



GAFILAT

# ANALYSIS OF REGIONAL THREATS ON MONEY LAUNDERING

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## Analysis of Regional threats on Money Laundering

Proyecto GAFILAT – Unión Europea



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## A. INTRODUCTION

1. The XXX GAFILAT Plenary approved the implementation of a regional study of threats on money laundering (ML) and terrorist financing (TF) of the member countries of the Financial Action Task Force on Latin America (GAFILAT<sup>1</sup>, for its acronym in Spanish). The preparation of this report should be seen in the content of Recommendation 1 of the Financial Action Task Force (FATF, which are fully assumed by GAFILAT), in the version approved by the Plenary of the organization in February 2012. Specifically, the new Recommendation 1 obliges countries to undertake the following actions:
  - Regularly identify, assess and understand the ML/TF risks faced and update the diagnosis. Designate an authority or establish a mechanism to coordinate action to assess these risks.
  - Share risk information at national and international levels.
  - Review the risk assessment carried out by financial institutions and designated non-financial businesses and professions (DNFBP), and consider it in their supervision programs.
  - Apply measures appropriate to the identified risks, particularly in cases of higher risk.
2. With that, the pursued objective is for countries to achieve greater effectiveness in mitigating risks and that the resources allocated for this purpose are used more efficiently. In this sense, the risk identification process should provide input aimed at improving the anti ML/TF regime in terms of policies and processes, assisting competent authorities and prioritizing and allocating resources to the operation of the system to counter both criminal behaviors (including the feeding of risk assessments of these authorities) and nourish the risk assessment carried out by financial institutions and DNFBPs, directing its activities in this field.
3. Indeed, the need for countries to identify, assess and understand their risks for ML/TF activities and, at the same time, have policies to facilitate

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<sup>1</sup> Regional intergovernmental body which brings together sixteen (16) countries of South America, Central America, North America and the Caribbean to fight ML and TF.

coordination and cooperation at the national level in the field of prevention and countering both crimes, has become a basic requirement demanded by the international community.

4. Isolated efforts in combating ML/TF are ineffective in a globalized world where money from illegal origin is mobilized almost instantly, without limits or boundaries. The transnational nature of the criminal activities that give rise to illicit income that need to be subsequently laundered, the rapid mutation of their criminal methods and the high costs of their illegal actions require not only effective collaboration of national government agencies that counter them but also the joined and coordinated participation by the entities responsible for developing these functions from different countries.
5. Following the mandate emanated from the XXX GAFILAT Plenary, a first draft was prepared of the Regional Threats Study on ML/TF, which, besides being previously submitted to the delegations of member countries, was presented before the XXXI Plenary last July in San Jose, Costa Rica. During this presentation and in the discussions raised in GTARIF and the aforementioned Plenary, a number of conclusions and amendments were agreed to the text initially presented. Chief among these decisions is that the Study focuses solely on the analysis of threats linked to ML, leaving for later the realization of the work on those affecting TF. Similarly, a period was provided for the different delegations to provide comments to the wording and content.
6. The result of the application of the criteria in the XXXI Plenary and the comments made by countries is this document, which is intended to reflect both the conclusions reached and the proposals made by the various delegations.
7. In this regard, this Study, without the status of risk assessment, focuses on identifying the threats, which are, according to the so-called "National Money Laundering and Terrorist Financing Risk Assessment: FATF Guidance" adopted by FATF in February 2013<sup>2</sup>, along with vulnerabilities and the consequences arising from ML, one of the defining elements of the risks that countries must meet in this area. Therefore, we must point out that the regional risk evaluation is not intended, so that references to

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<sup>2</sup> This Guidance is intended to provide a ML and TF national risk assessment procedure, establishing the principles and criteria that should govern, formulating definitions of the elements of that assessment and identifying the different steps that must be completed for the process to meet its goal.

potential vulnerabilities that may affect the countries of the region integrated in GAFILAT will be ignored.

8. However, despite the above mentioned, the end result of this Study can serve as the basis for the elaboration of the corresponding national risk assessments (or a comprehensive regional assessment), since the identification and understanding of existing threats regarding ML is an essential step in the development of this type of assessment. Therefore, the use of the findings of this Study to the risk assessment process is an added value, which is derived from its own development.
9. The structure of this Study has a first general section, where we proceed to define the concept of threat, we then present the methodology used (specifying the drawing criteria the and documentary sources consulted) and review the conclusions. Finally, the report includes three separate annexes, one for each sub region in which the countries of GAFILAT have been divided, and which are listed below:
  - North America, Central America and Caribbean sub-region: Costa Rica, Cuba, Guatemala, Honduras, Nicaragua, Mexico and Panama.
  - Southern Cone sub-region: Argentina, Brazil, Paraguay and Uruguay.
  - Andean sub-region: Bolivia, Colombia, Chile, Ecuador and Peru.
10. In those annexes, the threats detected in each sub-region are developed in detail, explaining the elements that compose them and the consequences entailed.

### **B. CONCEPT OF THREAT.**

11. As a preliminary matter, we should clearly define the scope and content of the concept of threat, closely linked to that of vulnerability, to specify what is meant when that term is used. For such purpose we will use the document that the FATF has issued in this matter, where the concepts commonly used in this type of analysis are delimited and which is referred to in the previous paragraph ("National Money Laundering and Terrorist Financing Risk Assessment are: FATF Guidance").
12. Said Guidance states that a threat should be understood as "the people, group of persons, object or activity with enough potential to cause harm to the State, society, the economy and other key elements of the life of a country or region". Meanwhile, vulnerability is defined as the situations or events that can be exploited or used so that threats meet their purposes.

13. Accordingly, in the context of ML, the definition of threat includes crimes, criminals, criminal organizations, their necessary collaborators and their funds, as well as their own criminal activities that occur in the region (typologies). Similarly, as reflected in the aforementioned Guidance, for proper understanding of the threat it is important to know the environment in which the crimes are committed and illegal returns are generated which will be object of ML. This means covering an area greater than that of the crime rate, although this aspect is critical in the process as an inseparable item to the existence of ML threats. This is because, for example, if there is no illegal income, ML can hardly be committed and the existence of such gains is derived from the commission of criminal acts. The approach followed in this Study aims to understand those other factors relating to the environment in which the preceding criminal activity referenced in the Guidance occurs, so the identified threats may include the impact that certain criminal activities may have in a particular area and the existence of specific practices feasible of negatively affecting the integrity of the region in countering ML due to their use in the commission of such illegal activities.
14. As noted above, the identification and analysis of vulnerabilities are not covered by this Study, which would to assess a number of other factors or elements that can serve as catalysts for the threats to be effective. Among these we can find circumstances related to the degree of country compliance with international standards in the effort against ML, to the geographical position of a determined area or aspects related to their social, political or economic circumstances. These factors are not taken into account in the analysis, focusing only on threats and understanding the environment in which the preceding criminal activity occurs.

### C. METHODOLOGY

15. The process of preparing this document has been based on the analysis of the information contained in documentary sources of different origins considered by GAFILAT, to which reference will be made later. Specifically, the procedure had the following phases:
  - a) Study of documents to obtain information that enables an approach to the threats affecting every country in this matter.
  - b) Development of specific threats affecting each country.

- c) Grouping of information collected for each country in the sub-regions in which they are integrated, so that they can define the threats specifically affecting that geographic area.
  - d) Definition of the threats faced by the GAFILAT member countries at a regional level by aggregating those that are predominantly affecting different sub-regions and have higher repetition. As a result, the concept of regional threat that is used is the one that affects, to a greater or lesser degree, all member countries of GAFILAT as members of the same geographical region or at least one of the sub-regions in which it is divided.
16. The end result of this process is contained in this Study, which aims to combine an overview of threats with a sub-regional perspective of them, allowing to contextualize the incidence of each one from a geographical point of view.

