

“Following the Money Trail” to Combat Terrorism, Crime, and Corruption in the Americas

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Over the past decade, there has been a greater appreciation of how “following the money trail” directly contributes to the fight against terrorism, crime, and corruption around the world. Money serves as the oxygen for any activity, licit or illicit; it is the critical enabler for any organization, from international crime syndicates like the Mexican cartels to terrorist groups like the FARC, ISIS, and Hezbollah. Financial intelligence has helped governments to better understand, detect, disrupt, and counter criminal and terrorist networks and expose political corruption.

Since the September 11, 2001 terrorist attacks, the United States and its Latin American partners have strengthened their ability to combat money laundering and terrorist financing and consciously incorporated the financial instrument of national power into their national security strategies. “Following the money trail,” counterterrorism, and Drug Kingpin sanctions and asset forfeiture have become particularly important to attack narco-insurgencies, dismantle transnational criminal organizations (TCOs), and address political corruption scandals that have reached the highest levels of governments across Latin America.

This paper will focus on the threats from money laundering and terrorist financing, distinguishing the two, and explain government efforts to counter illicit financing. It will describe the ways illicit actors raise, move, store, and use money to pursue their dangerous agendas. Specific cases examining the FARC in Colombia, the 2015 fall of the Guatemalan government, and Brazil’s “Operation Car Wash” corruption scandal will illustrate how governments use financial intelligence to pursue terrorists, criminals, corrupt politicians, and their financiers

in Latin America. Finally, this paper will emphasize the need to design, implement, and constantly update national and international strategies to combat the financing of emerging threats like terrorism, crime, and corruption and to safeguard our financial systems.

Financing as the Most Critical Enabler of Illicit Networks

Illicit networks (terrorists, criminals, and their facilitators) require the following critical enablers to sustain their activities and realize their political or profit objectives:

- **Leadership.** Illicit networks need leadership that directs and manages resources to achieve their mission of political objectives or maximizing profits. Their leadership can be organized as hierarchies or, more likely, as loose networks of affiliates that diversify the “key man risk” associated with relying on a sole leader for command and control.
- **Personnel.** Illicit networks must recruit and maintain personnel to support all aspects of their activities.
- **Illicit activities.** Illicit networks can engage in a broad spectrum of illicit revenue-generating activities including trafficking in narcotics, arms, humans, exotic wildlife, and contraband, as well as money laundering, cybercrime, extortion, and kidnapping for ransom.
- **Logistics and supply chains.** Illicit networks rely on global supply chains, commercial transportation, resources, and other logistical support to move material, personnel, and services from supply to demand points of their enterprises.
- **Weapons.** Illicit networks use force or the threat of force to dominate their operating areas; therefore, access to weapons and the ability to deploy them make illicit networks so violent and lethal.
- **Technology and communications.** Illicit networks diligently adopt new technology and communications methods to avoid detection by security forces and monitor and adapt to changes in their areas of operation.
- **Corruption.** Illicit networks enjoy operating in ungoverned or weakly governed spaces where state control and oversight are lacking or can be compromised. While they may not necessarily aspire to topple governments, they seek out officials vulnerable to corruption who can facilitate illicit activities in certain geographic areas.
- **Financing.** Illicit networks consider revenue as both a key objective in case of crime and an essential enabler for terrorism. Financing serves as the lifeblood for these networks and their illicit endeavors; they derive power from their wealth and use it to corrupt and co-opt rivals, facilitators, and/or government and security officials.¹ Since all the other critical enablers require funding, financing is the most fundamental enabler of illicit networks.

¹ Celina B. Realuyo, “The Future Evolution of Transnational Criminal Organizations and the Threat to U.S. National Security,” *The Shifting Human Environment: How Trends in Human Geography Will Shape Future Military Operations*, Paul T. Bartone & Mitchell Armbruster, Editors, Defense and Technology Paper 107, National Defense University Press, May 2015, <http://ctnsp.dodlive.mil/2015/05/06/dtp-107-shifting-human-environment-how-trends-in-human-geography-will-shape-future-military-operations/>



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THE NATURE OF THREAT FINANCE: MONEY LAUNDERING VS. TERRORIST FINANCING

Threat finance encompasses money laundering and terrorist financing by illicit networks and endangers the integrity of financial systems around the world. Rogue states, terrorists, proliferators, drug kingpins, and other illicit actors engage in money laundering and terrorist financing to realize their evil agendas; therefore, it is imperative to stop the flow of blood money. While terrorist financing and money laundering may have different objectives, they share similar tactics that abuse international financial systems.

As stated in the 2011 U.S. Strategy to Combat Transnational Organized Crime (TOC), the political reach and financial power of TCOs allow them to corrupt governments, undermine state stability and sovereignty, subvert and degrade democratic and financial institutions, and threaten strategic markets and the global financial system. The participation of organized criminals in licit markets undermines legitimate competition and market reliability and transparency. The laundering activities of these illicit organizations and their use of violence, fraud, and corruption create an unfair competitive advantage for them that drives out honest businesspeople, while also distorting and possibly destabilizing strategic markets. This is particularly threatening because of the entry of TOC-linked businesses into sensitive markets such as energy, telecommunications, and precious metals.

In 2012, Director of National Intelligence James Clapper stated, “terrorists and insurgents will increasingly turn to crime and criminal networks for funding and logistics, in part because of U.S. and Western success in attacking other sources of their funding.” This relationship is frequently referred to as the convergence of terrorism and crime illustrated by groups like Lebanese Hezbollah, Al Qaeda in the Islamic Maghreb, the FARC in Colombia, and ISIS. Transnational organized crime seeks to maximize profits but also undermines the integrity of

the interconnected trading, transportation, and transactional systems that move people and commerce throughout the global economy and across our borders.

