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MONEY LAUNDERING: HOW IT IS RELATED WITH COUNTRIES INCOME LEVEL AROUND THE WORLD

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Abstract

Money laundering, as the process of making money coming from illegal activities look like it comes from legitimate ones, affects a wide range of social, economic and political aspects. Through its historic, one can understand why the need to launder money arose, why this process got developed and how it became sophisticated over time. For its undisputed role in the way of society living, public and international institutions are constantly trying to fight against money laundering in general and against money laundering and terrorist financing (ML/TF) in particularly in order to give societies around the globe better chances of living, free of illegal and criminal activities. Thus, this paper aims to find if there is any relation between the risk of money laundering and terrorist financing and the countries income level. In doing so, it is taken in deliberation the Basel Institute AML Index, estimated for 2019 for 125 countries in total, in relation with each country income level.

Keywords: Money laundering, Terrorist financing, AML Index, Income level, Economic prospective, Legal prospective

INTRODUCTION

Money laundering is a widely discussed topic among researchers, economists and politicians. Although it is a phenomenon that has attracted the attention of researchers, institutions and the public for most of the last decades, the phenomenon is actually much older. It dates 4000 years ago when ancient Chinese merchants and traders used to hide their incomes from their governments, as they were considered to come from suspicious activities. In order to use their hidden wealth, they started to invest it in new businesses inside, and even outside their countries throughout money transfers. On the other hand, this process has arose due to unfair treatment of governments of oppressive regimes and despotic leaders to their populations, or simply to the minorities living within their jurisdictions.

Money laundering has become a spread phenomenon over the time, as it has helped disguising the proceeds of crime and integrating it into the legitimate financial system. For their part, rulers and states have made efforts to investigate, punish and eliminate such activities. But so have made money launderers to avoid and escape such lows, sophisticating this process.

Particularly in the last two decades there has been clear evidences that money laundering is related to terrorist financing, making states and other institutions paying special attention to such relation and adjusting their policies and strategies aiming to fight against it. In this context, money laundering is captured by different perspectives, in an attempt to explain it as much as possible as a multidimensional phenomenon.

Different theoretical and empirical studies have proven the relation between money laundering and shadow economy. At those places where money is laundered and money laundering is used to especially finance terrorism, the shadow economy is present. On the other hand, there are assumptions that the poorest countries are those with highest weights of shadow economies.

Taking in consideration the up-mentioned relations, it is made an effort to evaluate if there is any relation between the risk of money laundering and terrorist financing and the countries income level. The descriptive analyze presented in this paper scrutinizes these two components, using the Basel Institute AML Index, estimated for 2019 and the World Bank classifications of countries according their income level for a total of 125 countries.

MONEY LAUNDERING HISTORIC

Data on money laundering have been encountered since over 4000 years ago. In China, around 2000 BC, regional governments banned many forms of trade. According to the American historian, Sterling Seagrave (1992), governments regarded commercial activities as suspicious, as merchants were considered ruthless, greedy, and pursued rules different from those sanctioned by the rulers. In addition, a significant amount of traders' income was considered to come from negative marketing, extortion, and bribery. For these reasons, the merchants hid their wealth from the rulers who would confiscate it and, as punishment, expel them from the land. Some of these hidden assets were invested in businesses in remote provinces or even outside China (Morris-Cotterill, 1999). The rest of the merchants, those who remained invisible, managed to keep their property safe from the constant looting by state bureaucrats. Thus, they used techniques such as converting money into movable property or moving money out of the jurisdiction of a province to invest in new businesses. These ancient techniques continue to be used today as classical methods of money laundering.