### ***Development criteria.***

17. Outside the approximation method used, the preparation of this report has followed two fundamental criteria, established in conjunction with the Risk Analysis Sub Group of the Risk Analysis and Financial Inclusion Working Group (GTARIF) and the support of the GAFILAT Executive Secretariat.
18. The first one refers to documentary sources as, in order to obtain the conclusions of the Study, only the documents referred to in the following section of this report were used. These documents originate from GAFILAT itself, from the Financial Action Task Force in Central America and Caribbean (CFATF, organization where some of the current members of GAFILAT are former members), in the working groups jointly set up by both organizations and by FATF and other international organizations and agencies whose reports are recognized as valid by GAFILAT (e.g. UNODC<sup>3</sup>) and participate in its activities. However, aside from these sources used in the formulation of the conclusions, other sources were used that do not have a similar level of accreditation as those mentioned before, but have only been exploited for the mere provision of certain information. A reference to them will also be made later.
19. Concerning the identification of threats, some of these documents may not contain a precise and concise reflection of the current situation of countries regarding their AML regime, because some of them have been made years ago. In the case of certain Mutual Evaluation Reports, it must be stated that,

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<sup>3</sup> United Nations Office on Crime and Drugs.

despite having continuity in the follow-up reports, a review of the threats is not made therein, focusing primarily on the progress of the country with regards to remedying any shortcomings that may have been detected relating to compliance with international standards. However, regarding the identification of threats, they are very useful instruments because they provide us with a qualitative and general overview of the threats that each country has to face in this field. Moreover, these reports are supplemented by other sources used that do have a higher degree of update.

20. Finally, an added reason to use only these sources is the fact that these reports come from organizations whose technical competence and rigor are borne by all members of GAFILAT. This unanimous acceptance may not occur in other working documents that, although probably more updated and focused on threats, come from organizations or entities that, for several reasons, may not have the same level of recognition. This would negatively impact on the acceptance of the final conclusions of the Study and, therefore, affect the fulfillment of the objectives it pursues.
21. The second and final criterion was to not make specific reference to the incidence that each threat could have in specific countries, preferring general approaches that prevent identifying certain States to specific situations. Although the process of developing this report had to start, necessarily, from a particular approach for each country, the results are grouped under a regional and sub-regional perspective, which prevents situating identified threats in specific countries. In this way, the regional vision is reinforced in the report, as the conclusions reached affect, in one way or another, all members of GAFILAT as integrant of the same geographical region.

### **Sources used.**

22. As noted in the previous section, the criterion to select sources for drawing conclusions and their use in the drafting of the Study is that they are, regardless of their provenance and origin, validated by GAFILAT based on their rigor and development process. We should add those others only used for the identification of quantitative data. Specifically, the type of documents used are the following:
  - Mutual Evaluation Reports of the sixteen countries currently members of GAFILAT.

- Reports produced for countries that have been subject to continual review process of FATF, through the so-called International Cooperation Review Group (ICRG).
  - Internal work performed by GAFILAT concerning identification of threats and money laundering typologies.
  - Reports produced on the subject by other international organizations, such as UNODC.
  - Work performed by member countries of GAFILAT aimed at identifying the most common typologies of ML and its predicate offenses.
  - Concrete data obtained from reports by Transparency International and the State Department of the United States.
23. Determined reports used for each sub-region will be specified in the corresponding annexes to each of them, detailing their origin, motive and year of completion.

#### D. IDENTIFIED THREATS

24. The final conclusions of the work undergone are those to be related to one another in this section. In general, along with the identification of the threat and its description, a brief explanation of it is included, which will be subject to further development in the relevant sub-regional annexes. This is true except on threats specifically referring to crimes where, since they have common characteristics in virtually all sub-regions, a somewhat broader explanation is inserted into this general part, regardless of them also being addressed in the corresponding annexes.
25. Attention should be drawn that, being this part of the document from a regional reference, some threats will have a different impact on specific countries. In this sense, we must bear in mind that this is an integrated document in which the threats affecting the entire region are collected, and one should go to sub regional annexes to realize the situation in each geographic area. However, for the purposes of inclusion in this section, the regional threat has been conceptualized as "*one that affects, to a greater or lesser degree, all members of GAFILAT in their capacity as members of the same geographical region or at least sub-region in which it is divided.*" This is to make a selection of threats where all countries are recognized, although later in

sub-regional annexes the threats affecting them shall be specified to a greater extent for each of the geographical areas.

**Region affected at all stages of drug trafficking.**

26. The whole region is affected by the phenomenon of drug trafficking in its various aspects and stages, from production of the merchandise itself up to the return of part of the income obtained, going through the whole transit process to consumption sites (racking, logistical support, etc.). Almost all the countries of GAFILAT are affected by this reality one way or another, depending on different factors linked directly (geographical position, orographic conditions, crop tradition, use for ML, capacity of attracting flows of illicit origin...). This situation deeply conditions the integrity of the region, becoming a first-degree threat in terms of ML. To this we must add other elements that further increase the institution of the threat that the region faces.
27. In this regard, the report by UNODC of September 2012 entitled "*Transnational Organized Crime in Central America and the Caribbean: A threat assessment*", in addition to considering the cocaine traffic as the main criminal problem, refers to a series of factors derived from this illicit phenomenon that has its effective translation to the field of regional threats regarding ML. Special attention is drawn to those outlined below, to which others that will be referenced in the corresponding section of organized crime will be added:
  - Cocaine trafficking is the most lucrative activity for organized crime in the region, but it is far from being the only one.
  - The large-scale production of cocaine requires territorial control, so that such activity is often connected with the existence of insurgency or armed conflict.
  - Going through the chain of drug trafficking drug dealers there is no need to dispute among themselves or to fight with the authorities. The quickest way to make profits is to avoid conflict, so that the interests of the market tend to favor peace.
  - The unilateral implementation of control and prosecution measures by certain countries implies the modification of transit routes of drugs. Traffickers have shifted their focus to new routes, which has led to changes in the influence that the problem has in the region.

- Coexistence has been detected on the same spaces of territorial criminal groups that act by controlling the illegal activities taking place in a geographical area, including drug trafficking, along with transport groups whose primary mission is to get the goods to the destination countries<sup>4</sup>.
  - The existence of drug trafficking in any its phases involves generating local activities to support the offense (protection, transportation, supply, logistical support...).
  - There is a part of the increase in violence and criminality in areas of cultivation and traffic that is associated with power struggles between rival groups and the pursuit of their activities by the authorities. However, as discussed below, not all crime revolves around drug trafficking, since there are other methods developed by criminal organizations that are not related to this crime.
28. These elements, although common to this phenomenon across the region, manifest themselves differently in each sub-region, as discussed in the relevant annexes, because in some of these shed crop is predominant; while in others traffic becomes more important. In any case, this information suggests that this crime has a noticeable impact on practically all the countries of the region.
29. Notwithstanding the above, it is necessary to clarify how this important impact of drug trafficking in the region is reflected so that ML may happen there. Given that the illegal yields can be legitimized in places different to where they have been generated (even outside the region), there can be doubt on whether the clear incidence of the drug trafficking in the region also moves, to a greater or lesser extent, to the area of ML.
30. In this regard, one of the most clarifying documents is the report prepared in May 2014 by the GTARIF of GAFILAT, which reflects the conclusions reached at the Regional Threats Perception Workshop regarding ML, held in that month. The aim of that workshop was to start a process of prioritization of the various threats that affect the region, serving as a complement to the questionnaires that were completed by 11 of the 16 member countries of GAFILAT on this issue. In these questionnaires, information on the GAFILAT countries was requested on suspicious transaction reports (STRs) received

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<sup>4</sup> The references that are made throughout this Study to the transporters should not be understood as made to a professional sector. Groups or individuals that perform the illicit carrying of human beings or merchandise are included under this denomination, independent from their professional activity.

and investigated and their connection with previous offenses, the police and judicial investigations carried out, seizures of assets linked to ML and the international cooperation activities carried out, among other extremes.