Money Laundering

The U.S. Treasury Department describes money laundering as financial transactions in which criminals, including terrorist organizations, try to disguise their identities and the proceeds, sources, or nature of their illicit activities. Money laundering facilitates a broad range of serious crimes and ultimately threatens the security of the financial system. It is the process of making financial proceeds from illicit activities appear legal through three stages:

- 1. Placement.** In the initial stage of money laundering, the launderer introduces his “dirty” illegal profits into the legitimate financial system. This might be done by breaking up large amounts of cash into smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (checks, money orders, etc.) that are then collected and deposited into accounts at another location.
- 2. Layering.** After the funds have entered the financial system, the second 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 sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.
- 3. Integration.** Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage, in which the now “clean” funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.²

Terrorist Financing

Terrorist financing refers to the processing of funds to sponsor or facilitate terrorist activity. A terrorist group, like any other criminal organization, builds and maintains an infrastructure to facilitate the development of sources of funding, to channel those funds to the providers of materials and/or services to the organization, and possibly, to launder the funds used in financing the terrorist. Terrorists derive income from a variety of sources, often combining both clean and dirty funding. Terrorist financing can be grouped in two types:

- 1. Financial support.** Support is in the form of donations, community solicitation, and other fundraising initiatives. Financial support may come from states and large organizations or from individuals.

² U.S. Department of Treasury, “Resource Center: Money Laundering,” <http://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/Money-Laundering.aspx>

- 2. Revenue generating activities.** Income is often derived from criminal activities such as kidnapping, extortion, smuggling, or fraud. Income may also be derived from legitimate economic activities such as diamond trading or real estate investment. The Colombian FARC and Peru's Shining Path relied on the lucrative cocaine trafficking business to sustain their narco-insurgencies for decades.

As demonstrated, criminal and terrorist financing are similar in that they often exploit the same vulnerabilities in financial systems that allow for anonymity or disguise in financial transactions. Illicit actors' activities can be categorized into operational and support activities. Operational activities include surveillance and reconnaissance, rehearsal, final preparations, and execution of the actual illicit activity (e.g., a terrorist attack, cybercrime, or drug deal). Support activities entail security, propaganda or marketing, recruitment and retention of personnel, fundraising, procurement, transportation and travel, safe havens, multiple identities, communications, money services, and training. All of these activities require financing. In the case of terrorism, while the actual cost of a terrorist attack may only be in the thousands of dollars, developing and sustaining a terrorist network requires millions of dollars.

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MONEY LAUNDERING AND TERRORIST FINANCING METHODS IN THE AMERICAS

Financing is essential for any organization and its activities. So how do illicit networks raise, move, hide, and spend their money? While money laundering disguises identities and origin of funds obtained through illicit activities, terrorist financing does not always involve "dirty money," which poses significant challenges to the intelligence and law enforcement communities. The attacks of September 11, 2001 showed how Al Qaeda exploited the international financial system to fund its preparations for and execution of their terrorist operation that cost some \$500,000 and claimed 2,996 lives.

Since 9/11, terrorist and criminal groups have turned to a different funding sources and mechanisms to move or hide funding to circumvent heightened government vigilance and the oversight of traditional banking. Methods of money laundering and terrorist financing include: the banking system, cash couriers, bulk cash smuggling, money services businesses, alternative remittance systems, prepaid or store of value cards, trade-based money laundering, mobile or internet payments, virtual currencies, non-profit organizations, donors, and front companies. The most prevalent methods used by illicit networks in Latin America, namely banks, bulk cash smuggling, trade-based money laundering, and prepaid cards will be examined below.

Traditional Banking/Wire Transfers/Money Services Businesses

Banks remain a popular mode of money laundering and terrorist financing for their convenience, reliability, and the sheer volume of daily transactions that are impossible to monitor completely. Mexican TCOs are estimated to move between \$19 and \$30 billion dollars illegally per year. While illicit trafficking is a predominantly cash business, Mexican cartels still use traditional banks, money services businesses, remittances, and *casas de cambio* (currency exchange houses) to launder their income. Perhaps the most infamous case to date of money laundering through banks in the Americas is that of HSBC, one of the world's largest banks. Mexico's Sinaloa cartel and Colombia's Norte del Valle cartel used HSBC to launder some \$881 million, according to the U.S. Justice Department. Moreover, HSBC-Mexico was allowed to transport \$7 billion in U.S. currency to HSBC-U.S. between 2007 and 2008, raising suspicions that the money came from illegal drug sales, according to a U.S. Senate investigation.³ HSBC failed to address a massive backlog of over 17,000 alerts identifying suspicious activity, to file timely suspicious activity reports with U.S. law enforcement, to conduct any due diligence to assess risks to HSBC affiliates before opening correspondent accounts for them, and to practice any anti-money laundering of \$15 billion in bulk cash transactions from those affiliates.

This investigation resulted in a record \$1.92 billion in fines paid by HSBC to U.S. authorities in 2012 for being used to launder Mexican drug money and other banking lapses. In 2008, for example, the CEO of HSBC-Mexico was told that Mexican law enforcement had a recording of a Mexican drug lord saying that "HSBC-Mexico is the place to launder money." Mexican traffickers used boxes specifically designed to the dimensions of an HSBC Mexico teller's window to deposit cash on a daily basis.⁴ The case of HSBC illustrates how international drug trafficking organizations were openly using the formal banking system to launder their income; this prompted international banks to enhance their anti-money laundering and compliance efforts for fear of stiff punishment and fines by government authorities.

