

AMERICAN UNIVERSITY OF ARMENIA

**A STUDY OF IMPLEMENTATION OF ANTI-MONEY LAUNDERING MECHANISMS
IN THE REPUBLIC OF ARMENIA**

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ABSTRACT

This paper is based on the results of the internship policy project conducted at the Financial Monitoring Center at the Central Bank of the Republic of Armenia.

In recent years money laundering has become a huge problem for developed world. Increasingly, money laundering has also become a problem in many developing financial services sectors. In response, governments and other legal authorities in various jurisdictions have accelerated their issuance of new legislation, regulations, and cooperative actions, focused on combating money laundering, terrorist financing and related financial crime.

The Republic of Armenia is currently engaged in the process of implementation of anti-money laundering mechanisms. The objective of this initiative to combat money laundering and to deter terrorist financing is to protect the rights, freedoms and legal interests of the citizens, society and the state through setting up legal mechanism to counter the legalization of illegal incomes and financing of terrorism in the Republic of Armenia.

As all these anti-money laundering mechanisms are being newly implemented in Armenia, the agencies which are responsible for the realization of these mechanisms are newly created and require time to reach international standards.

The paper aims at revealing all of these hindrances and weaknesses of the strategy implemented by the Financial Monitoring Center. The main goal of the policy project was to show some of the imperfections in the three year strategic plan of FMC as well as in other related documents and via some recommendations to develop them to become closer to international standards.

INTRODUCTION

In recent years, we have seen a growing number of highly publicized money laundering scandals. They have involved major providers of diversified financial services, along with their correspondents in “off-shore” jurisdictions.

Increasingly, money laundering has also become a problem in many emerging financial services sectors. In addition, the events of September 11, 2001 and the many subsequent acts of terrorism around the world have prompted a whole new emphasis and “war” on terrorist financing, frequently referred to as “money laundering in reverse” – i.e., money that starts out legitimate and grows “dirty” in its ultimate purpose (IFAC 2004).

In response, governments and other legal authorities in various jurisdictions have accelerated their issuance of new legislation, regulations, programs and cooperative actions, pronouncements and enforcement steps focused on combating money laundering, terrorist financing and related financial crime. Fifteen years after experts first tried to estimate the size of the problem; it is still widely held that money laundering continues to be a US \$1 trillion-per-year problem (IFAC 2004).

Armenia is not an exception as well, and in recent years all anti-money laundering measures are being implemented in our country to combat money laundering and terrorist financing. Towards this end, a special Law was adopted in Armenia and by the requirement of this Law a special agency was created at the Central Bank of Armenia called Financial Monitoring Center. This very agency is expected to receive, process and disseminate the information concerning any action connected with the phenomenon of money laundering. Financial Monitoring Center should also address the above mentioned information to law enforcement agencies to redress the problem.

Hostile environment for money launderers created by all competent organs, and intolerance of the public towards the above mentioned phenomenon are the bases for the successful realization of all anti-money laundering measures in Armenia. The study of this key issues was the goal of the internship policy project conducted at the Financial Monitoring Center (herein FMC) at the Central Bank of Armenia. The study also included the study of the reflection of these key issues in the special Law on money laundering and terrorist financing adopted in Armenia in 2005.

This paper is based on the results of the studies and focuses on the strategic goals of FMC included in the three-year strategic plan in terms of creating strong grounds for anti-money laundering fight as well as on the cooperation of stakeholders in the frames of the realization of the above mentioned three-year strategic plan.

The research questions posed during the internship project were the following:

- Does the adopted framework of Financial Monitoring Center facilitate the increase of public awareness concerning money-laundering and terrorist financing?
- Are there enough provisions in the policy of the Center that contribute to reduced profitability and incidence of ML and TF in Armenia, by creating hostile environment?
- Are there enough provisions in the Laws and regulations concerning the fight against money-laundering and terrorist financing to ensure sufficient cooperation and coordination among stakeholders?

METHODOLOGY

As it was already mentioned the internship project was conducted at the Financial Monitoring Center at the Central Bank of Armenia.

For the purposes of the internship project document analyses were done. Namely, Central Bank documents; FMC documents; Inter-agency Task Force documents as well as international documents such as MANYVAL report or Egmont Group membership reference etc. have been analyzed to reveal the general framework of anti-money laundering fight and also to find out all the indicatives concerning the cooperation of stakeholders as domestically as well as internationally.

In addition, Law analyses were also included during this study. Particularly, two Laws have been analyzed: the Law on Fight against Legalization of Illegal Incomes and Terrorism Financing and the Law on Central Bank of Armenia, to find out how all those key mechanisms to combat money laundering are confirmed in the Law and how they are reflected in practice.

Research also included some interviews with FMC staff who are specialists and are aware of the problems and shortcomings of anti-money laundering policies. Working at FMC, they are deeply involved in that process and have more concrete imaginations about all those activities which are realized to combat money laundering in Armenia. No standardized questionnaire was used during those interviews as each representative was asked open-ended questions according to his/her specialty and role in the given department.

Finally, the last part of the research included interviews with general public. These interviews were non-systematic; based on anecdotal evidence. During those interviews the questions asked aimed to reveal whether people are aware about such phenomenon as money laundering; or if they are aware how deep is their knowledge about the given phenomenon. For example, if they knew at least the basic idea of such phenomenon as money laundering, they

were asked how serious they consider the given process as well as what other criminal activity they consider as being associated with money laundering¹.

LITERATURE REVIEW

1. What is money laundering and terrorist financing?

For most countries, money laundering and terrorist financing raise significant issues with regard to prevention, detection and prosecution. Sophisticated issues used to launder money and finance terrorism add to the complexity of these issues (Schott 2004). In order to understand such sophisticated techniques it would be reasonable first, to understand what is money laundering and what negative consequences it has on the country in general.

Money laundering is a domestic and transnational problem that is engendered by organized crime and illegal acts. Until recently, the definition of money laundering was limited to the disguising of dirty money and property obtained from criminal activities. However, with terrorism being financed with laundered money, the definition has been widened to include legal or illegal funds laundered for terrorist purposes (noting also that terrorism is a form of organized crime). In this context, money laundering is not only the disguise of illegitimate proceeds, but also the use of legitimate funds for illegal purposes (Bagenda 2003).