The money laundering phenomenon, previously documented in China, has been around for centuries in the rest of the world. In response, over the millennia, many rulers and states have imposed rules on those who did not pay taxes or engage in criminal activities. For their part, during this time, even money laundering entities were sophisticated using parallel banking systems as well as creating informal money transfer systems abroad, avoiding state investigation. One such system is that which takes its name from the Arabic word "*Hawala*", which means to *transfer* or *believe*. This system, established in the VIII century between Arab and Muslim merchants near the Silk Road, is a way in which *the buyer pays money to a local agent who communicates with a foreign agent at the seller's location to pay the amounts*. In this form, money is transferred abroad through these trusted agents, who thus create an informal and uncontrolled value transfer system (Vaknin, 2005). Over the centuries, this system became an instrument of the money market, which, in the first half of the XX century, was gradually replaced by the instruments of the formal banking system. But in addition to facilitating foreign trade, the "*Hawala"* system, as an informal system, has served as a good way to launder money. According to data from institutions and studies of various authors, this system continues to be used as a way to introduce illegal money into the system through transfer from one country to another.

In the XX century, confiscation of property again became popular by governments as it was considered an effective means of crime prevention. It was the US government in the 1920s that first implemented the confiscation of organized crime property, which began to create wealth on a large scale due to the illegal trade in alcohol that was banned through the so-called "prohibition period"[1]. According to a widely accepted line of thought, it was at this time that the term money laundering was born. At this time in the US, criminals in the lucrative alcohol smuggling industry, in order to legalize their profits, set up legitimate businesses to combine the

[1]"Prohibition" in the United States was a nationwide constitutional ban on the production, import, transportation, and sale of alcoholic beverages that remained in force from 1920 to 1933.

profits of these businesses with criminal profits. This classic form is still used today, especially in the reality of developing countries.

After World War II, and especially in the 1970s and 1980s, the fight against drugs led governments in countries with open economies to return once again to the risk management of money laundering. The aim was to bring out the rules and engage the institutions in order to capture the proceeds of drug crimes and their organizers. The advent of the first money laundering laws made it easy for law enforcement to detect and punish money launderers. The law gave them the right to confiscate questionable money leaving it in the hands of entities to prove the lawful origin of their money. These laws were guided by the recommendations of the Financial Action Task Force(FATF) (since 1990) and other organizations that care about the implementation of these recommendations as well as by EU directives for member states (since 1991).

Until 2001, when the terrorist attacks of September 11 took place, the focus of laws, organizations and institutions has been the fight against money laundering (FATF, 2011). Following this event and the conclusion that there is a link between money laundering and terrorist financing, the US Patriotic Act[2] and similar legislation were born, which led to a new emphasis on the fight against money laundering and terrorist financing (ML/TF).

Starting in 2002, legal arrangements made against money laundering have become a much bigger burden for financial institutions. During 2011-2015, a large number of banks faced increasing penalties for violating money laundering rules. Many countries have introduced or strengthened border controls on the amount of money that can be transferred and have introduced central transaction reporting systems where all financial institutions must report all financial transactions electronically.

Paradoxically, *money laundering has been used for legitimate or fair reasons*. Over a period of thousands of years, people have used money laundering techniques to move, hide and remove money outside the jurisdiction of governments of oppressive regimes and despotic leaders. Minorities in different parts of the world have been targeted by governments simply because of their beliefs or color. This has happened and is still happening not only in totalitarian regimes, but also in countries with democratic political systems. For this reason, these minorities have been forced to use informal methods to protect their property from these rulers.

[2]The Patriot Act is an act of the U.S. Congress that was signed into law by President George W. Bush on October 26, 2001, just after the September 11 terrorist attacks. The law was intended to strengthen US measures to prevent, detect and prosecute international money laundering and terrorist financing.

MONEY LAUNDERING DEFINITION

Illegal activities or the creation of criminal income through legal activities do not represent activities that occur once. Due to the fact that these revenues are generally fast and relatively high value, they represent a great attraction for their creators which pushes them to repeat the process. But today's conditions for the expansion of the real-time reporting network have greatly narrowed the paths for criminal money to be easily used in the economy without attracting the attention of public institutions. In this context, there has been a growing need to hide criminal sources of income. This concealment of the source of income, labeled by authors and institutions as "money laundering", nowadays represents a challenge in which more and more energy and financial and human resources are being spent. In the last two decades, this process has been fought alongside the biggest challenge of the new century: terrorist acts. The use of illegal money to finance terrorist acts has influenced the adaptation of laws, recommendations, provisions and actions of international, national and specifically European institutions to this new focus.

