

The Role of Banking Sector for Monitoring Money Laundering (An Empirical Study about National Commercial Banks and Jumhouria Bank Operating in Libya)

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Abstract: In this research paper I, study the The effectiveness of the Performance of the banking system in the prevention of money laundering process (An Empirical Study about National Commercial Banks and Jumhouria Bank Operating in Libya), I take two banks in my country Libya. Which consider as the two largest bank working in Libya, Jumhouria Bank and National Commercial Bank. So it's very important we see the aspects of the problem from each sides while Money laundering operations increased worldwide due to the increase of organized criminal groups activities in various fields. Therefore such phenomenon occupied a significant position in the global policy agenda in addition to other issues such as international terrorism. It is worthwhile to mention that money laundering operations form a heavy burden on different countries in the world, which in their turn is looking for the best fighting means. It is well known that banks for one of the most important pillars of money laundering and its fighting alike, since most of money laundering is made through banks. Therefore Central Banks in most world countries set several control procedures to reduce the spread of such phenomena.

I. Introduction

1.1 History of CBL:

The CBL started its operations on 1 April 1956 to replace the Libyan Currency committee which was established by the United Nations and other supervising countries in 1951 to ensure the well being of the Weak and poor Libyan economy. The primary aims of the Libyan Currency committee were to assist Libya in creating a unified currency in all four provinces.

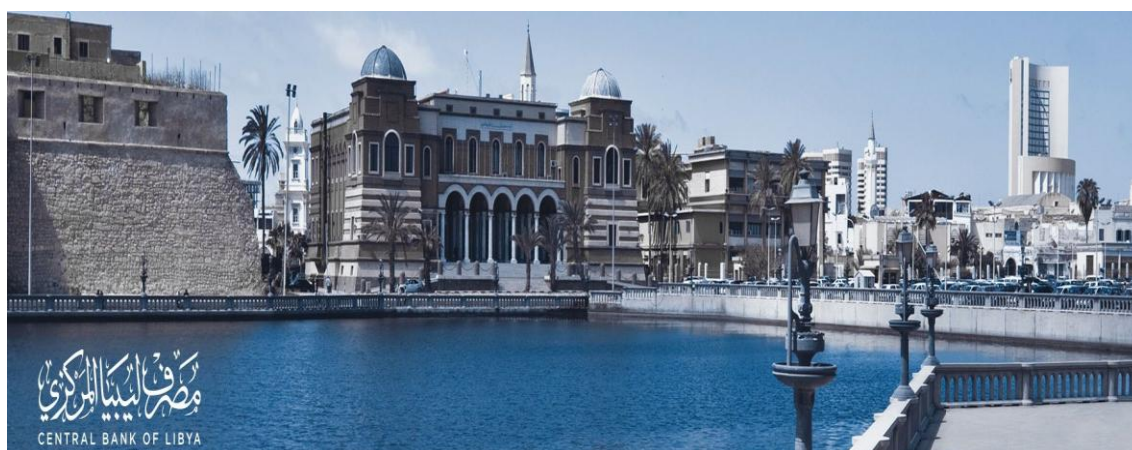


Fig. 1 Central Bank of Libya building in Tripoli

1.1 Objectives

The aim of this research paper as the following:

- ❖ To know the procedure which implementation and application on the banks work in Libya and its performance effectiveness.
- ❖ To know the impedance which confronting Jumhouria Bank and National Commercial Bank and how prevention of money laundering operations.
- ❖ To know the range and domain the both bank Jumhouria and Commercial Bank with follow the international laws for anti-money laundering.
- ❖ How to work on protect and prevention of money laundering.
- ❖ Always continue forward improvement the management of banks to overcome the anti-money laundering.

