Also, Waris andLatif (2014) that study the case of Bangladesh argue that corruption helped the development of a tax policy that facilitates money launderers to hide their illicit proceeds. They also suggest that money laundering has the power to destabilize a nation by destroying its economy as it can be even more dangerous than war.

Chapter 7.Money Laundering Today Through the Prism of the 2019 Basel AML Index

This section provides some insight to the level of money laundering worldwide in recent times based on the 2019 Basel Anti-Money Laundering (AML) Index provided by the Basel Institute on Governance (Basel Institute, 2019). The index that has been published since 2012 is the only independently reported research-based index. The index ranks 125 countries that have sufficient data to calculate the AML index score based on five key domains that evaluate the exposure of the country to risks related to money laundering (ML) and terrorism financing (TF). Those domains are:

1. Quality of AML/CFT Framework

2. Bribery and Corruption

3. Financial Transparency and Standards

4. Public Transparency and Accountability

5. Legal and Political Risks

The Basel AML Index uses publicly available data from different sources such as FATF, the World Bank, Transparency International as well as the WorldEconomic Forum. The index combines 15 country-level indicators that assess the adherence of a country to regulation and control of money laundering, financial standards, corruption levels, political stability and reporting. All indicators are aggregated into one final AML risk score. The combination of these sources offers a holistic evaluation of a country's resilience against money laundering and terrorism financing as it addresses both structural and functional elements. To aggregate the final composite index, the Basel Institute uses an expert-based and qualitative assessment to avoid bias from quantitative-only analysis.

Figure 1 presents the 46 countries with the highest AML index scores for 2019. A greater AML score suggest higher ML and TF risk for that country. The change column shows the change of the AML score from 2018 to 2019. For instance, for Mozambique, the AML score reduced by 0.06 points which suggests an improvement of the risk exposure of the country.

7.1 Four General Trends Reported by the Basel Institute

1. In 2019, more countries improved their AML score than in 2018. However, these positive changes are not of large size and therefore, they do not suggest a significant improvement in tackling ML and TF. This follows the trend since 2012 when the index was first reported that the majority of countries are improving their ML/TF resilience very slowly.

2. From 2018 to 2019, only 34 countries improved their risk scores by more than 0.1 point and only one country increased it score by more than one point (Tajikistan).

3. The AML index also suggests that not only countries are improving their ML/TF resilience very slowly, but many are still going in the wrong direction. In particular, 16 countries increased their scores in the last year by more than 0.1 point. The greatest deterioration was in Colombia, Latvia, Finland and China.

4. Finally, the Basel Institute warns that most countries are still at great ML/TF risk. 74 countries (60% of all countries reported) have a risk score higher than 5 which can be interpreted as an indication of significant ML/TF risk. Although the average risk score across all countries improved slightly from 2018, it remains very high at 5.39 (5.63 in 2018).

7.2 Countries with the Highest Money Laundering Risk in 2019

Figure 1 shows that Mozambique, Laos and Myanmar have the highest risk scores of all 125 countries according to the Basel AML index. Surprisingly, these countries have not been attracted so much attention in the news for their involvement in money laundering cases. However, all three are listed in the US INCSR list among countries with high levels of money laundering. Below, the AML scores of these three countries is analyzed more extensively based on the five domains.

Mozambique

Mozambique has the highest ML/TF risk score of all 125 countries which is 8.22 (out of 10). In domain 1, Mozambique scores very low (9.28) because it has a very poor AML framework and it is listed by US INSCR as a jurisdiction that is intimate with money laundering. Also, the country has weak border controls and poor public institutions that make it extremely vulnerable to cross-border predicate crimes such as human and drugs trafficking. Moreover, Mozambique is exposed to more basic criminal activities such as corruption, illegal trading of precious metals, fraud in customs, car theft etc(ESAAMLG, 2011). Regarding domain 2, Mozambique scores 7.11 for corruption and 7.70 for risk of bribery. The high scores in domain 2 reflect the country's constant corruption issues. In January 2019, Mozambique officials