Although the forms, tools, techniques, and sources of money laundering have been expanded and sophisticated, the essence of the phenomenon has not changed since 2000 BC when it was first documented as a phenomenon. Following this paragraph, economic, legal and institutional perspectives on the phenomenon of money laundering provided by national and international authors and institutions listed in the fight against money laundering and terrorist financing are presented.

Economic Perspective

Money earned from certain crimes, such as extortion, domestic trade, drug trafficking, and illegal gaming, is considered "dirty." Because they attract the attention of the public and public institutions, they need to be "cleansed" of what appears to be legal activities, so that banks and other financial institutions can accept them without a doubt (Reuter, Truman, 2004). The use of various techniques in the function of this "cleansing" aims to enable entities that create illegal money to maintain control over the income of their activities and allows them to spend money safely, to avoid suspicions and thus detection and confiscation. In this way this process gives them a *legitimate coverage for illegal funds*.

Traditionally, in public opinion money laundering is identified with the return of dirty money to pure money, money laundering of drugs or the purchase of property with criminal money. This public perception essentially reflects the main aspects of money laundering and in a way gives its definition. In the context of this perception, money laundering is defined as the process of transforming the profits of crime and corruption into seemingly “legitimate” assets

(Christine, 2014). This process has traditionally been considered as a method by which criminal activities aim to conceal the origin and ownership of their income (LawTeacher, 2013). The goal is for them to maintain control over their income and provide a legitimate justification for their income and wealth.

At the core of all definitions lies the concealment of the source for illicit money by producing another source which is legitimate. Generally the traditional and new money laundering channels are banks; foreign exchange offices; financial market brokerage firms; casinos and gambling in general; gold traders; real estate traders; vehicle dealers; insurance companies and other financial institutions, etc. It is precisely these institutions that are most exposed to the risk of money laundering. For this reason, the recommendations of international institutions (FATF) and European provisions for ML/TF (of the Commission and the Council of Europe) regulate exactly these institutions.

Legal Perspective

Money laundering, a phenomenon for which special laws have been drafted, especially after the 1980s, in addition to the definition from an economic point of view, carries a concise and extended legal definition. In any national, community or federal law, the definition of money laundering is almost the same as the definitions given by researchers and organizations that study the phenomenon from an economic point of view.

The definition of Albanian law on the phenomenon of money laundering is a typical example of a national legal definition which essentially follows and has the same content as those given by the recommendations and directives of international institutions which manage the fight against this phenomenon.

Money laundering in Albania, as a phenomenon and the fight against it, is directly regulated by the Law "On the Prevention of Money Laundering and Terrorist Financing"[3]. As money laundering represents a criminal offense, it is identified as such in the Criminal Code of the Republic of Albania[4] where the relevant sanctions for perpetrators are determined according to specific circumstances. The single and complete legal definition of money laundering is provided in Article 287 of the Criminal Code and this definition refers to all laws and other legal and regulatory acts. According to this legal definition, money laundering, otherwise labeled as “laundering the proceeds of crime,” represents a process of exchange or transfer of property for

[3]Law Nr.9917, Date 19.05.2008, "On the Prevention of Money Laundering and Terrorist Financing" (*changed*), Republic of Albania

[4]Law No.7895, Date 27.01.1995 “Criminal Code of the Republic of Albania” (*changed*), Republic of Albania

the purpose of concealing or covering up its illegal origin; concealment or concealment of the true nature, source, location, disposition, relocation, ownership or rights relating to the property; acquisition of ownership, possession or use of property as a product of a criminal offense or criminal activity; performing financial operations or fragmented transactions to avoid reporting; investing in economic or financial activities of money or objects, knowing that they are products of a criminal offense or criminal activity. According to this broad legal definition, counseling related to money laundering also includes counseling, assistance, encouragement or public calls for the commission of any of the offenses mentioned in the above definition.