The FATF defines money laundering as:

The conversion or transfer of property, knowing that such property is derived from a criminal offence, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in commission of such an offence or offences to evade the

¹ There are many types of criminal activity which definitely are connected with money laundering. For example, drug trafficking, organized crime as well as terrorist financing are criminal activities tightly connected with money laundering.

legal consequences of such actions; the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to ownership of property, knowing that such property is derived from a criminal offence; [and] the acquisition, possession or use of property, knowing at the time of receipt that such property was derived from a criminal offence or from an act of participation in such an offense (FATF 2005).

However, there exists a multitude of definitions of money laundering and the common element amongst them is “the transfer of illegal [assets] into the official economic system.” (Garcia 2000).

As it is known the ultimate goal of a large number of criminal acts is to generate profit, for the individual or group that carries out the act. Illegal arms sales, smuggling, and the activities of organized crime, including for example drug trafficking and prostitution, can generate huge sums and create the incentive to “legitimize” ill-gotten gains through money laundering. Once the money goes through the ‘wash cycle’ it emerges clean, difficult for authorities to detect and ready for criminals to invest (Rudich 2005). Although there is a fact that money laundering is known as the ‘alternate economy’, thriving as the world’s third largest business after foreign exchange and natural gas (Robinson 1998), the real scale of the problem is very difficult to estimate.

2. What is the scale of the problem?

By its very nature, money laundering occurs outside the normal range of economic statistics. Nevertheless, as with other aspects of underground economic activity, rough estimates have been put forward to give the problem some sense of scale.

The International Monetary Fund, for example, has stated that the aggregate size of money laundering worldwide could be somewhere between 2% and 5% of global gross domestic product (FATF 2005).

Using 1996 statistics, these percentages would indicate that money laundering ranged between USD \$ 590 billion and \$1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain (Tanzi quoted in Schott 2004). This high amount of the mentioned numbers assumes that money laundering is not a simple process. During its realization it includes different stages.

3. How is money laundered?

In the initial or placement stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous, smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location (Schott 2004).

After the funds have entered the financial system, the second--or layering--stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sale of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not cooperate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance (Schott 2004).

Having successfully processed criminal profits through the first 2 phases of the money laundering process, the launderer then moves them to the third stage—integration—in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds in real estate, luxury assets, or business ventures (Schott 2004). And this investment can take place anywhere because the final decision where to invest is contingent to the preferences directed by the given time.

4. Where does money laundering occur?

As money laundering is a necessary consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out areas in which there is a low risk of detection due to weak or ineffective anti-money laundering programs. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through areas with stable financial systems (Bartlett et al. 2002).

Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the underlying activity; often, but not in every case, in the country where the funds originate (Bartlett et al. 2002; Schott 2004; IMF 2004; WB 2004).

With the layering phase, the launderer might choose an offshore financial center, a large regional business center, or a world-banking center--any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination (Schott 2004).

Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities (Bartlett et al 2002). However, though the idea of investment sounds good; full of many perspectives, assets generated from illegal money will definitely have their negative effects on business sector, financial institutions as well as the whole economy of a given country (Bartlett et al 2002; Schott 2004; IMF 2004; WB 2004).

5. How does money laundering affect business?

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional, and ethical standards. A reputation for integrity is one of the most valuable assets of a financial institution. If funds from criminal activity can be easily processed through a particular institution-either because its employees or directors have been bribed or because the institution ignores the criminal nature of such funds--the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries, and of regulatory authorities, as well as ordinary customers (Bartlett 2002 et al.; IMF 2004-2005; WB 2004-2005).

As for the potential negative macroeconomic consequences of unchecked money laundering, the International Monetary Fund (IMF) has cited inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers (Bartlett et al. 2002). Of course, all of the above mentioned affects the economy very negatively.

6. What influence does money laundering have on economic development?

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centers, but inadequate controls, are particularly vulnerable as established financial center countries implement comprehensive anti-money-laundering regimes. Differences between national anti-money-laundering systems will be exploited by launderers who tend to move their networks to countries and financial systems with weak or ineffective countermeasures (IMF 2005).

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organized crime (Bartlett et al. 2002). This statement assumes that developing countries have no choice but to be careful about the investments, otherwise, they will pay with devastated economies as the negative effects of money laundering are spread on all of the sectors of the national economies, be it financial; real; or external sectors.

6.1 The Financial Sector: Money laundering undermines domestic capital formation

Although money laundering does not require the use of formal financial institutions, reviews of money-laundering typologies consistently indicate that banks, equity markets, and non-bank financial institutions (NBFIs), such as insurance companies, are a favored means of laundering illicit funds both internationally and within developing countries (FATF Typologies Report 2004-2005).

From an economic development standpoint, the central importance of money laundering through financial institutions is threefold. First, money laundering erodes financial institutions themselves. Second, the development of sound, reliable banks are a crucial element in overall economic development: indeed, such institutions have come to be recognized as essential for such development and—particularly in developing countries—customer trust is fundamental to the growth of sound financial institutions. Third, beyond protecting such institutions from the negative effects of money laundering itself, the adoption of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks, can reinforce the other good-governance practices that are important to the development of these economically critical institutions (Bartlett et al. 2002).

6.1(1). Money laundering erodes financial institutions.

Money laundering can also “undermine the democratic and economic basis of societies,” resulting in a “weakening of institutions and a loss of confidence in the rule of law.” (Birmingham 1998).

Pervasive money laundering through developing-country financial institutions erodes these institutions in 3 broad ways: by increasing the probability individual customers will be defrauded by corrupt individuals within the institution; by increasing the probability that the institution itself will become corrupt or even controlled by criminal interests, again leading to customers being defrauded; and by increasing the risk of financial failure faced by the institution as a result of the institution itself being defrauded. Such dangers come under the formal heading of *operational risk*, and can contribute significantly to *reputational risks*² faced by banks (Bank

² The other 4 forms are *credit* risk (for example, default by borrowers), *market* risk (for example, adverse changes in interest rates), *liquidity* risk (a shortfall in resources to meet obligations), and *legal* risk (exposure to adverse claims against the institution).

