

A magnifying glass is held over a document that features a line graph. The graph has a vertical axis with numerical values: 200, 240, 280, 320, and 360. The horizontal axis is labeled with 'Q' and 'J'. The magnifying glass is positioned over the graph, and a hand holding the handle is visible on the right side. The background of the document is filled with text and other graphical elements.

**Money Laundering and Terrorist Financing
Trends and Indicators in the Middle East &
North Africa Region -Update
2013**

May 2013

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Introduction

As MENAFATF is seeking to recognize the most updated ML/TF trends and indicators in the region, TATWG has recommended at its meeting held on the margin of the 14th plenary (People's Democratic Republic of Algeria, November 2011) the study of the typologies report on "ML/TF trends and indicators" once again with a view to identify the latest developments in this regard, update the report which was previously adopted and update the list of indicators that may be used by the private and public sector to detect ML/TF potential activities.

Objectives of the project:

The main objective of the project is to gather and analyze the most updated information on ML/TF trends and indicators in the Middle East and North Africa since 2010 and draft a report on the outcomes. The present report is an update to the previous report adopted by the MENAFATF in 2010; it will present the developments that have occurred at the level of ML/TF trends and indicators and which may be reflected in the analysis of the case studies and some related statistics.

Approach adopted and the most important sources:

The response to the attached questionnaire and the case studies provided by member countries are the most important sources of information to complete the project; they have been analyzed and the results were compared to those concluded in the previous report in 2010 on the level of the predicate offence, the used tools, technique and the misused entity to identify hence, the developments concerning ML/TF trends and indicators.

Member countries participating in the project:

MENAFATF comprises 18 states; out of which 7 participated in this project by providing case studies: the Hashemite Kingdom of Jordan, Kingdom of Saudi Arabia, State of Qatar, Republic of Yemen, Lebanese Republic, Kingdom of Bahrain and Sultanate of Oman.

Case Studies:

The study covered 23 case: 20 on money laundering and 3 on terrorism financing. The number of incoming cases and used in the report is relatively low compared to that of 2010 which amounted to 89 cases.

Despite the low number of case studies obtained, they have mostly reflected common trends and techniques of ML/TF operations in the MENA countries.

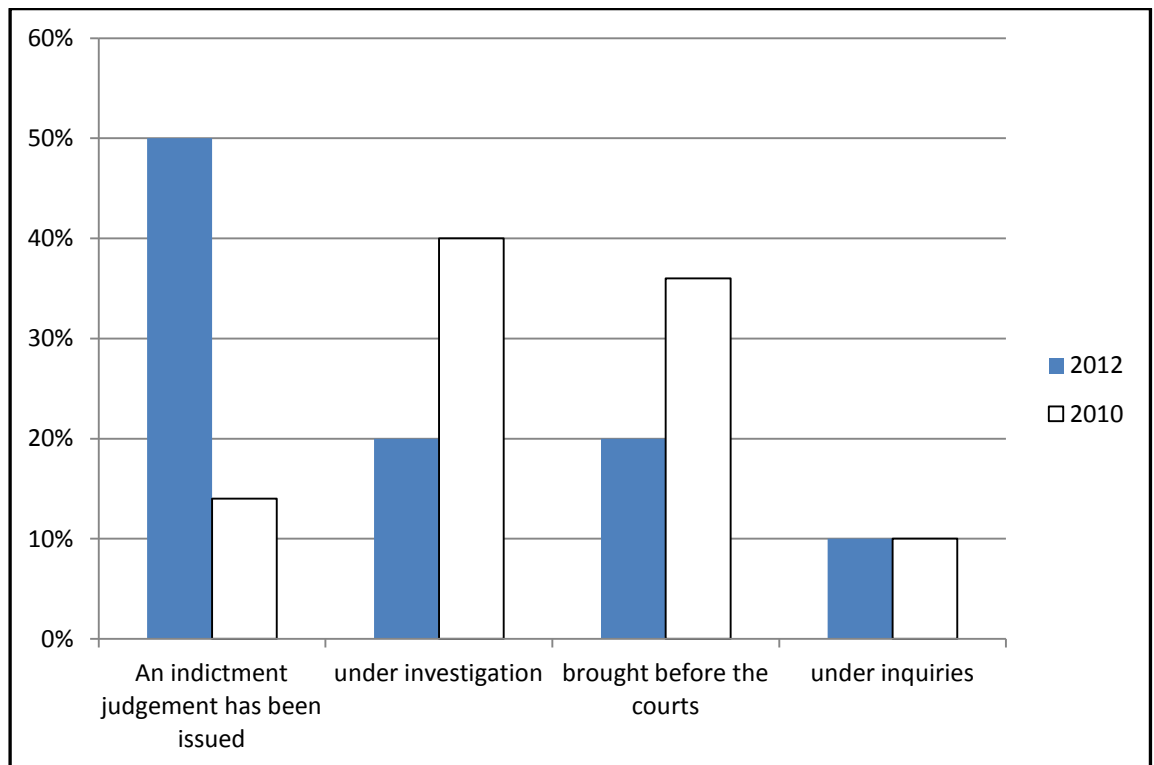
Section One: Money Laundering (ML)