charged 18 individuals for their involvement in the tuna bonds scandal worth up to $2bn which led to a devastating financial crisis, the worst the country has experienced since its independence. Corruption in this case played a significant role as in 2013, Manuel Chang, the country's former minister of finance accepted to receive government loans of $2 billion from the Russian bank VTB Capital and Credit Suisse. The minister partially concealed the loans from the public and other important institutions such as the InternationalMonetary Fund (IMF). The money was used to fund maritime projects as well as a tuna fishery that was state-owned. However, reportedly, approximately 10% of the loans was used for bribery(Holmes, 2019). In January 2017, Mozambique defaulted on the ill-advised loans and country's economy plunged into a financial crisis and its debt to GDP share increased to 112%. Mozambique is also weak in domain 3 with financial transparency risks scoring 6.5. In Domains 4 and 5 the country's risk are more moderate (public transparency and political risks). Mozambique has particular issues regarding the strength and independence of its public institutions, the freedom of media and the financial transparency of political parties.

Laos

Laos stands second in the AML index list just after Mozambique with an overall risk score of 8.21. Money laundering risk remains very high for Laos in spite of being removed from FATF's black list of jurisdictions with important deficiencies two years ago.

The country scores very high in risks related to domain 1 and the quality of its AML/CFT frameworkwith a score of 9.2. Laos has also a poor performance score on its FATF assessment, scoring 8.87. The main issues reported by FATF are the overall lack of awareness of money laundering control mechanisms that are being implemented worldwide as well as not allocating adequate resources to implement the required reforms. FATF also notes its concerns regarding illicit proceeds from drug trafficking that are estimated to be 10% of the country's GDP, inefficiencies in criminalizing money laundering and not implementing a freezing mechanism(APGML, 2011). Laos is listed as a significant money laundering jurisdiction by US INCSR too and it is rated with the highest risk level of 10. According to US INCSR the country is particularly vulnerable to the its limited resources available for enforcing the law, to its cash-based economy and the widespread criminal activities, drug and human trafficking and corruption. Laos' financial institutions, real estate industry and casinos are very vulnerable to these risks.

In domain 2, Laos' risk performance is poor as well as the country scores 6.73 for corruption and 7.10 for bribery risk. Bribery and corruption constitute an important risk for companies in Laos. Companies are likely to encounter petty bribery when trading at the borders, using public services or just paying taxes(GAN Integrity, 2016). In June 2019, the communist party that governs Laos announced that it a new anti-corruption framework will be implemented and it remains to be seen if the country will move towards greater control over bribery and corruption. The country is also weak in domains 3 and 4 regarding financial and public transparency. In domain 3 Laos scored 6.16 and in domain 4 it has a score of7. Finally, in domain 5, Laos scored 6.82 for Political and Legal risk that reflects the country's lack of a strong and efficient judiciary system and the very low levels of media freedom.

Myanmar

Myanmar is third in the AML index list with an overall score of 7.93. As with the other two countries with high ML/TF risk, Myanmar's overall risk is greatly driven by very poor performance in domain 1. The country scores 8.2 based on its FATF assessment and 10 based on US INSCR outlook regarding the country's risk exposure. FATF's assessment suggests that the effectiveness of the AML framework in Myanmar is only at 3% while its technical compliance is rated at 48%. Also, FATF argues that the country is severely exposed to multiple money laundering threats such as drug production and trafficking, human trafficking and environmental crimes (e.g., illegal logging and wildlife trafficking)(APG, 2018).

