DECLARATION

I hereby declare that this dissertation is the result of an original research conducted by me under the supervision of Dr. Philip Attuquayefio. I further declare that this work has never been submitted anywhere for any other purpose and that references to the works of other persons or bodies have been fully acknowledged.

ZAQUIAH LARTEY
(STUDENT)

DATE: ……………………………..

DR. PHILIP ATTUQUAYEFIO
(SUPERVISOR)

DATE: ……………………………..
DEDICATION

I dedicate this write-up to the ALMIGHTY ALLAH for his guidance and protection throughout my stay in school. It is again dedicated to my daughter Ruqaiyah Gaskia Narki Kadir.
ACKNOWLEDGEMENTS

I wish to thank the ALMIGHTY ALLAH for his guidance and protection throughout this journey. Again, my profound appreciation goes to my Department (Research Department of the Ministry of Foreign Affairs and Regional Integration of Ghana), which attached so much importance to my education and development. I also thank Dr. Philip Attuquayefio whose diligent supervision, direction, constructive comments and fatherly love helped me through this research. Finally, I wish to thank my family, friends and loved ones for their love and support.
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<tr>
<th>Abbreviation</th>
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<tr>
<td>AML</td>
<td>Anti-Money Laundering</td>
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<tr>
<td>CDD</td>
<td>Customer Due Diligence</td>
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<td>CHS</td>
<td>Commission for Human Security</td>
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<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<td>EOCO</td>
<td>Economic and Organized Crimes Office</td>
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<td>FATF</td>
<td>Financial Action Taskforce</td>
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<td>FIC</td>
<td>Financial Intelligence Centre</td>
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<td>FIU</td>
<td>Financial Intelligence Unit</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GIABA</td>
<td>Intergovernmental Action Group against Money Laundering</td>
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<td>IGOs</td>
<td>Intergovernmental Organisations</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>KIA</td>
<td>Kotoka International Airport</td>
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<td>ML</td>
<td>Money Laundering</td>
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<td>NACOB</td>
<td>Narcotics Control Board</td>
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<td>NBFIs</td>
<td>Non-Banking Financial Institutions</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OFCS</td>
<td>Offshore Financial Centres</td>
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<td>PEPs</td>
<td>Politically Exposed Persons</td>
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<td>INTERPOL</td>
<td>International Criminal Police Organization</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>Abbreviation</td>
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<tr>
<td>UNODC</td>
<td>United Nations Office on Drugs and Crime</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USD</td>
<td>United States Dollars</td>
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<td>GNP</td>
<td>Gross National Product</td>
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ABSTRACT

Money Laundering is one of the major sources of funding terrorism in West Africa, be it directly or indirectly. The rate of money laundering and illegal financial activities is a worrying phenomenon in the West African sub-region. As a clandestine operation, money laundering does not easily lend itself to empirical research and scrutiny by law and society. This research posits that the prevalence of conflicts in the sub-region coupled with endemic poverty, places the sub-region in an unstable position. The research further demonstrated that there is a link between money laundering and other transnational or organized crimes. Again, the research averred that money laundering has the potential of undermining and compromising the rule of law, yet the level of inter-state collaboration in the fight against money laundering is extremely low and ineffective. The study adopted a purposive sampling method that enabled the selection of respondents from some selected institutions and personalities. These institutions share a common platform and goal to fight and eradicate organized crimes such as money laundering. Secondary data were obtained from the review of existing literature that are related to the topic. The study delved into Money Laundering in West Africa and its security implications and challenges. It concluded that money laundering has been a major source of worry in West Africa – that majority of the countries in West Africa have anti-money laundering legislations, but the effectiveness has been problematic. It was further established that these countries are deprived of resources, and expertise, which has resulted in the lack of persecution of money laundering offenders. Finally, it was recommended among others that, countries must have the political structures that aim at tackling money laundering; ensure that bodies that are responsible for fighting money laundering are equipped and ready to fight money laundering. Countries should be encouraged to improve their regional interconnectedness by enhancing regional cooperation and integration.
CHAPTER ONE
RESEARCH DESIGN

1.1 Background to the Research Problem

Money laundering involves the process of cleaning money from criminal proceeds, by moving it around from bank to bank to make it look legitimate. It can also be used to create genuine business, often associated with acquisition of real estates or investment in shares, bonds and blue chip assets.¹ Thus, according to International Criminal Police Organization (INTERPOL), money laundering is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources.² In this way, the illegal funds remain hidden and are integrated into legal business and the economy.

The United Nations Office on Drugs and Crime (UNODC) and the International Monetary Fund (IMF) also described money laundering as the process by which a person conceals or disguises the identity or the origin of illegally obtained proceeds so that they appear to have originated from legitimate sources.³ Notwithstanding the varying definitions of Money Laundering, this study adopts the definition provided by Financial Action Task Force (FATF) (an organization founded by G7 to combat Money Laundering) and those of the Vienna Convention of 1988.

The FATF defines money laundering as “the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime” (FATF, 2012).⁴ On the other hand, the 1988 Vienna Convention which is popularly referred to as the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, defines money laundering as “the concealment or disguise of the true nature, source, location,
disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from an offense or offenses or from an act of participation in such an offense or offenses.”

Criminals exploit economic and financial globalization and the advances made in technology and communications with a view to concealing the origin of funds that they have gained through illegal activities. They make extensive use of a broad array of techniques, such as the rapid transfer of money from one country to another or the misuse of corporate vehicles to disguise the true owner of the fund.

Money laundering is characterized by three main stages. Peltman has identified the three main stages of money laundering as placement, layering and integration. According to him, these stages may occur as separate and distinct stages or as overlapping phases. Their usage depends on the criminal’s mechanisms and requirements.

Placement involves the breaking up of large deposits into smaller deposits for currency disposal and transactions. It involves single or multiple transactions using one or more bank deposits or the purchasing of investments. For example, cash is paid into a bank, funds are transferred electronically to offshore centers, goods, property or business assets are bought, or currencies are changed into other convertible currencies. This is the stage where most efforts are focused to combat money laundering. Hence, the placement stage has been described as the riskiest of all three stages for detection in the money laundering process. However in economies of most developing countries like Ghana, placement seems to be the easier, especially because Customer Due Diligence (CDD) have been traded for a broad customer base by the banks and other financial institutions.
The layering stage of money laundering involves taking the proceeds and developing complex layers of financial transactions in a bid to disguise the audit trail, ownership and source of funds. In the words of Schwartz, they can involve transactions such as transferring the deposited cash from one account to another, converting deposited cash into monetary instruments (e.g. e-golden the internet), investing in real estate and legitimate businesses and using shell banks which are typically registered in offshore areas and wiring transfers.⁹

The third and final stage in the money laundering process involves placing laundered proceeds back into the economy to create the perception of legitimacy. Again, real estate, false import/export licenses and complicit foreign banks are used. This stage poses problems especially because it becomes very difficult to distinguish legal from ill-gotten wealth.¹⁰

Figure 1. Stages of Money Laundering (Schwartz, 2009)

Source: Schwartz, (2009)

Money Laundering has, over the years, been a source of concern for states due to the threat it poses to the stability and security of economies and states around the world. In recent times,
this has been a major setback in developing countries, as money launderers have taken advantage of most of the weak structures and corrupt officials in most of these countries. This phenomenon has been particularly predominant in the West African sub-region where laundered money has infiltrated economies and political systems.\textsuperscript{11}

Trade-based money laundering in particular is growing in importance, and is sometimes used to repatriate ‘profit’ and also for tax evasion or payment of lower customs duties and other taxes within the sub-region. Informal financial activity continues to dominate the economy of West Africa and fiscal accountability mechanisms remain weak, rendering money laundering extremely difficult to counter.\textsuperscript{12}

