

# **Anti-Money Laundering Literature Search**

## **General**

### **World Bank Institute**

**<http://www.worldbank.org/wbi/governance>**

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.

**Adler, P. 1993. Wheeling and Dealing, (2nd ed), Columbia University Press, New York.**

**Alvarez Pastor, Daniel and Fernando Eguidazu Palacios. 1998. La prevencion del blanqueo de capitales, Pamplona: Aranzadi.**

**Association d'Economie Financière. 1995. Money and morals worldwide: first annual report (2nd. ed.). Association d'Economie Financière, Paris.**

**Australian Government Publication Service. 1992. Taken to the Cleaners: Money Laundering in Australia, Enfield, NSW.**

**Baldwin, F.N. and Munro, R.J. 1992. Money laundering, asset forfeiture and international financial crimes, Oceana Publications, New York. (Available at: [http://www.oceanalaw.com/main\\_product\\_details.asp?ID=22&category=Criminal%20Law](http://www.oceanalaw.com/main_product_details.asp?ID=22&category=Criminal%20Law)).**

**Summary** (from the sales description on the website)

These reference materials consist of 5 volumes that are continuously updated.

More than 80 countries covered! How high is the cost of non-compliance? This handy reference guide gives you a country-by-country analysis of current Money Laundering Law -- Commentary, Treaties, Statutes and Cases for more than 100 jurisdictions. This essential reference source clearly shows financial institutions, regulators, investment bankers, and legal counsel how to prevent inadvertent non-compliance -- be clean and look clean! It provides everything you need to understand the issues and create effective legal responses in cases involving:

- Interpretation of bank reporting and structuring requirements
- Complex money laundering schemes that use multiple jurisdictions, wire transfers, and integration with legitimate business
- Forfeiture procedure under U.S., international and foreign law "Sting" operations
- The relevant law of more than 100 foreign countries, the EC, UN, OAS, Council of Europe, Interpol and FATF

The authoritative coverage is of value not only to lawyers and bankers, but also to law enforcement agents and other professionals concerned with money laundering and its economic effects.

The world's money laundering and forfeiture law, all in this easy-to-use resource. Speed through any case involving international financial crime with this set's primary documents and source materials on U.S. Federal statutes with regulations and major cases and Multilateral and Bilateral endeavors, including initiatives, mutual legal assistance treaties, and model legislation. Plus! You'll receive case law, relevant tax and customs forms, proposed legislation, a ready-to-use compliance program, an 80-page bibliography, and much more. With quarterly supplementation including monitored data from media sources and government documents worldwide, this one-stop source is your indispensable guide to successfully practicing in today's explosive and unpredictable field of international law. Recent topics include:

- Compliance for International Bankers
- U.S. Case Law
- The U.S. and Money Laundering
- U.S. Legislation
- Wire Transfers
- Overview of International and American Responses
- The British Commonwealth
- Forfeitures and Asset Freezes
- U.S. Procedures: Civil vs. Criminal A must for international bankers, investors, lawyers and government regulators facing the issues of international financial crimes.

A must for international bankers, investors, lawyers and government regulators facing the issues of international financial crimes.

**Banco de la Republica (Colombia). 1997. "Cartilla de Capacitacion en Prevención al Lavado de Activos," (Alberto Lozano Vila).**

### **Abstract**

This report (in Spanish) of the Colombian central bank emphasizes the damaging effects of money laundering in underpinning illegal activities (like drug trafficking) and the importance of anti-money laundering initiatives. It outlines the basic concept, different ways money laundering is done, the responsibilities of the financial system, the responsibilities of the Banco de la Republica, legal aspects, and principle mechanisms for combating money laundering.

**Birks, P. 1995. Laundering and tracing. Oxford : Clarendon Press ; New York: Oxford University.**

**Blum, Jack A., Michael Levi, R. Thomas Naylor and Phil Williams. 1998. "Financial havens, banking secrecy and money laundering." A study prepared on behalf of the United Nations under the auspices of the Global Programme against Money Laundering, Office for Drug Control and Crime Prevention; Vienna, Austria. December. (Available at: <http://www.cf.ac.uk/socsi/whoswho/levi-laundering.pdf>).**

**Abstract** (from the paper (p. 6 –7))

This report examines the world of offshore financial centers and bank secrecy jurisdictions in the context of the control of money laundering and financial crime. It looks at offshore financial centers and bank secrecy jurisdictions as facilitators of money laundering and other forms of crime, elucidates the ways in which they are used by criminals and identifies a series of remedies or counter-measures that would block or at the very least diminish the attractions of these havens. Section II outlines the various stages of money laundering, warns against using the term in a loose or promiscuous manner, and identifies various kinds of secrecy that facilitate money laundering and other crimes.

Section III of the report looks at the legitimate as well as the criminal uses of offshore financial and bank secrecy jurisdictions and explains briefly how bank secrecy and offshore banking evolved. It locates offshore banking and bank secrecy jurisdictions within the global financial system, suggesting that the system is a highly congenial one for both licit businessmen and for those trying to launder and hide the proceeds of crime as well as those who typically exploit loopholes and variations in tax and other laws.

Jurisdictions which offer high levels of secrecy, and a variety of financial mechanisms and institutions providing anonymity for the beneficial owners are highly attractive to criminals for a wide variety of reasons including the potential cover and protection they offer for money laundering and various exercises in financial fraud. Not all offshore financial centers and bank secrecy jurisdictions provide the same services, however, and there are important differences in the schemes they offer to ensure anonymity, the extent of the secrecy they provide, and their willingness to cooperate with international law enforcement investigations. Consequently, this section also provides an overview of what might be termed the geography of offshore banking and bank secrecy.

Section IV looks at the way in which offshore financial centers and bank secrecy jurisdictions are used by criminals, highlighting not only the way in which money is often moved to and through offshore banks or bank secrecy jurisdictions as part of money laundering efforts, but also other ways in which offshore jurisdictions are used by criminals. Section V looks at offshore banking and bank secrecy as inhibitors and facilitators for law enforcement investigations, with attention to both de jure and de facto limits to cooperation. Section VI looks at issues for consideration in relation to preventive and control measures that might be taken to enhance compliance with the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention') and to make it more difficult for money launderers and other criminals to exploit particular banking jurisdictions with the ease and benefits they do at the moment.