Also, US INCSR has listed Myanmar as a significant jurisdiction in terms of money laundering. The State Department reported that Myanmar's economy and financial sector underdeveloped. Although bank deposits have increased over the last few years, the majority of currency still circulates outside the country's official banking system. The findings of US INCSR are in line with FATF's suggestions that the main sources of illicit proceeds in the country include human and narcotics trafficking, illegal wildlife trading and corruption of the public services. In domain 2, corruption and bribery are important issues for Myanmar as the country scores poorly with 6.73 for corruption and 7.1 for bribery. In domain 3, financial transparency is also scarce in Myanmar scoring overall 7. In domain 5 of political and legal risk, Myanmar scores a bit better but still on the risky side with a score of 6.44. The concentration of risk in all these areas makes Myanmar a very appealing target country for criminals and money launderers.

7.3 Countries with the Lowest Money Laundering Risk in 2019

Although there is no country without any money laundering risk, the three best performers of the Basel AML Index for 2019 are Estonia, Finland and New Zealand. Figure 2 presents all top performers of AML risk for 2019.

Estonia

Estonia is the country with the lowest money laundering risk according to the index with a score of just 2.68. In domain 1, Estonia scores 2.95 for the quality of its AML/CFT framework. Estonia's good performance in domain 1 is driven by its assessment by FATF in which it scores 3.61. FATF's positive judgement of Estonia reflects the country's sound supervisory framework and the effectiveness of authorities in seizing property in cases of money laundering and its predicate crimes in the past(Council of Europe, 2014). However, according to the Basel Institute report Estonia's assessment by FATF is likely to worsen in the future because the country has received criticism for its current AML effectiveness as the repercussions of the Danske Bank scandal that was discussed earlier are still ongoing.

Estonia is ranked as a low- money laundering risk country by the Financial Secrecy Index (FSI) too. FSI ranks Estonia 93rd in a list with 112 countries reporting few problems in the country's AML framework that are mostly related to corporate transparency issues such as tax disclosure and recorded ownership.

Estonia has an excellent score (2.54) in domain 2 of corruption and bribery as well. According to the TI CPI, Estonia was named the country with the least corruption in emerging Europe(Emerging Europe, 2019). In the remaining domains, the country demonstrated low levels of risk too in terms of transparency and legal/political risk.

It is important to note that neither the Basel AML index, nor the FSI take into account Estonia risk that stems from its geographic proximity to Russia. Estonia constitutes a significant point o entry for money launderers from Russia who want to access the European financial system.

Finland

Finland is the second-best performer in the Basel AML index for 2019 with an overall score of 3.17. Notably, Finland was the top performer of the index in all previous editions but lost the first place this year to Estonia. Finland doesn't have the best score in domain 1 as it was rated with 4.38 for the quality of its AML/CFT framework. Finland was assessed by FATF in February 2019 with a score of 45% for the effectiveness of its AML systems and 66% for technical compliance. The FATF report suggests that Finland has a good understanding of money laundering and terrorism financing risks, especially of the money laundering risks related to the shadow economy(FATF, 2019). Finland addresses these risks in a well-structured way and applies a comprehensive and efficient group of measures that aim to prevent money laundering.

However, despite Finland's awareness and efficient implementation of AML, FATF highlights that the country's close geographical proximity to Russia increases money laundering risks. FATF argues that Finland's geographical location makes the country a significant European gateway to countries outside Europe through Russia. Finland has also built an important trade and business relationship with Russia which further supports the growth of commercial routes. These trade routes, however, can facilitate the illegal trade of goods as well as the illegal transfer of funds too.

FATF also criticizes Finish authorities' competency to establish the ownership structure of legal entities on a proper time framework. FATF suggests that public registries in Finland lack both reliability and the required tools to make sure that registers are constantly updated. FSI, that ranks Finland in the 71st position out of 112, agrees with FATF. FSI suggests that ownership registration is surrounded by great secrecy, especially for recorded companies, limited partnerships and public companies. In the rest of domains, Finland demonstrated low levels of risk.

