



## Money Laundering & Terrorist Financing

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In terms of criminology, money laundering ranks among the most serious financial crimes, constituting negative effects equally on the economy and society. Money laundering per se is the common ground for all types of crimes and illegal activities, including the financing of terrorism. To better explain the existing link between money laundering and terrorism, we need to bring to focus the historical trajectory of the phenomenon itself, and further clarify the associated concepts along with the different stages and the methods used therein, in addition to uncovering its effects and the approaches used to address money laundering.

### Historical Trajectory

Historical studies reveal that the term money laundering first gained circulation in the United States in the 1920s and 1930s. The US security officials used money laundering to denote a criminal activity, which the mafia gangs used to carry out, including setting up laundries and cleaner's shops to invest and conceal the money they had obtained through illegal methods such as drug trafficking. As such, income accruing from illicit trade was included in the daily revenues of laundries, which together with the revenues were taxed. It was therefore said that the profits of the illicit trade were laundered. By analogy, as unclean clothes are washed and laundered to be usable and wearable, funds created out of criminal activities are likewise washed and laundered to be appropriate for circulation.

It is hard however to confirm that money laundering in this criminal form began in the United States. It was reported that the first people to have carried out money laundering were the gangsters in ancient China, where trade and the profits accruing were used as a means of camouflaging and concealing crime funds in the palaces of rulers, while diverting the eyes of the police and the authorities off identifying the reality of wealth of some families who used trade to screen such money crime off the public, especially crimes of robbery and seizure of peasant money.

## Revealing & Telling Definitions

The term money laundering, commonly used by many legislative and executive bodies today, may seem unclear and vague.

The Arab Monetary Fund (AMF) defines money laundering as a set of measures aimed at concealing the real source of money and property derived from criminal acts, legitimizing these funds, and then re-injecting them into the economy.

The Saudi Arabian Monetary Agency (SAMA) explains that money laundering is a process used by criminals to conceal the illegal source of money resulting from criminal activities, such as drug trafficking, extortion and fraud, counterfeiting and forging, the sale of illegal weapons, theft and bribery, robbery and smuggling, prostitution, electronic fraud and tax evasion and the like. Money launderers seek to hide the source of such illicit funds to legitimize and freely use them.

## Steps and Stages

Money laundering goes through three stages:

- First Stage is the recruitment or replacement phase, which consists in attempting to introduce funds derived from crimes and illegal activities into the financial and banking system.
- Second Stage is the coverage phase, which is based on a series of financial and banking operations aimed at obliterating the sources of illicit funds, and then separating them from their sources.
- Third Stage is the consolidation and integration phase, in which these funds are re-injected into the economy to be legitimate.

Money laundering makes a number of gains for criminals. Money laundering per se is a viable means of distancing themselves from the suspicion of criminal activities generating funds, while avoiding prosecution and litigation, ensuring that they retain and possess such funds and not confiscating them, and re-investing them in illicit activities and acts such as the financing of terrorism.

## Means & Tools

The means of money laundering are notoriously driven by continuous change and innovation. Admittedly, the state-of-the-art technology has contributed to the sophisticated development of money laundering, bringing about new financial and banking innovations and instruments, as well as measures of financial liberalization and globalization, and the depth of integration between financial and banking systems across borders. Given the international nature of money laundering operations and the fact that they are not bound by geographical boundaries,

a large number of financial and banking institutions from different countries are often involved in one operation. The most important means used in money laundering are the following:

- Establishing companies and institutions of a business or service nature with a view to opening accounts with banks and depositing illicit cash, as if they were the result of legitimate activity.
- Fragmentation of deposit operations by dividing and chunking large amounts into a number of small amounts, depositing them in different methods, and distributing them to several cities and at different times in such a way so that it is difficult to note the large volume of cash deposited.
- Acquisition of precious commodities such as antiques, jewelry, rare paintings, real estate and luxury cars; the value for such items is paid in cash. Following the acquisition of such highly valuable possessions, they sell them for bank deeds (checks) deposited in banks without raising any suspicion. Such business is not aimed at making profit, because the owners are readily willing to sell for less than the purchase price and bear the losses to hide the sources of their money.
- Investment in foreign currencies and commodities traded on the stock exchange; the purchase and sale transactions are processed in cash, and the collection of value by bank instruments can be easily deposited in banks.
- Collusion with banks and governments that turn a blind eye to money laundering, and provide the confidentiality required for account holders to achieve common interests.
- Terrorist financing uses the same previous means. Of great note, the sources of funds for terrorist financing are not necessarily illegal, whereas the sources of funds for money crimes are inevitably illegal.

## Effects and Consequences

Money laundering has negative macroeconomic effects. Its spread in an economy undermines the authorities' ability to adequately implement macroeconomic policies, due to the lack of credibility of available economic data and statistics, in the absence of measuring and forecasting the scale of such operations. In addition, severe fluctuations in the movement of money, deposits and flows associated with money laundering affect the stability of the money market and the foreign exchange market. Furthermore, the impact of money laundering and related criminal activities should not be neglected in disturbing the distribution of resources and wealth in the economy. One of the negative effects of money laundering is that illicit activities mushroom and flourish rapidly, such as drug trafficking, administrative and financial corruption and others, which contribute to the destruction of the social and moral environment of the world countries.

## Combating and Countering

Anti-money-laundering efforts and combating money-laundering activities should not be only seen as the responsibility of anti-crime agencies, but should also be seen as of general

importance for financial stability. This has come to increasingly growing prominence in recent years as the annual growth in money laundering through the global financial and banking system, estimated by the International Monetary Fund (IMF) at between US \$ 600 billion and US \$ 1.5 trillion, which accounts for about 20% to 50% of output. Global money laundering is estimated by other reports at \$ 2.8 trillion.

The issues of combating money laundering, terrorist financing and illicit activities have received increasing attention in recent years by various international political, economic and banking actors. In 1989, the Group of Seven (G7) established the Financial Action Task Force on Money Laundering (FATF), which aims to educate the world countries on the dangers of money laundering and issue recommendations and review money laundering trends on a continuous basis to take measures to combat them, and meticulously monitor progress in the application of these measures and procedures.

The G7 provided forty guidelines, which have become the main focus of anti-money laundering plans and procedures. Following the events of September 11, 2001, the G7 added eight new recommendations, in the wake of the emerging threat of terrorist financing. The Basel Committee on Banking Supervision issued papers and guidelines in line with the 40 recommendations, which included precise procedures to identify customers to enhance the credibility of the banking system and prevent it from being used for illegal purposes.

It is equally important to note that this international activity in the fight against money laundering and terrorist financing was not limited to institutions, organizations and groups concerned with economic, financial and banking activities, but also included other stakeholders and competent authorities; in addition to the UN and its various programs, there are other anti-crime organizations such as Interpol.

The Islamic States have been particularly keen to cooperate with the international efforts to combat money laundering and the financing of illicit activities, including terrorism, and working on the implementation of international standards and recommendations. Furthermore, the Islamic States have introduced legislation to combat money laundering and the financing of terrorism, and established national committees and bodies and units concerned with the follow-up policies to combat money laundering and the financing of terrorism. Comprehensive guidelines and directives have been issued to financial and banking institutions on the requirements of these operations to reduce their risks, in addition to conducting many seminars and training workshops and campaigns to promote awareness of money laundering and terrorism financing issues.