

Money Laundering: Concept and International Organizations Aimed at Preventing this Crime

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Abstract: The role of international legal standards in the legalization (money laundering) of income from criminal activity, the main features of this type of crime and the scope of amai cases aimed at its prevention are threatened. As we know, legalization of income from criminal activity is a type of secondary crime, and we can not imagine this type of crime without offshore ways. In this course of study, various approaches to the definition of the concept of legalization of proceeds from crime analyzed. The collaboration between governments, financial institutions, and international organizations in combating illegal financial activities is explored, emphasizing the escalating significance of stringent controls.

Keywords: Money laundering, International legal standards, Criminal activity, Offshore ways, Information technology (IT), Cryptocurrencies, Basel AML Index, Global ML/TF risk level, United Nations Office on Drugs and Crime (UNODC), Financial Action Task Force (FATF), Predicate crime, Europol, Interpol, Financial Intelligence Units (FIUs), Egmont Group, Terrorism, Cybercrime, Organized crime, Corruption, Intellectual property infringement, White-collar crime, Predicate crimes, Offshore crime, foreign experience.

Introduction:

Nowadays, we live in enhanced world of IT, and it`s challenging to imagine any type of crime not connected with or facilitated by IT. What percentage of money laundering occurs via cryptocurrencies like Bitcoin, Cirus Foundation, Terra classic and so on? An insignificant fraction? It is extremely difficult to assess, given that the development of cryptocurrencies also contributes sufficiently to growth of this type of crime.

Efforts to combat the legalization of income from criminal activities are crucial in the global financial landscape. Governments, financial institutions and international organizations are cooperating in the fight against illegal financial activities. True, most people have a clear idea about this type of crime, but these expectations are much higher than we think. The 12th Public Edition of the Basel AML Index reveals that the average global ML/TF risk level increased from 5.25 in 2022 to 5.31 in 2023, where 10 is the maximum risk¹. Money laundering is a global issue which affects economies across the world. It is estimated that up to 5% of global GDP is laundered each year, amounting to \$2 trillion. According to a report by the United Nations Office on Drugs and Crime (UNODC), the bulk of this money, ranging between \$200 billion and \$500

¹Basel AML Index 2023: Action on money laundering more urgent than ever. <https://baselgovernance.org/news/basel-aml-index-2023-action-money-laundering-more-urgent-ever>

billion, is generated from drug-related activities and is circulated through various channels looking for good "laundromats"².

What does it mean money laundering, there many types of references and glossary. First and foremost, it is well known that Oxford is defined as follows, that is Money laundering - Processing money acquired illegally (as by theft, drug dealing, etc.) so that it appears to have come from a legitimate source. This may be achieved in various ways, notably by paying the illegal cash into a foreign bank and transferring its equivalent to a bank with a good name in a hard-currency area. Another common practice is so-called smurfing. Owing largely to the threat from international terrorism, controls on money laundering have become increasingly stringent³.

When we look at the official website of the United States Government, we can see that following definition:

With few exceptions, criminals are motivated by one thing-profit. Greed drives the criminal, and the end result is that illegally-gained money must be introduced into the nation's legitimate financial systems. Money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them. Through money laundering, the criminal transforms the monetary proceeds derived from criminal activity into funds with an apparently legal source.

This process has devastating social consequences. For one thing, money laundering provides the fuel for drug dealers, terrorists, arms dealers, and other criminals to operate and expand their criminal enterprises.

We know that criminals manipulate financial systems in the United States and abroad to further a wide range of illicit activities. Left unchecked, money laundering can erode the integrity of our nation's financial institutions⁴.

However, this type of crime is considered difficult to imagine without the FATF organization and it considers that type of crime is predicate crime. First of all, it is recommended to dwell on the concept of legalization of income from criminal activities brought by the FATF organization:

"Money laundering" is the act by which the proceeds of crime are made to appear legitimate⁵.

From the above terms we can say that, firstly, this type of crime based on secondary crime (such as such as drug trafficking, corruption, embezzlement or gambling) and we can not imagine this type of crime without offshore ways. The manipulation of financial systems by criminals poses a threat to the integrity of national and international financial institutions. If left unchecked, money laundering can erode the integrity of a nation's financial infrastructure. The global community recognizes the need for strict controls to counteract this pervasive issue. Another interesting point is that persons who commit this crime in most cases have a high IQ and operate in state organizations.