First: Outcomes of Analysis of ML Cases.

The number of ML cases included in the study was 20 cases. The following is the outcome of their analysis:

a) ML Cases based on the status of the case

The distribution of ML cases occurred based on the status of each case, i.e. whether an indictment judgment has been issued in the case, the case is currently brought before the courts, or it is currently under investigation or inquiry as follows:



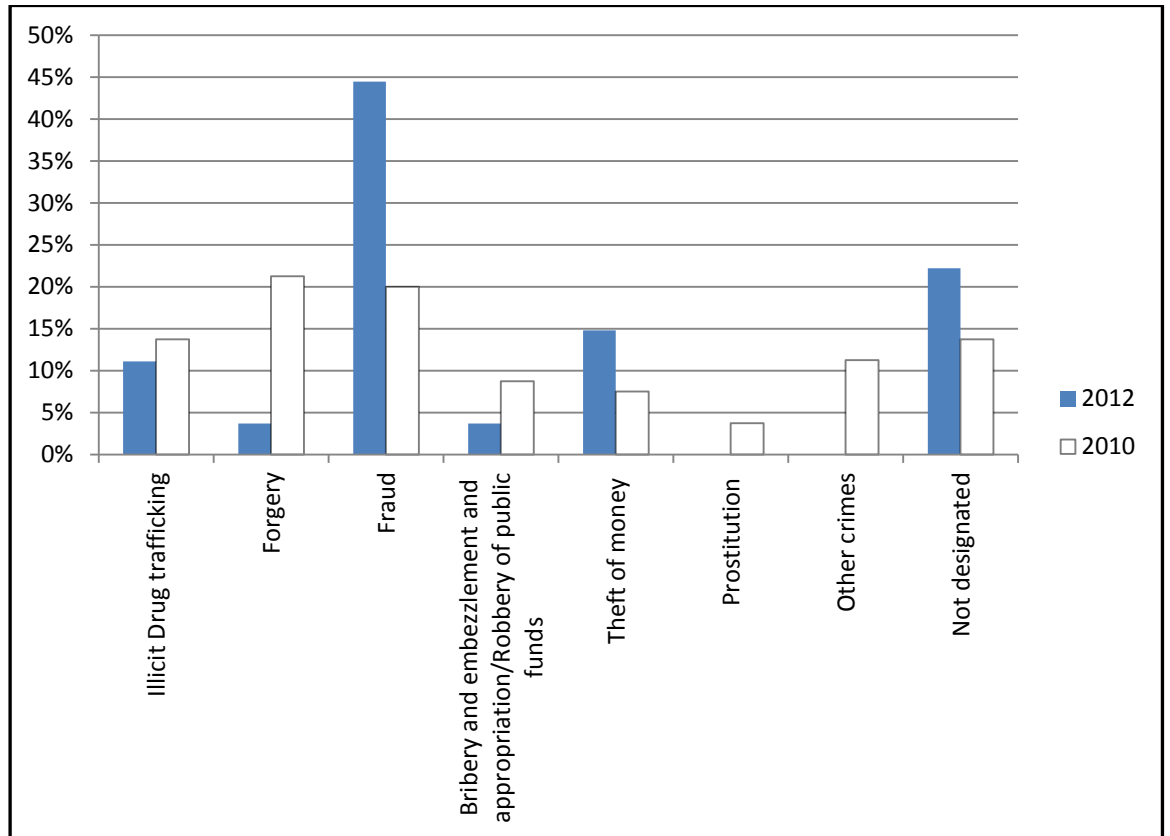
(Chart 1: ML cases based on the status of each)

