

Anti-Money Laundering Literature Search

Organized Crime

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This document prepared by Christian Eigen-Zucchi, with the assistance of Massimo Mastruzzi and Erin Farnand, under the guidance of Daniel Kaufmann. It draws from a number of sources, including bibliographical information from the International Money Laundering Information Network (IMOLIN) (available at: <http://www.imolin.org/bibliogr.htm#GENERAL>), the Financial Crimes Enforcement Network (FINCEN) (<http://www.fincen.gov/>), the Organization for Economic Cooperation and Development (OECD) (<http://www1.oecd.org/daf/nocorruptionweb/moneylaundering/bib.htm>), and other sources.

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Abstract

The rise of electronic banking is facilitating the movement of billions of dollars in illicit funds, exposing vulnerabilities stemming from:

- The speed of money movements;
- The secrecy surrounding financial dealings;
- The sheer number of agencies involved which generates jurisdictional issues;
- The failure of government mandated measures, and hence the need for private sector actors to take more responsibility.

Money laundering has been called the world's third largest industry, and is associated with all manner of crime. The approach of the US and the OECD in adopting anti-money laundering measures has been to try and erode financial secrecy and promote greater transparency, but private sector actors, banks and non-banks will need to take more responsibility to eliminate practices that encourage crime, undermine financial systems, and damage their own institutions.

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Comision Interamericana para el Control de Abuso de Drogas. 2000. “Statistical Summary.” (Available at: <http://www.cicad.oas.org/>).

Abstract

Official data on drugs is compiled, and shows that drug seizures have increased in recent years. Large seizures of amphetamines and the like is also alarming. Much work remains to be done.

Council of Europe. 1991. “Explanatory report on the Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime.” Council of Europe Publishing and Documentation Service, Strasbourg, France.

Economist (1999) Crime without punishment. World. August 26th. http://Economist.com/background/displaystory.cfm?story_id=234642

“The latest money-laundering scandal in New York confirms that the evil of organized crime is woven into Russian life – and that it is starting to infect the rest of the world” (p.1). Well connected individuals involving the Bank of New York are alleged to be involved in laundering up to \$10 billion, including about \$200 million of the IMF’s cash. Crime is nothing new in Russia – the turn away from communism has only made it more visible. Efforts to enforce the rule of law have struggled to date, and organized crime has filled the void.

Economist (2001) Getting to them through their money: Terrorist finances. Finance & Economics. Sep 27th. http://Economist.com/displayStory.cfm?Story_ID=798424

“TO FOLLOW the money is a trail to the terrorists,” said George Bush, as he released a list of 27 alleged customers of the global banking industry that he called “the financial equivalent of law enforcement’s most-wanted list”. Still, it will be difficult to track the funds, and indiscriminate closing of Islamic charities will hurt poor people in Islamic countries the most. Much of the terrorist financing for September 11 is thought to have used the same channels as money laundering, including techniques such as “starburst” (deposits are made in small random fragments) and the “boomerang,” where funds are sent on a long journey before returning to the country of origin. Finally, funds moved through the trust based “hawala” system are virtually untraceable.

Economist (2001) The financial front line: Hitting terrorists’ cash. Finance & Economics. Oct 25th. http://Economist.com/displayStory.cfm?Story_ID=834452

FATF, (Financial Action Task Force) is the world’s main anti-money laundering body, and is leading a campaign to agree rules that all countries must follow, or face some form of punishment. “Governments will have to introduce a reporting system for suspicious transactions, take on legal powers to freeze terrorist assets, and extend all these rules beyond mainstream banking to money service businesses, including the *hawala* system” (p. 1). Enforcement will be difficult.