Secrecy Act/Anti-Money Laundering Examination Manual, FRB 2005; Financial Intelligence Units, IMF 2004; Allan Schott 2004).

6.1(2). Money laundering weakens the financial sector's role in economic growth.

The various ways in which money laundering activity erodes financial institutions have been reviewed above. To assess the implications of this problem for economic development, it is useful to review the linkage between the strength of developing-country financial institutions and economic growth in developing economies. In particular, in developing countries investor confidence—which is diminished by money laundering activity—plays a special role in the linkage between financial institutions and economic growth. Over the past decade, several in-depth studies have been undertaken to assess the role of financial institutions in economic growth, and the results have been consistent and unambiguous: economic growth depends on sound domestic financial institutions (Bartlett et al. 2002). As summarized in a recent (2001) report of Thorsten Beck et al. that reviewed, the available evidence:

A large body of research finds that financial development exerts a large positive impact on economic growth. The conclusion emerges from cross-country studies, industry-level studies, firm-level studies, and time-series evaluations. Furthermore, the positive link between financial development and economic growth hold after controlling for other growth determinants... (Beck et al. 2001).

As it was already mentioned, *confidence and reputation play a special role in developing economies' financial systems*. Money laundering's negative impact on financial institutions is of particular concern in a developing-country context for at least 2 reasons. First, in many of these countries, the largest, most sophisticated financial institutions have historically relied heavily on

public funds rather than private deposits, and the success of wide-ranging financial reforms will depend in part on the sustained expansion of individual savers' trust in these institutions as private capital replaces public capital. As the World Bank notes in its mission statement, "sound financial systems are essential for private entrepreneurs to emerge, for business to flourish, and for local people and investors from abroad to find the *confidence* to invest, and create wealth, income, and jobs." (About the WB 2002).

Second, financial institutions in developing countries are often undergoing a transition from being state-owned to private-investor ownership and control. Yet, studies have shown that private investors are more reluctant to commit funds to obtain ownership in enterprises cited for corruption. Research supports this view: one study (Strachan et al. 1983), statistically examined nearly 70 cases and concluded that "the evidence is clear that the announcement that a firm has allegedly been involved in corrupt activities is typically associated with materially negative equity return at the time of the announcement," indicating the investors are less likely to hold shares in the firm. Finally, from a developing country's policymaking standpoint, there are other issues that must be taken into account, and foremost among these is the effect that international anti-money laundering measures are likely to have on the developing country's economy. In the extreme, a country with lax anti-money-laundering enforcement measures can be subject to formal legal sanctions by important trade and investment partners (Bartlett et al. 2002; IMF 2000).

Given the problem of measuring the magnitude of money laundering, it is doubly difficult to quantify the damage of money-laundering flows on developing countries' financial systems. "Activities underlying financial system abuse and financial crime are, by definition, concealed and therefore direct observation by the macroeconomist or statistician is not possible... Thus, an

adequate measure of financial system abuse remains illusive.” (IMF Background Paper 2001, 10).

Thus, by undermining these institutions and the developing-country financial systems to which they belong, money-laundering activity undermines capital formation within developing economies. This negative economic effect associated with developing countries’ financial systems exists even before considering money laundering’s more direct effects on the real economy, or through the damage to the ‘external sector’ about which will be discussed further. Anti-money laundering policies can also positively contribute to stronger financial institutions in developing countries as these reforms support financial institutions through enhanced financial prudence (Bartlett et al. 2002).

Several of the core anti-money-laundering policies are also policies that promote overall good governance of financial institutions, and therefore have positive secondary effects on economic development.

Most significantly, the Bank for International Settlements (BIS), the purpose of which is to promote "cooperation among central banks and other agencies in pursuit of monetary and financial stability," (Bank for International Settlements 2005), has endorsed key elements of anti-money-laundering practices as *explicitly* supportive of sound banking practices that reduce financial risks for individual banks and, by extension, national and international financial systems as a whole.

Namely, BIS’s Committee on Banking Supervision (the Basel Committee) states that: *Public confidence in banks, and hence their stability, can be undermined by adverse publicity as a result of inadvertent association by banks with criminals. In addition, banks may lay themselves open to direct losses from fraud, either through negligence in screening undesirable*

customers or where the integrity of their own officers has been undermined through association with criminals. (Basel Committee, *Prevention of Criminal Use of the Banking System For the Purpose of Money-Laundering*, Preamble (December 1988)).

Moreover, in 1997, the Basel Committee published its “*Core Principles for Banking Supervision*” which further elaborated the importance of “know your customer” (KYC) banking rules as a prudential risk-management issue, again citing the potential for reputational damage and fraud if such policies are absent, and identified KYC rules as an integral element of a bank’s “internal control” mechanism for risk management (BIS 1997).

More recently, however, the Basel Committee recognized the strong parallels between KYC and sound banking practices for reasons unrelated to the harmful financial effects of money laundering, and endorsed, implicitly or explicitly, many anti-money-laundering practices “from a wider prudential perspective” (BIS, Basel Committee Publication No. 85 (October 2001)).

One clear example of how strong KYC policies promote sound banking practices, aside from their anti-money-laundering role, can be seen in the prudential problem of “concentration risk” (an element of credit risk), which is the problem of a bank putting too many of its eggs in a single customer’s basket (Schott 2004; IMF 2004; Bartlett et al. 2002). If the customer encounters financial problems—or simply abandons the bank for other reasons—the bank is put at risk. Thus, prudent banking policy demands that no single customer becomes a dominant client. Yet, given the many close financial interrelationships that may exist among seemingly independent clients, managing concentration risk implies thorough knowledge of the institution’s customers—are they related, or even fronts for the same client?

As the Basel Committee has noted in its publication: “Customer Due Diligence for Banks”, the concentration risk is particularly acute for banks that have a substantial client base of

"politically exposed persons" (PEPs) who seek to mask their financial relationships through the use of many intermediaries, each of which appears to be an individual actor from the viewpoint of a bank lacking adequate KYC practices.