Commenting the previous chart, the following is concluded:

The cases included in the study are of high quality as almost 70% are in the jurisdiction stage (cases in which judgments were issued or cases brought before the courts). The percentage rises to 90% if the cases still under investigation are added. These cases have gone beyond the initial suspicion stage to a more advanced one, which reflects the role of the FIUs in providing efficient information and high quality reports as well as the major role played by LEAs in finding evidence on the commitment of a ML offence. It is worth to indicate that such percentages largely match those concluded in the study made in 2010.

b) ML Cases by Predicate offence

The following chart shows the recurrence of the predicate offenses illustrated in the analyzed cases, noting that some of the cases involve more than one predicate offence.

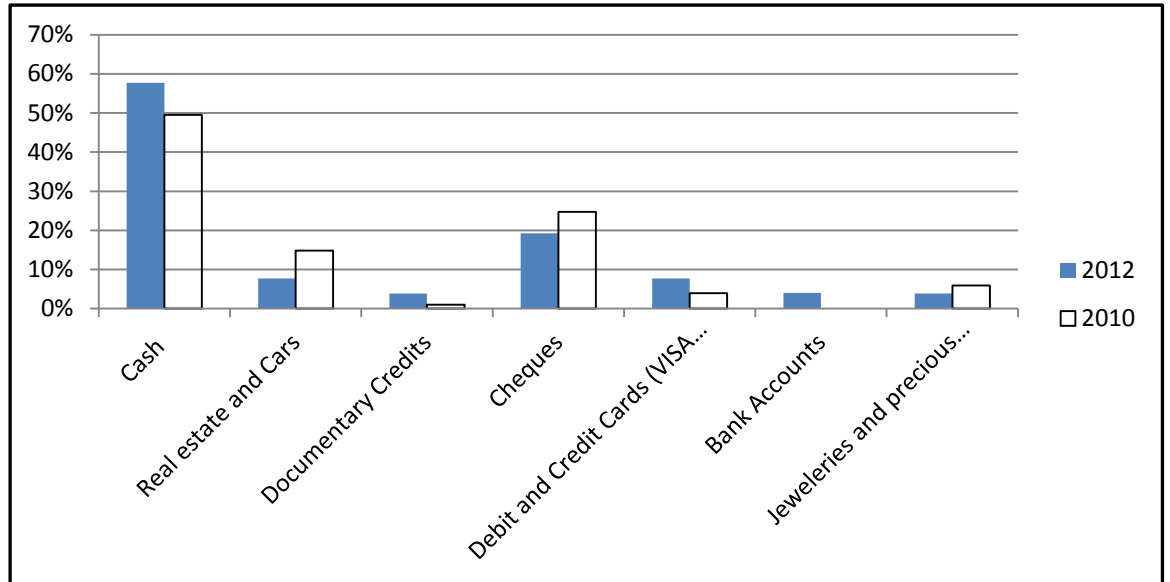


(Chart 2: Predicate offences and their recurrence in ML cases)

Pursuant to the above chart, the crimes of deceit and fraud and illicit drug trafficking as well as theft of money were the most recurring crimes in the cases. Compared to 2010, we note that the crimes of counterfeiting and bribery have decreased while the crimes of deceit, fraud and stealing funds have doubled. It is worth to indicate that the number of crimes where the original crime has not been identified is most probably cases still under investigation.