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Once the banking sector implemented tighter measures to fight money laundering and terrorist financing, these actions had an unexpected but constructive side effect; it uncovered political corruption. Mexico strengthened its anti-money laundering regime to combat the Mexican drug cartels. Some of these "follow the money" measures, including tracking suspicious bank transactions, resulted in the February 26, 2013 arrest of the most prominent

³ Brady Denis, "Senate report criticizes HSBC for inadequate internal controls," *Washington Post*, July 16, 2012, https://www.washingtonpost.com/business/economy/senate-report-criticizes-hsbc-for-money-laundering-inadequate-monitoring/2012/07/16/gJQABhqXpW_story.html?utm_term=.a23c7ae67be8

⁴ Aruna Viswanatha and Brett Wolf, "HSBC to pay \$1.9 billion U.S. fine in money-laundering case," *Reuters*, December 11, 2012, <http://www.reuters.com/article/us-hsbc-probe-idUSBRE8BA05M20121211>



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teacher union leader in Mexico, Edna Esther Gordillo, on corruption and embezzlement charges. According to Mexican Attorney General Jesus Murillo Karam, investigators from Mexico's treasury found that more than \$200 million had been diverted from union funds into private bank accounts abroad (including some managed by Gordillo) between 2008 and 2012.⁵ The bank transfers between Mexican, European, and U.S. banks initially appeared to be drug trafficking-related money laundering. It was discovered that Gordillo was living extravagantly with significant real estate holdings in Mexico City as well as two luxury properties in Coronado, California. Mexico's Financial Intelligence Unit determined union funds were used to pay for \$3 million of Neiman Marcus shopping charges on Gordillo's account and more than \$17,000 for bills to plastic surgery clinics and hospitals in California.⁶ The Gordillo case shows how financial forensics, intended to pursue drug traffickers and terrorists, are yielding promising results in the fight against corruption.

Cash Couriers/Bulk Cash Smuggling

Despite newer methods to move money, paper currency is still regarded as the dominant and preferred mode of payment across the globe, especially for TCOs. Bulk cash smuggling is a money laundering and terrorism financing technique designed to bypass financial transparency reporting requirements. It usually occurs in U.S. Dollars and Euros that are widely accepted as international currency and can always be converted. There is often no paper trail, no third party such as a bank official to become suspicious of the transaction, and the terrorist or criminal can control the movement of that money. Physically, cash can be large, heavy, and difficult to conceal. One million one dollar bills weigh just over one ton, and one million dollars in \$100 dollar bills weighs about 22 pounds. DEA (Drug Enforcement

⁵ Catherine E. Shoichet, "Mexican union leader accused of embezzling millions," CNN.com, February 26, 2013, <http://www.cnn.com/2013/02/26/world/americas/mexico-union-leader-arrested/index.html>

⁶ Sandra Dibble and Lily Leung, "Suspicious Home Purchase Went Unnoticed Suspicious Real Estate Sales Tough to Track," UT San Diego, March 24, 2013, <http://www.utsandiego.com/news/2013/mar/24/tp-suspicious-home-purchase-went-unnoticed/>

Administration) reports that currency traffickers often use trailers and human couriers, sometimes camouflage boxes of cash by placing them alongside product containers, and transport cash in bulk across the border via vehicle, vessel, or aircraft.⁷ According to the FBI, some of the September 11, 2001 Al Qaeda hijackers allegedly used bulk cash as one method to transfer funds.

Bulk cash seizures in the U.S. totaled \$798 million from January 2008 through August 2010, mostly related to drug trafficking cases involving Mexican-based TOCs, according to the U.S. National Drug Intelligence Center (NDIC). Most seizures of illicit funds occur in California, New York, and Florida, and U.S. authorities made 4,000 bulk cash seizures in 2014 totaling more than \$382.2 million. In August 2016, U.S. border agents detained two men, a Mexican and a U.S. citizen, driving two vehicles in tandem carrying over \$3 million in cash in northern San Diego County en route to Mexico. This represented the largest case of cash interdiction to date in southern California.⁸ While U.S. counternarcotics strategies focus on drug interdiction efforts, they now track the money from illicit trafficking that empower the TOCs to control global supply routes and corrupt government authorities. As a result, U.S. agencies, including the DEA and the Department of Homeland Security, and their Mexican counterparts, continue to aggressively pursue the detection and disruption of bulk cash smuggling operations.

Trade-Based Money Laundering

Trade-based money laundering is the movement of illicit funds through commercial transactions and organizations that are and/or appear to be legitimate. Criminal groups take advantage of the complexity and vulnerabilities of the international trade system to launder illicit funds and move them into legitimate markets. Trade-based money laundering includes misrepresenting the price, quantity, or quality of trade goods by over and under invoicing, multiple invoicing, over and under shipment of goods, and falsely describing the goods traded.⁹ Due to the prevalence to free-trade agreements like NAFTA, and with Colombia and Panama increasing currency controls, the risk of money laundering through trade-based money laundering is increasing and of concern.

The “black market peso exchange” (BMPE) is regarded as the most commonly used money laundering method among Colombian and Mexican transnational criminal organizations that need to convert their U.S.-dollar proceeds into Colombian and Mexican pesos to fund their operations. In BMPE, a peso broker works with an individual engaged in illegal activity, such as a drug trafficker, who has currency in the U.S. that he needs to bring to a foreign country, such as Mexico or Colombia, and convert into pesos. The peso broker finds business owners in the foreign country who buy goods from vendors in the United States and who need dollars to pay for those goods. The peso broker arranges for the illegally obtained dollars to

⁷ Ibid.

