Chapter II: Review of Literature

2.1 Definition and scope of Money Laundering

A lot of literatures on money laundering do agree clearly that money laundering is about crime, illegal means of acquiring money, concealment of such money in properties and legal businesses (as legal activities) and the financing of terrorist activities (as illegal activities). There is no universal or comprehensive definition of money laundering. Definition of money laundering would also enable the researcher gather enough information into the research area. Schott (2006) believes that money laundering can be defined in a number of ways. According to Hopton (2006), people believe that ML can be described in one of the following ways:

A. Turning dirty money into clean money

B. Washing drug money

C. Disguising criminal money

These historical descriptions are fine as far as they go, but the actual term ML is itself a misnomer. It does not recognise that in the modern world undertaking a laundering operation does not have to involve actual money. Consequently, a modern definition would be that ML occurs whenever any transaction takes place or relationship is formed which involve any form of property or benefit, whether it is tangible or intangible, which is derived from criminal activity. In Black's law dictionary (2004) the term laundering is referred to as investment or other transfer of money flowing from racketeering, drug transactions and other sources (illegal sources) into legitimate channels so that its original source cannot be traced.

The definition Kegoro (2003) gave is “Money Laundering consists of the concealment of assets generated by crime or to be used in committing or facilitating the commission of crime”. He went further to give a more comprehensive form of the definition of Money laundering as “All activities to disguise or conceal the nature, source of, or entitlement to money or property, or rights to either, when the money or property or rights are acquired from serious crime, as well as all activities to disguise
or conceal money or property that is intended to be used in the committing or facilitating the commission of serious crime”. Bagenda (2003) agrees that money launderers use criminal means in acquiring their money and try to use such dirty money in legally acquiring of properties. He defines Money Laundering as the manipulation and the use of money or property to hide its illegal source or the criminal origin by using it in a legal or illegal activity.

According to Fisse (1992) more concisely, money laundering is: “the process by which conceals or disguises the true nature, source, disposition, movement or ownership of money for whatever reason.” In Jeffrey Robinson’s opinion, the only objective of ML is to hide the true ownership and source of the money.

Present AML efforts date back to the 1980’s. In 1986, the U.S criminalized money laundering as a part of its war against drugs. Steeves (2008) puts it that by 1986, laundering and related activities became a federal crime and by further prompting from the USA Congress in 1992, banks and others were required to file reports on suspicious activities identifiable by their institutions under the Bank Secrecy Act.

In 1989, the G7 established the FATF. The FATF, which is recognized as the international standard setter for anti-money laundering efforts, defines the term “money laundering” succinctly as “the processing of…criminal proceeds to disguise their illegal origin” in order to “legitimize” the ill-gotten gains of crime. This definition gives a wide scope of activities that constitute money laundering. First, Recommendation of FATF stated that countries should criminalize money laundering on the basis of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the Vienna Convention) and the United Nations Convention against Transnational Organized Crime, 2000 (the Palermo Convention).

According to Article 6 of the Palermo Convention, states are required to criminalize, through legislation and other measures, the laundering of the proceeds of crime within the context of the fundamental principles of their domestic law. Conduct that must be criminalized when intentional (negligence is not referred to but seems to be contemplated) includes:
the conversion or transfer of property, while knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of the property or of helping any person who is involved in the commission of the predicate offence to evade the consequences of his action;

The concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights to property, while knowing that such property is the proceeds of crime

The acquisition, possession or use of property, while knowing at the time of receipt that the property is the proceeds of crime; and

Participation in, association with or conspiracy to commit such offences, or aiding and abetting, facilitating, or counseling the commission of such offences.

The events of 11th September, 2001 have given a new impetus to the broadening of the perception of the nature and scope of money laundering and its characterization. It is now accepted that proceeds of criminal conduct may be laundered and channeled towards the implementation and realization of other criminal goals, for example, terrorism. Hence, the scope of money laundering has been extended to comprise all activities intended to disguise or conceal the nature or source of, or entitlement to money or property, or rights to either, being money or property or rights acquired from serious crime, as well as all activities to disguise or conceal money or property that is intended to be used in committing, or facilitating the commission of serious crime. In its 40 recommendations for fighting ML, FATF specifically incorporates the technical and legal definitions of ML set out in the Vienna and Palermo Conventions and lists 20 designated categories of offences that must be included as predicate offences for ML.

2.2 The link between Money Laundering and Organized Crime

According to Frank Shanty (2007) Money Laundering is crucial to many types of organized crime. So, we have to know, what is organized crime? Sharma (1998)
believe that, no definition of organized crime can be perfect and universally acceptable. The evolution and the forms of organized crime differ from one country to another, which may be the result of different social, economic, historical and legal factors. According to UNODC, organized crime is considered as one of the major threats to human security, impeding the social, economic, political and cultural development of societies worldwide. It is a multi-faceted phenomenon and has manifested itself in different activities, like, drug trafficking, trafficking in human beings; trafficking firearms; smuggling of migrants; money laundering etc.

Organized crime is a transnational grouping of highly centralized enterprises run by criminals for the purpose of engaging in illegal activity, and also most commonly for the purpose of generating a monetary gain. Organized crime is a threat to the peace and prosperity of the countries (Gandhirajan, 2004). According to Interpol\(^1\), organized groups are typically involved in many different types of criminal activity spanning several countries. These activities may include trafficking in humans, weapons and drugs, armed robbery, counterfeiting and money laundering.

The Organized Crime Control Act U.S.1970 act defines organized crime as "The unlawful activities of [...] a highly organized, disciplined association [...]". For combating to organized crime in December, 2000, the United Nations drew up the Convention against Transnational Organized Crime. The United Nations Convention against Transnational Organized Crime is the main international instrument to counter organized crime. The Convention commits states to introduce a range of measures, including the creation of domestic criminal offences to counter the problem; the adoption of new frameworks for mutual legal assistance; extradition; law enforcement cooperation; technical assistance and training (Pinto & Chevalier, 2006).

Article 1 of this Convention establishes that its purpose is to promote cooperation in order to prevent and combat transnational organized crime more effectively. Article 5 criminalizes participation in an organized criminal group, while article 6 criminalizes the laundering of the proceeds of crime. Thierry (1995) believes that the definition of money laundering is closely connected with the fight against organized crimes. Because a large-scale of money laundering operations are used by organized crime to disguise both amounts and sources of unlawful income. This fact was confirmed in
1984 by the President's Commission on Organized Crime. One of the conclusions of the Commission was that the profits made through crime were re-injected into the organization (Plombeck, 1988). Organized crime is active in highly cash intensive businesses: prostitution, gambling, and drug trafficking for example. Indeed, "in the case of heroin and cocaine, the physical volume of notes received from street dealing is much larger than the volume of the drugs themselves (Trehan, 2004).

As stated above, organized Crime generates a large volume of money. It is obvious that some of the proceeds need to be legitimized. Money laundering is thus an exercise in which every organized Crime group is involved, be it in a small or a big way. Moreover, some of the organized Crime groups specialize in money laundering, in the sense that they also undertake it for other organized Crime groups (O’Brien, 1990). The organized crime has the reliance on the cash. Money laundering facilitates all crimes, by providing the criminals with the ability to enjoy the proceeds of their crimes and also giving them the resources to expand their criminal activities. Therefore, money is the life blood of organized crime and there is a direct link between money laundering and organized crime.

2.3 The Link between Money Laundering and Financing Terrorism

The techniques used to launder money are essentially the same as those used to conceal the sources of, and uses for, terrorist financing. Funds used to support terrorism may originate from legitimate sources, criminal activities, or both. Nonetheless, disguising the source of terrorist financing, regardless of whether the source is of legitimate or illicit origin, is important. If the source can be concealed, it remains available for future terrorist financing activities. Similarly, it is important for terrorists to conceal the use of the funds so that the financing activity goes undetected.

For these reasons, FATF (at The Special Recommendations II) has recommended that each country criminalizes the financing of terrorism, terrorist acts and terrorist organizations, and designate such offenses as money laundering predicate offenses. Finally, FATF has stated that the Eight Special Recommendations combined with The
Forty Recommendations on money laundering constitute the basic framework for preventing, detecting and suppressing both money laundering and terrorist financing.

2.4 Money laundering process

Money laundering often involves a complex series of transactions and numerous FIs from many jurisdictions. Non-bank FIs such as bureau de change, check cashing services, insurers, brokers and traders are also increasingly utilized by money launderers (Bonnie, 2004). Traditionally, it has been accepted that the money laundering process comprises three stages (Hopton, 2008). These three stages consist of Placement, Layering and Integration, which are outlined below;

Placement: Cash proceeds of crime are introduced into the giro payment traffic: cash becomes giro money. In case of secondary deposits, the actual owner of the criminal money does not become visible, for instance because frontmen and /or shell companies are used. In order to prevent discovery, frontmen are sometimes sent out with smaller amounts to deposit the money with different banks. This is called ‘structuring’. The first phase of placement is the use of the security cover of the frontmen.

Figure 1.1 How money is laundered
Layering: The key activity within the money laundering process, aimed at breaking thought the ‘paper trail’ , also called audit trail (bookkeeping trail) , in order to prevent the money from being connected with the crime that is at its root. The second stage is the separation of the “paper transaction” form the “real transaction”.

Integration: In this stage, the money returns to the legal monetary traffic as a short -or long- term investment. The third stage is the final end point of the financial transactions. It brings “fraud” money into “safe” real money market which is legal.

Not all money laundering transactions involve all three distinct stages, and some may indeed involve more. Nonetheless, this three stage classification is a useful decomposition of what can sometimes be a complex process.
In the 1980’s, Eddie Antar, the owner of Crazy Eddie's Electronics, skimmed millions of dollars from the company to hide it from the Internal Revenue Service. That was the original plan, anyway, but he and his co-conspirators eventually decided they could make better use of the money if they sent it back to the company disguised as revenue. This would inflate the company's reported assets in preparation for its Initial Public Offering (IPO). In a series of trips to Israel, Antar carried millions of dollars strapped to his body and in his suitcase. Here's a basic recounting of how the scheme worked:

**Placement:** Antar made a series of separate deposits to a bank in Israel. On one trip, he made 12 deposits in a single day.

