



GLOBAL FINANCIAL INTEGRITY

Financial Crime in Latin America and the Caribbean: Understanding Country Challenges and Designing Effective Technical Responses

Executive Summary

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Introduction

Countries in Latin America and the Caribbean (LAC) face a complex, dynamic and challenging financial crime landscape. The same security threats that make the region one of the most violent in the world also generate large amounts of illicit proceeds, which are subsequently laundered back into the region's economies and often used to perpetuate further violence and insecurity. Countries in the region face a daunting task in effectively responding. This report provides a comprehensive, in-depth analysis of financial crime threats in 33 LAC countries, divided into five main sections: country profiles, case studies, an overview of criminal activities and financial crimes, an analysis of current quantitative estimates, and a review of technical interventions. All of these components contribute to the conclusions and recommendations presented in the final section.

Methodology

To better understand local contexts and current conditions, GFI carried out 250 interviews with subject matter experts from government, civil society, the private sector and international organizations. Our analysis of financial crime includes threats, channels, routes and facilitators as well as the evaluation of the effectiveness of current national anti-money laundering and counter financing of terrorism (AML/CFT) efforts includes the results of these interviews.

In addition, GFI analyzed other materials regarding financial crimes, including national risk assessments as well as mutual evaluation reports by the Financial Action Task Force (FATF) and regional bodies such as the Grupo de Acción Financiera de Latinoamérica and the Caribbean Financial Action Task Force. GFI also reviewed national legislation and international treaties on financial crimes and illicit economies.

Furthermore, GFI mapped and analyzed current interventions to combat financial crimes, including donor technical assistance programs, initiatives by international organizations, and regional or national efforts led by countries in the region. As a Washington, D.C.- based think tank, GFI was interested in the role of the U.S. as one of the major donor governments involved in efforts to strengthen the fight against financial crimes in the Western Hemisphere. Many of the recommendations contained in the report focus on how the U.S. can align technical assistance and international cooperation efforts with areas of greatest need.

Lastly, GFI used a variety of quantitative methodologies to estimate the scope of financial crimes. For national estimates of illicit proceeds, GFI used the two to five percent "consensus range" for criminal proceeds, which has been widely used by organizations such as the United Nations Office on Drugs and Crime and the FATF. Starting with World Bank gross domestic product data, GFI applied a two percent (low-end) and five percent (high-end) estimate to obtain a yearly range.

Regional Trends

This study included financial crime trends in four subregions: South America, Central America, Mexico and the Caribbean. As per the 250 expert interviews conducted for this project, corruption was the most prevalent financial crime in the LAC region as a whole; it was also the most prevalent for each sub-region except for the Caribbean, where money laundering (ML) was the most common financial crime. Corruption was also the largest source of illicit proceeds for the region as a whole; moreover, it was the largest source of illicit proceeds for each subregion except for Central America, where drug trafficking was the most common source of illicit proceeds. The channels used to move illicit proceeds varied by sub-region, but the four most prevalent channels regionally included financial institutions, real estate, trade, and bulk-cash smuggling. When asked about the effectiveness of government responses, experts generally identified prevention as a strong area and prosecution as the weakest link. As per the experts interviewed, in order to strengthen the national response to financial crimes, countries would have to tackle issues of political will and implementation, as some laws exist on paper but are not fully utilized in the day to day. Finally, experts interviewed were asked to assess the effectiveness of their country's response to financial crimes on a scale of one to five, with five being highly effective. The average score for the region as a whole was only 2.47 according to expert interviews, which suggests that many experts feel that current efforts are insufficient and additional work is urgently needed.

Criminal Activities

This report analyzed illicit economies that generate illicit proceeds, including drug trafficking, mineral trafficking, corruption, and trafficking in persons (TIP) and smuggling of migrants (SOM).

In the case of mineral trafficking, the report identifies the abundance of minerals in the LAC region and makes the case that there are financial crime risks that go well beyond illicit gold. There are risks related to gemstones like jade, emeralds and diamonds, as well as to precious metals such as silver and newly discovered minerals including lithium. The report argues that solutions to financial crimes related to the sector must consider larger, systemic issues that contribute to weak governance, conflict, poverty and corruption.

Drug trafficking is one of the largest generators of criminal proceeds, and in conjunction with corruption and ML, presents arguably the greatest challenge to the LAC region. In addition, drug trafficking often gives way to other transnational organized crime —TIP, illegal mining, illegal logging, etc.—in the region. One expert who has been working on the issue for more than 30 years remarked that narcotics have become a massive obstacle for the whole region; those countries that in the past didn't believe they had a problem are now dealing with it on a large scale.

For LAC countries, TIP and SOM are considerable problems. However, very little is known about the financial pathways behind these complex phenomena, according to experts interviewed for this project. Countries in the region have struggled to appropriately respond to the challenges posed by trafficking and smuggling. In the case of TIP, in particular, existing efforts focus on either public awareness campaigns or victim support services. While this approach is clearly important and appropriate, it falls short of addressing the criminal actors, networks, and financial flows behind these activities. As one expert stated, "How do you fight against a business that is clearly so profitable?" Governments in the region have not even begun to answer that question.

Financial Crime Types

In addition, this report analyzed four financial crimes: ML, trade-based money laundering (TBML), terrorism financing (TF) and corruption.

In the case of ML, LAC countries face a variety of vulnerabilities including incipient AML laws, challenges with international cooperation such as mutual legal assistance treaties (MLATs), insufficient financial intelligence and access to technology, as well as limited understanding of risks within international trade.