c) *ML Cases by the tool used*

The following figure shows the number of recurrence of the used tools in the cases taking into consideration that many of the cases involved the use of more than one tool:



(Figure 5: The used instruments and their recurrence in ML cases)

Commenting on the above, the following is concluded:

- The wide use of cash in most MENAFATF countries, as it was the most used tool at a percentage of 56% of the total used tools set out in the cases in 2012; it represented 50% of total used tools in 2010.
- Checks ranked as the second used tool in ML cases (25%) in 2010 and 19% in 2012. This confirms the fact that banks are the most misused financial institutions in ML operations.
- An increase in some other banking tools (such as payment cards, letters of credit and others) in the reported cases.
- The analysis confirmed a trend to misuse the non-financial sector despite the decrease in the recurring use of real estates, cars and jewelry together as a misused tool in ML operations from 21% in 2010 to 19% in 2012.

d) *ML Cases by Technical Method/Technique*

The following table illustrates the percentage of recurrence of the techniques in the cases received in 2010 and 2012, taking into consideration that in many times, the same case may involve more than one technique:

No.	Technical Methods	2012	2010
1	Transfer of funds.	35%	24%
2	Deposit of funds in bank accounts	32%	20%
3	Smurfing/Structuring the amounts in deposits, withdrawals, or transfers into several transactions/accounts.	9%	7%
4	Purchasing real estate/cars/jewelry/other movable or immovable assets.	6%	8%
5	Dealing through intermediaries by delegating/authorizing them to conduct transactions through the accounts of the suspects or deposits done through them in the accounts of the suspects or issuing checks in their favour or using their accounts in conducting transactions	3%	17%
6	Using forged deeds or documents.	3%	7%
6	Opening several bank accounts.	3%	4%
6	Conducting transactions in the name of/ establishing shell companies or making fake contracts.	3%	4%
6	Physical cross border transportation of funds	3%	4%
6	Currency exchange.	3%	2%
	Obtaining/paying loans.	0%	2%
	Establishing companies in a jurisdiction known for secrecy.	0%	1%

Pursuant to the previous table, transfer of funds remains the most commonly used technique (accounting to 35% in 2012 and 24% in 2010 as per the cases); which would require paying a higher attention to the transfer operations by establishing mechanisms to promote the supervision, particularly transfers via the internet.

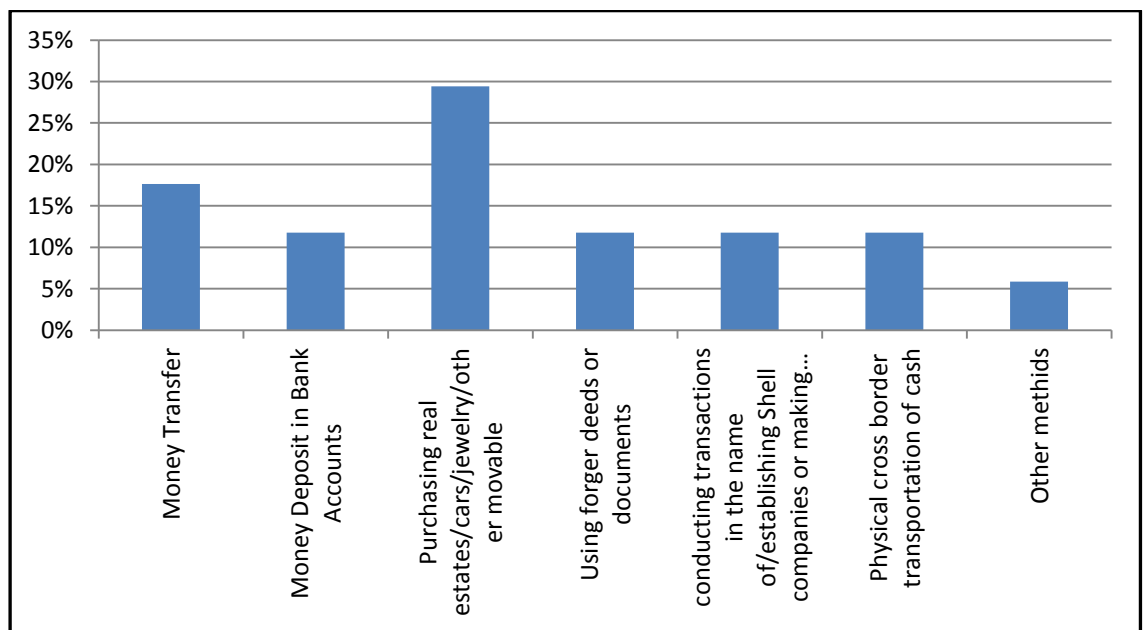
The table confirms the importance of the technique of depositing funds in bank accounts where the use of such technique reached 32% in 2012 and about 20% in 2010; which requires paying a higher attention to the cash operations with many inherent risks by establishing appropriate mechanisms to promote the supervision – particularly on ATM withdrawals and deposits on one part and working on reducing reliance on cash and encourage dealing with other tools on the other part.