**Summary** (from the paper (p. 5-7))

The major money laundering cases coming to light in recent years share a common feature: criminal organizations are making wide use of the opportunities offered by financial havens and offshore centers to launder criminal assets, thereby creating roadblocks to criminal investigations. Financial havens offer an extensive array of facilities to the foreign investor unwilling to disclose the origin of his assets, from the registration of International Business Corporations (IBCs) or shell companies, to the services of a number of “offshore banks” which are not subject to control by regulatory authorities.

The difficulties for law enforcement agents are amplified by the fact that, in many cases, financial havens enforce very strict financial secrecy, effectively shielding foreign investors from investigations and prosecutions from their home country. While bank secrecy and financial havens are distinct issues, they have in common both a legitimate purpose and a commercial justification. At the same time, they can offer unlimited protection to criminals when they are abused for the purpose of “doing business at any cost”.

These two issues are analysed in the present study because the recent history of international money laundering control makes it clear that the indiscriminate enforcement of bank secrecy laws, as well as the rapid development of financial havens, constitute serious obstacles to criminal investigations and jeopardise efforts undertaken by the international community since the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention'), which first required the establishment of money laundering as a criminal offence.

The best example of the opportunities, and immunities, offered to money launderers by these means was BCCI - the Bank for Credit and Commerce International - which collapsed in 1991, uncovering the widest money laundering scheme ever and leading to the seizure of more than US\$12 billion. The BCCI case, which is described in more detail in Chapter IV, generated a shock wave in financial markets and among the supervisory authorities of all countries affected by the scandal, forcing them to tighten up regulations to prevent the use of financial markets for money laundering purposes.

However, six years later, another prominent case was revealed following the bankruptcy of the Antigua-based “European Union Bank”, demonstrating that the problem had gained a new dimension with the application of modern technologies. The European Union Bank was founded by two Russians, and is alleged to have been used to launder the illicit proceeds of the Russian organized crime. This bank, which was operating on the Internet, offered its clients (according to its advertisements on the net) “the strictest standards of banking privacy in offshore business” and the “financial rewards of offshore banking”. Chapter IV further analyses the case of the European Union Bank.

There are important and sobering lessons to be learned from the experience with European Union Bank. Among the more important are the following:

- Changes since BCCI have helped, but there are still important gaps in the regulation of offshore banking by bank secrecy jurisdictions that can all too easily be exploited by criminals of various kinds.
- The Internet and World Wide Web offers a whole new dimension for encouraging money laundering, fraud and various kinds of scams.
- The experience highlighted that the concept of a bank is becoming increasingly elastic, a development vividly encapsulated in the comments of one auditor that some banks are little more than “closets with computers”.

The central problem with virtual banks is that there is virtually no oversight, not least because it is not clear who has jurisdiction or where the crime is committed. As one observer noted in testimony before the US Congress, European Union Bank operated on a license from the government of Antigua. “The computer server was in Washington, DC. The man who was operating both the bank and the computer server was in Canada. And under Antiguan law, in effect, the theft of the bank's assets were not illegal. So now the problem is, where is the crime committed, who committed it, who is going to investigate it, and will anyone ever go to jail?”

The willingness of at least some offshore banking jurisdictions to encourage new financial institutions without imposing adequate safeguards or due diligence – a development characterized later in this report as the selling of sovereignty.

In short, bank secrecy and offshore banking offer multiple opportunities for money laundering and various other criminal activities. In the early and mid-1980s the Permanent Investigations Subcommittee of the Committee on Governmental Affairs in the United States Senate held a series of hearings on offshore banking and bank secrecy. The chairman, Senator William Roth, noted that “we have repeatedly heard testimony about major narcotics traffickers and other criminals who use offshore institutions to launder their ill gotten profits or to hide them from the Internal Revenue Service.

Haven secrecy laws in an ever increasing number of cases prevent U.S. law enforcement officials from obtaining the evidence they need to convict U.S. criminals and recover illegal funds. It would appear that the use of offshore haven secrecy laws is the glue that holds many U.S. criminal operations together”. If the immediate reaction to this is that little or nothing has changed in the last decade and a half, a more considered assessment might suggest that, in fact, the situation has deteriorated with a much larger cast of characters now using offshore financial centers for criminal purposes.

## Overview

This report examines the world of offshore financial centers and bank secrecy jurisdictions in the context of the control of money laundering and financial crime. It looks at offshore financial centers and bank secrecy jurisdictions as facilitators of money laundering and other forms of crime, elucidates the ways in which they are used by criminals and identifies a series of remedies or counter-measures that would block or at the very least diminish the attractions of these havens. Section II outlines the various stages of money laundering, warns against using the term in a loose or promiscuous manner, and identifies various kinds of secrecy that facilitate money laundering and other crimes.

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Section IV looks at the way in which offshore financial centers and bank secrecy jurisdictions are used by criminals, highlighting not only the way in which money is often moved to and through offshore banks or bank secrecy jurisdictions as part of money laundering efforts, but also other ways in which offshore jurisdictions are used by criminals. Section V looks at offshore banking and bank secrecy as inhibitors and facilitators for law enforcement investigations, with attention to both de jure and de facto limits to cooperation. Section VI looks at issues for consideration in relation to preventive and control measures that might be taken to enhance compliance with the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention') and to make it more difficult for money launderers and other criminals to exploit particular banking jurisdictions with the ease and benefits they do at the moment.

**Blunden, Bob. 2001. The Money Launderers: How They Do It, and How to Catch Them at It. Chalford, England: Management Books 2000.**

**British Commonwealth. 1992. International Efforts to Combat Money Laundering. Cambridge International Document Series Vol. 4, Grotius Publishing, Cambridge, England.**

**Bruton, William F. 1999. "Money Laundering: Is It Now a Corporate Problem?" *Dickinson Journal of International Law*, Vol. 17. No.3. (Available at: <http://www.house.gov/judiciary/brutatt.htm>).**

### **Abstract**

Legitimate commercial activity is increasingly being used to launder money. While authorities are making it more difficult to use the financial system directly to launder and transfer cash that is perhaps 10 times the weight of the drugs that were sold to generate the funds, the use of the black market and regular trading systems are major loopholes. The Colombian peso exchange is a clear case in point. Colombian businesses who need to pay for imports from the US, for example, make an arrangement through a peso exchanger whereby the imports are paid for in the US using illicit drug money. When the goods are then sold in Colombia, the drug traffickers receive an equivalent sum, minus commissions, in Colombian pesos. There is then no record of the transaction, and virtually no way for the authorities to stop the flow.