1.2 Function of CBL

The functions of the CBL have grown since its establishment, and now include the following:

- ❖ Issuing and regulating banknotes and coins in Libya.
- ❖ Maintaining and stabilizing the Libyan currency internally and locally.
- ❖ Maintaining and managing the official reserves of gold and foreign exchange.
- ❖ Regulating the quantity, quality and cost of credit to meet the requirements of economic growth and monetary stability.
- ❖ Taking appropriate measures to deal with foreign or local economic and financial problems;
- ❖ Acting as a banker to the Commercial banks;
- ❖ Supervising Commercial banks to ensure the soundness of their financial position and protection of the rights of depositors and shareholders.
- ❖ Acting as a banker and fiscal agent to the state and public entities.
- ❖ Advising the state on the formulation and implementation of financial and economic policy.
- ❖ Supervising foreign exchange.
- ❖ Carrying out any other functions or transactions normally performed by central banks, as well as any tasks charged to it under the Law of banking and currency and credit or any international convention to which the state is a party ;
- ❖ Managing and issuing all state loans

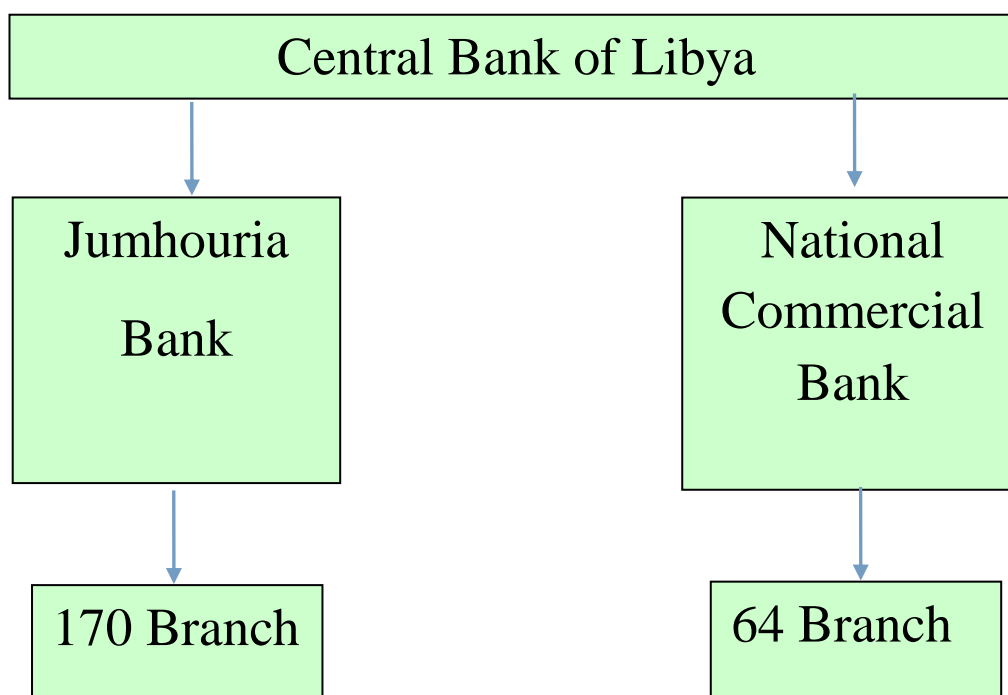


Fig. 2 Block Diagram for jumhouria and commercial Banks in Libya

1.3 Information about large banks in Libya:

According to the Economist, "The commercial banking sector is dominated by four banks - Jumhouria Bank, the National Commercial Bank, Wahda Bank and Sahara Bank. Together they accounted for 86% of total assets, 87.2% of total deposits and 88.9% of total credit at end-September. Jumhouria Bank alone accounted for 38.8% of commercial banking assets, 42.7% of deposits and 40.7% of loans." The banking sector in Libya employs over 20,000 people and is experiencing growth rates in excess of 15% per annum. Despite the growth rate, the banking sector contribution to the GDP remains negligible. The future outlook remains positive on the backdrop of project finance in reconstruction of the country and gradual increase in sophistication of the banking services. Financial sector reform has also progressed with partial interest rate liberalization. Interest rates have been liberalized on deposits, while a lending rate ceiling has been set above the discount rate. The make-up of the sector is likely to change as Libya moves towards increasing the role of Islamic banking. The General National Congress (parliament) is preparing a law that would abolish interest rates on all bank loans. However, conventional interest rates would probably be replaced by profit rates, which are agreed in advance of a transaction by both parties and are commonly used in Islamic banking. Furthermore, the Economist reported, "New data from the Central Bank of Libya show that total lending by commercial banks grew by 19.7% year on year to LD15bn (US\$11.7bn) in January-September.