If it is read within the above definition, avoiding excessive specifications and repetitions, but necessary for a legal norm, one can read what is essentially defined as money laundering by Albanian Law (Criminal Code): *a process of concealment of the true nature, origin, source, location, rights of money or items that have been created by criminal activity and their investment in economic or financial activity*. In this most essential sense, this definition is almost the same as the definitions given by authors and national and international institutions that fight money laundering and terrorist financing. They are essentially the same criminal offenses that are being investigated.

Institutional Perspective

Faced with the obligation to manage the risk of money laundering and take measures to combat this phenomenon, national and international institutions have lined up on the front lines of the fight against money laundering. In this process, they have also contributed with legal norms, publications, reports, analyzes, symposia and conferences in which the definitions of the phenomenon of money laundering are encountered.

Thus, according to the U.S. Treasury Department, money laundering is defined as *the process of making it seem legitimate to earn illegally earned income* (U.S. Treasury Department, 2015).

According to the definition given by the European Commission, money laundering is *the process of "cleansing" criminal income in order to conceal their illegal origin* (EC, 2017[5]). According to the EC, this process is usually seen in relation to organized crime forms that generate large profits in cash such as drug trafficking, weapons and human beings as well as fraud.

In addition to changes in form, the above definitions represent the same meaning and phenomenon. These definitions carry the same content as the definition provided by the FATF,

[5]*https://ec.europa.eu/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/money-laundering_en*

as the global central institution that produces the basic recommendations on which the legal and regulatory acts of public national, federal and community institutions are based.

According to the FATF, the purpose of a large number of criminal offenses is to generate a profit for the individual or group performing the act. When a criminal activity generates significant profits, the individual or group involved must find a way to bring the funds into the system as legitimate without drawing attention to the underlying activity or persons involved. In this sense, according to the FATF money laundering is *the processing of criminal proceeds to conceal their illegal origin*[6]. *Criminals do this by masking sources, changing form, or transferring funds to a place where they are less likely to attract attention.* Among the most typical criminal activities that serve as a source for this process are illegal arms sales, smuggling and organized crime activities, including drug trafficking and prostitution networks, illegal embezzlement, bribery, computer fraud schemes, etc.

If the definitions given by public institutions and non-public national and international organizations were analyzed in the same way, we would get the same result: *definitions with the same content* regardless of the form of their formulation.

GLOBAL FIGHT AGAINST MONEY LAUNDERING

As with any theoretical or practical phenomenon or concept, there is a series of attitudes, definitions, and factors influencing the fight against money laundering. Different authors and national and international institutions, depending on the purpose of the study and, often influenced by their field of research, give different definitions on this process. Of course, these definitions do not contradict each other, but place emphasis on a certain element of this process. In general, the Anti Money Laundering refers to a set of procedures, laws or rules designed to stop the practice of generating income through illegal actions. Although AML laws cover only a relatively limited number of criminal transactions and conduct, their implications are extremely broad (IFAC, 2014; Klein, 2010).

The tragic events of September 11, 2001 demonstrated in a specific and indisputable way that crime has become global and its financial aspects have become more complex, aided by rapid advances in technology and the globalization of the financial services industry (FATF). Modern financial systems, in addition to facilitating legitimate trade, allow criminals to transfer millions of dollars in real time, using personal computers and satellite networks.

Fighting money launderers and strengthening money laundering regimes globally will reduce financial crime by depriving criminals of the means to commit other serious crimes

[6]http://www.fatf-gafi.org/faq/moneylaundering/

(Putyatin, 2012). To a lesser extent, but realistically, strengthening money laundering regimes, especially in the areas of identifying the creator of international transfers, will also affect the minimization of terrorist financing (TF). From a legal point of view, strong countermeasures against money laundering within the AML/TF helps create a set of evidence that exposes criminal behavior and helps enforce the law to identify perpetrators and build cases against them that would lead to their detention and sentencing (FATF, EC/EP).