To address this, the conclusion of the paper notes that (p. 448-449):

Corporations and businesses need to establish a "know your customer" policy. These types of policies have been established for several years by financial institutions in order to prevent criminal groups from laundering drug dollars through their institutions. Because of the success of this policy, drug organizations are moving their drug profits through the use of international commerce. The following is an example of some policies that would assist corporations:

1. Establish customer identification and documentation requirements.
2. Establish payment policies that require the payment to be received from the established bank account in the name of the customer.
3. Prohibit the use of third party checks for payment credited to customers account.
4. Develop policies requiring the reporting of suspicious payment activities.
5. Consider the establishment of a compliance officer who has broad authority to monitor and insure compliance with relevant laws. This is especially critical where products are being exported to high-risk areas.

**Castle, Allan and Bruce Broomhall. 1998. "The International Money Laundering Regime and the Asia Pacific: Pairing Multilateral Co-operation with Domestic Institutional Reform," *The International Centre for Criminal Law Reform & Criminal Justice Policy*, Vancouver, Canada, October. (Available at: <http://www.icclr.law.ubc.ca/Publications/Reports/MoneyLaunderingRegime.PDF>)**

**Abstract** (from the paper (p. 2))

International efforts to combat money laundering have gained momentum in the past decade. One United Nations Convention and another planned convention, along with numerous multilateral governmental initiatives and bilateral agreements, have contributed to the development of a broad set of national and international legal standards. However, this emergent 'regime' has developed unevenly, the most significant advances occurring in regions dominated by the United States and its allies.

This paper 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.

**Chang, A. and Herscovitz, A. 1995. "Money Laundering." *American Criminal Law Review*, Vol. 32, No. 27, Winter, 499-525.**

**Cook, Stephanie 1995. "The Money Laundering Cycle." *Central European Journal*. July/August: pp. 28-31.**

### **Abstract**

When the Russian tax police sought help from their counterparts in Britain (National Criminal Intelligence Service – NCIS) in investigating the flow of illicit Russian funds to London, they were rebuffed because NCIS cannot “disclose information to tax authorities in other countries” (p. 28). The American counterpart – Financial Crimes Enforcement Network (FINCEN) believes NCIS may not be trying hard enough to investigate suspicious transactions. “The Russian interior ministry believes as much as \$50bn left Russia alone last year,” and “Western experts say that as much as 20% of the \$15bn to \$20bn of western aid money to Russian and newly independent states has been skimmed off through corruption and misappropriation” (p. 29). Authorities in other countries, such as those in Switzerland, and Eastern Europe are cooperating more fully in investigating suspected money laundering.

The OECD's Financial Action Task Force (FATF) also issued 40 recommendations on anti-money laundering regulations, which currently exist in most OECD countries and require all entities, not just banks, to report suspicious transactions. Russia's closest ally in its efforts, however, remains the US's Internal Revenue Service, which shares its information on bank accounts. Apart from membership in the UN drug convention, Russia is not yet a part of the official anti-money laundering network, and the process of joining has been slow. Russia cannot join until it establishes anti-money laundering legislation. The West can help by:

- Providing resources;
- Stop politicking and infighting;
- Show more flexibility.

**Cotton, J. 1998. "Australia: Lawyers Should be Treated Like Banks, Bookmakers and Bullion Dealers." *Journal of Money Laundering Control*, Vol.1, No.3, January.**

**Courtis, Neil. 1998. "Money Laundering Today." *Central Banking Journal* Vol. IX, No. 1. August: pp. 19-23.**

### **Abstract**

"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 it has reduced money laundering" (p. 19). Indeed, the author 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 coincide with drug importation routes" (p. 20).

"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" (p. 21). Moreover, considering that "Euroland have to provide 12 billion banknotes for exchange for national currency in the following six months" (p. 21), it will be very hard to monitor the high level of activity effectively.

**Drayton, Fitz-Roy. 2002. "Dirty Money, Tax and Banking: Recent Developments Concerning mutual legal Assistance and Money LAUNDERING 'Harmful' Tax Competition and the Future of Offshore Financial Centers," *Journal of Money Laundering Control*, Vol. 5, No. 4: pp. 302-317.**

**Duyne, P. van. 1994. "Estimates in fog," *Journal of Asset Protection*, Vol. 2, No. 1: pp. 58-76.**

**Dwyer, Terry. 2002. " 'Harmful' Tax Competition and the Future of Offshore Financial Centers," *Journal of Money Laundering Control*, Vol. 5, No. 4: pp. 302-317.**

**Economist (1997) That infernal washing machine. World. July 24th.  
[http://Economist.com/background/displaystory.cfm?story\\_id=152141](http://Economist.com/background/displaystory.cfm?story_id=152141)**

Money Laundering is still big business, amounting to over \$500 billion a year (IMF estimate 1996). Senator Kerry argues for waging an economic war against countries that refuse to fight money laundering, including a trade ban. Vito Tanzi suggests that once a minimum standard is established, countries that refuse to abide could face punitive taxes on capital channeled through their financial system and have international legal recognition denied to financial transactions taking place on their soil.

One complication is the difficulty in identifying the crime. OECD countries have been working to toughen up their AML laws, making it a criminal offence in its own right. They have also been improving financial intelligence gathering and encouraging international cooperation.

“Stanley Morris, FINCEN’s director, says undercover operations in America show that launderers’ fees have risen from around 6% of the amount washed in the early 1980s, to 25-28% today” (p. 3). The suggestion is that laundering is getting harder. “A few well-known haunts of launderers, such as Switzerland and the Cayman Islands, have made it easier for bankers to report suspect transactions without breaking bank-secrecy laws” (p. 4).

