

Effects of Money Laundering on Iraq's Economy

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ABSTRACT

This research is based on the subject of “Money Laundering effects on Iraq’s economy”. Money laundering is the biggest phenomenon of today’s world and it is the result of a country’s political and social consequences. It’s not just impact the society, but destroys the entire economy of a country. Iraq is known as a heaven for criminals to launder their money. Iraq is a country full of natural resources that makes it important in the entire world, but besides all this country is the facing a lot of economic challenges and money laundering is one of them.

Therefore, this research aims to find out the impacts of money laundering on Iraq’s economy. The purpose is to evaluate the real causes and factors and solutions to get rid over this phenomenon. The research first covers various money laundering cases within Iraq and policies to get over it around the world. It discussed the main causes of its growth in Iraq and about some lawful agencies that established to discourage its main causes. The research also explains how badly this situation is affecting Iraq’s economy and what actions could be taken in order to completely get control over it.

After deep study and analysis, it is still recommended that this subject needs further research and examination that focus on studying the money laundering as the subject touches the components of the Iraq’s economy, the resulted obstacles and accords that hinder the development of the Iraq’ economy and deprives the people from progress, stability and development.

Keywords: Money laundering, Iraq economy, Money laundering effects

ÖZ

Bu araştırma, para aklamanın Irak ekonomisi üzerindeki etkilerini konu almaktadır. Kara para aklama günümüzde en büyük olaylardan biri haline gelmiştir ve bu bir ülkenin siyasi ve sosyal tutumundan kaynaklanmaktadır. Kara para aklama sadece toplumu değil, ülke ekonomisini de etkilemektedir. Irak, suçluların para aklama cenneti olarak bilinmektedir. Irak, doğal kaynaklara sahip olduğundan dolayı dünyada önemli bir yere sahiptir. Fakat kara para aklama gibi önemli ekonomik sorunlarla karşı karşıya kalmaktadır.

Bu nedenle, bu araştırmanın amacı para aklamanın Irak ekonomisi üzerindeki etkilerini araştırmaktır. Bunun yanında para aklamanın arkasında yatan gerçek nedenleri araştırıp bunlara çözüm üretmek amaçlanmaktadır. Öncelikle bu araştırma Irak'ta yaşanan kara para örneklerini ve bu örnekler için dünyada alınan önlemleri anlatmaktadır. Ayrıca bu durumun Irak ekonomisini nasıl etkilediğini ve bu kötü etkinin nasıl önlenebileceğini önermektedir.

Yapılan çalışma ve analizlerin sonucunda bu konuda daha fazla araştırma ve inceleme yapılması önerilmektedir ve kara para aklama konusunun Irak ekonomisinin bir bileşeni olarak incelenmesi gerekmektedir. Tüm bunların sonucunda Irak ekonomisinin gelişmesi ve istikrar sağlanması engellenmektedir.

Anahtar Kelimeler: Para aklama, Irak ekonomisi, Kara para aklamanın etkileri

To My Beloved Family

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LIST OF ABBREVIATIONS

BSA	Board of Supreme Audit
CBI	Central Bank of Iraq
FATF	Financial Action Task Force
ICN	Iraq Central News
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
ML	Money Laundering
MLRO	Money Laundering Reporting Office
RAI	Reynolds American Incorporation

Chapter 1

INTRODUCTION

Money laundering is a concealed process that causes distortion to an economy, distracts financial sector, reduces government income and increases criminal activities. Money laundering has potentially overwhelming economic, safety, and public consequences. It directs and motivates the terrorists, corrupt politicians, drug dealers and other criminals to easily perform their illegal activities. Money laundering became a global issue, not only in the financial system, but also in emerging markets. Certainly, nations are involved in international financial systems are at risk of money laundering (Financial Intelligence and Anti Money Laundering Act, 2002).

Money laundering can be performed in three ways: placement, layering and integration. The activities of cash movement performed under these sources called placement. Once triggered, these sources later on can easily be masked or distorted without much effort. This is trailed by putting it into the course through monetary organizations, clubhouse, shops, department of change and different organizations, both locally and overseas. Layering is a process to make it harder to recognize and uncover a laundering activity. It intends to make the trailing of unlawful returns troublesome for the law implementation organizations. Integration is a development of beforehand laundered cash into the economy, mainly through managing an account framework, such duties give off an impression of being typical business income. This is not at alike layering, for the mix process location and ID of laundered trusts is done

by witnesses (Stages of tax evasion, 2014).

This issue needs to be counted as one of the most important economic concern, as it directly influences on the economy of the entire country and this thing prompted me to find out how money laundering is affecting Iraq's economy.

1.1 Background

History reveals that the money laundering is one of the biggest causes of terrorism in many regions around the world and has a major impact on economic growth, and beside this it is also a threat to country's overall financial sector reputation (Julia Layton, 2002). The word "Money Laundering" retrieved from the Mafia's attempt to lend illegal money in cash form for washing salons in the 1930s in USA that then controlled by criminal organizations (Friedrich Schneider, 2010).

The IMF (International Monetary Fund) in 2000 presented World Bank's budget estimations, according to those estimation results, from the world's overall gross domestic product (GDP), 2 to 4% money stubbles from money laundering activities. Agarwal and Agarwal (2006, 2004) stated that more than \$2.0 to \$2.5 trillion amounts across the world generates only by money laundering activities. The world GDP in 2004 was US\$ 500 billion, which raised up to 1 trillion dollars, as recorded approximately 44,444 trillion US\$ in 2006, was an observed figure from the banking sector only. Recently, the IMF estimated that between 2 to 5% of world's GDP increased due to drug traffickers. These traffickers actually introduced this drug system in the financial market that turns in amount around 600 billion annually.

Mark DeWeaver, 2013 has stated that the cash amount that Iraq's banks usually hold is too surprising for the fund managers traveling to Iraq for the first time. Money in cash in hand, in banks rather than loans is the biggest asset for banks, while in the Central Bank of Iraq (CBI) requires lenders to hold 15% of their deposits in the form of vault cash and central bank reserves, most hold well over 50%. Cash in hand is an initial step that leads to support crime activities and the current ratio from of this money in Iraq is at the peak that should be taken under consideration to prevent ML.

