

The Conduct of Laundering Money through Transport of Cash in the Middle East and North Africa Region

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Abstract—This article mainly aims to detect and understand how money laundering activities are executed by transport of cash, identifying the underlying factors and separating legitimate from illegitimate usage of cash and how it is being used. This research provides academics with additional literature and provides bank supervisors and practitioners with a better understanding of sources and uses of cash in criminal activities and how cash is used in the laundering mechanism. Data are gathered through survey in the Middle East and North Africa region and review of the available research. The results of the analysis will help distinguish the factors affecting preference for cash rather other payment instruments in the region, identify what causes the tendency to launder illegal proceeds through cash transportation and how illegal cash is being laundered and moved. On the other hand, this paper sheds the light on major cash generating criminal activities, its sources and main destinations.

Keywords—Illegitimate activities, cash, money laundering, terrorism financing.

I. INTRODUCTION

BREAKING the audit trail is an essential component in money laundering activities, it is the turning point in separating illicit funds from the originating crime for which cash poses as a highly desired instrument. Due to the high demand for cash, it is moved in vast quantities daily worldwide, by individuals (whether carried on their person, in their baggage, or in a vehicle), in cargo and mail. In every physical transport of cash across international borders two countries are involved at least, and most of those surveyed stressed on the importance of effective international co-operation in controlling this issue. Jurisdictions need to share intelligence and information and facilitate the gathering of evidence by international partners in order to ensure that efforts to fight money laundering are not wasted.

Although payment systems have evolved during the past decades, cash is still prevalent as a payment method in many of the world's largest economies.

This study relies on data gathered in survey from practitioners and supervisors in Middle East and North Africa countries in order to understand how laundering activities are being conducted through transport of cash. This implies that besides the easiness of reach to financial services, there are factors that affect the inclination to using cash rather than other instruments, like checks, credit and debit cards to settle transactions. These factors include:

- a) Cultural considerations: In some jurisdictions, most of the population feel the need to conduct their day-to-day

activities, as well as financial activities, with a minimum of official inspection. They may also like to conceal the worth of their assets away from the government, for tax evasion purposes for example. In these jurisdictions cash is considered as the proper instrument to fulfill these needs.

- b) Cash is commonly accepted: Several studies proved that cash is the favored payment method for transactions of low value [1]-[3]; there is no retail store worldwide that would not accept cash for food or cloth, and this is well understood to anti-money laundering supervisors when assigning minimal threshold for reporting suspicious transactions.
- c) Cash is speedier: when a deal is performed in cash, it is conducted in real time and the payment is instantly collected. Payments executed through the banking system may take several days up to weeks depending on an array of variables including credit terms, non-banking days and delays of clearance etc....
- d) Cash lowers expending: Academic researchers conclude that people paying in cash for goods and services have a tendency to spend less in general since they are more linked with transactions they conduct [1], [3], [4]. These researches reveal that conducting a transaction using credit or debit card has the impact of being a less real transaction, which suggest that the cardholder will be less likely to manage their budget effectively.
- e) Goods on Discount: In several countries a better price for goods and services is negotiated when payment is executed in cash, since some financial institutions charge fees for processing debit/credit card transactions. Some businesses can afford selling goods at lower prices since they may sell goods "off record" in order to evade taxes.
- f) Fees, interest and charges: when buying and selling goods and services for cash, buyers are not charged bank fees or interest on credit payments, therefore expenses for small businesses will drop and profits increase.
- g) Cash is reliable in times of crises: earthquakes, floods and other substantial natural disasters can induce huge disruption to critical infrastructures like power supplies and buildings which cause disruption to financial institutions' operations. In such conditions cash will serve as the only mean of executing financial transactions.
- h) Store of value: In unstable economies, or in countries prone to war or natural disasters, cash assumed to store value safer than a financial institution. In countries foreign currency is considered to be more secure or stable than the local one is used for this objective.

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However, there are many disadvantages to using cash for settlement of large payments:

- a) Bulky and heavy large amounts of cash: Some countries do not print banknotes of high denomination or do not widely make them available; for instance, to make a major purchase the needed amount of cash is substantially heavy and big.
- b) Huge amounts of cash are at risk of theft: When people or business store wealth in cash at home or business location or carried in person they would be prone to thefts; such thefts are usually conducted using threat and physical violence. Bulky amounts of cash carried or stored in this way are seldom covered by insurance, implying that they are unrecoverable in the occasion of a loss.
- c) Limited access to additional financial services: When a person chooses to conduct transactions in cash instead of through bank, this implies that this person builds up a lesser financial profile, which can be a hindrance when they wish to invest or save their incomes, or to apply for additional financial products like personal loans, car or house insurance.
- d) Conducting remote payments necessitates the transport of cash: Transporting cash over long distances in return for purchases to persons situated far away will pose logistical and security challenges and incurs additional costs.

