Using Money Laundering Investigations to Fight Corruption in Developing Countries:
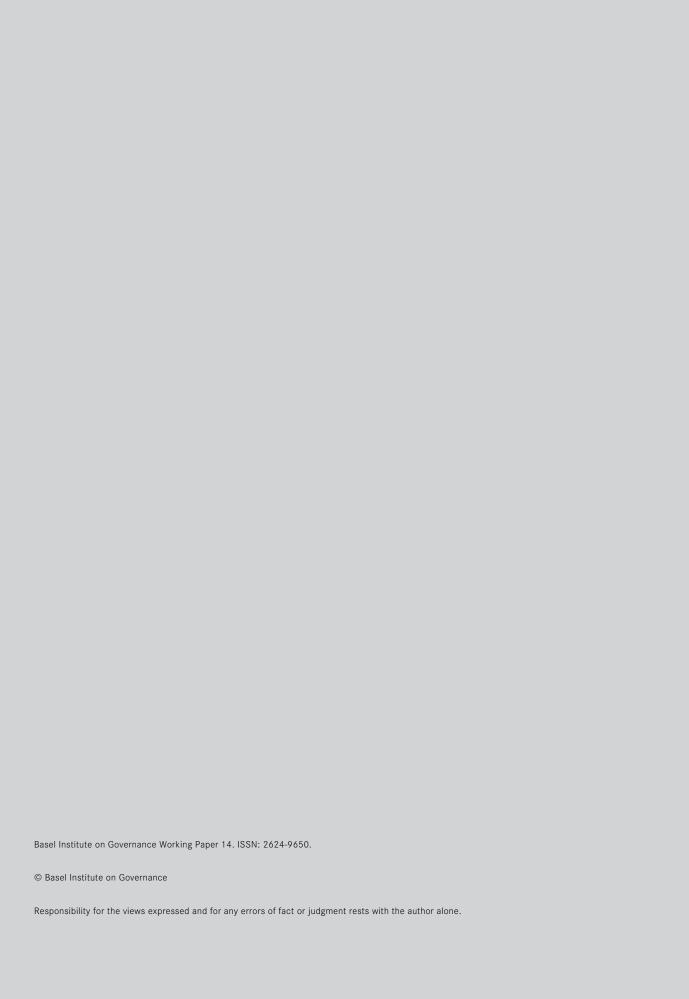# Domestic obstacles and strategies to overcome them

Pedro Gomes Pereira | Alessandra Fontana

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Using Money Laundering Investigations to Fight Corruption in Developing Countries:
Domestic obstacles and strategies to overcome them

Pedro Gomes Pereira | Alessandra Fontana

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About the authors

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Acronyms

AC	Anti-corruption
AML	Anti-money laundering
BoA	Bank of Albania
BoT	Bank of Tanzania
DNFBP	Designated Non-Financial Businesses and Professions
DPP	Director of Public Prosecutions (Tanzania)
EFCC	Economic and Financial Crimes Commission (Nigeria)
EPA	External Payment Arrears (Tanzania)
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial intelligence unit
GDC	General Directorate of Customs (Albania)
GDP	Gross domestic product
GDPML	General Directorate for the Prevention of Money Laundering (Albania)
HIDAA	High Inspectorate of Declaration and Audit of Assets (Albania)
ILECU	International Law Enforcement Cooperation Units
JIU	Joint Investigative Unit (Albania)
MLA	Mutual legal assistance
MoU	Memorandum of understanding
NBAA	National Board of Accountants and Auditors (Tanzania)
OECD	Organisation for Economic Co-operation and Development
PCCB	Prevention and Combating of Corruption Bureau (Tanzania)
PEP	Politically exposed person
SAR	Suspicious activity report
SCC	Serious Crime Court (Albania)
STR	Suspicious transaction report
UNCA	United Nations Convention Against Corruption