6.2. The Real Sector: Money-Laundering Depresses Grounds

Aside from its negative effect on economic growth through its erosion of developing countries' financial sectors, money laundering also has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which, in turn, depress economic growth.

6.2(1). Money laundering distorts investment and depresses productivity

The flow of laundered illicit funds follows a path through the economy that is different than that such funds would take if they were not being laundered. As can be seen from the various money-laundering mechanism typologies reports, money laundered through channels other than financial institutions is often placed in what are known as "sterile" investments, or investments that do not generate additional productivity for the broader economy. Real estate is the foremost example of such sterile investments; others include art, antiques, jewelry, and high-value consumption assets such as luxury automobiles (Bartlett et al. 2002).

Criminal organizations can transform productive enterprises into sterile investments by operating them for the purposes of laundering illicit proceeds rather than as profit-maximizing enterprises responsive to consumer demand and worthy of legitimate investment capital.

Commitment of the economy's resources to sterile, as opposed to productive, investments ultimately reduces the productivity of the overall economy (Bartlett et al. 2002). This dynamic further erodes economic growth.

Money laundering can also increase the risk of macroeconomic instability (Bartlett et al. 2002; Rudich 2005; Scott 2004). The International Monetary Fund has identified two mechanisms by which significant volumes of money-laundering flows can induce macroeconomic instability in a developing country. First, there is the "hot money" problem: large money-laundering flows through a particular region are often triggered by specific episodes of political flux, such as the fall of the Soviet Union or the brief but lucrative reign of a corrupt dictator, and, therefore, the financial flows that accompany the money laundering activity are unstable, which can contribute to the instability of exchange rates, monetary aggregates (the amount of money available in an economy), and general price levels (inflation) (Bartlett et al. 2002).

Second, the IMF has noted that some phases of money laundering transactions are "underground" or in the informal sector of the economy (IMF Background Paper 2001). As a result such transactions do not appear in official monetary and financial statistics, thus giving misleading information to policymakers attempting to manage macroeconomic variables, such as monetary levels, interest rates, inflation, and exchange rates (Quirk 1997).

6.3. The External Sector: Money-Laundering distorts capital flows

Laundering of outbound illicit funds constitutes the facilitation of illicit capital flight, which drains resources from developing economies, and extensive money laundering of all forms can deter legitimate inward foreign direct investment (FDI) beneficial to sustained economic growth.

6.3(1). Outbound flows: facilitating illicit capital flight

The obvious effect of illicit capital flight is to worsen the scarcity of capital in developing countries. As IMF economists summarized the issue:

The costs of capital flight are well known: they include a loss of productive capacity, tax base, and control over monetary aggregates—imposing a substantial burden on the public at large and rendering policymaking more difficult (Loungani and Mauro 2000). In many cases, such capital flight has been enormous. Clear examples of these could be the cases of Russia (Brooking Event Transcript 1999) and Nigeria (Bartlett et al. 2002). Finally, mentioning all the negative effects of money laundering on developing countries, it becomes obvious that the society as well is not guaranteed from sufferings.

7. What is the connection with society at large?

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and, indeed, governments. The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and, ultimately, the democratic institutions of society. This criminal influence can undermine countries undergoing the transition to democratic systems. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue (Bartlett et al. 2002). Because of all above mentioned facts, international system has generated many important structures to coordinate their efforts for combating money laundering and terrorist financing in the whole world.

8. The OECD Financial Action Task Force (FATF)

As Stessens argues, the fight against money laundering has generated two important evolutions in the norm-making process: the international impetus for the creation of AML law and the growth of soft international law. Although AML principles were issued in the 1988 Vienna Convention and the 1988 Basle Committee Statement of Principles on Money Laundering, it was not until the FATF surfaced that the AML regime took force (Stessens 2000),

In 1989, the Group of Seven Industrial Democracies (G-7) created a global money-laundering watchdog organization called the Financial Action Task Force (FATF), with an Organization of Economic Cooperation and Development (OECD) Secretariat in Paris. In 1990, the FATF issued its first annual report, containing its now-famous *FATF 40 Recommendations* on actions for governments to take to combat money laundering (IFAC 2004). In its policy-making or advisory role, the FATF developed the FATF 40 and the SRs, issuing the latest revised version in June 2003.³

These 40 recommendations fell into three categories:

Legal: What law-making bodies need to do create an overall legal framework to combat money-laundering? For example, the first legal recommendation was that governments criminalize money laundering in its own right, and not merely in connection with drug trafficking.

Financial Regulatory: How governments should regulate their financial systems. An important example is that governments should require financial institutions to report suspicious

³ Changes include: specifying crimes linked to AML, expanding customer due diligence processes, improving transparency requirements, enhancing measures for higher risk customers and transactions, extending AML measures to non-financial businesses and professions, adopting key institutional measures regarding international cooperation, extending AML requirements to cover terrorist financing, and prohibiting the existence of shell banks.

activity to authorities. To make this work, governments would need to enact safe harbors to indemnify businesses and employees.

International Cooperation: How governments should work together. For example, they should collaborate and exchange information in criminal matters and enter into bilateral treaties to facilitate asset seizure and forfeiture and the sharing of proceeds (IFAC 2004).

While these standards are not binding under international law, they exist as a “useful instrument in unifying policies to fight money laundering.” (Alexander 2001). However, not every country today, is able to implement these standards because of high cost. Some blame the FATF of engineering AML standards to divide the most powerful industrialized states and the “small, developing, pressure-sensitive countries.” (William 2003). The international banking community, regarding the new rules as “burdensome and ineffective,” continues to voice frustration at the cost and complexity of implementing AML standards (Bayne 2002). However, despite these issues, the FATF’s efforts have been successful in creating an international AML regime and in promoting the ratification of financial regulations to counter money laundering at the state-level (Rudich 2005). While creating the above mentioned international AML regime, many developing countries have been joined this cooperated action and amongst them Armenia as well. In order to fight money laundering and to detect terrorist financing in Armenia, Armenian authorities implemented numerous important steps the first one of which was the adoption of special law that would regulate the whole activity concerning the implementation of anti-money laundering mechanisms in Armenia.