II. LEGITIMATE CASH USAGE

The aggregate value of cash circulated worldwide in 2015 was anticipated to outstrip US\$ 5 trillion. Data from the US Federal Reserve and the European Central Bank lead to the same conclusion, even though they only provide clue for the scale of banknotes' legal circulation, as only two currencies are represented out of the world's top five currencies [3]. Furthermore, in states with undersized banking sectors, transactions of all scales are settled with US banknotes and sometimes this happen in states with advanced banking sectors where currencies are stable, US Dollars are the favored currency for travels, foreign trade, and settlement of transactions in the unofficial sector [4]. However, the Federal Reserve established different statistical models in order to estimate the flows of US currency overseas.

III. ILLEGITIMATE CASH

When examining why criminals seek to launder money by physically transporting it across borders, it is beneficial to consider the objectives they have in mind when doing so. Generally, criminal's objectives could be recapitulated as raising the funds, moving them, and using the funds. Usually, the criminal will set the primary objective(s) (typically the 'Why') then will proceed to the methods used to accomplish these objectives (the 'How' is of the same importance to the 'Where').

- 1) 'Raising' the cash constitutes the first step in the process, and, in terms of money laundering, it denotes to the actual generation of the illegal proceeds.
- 2) 'Moving' denotes the criminal's wish to separate the

criminal proceeds from the crime location, or to move funds held somewhere to another location where they are required. The rationale for moving illegally derived funds from the country where generated will differ from state to another depending on socioeconomic considerations there [5].

- 3) 'Storing' denotes to a criminal's wish or want to maintain cash in a secure site (away from other criminals' reach or the grasp of Law Enforcement). This is probably because the money will serve in a contingency plan when needed or just because the cash laundered reached the maximum laundering capacity so far and the excess cash shall be kept on the side [6].
- 4) 'Using' denotes the usage of the illegally generated funds to acquire assets or to pay for normal for legal daily transactions. It describes also the use of illicit funds to generate further criminal earnings, for instance by partly utilizing the proceeds of the sale of a drug shipment to pay for the following drug shipment.

Once acquired by criminal networks, illicit cash must be moved to other location(s) as stated earlier, methods may differ among states although some are in common. According to data collected from the survey, the way criminally derived cash moves as follows:

- 1) Through cash Courier
- 2) Hidden in a mean of transport
- 3) Hidden in postal parcels
- 4) Concealed at 'plain sight'.
- 5) In containers or other types of freight.

Some answers reflected no concealment at all, where cash is simply held in possession of the subject, this occurs relatively in land borders. On the other hand, data collected identified the following methods being used in surveyed countries to detect and prevent criminal cash shipments:

1. Trained dogs: Although technical innovation in detecting cash transportation is important, trained dogs proved their usefulness and importance in that regard and in several states are used in selecting travelers for inspection.
2. X-Rays: It may pose as old fashioned but utilizing x-ray devices to detect cash hidden in goods or vehicles is still an effective method used by customs and competent authorities as one of the efficient limited resources.
3. Controlled deliveries of cash: This technique is used in few countries, facilitating monitored cash deliveries by law enforcement authorities can be a successful tool in capturing cash smuggling facilitators.
4. Analysis of statistical data: Conforming to international standards, jurisdictions maintain in their databases data pertaining to cross-border cash declarations. This data can be matched against criminal data (conviction data, police data and other databases) in order to identify potential criminals and to serve as intermediary data within the operational and strategic analysis conducted by the country's Financial Intelligence Unit.

It is imperative that when a specific financial crime is more active it may reflect the existence of other factors posing as indirect causes for criminals to divert their efforts in this

direction [7]. This was considered in the survey, answers on whether money laundering through cash transportation were increasing due to other factors revealed the following reasons:

- 1) An increase in the robustness of banking controls
- 2) An increase in criminal activity
- 3) Lax border controls, insufficient resources, or will to implement border controls effectively
- 4) Economic and/or political instability

We recommend countries to consider these factors when conducting their National Risk Assessment mandated by the Financial Action Task Force to member countries.