31. The conclusion established is that drug trafficking is identified within the criminal types included by the categories set out in the FATF 40 Recommendations, along with corruption, smuggling and tax crimes, as one of the greatest threats for ML at regional level (even qualifying it as the biggest threat), being mentioned as such by the countries integrated in the three sub regions. This situation is corroborated by the fact that, in the questionnaires that have been referred to in the preceding paragraph (Questionnaires on Threat Identification), STRs motivated by transactions related to drug trafficking are predominant over the total, also having a high impact on police and judicial investigations conducted, in asset seizures executed and the judgments for ML (as predicate offense).
32. In accordance with the previous statement and regardless of the percentage of illicit income derived from drug trafficking that is actually legitimated within the region with regard to the total obtained, it is certain that this criminal activity is considered a ML threat in the region.

**Existence of organized crime based on different areas of the region.**

33. As mentioned in the paragraph above, different countries of the region have detected the existence of organized crime that, to some extent, devotes part of its activity to control drug trafficking, also conducting other criminal actions. All these criminal actions generate a series of illicit income that, in order to be used should be previously object of ML, thus making it necessary to determine its impact in the region.
34. These organized crime groups may be transnational, covering several countries, or even located in different sub-regions, or purely being local, in which case they act solely and exclusively in a given country or area thereof (the latter variant does not exclude the existence of partnerships and strategic alliances with transnational groups).
35. The aforementioned UNODC report entitled "*Transnational Organized Crime in Central America and the Caribbean: A threat assessment*" establishes a clear distinction between the different types of organized crime that have been detected, as well as the activities performed as a general rule. Accordingly, as noted in the previous report, territorial criminal groups whose main activity is to control the illegal activity committed in a geographic area (taxing all in the same criminal activity, including drug trafficking) have been

identified, along with criminal groups whose goal is to transport the goods to destination countries (carrier groups or bands).

36. The report attributes the use of violence and the commission of crimes intended to exercise control over the territory to the so-called territorial groups, acting occasionally against carrier bands both to assert its pre-eminent position as well as to seize the illicit goods they transport (the so-called tumblers, who steal the cargo from carriers, this being a major source of violence). Similarly, the existence of other local criminal groups has been identified (the so-called Maras), which have little connection with the transnational drug trade and whose activities are mainly focused on extortion and other struggles for local power. Along with these, other kinds of criminal gangs and the so-called drug trafficking integrated criminal organizations are also active.
37. In general, drug trafficking remains a very lucrative activity for these territorial groups of organized crime, but they are also linked to other crimes such as the illegal trafficking of migrants, human trafficking, extortion and arms trafficking, as it will be referred to in the relevant sections of this Study where these types of offenses are addressed.
38. The consequences of this scenario are varied, but all of them with a negative effect on the whole region, whether in some cases its effects are more virulent than others. Specifically, the key elements that would shape this as a threat are basically the following:
  - Increase in crime in areas where these groups are settled, both linked to drug trafficking and other crimes that they may commit.
  - Subtraction to action and control of authorities in geographical areas of certain countries, seriously undermining their institutions.
  - Deterioration of the social conditions of the communities where these groups are based, which sometimes usurp the very functions of a State. This happens because, for the population, collaboration with them involves an attractive means of life, and their presence is associated with increased violence in the territories where they settle.
  - Fracture of the economic productive model of the communities, from the moment in which "easy money" linked to criminal activity flows through the channels of commerce and trade.

- Increased odds of ML, both inside and outside the region, due to the increase of illegal income derived from activities carried out.
39. This type of criminal organizations are set up to commit crimes, often acting as a State within the State, easily mutating their activities to other forms of crime when their current modus operandi is not profitable. We are, therefore, well before a crime in itself as it is the conspiracy, against a suitable instrument to commit other illegal activities, which will be concretized depending on various circumstances (profitability, means at their disposal, degree of collusion with the authorities, etc.).
  40. Meanwhile, in the aforementioned report prepared in May 2014 by the GTARIF of GAFILAT, which reflects the conclusions reached at the Regional Threats Perception Workshop on ML, it identifies the crime of unlawful association or partnership in criminal group as a regional threat on ML, indicating that this type is not among those identified in the 40 FATF Recommendations (however, participation in an organized criminal group is indeed included). This crime was identified as a threat by countries participant in the exercise integrated by the North American, Central American and Caribbean sub-region countries, but the organization does consider it a regional threat.
  41. This document establishes as the defining characteristic of this threat that the criminal actions committed in the region by criminal groups generate illicit income, which are then to be laundered in the same region or overseas, and identifying the USA, Asian countries (China and Taiwan Jurisdiction) and territories classified as tax havens by international organizations as major destinations. According to the report, the main predicate crimes committed in conjunction with this one are vehicle theft, forgery (obtaining vehicle registration documents), theft of various goods, piracy, and arms trafficking.
  42. Meanwhile, in the information contained in the questionnaires on threat identification completed by 11 member countries of GAFILAT, in those cases where such information has been provided in full, reference to organized crime is made, particularly regarding STRs communicates which are based in such cause, in law enforcement investigations and requests, either sent or received, for mutual legal assistance. However, it should be noted that it is difficult to make a clear demarcation of the incidence of this crime, since it appears along with scams ("participation in an organized criminal group and fraud"), which prevents from knowing which specific criminal activity is referred to in each case.

43. Regardless of that, the phenomenon itself is included in different questionnaires, even in those completed by countries in sub-regions other than North, Central America and the Caribbean, which would indicate that the conclusions established in the UNODC report referring to this sub-region can be extrapolated to other geographical areas of the region. For example, we can mention the presentation by a country of the Andean sub-region in which the relationship identified between territorial criminal groups to drug trafficking and the subsequent laundering of income in kind were perceived with part of the goods transported.
44. This set of circumstances is likely to affect the integrity of the region that, in one way or another, could be affected by the existence of these groups, by the criminal activities they commit or by legitimizing illegal income obtained. Therefore, as explained in more detail in the annexes dedicated to sub-regions on the impact on incidence for each of them, this should be considered a regional threat.

**Other offenses of particular relevance in the region that generate illicit income.**

45. One of the main features of the ML threats is the fact that their realization can bring benefits that may be the subject of legitimation. In this line, a number of crimes can be identified, which are committed with some relevance in the region and that enable those who carry them out to get a significant income that can be subject to ML, both within or outside the region. Let's not forget that the very concept of ML, despite its character of autonomous offense, implies the prior commission of another crime (predicate or base offense) from which an economic income is derived, which needs to be legitimized in order for it to be used.
46. The reason to differentiate between these crimes and drug trafficking is that the latter has advised a different treatment of the remaining unlawful conducts. It should also be argued that, for the existence of criminal organizations, whose activities are transversal to affect different types of crime and to assume that its presence in a territory, to a greater or lesser extent, results in a loss of control over it by the public authorities.
47. From the documents that were consulted for the preparation of this Study, the existence of a series of criminal types that have become very important in their relation to ML has been confirmed. These crimes have been identified in various reports such as those with a higher prevalence in the region, considering that they constitute, in accordance with research and estimations, the main sources of income that subsequently have to be

legitimized. This does not mean that its significance will be similar in all sub-regions, as it will vary according to different conditions, which will be explained in the corresponding annexes.

