



Los efectos del lavado de dinero en la economía

Hellen Chirino-Roosberg
Curacao

Central and South American Money Laundering and Fraud Convention

Unusual Transactions Reporting Center (MOT)

A photograph of a coastal town, likely in the Caribbean, featuring colorful buildings with red roofs and a prominent blue building. A bridge spans the water in the background, and a large white ship is docked on the right. The sky is blue with scattered clouds.

The effect of money laundering on the economy

Introduction

Money laundering affects the economy

- Which are these effects?
- To which extent are these effects quantifiable?
- Are these effects negative or positive?
- Which steps are being taken?

Macroeconomic indicators

Macroeconomic indicators

- Gross Domestic Product
- Employment
- Balance of Payments

- They form the basis for economic policy decisions

- They signal whether policies in effect are working

Definitions

- **Money laundering**

The effort to transform monetary proceeds, and all financial assets, derived from illicit activities into funds with an apparently legal source.

- **Macroeconomics**

The analysis of the nation's economy as a whole, examining aggregate data such as inflation, GDP and unemployment.

- **Microeconomics**

The analysis of the behaviour of producers or consumers.

Is the effect of ML quantifiable?

- The very nature of money laundering makes it secretive, difficult to detect and therefore only empirical estimates are possible.
- A worldwide consensus has been reached at US\$ 500 billion per year, which is about 2 percent of the global GNP.

Peter Quirk, an IMF advisor states:

- Money laundering and the underlying crimes are detrimental to macroeconomic policymaking.
- Illegal transactions deter legal ones by contamination.
- The criminal activities underlying money laundering redirect income from high savers to low savers or from sound investments to risky, low-quality investments.

Gross Domestic Product (GDP)

- GDP is the value of a nation's output of final goods and services and is the most important indicator of overall economic activity of a country.
- The GDP shows whether the economy is in a recession and whether inflation is out of line.
- The two main inputs of the GDP are capital and labor.

Gross Domestic Product

In small and open economies some people tend to have the attitude that money laundering should be tolerated because of its positive effects:

- foreign money is invested (capital) and jobs are created (labor).
- increase in money supply from money coming from abroad.
- capital can be increased by businesses spending more on investing.

Do these positive effects of ML contribute to sustainable growth?

- Capital coming from another economy has a positive effect on the receiving economy.
- In the beginning good money is intermingled with the bad and the economy gets a boost.
- On the long-run the bad money drives out the good money.
- Further damage is done when the integrity of the market is tarnished.

Do these positive effects of ML contribute to sustainable growth?

- A country which closes its eyes to money laundering activities within its borders will chase away bonafide international business which consequently will lead to an outflow of good money out of the country.
- The GDP is not a reliable measure of social welfare and officially GDP statistics take no account of the so-called underground economy such as criminal activities in money laundering.
- Only if the money laundering activities were to be accepted by the authorities of a country, these activities would be included in the GDP.

Employment

- **Increase in quantity of labour**

results from growth in population, increased participation rates and/or increased hours of work per employee.

- **Increase in quality of labour**

results from increased human capital and shifts in employment from low productivity jobs to high productivity jobs.

Employment

- Launderers create jobs but it's more important to them to “dry-clean” their money than to maximize their profit.
- They are willing to sell below market prices and in doing so, drive out legitimate competitors.
- This results in loss of other jobs and well established businesses.
- Usually no investment is made in human capital.
- Because of deviant management principles laundered money only contributes minimally to long-term economic growth

Balance of Payments

- Is the part of the nation's accounts that shows payments by residents and their receipts from foreigners resulting from international transactions in a certain period.
- This makes money laundering also a cross-border activity, consequently it effects the Balance of Payments.

Laundered money

- causes inexplicable changes in money demand;
- undermines the financial system;
- causes greater volatility of int'l capital flows and exchange rates through unanticipated cross-border asset transfers.

Balance of Payments

- In order to understand monetary behavior, it is essential to identify statistically the country and currency of issuance and the residency of deposit holders.
- Money laundering causes money demand to shift from one country to another which distorts money data having consequences for interest and exchange rate volatility, especially in dollarized economies.

Launders favorite sectors

- Money launderers misuse the financial services and business services sectors.
- They love the very convenient cash-based goods and services enterprises like:
 - souvenir shops jewelry shops casinos
 - car dealerships horeca art shops
 - tourism-based services

Launderers favorite sectors

- Gambling is a simple method for laundering money.
- It's a business that can itself be bought and controlled by launderers.

Negative effects of excessive gambling

- impoverished families
- neglect of children
- disrupted lifestyles

Launderers favorite sectors

- In the construction- and business services sector they are willing to pay more than the true worth.
- This could drive up the real estate prices to levels where large groups of potential buyers or builders are eliminated.
- In most cases where illegally gained money is transferred from bonafide households or business to the offenders, this money and its proceeds changes the economy and is less productive in overall comparison to a transfer to a non-criminal.