Weak compliance systems, particularly regarding provision of standard documentation, makes it easy to hide illicit monies. Fake addresses are easily provided when opening bank accounts and easily corruptible compliance officers allow for funds to be transferred out of a bank swiftly when suspicion is raised.\textsuperscript{13}

Most of the money laundering in West Africa involves illicit funds stemming from narcotics, various forms of fraud and public corruption. West Africa’s continuing position as an important transhipment point for cocaine and heroin transiting to Europe and the United States (US) also exacerbates this situation, with criminals laundering illicit proceeds “through investment in banking, insurance, real estate, automotive import, general import businesses, and reportedly, donations to religious institutions."\textsuperscript{14}

Over the years suspicious bank accounts with controversial sources have been frozen and investigated. The Intergovernmental Action Group against Money Laundering in West Africa
(GIABA) which was commissioned by Economic Community of West African States (ECOWAS), has been one of the major tools that West African countries have been using to fight money laundering in the sub-region. In Ghana, the enactment of the Anti-Money Laundering Act, 2008 (Act749), has motivated the minimization of money laundering.\textsuperscript{15}

1.2 Statement of the Research Problem

The increasing use of West African economies and financial systems for money laundering and its related offences, often exacerbated by financial frauds, tax invasion and other social vices, have attracted world attention. Current volumes of illegal financial transactions and movement of illegal funds to offshore destinations are unimaginable; nonetheless it can easily be detected (money laundering) if members of the sub-region cooperate in the fight of money launderers.

It has however been indicated that the ECOWAS and some West African countries have been lagging behind in fighting money laundering. It has been suggested, for instance, that measures put in place which are supposed to compliment already existing international protocols like the Vienna Convention of 1988, the International Convention for the Suppression of the Financing of Terrorism, relevant UN Security Council Resolutions, and the FATF 40+9 Recommendations made in Paris 1989, have not been effective. Beyond that, however, the conversation around Money Laundering in West Africa seem to suggest that the respective governments in the sub-region appear not to fully comprehend the full implications of Money Laundering to the security of their countries and the sub-region. In the absence of such a comprehensive understanding, it may be difficult to fully harness state power to counter the effects of Money Laundering. This is the problem the study addresses.
1.3 Research Questions

To address the research problem above, the study seeks answers to the following research questions:

- Why is there an upsurge in money laundering in West Africa?
- What is the connection between money laundering and other security challenges in West Africa?
- What are the implications of money laundering for the security of the sub-region?
- To what extent has money laundering affected the economies of West African States?
- What are the security options available to deal with the challenge of money laundering?

1.4 Objectives of the Study

The study will:

- Present an overview of the Money Laundering in West Africa.
- Present an understanding of the connection between Money Laundering and other security challenges.
- To examine the security implications of Money Laundering in West Africa.

1.5 Scope of the Study

The study attempts to give an overview of the broad security challenges in West Africa with a focus on money laundering, and its security implications for West Africa. It also examines in detail what money laundering is and highlights the relationship between money laundering and other organised crimes like drug trafficking, human trafficking and small arms proliferation in West Africa.
The study also focuses on the development of money laundering, modus operandi of the cartels, impact of money laundering on the economy and on financial stability of West Africa, and the challenges it poses to regional security. The research also examines the effectiveness or weakness of legal instruments and strategies adopted by regional and sub-regional bodies to combat money laundering.

1.6 Significance of the Study

It is expected that this study will be beneficial to all in increasing the knowledge of money laundering. This is also projected to motivate responsible officials to put in more resources to fight money laundering in West Africa. The study will contribute to academic research into details of financial crime in West Africa, and also provide further research into various aspects of crimes in West Africa.

1.7 Conceptual Framework

Over the last few decades, the term security and the concept of security have been assigned different meanings and understanding due to their diverse and multifaceted nature. Several definitions and explanations have been attributed to these concepts by various scholars across the world.

In looking at the theoretical development of the concept of security, Mitranny and Hutchful observed that most literary pieces on security during the Cold War era was largely dominated by neorealist focus on states, mutually assured destruction and military security. This idea or understanding of security goes to show that the only way to achieve security is to put up measures to protect a country against external aggressions or any other threats that have the potential of destabilizing a nation.16
The post-Cold War era brought about a new dimension of security. In this regard, the concept of security broadened to include non-military threats to states as well as military and non-military threats to groups and individuals. Hutchful for instance notes that the post-Cold War era saw the emergence of views suggesting that the concept of security needed to extend beyond political, military and state cantered to encompass a broader understanding. This view emerged as issues such as terrorism, globalization, health pandemics, international migration, environmental security and energy security were identified as emerging threats to security.17

M.C Namara postulates that "In modern society, security means development, security is not military force though it may involve it; security is not military activity though it may encompass it; security is not military hardware though it may include it; security is development, and without it there is no security."18

In looking at the concept of security from the human security point of view, it is important to note that security means far more than the absence of conflict. This is because human security is a broader concept which encompasses areas such as democracy, education, health, human rights, environmental degradation and the proliferation of arms. These are the pillars that come together to form human security.

The need to extend the concept of security to include human security has been sufficiently elaborated in the 1994 UNDP report; this has been largely necessitated by the transnational spread of conflict, war and organized crime in many parts of the world. This view looks at
security in two different perspectives, thus security from internal threats and security from external threats.\textsuperscript{19}

Furthermore, the former UN Secretary General, Mr. Kofi Annan, asserted that, “Human security, in its broadest sense, embraces far more than the absence of violent conflict. It covers human rights, good governance, access to education, health care and ensuring that each individual has opportunities and choices to fulfil his or her potential. Every step in this direction is also a step towards reducing poverty, achieving economic growth, and preventing conflict. Freedom from want, freedom from fear, and the freedom of future generations to inherit a healthy natural environment -- these are the interrelated building blocks of human – and therefore national – security.”\textsuperscript{20}

Also, the Commission for Human Security (CHS) 2003 defines human security as: "Protecting fundamental freedoms – freedoms that are the essence of life. It means protecting people from critical (severe) and pervasive (widespread) threats and situations. It means using processes that build on people’s strengths and aspirations. It means creating political, social, environmental, economic, military and cultural systems that together give people the building blocks of survival, livelihood and dignity.”\textsuperscript{21}

The use of Human Security as a framework for this study derives from the essence of its broadened consideration of security. A critical review of the implication of money laundering on security in the sub-region will suggest, quite reassembly, that such implication go beyond threats to the territorial integration and political independence of countries to threats to various component of Human Security including political, environmental and economic security among others. It is therefore prudent, that a study that seeks to identify such
multinational security implications of money laundering in West Africa looks beyond the narrow state centre approach to the more broadened concept of Human Security.

1.8 Literature Review

As at 2000, it was estimated that 2-4% of the world’s Gross Domestic Product (GDP) can be traced to criminal activities.\textsuperscript{22} Recent IMF estimates on money laundering indicates that between 2-5% of the world’s GDP, thus $600 billion annually, are proceeds of drug traffickers who use existing markets to legitimize their illegal wealth. A great deal of this wealth is derived from developing countries due to their weak systems.\textsuperscript{23} US$ 1.0 to 1.6 trillion is generated from illicit dealings like drug trafficking and money laundering across the globe and the sub-region. Most of these illegal deals are mostly carried out in cash to avoid being caught or traced.\textsuperscript{24} However, the use of the internet for these deals in the form of online-banking, cyber money and electronic purse is on ascendancy – making detection and arrest difficult and sometimes impossible.

In cross-border illicit financial flows, the proceeds of bribery and theft are the smallest, at only perhaps three percent of the global total. Criminally generated funds account for some 30 to 35 percent of the global total. Money laundering evades tax, driven in particular by abusive transfer pricing and faked transactions as well as mispricing is by far the largest component, at some 60 to 65 percent of the global total.

