



GIABA

**INTER-GOVERNMENTAL ACTION GROUP AGAINST
MONEY LAUNDERING IN WEST AFRICA**



Money Laundering and Terrorist Financing through the Informal and Illegal Currency Exchange Service Providers in West Africa

**REPORT
AUGUST 2020**



The Inter-Governmental Action Group against Money Laundering (GIABA) is a specialized institution of ECOWAS and a FATF Style Regional Body that promotes policies to protect member States financial system against money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter terrorist financing (CTF) standard.

For more information about GIABA, please visit the website: www.giaba.org

This document and/or any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city, or area

Citing reference:

GIABA Typologies Report (2020), Money Laundering and Terrorist Financing through the Informal and Illegal Currency Exchange Service Providers in West Africa GIABA, Dakar, Senegal

© 2020 GIABA. All rights reserved.

No reproduction or translation of this publication may be made without prior written permission. Applications for permission to disseminate, reproduce or translate all or part of this publication, should be made to GIABA, Complexe Sicap Point E Av Chiekh A. Diop, X Canal IV 1er Etage Immeuble A, BP 32400, Ponty Dakar (Senegal). E-mail: secretariat@giaba.org Fax: +221 33 824 17 45



TABLE OF CONTENT

LIST OF ABBREVIATIONS AND ACRONYMS	5
ACKNOWLEDGEMENT	6
EXECUTIVE SUMMARY	7
 CHAPTER 1 - INTRODUCTION.....	 9
Background	9
Motivation for the Study	10
Objective	11
Research Method Adopted	12
 CHAPTER 2 - LEGAL, REGULATORY, SUPERVISORY AND ENFORCEMENT FRAMEWORK AND THEIR ASSOCIATED CHALLENGES	 13
Legal and Regulatory Framework for Currency Exchange Services in West Africa.....	13
Supervisory and Enforcement Framework and their Associated Challenges	16
 CHAPTER 3 - TYPOLOGIES CASE STUDIES ON ML AND TF THROUGH THE INFORMAL AND ILLEGAL CES IN WEST AFRICA.....	 18
Typology 1: Public Officials laundering their Crime Proceeds using BDCs and other methods	18
Typologies 2: Third Party Money Laundering using illicit/informal BDCs	25
Typology 3: Laundering the Proceeds of Internet Fraud through BDCs and Transfers.....	27
Typologies 4: Money Laundering and Terrorist Financing through Illicit and informal BDCs and Cash courier/MVTS	29
Typology 5: Criminal Abuse of at Risks BDCs.....	35
Typology 6: Laundering the Proceeds of Violent and Organised Crimes through at Risks BDCs	37
 CHAPTER 4 - RED FLAGS AND INDICATORS.....	 43
Indicators	43
Red Flags	44
 CHAPTER 5 - CONCLUSION AND RECOMMENDATIONS.....	 45
Conclusion	45
Recommendation	46
 REFERENCE	 48
APPENDIX.....	49



LIST OF ABBREVIATIONS AND ACRONYMS

AML/CFT:	Anti-Money Laundering / Counter Financing Terrorism
BCRG:	Central Bank of the Republic of Guinea
BDC :	Bureau de Change CBL: Central Bank of Liberia CBN: Central Bank of Nigeria
CENTIF :	Financial Intelligence Unit
CES :	Currency Exchange Service
DNFBP:	Designated Non-Financial Businesses and Professions
EDD:	Employee Due Diligence FATF: Financial Action Task Force FEP: Financially Exposed Person
GIABA:	Inter-Governmental Action Group against Money Laundering in West Africa
KYC/CDD:	Know-Your-Customer / Customer Due Diligence
LACC:	Liberian Anti-Corruption Commission
LEA:	Law Enforcement Agency
MVTS:	Money or Value Transfer Services
NRA:	National Risk Assessment OFI: Other Financial Institutions OTC: Over-The-Counter
PEP:	Politically Exposed Person PIT: Presidential Investigation Team PRG: Policy Review Group
RTMG:	Risks, Trends and Methods Group
STR:	Suspicious Transaction Report
UEMOA:	West African Economic and Monetary Union
UNSCR:	United Nation Security Council Resolutions



ACKNOWLEDGEMENT

The Director General would like to acknowledge the support provided by the GIABA member States in the conduct of this study. GIABA is particularly grateful to the National Correspondents (NCs), country researchers and technical experts in all the 15 countries where field studies were conducted.

The study benefited from the enormous support of the supervisory and regulatory authorities of member States' institutions, such as the Financial Intelligent Units (FIUs), and the Central Banks / Banking Commission. These institutions/agencies ensured that the country researchers met with key stakeholders and provided required information, in some cases at very short notice.

GIABA would also like to recognize the exceptional collaboration by our development partners, particularly the FATF, IMF and World Bank, for taking their time to review the report at various stages and thereby enriching it. The members of the GIABA Risk, Trends and Methods Group (RTMG) and Policy Review Group (PRG) were the nucleus of the report. They worked collaboratively with the Secretariat throughout the exercise.

We also wish to acknowledge the efforts of the individual project team members, who worked round the clock to ensure proper coordination and delivery of the Project, under the supervision of the Director of Policy & Research.

GIABA Secretariat



EXECUTIVE SUMMARY

1. Money laundering through foreign currency exchange operations is a very efficient way of disguising the true origin of illegal proceeds and their integration into the legal financial system. Currency exchange services (CES), including bureau de change services, that involve foreign currency exchange operations are the fastest growing sector in the West African financial services industry in terms of the number of institutions that have sprouted over the last 10 years. The emergence of CES in West Africa has been associated with the advent of economic liberalization of the mid 1980s and early 1990s. Exchange controls were abolished subsequently after the introduction of the Foreign Currency Regulations, by the Central Banks/CES regulators, which were to govern the operations of the CES in liberalized economies.
2. The Foreign Currency Regulations were designed and introduced with very few restrictions on the operations of CES as most of West African countries were coming out of austerity and controlled regimes, due to the commodity shocks of the 1970s and 80s. The only explicit restriction then was on the open foreign exchange position. The absence of an over-the-counter (OTC) transaction limit meant that, in practice, CES could transact in any amount of foreign currency. However, when the anti-money laundering measures became eminent in the late 1990s, the need for more regulation of CES became imperative.
3. There are two reasons why CES are regulated. Firstly, there is a need to define activities that are permissible in their operations. This is to ensure that CES remain focused on providing a defined service for a defined segment of customers. The regulations to ensure that license granted should specify whether the service provider is allowed to engage in remittances through a regulated bank or it is only allowed to conduct spot OTC transactions. Secondly, it is meant to ensure integrity in their operations. Furthermore, Directors and Beneficial Owners of these institutions are subjected to fit and proper test so that only individuals of probity are allowed to run them.
4. The requirement for integrity in the operations of bureaux de change is even more pronounced in light of the recognition that they are an important link in the money laundering chain. Once money has been exchanged, it is difficult to trace its origin. Therefore, CES are required to maintain adequate accounting and internal control systems which can be relied upon to generate records that are sufficient to permit a reconstruction of individual business transactions in order to provide evidence for prosecution of criminal conduct.
5. Despite its noble intentions, the application of the OTC transaction limit has led to unintended consequences that have supported the continued existence of illegal foreign currency traders. During the days of foreign exchange controls, the existence of illegal foreign currency traders was explained in terms of the shortage of foreign currency in the country, attributed to the overvaluation of the local currency.
6. Given the nature and level of ML/TF vulnerabilities of the West African region, the use of cash payment of any magnitude is a significant challenge for national authorities. Border porosity exacerbating illicit cross-border operations, including carrying bulk cash amidst weak enforcement, are still on the increase in West Africa. The study aimed to identify (a) the critical vulnerabilities of the institutional frameworks to deter, prevent and detect crimes associated with the scheme; (b) the impediments of illegal and informal foreign currency exchange operations creates to effective implementation of AML/CFT standards in the region; and (c) the most common methods adopted to launder crime proceeds using illegal and informal foreign currency exchange scheme in the region.
7. The report highlighted 24 cases from six different typologies. These include public officials laundering their crime proceeds using BDCs and other methods; third party money laundering using illicit/informal BDCs; laundering the proceeds of internet fraud through BDCs and transfers; money laundering and terrorist financing through illicit and informal BDCs and cash courier/MVTS; criminal



abuse of at risks BDCs and laundering the proceeds of violent and organized crimes through at risks BDCs. The report made a set of policy and operational recommendations for both national and regional authorities.

8. The individual country studies conducted in the region revealed that informal and illegal currency exchange is a global phenomenon to some extent and more so, very prevalent in West Africa. The studies also confirm the direct relationship between the existence of informal economy and market to that of the high use of cash whether local or foreign currency and the heavy reliance on informal and unlicensed operator in the currency exchange services industry in West Africa. Moreover, although the legal framework exists and even regulates all the operations that can be carried out via foreign exchange, the supervision and control of activities in the currency exchange services sector remains ambiguous. Criminal sanctions against those who engage in informal and illegal exchange remain little deterrent and ineffective.

9. The low level of awareness and insufficient recourse to the law are also a major obstacle to control. In country studies conducted have revealed that there is limited information documented in the area of illegal foreign exchange. Law enforcements are still investigating predicate offences without charging suspects for TF and ML. There is inadequate

coordination between and among security agencies, where most are still working in isolation leading to limited sharing of information hence no data based on their activities. Weak referral system where BDCs do not file suspicious transactions or activities, talk less of those operating in illegal CES, making intelligence gathering a difficult task.

10. Also, some licensed CES operators, often times, do not request for ID cards from their customers and those who require the IDs do not also verify their authenticity. Politically Exposed Persons (PEPs) and non- resident customers patronize the services of these providers and usually would not disclose their source of funds, thereby posing ML/TF risks. Limited AML/CFT knowledge among currency exchange service providers, record keeping and inability to access beneficial ownership information. Lastly, there have been renewed commitments from governments and regulatory bodies to combat the phenomenon with some monitoring measures implemented. This renewed efforts is recent and nascent, and could take a while for the effects to manifest.

11. The report proffers a set of recommendations, (see conclusion and recommendation chapter for details), to address the many findings, both vulnerabilities and challenges the study identified as measures to bolster the existing AML/CFT system of the economies.



CHAPTER 1:

INTRODUCTION

Background

- 12.** Foreign currency exchange services consist of the purchase and sale of cash and negotiable bearer instruments in foreign currency. Money laundering through foreign currency exchange operations is a very efficient way of disguising the true origin of illegal proceeds and their integration into the legal financial system. However, it seems that exchange services are used for the most part to layer transactions involving dirty money on its long way towards apparent legalisation and integration into the legitimate economy.
- 13.** Currency exchange services (CES), including bureau de change services, that involve foreign currency exchange operations are the fastest growing sector in the West African financial services industry in terms of the number of institutions that have sprouted over the last 10 years (see GIABA KYC-CDD and Financial Inclusion report). They are intended to satisfy the foreign currency needs of individual tourists, travellers and small-scale cross-border traders.
- 14.** The emergence of CES in West Africa has been associated with the advent of economic liberalization of the mid 1980s and early 1990s. Exchange controls were abolished subsequently after the introduction of the Foreign Currency Regulations, by the Central Banks/CES regulators, which were to govern the operations of the CES in liberalized economies. These regulations were effective until they were replaced by the Banking and Financial Services (Bureau de Change) Regulations in the last two decades.
- 15.** The Foreign Currency Regulations were designed and introduced with very few restrictions on the operations of CES as most of West African countries were coming out of austerity and controlled regimes, due to the commodity shocks of the 1970s and 80s. The only explicit restriction then was on the open foreign exchange position. The absence of an over-the-counter (OTC) transaction limit meant that, in practice, CES could transact in any amount of foreign currency. However, when the anti-money laundering measures became eminent in the late 1990s, the need for more regulation of CES became imperative.
- 16.** There are two reasons why CES are regulated. Firstly, there is a need to define activities that are permissible in their operations. This is to ensure that CES remain focused on providing a defined service for a defined segment of customers. i.e., the buying and selling of foreign exchange by banks and bureaux de change licensed by the central banks/CES regulators, while making it illegal for any person to engage in unlicensed trading in foreign exchange. The regulations to ensure that license granted should specify whether the service provider is allowed to engage in remittances through a regulated bank or it is only allowed to conduct spot OTC transactions. Secondly, it is meant to ensure integrity in their operations. Furthermore, Directors and Beneficial Owners of these institutions are subjected to fit and proper test so that only individuals of probity are allowed to run them.
- 17.** The requirement for integrity in the operations of bureaux de change is even more pronounced in light of the recognition that they are an important link in the money laundering chain. Once money has been exchanged, it is difficult to trace its origin. Therefore, CES are required to maintain adequate accounting and internal control systems which can be relied upon to generate records that are sufficient to permit a reconstruction of individual business transactions in order to provide evidence for prosecution of criminal conduct.
- 18.** The regulations require that a CES should be ex-ante registered as a company before acquiring license from the central bank or the CES regulator. A sole proprietorship or non-partnership business are often not eligible to operate a CES. Even though this requirement was not intended as an anti-money laundering measure, it serves to discourage money laundering in effect. This



is because a joint partnership business or company of more than one shareholder and at least two directors is supposed to make it difficult for independent shareholders and directors to jointly commit crime, especially if the shareholders are also separate from the board of directors.

19. However, in practice, a number of CES have one dominant shareholder and the rest are nominee shareholders. The shareholders are also not separate from the board of directors. In most cases, the shareholders are not independent of each other and are at the same time directors of the CES. The dominant shareholder is either having a blood relationship with the other shareholders and directors, or related by marriage. The children or other close relatives can be nominee shareholders and/or directors. In this situation, most CES are de facto sole proprietorships. This makes it easier for them to facilitate money laundering because the dominant shareholder makes the final decision. The dominant shareholder could also become a target for money launderers because if that shareholder is compromised, there is little chance that money laundering activities at the CES can be reported to law enforcement agencies.

20. In Southern Africa, particularly in Zambia for example, in order to frustrate large-scale money laundering through CES, the regulators have the powers to limit the amount of OTC transactions CES can conduct. In keeping with the nature of the customers that CES are expected to serve, the regulators set the OTC transaction limit (say at US\$1,000 or its equivalent in other currencies) per transaction per day. This amount was arrived at after taking into account the reasonable amount of cash an individual would need for ordinary expenditure in a day. With this limit, a money launderer would take 100 days to change US\$100,000 if the OTC transaction limit was properly enforced. The significant amount of time it takes to change a moderate amount of money was assumed to be a significant deterrent to any money launderer from using CES to exchange cash derived from crime. In addition, the level of frequency of such transactions would likely raise suspicion in the minds of CES cashiers.

21. In practice, the OTC transaction limit has only achieved minimal success. This is because there is no mechanism for preventing any individual from breaching the limit. It is possible for a money launderer to exchange currencies at different bureaux de change or even at different counters of the same bureau de change with little chance

of being detected. This is because bureaux de change issue manual receipts for transactions. Furthermore, although they are required to demand identity documents, there is no centralised database against which the identity of a particular individual can be checked to determine whether that individual has already exchanged the maximum allowable amount of foreign currency on a particular day.

21. Despite its noble intentions, the application of the OTC transaction limit has led to unintended consequences that have supported the continued existence of illegal foreign currency traders. During the days of foreign exchange controls, the existence of illegal foreign currency traders was explained in terms of the shortage of foreign currency in the country, attributed to the overvaluation of the local currency. Despite the abolition of the foreign exchange controls, the illegal currency traders have continued to exist in areas, ironically, where bureaux de change also operate. This is the case, despite the illegal currency traders being notorious for defrauding unsuspecting individuals through the exchange of fake foreign currencies.

22. Although open sources information is pointing out to the fact that continued existence of the illegal currency traders is not predicated on defrauding unsuspecting customers, but on offering competitive exchange rates. In fact, in a number of cases, illegal currency traders themselves buy foreign currencies from bureaux de change. This indicates that their exchange rates are not competitive and that they service a class of customers who are willing to buy foreign currencies at higher rates than the rates in bureaux de change. The illegal currency trade is, therefore, supported by individuals who would either like to exchange currency above the OTC transaction limit or who do not want to leave their identity details at a bureau de change.

Motivation for the Study

23. Given the nature and level of vulnerabilities of the West African region, the use of cash payment of any magnitude is a major challenge for national authorities. Border porosity as an enabler for illegal cross-border foreign currency operations, including carrying of bulk cash amidst weak enforcement, are still on the increase in West Africa. Some member States are yet to have laws and/or effective systems of criminal justice addressing illegal and informal foreign currency exchange operations. There is also the lack of effective coo-



peration and collaboration amongst key stakeholders, talk less of a national strategy in the fight against illegal and informal foreign currency exchange operations.

24. The economic situation in the region offers a good example. Countries in the region have different foreign exchange mechanisms, which varies significantly from one another. For example, the WAEMU (7 French speaking and one Portuguese) region is practicing foreign exchange control regime, where the CFA Franc is pegged at 656 FCFA to the Euro, so also is the Cabo Verdean currency, the Escudos. On the other hand, the rest of the other non-WAEMU countries have either a crawling pegged or dirty float / managed float exchange rate regimes. In each of these cases, it is either the local currency is officially over-valued or undervalued. In most cases, it is over valuation of the domestic currency that takes place, as the countries are mostly net importers, i.e., they do not generate enough foreign currency from their exports to be able to pay for their import bills, hence, they find themselves in trade deficit and current account imbalances, etc. The result is that there is a significant shortage of foreign exchange on the official market.

25. This has led to the emergence of an informal parallel market for foreign exchange in which the local currencies/US dollar exchange rate per se, is noticeably below the market rate. The result has been that some individuals engage in cross-border trading or smuggling of goods that can sell in the local market. Using the illegal currency traders, they are able to exchange their money in local currencies for US dollars or Euros, thereby asserting more pressure on the demand for foreign currencies in the local market.

26. In Liberia for example, the economy has been dollarized, with both the Liberian dollar (Liberty) and US dollar being transacted in tandem, while in Neighbouring Sierra Leone and Guinea, there is a notable unofficial dollarization. The rate at which the local currencies have been depreciating against the US dollar and Euro across the region, is not helping matters. Hence, in the non WAEMU countries, particularly, those along the Mano River belt, everything is being priced in the US dollars and most payments are preferred in foreign currency denominations.

28. Individuals operating small and medium enterprises engaged in cross-border trade are expected to obtain their foreign currency and trade related services from commercial banks. Howe-

ver, due to the relatively high banking charges, a number of these traders avoid using banks and instead obtain the foreign exchange from the illegal currency traders because they find the OTC transaction limits in CES too low to meet their foreign currency needs. Therefore, although the OTC transaction limit is contributing to minimising incidences of money laundering in CES, it may have pushed some money launderers to the illegal foreign currency market.

29. Furthermore, even though it is illegal for any person who is not licensed by the CES regulators to trade in foreign currency, in reality, the regulators does not have the means to enforce this prohibition as it does not have the power to arrest illegal currency traders. The central banks/CES regulators mostly rely on the police to enforce against such practice.

30. Although the bureau de change regulations for most of West Africa countries make it illegal to engage in unlicensed trading of foreign currency, no specific offence has been created for this illegality in penal codes of most of the countries. This situation adds to the logistical challenges the police faces in enforcing the regulations, as a police officer cannot arrest and charge an offender directly. The officer first has to obtain an arrest warrant from a magistrate. The consequence is that when the police conducts operations to arrest illegal currency traders, the only offence they usually charge them with is loitering, which is inappropriate and non- dissuasive.

31. The typologies exercise is therefore meant to highlight the vulnerabilities and possible threats of illegal and informal foreign currency exchange operations on money laundering and terrorist financing in West Africa and the impact of the phenomenon on the region. The findings will reveal the implications for interventions and relevant recommendations will be made in that regard.

