A Survey on Money Laundering and the Countermeasures of the Islamic Republic of Iran Against it

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ABSTRACT  
Money laundering refers to fraudulent transference of the illegal earnings gained through act of crime in order to legitimize and thus keep such earnings away from being revealed and confiscated. Given that this phenomenon has many negative ramifications on the fields of economy, security, politics and etc., the international and regional organizations as well as most countries across the world have adopted various approaches and strategies to counteract this phenomenon, including “incrimination” and determination of penalty for such kind of actions. In this paper, the definition of money laundering, types of money laundering, stages of money laundering, impacts of money laundering, ways of fighting money laundering and the background as well as the anti-money laundering acts in Iran are all discussed.

KEY WORDS  
Money Laundering, Organized Crimes, Illegitimate Money, Illegitimate Earnings

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Money laundering is the purification and legitimization of the proceeds of criminal behaviors. It is a common and reasonable way of gaining profits from illegal activities for the
criminals. Money launderers are either those who commit violations and purify the obtained money or those who, consciously or unconsciously, enter the illegal money into the financial and economic system of a country. Due to the dramatic growth of the crimes and violations throughout the world, money laundering is grown so widely in such a way that it is turned into one of the heightened problems of the global economy threatening the development of global economy. Therefore, the international community has determined to fight against it and has accordingly taken various countermeasures. In the I.R. of Iran, the attentions are also drawn towards the issue of money laundering and the respective laws and administrative regulations are billed and come into force.

The Background of Money Laundering

It is believed that this term is extracted from the Mafia’s possession on the coin laundry machines in America. In the 1920s, gangsters obtained large sums in cash from extortion, prostitution, gambling, smuggling, alcohol and so forth and they had to introduce a source for their illegal funds. One way to achieve this goal was to purchase the commercial units and combine their illegal gains with their legal and legitimate earnings obtained from this commercial center. The coin laundry machines were selected because so much cash were daily gained through them without raising any suspicion. Money laundering first emerged through “Watergate” scandal in 1973 and was first introduced within a legal framework in a court in America in 1982 and then, it was widely and commonly used throughout the world.

The Definition of Money Laundering

Money laundering is an illegal activity through which the earnings and revenue derived from violations are legitimized. On the other hand, the dirty money obtained from violations are turned into clean money and replaced in the body of economy.

The Purpose of Money Laundering

When a person or a group gain a financial fund with illegal origin, whether directly or without commitment of a base crime but knowing that the fund is illegally obtained, they will try to purify it through different methods in order to get rid of the ramifications of its illegal nature; thus, they will attempt to provide an acceptable and legal justification for their ownership or control over their properties.
Types of Money Laundering

Various types of money which can be considered illegitimate in the society are divided into three categories of dirty or blood-stained money, black money and grey money.

Grey Money: It is the proceeds obtained from the transaction of goods or production but remains concealed from the surveillance of government and the government is unaware of it. It is usually performed in order to evade taxes.

Black Money: It is the money earned from smuggling, so that the proceeds of smuggling and participating in the state lucrative transactions occurring unconventionally leads to the emergence of this type of money.

Dirty or Blood-stained Money: It is related to drug trafficking.

Consequences of Money Laundering

Money laundering has large undesirable and detrimental impacts on the economy of countries as well as the global community among which the followings can be pointed out:

Corruption and instability of financial markets

People’s distrust to the financial system

Decline of government revenue

Compulsory and unwanted changes in money demand

Immense changes in the rate of interest and profit

Rise in inflation rate

Unexpected getaway of capital from the country

Weakening of private sector

Reduction of motivation to invest in productive activities

Threat to national security and economy of the country due to the accumulation of wealth and power in the hands of offenders and criminal groups

Money laundering develops criminal and underground activities as a result of which criminals and offenders will be able to survive.
The Stages of Money Laundering

Money laundering is a three-stage process the first stage of which requires breaking off any direct connection between the crime and consequent money. The second stage is to hide the fund traces to avoid legal detection. The third stage is to return the funds to the offender so that the way of acquisition and its geographical location is not traceable. Generally, to purify the proceeds of crime, three distinct stages are identified as placement, layering, and integration.

1. Placement Stage (Positioning)

The placement stage should be regarded as the riskiest stage of money laundering for the criminals; because at this stage it is very likely to detect crime. Depositing a considerable amount of cash into one or more bank accounts will attract the attention of so many people. One of the most common ways money launderers use at this stage is to hire people to place cash into bank accounts for several times and less than the determined limit for reporting, who mainly use small banknotes and a combination of different banknotes. These people may also receive travel checks or money orders from the bank. Then, they deposit these tools into the target bank.