Smurfing/Structuring the amounts in deposits, withdrawals or transfers into several transactions/accounts was ranked 3rd place in terms of recurrence at the rate of 9% unlike the outcomes of the cases reported in 2010 report where the third position we find the technique of dealing through intermediaries by delegating/authorizing them to conduct transactions through the accounts of the suspects or deposits done through them in the accounts of the suspects or issuing checks in their favor or using their accounts in conducting transactions at the rate of 17%.

The technique of purchasing real estates/cars/jewelry/other movable or immovable assets was ranked 4th in 2010 and 2012 on the level of recurrence at the rate of 6% and 8% respectively.

The recurrence of techniques such as dealing through intermediaries by delegating/authorizing them to conduct transactions through the accounts of the suspects or deposits done through them in the accounts of the suspects or issuing checks in their favor or using their accounts in conducting transactions or using forged documents or opening bank account or dealing in the name or establishing shell companies or signing many fake contracts, the cross border cash transportation and currency exchange was almost equal.

Hereafter are the most used “conventional” techniques in money laundering and terrorist financing and which have according to the member countries emerged for the first time:



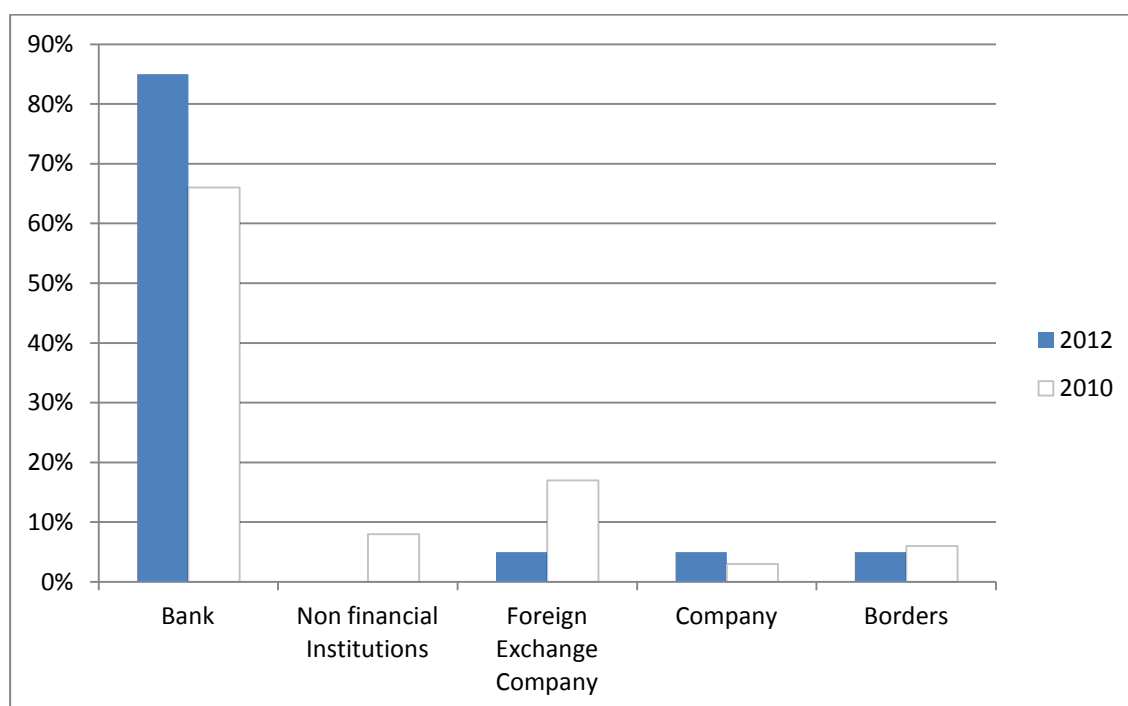
(Chart no 4: The “traditional” techniques that have emerged for the first time and their recurrence in ML cases)