Objective

32. The main objective of the typologies exercise is to study the risks, methods and trends of money laundering and terrorist financing associated with the use of illegal and informal foreign currency exchange operations in West Africa. The report will aim to address the following specific issues:

- i) What are the key vulnerabilities in the existing supervisory and regulatory framework in the sector and in law enforcement with regard to effectively deterring, preventing and detecting crimes associated with the scheme?



- ii) What are the impediments which illegal and informal foreign currency exchange operations creates in the way of effective implementation of AML/CFT standards in the region?
- iii) What are the most common methods adopted to launder crime proceeds using illegal and informal foreign currency exchange scheme in the region?
- iv) What are the possible techniques employ in illegal and informal foreign currency exchange schemes for terrorist financing purposes?
- v) What are the red flag indicators that may assist financial institutions, DNFBPs and other reporting entities in identifying terrorist financiers, launderers and their assets? and
- vi) What are the measures that can be adopted to effectively mitigate the risks of ML/TF associated with the scheme?

Research Method Adopted

33. In order to address the objective and answers the above questions, the methodology adopted involve the following approaches:

- A project team, mostly experts and practitioners from and within the region (Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo) were engaged and supported by members of the GIABA Risks, Trends and Methods Group (RTMG), in collaboration with the Policy Review Group (PRG);
- A comprehensive desk review of reports, journals and documents was conducted;
- The project team with the support of the GIABA Secretariat administered and analysed responses to questionnaires, including conducting in depth interview on a range of relevant authorities, including, traders, regulatory/supervisory agencies and law enforcement in the region;
- The team also, conducted extensive research on the trends, methods, techniques and impact of the phenomenon and a critical analysis of findings, including follow-up in their various countries covered;
- Each member of the team drafted a comprehensive report, including specific and general recommendations that will assist in constructive policy formulation and actions against this phenomenon at the national, regional and international levels;
- A typologies exercise workshop with the project team, other experts from the member States, RTMG-PRG, and the GIABA Secretariat was held in January, 2020, to discuss initial findings and how the country research report could be enriched, particularly with regards to case studies provided; and
- Finally, a draft regional report was put together for the RTMG-PRG to consider during the GIABA 33rd Plenary meetings (Virtual), August 2020.

1 Bénin; Burkina Faso; Côte d'Ivoire; Mali; Niger; Sénégal; Togo et Guinée Bissau.
2 Guinée; Sierra- Leone et Libéria



CHAPTER 2:

LEGAL, REGULATORY, SUPERVISORY AND ENFORCEMENT FRAMEWORK AND THEIR ASSOCIATED CHALLENGES

34. As earlier suggested in the report, foreign currency exchange operations can be used to layer illegal proceeds and fully disguising the source of fund and integrating into the formal financial system. Therefore, financial crimes in general and money laundering and terrorist financing in particular are attracted to economies where the conducts of currency exchange services are exposed to high vulnerability. This chapter attempts to examine the legal, regulatory and supervisory framework and the underlining challenges in enforcement and control measures in West African economies.

Legal and Regulatory Framework for Currency Exchange Services in West Africa

35. In almost all of West Africa, legal and natural persons that are exclusively currency exchange service providers are classified as non-banks or other financial institutions (OFIs) and are regulated as such. The legal and regulatory framework that guide the operations of OFIs including bureau de change (BDCs) are in line with global standards requirements such as the Basel Core Principles of banking and financial institutions, the FATF recommendations and the United Nations security Council Resolutions (UNSCRs).

36. In terms of International standards and requirements, Recommendation 26 of the Financial Action Task Force have reflected the regulation and supervision of financial institutions in the bid to combat money laundering and terrorism financing in the informal and illegal exchange service sector. It calls for OFIs to be licensed or registered and adequately regulated, and subject to supervision or monitoring for AML/CFT purposes, having regard to the risk of money laundering or terrorist financing in that sector. At a minimum, where financial institutions provide a service of money or value transfer, or of money or currency changing, they should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national AML/CFT requirement.

37. The table below gives the relevant CES and related AML/CFT laws, directives and circulars as provided by experts from the member States.



Table 2.1: Relevant CES and AML/CFT Laws, directives, guidance and Circulars in West Africa

Member States	Laws and Regulatory Provisions	Comments
WAEMU Countries		
Benin	Regulation n°02/2010/CM/UEMO of October 1	The laws, regulations and instructions relates to: the conditions for carrying on the activity of approved manual exchange; currency repossessions from foreign currency allowances to resident travelers; periodic reports to be sent to the authorities responsible for ensuring compliance with the provisions of the
	Regulation n°09/2010/CM/UEMOA	
Cote d'Ivoire	Instruction n°06/07/2011/RFE of 13 July 2011	
Guinea Bissau	Instruction n°07/07/2011/RFE of July 13, 2011	
Mali	Instruction n°05/07/2011/RFE of 13 July 2011	
Niger	Instruction n°11/07/2011/RFE of 13 July 2011	external financial relations regulations of WAEMU Member States; litigation of infringements to the regulation; the fight against ML and TF; and the issuance of foreign exchange allowances to resident travelers.
Senegal	Uniform Law n°2016-11 of 08 July 2016 Uniform Act 2018-17 of 25 July 2018	
Togo		
Non-WAEMU Countries		
Cabo Verde	Decree-Law No. 3/2018 of June 22; Law 61/VIII/2014 and Law 62/VIII/2014, both of April 23; Resolution No. 81/V/98 of 11 May; Decree-Law No. 25/98 of June 29; Law No. 3/V/96 of July 1; Decree-Law No. 29/93, of May 24; and Decree-Law No. 27/84 of March 24.	The Act recognised currency exchange agency as a financial institution. Penalty for the illegal exercise of the exclusive activity of a financial institution, with a prison sentence of up to 6 years, in addition to the administrative offence. General provisions for administrative offences: Fine from \$500,000 to \$100,000,000 or \$250,000,000 to \$50,000,000, depending on whether the legal person or equivalent and the natural person, respectively, are applied
Gambia	Central Bank of The Gambia Act (2005) as amended 2018 Banking Act (2009) Regulation for the licensing and operations of Foreign Exchange Bureaux Exchange Control Act Licences Act Single Window Business Registration Act 2013 Companies Act 2013 Anti-Money Laundering and Combating Terrorist Financing Act 2012	All Financial institutions are supervised by the CBG. The supervisory measures include both offsite and onsite examination. The offsite examination involves submission of daily, weekly returns and returns upon request. The CBG also conducts real time monitoring of the transactions of foreign exchange bureaus, which is done off-site. In relation to onsite examinations, the CBG physically visits the financial institution and examines the records of the FIs.
Ghana	The Foreign Exchange Act, 2006 (Act 723), Non-Bank Financial Institutions Act, 2008 (Act 774), Companies Act (2019), BOG Notices/Directives/Circulars / Regulations etc. Anti-Money Laundering (Amendment) Act 2014 (Act 874) Anti-Money Laundering Regulations, 2011 (LI 1987). The Criminal and Other Offenses (Amendment) Act, 2012 (Act, 849) The Anti-Terrorism Act, 2008 (Act 762) The Anti-Terrorism (Amendment) 2012, (Act 842)	Section 3 of Act. 723(1) A person shall not engage in the business of dealing in foreign exchange without a license issued under this Act. (2) BOG shall prescribe the banks or other corporate bodies or persons that it considers competent to engage in the business of dealing in foreign exchange. The business of dealing in foreign exchange includes the (a)purchase and sale of foreign currency, (b) receipt or payment of foreign currency, (c)importation and exportation of foreign currency, and (d)lending and borrowing of foreign currency



Guinea	<p>Law L/2000/006/AN on financial relations to transactions with foreign countries</p> <p>Law L/2006/010/AN on AML</p> <p>Law L/2014/N010/AN of 31 May 2014 on CFT</p> <p>Decree No. 032/PRG/88, on invoicing and payment in Guinean francs</p> <p>Instruction No. 112/DGAEM/RCH/00 INSTRUCTION N°01/2003/001/DCI/DB on AML INSTRUCTION N°025/DGEEM/RCH/11 regulating the activity of manual exchange offices INSTRUCTION N°68/DGCC/DCH/16</p>	<p>To prevent the use of the services of approved BDCs for ML/TF purposes, the said Instruction sets out the conditions for obtaining approval and the obligation of customer due diligence. According to these instructions, «any natural or legal person governed by Guinean law wishing to carry out manual exchange as a regular occupation in the Republic of Guinea must be approved by the Central Bank of the Republic of Guinea (BCRG) as a Bureau de Change».</p>
Liberia	<p>The Anti-Money Laundering and Terrorist Financing Act 2012</p> <p>The Liberia Anti-Terrorist Act (2017) The Provisional Remedies for Proceeds of Crime Act 2012</p> <p>The extortion, environmental crime and illicit trafficking in human beings Act of 2013</p> <p>The Fraud Act of 2012, an Act that amend the Criminal Procedure Law</p> <p>The Penal Code of Liberia 2017 Regulation No CBL/SD/002/2011 FIU/CBL/SR2A-STR/02/2016 mandating FIs to file STRs</p> <p>CBL regulation no. CBL/SD/16/2001 on thresholds of US\$ 5,000 for OTC transfer of foreign currency</p> <p>Regulation no. CBL/RSD/004/2013 LRA/FIU/ORI-TCN/02/2016 on currency and bearer negotiable instruments across boarder.</p>	<p>The FI Act provides for penalty for doing Banking or Forex Business without a License. It indicates that “any person doing banking business or rendering non-bank financial institution services without a license, or who refuses to make available for examination the books, accounts and records after having been duly required by the Central Bank to do so, shall be liable to pay a fine of not less than Five Hundred Thousand (L\$500,000) Liberian Dollars or ten (10) times the gain obtained in the illegal activity, whichever is greater”.</p>
Nigeria	<p>The Money Laundering (Prohibition) Act, 2011 (as amended)</p> <p>The Terrorism Prevention Act, 2011 (as amended).</p> <p>Banks and Other Financial Institutions Act, 1991 (as amended).</p> <p>Central Bank of Nigeria (CBN) Act 2007.</p> <p>The Revised Operational Guidelines for Bureaux de Change in Nigeria 2015</p> <p>The CBN “Know Your Customer” Manual 2003.</p> <p>The CBN AML/CFT Regulations 2013. The CBN Risk Based Supervision Framework 2011</p> <p>CBN Periodic Circulars and Guidance Notes on AML/CFT compliance issues and TFS.</p>	<p>Sections 3, 6, 7, 9 of MLPA, 2011 (as amended); Section 14 of TPA, 2011 (as amended); Sections 58 and 59 of BOFIA, 1991 (as amended); CBN AML/CFT Regulations, 2013 - Regulations 7, 13, 16, 18, 27, 28, 30, 31, 33 and 45.</p>
Sierra Leone	<p>AML/CFT Act, 2012</p> <p>Banking Act 2019</p> <p>Other Financial Service Act, 2001</p> <p>Terrorism Prevention Regulation 2013</p> <p>Public Notice 20/08/2020 (1) on the prohibition of quoting prices and making payments in foreign currency</p> <p>Public Notice 20/08/2020 (2) on the prohibition of the holding and /or export of foreign currency in excess of US\$10,000 outside the banking system</p> <p>Revised Directives and Guidelines for FIs on the prevention of ML/TF issued in 2017</p>	<p>A circular issued by the Governor of the Central Bank Pursuant to Section 48(3) of the Bank of Sierra Leone Act 2019, which empowers the BSL to temporarily restrict the purchase, sale, holding or transfer of foreign currency. This was a measure implemented to control informal and illegal currency exchange in the country especially when the currency was depreciating against the foreign currencies.</p>



38. The above framework which is not limited to BDCs, provides for compliance including KYC, CDD, EDD, risk profiling of Politically Exposed Persons (PEPs), high-risk countries, record-keeping, reliance on CDD by third parties, suspicious transaction reporting, currency transaction reporting, registration and licensing, Internal controls, sanctions, regulation and supervision.

39. The laws provide appropriate criminal sanctions for non-compliance with AML /CFT obligations. As provided for in the laws, some of the sanctions include heavy fines for non-compliance with the provisions of the laws or as stipulated in the regulations, prison term and both for financial institutions, directors and their employees, ban from professional practice and suspension or revocation of operating licenses of the financial institution. For some member States the sanctions and penalties are not dissuasive enough. However, in all of these, there has not been evidence of standalone conviction for these sanctions and harsh penalties be meted.

40. Countries also have in place Administrative Sanctions Regime that penalizes the operators as well as the individual directors, management and staff for non-compliance with provisions of extant AML/CFT laws and regulations. This instrument has also not been effectively used in most of the member States where they exist. Some sector experts are also arguing that some of the legal and regulatory provisions are as recent as in 2018 and even 2019 and their effectiveness cannot only be tested in the not too distant future, but not during the conduct of this study.

Supervisory and Enforcement Framework and their Associated Challenges

41. In terms of supervision, the arrangement differs from WAEMU countries to that of non-WAEMU countries. For non-WAEMU countries, the central bank is the sole authority to licence and supervise the CES, while for WAEMU countries, licence involves both the central bank that approve and a designated directorate in the Ministry Of Finance that assist in the licence process, including conducting the fit and proper test and other phy-

sical on-boarding process. In the case of supervising, it is the same designated directorate in the Ministry of Finance and the Banking Commission that conduct either simultaneously or jointly as the case may be.

42. All member States alluded to the fact that CES are supervised through off-site surveillance and on-site examinations. In Nigeria for example CES are said to be subjected to on-site examination at least once every year. The central bank conducts AML/CFT compliance and risk-based supervision using the Regulatory and Supervisory Guideline and the CBN AML/CFT Regulations, 2013. Supervisory findings and concerns are discussed with the CES and formally communicated to the institutions via a Supervisory Letter. Post examination monitoring and enforcement procedures are in place to ensure full implementation of recommendations. A total of 168 penalties were imposed on bureaux de change (BDCs) operators by the CBN in 2014 for sundry offences including AML/CFT breaches.

43. In Senegal, the 6 supervisory criteria highlighted to mitigate vulnerabilities of CES include the availability of reliable identification infrastructure; the availability of independent sources of information; the availability and access to information on beneficial owners; the availability and application of criminal sanctions; the effectiveness of the compliance function; and the effectiveness of monitoring and reporting of suspicious activities which the national risk assessment founds to be low.

44. Also, the analysis of the level of vulnerability carried out through in the NRA on the integrity of the staff of the companies/institutions, the knowledge of AML by the staff of the manual foreign exchange licensees and the availability and application of administrative sanctions led to a low rating.

45. However, the overall vulnerability of the sector was rated moderate low on the one hand due to the completeness of the AML legal framework, which was said to be rated high, and on the other hand, the availability and effectiveness of entry controls and the effectiveness of supervision / monitoring activities, which were rated moderately low.



- 46.** Overall, while there have been improvements on the legal and regulatory framework in most of the member States from 2012 to 2018, the same cannot be said for actual supervisory activities. Although all the member States attested to the conduct of both offsite and on-site supervision. Such supervision has never been robust and rigorous. The facts on the ground of supervisory lapses due to CES being regarded as low risk entities based on some prudential risk-based supervisory profiling framework.
- 47.** Although supervisors are also aware of the fact that CES have not been compliant with the regulatory framework set for them, there is no evidence of dissuasive administrative sanctions and or penalties levied so far against CES, talk less of criminal actions of investigations, leading to prosecution, adjudications and convictions. This is the case of the case of the licence and registered CES. The bigger challenge is how to monitor and enforce illegal or informal CES which unregulated and not being monitored.
- 48.** According to industry players, the lack of enforcement, political will, training, and appreciation of the legal frameworks are major factors undermining efforts aimed at countering illicit practices in the CES Industry. CES are practically ignoring the KYC and CDC principles, which encourage the reporting and sharing of intelligence on suspicious transactions carried out by customers. It goes without saying that most of the informal businesses including foreign exchange bureaus are established without prior authorization or without being registered by the State authorities. Hence, monitoring and supervision of such CES pose major challenges. The supervisory bodies themselves until recently, exhibited limited capacity and will to supervise and apply the battery of legal frameworks regulating the sector. The lack of or limited coordination between the investigating agencies themselves is a call for concern.
- 49.** The lack of a comprehensive picture of what constitute the informal or illegal currency exchange practice in the region is worrying. The other challenges faced by stakeholders in combating informal and illegal currency exchange service providers include lack of adequate resource including personnel, equipment and mobility to effectively conduct raids, capacity gaps in identifying cases of informal and illegal currency exchange service providers, porous land borders and funding to conduct sensitisation amongst others.



CHAPTER 3:

TYPOLOGIES CASE STUDIES ON ML AND TF THROUGH THE INFORMAL AND ILLEGAL CES IN WEST AFRICA

50. This chapter deals with the various typologies observed from the identified cases here presented. There are 24 cases from six different typologies as presented below. The typologies include, public officials laundering their crime proceeds using BDCs and other methods; third party money laundering using illicit/informal BDCs; laundering the proceeds of internet fraud through BDCs and transfers; money laundering and terrorist financing through illicit and informal BDCs and cash courier/MVTS; criminal abuse of at risks BDCs and laundering the proceeds of violent and organised crimes through at risks BDCs.

Typology 1: Public Officials laundering their Crime Proceeds using BDCs and other methods

51. This is one of six typologies identified in this study and it includes cases that mostly involved corrupt officials primarily from the public sector and either they are aiding and abetting laundering and benefitting from the proceeds or they have generated illegal fund from corrupt practices, as a result of the offices they held or are holding and uses mainly the BDCs, both licenced and illicit ones, as well as other laundering methods.



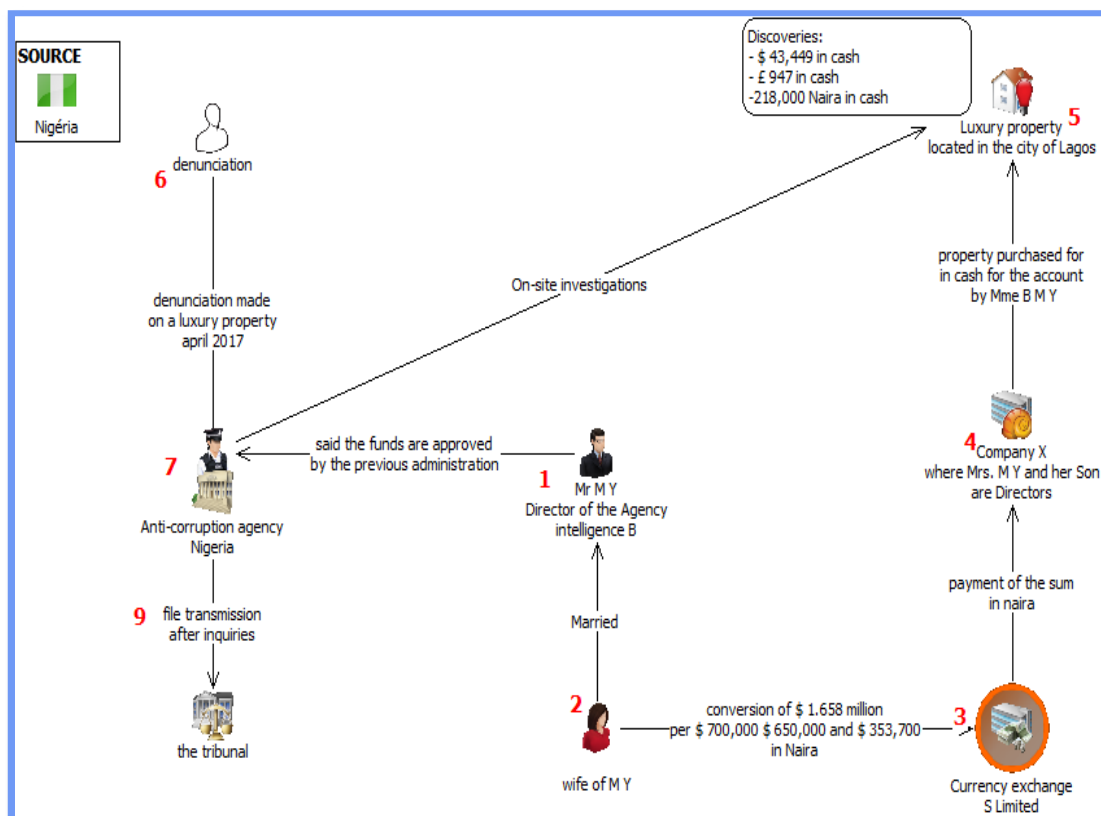
Case 1: Corrupt Public Officials using Front Company to launder Corruption Proceeds through BDCs and Real Estates

Following a tipoff based on the whistle-blowers policy introduced by the Federal Government of Nigeria, on April, 2017 operatives of anti-corruption M stormed a luxury property in Lagos, state Nigeria and discovered \$43,449,947, £27,800 and N23,218,000 all in cash. The Director General of Intelligence Agency B Mr. Y stated that the funds were approved by the previous administration for covert operations. Further investigation revealed that the property from which the funds were discovered was purchased by the wife of Mr. Y for \$1.658m all in cash through company X (where she, Mr. Y and their son are directors) in tranches of \$700,000, \$650,000 and \$353,700 to a Bureau de Change S Limited, which later converted the

sums to N360,000,000 and subsequently paid it to N Limited for the purchase of the property.