1.2 Purpose of the Study

Money laundering is considered as a bigger cause of terrorism support in various regions around the world. To discourage criminal activities through this money, many researches already exist, but my study would mainly focus on the Iraq. The current political and economic situation of Iraq approves the bulk money laundering activities and operations in Iraq because it directly influences on its economy. Thus, the basic objective of this study is to analyze the "Money laundering effects on Iraq's economy".

1.3 Presentation of the Study

As this chapter covers the main purpose, methodology and implications of the study, the rest of the parts of this study are structured as follows: chapter 2 describes a review of different money laundering cases in Iraq and various researches done by other researchers. Chapter 3 details the methods and techniques applied to collect and evaluate relevant data. Chapter 4 describes the causes and reasons that motivate the money laundering in Iraq in. Chapter 5 is consists of the findings of the study that presents the effects of money laundering on Iraq's economy & some recommendations are added as well. Finally the study concludes the entire study.

1.4 Implications of the Study

This study will help understanding the main causes of money laundering in Iraq and help to design and suggest anti-money laundering policies and guidelines to implement control measures to get over this problem.

1.5 Research Methodology

The study is based on literature review which is one of the techniques of qualitative research. Study is purely based on money laundering cases and previously done studies regarding money laundering in Iraq. In order to collect relevant data current years are more focused, but to make research more authentic previous cases and articles also been considered? Although, to present such recommendations and suggestion to prevent money laundering in Iraq, a slight review of anti-money laundering policies in other countries is also done.

Chapter 2

LITERATURE REVIEW

Iraq was the center of the Abbasid Arabic Islamic Empire. Iraq attained independence in 1932 and announced as “Republic” in 1958. A sudden change emerged in 2003 when Saddam Hussein regime knocked out and left challenges for new comers. The political situation was utterly uncertain, weak and unpredictable that opened doors for criminal activities. Basically economy of Iraq was largely based on cash, and in the weak political system and government it was so difficult to keep a proper check on cash movement. Criminal minds took advantage of this vulnerability and got indulge by launder their black money into white. This illegitimate movement of cash breeds other crimes in the country like fraudulent activities, tax evasion and to finance terrorist activities. Banks and other financial institutions where advance technology was involved in transactions were highly influenced by money-laundering activities, the resultant rate of corruption raised, weaken financial institutes and it affected negatively on foreign investment. In those circumstances the Government of Iraq initiated to deter and resist against such activities. A National strategy introduced (2010-2014) to fight against all criminals’ financial and social activities, accompanied with Anti-money-laundering act 2004. Board of Supreme Audit (BSA) also known as CPA plays a vital role to resist and preventing against money-laundering activities by keeping check on movement of cash. Co-ordination among all authorities and development and implementation of substantial law and procedures can work harder against financial criminal activities, all financial institutes should be obliged to work

with the compliance and strong monitoring over cash will develop a transparent environment where criminal activities has no any space (Al-Hassoun, 2012).

Storrs (2013) in his studies “Too big to fail” does not mean “Too big to jail” has explored all possible aspects of the HSBC Money Laundering case, he has presented all circumstances that U.S economy might face if they pursue the criminal prosecution against HSBC and also has predicted long term consequences for leniency to avoid economic instability. The trial against HSBC for money laundering will lead to economic subtle and large scale unemployment. The careful analysis with the assent of theory of justice, utilitarianism, deontology and role of board of justice, he found that it’s vital to maintain stability of U.S economy by not to prosecute HSBC for money laundering. To deter the future events Department of Justice (DOJ) should perform its role effectively to trap such activities at earlier stage (Storrs, 2013).

Shaher (2013) is observing keenly the money laundering issue in Iraq, he is reporting that 20% of Iraq investment budget is consist of laundered money, and there is also a suspect of involvement of key officials in this process that only can be prevented with strong legal implication and accountability. Strong co-ordination among anti-money-laundering unit and Central Bank of Iraq can stand up against the money laundering crisis (Shaher, 2013).

Bonorchis (2014) notifying how money laundering is prevailing in South Africa Banks, currently four largest banks of Africa are imposed with heavy penalty as they appeared helpless to prevent money-laundering activities. Investigation revealed that institutions had weak control to trace property with real owner. A depth study lead me

to conclusion that this event occurs because banks were not acted upon compliance, and they also need to improvise and implement policies and procedure to stand against money laundering (Bonorchis, 2014).

Voris (2014) is conversing the Money-laundering claim on Reynolds American, Reynolds American Inc (RAI) has claimed to launder drugged money from the European Union. RAI is accused to run a plan in which Colombian, Russian criminals laundered drug profit by purchasing discounted money from European money broker which they get from cigarette importers, that as per ultimately purchased Reynolds cigarette from whole seller. This case is still in the trail in the Second U.S. Circuit Court of Appeals (Voriss, 2014).

Hassan (2011) enlightened the news of “money laundering rampant in Iraq” in which Saman Sabir Barzani found involved in laundering amount of 35 million USD dollars. The investigation also revealed that he transmitted fifteen million to Paris and twenty million to Lebanon in recent month. He also used up money to buy a villa worth of million. This structuring of money can be traced and condemned by strong monitoring of movement of money. There is also need to enforce policies and procedure to put a stop to money-laundering (Hassan, 2011).

A release of Alsumaria TV (2012) better explained the situation of money laundering in Iraq’s Kurdistan, money laundering is rapidly prevailing, and increasing currency exchange offices without any strong monitoring is playing an important role in money-laundering. Researchers believe that this issue can only be avoided by development and enforcement of anti-money laundering law, firm check of central bank of Iraq and absolutely strong monitoring over currency circulation (tv, 2012).

Black hats took advantage from absence of Iraqi government in 2003, and set up an empire of smuggling, robberies, ancient monument and money-laundering. P.D. Balasssim Jameel Khalaf analyzed whole scenario of money laundering from the beginning, and presented his knowledge as widespread money laundering is affecting negatively on economy of Iraq, smuggling and money-laundering compliment to each other so illegal transfer of capital destroys the balance of net income, cause instability in stock exchange, disturb equal flow of income among people and also demolish national industry by an intervention of fake products. To prevent such pathetic situation there is need of appropriate law and legislation, tie up banks, financial institutions and companies to enforce compliance and commence a strong practice of accountability. It is also essential to keep check on the movement of capital. Establishment of anti-money-laundering body is needed to keep track of criminals and to make necessary measure to avoid this situation (Khalaf, 2003).