**Layering:** Before U.S. or Israeli authorities had a chance to notice the suddenly huge balance in the account, Antar had the Israeli bank wire transfer everything to Panama, where bank secrecy laws are in effect. From that account, Antar could make anonymous transfers to various offshore accounts.

**Integration:** Antar then slowly wired the money from those accounts to the legitimate Crazy Eddie's Electronics bank account, where the money got mixed in with legitimate dollars and documented as revenue. Overall, Crazy Eddie laundered more than $8 million. His scheme boosted the initial offering stock price so that the company ended up worth $40 million more than it would have been without the added revenue. Antar sold his stock and left with $30 million in profit. Authorities found him in Israel in 1992, and Israel extradited him to the United States to stand trial. He received an eight-year prison sentence. (Layton, 2010)
2.5 Where does Money laundering accrue?

As money laundering is a necessary consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out areas in which there is a low risk of detection due to weak or ineffective anti-money laundering programmes. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through areas with stable financial systems.

Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the underlying activity; often, but not in every case, in the country where the funds originate. With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.

Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

So, we can say that Money laundering can, and do, occur in any country in the world, especially those with complex financial systems. Countries with lax, ineffective, or corrupt AML infrastructures are also likely to be the targets for such activities. No country is exempt.

Table 1.6 shows the top twenty countries of origin for laundered money. Note that most of them are DDCs. Table 1.7 presents the top twenty destination countries for money laundering. Also Table 1.8 reveals attractiveness to Money Launderers (Walker, 1998).
Table 1.6 Top 20 origins of Laundered Money

<table>
<thead>
<tr>
<th>Rank</th>
<th>Origin</th>
<th>Amount ($Us mill/yr)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>U.S</td>
<td>1320228</td>
<td>46.3%</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>150054</td>
<td>5.3%</td>
</tr>
<tr>
<td>3</td>
<td>Russia</td>
<td>147187</td>
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</tr>
<tr>
<td>4</td>
<td>China</td>
<td>131360</td>
<td>4.6%</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>128266</td>
<td>4.5%</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
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<td>4.4%</td>
</tr>
<tr>
<td>7</td>
<td>Romania</td>
<td>115585</td>
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</tr>
<tr>
<td>8</td>
<td>Canada</td>
<td>82374</td>
<td>2.9%</td>
</tr>
<tr>
<td>9</td>
<td>U.K</td>
<td>68740</td>
<td>2.4%</td>
</tr>
<tr>
<td>10</td>
<td>Hong Kong</td>
<td>62856</td>
<td>2.2%</td>
</tr>
<tr>
<td>11</td>
<td>Spain</td>
<td>56287</td>
<td>2.0%</td>
</tr>
<tr>
<td>12</td>
<td>Thailand</td>
<td>32834</td>
<td>1.2%</td>
</tr>
<tr>
<td>13</td>
<td>South Korea</td>
<td>21240</td>
<td>0.7%</td>
</tr>
<tr>
<td>14</td>
<td>Mexico</td>
<td>21119</td>
<td>0.7%</td>
</tr>
<tr>
<td>15</td>
<td>Austria</td>
<td>20231</td>
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<tr>
<td>16</td>
<td>Poland</td>
<td>19714</td>
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<tr>
<td>17</td>
<td>Philippines</td>
<td>18867</td>
<td>0.7%</td>
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<tr>
<td>18</td>
<td>Netherlands</td>
<td>18362</td>
<td>0.6%</td>
</tr>
<tr>
<td>19</td>
<td>Japan</td>
<td>16975</td>
<td>0.6%</td>
</tr>
<tr>
<td>20</td>
<td>Brazil</td>
<td>16786</td>
<td>0.76%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>All Countries</td>
<td>2850470</td>
</tr>
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</table>

Source: Modeling Global Money Laundering Flows - some finding
Table 1.7 Top 20 Destinations of Laundered Money

<table>
<thead>
<tr>
<th>Rank</th>
<th>Destination</th>
<th>Amount ($US mill/yr)</th>
<th>% of Total</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td>U.S</td>
<td>538145</td>
<td>18.9%</td>
</tr>
<tr>
<td>2</td>
<td>Cayman Islands</td>
<td>138329</td>
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</tr>
<tr>
<td>3</td>
<td>Russia</td>
<td>120493</td>
<td>4.2%</td>
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<tr>
<td>4</td>
<td>Italy</td>
<td>105688</td>
<td>3.7%</td>
</tr>
<tr>
<td>5</td>
<td>China</td>
<td>94726</td>
<td>3.3%</td>
</tr>
<tr>
<td>6</td>
<td>Romania</td>
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<td>3.1%</td>
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<td>7</td>
<td>Canada</td>
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<td>3.0%</td>
</tr>
<tr>
<td>8</td>
<td>Vatican City</td>
<td>80596</td>
<td>2.8%</td>
</tr>
<tr>
<td>9</td>
<td>Luxembourg</td>
<td>78468</td>
<td>2.8%</td>
</tr>
<tr>
<td>10</td>
<td>France</td>
<td>68471</td>
<td>2.4%</td>
</tr>
<tr>
<td>11</td>
<td>Bahamas</td>
<td>66398</td>
<td>2.3%</td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td>61315</td>
<td>2.2%</td>
</tr>
<tr>
<td>13</td>
<td>Switzerland</td>
<td>58993</td>
<td>2.1%</td>
</tr>
<tr>
<td>14</td>
<td>Bermuda</td>
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<tr>
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<td>16</td>
<td>Liechtenstein</td>
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<td>17</td>
<td>Austria</td>
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<tr>
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</tr>
<tr>
<td>19</td>
<td>U.K</td>
<td>44478</td>
<td>1.6%</td>
</tr>
<tr>
<td>20</td>
<td>Spain</td>
<td>35461</td>
<td>1.2%</td>
</tr>
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</table>

Source: Modeling Global Money Laundering Flows - some findings
Table 1.8 Attractiveness to Money Launderers - Rank Order
[The higher the score, the greater the attractiveness for money launderers]

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>COUNTRY</th>
<th>Score</th>
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<tbody>
<tr>
<td>1</td>
<td>Luxembourg</td>
<td>686</td>
</tr>
<tr>
<td>2</td>
<td>U.S</td>
<td>634</td>
</tr>
<tr>
<td>3</td>
<td>Switzerland</td>
<td>617</td>
</tr>
<tr>
<td>4</td>
<td>Cayman Islands</td>
<td>600</td>
</tr>
<tr>
<td>5</td>
<td>Austria</td>
<td>497</td>
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<tr>
<td>6</td>
<td>Netherlands</td>
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<td>7</td>
<td>Liechtenstein</td>
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</tr>
<tr>
<td>8</td>
<td>Vatican City</td>
<td>449</td>
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<td>U.K</td>
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<tr>
<td>10</td>
<td>Singapore</td>
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<tr>
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<td>Hong Kong</td>
<td>397</td>
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<tr>
<td>12</td>
<td>Ireland</td>
<td>356</td>
</tr>
<tr>
<td>13</td>
<td>Bermuda</td>
<td>313</td>
</tr>
<tr>
<td>14</td>
<td>Bahamas, Andorra, Brunei, Norway, Iceland, Canada</td>
<td>250-299</td>
</tr>
<tr>
<td>15</td>
<td>Portugal, Denmark, Sweden, Monaco, Japan, Finland, Germany, New Zealand, Australia, Belgium</td>
<td>200-249</td>
</tr>
<tr>
<td>15</td>
<td>Bahrain, Qatar, Italy, Taiwan, United Arab Emirates, Barbados, Malta, France, Cyprus</td>
<td>150-199</td>
</tr>
<tr>
<td>17</td>
<td>Gibraltar, Azores (Portugal), Canary Islands, Greenland, Belarus, Spain, Israel</td>
<td>100-149</td>
</tr>
<tr>
<td>18</td>
<td>Czech Rep, Latvia, St Vincent, Malaysia, Estonia, Oman, Lithuania, N. Mariana Isls, Greece, South Korea, Seychelles, Azerbaijan, Anguilla, Aruba (Neth.), Kuwait, Hungary, Saudi Arabia, British Virgin Islands, Guam, Brazil, Panama, Russia, Costa Rica, Mauritius, Gabon, Armenia, Thailand, Macedonia, Grenada</td>
<td>50-99</td>
</tr>
<tr>
<td>19</td>
<td>Poland, Slovakia, Georgia, St. Kitts-Nevis, Dominica, St. Lucia, Belize, Guadeloupe, Martinique, Puerto Rico, U.S. Virgin Islands, Argentina, Croatia, Uruguay, Midway Islands, Barbuda, Slovenia, Suriname, Botswana, Romania, Chile, Bulgaria, French Polynesia, New Caledonia, Yugoslavia, Trinidad, Libya, Turkey, Albania, Lebanon, Guatemala, Ecuador, Moldova, South Africa, French Guiana</td>
<td>25-49</td>
</tr>
<tr>
<td>20</td>
<td>Falkland Islands, Vanuatu, Venezuela, Ukraine, Cook Islands, Philippines, Turks And Caicos Islands, Fiji, Marshall Islands, Mexico, Nauru, Algeria, Antigua, Bolivia, Uzbekistan, Syria, Western Samoa, Morocco, Indonesia, Colombia, Cuba, Bosnia and Herzegovina, Tunisia, Jordan, Paraguay, Jamaica, San Marino, Mayotte, Palau Islands, Honduras, Niue, Reunion, Namibia, Somalia, Congo, Tonga, Iraq, Swaziland, Dominican Republic, Kazakhstan, Kyrgyzstan, Turkmenistan, El Salvador</td>
<td>10-24</td>
</tr>
</tbody>
</table>

Source: Modeling Global Money Laundering Flows - some finding
2.6 Techniques and tools of Money Laundering

2.6.1 Structuring

Structuring is possibly the most commonly used ML method. It involves many individuals who deposit cash into bank accounts or buy bank drafts in amounts in small amounts to avoid the reporting threshold (Adukia, 2007).