IMPLEMENTATION OF ANTI-MONEY LAUNDERING MECHANISMS IN ARMENIA

Description of the Initiative to Combat Money-Laundering and Terrorist Financing

Implemented by the FMC and Other Government Stakeholders

The initiative of Armenian authorities to fight against money laundering is described in this section, including its founding legislation, its objectives, its partners and their roles, and funding.

As we all know, legislation is an important step toward addressing the problem of money laundering and concerning this, it would be reasonable to mention that the bases for the above mentioned initiative was the adoption of the Law of the Republic of Armenia On Fight Against Legalizing the Illegal Incomes and Financing of Terrorism. This Law is based on the FATF 40 Recommendations, model laws and best international practices. The objective of this law is to protect the rights, freedoms and legal interests of the citizens, society and the state, as well as to ensure the existence of legal mechanisms necessary for the stability of economic system of the Republic of Armenia through setting up legal mechanism to counter the legalization of illegal incomes and financing of terrorism. It consists of seven chapters each having its specific provisions concerning the issue of money-laundering and terrorist financing.

The **objectives** of the Financial Monitoring Center are:

➤ To implement specific measures to **detect and deter** money laundering and the financing of terrorist activities and to facilitate the **investigation and prosecution** of money laundering and terrorist financing offences, including:

- Requiring the **reporting** of suspicious financial transactions, large electronic fund transfers, and all large cash transactions.
- Establishing **record keeping** and **client identification** requirements for financial services providers and other persons that engage in businesses, professions or activities that are susceptible to being used for money laundering and the financing of terrorist activities.

➤ To respond to the threat posed by organized criminals and terrorists by providing law enforcement officials with the **information** they need to deprive criminals and terrorists of the proceeds of their criminal activities and funds to support terrorist activities, while ensuring that appropriate safeguards are put in place to **protect privacy** of persons with respect to personal information; and

➤ To assist in fulfilling Armenia’s **commitments** to participate in the global fight against money laundering and terrorist financing.

In addition, since the problem is large enough not confined to financial sector alone, many government agencies have a stake and interest. Towards this end, a special agency called Inter-Agency Task Force⁴ was created which is responsible for the continual effective and cooperative activity in the sphere of fraudulence connected with money laundering, credit cards as well as terrorist financing in Armenia.

The following bodies and agencies are included in the Inter-Agency Task Force:

1. Central Bank of Armenia
2. Chief Office of Prosecutors of RoA

⁴ According to the Regulation of Inter-Agency Task Force, the Head of this agency is the president of the Central Bank of the Republic of Armenia.

3. Police Department of RoA
4. National Security Service of RoA
5. Ministry of Economy and Finances of RoA
6. Securities Commission of RoA
7. Interpol Representative Office in Armenia
8. Ministry of Justice of RoA

Funding of the financial Monitoring Center

The Financial Monitoring Center of Armenia is a financial intelligence unit of an administrative type⁵ and is situated in the Central Bank of Armenia. Because of this fact, the main source of the funding comes from the Central Bank budget. There is a separate budget considered for the expenses of FMC. However, it is planned in the coming years to separate the Financial Monitoring Center as an independent body.

FINDINGS

Based on different document analysis, law analysis as well on the results of the interviews conducted with the staff of FMC and general public several key findings were identified.

⁵ Countries generally choose one of three basic models in establishing an FIU:

1. the administrative agency model, which is either attached to a regulatory/supervisory authority, or as an independent administrative authority;
2. the law-enforcement model, whereby the agency is attached to a police force, whether general or centralized;
3. the prosecution body, where the agency is affiliated with the prosecutor's office as a judicial authority.

(reference: The International Bank for Reconstruction and Development/The World Bank, *Reference Guide to Anti-Money Laundering Combating the Financing of Terrorism*, WB 2005, p.VII-9)

First of all, the enhancement of public awareness is not clearly identified in the strategic framework concerning money laundering fight. In the three-year strategic plan⁶ of Financial Monitoring Center, there is a goal to increase awareness about the negative consequences of being engaged in money laundering or terrorist financing activities. This strategy is targeted to enhance awareness at two levels: individual and public. However, the three-year strategic plan is the only document where ‘public awareness’ is mentioned as there are no other documents specifying the importance of raising public awareness concerning the negative effects of money laundering and terrorist financing. Besides, there are no concrete steps and specified time duration describing how they⁷ are going to increase public awareness about the negative consequences of such activities as money laundering and terrorist financing. In addition, anecdotal evidence shows that public has very poor imagination about money-laundering.

As it was already mentioned the key objective of the initiative to combat money laundering is to detect and deter money laundering and terrorist financing with a long-term view to reducing the incidence of these activities. Findings show that as a result of the intent to combat money-laundering and terrorist financing, different key mechanisms such as record keeping, and/or client identification etc. are in place to create a hostile environment for money laundering and terrorist financing in Armenia.

In order to deter money laundering in Armenia the Law on money laundering and terrorist financing as well as other standard acts passed in accordance with the latter specify that the persons providing with information shall identify the customers (client identification), third persons acting on behalf of customers and keep the information (record keeping). These

⁶ Three-year Strategic Plan of FMC is confirmed by the Central Bank Resolution.

⁷ ‘They’ includes: FMC and all the Initiative’s partners, as every strategic goal is realized via cooperation of those partners.

activities coupled with other obligations of initiative's stakeholders will further prevent the incidence of money laundering and terrorist financing in Armenia.

Record keeping (Art.9.2), client identification (Art.9.2) and reporting requirements (Art.5).

These legislated requirements under Chapter 2, Articles 5 and 9 of the Law ensure detailed tracking of certain transactions. Concerning record keeping and client identification requirements the Board of the Central Bank of Armenia adopted a resolution which states: "Based on the Law on Fight Against Legalizing the Illegal Incomes and Financing of Terrorism to confirm 'client identification' and 'record keeping' order. Given Resolution will enter into circulation from the 1st of January, 2006." (Central Bank 2005). However, all these provisions are set up only theoretically and will come into force in 2006.

Monitoring and Compliance (Art 10).