As we said from definitions, the Money laundering has negative effects on economic development. Not only money laundering constitutes a serious threat to national economies, but

² Money Laundering - the World's Third- Largest Business - with 3-5% of total GDP which accounts to up to 4 trillion USD annually. <https://www.linkedin.com/pulse/money-laundering-worlds-third-largest-business-3-5-pawel-kuskowski>

³ Oxford Reference. Money laundering. <https://www.oxfordreference.com/display/10.1093/oi/authority.20110803100053931>

⁴ An official website of the United States Government. Glossary. What is money laundering? <https://fincen.gov/what-money-laundering>

⁵ THE INTERNATIONAL AML/CFT STANDARDS. <https://apgml.org/aboutus/page.aspx?p=acbf69ba-a694-4db0-b1be-f27172dde9fc>

also respective governments. The infiltration and sometimes saturation of dirty money into legitimate financial sectors and nations accounts can threaten economic and political stability.

Several international organizations play pivotal roles in preventing and combating money laundering. First of all, Financial Action Task Force (FATF) is a basic tool which protect to corruption and money laundering in the global landscape. The FATF is a global intergovernmental organization that sets international standards for combating money laundering and terrorist financing. It conducts assessments of countries' anti-money laundering and counter-terrorist financing systems(AML/CFT). The Financial Action Task Force (on Money Laundering) (FATF), also known by its French name, Groupe d'action financière (GAFI), is an intergovernmental organization founded in 1989 on the initiative of the G7 to develop policies to combat money laundering and to maintain certain interest⁶.

As David Chaikin said that the FATF is the key international organisation that establishes global standards governing money laundering. Although the FATF 40 Recommendations (R) of money laundering are not legally binding, they have had a powerful influence on national laws, with more than 170 countries agreeing to comply with the FATF R by establishing AML laws and systems⁷.

Another international legal organisation is considered United Nations Office on Drugs and Crime (UNODC). The United Nations Office on Drugs and Crime (UNODC; French: Office des Nations unies contre la drogue et le crime) is a United Nations office that was established in 1997 as the Office for Drug Control and Crime Prevention by combining the United Nations International Drug Control Program (UNDCP) and the Crime Prevention and Criminal Justice Division in the United Nations Office at Vienna, adopting the current name in 2002.

The agency's focus is the trafficking and abuse of illicit drugs, crime prevention and criminal justice, international terrorism, and political corruption. It is a member of the United Nations Development Group. In 2016–17, it had an estimated biannual budget of US\$700 million⁸.

This organisation focuses on assisting member states in the implementation of effective measures to combat money laundering and related offenses.

Third, International Monetary Fund (IMF) is Established on December 27, 1945 and is a major financial agency of the United Nations, and an international financial institution funded by 190 member countries, with headquarters in Washington, D.C. It is regarded as the global lender of last resort to national governments, and a leading supporter of exchange-rate stability. Its stated mission is "working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world⁹.

⁶ The FATF in the Global Financial Architecture: Challenges and Implications. International, Transnational & Comparative Law Journal. Social Science Research Network (SSRN). Accessed 4 April 2019. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3362167

⁷ To cite this document: David Chaikin, (2008),"Commercial corruption and money laundering: a preliminary analysis", Journal of Financial Crime, Vol. 15 Iss 3 pp. 269 – 281. P 11;
Permanent link to this document:

<http://dx.doi.org/10.1108/13590790810882865>

⁸ From Wikipedia, the free encyclopedia. United Nations Office on Drugs and Crime. https://en.wikipedia.org/wiki/United_Nations_Office_on_Drugs_and_Crime

⁹ From Wikipedia, the free encyclopedia. International Monetary Fund. https://en.wikipedia.org/wiki/International_Monetary_Fund#cite_note-IMF-at-a-Glance-10

These institutions collaborate with countries to enhance their legal and regulatory frameworks to combat money laundering and promote financial stability.

Our next organization is not a universal organization like the FATF organization, but rather regional and it is called **Europol**. It, the European Union Agency for Law Enforcement Cooperation, coordinates efforts among EU member states to combat various forms of organized crime, including money laundering. Established in 1998, it is based in The Hague, Netherlands, and serves as the central hub for coordinating criminal intelligence and supporting the EU's member states in their efforts to combat various forms of serious and organized crime, as well as money laundering¹⁰.

The latter organization is considered Interpol, the organization today known as Interpol was founded on 7 September 1923 at the close of a five-day 1923 International Police Congress in Vienna as the International Criminal Police Commission (ICPC)¹¹. At first, it is natural for all of us to wonder whether this organization also fights against money laundering. Yes, this organization also fights anti money laundering (AML), this organization announced on its official website that it will fight this crime and the main task of this organization is to investigate various types of crimes. Interpol facilitates international police cooperation and supports member countries in addressing transnational crimes, including money laundering.

David Sweet O.C. as he wrote in his "INTERPOL DVI best-practice standards--An overview" scientific work that through the combined efforts of police, support staff, elected committees and working group members that comprise police officers and scientific consultants, INTERPOL has moved international collaboration and cooperation to solve crimes and investigate criminal activities to a new, modern level. The use of technology in investigation, surveillance and intelligence gathering has provided successful prosecutions of offenders and resolved countless outstanding cases, legalization is one of them¹².