The 1970 Bank Secrecy Act in the U.S required that certain banks or other FIs retain records and report certain financial transactions over $10,000. The most common method to avoid this reporting requirement was by structuring, the transactions by dividing large deposits into many smaller transactions of less than $10,000 each. In 1986, structuring transactions designed to evade reporting requirements was made a crime.

Figure 1.2 How money laundering Works: Structuring
2.6.2 Front companies

Front companies can be used to conduct fraudulent international commercial trade to layer and integrate illegal proceeds. These companies are considered to be effective in the money laundering cycle for two reasons. First of all, front companies do not necessarily require the complicity of a financial institution. Secondly, detection is more difficult if front companies which are also conducting legitimate business, particularly ones that are exempt from Currency Transaction Reports (CTR), such as liquor stores or restaurants. Any business that is cash rich can serve as a front company, such as cheque cashing businesses, travel agencies, liquor stores and restaurants. Import/export companies can also serve as front companies and they typically use three operations to launder money, namely, double invoicing, under-valuation and over-valuation of goods and financing exports. Inflated prices to pay for imported goods are also a common laundering technique used by front companies (Bonnie, 2004).

2.6.3 Mis invoicing

Another common money laundering transaction is the mis invoicing of international trade transfers. Cross border transfers of illegal proceeds can be concealed in the resulting falsification of credit import letters and customs declarations. Fraudulent valuation of goods by international traders can reach large inflated amounts (Shehu, 2000).

2.6.4 Shell corporations

Tainted funds can also be routed through shell corporations, which the FATF defines as a corporation or institution “that does not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located.” Offshore financial centers are typically characterized by low or no taxes on business or investment income, no withholding taxes, light and flexible supervisory regimes, strong bank secrecy laws and no need
for financial institutions, corporate or other legal entities to have a physical presence within the jurisdiction in question. This is common in countries that are considered as safe –havens, e.g. the Cayman Islands, Aruba, Cyprus, Luxembourg, Switzerland, etc (Adukia, 2007).

2.6.5 Wire transfers

A common transaction used to layer illicit funds that has emerged is electronic funds transfers, or wire transfers. This ML method consists of sending funds electronically from one city or country to another to avoid the need to physically transport the currency (Sharma, 2001). Although this process leaves some traces, it is very difficult to detect.

2.6.6 Mirror-image trading

The mirror-image trading scheme involves buying contracts for one account while selling an equal number of contracts from another. Both accounts are controlled by the same individual, thus any profit or loss is effectively netted. In terms of layering and the integration process, the derivatives markets offer the money launderer a number of advantages. From the money launderer’s point of view, the derivatives and securities markets provide advantages such as the relatively low cost of laundering compared to other methods (Shehu, 2000).

2.6.7 Parallel systems

It is possible though that illegal money never enters the mainstream financial system, but instead goes through an underground banking system, such as the Hawala and Hundi system in India, or Chop or “Fic Chin” (flying money) parallel banking systems in China. These informal money remittance systems are based on honour and ethnic ties and represent a highly efficient channel to launder money (United States Department of States, 2007). In 1993, the Police in New Delhi arrested a Hawala
Banker who had, over a period of 2 years, handled about US$ 1.45 billion in payment to his clients in Dubai (Shehu, 2000).

Box 2. Case Study- Servicio Uno

The largest remittance service among those investigated, 'Servicio Uno', was an incorporated company and had an annual turnover in excess of US$3.3mn. It accepted money from individual customers and also received funds from smaller remittance services locally and regionally. These smaller services channeled money through Servicio Uno because it had an extensive family-based delivery network in Country A.

The general method used by Servicio Uno was as follows:

Cash was received from customers and sub-agents; a proportion of these funds were deposited in a bank, and some was kept on hand.

Funds were transferred to Country A in two ways: either by telegraphic transfer purchased with cash or cheque; or by sending money to a trading company, 'Trans-Expediticin SA', in Country B. This second company did business in Country A and had associates there that owed it money. Once Trans-Expediticin received the money in Country B from Servicio Uno, it advised its debtors in Country A to pay a specified amount direct to another remittance business, Remesas-X, in Country A.

Twice weekly, Servicio Uno faxed a list of required deliveries to a company it owned and operated in Country A, including details of the sender, the recipient and their address, and the amount and type of currency or gold bars to be delivered. A fee of 5-10% was charged by Servicio Uno.

There was also evidence of substantial amounts of money flowing from Country A back to Servicio Uno. A fax was sent from Country A to Servicio Uno instructing it to provide a specific amount of money to an individual in Servicio Unos country or to pay the funds into a particular bank account there. No funds were actually transferred from Country A. Instead, a method was used whereby the remittance services at either end of the operation paid off each other’s liability with their own assets.

Result

Investigations revealed that several legitimate businesses in Servicio Uno’s country had also repatriated funds to Country A using this method. They also revealed that a previously convicted money launderer had on at least one occasion transferred US$60,000 to Country A through Servicio Uno. Additionally, one sub-agent of Servicio Uno transferred funds on behalf of two active drug traffickers.

Lessons

This is a classic example of an alternative remittance system. The difficulties that an investigative agency might have if it were to detect part of the scheme would
2.6.8 Other Money Laundering Methods

Bank Complicity: Bank complicity occurs when a bank employee is involved in facilitating part of the money laundering process. Bank complicity is becoming increasingly difficult for criminals to use following the introduction of “Tipping Off” as an offence.

Money Services and Currency Exchanges: Money services and currency exchanges provide a service that enables individuals to exchange foreign currency that can then be transported out of the country. Money can also be wired to accounts in other countries. Other services offered by these businesses include the sale of money orders, cashiers cheques, and travelers’ cheques.

Asset Purchases with Bulk Cash: Money launderers may purchase high value items such as cars, boats or luxury items such as jewelry and electronics. Money launderers will use these items but will distance themselves by having them registered or purchased in an associate's name.

Postal Money Orders: The purchase of money orders for cash allows money launderers to send these financial instruments out of the country for deposit into a foreign or offshore account.

Credit Cards: Overpaying credit cards and keeping a high credit balance gives money launderers access to these funds to purchase high value items or to convert the credit balance into cheques.

Casinos: Cash may be taken to a casino to purchase chips which can then be redeemed for a casino cheque.

Refining: This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash.

Legitimate Business / Co-mingling of Funds: Criminal groups or individuals may take over or invest in businesses that customarily handle a high cash transaction volume in order to mix the illicit proceeds with those of the legitimate business.
Criminals may also purchase businesses that commonly receive cash payments, including restaurants, bars, night clubs, hotels, currency exchange shops, and vending machine companies. They will then insert criminal funds as false revenue mixed with income that would not otherwise be sufficient to sustain a legitimate business.

**Value Tampering:** Money launderers may look for property owners who agree to sell their property, on paper, at a price below its actual value and then accept the difference of the purchase price "under the table". In this way, the launderer can, for example, purchase a $2 million dollar property for $1 million, while secretly passing the balance to the seller. After holding the property for a period of time, the launderer then sells it for its true value of $2 million.

**Loan Back:** Using this method, a criminal provides an associate with a sum of illegitimate money and the associate creates the paperwork for a loan or mortgage back to the criminal for the same amount, including all of the necessary documentation. This creates an illusion that the criminal's funds are legitimate. The scheme's legitimacy is further reinforced through regularly scheduled loan payments made by the criminal, and providing another means to transfer money.

### 2.7 Which methods are used for which crime?

A reasonable conjecture is that different methods are used for laundering the proceeds from different predicate crime. The annual typologies reports of the FATF and a report published in 2000 by the Egmont Group describe cases that illustrate methods of laundering and investigation. According to Reuter & Truman (2004), these reports can be used to develop a matrix matching 11 predicate crimes with 20 money laundering methods.

Three offense categories accounted for over 70 percent of entries: drugs, fraud and other kind of smuggling. The types of laundering methods were more evenly distributed wire transfers were involved 22 percent. The data show that drug traffickers and other smugglers use a wide variety of methods for laundering the proceeds of their crimes.
2.8 The magnitude of Money Laundering

Criminologists cannot estimate precisely the value of drug trafficking, organized crime or white collar crime; it is difficult to estimate accurately the amount of money produced by those crimes and consequently the extent of money laundering.

The impetus for combating money laundering has gained urgency due to the magnitude of money laundered globally. In fact, the International Narcotics Control Strategy Report 2007 classifies countries to determine the level of money laundering incidence into three categories, namely: jurisdiction of primary concern, jurisdiction of concern and other jurisdiction monitored. These categories are primarily based on the magnitude of money laundered and not on anti-money laundering measures. However, measuring the magnitude of money laundered has proven to be a difficult task due to the secretive nature of these illegal activities, which has been further exacerbated by the use of the internet as a medium of transmitting these monies. Nevertheless, there is an attempt by key international agencies and organizations to quantify the amount of money laundered.

Tanzi (1996) and the United Nations (1997) reported an estimate for money laundered to be around US$ 300 billion to US$ 500 billion per annum. In the 1998 IMF report, Camdessus (1998) estimated the global money laundered to be between 2 and 5 percent of global GDP amounting to between US$ 600 billion and US$ 1.8 trillion per annum. The US Drug Enforcement Administration (DEA) estimates that funds laundered for illegal purposes are more than $600 billion per annum. The World Bank and IMF (2003) had placed an estimate of at least US$ 1 trillion as the amount of money laundered annually. According to Lilley (2003) the amount of money laundered in the Asian region is estimated to be $200 billion or one-fifth of the global total. All these estimates, though varied, highlight the seriousness of money laundered.