1.4 Two largest Banks in Libya:

1.4.1 Jumhouria Bank

Jumhouria Bank is the largest bank in Libya and was the result of a merger between Al Ummah Bank and Jumhouria Bank. The bank has about 1 billion Libyan dinar in paid capital, and the total assets for 2012 range from about 33 billion Libyan dinar on the balance sheet to about 12 billion dinar off the balance sheet, for a total of about 44 billion Libyan dinar. The bank grows by 15% YOY and operates a nationwide network of 150 branches. Jumhouria Bank is the largest employer in the banking sector with 6000 employees. Jumhouria Bank alone accounted for 38.8% of commercial banking assets, 42.7% of deposits and 40.7% of loans.

1.4.2 National Commercial Bank

NCB is one of the largest commercial banks in Libya fully owned by the CBL. The bank operates a nationwide network of 64 (2009) branches mainly in Tripoli and Benghazi.

1.5 About KYC functions:

Know Your Customer (KYC) compliance regulation has proved to be one of the biggest operational challenges banks, accountants, lawyers and similar financial service providers worldwide have had to overcome. World-Check, the industry standard KYC compliance solution, provides an overview of KYC compliance and its origins, and outlines the compliance mandate as applicable to banks, accounting firms, lawyers and other regulated financial service providers – not just in the UK, Europe and the USA, but all around the world. Relied upon by more than 3,000 institutions worldwide, this KYC database solution provides effective legal and reputational risk reduction.

“Know Your Customer”

The 9/11 terrorist attacks on the World Trade Centre revealed that there were sinister forces at work around the world, and that terrorists activities were being funded with laundered money, the proceeds of illicit activities such as narcotics and human trafficking, fraud and organised crime. Overnight, the combating of terrorist financing became a priority on the international agenda. For the financial services provider of the 21st century, “knowing your customers” was no longer a suggested course of action. Based on the requirements of legislative landmarks such as the USA PATRIOT Act 2002, modern Know Your Customer (KYC) compliance mandates were created to simultaneously combat money laundering and the funding of terrorist activities. Know Your Customer, or KYC, refers to the regulatory compliance mandate imposed on financial service providers to implement a Customer Identification Programme and perform due diligence checks before doing business with a person or entity. KYC fulfils a risk mitigation function, and one its key requirements is checking that a prospective customer is not listed on any government lists for wanted money launders, known fraudsters or terrorists.

If preliminary KYC checks reveal that the person is a Politically Exposed Person (PEP), for example, Advanced Due Diligence must be done in order to ensure that the person’s source of wealth is transparent, and that he or she does not pose a reputational or financial risk in terms of their finances, public positions or associations. Beyond customer identification checks, the ongoing monitoring of transfers and financial transactions against a range of risk variables forms an integral part of the KYC compliance mandate.

But to understand the importance of KYC compliance for financial service providers better, its origins need to be examined. Origins of Know Your Customer (KYC) compliance the arrival of the new millennium was marred by a spate of terrorist attacks and corporate scandals that unmasked the darker features of globalisation. These events highlighted the role of money laundering in cross-border crime and terrorism, and underlined the need to clamp down on the exploitation of financial systems worldwide.

1.6 International Definition of anti-money laundering:

- ❖ “The U.S.A. Customs Service, an arm of the Department of the Treasury, provides a lengthy definition of money laundering as "the process whereby proceeds, reasonably believed to have been derived from criminal activity, are transported, transferred, transformed, converted or intermingled with legitimate funds for the purpose of concealing or disguising the true nature, source, disposition, movement or ownership of those proceeds. The goal of the money-laundering process is to make funds derived from, or associated with, illicit activity appear legitimate."
- ❖ The EU defines it as "the conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and 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 serious crime."

