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MONEY LAUNDERING

Money laundering, also known as "cleaning of money," is the practice of engaging in specific financial transactions in order to conceal the identity, source, or destination of money. Money laundering is a main operation of the underground economy. "Dirty money" is useless to organized crime because it leaves a trail of incriminating evidence. Criminals who wish to benefit from the proceeds of crime have to disguise their illegal revenues without implicating themselves. Therefore, money laundering is a process whereby the origin of funds generated by illegal means such as drug trafficking, gun smuggling, corruption, bribery, embezzlement, fraud, and extortion is concealed. The objective of the operation, which usually takes places in several stages, is to make illegally gained assets appear as though they are derived from a legitimate source. Money laundering is a dynamic process that requires three stages: *placement*, or moving the funds from direct association with the crime; *layering*, or disguising the trail to foil pursuit; and *integration*, or making the money available to the criminal once again with its occupational and geographic origins hidden from view. The consequences of money laundering are detrimental to business, economic development, government, and the rule of law. Money laundering increases the demand for cash, makes interest and exchange rates more volatile, and causes high inflation. The drainage of financial resources from ordinary economic growth is detrimental for the whole economy. Most importantly, money laundering empowers corruption and organized crime.

Money laundering is not a new phenomenon; it is as old as crime itself. However, the forms and dimensions of this type of crime have evolved and have become more sophisticated as a result of the rapid growth of globalization, integration, and economic liberalization, as well as dramatic developments in the provision of financial information, in technology, and in communications. Illegal money can be moved anywhere in the world with speed and ease. Tax havens (offshore centers) that offer stability, quality of service, and bank secrecy allow criminals to shield money in complex networks of shell companies. At the same time, the escalation of the drug market and the globalization of organized crime have led to an increased international awareness of the problem of money laundering. The International Monetary Fund (IMF) estimates that money laundering accounts for between 2 and 5 percent of the world's Gross Domestic Product (GDP), or about $600 billion annually.

While the term *money laundering* was once only applied to financial transactions related to organized crime, its definition has expanded. The term today covers any financial transaction that generates an asset or value as the result of an illegal act, including tax evasion or false accounting. Accordingly, in addition to members of organized crime, individuals, small and large businesses, government officials, and even national governments can be considered money launderers. However, the authorities have reacted primarily to the danger of abuse of the financial market by criminal organizations. Over the years, national and international agencies have created a new relationship between law enforcement authorities and those involved in the financial sector, allowing for a united fight against money laundering. In addition, since September 11, 2001, there has been a coordinated attempt, especially in the United States, to cut off terrorist financing. Through the aggressive pursuit of money trails, law enforcement hopes to identify and capture criminals and terrorists and to deny terrorist entities the funds necessary to finance further acts of terror.

SEE ALSO *Capital Flight; Corruption; Drug Traffic; Finance*

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