Neither the FATF, the US Administration nor the Financial Intelligence Unit (FIU) have invested in converting the image of speculation into approaching scientific insight into the phenomenon of money laundering and organized crime. Van Duyne argues that every member state portrays the laundering and organized crime phenomenon as a global means,
but none has thought of a multi-country integrated strategic approach. According to him, there is little empirical knowledge, on what exactly money laundering is.

Van Duyne also stated that the fight against criminal money management, including money laundering or other organized crime, should be driven by the simple desire to achieve the restoration of justice. The offender should not retain the money or any other criminal advantage in the first place.

Additionally, Bojan Dobovsek, posited that these criminal organizations have moved in the past period to economic sectors in order to strengthen their economic power, but he is more and more able to recognize that pressure is moving on state politic through their networks. His position shows that persons committing organized crimes had moved into the second phase of developing criminal organizations into the fabric of the global economy.

Organized crime has been a major source of worry in countries within the West African sub-region. Some of the factors that account for this are exploitation, corruption, political instability, high unemployment rate, and weak structures. To a large extent, organized crime in West Africa is unquantifiable, and this is as a result of insufficient data on the phenomenon.

The attack on the United States on September 11, 2001, according to Peter Reuter and Edwin M. Truman, led to stepped-up efforts to move the war against terrorism and its financing to the forefront of national and inter-national anti-money laundering regimes. However, long before these tragic events, international initiatives to control money laundering incorporated efforts to combat terrorist financing. For example, a number of countries already had
explicitly included the financing of terrorism as a predicate or underlying offense in their anti-money laundering regimes, and the Financial Action Task Force (FATF) and the Egmont Group of Financial Intelligence Units (FIUs) reviewed a number of cases involving terrorist financing.\textsuperscript{25}

The United States reported to the FATF that it designated 30 foreign organizations as terrorist organizations in 1997, and seized $1.4 million in cash and property in connection with an antiterrorism case in 1998. In 2000, the United States and the FATF highlighted the potential connection between the financing of terrorism and \textit{hawala} and other informal value transfer systems.\textsuperscript{26}

The tools developed nationally and internationally as part of the anti-money laundering regime can also be used in dealing with the financing of terrorism. First, regime tools can be used as investigative devices to learn something not only about the origins of funds but also their destinations. Customer due diligence, for example, can help determine not only who customers are but also what they do, where their money comes from, what they are doing with it, and where it is transferred to.\textsuperscript{27}

Reuter and Truman further argued that the regime can be used as a prosecutorial device, as in a 1998 US confiscation case involving a scheme to finance terrorism in the Middle East, or in the more recent US case involving a Chicago-based charitable organization, Benevolence International Foundation (even though the money laundering charge in that case was dropped as part of a plea bargain). Third, combating the financing of terrorism involves close international cooperation in the exchange of information, blocking funds, and closing down channels used to transfer the illicit funds. However there are some distinctions in the entire
illegal process.\textsuperscript{28} Between the general anti-money laundering regime and the specific variant applied to terrorist financing.

First, terrorist financing generally (although not exclusively) involves financial flows that originate in legitimate activities to support illegitimate activities, rather than the reverse process in which funds from illicit activities are made to appear licit. Although most other money laundering originates with illegitimate activities, even here one traditional technique is the exploitation of legitimate activities, especially those handling large amounts of cash such as casinos or grocery stores.\textsuperscript{29}

This point to the fact that, financial institutions must not only know their customers but also know what those customers are doing, where they get their money from, and where it is being sent. Terrorist financing typically involves smaller amounts of money compared to the traditional money laundering activities. Combating such relatively small scale laundering can be far more difficult—sometimes like looking for a needle in the haystack.\textsuperscript{30}

Reuter and Truman also posited that the stakes are getting higher in the fight against money laundering and terrorist financing. The amounts involved may be small, but the potential benefits to society from prevention and confiscation are huge. Thus, the objective is not to contain or reduce but to eliminate the activity because the benefit-cost ratio of doing so is high. Finally, while the goal in most other money-laundering activities can be linked to some degree or other to the profit motive, in terrorist financing the profit motive (other than cost minimization) is largely replaced by noneconomic motives, particularly political ones. This may further hamper detection. The basic question is the extent to which the authorities can proactively use available anti-money laundering regime to attack and eliminate terrorist
financing and terrorism itself. The simple answer is that the regime can make a major contribution to combating terrorism, but some of the differences sketched out above imply the need for, at the very least, more intense application of existing anti-money laundering instruments as well as the use of supplementary mechanisms.\textsuperscript{31}

Efforts to launder money and finance terrorism have been evolving rapidly in recent years in response to heightened countermeasures. The international community has witnessed the use of increasingly sophisticated methods to move illicit funds through financial systems across the globe and has acknowledged the need for improved multilateral cooperation to fight these criminal activities. ‘Money laundering’ as an expression is one of fairly recent origin. The original sighting was in newspapers reporting the Watergate scandal in the United States in 1973. The expression first appeared in a judicial or legal context in 1982 in America.\textsuperscript{32}

According to Arind Giriray and Prashatit Mishra, the basic characteristics of the laundering of the proceeds of crime, which to a large extent also mark the operations of organized and transnational crime, are its global nature, the flexibility and adaptability of its operations, the use of the latest technological means and professional assistance, the ingenuity of its operators and the vast resources at their disposal.\textsuperscript{33}

Giriray and Mishra further indicated that, the ill-effects of money laundering are seen all over the world on almost all the sectors of life. More noticeable are economic effects which are on a broader scale. Developing countries often bear the brunt of modern money laundering because the governments are still in the process of establishing regulations for their newly privatized financial sectors. This makes them a prime target. In the 1990s, numerous banks in the developing Baltic States ended up with huge, widely rumoured deposits of dirty money.
Bank patrons proceeded to withdraw their own clean money for fear of losing it if the banks came under investigation and lost their insurance. The banks collapsed as a result.\(^\text{34}\)

Other major issues facing the world’s economies include errors in economic policy resulting from artificially inflated financial sectors. Massive influxes of dirty cash into particular areas of the economy that are desirable to money launderers create false demand, and officials act on this new demand by adjusting economic policy. When the laundering process reaches a certain point or if law enforcement officials start to show interest, all of that money will suddenly disappear without any predictable economic cause resulting in that financial sector to fall apart. Laundered money is usually untaxed, meaning the rest of us ultimately have to make up the loss in tax revenue. \(^\text{35}\)

The negative economic effects of money laundering on economic development are difficult to quantify. It is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy’s real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy’s external sector – international trade and capital flows – to the detriment of long-term economic development. Money laundering also facilitates crime and corruption within developing economies, which is the antithesis of sustainable economic growth. Money laundering reduces the cost of doing business for the criminal element, thereby increasing the level of crime.\(^\text{36}\)

Money laundering can also be associated with significant distortions to a country’s imports and exports. On the import side, criminal elements often use illicit proceeds to purchase imported luxury goods, either with laundered funds or as part of the process of laundering
such funds. Such imports do not generate domestic economic activity or employment, and in some cases can artificially depress domestic prices, thus reducing the profitability of domestic enterprises.\footnote{37}

Money laundering is a serious threat to financial system of all countries, leading to the destruction of state sovereignty and moral fiber. The fight against money laundering has assumed an urgent impetus at both national and international levels due to the increasing scale of the crime, especially with respect to the financing of terrorist acts. However, current anti-money laundering efforts being made to combat the menace is yielding results in that it is now taking centre stage in many countries.