- ❖ A definition of what constitutes the offence of money laundering under Bangladesh law is set out in Section 2 (Tha) of the Prevention of Money Laundering Act 2002 (Act No. 7 of 2002) which reads as follows: “Money Laundering means -(Au) Properties acquired or earned directly or indirectly through illegal means;(Aa) Illegal transfer, conversion, concealment of location or assistance in the above act of the properties acquired or earned directly or indirectly through legal or illegal means;“
- ❖ Another definition of Money Laundering under U.S Law is, “... the involvement in any one transaction or series of transactions that assists a criminal in keeping, concealing or disposing of proceeds derived from illegal activities.”
- ❖ In Libya the legal and law with number 40 started in year 2002 in supervision of CBL. Its approved by the government of Libya in year 2005.

II. Material and Method

2.1 Introduction

In the initial or placement stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous, smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location. After the funds have entered the financial system, the second--or layering--stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sale of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe.

This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not cooperate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance. Having successfully processed criminal profits through the first 2 phases of the money laundering process, the launderer then moves them to the third stage—integration--in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds in real-estate, luxury assets, or business ventures.

Money laundering can take several forms, although most methods can be categorized into one of a few types. These include "bank methods, smurfing [also known as structuring], currency exchanges, and double-invoicing".

- **Structuring:** Often known as *smurfing*, this is a method of placement whereby cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and to avoid anti-money laundering reporting requirements. A sub-component of this is to use smaller amounts of cash to purchase bearer instruments, such as money orders, and then ultimately deposit those, again in small amounts.
- **Bulk cash smuggling:** This involves physically smuggling cash to another jurisdiction and depositing it in a financial institution, such as an offshore bank, with greater bank secrecy or less rigorous money laundering enforcement.
- **Cash-intensive businesses:** In this method, a business typically expected to receive a large proportion of its revenue as cash uses its accounts to deposit criminally derived cash. Such enterprises often operate openly and in doing so generate cash revenue from incidental legitimate business in addition to the illicit cash – in such cases the business will usually claim all cash received as legitimate earnings. Service businesses are best suited to this method, as such businesses have little or no variable costs and/or a large ratio between revenue and variable costs, which makes it difficult to detect discrepancies between revenues and costs. Examples are parking buildings, strip clubs, tanning beds, car washes, and casinos.
- **Trade-based laundering:** This involves under or overvaluing invoices to disguise the movement of money.
- **Shell companies and trusts:** Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner. Sometimes referred to by the slang term *rathole* though that term usually refers to a person acting as the fictitious owner rather a business entity.
- **Round-tripping:** Here, money is deposited in a controlled foreign corporation offshore, preferably in a tax haven where minimal records are kept, and then shipped back as a foreign direct investment, exempt from taxation. A variant on this is to transfer money to a law firm or similar organization as funds on account of fees, then to cancel the retainer and, when the money is remitted, represent the sums received from the lawyers as a legacy under a will or proceeds of litigation.
- **Bank capture:** In this case, money launderers or criminals buy a controlling interest in a bank, preferably in a jurisdiction with weak money laundering controls, and then move money through the bank without scrutiny.
- **Casinos:** In this method, an individual walks into a casino and buys chips with illicit cash. The individual will then play for a relatively short time. When the person cashes in the chips, they will expect to take payment in a check, or at least get a receipt so they can claim the proceeds as gambling winnings.

- **Other gambling:** Money is spent on gambling, preferably on higher odds. One way to minimize risk with this method is to bet on every possible outcome of some event where there are many possible outcomes and no outcome(s) have short odds – the bettor will lose only the vigorish and will have (a) "winning" bet(s) that can be shown as the source of money should this be requested. The "losing" bets will remain hidden.
- **Real estate:** Someone purchases real estate with illegal proceeds and then sells the property. To outsiders, the proceeds from the sale look like legitimate income. Alternatively, the price of the property is manipulated: the seller agrees to a contract that under represents the value of the property, and receives criminal proceeds to make up the difference.
- **Black salaries:** A company may have unregistered employees without a written contract and pay them cash salaries. Dirty money might be used to pay them.
- **Tax amnesties:** For example, those that legalize unreported assets in tax havens and cash
- A goal of money laundering is to be able to use the dirty money for private consumption. If unable to use it openly, the traditional way to keep the dirty money near is hiding it as cash at home or other places. A more modern method is a credit card connected to a tax haven bank.