In court filings it was stated that the act of making cash payment of \$1.6m without going through any financial institution by the wife of Mr. Y for the acquisition of the property, is a criminal act punishable by the Money Laundering (Prohibition) Amendment Act subject to sections 1(a), 16(d) and 16(2)(b) of the Money Laundering (Prohibition) Act 2011 (as amended). Also, in the affidavit filed by the prosecution, company X, which is not into any business, was said to be merely incorporated to retain proceeds of suspected unlawful activities of Mr. Y. Mr. Y was dismissed from his position as the Director General of Intelligence Agency B while an application for forfeiture of the property as well as the cash was filed. In addition, an arrest warrant was issued for Mr. Y and his wife.

Source : Nigeria



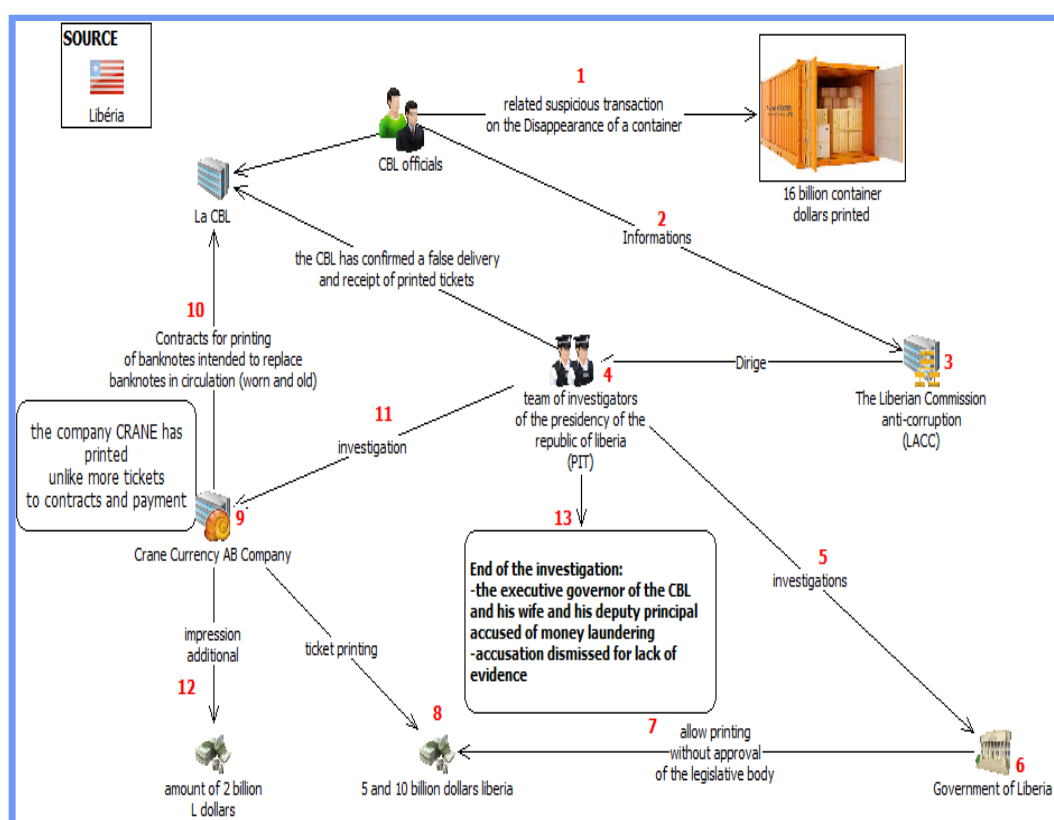
Case 2: Public Officials Laundering Proceeds from Corruption through BDCs

In August 2018 there were reports of suspicious transactions by officials of the CBL. A team was constituted to probe into the reports. Preliminary findings of the probe raised the level of the suspicion coupled with widespread newspaper coverage in September 2018 alleging missing container of L\$ 16 billion printed and brought into Liberia by the CBL. On September 24, 2018 a Presidential Investigation Team (PIT) headed by the Liberia Anti-Corruption Commission (LACC) probed the matter. The team found among others that in 2016 and 2017 the government respectively authorized the printing of L\$5 billion and L\$10 billion without the approval of the legislature as required by law. A company called Crane Currency AB printed the said amounts based on contracts with the CBL. Crane Printed more than what was stipulated in both contracts (L\$5 billion and L\$10 billion Contracts) and were even overpaid by the authorities of the CBL. The

essence of the overall printing was to replace all previous notes (old and worn-out notes) from the economy. The replacement was not achieved though Crane printed and supplied L\$18.151billion, in excess of more than L\$2 billion.

The CBL confirmed delivery and receipt of all banknotes printed and were said to be placed in their vaults. During physical verification of the vaults by State investigators there was no indication of said amounts presence in the vault even though there are still old and worn-out notes amidst the new notes that were introduced. At end of the probe, key officials of the CBL including the then Executive Governor and his principal deputy were charged with several crimes including money laundering. The case was however, charged to court. On April 2020, the case was dismissed over lack of evidence and all charges dropped against the accused persons.

Source : Liberia





Case3: Abuse of Office by FI Officials to Launder Illicit Fund through Informal BDCs

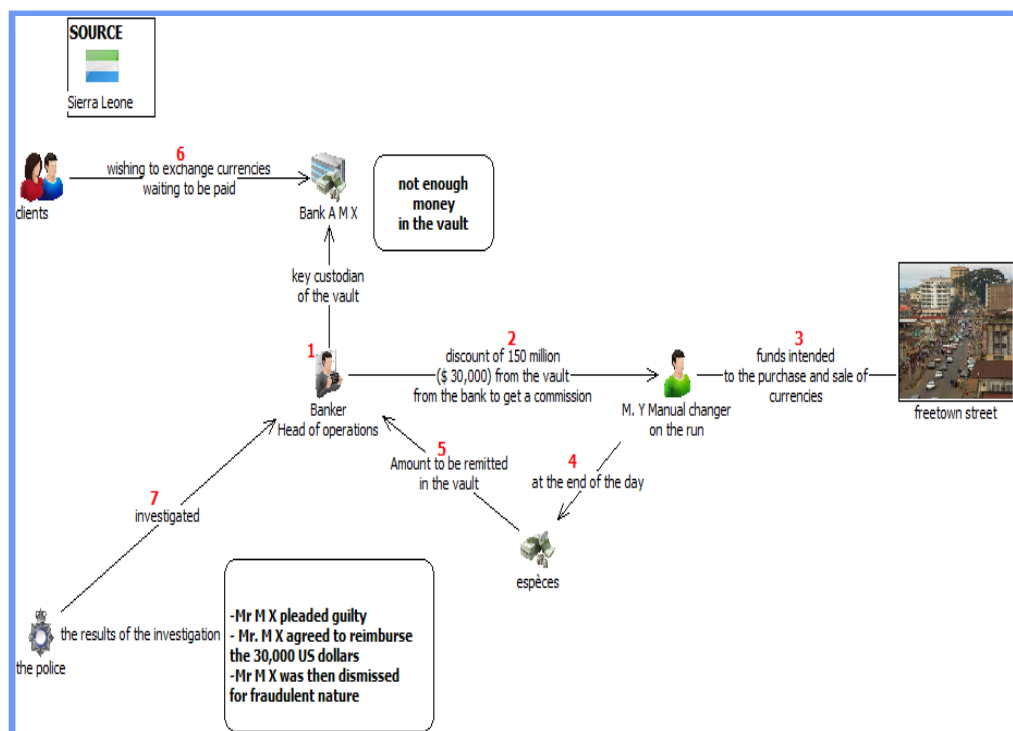
A banker Mr. X was the head of operations in Bank A. Mr. X was one of the main custodians of the bank's vault key. He smuggled Le150million (\$30,000) from the bank's vault, making the fund available to informal money changers to buy and sell forex on the street of Freetown. Mr. X on a daily basis would take out local currency from Bank A vault, making it available to Mr. Y the foreign currency money changer. Mr. Y will trade for a whole day and by close of each business day, return the money to Mr. X who will then return the money to the bank's vault. This illegal practice of Mr. X continues for over a considerable period when he eventually ran out of luck one day. The banker was also engaged in the habit of exchanging bigger denominations with smaller ones from the CES provider. On the 10th October 2013, the banker Mr. X took local currency, the equivalence of US\$30,000 from the vault as usual and gave to Mr. Y for their normal transaction when eventually customers demand for both local and foreign currencies exceeded what he was expecting as daily withdrawals from customers for that day. In a second Mr. Y was nowhere to be found or located in the bank premises while the customers were still waiting in the banking hall for their money. After 2 hours Mr. X did not return and the customers had to escalate the matter to the

Chief Operating Officer (COO) who immediately called on Mr. X to report to his office. Upon interrogating why the customers were not paid, the COO discovered that there was not enough money in the vault to support customers' withdrawal request and there were more of smaller denominations of the foreign currency in the vault than expected. Mr. X accepted taking money from the vault and giving it to foreign currency changer and exchanging bigger denominations to smaller denominations from the CES provider to earn commission.

Mr. X was handed over to the police for further investigation. The investigation revealed that Mr. X has been doing this over a period of a year whilst the proceeds is shared between him and the foreign currency operator who he recruited for this fraudulent activity. Eventually the police issued warrant of arrest for the CES provider to help in the investigation and even went in search of him but was not located.

Mr. X pleaded guilty during investigations and opted for an out of court settlement and to which the bank agreed. Mr. X accepted to repay the Le150 million, the equivalent of \$30,000 he took from the bank and was granted bail with 2 sureties who promised to pay the bank's money in 3 months. Mr. X within the 3 months payed back the bank as promised and the bank then summarily dismissed him for questionable character.

Source : Sierra Leone



Case4: Laundering Proceeds from Smuggling through Corrupt Public and Banks Officials

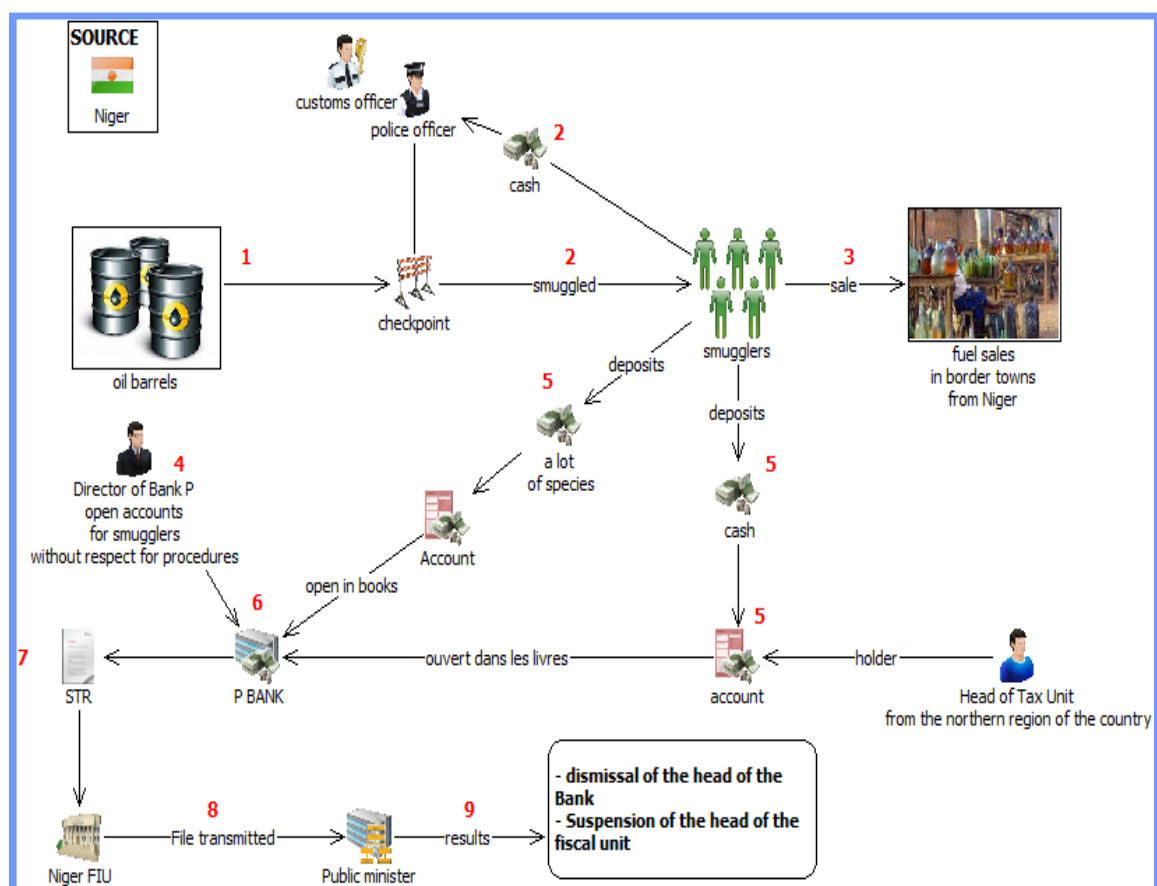
In 2012, the CENTIF of Niger received an STR illustrating the laundering of incomes from fuel smuggling through making cash deposit into the banking sector. The scheme involves bank, tax and customs officials, aiding and abetting smuggling ring set up to smuggle oil and petroleum products from Nigeria into Niger. The illegal or parallel/black market activities were conducted in a border area with Benin, not far from a village in Nigeria. Smugglers often smuggled this fuel in the full view of customs and police officers.

The pump prices of fuel in Niger is higher than that of Nigeria. In order to benefit from price differentials, smugglers will fraudulently enter the border towns in Niger and sell their smuggled fuel at the

prevailing pump price. In order to launder the proceeds from their sales, the branch manager of a local bank, Bank P, opens accounts for the smugglers with no proper on-boarding process. They would then deposit their funds. In other instances, smugglers do deposit fund into the accounts of the Head of the Tax unit in the northern region of the country, who subsequently transfers them to their respective accounts in return for a fee.

The case was referred to the public prosecutor's office. Though the case was not followed up and prosecuted in court, due to lack of sufficient evidence to prove money laundering, the head of the bank branch was however, dismissed while the head of the Tax unit was suspended from duty.

Source : Niger





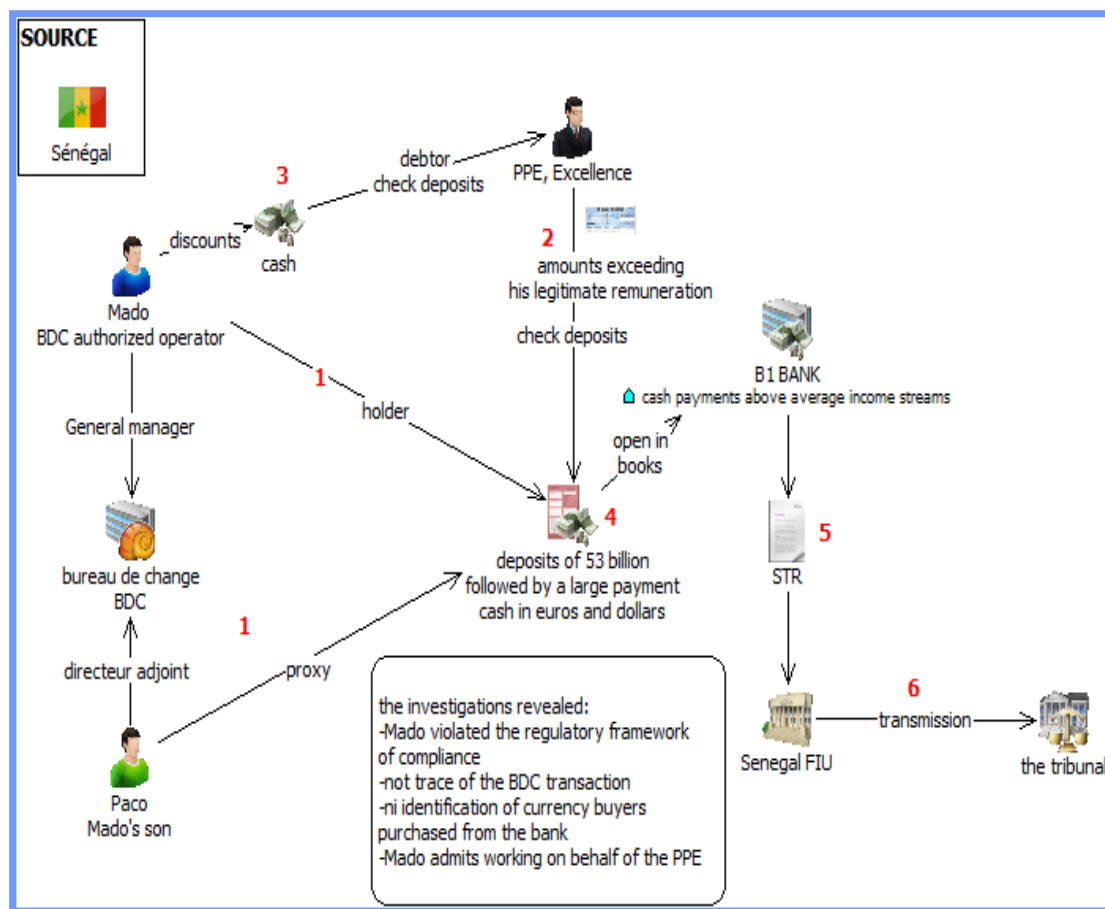
Case5: Laundering the Proceeds from Corruption through Licensed BDC and Bank

Mado, a licensed BDC operator, opened an account at bank B1 in Senegal. He then presented his son Paco as the BDC Assistant Manager and made provision for him to be able to operate the account by signing a power of attorney on his name. Within a year of opening and operating the account, a total of 53 billion FCFA was deposited, followed by large cash payment for foreign currencies (euros and dollars), purchases at the bank. The bank observed that the cash payments made by Mado and Paco are far above the average income flows of a typical BDC in Senegal. They also observed that Mado's account has been credited by a PEP, Excellence,

with huge flows of check deposit that are over and above his legitimate remuneration. The bank decided to file a suspicious transaction with the FIU in 2016.