1.9 Sources of Data and Methodology  
Data for the study were sourced from both primary and secondary sources. Primary data was obtained from personal interviews with security experts, policy makers and finance experts from the Financial Intelligence Centre, Ministry of Finance and Economic and Organized Crime Office (EOCO). Secondary data on the other hand was obtained from the review of existing literature that are related to the topic. Data obtained from secondary sources were subjected to critical content analysis geared towards addressing the research questions.

1.10 Organisation of Study  
The study is structured into four chapters:

- Chapter One - The Research Design.
- Chapter Four - Summary of Findings, Conclusion and Recommendations.
Endnotes

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13 Ibid.
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22 Compare also former estimations of the IMF (1998). However as these results are scientifically doubtful, since they are not scientifically proven. See Riegler (2004, p. 90ff).
23 Ibid. chapter 5
24 Compare Vanempten (1994, p. 24f) and the FIU Germany: Cash transactions continue to play a significant role in a large number of cases. Evidently, offenders are aware and continue to deliberately exploit the advantage of “interruption of the paper trial” afforded by cash transactions. Particularly significant in this context are the very large amounts involved in some of these cash transactions. “FIU (2004 p. 42).
26 Ibid.
27 Ibid.
28 Ibid.
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30 Ibid.
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32 Arind Giriray (IV Year BA. LLB Hons) and Prashatit Kumar Mishra (IV Year BA .LLB Hons.). Money Laundering: An Insight into the Modus Operandi with Case Studies.
CHAPTER TWO

MONEY LAUNDERING IN WEST AFRICA: NATURE, ACTORS AND STAKEHOLDERS

2.0 Introduction

This chapter discusses the nature, actors and stakeholders involved in money laundering. It would also look at the nuances of the menace in West Africa.

2.1 Nature of Money Laundering

The origin of money laundering, according to Sterling Seagrave, dates back to 2000 years. He posited that wealthy Chinese merchants laundered their profits because the regional governments banned many forms of commercial trading. He writes that the government considers merchant activities with a great amount of suspicion as they were considered to be ruthless, greedy and follow different rules. Besides this, a considerable amount of the income of merchants came from black marketing, extortion and bribe. The merchants who remained invisible were able to keep their wealth safe from the continuous extortions by bureaucrats.\(^1\)

The term money laundering was originated in the 1920’s during the period of prohibition in the United States. The organized criminals in the United States got greatly involved in the profitable alcohol smuggling industry and for legalizing their profits they started combining their profits with the profits from legislative business. But according to Jeffrey Robinson, the term was first used in 1973 in relation to the Watergate scandal. He says this case describes money laundering perfectly in respect of the circumstances. In that case the dirty or illegal money was put through a series of transactions and the money appears clean or legal at the other end.\(^2\)
2.2 Money Laundering Techniques and Methods

Money laundering techniques are complex; however, the salient feature of money laundering is the number of different methods used. Some of the techniques include the following:

2.2.1 Cash Smuggling

Cash smuggling is one of the oldest methods used for general smuggling of currency. The bulk shipments of cash hidden in cargo are driven across the border, though it is illegal to export a bulk amount of cash. Every country has its limit of carrying cash legally across the border. For instance, the United States restricts the currency movement to $10,000 without filing a report under the International Transportation of Currency or other Monetary Instruments (CMIR).

2.2.2 Offshore Accounts (Shell Banks)

Offshore accounts are often used by criminals to obscure the audit trail as many different countries in the world offer strict laws for bank secrecy to attract money in their countries. In respect of this law, the country can also refuse to assist international authorities in revealing the information of customers. Many of these countries also attract clients by selling Shell banks, which means a bank which is incorporated in a jurisdiction in which the bank has no physical presence and also unaffiliated with the regulated financial institution.

These kinds of banks, Shell banks, are generally developed in a financial haven country for providing the appearance of legitimacy. A customer only needs a false name to open an account in these kinds of bank which provides the customer complete secrecy and protects the customer from investigation and possible prosecution and after establishing the shell bank
the customer may gain advantage of “payable though” or “pass through” accounts. The domestic bank offers these accounts to foreign institutions and they are used to shift the funds of foreign client’s into the domestic country without giving any information to the domestic institution on the client.  

2.2.3 Shell Company

The other method or technique involved is criminal developing a “Shell company”. It means that the criminal will open an account as a corporation rather than opening an offshore account as an individual. (Koker, 2002). Usually it is essential for the company to have participated already in the legal business dealings to develop an arena of legitimacy. And once the shell company developed, it can easily transfer a huge amount of money to the offshore haven and at the same time avoid the taxes and registration regulations. Koker says that a shell company in South Africa have been known to sell for as less as $9,000. The criminal owing that shell company may transfer the ownership of the company to a trust in order to make investigation difficult and the actual control of the company still remains with the criminal though it has been transferred in the name of trust and the clients have full access to the assets of the company. Further the company may also issue bearer shares which means that no record of the owner of the company and hence the company is owned by whosoever person who possess the shares of the company physically.  

2.2.4 Underground Banking

The Criminals considers this as the safest way of laundering money and also one of the most common methods used for the purpose. Basically there are two types of underground banking systems which are known as Hawala/Hundi and Chitti/Chop banking (Trehan 2002). The
term *Hawala* in Indian and Pakistani language means reference and in Arabic it means transfer related to money whereas word ‘*Hundi*’ means ‘trust’. *Chitti* means a mark whereas chops are the seals used to ease the money transactions. Both of these forms of underground banking are ingrained in ancient tradition and facilitate the practices of western banks by centuries (Gilligan 2001). These methods were introduced in order to avoid risk of carrying large amount of money by traders. The idea behind these concepts was that a trader would show a letter of credit or a symbol to the distant banker and that foreign distant banker would be the representative of the trader’s local banker and then the foreign banker would honor the letter or token (Trehan, 2002). The use of underground banking has been recognized in many countries and the reason behind the success of this technique was that this banking was based on trust and virtually there is no paper trail involved in that.\(^7\)

### 2.3 Money Laundering in West Africa

Money Laundering is a global epidemic which can have a corrosive effect on a country’s economy, government, and social well-being. The International Monetary Fund (IMF) has also indicated that the aggregated size of money laundering in the world is between 2-5% of the world’s Gross Domestic Product (GDP).\(^8\)

West Africa is comprised of 15 member states that are known as the Economic Community of West African states (ECOWAS). The member states are not only linked together demographically but by cultural and historical reasons due to their colonization by the British, the French and other European countries. The member states are Benin, Burkina Faso, Cape Verde, The Ivory Coast, Ghana, Gambia, Guinea, Guinea Bissau, Liberia, Mali, Nigeria, Niger, Senegal, Sierra Leone and Togo. The total mass area covered by the
ECOWAS member states is approximately 7.9 million km about 1.8 times the size of the European Union.\textsuperscript{9}

The West African economy is an informal one and is considered a very important engine which drives the integration of the regional economies. The economic exchanges between the ECOWAS region represents approximately three fourths of the GNP which makes this region in particular susceptible to conflicts in the neighbouring ECOWAS countries.

Investment within the region not only relies on interior investment in the regions (approximately 20% of the GNP (12% excluding Nigeria) but heavily on development assistance from the European Union (EU), the World Bank, the IMF and other international organizations, which according to the Organization for Economic Cooperation and Development (OECD) report on West African region represents 10% of the region’s GNP.

West Africa is a developing region particularly exposed to organized crime and corruption. The region is noted for its cash-based economy and the lack of political transparency by governments within the sub-region. In fact, of the 15 nations located in the region, no country obtained a corruption perception index rating higher than 3.9 out of 10, with 10 being an indication of the least politically corrupt and 1 being the most politically corrupt.\textsuperscript{10}

In addition to the extremely informal economies and high corruption, the weak administrative structures, high unemployment, poverty rates and most notably the unstable political systems occasioned by civil conflicts and military coups increases its vulnerability to money laundering and provides an easy avenue to funnel their ill-gotten gains.\textsuperscript{11}
In recent years transnational organized crime in West Africa has become a matter of major concern. The West African region has had significant growth as a transit point for a number of international trade crimes, which include those related to drugs, arms, human trafficking and money laundering which is the focus of this paper. Money laundering as a financial crime was greatly facilitated at the time of the drug expansion in the regions. It is also facilitated by the involvement of major international companies and private banking institutions as was the case of the Bank of Credit and Commerce International who were implicated in the movement of monies gained by the massive corruption schemes of General Sani Abacha.