2.2 Law No. (2) of 1373 FPD/2005 AD on anti-money laundering in Libya

There seventeen articles, in this paper it shows article 1,2,4 and 11 which is based on the money and anti money laundering.

Article (1): For the purpose of implementation of this law, the following terms and expressions shall have the indicated meaning ascribed to them, unless the context indicates otherwise:

State: The Great Socialist People's Libyan Arab Jamahiriya.

Central Bank: The Central Bank of Libya.

Governor: The governor of the Central Bank of Libya.

Committee: The National Anti-Money Laundering Committee.

Unit: The Financial Information Unit of the Central Bank of Libya.

Illicit property: Movable or immovable, material or moral property appropriated through a crime, whether directly or indirectly, including the documents proving the appropriation of such funds or any right related thereto.

Freeze or seizure: Temporary ban imposed by the competent entity on the movement, transfer, disposal, or use of funds.

Confiscation: Permanent deprivation of the funds by order of the competent court.

Instrumentalities: Any means used or intended for use in any way in the commission of any crime stipulated by this law.

Financial institutions: Any bank, finance company, financial market, bureau de change, financial or monetary intermediary, or any other establishment licensed by the Central Bank.

Other financial, commercial, and economic institutions: Establishments licensed by entities other than the Central Bank such as insurance companies, service bureaus, etc.

Article (2): Money Laundering

Any person who commits any of the following acts shall be considered a perpetrator of a money laundering crime:

- Appropriation, possession, use, exploitation, disposal of any type, transfer, transport, deposit, or concealment of illicit property with the intention of disguising their illicit origin.
- Disguise of the true nature of illicit property; concealment of their location, manner of disposal, movement, or the rights pertaining to their ownership or possession.
- Any form of complicity in the aforementioned acts.
- Funds shall be considered illicit when appropriated through a crime, including those set forth by the UN Convention against Transnational Organised Crime and its annexed protocols, the UN Convention against Corruption, and other relevant international conventions to which the State is party.

Article (4): Money Laundering Penalties

Without prejudice to the penalties stipulated by the Penal Code or any other law for crimes generating illicit property, the money laundering crime set forth by Article (2), Clause (1), shall be punished by imprisonment and a fine equalling the amount of money object of the crime, in addition to the confiscation of the funds.

If the offender is an accessory to the crime through which the funds are appropriated, whether as a perpetrator or accomplice, he shall incur the penalty of the crime with the harsher description, increased to one-third.

If the offender is aware that the funds are generated by a crime punished by a harsher penalty, but is not an accessory thereto, he shall incur the penalty stipulated for such crime.

The institution in the name or for the account of which the crime is committed shall be punished by a fine equalling twice the amount of money object of the crime and the confiscation of the funds. In the event of recidivism, such institution shall be punished by license withdrawal and closure in addition to the foregoing penalties.

Article (11): National Anti-Money Laundering Committee

In accordance with this law, a committee named the “National Anti-Money Laundering Committee” shall be established with the governor of the Central Bank of Libya or his deputy as chairperson and one or more representatives of the following entities as members:

- The Central Bank
- Secretariat of the General People’s Committee for the Financial and Technical Control Authority.
- Secretariat of the General People’s Committee for Justice.
- Secretariat of the General People’s Committee for Public Security.
- Secretariat of the General People’s Committee for Finance.
- Secretariat of the General People’s Committee for Economy and Trade.
- Secretariat of the General People’s Committee for Foreign Communication and International Cooperation.
- Customs Administration.
- Tax Administration.