The success of the initiative depends critically on the compliance of reporting entities and individuals with the reporting, record-keeping and client identification provisions of the Act. For reporting entities, compliance means not only the full participation, but also provision of high quality reports and maintenance of sound client identification and record keeping procedures. Armenian Law on Fight against Legalization of Illegal Incomes and Terrorism Financing provides that the banks and credit organizations shall have internal legal acts aimed at prevention of legalizing the illegal incomes and financing of terrorism (order, procedure, instruction, and regulation). It also states that: "The Central Bank is the authorized body of the fight against legalizing the illegal incomes and financing of terrorism. ... The authorized body performs a

mandatory supervision over the process of information provision” (Article 10, Chapter 3, Law on Fight against Legalization of Illegal Incomes and Terrorism Financing 2005). But as it was found out in the three-year strategic plan of Financial Monitoring Center there is no such strategic goal as insuring the monitoring and compliance of reporting entities.

Currency reporting

The last key mechanism which is important for the creation of hostile environment is currency reporting. But findings show that no such requirement was found in any document of FMC. As Armenia has a liberal currency regime, the currency reporting requirement was not included in anti-money laundering policy.

As for the issue of cooperation and coordination, which are necessary for attaining the Initiative’s long-term objective of reducing crime, findings show some kind of imbalance. First of all, based on the literature review, cooperation is necessary at least at three levels. Specifically, cooperation is required (1) with the financial sector and other financial intermediaries which report large and suspicious financial transactions and its industry associations; (2) within the central government, specifically among the Ministries under the Initiative; and (3) with international stakeholders with respect to cross-border crime, terrorist financing and transnational investigations. After analysis of different documents and references many interesting findings have been found out which are presented for each of the groups identified above.

First, there is no high degree of cooperation with the **financial services industry**. Although, FMC participates in a number of activities indicative of cooperation with reporting entities, this number is not too big as the agency is newly created and much cooperation and

coordination is expected in the future. However there are some concrete examples that indicate the above mentioned:

- **FMC** has participated in several activities with reporting entities and their industry and regulatory representatives, to make them aware of their obligations concerning the reporting requirements and to negotiate information-exchange functions.
- **FMC** has held a conference to provided feedback of reporting entities on the issue of the reporting form.
- **FMC** leads an ongoing structured consultation with the Armenian Banks' Association and other stakeholders on policy and implementation, and these efforts are being successful in developing regulatory packages with the input and support of reporting entities.

Second, there is an evidence of cooperation among **government partners**⁸ within the Inter-Agency Task Force. This level of cooperation is also specified by the Armenian Law on money laundering and terrorist financing, which states: “With an objective to implement an effective fight against legalizing the illegal incomes and financing of terrorism in order and within established by this law the Authorized Body⁹ cooperates with other state authorities” (Article 11, Chapter 3).

Cooperation and coordination within the Initiative occurs for purposes of increasing understanding of the issues and information needs, addressing issues as they arise, and facilitating investigations. In this regard, it should be noted that the Ministry of Finance and the Ministry of Justice play more important coordination role for the Initiative. Partners engage informally in much consultation among themselves. Some examples of cooperation and information exchange among the partners may be numerous feedbacks concerning the reporting

⁸ Government Partners include different Ministries as well as Law-enforcing Agencies of the Republic of Armenia

⁹ The Law on Legalizing the Illegal Incomes and Financing of Terrorism specifies the Central Bank of Armenia as the Authorized Body.

form, as well as its confirmation. Other examples are the exchange of statistical data concerning the frauds antecedent to money laundering. These data are mainly provided by the Ministry of Internal Affairs.

Finally, there is cooperation and information exchange between Initiative partners and **International Organizations**. This cooperation also is specified by Armenian Law on legalizing the illegal incomes and financing of terrorism which states: “In fight against legalizing the illegal incomes and financing the terrorism the Authorized Body and other state authorities cooperate with the authorities of foreign states in order established by the law within the scope of international treaties” (Article 12, Chapter 3).

Examples of this level of cooperation include the following: MONEYVAL evaluation of the progress of FMC policy. Another example is cooperation with EGMONT GROUP¹⁰ concerning the membership of FMC to this International FIU Association. Specifically, the membership process is suggested to begin in 2006, after the end of privileged period for the reporting entities and the beginning of ordinal process of report receive, analysis and dissemination.

Other findings for this level of cooperation are the missions of International Organizations in terms of technical assistance. Concrete examples of the above mentioned are:

- “AML/TF Active System” Regional conference of OSCE (2005);
- “Action Against Money-Laundering” Seminar by EBRD;
- “Client Identification, Appropriate Monitoring and Money-Laundering Prevention Mechanisms” Seminar by Netherlands National Bank

Also, there are concrete examples of International Expertise Programs:

¹⁰ Egmont Group is an International Union of Financial Intelligence Units of different countries.

- “2005 Technical Assistance Program” concerning further improvement of AM/TF legislation by USAID;
- “Consultation to FMC” program by US Department of Treasury (2005);
- “Technical Assistance Program” by IMF (2005)
- “Technical Assistance Program” by CoE (this consultation was given upon the request of FMC).

ANALYSIS

As findings of this study show the program of enhancement public awareness about money laundering and terrorist financing and their negative effects on financial institution as well as on the society of Armenia is only mentioned in one sentence format. There is no structured framework for the realization of this program. However, it would be reasonable to mention that the implementation of this very strategic outcome (enhancement of public awareness about money laundering) is especially important in Armenia as anecdotal evidence suggests that public has very poor imagination about money-laundering. Basically they do not understand even the term of ‘money laundering’ not telling about the negative consequences of money laundering on the financial institutions, on economic growth and on the society at large.

In recent times civil society has emerged as a key actor demanding greater accountability and transparency from government, that is why being involved in anti-money laundering awareness raising through civic education and advocacy will ensure further engagement of the public in anti-money laundering fight. This involvement of the public via public education and public awareness is important not only from the point of view of dangers posed by money

laundering, organized crime and corruption, but also of the need to support the work of the Armenian authorities.