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Executive summary

This paper identifies obstacles to effective synergy between anti-money laundering (AML) and anti-corruption (AC) agendas in developing countries, with the aim of making AML contribute more effectively to the fight against corruption. The two countries studied, Albania and Tanzania, were selected because they differ in important respects. They have different legal traditions—civil law in Albania and common law in Tanzania. They also have different institutional systems for fighting corruption, namely a centralised anti-corruption agency in Tanzania and a multi-institutional framework in Albania. Through the analysis of AML systems in these countries, their legal traditions, and current legal and institutional frameworks, this study identifies obstacles to the coordination of AML and AC activities and makes recommendations on how AML could be better employed to deter corruption. While existing literature in the field addresses the obstacles to using AML to fight corruption, particularly through asset recovery processes, its focus is on dealing with multiple jurisdictions at the international level. This issue paper, in contrast, focuses on challenges at the local level. The findings are relevant to a wide range of other countries facing obstacles similar to those identified in Albania and Tanzania.

Key findings

- Due to low levels of trust, government agencies within a country are often reluctant to coordinate efforts and share information with each other. They also struggle to obtain information from their counterparts in other countries.
- Duplication of structures increases bureaucratic overhead and reduces the efficiency of prevention and enforcement procedures.
- There is a lack of formal mechanisms for coordination of anti-money laundering and anti-corruption agendas and agencies. This further weakens the already weak supervision and enforcement capacities of jurisdictions. Combined with a serious shortage of skilled human resources in an area that requires highly educated staff, these obstacles reduce the possibility that AML will be used to support AC efforts.

- The emphasis on the formal banking sector as the main channel for money laundering, and therefore the principal focus for AML efforts, ignores the reality of cash-based economies. It also overlooks the important role of nonbank financial institutions and other businesses as potential channels for money laundering. A related problem is that many developing countries lack formal identification and address systems, making it difficult to verify ownership of financial and other assets.
- The lack of reliable AML statistics impedes identification of the sectors most vulnerable to money laundering. This reduces a country's capacity to strategically develop policies, set priorities, and allocate resources where they can have the greatest impact.
- Finally, abuse of immunity legislation poses a significant obstacle in terms of investigating and prosecuting senior government officials.

Recommendations

1. Improve trust and coordination among agencies, and reduce duplication of structures

Dialogue, cooperation, and information sharing can help build trust and lead to more effective action against corruption. Government agencies should clarify and communicate more explicitly their roles and functions within a country's AML and AC structures. Mechanisms should be put in place to enable constant, direct dialogue and sharing of information between officials of the different institutions, taking into consideration the secrecy requirements of criminal investigations. This would allow them to better coordinate activities with each other and with their counterparts in other countries. Such an institutional mapping is also valuable in identifying duplication of structures and overlapping responsibilities. Efforts should be made to reduce such duplication through necessary changes in legislation. Where avoiding duplication is not possible, alternative mechanisms should be explored to allow institutions to coordinate their efforts through informal means, such as the Joint Investigative Units in Albania.

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Agencies playing a part in AML and AC should be able to channel information to an agency tasked with coordinating AML/AC policy making and implementation. While this might be a new body, it would also be possible to assign coordination responsibility to an existing institution that is already part of the AML/AC framework. This agency should serve as a forum for bringing together the policy views of different institutions dealing with AML, and also monitor the policy implementation efforts of the different frontline agencies.

2. Expand skilled human resources and technical capacity

There is an urgent need to strengthen skilled human resources and provide adequate equipment (vehicles, computer software, surveillance equipment, etc.) to agencies with AML and AC responsibilities. Efforts to upgrade the qualifications of personnel should include not only law enforcement and other public officials dealing with AML and AC programmes, but also the staff of private sector institutions with obligations to report to financial intelligence units (FIUs), especially in sectors most vulnerable to money laundering. These efforts can make use of existing training platforms or local professional networks, but there is also an important role for external technical assistance.

3. Strengthen data collection to provide key statistics

Relevant state agencies should start prioritizing routines to collect and analyse data, including suspicious activity reports at FIUs and data on cases that reach the courts. This is distinct from the role of the coordination agency mentioned above. Here the focus is on collecting data at the operational level to inform decisions on where to focus resources and to track progress as policies are implemented.