The FIU investigation reveal that Excellence holds an office in a strategic sector but his legitimate income cannot justify his lifestyle. Mado, in aiding and abetting Excellence, breached professional conduct and flout the compliance regulatory framework in place for currency exchange services. Also, there were neither records of the BDC's transaction nor identification of buyers of the currencies that were purchased from the bank. Mado however, confess of making the foreign currencies available to Excellence. After investigation, the case was referred to the judicial police.

Source : Senegal





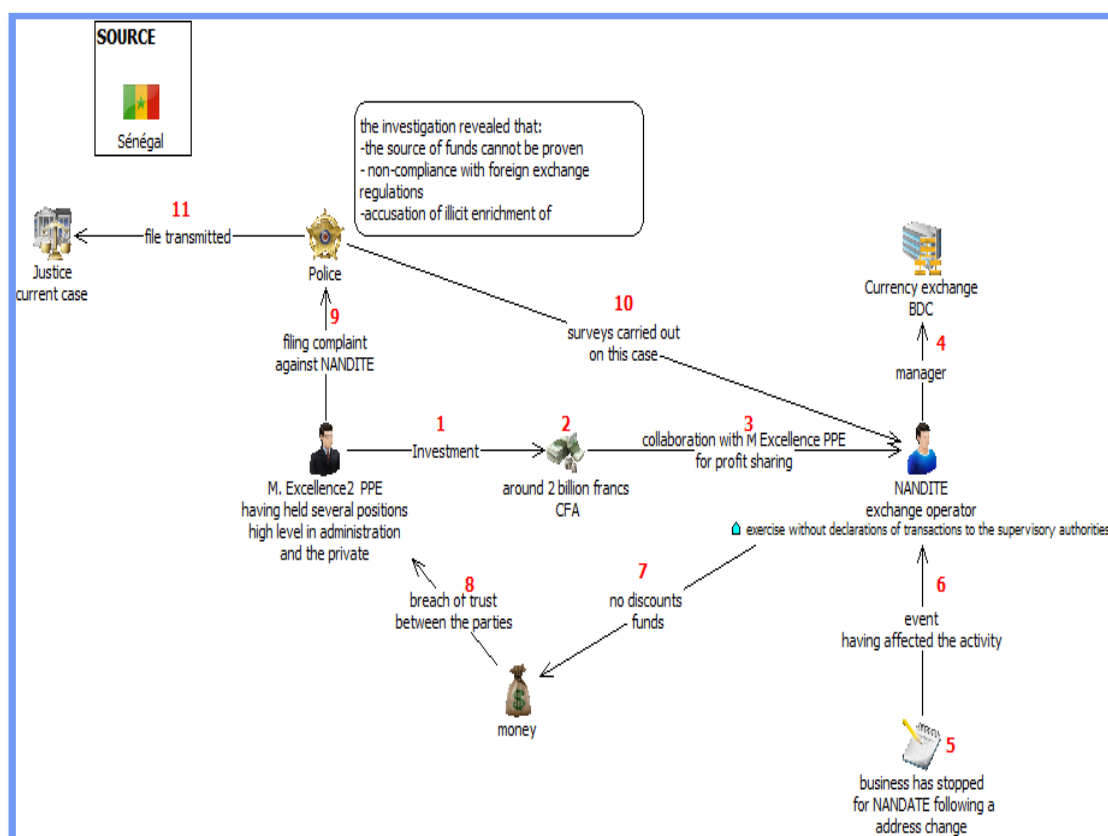
Case 6: Public Officials Laundering the Proceeds of Corruption through Non-Compliant BDC

Mr. Excellence is a financially exposed person who held several senior positions in public and private administrations. At the end of his service, he decided to invest a large sum of money (about 2 billion CFA francs) he had held in cash. The amount of fund is far above Excellence's legitimate emolument over his years of service. He was however, able to invest the money using the service of a BDC operator called NANDITE.

NANDITE after registering and getting approval to secure an office space and start active operation of his BDC within one year or risk losing his licence as stipulated in the regulation that guide the operation of BDCs in UEMOA, had no option but to agree working with Excellence on a profit sharing term after providing the funds for the BDC's operation. NANDITE then secured an office space around the former airport in Dakar. The office was such a hideout that no regulator has ever visited the office and NANDITE hardly makes transaction returns

to the supervisory authorities. After Excellence and NANDITE signing a gentleman agreement on how much to be paid to the former as dividend for the capital he provided, the two partners operate for a very long period without complain. However, the business was sustained by the activities going around the airport and when the airport was moved to Thies, business came to a halt for NANDITE and he had to change business without informing Excellence, the fund provider. After a while, NANDITE could not afford to keep up with the amount being paid to Excellence on a monthly bases and they resort to quarrelling. The two men then had to resort to the police for a settlement of the matter in early 2019. The police upon interrogation realised that the source of the fund that is the basis of the disputed cannot be substantiated and the way and manner they have been conducting their business is not in compliance of the regulatory guideline of that business and hence, were charge with offences of unjust enrichment, breach of trust and money laundering. The case is ongoing.

Source : Senegal





Typology 2: Third Party Money Laundering using illicit/informal BDCs

52. C This typology described cases which are not linked to any particular crime except the

methods itself is now illegal in all of West Africa, though the laws are yet to be tested in court. This method can be successfully adopted to embark on third party laundering just like what professional launderers do.

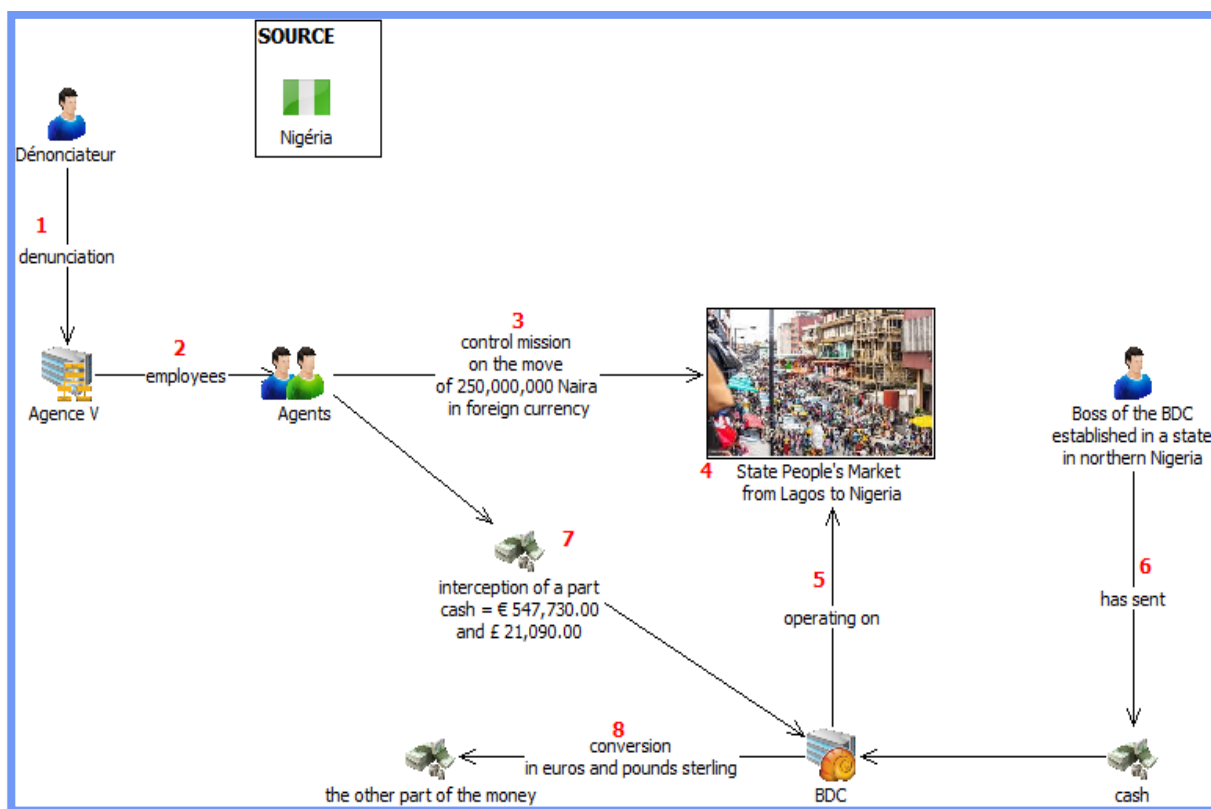
Case 1: Money Laundering through Currency Exchanges

Operatives of Agency V stormed a popular market in Lagos State Nigeria after receiving information from a whistle-blower about the movement of N250,000,000 in cash for conversion into foreign currencies by unnamed persons. The operatives responded timely and intercepted the money in a Bureau de Change office but a significant amount of the fund had been converted into Euro and Pounds. The monies intercepted

include €547,730.00 (Five hundred and forty, seven thousand, seven hundred and thirty euro) and £21,090.00 (twenty-one thousand, ninety pounds) as well as N5,648,500.

The BDC operators in possession of the funds claimed they were acting on behalf of their boss who sent the money to them from one of the Northern states in Nigeria. Operatives apprehended two persons in the course of the raid and they are cooperating with the Agency V in the investigation.

Source : Nigeria



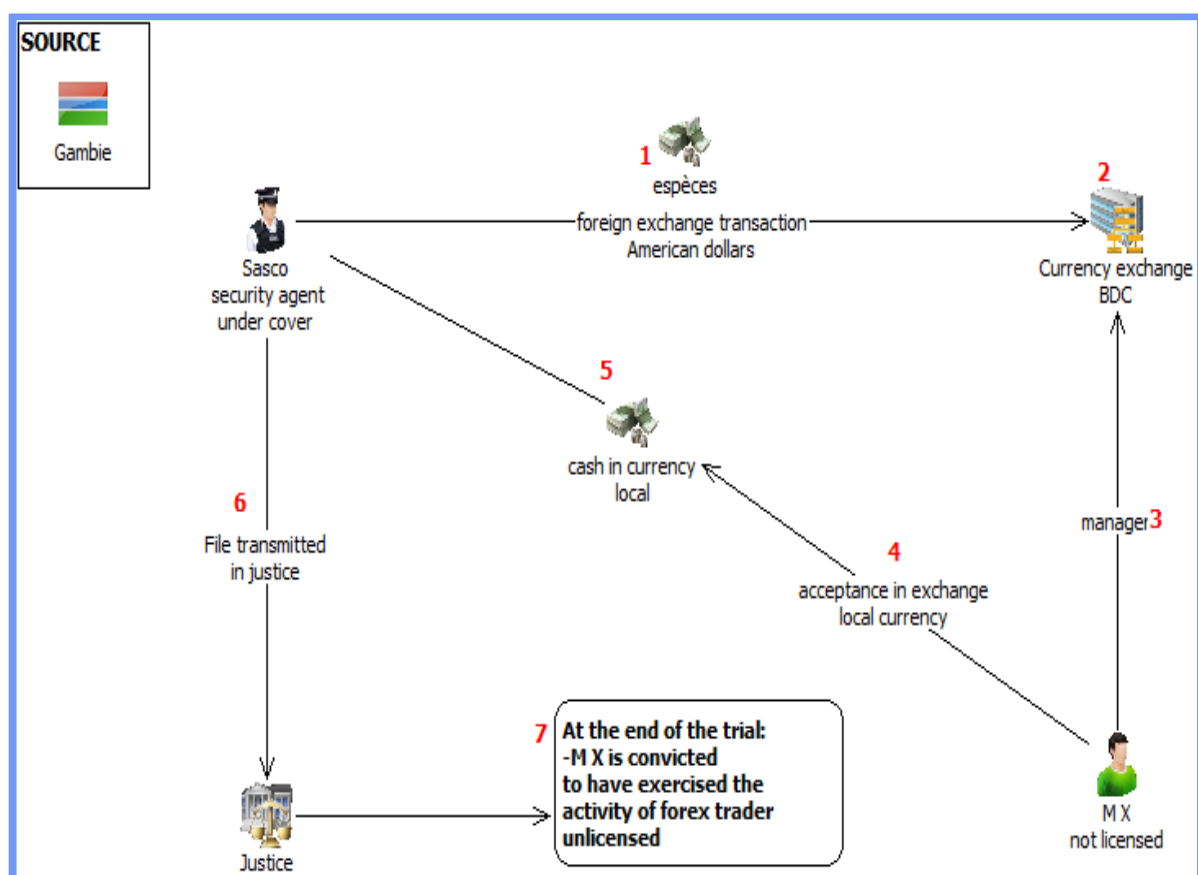


Case 2: Illegal Transaction of Foreign Currency without Licence

In July 2013, one agent Sasco, a security Agent (acting as an undercover) went into the shop of one Mr. X and asked of him, the accused (Mr. Y) told her that Mr. X was out of town. Mr. Y further asked agent Sasco if she needed any help, and Sasco replied that she wanted to change US Dollars. The accused accepted the USD and gave her the equivalent in the local currency. At the point of the exchange, other members of the undercover agents came into the shop and arrested the accused. He was asked if he had licence to carry on the business of foreign exchange, he replied in the negative. He was later

taken to a nearby Police Station where the police found in his possession local and foreign currency. The accused was taken to court and charged with “Carrying on business as Foreign Exchange Dealer, without a licence” contrary to section 3 and punishable under section 19 of the Licences Act. At the end of the trial the Court found the accused guilty of the offence charged and convicted accordingly. This case was one of the successful prosecution in a series of planned undercover operations and arrests of unlicensed operators in foreign exchange in 2013. Some other cases were dismissed and suspects acquitted.

Source : La Gambie



53. This above typology involves internet scam proceeds being laundered through BDCs and subsequently transfers to complete the laundering process. The cases include business opportunity scam and online romans scam.

encounter with Mrs X, Mr. and Mrs. X turned in their 2 companies to be used as front to disperse funds wired by Mr. Z who allegedly owns Q Investment Network.

Mr. Z wires dollars to the accounts of U General Services Ltd and OP Limited. Mrs. X makes cash withdrawals from the company accounts and sells them to Bureau de Change operators for Naira equivalents. She then pays the Naira equivalent to various accounts on the instruction of Mr. Z. The scheme is done with the involvement of Mr. X whom was an Assistant General Manager of the bank and later relieved of his job after discovering his involvement in the scheme.

Source : Nigeria

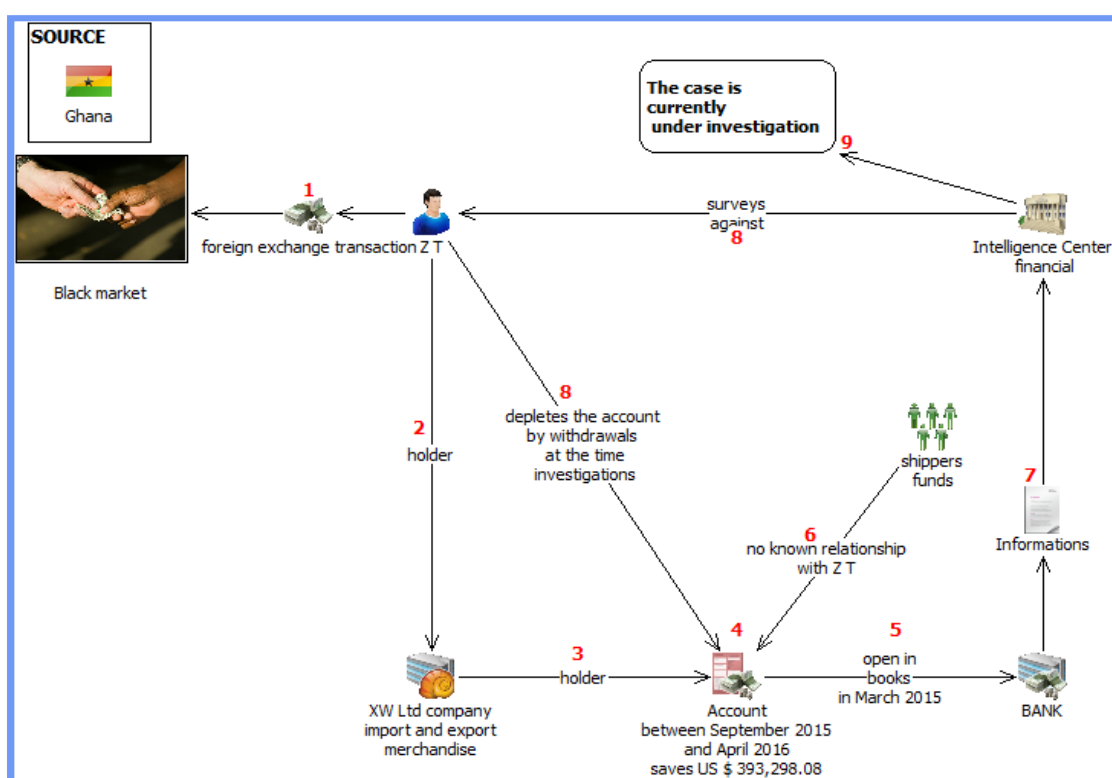


Case 2: Laundering Proceeds from Internet Romance and Gold Scam using BDCs and Remittances

Suspect ZT, trades in forex on the black market, registered a company XW Ltd. He stated the purpose of the company was to import and export general goods and his account would be funded from the business proceeds. He opened a US Dollar account in the name of XW Ltd at a bank in the country in March 2015. Between September 2015 and April 2016, the account recorded 22 foreign inflows totalling US\$393,298.08 from 14 remitters in different jurisdictions. Suspect had depleted the account by the time the Financial Intelligence Centre referred the case to law enforcement in June 2016. When interrogated on July 19, 2016,

he admitted not knowing the remitters personally but said, due to his black market trading, some customers, with his consent, used his account to receive funds from overseas. Suspect could not make available these customers nor their contacts to the investigators. Mutual Legal Assistance response from the destination received in August 2018 revealed that all the remitters did not know suspect personally nor transacted any business with ZT Ltd. The remitters were made to send funds through ZT Ltd account by certain individuals who used internet romance and gold scam to defraud them of their funds. The case is currently under investigations.

Source : Ghana





Typology 4 : Blanchiment de Capitaux et Financement du Terrorisme par des BDC illicites et informels et par des passeurs de fonds/MVTS

54. This typology described cases that have to do with either laundering proceeds from organised

crime activities using informal/illicit BDCs and subsequently using illicit courier services or the 'Hawala' type of transfers to complete the laundering process, or using these same methods to conceal funds meant for financing terrorism and terrorist activities. The typologies is one of the 2 popular techniques used involving BDCs as shown by the study.