Still, it is a major problem – infecting other businesses (insurance), and encouraging the emergence of new laundering centers. Most AML initiatives have yet to cover non-bank financial institutions.

The solution? Economic warfare is considered unpalatable. “That leaves Tanzi’s proposal as the only one with something to recommend it” (p. 5).

**Economist (1999) Needs a wash. Finance & Economics. April 8th.**  
[http://Economist.com/background/displaystory.cfm?story\\_id=197697](http://Economist.com/background/displaystory.cfm?story_id=197697)

Antigua was not happy about being singled out for weak anti-money laundering controls, which means that all US financial institutions will need to treat transactions with Antigua as suspicious.

**Economist (2000) All havens in a storm. Business. June 29th.**  
[http://Economist.com/background/displaystory.cfm?story\\_id=3140](http://Economist.com/background/displaystory.cfm?story_id=3140)

The Bahamas and several other Caribbean financial havens have landed on three different lists – including the OECD, FATF and the Financial Stability Forum. Concern is growing that these havens are “distorting the financial system on a threatening scale” (p. 1), siphoning off \$50 billion from poor countries every year. Antigua suffered a financial drought when it was put on an advisory list by the US Treasury, and has since taken steps to tighten anti-money laundering laws. Implementation remains a major challenge.

**Economist (2001) Fighting the dirt: Money laundering. Finance & Economics. June 21st.**  
[http://Economist.com/displayStory.cfm?Story\\_ID=666362](http://Economist.com/displayStory.cfm?Story_ID=666362)

Since the Financial Action Task Force (FATF) first appeared in 1989, it has moved from being conceived as a cooperative organization to one capable of exerting greater pressure, mainly through its name and shame function and by indicating that repeat offenders may face “counter-measures” including a ban from dealing with the financial institutions of the OECD. This has spurred many countries, like the Bahamas and Liechtenstein into action, but others, like Russia and Nauru have done virtually nothing. Adherence to the “40 recommendations” is also uneven among members, and debate continues on whether to include tax evasion as a money laundering offence.

**Economist (1999) "Cleaning Up? Money Laundering". Finance and Economics. March 20.**  
**[http://Economist.com/displayStory.cfm?Story\\_ID=319960](http://Economist.com/displayStory.cfm?Story_ID=319960)**

Britain is offering the people of its dependencies (160,000) full British citizenship with a few conditions, including cleaning up the financial sector. Under British pressure, 300 “brass-plate” banks were closed in Montserrat, and a Caribbean Financial Action Task Force was created in 1992. International pressure is also growing from the OECD and FATF. Small off-shore banking centers feel unfairly targeted, and are alarmed about talk of “harmful tax competition.”

**Edwards, Andrew. 2002. “Towards a Clean World,” Journal of Money Laundering Control, Vol. 5, No. 4: pp. 279-286.**

**Ehrenfeld, Rachel. 1992. Evil Money: Encounters Along the Money Trail. New York: Harper Collins Publishers.**

**Abstract** (from First Search)

Examines the international network of money laundering and its corrupting effects. Discusses the legacy of Meyer Lansky, inventor of the methods used today by modern drug money launderers and other criminals. Describes the problem the Bahamas had with money laundering in the 1970s and 1980s, and considers whether the situation has really improved since the mid-1980s. Examines "La Mina," a laundering organization of Colombia's drug cartels. Discusses "Polar Cap," the largest and most complicated anti-drug-money-laundering operation undertaken by the U.S. government. Presents the story of the Bank of Credit and Commerce International, S.A. (BCCI) and the BCCI scandal. Examines the parallels between the escalating crime, public apathy, and corruption of public officials in the United States and the decline of democracy in Colombia. Ehrenfeld is a research scholar at New York University School of Law.

**Summary** (from the Barnes and Noble Website)

**From Our Editors**

Exposes the web of complicity that surrounds money laundering, now a one-trillion-dollar industry worldwide and a threat that undermines the economies of many countries, including the United States. B&W illus.

### **From Library Journal**

Evil Money discusses the laundering of ill-gotten money, usually from drug trafficking via various routes (e.g., from offshore banks to U.S. banks by wire transfer). The problem, as Ehrenfeld, author of *Narco-Terrorism* (LJ 10/1/90), points out, is that money laundering enables drug smugglers, mobsters, and others to legitimize their criminal proceeds and use them to expand operations, further corrupting the system. Ehrenfeld argues that Colombia has been so corrupted by illegal drugs that it is no longer a democracy but rather a drug-infested oligopoly, and she fears something similar might occur in the United States.

The author documents her case by looking at money laundering in the Bahamas and its early connections with gangster Meyer Lansky. She closely examines the various drug cartels as well as the Bank of Credit and Commerce International (BCCI) scandal, the subject of James Ring Adams and Douglas Frantz's *A Full Service Bank* (LJ 3/1/92) and Mark Potts and others' *Dirty Money* (LJ 5/1/92). However, she offers very few practical solutions that might correct the situation. Still, this is recommended for popular nonfiction collections in most public libraries.-- Richard Drezen, Merrill Lynch Lib., New York

### **From The New York Review of Books**

Evil Money is filled with ethnic stereotypes ('a shrewd self-assured Arab merchant'), belabored sentences ('skepticism must have been painted all over my face'), questionable political judgments ('What most visitors do not realize is that Switzerland is a police state'), and breathless self-dramatization. 'Most of my friends and associates and even strangers who heard what I was doing warned me that I could be in danger,' Ehrenfeld writes in the introduction. 'Some even avoided meeting me in public places. More than a few requested that their assistance remain unacknowledged. Even my typist requested anonymity. I never doubted the importance of the work I was doing, and luckily neither did my publisher....' Unfortunately, that publisher paid little attention to such matters as veracity and plausibility.

### **From Rich Lowry - National Review**

Miss Ehrenfeld's reporting consists of anecdotes recounted in minute detail, often to little purpose. What analysis she offers comes mostly in a final chapter warning of the 'Colombianization of the United States': Miss Ehrenfeld claims, in a metaphor that is hard to visualize, that 'Adam Smith's "invisible hand" . . . is now stabbing itself in the back' as traffickers take advantage of capitalism to transform America into a 'symbol of crime degeneracy.' Coming at the end of a book that is stuffed with accounts of money-laundering cases assiduously broken by U.S. law-enforcement agencies, the charge rings hollow.