⁸ Mimi Yagoub, “‘Largest Ever’ Cash Seizure Made on US-Mexico Border,” InsightCrime, August 30, 2016, <http://www.insightcrime.org/news-briefs/largest-ever-cash-seizure-made-on-california-mexico-border>

⁹ Rena S. Miller, Liana W. Rosen, and James K. Jackson, “Trade and Finance Trade-Based Money Laundering: Overview and Policy Issues,” *Congressional Research Service Report*, June 22, 2016, <https://fas.org/sgp/crs/misc/R44541.pdf>

be delivered to U.S.-based vendors, such as the stores in the Fashion District in Los Angeles or Miami, and these illegally obtained dollars are used to pay for the goods purchased by the foreign customers. Once the goods are shipped to the foreign country and sold by the foreign-based business owner in exchange for pesos, the pesos are turned over to the peso broker, who then pays the drug trafficker in the local currency of the foreign country, thus completing the cycle.

In 2014, Colombian authorities noticed a noticeable increase in imported clothing and footwear from countries with free-trade agreements. Smugglers had relied on free-trade agreements on textiles among Colombia and Mexico, Honduras, Ecuador, Peru, and the United States to import products from Asia without being taxed on imports.¹⁰ By buying Asian products in Los Angeles and then selling those products in Colombia, smugglers converted illicit cash into legal-looking revenue to hide cash smuggling from authorities. The Asian products appeared to be from the United States rather than Asia, allowing smugglers to avoid tariffs on trade to decrease potential money losses.¹¹ On September 10, 2014, the Department of Justice and FBI launched an operation in the Los Angeles Fashion District with approximately 1,000 law enforcement agents executing dozens of search and arrest warrants. In the operation known as “Operation Fashion Police,” the authorities arrested nine defendants and seized about \$65 million in cash from international banks as part of the investigation.¹²

Mexican and Colombian cartels have gone “global” using companies and financial institutions in Hong Kong and mainland China to launder the proceeds of their drug trade, according to the U.S. government in 2015. Three Colombian nationals (Henry Poveda, Christian Duque-Aristizabal, John Jairo Hincapie-Ramirez) are accused of running a worldwide money laundering operation, based in Guangzhou, which saw at least \$5 billion in Colombian drug proceeds from the United States, Mexico, Colombia, Panama, Guatemala, and Canada—as well as parts of Africa and Europe—“cleaned” in China. They used Chinese casinos, currency exchange houses, export companies, and factories to receive billions of dollars. The money moved through accounts in Hong Kong and China and eventually was used to purchase products, often counterfeit consumer goods shipped to Colombia and other countries, U.S. prosecutors said. Mexican cartels like Sinaloa and Jalisco New Generation are making huge profits selling

Mexican and Colombian cartels have gone “global” using companies and financial institutions in Hong Kong and mainland China to launder the proceeds of their drug trade.

10 “Así ingresaba a Colombia textiles de contrabando el cartel de Sinaloa,” *Portafolio*, July 27, 2016, <http://www.portafolio.co/economia/cartel-de-sinaloa-ingresaba-textiles-de-contrabando-a-colombia-499121>

11 Ibid.

12 Melissa Pamer, Eric Spillman, and Chris Wolfe, “Millions in Cash Found in L.A. Fashion District Takedown of Alleged Drug-Money Laundering Operations,” www.ktla.com, September 10, 2014, <http://ktla.com/2014/09/10/feds-raid-l-a-s-fashion-district-in-drug-money-laundering-probe-2/>

cocaine in Hong Kong and the Asia-Pacific market.¹³ As a result, Chinese financial institutions are becoming major launderers of illicit proceeds and are under increasing scrutiny.

Law enforcement agencies are aware of these trade-based money laundering methods, but due to the total volume of international trade, legal and otherwise, it is impossible to screen and detect fraud in every transaction. Unfortunately, not only do trade-based money laundering schemes aid illicit actors, but they also harm local economies. When criminal groups flood a market with their imported goods, they will sell the product at a loss to expedite the sales. The lower prices undercut legitimate businesses that are trying to make a profit for legitimate motives. This also robs local and state governments of the tax revenue they would have received if the goods were taxed at the normal price or if proper tariffs and duties were applied.¹⁴ Therefore, trade-based money laundering not only aids and abets illicit actors but it hurts the economy.

Prepaid Cards

Prepaid cards have become part of our daily lives replacing cash not just for consumers but for criminals as well. They are a convenient means of transferring and carrying value without the paperwork and background checks necessary for debit and credit cards for consumers; issuers and retailers love them because they attract customers, particularly those without bank accounts, often due to their lack of legal identification. Prepaid cards come in two varieties. “Open loop” cards carry credit card company logos and are re-loadable. Gift cards that can be used at specific outlets are known as “closed loop” cards. In 2015, Americans loaded \$623 billion onto gift and prepaid cards across the country. Criminals find prepaid cards very convenient, since many can be loaded and reloaded with minimal oversight and maximum anonymity and can be carried legally across the border without being declared or seized. The U.S. Internal Revenue Service has declared prepaid cards “the currency of criminals.”