Commenting the previous chart, the technique of purchasing real estates/cars/jewelry/other movable or immovable assets is the most conventional technique that has emerged the most for the first time in some MENA countries, followed by the transfer of funds then the use of forged documents and dealing in the name of/establishing shell companies or signing shell contracts, cross border transportation of funds then decreasing and increasing (inflating) the invoices as part of import and export operations.

The fact that such traditional/conventional techniques are appearing for the first time in many MENA countries, reflects the adoption by the criminals of techniques – even if considered conventional on the international level– relatively new given that they were never used before on the local level in many countries, in an attempt to avoid the techniques already used and which may be subject to supervisory measures making them gradually more risky. As well, such information may also reflect the improvement of FIUs and LEAs performance and their increasing efforts in detecting such techniques although existing and adopted since a while by the criminals; which remains of course a positive thing.

e) *ML Cases by misused entity*

The following chart explains the percentage of recurrence in misusing the different types of entities in the cases:



(Chart no 5: the misused entity and the recurrence in ML cases)

The previous chart reaffirms the previous conclusions made to the cases reported in 2010 stating that the FIs mentioned in the cases (banks and exchange companies) represent the largest part of the misused entities (90% in 2012 and 83% in 2010). The Non financial institutions amounted to 5% and border points at 5% in 2012.

Second: Suspicion Indicators related to Money Laundering

The suspicion indicators have been concluded from the analyzed cases; Most of them were mentioned and tackled in the previous typologies report on ML/TF trends and indicators in 2010. However three new indicators have been identified based on the classification adopted in the previous report as follows:

a) Indicators related to financial transactions

- The quantity of goods subject of trade is not commensurate with the quantity of the goods that are usually exchanged in the sector
- Import and export operations with countries known for drug trafficking

b) Indicators related to the conduct of the suspect

- The suspected does not comply to the banks 'request being to provide additional information and documents.

Hereafter is a reminder of ML indicators that were previously identified in 2010:

a) *Indicators on Customer Due Diligence.*

- (1) The suspect presents very limited or incomplete data with the purpose of concealing important information such as his actual place of residence.
- (2) Presenting false data or data that is hard to verify such as refusing to submit the original documents especially those related to identity verification.
- (3) Presenting unclear or suspicious information such as an inoperative telephone number or one that did not exist in the first place.
- (4) The value and recurrence of the operations (deposits/withdrawals/transfers...) are not consistent with the information available on the suspect, his activity, income, lifestyle and attitude.

b) *Indicators on the Beneficial Owners.*

- (5) Dealing through several persons and the existence of several authorized persons to sign on one single account among which there is no a clear relation especially persons of foreign nationalities.
- (6) Using bank accounts of other persons.
- (7) The beneficial owner belongs to an organization reputed for criminal activity.