US prosecutors declared Costa Rica as world's biggest money laundering case. As Peter Mitchell, Tom Hays and Raphael Sattar are covering a bigger story of money-laundering in which 6 billion US Dollars are alleged on the accuser. Liberty reserve allows money transfer without holding customer information that provided an open path for criminals to launder their black money. Officials investigate liberty reserve process 55 million transactions of 1 million users in last seven years. Customer trace policy were completely lacking because of that it played a vital role in building up financial cyber-crimes. It was an open threat for legitimate activities so US authorities came into action and seized all processing of liberty reserve also defendant are being arrested. To avoid future events authorities should not issue licenses to those

companies who don't have sufficient planning, policies and procedures of documentation and tracing money movement (Peter Mitchell, 2013).

Iraqi banks are synchronized with the Interior Ministry and working with respect of anti-money-laundering law to combat financial criminal activities in Iraq. Al-Hassoun (2012) presented facts with current circumstances in his article that after Saddam Hussein's era, it was highly needed to have a proper anti-money-laundering law that would work as compliance for all banks and financial institutions. Prevailing money-laundering in Iraq is leading economy to the edge of downfall because drug mafia and terrorist can derive advantage from this activity. Because Central bank of Iraq is unable to keep a strong check on financial and banking sector of Iraq, it has become easy to transfer money to anywhere in the world, accompanied by crisis of smuggled money, trading illegal goods and tax avoidance. In this scenario to cope financial chaos Central bank of Iraq compliance all financial institutions to work accordance with the Central Bank Act of 2004, that is taking part in balancing the chaotic financial satiation and now all money movement is being observed even across the borders (al-Hassoun, 2012).

Iraq's economy is based on cash, and main source of revenue is oil production, where traces of money-laundering and smuggling also can be seen that are explicitly discussed in INCSR (International Narcotics Control Strategy Report) Part II compiled by wilileaks.org (2009). WikiLeaks revealed that money laundering based on trade or customs frauds is more challenging for authorities. Culture of Hawala networks is also being used by some criminal minds to transfer money illegally. However Iraq government is taking considerable initiatives to deter financial

illegitimate activities, the coalition provision authority, Money laundering Act 2004 and the presence of CBI in Baghdad are striving to control all kinds of financial crimes including money-laundering. Electronic payment systems are being introduced in Iraq to reduce cash movement, researchers believe that one of the major vulnerability is lenient attitude towards money exchange and transfer, that has directed to the situation where to keep control over cash smuggling is a challenge. Comprehensive law and procedures, eager monitoring, implementation of compliances and significantly co-ordination among all authorities can lift up Iraq from illegitimate financial scenario (Wikileaks.org, 2009).

A recent Research Project issue by Republic of Iraq has dug in depth to evaluate anti-money-laundering efforts of Iraq, Money laundering is a crime and it has a drastic impact on society and the economy, such as a raise in crime and corruption, inefficiency of financial institutions and depressing impact on foreign investment. Criminal mind are deriving advantage from technological interference in money transfer that's the reason banking sector is highly affected by the illegitimate act of money-laundering. Large business volume and cash based economy are considered as other causes of prevailing money laundering in Iraq. By money laundering most of the people wish to transform their black money into white and enhance profit. Investigations disclose that laundered money also used to support terrorist activities. The Iraq government has introduced a National strategy (2010-2014) to discourage corruption in the state. Moreover, anti-money-laundering act 2004 and BSA are playing a key role to control money laundering and fraudulent activities. This business of money-laundering can never be stopped unless an internal control system

of the state is not smart enough. Effective laws and procedure should be practiced to resist against money-laundering (Republic of Iraq, 2013).

Chapter 3

CAUSES AND MOTIVES OF MONEY LAUNDERING AND ITS PREVENTION ACTIVITIES IN IRAQ

This section of study covers the very important factors as it presents the overview of corruption, corruption types, money laundering causes and its prevention activity by the concern officials and the government of Iraq.

Markets	Last	Reference	Previous	Range	Frequency
Currency	1190	Feb/15	1190	1122 : 1680	Daily
GDP	Last	Reference	Previous	Range	Frequency
GDP	223 USD Billion	Dec/13	223	1.7 : 223	Yearly
GDP Annual Growth Rate	4.21 percent	Dec/13	4.21	-56.4 : 54.16	Yearly
GDP Constant Prices	10452400 IQD Million	Feb/13	10452400	1105299 : 64872786	Quarterly
Gross National Product	191417040 IQD Million	Jun/11	191417040	20594975 : 191417040	Yearly
GDP per capita	2505 USD	Dec/13	2505	228 : 3453	Yearly
GDP per capita PPP	14704 USD	Dec/13	14704	7017 : 14704	Yearly
Labour	Last	Reference	Previous	Range	Frequency
Unemployment Rate	15.1 percent	Dec/12	15.1	15.1 : 28.1	Yearly
Employed Persons	924397	Jun/01	924397	831523 : 924397	Yearly
Population	33.42 Million	Dec/13	33.42	7.29 : 33.42	Yearly
Prices	Last	Reference	Previous	Range	Frequency
Inflation Rate	1.6 percent	Dec/14	1.6	-6.37 : 76.55	Monthly
Food Inflation	-0.9 percent	Dec/14	-0.9	-3.78 : 13.27	Monthly
Money	Last	Reference	Previous	Range	Frequency
Interest Rate	6 percent	Jan/15	6	6 : 20	Daily
Trade	Last	Reference	Previous	Range	Frequency
Balance of Trade	39793 USD Million	Dec/13	39793	-3492 : 44054	Yearly
Exports	89769 USD Million	Dec/13	89769	1720 : 94209	Yearly
Imports	49976 USD Million	Dec/13	49976	2682 : 50155	Yearly
Crude Oil Production	3465 BBL/D/1K	Oct/14	3465	0 : 3728	Monthly

Figure 1: Overview of Iraq's Economy

The figure above presents the overview of Iraq's overall economy in terms of GDP, inflation, population and interest rate, etc. It provides a clear picture of current situation of Iraq (trading economics, 2014).