48. In general, the conclusions obtained in the Regional Threats Perception Workshop related to ML that GTARIF held, to which reference has already been made in different parts of this Study, identified regional criminal types listed as threats, in addition to drug trafficking, corruption and bribery, smuggling and tax offenses, along with conspiracy (already referenced in this Study), cyber-crime and pharmaceutical crime (although it is not specified, it is understood that they are related to counterfeiting of such products). By sub-regions, these crimes are present in most of them, but seemingly not with the same intensity throughout. In addition to this source to identify these threats, questionnaires on threat identification completed by 11 member countries of GAFILAT and the aforementioned UNODC report have been used.
49. According to information gathered in the above sources, the criminal types identified in this process that would affect ML to a larger extent and have not yet been processed in this study are summarized and detailed as follows.

### Public corruption

50. Under this term, those behaviors penalized that aim to subtract public resources for private enjoyment unlawfully, including in the same embezzlement of public funds, bribery, prevarication, the active and passive bribery and other similar figures are grouped. This set of offenses is becoming increasingly important globally and therefore in the region, as an illegal action that generates income that needs to be laundered.
51. As reflected in the work produced by GTARIF on regional threats, the product obtained with this type of crime is usually laundered within the region, even in the same country where it was committed; there is also the form in which funds are laundered in the region from crimes committed outside of it. However, there have also been cases in which resources are moved outside the region for their laundering. In this case, the identified destinations are Spain, Switzerland, United States, Virgin Islands and Cayman Islands.
52. This type of crime can be committed individually or by national and transnational organized criminal groups. The usual legitimization methods make use of the financial system (deposits in current accounts, transfer structuring, "smurfing", remittances, etc.) and other economic operators

(structuring of fictitious business through intermediary companies, front men, acquisition of real estate and luxury property development, etc.).

53. In the analysis of the 11 questionnaires completed by member countries of GAFILAT, 9 of which provide data segmented by type of crime, we find that these crimes have been the subject of STRs and subsequent intelligence reports in all these countries. Similarly, investigations and subsequent judicial proceedings have derived from these actions, although not in all cases (6 questionnaires received provide complete or incomplete data about it). This type of actions occur both in more and less developed countries of the region.
54. With regard to requests for legal assistance and cooperation included in the questionnaires, the majority come from countries in the region, along with others that originate in countries outside of it (the United States, Spain, Germany, Netherlands, Caribbean countries outside of GAFILAT, etc.), which would abound in the idea that the ML for this type of crime occurs both inside and outside the region.
55. Finally, if we consider the Corruption Perceptions Index published annually by Transparency International, GAFILAT countries are located in different positions in the ranking. Of the 174 countries, i Transparency International ranks them according to perception of corruption, if they are divided into three distinct groups, 3 GAFILAT members are between 174 and 117, 10 between the 116 and the 59 and the remaining 3 between 58 and 1. That is, 13 of the GAFILAT countries are classified among 2/3 of the countries that, according to this classification, have a higher perception of corruption.
56. All this set of circumstances abound in the idea that public corruption in its various versions, both because of the impact that its commission has in the region as well as the ML it generates and is produced in that geographical area, must be considered a regional threat in this area.

### Illegal trafficking of human beings (migrants).

57. This crime is usually committed by organized groups and has a special focus in the region, as it includes countries generating population victim of this crime and coexisting with others which have routes for transiting used for such crimes. Usually, transit and support networks similar to those used for drug trafficking and smuggling are used, with a usual collusion between the perpetrators of such crimes.

58. According to a report by GTARIF on perceived regional threats, income obtained from its commission are usually laundered within the region when people transported originate therein (usually in Central America), being its final destination the Northern countries. Regarding the payment corresponding to the transportation, according to the information it would be proportional, leaving a percentage in the transit route, in the various countries of the region where it goes, and through remittances from the country of final destination of the people moved through this method.
59. This crime often also entails the commission of other crimes such as sexual exploitation or forgery of documents.
60. Specifically, questionnaires for identifying threats completed by some of the member countries of GAFILAT reflect this situation, stating in those cases where data were entered its relevance regarding STRs and intelligence reports that have been filed for this crime. However, with regard to convictions for these crimes or ML related to their commission, they do not have considerable substance. In cases that have been recorded the existence of requests for mutual legal assistance or other types of cooperation this has been done mainly with countries within the region, but also including senders or recipients of such applications countries like the United States, Nepal and India, the latter probably related to the country of origin of migrants. Concerning specific situations explained in the questionnaires, one of the countries referred to a case investigated for ML related to this crime that involved citizens of India, UAE and the region, all dedicated to trafficking migrants from Arab countries. In the same vein, one of the Central American countries informs on the detection of trafficking networks of migrants in its territory that move nationals of South American countries to the North.
61. Meanwhile, the aforementioned UNODC report on transnational organized crime has a chapter specifically devoted to the illegal smuggling of migrants. It states that the majority of migrants to countries in the North come from Central America, but there are also flows from South America and Caribbean. Likewise, the movement of irregular migrants from the Horn of Africa (Eritrea, Somalia and Ethiopia) as well as South Asian countries (Bangladesh, Nepal and India), China and other African and Asian areas has been detected. Regarding means of transportation, migrants from the Horn of Africa are moved via land routes to South Africa and from there transported by air to Brazil and Colombia. Those who can afford air travel,

fly to Mexico, while others travel by land or sea to Costa Rica or Panama. From there they undertake the journey to the United States.

62. With regard to the perpetrators of this illegal trade, as in the case of drug trafficking, carrier groups, regional groups, predatory groups and street gangs are involved. Carriers, also known as “coyotes”, coordinate travel through contacts along the route and usually accompany irregular migrants, having a relationship with them that is usually based in mutual trust. Besides them, there are a number of casual employees who can contribute the migrants arriving at their destination by providing certain services (truckers, taxi drivers...).
63. As for the territorial groups located in border areas, their activities may consist in exercising control over geographic areas to which reference has been made in the corresponding section on organized crime section, of taxing the incomes of professional traffickers, making them pay protection fees or taking control of the entire operation. Through their connections with networks of corruption within law enforcement, regional groups can ensure movement without serious legal problems.
64. Another activity carried out by these territorial groups, according to the aforementioned report, is the exploitation of irregular migrants, being subject to theft (usually traveling with savings generated over the years), kidnapping (by groups linked to drug trafficking, which require ransom in exchange for the freedom of their victims) and exploitation (labor or sexual in nature).
65. In places where there is no presence of territorial groups of traditional cut, irregular migrants may find Maras that, like regional groups, primarily offer protection to irregular migrants and coyotes (people who guide groups of migrants in displacement) operating in this area.
66. This whole situation of providing services for illegal migration generates a series of income that have been estimated in the aforementioned UNODC report, in accordance with the flow of migrants and the theoretical amounts that have been paid in 2010, in US \$85 million, which is the annual gross income for traffickers who exercise this trade. To this, other amounts obtained by the regional groups and other criminal gangs dedicated to victimize the migrant should be added, which establishes this crime as a source of illegitimate high income subject to ML.