Sound financial systems and strong anti-money laundering regimes are essential elements in the fight against money laundering and terrorist financing globally (FATF, 2014). To protect the integrity of the international financial system, to cut off the resources available to terrorists and to make it more difficult for criminals to take advantage of their crimes, the international community has prioritized the fight against money laundering and terrorist financing. Multilateral anti-money laundering initiatives include, among others, the United Nations, the International Monetary Fund, the International Monetary Fund, the World Bank, the European Union, the Council of the European Union and the Organization of American States. Organizations have extensively contributed to an international legislative and political framework to tailor anti-money laundering and anti-terrorist financing measures and are seen as setting standards for AML/TF policies.

PARAMETERS OF GLOBALLY HIGH RISK

Risk assessment and ranking is a science that requires real analysis and important processes. Although the risk of money laundering is a phenomenon that manifests itself in more or less the same way in all countries, *it carries different characteristics depending on the environment and the history of the development of an economy*. In addition, there are several sources of risk that organizations expose to relatively higher levels of risk.

Regardless of where it operates, even if an organization can build a rigorous money laundering risk management program, it can face difficulties if it does not identify the right risk factors and does not provide complete data on them (Price, 2008). There are several links and relationships that can be created by a client which affect the significant risk increase by ranking the client at a higher level of risk. Of course, each of these parameters affects to a certain extent the level of risk but different from one client to another. There are a variety of elements that affect the level of risk in such a way, but some of them are presented in detail below (FATF 2012, Price, 2008).

Non-resident foreigners. When the client of the organization is a resident with local citizenship, of course it is easier to investigate about him and in cases of ambiguity to find and contact him. In cases of damage that this client can cause through the use of the organization's products and resources in the money laundering process, it is relatively easier to denounce and prosecute. The same cannot be said for non-resident customers and especially those with foreign citizenship. For an individual with foreign citizenship or a company established in a foreign country, it is more difficult to gather accurate and real-time information. Non-resident foreigners and foreign individuals are considered to be at higher risk due to their potential links to foreign countries that may have lower standards of the fight against money laundering or have a reputation as non-cooperating countries in the global war against this phenomenon (Husisian, Foley & Lardner AML, 2014). If this client were to use the organization's products and resources to launder money illegally then it would be relatively more difficult and costly to track it. For this reason these customers are ranked with a relatively higher risk.

Political exposure. The level of political exposure of the client significantly affects his level of money laundering risk. But which customer can be rated in such a category? In practice there is a definition called "Politically Exposed Person (PEP)". In principle, PEP is considered any natural or legal person who has previously served in a public office or served in a political group. According to the FATF definition (2013), a person is considered politically exposed if he is or has been in an important public office[7]. In general, a PEP is classified as high risk due to the possibility of its involvement in bribery and corruption due to its position and power to influence public decision-making. Precisely because of their position and influence, it is already a well-known fact that many PEPs are in positions that could potentially be involved in the money laundering and related offenses, including corruption and bribery, as well as carrying out activities in regarding the financing of terrorism. This has been confirmed by the analysis and case studies conducted by researchers and public and intergovernmental organizations (FATF 2013, Recommendation 12 and 22). Precisely because of the relatively higher risk that a PEP client carries, they are ranked at a higher level. . Of course, in proportion to this level of money laundering risk, it is justified to implement stricter preventive measures in the relationships that organizations establish with PEP clients. To address this relatively higher risk, the FATF Recommendations (12 and 22) require that regulators and responsible public institutions encourage certain financial institutions, businesses and non-financial professions to implement measures to prevent the misuse of the financial system, businesses and non-financial businesses by PEPs as well as detect such possible abuses if and when they occur.