3.1 Overview of corruption in Iraq

Political instability: The fundamental change in the political setting of Iraq has led to the early explosion of ethno-sectarian hostility that has hit the highest point in 2006-07. That transformation has caused disruption in the economic and governmental activities (ICG, 2011). This primary change has followed the regime of Saddam Hussein by US led alliance in the year 2003. This brutality was decreased in 2008 but it is still prevalent in many provinces. Presently, the novel regime has been confronted in numerous ways.

The former Prime Minister Al-Maliki has been playing his role since 2006. He was blamed of focusing powers in his own hands that included silencing dissents, lowering down the control of executives and marginalizing the allies of Sunni in the beginning of 2012 (Freedom House, 2012). In the winter season of the year 2011 and in the beginning of 2013, several famous protests of Sunni were dominated in the main provinces. These protests challenged the government of Mr. Al-Maliki and demanded the freedom of prisoners and asked for improved provision of services, for discouraging corruption and for the betterment of country's huge income generated from oil. Moreover, the issue to leave religion has been put aside, although it was the major issue and a major reason to get control over Iraq. However the issue itself becomes part of the legislation and led to arguments on corruption and violence scandals (ICG 2011, SIGIR 2012).

The part of Iraq which is called Kurdistan remains an independent state of Iraqi Capital Baghdad after 1991. This factor has been a major cause that it remained stable and had more investments after the 2003 Iraq War (Bertelsmann Foundation, 2012). Kurdistan and its Regional Government are a part of Iraq under prevailing constitution, but are independent in most of its affairs. However, there are multiple rows and differences between central and regional government over the area and oil income of the region. There are also different levels of corruption in Kurdistan as compared to rest of the country (ICG, 2011).

Despite the effects of war and sanctions imposed on the country, its economy is recovering in recent years due to large petroleum industry. However, economic activity other than the petroleum sector is quite fragile after all this petroleum money and development (IMF, 2012). This resulted in less jobs and unemployment that reached up to 20%. 23% population of Iraq is living below the level of poverty and most of the population is still deprived of basic services (UN, 2013).

3.2 Money Laundering Origin in Iraq

The word ‘money laundering’ started when criminals of New York started using Laundromats for hiding their criminal actions during the period of 1920s. Launderettes were purchased by these criminal organizations to legalize their earnings from crimes. The laundries were told to be working in very good profits and the money acquired in crimes was stated to be earned through launderettes and so called as washed or clean money (Heba Shams, 2004).

3.2.1 Money laundering role in financing terrorism

The use the money laundering is a crime in a series because first of all possessions of such money is illegal. Then to legalize this money specific processes are adopted for

transfer. To achieve it one has to dodge the law enforcing agencies and hide the accountability of getting and saving this money and keep on continuously cheating and telling lies to people. This chain of activities, show its bad effects on society and regional economy. To reduce these practices, governments had to realize this danger and come up with laws and punishments.

Iraq proved to be a safe haven for money launderers and criminals after 2003's war due to the non-presence of government and its law enforcing organizations which led to thefts in banks, not only antiques were smuggled but also machinery. This situation triggered crimes as well as money laundering. These things put several negative consequences on Iraqi economy because much of the money came from money laundering. This money came from bank thefts, smuggling of antiques, oil and oil products, factories and machines along bringing the bogus things to markets of Iraq. The situation in Iraq is worse because that both money laundering and other crimes are happening simultaneously and on the Iraqi ground where laws and other regulations are non-existent or weak to check these crimes. All these things are not only related to internal affairs of Iraq, but also to the external situation as well and also things are getting too much complicated (P.D. Balassim, 2013).

3.2.2 How money laundering prevailing in Iraq

The primary source of Iraq's economy is in-hand money (cash). There would might be small volume of data exist that claims about the money laundering issue in Iraq, but do not openly expose its main causes. Figure 2 below illustrates the cash flow activities recorded under CBI (CBI, 2014):

<i>In millions of IQD</i>	Notes	2013	2012
Cash flows from operating activities			
Profit for the year		2,329,334	2,091,291
Adjustments for:			
Effect of derecognition of foreign creditors balances	19	–	(54,858)
Depreciation	17	1,962	2,607
(Losses) gains on revaluation of gold reserves	23	532,684	(98,001)
		2,863,980	1,941,039
Change in due from Ministry of Finance	12	400,001	406,022
Change in other assets	14	1,188	19,123
Change in currency issued	15	4,845,231	3,627,361
Change in deposits of local and governmental banks	18	7,419,301	2,306,565
Change in due to foreign governments and banks	19	(4,096)	27
Change in due to International Monetary Fund	20	(45,167)	(88,365)
Change in balances due to governmental institutions	21	(4,837,255)	571,042
Change in other liabilities	22	8,100	(1,532)
Net cash flows from operating activities		10,651,283	8,781,282
Cash flows from investing activities			
Held to maturity investment securities	11	(319,985)	(4,379,212)
Foreign currencies investments at IMF	13	196,249	21,403
Purchase of property and equipment	17	(26,407)	(35,865)
Purchase of gold	8	(575,653)	(1,413,426)
Net cash flows used in investing activities		(725,796)	(5,807,100)
Cash flows from financing activities			
Treasury bills issued	16	197,695	249,379
Net cash flows from financing activities		197,695	249,379
Net increase in cash and cash equivalents		10,123,182	3,223,561
Cash and cash equivalents as at 1 January		24,771,426	21,547,865
Cash and cash equivalents as at 31 December	27	34,894,608	24,771,426

Figure 2: Cash flow activities by CBI (The exchange rate is: 1\$ = 1200 IQD at the publishing date).

Smuggling is a major cause of money laundering. Cigarettes, petrol, and other consumer goods do smuggle in the Iraq. The other causes may include fake currency, intellectual property rights violations and kidnapping. Kidnappers take a huge amount of money from the victim and use this amount to fund terrorists. The main channel of all this fraudulent activity is Hawala network. The insufficient financial controls of the Iraqi banking sector lead to aggravated corruption activities, that's not just create another aggressive challenge for Iraq's economy, but also weakest the link of law enforcement of the international community (U. S department of state, 2014).