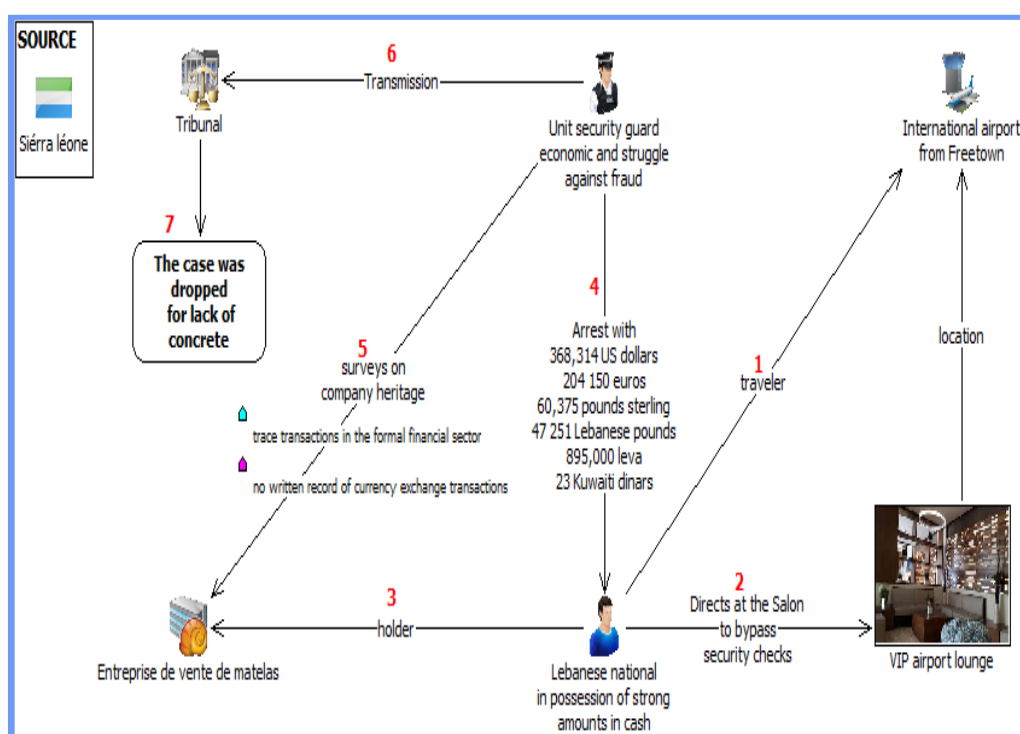
Case 1: ML/TF using BDCs and Cash Courier

On 22 September 2018, a case of failing to declare cash in excess of the stipulated threshold was detected at the Freetown International Airport involving a Lebanese national. The suspect bypassed security checks and found his way to the VIP lounge of the airport through the assistance of a security personnel. Another security personnel from the Economic and Fraud Unit noticed the suspicious movement and raised alarm leading to the arrest of both the suspect and former security personnel. The suspect was searched and the police discovered currency notes in different denominations including \$368,314 US; €204,150; £60,375; 47,251 Lebanese pounds; Le895,000; and 23 Kuwait Dinar in his hand luggage. When interrogated, the suspect claimed to have obtained the money from his business of dealing in mattresses as well as gains made from betting game at the Mercury International, a sport betting company in Sierra Leone. Investigations carried out did not find the customer's business strong enough to generate

the funds and Mercury International declined the claim, saying that their records could not show any wins linking to the suspect. The investigation did not trace the transactions in the formal financial sector, raising further suspicion that the currencies must have been purchased through the informal currency exchange service operators, leaving no paper trail. Whilst the prosecutors were preparing their papers to charge the matter to court on money laundering; tax evasion, possession of large amount of currencies; failing to declare foreign currencies, amongst others, due to the investigation, the money was released to the subject on the instruction of the Attorney General, drawing on a report received from Interpol indicating that the subject had no criminal records.

The matter was dropped due to lack of concrete evidence. Meanwhile the financial sector regulators were tasked to monitor the transactions and activities of the subject on the possibility of being a cash courier to the Middle East and most likely raising fund to support designated terrorist groups.

Source : Sierra Leone



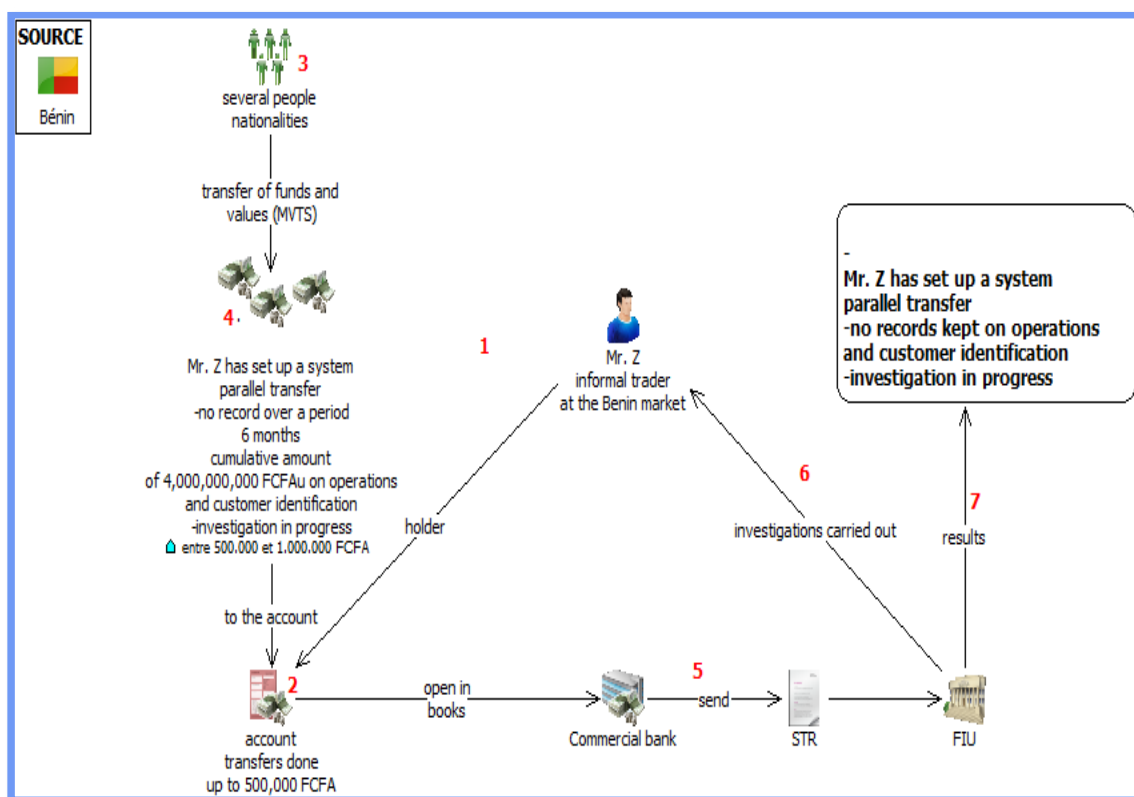
Case 2: ML/TF through Informal CES Providers and MVTs

Mr. Z, is an informal trader in the parallel foreign exchange market in Benin and has an account in a commercial bank, Bank B, based in Benin. In 2018 and over a period of 6 months, Mr. Z received several money transfers mainly via an international money and value transfer services (MVTs) and lodge to his current account for a cumulative amount of about 4,000,000,000 FCFA. The transfers were made by individuals of different nationalities from several countries (from Central Africa, Europe and Asia). The transfers ranges between 500,000 to 1,000,000 FCFA in order to circumvent regulatory requirements. The reason often given on the transfer slips is «Regulation of services». Mr. Z will intermittently withdraws the funds in cash at a regular bases mostly in person and on rare occasion by his associates (to whom he issues cheques). In addition, Mr. Z has money transfers of up to 500,000 FCFA made from his account to these same countries.

Investigations carried out by CENTIF Benin show that Mr. Z, who claims to be a trader, has built up a relationship of trust with his clients. He has set up a transfer system in parallel with his initial activity. This enables him to receive money from his clients from outside the country via his account and to give it to their intermediaries on the spot (who are recruiters or suppliers).

He also receives cash from on-site intermediaries and initiates requests to transfer money from his account. They receive commissions on all of these financial transactions. It is further noted that Mr. Z does not keep any records for the traceability of his operations or for the identification of his customers, whom he admits not knowing except for the intermediaries that he only sees at the time of the transactions. It cannot be ruled out that Mr. Z uses his network to finance terrorism. The investigation is ongoing.

Source : Bénin



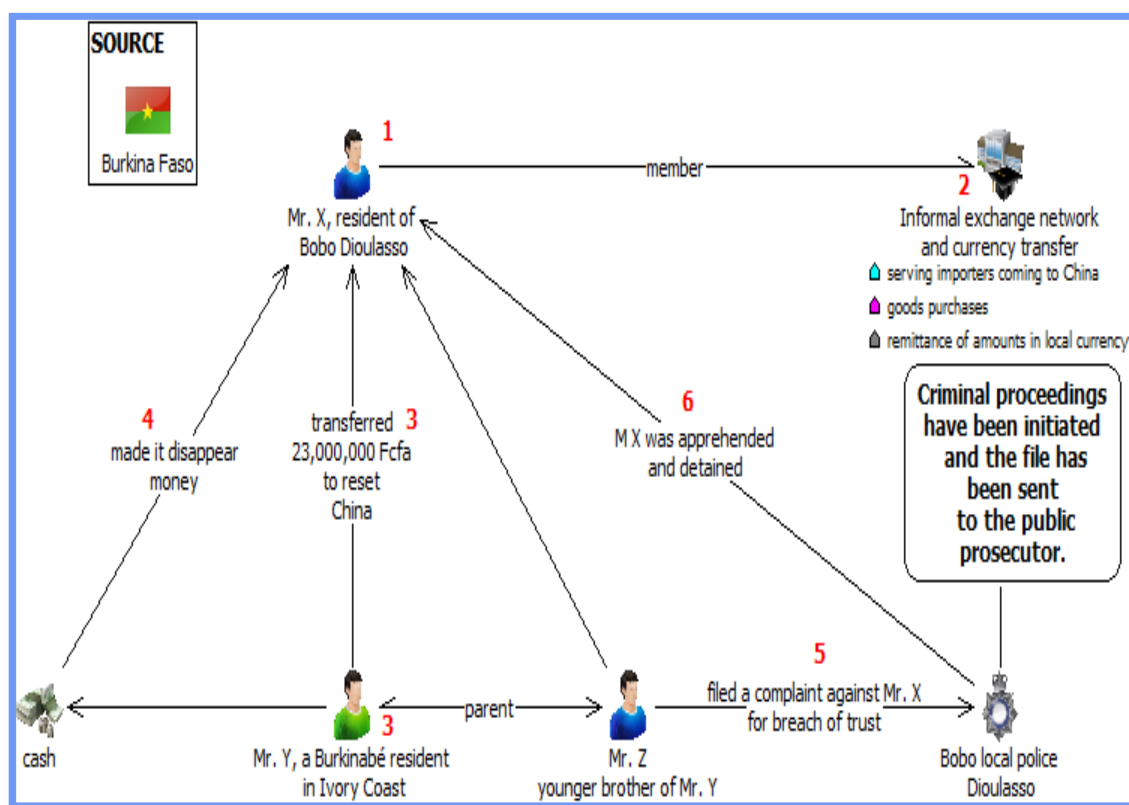


Case 3: ML/TF through Gangs of Illicit CES and Money Remittance Operators

Mr. X, a resident of Bobo Dioulasso, is a member of an informal network for currency exchange and transfer. The network is in the business of servicing importers who travel to China, France, India, Italy, the United States of America, etc., to buy goods. These businessmen who are their clients will deposit cash of a specified amount before making the trip. Once the depositor is in the country of destination, the network partners remit the amount in local currency.

On this fateful day in August 2017, Mr. Y, a Burkinabe resident in Cote d'Ivoire, transferred the sum of 23,000,000 Fcfa to Mr. X for onward remittance to China. When Mr. X received the sum, he disposed of it otherwise and the transaction was never made. Mr. Z, Y's younger brother, lodged a complaint with the local police of Bobo Dioulasso for breach of trust in respect of the sum involved. X was apprehended and held in custody. Criminal proceedings were instituted and the file was transmitted to the Public Prosecutor's Office.

Source : Burkina Faso





Case 4: ML/TF through Informal CES Providers and Cash Couriers

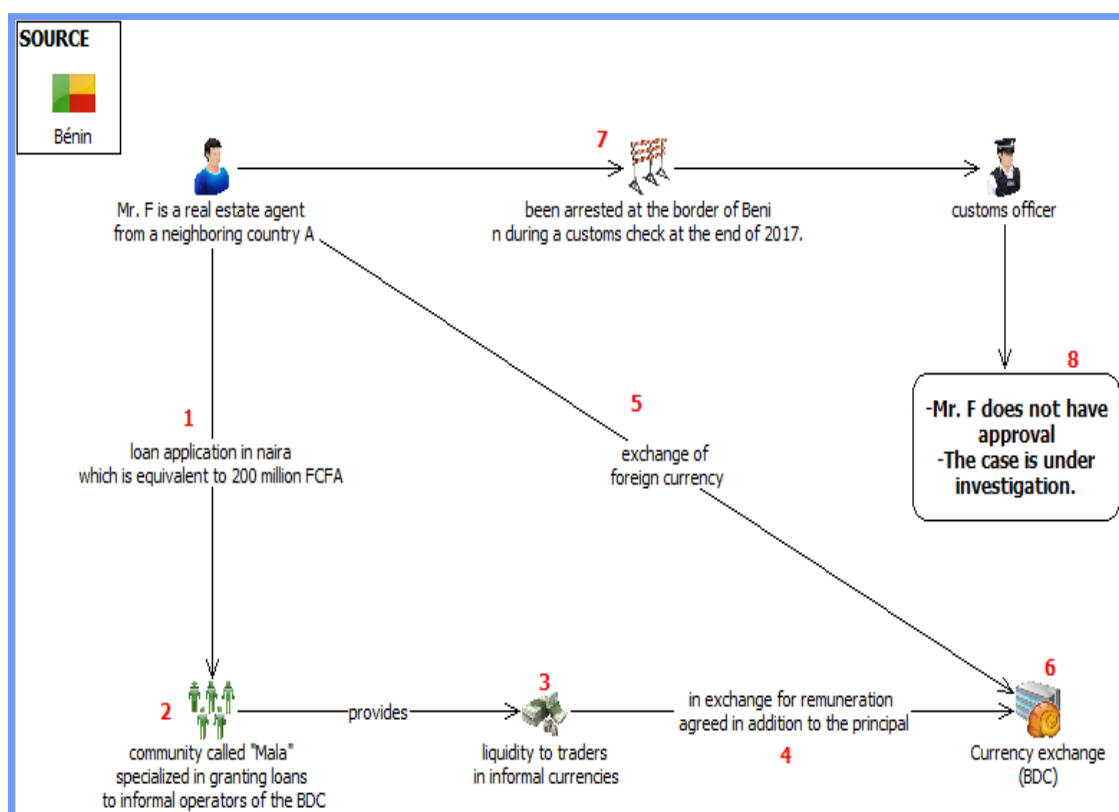
Mr. F is a real estate agent from a neighbouring country A, who was stopped at the Benin border during a customs check in late 2017. Mr. F was carrying a large sum of money with him. During the investigations carried out by the police, it emerged that Mr. F is working for a community called «Mala». This community has a strong presence at the Seme-kraké market and specialises in providing credit to informal BDC operators

Mr. F was to carry the money to an informal BDC operator, a Beninese Z. Mr. Z admitted sending a request to the «Mala» for a loan in naira which is the equivalent of 200 million FCFA to enable him attend

to a client who demands local currency in exchange for foreign currency. This informal association of the «Mala» provides liquidity to informal foreign exchange dealers in return for an agreed fee alongside the principal, which varies according to whether the repayment will be made in Naira or in FCFA. The «Mala» only lend to informal BDC operators.

The investigations also revealed that Mr. F is solicited at least five (05) times a week to deliver such a quantity of money and on average three (03) to four (04) times a day. In addition, exchanges of information with the Public Treasury show that Mr. Z is not on the official list of approved BDC operators in Benin. The case is under investigation.

Source : Benin





Case 5: Money Laundering through Informal CES and Cash Courier

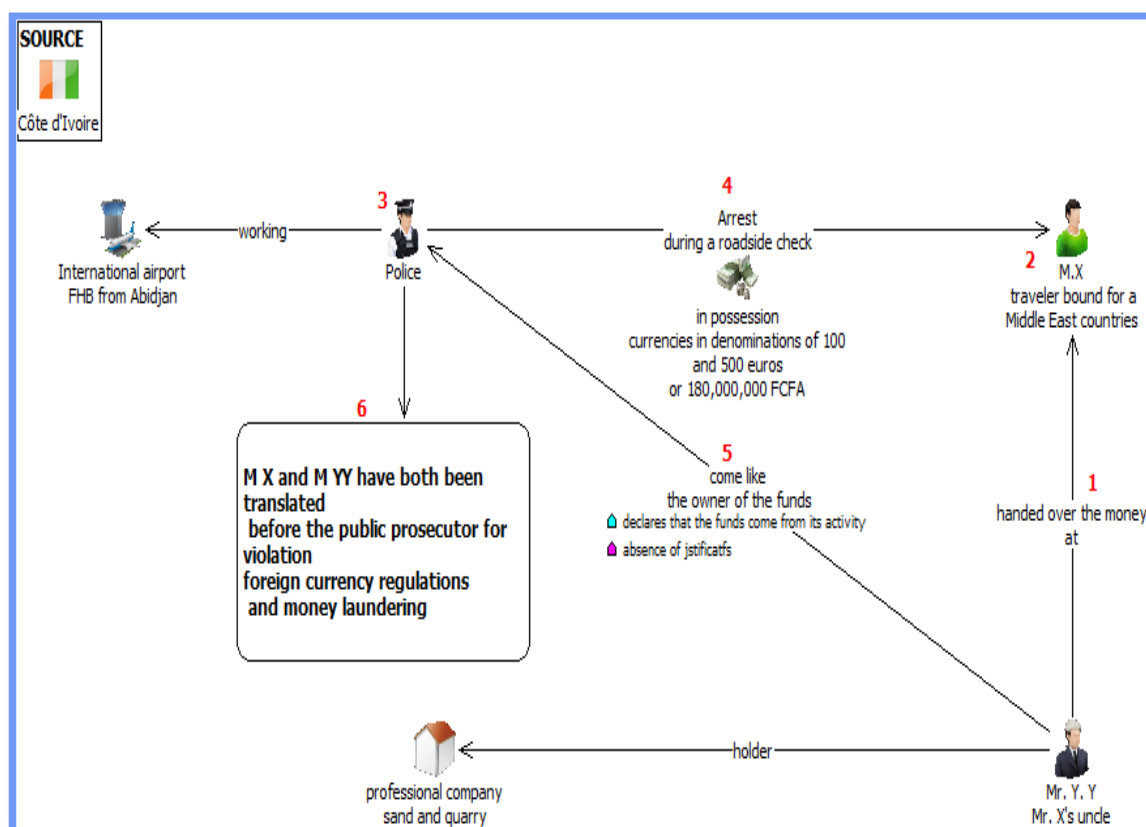
During a routine check in early 2018, the police stopped one Mr. X at the Abidjan's FHB international airport, traveling to a Middle Eastern country with currencies in denominations of 100 and 500 Euros, the equivalent of about 180,000,000 FCFA. When questioned, he said the funds were given to him by his Uncle Mr. Y. Y., in a twinkling of an eye presented himself to the Economic Police as the owner of the funds, and was interrogated. When asked to justify the origin of the funds, Mr. Y said the funds came from his professional sand and quarry business.

He was unable to provide financial records or bank account details that would justify the flow of funds in the course of his business or private activities. He was also unable to provide any accounting or financial records that shows that he received funds in a professional capacity. He rather revealed that he often uses the services of informal BDCs each time he received payments. Lastly, he was unable to provide a document justifying his dealings with a licenced and approved BDC, let alone the

name of such BDC. Both X and Y were taken to the public prosecutor's office for violation of the foreign currency exchange regulations and money laundering.

Also, few months later, Mr. B was leaving for a Middle Eastern country. On his way through the security protocols at the FHB airport in Abidjan, he was arrested for being in possession of foreign currency, Euros and US dollar, the equivalent of more than 2.5 billion FCFA. Upon arresting B. a Mr. C showed up as the true owner of the funds. When interrogated, he confessed the funds came from the recoveries made from local customers of foreign suppliers. He was unable to identify them. He further revealed that, each time funds were remitted to him, he would go to a local bank with currency exchange operators based in Treichville. The BDC operator will then exchange the money and give him foreign currency. No documents were given to him at the end of these transactions. Both B and C were taken to the Public Prosecutor's Office for violation of the foreign currency exchange regulations and money laundering.