The Financial Action Task Force (FATF), being the primary standard setter in Anti Money Laundering and Countering Financing of Terrorism (AML/CFT), urged member states to implement recommendation 32 which stated that states in order to detect physical cross-border transportation of currency must have a declaration/disclosure system in place [7]. But that will not be enough for countries to do so, since declarations/disclosures can be misused. Surveyed parties provided many versions with which cash declaration/disclosure can be used to the advantage of criminals; it can be:

1. Utilized to add a layer of authenticity to illegal cash: passengers entering a country in possession of illegal cash would sign a declaration form and proceed inbound, later this declaration form would be used at the bank when this cash is deposited at the destination country.
2. Utilized to provide false register of import/export activities: another practice is that passengers entering a country would fill a declaration form with no actual cash in hand, later criminals will use this declaration form to deposit and deposit illicit cash generated within the destination country.
3. Reused over and over: in this case cash is imported and due declaration form is filled. Criminals will use this declaration form at local banks as proof of authenticity of illegal cash deposited and repeat that at different banks in the city.
4. Used in false cash declarations: in this example a criminal declares an amount of cash which he/she presents to the authorities but having in possession a higher amount hidden and undeclared. Once the criminal can proceed inbound the country holding both declared and undeclared cash.
5. Utilized at one end of the trip: the criminal declares the cash in possession at the outbound country but does not do so at the destination country. If questioned later about the declaration form of the destination country he/she will say that respective authorities did not ask him to fill a declaration form and presents the declaration he filed at the country he/she came from as a sign of "bona fide".

A sample of cross-border cash declaration threshold in surveyed countries shows the following thresholds: BHD 169 (Bahrain), SAR 74 300 (Kingdom of Saudi Arabia), USD 10,000 (Lebanon), JOD 85 486 (Jordan), AED 384 125 (United Arab Emirates), QAR 113 238 (Qatar), EGP 11 091 (Egypt), KWD 710 (Kuwait). However, unlawfully generated cash originates from illegal activities, such activities differ

from country to another since every state has their own risk profile different from the others (even neighboring countries) due to political, economic, regulatory and social factors [8].

Since illegal cash is generated from criminal activities, it is important to shed light on underlying criminal activities whether cash is moving inbound or outbound the country, data analysis revealed the following crimes:

1. Drug trafficking
2. Other smuggling
3. Tax fraud
4. Fraud
5. Arms Dealing
6. Human trafficking
7. Corruption
8. Terrorism
9. Cybercrime
10. Other crimes

In the cases where illegal cash is exported outside the country and money laundering is suspected, analysis of data collected revealed the following destinations:

1. To a neighboring country
2. To the nearest financial center
3. To a more distant country where cash can be introduced to the banking sector easily.
4. To another country hosting criminal groups

On the opposite direction, in cases where illegal cash is imported to the country and money laundering is suspected, analysis of data collected revealed the following sources:

5. From a neighboring country
6. From a more distant country
7. To a legitimate financial center
8. From another country hosting criminal groups
9. As part of supply chain to pay criminal activities

As it is clear, sources and destinations are similar but in different orders as per the direction of the money, this information is beneficiary to countries wishing to shed more light on this issue and assess the inbound and outbound risks related to the transport of cash. They may consider enhancing their border protection, customs and other law enforcement agencies; or revise the due diligence systems and mind the gaps and enhance international cooperation with other Financial Intelligence Units in order to share financial information necessary to reinforce their Anti Money Laundering Regime against illegal cash transportation.

It is important to identify which authorities oversee controlling transportation of cross border cash whether it is transported through mail, cargo, vehicles or passengers, answers in the survey showed the following agencies: Police, Customs, Tax authority, Financial Intelligence Unit, Cross border protection. The mentioned agencies must be in constant development of their skills and know-how in countering cross border transportation of illegal cash.

In the light of advance on the information technology and the techniques used by criminals, comments in surveys suggested to include the following instruments in the context of the subject research:

1. Electronic money

2. Precious metals (diamonds, gold, gemstones)
3. Prepaid cards
4. Jewelry/watches
5. Casino chips
6. Cash cards/stored value cards

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Survey also shed the light on indicators within people conducting cross border transport of illegal cash; the following indicators were revealed:

1. Ownership of large amounts of cash with inadequate explanation.
2. Possession of cash alleged for business while travelling to territories mandating restrictions on cash payments
3. Passenger declaring cash only when intercepted, particularly if the passenger already denied possession of money.
4. Irrational travel patterns, especially to non-touristic countries.
5. Passenger holding some or no luggage.
6. Recursive short notice trips to the same country.
7. Attitude of the passenger: aggressive, inconsistent cover story, reaction to detection dogs...
8. Passenger with connection to a high-risk country, namely origin, destination, previous travels or nationality.
9. Inability to move freely or strange body shape caused by the bulk of cash concealed on the body.
10. Passenger canceling cross border attempt.
11. Cancellation of boarding or check-in at last minute.
12. Passenger holding currency exceeding the amount in threshold of the origin country.
13. Possession of cash in different currencies.
14. Passenger holding cash in denominations different from the currency of the country he/she is travelling from.
15. Passenger in possession of small denominations usually dirty or damaged.
16. Passenger in possession of prohibited or illegal goods (counterfeit items or drugs).
17. Passenger holding a brand-new mobile phone with few contacts or numbers saved within.
18. Traveler leaving the country holding more money than when he entered the country.

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