4. Establish ID systems and expand access to banking

Improved identification systems are needed to identify ownership of financial and other assets. It is essential to establish formal identification and address registration systems for customers of financial institutions. Establishing or upgrading real estate and company registries is also essential, as these sectors are particularly vulnerable areas for money laundering in cash-based economies. In countries where a large proportion of the population is unbanked, steps should be taken to increase access to banking for the population.
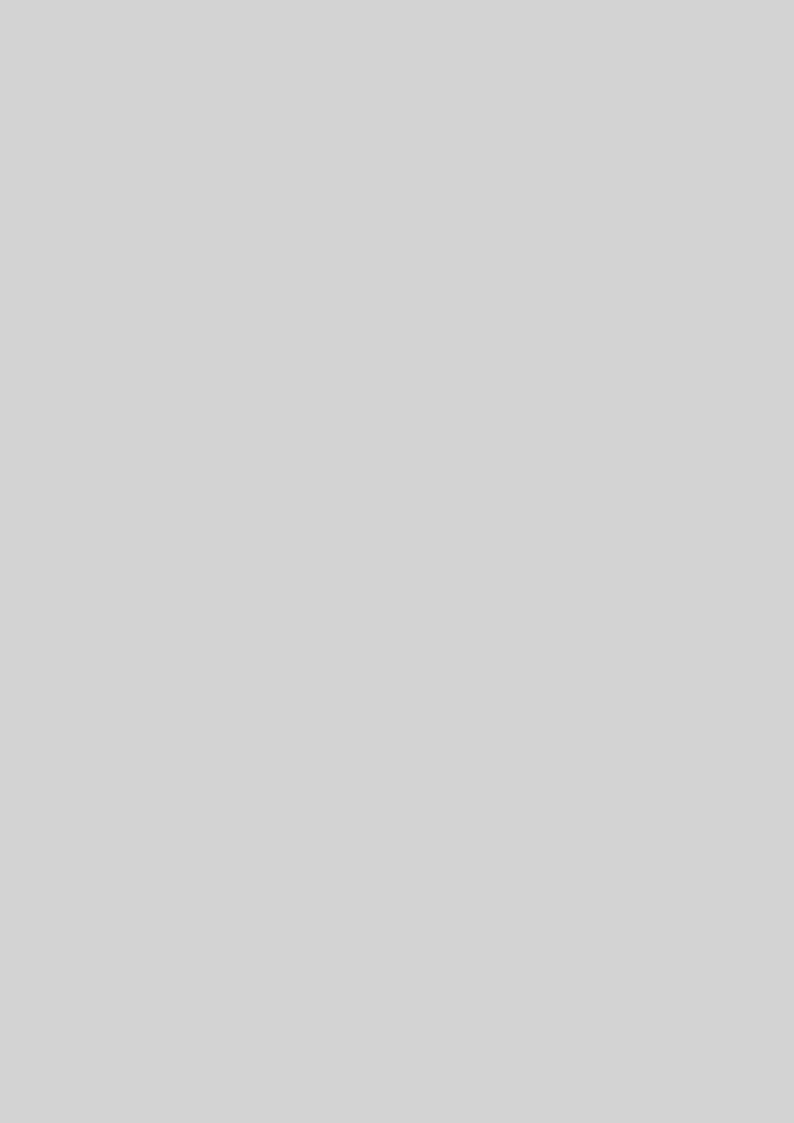
5. Strengthen supervisory institutions and their ability to monitor compliance with AML standards

Supervisory institutions, the agencies in charge of regulating and monitoring the activities of reporting institutions, need qualified staff and adequate regulatory frameworks. Laws or regulations defining their responsibilities should be established in consultation with the supervisory bodies in question so as to build ownership and take their resources into consideration. When such laws already exist, gaps in the laws should be identified and remedied. Priority should be given to sectors most vulnerable to money laundering in developing countries, such as real estate and money remittance businesses.