**Financial Action Task Force on Money Laundering. 2001. Report on Money Laundering Typologies 2000 - 2001. February. (Available at: [http://www1.oecd.org/fatf/pdf/TY2001\\_en.pdf](http://www1.oecd.org/fatf/pdf/TY2001_en.pdf)).**

**Abstract**

The FATF typologies exercise provides a venue for law enforcement and regulatory experts to identify and describe current money laundering methods and trends, emerging vulnerabilities, and potential counter-measures. The discussions at the Oslo meeting were preceded by presentations and debates on a series of major money laundering issues agreed upon beforehand by the FATF Plenary. The primary focus of this exercise, as it is each year, was on developments in and observed by FATF member jurisdictions. However, given the increased participation of countries from outside the FATF, the experts also devoted part of the meeting to hearing presentations on the trends in other regions of the world.

As in previous typologies exercises, delegations and invited experts submitted written material to serve as the starting point for debate and to provide supplemental information for the report. This document is the report of the FATF-XII exercise on money laundering typologies and reflects, therefore, the ideas discussed at the experts meeting and incorporates other material as submitted by each participating country or organization.

The report is divided into two parts. The first part deals with the five major issues examined by the experts group. These include: on-line banking and Internet casinos; trusts, other non-corporate vehicles and money laundering; lawyers / notaries, accountants and other professionals; the role of cash vs. other payment methods in money laundering schemes; and terrorist related money laundering. The second part of the report focuses first on money laundering trends as they have been observed in FATF member countries and second on trends for other regions of the world. In an effort to make this report more relevant to the reader and to illustrate better some of the issues confronting authorities responsible for combating money laundering, case examples have been provided throughout the text.

**Financial Action Task Force on Money Laundering. 1996. The Forty Recommendations. (Available at: [http://www1.oecd.org/fatf/pdf/40Rec\\_en.pdf](http://www1.oecd.org/fatf/pdf/40Rec_en.pdf)).**

**Abstract**

Drafted by the FATF in 1990 and revised in 1996, the Forty Recommendations are a comprehensive blueprint for action against money laundering. They encompass the financial system and regulation, the criminal justice system, law enforcement, and international co-operation. Each FATF member has made a firm political commitment to combat money laundering based on them. The Forty Recommendations have come to be recognized as the international standard for anti-money laundering programs. A number of non-FATF Member countries have also used them in developing their efforts to address money laundering.

**Financial Action Task Force on Money Laundering. 2001. Basic Facts about Money Laundering. (Available at: [http://www1.oecd.org/fatf/MLaudering\\_en.htm](http://www1.oecd.org/fatf/MLaudering_en.htm)).**

**Summary** (some of the questions from the paper)

**What is money laundering?** Money laundering is the processing of criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source.

**What is the scale of the problem?** ... 1996 statistics ... indicate that money laundering ranged between US Dollar (USD) 590 billion and USD 1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain.

**Where does money laundering occur?** ... 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 programs. 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.

**How does money laundering affect business?** The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

As for the potential negative macroeconomic consequences of unchecked money laundering, the International Monetary Fund has cited inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers.

**What influence does money laundering have on economic development?** Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become.

**What is the connection with society at large?** The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society.

**How does fighting money laundering help fight crime?** Money laundering is a threat to the good functioning of a financial system; however, it can also be the Achilles heel of criminal activity. Most importantly, however, targeting the money laundering aspect of criminal activity and depriving the criminal of his ill-gotten gains means hitting him where he is vulnerable. Without a usable profit, the criminal activity will not continue.

**Financial Action Task Force on Money Laundering. 1999. Money Laundering. Policy Brief. July. [http://www1.oecd.org/fatf/pdf/PB9906\\_en.pdf](http://www1.oecd.org/fatf/pdf/PB9906_en.pdf)**

#### **Abstract**

The Brief is presents the same material as in the *Basic Facts about Money Laundering* .

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#### **Summary (from the Report)**

The Forty Recommendations of the Financial Action Task Force on Money Laundering (FATF) have been established as the international standard for effective antimoney laundering measures.

FATF regularly reviews its members to check their compliance with these Forty Recommendations and to suggest areas for improvement. It does this through annual self-assessment exercises and periodic mutual evaluations of its members. The FATF also identifies emerging trends in methods used to launder money and suggests measures to combat them.

Combating money laundering is a dynamic process because the criminals who launder money are continuously seeking new ways to achieve their illegal ends. Moreover, it has become evident to the FATF through its regular typologies exercises that as its members have strengthened their systems to combat money laundering the criminals have sought to exploit weaknesses in other jurisdictions to continue their laundering activities. And so to foster truly global implementation of international anti-money laundering standards, the FATF was charged in its current mandate to promote the establishment of regional anti-money laundering groups to complement the FATF's work and help spread the FATF philosophy throughout the world.

In order to reduce the vulnerability of the international financial system to money laundering, governments must intensify their efforts to remove any detrimental rules and practices which obstruct international co-operation against money laundering. Since the end of 1998, the FATF has been engaged in a significant initiative to identify key anti-money laundering weaknesses in jurisdictions inside and outside its membership.

In this context, on 14 February 2000, the FATF published an initial report on the issue of non-cooperative countries and territories in the international fight against money laundering. The February 2000 report set out twenty-five criteria to identify detrimental rules and practices which impede international co-operation in the fight against money laundering (see Appendix). The criteria are consistent with the FATF Forty Recommendations. The report also described a process designed to identify jurisdictions which have rules and practices that can impede the fight against money laundering and to encourage these jurisdictions to implement international standards in this area. Finally, the report contained a set of possible counter-measures that FATF members could use to protect their economies against the proceeds of crime.

The goal of the FATF's work in this area is to secure the adoption by all financial centers of international standards to prevent, detect and punish money laundering.

At its Plenary meeting on 20-22 June 2000, the FATF approved this report. Section one of this report summarizes the review process. In section two, the report briefly describes the findings with respect to the jurisdictions studied. Section three highlights issues that were raised during the process that warrant further consideration by the FATF. Section four outlines future steps to be taken and identifies 15 countries or territories which are viewed by the FATF as non-cooperative in the fight against money laundering.