2.9 Economic Effects of Money Laundering

laundering on developing economies, it is particularly useful to distinguish among 5 directions that the ML flows may take with respect to such economies, as illustrated in Figure 1.3.

**Figure 1.3 Types of money laundering flows through a developing economy**

1. Domestic money laundering flows, in which illegal domestic funds are laundered within the developing country's economy and reinvested or otherwise, spent within the economy.

2. Returning laundered funds originate in the developing country, are laundered (in part or in full) abroad, and returned for integration.

3. Inbound funds, for which the predicate crime occurred abroad, are either initially laundered ("placed") abroad or within the developing country, and ultimately are integrated into the developing economy.

4. Outbound funds, which typically constitute illicit capital flight from the developing economy, do not return for integration in the original economy.

5. Flow-through funds enter the developing country as part of the laundering process and largely depart for integration elsewhere, thus playing little or no role in the economy itself (although the "fees" for money laundering activity may remain).
As will become clear, the implications of money-laundering for developing-country economic growth differ depending on which of these flows is being examined. For these three types of flows—domestic, returning, and outbound—the "predicate crime" (defined as the criminal activity which gives rise to the financial proceeds being laundered) occurs within the developing economy itself, while inbound funds are typically controlled by criminal elements during or even after placement. Bartlett (2002) believes that Money laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which, in turn, depress economic growth.

According to Schott (2002) “a reputation as a money laundering or terrorist financing haven … could cause significant adverse consequences for development in a country”. He points out that to keep a good reputation is economically important for a country, otherwise the harmful effects such as significant limitations in economic cooperation or in attraction of foreign capital are likely to occur (Tariq, 2004). Money laundering can particularly have damaging economic and social consequences for DGCs that might lead to:

- Potential economic distortion;
- Weakened legitimate private sector;
- Loss of tax revenue;
- Weakened control over economic policy;
- Less foreign private investment;
- Potential damage to reputation of FIs and markets;
- Possible destabilization of financial markets and weaker financial institutions; and
- Potential increase in crime and corruption.
2.10 Importance of fight against Money Laundering

Money is the prime reason for progress and prosperity and also engaged in almost any and every type of criminal activities. Money laundering can constitute a serious national and international security threat as well. Money laundering provides the fuel for drug dealers, financial fraudsters, terrorists, illegal arms merchants, and other criminals to operate and expand their criminal enterprises. Unchecked, money laundering can erode the integrity of a nation’s financial institutions. Due to the increasing integration of capital markets and the globalization of the financial services industry, money laundering can even affect interest and exchange rates.

Given the scale of estimated criminal proceeds entering the world economy each year, then it is easy to see how organized financial crime can distort economies by reducing tax revenues, causing unfair competition with legitimate businesses, damaging financial systems, and disrupting economic development.

Ultimately, Money laundering can threaten the safety and security of peoples, states and political institutions (UNODC, 1998).

2.11 Anti-Money Laundering

Anti-money laundering is a term mainly used in the financial and legal industries to describe the legal controls that require FIs and other regulated entities to prevent or report money laundering activities. AML guidelines came into prominence globally after the September 11th, 2001 attacks and the subsequent enactment of the USA PATRIOT Act.

Today, all FIs globally are required to monitor, investigate and report transactions of a suspicious nature to the financial intelligence unit of the central bank in the respective country. For example, a bank must perform due diligence by having proof of a customer's identity and that the use, source and destination of funds do not involve money laundering. Many people have confused AML with Anti-Terrorist Financing (ATF). Money Laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of criminal activities. If successful, the
money can lose its criminal identity and appear legitimate. In summary, the money launderer wants to:

- place his money in the financial system, without arousing suspicion;
- move the money around, often in a series of complex transactions crossing multiple jurisdictions, so it becomes difficult to identify its original source; and
- then move the money back into the financial and business system, so that it appears as legitimate funds or assets.

But, the United Nations 1999 International Convention for the Suppression of the Financing of Terrorism explains terrorist financing in the following way: ""Any person commits an offence within the meaning of this Convention if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out" (a) An act which constitutes an offence within the scope of and as defined in one of the treaties listed in the annex; or (b) Any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act."

2.12 International Anti-Money Laundering Measures

The international community has long recognized that the problems of money laundering and terrorism require a coordinated approach. For many years, a number of international organizations have developed standards for combating money laundering, terrorism, and terrorist financing. These standards contain common themes of promoting actions to deny criminals, terrorists, and those who assist them access to their funds and the world’s financial services industries. Many international agreements and resolutions outline similar standards or build upon each other.
Specialized institutions in the field of anti money laundering along with international bodies, such as, the United Nations, International Monetary Fund (IMF), and World Bank, regional bodies, such as, European Union, Commonwealth Secretariat, Asian Development Bank (ADB), and Inter-American Development Bank (IDB), and international private bodies, such as, Wolfsberg Group of Banks prescribed various AML measures to combat money laundering at the global level.

2.12.1 Specialized institutions

Financial Action Task Force (FATF)

International efforts to fight money laundering intensified with the establishment of the Financial Action Task Force in 1989. The G7 group of nations founded the FATF with the primary purpose of examining measures to combat money laundering. Originally, the FATF had a mandate of five years but this has repeatedly been renewed in response to concern about money laundering.

The FATF currently comprises thirty-four members: 35 member jurisdictions and two regional organizations (the European Commission and the Gulf Co-operation Council), representing most major financial centers in all parts of the globe. Additionally, the Republic of Korea became an observer on 27th July, 2006, and is currently working towards becoming FATF member.

At the heart of FATF’s mission is a set of Forty Recommendations, which are intended to set out criteria to identify money laundering, prosecute it and enforce convictions. The general framework is set out in Recommendations 1–3, and the role of the country’s legal system in the prosecution of money laundering is set out in Recommendations 4–7.

Recommendations 4–7 also provide measures regarding asset confiscation that should be provided for in a country’s law. The role of a country’s financial system in preventing money laundering is detailed in Recommendations 8–29. This particular group of recommendations also entail customer identification and record keeping requirements and due diligence provisions. Recommendations 30–40 describe
measures to improve cooperation between regulatory agencies and law enforcement agencies.

In October, 2001, the FATF expanded its mandate and issued Eight Special Recommendations to deal with the issue of terrorist financing. The continued evolution of ML techniques led the FATF to revise the FATF standards comprehensively in June, 2003. In October, 2004, the FATF published a Ninth Special Recommendation, further strengthening the agreed international standards for combating ML and TF – the 40+9 Recommendations. Moreover, the four essential objectives of the FATF under its current mandate (September 2004 to December 2012, as revised) are: to establish and maintain global standards and measures for countering money laundering and terrorist financing; to foster and assess the implementation of those standards; to identify money laundering and terrorist financing methods and trends; and, to expand co-operation with FATF stakeholders and partners in order to make the system work effectively and globally (FATF Annual report, 2008).

FATF fosters the creation of a worldwide anti-money laundering network based on the development of regional anti-money laundering bodies, close co-operation with relevant international organizations, and expansion of its membership. FATF’s Forty Recommendations set a framework for anti-money laundering efforts and are designed for universal application.

**FTAF Styled Regional Bodies (FSRBs)**

An important role in worldwide spreading of international AML/CFT standards is played by the FATF-Style Bodies created in different regions of the world. The core task of such bodies is to combat money laundering and financing of terrorism in relevant regions, in particular by means of mutual evaluations of compliance national systems of their members with international AML/CFT standards (the FATF 40+9 Recommendations) and of conduct of research of money laundering and financing of terrorism trends and methods (typologies) that are specific to relevant region. The FATF jointly with the FATF-Style Regional Bodies constitute an integrated
international system (network) of spreading and implementing international AML/CFT standards as well as of controlling of compliance with them at a national level.

At present 8 FATF-Style Regional Bodies (FSRB) exists:

- Asia/Pacific Group on combating money laundering (APG)
- Caribbean Financial Action Task Force (CFATF)
- Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism of the Council of Europe (MONEYVAL)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Financial Action Task Force on Money Laundering in South America (GAFISUD)
- Intergovernmental Action Group against Money-Laundering in West Africa (GIABA)
- Middle East and North Africa Financial Action Task Force (MENAFATF)
- Offshore Group of Banking Supervisors (OGBS)

**Basel Committee on Banking Supervisions (BCBS)**

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. It seeks to do so by exchanging information on national supervisory issues, approaches and techniques, with a view to promoting common understanding. At times, the Committee uses this common understanding to develop guidelines and supervisory standards in areas where they are considered desirable. In this regard, the Committee is best known for its international standards on capital adequacy; the Core Principles for Effective Banking Supervision; and the Concordat on cross-border banking supervision. The Committee's members come from Argentina, Australia,
Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

International Association of Insurance Supervisors (IAIS)

Established in 1994, the IAIS represents insurance regulators and supervisors of some 190 jurisdictions in nearly 140 countries, constituting 97% of the world's insurance premiums. It also has more than 120 observers. Its objectives are to:

- Cooperate to contribute to improved supervision of the insurance industry on a domestic as well as on an international level in order to maintain efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders
- Promote the development of well-regulated insurance markets
- Contribute to global financial stability

International Organization of Securities Coordinator (IOSCO)

International Organization of Securities Coordinator is an international organization that brings together the regulators of the world's securities and futures markets. The member agencies currently assembled together in the international organization of securities commissions have resolved, through its permanent structures:

- to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;
- to exchange information on their respective experiences in order to promote the development of domestic markets;
- to unite their efforts to establish standards and an effective surveillance of international securities transactions;
to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

**Egmont Group of Financial Intelligence Unit (FIUs)**

The Egmont Group of Financial Intelligence Units is a formal association for FIUs around the world to bring about greater collaboration in the fight against money laundering and financing of terrorism. Its headquarters are in Toronto, Canada.