6. Amend legislation to curb abuse of immunities

The purpose of immunities is to ensure that certain public officials can exercise their functions free from intimidation. However, in many cases this protection has been abused, creating a class of "untouchable" senior public officials. To deal with this issue, amended legislation is needed to change the conditions and procedures through which immunity can be lifted.

In addition to the recommended steps in these six areas, the remaining essential factor is the political will to set up and sustain a functioning AML system. While resistance from vested interests is to be expected, there may be creative ways to overcome lack of will at the highest political level. The example of the Joint Investigative Units in Albania is a case in point. Additionally, civil society and investigative journalism can play important roles in shaping public opinion and contributing to oversight. Capacity building directed at nongovernmental organisations and journalists in the area of anti-corruption should include awareness of the AML agenda and how it can support AC efforts.

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1. Introduction

There is growing acceptance of the idea that anti-money laundering (AML) mechanisms can provide good tools to fight corruption, particularly grand corruption involving large sums.[1] This idea, put forward by Sharman (2011, 176; 2012), is grounded in four arguments that resonate with principles of anti-corruption:

- AML policies have the potential to make a large volume of financial intelligence transparent to authorities. This can be useful as a source of information on potential corrupt activity.
- AML requires, and thus potentially strengthens, international cooperation. International cooperation is particularly necessary in cases of corruption involving large sums, as such funds tend to be taken outside of the countries where they were generated.
- Provisions to recover proceeds of crime (including proceeds of corruption) are among the important tools put in place by AML.
- AML is a framework applied equally to rich and poor countries, so it demands consistency of behaviour on the part of rich countries. That is, developed countries also need to apply the standards they ask developing countries to adhere to.

The experiences of Peru, Nigeria, and the Philippines, among other countries, suggest that Sharman's observation is correct. In those countries, investigation of grand-scale corruption in the 1990s and early 2000s relied significantly on anti-money laundering mechanisms and resulted in recovery of stolen funds. A former head of Nigeria's Economic and Financial Crimes Commission (EFCC) commented:

> *'I realized early on that... [the] anti-laundering arsenal that Nigeria put in place... offered a unique opportunity to address the much broader problem of corruption... . Whereas no major conviction for fraud, money laundering, or corruption had ever occurred in civilian courts in*

> *Nigeria before 2003, the EFCC secured over 250 convictions for financial crimes between 2003 and 2007. That the EFCC obtained convictions in over 90 percent of the cases it sent to court was a measure of its effectiveness. About eight in ten of those cases involved charges of money laundering.' (Ribadu 2010, 9, emphasis added)*

One may question why a set of tools created to hinder circulation of the proceeds of drug trafficking should be so valuable in addressing corruption when so many specific anti-corruption tools are already in place. This question is pertinent given criticisms levelled at AML effectiveness, even in the rich countries for which these standards were originally designed (Reuter and Truman 2004).

The answer begins with recognition that corruption-related offences are made possible by a veil of secrecy around the financial transactions related to corruption. By shedding light on suspicious financial transactions generally, AML mechanisms can aid anti-corruption investigators in discovering both the unlawful financial gain obtained through corruption and the corruption schemes themselves (if the proceeds pass through the channels supervised by AML authorities). This should not be understood as suggesting that AML mechanisms can or should replace the wide range of specific anti-corruption tools. Rather, they should be added to the stock of tools available to practitioners.

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1   For the purposes of this paper, grand corruption is understood as corruption in which large amounts of public assets are stolen by high-level public officials, elected or not.

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Appendix A.
Albania case study

BOX A.1 INSTITUTIONS VISITED IN ALBANIA

- Council of Ministers (Department for Internal Administrative Control and Anti corruption)
- General Directorate of Customs (Anti-trafficking Division)
- Albanian State Police (Tirana Regional Police Directorate; Directorate against Financial Crimes; Sector for Criminal Asset Investigation)
- General Prosecutor's Office (Sector for Economic Crime and Corruption; Joint Investigative Unit of Tirana)
- Council of Europe Project Against Corruption in Albania (PACA)
- Police Assistance Mission of the European Community to Albania (PAMECA III)
- European Union FIU Twinning Project
- General Directorate for the Prevention of Money Laundering
- Embassy of the Netherlands
- Bank of Albania (Non-credit Risk Division)
- High Inspectorate of Declaration and Audit of Assets