However, Interpol provides investigative support, expertise and training to law enforcement worldwide, focusing on three major areas of transnational crime: terrorism, cybercrime and organized crime. Its broad mandate covers virtually every kind of crime, including crimes against humanity, child pornography, drug trafficking and production, political corruption, intellectual property infringement, as well as white-collar crime¹³.

Financial Intelligence Units, also known as (**FIUs**) is also the basic organisation in the world. The concept of the FIUs started to gain traction in the early 1990s, as the need for an authority to receive, evaluate, and share financial information related to financial crime became apparent. Today, many countries have established their own FIU, each with its own unique responsibilities and functions.

Many countries have established FIUs to gather, analyze, and disseminate financial intelligence to combat money laundering and related offenses. Financial crime is a growing concern for governments and financial institutions worldwide, as we mentioned above with millions of dollars being laundered each year through various illegal activities. To address this issue, countries have implemented anti-money laundering (AML) regulations and regular risk assessments that businesses must comply with. One of the key measures taken by many countries

¹⁰ From Wikipedia, the free encyclopedia. Europol. <https://en.wikipedia.org/wiki/Europol>;

¹¹ Mathieu Deflem, *Policing World Society: Historical Foundations of International Police Cooperation* (Oxford University Press, 2004) p. 125. https://en.wikipedia.org/wiki/Interpol#cite_note-5.

¹² INTERPOL DVI best-practice standards--An overview. David Sweet O.C. <https://pubmed.ncbi.nlm.nih.gov/20303223/>

¹³ Sweet O.C., David (September 2010). "INTERPOL DVI best-practice standards—An overview". *Forensic Science International*. 201 (1–3): 18–21. doi:10.1016/j.forsciint.2010.02.031. PMID 20303223. ProQuest 1034458337.

is the establishment of a Financial Intelligence Unit (FIU). Its main responsibilities include gathering, analyzing and sharing data about questionable financial activity and transactions. In addition, the FIU's primary goals are as follows:

To recognize monetary exchanges and acts those are connected to illegal activities including money laundering, tax evasion, and corruption.

To document suspicious activity, compile Suspicious Transaction Reports (STRs), and offer analysis of the data gathered.

To ascertain and comprehend the sources of financing for criminal and terrorist groups as well as their operational strategies.

Exchanging economic and financial information with other nations via intergovernmental networks like the Egmont Group in order to improve international collaboration in the fight against financial crimes.

The last organization is that The Basel Committee - initially named the Committee on Banking Regulations and Supervisory Practices - was established by the central bank Governors of the Group of Ten countries at the end of 1974 in the aftermath of serious disturbances in international currency and banking markets (notably the failure of Bankhaus Herstatt in West Germany).

The Committee, headquartered at the Bank for International Settlements in Basel, was established to enhance financial stability by improving the quality of banking supervision worldwide, and to serve as a forum for regular cooperation between its member countries on banking supervisory matters. The Committee's first meeting took place in February 1975, and meetings have been held regularly three or four times a year since.

Since its inception, the Basel Committee has expanded its membership from the G10 to 45 institutions from 28 jurisdictions. Starting with the Basel Concordat, first issued in 1975 and revised several times since, the Committee has established a series of international standards for bank regulation, most notably its landmark publications of the accords on capital adequacy which are commonly known as Basel I, Basel II and, most recently, Basel III¹⁴. This committee develops global standards for banking supervision, including measures to address money laundering risks within the banking sector.

Taking into account all of the above, in the ever-evolving panorama of global finance, the fight against the legalization of income from criminal activities stands as a paramount challenge. The staggering estimated from 2% to 5% of the world's GDP is laundered annually accentuates the critical need for proactive measures. Recognizing the deleterious effects of money laundering on economic development and political stability, the international community has entrusted key organizations such as the Financial Action Task Force (FATF), the United Nations Office on Drugs and Crime (UNODC), and the International Monetary Fund (IMF) with the responsibility of setting and enforcing robust standards. While significant progress has been made in establishing an international framework, challenges remain in implementation, technology integration, and addressing emerging threats. Continuous research and collaboration which we mentioned above are essential to adapt AML efforts to the ever-evolving financial landscape. We should remember that the prevention method mentioned in the recommendations of many international organizations, especially the FATF organization, is to strengthen KNC, CDD and international cooperation to prevent this type of crime. Also, based on the above indicators, it is considered to strengthen the IT level of the representatives of the field fighting this type of crime

¹⁴ History of the Basel Committee. <https://www.bis.org/bcbs/history.htm>

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