### 2.12.2 International bodies

**The United Nations**


**International Monetary Fund (IMF)**

The International Monetary Fund (IMF) is an organization of 187 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**The World Bank**

The World Bank is a vital source of financial and technical assistance to DGCs around the world. The mission of the World Bank is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.
2.12.3 Regional bodies

European Union

The European Union (EU) is a union of twenty-seven independent states based on the European Communities and founded to enhance political, economic and social cooperation.

Commonwealth Secretariat

The Commonwealth Secretariat is the main intergovernmental agency and central institution of the Commonwealth of Nations. It is responsible for facilitating cooperation between members; organizing meetings, including the Commonwealth Heads of Government Meetings (CHOGM); assisting and advising on policy development; and providing assistance to countries in implementing the decisions and policies of the Commonwealth.

The Commonwealth has been in the forefront of international efforts to combat money laundering and terrorist financing, particularly through supporting its developing member countries to implement comprehensive Anti-Money Laundering and Combating Financing of Terrorism systems that comply with global standards.

Asian Development Bank (ADB)

ADB is an international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe. ADB's main partners are governments, the private sector, nongovernment organizations, development agencies, community-based organizations, and foundations.
Inter-American Development Bank (IDB)

The Inter-American Development Bank is an international organization established and headquartered in Washington, D.C., United States, in 1959 to support Latin American and Caribbean economic and social development and regional integration by lending mainly to governments and government agencies, including State corporations.

2.12.4 International private bodies

Wolfsberg Group of Banks

The Wolfsberg Group is an association of twelve global banks, which aims to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies. This Group came together in 2000 at Switzerland. The Wolfsberg Anti-Money Laundering Principles are recommended as effective anti-money laundering procedures for private banking. These were published in October 2000 (and revised in May 2002). The Group has also published a Statement on the Financing of Terrorism in January 2002, and also released the Wolfsberg Anti-Money Laundering Principles for Correspondent Banking in November 2002.

2.12.5 International Conventions and Standards

There are some key international conventions and standards to combat money laundering and the financing of terrorism. These international conventions, standards, and recommendations recognize that each country would need to take account of local factors in designing their laws and strategies to combat money laundering.
United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988

This Convention provides comprehensive measures against drug trafficking, including provisions against money laundering and the diversion of precursor chemicals. It provides for international cooperation through, for example, extradition of drug traffickers, controlled deliveries and transfer of proceedings.

Political Declaration and Action Plan against Money Laundering, 1998

Political Declaration and Action Plan against Money Laundering adopted at the twentieth special session of the United Nations General Assembly devoted to "countering the world drug problem together" New York, 10th June, 1998.

United Nations Convention against Transnational Organized Crime

The purpose of this Convention is to promote cooperation to prevent and combat transnational organized crime more effectively. According to article 6 “Each State Party shall adopt, in accordance with fundamental principles of its domestic law, such legislative and other measures as may be necessary to establish as criminal offences, when committed intentionally:

(a) (i) The conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of concealing or disguising the illicit origin of the property or of helping any person who is involved in the commission of the predicate offence to evade the legal consequences of his or her action;

(ii) The concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the proceeds of crime;

(b) Subject to the basic concepts of its legal system:

(i) The acquisition, possession or use of property, knowing, at the time of receipt, that such property is the proceeds of crime;
(ii) Participation in, association with or conspiracy to commit, attempts to commit and aiding, abetting, facilitating and counseling the commission of any of the offences established in accordance with this article.”

Pursuant to article 7 “Each State Party:

(c) Shall institute a comprehensive domestic regulatory and supervisory regime for banks and non-bank FIs and, where appropriate, other bodies particularly susceptible to money laundering, within its competence, in order to deter and detect all forms of money-laundering, which regime shall emphasize requirements for customer identification, record-keeping and the reporting of suspicious transactions.”

Financial Action Task Force on Money Laundering the Forty Recommendations

The Recommendations were originally drawn up in 1990. In 1996, the Forty Recommendations were revised to take into account the experience gained over the last six years and to reflect the changes which have occurred in the money laundering problem. These Forty Recommendations set out the basic framework for anti-money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulation, and international cooperation.

FATF countries are clearly committed to accept the discipline of being subjected to multilateral surveillance and peer review. All member countries have their implementation of the Forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations. These measures are essential for the creation of an effective anti-money laundering framework.
Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (Strasbourg, 8.XI.1990)

According to Article 6 “Each Party shall adopt such legislative and other measures as may be necessary to establish as offences under its domestic law, when committed intentionally:

a. The conversion or transfer of property, knowing that such property is proceeds, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequences of his actions;

b. The concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of, property, knowing that such property is proceeds; and, subject to its constitutional principles and the basic concepts of its legal system;

c. The acquisition, possession or use of property, knowing, at the time of receipt, that such property was proceeds;

d. Participation in, association or conspiracy to commit, attempts to commit and aiding, abetting, facilitating and counseling the commission of any of the offences established in accordance with this article.”


According to Article 3, “Member States shall ensure that the institutions and persons subject to this Directive require identification of their customers by means of supporting evidence when entering into business relations, particularly, in the case of the institutions, when opening an account or savings accounts, or when offering safe custody facilities.
**International Convention for the Suppression of the Financing of Terrorism, 2000**

Pursuant to Article 4 “Each State Party shall adopt such measures as may be necessary: (a) To establish as criminal offences under its domestic law the offences set forth in Article 2; (b) To make those offences punishable by appropriate penalties which take into account the grave nature of the offences.

**Financial Action Task Force: Special Recommendations on Terrorist Financing, 2001**

According to the first special Recommendations of FATF “Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.”

According to special recommendations 2, “Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.”


According to Security Council Resolution 1373 “all States shall:

(a) Prevent and suppress the financing of terrorist acts;

(b) Criminalize the willful provision or collection, by any means, directly or indirectly, of funds by their nationals or in their territories with the intention that the funds should be used, or in the knowledge that they are to be used, in order to carry out terrorist acts;

(c) Freeze without delay funds and other financial assets or economic resources of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate
the commission of terrorist acts; of entities owned or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds derived or generated from property owned or controlled directly or indirectly by such persons and associated persons and entities;

(d) Prohibit their nationals or any persons and entities within their territories from making any funds, financial assets or economic resources or financial or other related services available, directly or indirectly, for the benefit of persons who commit or attempt to commit or facilitate or participate in the commission of terrorist acts, of entities owned or controlled, directly or indirectly, by such persons and of persons and entities acting on behalf of or at the direction of such persons.”

2.12.6 Models Anti-Money Laundering Law

A considerable body of literature on the money laundering issue has been published by international organizations such as the United Nations, FATF, World Bank, etc., most of which are of juridical character. International organizations provide guidance to countries in the drafting of national laws and regulations to combat money laundering and the financing of terrorism. It is important to note that these are models and that it would be necessary and appropriate to adapt them to suit local circumstances and other factors in each country.

Model laws are developed to meet the needs of each world's major legal traditions - the common law, civil law and Islamic law legal tradition. They were drafted to minimize legal conflicts in international casework between cooperating countries from different legal traditions.

The proposed models law is based to a large extent on this set of international instruments. It is a legislative tool designed to facilitate the drafting of specially adapted legislative provisions by countries wishing to have on their books a law against money-laundering or to modernize their legislation in that area. The models law incorporates the most relevant provisions developed by national legislation and amends, strengthens or supplements them in the light of actual practice by states in
action to combat laundering. It also proposes innovative provisions aimed at improving the effectiveness of money-laundering preventive and punitive measures and offers states appropriate legal mechanisms related to international cooperation of great strategic and practical importance.

Model legislation on laundering, confiscation and international cooperation in relation to the proceeds of crime (1999)

An initial model law on money laundering for civil law countries was issued by the UNODC in 1999 as part of its efforts to assist States and jurisdictions prepare, or upgrade, their own legislative framework in conformity with international standards and best practices in the implementation of anti-money laundering measures. It is a legislative tool designed to facilitate the drafting of specially adapted legislative provisions by countries wishing to have on their books a law against money-laundering or to modernize their legislation in that area. The model law incorporates the most relevant provisions developed by national legislation and amends, strengthens or supplements them in the light of actual practice by states in action to combat laundering. It also proposes innovative provisions aimed at improving the effectiveness of money-laundering preventive and punitive measures and offers states appropriate legal mechanisms related to international cooperation of great strategic and practical importance.

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It will be up to each individual country to adapt the proposed provisions in order to bring them, where necessary, into line with its constitutional principles and the fundamental premises of its legal system, and to supplement them with whatever measures it considers best designed to contribute towards effectively combating laundering. The model nevertheless constitutes in itself a coherent legal whole. By incorporating these provisions into their national legal apparatus, States must take care to preserve the coherency of the text in order not to detract from its scope. Some provisions that are dependent on the text in its entirety would not have the desired degree of effectiveness if they were adopted in isolation or out of context. Something of the philosophy of the text would also be lost if certain provisions were removed from it.

In order to facilitate its adaptation to national legislation, the model law presents some of its provisions in the form of variants or options. A variant allows for the adjustment of a provision which cannot conceivably be left out of legislation against money-laundering, whereas an option denotes a provision which is optional and which can therefore be included or not at the discretion of the particular State.

The provisions of this model law have been drafted, reviewed and finalized by an informal group of international experts, which met in Vienna in May 2004, in Brussels in June 2004, and in Washington in September 2004 and March 2005. It is based, to a large extent, on the relevant international instruments concerning money laundering and the financing of terrorism and incorporates the FATF 40+9 Recommendations. This group consisted of AML and CFT experts including representatives from the UNODC, the IMF, the World Bank and the Organization of American States.