### Human Trafficking.

67. Closely linked to the crime outlined in the previous section is that of human trafficking, defined internationally by the *United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children*, of the *United Nations Convention against Transnational Organized Crime*, both signed in Palermo in 2000.
68. According to said instrument, human trafficking includes the "recruitment, transportation, transfer, harboring or receipt of persons under threat or use of force or other forms of coercion, abduction, fraud, deception, abuse of power or a position of vulnerability or receiving of payments or benefits to get a person to have control over another person, for the purpose of exploitation. " Among the forms of exploitation "exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or removal of organs" are included.
69. This situation of exploitation, as was made evident in the section on illegal trafficking of people, is that at which people who have turned to the networks of illegal transportation of migrants are often forced, because the same carriers or regional groups exercising control over the territories of passage have made them subject to this situation.
70. In this regard, the report by UNODC on "*Transnational Organized Crime in Central America and the Caribbean: A threat assessment*" devotes a chapter specifically to this criminal phenomenon in Central America, although its conclusions and assertions could be extrapolated to the rest of the region. In particular, the document states that most of the victims of the crime of human trafficking detected in Central America have been trafficked for purposes of sexual exploitation, although it is not clear whether this is representative of a larger set of victims. This is because the laws are not homogeneous with respect to labor exploitation, which prevents the criminalization of this situation, because, unlike sexual exploitation, where it is necessary to have visibility to offer services that allow their prosecution, labor exploitation issues can be carried out in production centers or labor camps in isolation, thus avoiding public exposure. This is probably the reason why the identified victims barely reach 10% of all cases discovered.
71. The victims of these crimes are usually mostly women and girls, whose countries of origin, in the cases detected in the northern countries of the sub-region, are mainly Guatemala, El Salvador, Honduras and Nicaragua. With regard to cases of exploitation detected in other countries, the victims

have been women coming from Colombia, Ukraine, Romania, Moldova and the Russian Federation, although these assumptions affect high-level prostitution (dedicated to tourism and a local clientele with high purchasing power) and are not representative of the general set of victims. Moreover, the report draws attention to the detection of victims of sexual exploitation from Dominican Republic in countries such as Guatemala, El Salvador, Panama, Trinidad and Tobago, Jamaica and the United States, and in others away from that nation located in Europe, South America and Middle East.

72. With regard to labor exploitation, in addition to the cases in which the victims were nationals from Central American countries, the existence of these practices has been detected in the fishing sector of the sub-region, said victims being men and boys and coming from Vietnam, the Jurisdiction of Taiwan, China, the Philippines and Indonesia.
73. The recruitment methods for these groups varies, but the main way is to fall into the hands of those networks during the transit of illegal migrants to the United States or being attracted to countries in the region with the promise of employment contracts that have nothing to do with the reality of the activities that will perform afterwards. Once they have fallen into this situation, they are held by exercise of violence or threats against their family.
74. As regards to the criminal networks involved in this activity, they are configured, first, by migrant traffickers themselves, who could betray their clients looking for a higher profit for their services. Likewise, they may also provide migrants to territorial groups as payment for passage rights through their areas of control. Another part of the provision of these people in favor of the owners of brothels or production facilities where this exploitation materializes would take place by professional traffickers, specifically those dedicated to this activity.
75. Finally, the mentioned report refers to the amount of illegal income generated by sexual exploitation. By applying criteria such as that only 1 in every 30 victims is detected, the different prices paid for sexual services and the volume of activity carried out, the end result is that illicit profits made and, therefore, that would require to be legitimized, account for 36.5 million US dollars annually.
76. This situation, basically referring to Central America, seems also to occur, although with less intensity, in other parts of the region. Specifically, the study on the perception of regional threats conducted by GTARIF provides

that the countries of the Southern Cone sub-region identified crimes of sexual exploitation, including child exploitation, which is one of the methods of trafficking, as a threat for ML.

77. With regard to the contributions outlined in the relevant questionnaires, countries that completed them established the existence of STRs and intelligence reports related to both the illegal trafficking of migrants and of human beings (no distinction is established between both criminal types). However, substantiated convictions for ML in this crime do not seem noticeable, although, as already noted, there are questionnaires that provide no data about it.
78. In any case, two countries (one located in the North, Central America and the Caribbean sub-region and one in the Andean sub-region) make specific reference to cases related to this crime. In the case of the Central American country, it specifies that the most common methods for human trafficking are sexual exploitation of women and labor exploitation of men, with victims originating from Dominican Republic, Haiti and Jamaica. The other one mentions the detection of a network of human traffickers.
79. Meanwhile, the Andean nation states that cases of trafficking for sexual exploitation have been identified, with victims originating from Argentina, Peru, Bolivia, Paraguay, Colombia and Dominican Republic. A way of attracting these victims that has been used is deception with the false promise of employment contracts.

### Smuggling of goods and counterfeit products.

80. According to the report by GTARIF on the perception of threats, these crimes are closely linked, since a considerable part of smuggling has the purpose of introducing into the region products that have already been forged, by imitating those manufactured by renowned brands. Among the goods that are smuggled, additional to the counterfeits already mentioned, include tobacco and electronic and computer equipment.
81. In the case of smuggling, illicit gains are generated within the region and its laundering is usually performed there or in the countries of origin of these products, generally using remittances or cash movement for this purpose. This crime can operate in conjunction with the crime of trademark counterfeiting and tax evasion.
82. As regards to trademark counterfeiting, generation of income is performed both inside and outside the region, as well as the subsequent laundering of

such income (largely depending on the place of manufacturing of the products). Products that are commonly counterfeited are those relating to films, textiles and perfume brands, some of which are imported from Asian markets.

83. The income obtained come from the introduction and marketing of products in the region's informal markets are usually legitimized through the financial system. This laundering is produced by "smurfing", remittances, simulation of business trading, false export of goods and other similar methods, using formulas that often involve the incorporation of holding or façade companies.
84. In the answers included in the questionnaires on identifying threats from countries that provided disaggregated data, it can be perceived that there are intelligence reports and STRs grounded in this kind of illegal activities. However, there is no data issued on convictions for ML for these crimes.
85. Concerning the actions of international cooperation and mutual assistance, they have been developed mainly among the countries of the region, but have also exchanged requests with the United States, South Africa and Moldova.

### Tax offenses.

86. This type of crime is noted, in the aforementioned report on the perception of threats made by GTARIF, as one of those identified by the countries of the Southern Cone and Andean sub-regions as threats to the ML, which has led to their classification as such at a regional level.
87. According to the report, these crimes are committed within the region and income derived from them is laundered in the same region, both inside and outside the country where they were committed. In the event that the legitimation occurs within the region, it is produced by its transportation to locations where financial services that ensure anonymity and opacity are offered, as well as through the construction and purchase of real estate. In the event that laundering happens outside of the region, its final destination is those countries and jurisdictions that operate as tax havens. Similarly, it is the case that income of these offenses committed outside the region are legitimized in regions with favorable treatment to capital income and operating with a high level of confidentiality.
88. As regards the questionnaires completed by GAFILAT member countries, an important part of them cited the existence of STRs related to this crime,



even though its classification as a predicate offense is not general in all countries. They have mentioned different seizures of assets linked to this offense, as well as one sentence for ML where the predicate offense was a tax offense. As regards to requests for cooperation, these have been made with countries in the region and with others with different location, such as the USA, Israel, Switzerland, Portugal, Italy, South Korea, Angola, and Austria.