Once, the new Prime Minister “Haider Al-Abbadi” eliminates General Commander of the armed forces, which was formed by the former Prime Minister “Nuri Al-Maliki”. The general commander found involved in 1 billion dollar corruption. According to Nuri Al-Maliki, he created an army of ten thousands army officers and soldiers that were just exist in a paper, but there was no such army in actuality. He entered the names of his relatives, siblings and his tribe members to benefit from army funds. Under the pretext of fighting against terrorism, he was just taking advantage of the state of emergency situation of the country. After the truth get revealed, the armed forces names as “Aliens’ army”. This was the biggest example of corruption in history. This was the reason behind the catastrophic failure of the Iraq army while defending the second big city “Naynawa” against the terrorist organization called ISIS without even a battle. The terrorist organization in this result become more powerful by taking over hundreds of machines and army vehicles used it in terrorism support (released by Rahim Al-Ugaili, the chairman of the integrity commission) (Iraq Central News, 2014).

Ibrahim the Iraqi writer and political analyst has stated that Iraq had reached a stage of corruption to the extent of greed involved, regardless of financial grants allocated for the displaced families where they became citizens taunting amounts of money to the financial grants regardless where corruption has become widespread in every society. The New York Times confirms that they found the amount of \$1.6 billion in the cellar in Beirut has stolen after the US occupation. In addition, Stevered Bowen (the US special inspector in Iraq Reconstruction), in the Middle East newspaper revealed that the large amount of public is wasting in Iraq due to corruption. He

informed about it to Prime Minister Nuri al-Maliki, but he did not take any action against it, but merely to express his anger (Ibrahim, 2014).

Abdul Basit Turki (the vice president of the Iraq Central bank) said that "Iraq is losing \$800 million a week as a result of money laundering. Meantime, he also confirmed that the former defense minister Hazem Shalon and his deputy Ziad Al Qazban involved someone else in the theft and money laundering smuggled out of Iraq. The amount of that laundered money was around \$1.2 billion. He further confesses a telephonic conversation with Bayan Jabr about stealing part of the money in conjunction with the current government officials (Ibrahim, 2014).

Law of the Central Bank prevented carrying amount of more than 10,000 dollars when traveling out of Iraq. Though, the tuning head of the financial regulatory system (Ala Jawad al-Saadi) himself get caught while traveling with more than \$10,000 to go to the Hajj (we do not know what is the point of disbursement of these large sums of money in the Hajj). However, he succeeded to convince airport officials to let him go with this amount. The act to allow derail the amount of more than ten thousand dollars through the airport and most of it enters the field of money laundering by applicable laws (Iraq Central News, 2014).

There are four trade zones in Iraq that called free trade zones (FTZs). These zones known as: Felefil zone, the seaport of Basra/Khor al-Zubair, al-Qaim, and Naynewa Zakho area. These all zones are located in different provinces of Iraq and one of them is Western al Anbar. The trade operations performed under these trade zones, do not charge any sort of amount, tax or additional fee on traders. This is mainly the reason why they called free trade zones of Iraq. The figure 3 below indicates the trade

balances ratio from import and export of Iraq via this trade zones (Trading economics, 2014): The exchange rate is: 1\$ = 1200 IQD at the publishing date.

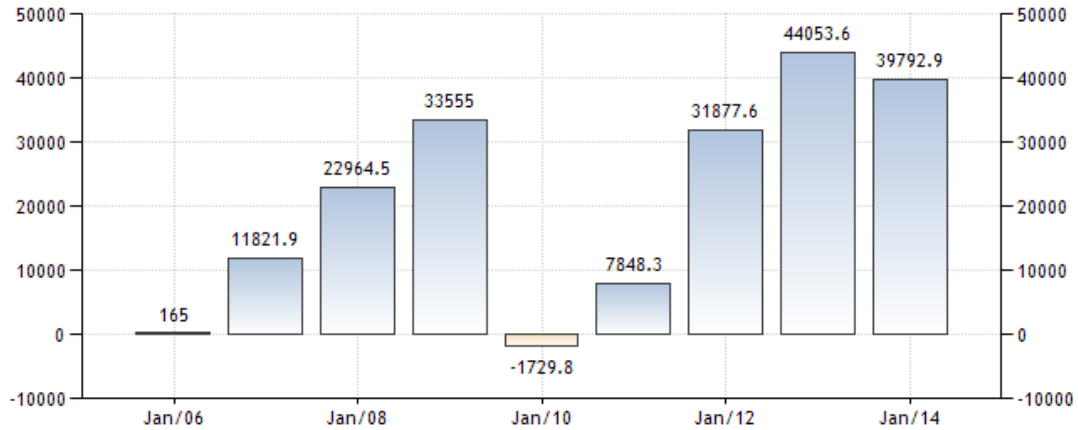


Figure 3: Iraq's Balance of Trade 2006-2014

According to the authority law of these zones, goods imported or exported from these zones will enjoy the benefit of tax and cost free services. Although, the projects that invest or generate profit or capital under these FTZs will never be charged throughout the entire project, even in their development and fundamental stages. The value of goods transferred is also a substantial issue, not just for Iraq but also for other nearest regions. The new custom rules development and implementation is still in progress in Iraq (U. S department of state, 2014).

A famous Iraq's financial news site (Iraq Central News) published about the financial yearly budget of Iraq. The news claimed that there is still no any official declaration about the 2014 budget, even though the 2014 is about to end. Iraq's has reserved money development at the beginning of the year 2013, that was approximately 18 billion, and nearly the end of 2013 it became 10 billion, and in the August 2014 became 6 billion and a month later it decreased to 3 billion. The Finance Committee's

comments saying that the budget is now almost empty and they did not even pay anything for any of its provinces. News further states that a street in the London is known as Iraqi rich owners' street. The most of the population of this street is none other than the ministers of Iraq, this is the sign of misuse of government money and nobody even pay any concern about it. Right since 2006, there is no any record of budget utilization, no one from ministry performed the ending account at the end of the year and no any document exist that shows the cash flow, to evaluate which amount spend on what and by whom? Thus the question is that where the whole money went? There is no any record of it. Also, budget planning and declaration is not taken as a serious operation that also suspect money laundering activities in Iraq (Herak, 2014).