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**Summary** (from the introduction)

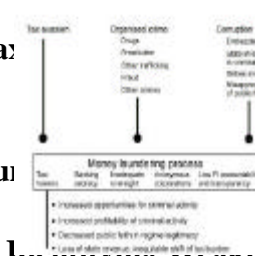
When we think about corruption, an image quickly comes to mind of a bureaucrat extorting bribes from powerless individuals and defenseless firms simply to enable them to "get things done." Behind this view lies an understanding of the state extracting rents from the economy for the exclusive benefit of politicians and bureaucrats. Such an approach has had a powerful impact on the way corruption has been analyzed and measured in recent years. The resulting policy recommendations have emphasized reducing the discretionary authority of state officials to eliminate their opportunities to extract bribes.

In transition economies, corruption has taken on a new image—that of so-called oligarchs manipulating policy formation and even shaping the emerging rules of the game to their own, very substantial advantage. We refer to this behavior as state capture. Though this form of grand corruption is increasingly being recognized as the most pernicious and intractable problem in the political economy of reform, few systematic efforts have been made to distinguish its causes and consequences from those of other forms of corruption. Moreover, there have not been any attempts to measure this specific type of corruption and to compare it across countries.

We define state capture as the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials. We develop a method to measure this form of grand corruption based on the findings and analysis of a survey of nearly 4,000 firms in 22 transition countries.

In recognizing the problem of state capture, we wish to focus attention on the complex interactions between firms and the state. In particular, we emphasize the importance of mechanisms through which firms seek to shape decisions taken by the state to gain specific advantages, often through the imposition of anticompetitive barriers that generate highly concentrated gains to selected powerful firms at a significant social cost. Because such firms use their influence to block any policy reforms that might eliminate these advantages, state capture has become not merely a symptom but also a fundamental cause of poor governance. In this view, the capture economy is trapped in a vicious circle in which the policy and institutional reforms necessary to improve governance are undermined by collusion between powerful firms and state officials who reap substantial private gains from the continuation of weak governance

Figure 1: sources and consequences of the money laundering process



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## **Abstract**

Australian law enforcers say millions of dollars in drug money is sitting in South Pacific island banks in the names of trusts and shelf companies, protected by impenetrable secrecy laws. Law enforcers face a mix of technology and tradition in their fight against laundering.

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The purpose of this paper is to apply the tools of economic analysis to the topic of money laundering by connecting macroeconomic theory, the economic theory of crime and the theory of banking regulation. First, the macroeconomic analysis considers the hypothesis of a multiplication effect of money laundering, assessing the relationships between financial structure and real criminal businesses. Then we show the micro effects of money laundering caused by the presence of asymmetric and incomplete information in the banking industry and highlight the role of intermediaries and of the central bank.

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**Abstract** (from the paper)

The author 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 cyberlaundering. 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.

The FATF has made the best-known efforts to date toward creating such a global standard. In broad terms, its Forty Recommendations (now more of a brand name than an accurate count) on combating money laundering have formed the basis of counterlaundering 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.

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 "noncooperative" jurisdictions by the FATF.

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**HOT ZILLIONS - THE LAUNDRYMEN**

One day in the fall of 1981, Humberto Orozco and his brother, Eduardo, walked into the lower-Manhattan office of a well-known currency and gold dealer, Deak-Perera, to make an unusual deposit. They handed over a pile of cardboard boxes of cash weighing 233 pounds--so much that Deak's staffers needed nearly an entire day to count the \$3.4 million the boxes contained. But Deak was hardly the only house the Orozcos patronized. Between 1980 and 1982, they moved a staggering \$151 million through 11 New York banks.

As you (and federal authorities) suspected, the Orozcos were laundering cash from drug deals. They were caught, Deak eventually collapsed as a result of such practices, and Congress has since tightened its laws on money laundering. But as Jeffrey Robinson observes in his entertaining and comprehensive *The Laundrymen*, the art of hiding dirty and/or taxable money by moving it through the world financial system is anything but dead. "The good guys are seriously outgunned," writes Robinson, the author of numerous books, including a biography of former Saudi Oil Minister Ahmed Zaki Yamani. The bad guys, meanwhile, "only need to find one country or one bank willing to do their laundry." And, as Robinson suggests, there is no shortage of either.

*The Laundrymen* traces the business of moving dirty money back to Al Capone and mob banker Meyer Lansky and takes the reader on a stroll through the affairs of a motley crew of like-minded notables, ranging from Panamanian strongman Manuel Noriega to electronics-chain magnate "Crazy Eddie" Antar. The book is so up-to-date that it even delves into the affairs of Raul Salinas, brother of former Mexican President Carlos Salinas de Gortari.

The First Brother's hundreds of millions in offshore accounts have piqued the interest of prosecutors from Mexico to Switzerland. But Robinson's work is more than a laundry list. Impressively documented, *The Laundrymen* is also an indictment of governments and banks that are unwilling to deal decisively with an industry that the author estimates handles \$200 billion to \$500 billion a year. While the U.S. has gone after money launderers with steely determination, he notes, Canada's lax rules on reporting cash transactions make doing dirty deals a snap. And in emerging economies from Russia to Kenya, bankers ask few questions of big depositors.

Even Switzerland takes its lumps: Although Swiss prosecutors have gone to unusual lengths to help U.S. and other investigators, it's still far too easy, Robinson maintains, to find a discreet banker to help stash questionable cash. Worse yet, he says, advances in microelectronics are creating products such as rechargeable cash cards that are tailor-made for future cyberlaunderers.

Robinson has no prescription for the problem--and other than more intense global scrutiny by law enforcers and multinational financial organizations, there probably is no answer right now. But in painting a clear picture of one of the world's sleaziest industries, Robinson has put money laundering on display again. If that's the starting point for serious discussion and coordinated international action, so much the better.

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This book gives a broad analysis of the legal issues raised by the international fight against money laundering. It offers extensive comparative research of the criminal and preventive law aspects from an international perspective. Most of this volume is devoted to specific legal problems that spring from the international nature of the money laundering phenomenon. It contains the most detailed overview yet published 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.

