



DRY CLEANING DIRTY MONEY

ARE YOU DOING ENOUGH TO PROTECT YOUR BUSINESS?

MONEY LAUNDERING The proper term for dry cleaning dirty money is “Money Laundering”. Criminals launder the financial proceeds of their crimes in order to make them appear to have been derived from legitimate activities.

Launderers use intermediaries or providers of financial services to engage in what appears to be normal business activity. Money launderers rely on the negligence or greed of intermediaries to further their criminal activities.

SOURCES OF ILLEGITIMATE PROCEEDS Criminal activity generates proceeds which require to be laundered. In East Africa, proceeds of crime are generated from: corruption; drug dealing; smuggling of precious metals (e.g. diamonds); and violent crime (e.g. motor vehicle theft, cattle rustling and bank robberies).

HOW IS MONEY LAUNDERED?

Criminals will often use three stages to give appearance of legitimate activity. The criminal proceeds are first introduced into the financial system. This stage is referred to as the placement stage. This could be done by setting up cash intensive businesses e.g. retail or passenger transport businesses. The proceeds of crime are then commingled with proceeds of the legitimate business and banked. Placement of illegal proceeds could also be done by purchasing market securities.

Once the proceeds are introduced into the financial system, the launderers then create distance between the illegal activity and the proceeds. This stage is known as layering. In this stage, the proceeds are moved from one institution to another and also, from one jurisdiction to another, through a series of complex transactions and wire transfers. The objective is to hide the source of the funds.

The proceeds have now been ‘dry cleaned’ and can be reinvested into legitimate business such as real estate. This is known as integration.

It should be noted that launderers may not always follow these stages sequentially. This is

especially so in East Africa where our economies are cash-based. A launderer could, for example, invest part of the illegal proceeds in real estate or in the purchase of a vehicle, before introducing the funds into the financial system. This could be an attempt to reduce the amount of proceeds to be placed in the financial system and hence, avoid raising suspicions.

SOCIO-ECONOMIC IMPACT OF MONEY LAUNDERING Money laundering is associated with the underlying criminal activity that generates the proceeds. Therefore, if money laundering is allowed to continue unabated, law enforcement agencies will in fact be encouraging the perpetration of the underlying crimes. The perpetrators of the criminal activities or the consequent organised criminal organisations could acquire large sectors of the economy. Few, if any, investors would invest in such an economy. Low investment means low national income and high unemployment.

Finally, powerful criminal organisations that control a country’s economy would be in a position to undermine that country’s democratic systems. Undeniably, this will worsen an already bad situation where impoverished citizens are denied their human rights, among other rights.

LINK BETWEEN MONEY LAUNDERING AND TERRORIST FINANCING Terrorist financing has been of great concern in the post 9/11 world. The main difference between money laundering and terrorist financing is that the funds for terrorism may originate from legitimate sources as well as criminal activities. The stages used to launder money are the same as those used to conceal the sources of, and the use of, terrorist funds.

Funds used to support terrorism may originate from legitimate sources, criminal activities or both. Nonetheless, disguising the source of terrorist financing, regardless of whether the source is of legitimate or illicit origin, is important. If the source can be

concealed, it remains available for future terrorist financing activities. Similarly, it is important for terrorists to conceal the use of the funds so that the financing activity goes undetected.

COMBATING MONEY LAUNDERING AND TERRORIST FINANCING To fight these two vices, financial institutions should have a risk management framework that addresses the anti-money laundering risk. This framework should ensure that adequate client identification and verification procedures are performed at client acceptance stage, client profiles are updated when material changes occur, transactions and accounts are monitored for suspicious activity, such that suspicious activities are reported to the appropriate authorities when detected. The staff members of these institutions should also be trained on anti-money laundering measures.

CONCLUSION Money laundering and terrorist financing are a top priority on the global agenda. Governments are establishing comprehensive anti-money laundering (AML) laws and regulations which have profound effects on how financial institutions operate. Efforts to combat the financing of terrorism also require countries to consider expanding the scope of their AML framework.

In East Africa, only Tanzania has enacted AML legislation. AML legislation in the other East African countries is still in draft form or being discussed in parliament. This legislation requires financial institutions to have comprehensive and documented Anti-Money Laundering Compliance Programmes. It is, therefore, imperative for financial institutions to begin designing and implementing AML programmes.

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