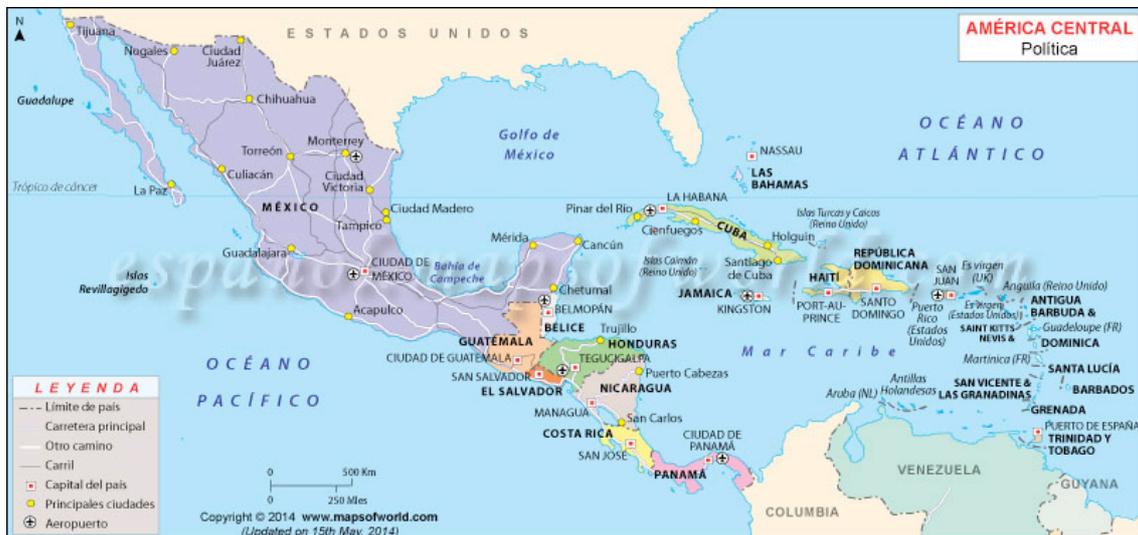
89. In this line, one of the countries located in the Andean sub-region points out in the questionnaire that ML operations related to tax crimes have been detected, through the articulation of fictitious exports and imports, aimed at legitimizing the obtained income.

ANNEX I:

NORTH AMERICAN, CENTRAL AMERICAN AND CARIBBEAN SUB-REGION

GAFILAT member countries comprising the sub-region:

Mexico, Costa Rica, Cuba, Honduras, Guatemala, Panama and Nicaragua.



Information sources used.

- Mutual Evaluation Report of Costa Rica, prepared by the CFATF and approved by its Plenary in May 2007.
- Mutual Evaluation Report of Mexico, prepared by the International Monetary Fund, and approved by the FATF and GAFISUD Plenary in October and December 2008 respectively.
- Mutual Evaluation Report of Nicaragua prepared by CFATF and approved in its Plenary of October 2009.
- Mutual Evaluation Report of Honduras prepared by the World Bank and approved by the CFATF Plenary in August 2009.

- Mutual Evaluation Report of Guatemala prepared by CFATF and approved by its Plenary in November 2010.
- Detailed Assessment Report of Panama based on the FATF Recommendations prepared by the International Monetary Fund in February 2014.
- Regional Typologies Report 2012-2014; Operational Support Working Group and Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Report on perception of regional threats; Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Questionnaires for identifying threats completed by Costa Rica, Guatemala, Nicaragua and Panama.
- "Transnational Organized Crime in Central America and the Caribbean: A threat assessment" Report; UNODC; September 2012.
- Reports by the Americas Regional Review Group; International Co-operation Review Group; FATF; June 2013 and February 2015.

### **THREATS DETECTED IN THE SUB-REGION.**

90. In the study carried out by GTARIF in May 2014 on the perception of threats, it can be noticed that the countries of the sub-region identified drug trafficking, corruption and bribery, trafficking of human beings and smuggling of migrants, counterfeiting and piracy of products and participation in a criminal group as threats of ML. These threats have been dealt with in the general part of this Study, so in this annex will explain those areas that have not been addressed, due to being more directly related to the sub region.

### *PRESENCE OF DRUGS IN THE SUB-REGION.*

91. Most of the countries of the sub-region are located in Central America, although one of them is located in North America (Mexico) and another one in the Caribbean, being an island (Cuba). This geographical situation has a relevant impact on the level of threat they face regarding ML.
92. Among the factors to consider are the fact that its mainland borders the sub-region where drug-producing countries are integrated and that, due its location, its territory is described as passage, so that these illicit goods reach the consumers in the United States and Canada. Given that drug trafficking

is one of the main sources of illicit income and has been considered by the GTARIF, as already noted in this Study, as the greatest threat in the region, it involves a high risk of use of their territory for the legitimization of such funds. This geographic proximity, along with other factors that could imply greater vulnerability (deficiencies in the application of preventive systems, lack of awareness by economic operators about the dangers of laundering, lack of social perception, etc.) can induce trafficking networks to use these countries for ML.

93. Another important element is the fact, as will be seen below, that all the countries of the sub-region have (by land, air or sea) drug transport routes from producer to consumer countries (United States, Canada and European countries), where a part of the legitimization of illegally obtained income also occurs. This reality affects a quad slope:

- Settlement of transnational organized crime in the countries of the sub-region, which implies an increase in crime and the possibility that some of the illicit income is laundered in those countries.
- Involvement of the countries of the sub-region in the development and implementation of unilateral plans to combat drug trafficking, which specially affects the field of security. The implementation of these actions has caused the side effect of modifying the routes originally established for the transfer of these goods and the increase in violence due to fighting between local groups and carriers for control of territory and traffic.
- Use of the drug transportation networks to other equally illegal transportation (e.g. trafficking of weapons or people).
- Payment for the support services provided to drug trafficking by local networks through the delivery of drugs sold in the countries of the sub-region, which, while being a distorting element for the population and an increase in crime, involves generating illegal profits to be legitimized.
- Production activities and transformation of such goods, primarily aimed at the development of synthetic drugs, in the countries of the sub-region in which stops are made in the transit of drugs (North and Central).

94. The following section proceeds to describe in more detail some of these elements, focusing on the fact that the drug routes affect the countries of

the sub-region and that production activities have been detected in some of them. The aspects of organized crime will be detailed later.

**Crossing sub region in drug trafficking routes.**

95. The geographical position of the countries of the sub-region (located mostly in Central America and/or with large maritime borders), along with the weaknesses and difficulties of the authorities to implement measures to control their borders and areas of sovereignty, makes them crossing territories of the drug routes from the southern producer countries to consumer centers of such products in the north. This drug trafficking is carried out using land, sea routes (Pacific Ocean and the Caribbean) or air, or combining different means. The drugs that mainly pass through these routes is cocaine, although heroin, opium/poppy and synthetic drugs are also trafficked, to a lesser extent.
96. This problem is exacerbated by the difficulty of controlling the boundaries due to their amplexness and the orography of the countries that are integrated into the area and, in some cases, the inadequate means of surveillance and control available to secure its borders. In particular, the official border crossings are not numerous, with large areas of land near the borders of these countries that can be crossed clandestinely without great difficulty (so-called blind spots). With regard to maritime areas, there are many islands, especially in the Caribbean, and natural harbors that are difficult to control, which are used as support for this type of traffic. As regards the air transport of these illegal goods, it is known that in terrestrial areas of difficult access used by aircrafts carrying drugs, both for refueling and for the loading or unloading of merchandise, runways are located.
97. With respect to routes transiting the sub-region and originating in production and transit countries belonging to other sub-regions, the UNODC report, used as a source in this Study, identifies the following:
  - Pacific Seaway: Transportation by fishing boats and other vessels, including semisubmersibles aimed at supplying cocaine to the Pacific Cartel.
  - Atlantic Seaway: Transport via speedboats and other rapid vessels in the Atlantic, including some semi-submersibles, especially aimed at providing the Pacific Cartel and Los Zetas.
  - Air: Aircrafts departing from production areas supplying the Pacific Cartel and Los Zetas.