Although Finland is one of the countries with the lowest money laundering risks worldwide, recently, the National Bureau of Investigationof Finland reported that many international money laundering cases had been recorded in the country in 2018. As a result of unearthing these cases, the authorities confiscated 225000 euros from criminals. The cases are mostly connected to the so-called "money mules" who are professional money launderers that had opened multiple bank accounts across Finland(News Now Finland, 2019). The case of Finland makes a clear point that even countries with the strongest AML frameworks cannot entirely avoid money laundering risks.

New Zealand

New Zealand is the country with the third-best AML risk score for 2019 (3.18). The country performed good in the first domain with a score of 4.22 which is driven by the FATF report and moderate risks related with financial secrecy. The FATF report suggests that New Zealand implements effectively a strong AML framework and that the authorities apply a good confiscation regime frequently and effectively. However, as with Estonia, the FATF report is based on an older assessment of the country and the index assumes that it holds today too. Yet, the FATF report also identified potential elements of risk mostly associated with weak preventive measures. FSI also ranks New Zealand as a country with moderate AML risk. FSI suggests that the main problems in the country's AML framework are legal entity transparency and ownership registration. New Zealand scores well for the remaining domains too. However, even though the overall ML/TF risk of the country is very low according to the Basel AML index, it still faces issues. For instance, the Ministry of Justice recently estimated that approximately $1 trillion is laundered ever year in New Zealand from illegal drugs and fraud(Badger, 2018).

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
1	MOZAMBIQUE	8.22	-0.06	24	ANGOLA	6.33	-0.16
2	LAOS	8.21	-0.04	25	SERBIA*	6.33	-0.19
3	MYANMAR*	7.93	0.43	26	TAJIKISTAN*	6.28	-2.02
4	AFGHANISTAN	7.76	-0.52	27	ALGERIA	6.28	-0.07
5	LIBERIA	7.35	-0.07	28	KAZAKHSTAN	6.27	-0.09
6	HAITI	7.34	0.01	29	ECUADOR	6.25	-0.05
7	KENYA	7.33	-0.07	30	JAMAICA*	6.24	-0.24
8	VIETNAM*	7.30	-0.07	31	THAILAND*	6.22	-0.08
9	BENIN	7.27	0.02	32	SENEGAL	6.20	0
10	SIERRA LEONE	7.20	-0.04	33	TURKEY	6.19	0.08
11	CAPE VERDE	7.01	-0.01	34	PANAMA*	6.19	-0.02
12	NIGERIA	6.89	0.03	35	GUYANA	6.14	0.02
13	ZIMBABWE*	6.87	0.01	36	MOROCCO	6.12	-0.1
14	PARAGUAY	6.74	-0.05	37	UKRAINE*	6.01	-0.05
15	YEMEN	6.74	-0.07	38	BOLIVIA	6.01	-0.01
16	CAMBODIA*	6.63	-0.85	39	ALBANIA*	6.00	0.43
17	TANZANIA	6.63	-0.08	40	VANUATU*	5.90	-0.47
18	COTE D'IVOIRE	6.62	0.03	41	KYRGYZSTAN*	5.86	-0.33
19	CHINA*	6.59	0.57	42	BOSNIA-HERZEGOVINA	5.83	-0.01
20	MONGOLIA*	6.57	-0.08	43	COLOMBIA*	5.83	1.41
21	NICARAGUA*	6.53	-0.19	44	PHILIPPINES	5.81	-0.13
22	ARGENTINA	6.50	-0.05	45	BANGLADESH*	5.80	0.02
23	PAKISTAN	6.45	-0.04	46	MARSHALL ISLANDS	5.76	-0.16

Figure 1. The 46 countries with the highest money laundering risk score based on the Basel AML Index of 2019 (Basel Institute, 2019).