2. Layering Stage

The second stage of money laundering chain is layering or overlapping. At this stage, the dirty currencies will get out from the financial institution in which it has been first placed and will be transferred through a number of other financial institutions and used in complex transactions. Using high value credit cards to pay for foreign purchases and depositing funds into the unknown banks in “tax haven” is among the methods applied by money launderers and tax evaders.

3. Integration Stage

The final link in the money laundering chain is called integration or re-integration. This stage occurs when the washed money can be returned to the legal system to be used, while it is no longer detectable. The renewed loan, loan default, collateral loan and so forth are among the methods used at this stage. Another effective method in this stage is purchasing the ownership of a bank in tax havens. The ownership of such entities allows money launderers to change all the signs of dirty money through performing various activities.
Major Methods of Money Laundering:

- Ownership Transference
- Stock trading
- Earning and money transference to abroad
- Conversion of earnings to foreign currency
- Multi-path making of banking operations
- Using formal charity institutions
- Industrial participation
- Cooperation with the treacherous officers
- Multiple trading of urban real estate and lands
- Concealment and embedment of money and earnings
- Purchasing gold and jewelry
- Other similar cases

All of these forms of money laundering, particularly items 1, 3, 4, 6, 9 and 11 are of more significance.

Where Money Laundering Happens?

Commitment of any violation requires appropriate conditions and environment for the realization of that sort of crime. It is highly important to identify these conditions in order to avoid the crime. The study of the nature of the money laundering crime and the available evidence indicate that money laundering can be happened in an environment where the following conditions are provided:

- The corridor of activities is criminal and illegal
- Informal economic sectors are active
- Formal sectors, especially financial markets are not efficient enough
- Anti-money laundering laws are not active enough
Risk of money laundering operations is not very significant

Financial markets exist as marginal and underdeveloped, but associated with advanced financial markets

Money laundering methods are not known for those involved in legal financial markets, banks the other administrative agencies

Obtained earnings can be easily transferred to other places for other criminal activities

Is it possible to measure the volume of money laundering operations?

A clear answer is that unfortunately, no acceptable method has so far been presented to measure the volume of money laundering. Given the dependency of money laundering with informal economic activities, it is natural that we cannot expect the estimation of the volume of money laundering. However, in conducted empirical studies, some methods are presented including the five percent of GDP of each country, the investigation of savings surplus in the banking system as well as the micro method, i.e. referring to the market and monitoring the offenders, directly or indirectly. However, none of these methods can accurately and acceptably estimate the volume of money laundering.

Anti-Money Laundering Approaches

The most important areas of the national economy immunization against the detriments caused by insertion of illegal money into the formal and legal sectors are as follows:

- Monitoring the activities of banking network and other financial and credit institutions as well as non-banking institutions
- Making efficient the tax system
- Making people and the national economy sensitive, and mobilization of mass media against any activity leading to the legitimacy of foreign currencies obtained through illegal activities
- Enforcement of certain laws and regulations and diligence of officials to act against money laundering
- Control and supervision on foreign currencies
Rules, Regulations & Financial Action Task Force (FATF) on Money Laundering

For the first time, the Vienna Convention determined the provisions of the revenues obtained from money laundering or fighting it at the international level and the United Nations was the first international organization to present technical assistance on fighting money laundering. Meanwhile, the most important legal documents in the field of money laundering are the Treaty of Vienna in 1848 and Palermo Conference in 2000. There are also treaties of the UN, European Community (EC), the Organization for Economic Cooperation and Development of the United States of America as well as the World Bank and IMF measures in this field. FATF is an international organization to fight money laundering. In this regard, FATF has also started to fight illegal activities including the wide range of economic activities. FATF has a 40-article guideline which includes all aspects of fight against money laundering and its members are obliged to perform it.

History of Fight against Money Laundering in the I.R. of Iran

Generally, the crimes which lead to money laundering in Iran include:

- Narcotics and alcohol trafficking
- Goods smuggling
- Evasion of Taxes
- Internal or confidential information-based transactions
- Extortion, bribery, embezzlement and fraud
- Robbery, kidnapping, homicide and murder
- Gambling, usury, prostitution
- The Anti-money Laundering Countermeasures by the Central Bank of Iran

The practical anti-money laundering measures taken by the Central Bank of the I.R. of Iran are divided into two stages of prior to and following the approval of the Anti-Money Laundering Act. Before the approval of Anti-Money Laundering Act, the regulations on prevention of money laundering in financial institutions were approved by the Money and
Credit Council and communicated to banks and credit institutions for enforcement. The executive instruction of these regulations was also communicated to this network in 2005. Establishment of mechanisms for communication between the banks and financial information unit is among other measures taken in line with operationalization of the executive bylaw of Anti-Money Laundering Act.