Other business regarded as particularly suitable to money laundering are the second-hand car dealing which is still very prominent in the region, and mostly is controlled by the Lebanese community, and the fashionable clothes boutiques which involves the purchases of large quantities of second-hand or slightly damaged clothing from Europe or North America. In general these types of businesses have no or few documents attached.12

2.4 Why Does Money Laundering Matter?

Proceeds from most property crimes are committed to funding drug habits. This trend is motivated by those that associate themselves with criminals that engage in these crimes. In most countries, people who associate themselves with such criminals are liable to a more severe sentence than the person that committed the crime. It is believed that one major way to discourage crime is to “take the profit out of crime.” One major way to do this is to persecute offenders and seize the stolen properties. However, in the case of money laundering, it becomes complicated since cash sometimes do not necessarily exchange hands, as most of the transactions are via the internet.
The effects of this money laundering crimes mostly have devastating effects on economies, such as higher taxes for those that do not evade tax and an increase in insurance policy premiums for those that do not engage in fraudulent claims. This devastating effect mostly extends beyond these.

2.5 **Stakeholders of Money Laundering**

Money laundering is associated with various stakeholders, which include those in support of the phenomenon and those against it. They are mainly categorised into two:

- Stakeholders involved in Money Laundering.
- Stakeholders against Money Laundering.

2.5.1 **Who launders money? Stakeholders involved in Money Laundering**

This category is associated with criminals, drug traffickers, corrupt officials, corrupt Casinos and betting centres, corrupt Banks and micro finance companies. Basically this is associated with anyone who allows their businesses to be used for laundering money.⁴³ People who also help to create money laundering scheme are also considered as money launders even though they do not directly get involved with it. There have been cases when business owners deny any knowledge of money laundering even though their businesses are used for it. This however is no excuse, as they are required to train their staffs to identify money laundering activities.

2.5.2 **Actors or Stakeholders against Money Laundering**

This group of stakeholders are associated with making money laundering fail and stopping people from benefiting from proceeds of money laundering. These stakeholders cooperate with each other to curb the global phenomenon of money laundering to promote a safe
financial environment, in the business world. The measures that these stakeholders put in place are to arrest and prosecute money laundering offenders, monitor financial trends to detect illegal deals and to regulate financial systems via effective legal instruments. The stakeholders include:

- Judicial and legal system/officials
- Law enforcement agencies (police, immigration, customs services, financial intelligence units etc).
- Central Banks
- Global and regional advocacy organizations (FAFT and GIABA).

2.6 Conclusion

Money Laundering continues to symbolize a key problem for the global economy and the global combat against money laundering which began with the Vienna Convention of 1988 has gone through various phases and developments with different global regions contributing to the development of a wide range of anti-money laundering measures. It is also clear that without an effective international co-operation, there would be no chance of curbing the problem of money laundering.¹⁴

Money laundering offences have similar characteristics globally. There are two key elements to a money laundering offence:

- The necessary act of laundering itself i.e. the provision of financial services; and
- A requisite degree of knowledge or suspicion (either subjective or objective) relating to the source of the funds or the conduct of a client.

The act of laundering is committed in circumstances where a person is engaged in an arrangement (i.e. by providing a service or product) and that arrangement involves the
proceeds of crime. These arrangements include a wide variety of business relationships e.g. banking, fiduciary and investment management. The requisite degree of knowledge or suspicion will depend upon the specific offence but will usually be present where the person providing the arrangement, service or product knows, suspects or has reasonable grounds to suspect that the property involved in the arrangement represents the proceeds of crime. In some cases the offence may also be committed where a person knows or suspects that the person with whom he or she is dealing is engaged in or has benefited from criminal conduct.\textsuperscript{15}
Endnotes

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CHAPTER THREE

IMPLICATIONS OF MONEY LAUNDERING ON SUB-REGIONAL SECURITY

3.0 Introduction

This chapter takes a look at the security implications of money laundering to West Africa. It examines the implications of money laundering and the nexus between money laundering and sub-regional security and analysis data gathered from some selected respondents of the research. The chapter further examines the various regional and sub-regional interventions aimed at curbing the financial menace. It also explores interventions by international bodies.

3.1 Implications of Money Laundering in West Africa

West Africa has been referred to as one of the most impoverished, underdeveloped and politically unstable regions in the world, despite considerable progress made in development and peace consolidation in some parts of the sub-region. This notwithstanding, some countries such as Ghana, have no history of violent national civil conflict, it seems that there are structural deficiencies which have made much of the region particularly susceptible to emerging threats of organized crime. These vulnerabilities include weak border control systems (leading to porous territorial boundaries), the inability of criminal justice systems to ensure effective operation of the rule of law, and inadequate coordination and information sharing among relevant national agencies, as well as limited institutional cooperation across borders.¹
The above weaknesses seem to be the result, in large measure, of years of economic mismanagement and lack of social investment, exacerbated by civil wars, which in some contexts have significantly diminished human capital, social infrastructure and productive national development assets. Also, the historical factors of corrosive nationalism and the diverse colonial inheritance, with different legislative and cultural affiliations, as well as with their different national territories often not coinciding with traditional ethnic groups (and some with historical animosities), have contributed significantly to the region’s vulnerability to crime.²

Serious organized crime, particularly corruption and drug trafficking generate large illicit proceeds in West Africa. The size and amount of illicit funds related to corruption in West Africa is monumental and a number one predicate offence for money laundering related prosecutions in the region. Eighteen (18) tons of cocaine worth approximately $1.25 billion was smuggled through West Africa in 2010. Meanwhile, about $500 million of drug money remained in West Africa or was laundered through the region in 2012.³

The dynamics of money laundering situation in West Africa, has over the years, made state efforts to curb money laundering activities in the region redundant. The dynamic and sophisticated nature of the crime consistently outdates security policies meant to eradicate it. The compromise of political leaders and law enforcement agencies, by criminal networks over the years, is also another sublime factor that hinders progress in the fight against money laundering in West African sub-region.
Money laundering has a corrosive effect on a country’s economy, government, and social well-being. Money laundering is the criminal’s way of trying to ensure that, in the end, crime pays. It is necessitated by the requirement that criminals, be they drug traffickers, organized criminals, terrorists, arms traffickers, blackmailers, or credit card swindlers, disguise the origin of their criminal money so they can avoid detection and the risk of prosecution when they use it.\textsuperscript{4}

Crime has become increasingly international in scope, and the financial aspects of crime have become more complex due to rapid advances in technology and the globalization of the financial services industry. Modern financial systems, in addition to facilitating legitimate commerce, also allow criminals to order the transfer of millions of dollars instantly using personal computers and satellite dishes. Since money laundering relies to some extent on existing financial systems and operations, the criminal’s choice of money laundering vehicles is limited only by his or her creativity.\textsuperscript{5}

If unchecked, money laundering can erode the integrity of a nation’s financial institutions. Due to the high integration of capital markets, money laundering can also adversely affect currencies and interest rates. Ultimately, laundered money flows into global financial systems, where it can undermine national economies and currencies. Money laundering is thus not only a law enforcement problem; it poses a serious national and international security threat as well. Money laundering has devastating economic, security, and social consequences. It provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises.\textsuperscript{6}
3.2 Data Presentation

From the responses gathered, most of the respondents described money laundering as a serious security threat to the socio-economic stability of West African countries. According to one respondent:

Money Laundering is the process of pushing into an economy funds acquired through illegal means such as funds obtained from the sale of illicit drugs, lumbering and trade in endangered animal species.