Interviews with numerous AML experts from the region underscored the U.S. focus on drug trafficking as a double-edged sword. The "War on Drugs" has provided many countries in the region with much needed resources to tackle financial crimes, including the benefit of U.S. experience in investigation and prosecution. However, because the U.S. is the biggest and most powerful economy in the region, LAC country governments described having a vested interest in ensuring they are dedicating resources to U.S. policy priorities.

AML and financial crime risks in the context of the current global financial system tend to be cross-border issues. Effective responses require cross-border coordination, which can be challenging. Several experts pointed to the problems within the MLAT process, a signed treaty between two governments which allows for the exchange of evidence and information in criminal and related matters, as limiting enforcement and engagement.

TBML is regarded by the FATF as one of the three main methods used to launder money in addition to the use of the financial system and the physical movement of currency. Despite its prominence, TBML is often poorly addressed and understood across all stakeholders: governments, the private sector, international bodies, multilateral organizations, and civil society, among others. This fact poses a significant challenge for the LAC region since the use of TBML is perceived by experts to be intensifying.

With regards to TF, countries in the region face a number of challenges. Latin America is the most violent region in the world, but the high rates of homicide are the consequence of organized crime rather than terrorism. LAC countries adhere to international CFT standards, but in the absence of regular terrorism threats, some countries are unsure how to actually use these tools, whereas others have deployed them for something other than their intended purpose, including stifling political dissent by opposition groups. This leaves the region less prepared to truly prevent and detect TF, which, despite being infrequent, has truly horrific consequences when it does occur.

Corruption is unique in that it is both a financial crime but also an underlying criminal act, and is defined as a wide range of behavior that includes financial crimes such as bribery and fraud, but also other activities such as nepotism, undue influence, cronyism, and patronage that result in private gain, monetary or otherwise. As the most complex and systematic issue in Latin America, corruption affects human rights, the environment, national security, and access to healthcare, among many other important rights. While Haiti and Venezuela represent some of the most extreme instances of corruption, other countries face challenges as well. In the case of Mexico, for example, 34 percent of public service users reported having paid a bribe in the last year.

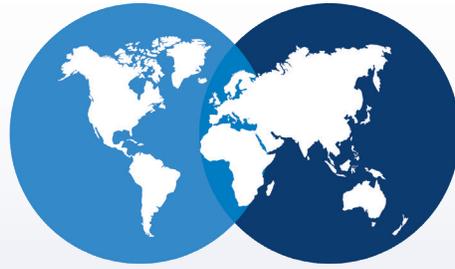
Conclusion and Recommendations

The solutions to tackle financial crime and criminal activity are not simple and are inextricably tied to the complexities the region faces from inequality, poverty, violence, weak institutions, corruption, and declining economic growth. Finding ways to marry ongoing technical assistance efforts with wider programs targeting governance and development is necessary to ensure that the gains made from co-operation and technical assistance don't stagnate. The following recommendations address ways to strengthen national efforts as well as to enhance the effectiveness of donor technical assistance:

- **Money Laundering/TBML:** Create programs that look beyond drug trafficking to better target ML. Create strong and transparent BO registries and combat systemic corruption. Address inefficiencies in mutual cooperation and data-sharing through the MLAT process and provide technical resources for data analysis within financial intelligence units of the LAC region. Address silos within U.S. government agencies to better tackle ML risks including providing FinCEN resources to ensure that it can take on new and emerging challenges from financial crime risks. Improve both the awareness and knowledge of TBML. Strengthen coordination among government agencies as well as across countries.
- **Corruption:** Improve transparency, oversight of institutions, and meritocratic selection of public functionaries and ensure teams of qualified professionals. Bolster data access and use of technology and increase general awareness of corruption.
- **Terrorist Financing:** Update TF risk assessments, TF language, and terrorist definitions. Separate real CFT from efforts to stifle dissent. Tackle cross-border movement of cash through information exchange. Strengthen understanding of trade-based TF and encourage formalization of remittances. Finally, let regional organizations lead these efforts and engage non-profit organizations in the process.
- **Trafficking In Persons/Smuggling of Migrants:** Conduct more research on the financial pathways behind TIP/SOM. Recognize that restrictive border policies contribute to SOM. Assess the efficacy of TIP public awareness campaigns. Urgently address issues of migrant smuggling debt and return assets to migrants following deportation.
- **Drug Trafficking:** Support countries in the drafting and/or implementation of asset seizure legislation, promote the application of money laundering charges in conjunction with drug trafficking charges, and support capacity building for judges and prosecutors. Improve the exchange of intelligence/information sharing between domestic agencies and between countries, as well as keep an eye on the growth of synthetic drugs, both in terms of increased trafficking as well as the rise of domestic consumption in LAC countries.
- **Mineral Trafficking:** Expand the focus beyond gold and to financial crimes occurring throughout the supply chain. Provide guidance and training on TBML, carefully consider de-risking, and support formalization of artisanal and small-scale mining.

About GFI

Global Financial Integrity (GFI) is a Washington, DC-based think tank focused on illicit financial flows, illicit trade, trade misinvoicing and money laundering. By publishing high-calibre analyses, providing fact-based advocacy and offering a cloud-based database to curtail trade fraud, GFI aims to address the harms inflicted through corruption, transnational crime, tax evasion and kleptocracy. By working with partners to increase transparency in the global financial system and promote Trade Integrity, GFI seeks to create a more equitable and safe world.



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