The way to identify the Iranian clients, the way to provide a report on depositing cash funds more than the specified limit, the way to identify suspicious transactions and reporting, the way to determine the expected level of activity from the customer in credit institutions and to observe Anti-Money Laundering Act in the area of payment systems and electronic banking are among the ten guidelines to fight money laundering.

Five other anti-money laundering guidelines include: the need to observe the Anti-Money Laundering Act in the agency relationships and to identify shell banks, the way to monitor suspected persons, the method of sending clients’ documents to their mailing address, a set of required actions taken in the exterritorial units as well as the regulations on the duration and how to keep commercial papers approved by the Monetary and Credit Council. The other measures taken include: training the staff of banking network, providing and introducing pamphlets to inform and culture building and sponsoring graduate theses developed in the field of fighting money laundering.

Three other instructions include: the instructions on how to identify foreign customers, the instructions on how to pay attention and supervise particularly when providing the basic services of foreign political individuals in credit institutions and the instruction related to the observance of the Anti-Money Laundering Act in the exchange centers.

Considering the detrimental economic and social impacts of money laundering, the Board of Ministers approved the Money Laundering Bill on September 18, 2002 and submitted it to the Parliament of the I.R. of Iran to go through the legal process. On January 22, 2008, the Anti-Money Laundering Act was passed by the Parliament and the Guardian Council approved it on February 6, 2008 and the President communicated it for enforcement on February 26, 2008. After approval of the Act, an administrative regulation of the Act was passed by the Board of Ministers on December 5, 2009. Accordingly, the Anti-Money Laundering Council (AMLC) started working as the highest institution in charge of this issue. The Council consists of the Ministers of economy, Intelligence, Commerce, Interior and the General President of the Central Bank of the I.R. of Iran.

Conclusion
Money laundering was considered in western countries as a crime in the 80s AD, especially in terms of the revenues obtained from narcotics and psychotropic drugs trafficking. This was because of these countries’ awareness of the huge profits derived from criminal activities and their concern about the expansion of drug usage in Western societies, which created the motivation in governments to fight drug dealers and money launderers through legislation of laws. Money laundering is the process of converting the dirty money derived from illegal, illicit and delinquent activities into clean money as well as legitimate and legal assets. It is a part of an unhealthy economic system for which the appropriate way is prepared by the unhealthy administrative system, underground economy, financial system, non-transparent financial system and organization without strong monitoring. The most important systems into which this dirty money is entered are banking systems, credit institutions, interest-free loan funds and most of the managers are not willing enough to identify the original source of this money due to domestic laws as well as attraction of more customers. Since money laundering is an activity with transnational and international nature which affects the global financial markets, to dealing with it requires international cooperation more than anything else. Therefore, fighting money laundering requires international cooperation and establishment of strong bonds of cooperation with international financial centers and adoption of charters and guidelines of institutions such as the UN. Finally, it can be concluded that it is very important for the planners and authorities in developing countries to consider the difficulties and problems arising from money laundering, because the authorities can be expected to properly avoid the risks only by understanding the risks of the tendency towards the illegal assets. To determine the adequacy of fighting corruption and money laundering, regardless of law legislation, an independent concentrated institution should be established with judiciary power in which the tax system is also an effective member and the responsibility to cope with the issue should be assigned to this institution. State administrative system should emphasize the interaction of various executive authorities, legal authorities, inspectors, police and financial community in order to successfully implement government legal measures to fight money laundering. Therefore, exchange of information and conducting joint researches between customs officials, tax officials, and officials of fighting against smuggling often leads to identification of money laundering organizations. The news and information received on tax audit may show an activity which requires special investigation on possible money laundering. On the contrary, the inspectors of money laundering may discover the complex exports violations with tax evasion plans during their investigations. At any rate, there must be an extensive cooperation among the anti-money laundering institutions. With these explanations, the main anti-money laundering mechanism is to implement anti-money laundering laws accurately; including clarification in the banking system prevents entering the money with no specified ownership or origin so that by making the crime routes unsafe we may reduce the occurrence of crime.
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