Saving, transferring and converting money. There are some non-bank institutions which, in essence of their activity, have the money, specifically the service of its preservation, the transfer from one place to another, the exchange of money of different countries, etc. The

[7]FATF Guidance, June 2013: “Politically exposed persons - (recommendations 12 and 22)”

non-bank institution that provides these services usually performs random transactions and generally does not open or hold accounts for the customer. However, these institutions can sometimes develop management schemes and methods that stimulate customer loyalty relationships (FATF/OECD, 2016). These can be done by reaching an agreement with customers who offer business advantages over long-term relationships and trust with the client. Such businesses are practically recognized mainly in three forms:

a. *Foreign exchange offices*, which exchange coins of different countries against a volatile exchange rate according to market conditions.
b. *Credit savings companies*, which accumulate savings mainly in peripheral areas and with a high level of informality and offer loans in these areas.
c. *Money transfer institutions*, which offer the possibility of transferring amounts from one area to another.

When the client of the organization is one of the above institutions then these clients are ranked with a high level of risk due to the fact that their activity is directly related to money in such a way that it creates relatively wide space for re-entry into the system of money illegally created.

Employees of the organization. It is more than normal for the employees of the organization to be its customers. Thus the bank's employees are also its depositors; employees of insurance companies buy insurance services in the company where they work; employees of a foundation seek funding primarily from the institution where they work; etc. Since the employee is well acquainted with the products and resources of the organization and often has reserved information compared to other customers, then there is a relatively high risk that he will be directly or indirectly involved in a money laundering process. The history so far supports this definition of the involvement of the organization's staff in the detected money laundering processes.

MONEY LAUNDERING AND SHADOW ECONOMY

For a long time, the informal sector has been subjected to various policies known as ''Formalizing the Informal'' aimed at bringing its players to the formal sector. There has been growing concern about the exploitation of the informal sector by money launders and terrorist financiers, not least because of the transfer of large amounts to developing countries through the sector (GIABA, 2013).

Cunder, in his effort to find the link between money laundering and shadow economy, groups the global industries of illegal weapons trade, illicit drug trade, prostitution and human trafficking, naval piracy and wildlife trafficking into the shadow economy. Aside of the actual logistics of making all the illicit business happen, there is a big structure of financial institutions processes and associated offshore establishments to deal with the related supporting financial transactions, but also money laundering of the income to re-enter the regular society and economical structures governed by the rule of law. But it needs to be assumed that these activities do not exist as separate and unrelated crimes. Many of these crimes complement each other, are interconnected and sometimes even creating vicious circles (Cunder, 2015).

In addition, there are also income from less organized crime and fraud, such as classic criminality, corruption, tax evasion, gambling proceeds where gambling is illegal, smuggling and trafficking, racketeering, and plain theft (Cunder, 2015).

Tax evasion is one of the most studied topic when it comes to exploring the relation with money laundering. Pierce (1968) defines tax evasion as the reduction of taxes by a method contrary to that allowed by the law.

A way of proving that a link exists between tax evasion and money laundering is to take a look at the reasons why criminals launder money. Some of the reasons are that they are trying to hide wealth; they want to evade taxes in order to increase their profits; they want to legalize the money and they want to avoid prosecution. In theory, the results have proven that one cannot look at money laundering without considering tax evasion as well, but tax evasion does not necessarily constitute the act of money laundering. Thus, where tax evasion is involved, it does not automatically indicate money laundering, but where money is being laundered, the chances of tax evasion being part of the equation are perceived to be 100%(Storm, 2013).

Nonetheless, as AML/FT measures are implemented with particular emphasis on the formal financial sector, and formal channels for ML and TF become difficult to exploit, there is concern that criminals, terrorists, and their appendages seek to move, conceal, and transfer funds through informal channels (FATF 2003). Moreover, little energy has been expended in terms of research on the ML/TF risks posed by the informal sector, particularly in regions and countries known for instability and terrorist activities.