c) *Indicators on Account movement (When it is not commensurate with the nature of activity or when it does not have a clear economic justification).*

- (8) Overseas or inside transfers conducted frequently or in large amounts and repetitively.
- (9) Transfers incoming to the account followed by cash or checks withdrawals or outward transfers.
- (10) Transactions are conducted in rounding numbers.
- (11) Depositing large amounts.
- (12) Deposits of large amounts are shortly followed by transfer operations.
- (13) Value, recurrence or type of transactions is not consistent with the nature of account and its expected activities.
- (14) A new account receiving a large transferred amount.
- (15) Recurrence of transfer/ deposit operations in such a manner that reflects structuring a large amount.
- (16) Sudden activity/movement over an inactive account especially when done in large amounts.
- (17) Local transfers in large amounts followed by transfers overseas in different currencies.

d) *Indicators on Information Provided by Other Entities.*

- (18) The appearance of signs of luxury on the suspect and his family in an exaggerated way which might not match his economic status (especially if it was sudden).
- (19) There is a criminal record for the suspect, the beneficial owner or any of the parties involved in the operation.
- (20) The purchase of real estates/ cars/ jewelry/ other assets of high value.
- (21) Forgery is proved in documents or deeds.
- (22) There are parties in the operation (suspect, beneficial owner or others) under investigations by a foreign entity.
- (23) A natural person and legal person share a common address.
- (24) Absence of an accounting system (for companies).

(25) There are fake contracts with other parties.

e) Indicators on the Cross Border Transportation of Funds

(26) Possessing a large amount of cash across borders.

(27) Not presenting the declaration/disclosure form on cash possession.

(28) Presenting a false declaration/disclosure.

f) Indicators on Financial Transactions.

(29) Purchase or sale of securities under unusual circumstances or conditions such as the purchase of shares in a losing company.

(30) Type of goods in action is not consistent with the nature of the customer's activity.

(31) The clients who pay loans before the deadline especially if the payment is in cash.

(32) The clients who request loans against assets of unknown source.

(33) Transfers in equal or close values for several persons in different countries, or to one beneficiary in several accounts.

g) Indicators on the conduct/attitude of the Suspect.

(34) Avoid direct contact with the bank employees such as constantly dealing through ATMs and avoiding the bank officials whenever they try to contact him.

(35) Signs of confusion and nervousness appear on the suspect or his representative during the execution of the operation.

(36) The suspect owns several bank accounts without clear justification.

(37) The suspect or his representative inquires a lot about the AML details.

(38) The suspect or his representative requests the cancellation of the transaction as soon as the bank employee tries to obtain missing important information.

Third: Money Laundering Trends

Through the ML cases that have been analyzed, it is clear in comparison with 2010, that the trend to launder money derived from crimes of deceit, fraud and illicit drug trafficking remains; however, laundering of funds proceeding from counterfeiting crimes has decreased while the cases of laundering funds, being the proceeds of stealing funds has increased; which is a developing trend.

Among the ongoing trends is the misuse of financial institutions, especially banks and exchange companies, in ML operations. The use of these two types of financial institutions was highly recurring; which is confirmed by the fact that cash and checks are listed as the most misused tools in ML operations in addition to the recurrence of money transfer and deposit in bank accounts as the most used ML techniques. The new trends that were mentioned in some cases include among others: the use of internet to conduct suspected banking transfers and the use of ATM for withdrawal and deposits on a recurring basis.

The trends also involved, even if to a lower degree and varying from one country to another, the misuse of the non-financial sector, particularly dealers in precious metals and dealers in precious stones, real estate agents and car dealers as well as dealing in the name of/establishing shell companies or shell contracts, cross border transportation of

funds, decrease and increase (inflation) of invoices as part of import and export operations.

Section Two: Terrorist Financing (TF)

First: Outcomes of the Analysis of TF Cases.

