THE CONCEPT OF MONEY LAUNDERING

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ABSTRACT

In this research, a brief study was presented on the crime of money laundering, through which several points were addressed. At the beginning, we got to know the concept of this crime in general. Then we moved on to give a historical overview of it and its beginnings, and then to discuss the position adopted by the Islamic Sharia regarding this crime. Then the stages that this crime goes through during its execution were studied. Then, the ways in which money is laundered through companies, gambling, trade, and other methods used in the world were discussed and explained.

Keywords: banks - money - transfer - laundering - the state

INTRODUCTION:

Money laundering is a term which is closely related to felony crimes, as the purpose behind such crimes is to employ illegal funds. It is comparable to criminal activity where the goal of the unlawful activity is to further financial interests. As a result, the concept of money laundering has associated with the development of illegal source funds and with the development of their various sources. It was initially associated with smuggling and prostitution crimes. The crime of money laundering is distinguished from other criminal crimes, as its investigation requires obtaining illegal funds as a result of committing a criminal crime, and then investing these funds in legitimate activities without exposure to the risk of seizure and confiscation by the legal authorities. Money laundering is described as a crime as a procedure that does not go against the law. Its goal is to amass a sizable quantity of cash and conceal or transform the origin of these illicit funds into monies that appear to be of a lawful character in front of the public and government institutions. An example of this is money collected through criminal activities related to drug trafficking or financing terrorism and other crimes. This crime has had many methods and methods in the past period, as it has developed and increased in our present time. It also spread in several countries around the world, so it had to be combated and controlled. (Al-Mahdi & Ashafie, 2005).

This chapter includes many matters that must be clarified, according to the following:

FIRST: ASPECTS OF DIFFERENCE FOR THE CONCEPT OF MONEY LAUNDERING

Despite the development of terminology over the passage of times, the content itself is a dangerous process through which illegal funds are obscured. It was characterized by economic corruption in several developing countries after they opened up to Western countries. This is what led many individuals to turn to prohibited means of earning money, such as trading in arms and drugs, and other methods that collect a lot of money. This money is placed in banks whose job is to cover up these operations. (Ahmed, 2012)

THE IMPORTANCE OF THE TOPIC

Money laundering is one of the vulnerabilities that threaten any country in terms of social and economic aspects. As a result, the legislator has placed the legal texts that criminalize it. It also makes a form of violation for the divine texts in the Islamic Sharia, because it is collected from sources that have been forbidden by the Sharia. The importance of this research lies in the following:

1. The importance of this note is clearly noticed in clarifying the damages resulting from this phenomenon on the religious, economic and social aspects. (Mohamed, 1999)
2. The note derives its importance from the fact that it focuses on researching this phenomenon, which can be considered fairly recent. Therefore, it is characterized by scarcity in the research and messages that it deals with.

WHEN DID THE FIRST MONEY LAUNDERING PROCESS APPEAR?

Money laundering first appeared in USA in the 1920s, when a group of criminals obtained huge sums of money through illegal gambling, alcoholic beverages, and other activities in hidden places. In 1986, USA declared money laundering a crime punishable by law. USA has approved two criminal provisions accordingly.

SECOND: THE POSITION OF ISLAMIC LAW ON THE CRIME OF MONEY LAUNDERING

The concept of money laundering, which is considered to be the transfer of money coming from illegal sources from forbidden money to well-made money. If it is used into a job, it is considered to be in violation of Sharia and its provisions. Islam forbids every process of earning money in a prohibited way, including laundering money that is obtained from crimes, forgery, prostitution, theft, plundering, assaulting and plundering the property of others, and other methods prohibited by Islam. From the point of view of Islam, these funds are forbidden, whether before or after laundering. All money obtained through theft must be returned to its owners if they are Muslims, and in the event that its owners die, the money is returned to their heirs. However, if the owners of the money or their heirs are not known, then the money that was stolen shall be given on their behalf. However, if the owners of the money are infidels and they are known or their heirs are known, the money must be delivered to them. If none of them is known, then it must be spent for the interests of Muslims. It is not given in charity on their behalf because it is not true because they are infidels. Nonetheless, if the money was obtained with the consent of its owner, in exchange for a forbidden benefit, such as singing, adultery, selling alcohol, and so on, then it must be spent for the interests of the Muslims, such as building bridges, paving roads, building schools, orphanages, and so on.