Source: Cote d'Ivoire





Case 6: Laundering Proceeds of Tax Evasion through BDCs and Cash Couriers

Mr. LINK is a national of an Asian country residing in Senegal where he carries out a commercial import-export activity. Being in possession of a large sum of money, nearly 33 billion CFA francs, that he needed to repatriate in foreign currency to his country of origin, he decided to organize a method of taking the funds out of the country and in violation of Regulation R 09/2010 governing foreign currency transaction in WAEMU.

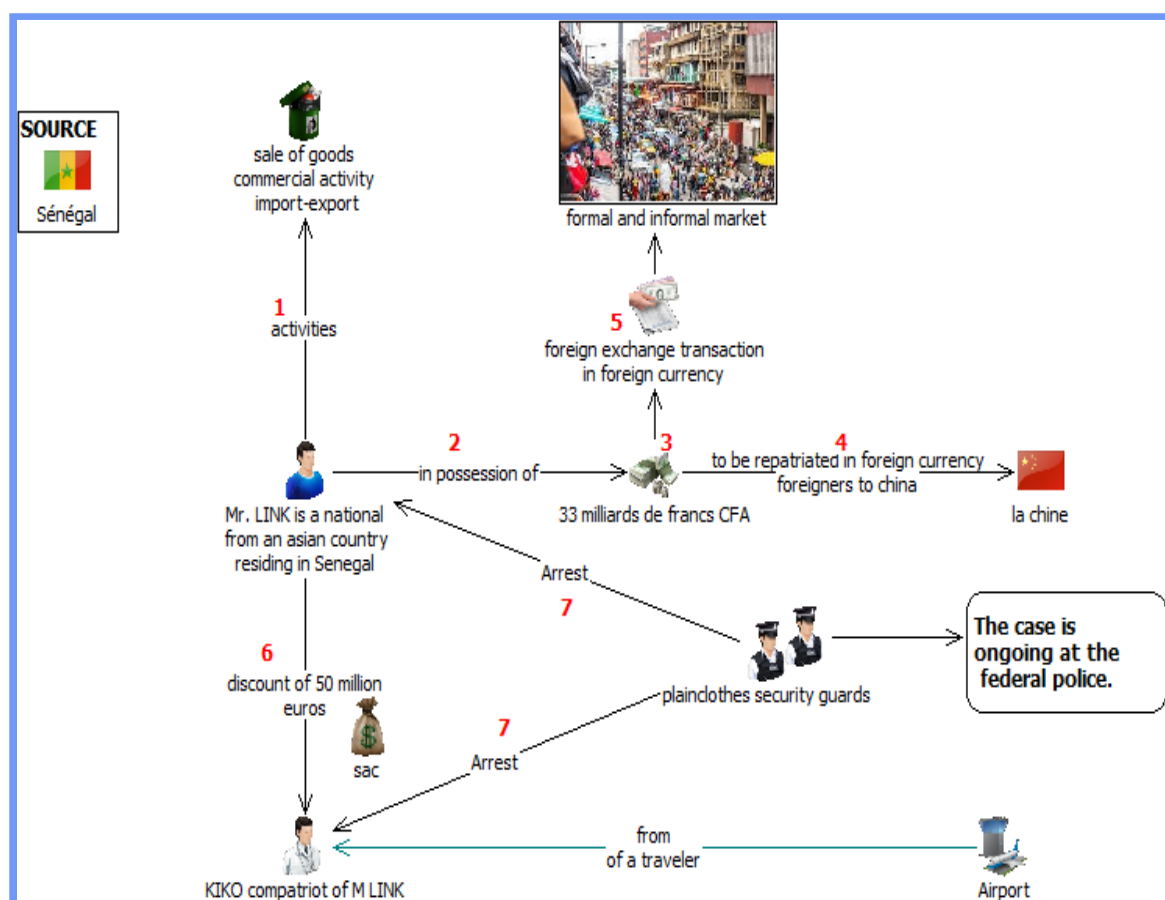
To do so, he first carries out a foreign exchange transaction in foreign currencies on both the formal and informal markets. Then, thanks to fraudulent manoeuvres, he manages to obtain an access card to the arrival area of the airport. Finally, in possession of 50 million euros in a backpack, he went to the arrivals area at the time he had planned the operation, waiting for one of his fellow countrymen,

KIKO, a passenger on board a commercial flight of a major international airline that had just landed.

On this day in February 2018, as he was exchanging his bag with that of his compatriot KIKO, he was arrested together with the latter by plain clothes security personnel who had been following his moves without him noticing. The Interrogation conducted by this unit led to an acknowledgement of the offence of currency smuggling by the two suspect.

The modus operandi was for LINK to exchange his bag pack full of currency with KIKO who as an arriving passenger, would declare this amount when crossing the customs services. In return, he would have a currency declaration certificate duly issued by the customs authorities. KIKO was to use that same certificate on his way out to justify that he had actually entered with an amount of 50 million Euro. The case is ongoing at the judicial police.

Source : Senegal





Typology 5 : Criminal Abuse of at Risks BDCs

55. The above typology described how BDCs can be targeted by scammers and fraudsters particularly

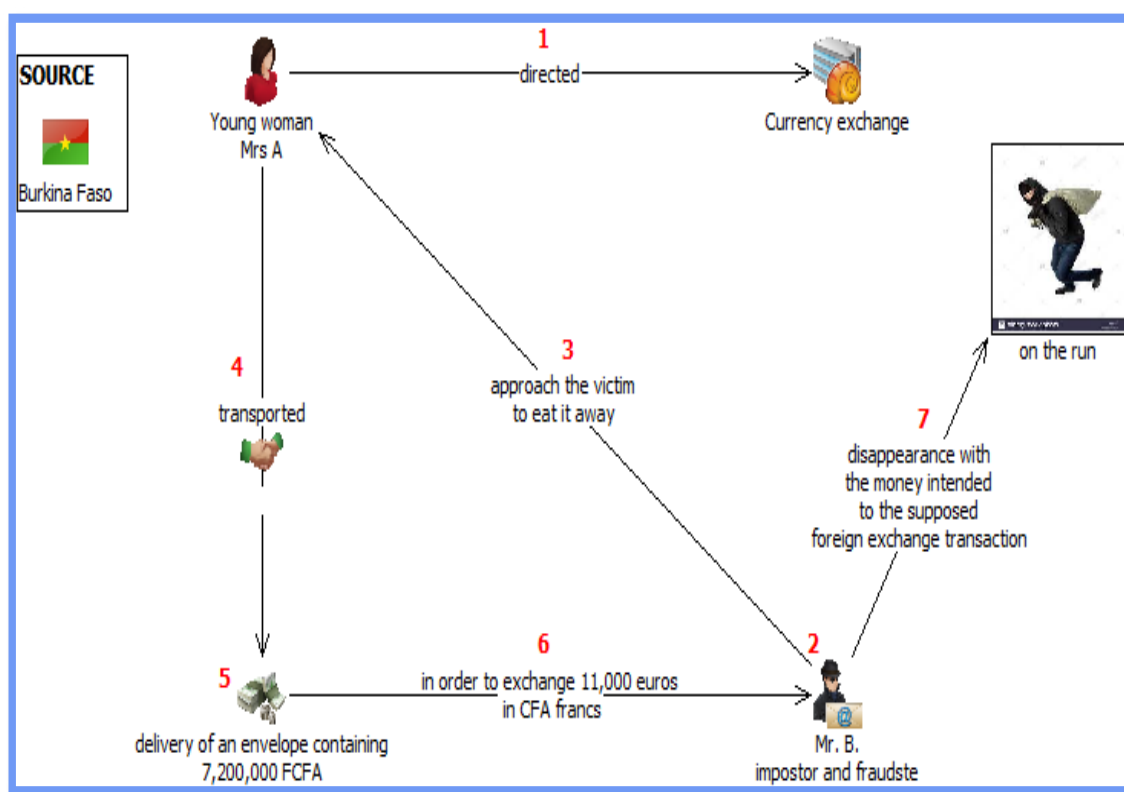
when the BDCs are known for operating outside their domain and involve in other violation of the regulations that guide their operations.

Case 1: Non-Compliant BDC Operator Loosing Funds through Phoney Scam

On 3 March 2015, a young lady Ms. KONATE who runs a Bureau de change got her money swindle by an imposter and fraudster Mr. SARR. Ms. Konate received a phone call on this fateful from this scammer Sarr, who introduced himself on the phone as an agent of the UEMOA. He convinced Ms Konate as he urgently needed to change 11,000 Euros into CFA francs, as he will be travelling to his country. Upon hearing this, Ms. Konate horridly got up and take along with her the equivalent of the Euros in an envelope amounting to 7,200,000 FCFA and rush to the scene where Sarr the imposter had asked them to meet. Ms. Konate arrived in «Les Palmeraies» restaurant, opposite the UEMOA. Arriving at the restaurant, she found Mr. Sarr already waiting, seated at a table with two chairs. In front of him, a cup of tea, a laptop and a bag containing books. After exchanging a few

pleasantries, SARR took hold of the envelope containing the seven million two hundred thousand francs his new friend had brought, checked it out and opened his bag. With a look of surprise, he pretended to Ms. KONATE as though he had forgotten the money in his office. He then pretended to be making a call, when he set up to head towards the UEMOA building directly opposite from where they were seated, with Miss KONATE closely following him from behind. Entering the UEMOA building, he pointed to a waiting chair in front of a desk that he poised to be his own. In a quarter of minute after taken a turn in a corridor, Mr. SARR disappears forever. After few moment of waiting, Ms. Konate raised alarm and alerted security. A moment later, the Economic and Financial Police Division arrived on the scene and proceeded to make observations, take samples, seize abandoned equipment and interrogate people as well. Mr. SARR is still on the run.

Source : Burkina Faso



Case 2: Abuse of Office by Corrupt Public Officials to Defraud BDC Operatives

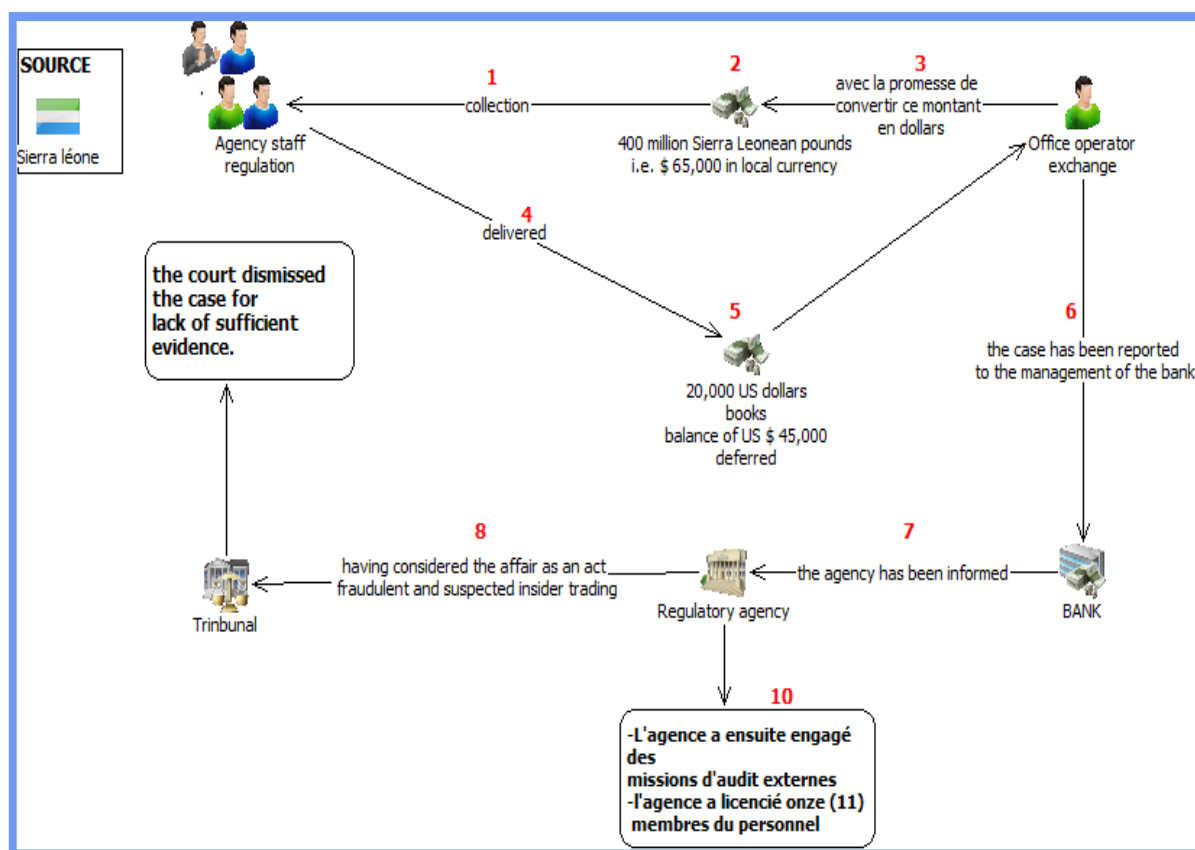
A staff of one of the regulatory agencies collected the sum of Le400m, equivalent to US\$65,000 in local currency from a BDC operator with the promise to convert the amount into dollars. The official claimed to have access to foreign currency from the bank and could exchange any amount for the bureau operator. The bureau operator handed over the cash to the official within the premises of the regulatory agency. When the official collected the money, the official gave to the Bureau operator an initial sum of US\$20,000 and promised to deliver the balance of US\$45,000 the next day.

The official failed to deliver the remainder and the matter was reported to the management of the bank. The agency viewed the matter as a fraudulent act and a suspected insider trading and referred

the matter to the police who investigated and then charged the matter to court. The court after hearing the matter dismissed the case for lack of sufficient evidence. The agency further hired external forensic auditors for investigation to determine whether the agency suffered any loss. After their investigations the auditors concluded that the agency is safe and there is no evidence that the funds paid out by the official to the bureau operator was taken out of the agency's stock of foreign currency.

However, the agency dismissed eleven (11) staff including the fraudulent staff for breaching internal policies by conducting illicit transaction and parallel activity in the agency's premises. Other staff dismissed along the fraudulent staff, include the immediate supervisors who were supposed to have discovered the activity as well as security officers who compromised security protocols.

Source : Sierra Leone





Typology 6 : Laundering the Proceeds of Violent and Organised Crimes through at Risks BDCs

56. This typology described cases that have to do with either laundering proceeds from violent and/or organised crime activities using informal/illicit BDCs and subsequently. The typology is also a

common one. The cases here tell the story of how vulnerability attract threats. Therefore, BDCs that are exposing themselves to risks by not operating according to regulatory guidelines are at risks to suffer violent crimes and other criminal abuse.

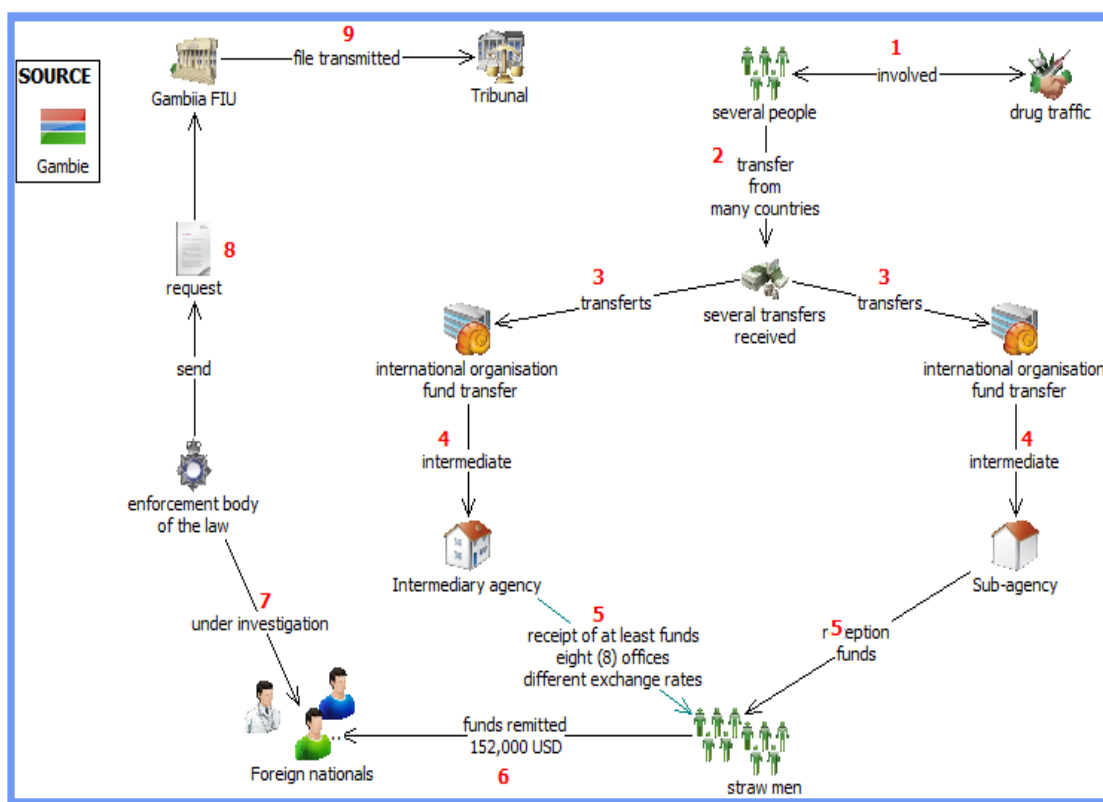
Case 1: Laundering the Proceeds of Drug through BDCs Acting as Agents to Money Remittance Businesses

In 2017, the FIU received request from a Law Enforcement Agency regarding suspicious remittances conducted through Money Transfer Organization (MTO). Different individuals sent the remittances from several countries. Investigations by the Law Enforcement Agency (LEA) found out that foreign nationals believed to be engaged in drug dealing to receive the funds on their behalf hired the individuals. The senders used two major international money remittance organizations to transmit funds through local agencies and sub-agents. Twelve (12) individuals received funds from at least eight (8) dif-

ferent Forex Bureau De Changes who were agents/sub-agents to the MTOs.