The cost of money laundering

- Moreover, it has been established that the cost of laundering is an average of between 30 and 50% of the amount laundered, which certainly is economically unproductive and inefficient.
- Even in cases where the participation of the launderer in goods and services (still) has a positive effect on the economy we should bear in mind that added profit in hands of a criminal gives the criminal more power and could lead to the financing of more crimes, affecting the overall well being of thousands.

Social and political influence

- Launderers sometimes acquire control of large sectors of the economy through investment. Public officials are bribed and even governments can be infiltrated.
- The potential for corruption of the legal, financial and political processes cannot be overstated.
- Money laundering does not only originate from drug trafficking and related crimes, but from all kinds of crime and illegitimate business operations.

Social and political influence

- Money launderers conduct the financial side of their business with “people they can trust” – this means corrupt, for example financiers and lawyers.
- In order to protect their reputation, they foster relations with politicians, those who control the media, and top police – by means that include forms of bribery.
- We can be quite sure that there will be countries around the world that are effectively governed, not by democratic processes but by a corrupted elite protecting a criminal base and financed by money laundering is left unchecked.

Social and political influence

- The compounding effect is present when the corrupted officials and professionals necessarily become launderers themselves because part of their pay-offs received need “good” explanations.

Anti-money laundering efforts

- Many countries have joined the worldwide effort to deter and combat money laundering through bilateral and multilateral agreements, international fora and other cooperative efforts.
- The Vienna Treaty of 1988 concluded that money laundering and its proceeds could be tackled in new ways and that profits derived from organized crime should be confiscated.
- The multi-disciplinary “Financial Action Task Force (FATF)” brings together the policy-making power of legal, financial and law enforcement experts from all its member countries.

Anti-money laundering efforts

- In order to assist the member countries in preventing and combating money laundering FATF introduced 40 recommendations in 1990.
- In this same year Caribbean Countries, including The Netherlands Antilles, followed on the regional level with the “Caribbean Financial Action Task Force (CFATF)”.
- Besides accepting the 40 FATF recommendations, the CFATF introduced an additional 21 recommendations of which 19 were adopted.
- Egmond Group (58 countries)

Anti-money laundering efforts

- The Netherlands Antilles government founded “De Commissie inzake Witwassen van Geld (CIWG)”. This committee was instrumental in the establishment of the FIU “MOT”.
- To deter money laundering and consequently minimize its effect on the Netherlands Antilles economy, anti-money laundering legislation was modeled after the Dutch laws which are in line with the EEC standards and include most of the FATF and CFATF recommendations.

Anti-ML National Ordinances

- The National Ordinance for penalization of money laundering (1993)
- The National Ordinance identification when rendering financial services (1997)
- The National Ordinance Reporting of Unusual Transactions (1997)
- The National Ordinance on Freezing, Seizing and Forfeiture of Assets derived from crime (2000)
- The National Ordinance on Cross-border transactions (to be enacted)

Conclusions

Money laundering has negative effects on the economy

- the enhancement of corruption in all levels of society
- the deterioration of the quality of money supply
- the creation of low productivity jobs and loss of jobs
- the fostering of deviant management
- putting supply and demand in the market in havoc
- sending policy-makers helter-skelter
- causing bad money to drive out good money

Conclusions

- The problem of fighting organized crime and the resulting money laundering is amplified by the globalization of the economy and the expansion of new technologies.
- Countries are working hard on the home-front but also together on an international level to try to deter these problems and their negative effects to an acceptable extent.
- Money laundering undermines the collective ethical standards and weakens the social structure.

Conclusions

- Each self-respecting country will choose for a better quality of life for the larger part of its residents.
- Welfare above wealth is a choice we all must make.

Central and South American Money Laundering and Fraud Convention

Unusual Transactions Reporting Center (MOT)

A scenic view of a coastal town with colorful buildings and a large white ship docked at a pier. The buildings are in various colors, including blue, yellow, and red. A large white ship is docked at a pier on the right side of the image. The sky is blue with some clouds.

**The effect of money laundering
on the economy**

October 9-11, 2001

By H. Chirino-Roosberg

Case “Dreamhouse”

- Ali was offered a non-refusable offer.
- His own bank did not give him a loan but instead a letter of recommendation.
- Ali did not make any effort to find out who his partner was.
- Ali received briefcases with cash money from his partner.

Case “Dreamhouse”

- Jimmy set up a criminal organization in which he had:

- drug couriers;
- money couriers;
- immigration officials;
- policemen;
- an airline employee;
- bank clerk.

- Ali was exchanging foreign currency for local currency.

Case “Dreamhouse”

- During the investigation Ali was linked to Jimmy.
- MOT made a positive match with police intelligence.
- Ali and Jimmy were reported by MOT to the Public Prosecutor.

Result Case “Dreamhouse”

● 100 police units in Aruba, Curacao and The Netherlands operated simultaneously in 34 house-searches:

- * 120 kilos of Cocaine
- * 2 guns
- * US\$ 400,000 confiscated
- * 21 persons convicted and ...
- * more arrests to follow