As an indispensable part of the final stages of the shadow economy processes are various money laundering schemes that allow the illicit money to be legalized and re-enter regular lawful economies to further the agendas of the perpetrators, either to improve their living standards or to buy more power in the never ending vicious circle of corruption (Cunder, 2015).

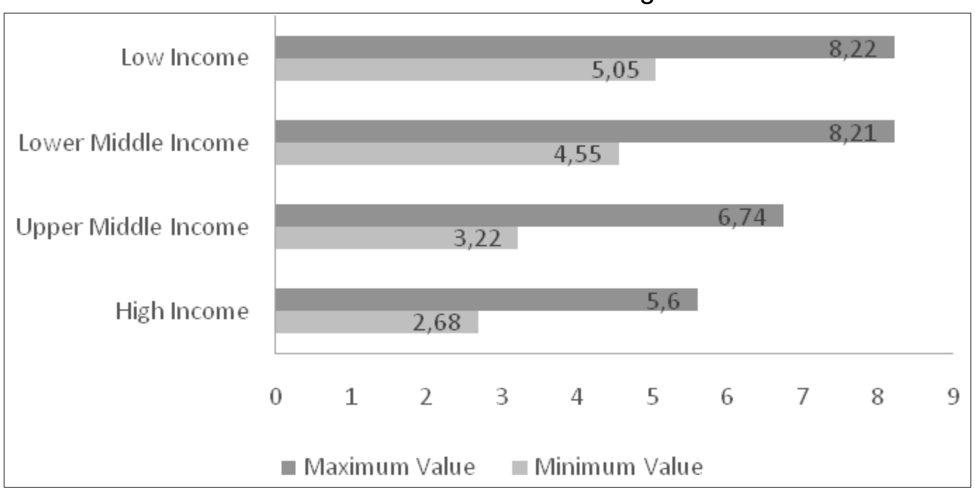
The standard rule of law systems, economic establishment and law enforcement agencies such as FATF have become increasingly effective in spotting and preventingthe outright use of these funds in the open legal markets of the world. Therefore, the shadow economy constantly strives to perfect their money laundering techniques and stay ahead of the authorities and law enforcement (Cunder, 2015).

MONEY LAUNDERING AND COUNTRIES INCOME LEVEL RELATION

Relation between money laundering and the countries development or/and their level income has attracted the attention of many researchers, especially in the recent decades. To asses such relation, the Basel's Institute data on AML (Anti Money Laundering) Index for 2019 and the classification of countries according their income level for 125 countries in total are used[8].

The Basel AML Index measures the risk of money laundering and terrorist financing (ML/TF) in countries based on a total of 15 indicators of countries' adherence to anti-money laundering and countering the financing of terrorism (AML/CFT) regulations, levels of corruption, financial standards, political disclosure and the rule of law are aggregated into one overall risk score. By combining these data sources, the overall risk score represents a holistic assessment addressing structural as well as functional elements of the country's resilience against ML/TF. This Index does not measure the *actual amount* of money laundering or terrorist financing activity, but rather is designed to assess the *risk* of such activity. ML/TF risk is understood as a broad risk area in relation to a country's vulnerability to ML/TF and its capacities to counter it (Basel Institute on Governance, 2019). The Basel AML Index takes its values between 0 to 10, where the 0 value indicates no risk of money laundering and terrorist financing, while the 10 value indicates the highest risk in this context.

Figure 1: Extreme Values of the AML Index According the Countries Income Level



Source: Authors' compilation based on Basel Institute data, 2020

As shown in figure 1, countries with high income level take their AML Index values between 2.68, which is the lowest value among all the countries and 5.6. Countries with upper middle income level take their AML Index values between 3.22, which is higher than minimum the value

[8] https://www.baselgovernance.org/basel-aml-index/public-ranking

for high income level countries and 6.74, which is higher than the maximum value for high income level countries.

The same occurrence happens with the increase to other income levels. Concretely, the extreme values for countries with lower middle income level are higher than those of countries with upper middle income level, and the extreme values for countries with low income level are higher (the maximum value of which is the highest value among all the countries) than those of countries with lower middle income level.