The threat of money laundering to the security of West Africa states is overwhelming though sublime in nature. Channels used or adopted by groups or syndicates to move illegal funds around has consistently been sophisticated and dynamic. According to the response from EOCO:

Reputable and accountable institutions/ personalities such as banks and financial institutions, garages, churches and other religious bodies, lawyers, accountants, NGO''s etc have all become reliable channels for money laundering in West Africa.

A financial expert also indicated that, money laundering activities distorts both micro and macro economies, inflation rates as well as disrupts the economic projections of a state; departing the reality from the available figures.

For another respondent:

Illegal funds in the hands of political activists and politicians lead to an unreasonable political projections.

The rise in crime and terrorism in West Africa and other parts of the continent reflects a sharp increase in crime rates and polarized security in West Africa. The situation currently helps criminals to freely enjoy proceeds from their crimes, which encourage the re-enactment of the preceding crime. This indicates that, successful laundering of money entails activities that weaken and undermine the security, justice and legal systems in West Africa.
Understanding the connection between money and other security challenges

Criminals usually succeed in changing or influencing the politico-social and economic status of any polarized state. The prevalence of money laundering and other organized crimes in West Africa is as a result of our porous borders and regulations which usually undermines and expose the fragile socio-economic gains over the period.

The frequent information exchange between law enforcement agencies of West Africa member states and the seizures of bulk cash at airports and border post attests to the high prevalence state of money laundering within the sub-region. For instance, a respondent from NACOB indicated that:

At the Kotoka International Airport (KIA) in Ghana, the Narcotics Control Board usually collaborates with the Economic and Organized Crime Organization (EOCO) to investigate and arrest offenders whenever bulk cash is intercepted at the KIA airport.

They collaborate to effectively identify the origin and intended destination or recipient of the cash in order to ascertain the purpose behind it. Meanwhile, the study’s findings indicate that, physical movement of money is just but one of the many methods of laundering money.

3.3 International Efforts

Over the years, efforts have been made to curb down the rise of money laundering, which has been known to threaten security and stability of economies. According to the World Bank, money laundering and the financing of terrorism are of international worries. All these activities threaten the financial stability and integrity of financial systems. Since this is a global
phenomenon, it requires a collective effort from all stakeholders, to tackle the phenomenon. It also requires extensive supervision and regulation, good governance, and effective law enforcement.⁸

James D. Wolfensohn, former president of the World Bank Group, declared that the global community should act “where it really matters” and economically, money laundering really matters. At least US$1 trillion is laundered annually using increasingly sophisticated methods of moving funds across borders.⁹

The success of a criminal enterprise is based on its ability to sanitize its ill-gotten gains by moving them through lax or corrupt national financial systems. Laundering allows criminals and terrorists to operate freely, using their financial gains to expand their criminal pursuits and fostering illegal activities such as corruption, drug trafficking, arms trafficking, smuggling, and financing of terrorism. Money laundering and the financing of terrorism can have devastating economic and social consequences for countries, especially those in the process of development and with fragile financial systems. The economy, society, and ultimately the security of countries used as money laundering platforms are all imperilled.¹⁰

The menace also channels funds to sectors or areas where funds are unlikely to be discovered, whether or not investment is needed, or real returns are offered. The often sudden departure of investments from these sectors impairs industries involved. Money laundering can also affect the economic and state institutions of the host nation in many ways:

- Currencies and interest rates can be distorted by money launderers’ investment practices.
• Money laundering and terrorist financing do nothing for the reputation of the host country. The loss of investor confidence that follows revelations of large-scale involvement in such activities can sharply diminish opportunities for growth. Once a country’s reputation is tarnished, it takes years to repair.\textsuperscript{11}

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 international standard against both problems have been led by the 29-member Financial Action Task Force (FATF), which has come forth with its “40 + 8” recommendations—the original 40 in the area of money laundering and 8 more related to the financing of terrorism.\textsuperscript{12}

The boards of the World Bank and the International Monetary Fund (IMF) have also recognized these recommendations as the appropriate standard for combating money laundering and the financing of terrorism and, in consequence, have intensified their work in this area. Both institutions worked with FATF to develop the following effective strategic policies and effective regulatory instruments.

### 3.4 Regional and Sub-regional Efforts

The Inter-Governmental Action Group against Money Laundering in Africa (GIABA) is a body which was created to fight money laundering in Africa. It relies on organizations like the EFCC in Nigeria and EOCO in Ghana, to fight money laundering and its perpetrators.\textsuperscript{13}
The devastating effects of crimes such as money laundering and financing of terrorism especially on the socio-economic growth of Africa, no doubt contributes to the creation of instability and insecurity, which in turn hampers development; much needed to catapult the sub-region to such a great height to be reckoned with within the comity of nations that are respected for their self-sustenance and ability to carter for the welfare of their people, without going cup in hand to other nations begging for loans and what to feed them.\textsuperscript{14}

Although the concept of money laundering was not widely known in the West African sub-region until relatively recently, members of the Economic Commission of West African States (ECOWAS) were, in 1988, called upon to sign an agreement to engage in the fight against this crime based upon information received from more developed countries, Africans themselves became convinced that the fight against money laundering was justified on several grounds.\textsuperscript{15}

According to the Administrative Secretary of GIABA, Nigeria’s Mrs. Obla Ojeka-Eje, Sub-Saharan Africa is estimated to have over six million illicit arms in circulation and that more than 60 percent of these arms, are said to be in circulation in the West African sub-region and these misplaced arms contribute immensely to the incessant wars that are devastating our countries from the crime of money laundering. Problems of war as witnessed in Sierra-Leone, Liberia and Guinea Bissau, among others, may serve as examples.\textsuperscript{16}

One may wonder who the suppliers of these deadly weapons are and what is their source of funds, but the answer to this question is not to be farfetched. Security experts tell us that money laundering is behind this dastardly act and by so doing, the launderers found a way of recycling
their dirty money and making huge profits. The launderers are also involved in other heinous crimes which include human and drug trafficking that increasingly destroys the lives of our youth and make them virtually unproductive.\(^{17}\)

The siphoning of huge sums of monies by corrupt political personalities is another disturbing problem which also encourages money laundering, since it is the only convenient way corrupt persons can hide the source of their ill-gotten wealth and hope to enjoy it. They live like kings; damning the rest of us and making our countries turn to beggar nations.

In fighting against the menace of money laundering, the federal government of Nigeria, through the EFCC, set up the Nigerian Financial Intelligence Unit (NFIU) which operates as an autonomous central national agency responsible for receiving and analyzing Currency Transaction Reports (CTRs) and Suspicious Transactions Reports (STRs), from financial institutions and designated non-financial institutions with a view to disseminating intelligence information arising thereof to law enforcement agencies and other stakeholders.\(^{18}\)

The advantages for establishing the NFIU includes, among other things, veritable mechanisms for fighting economic and financial crimes in Nigeria, combating money laundering and financing of terrorism, enhancing the effectiveness of the EFCC in the detection and prevention of financial crimes. Other advantages are facilitating compliance with some of the requirements of Financial Sector Assessment Program (FSAP) of the IMF and the World Bank. The NFIU reports are also expected to serve as credible resource input to the country’s national policies.\(^{19}\)
It is therefore pertinent to notice that the EFCC as well as the authorities in the West African sub-region are really serious about the fight against corruption, especially those related to money laundering and financing of terrorism within the sub-region, the continent of Africa and the world in general. The efforts of both the governments of the member countries of GIABA as well as their respective FIU's in combating this heinous crime for the purpose of progress and positive development is a major step in achieving a prudent financial system in West Africa.\textsuperscript{20}

3.5 Security Implications of Money Laundering in West Africa

The effect of money laundering covers almost every aspect of a nation, especially the economic and social sectors. These sectors usually make up the core of every nation’s stability due to their spanning role in nation building.