Ranking	Country	Score	Change 18/19	Ranking	Country	Score	Change 18/19
105	CZECH REPUBLIC*	4.15	0.03	116	ISRAEL*	3.76	–0.08
106	UNITED KINGDOM*	4.13	–0.1	117	SLOVENIA*	3.70	–0.05
107	PORTUGAL*	4.10	–0.56	118	URUGUAY	3.58	–0.47
108	FRANCE	4.09	–0.03	119	LITHUANIA*	3.55	0.43
109	SLOVAKIA	4.04	–0.09	120	BULGARIA	3.51	–0.02
110	AUSTRALIA*	3.97	–0.09	121	SWEDEN*	3.51	–0.24
111	DENMARK*	3.95	–0.16	122	MACEDONIA	3.22	–0.11
112	MONTENEGRO	3.94	–0.01	123	NEW ZEALAND	3.18	–0.02
113	MALTA	3.94	–0.02	124	FINLAND*	3.17	0.6
114	NORWAY*	3.91	–0.21	125	ESTONIA	2.68	–0.05
115	CROATIA	3.82	–0.01				

Figure 2. The 21 countries with the lowest money laundering risk score based on the Basel AML Index of 2019 (Basel Institute, 2019).

Chapter 8. Conclusions

Money laundering is a significant burden for the global economy. Its implications on the macroeconomy and terrorism constitute it a major threat that regulators have been trying to eliminate for years. However, many criminals are ahead of authorities in this race and until today money laundering cases that involve large sums of money are discovered. The aim of this thesis has been to review the literature and practical cases on money laundering as well as the risk that countries are currently exposed to.

Disguising business proceeds from the law has been taking place for thousands of years but during the last century money laundering received a more specific definition, that is, hiding from the authorities money that has been originated from criminal activities. Several money laundering cases have affected national economies in the past. From Al Capone that was laundering illicit proceeds up to (today's equivalent of) $1.4bnper year to HSBC's failure to control the transfer of drug trafficking money and Standard Chartered's inability to stop terrorism financing, money laundering is still a great trouble today. Part of the problems still existing today can definitely be attributed to the small penalties that most of the financial institutions that helped money launderers received in the past. In most cases, the announcement of fines did not have any significant impact on the stock price of publicly traded banks since the market did not take the information about the fines as an important issue for the banks.

Although there is limited evidence on the effects of money laundering on the economy, literature has identified three key effects: the distortion and magnification of the shadow economy, the distortion of international capital flows and the reduction of tax revenue. In particular, the impact of money laundering on the shadow economy is very important because within the shadow economy there are many small legal businesses on which rely the economies of developing countries. Money launderers take advantage of this situation to hide their illicit proceeds causing greater distortion on role of the shadow economy. Moreover, as foreign bank accounts constitute a very attractive destination for the illicit proceeds of money launderers, international capital flows can be significantly affected by such practices especially when they are of large volume. Finally, a debate exists on whether money laundering's overall effect on tax income is significant or not. Indeed, money launderers want to hide as much as possible from the government to cover up their predicate crimes but their economic activity also contributes to government income, especially when they form legitimate businesses to launder their money.

The Basel AML Index for 2019 offers important insights to the risk exposure of 125 countries. More specifically, the index that is based on 5 separate areas of anti-money laundering and counter-terrorism financing frameworks applied by jurisdictions ranks the best and worst performers of national risk scores for 2019. Mozambique, Laos and Myanmar are the countries with the highest risk, while Estonia, Finland and New Zealand are the ones with the lowest. Considering that Estonia is ranked first for implementing the stricter AML framework and having great transparency, one would expect that this country would have no money laundering issues. On the contrary, Estonia is still facing today the repercussions of what is believed to be the greatest money laundering scandal in Europe. Reportedly, a Danske Bank branch that was operating in the country managed to launder approximately €200bn and the authorities are still deciding the fines that the bank will have to pay. This case shows that no country is immune to money laundering as criminals constantly seek new methods to hide their proceeds.

Overall, despite the significant effects that money laundering can have on society and the economy, it is an under-researched area with inadequate application of AML frameworks worldwide. Future research should focus on the types of effects by money laundering activity as well as their extent. Also, as a debate exists on whether counter measures prevent the growth of the liberalization of international financial markets or not, researchers should shed light on the effects of AML regulations.

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