Economic impact of organised crime and AML
Speaking points Karel Lannoo

- Welcome this initiative :
    - So far **cost of ML**, and thus organized crime, appeared to be quite low. Recovery rate of laundered asset is **1.1%**, meaning crime goes unpenalized, or crime is a **very lucrative market**
    - difficult to measure economic impact of organized crime
        - how to quantify?
        - all are approximations
    - Not done so far in the context of **impact assessments for AML proposals**
        - Last available one was more an IA of the legislative approach, not an overall estimation of black market (5th AML directive), and the benefits of better enforcement
    - But lot's depends on the **definition**: what is money laundering? Is it also tax evasion? Tax avoidance? Do you include state sponsored bribery? What about corporate bribery? **As long as we do not have a proper definition, we will not be able to measure correctly.** And what is crime, and what is only in sanction?
- Estimations of ML and organized crime
    - Most are of a macro nature, based upon proxies and estimates
    - size of the shadow economy based upon foreign direct investment (FDI) flows compared to real investment (for example)
    - but criminals do not declare their activities
    - tax evasion alone is estimated at €825 bn. Tax avoidance adds another €150 bn.
    - Some indexes and rankings exist
        - **Basel AML Index** : a country's vulnerability to money laundering/terrorist financing and its capacities to counter it. It covers 16 indicators in five domains, regarding quality of the framework, bribery and corruption, financial transparency, public accountability and political risk. But it classifies as 'low risk' European countries such as Bulgaria in 4th, Montenegro in 16th and Croatia in 22nd place
        - **Transparency International** : measures openness and quality of governance system
        - Coffers.eu Horizon project
        - **International Narcotics Control Strategy Report** (State Dep) : lists Italy, the Netherlands, Spain for the EU, but also the UK and the US itself as centres of ML. Money launderers need serious financial markets in which to operate effectively, and the general view worldwide is that the **major financial centres are also the major places for money laundering, or FC thrive also on illegal activities**
- Economic cost
    - Cost of thousands of employees to apply AML legislation, of officials to control
    - Inefficiency of management systems (how much more efficient could banks and other organisations be)
    - Foregone (tax) revenues for states (certainly in Covid context)

- o And there is 'Laffer curve': you increase taxes because a whole group does not contribute, but the tax revenues start to stabilize or decline from a certain point
  - o Cost of having controls
  - o Cost of lack of social cohesion in societies
- Conclusion
  - o We need consistent definitions
  - o We need more data (but GDPR may be a problem)
  - o We need to improve as recovery rate has not improved, hence economic cost remains huge
  - o We need more international cooperation

Karel Lannoo, CEPS, 10 March 2021

See: https://www.ceps.eu/ceps-publications/anti-money-laundering-in-the-eu/ for references above