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The U.S. Department of Justice estimates that in 2009, \$24 billion in bulk cash was smuggled across the U.S.-Mexican border, and prepaid cards were a part of that.¹⁵ Some cards can process tens of thousands of dollars a month. Just load them up in Connecticut or Texas with, for example, the proceeds of cocaine sales and collect the cash in local currency from an ATM in Medellín, Colombia, or elsewhere in Latin America. In one of the first cases of abuse of prepaid cards, Dallas-based Virtual Money Inc. provided the cards to crews who

13 Niall Fraser and Mimi Lau, “Colombian drug cartels used Hong Kong banks to launder more than US\$5bn,” *South China Morning Post*, September 11, 2015, <http://www.scmp.com/news/hong-kong/law-crime/article/1857155/laundry-ring-pumped-billions-drug-money-through-hong>

14 Rena S. Miller, Liana W. Rosen, and James K. Jackson, “Trade and Finance Trade-Based Money Laundering: Overview and Policy Issues,” *Congressional Research Service Report*, June 22, 2016, <https://fas.org/sgp/crs/misc/R44541.pdf>

15 “Drug Cartels Continue Money Laundering with Prepaid Cards, Amid Industry Pushback,” *Reuters*, August 10, 2016, <http://www.nbcnews.com/business/business-news/drug-cartels-continue-money-laundering-prepaid-cards-amid-industry-pushback-n627056>



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helped Colombian drug traffickers move at least \$7 million to Medellín during three months in 2006.¹⁶ In 2009, Colombian drug traffickers in the Philadelphia area were using prepaid cards to launder and carry their illicit proceeds. The cartels preferred the cards to the Black Market Peso Exchange because of the ease of movement and the more favorable rates once they exchanged the dollars for Colombian pesos. In 2011, John Tobon, deputy special agent in charge of Homeland Security Investigations in Miami, said prepaid cards could be used easily to pay couriers smuggling money, drugs, or other merchandise since large cash transactions come under greater scrutiny.¹⁷ Unfortunately, prepaid cards are still not considered monetary instruments and do not have reporting requirements to date in the United States even though there is a proposal to regulate them before the Congress.

COUNTERING MONEY LAUNDERING AND TERRORIST FINANCING IN THE AMERICAS

Money laundering and terrorist financing threaten the integrity of our international financial systems and fuel terrorism and crime. They can introduce economic distortions that affect economic growth, international trade, business competitiveness, money demand, capital flows, foreign investments, exchange rates, and securities markets. More importantly, money laundering enables criminals to sustain their networks and realize profits generated by their illicit activities, including political corruption, and can facilitate the financing of terrorism. This is why illicit financing is considered a threat to national and international security and must be addressed.

National Anti-Money Laundering and Counterterrorist Financing Measures

As described above, financing is the most vital enabler for terrorist and criminal networks. Therefore, financial intelligence and “following the money trail” are essential to better

¹⁶ “Criminals Using Prepaid Cards to Launder Money,” *Dallas Morning News*, May 22, 2011, <https://www.dallasnews.com/business/business/2011/05/22/criminals-using-prepaid-cards-to-launder-money>

¹⁷ “Drug Cartels Continue Money Laundering with Prepaid Cards, Amid Industry Pushback,” *Reuters*, August 10, 2016, <http://www.nbcnews.com/business/business-news/drug-cartels-continue-money-laundering-prepaid-cards-amid-industry-pushback-n627056>

analyze, detect, disrupt, and dismantle these illicit networks of terrorism, crime, and political corruption. Tracking how terrorists and criminals raise, move, store, and use money has been instrumental in degrading and defeating groups such as Al Qaeda Core, the Tamil Tigers (LTTE) in Sri Lanka, Lebanese Hezbollah, the FARC in

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Colombia, and more recently ISIS.¹⁸ Since the September 11, 2001 attacks, U.S. and Latin American governments have incorporated the financial arm of national power in efforts to combat terrorism and crime. The strategy to counter money laundering and terrorist financing has been deployed through three lines of action:

1. Intelligence and law enforcement operations against terrorist financiers and money launderers;
2. Public designations of terrorists or traffickers, sanctions, asset freezes and seizures;
3. Domestic and international training and capacity building in the counter-threat finance discipline for the public and private sectors.

To meet the requirements of UN Security Council Resolution 1373’s counterterrorism measures adopted on September 28, 2001, the United States and its Latin American partners had to build effective anti-money laundering and counterterrorism financing regimes to stem the flow of funding to terrorist and criminal organizations. These counter threat finance regimes include the following five key elements:

1. A legal framework that criminalizes money laundering and terrorist financing;
2. Regulation and oversight of the financial sector;
3. A financial intelligence unit that analyzes suspicious transactions;
4. Law enforcement investigations of money laundering and terrorist financing;
5. Prosecutions that bring money launderers and terrorist financiers to justice and asset forfeiture measures to seize their money.

All of these measures to counter the financing of terrorism and money laundering have also been useful in detecting and fighting political corruption in the Americas.

International Cooperation

Recognizing the interconnectedness of the global financial markets and their vulnerability to financial crimes, international cooperation is necessary to safeguard the world’s financial systems. The United States and its Latin American allies engage bilaterally, regionally, and

¹⁸ Celina B. Realuyo, “Following the Money Trail’ to Combat Terrorism, Crime and Corruption,” U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, <http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption>

multilaterally to combat money laundering and terrorist financing through the following initiatives:

1. Supporting the development of strong international standards to fight illicit financing and working towards robust implementation of them through the Financial Action Task Force (FATF) and the United Nations (UN) as well as other bodies;
2. Raising international awareness of the nature and characteristics of money laundering and terrorist financing;
3. Providing training and technical assistance to strengthen the integrity of the international financial system, given the global nature of money laundering and terrorist financing.¹⁹

One of the most effective multilateral organizations in countering threat finance has been the Financial Action Task Force (FATF). Established by the G-7 Summit in 1989, FATF sets global anti-money laundering/combating the financing of terrorism standards and ensures the effective implementation of these standards around the world. Global compliance with the standards reduces the illicit financing risks to the international financial system.²⁰ FATF monitors members' implementation of appropriate measures globally and is best known for its 40 Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing.²¹ Countries that were examined and failed to meet international standards were placed on the FATF Non-Cooperative Countries or Territories (NCCT) list and deemed jurisdictions of money laundering concern.²² This "name and shame" process and NCCT sanctions imposed impede a country's ability to do business in the international financial system and discourage foreign investment. To get de-listed, countries would have to take remedial steps to address their deficiencies ranging from amending anti-money legislation to reinforcing their bank regulatory regime. To address issues regionally, the Financial Action Task Force of Latin America (GAFILAT), formerly the Financial Action Task Force on Money Laundering in South America (GAFISUD), was established in 2000.²³ These measures and possible penalties have greatly improved countries' compliance with FATF recommendations to safeguard the international financial system.