THIRD: THE STAGES OF MONEY LAUNDERING

The mechanism of money laundering consists of several steps, as follows: (Al-Safar, 2003)

1. Deposit stage: At this step, which is known as the replacement or employment phase, a significant sum of illicit funds is spent through a variety of techniques. These methods are done either by depositing this money in a bank or financial institution, or converting it into foreign currencies, or buying high-priced real estate, luxury cars, and yachts that are easy to sell and dispose of at a later time. For those in charge of it, this step of money laundering is one of the most challenging since it typically involves very large sums of liquid money, which makes it easier to identify who did it and connect him to the source of the money. (Khalaf, 2019)

2. Camouflage stage: It is the stage of obfuscation or collection, which is carried out after the money to be laundered becomes within the channels of the legitimate banking system. The person who launders money takes the next step by differentiating or separating this money from its illegal source by means of many complex banking operations that take the form of legitimate banking transactions. The previous stages aim at making it difficult to know the source of these illegal funds. The repetition of the transfer of these funds from one bank to another, and the electronic mechanism for them, which increases the complexity of the process of tracking these funds is among the most important of these methods. It can also be transferred to other banks that have strict rules regarding confidentiality in deposits in other countries. (ibid,66)
3. Inclusion stage: It is the last stage of money laundering, through which the stamp of legitimacy is added to these funds. Hence, the name of this stage is known as a drying stage. Through this stage, these funds are integrated into the state economic cycle and its banking system, with the aim of making them like returns or legal gains for commercial deals, such as artificial loans. When we reach this stage, it is difficult to distinguish between the illegal money that has been laundered and the legitimate money, except in the case of conducting secret searches and placing informants among the gangs that do so.

FOURTH: METHODS OF MONEY LAUNDERING:

The methods of money laundering are numerous and have developed over time in association with local and international economic and legal changes:

1. Dummy Companies: These are foreign companies in disguise that represent legal entities that have no commercial objective, but rather their goal is to launder illegal money in general. The main objective of establishing these companies is to elude the security services to convert the funds resulting from illegal trade into fair and legitimate funds, through monetary deals or through loan agreements.
2. Customs Declaration: Where smugglers use this type of money laundering when one of them enters a country to conclude a business deal. One of the smugglers declares in the customs declaration that he has an amount of money when in reality he has a much smaller amount. If the customs officer discovers it, the smuggler would announce his mistake and forgetfulness. If this is not discovered, the smuggler would enter the country with proof that he owns that amount. When he leaves the country, he would justify that he couldn't make the deal. (Mustafa, 2008)
3. Acquisition of expensive and light-weighted objects: Those people with illegal income resort to this method to hide their money, such as jewelry, ornaments, and antiques. They resort to this method because the sellers of these collectibles accept this money without knowing the true source of it.
4. Jewelry trade: Drug stores maintain huge reserves of liquid funds in order to carry out buying and selling operations. The drug trafficker hands over the money he wants to launder to the jeweler, who mixes it with his spare money. The smuggler recovers his illegal money after a while, as if it were the result of actual speculation on jewelry.
5. Fake gambling: Money launderers resort to casinos and gambling halls by exchanging illegal money for casino chips in order to make their money legitimate. The money launderer redeems these bucks and gets cashier's checks or drafts drawn on the casino's account and then presented to their bank by the recipient of the check. He deposits it in the account of the beneficiary, who is the owner of the illegal funds, and in this way the funds acquire their legitimacy. (Azhrani, 2011)

6. Money Exchange offices: This method is carried out by using money exchange offices that exchange the currency and then transfer it to other institutional places to launder illegal money. It is easy for money launderers to control these offices, because they are owned by one person or a limited number of individuals. Money launderers carry out suspicious financial transactions, that are difficult for the competent government authorities to monitor or disclose, through the offices. Money exchange offices also convert internationally known currencies resulting from illegal operations into local currencies of a country, such as the Egyptian pound. Then these offices transfer it to a bank in the country that owns the currency, i.e. in Egypt, there is an account in it for the owner of illegal funds.

WHAT ARE THE ECONOMIC EFFECTS OF MONEY LAUNDERING?