Although the value segments of the AML Index according the countries income levels are not completely separated among one another, it can be said that countries with higher income levels are characterized by lower risk of money laundering and terrorist financing (ML/TF) than those with lower income levels.

In order to have a more detailed picture of the relation between the risk of money laundering and terrorist financing and the income level, the total of 125 countries is divided equally in 5 big groups based on their AML Index ranking, where in the first group are included the 25 first ranked countries, which have the highest risk of money laundering and terrorist financing and in the last group are included the 25 last ranked countries.

For each of these 5 big groups, it is calculated the weight of each country's income level. On the other hand, for each of the country's income level, it is calculated the weight of each ranking group. These calculations are presented in Table 1 below.

Table 1: Weight of Countries According their Income Level and the AML Index Raking

Countries' income levels / Countries' ranking based on the AML Index	**High income countries**	**Upper middle income countries**	**Lower middle income countries**	**Low income countries**
1-25	0% / 0%	10,8% / 16,0%	39,4% / 52,0%	80,0% / 32,0,0%
26-50	0% / 0%	37,8% / 56,0%	30,3% / 40,0%	10,0% / 4,0%
51-75	20% / 36%	21,6% / 32,0%	21,2% / 28,0%	10,0% / 4,0%
76-100	35,6% / 64%	16,2% / 24,0%	9,1% / 12,0%	0% / 0%
101-125	44,4% / 80%	13,5% / 20,0%	0% / 0%	0% / 0%

Source: Authors' compilation based on Basel Institute data, 2020

Based on the up-mentioned methodology, out of the most 25 risked countries, none of them is of a high income level; 16% of them belong to the upper middle income countries; 52% of them belong to the lower middle income countries and 32% of them belong to the low income countries. It is important to note that the highest weight of the lower middle income countries are ranked in the group of the most 25 risked countries, calculated at the value of 39.4%. At the same time, not only the highest weight of the low income countries, but 80% of them are included in the group of the most 25 risked countries.

Out of the least 25 risked countries, 80% of them belong to the high income countries, which make up to 44.4% of the total of high income countries; 20% of them belong to the upper middle income countries and none of them belong neither to the lower middle income countries, nor to the low income countries.

Out of the 45 countries classified as high income countries, none of them is ranked at the most 50 risked countries. Most of them are ranked at the least risked countries and 35.6% are ranked at the fourth most risked countries group.

Out of all the low income countries (ten in total), 80% of them are estimated to belong to the 25 most risked countries and 10% of them to the second and the third groups of the most risked countries respectively. Thus, none of the low income countries belong to 50 lowest risked countries.

As shown from the description based on Graphic 1, this analyze is also proof of the relation between money laundering and a country income level. The higher a country income level, the lower the risk of money laundering and terrorist financing (ML/TF).

CONCLUSIONS

Whatever the various ways and processes by which illegal money makers disguise the original ownership by making such money appear to have derived from a legitimate source, money laundering, at its simplest, is the process of entering illegal money into the formal economy. Parallel to this, multidimensional aspects of money laundering as a global phenomenon has come to a sole purpose of national and international institutions, to fight against it, beside their different institutional tools.

While passing from a countries group with higher income level to another group with lower income level, the extreme values of the risk of money laundering and terrorist finance that component countries give those groups, seems to increase.

None out of the most 25 risked countries is of a high income level, while most of them belong to the lower middle and low income countries. On the other hand, most of the low income countries are estimated to belong to the group of the most 25 risked countries and most of the lower middle income countries are estimated to belong to the group of the most 50 risked countries of ML/TF.

In the same way, none out of the least 25 risked countries is of a low or lower middle income level, while most of them belong to the high income countries. As well, the highest weight of high income countries have the lowest risks of ML/FT, proving that the higher a country income level, the lower the risk of money laundering and terrorist financing.

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