3.3 Policies and control measures to reduce money laundering

3.3.1 Board of Supreme Audit (BSA)

The board of supreme audit is the one of impressively and powerfully reputable foundation of Iraq. The main objective of this institution was to check appropriately where the public funds are going to be used and make their use effective for public also the institute was responsible for raising the effectiveness of the organization, carrying out the inspection of different public sectors and also ensuring consistent improvement in the audits. Along with other responsibilities, it was tasked to improve the principles of management to raise them to the international level and raising the highly professionals of auditing and accounting. It passes on or submits possible violations to the Inspector General or the Commission of Integrity (UNODC, 2012).

The commands of the board of supreme audit have assorted all through its history and were last customized between 1990 and 2011 (Federal Law 31). This board has many

limitations, but even though these restrictions, this board is considered to be a strong organization in Iraq (Open Budget Initiative, 2012).

3.3.2 Role of Inspector General

The other well-known part of the Iraqi institutional structure which makes this structure unique is the inspector generals. The inspector general's come in form in the course of the CPA Order 57 in 2004. The main purpose or their duty is inner supervision inside the Iraqi ministry. They are completely independent, so can they perform proper audits, analysis and performance assessment. The inspector generals are playing very important role to raise accountability and honesty also identifying frauds, misuse and disobedience of all kinds. The function of inspectors general was strong against corruption. They also have the power to send these serious cases for further investigation and action to the police forces (UNODC, 2012).

The ministries of Iraq have not accepted this role and position of inspector general's so easily and open heartedly they have been seen raising many problems with them just like American 'spies' did in American history.

3.3.3 Joint Anti-Corruption Committee

Another big institution having the objective of managing anti-corruption structure was created in 2008 named The Joint Anti-Corruption Committee was also tasked to share information and supervising all the national Anti-Corruption Policy. It Is directed by the Secretary General of the Council of Ministers.

4.3.4 Parliamentary Committee

The parliamentary board in charge of corruption issues keeps an eye or observing the errors of the various anti-corruption bodies. Still, no standard explanation of its scale of competence or independence could be found.

3.3.5 Judiciary

The legal power in a number of areas is separated from the administration of law and is measured self-regulating in practice. On the other hand the judges of Iraq have been facing increasing sectarian and political stress and pressure. Concerning corruption cases in the last few years, even they face physical intimidation (ICG, 2011). This has made the great difficulty even in those cases where there is very strong evidence against criminals (Freedom House, 2012).

While the present chief justice at the same time leads the Iraqi Higher Judicial Council, the Federal Supreme Court and the Federal Court of Cassation. The chief justice seems to maintain justice and will be benefited for this fairness and professionalism. This kind of division of power in the judiciary is upsetting (Bertelsmann Foundation, 2012).

Moreover, surveys advise that the judiciary is lying face down to corruption, according to the Transparency International's Global Corruption Barometer (Transparency International, 2011) almost 49% nationals who were connected to courts said that they did corruption. Furthermore, these bribery issues it is seemed that judges face the other problems like community facing slow, troublesome bureaucratic actions and comparatively inexperienced personnel. In public society, it was greeted as a success by Iraqi NGOs as it elevated prior limitations. Yet, the government of Iraq planned a new law in near the beginning of 2013. That would give it excessive decision to limit freedom of assembly. The lack of civil society participation in anti-corruption efforts is challenging, as it deprives the Iraq's integrity system of the vital role of civil society in checking of anti-corruption efforts, providing non-

governmental guidance and endorsements, holding the government responsible, and raising awareness and supporting for truthfulness in Iraq (Bertelsmann Foundation, 2012).

3.3.6 The Central Bank of Iraq

The Central bank of Iraq also plays its role to control money laundering, in order to achieve this aim it is working with Anti-Money laundering office. This office is associated with the governorship of the bank and responsible to create policies and directives to make sure the compliance of banks and money transfer and exchange organizations with anti-money laundering law. The Central bank distributes lists of rules regulations for the financial institutions on a periodic basis to make them act accordingly to avoid criminal activities. The Central bank also performs audits at financial institutions. The United Nations Security Council produces a list of organizations and financial institutions that need to be monitored against transactions, the Central Bank of Iraq also provide this list to its financial institutions. Financial Institutions are obligated under Central Bank to act as (Hassan A. , 2014):

- Customer identity verification.
- Identification of the beneficial owner of the funds.
- Advance verification of the purpose and the nature of the transaction.
- The obligation to report suspicious transactions over 2 million Dinars.
- Report generation if the transaction amount is over 15 million Dinars.
- Report generation on if currency transfers over 15 million Dinars.

The figure 4 below shows the total assets, liabilities and equities of CBI at the end of 2013:

<i>In millions of IQD</i>	Note	2013	2012
Assets			
Gold reserve	8	1,903,205	1,860,236
Cash and balances with central banks	9	20,835,296	14,302,088
Balances with banks	10	14,059,312	10,469,338
Held to maturity investment securities	11	51,093,138	50,773,153
Due from Ministry of Finance	12	2,755,519	3,155,520
Foreign currencies investments at International Monetary Fund	13	3,944,023	4,140,272
Property and equipment	17	144,191	119,746
Other assets	14	420,666	421,854
Total Assets		95,155,350	85,242,207
Liabilities and equity			
Liabilities			
Currency issued	15	40,630,036	35,784,805
Treasury bills issued	16	943,166	745,471
Deposits of local and governmental banks	18	42,210,246	34,790,945
Due to foreign governments and banks	19	18,375	22,471
Due to International Monetary Fund	20	3,825,566	3,870,733
Balances due to governmental institutions	21	2,020,541	6,857,796
Other liabilities	22	44,862	36,762
Total liabilities		89,692,792	82,108,983
Equity			
Capital	23	100,000	100,000
General reserve	23	2,069,144	474,511
Emergency reserve	23	517,286	118,628
Revaluation of gold reserve	23	(85,890)	446,794
Retained earnings	23	2,862,018	1,993,291
Total equity		5,462,558	3,133,224
Total liabilities and equity		95,155,350	85,242,207

Figure 4: Financial Statement of CBI 2012-2013 (The exchange rate is: 1\$ = 1200 IQD at the publishing date).