As it was already mentioned the key objective of the initiative to combat money laundering is to detect and deter money laundering and terrorist financing with a long-term view to reducing the incidence of these activities, as well as to recover the damage caused by the above mentioned activities. This study analyzes the issue based on the extent to which the Initiative is creating a **hostile** environment for money laundering and terrorist financing in Armenia. By saying ‘hostile environment’ one should understand the creation of such conditions that would reduce or prevent money laundering making the launderers to search other countries escaping Armenia.

As findings show there are some key elements that ensure the creation of some unfriendly environment for launderers. Clearly, the record keeping, client identification, and reporting obligations that are instituted under the purpose to combat money laundering impose a burden on criminals to find new avenues to launder and raise funds. The creation of a hostile environment for ML and TF in major financial institutions will cause criminals to seek less regulated avenues to move their funds. And unfortunately, this includes using cash couriers across the border. Here, it would be reasonable to remember that findings reveal no currency reporting requirement, which may be considered as a gap in the strategy of stakeholders to combat money laundering in Armenia. However, though it appeared so that the currency reporting was not included in anti-money laundering policy as a key element but it should be mentioned that this is because Armenia has a liberal currency regime. This fact of course weakens the incentive to create a really strong anti-money laundering environment because the absence of currency reporting requirement facilitates the illicit capital flight. And the obvious effect of illicit capital flight is to

worsen the scarcity of capital in developing countries. About the costs of the above mentioned capital flight one can find out in more details from the literature review of this study.

Another key element is monitoring and compliance which is not less important for the creation of hostile environment. As research showed there is no such strategic goal in the three-year strategic plan of FMC as to ensure monitoring and compliance of reporting entities.

However, the development of such compliance program will be contributing to further successful realization of anti-money laundering fight. Compliance assurance with respect to client identification and reporting requirements, it should be noted, will be beneficial to law enforcement agencies, as well, which later will receive FMC's disclosures containing such information. Ensuring that there is proper identification when clients set up accounts and conduct financial transactions (as required under the legislation) will provide law enforcement and national security agencies with a useful piece of information for their investigations, which they would not have otherwise.

In addition, it is worth mentioning that the success of the initiative to fight money laundering depends critically on the compliance of reporting entities. For reporting entities, compliance means not only the full participation, but also provision of high quality reports and maintenance of sound client identification and record keeping procedures. It must be noted that ensuring the reporting compliance of individuals crossing the border would also be important to the success of the initiative. All of the above mentioned will facilitate the detection of illegal activities.

Of course, when analyzing all the above mentioned activities for the creation of hostile environment one should understand that it is impossible to attain the initiative's long-term objective of reducing crime without meaningful cooperation and coordination of stakeholders.

Cooperation and coordination, including information exchange, takes place for purposes of enhancement of both skills of individual partners and the effectiveness of the initiative's operations. As it is mentioned in the findings part for effective results in the sphere of anti-money laundering fight at least three-level cooperation is needed.

Cooperation and coordination within the initiative also occurs for purposes of increasing understanding of the issues and information needs, addressing issues as they arise, and facilitating investigations. In this regard, it should be noted that the Ministry of Finance & Economy and the Ministry of Justice play an important coordination role for the initiative. Partners engage informally in much consultation among themselves. However, concrete examples of cooperation and information exchange mentioned in findings show that there is no intense cooperation with other state agencies. Findings show that there is much more cooperation internationally, rather than locally, which one might consider natural because Financial Monitoring Center is newly created, that is why the experience of International experts as well as their consultation are of core importance for FMC. But at the same time it is obvious that if this imbalance will carry a continual character it will not be much beneficial for local stakeholders. The information and knowledge gained from all seminars and conferences organized by International partners become meaningless if they are not experienced in the practice. Meanwhile, this practice is possible if there is a really coordinated cooperation among local stakeholders. Because only intense cooperation will ensure an effective fight against money laundering and terrorist financing in Armenia.

In addition it is important not forget the high degree of criminal inventiveness which presents a challenge for the initiative of combating money laundering to counter new or innovative ML/TF trends with appropriate proposed regulations, enhanced technological

sophistication, and monitoring and outreach. Also, there is a potential for increased pressure on ML/TF schemes brought on by criminals seeking new ways to launder their proceeds of crime through corruption of employees of financial institutions and other legitimate businesses. It must be noted as well, that deterring criminals from using Armenia to launder and raise funds means that these individuals will turn to other countries with weaker control mechanisms, which places the onus on Armenia to outreach to and provide technical assistance to these countries to strengthen their processes.

RECOMMENDATIONS AND CONCLUSIONS

The questions discussed in the paper let to come up with the following recommendations and conclusions.

Recommendations for *enhancement of public awareness about money laundering and terrorist financing as well as their negative effects on Armenian society at large*

Although, the Financial Monitoring Center is going to implement a program which assumes to enhance public awareness concerning money laundering and terrorist financing in Armenia, however, this provision needs to develop and to suggest more specified priorities for FMC, as well as concrete plans for delivering those priorities while realizing this policy. FMC also, needs to specify time duration during which the strategic outcome; that is the enhancement of public awareness, will be achieved. In order to enhance public awareness the following framework¹¹ is recommended to be implemented by FMC:

¹¹ The following framework is designed in a scheme format on page 41.

The following priorities should be in place for the Financial Monitoring Center:

- Prepare and produce communications/outreach material to inform the general public, reporting entities and other stakeholders of money laundering;
- **Media Relations** – Engage in targeted media relations aimed at community publications, trade publications and law enforcement publications;
- Report to Parliament, other Government Departments, International Partners on **FMC's** accountability, activities and objectives;
- Evaluate communications activities;
- Heightened media/public awareness about **FIU of RoA**, money laundering and terrorism should change a proactive media strategy into a reactive one.

Plans for delivering priorities:

- **Print Media**
 - Brochures
 - Fact sheets
 - Bulletins
 - Pamphlets

- **Mass Media**
 - Media interviews, articles
 - Website
 - Advertising

- **Surveys**
- **Public opinion polls**
- **Annual Report**

Key partners or relationships with other organizations:

- Reporting Entities
- Ministry of Finance
- Law Enforcing Agencies
- Mass media

Monitoring to ensure priorities are on track:

- Annual review of communications activities through stakeholder survey, web visit rate, polling and media analysis;
- Detailed IT project plans and project management techniques.

