

KEYNOTE ADDRESS

BY

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AT THE

OPENING OF THE WORKSHOP ON MONEY LAUNDERING AND OTHER

FINANCIAL CRIMES

HELD AT THE

BANK OF SIERRA LEONE

STAFF RECREATIONAL COMPLEX

KINGTOM, FREETOWN

MONDAY 12TH SEPTEMBER, 2005

Director General, West African Institute for
Financial and Economic Management (WAIFEM),
Directors of the Bank of Sierra Leone,
Distinguished Guests,
Workshop Participants and Facilitators,
Ladies and Gentlemen,

1.0 **OPENING**

On behalf of the President, His Excellency, Alhaji Tejan Kabbah, the government and people of the Republic of Sierra Leone and the management and staff of the Bank of Sierra Leone, it is my pleasure and honour to welcome you all to this ceremony. I urge all of you, especially the first timers to Freetown, to feel at home and enjoy the warm hospitality of its people.

Ladies and Gentlemen,

- 1.1 This workshop could not have been more timely and relevant against the background of the rapid globalization of the financial and payments systems of countries. Concomitant with these developments is the growing abuse of the payments system for criminal activities, some of which have brought untold devastation and misery to millions of innocent persons. For us in Sierra Leone, the workshop is particularly timely against the background of our recent experience and the passage of the Money Laundering Bill. We commend WAIFEM for choosing Freetown as the venue for the program.

1.2 My aim this morning is not to pre-empt the experts who have been invited to discuss the nitty-gritty of money laundering with you during the week. What I intend to do is to place the workshop in proper perspective by flagging a few issues which I consider germane to the nature, effects and consequences of money laundering.

2.0 **WHAT IS MONEY LAUNDERING?**

Money laundering has been defined as the processing of money obtained from illicit activities into the economy in order to conceal its criminal antecedents. Hence, money laundering is basically a derivative crime. Three distinct stages may be discerned from the elaborate and complex conversion process of cleansing the money of its murky origin:

- i) **Placement:** which involves the physical disposal of cash proceeds from criminal activities. It could take the form of lodging it in a bank account or some other deposit money taking financial institutions;
- ii) **Layering:** which is a complex web of financial transactions to separate the proceeds from their illicit sources. This stage includes **smurfing** which involves the use of multiple cash deposits, each smaller than the minimum cash reporting requirement; and
- iii) **Integration:** the process of legitimatizing the illicit proceeds by investing in legitimate economic activities such as real

estate, manufacturing, agricultural and commercial activities.

2.0 SOURCES OF MONEY LAUNDERING

In the past, emphasis had been placed on the drug trade as the principal source of cash that is laundered. We now know that other nefarious activities which include, but not limited to terrorism, tax evasion, robbery, arms trafficking, extortion, prostitution, smuggling, contract killing, human trafficking, oil bunkering, advance fee fraud (aka 419) and identity theft are veritable fountains of cash for money laundering. In the West African sub-region, the principal sources of money laundering are corruption and illegal exploitation of natural resources, especially mining.

Ladies and Gentlemen,

3.0 WHY THE CONCERN OVER MONEY LAUNDERING?

A recent report to the organization for Economic Cooperation and Development (OECD) listed some West African countries as hot money friendly. Concern over money laundering is growing because of its perverse effects on the socio/economic environment and its close links with organized crime. Banks and other institutions have collapsed while the political and social stability of nations have been undermined by the phenomenon. Money laundering is no respecter of race, geographical boundary, level of economic development or political ideology.

- 3.1 Armed with the immense financial resources at their disposal, money launderers (read criminals) can compromise persons and institutions to acquire economic, social and political power. Using such corrosive weapons as graft and corruption, money launderers have shown amazing capacity to bribe their way through law enforcers with incredible ease. They would go the extra kilometer to be at least one step ahead of the law. They acquire the latest technology for their operations and when apprehended, can afford to hire some of the best lawyers in town to defend them successfully. This tends to encourage contempt for the law and undermine public confidence in the law enforcement and judicial systems.
- 3.2 Another reason why governments are keeping at least one eye opened over money launderers is their potential to exploit their connections with the underworld to raise an illegal armed force to challenge the authority of the state or even constitute themselves into a state-within-a-state. The experiences of some Latin American countries bear eloquent testimony to this fact. Here in Africa, the phenomenon of war-lordism which drives the numerous civil conflicts in the continent is sustained by money launderers who have the capability to undermine national security and hijack the political and economic systems. This prospect is particularly troubling for the fledgling democracies and emerging markets in the ECOWAS sub-region.
- 3.3 Criminals generally live on the fast lane. Their flamboyant life styles create the erroneous impressions that honesty and hard work do not pay. Governments have a duty to discourage the

cancerous spread of this, that is, by halting money laundering dead on its track.

4.0 **ECONOMIC IMPLICATIONS**

There are no accurate statistics about the size of laundered cash globally. Estimates by the Financial Action Task Force (FATF), put the size of the money laundered at about 2 to 5 percent of the world's gross domestic product (GDP). This amounts to hundreds of billions of US dollars.