Enhanced domestic and international anti-money laundering and counterterrorism finance measures have empowered governments to do significant damage to illicit networks. Governments have even been able to freeze and seize the assets of terrorists and traffickers. Over the past decade, Al Qaeda operatives and affiliates from Iraq to Afghanistan, FARC insurgents, and more recently ISIS fighters, complained about increased difficulty in

19 U.S. Department of Treasury National Terrorist Financing Risk Assessment 2015, <https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Terrorist%20Financing%20Risk%20Assessment%20-%2006-12-2015.pdf>

20 FATF website. http://www.fatf-gafi.org/document/52/0,3746,en_32250379_32236992_48468340_1_1_1_1,00.html

21 Ibid.

22 Ibid.

23 The 16 GAFILAT members are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.



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funding terrorist operations and supporting their networks. Similarly, transnational criminal organizations in the Western Hemisphere, like the Mexican cartels, realized that greater oversight of international banking and offshore accounts after September 11, 2001 complicated their ability to launder profits through the formal financial sector. “Following the money trail” and the surveillance of facilitators, like the bankers and lawyers moving and sheltering money for terrorist and criminal groups, produced critical financial intelligence that has degraded terrorist groups and international trafficking networks; in addition, it has exposed political corruption at the highest levels of government.²⁴ The three prominent cases from Guatemala, Colombia, and Brazil below demonstrate how governments in Latin America are fighting terrorism, crime, and corruption by “following the money trail” and recuperating ill-gotten assets.

Guatemala’s 2015 Political Corruption Scandal

Political corruption and fraud brought down the Guatemalan government of President Otto Pérez Molina and Vice President Roxana Baldetti in 2015. The scandal, known as “La Línea,” began in April 2015, when Guatemalan authorities arrested nearly two-dozen current and former government officials for customs fraud, including the head and former head of Guatemala’s customs agency, the Superintendency of Tax Administration (Superintendencia de Administración Tributaria—SAT). The Guatemalan Attorney General and International Commission against Impunity in Guatemala (CICIG) began investigations in May 2014 into the “La Línea” fraud network that lowered taxes on importers in exchange for financial kickbacks. The total network consisted of at least 64 members, and was headed by Vice President Baldetti’s former private secretary Juan Carlos Monzón Rojas. “La Línea” involved trade-based money laundering and customs fraud; importers paid millions of dollars in bribes to avoid huge customs tax payments.

How did “La Línea” operate? “La Línea” charged importers fees in exchange for fraudulently lowering the taxes on goods they brought into Guatemala. Non-SAT officials, like the

²⁴ Celina B. Realuyo, “‘Following the Money Trail’ to Combat Terrorism, Crime and Corruption,” U.S. Institute of Peace, International Network for Economics and Conflict, April 15, 2013, <http://inec.usip.org/blog/2013/apr/15/following-money-trail-fight-terrorism-crime-and-corruption>

importers and lawyers, were responsible for coordinating the imports and collecting the fees. Meanwhile, SAT officials would be notified which containers needed to be exempt from paying the required tax amount. The SAT's human resources director and various sub-directors ensured that corrupt container inspectors would examine these select containers. "La Línea" also corrupted the SAT union boss, ensuring that customs officials outside of the corruption network could be placed elsewhere without complaints. From May 2014 to February 2015, the CICIG estimated the network earned roughly \$328,000 per week. In September 2015, Salvador Estuardo González Álvarez, alias "Eco," an alleged top member of "La Línea," testified that President Pérez Molina and Vice President Baldetti earned the most in the kickback scheme, both receiving around 21.25% of all illicit proceeds.²⁵ This sophisticated customs fraud scheme and mass public anti-corruption protests resulted in the fall of the government with the former President and his Vice President now imprisoned and awaiting trial.

In addition to the "La Línea" scandal, the CICIG asserted in 2015 that Guatemala's political parties received half of their financing from corruption or from criminal groups. Politicians create corrupt networks sourcing illicit funds from kickbacks, fake public works contracts, and occasional alliances with local drug traffickers. Over the last few decades, organized crime groups—particularly those involved with narcotics trafficking—have infiltrated politics through money and violence. Meanwhile, wealthy elites and businesses have privately financed candidates and political parties to gain access to public resources and pursue special interests. Money collectors the CICIG calls "*recaudadores*" are responsible for handling dirty money within these networks, in order to influence both local and national politics.²⁶

Political outsider Jimmy Morales became Guatemala's president in January 2016. Voter outrage about corruption and military support helped the former comedian win the presidency against more experienced politicians who voters felt were tainted by a corrupt political system. President Morales pledged to root out corruption in Guatemala and extended the UN CICIG mandate; however, in January 2017, his own brother and son were arrested for suspected corruption and misuse of government funds.