Chapter 4

METHODOLOGY

This study is an exploratory review of money laundering effects on the economy of Iraq. The Iraq financial market has lots of potential for investors, right since the beginning of the banking sector. The Financial Action Task Force (FATF) describes money laundering as “A process of criminal belongings to cover up their illegitimate origin”. Besides undermining the country’s economy by increasing criminal activities, money laundering directly affects the countries internal structure. ML destroys the integrity of financial institutions and investors. To analyze the impact of ML specifically on the Iraq’s economy, qualitative research approach has been used (FAFT, 2012).

To perform this study a descriptive study analysis has been done, which include: detail review of various money laundering cases around the world and the main causes of its occurrence and motivation factors. To fulfill the purpose of the study mainly the impact of money laundering on a country’s most important in Iraq is being done. In order to recommend some anti-money laundering techniques various adopted policies to overcome on this issue has also been reviewed.

Regarding Validity, this study tried to ensure the internal validity of its conclusions. Internal Validity means that the study is able to fulfill study purposes and achieve all its objectives.

4.1 Data Collection

Data collected in this study are from different sources, however, during the collection process, the focus was mainly on Iraq banks and ML related cases. The most of the data were taken from “Iraq Business News” website that contains old and current updates regarding all Iraq business sectors including government role and the banking sector as well. Other sources were some scholarly articles written by world renowned authors about ML, this was done to see what sort of impacts ML had on other country’s economy.

4.2 Choosing Data: Underlying Reasoning

The main reason of examining the money laundering issue in Iraq is its high rate. According to Iraq Business News site on 23rd Aug 2013 the estimated ML amount was in the billions. The major political and economic circle of Iraq has affirmed the existence of extensively active money laundering operations. It is being said that it all happened due to weak monitoring system and political conflicts in Iraq. It’s also been talked that laundering of Syrian money should be validated before, it also pointed Iraq’s role in this issue.

As the main purpose of collecting data was to examine all these factors that directly impact on Iraq’s economy, thus in order to collect relevant data authentic sources of information were the major concern here. Anti-money laundering policies of different countries also been considered in data collection to discourage the causes of ML in Iraq.

4.3 Sources of information

As it was mentioned above, in Methodology, this Dissertation has more concern with real life cases of money laundering. During data collection it has been ensured that the sources are authentic and collected information is accurate. In this regard, data issued by public and international authorities have been chosen. Somehow, data was also used from previously done journal and scholarly articles.

4.4 Data Collected

All the data collected is presented in chapter 2 as literature review, in chapter 4 as data analysis and in the form of recommendations in chapter 5.

4.5 Data Validation

To assure the validity of collecting data, the next section of study is presented is a data analysis format to see the findings, outcome and final driven point that also asses in creating some useful recommendations to get rid over this ML situation in Iraq.

Chapter 5

FINDINGS & RECOMMENDATIONS

The phenomena called money laundering have been affecting the economies of different countries including Iraq. This process is considered illegal in the entire world and is carried out by a number of vehicle crimes. No one is allowed to possess black money and is totally forbidden by the regulations authorized of different countries due to the fact that Such kind of money is earned by unfair means, i.e. through fraud or robbery, cheating and possessing the black money means working against the law. The vehicle crimes are increasing day by day and becoming one of the major sources of money laundering. This can have a negative influence on the economy of any country. So the policy makers, experts and skillful people are needed to control such kind of dangerous crimes.

Ibrahim Nafee who is one of the famous Egyptian chief news editors explained that there are a number of factors which are affecting the national security in Iraq. Some of the important factors like bribery, tax evasion, money laundering and corruption have more negative impact on Iraq's national security. In his view, Iraq is already facing the threats like terrorism, military conflicts or issues as well as political crimes and economy crimes.

It has been observed and verified from the above research that the process of money laundering as well as such kind of other crimes were not known by the people and were limited in the nineties. It became familiar in Iraq at the times when productive

sector was not capable of producing enough goods and services for the people so their attention got diverted towards smuggling oil or other commodities from Iraq. By keeping in mind the situation in Iraq in 2003, when Iraqi government wasn't present and all the institutions were accompanied with the banks then illegal activities like robbery, smuggling, money laundering, and others came into existence. Money laundering became the routine business of people causing the highly negative side effects to the economy. Most of the money involved in the process of money laundering was earned via smuggling of machinery, oil, instruments, or through bank robberies. One has to admit that the money laundering has been at the peak in Iraq and many internal as well as external forces are supporting such illegal activities. This may be happening due to lack of policies, rules and legislations.

5.1 Money laundering effects on Iraq's economy

The money laundering phenomenon is leading towards the most negative impacts on Iraq's economy, they are as follows:

- **Weak national income**

Money laundering is causing the national income to get weakened because of lack of capital due to robbery of money from banks, smuggling the useful instruments to the other countries at lower prices.

- **Suspension of industrial projects**

Many useful industrial projects have been suspended for decreasing the productive capacity and savings as well as investments in the production sector. When the capital is smuggled to the other countries, then balance between savings and consumptions cannot be retained, that lead towards getting debts or loans.

- **Monetary instability**

Due to monetary instability in Iraq, people are saving their money and making investment in other countries which is affecting the economy negatively.

- **Fake products in market**

The income is not distributed equally and fake products and services are being sold in the markets in Iraq.

- **Social Impacts:**

The above mentioned are the negative economic effects of money laundering in Iraq.

It does have some social impacts also as follows:

- Destruction of social relations systems
- Raising the unethical issues in society
- Kidnapping men, women and children for sake of earning money
- Destruction of infrastructure
- Increase in poverty
- Low lifestyles and living standards
- Increase in bribery, corruption and social crimes
- Due to fake products being sold in Iraqi market is affecting the health and living standards of Iraqis.
- Introduction of different drugs in the society like drugs, alcohol, etc.
- Raining terrorism as well as social and economic insecurities.