The model law comprises six titles:

Title I: "Definitions"

Title II: "Prevention of money laundering and financing of terrorism"

Title III: "Detection of money laundering and financing of terrorism"

Title IV: "Investigation and secrecy provisions"
Title V: "Penal and provisional measures"

Title VI: "International cooperation"

**United Nations International Drug Control Programme (UNDCP) Model Money Laundering and Proceeds of Crime Bill 2000**

This model law has been developed by the United Nations International Drug Control Programme (UNDCP) for use in countries whose fundamental legal systems are substantially based on the common law tradition. Like any model, it will need to be adjusted to ensure both domestic legal validity (e.g., in terms of constitutional principles and other basic concepts of its legal system) and domestic operational effectiveness (e.g., in terms of implementation arrangements and infrastructure).

UNDCP has an expert team available to help requesting States become party to and give effect to the United Nations' drug control conventions.

The provisions were drafted by a group of experts, including participants from the Commonwealth Secretariat, the International Monetary Fund and the United Nations Office on Drugs and Crime, that met in London in March 2008, and in Washington D.C. in October 2008, and that finalised the provisions in April, 2009.

These 2009 updated model provisions, which are based upon the relevant international instruments concerning money laundering and the financing of terrorism, the FATF 40+9 Recommendations and best practices, replace the previous UNODC Model.

The model provisions are intended to be a resource in drafting legislation to address money laundering and the financing of terrorism. Taken together, the provisions incorporate a legislative base for many of the requirements of the relevant international instruments and the FATF 40+9 Recommendations. The provisions also strengthen or supplement these standards in some respects. They suggest an approach both to criminally confiscate and civilly forfeit proceeds, instrumentalities and terrorist property.

State authorities considering the provisions should take care to adapt the underlying concepts and specific language to accord with constitutional and fundamental legal principles in their systems. As well, the provisions may be supplemented with
additional measures a State considers suited to effectively combat money laundering and the financing of terrorism in the national context.

The eight Parts of these model provisions are set forth as separate units. Taken together they present a unified whole. Relevant definitions appear at the beginning of each Part. If all or selected Parts are used, adjustments to definitions will be necessary. The document also includes several features to assist drafting authorities to understand the various provisions and to facilitate their consideration of choices relating to provisions:

• “Notes for Drafting Authorities” provide explanations of selected provisions and suggest various considerations for drafting authorities as they decide how best to proceed.

• Some provisions present “variants” and “optional language.” A “variant” provides two approaches for authorities to consider. Authorities should adopt one or the other, or their own separate approach. “Optional language” is italicized and sets forth an addition that may be included or not.

• Time periods for orders and other matters, whether days, months or years, appear in brackets.

The eight Parts are as follows:

Part I: Preliminary
Part II: Money Laundering and Terrorist Financing Offences
Part III: Cross Border Transportation of Currency and Bearer Negotiable Instruments
Part IV: Preventive Measures
Part V: Financial Intelligence Unit
Part VI: Conviction-Based Confiscation, Benefit Recovery and Extended Benefit Recovery Orders
Part VII Civil Forfeiture
Part VIII Recovered Assets Fund


Laundering of June 10, 1991 (hereinafter European Council Directive). It adopted a preventive regime for dealing with the issue. The goal of this regulation is to ensure the integrity and transparency of the financial system. The directive also establishes that laundering may arise not only from drug trafficking offenses, but also from serious offense such as terrorism or organized crime.

This Directive represents the first stage in combating money laundering at Community level. At international level, the relevant texts are the 40 recommendations of the Financial Action Task Force (FATF), which were last updated in June 2003.

The Directive defines the concepts of credit institution, financial institution and money laundering. In the case of money laundering, it takes over the definition given in the 1988 United Nations Convention against illicit traffic in drugs, specifying the following conduct when committed intentionally:

- the conversion or transfer of property derived from criminal activity for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such activity in evading the legal consequences of his action;

- the concealment or disguise of the true nature, source, location, disposition, movement or rights with respect to, or ownership of, property, knowing that such property is derived from criminal activity or from an active participation in such activity;

- the acquisition, possession or use of property, knowing, at the time of receipt, that such property was derived from criminal activity or from an active participation in such activity;

- Participation in, association to commit, attempts to commit and aiding, abetting, facilitating and counseling the commission of such actions.

Member States must ensure that money laundering is prohibited and that credit and financial institutions require identification of their customers by means of supporting evidence unless the customer is also a credit or financial institution. Derogations are
laid down for certain insurance policies. The identification requirement also applies for any transaction involving a sum amounting to 15 000 or more.

Credit and financial institutions are required to keep a copy or the references of the evidence required, for a period of at least five years after the relationship with their customer has ended, as well as supporting evidence and records of transactions for a period of at least five years following execution of the transactions.

Credit and financial institutions must cooperate fully with the authorities responsible for combating money laundering. Those authorities may give instructions not to execute an operation which they know or suspect to be related to money laundering.

Credit and financial institutions may not disclose to anyone that information has been transmitted to the authorities or that an investigation is being carried out. The disclosure in good faith to the authorities of information shall not involve the credit or financial institution in liability of any kind.

The competent authorities must inform the authorities responsible for combating money laundering if they discover facts that could constitute evidence of money laundering.

Credit and financial institutions must establish procedures of internal control and communication in order to forestall and prevent operations related to money laundering and take appropriate measures so that their employees are aware of the provisions contained in the directive.

A contact committee has been set up under the aegis of the Commission, composed of persons appointed by the Member States and of representatives of the Commission, whose function is to facilitate consultation.

The Member States may adopt or retain in force stricter provisions to prevent money laundering.
Commonwealth: Model Law for the Prohibition of Money Laundering (Revised May 1996)

The Commonwealth is a voluntary association of 53 countries such as U.K and India that support each other and work together towards shared goals in democracy and development. The Secretariat has developed guides and model legislation to help countries implement laws in complex areas, such as anti-money laundering. The Commonwealth has been in the forefront of international efforts to combat money laundering and terrorist financing, particularly through supporting its developing member countries to implement comprehensive AML and Combating Financing of Terrorism systems that comply with global standards. The first edition of Commonwealth’s manual was published in 2005, and second edition includes additional information on understanding how terrorism is financed. It incorporates both the international standard arising from the revised Financial Action Task Force on Money Laundering 40 Recommendations and the Special Nine Recommendations. The manual will be of great use to policy-makers, regulators, financial institutions, the professions and other designated businesses in their efforts to develop viable AML/CFT systems. The publication is divided into three main parts: the first deals with global issues, the second with national issues and in particular, national strategy formulation; and the third with financial and professional sector procedures.

Organization of American States: Model Regulations concerning laundering offences connected to illicit drug trafficking and other serious offences

The Organization of American States has identified its action against money laundering and the confiscation of proceeds in the fight against drug trafficking in the hemisphere. In April 1986, the Program of Action of Río de Janeiro was adopted, establishing the Inter-American Drug Abuse Control Commission (CICAD).

In 1990, the representatives of the OAS member States adopted the Declaration and Program of Ixtapa, in Ixtapa, Mexico; this established “the need for legislation that defines as a crime all activities relating to the laundering of property and proceeds related to illicit drug trafficking and which makes it possible to identify, trace, seize and forfeit such property and proceeds”.

58
This was the background to the adoption of the CICAD Model Regulations Concerning Laundering Offenses Connected to Illicit Drug Trafficking and Related Offenses, in 1992. These regulations were modified in 1997 in order to include the Financial Intelligence Units as an appropriate tool for combating money laundering and, in 1999, to expand the crime of money laundering, which now includes as predicate offenses not only illicit drug trafficking but other “serious offenses.” Accordingly, the title was changed to the CICAD Model Regulations concerning Laundering Offenses Connected to Illicit Drugs and Other Serious Offenses.

In December 1995, ministers representing the 34 States that took part in the Summit of the Americas met in Buenos Aires, Argentina, at the “Ministerial Conference Concerning the Laundering of Proceeds and Instrumentalities of Crime.” During this meeting, the ministers “agreed to recommend to their Governments a Plan of Action for a coordinated hemispheric response to combat money laundering.” It was established that the definition of the offense of laundering should include as predicate offenses, in addition to drug-trafficking, other “serious offenses”; that the countries should implement the CICAD Model Regulations and that the members of both the FATF and the Caribbean Financial Action Task Force should implement the 40 recommendations and the 19 recommendations, respectively. The member states, pursuant to the basic provisions of their respective legal systems, that they adopt the norms contained in these Model Regulations. These Model Regulations have been prepared reconciling, whenever pertinent, the legal systems prevailing in the Inter-American region.

**Basel Committee Statement on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering, 1988**

This Statement of Principles is intended to outline some basic policies and procedures that banks' managements should ensure are in place within their institutions with a view to assisting in the suppression of money-laundering through the banking system, national and international. The Statement thus sets out to reinforce existing best practices among banks and, specifically, to encourage vigilance against criminal use
of the payments system, implementation by banks of effective preventive safeguards and co-operation with law enforcement agencies.

The Statement is a general statement of ethical principles which encourages banks’ management to put in place effective procedures to ensure that all persons conducting business with their institutions are properly identified; that transactions that do not appear legitimate are discouraged; and that co-operation with law enforcement agencies is achieved. The Statement is not a legal document and its implementation will depend on national practice and law. In particular, it should be noted that in some countries banks may be subject to additional more stringent legal regulations in this field and the Statement is not intended to replace or diminish those requirements. Whatever the legal position in different countries, the Committee considers that the first and most important safeguard against money-laundering is the integrity of banks’ own managements and their vigilant determination to prevent their institutions becoming associated with criminals or being used as a channel for money-laundering. The Statement is intended to reinforce those standards of conduct (Basle committee, 1988).