3.5.1 The Economic Effects of Money Laundering

Undermining the Legitimate Private Sector

One of the most serious microeconomic effects of money laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains. Unlike West Africa where criminal or state official fly huge amounts to other jurisdiction, in the United States, for example, organized crime has used pizza parlours to mask proceeds from heroin trafficking. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates.\textsuperscript{21}
In some cases, front companies are able to offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage over legitimate firms that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate business to compete against front companies with subsidized funding, a situation that can result in the crowding out of private sector business by criminal organizations. Clearly, the management principles of these criminal enterprises are not consistent with traditional free market principles of legitimate business, which results in further negative macroeconomic effects.\textsuperscript{22}

\textit{Undermining the Integrity of Financial Markets}

Financial institutions that rely on the proceeds of crime have additional challenges in adequately managing their assets, liabilities, and operations. For example, large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, through wire transfers in response to non-market factors, such as law enforcement operations. This can result in liquidity problems and runs on banks.\textsuperscript{23}

\textit{Loss of Control of Economic Policy}

Michel Camdessus, the former managing director of the International Money Fund, has estimated that the magnitude of money laundering is between 2 and 5 percent of world gross domestic product, or at least $600,000 million. In some emerging market countries, these illicit proceeds may dwarf government budgets, resulting in a loss of control of economic policy by governments. Indeed, in some cases, the sheer magnitude of the accumulated asset base of laundered proceeds can be used to corner markets or even small economies.\textsuperscript{24}
Money laundering can also adversely affect currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher. Also money laundering can increase the threat of monetary instability due to the misallocation of resources from artificial distortions in asset and commodity prices. In short, money laundering and financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates. The unpredictable nature of money laundering, coupled with the attendant loss of policy control, may make sound economic policy difficult to achieve.\textsuperscript{25}

\textbf{Economic Distortion and Instability}

Money launderers are not interested in profit generation from their investments but rather in protecting their proceeds. Thus they “invest” their funds in activities that are not necessarily economically beneficial to the country where the funds are located. To this extent, money laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds.\textsuperscript{26}

\textbf{Loss of Revenue}

Money laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.\textsuperscript{27}
**Risks to Privatization Efforts**

Money laundering threatens the efforts of many states to introduce reforms into their economies through privatization. Criminal organizations have the financial wherewithal to outbid legitimate purchasers for formerly state-owned enterprises. Furthermore, while privatization initiatives are often economically beneficial, they can also serve as a vehicle to launder funds. In the past, criminals have been able to purchase marinas, resorts, casinos, and banks to hide their illicit proceeds and further their criminal activities.\(^{28}\)

Countries that are characterized with money laundering are usually associated with negative reputation that diminishes their opportunities and growth on the local and global stage. Repairing a reputation like this can be very difficult, hence it is always recommended that nations put in measures to tackle anti-money-laundering.\(^ {29}\)

**3.5.2 Social Costs of Money Laundering**

Money laundering is known to improve the activities of drug traffickers, smugglers, and other criminals. This in turn increases government cost in ensuring law and order by employing more security personnel and equipment. Health care expenditures are also likely to increase in treating victims of violent crimes and also the treatment of drug addicts.\(^ {30}\) Money laundering is also known to transfer economic power from the market, government, and citizens to criminals, which is likely to have a devastating effect on almost every aspect of the society.\(^ {31}\)
**Damaged Reputation and International Consequences**

A reputation as a money laundering or terrorist financing haven, alone, could cause significant adverse consequences for development in a country. Foreign financial institutions may decide to limit their transactions with institutions from money laundering havens; subject these transactions to extra scrutiny, making them more expensive; or terminate correspondent or lending relationships altogether. Even legitimate businesses and enterprises from money laundering havens may suffer from reduced access to world markets or access at a higher cost due to extra scrutiny of their ownership, organization and control systems.\(^{32}\)

Any country known for lax enforcement of AML/CFT is less likely to receive foreign private investment. For developing nations, eligibility for foreign governmental assistance is also likely to be severely limited. Finally, FATF maintains a list of countries that do not comply with Anti-Money Laundering (AML) requirements or cooperate sufficiently in the fight against money laundering. Being placed on this list, known as the “Non-Cooperating Countries and Territories” (NCCT) list, gives public notice that the listed country does not have in place even minimum standards. Beyond the negative impacts referred to here, member countries of FATF could also impose specific counter-measures against a country that does not take action to remedy its AML/CFT deficiencies.\(^{33}\)

### 3.6 Conclusion

Overall, money laundering presents a complex and dynamic challenge. Indeed, the global nature of money laundering requires global standards and international cooperation if we are to reduce the ability of criminals to launder their proceeds and carry out their criminal activities. For West
Africa, the situation is still critical despite efforts being made to curb money laundering and other financial related crimes. Presidents, parliamentarians and major stakeholders are consistently soliciting funds from both legitimate and illegitimate business owners for elections; the payback is always a compromise against state interest.
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CHAPTER FOUR
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

4.0 Introduction

This chapter presents the findings of the study and discuss them in order to ascertain whether it supports or departs from the study’s assertions in previous chapters. It will also assist in determining if the findings answer the research questions or not.

The study adopted a purposive sampling method that enabled the selection of respondents from some selected institutions and personalities. These institutions share a common platform and goal to fight and eradicate organized crimes such as money laundering. They include the Financial Intelligence Centre (FIC), Narcotic Control Board (NACOB), Economic and Organized Crime Office (EOCO) and the Research Department of the Ministry of Foreign Affairs.

The findings discussed under the three (3) main objectives of the study. They are

- Present an overview of Money Laundering in West Africa.
- Present an understanding of the connection between money laundering and other security challenges
- Examine the implications money laundering in West Africa.

They also formed the basis of the interview guide used in gathering the data for the study.
4.1 Summary of Findings

Overview of Money Laundering in West Africa

Over the past two decades, West Africa has been a notorious centre of intensely violent conflicts and chronic political and socio-economic instability. The extent of violence and instability in the sub-region is reflected by the numerous military coups d’état, civil wars, insurgencies and election related clashes in most West African states (UNODC 2010: 1). This has inflicted immense human and physical destruction, thereby precipitating what has been characterized as “the coming anarchy” (Robert Kaplan 1994). Accordingly, West Africa is characterized by state fragility, with many states lacking the capacity to either deliver basic social services to their citizens or claim complete and effective control of their territories as well as embroiled by deep corruption (McGuire 2010).

The region is also plagued by deep and widespread poverty and underdevelopment. According to the United Nations Development Program (UNDP) 13 of 15 West African countries are experiencing ‘low human development’ (UNDP 2009). The extent of poverty and underdevelopment is partly illustrated by a combined GDP of less than USD 300 billion (UNDP 2009).

Although West Africa’s population of 300 million is six times more than that of South Africa, the latter’s GDP is greater than the former’s. The sub-region’s economic woes look more acute if the GDP of its powerhouse and most populous country, Nigeria, is isolated. With a population of more than 150 million, Nigeria accounts for an estimated 66 % of West Africa’s total output. The rest of the 14 countries share less than 34 % of the regional output.
Money laundering affects almost every sector of the state including political, education, economy etc. When money influences power, illegal funds can be used to finance political activities or buy political power. Money laundering equally leads to excess but illegal money in the system which usually leads to high cost of living and inequality among others. In weak or fragile economies like what pertain within the West African sub-region, inefficiencies tend to have a spill over effect on other sectors like education, health, among others.