The TF cases involved three cases. The common factor in the analyzed cases was the reliance on banks deposits and transfers. The outcomes of the analysis of these cases are as follows:

a) TF Cases based on the status of each case

The study revealed that for all the cases, an indictment judgment has been issued, the commitment of a TF crime has been proved and the appropriate penalty has been imposed. The foregoing indicates that the investigation and judicial entities deal effectively with such cases.

b) TF Cases by the tool used

Cash was used as a TF instrument in all TF cases in addition to transfers and checks.

c) TF Cases by Technical Method/Technique

A common technique was adopted among the three TF cases being: outward transfer of funds unlike in 2010 report where the cross-border physical transportation of funds was the common technique among all cases reported. In addition to this technique, one of the cases involved another technique being dealing through intermediaries by delegating/authorizing them to deal in the accounts of the suspect, make deposits through them in the accounts, issue checks in their favor or use their accounts in transactions. As well, two cases involved the technique of collecting donations and delivering funds directly to suspected persons.

d) TF Cases by the misused entity

The misused entity in the three cases was the banks; it is worth to indicate that the reporting entity to two cases was the LEAs which had investigative information revealing that some persons have joined terrorist organization which enabled cooperation among the authorities and FIUs towards identifying mechanisms of funding used, detecting the conspirators and obtaining other useful information.

Second: Suspicion Indicators on Terrorist Financing.

The suspicion indicators related to the analyzed TF cases were identified; it was clear that most of them were mentioned in the previous typologies report on ML/TF trends and indicators in 2010. Additionally, a new indicator was identified being the outward financial transfers to Areas of Armed Conflict.

Below is a reminder of TF indicators that were previously identified in 2010:

- (1) Raising donations in an unofficial or unlicensed manner.
- (2) Repeated or large transfers from or to countries suffering from problems, political or security disorders.
- (3) The value of transactions does not match the information available on the suspect, his activity, income, lifestyle and attitude.
- (4) The increased number of inward or outward transfers without clear justification.
- (5) Transactions conducted with persons/entities that have no clear connection with the suspect.
- (6) Transactions with several persons without clear justification especially if they are of different nationalities.
- (7) Possessing a large amount of cash across the borders.
- (8) There are parties under investigation by a foreign entity.
- (9) The transfer of repeated or large amounts to persons in a region reputed for criminal activity.
- (10) Making transfers to a number of persons in different countries without a justification.
- (11) Signs of confusion and nervousness appear on the suspect or his representative during the execution of the operation.
- (12) The name of the suspect or the beneficial owner is available in the United Nations lists.

Third: Terrorist Financing (TF) Trends.

Through the analysis of the TF cases covered by the study, it can be concluded that the prevailing trend in TF relies on the deposit of money in a bank account then the transfer of such money unlike what has been noticed in 2010 being the misuse of border points in the cross-border physical transportation of funds.

This trend has been confirmed by the fact that all 3 cases involved collecting donations (less than the transfers) from many persons and hence, the use of cash as TF instrument, followed by the transfer of such funds to suspected persons inside or outside or to Areas of Armed Conflict in foreign countries.

Enclosures:

Enclosure No. (1): Request of Information disseminated to the Member Countries

First: Most used techniques and ML/TF trends:

What are the ML/TF trends and most used techniques since 2010? Please provide evidence on materiality (number of cases and an estimation of the amounts involved)
.....
What are the most <u>new</u> techniques used in ML/TF as well as the “ <u>conventional</u> ” ones which have emerged <u>for the first time</u> in your country? Please provide evidence on materiality (number of cases and an estimation of the amounts involved)
.....

Second: Case Study:

Kindly provide the largest number of case studies since 2010

(Please Fill Out this Data for Each Case)

<u>Reference Number:</u>
<u>Case Description:</u>
<u>Type of entity through which the case is conducted:</u>
<u>The instruments and techniques used in the case:</u>
<u>Suspicion Indicators of the Case:</u>
<u>The outcomes of FIU financial analysis and the outcomes of the inquiries and/or investigations:</u>
<u>The predicate offense and the sanction/case status (Brought before the court/under investigation/under inquiries):</u>