5.2 Recommendation to overcome money laundering in Iraq

To have money laundering free economy, government needs to adopt some new strategies and take some mandatory actions that are as follows:

- The regularity authorities should focus on the laws, policies, regulations and should build systems to fight against money laundering.

- Judicial authorities and systems should give punishment to the guilty people.
- The policies should be made regarding the organization of banks as well as financial institutions in Iraq.
- The government should implement a tax system on free trade zones of Iraq with small amount of tax rate.
- The financial banks should be supervised by the central bank and financial laws have to be made by the authorities of the Central bank.
- Central Bank of Iraq should audit all financial institutions and banks on a periodic basis to control their activities.
- Banks should focus on the transparency of capital resources and should not be involved in illegal acts. The electronic services must be used by the banks.
- The financial transfers must be done electronically and owner should be given information about it.
- The bank clients receiving a big amount of deposits should be taken under consideration to know that either they are dealing with drugs or illegal activities or not.
- Banks must keep the proper record of money transferred outside the country (P.D.Balassam).
- The annual financial budget should be officially announced one month prior of the New Year and all counts must be closed in order to evaluate the expenses.
- Each politician's bank account should be checked before their joining; their all money transactions should evaluate and record during and before taking the position back.
- There should be record of each minister using budget amount, purpose and outcome of using the amount should also be documented.

- Companies with low insufficient business planning and proper documentation about their income resources or money transaction records should not be provided licenses by legal authorities.

An international body, known as FATF (Financial Action Task Force), responsible to create and implement any possible legal acts and operations to combat money laundering. FATF presents a series of recommendations which is equally useful for many countries to improve their financial system to avoid money laundering causes. In order to overcome the money laundering issue in Iraq, the Iraqi government can also adopt following policies presented by FATF (FATF, 2014):

- Every country should focus upon adoption and implementation of “Vienna Convention” but some of the laws may act as a hurdle in the implementation so these hurdles have to be eliminated first. The current law of the countries regarding the control of money laundering should include cooperation of various authorities, inspecting the money laundering crimes and tackling them as soon as possible.
- There should be a tight security on the borders so that money, goods or other material cannot be smuggled.
- Making a specialized body which has an authority to control the money laundering with the help of skilled staff who has technical, scientific as well as administering knowledge.
- Banning or controlling the electronic or print media in Iraq whose purpose is to distract the consumer’s thoughts.
- Seeking help from experiences of other countries and focusing on a specific policy
- Taking maximum benefit of media in developing the national culture.

- Joining hands and cooperating with other countries in the neighborhood to control the phenomena of money laundering.
- Developing and maintaining the surveillance for right supervision and focusing on different rules and laws to handle the illegal activity of money laundering.

Chapter 6

CONCLUSION

Quantifying effects of money laundering in Iraq are quite difficult, even though just an extent of money laundering is hard to assess. So far as after a deep review and analysis, it has been concluded that money laundering not only affecting the Iraq' national income, but also discouraging the financial and other industries to grow. Money laundering generates smuggled income that unbalances savings and consumption and increase loans and debts. It is the biggest threat to Iraq's national economy.

Political and economic Iraqi circles confirm the presence of extensive money-laundering operations in Iraq. Weak monitoring systems and political conflicts of interest, however, prevent the exposure of these operations. These same circles noted that talk of Iraq's role in the laundering of Syrian money needs compelling evidence to be substantiated.

Money-laundering operations are carried out under the auspices of key officials in the state or local government," adding: "They are smuggling money they have acquired through dubious deals and fake projects in a way that has gone unmonitored. They establish projects and buy real estate overseas, registering them in the names of their relatives. The 20% of Iraq's total investment budget is subject to money laundering. 10% comes from the value of any weighty contract a company [might] acquire. This

percentage is given to brokers, who are primarily representatives of governmental officials. Then, there is money paid by the parties that have been awarded the contracts in the form of [bribes] to support militias and armed groups.

Administrative and financial corruption is present in state institutions and cannot be tackled, except through legal measures that require evidence. Corrupt officials are modernizing their techniques by making use of the laws in their favor. Iraq does not overlook any information about money laundering. Cash circulation takes two courses; the first is outside the banking entity, while the second is within bank regulations, to legitimize these funds.

Monetary instability, fake goods production, low national income and industrial products' suspension are the most effective impacts of money laundering in Iraq. These effects are not just ruining Iraq's economy, but also affecting the social life by an increase in corruption and crime. The lack of government interest in this case has led it towards the serious consequences in Iraq. However, the Iraqi government is dealing this issue under anti money laundering AML law and claims to look after of financial institutions' activities to make sure their compliance with law rules. Although, AML act exists to control serious crimes and illegal money transfer in Iraq, but it still fails to overcome money laundering that shows its current structure is not effective enough. Thus, by modifying or drafting new AML, Iraq can strengthen its legal framework.

Iraqi ministries, investigators, judges and prosecutors should aggressively support AML act. Moreover, the lack of legislative control, ineffective compliance by the Central Bank of Iraq (CBI), and unsupportive behavior of Iraq's financial intelligence

unit and Money Laundering Reporting Office (MLRO) undermines Iraq's capacity to overcome money laundering and terrorist funding as well.

The CBI (Central bank of Iraq) is also not paying attention to look after MLRO the way it should, MLRO has enough staffing, which is not computer literate or trained, no technology equipment, and no any official application to store, receive and send data to concern reporting institutions. To transfer information to Iraqi and other foreign government agencies are a main task of MLRO and without an appropriate database it's not possible.

The Government of Iraq needs to ensure if MLRO have suitable resources and equipment and CBI support. Both official and unofficial financial sectors' regulation and management are still pretty restricted and its enforcement is subject to political restrictions that cause weak controls of the private sector.

Nevertheless, the above evaluations about the money laundering gives a clear picture that money laundering is an unchallenged matter in Iraq, which is not an ideal situation for its economy. It is gradually destroying Iraq' economic growth, decreasing productivity by diverting resources, reducing economy's international trade and capital flows to the detriment of long-term economic development and encouraging crime and corruption in the country. The existing Anti-Money Laundering Law is completely insufficient. The country's financial system needs a major renovation of its anti-money laundering system to meet the Middle East, Financial Action Task Force standards.

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