The current situation, according to deductions made from the findings, has negated all efforts being made in the sub-region to curb money laundering despite the considerable progress made in development and peace consolidation in some parts of West Africa (and in some instances the notable democratic and socio-economic advances) and notwithstanding the fact that some countries, such as Ghana, have no history of violent national civil conflict, it seems that there are apparent structural deficiencies which have made much of the region particularly susceptible to the emerging threats of organized crimes.¹

These vulnerabilities include weak border control systems (leading to porous territorial boundaries), the inability of criminal justice systems to ensure effective operation of the rule of law and inadequate coordination and information-sharing among relevant national agencies, as well as limited institutional cooperation across borders with neighbouring countries. These weaknesses seem to be the result, in large measure, of years of economic mismanagement and lack of social investment.² The study also confirmed that developing countries, specifically, have been prone to money laundering activities, mainly because of their weak systems.
From the findings, Ghana just like its neighbours is gradually becoming an important regional financial centre and will subsequently become an important hub for money laundering. Trade-based money laundering in particular is growing in importance, and is sometimes used to repatriate ‘profit’ and also for tax evasion or payment of lower custom duties and other taxes.\(^3\)

A response from the FIC indicated that, informal financial activity continues to represent approximately 45 percent of the total Ghanaian economy and fiscal accountability mechanisms remain weak, rendering this form of money laundering extremely difficult to counter. Weak compliance systems (particularly regarding provision of standard documentation and fixed addresses) in Ghana make it easy to hide illicit monies. Fake addresses are easily provided when opening bank accounts and easily corruptible compliance officers allow for funds to be transferred out of a bank swiftly when suspicion is raised.

Money laundering is currently prevalent within the sub-region over recent years because drug traffickers use the sub-region as the transit point for their trade. As a response to this situation, West African states have established institutions like GIABA with the mandate of helping Financial Intelligence Unit’s (FIU’s) technical knowhow to trail sources of suspicious funds entering the banking systems and vice versa.

**Examine the security implications of money laundering in West Africa**

Money laundering results in corruption, poverty, vulnerable financial institutions, and can ultimately destabilize countries.
The Financial Action Task Force (FATF) was subsequently established to coordinate international efforts to fight money laundering and terrorist financing. In their 40 Recommendations and 9 Special Recommendations, the FATF has outlined the legal framework and basic measures that governments should establish in order to comply with AML/CFT requirements. This measure, according to one respondent, is one helpful blueprint that has reduced the effect of money laundering to developing countries like Ghana.

The AML/CFT landscape in Africa is diverse and fragmented. This is because all African countries have established some legal provisions relating to AML/CFT, these are frequently not specialized stand-alone laws, but are rather embedded into general criminal offence frameworks. The same holds true for the implementation of measures; some countries have well-functioning Financial Intelligence Units (FIUs) while most countries are still struggling with problems regarding capacity, resources and law enforcement.

In addition, due to the presence of informal financial services in many countries, criminal activities may simply move away from the official financial system into less regulated and supervised ones. One significant concern regarding AML/CFT in Africa is the costs arising from AML/CFT measures taken, but over the years the situation has improved especially within the West African sub-region. The establishment of the FIUs like FIC in Ghana and the NFIU in Nigeria are signs of major improvement in the legal and operational fight against money laundering in West Africa.
The situation has also improved collaboration of FIU’s under the West Africa Sub-Region Intergovernmental Agency (GIABA). According to one respondent:

The *Know your customer* rules and other forms of banking compliance regulations employed by the Bank of Ghana, Operation West bridge which is implemented by the Narcotics Control Board and other security agencies at the Kotoka International Airport (KIA) and the Economic and Organized Crime Office with the mandate to tackle all forms of organized crime and money laundering in Ghana is one major step of curbing the menace.

The current bilateral and multilateral cooperation in transnational investigations among West African states and the rest of the world has strengthened the enforcement of both regional and international anti-money laundering conventions and instruments. Some of these conventions include the famous FATF, the Egmont Group recommendations, the United Nations Convention for Organized Crime and Illicit Traffic of Narcotic and Psychotropic substances.

According to Moshi (2007: 710) Africa is mostly faced with series of problems that prevents the fight of money laundering. They include poverty, lack of expertise, weak law enforcement structures, black-market, and weak border control measures.

As a result, West African states, with the help of GIABA must:

- Strengthen Legislations on Anti-Money Laundering (AML) activities.
- Streamline anti-money laundering procedures and
- Include more recommendations from the FATF

4.2 Conclusion

Money laundering has been a major source of worry in West Africa, and this study was carried out to evaluate the level of money laundering in West Africa. The study also ascertained the
level of cooperation between West African governments and GIABA. The finding of the study shows that the implementation of FATF recommendations is at different levels in various countries. Majority of these countries have anti-money laundering legislations, but the effectiveness has been problematic. The study established that these countries are deprived of resources, and expertise, which has resulted in the lack of persecution of money laundering offenders.

4.3 Recommendations

Based on the findings of the study, the following recommendations have been specified.

- **Political Agenda**

  Countries must have the political structures that aim at tackling money laundering. Legislations, sanction, and law should be passed to tackle money laundering legislations. This also requires cooperation with other government and agencies, which includes local and international in the fight of money laundering.

- **Improve Legislation, Implementation and Supervision**

  It is recommended that efforts should be made to ensure bodies that are responsible for fighting money laundering are equipped and ready to fight money laundering. This includes proper supervision and accountability.
It is also recommended that governments in West Africa put in strategies to fight the physical cross border transportation of currency and other valuable assets. This includes empowering security personnel to take actions to effectively fight the phenomenon.

- **Improve Investigation and Prosecution Capabilities**

  Governments should improve their investigative and prosecution capabilities. This involves training of officials and these trainings should focus on criminal investigative departments, training and mentoring these departments and the building of cooperation among departments.

- **Check Money Laundering Risk in the Private Sector**

  All accountable institutions should be encouraged to implement a risk based approach to the management of money laundering risk. A risk based approach provides a framework for identifying the degree of potential money laundering risks associated with customers and transactions. This promotes accountability in institutions, which in turn promotes effectiveness in investing customers that are suspected of laundering money.

  It is also established that accounting institutions should address increasing interconnectedness throughout the world, by enforcing money laundering risk management policies. This involves the appointment of competent money laundering risk managers who can effectively identify external and internal money laundering risks.
• **Improve on Consumer Education**

Consumer education about money laundering should be promoted and to cover the risk attached to their involvement in laundered cash.

• **Enhance Banking Services**

Banking institutions should put in measure to combat money laundering.

• **Sub-Regional Cooperation**

Countries should be encouraged to improve their regional interconnectedness by enhancing regional cooperation and integration.
Endnotes

2 Ibid.
3 Ibid.
Bibliography

A. Books


B. Journal Articles


C. Documents/Reports/papers


Anti-Money Laundering and Combating the Finance of Terrorism. Regional Video Conference Anglophone, West African Region, Gambia, Ghana, Nigeria and Sierra Leone.


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D. Internet Sources


APPENDIX

Sample Interview Guide

1. What is money laundering?

2. Who are the groups involved in the laundering of money

3. Would you agree to the fact that money laundering prevalent in West Africa?

4. Why would you consider money laundering as a security threat to West African countries?

5. What sectors in West Africa (i.e. education, political, economic) have been affected by this menace.

6. What is the link between money laundering and other organized crimes?

7. Name some of the security measures available to deal with the challenges of money laundering in West Africa?

8. What are the involvements of international institutions to permanently curb this menace?

9. In your opinion, do you think that we should opt for measures other than the existing procedures in combating money laundering?

Or

10. Would you also suggest a review of the existing policies in combating money laundering?