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**Abstract** (from Social Science Research Network Electronic Library)

How would you like the government to have access to the records of every purchase you have ever made? Part I of this paper describes the trend toward more electronic and more traceable payments over time, and identifies some of the harms that can occur when an individual's transactions records are readily accessible. Part II introduces the metaphor of data entering a 'vault 600 feet down,' and uses that metaphor to understand the range of ways that data can 'reach the surface,' or become accessible.

Part III systematically examines the advantages and disadvantages of government access to financial transactional data. Advantages come in administration of the tax system, in avoiding welfare and other benefits fraud, and in money laundering and other rules that seek to detect, deter and prove illegal activity. These advantages, however, can be offset by troublesome ways that government officials and unauthorized third parties might misuse financial data. Part IV expands the analysis to high-tech government surveillance more generally. The arguments developed in Part III apply to key escrow, tracking of cellular phone location, transaction-generated information for telephone calls, and other surveillance systems. One important conclusion is that the government should have a greater burden in order to get 'real time' access to data than to get 'audit trail' access after the fact.

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**Abstract** (from the foreward)

Ten years ago the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances placed the issue of the proceeds of crime on the world agenda. Among the Convention's most important and innovative provisions were those that sought to overcome banking and financial secrecy laws where they presented impediments to criminal investigations.

Over the past decade, many Member States have made great efforts to increase the transparency of financial dealings and to make financial and commercial records more accessible for bona fide investigations, with a view to giving effect to the anti-money-laundering provisions of the Convention. Today we may look back at the progress made and the challenges that lie ahead. While there has been a general trend towards enacting money-laundering laws that provide for the lifting of financial secrecy in appropriate cases, such secrecy remains a barrier in many jurisdictions, including some of those that have come to be known as "financial havens". In addition, new laundering techniques have been identified, such as the increased use of professionals, corporate registration secrecy and certain types of trusts.

To give a picture of the problem today, at a time when the United Nations General Assembly, at its twentieth Special Session devoted to countering the world drug problem together, has renewed its commitment to take the profit out of crime, ... four eminent experts ... examine the issues of banking secrecy and financial havens in the context of the fight against money-laundering worldwide. The present study aims to stimulate discussion on bank secrecy and financial havens but is not necessarily intended to reflect the views of the United Nations on the issue.

### **Summary** (from the Executive Summary)

Today, enterprise criminals of every sort, from drug traffickers to stock fraudsters to corporate embezzlers and commodity smugglers, must launder the money flowing from their crimes for two reasons. The first is that the money trail itself can become evidence against the perpetrators of the offence; the second is that the money per se can be the target of investigation and seizure. Regardless of who actually puts the apparatus of money-laundering to use, the operational principles are essentially the same. Money-laundering should be construed as a dynamic three-stage process that requires: firstly, moving the funds from direct association with the crime; secondly, disguising the trail to foil pursuit; and, thirdly, making the money available to the criminal once again with its occupational and geographic origins hidden from view.

Criminal money is frequently moved abroad and then cycled through the international payments system to obscure the audit trail. Despite a myriad of complications, there is a simple structure that underlies almost all international money-laundering activities during this stage of the process. The launderer often calls on one of the many jurisdictions that offer an instant-corporation manufacturing business. Many sell "offshore" corporations, which are licensed to conduct business only outside the country of incorporation, are free of tax or regulation and are protected by corporate secrecy laws.

Once the corporation is set up in the offshore jurisdiction, a bank deposit is made in the haven country in the name of that offshore company, particularly one whose owner's identity is protected by corporate secrecy laws. Thus, between the law enforcement authorities and the launderer, there is one level of bank secrecy, one level of corporate secrecy and possibly the additional protection of lawyer-client privilege if counsel in the corporate secrecy haven has been designated to establish and run the company. In addition, many laundering schemes involve a third layer of cover, that of the offshore trust, which is usually protected by secrecy laws and may have an additional level of insulation in the form of a "flee clause" that permits, indeed compels, the trustee to shift the domicile of the trust whenever the trust is threatened.

In essence, the rule in successful money-laundering is always to approximate, as closely as possible, legal transactions. As a result, the actual devices used are themselves minor variations on methods employed routinely by legitimate businesses. In the hands of criminals, transfer-pricing between affiliates of transnational corporations turns into phony invoicing; inter-affiliate real estate transactions become reverse-flip property deals; back-to-back loans turn into loan-back scams; hedge or insurance trading in stocks or options becomes matched- or cross-trading; and compensating balances develop into the so-called underground banking schemes. On the surface it may be impossible to differentiate between the legal and illegal variants; the distinction becomes clear only once a particular criminal act has been targeted and the authorities subsequently begin to unravel the money trail.

There have been a number of developments in the international financial system during recent decades that have made the three F's—finding, freezing and forfeiting of criminally derived income and assets—all the more difficult. These are the "dollarization" (i.e. the use of the United States dollar in transactions) of black markets, the general trend towards financial deregulation, the progress of the Euromarket and the proliferation of financial secrecy havens.

Fuelled by advances in technology and communications, the financial infrastructure has developed into a perpetually operating global system in which "megabyte money" (i.e. money in the form of symbols on computer screens) can move anywhere in the world with speed and ease. The world of offshore financial centres and bank secrecy jurisdictions is a key part of this but can also be understood as a system with distinct but complementary and reinforcing components, many of which are readily amenable to manipulation by criminals. These components are examined in detail in the present study.

The characteristics of offshore financial centres and bank secrecy jurisdictions can be understood as a tool kit that can be used not only to launder the proceeds of drug trafficking and other crimes but also to commit certain kinds of financial crime. Not all jurisdictions are equally lax, however, and the study provides a brief overview of the geography of the world of these financial and bank-secrecy havens. This world is in a constant flux that reflects differential responses to the complex balancing act between competitiveness, on the one hand, and high ethical business standards, on the other. The optimum competitive position is one in which the centre is neither too stringent in vetting customers nor too obviously indiscriminate in accepting all custom.

Serious efforts have been, and continue to be, made to create greater transparency in financial matters, but the offshore financial world remains for a large part a "Bermuda triangle" for financial investigations.