Representatives shall be nominated by their respective entities upon consultation with the Committee chairperson. The committee composition and remuneration of its members shall be determined by a decision issued by the board of directors of the Central Bank of Libya.

2.3 Influence does money laundering have on economic development

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centers, but inadequate controls, are particularly vulnerable as established financial center countries implement comprehensive anti-money-laundering Regimes. Differences between national anti-money-laundering systems will be exploited by launderers who tend to move their networks to countries and financial systems with weak or ineffective countermeasures. Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country’s commercial and financial sectors are perceived to be subject to the control and influence of organized crime.

2.4 money laundering affects the business

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional, and ethical standards. A reputation for integrity is one of the most valuable assets of a financial institution. If funds from criminal activity can be easily processed through a particular institution--either because its employees or directors have been bribed or because the institution ignores the criminal nature of such funds--the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries, and of regulatory authorities, as well as ordinary customers. As for the potential negative macroeconomic consequences of unchecked money laundering, the International Monetary Fund (IMF) has cited inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers.

2.5 Causes of money laundering occurs

As money laundering is a necessary consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out areas in which there is a low risk of detection due to weak or ineffective anti-money laundering programs. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through areas with stable financial systems.

Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the underlying activity; often, but not in every case, in the country where the funds originate. With the

layering phase, the launderer might choose an offshore financial center, a large regional business center, or a world banking center--any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination. Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

2.6 Four Keys to solve the problem of anti-money laundering as used in united state of America

- ❖ AML programs are, of course, required by the Bank Secrecy Act (BSA) to include the four “pillars”, and the internal controls pillar encompasses a multitude of items, including customer due diligence, monitoring for unusual activity, and combining technology effectively into the program structure. There are, however, four key elements that this author sees as integral to maintaining a sound AML program. These are not the only elements, as evidenced by the bank regulators’ 439-page manual for BSA/AML examinations along with the multitude of other accompanying guidance documents. Consider these four keys as the “basic blocking and tackling” that will keep your AML program in good shape.
- ❖ Know Your Customer (KYC) struggles; technology support issues; and effective monitoring for suspicious activity. And of course, these dated articles included numerous references to intense regulatory scrutiny of AML risk management and the Congressional focus on AML issues and lapses.
- ❖ To mitigate the risks of privately owned ATM relationships, banks should perform initial and ongoing due diligence on privately owned ATM relationships. Account opening questionnaires should ask about the presence of or plans for an ATM. Following are examples of the type of due diligence that may be performed on customers who own or operate privately owned ATM.
- ❖ Finally, the independent audit function fills the third line of defense role by providing independent assurance to the board of directors on the effectiveness of internal controls and adherence to bank policies and procedures. Independent testing is one of the four required pillars of an AML program, and whether conducted by internal or external resources, it should be conducted by staff with the appropriate expertise, have a risk-based scope, and, above all, be objective. Recent federal and state-level enforcement actions have emphasized the importance of all of these points.

III. Result and Discussion

It should be know employment bank to understand the ten fundamental laws of money laundering to reduce this problem as follow:

- ❖ The more successful a money laundering apparatus is in imitating the patterns and behaviour of legitimate transactions, the less the likelihood of it being exposed.
- ❖ The more deeply embedded illegal activities are within the legal economy and the less their institutional and functional separation, the more difficult it is to detect money Laundering.
- ❖ The lower the ratio of illegal to legal financial flows through any given business institution, the more difficult it is to detect money laundering.
- ❖ The higher the ratio of illegal "services" to physical goods production in any economy, the more easily money laundering can be conducted in that economy.
- ❖ The more the business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals, the more difficult the job of separating legal from illegal transactions.
- ❖ The greater the facility of using cheques, credit cards and other non-cash instruments for effecting illegal financial transactions, the more difficult it is to detect money laundering.
- ❖ The greater the degree of financial deregulation for legitimate transactions, the more difficult it is to trace and neutralize criminal money.
- ❖ The lower the ratio of illegally to legally earned income entering any given economy from outside, the harder the job of separating criminal from legal money.
- ❖ The greater the progress towards the financial services supermarket and the greater the degree to which all manner of financial services can be met within one integrated multidivisional institution, the more difficult it is to detect money laundering.
- ❖ The greater the contradiction between global operation and national regulation of financial markets, the more difficult the detection of money laundering.