When questioned by the Law Enforcement Agents, the individuals who received the funds confirmed that they were used as front men or money mules by three (3) foreign nationals suspected to be engaged in drug-peddling. The Money Mules also confirmed that they were paid a commission upon receiving funds per transaction. The funds were then delivered to the three suspects. From a review of 100 transactions, an amount of approximately USD 152,000 was received on this enterprise prior to their arrest. The Case was investigated and forwarded for prosecution

Source : La Gambie





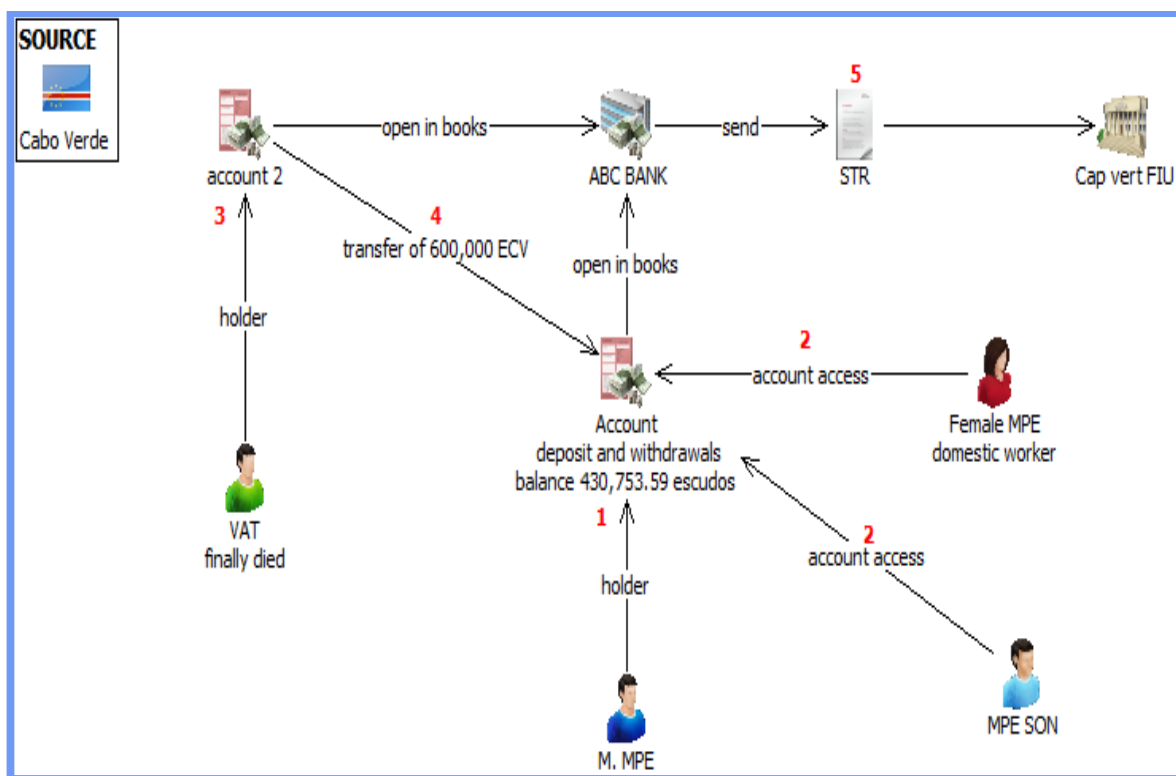
Case 2: Laundering the Proceeds of Organised and Violent Crime through Illegal BDCs

On the 23 August 2010, the FIU received an STR from Bank ABC involving Mr. MPE who initially opened a personal account with the bank in July 2000. On the 13 September 2002, he brought the mother, VPM to be added to the account. Both the son and the mother resides in Achada, Praia – Santiago. The mother is said to be a domestic worker and the profession of the son is not known. The account is fed by cash deposit transactions, purchase of foreign currency, deposit of valuables, check withdrawal and transfer received. The customer has no debit card. The mother does not know how to sign. All transactions on the account, whether deposits or withdrawals were made in cash and in large amounts. Over the years, several deposits and withdrawals were made on the same day. The customer does not complain about the debit interest charged on the account. The account

balance in July 2010 before the bank file the STR, was 430,753.59 escudo (ECV).

In May 2007, prior to the STR, he received a transfer of 600,000 ECV from the TVA's account, another client of the bank. TVA account was subsequently blocked on 14 July 2008 by court instruction. Even though the STR was not analysed then, movements of deposits and withdrawals of large amounts to the account, with no justification continue. However, in 2013 the murder of TVA and subsequently the wife was reported on the news. According to the news report, TVA, including his wife, is one of the many currency exchange service providers operating on the streets of Plateau in Praia. The news of TVA involvement in street currency exchange and the several properties located in various parts of the city of Praia, many of them registered under relatives are information that obviously need to be substantiated with competent authorities.

Source : Cabo Verde





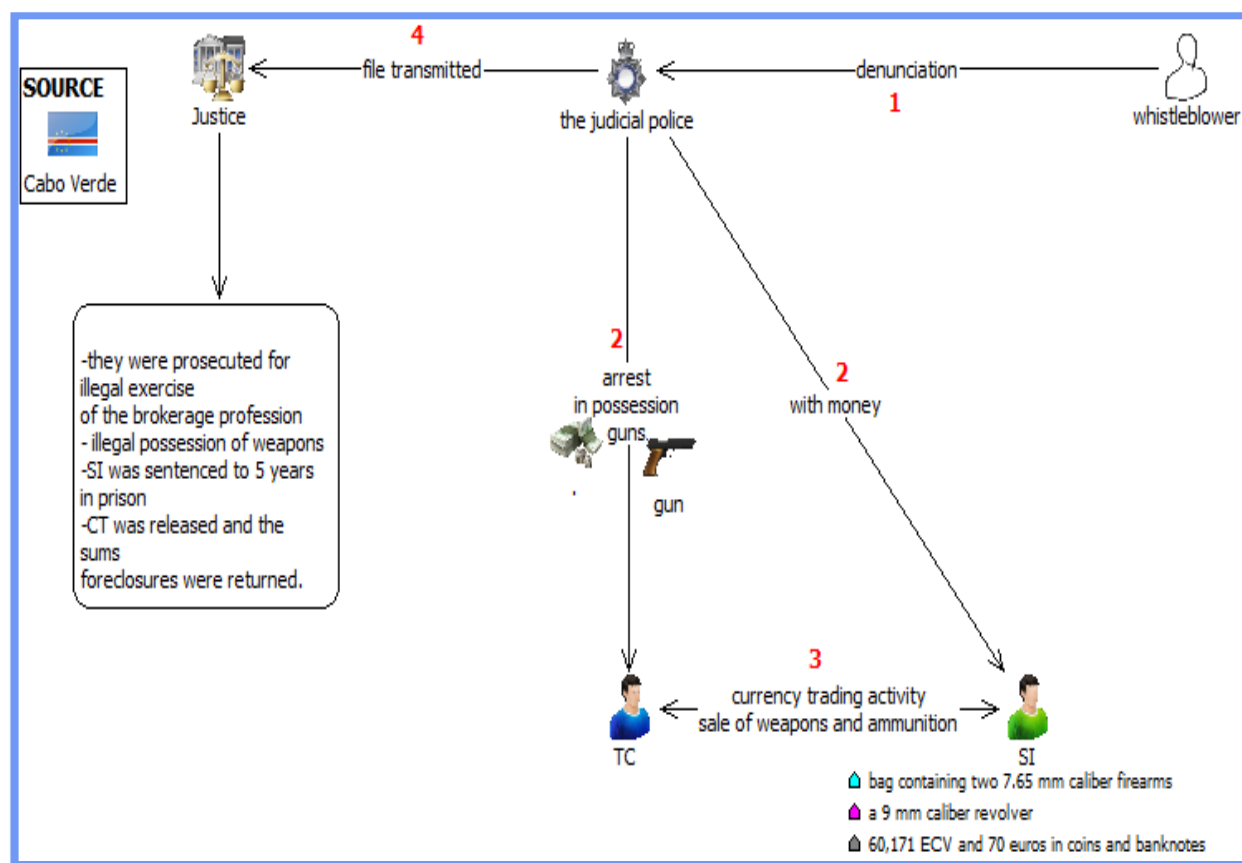
Case 3: Laundering the Proceeds of Armed Trafficking through Informal BDCs

On July 2018, the defendants TC and SI were arrested by elements of the Judiciary Police, in locality Y of Praia. They were found in possession of firearms, ammunition, money and several deposit slips. It all happened following a tipoff. Preliminary investigation reveal that the defendants are not only engaged in the currency exchange business in Plateau, Praia, but also sell weapons and ammunitions, packed in a backpack as found on them. The defendants were found in possession of a bag with 2 firearms of 7.65mm calibre and a revolver of 9mm calibre

equipped with 6 ammunitions each. In the backpack were 7.65mm calibre with 7 ammunitions, 6.35mm calibre with 14 ammunitions, 60,171 ECV and 70 euros in coins and notes.

The case was referred to the Public Prosecutor's Office and they were prosecuted. At the end of the prosecution, the 1st defendant SI was sentence to 5 years imprisonment and the firearms and ammunitions confiscated, while 2nd defendant CT was discharged and the monies seized were asked to be return to him.

Source : Cabo Verde



Case 4: Laundering the Proceeds of Crime through Illegal Foreign Exchange Service

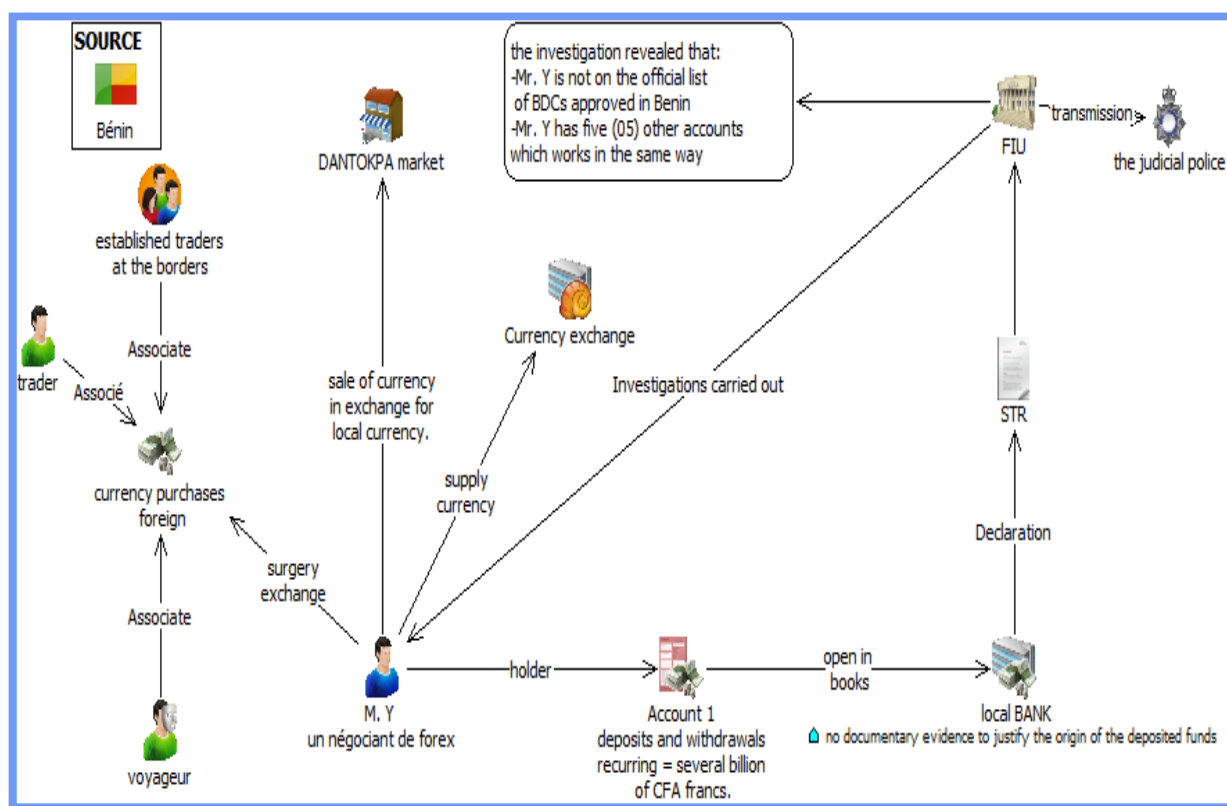
Mr. Y is a well-known forex trader in the DANTOKPA market. He opened a current account in a local bank in early 2017. The said account is only funded by cash deposits and frequent withdrawals made by his person or a relative (using cheques). Estimated recorded transaction flows amount to several billion CFA francs. After repeated reminders from the bank, Mr. Y was unable to provide any documentary evidence to justify the origin of the funds deposited and simply declared that he was carrying on the activity of manual exchange without authorization.

Investigations conducted by CENTIF revealed that Mr. Y is engaged in buying foreign currency from travellers, traders operating along the borders,

hotels and other occasional customers. He then sell the currency to people in the informal market in exchange for local currency. He also supplies forex to licenced BDCs. After the sale of foreign currency he then paid the CFA franc equivalent into his account with his bank until such a time when the exchange rate fluctuates and is more attractive. He continues this cycle anytime the market is right for him.

The investigations conducted by CENTIF revealed that Mr. Y's account recorded large cash deposits followed by systematic withdrawals. Secondly, information exchanges with the Treasury revealed that Mr. Y is not on the official list of approved BDCs in Benin. Thirdly, requests for additional information from other banks revealed that Mr. Y has 05 other accounts on which he uses the same operating procedures. The case was forwarded to the Judiciary Police for possible money laundering investigation.

Source : Benin





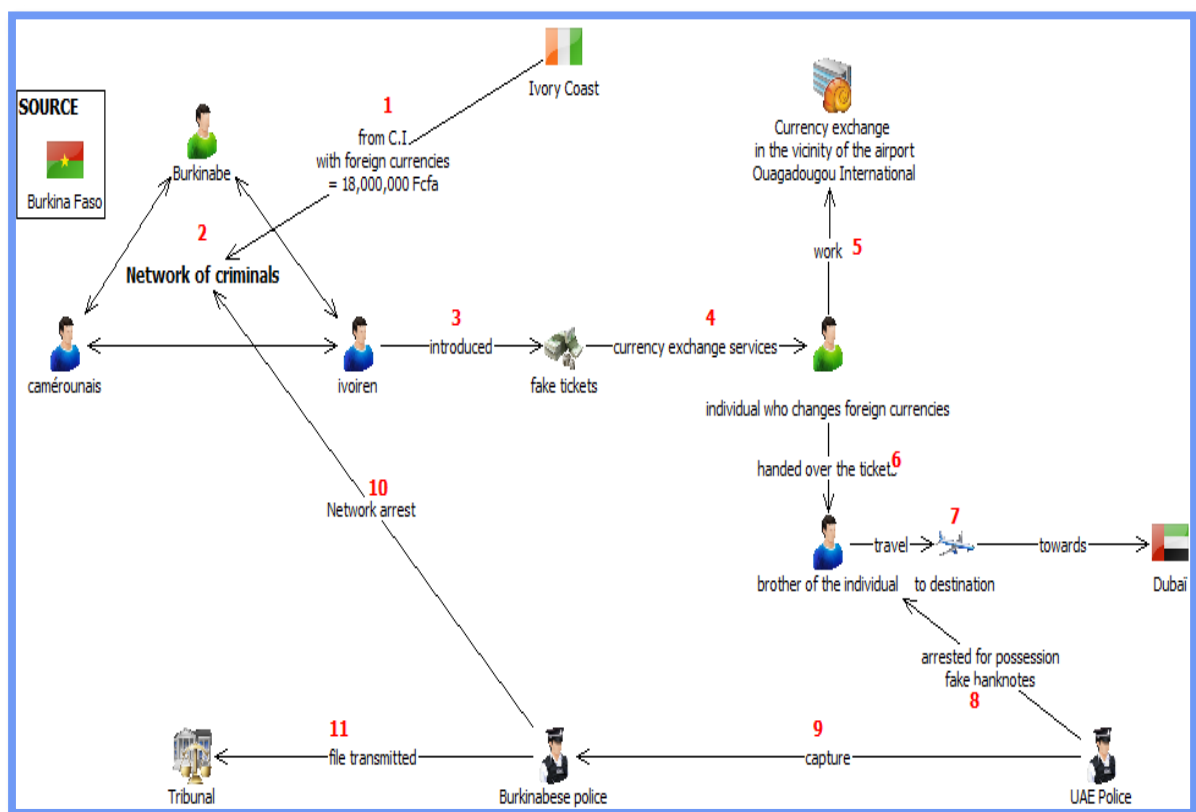
Case 5: Laundering the Proceeds of Counterfeit Currencies through BDCs

In 2018, un réseau de criminels composé de trois personnes de différentes nationalités, including one from Burkina Faso, introduced counterfeit bank notes into the Burkinabe economy through the illegal currency exchange services. Two of the culprits of foreign nationality (an Ivorian and a Cameroonian) arrived in Burkina Faso from the Cote d'Ivoire with foreign currencies (Euros and US Dollars) worth nearly 18,000,000 Fcfa and joined their Burkinabe partner to buy and sell gold.

In order to introduce the fake currencies, the Burkinabe contacted an individual who is into changing foreign currencies within the vicinity of the

Ouagadougou International Airport. The latter joined the group without delay in a local hotel for this purpose. Subsequently, the owner of the BDC who end up with the fake currencies gave the bills to his brother who was travelling to Dubai for business. While in Dubai, the latter was arrested by the Emirate Police for being in possession of counterfeit banknotes. On alerting the Burkinabe Police, the bills were traced to the gang, some arrests were made and the group was dismantled. Investigations revealed that there were nearly 20,000 Euro (13,000,000 Fcfa) of counterfeit notes among the currencies introduced by the gang. The suspects were referred to the public prosecutor's office at the Ouagadougou Court and the businessman was released in Dubai.

Source : Burkina Faso





Case 6: Laundering the Proceeds of Counterfeit Bills through Non-Compliant Licence BDCs and their Illicit Counterparts

On August 2015, Mr. D who is a licenced BDC operator filed a complaint against one Mr. C, an illicit BDC operator, conducting business on the street of the 3-Star market in Dakar. Mr. C does not have an office space on his own and therefore operates with shop owners like Trader A and B who run a shop and also buy and sell foreign currency without licence along the same market.

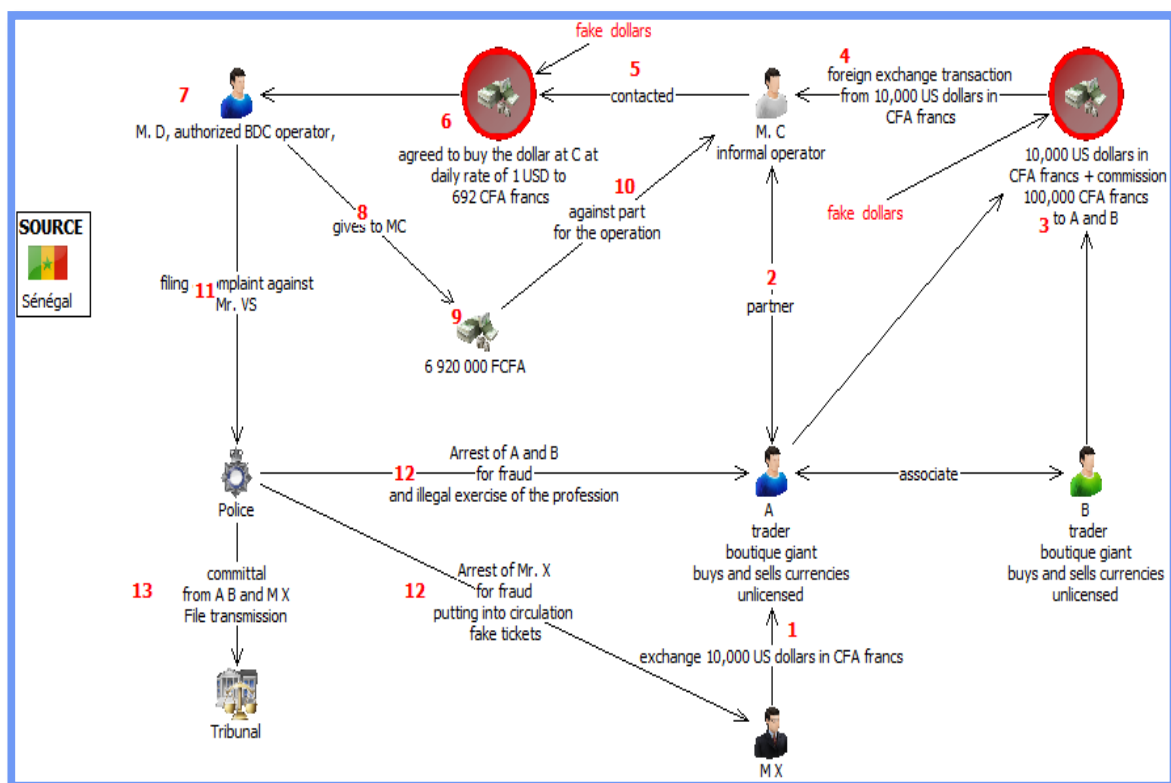
On this fateful day during the rains, Traders A and B receive an occasional customer Mr. X who wanted to exchange the sum of US\$10,000 in CFA franc. Not having sufficient local currency on the spot to pay X immediately, trader A and B approach their partner, the informal BDC operator C. C agreed in return to give a commission of 100,000 CFA francs to A and B at the end of the exchange transaction of the US\$10,000 at 6,700,000 CFA francs, i.e., a US dollar equivalent to 670 CFA francs.