Law enforcement success stories presented in this study convey a sense of the imaginative, and sometimes rather crude, ways in which financial havens are used to hide, move and clean the proceeds of crime, in an area usually characterized by criminal successes and law enforcement failures. The cases highlight the advantages, from the point of view of criminals, of collusion with bank employees and the use of professional launderers. They also reveal how criminals are able to exploit what for them has, in effect, become a borderless world. It is this combination of rapid and largely anonymous transfers and protective destinations that anti-money-laundering efforts need to pierce.

In this context, some issues meriting further consideration include:

The misuse of States' sovereignty to provide safe havens for criminal proceeds.

The proliferation of international business corporations (IBCs), which are routinely used in money-laundering schemes because they provide an impenetrable layer of protection around the ownership of assets. They have few commercial or financial justifications, except to conceal the origin and destination of goods in international commerce, to circumvent arms control laws and to evade taxes by moving profits and assets out of the reach of the tax collector.

The abuse of offshore trusts.

The role played by some professionals protected by legal privileges.

The effect of the "dollarization" of the global market and likely effect, in the years to come, of the introduction of the Euro on financial markets.

The usefulness of free trade zones for legitimate purposes, since tariffs have declined.

The vulnerability of casinos to money-laundering operations and the crucial need for the industry be more carefully regulated.

The need to develop and more efficiently exchange financial crime intelligence.

The proposal that financial centre countries publish data, including information on both the asset holdings and the flows of funds through accounts of all types, in a reasonably coordinated way to form a basis for informed answers to serious policy questions.

The quasi-absence of regulation of offshore banking, and excessive bank secrecy protection, that sometimes even block regulators in a country from effectively supervising branches of their home country's financial institutions branches located in those centres.

The importance of improving financial investigators' training in order to equip them to deal complex schemes, and the proposal of an international graduate programme for mid-career law enforcement, legal, judicial and private sector compliance officials.

The common denominator in money-laundering and a variety of financial crimes is the enabling machinery that has been created in the financial havens and offshore centres. The effectiveness of these centres in helping people and companies to hide assets is not the result of any single device. Changing bank secrecy rules alone will not help. Rather, the centres have created a tool kit composed of new corporate instruments, foundations, trusts, trust companies, banks and bank accounts.

The tools are mixed and matched with jurisdictions that have made a point of non-cooperation with the rest of the international community in criminal and tax investigations. What started as a business to service the needs of a privileged few has become an enormous hole in the international legal and fiscal system. If the international community is to develop a rule of law to match the globalization of trade and the global movement of people, the questions raised by this hole in the system will have to be addressed. The world community will have to face the issue of the use of sovereignty by some countries to give the citizens of other countries a way around the laws of their own societies.

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**Abstract** (from the Journal)

Money laundering allows crime to pay by permitting criminals to hide and legitimize proceeds derived from illegal activities. According to one recent estimate, worldwide money laundering activity amounts to roughly \$1 trillion a year. These illicit funds allow criminals to finance a range of additional criminal activities. Moreover, money laundering abets corruption, distorts economic decision-making, aggravates social ills, and threatens the integrity of financial institutions.

Money launderers now have access to the speed and ease of modern electronic finance. Given the staggering volume of this crime, broad international cooperation between law enforcement and regulatory agencies is essential in order to identify the source of illegal proceeds, trace the funds to specific criminal activities, and confiscate criminals' financial assets.

This issue of Economic Perspectives gives some idea of the scope of the problem as well as the way agencies of the U.S. government are cooperating with each other, the private sector, and foreign governments to contain this scourge.

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**Abstract**

“When the talk turns to corruption, the news media and most international institutions (whether official or nongovernmental) focus on the demand side of the equation: on public officials who abuse their office for private gain. Frequently, the supply side is given less attention. Those who pay bribes are sometimes depicted as innocent parties, forced by ruthless officials to provide kickbacks and do special favors in return for business. The reality is that both parties to corrupt practices conspire to defraud the public, to undermine fair trade, to waste resources, to frustrate development, and often to increase human suffering” (p. 30).

“A more balanced approach, which is emerging, promises to make anticorruption efforts more effective” (p. 30). Fighting money laundering is one of the four key pillars of efforts to “challenge bribe givers and curb their activities” (p. 31). “Money laundering is the handmaiden of international corruption, and efforts to curb money laundering can help to reduce corruption. The linkage is clear: those who take bribes must find safe international financial channels through which they can bank their ill-gotten gains. Those who provide the bribes may well assist the bribe takers to establish safe financial channels and launder the cash” (p. 32).

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**Abstract:**

Financial abuses -- money laundering, tax evasion and rogue banking -- have been around for as long as there have been finances to abuse. But globalization is creating new challenges as borders dissolve. New technologies enable tiny, remote countries to make quick money through their underregulated banking systems. Recent multilateral initiatives have started to attack the problem. But if the Bush administration fails to follow through on reforms, the entire effort could fall apart.

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**Abstract** (from the article)

Lurking in reams of 2001 government trade data are thousands of such wildly mis-priced transactions, and those trades may hint at corporate tax evasion and criminal money laundering on a grand scale, according to two academic researchers who have been mining the data for more than a decade. Pak and Zdanowicz, plan today to release their latest analysis of overpriced U.S. imports and underpriced exports, estimating that corporations manipulated international trades last year to shave \$53.1 billion from their tax bills. That is a 19 percent increase from the tax cheating that Pak and Zdanowicz believe they uncovered in 2000, and an 89 percent increase from 1993.

For a decade, government officials and fellow academics have questioned such eye-popping numbers. One senior Treasury analyst bluntly dismissed the tax-avoidance totals as "much too large." The U.S. Customs Service is the only government agency that has been seriously studying the pricing schemes to prosecute money laundering and tax evasion. Customs uses its own research along with expert testimony from Pak and Zdanowicz.

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[http://wbIn1023.worldbank.org/html/FinancialSectorWeb.nsf/\(attachmentweb\)/\(01/\\$FILE/\(01.07.02\)%20Draft%20AML%20Methodology%20Document%20\(Moore\).doc](http://wbIn1023.worldbank.org/html/FinancialSectorWeb.nsf/(attachmentweb)/(01/$FILE/(01.07.02)%20Draft%20AML%20Methodology%20Document%20(Moore).doc))).

### **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.

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