98. Once the merchandise has been introduced in the sub-region, the information gathered indicates that various modes of transport (land, sea and air) are combined to take them to their final destination.
99. In recent years, despite the efforts made, everything suggests that, according to the seizures of assets, the flow of illicit goods has increased significantly. With regard to Central America, the data provided by UNODC shows that it has gone from 17 tons of cocaine seized in 2000 to 80 in 2011, but also points out that the implementation of strategies for control and repression have unilaterally derived drug trafficking to that geographical area.
100. This reality sets the territory of the countries of the sub-region (except in the case of the land area of Cuba) as places of supply, rest, transit and logistical support for drug trafficking. According to the sources used, this is leading to increased drug use among the younger population, both because of the remnants left by the main cargoes for the North and the fact that local logistics networks that support drug trafficking are often paid with drugs that are sold in the local market.

#### **Production area**

101. In certain geographic areas of the sub region, drugs are being produced that are subsequently sent to the United States and Europe through the distribution routes. The types of drugs that are produced in this area are mainly marijuana, opium/poppy, heroin and synthetic drugs. The latter are manufactured with precursor chemicals such as pseudoephedrine, which are often imported from Europe and Asia; one of the most relevant is methamphetamine, which in recent times is gaining prominence.
102. This fact contributes to increase the threat of ML in the sub-region, since it is likely that this production income reverse, in one way or another, to it. Moreover, drug production in a country also involves a significant degree of settlement of criminal gangs dedicated to it and providing security for this activity to be hardly detectable by the police.

#### ***PRESENCE OF CRIMINAL ORGANIZATIONS IN LARGE AREAS OF THE SUB REGION (HIGH CRIME RATES).***

103. In different countries of the sub-region the existence of organized crime has been detected, which, to some extent, devotes part of its activity to control drug trafficking, also conducting other criminal actions. All such actions generate a series of illicit income, which, for its enjoyment, should be

previously subject to ML. The threat derived from them for ML is based on these organizations being created to commit a crime and, as such, generating income that needs to be legitimized. In this regard, the crime of conspiracy was identified as a threat for ML by the countries of the sub-region in the activities carried out under GTARIF.

104. In large parts of the sub-region (North and Central) criminal organizations involved in activities related to drug trafficking and other criminal types are settled. In some cases, these organizations (territorial groups) have taken over areas where the presence of the authorities is weak or nonexistent, imposing their will and using it as a base to carry out their illegal activities.
105. This type of situations derives in serious threats to the institutions of a country, preventing the public authorities to adequately fulfill its functions and powers, with the provision of essential services to the community in the hands of criminal organizations. This reality has its implications in the ML since the lower the ability of a country to develop institutionally, the less effective means and instruments can be made available to fight against crime, and therefore against ML, so the income that requires to be legitimized will be higher. Similarly, when certain territorial areas lack institutional presence, the easier it will be for criminals to use these territories and their inhabitants for crime and ML related activities.
106. Due to their origin, which is usually linked to drug trafficking in its transportation, processing and logistical support aspects, these criminal organizations have ties with others settled in drug-producing countries and in those others that are major consumers, as part of a broader criminal chain.
107. Countries with rates of crime and violence are ranked among the highest in the world are located in the sub-region, phenomena that, in a high percentage, are estimated to be closely linked to organized crime, which consists of regional and transnational groups. The following are among the most common crimes committed in most countries of the sub-region, additional to drug trafficking:
  - Human trafficking and smuggling of migrants.
  - Extortion.
  - Illicit actions linked to public corruption.
  - Theft.

- Smuggling and trade of counterfeit products.
108. Virtually all of these criminal types have been developed in the general part of this Study, so we will not make further reference to them. Only the crime of extortion will be addressed, which is relevant in different countries of the sub-region.
109. In the commission of this type of crime, linked to the territorial crime groups, economic benefits are obtained that are usually laundered in the countries where they have been carried out, but are sometimes also legitimized in other parts of the region. For such legitimization, profits depositing the income in the financial system, the transfer of remittances, the physical movement of cash and the acquisition of real estate or luxury markets, in which it is usual paying in large cash amounts, are all used.
110. This link to the commission of this type of offense with so-called territorial crime groups, which include the Maras, to which reference has already been made in this Study, is stated in the aforementioned UNODC report. This is due to the fact that, in the exercise of their control over geographical areas they carry out this type of criminal activity. In the same vein, the aforementioned report affirms that the pressure to prosecute other crimes, which in one way or another involve them, requires these groups to seek other sources of income, including extortion.
111. In GTARIF individual questionnaires concerning the identification of threats, countries completed them have reported the existence of STRs associated with this type of crime, but it is not known if there have been sentences for ML based on it. Similarly, there have been seizures of assets linked to this crime, as well as cooperation between countries in the region to proceed with its investigation.
112. In the same vein, one of the countries of the sub-region noted that this is one of the most common and constant activities that have been reported by the Financial Intelligence Unit, using the reception of remittances as means to justify the income, although investigations later determined that the origin of these funds is the commission of crimes of extortion carried out by criminal networks such as Maras. It also noted that some of the illegal income derives to other countries in the sub-region and the United States.
113. The increase in violence is closely related to the struggles between rival organizations for control of drug trafficking and other criminal activities occurring in their territories of influence. This causes conflicts between them that result in a high level of violence, affecting society. Similarly, the

increase is related to police pressure that has been carried out by authorities in recent years, directed to eradicate the presence of these bands, which has led to clashes that have caused a large number of victims from their own criminal gangs, security forces and civil society itself.

114. These phenomena of organized crime are characterized by the actions, along with local bands, from other groups with a considerable transnational component. This internationalization affects the commission of criminal activities (drug trafficking is a clear example of this) and ML, because although a significant percentage of illicit income is laundered in the countries of origin, there is another part that is legitimized in other territories (inside and outside of the sub-region). This necessarily implies, as already mentioned, a continuous relationship between criminal groups from different countries.

#### **MEANS USED FOR ML RELEVANT TO THE SUB-REGION.**

115. We have already referred throughout this Study to the existence of activities that could be related to obtaining income from the commission crimes in countries of the sub-region. Moreover, there is evidence to suggest that part of the ML that is executed corresponds to funds that come from the commission of crimes carried out in other countries outside this geographical area. The foreign sources for the generation of these resources would be the commission of offenses related to financial fraud (fraud or mismanagement), tax evasion (which in some countries of the sub region has no consideration of predicate offense) and public corruption activities.
116. We will explain some of the most significant elements of the methods of legitimation that occur in this sub region up next. This section does not intend to be a full explanation of the characteristics of the typologies of the sub-region, since this is not the aim of this Study, proceeding to detail those which, for various reasons, are particularly relevant in the sub-region being characteristic of it.

#### **Entry and movement of cash from the commission crimes within the sub region (insertion into legal circuits).**

117. Remittances and movement of cash mark one of the instrumental arrangements of ML in the sub-region. Most of these countries, in which the level of access to banking is not high, are issuers of emigrant population from rural areas where levels of financial inclusion are very low. Therefore, the most widely used method to send funds to their hometowns, where their families reside, are the remittances made through specialized companies.