In addition, another recommendation concerning the implementation of this program is the organization of seminars for representatives of media on how to approach data related to money laundering, organized crime and terrorist financing more analytically. This is very important because if the reporters employ only a sensationalist approach¹² it may increase fear of crime and public apathy.

¹² Sensationalist approach is very common potential danger which can be reflected in the published material presented to the public. Because we do have only media representatives who are strongly 'for' or 'against' current Armenian authorities, the media material be it newspaper articles, TV or radio programs, deprives the public of the opportunity to judge objective information. As a result the public is being deviated by the misleading information lightened via Armenian mass media.

All in all, all these steps described above should lead to developing a sense of community empowerment and a means of combating money laundering and organized crime in everyday life of Armenia.

Strategic Outcome

Enhanced public awareness and understanding of matters related to money laundering and terrorist financing including their effects on Armenian Society

Priorities

Media Relations –
Engage in targeted media relations aimed at community publications, trade publications and law enforcement publications

Report to Parliament, other Government Departments, International Partners on **FIU of RoA** accountability, activities and objectives

Prepare and produce communications/outreach material to inform the general public, reporting entities and other stakeholders of money laundering

Heightened media/public awareness about **FIU of RoA**, money laundering and terrorism should change a proactive media strategy into a reactive one

Plans for delivering priorities

Print Media
• Brochures
• Fact sheets
• Bulletins
• Pamphlets

Mass Media
• Media interviews, articles
• Website
• Advertising

• **Surveys**
• **public opinion polls**

• **Annual Report**

Key partners or relationships with other organizations

• **Reporting Entities**

• **Ministry of Finance**

• **Law Enforcing Agencies**

• **Mass media**

Monitoring to ensure priorities are on

• Annual review of communications activities through stakeholder survey, web visit rate, polling and media **analysis**

• Detailed IT project plans and project management techniques

Recommendations for *the enhancement of compliance*

The activities undertaken under the initiative to combat money laundering and terrorist financing should be comprehensive and appropriate for achieving its expected outcomes. For this, all the appropriate stakeholders should be involved in anti-money laundering fight. To prove the above mentioned statement it would be in place to mention that the success of the above mentioned initiative depends critically on the reporting of certain financial transactions. And only in case there is a high degree of cooperation among them in regards to the exchange of information the eventual prosecution of criminals is possible.

Towards this end, another recommendation for Financial Monitoring Center is to develop a comprehensive, cooperative compliance program that will have all the key ingredients necessary for increasing the reporting incidence of financial entities.

This compliance program should be based on two noteworthy features: cooperative and risk-based approaches should be the bases for the enhancement of compliance. Being **risk-based** means activities should be focused on and tailored to areas thought to be at greatest risk, which assumes an efficient and cost-effective use of funds¹³. Being **cooperative** means FMC should work closely with the reporting entities to improve compliance, rather than imposing a regime from above.

The key activities of the compliance program should be the following:

- Provision of policy interpretation;

¹³ Cost-effective use of funds is of special importance for FMC as they feed on the funds provided by the Central Bank of Armenia. And the fact that FMC does not have an independent budget of course, assumes resource scarcity.

- Provision of assistance and information to reporting entities, including outreach activities, guidelines, pamphlets, presentations and provision of feedback to reporting entities;
- Risk assessment
- Quality and quantity assurance of reports
- Examination of entities, including working with industry regulators; and
- Referral of non-compliance cases to law enforcement.

Recommendation for Developing Further Cooperation

As in the Republic of Armenia anti-money laundering mechanisms are being newly implemented, the reporting entities perceive those mechanisms as an external requirement, rather than as an important factor of their own risk and reputation management. Thus, FMC needs to organize special seminars where all risk reducing provisions of anti-money laundering mechanisms will be explained.

Another very important recommendation for the development of meaningful and effective cooperation would be an organization of sector-specific workshops. FMC should have sector-specific workshops to provide feedback to reporting entities on the quality of reports and their contribution to disclosures. These sector-specific workshops will be of dual importance. On the one hand they will enhance the significance of reporting entities in the whole anti-money laundering fight; on the other hand by attracting reporting entities FMC will increase their interest in the quality of the reports provided by the same reporting entities. Finally, the other important point of these sector-specific workshops that would be reasonable to mention is that because all these anti-money laundering and terrorist financing mechanisms are being newly implemented in Armenia, the country lacks targeted specialists who would ensure at least enough

quality of reports. And if too much time is expanded on the corrections the whole process becomes meaningless¹⁴.

Finally, the last recommendation for FMC addressed in this paper which will definitely contribute to the development of cooperation among stakeholders is the creation of *special databases*¹⁵ for the public, reporting entities and other stakeholders. FMC should develop mechanisms, where legally possible, to access information and expertise available from partner agencies and reporting entities. These online databases will save time and be very meaningful for effective outcomes of anti-money laundering fight.

To sum up, it should be mentioned that the initiative to combat money laundering and terrorist financing in Armenia is both relevant and necessary as it will move Armenia forward in fighting financial crime (as well as organized crime and terrorism), both domestically and internationally in cooperation with its partners. Money laundering (ML) and terrorist financing (TF) are complex crimes necessitating sustained, concerted action. There are social and economic benefits to the country in reducing crime as well as advantages for financial institutions of anti-ML/TF measures in better managing reputational risk. Further implementation of this initiative will enable Armenia to meet its international obligations in the region. Moreover, maintaining support for it will enable Armenia to gain its solid international reputation in the area. Finally, this initiative, if implemented properly, will be well aligned with the state priorities to provide adequate tools to law enforcement to combat ML/TF, protect public security, safeguard personal privacy, and protect Armenia's financial system.

¹⁴ Because nobody can guarantee against information leakage, so while the competent bodies lose their time the launderers may evanesce all illegal traces of money being laundered.

¹⁵ These special databases should contain any information concerning anti-money laundering fight in Armenia. For example, there can be different professional advices, information about the nuances of reporting form or disclosures of various money laundering cases etc.

Hopefully, Armenia will continue to maintain its current strong level of commitment to combat money laundering and terrorist financing through the continued active support of this anti-money laundering fight.

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