Money laundering destabilizes the economic situation of countries, as it results in several negative effects, including: (Hassan, 1999)

1. The lack of equal competition between local and international investors, which leads to a delay in local and international investments. As a result, capital movement, currency exchange rates, and interest rates will decline, in addition to the instability of the global financial market. There is also a lack of economic trust and credibility, where it becomes possible for countries to take wrong domestic and international economic decisions that are not commensurate with the economic situation, which negatively affects economic statistics related to national income. These measures also affect the preparation of social and economic development plans badly. As a result of distorting the nature of consumption and spending, the money saved for the sake of meaningful investment operations will be lost.

2. Weak fiscal and monetary policy: All countries build fiscal and monetary policies in order to achieve economic balance. When the country follows monetary policy in order to maintain monetary balance and inflation, this policy will be affected by illegal funds that are not with the central bank. This problem is considered one of the biggest problems facing the central banks of different countries, as these banks apply monthly exchange rules in order to maintain the balance of the economy. However, illegal funds stand in the way of achieving the desired goals.

In addition, when money laundering enters the economic market, fiscal policy becomes useless in the economic milieu. Money laundered has no use in production or consumption, because it does not aim for profit but rather aims to hide financial resources. Buying and selling takes place without paying attention to financial policy, which is what developing countries are suffering from at the present time because the economy of these countries is polluted with this money.

3. Distortion of the financial system: In general, money is not related to financial instability, but we must link it together because these financial activities are not only considered a by-product of serious criminal acts, but rather these activities affect and pollute unrelated institutions. However, it is being used as a financial institution without its knowledge by criminal elements dealing with criminal elements in money laundering. Thus, these institutions put their reputation at risk. When the financial center is subject to money laundering, then the entire financial system would become suspicious. (Abdul-Jawad, 2007)

4.Lack of tax return: As a result of illegal smuggling of capital abroad, this would lead to the removal of these funds from the economic cycle. Thus, there is a weakness in the exploitation of local resources due to the low taxes collected from these smuggled funds. These funds are within the foreign investment financing organization and are far from the taxes of the local economy.

5.Low national income: The national income of a country is defined as the sum of revenues that are obtained through the use of production factors from citizens to produce services and goods during a certain period of time inside or outside the country. It is distributed again through money laundering operations, in which money is smuggled out of the economic field and the local production is deprived of capital. Thus, it becomes difficult to produce national services and goods, which leads to a decline in national income. Some studies conducted in the United States of America on illegal income indicated that this income is the main reason for the decline in the productivity rate in the national economy by 28%. (Bin Nasir et al. 2005)

6.Low savings rate: A good savings rate guarantees investment, as it carries out the process of balancing between those who need financing and those who are able to finance. An example of this negative saving is the saving in the accounts of the owners of laundered money, as this crime leads to a decrease in the savings rate due to the money smuggled abroad, which is related to cash and bank transfers between local and foreign banks. In this case, local savings will not be able to meet investment needs. This is one of the cases that make savings levels drop when money launderers buy gold and expensive antiques. This leads to an increase in money orientation towards consumption and a decrease in the rate of saving. Thus, here we see the inverse relationship between savings and money laundering.

7.High rate of inflation: as the process of money laundering tends to consumption and thus the increasing demand for commodities. That is, the process of money laundering causes an increase in prices in general, which leads to an inflation of the aggregate demand in society, and from that the deterioration of the purchasing power of money. As a result, inflation occurs in the economic milieu. The relationship of money laundering with the rate of inflation is a direct relationship. In the sense that the greater the amount of bleached money, the higher the inflation rates. An increase in the rate of inflation in any country will inevitably lead to the following results:

a. The deterioration of the value of the national currency: The crime of money laundering is linked to the increasing demand for foreign currencies due to the conversion of smuggled funds into these currencies with the aim of depositing or investing them abroad. Consequently, the value of the national currency will decline, which leads to the formation of danger to the national economy due to money laundering. (Bin Nasir et al. 2005)
b. As a result of money laundering, there is a deficit in the balance of payments, especially the trade balance, the balance of capitalism, and foreign cash reserves, in addition to the increase in debt on the state due to the increasing demand for foreign currency. Consequently, a crisis occurs in foreign exchange liquidity, and as a result, the state's reserves of foreign currency with the central bank decrease.
c. These are some of the economic effects of the crime of money laundering, due to which many illegal businesses easily occur in countries with the aim of covering up illegal funds in those businesses. Due to the increase in illegal spending, the economic risk will increase because this crime is not only a threat to the national economy, but also a threat to the entire global economy.

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