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Abstract (from the paper)

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

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Abstract (from the introduction)

Over the past decade, a virtual consensus on the market has emerged. While debate continues between differing schools of thought, hard-line critics of liberal economic ideology have grown reticent due to the discrediting of the socialist model of economic growth. One reflection of this trend is the embrace of market reforms by developing and formerly socialist countries. The ongoing transfer of allocative influence to the market has exposed a need to ensure that reliance on market forces is not exploited by actors involved in illegal activities. This paper examines one such kind of actor: the drug-trafficking organization. It explains why the welcome reforms introduced by governments throughout the world could be exploited by those who have profited from the international drug trade. The need to safeguard the reform process from criminal elements has never been greater.

The aim of this paper is to explain why drug traffickers may be attracted to short-term investment opportunities in economies undergoing reform. It is widely accepted that drug trafficking organizations have considerable cash reserves at their disposal. With the advent of tighter banking controls, drug traffickers face increasing difficulty in laundering those funds for use in the legitimate economy, particularly in traditional money-laundering “safe havens.” It is thus significant that in reforming economies, governments have sought to achieve stability by reducing money supply growth and reining in public expenditures; as a result, both consumers and companies in these reforming economies may find difficulty in conducting business as usual. The wealthy drug trafficker faces a sectoral niche with high profit potential.

Lavelle, Marianne. 2002. “Jimmy Gurule – Cutting Off al Qaeda’s Cash Flow,” U.S. News and World Report, December-January: p. 57.

Abstract

Jimmy Gurule has a strong law enforcement reputation, and is playing an important role at the U.S. Treasury in efforts to cut off al Qaeda’s access to money. Working with Interpol, he is establishing a single database to promote real-time information sharing about terrorist groups. To date, about \$67.3 million in assets have been blocked from “more than 150 individuals, businesses and charities designated as terrorism supporters” (p. 57).

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Abstract

Osama bin Laden finances his activities less from his personal wealth than through a "formidable network of global fundraising operations involving Islamic charities, front companies, money transmitters, legitimate businesses, and criminal activity, including drug trafficking and money laundering" (p. 29). Some terrorist groups even fund their efforts from food stamps and insurance fraud schemes in the United States. About 120 countries are working together in investigating al Qaeda finances.

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Reuter, P. 1996. "The Mismeasurement of the Illegal Drug Markets: The Implications of its Irrelevance." Exploring the Underground Economy, 63-80. (Available at: <http://www.puaf.umd.edu/faculty/papers/reuter/pozo.pdf>).

Summary (from the introduction)

The largest illegal market in the United States currently is that for illegal drugs. It may be, in terms of share of GNP, the largest ever. Given the low quality of estimates of income from any other illegal market, the statement is hard to challenge but I believe that one can make a reasonable case that, compared with the other candidates (e.g. prostitution, illegal gambling, counterfeiting) illegal drugs are likely to generate much higher total revenues to sellers. Certainly numbers are presented in a variety of fora, predominantly political, suggesting that it is a major economic activity both in the United States and globally. Figures such as \$500 billion for world sales are thrown around quite glibly.

Even brief scrutiny of the global numbers suggests that they are grossly overstated. Though drug markets are large, and involve a surprisingly large number of Americans on a part-time basis, the total value of annual sales in the United States is likely to be around \$50 billion, less than 1 percent of GDP and less than 2 percent of Personal Consumption Expenditures. The global figure is likely to be no more than twice this. One hundred billion dollars represents a large market but in the context of total global trade flows of almost \$3trillion, it is a very modest share indeed. That share declines to the trivial when account is taken of the fact that most of the value added is domestic, so that valuing the trade at import prices reduces it to probably no more than \$20 billion.

In recent years the federal government has developed systematic estimates of domestic expenditures that do indeed provide a reasonable basis for scaling the size of these markets. However, these coexist with an essentially madcap series of federal figures on international production and prices that make a mockery of the whole enterprise. These estimates and their components are so inconsistent and erratic that they demonstrate what might reasonably be called a “reckless disregard” for the truth. Moreover, though it would be surprising if the government estimates of domestic expenditures were (say) only half of the true value, the year to year fluctuations in these estimates may be wrong even in direction, let alone scale.