Upon agreeing with A and B, Trader C, who specializes in euros, particularly when it involve large sums of money, in turn calls Mr. D on the phone who is a licensed foreign exchange dealer and specialises in US dollars. Mr. D BDC's office

is located around one of the busy street of Dakar main market area. Mr D agreed to buy the dollar from C at the daily rate of 1 USD to 692 CFA francs. Dealer D meet C outside his office and gave him the sum of FCFA 6,920,000 while promising to return with the US\$10,000 at D's residence.

C took the money to A and B who then called customer X to come to their shop. C handed over 6,700,000 FCFA as agreed with X. He then collected the dollars and refused to verify the authenticity, using a counterfeit detector, as advised by A and B in their shop while relying on his so called physical 'wet dollar method' and the visible features present. Unfortunately, when C arrived with the dollars to Mr. D and upon receipt of the bills, he instantly discovered that the bills were fake. Mr. D without hesitation and with his 34 years' experience, demanded that C return his money and take back the dollars. C could not come up with the money and Mr. D approach the Police and narrated the details. C, as a sign of good faith, went together with his partners A and B, to the local police station. After interrogation, all 3 (A, B and C) were charge with offences of swindling and uttering foreign currency counterfeit bills. The case is ongoing.

Source : Senegal





CHAPTER 4:

RED FLAGS AND INDICATORS

57. This chapter deducing from the previous presents the red flags and indicators observe from the cases presented. Red flags and indicators are activities or actions that underpins certain activities, actions, transactions or events, with some anomalies that raise suspicion and/or inconsistency when subjected to rational scrutiny. These anomalies or inconsistencies leading to suspicion that requires further examination, interrogation, investigation or at least, monitoring. There are a number of indicators and possible red flags that were identified from the analysis of the cases presented in the previous chapter. The indicators and red flags differ depending on the extent of the money laundering or suspected terrorist financing activities. While the indicators represent events that may or may not indicate the existence of money laundering or terrorist financing, red flags represent events that provide clearer evidence of money laundering or terrorist financing.

58. Below is the list of indicators and red flags that were identified from the analysis of the full cases, though not exhaustive. The indicators and red flags confirm that weak supervision and regulatory systems in the currency exchange services industry in the region, and weak enforcement systems contribute significantly to perpetuating corruption, money laundering and illicit financial flows.

Indicators

- Use of informal remittance services (such as the 'Hawala' type of services) for cross-border transfers.
- Use of mules (front men), straw accounts, couriers, etc., in currency transactions.
- Mismatch between the economic activity, and fund in question, either for remittances purposes, currency exchange or bank transaction.
- False information during the identification procedure/lack of co-operation.
- Refusal or hesitation in the presentation of proof of origin/destination of the fund in the currency purchase/sale transaction with an authorized institution (when there is a legal obligation to do so) and/or presentation of an unconvincing proof, depending on the volume/nature of the transaction carried out.
- Currency exchange receipt dated much earlier than the date of travel and where a copy of the currency exchange receipt is submitted rather than the original.
- Opening and operating a foreign currency account whose declared activity and/or profile does not justify the ownership of this type of account.
- A bank account that registers large volume of foreign currencies from it buying and selling operations, which is not consistent with the profile and declared activity of the holder.
- Refusal of the establishment of stable business relationships by non-customers who carry out occasional transactions in foreign currencies, and whose transaction frequency/volume justifies a stable relationship, for example by opening a bank account.
- Customer not bothered about frivolous interest charges on account.
- Customer account with a history of moratorium on transaction by Court order, through which transfers of large amounts are ordered.
- The exchange of small denominations into large denominations of the same foreign currency.
- The customer requests an exchange in foreign currency outside of a planned trip.
- The customer requests the exchange for an amount higher than the authorized threshold in case of a planned trip.
- The use of brokers who often work on behalf of different unidentified principals, including use of third party account for foreign currency transactions.
- The abnormal nature of the foreign exchange transactions compared to the usual transactions recorded on the participant's account.



Red Flags

- Banks carrying out transaction of foreign exchange in favour of a third party through its BDC client by replenishing the latter's account in foreign currency (using the foreign currency auction).
- Informal currency exchange services operators generally have or develop one or more hedging activities and the members of the networks cover each other tracks.
- The customer whose designated profession is import and export, always requests to finance his trade through the exchange of foreign currency, rather than resorting to the use of bank guarantee or letter of credit.
- Refusal or lack of identification of buyers and sellers of currency.
- Avoidance of formal BDCs, banks and financial institutions while ensuring that all activities are concentrated in the informal/illicit economy.
- Periodic transfers made by several people to the same beneficiary or related persons, including transfers from one or more senders in different countries to a local beneficiary. Particularly, when recipient do not have any relationship with senders.
- Transfers over a short period of time of low amounts that together represent a large sum of money, also include structuring of transactions just below the threshold and/or changing of money remitted or currency exchange service provider for subsequent orders to avoid raising suspicion.
- Sudden inflow of funds in cash followed by sudden outflow through financial instruments such as checks.



CHAPTER 5:

CONCLUSION AND RECOMMENDATIONS

Conclusion

- 59.** Currency exchange services that facilitate the access and availability of foreign currency plays an integral part of a country's financial system. Foreign currency is necessary to facilitate external trade which translate into economic growth and prosperity for the country. Therefore making sure that the legal, regulatory including supervisory, and enforcement framework that will enhance the smooth operability of the industry in such a way that it is free from being abuse by criminals or at worst, having criminal elements operating within it, is key to the financial system.
- 60.** The individual country studies conducted in the region revealed that informal and illegal currency exchange is a global phenomenon to some extent and more so, very prevalent in West Africa. The studies also confirm the direct relationship between the existence of informal economy and market to that of the high use of cash whether local or foreign currency and the heavy reliance on informal and unlicensed operator in the currency exchange services industry in West Africa.
- 61.** Moreover, although the legal framework exists and even regulates all the operations that can be carried out via foreign exchange, the supervision and control of activities in the currency exchange services sector remains ambiguous. Criminal sanctions against those who engage in informal and illegal exchange remain little deterrent and ineffective. This inefficiency is explained by many factors, including the opacity of the warning signals, which does not facilitate detection, but also the possible involvement of PEPs, which would use this network to launder funds derived from corruption and related offences or to collect terrorist funds. In addition, the lack of regulations that take into account the AML/CFT recommendations, coupled with the insufficient training of those involved in the fight against money laundering and terrorist financing to undertake proactive investigations, which are the only means of apprehending the real perpetrators and identifying their assets.
- 62.** The low level of awareness and insufficient recourse to the law are also a major obstacle to control. In country studies conducted have revealed that there is limited information documented in the area of illegal foreign exchange. Law enforcements are still investigating predicate offences without charging suspects for TF and ML. There is inadequate coordination between and among security agencies, where most are still working in isolation leading to limited sharing of information hence no data based on their activities. Weak referral system where BDCs do not file suspicious transactions or activities, talk less of those operating in illegal CES, making intelligent gathering a difficult task.
- 63.** Also, some licensed CES operators, often times, do not request for ID cards from their customers and those who require the IDs do not also verify their authenticity. Politically Exposed Persons (PEPs) and non- resident customers patronize the services of these providers and usually would not disclose their source of funds, thereby posing ML/TF risks. Limited AML/CFT knowledge among currency exchange service providers, record keeping and inability to access beneficial ownership information.
- 64.** The international community has taken various actions to combat this form of crime. Significant efforts have been made by competent authorities, especially in the fight against informal and illegal currency exchange. The modus operandi and high profitability of the practice are some of the reasons that fuel and intensify the phenomenon. Despite the government's efforts to introduce regulations on the conditions for carrying out foreign exchange activities, the informal market still remains an obstacle to the development of the national economy. The market is dominated by informal and illegal providers who take advantage



of the vulnerabilities of the sector, such as the lack of training of some foreign exchange licensees; the lack of organization of the sector, lack of awareness and non-compliance with regulatory obligations to move funds derived from illicit and criminal activities. This situation exposes the sector to the risk of money laundering and terrorist financing.

65. Lastly, there have been renewed commitments from governments and regulatory bodies to combat the phenomenon with some monitoring measures implemented. This renewed efforts is recent and nascent, and could take a while for the effects to manifest.

Recommendation

66. The following set of recommendations are proffered to address the many findings, both vulnerabilities and challenges the study identified as measures to bolster the existing AML/CFT system of the economies.

National

- Competent authorities should be fully engaged in the supervision of CES.
- Conduct massive outreach program for both licensed and informal currency exchange service providers on their AML/CFT obligations and the general public as a whole.
- Enhance awareness of the public on the risk of money laundering and terrorist financing through the illegal currency exchange services providers and its effect on the country's economy.
- Licensing procedures for BDCs should be simplified to enhance implementation, enforcement and compliance.
- Enhance collaboration between the regulator, law enforcement agencies, and the currency exchange service providers.
- Training should enable the staff of relevant supervisory authorities to assess the quality of internal controls available for service providers.
- There should be effective information sharing

amongst institutions and agencies fighting ML/FT and neighbouring countries.

- Intensify trainings for all personnel.
- Develop strategies to combat ML/TF in the informal sector which includes activities of the informal or illegal currency exchange service providers.
- Ensure the effective implementation of the legal framework and review to strengthened or streamline where needed.
- Strengthen the existing judicial system and ensure it efficiency for the success of not only detecting the crimes, but also in investigating and prosecuting them.
- The relevant law enforcement agencies should have in place robust and effective systems to screen and process persons crossing the borders. This control measure should be enhanced if an individual is found with cash, especially in amounts above the reporting threshold. This would serve to dissuade participants in the cross-border foreign currency exchange trading.
- Law enforcement agencies should also intensify operations to ensure that illegal practice in foreign currency exchange is curbed.
- Ensure the effective implementation of an internal control system commensurate with the size, nature and complexity of the activity of the BDC.
- Creation of a simple mechanism or model for reporting suspicious operations.
- Strengthen the financial investigation capacity of LEAs through the creation of a Special Unit on parallel financial investigations that encompasses knowledge of ML/TF techniques or methods by formal and informal CES.
- Take steps to limit the movement of cash in the DNFBP sector.
- Promote financial inclusion through a more flexible legislative and regulatory framework.
- Apply proportionate and dissuasive sanction to offenders
- To make it compulsory for all approved manual exchange operators to join the association of manual exchange operators, following the example of the professional association of banks and financial institutions ;
- Strengthen the monitoring and control of the



foreign exchange activities of authorised BDC dealers and their agents;

- Sensitize the state authorities, particularly policy makers to reactivate the mechanism for controlling currency movements at borders other than airport.
- Regularly build the capacity of manual exchange licensees and approved intermediaries.
- Lighten the conditions for obtaining authorisation to carry on BDC activities.
- To set up a technical and financial support, notably through tax breaks and other incentives to encourage the informal sector to join the formal sector and to practice the profession in accordance with the rules of the trade.
- Use an intelligence network and encourage whistle-blowing to track down offenders.
- In the event of prosecution, do not fail to seize and then confiscate the accumulated illicit assets;

Regional and International

- Technical and financial support to all Member States in the foreign exchange sector to develop strategies to eradicate informal/illegal foreign exchange.
- Undertake advocacy and raising awareness of the benefits of upholding the FATF and other standard setting bodies, guidelines and recommendations.
- Revise the regulatory framework for CES in line with new provisions relating to AML/CFT and to remove the inconsistencies that weaken the legislation (UEMOA)
- Strengthen the BCEAO and the Banking Commission of EUMOA through the Ministry of Finance to strengthen the monitoring, control and sanctions mechanisms in the region.



REFERENCE BIBLIOGRAPHIQUE

Belhocine N. et al (2016) 'Taking Stock of Monetary and Exchange Rate regimes in Emerging Europe' IMF Publication Services

Benjamin N. et al (2014), Informal economy and the World Bank, policy research Working

CIEPR, (2012) Banks and Cross-Border Capital Flows: Policy Challenges and Regulatory Responses

Dempsey, T. (2006). Counterterrorism in African failed states: Challenges and potential solutions. Diane Publishing.

FATF, (2015) Money Laundering Through the Physical Transportation of Cash

FATF, (2010). Money Laundering through Money Remittance and Currency Exchange Providers

GIABA, (2007) Typologies Report on Cash Transactions and Cash Couriers in West Africa

GIABA, (2010). 'Impact of Money Laundering and Terrorist Financing on Informal Sector within the WAEMU Zone' (Unpublished).

GIABA, (2014) A Review of the State of Implementation of the AML Measures in Relation to Financial Inclusion in GIABA Member States

GIABA, (2015) The Vulnerabilities of DNFBPs to ML/TF and the Adequacy of Control Measures in West Africa

GIABA, (2018) Know your Customer/Customer Due Diligence Measures and Financial Inclusion in West Africa.

Gilmore, W. C. (2004). Dirty money: the evolution of international measures to counter money laundering and the financing of terrorism (Vol. 599). Council of Europe.

IMF, (2011) 'Changing Africa: Rise of a Middle Class' IMF, Finance & Development Qty Publication, IMF Vol. 48 No. 4

IMF, (2008). Money-Laundering and Globalization. www.unodc.org/unodc/en/money-laundering/globalization.html

JICA, (2013) 'Development Challenges in Africa Towards 2050' JICA Research Institute

Kulovics, A. (2009). Money Laundering in West Africa: An Analysis Potential Emerging Market for IFAs. Toronto: University of Toronto.

Mazzitelli, A. L. (2007). Transnational organized crime in West Africa: the additional challenge. *International Affairs*, 83(6), 1071-1090.

Medina, L., Jonelis, M. A. W., & Cangul, M. (2017). The informal economy in Sub-Saharan Africa: Size and determinants. *International Monetary Fund*. (Alagidede et al., 2013).

OECD, (2018) Illicit Financial Flows: The Economy of Illicit Trade in West Africa, OECD Publishing, Paris

Philip de Andrés, A. (2008). West Africa under attack: drugs, organized crime and terrorism as the new threats to global security. *UNISCI Discussion papers*, (16).



APPENDIX

CASE ANALYSIS TEMPLATE FOR TYPOLOGIES PROJECT ON MONEY LAUNDERING AND TERRORIST FINANCING THROUGH INFORMAL AND ILLEGAL FOREIGN CURRENCY EXCHANGE SERVICES IN WEST AFRICA

Name of Country _____ **Case No.** _____

a. Brief Facts of the case (including what prompted the commencement of the investigation and status of the case as at the date of reporting):

b. Techniques/methods

Please indicate with the case example the occurrence of any of the following techniques/methods/schemes and use of any instruments listed:

B1. Corruption: Please, report the incidences of corruption related to this case, if any (bribery/attempted bribery of officials, third parties, possible influence by politically exposed persons (PEPs) to influence investigating officials or private sector compliance staff in banks being bribed or influenced to allow illicit proceeds from the informal and illegal foreign currency exchange services being laundered or used for terrorist financing purposes.

B2. Cash couriers / currency smuggling: Concealed movement of money suspected to have been derived illicitly from the informal and illegal foreign currency exchange services and thereby avoiding transaction / cash reporting measures.

B3. Structuring (smurfing): Numerous transactions involving illicit proceeds from the informal and illegal foreign currency exchange services (deposits, withdrawals, transfers) high volumes of small transactions and sometimes numerous accounts to avoid detection threshold reporting obligations.



B4. Purchase of valuable commodities (gems, precious metals etc.): Use of proceeds from the informal and illegal foreign currency exchange services to purchase instruments to conceal true ownership or move value without detection.

B5. Purchase of valuable assets (landed properties/real estate, vehicles, etc): Investment of proceeds of the informal and illegal foreign currency exchange services in high-value negotiable goods to cover up the criminal source of the proceeds.

B6. Trade-based money laundering and terrorist financing: Manipulation of invoice and use of trade finance routes and commodities to launder the proceeds of the informal and illegal foreign currency exchange.

B7. Wire transfers: Transfer of illicit proceeds of the informal and illegal foreign currency exchange services sector electronically between financial institutions from outside of the country or from the country to another country.

B8. Investment in capital markets: Incidence of trying to cover up the source of proceeds of the informal and illegal foreign currency exchange services through investment in the capital market and other negotiable instruments.

B9. Business investment: The mingling of the proceeds of the informal and illegal foreign currency exchange services with legitimate business monies in order to cover up the source of the funds.

B10. Alternative remittance money services: The use of informal money service mechanisms to transfer or receive the proceeds of the informal and illegal foreign currency exchange services.



B11. Use of nominees, trusts, family members or third parties etc: Transfer of proceeds of informal and illegal foreign currency exchange services to nominees, trust, family members or third parties by drug traffickers to protect their identities and/or for safe keeping/laundrying.

B12. Use of DNFBPs: The use of professionals such as accountants, real estate agents, lawyers, etc.

B13. Use of debit cards, credit cards, other payment cards, cheques, promissory notes etc: The use of cards, cheques, promissory notes for receive/make payment or laundrying of proceeds of the informal and illegal foreign currency exchange services within national jurisdiction or to another the jurisdiction.

B14. Currency exchanges / cash conversion: use of the formal or informal currency exchange system to launder/transfer proceeds of crime from the same industry.

B15. Commodity exchanges (barter): Direct exchange of commodities (legal or illegal) in order to conceal the origin of value being criminal proceeds from the informal and illegal foreign currency exchange services.

B16. Gaming activities (casinos, gambling etc.): Use of proceeds of the informal and illegal foreign currency exchange services to, for example, buy winning tickets from legitimate players; using casino chips as currency for criminal transactions; using online gambling to obscure the source of criminal proceeds.



B17. Abuse of non-profit organizations (NPOs): use of NPOs to transfer proceeds of crime from the informal and illegal foreign currency exchange services in or out of the country.

B18. Use of shell companies/corporations: Incidences of use of shell companies to cover up the identity of persons involved in crime in the informal and illegal foreign currency exchange services industryexchange services within national jurisdiction or to another the jurisdiction.

B19. Use of foreign bank accounts: Movement of proceeds of crime from the informal and illegal foreign currency exchange services from point of high vigilance to a point of low vigilance (in or out of country).

B20. Identity fraud / false identification: use of false identity by persons involved in the case of informal and illegal foreign currency exchange services to obscure identification of those involved in many methods of money laundering (if possible, provide some information as to how they obtained the false identity – corruption, intimidation, financiers, etc).

B21. Terrorist Financing: Use of proceeds of the informal and illegal foreign currency exchange services to finance or facilitate terrorism and terrorist activities (in or out of country).

B22. Please, summarise the outcome of prosecution of the case

B23. Please, provide any additional information on any technique/method not adequately covered above..



GIABA Secretariat

Complexe SICAP Point E - 1^{er} étage Immeuble A
Avenue Cheikh-Anta DIOP x Canal IV - B.P. 32400 Ponty, Dakar-Senegal
Tél : +221 33 859 18 18 - Fax : +221 33 824 17 45
E-mail : secretariat@giaba.org - Web Site : <http://www.giaba.org>