The Basle Statement of Principles on the prevention of criminal use of the banking system was a significant breakthrough on the financial front to have some controlling mechanism for money-laundering on an international plane. The Statement of Principles does not restrict itself to drug-related money laundering but extends to all aspects of laundering through the banking system, i.e. the deposit, transfer and/or concealment of money derived from illicit activities whether robbery, terrorism, fraud or drugs. It seeks to deny the banking system to those involved in money laundering by the application of the four basic principles:

1. **Know Your Customer (KYC)** - This mandates the bank to take reasonable efforts to determine their customer’s true identity, and have effective procedures for verifying the bonafides of a new customer.
2. **Compliance with Laws** – Bank management should ensure high ethical standards in complying with laws and regulation and keep a vigil to not provide services when any money-laundering activity is suspected.
3. **Cooperation with Law Enforcement Agencies**
4. **Adherence to the Statement**
Basel Committee: Core Principles for Effective Banking Supervision (September 1997)

The Basle Core Principles comprise twenty-five basic Principles that need to be in place for a supervisory system to be effective. The Basle Core Principles are intended to serve as a basic reference for supervisory and other public authorities in all countries and internationally. The Core Principles are a framework of minimum standards for sound supervisory practices and are considered universally applicable. The Committee drew up the Core Principles and the Methodology as its contribution to strengthening the global financial system. Weaknesses in the banking system of a country, whether developing or developed, can threaten financial stability both within that country and internationally. The Committee believes that implementation of the Core Principles by all countries would be a significant step towards improving financial stability domestically and internationally and provide a good basis for further development of effective supervisory systems (Basel Committee on Banking Supervision, 2006).

The Core Principles define 25 principles that are needed for a supervisory system to be effective. Those principles are broadly categorised into seven groups: Objectives, independence, powers, transparency and cooperation (principle 1); Licensing and structure (principles 2 to 5); Prudential regulation and requirements (principles 6 to 18); Methods of ongoing banking supervision (principles 19 to 21); Accounting and disclosure (principle 22); Corrective and remedial powers of supervisors (principle 23); Consolidated and cross-border banking supervision (principles 24 and 25).

The Core Principles have also been used by the IMF and the World Bank in the context of the Financial Sector Assessment Program to assess countries' banking supervision systems and practices.

Global Anti-Money-Laundering Guidelines for Private Banking Wolfsberg AML Principles

The Wolfsberg Group is an association of eleven global banks, which aims to develop financial services industry standards, and related products, for Know Your Customer,
Anti-Money Laundering and Counter Terrorist Financing policies. The Group came together in 2000, at the Château Wolfsberg in north-eastern Switzerland, in the company of representatives from Transparency International, including Stanley Morris, and Professor Mark Pieth of the University of Basel, to work on drafting anti-money laundering guidelines for Private Banking. The Wolfsberg Anti-Money Laundering Principles for Private Banking were subsequently published in October 2000 (and revised in May 2002).

These principles are appropriate for private banking relationships. Guidelines for other market segments may differ. It is recognized that the establishment of policies and procedures to adhere to these guidelines is the responsibility of management. These Principles were adopted by the major international private banks, in cooperation with Transparency International. According to Wolfsberg Statement, the Suppression of the Financing of Terrorism; “Financial Institutions can assist governments and their agencies in the fight against terrorism. They can help this effort through prevention, detection and information sharing. They should seek to prevent terrorist organizations from accessing their financial services, assist governments in their efforts to detect suspected terrorist financing and promptly respond to governmental enquiries.”

The importance of these principles is due to the fact that it comes from initiative by private sector.

2.13 Related research

From the late twentieth century a several hundred researches that mainly were accomplished in DDCs and to some extent in DGCs have been done by researchers in this area. A study of relevant literature is essential to get a clear picture of what has been said and done. Our objective in this section is to give just a glimpse of these studies as follows;

Stessens (2000) in his book “Money Laundering: A New International Law Enforcement Model” gives a broad analysis of the legal issues raised by the international fight against money laundering. Stessens offers extensive comparative research of the criminal and preventive law aspects from an international perspective.
He focused on the rules and practices of international cooperation in the fight against money laundering, and the jurisdictional questions that inevitably arise in this context. The author portrays money laundering as a new criminal trend threatening both national and international societies which must be addressed multilaterally through banking practice, international conventions, and with respect for human rights.

Hinterseer (2002) focused on control: how the problem is handled by legislation and regulatory and law enforcement agencies (particularly in the US and the EU), what the daunting challenges are that must be faced, what more can be attempted. In the course of developing in-depth consideration of the numerous intertwining issues that arise, the author uncovers a wealth of precise detail about what we know and what we can reasonably surmise about patterns of money laundering activity.

Aldridge (2003) in his book that is the leading text on money laundering law in the UK and EU seeks to present a critical analysis of the responses to money laundering, from three perspectives. It considers accounts of the manner in which the law has developed, including the growing internationalization of criminal law and the economics of laundering, within a socio-legal theory for regulation and criminalization in this area. Then, against that background, it engages at a more detailed level with the statutes, cases and law reform proposals in the area, dealing both with substantive and procedural law.

Jyoti Trehan (2004) provided a comprehensive coverage of the status of research about Crime and Money Laundering in India. He describes and analyses one of the greatest threats to India's security and economic well-being: organized crime, the huge sums of money generated as a result and made use of for various nefarious activities. He examines the increasingly sophisticated methods used to convert or 'launder' proceeds of crime into legal tender, and shows how the nature of large-scale crime is inevitably transnational. He goes on to highlight the intimate connection between terrorist activities and crimes like drug trafficking, political corruption, tax evasion, and trafficking in women and children.

Reuter and Truman (2004) in their book “Chasing Dirty Money: the Fight against Money Laundering”, studied the current U.S anti-money laundering regime and developed a framework for assessing the effectiveness of this regime. They assess
how well the current system works and make proposals for its improvement. This book provides the first comprehensive effort to assess the effectiveness of the anti-money laundering regime, initially put in place to protect the integrity of FIs against the abuse of drug lords and criminal traffickers, and which was extended after 9/11 to include the combating of terrorism financing. This is followed by an analysis of its effectiveness in achieving three goals: reducing crime, protecting the integrity of the core financial system, and controlling three types of global "public bads"-terrorism, corruption, and failed states. The study concludes with recommendations, directed particularly toward the U.S, on how the AML system and analysis of its effectiveness could both be improved. Unsurprisingly, the authors underscore the dearth of data on the subject, and they end up with a plea that "more research is needed."

The authors are heavily focused on the U.S, to which they attribute a leadership role, but they could have mentioned that other countries, such as France, were also instrumental in gathering support for a stronger involvement of the international FIs on the prevention side. It is also interesting to note that the banking sector initially resisted increased government interference in its relationship with clients, but that it has since learned how to accommodate AML requirements in ways that impose relatively modest costs and inconveniences on both banks and their customers.¹⁴

Mark Pieth and Gemma Aiolfi (2004) investigated the regimes and implementation of anti-money laundering laws and regulations of four major, cross border, financial centres are also examined in depth: Switzerland, Singapore, the U.K, and the U.S. Going beyond the purely descriptive, there are comparative analyses of these countries against existing international standards - with illuminating results.

Schott (2002) provided a reference guide to anti-money laundering and combating the financing of terrorism. He aimed at helping countries understand the new international standards, it discusses the problems caused by these crimes, the specific actions countries need to take to address them, and the role international organizations play in the process.

Madinger (2006) in his book that is based on the author's extensive experience in law enforcement provides a clear understanding of money laundering practices and explains the investigative and legislative processes that are essential in detecting and
circumventing this illegal and ultimately dangerous activity. Madinger addresses techniques used to track down the money trail of terrorists who are highly motivated, well-trained, organized, disciplined, and well-funded. Author explains money laundering provisions under the U.S. Patriot Act, explains how the changes in federal forfeiture law. He also affect existing money laundering law, clarifies current legislation and how it affects money laundering investigation.

Hopton (2006) explains the basis of international law, regulations and standards in this area and how they affect businesses. The author provides down-to-earth advice on the basic rules of good business management: know your client, know your business (and your client's business), which will help companies understand what procedures to establish, and how and when to report suspicious activity. The author explains the basis of money laundering and how it works, along with the development of the law and regulations around the world, and how other countries' laws can affect UK companies. Hopton’s book is highly practical guide.

Vaithilingam and Nair (2007) examined the trend of the pervasiveness of money laundering in developed and DGCs through an empirical approach and presented and empirical results of Five key factors as influencing the pervasiveness of money laundering in developed and DGCs, in this study of the factors affecting money laundering Vaithilingam and Nair (2007) present an empirical factors that seeks to bridge the gap in literature with other literatures that critically examine factors(traditional) that influence money laundering. The five key factors are as follows;

Technology: The argument is that money laundering is more pervasive in DGCs due to inadequacy of ICT infrastructure, such that an increase in ICT infrastructure in DGCs will bring about positive marginal returns, reducing the pervasiveness by instilling a more transparent anti-money laundering process. This suggests money laundering is more prevalent within DGCs because of it is under developed ICT infrastructure and a slight increase in ICT will bring about a positive marginal returns.

The Quality of human Capital: Vaithilingam and Nair (2007) examined and identified that the quality of human capital is a factor that influence Money laundering activities in a country. Increase Quality of human capital seems to have a positive effect in
reducing the pervasiveness on money laundering in DGCs due to the fact that there is a low level of stock quality human capital. Meaning money laundering is affected positively in DGCs, including Ghana, where there is a low supply of quality human capital, therefore a small increase in quality of human capital will reduce money laundering activities, compared to the margin effect to DDCs, given an increase in quality of human capital due to the fact that most of the front-end financial transactions are user-friendly, and as such, people with diverse educational background are able to use financial services easily.