Does this mismeasurement matter? For those interested in the size of the underground economy, the answer is clearly yes; estimates of the largest illegal market are potentially of considerable significance. However, the estimates were not developed for those purposes but to help in the development of drug policy. If policy making with respect to drugs were rational, or at least as analytically driven as say monetary policy, then the exaggeration would be a serious problem. I shall argue that the numbers are in fact just decorations on the policy process, rhetorical conveniences for official statements without any serious consequences. Indeed, the irrelevance of these numbers is itself a condemnation of drug policy decision making.

This paper has three sections. The first examines the official estimates of drug production, both in the U.S. and the rest of the world, and sales in the United States, showing how implausible they are. The second describes the process that generates them and its bureaucratic imperatives. Finally I consider the policy interpretation of the mismeasurement.

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Summary (from the Introduction)

Money laundering and the financing of terrorism are global problems that affect not only security, but can harm financial systems, potentially affecting economic prosperity. The global agenda to curb money laundering and the financing of terrorism calls for a cooperative approach among many different international bodies. Efforts to establish an international standard against money laundering have been led by the Financial Action Task Force (FATF) with the development of the FATF 40 Recommendations. The Boards of the Fund and the Bank have recognized these recommendations as the appropriate standard for combating money laundering. The FATF’s work has now been extended to anti-terrorism financing, with the development of the eight special recommendations to combat terrorist financing.

The Fund and Bank mandate and core areas of expertise entail that it can and should help member countries strengthen defenses against the destructive activities of money laundering and financing of terrorism. The decisions by the Fund and Bank Boards first in April and later in November 2001 have resulted in greater involvement in global anti-money laundering (AML) efforts. The IMFC subsequently endorsed the Fund’s action plan to intensify its work on anti-money laundering, consistent with its mandate and expertise by extending its involvement beyond anti-money laundering to efforts aimed at countering terrorism financing and expanding the anti-money laundering activities to cover legal and institutional framework.

This methodology is to guide the assessment of measures for anti-money laundering and combating the financing of terrorism (AML/CFT) in the context of the joint Fund/Bank Financial Sector Assessment Program (FSAP) and the Fund's Offshore Financial Center (OFC) initiative. Concurrent with this AML/CFT assessment effort, Fund and Bank staffs are engaged with the FATF on convergence—including the development of a ROSC module—to a global anti-money laundering standard. This document also serves as an important part in this process.

The AML/CFT methodology takes as its basis existing international standards and supporting documentation prepared by the Basel Committee on Banking Supervision (Basel), the Financial Action Task Force on Money Laundering (FATF), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). This draft methodology benefits from many useful comments received from representatives of the standard setters that were provided following the release of an earlier version of the methodology issued in July 2001. The Fund and the Bank continue to seek comments for this draft methodology, which is being sent to the FATF and other standard setters for their comments.

While the methodology has been expanded to include legal and institutional framework elements it excludes the assessment of law enforcement areas, which is consistent with the direction from the Fund and Bank's Executive Boards. The Fund and the Bank do not have a mandate to apply or enforce AML/CFT laws with respect to specific or individual cases. This would mean, for example, that assessors would not review the efficacy of investigation, prosecution or extradition of criminals suspected of money laundering crime or terrorism finance. Similarly, assessors will not review the adequacy of efforts to freeze, seize and/or confiscate assets alleged to be the proceeds of money laundering crime or for the financing of terrorism.

The AML/CFT methodology has been organized in the following sections. Section II provides a Summary of the three parts to the assessment methodology, how it is to be used for assessments, and risk factors to be considered when deciding which financial services to be included in the assessment. Section III discusses the relationship between this methodology and the FATF's 40 Recommendations and eight special recommendations to combat terrorism finance. Section IV provides the detailed guidance, including criteria, to be used for the AML/CFT assessment. Annex I provides the AML/CFT assessment report template. Annex II provides a questionnaire to send to the authorities to review the institutional, legal and supervisory arrangements for anti-money laundering and combating the financing of terrorism.