Colombia's FARC Finances

Colombia's FARC (Revolutionary Armed Forces of Colombia) has been considered one of the world's richest terrorist groups and has been responsible for the longest armed insurgency in Latin America, thanks to the lucrative cocaine trade. After four years of negotiations, the Colombian government and the FARC reached an historic peace accord on August 24, 2016 to end the 52-year armed conflict that has left as many as 220,000 dead, 25,000 disappeared, and 5.7 million displaced. The peace accord includes five key elements:

²⁵ Michael Lohmuller, "Guatemala's Government Corruption Scandals Explained," Insight Crime, June 21, 2016, <http://www.insight-crime.org/news-analysis/guatemala-s-government-corruption-scandals-explained>

²⁶ State Department International Narcotics Control Strategy Report 2016, <https://www.state.gov/j/inl/rls/nrcrpt/2016/vol2/253400.htm>

1. Future political participation of FARC members
2. Rebels' reintegration into civilian life
3. Illegal crop eradication
4. Transitional justice and reparations
5. Rebel disarmament and implementation of the peace deal.

After the peace accord was rejected by less than one percent in a public plebiscite vote in October 2016, the Colombian Congress approved a revised version in December 2016. The disarmament and demobilization of some 7,000 FARC members is now underway. As part of the revised peace accord, the FARC and its members must provide an inventory of all their assets at the beginning of the process; these assets will be used to pay for reparations to conflict victims. But, where are the FARC's assets?

According to an unpublished study by Colombian government analysts, the FARC still had assets worth 33 trillion pesos (\$10.5 billion) in 2012, even after paying to maintain its fighters.²⁷ Unlike traditional drug trafficking networks, the FARC's illegal earnings, estimated at around \$400 million a year by InSight Crime, are generated and moved from the bottom up. The FARC's numerous fronts, mobile columns, and tactical units each generate their own revenue, and are expected to move the money up to bloc level to support the General Staff and Secretariat. In the case of powerful FARC drug trafficking fronts, these profits could be in the millions of dollars. This will increase the likelihood of self-sustaining FARC units breaking away from the FARC organization, turning their backs on the peace process, and continuing their illicit activities.²⁸

Financial analysts believe that much of the FARC's assets are invested inside Colombia, in transport companies, rural property, and even the stock market. Other assets have been hidden abroad, in Costa Rica, Venezuela, and Ecuador, as well as in Panama. Anti-money-laundering officers at Colombian companies fear that a share of this money will return to the country after the peace accord is signed. According to a survey conducted in 2015 by Lozano Consultores, a consulting firm, 61 percent of Colombian bank compliance officers felt unprepared to identify and report such cash to the government.

Since the peace deal was signed, the Colombian government has leveraged its asset forfeiture laws to identify and freeze known assets of the FARC associated with their illicit activities, like drug trafficking, extortion, and illegal mining. In October 2016, the Prosecutor General's Office confiscated six rural properties and four companies in the department of Vichada, valued at \$2 million, where illegal mining of tungsten and coltan was conducted by the dissident "Acacio Medina" Front. This illegal activity was legalized through a mining

27 "The FARC's Finances: Unfunny Money," *The Economist*, April 14, 2016, <http://www.economist.com/news/americas/21697008-government-may-never-get-its-hands-guerrillas-ill-gotten-gains-unfunny-money>

28 Mimi Yagoub, "First' Seizure of FARC's Illegal Mining Assets Could Worsen Dissidence," Insight Crime, October 26, 2016, <http://www.insightcrime.org/news-briefs/first-seizure-of-farc-illegal-mining-assets-could-worsen-dissidence>



Photo Credit: Shutterstock.com

title located in Cumaribo (Vichada), when in fact the tungsten and the coltan were extracted from the mine Cerro Tigre located in the natural park of Puinawai in Guainía. In this way they exported over 350 tons of minerals, valued at \$1.7 million, Colombia's top prosecutor explained that the FARC's illegal mining operations involved forcing indigenous people to sign "false receipts" that were linked to a fake export cooperative in the city of Medellín.

In February 2017, Colombia's Prosecutor General Nestor Humberto Martínez announced Colombian authorities seized \$98 million worth of FARC assets that likely derived from drug trafficking, extortion, or illegal mining. A joint operation between the Public Prosecutor's Office, the Armed Forces, the Police, and the Superintendent of Notaries led to the recovery of some 277 thousand hectares of the land, which had been in the hands of the FARC and dissident groups. This would be more than half of the FARC's total land property, considering President Juan Manuel Santos said earlier that the FARC owned approximately 500 thousand hectares.²⁹ These forfeitures of the FARC's assets are promising developments in order to fund reparations for the victims of the armed conflict and costly implementation of the peace accord.

Brazil's "Operation Car Wash" and Corruption Scandal

"Operation Car Wash" or "Lava Jato" is a money laundering investigation of bribes funneled through a gas station; since it opened in 2014, it has exposed Brazil's biggest multibillion dollar political corruption scandal. Petrobras, Brazil's state-run oil firm and Latin America's largest company until the scandal hit, inflated contracts so that up to 3 percent of funds could be channeled to the three parties that previously formed a ruling coalition: the Workers party, the Democratic Movement party of Brazil (PMDB), and the Progressive party.³⁰ There have been 746 searches and seizures conducted, 198 arrests made, 57 criminal charges filed against 260 persons, and prosecutors have been able to recover \$10 billion of Brazilian reais of the graft money. The arrests included top Brazilian politicians and multiple

²⁹ Mira Galanova, "Colombia prosecutors seize \$98M in FARC assets," Colombia Reports, February 24, 2017, <http://colombiareports.com/colombia-prosecutors-seize-98m-farc-assets/>