Suggestion

- ❖ There is no relationship between statistics guidance and role of banks in the money laundering operations and between the bank operations which implementation for verify the customer.

- ❖ There is no relationship between statistics marks, guidance and internal monitoring which implantation in bank.
- ❖ There is no relationship between the role of the banks in monitoring operation in money laundering and the prepare tools of prevention of money laundering.
- ❖ There is no difference in clear of a view of researches about the role of banks and geographic variables as “The Age, level of education, departments, specialization, the name of jobs and the experience”
- ❖ The important studies consider its complete of roles of the bank on The effectiveness of the Performance of the banking system in the prevention of money laundering process (An Empirical Study about National Commercial Banks and Jumhouria Bank Operating in Libya).
- ❖ Possibility or ability of this research paper as guidance notes on prevention of money laundering.
- ❖ Give strong improvement for the banking sector in combating money laundering.

IV. Summary and Conclusion

I hope this research paper has given you a better understanding of:

- ❖ What money laundering is and how it is accomplished.
- ❖ The legal considerations that need to be kept in mind to combat money laundering.
- ❖ Potential indicators of money laundering activity.
- ❖ Resources you can use for additional information.

The negative economic effects of money laundering on economic development are difficult to quantify, yet 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. Developing countries' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money laundering activity through OFC channels. Effective anti-money-laundering policies, on the other hand, reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

The financial sector: A broad range of recent economic analyses points to the conclusion that strong developing-country financial institutions—such as banks, non-bank financial institutions (NBFIs), and equity markets—are critical to economic growth. Such institutions allow for the concentration of capital resources from domestic savings—and perhaps even funds from abroad—and the efficient allocation of such resources to investment projects that generate sustained economic development. Money laundering impairs the development of these important financial institutions for two reasons. First, money laundering erodes financial institutions themselves. Within these

Institutions, there is often a correlation between money laundering and fraudulent activities undertaken by employees. At higher volumes of money-laundering activity, entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their money-laundering channels. Second, particularly in developing countries, customer trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust. By contrast, beyond protecting such institutions from the negative effects of money laundering itself, the adoption of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks, NBFIs, and equity markets themselves, reinforce the other good-governance practices that are important to the development of these economically critical institutions. Indeed, several of the basic anti-money-laundering policies—such as know your-customer rules and strong internal controls—are also fundamental, longstanding principles of prudential banking operation, supervision, and regulation.

The real sector: Aside from money laundering's negative effect on economic growth through its erosion of developing countries' financial sectors, money laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which in turn depress economic growth. As can be seen from the various money-laundering typologies reports, money laundered through channels other than financial institutions is often placed in what are known as "sterile" investments, or investments that generate little additional productivity for the broader economy, such as real estate, art, antiques, jewelry, and luxury automobiles. For developing countries, the diversion of such scarce resources to less-productive domestic assets or luxury imports is a serious detriment to economic growth. Moreover, criminal organizations can transform productive enterprises into sterile investments by operating them for the purposes of laundering illicit proceeds rather than as profit-maximizing enterprises responsive to consumer demand and

Worthy of legitimate investment capital. Money laundering also facilitates crime and corruption within developing economies, which is antithetical to sustainable economic growth. Just as an efficient financial sector

is a key "input" to other productive processes in a developing economy—such as manufacturing—an efficient money-laundering channel is a key "input" to crime because the financial proceeds from crime are less valuable to the criminal (in a sense, an "unfinished product") than are laundered funds. The less expensive the money-laundering "input" to crime is as a result of lax anti-money laundering policies, the more "productive" (active) the criminal element will be, just as in any industry or business. As numerous studies have demonstrated from statistical and anecdotal evidence, substantial crime and corruption act as a brake on economic development, while other studies have shown that anti-money-laundering policies can deter such activity.

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