Efficiency of the Legal framework and ethical behavior of firms: Again Vaithilingam and Nair (2007) argue that an efficient legal framework and a good ethical behavior of firms have a positive and significant effect on the pervasiveness of money laundering. They argue that the legal framework which involves legal and regulatory framework when effective and independent makes money laundering activities less pervasive. When firms show good ethics and respond positively to the fight against money laundering through efficient and effective legal framework, money laundering would be less pervasive.

Innovation: Lastly, capacity for innovation according to Vaithilingam and Nair (2007) has a negative and significant impact on money laundering activities, thus new technology can lead to market failure opening new opportunities for money laundering activities via new technology.


According to Dolar (2007), the new anti-money laundering legislation requires the private sector to take a more active role in the fight against money laundering and terrorist financing. Accordingly, the cost of doing business has increased dramatically for businesses, most of which are in the financial services industry. However, the regulatory burden of the Patriot Act fell more heavily on some institutions than the others. Dolar in his dissertation used the heterogeneous-firm model of regulation derived from the interest-group theory of government to test whether or not the money laundering provisions of the Patriot Act led to a wealth transfer from small
commercial banks and thrifts to large ones. The empirical evidence suggests that small institutions have borne a disproportionately greater compliance burden than their large competitors. He also test a number of hypotheses derived from the public-interest theory of government that institutions which are more likely to be targeted by money launderers have been affected more by the new law in terms of compliance burden than the ones which are not. Empirical findings do not support a positive correlation between money laundering risk and compliance burden borne by institutions.

According to Kälin & Goldsmith (2007) Anti-Money Laundering is the definitive reference on money laundering and practice. First an outline will be given of the general approach taken by supra-national organizations like the United Nations and the European Council. Next the approach taken by international organizations and initiatives on the basis of the supra-national initiatives will be outlined by senior members of those organizations.

Angela Leong (2008) considers whether traditional mechanisms and national jurisdictions can tackle this increasing menace. She also discusses the possibilities of developing more effective national and international strategies; the creation of non-legal mechanisms outside the traditional criminal justice system and the implications of 'disruption strategies'. The roles of law enforcement officers, tax investigators, financial intelligence officers, compliance officers, lawyers and accountants - in enforcing both civil and criminal sanctions on organized crime - are also considered.

The book’s of Pillai and Julian (2008) is a comprehensive manual on the subject in India. It presents the Prevention of Money Laundering Act, all Rules made there under, guidelines issue, and notifications, and also scholarly papers by eminent experts on the subject. According to Pillai there is a large gap between the international requirements and practices and the provisions of the law. He believes that the preventive regime under the PMLA 2002 is very limited in its coverage.

Tanzi (1996) in a paper entitled "Money Laundering and the International System," discusses the relationship between globalization and money laundering, as well as some to the economic implications of large-scale money laundering. According to Tanzi, dirty money tends to flow to countries with less stringent controls. As a
consequence, the world allocation of resources is distorted-first, by the criminal activities themselves, and then by the way the dirty money is allocated. The paper discusses some of the effects of dirty money on economic policy. It points to the fact that asset prices, interest rates, and exchange rates can be distorted by large movements of dirty money and that wrong signals may be sent to policymakers. It also discusses the potential instability that large movements of dirty money can bring to specific countries and to the international financial system. The paper concludes with the discussion of a proposal that would compel countries to adopt similar rules (or similar role of conduct) aimed at controlling money laundering. The countries that would not abide by these rules would be penalized. This would be an application of a Pigouvian tax aimed at a negative externality. Pigouvian taxes have played an important role within countries. In the future they are likely to play an increasing role internationally.

Quirk (1997) in an article entitled *Money Laundering: Muddying the Macro economy* provided a comprehensive coverage of the status of research about money laundering. Quirk believes that, money laundering can have devastating economic consequences. Data on the size of money laundering is scant, UK and US officials estimate that “the amount of money laundered annually in the financial system worldwide was roughly $500 billion - some 2% of global GDP”. According to Quirk, money laundering threatens economic and financial systems in many countries, and has significant effects on income distribution and macroeconomic variables, because “accumulated balances of laundered assets are likely to be larger than annual flows, increasing the potential for destabilizing, economically inefficient movements, either across borders or domestically”.

Courtis (1998) believes that “Efforts to stop the growth of money laundering present myriad problems. While the FATF process of peer review can list successes in tightening legislation in its member countries they are not able to assert that is has reduced money laundering”. Indeed, Courtis argues that despite the efforts of central banks, there is little sign of any real progress in the fight against money laundering. Furthermore, new tricks are being used, such as using the gold market: "Not only is gold the only raw material comparable with money, but also gold importation routes into Europe coincides with drug importation routes". He believes that “The
introduction of the euro will make laundering even easier,” since “the changeover from national currencies in January 2002 will also provide an ideal cover for exchanging holdings of old (dirty) currency for new (clean) euros”. Moreover, considering that “Euroland have to provide 12 billion banknotes for exchange for national currency in the following six months”, it will be very hard to monitor the high level of activity effectively.

Castle, Allan and Bruce Broomhall (1998), in a paper entitled “The International Money Laundering Regime and the Asia Pacific: Pairing Multilateral Co-operation with Domestic Institutional Reform”, explores the prospects for the expansion of the global regime into the Asia Pacific, given the heterogeneous political and economic climate of the region. It concludes that there is reason for optimism regarding the development of the regime in the Asia Pacific, despite the lack of a dominant state or alliance of states as regional advocate(s). This is due primarily to the characteristics of incrementalism and co-operation at the bureaucratic/technocratic level demonstrated in those regions where the regime is already embedded. However, progress on money laundering and the extension of the existing regime is possible only in tandem with broader movement on the question of institutional reform in the key states of the region.

Nigel (2001) in his paper entitled “Think Again: Money Laundering” argues that from Moscow to Buenos Aires, money laundering scandals sap economies and destabilize governments. Policymakers blame crime cartels, tax havens, and new techniques like cyber laundering. But dirty money long predates such influences. Without unified rules governing global finance, outlaws will always exploit disparate legal systems to stash the proceeds of their crimes. In the absence of effective international cooperation, there will be no realistic chance of defeating or significantly curbing money laundering. The regulatory regimes operating from country to country are at best piecemeal and often are widely ignored. Lax controls in some countries permit easy access to financial-services systems in more regulated jurisdictions, making a global minimum standard necessary for an effective reduction in laundering.

According to Nigel (2001) the FATF has made the best-known efforts to date toward creating such a global standard. In broad terms, its Forty Recommendations on
combating money laundering have formed the basis of counter laundering legislation in its own 31 member states and in many others. FATF has spawned look-alike organizations such as the Caribbean FATF and the Asia/Pacific Group on Money Laundering.

Nigel (2001) believes that unfortunately, the FATF has taken on a hugely political role the last three years, attacking nonmembers that fail to comply with its demands and constraining the activities of small countries that depend on financial services, not just agriculture and tourism, for their livelihoods. Governments that fail to create financial intelligence units (FIUs)—agencies that receive, analyze, and disseminate information on possible laundering activities—risk being branded "non cooperative" jurisdictions by the FATF.

Riechel (2001) in a paper entitled “Financial Sector Regulation: The Case of Small Pacific Island Countries” discusses issues of financial sector regulation and supervision in some resource-constrained Pacific Island countries. He reviews recent international initiatives directed towards offshore financial centers and the fight against money laundering and other financial crime and explores their significance for the Pacific island countries.

According to Riechel (2001) financial sector soundness and stability has emerged as one of the principal themes of economic policy and international cooperation in the world. It encompasses a whole range of subject areas, including in the first place the traditional concern about the appropriate regulation and effective supervision of banks. Increasing attention has over the past decade also been given to measures to ensure the soundness of nonblank financial intermediaries such as development banks, provident funds and insurance companies. More recently, the attention of both international organizations and national authorities has been drawn to the operations, financial impact and prudential issues of offshore financial centers, including their role in the growing problem of tax evasion and money laundering.

Riechel (2001) seeks to look at these issues from the perspective of the Pacific island countries (PICs) in order to inform the authorities of PICs about the nature and implications of these international developments and allow them to prepare appropriate action in their own countries and regionally to ensure that they will
remain an integrated and respected part of the international financial community. In connection with this assessment, Riechel (2001) in his paper will report on a recent initiative to strengthen regional cooperation and coordination in financial sector regulation and supervision and indicate a number of areas in need of further action.

Bartlett (2002) investigated the Effects of Money Laundering on Economic Development. He believes that, the negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector—international trade and capital flows—to the detriment of long-term economic development. He believes those DGCs' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money-laundering activity through OFC channels.

According to Bartlett effective anti-money-laundering policies, on the other hand, reinforce a variety of other good governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

2.14. Notes

1. Interpol’s mission in this regard is to enhance co-operation among member countries and stimulate the exchange of information between all national and international enforcement bodies concerned with countering organized crime groups and related corruption. Drawing on the wide investigative and analytical experience of its multinational staff, Interpol helps 188 member countries:

- identify, establish and maintain contacts with experts in the field
- monitor and analysis information related to specific areas of activity and criminal organizations
- identify major criminal threats with potential global impact
pursue strategic partnerships with various organizations and institutions

assist in finding solutions to problems encountered by law enforcement agencies (LEAs)

evaluate and exploit information received at the General Secretariat from National Central Bureaus, LEAs, open sources, international organizations and other institutions

monitor open-source information and reports

initiate, prepare and participate in programs to improve the international sharing of information

promote and carry out joint projects with other international organizations and institutions active in specific crime areas

research, develop and publish documents for investigators

provide support to member countries in ongoing international investigations on a case-by-case basis.

2. U.S. President Ronald Reagan established the commission by executive order 12435 on 28th July, 1984. The commission was empowered to analyse the nature and extend organised crime, to discover the sources of its income and the ways which the income was spent. Further, it had to evaluate the efficiency of current laws and procedures and to recommend administrative and legislative improvements.