4.1 A major consequence of money laundering is its crowding out effect on the development of genuine indigenous entrepreneurship. Money launderers can, and often “dump” imported goods in the domestic market at prices below the production costs. This practice tends to reward the money launderer and the foreign exporter at the expense of the domestic economy. The banking system is particularly vulnerable to the effect of money laundering. By its character, laundered cash is hot and volatile. It could be here today, gone tomorrow! Its domiciliation is inversely related to the degree of transparency and disclosure requirements of the financial system. Its movement is seldom driven by traditional economic fundamentals. Rather, laundered money moves largely in response to changes in legislation on bank disclosure and financial regulation.

4.2 Thus, a bank can suddenly find itself faced with withdrawals of huge amounts of money due to laundered money fleeing from law enforcers and financial regulators. This could impair the liquidity profile of the bank and in some cases, trigger a collapse as in the case of Bank of Commerce and Credit International (BCCI). The

extent of the resultant domino effect is closely related to the affected bank's asset holdings in proportion to the total assets of the financial system.

4.3 **Danger Signals**

Ladies and Gentlemen,

As you are aware, financial sector reforms have brought in their wake the sale of government equity in banks and the licensing of new banks and other financial institutions. Many West African governments have also embarked on the privatization of public enterprises and the sale of their shares in the capital markets. These laudable measures also create money laundering opportunities for criminals. Without adequate safeguards, organized crime syndicates can launder their way into the board rooms of strategic enterprises and the commanding heights of the economy! Hence, the need for West African governments to put in place appropriate measures to prevent their economic reforms programs from being hijacked by money launderers.

5.0 **IMPLICATIONS FOR CREDIBLE FINANCIAL STATISTICS**

For the fragile financial systems of ECOWAS countries, the need to sustain the modest gains of recent financial sector reforms cannot be overstressed. This is because a sudden upsurge of criminal cash flowing through a financial centre may create an erroneous impression of growth and a short-term boost to national savings. This can distort or inhibit the compilation of accurate statistics of the banking system. The danger is that such laundered funds may equally dry up rapidly due to attraction to a more liberal financial centre, moving to confuse the audit trail, or simply on the run from law enforcers.

6.0 EFFORTS AT COMBATING MONEY LAUNDERING

Several attempts have been made to tackle the problem of money laundering. These include the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (popularly known as the Vienna Convention) which provides the basis for virtually all legislation on money laundering. The Basle Committee Statement on Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering in December, 1988 outlines some basic policies and procedures that should guide bank managements in the fight against money laundering. In 1989, the Group of Seven (G-7) industrialized countries established the Financial Action Task Force (FATF) on money laundering to encourage international assistance in money laundering cases.

6.1 Coming closer home, Nigeria blazed the trail on the war against money laundering with the promulgation of the National Drug Law Enforcement Agency Decree of 1989, which was the first attempt to criminalize money laundering in the sub-region. Since then, most of the countries of WAIFEM states have enacted specific legislation against money laundering. Permit me to anticipate that the outcome of this workshop will facilitate the effective enforcement of the anti-money laundering legislation. I am informed that a whole session will be dedicated to a discussion of these and other international initiatives. As a cross-border crime, money laundering requires international cooperation to combat.

7.0 THE WAY FORWARD

During the course of your deliberations at this workshop, I urge you to consider critically the impediments to the effectiveness of the existing anti-money laundering legislations in the sub-region with a view to finding lasting solution to them. These include non-cooperation by some countries in enforcing existing legislation and inter-agency turf wars on the part of law enforcers in individual countries.

- 7.1 Furthermore, the existing anti-money laundering legislations have not been included in the basic banking laws. This is perhaps in deference to banking secrecy. To my mind, banking legislation should strike a judicious balance between the confidentiality desirable for normal transactions and the need to report suspicious transactions to the appropriate authorities.

Distinguished Guests,
Ladies and Gentlemen,

- 7.2 If the war against money laundering must be won decisively, the authorities must put in place measures to keep abreast of changes in banking legislation, practices and the growing sophistry of the launderers. For instance, the Internet, where it is difficult to identify who the customer is, offers fresh opportunities for criminals to launder dirty money through e-commerce. This calls for inter-agency cooperation in the fight against money laundering. It is also important to strengthen the capacity of the various functionaries charged with different aspects of anti-money laundering compliance schemes. They need to acquire the specialized knowledge necessary to design and implement compliance schemes, using modern methods, techniques and

technology. It is in this light that I commend WAIFEM and its partners for organizing this regional workshop. The law enforcement agencies and the judiciary should be well resourced to enhance their operational capabilities.

8.0 **CONCLUSION**

In conclusion, I wish to implore all of you, especially those visiting Freetown for the first time, to seize the opportunity offered by the workshop to explore the beauty of the city. I hope that you will also use this forum to interact among yourselves and open new vistas of friendship and better understanding.

8.1 On this note, Distinguished Guests, Ladies and Gentlemen, I have the singular honour to declare open, the **Regional Workshop on Money Laundering and Other Financial Crimes** organized by WAIFEM.

I wish you fruitful deliberations and thank you once again for your kind attention.