³⁰ Jonathan Watts, "Dilma Rousseff impeachment: what you need to know – the Guardian briefing," The Guardian, August 31, 2016, <https://www.theguardian.com/news/2016/aug/31/dilma-rousseff-impeachment-brazil-what-you-need-to-know>

CEOs and executives from some of Brazil's largest and most powerful companies. The corruption scandal revealed by "Operation Car Wash" became so widespread that multinational corporations, like Brazil's largest construction company Odebrecht, have been sued by foreign nations, as the corruption web spread to outside Brazil's borders due to the involvement of leading Latin American politicians and presence of illicit money in off-shore accounts.³¹

The U.S. Department of Justice charged Odebrecht under the Foreign Corrupt Practices Act because Odebrecht entities used the U.S. banking system and have shares and debt traded on U.S. securities exchanges. In December 2016, Odebrecht pleaded guilty in U.S. federal court to having paid \$788 million in bribes to government officials throughout Latin America to secure public works contracts not only in Brazil for 2014 World Cup-related infrastructure, but in various parts of the world such as the Caracas metro and a port in Cuba. The most explosive statements came from the former Odebrecht CEO and grandson of its founder, Marcelo Odebrecht, who said that part of the \$48 million he donated to Dilma Rousseff and Michel Temer's campaign in the 2014 Brazilian presidential election was illegal. Marcelo Odebrecht and 76 other company executives have been imprisoned.³²

The Odebrecht corruption investigation is having repercussions across Latin America. An arrest order in Peru was issued in February 2017 for former Peruvian President Alejandro Toledo, who has been charged with influence peddling and money laundering; he is accused of having received \$20 million from Odebrecht in exchange for favoring the company in the bid to build the Interoceanic Highway connecting Brazil to Peru's ports.³³ An international taskforce of investigators is looking into bribery in Colombia, Mexico, Peru, Panama, the Dominican Republic, Venezuela, Chile, Argentina, Guatemala, and Ecuador. "Operation Car Wash" that uncovered the Petrobras and Odebrecht corruption cases illustrated how "following the money trail" and efforts to combat money laundering exposed the largest political corruption scandal in the history of Latin America.

CONCLUSIONS

"Following the money trail" has been a very valuable tool for governments across Latin America to counter crime, terrorism, and political corruption over the past decade. Since every organization requires funding to conduct their activities, financing is considered a key enabler for that entity, whether it is licit or illicit. Understanding the financing of terrorist and criminal groups is critical to design effective national security strategies to counter illicit networks

31 Lise Alves, "Brazil's Lava Jato Investigation Completes Three Years," *Rio Times Online*, March 17, 2017, <http://riotimesonline.com/brazil-news/rio-politics/brazils-lava-jato-investigation-completes-three-years/>

32 Daniel Gallas, "Brazil's Odebrecht Scandal," *BBC News*, March 17, 2017, <http://www.bbc.com/news/business-39194395>

33 Adriana Leon and Chris Kraul, "Latin America bribery scandal widens to engulf two of the continent's highest profile figures," *Los Angeles Times*, February 9, 2017, <http://www.latimes.com/world/mexico-americas/la-fg-peru-odebrecht-20170209-story.html>

and deprive them of the money that empowers them. While terrorist groups have political or ideological aspirations, for transnational criminal organizations, it's all about the money. Both groups are enemies of the state that have agendas that endanger national and international security. Although they may have different objectives, terrorists and criminals share similar tactics to raise, move, store, and spend money that undermine our international financial systems. In Latin America, the most common methods of illicit financing include banks, bulk cash smuggling, trade-based money laundering, and prepaid cards.

Criminal groups seek to maximize their profits and use their wealth to corrupt or co-opt government officials to expand their markets; taking away that money is the ultimate punishment and an impactful way to debilitate criminal networks. Throughout the Americas, governments have been freezing and seizing the assets of illicit actors to include terrorists, criminals, and corrupt politicians. Asset forfeiture is a very powerful legal instrument to seize the ill-gotten gains from criminal organizations or corrupt politicians; many Latin America countries have this statute. Those seized assets are returned to rightful owners or used to fund personnel, training, and equipment for government agencies pursuing financial crimes. Anti-money laundering and counterterrorist financing measures have even contributed to uncovering fraud and corruption scandals at the highest levels of government and business elite in several countries in Latin America. The cases of "La Línea" in Guatemala, FARC finances in Colombia, and "Operation Car Wash" in Brazil illustrate how "following the money trail" can expose fraud, money laundering, political corruption, and terrorist financing and shape new measures to curb illicit financing and recuperate assets.

Since the tragic attacks of September 11, 2001, the United States and its Latin American allies have made important strides in leveraging financial intelligence to reinforce their strategies to combat terrorism, crime, and corruption. Countries throughout Latin America have well-developed legal authorities and investigative mechanisms to counter money laundering and the financing of terrorism at the national level. Moreover, the international community must collaborate and deploy all the instruments of national power (diplomatic, military, intelligence, information, law enforcement, economic, and financial) to degrade, disrupt, and dismantle illicit networks, as money knows no borders. Such measures to counter illicit financing have been successfully leveraged at the local, national, and international levels to combat and degrade criminal and terror networks around the globe like Al Qaeda, Hezbollah, ISIS, the Mexican cartels, and the FARC in Colombia; however, to confront new threats like the convergence of terrorism and crime, as witnessed with the Islamic State and increased illicit use of the cyber domain, national and international security strategies and policies must be continually assessed and updated to keep up with the resourcefulness of illicit networks that adapt to and circumvent our countermeasures, particularly on the financial front.

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