Albania is a civil law jurisdiction that has criminalised money laundering in its Criminal Code. Its anti-money laundering provisions are applicable to Albanians and non-Albanians in the country. Given the importance of the international component of money laundering, the criminal offence can also be applied to non-Albanians outside of Albania in cases where the crime was committed against the interests of Albania or its citizens. Criminal investigations are led by the General Prosecutor's Office, assisted by the Judicial Police (Albanian State Police). An investigation has to be concluded within three months. If necessary, a court can extend this time limit up to a maximum of two years. The two-year period begins once the person under investigation has been identified and registered in the investigative files.

Albania is divided into 12 administrative regions. Investigative and prosecutorial authorities working in one region cannot exercise their authority in another, a restriction that poses several challenges. The Serious Crime Court (SCC), established under Law 9284 of 2004 (see section 4), is a significant exception to this rule: unlike other courts, the SCC has jurisdiction over the entire country. But its jurisdiction is limited to the offences prescribed under the anti-mafia law, which include the offence of money laundering but not corruption as an offence predicate to money laundering. This limitation makes it impossible to use the mechanisms of seizure and non-conviction-based confiscation of

proceeds of crime, created through the anti-mafia law, for corruption offences.

A.1. Overarching strategies

Albania has two overarching strategies on money laundering, financial crimes, and corruption. They are, first, the National Strategy against Financial Crime, and second, the Cross-Cutting Strategy for Prevention, Fight on Corruption and Transparent Governance.[2]

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2   The latter title is written as it appears on the English version of the Council of Ministers report. See Republic of Albania (2008).

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A.1.1. National Strategy against Financial Crime

In 2010, the Council of Ministers of Albania approved the National Strategy on the Investigation of Financial Crime. It sets out medium- and long-term objectives as the basis for a detailed action plan to be implemented from 2009 to 2015. According to MONEYVAL (2011), implementation of the strategy includes coordination of the efforts of all relevant agencies.[3] Coordination responsibility is undertaken by the Inter-institutional Technical Group, whose members include, among others, the General Directorate for the Prevention of Money Laundering, the General Prosecutor's Office, the General Directorate of Customs, the Albanian State Police, the High Inspectorate of Declaration and Audit of Assets, and the Bank of Albania. This group is also responsible for monitoring the implementation of the action plan.

A.1.2. Cross-Cutting Strategy for Prevention, Fight on Corruption and Transparent Governance, 2008–2013

This strategy was adopted by the Council of Ministers in October 2008. It seeks to provide for a "progressive and sustainable reduction of corruption" through:

- Reforms for corruption prevention;
- Strengthening the integrity of institutions and promoting good governance;
- Comprehensive monitoring of corruption;
- Strengthening the role of civil society in the fight against corruption;
- Administrative punishment for corrupt officials. (Republic of Albania 2008)

The strategy does not specifically include money laundering. Nevertheless, parties interviewed for this study recognised that there are overlaps that require coordination between the two strategies.

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3   MONEYVAL (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism) monitors compliance by Council of Europe member states with anti-money laundering recommendations.

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Abstract

Anti-money laundering systems have the potential to curb the use of proceeds of corruption and other crimes by the perpetrators. An effectively implemented anti-money laundering framework limits the channels through which illicit funds can be laundered, making crime riskier and reducing the incentives for corrupt activities. However, those who stand to benefit from corruption have strong incentives to block anti-money laundering programmes. In addition, these programmes face significant obstacles to effectiveness in most developing countries. Relevant institutions do not trust each other sufficiently to share information necessary for investigations. Counties lack qualified staff and necessary resources, and slow bureaucratic procedures are unable to keep up with the speed of financial transactions. This paper explores these and other domestic obstacles and suggests strategies to overcome them, based on an analysis of the situations in Albania and Tanzania.