Due to the high volume of transactions, there is the suspicion that, along with remittances from migrant workers, others are made with the purpose is to remit the profits of drug trafficking or the commission of other crimes to the organizations that have committed them. This suspicion increases if one considers that, in general, the countries of destination of the emigrant population are also the places to which drugs transiting the sub-region are sent (US and Europe). In addition to the one described, another part of the money transfer is carried out through the physical movement of cash, which exploits the movement of people, weak border controls and the existence of border areas that are difficult to monitor, to perform this type of transportation.

118. This amount of cash that, one way or another, flows to a large area of the sub-region is easily concealable because, in these countries, the informal economy has a high incidence. In this regard, the existence in certain countries of the sub-region of broad economic sectors that lack of regulation and work outside the administrative and tax controls derives in a high level of cash circulating among economic operators and individuals. This situation provides the possibility that, along with this lawfully obtained income, but originating in an informal economy, other income with an illicit origin is entering the market, without this necessarily drawing the attention of the authorities. Additionally, there are countries in the sub-region with a largely dollarized economy, where the movement of this currency is common, with it being used even in daily commercial operations. This facilitates insertion into the commercial circuits of money from the commission of crimes, whose origin would be related to drug trafficking in the Northern countries the sub-region.
119. Once illegally obtained income is entered in the countries of the sub-region, the next step in the laundering process is usually its introduction into the financial system (through which a significant part is re-exported to other countries in the zone or financial centers abroad) and the local economy. At this stage of introduction, these illicit funds are often mixed with those from the commission of crimes within the countries of the sub-region, using the same laundering methods .
120. In this sense, the reports consulted point out that, at this stage, the most vulnerable sectors to ML, along with remittance companies, would be exchange houses and other foreign currency traders and banks. Regarding the latter financial activity, although the transfer of remittances through accredited and regulated financial intermediaries can reduce the incidence

of illegal movement of cash, the volume and the speed with which such transfers are made can also generate important risks in relation to ML.

**Sectors and activities prone to be used to justify illegal income and to receive illicit funds.**

121. In this sub-region, in recent years, different activities have developed significantly that, in one way or another might be linked to ML.
122. One of these activities is that taking place in the agricultural field. In certain countries of the sub-region, the collaboration between territorial groups who hold croplands and livestock with trafficking networks has been detected, providing them protection and serving as logistical support, as well as points of supply and air or sea landing of illegal merchandise. There is a suspicion that some of the illegal profits obtained from this activity are legitimized as yields of farms owned by them, so it is not difficult, considering the vast extensions of land they manage and the usual use of cash in rural zones that can facilitate its concealment.
123. In general, regarding financial operators (other than those noted above), the financial centers located in different parts of the sub-region that regularly work with foreign capital could be a way to ML.
124. Regarding other sectors outside the financial sector, the process of legitimizing illegal income could be carried out through the purchase of real estate, the acquisition of luxury goods, the construction of large shopping centers and hotel infrastructure, and the opening of casinos (both physical and virtual) and Internet betting houses.
125. Foreign operators, who for various circumstances consider this sub-region is an ideal place to legitimize money, are developing some of these activities. These circumstances include proximity to the places where the illegal incomes are generated, the presence of organized crime, the weakness of the implementation of preventive measures by the financial sector in particular countries, or the lack of supervision in the conduction of economic and professional operators classified as Designated Non-Financial Businesses and Professions (DNFBPs) and lack of awareness about the risks of ML among them. Similarly, that social permissiveness, which exists in certain countries of the sub-region to this type of conduct, could also serve as an incentive for ML.

*Special reference to offshore financial centers.*

126. One of the ways identified for ML is its placement in financial centers located outside the borders of the country that originates these illegal incomes, especially in those centers which, due to their services, are particularly attractive to foreign funds. The arrival of funds to these entities can be done by transporting cash or through the financial system, as it has been described above.
127. Specifically, a financial center providing offshore services is located in this sub-region, which because of its features and regulation receives foreign funds, some of which are likely to have an illicit origin. The greater opacity and confidentiality in the management of such services would bring capital inflows that need to be laundered, which would set this area as an attraction point for the legitimization of illicit funds. This reality is joined by the existence of a regulation, which does not conform with international standards in this matter, as it has been pointed out conveniently in international reports on the issue, and to the lack of requirement in its application, along with the lack of social awareness about the possible dangers involved.

*ML through non-financial businesses and professions.*

128. Laundering that has been detected in the sub-region and that is carried out through DNFBP is primarily related, as already noted, with the purchase of luxury cars and real estate, construction of shopping centers and gambling activities, especially online. For this purpose, the launderers act by usually performing cash payments and actions of business simulation and concealment of identities, using nominees or barely active front companies. In this regard, it should be noted that certain regulations in the sub-region, which have been facilitating the possibility of establishing and/or acting with corporations with bearer shares that maintain outdated commercial and public records or with high levels of opacity, have been instrumental to implement such actions.
129. To carry out these laundering activities, the use of professional services provided by lawyers, accountants and notaries have been fundamental. These services are used, primarily, to give the appearance of legitimacy to businesses by hiding laundering activities, also taking advantage of the services allowed to be offered by law firms in certain countries of the sub-region in the commercial sphere (representing foreign corporations, commercial clearance...). However, the existence of such professionals



linked to criminal networks should not be ruled out. The fact that in some countries these professions, along with other non-financial activities, do not have the status of regulated subjects or that, even though they have it, the means to develop their preventive systems have not been made available is a fact that has facilitated activities of ML.

130. As noted above, this kind of ML is done both by nationals of the countries of the sub-region and foreigners. The proximity of Central American countries to the sub region with drug producing areas contributes to this migration of launderers , by taking into account that the traffic of these substances has been identified as the main source to generate illicit income.

ANNEX II

SOUTHERN CONE SUB REGION

GAFILAT member countries comprising the sub-region:

Argentina, Brazil, Paraguay and Uruguay.



Information sources used.

- Mutual Evaluation Report of Argentina, developed jointly by FATF and GAFISUD, and approved by the Plenary of such organizations in October and December 2010 respectively

- Mutual Evaluation Report of Brazil, developed jointly by FATF and GAFISUD, and approved by the Plenary of such organizations in June and July 2010, respectively.
- Mutual Evaluation Report of Paraguay, prepared by the International Monetary Fund and approved by the GAFISUD Plenary in December 2008.
- Mutual Evaluation Report of Uruguay prepared by GAFISUD and approved by the December 2009 Plenary.
- Regional Typologies Report 2012-2014; Operational Support Working Group and Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Report on perception of regional threats; Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Questionnaires for identifying threats completed by Argentina, Brazil, Paraguay and Uruguay.
- Reports by the Americas Regional Review Group; International Co-operation Review Group; FATF; June 2013, October 2014 and February 2015.

### **THREATS DETECTED IN THE SUB REGION.**

131. In the Study by GTARIF of May 2014 on the perception of threats, it is noted that the countries of the sub-region identified drug trafficking, corruption and bribery, trafficking of human beings (sexual exploitation), smuggling and tax offenses as threats of ML. Those threats that have not been addressed in the general part of the Study, being more directly related to the sub-region, will be exposed in this annex.

### *PRESENCE OF DRUG TRAFFICKING IN THE SUB REGION.*

132. The countries of the sub-region are based on the so-called Southern Cone of South America, which certainly has its impact on the threats they face in the fight against ML.
133. One factor to consider is the proximity that the countries of the sub-region have with the territories where most of the drugs, which are transported through trafficking networks (mainly cocaine), are produced. This fact, along with the fact that drug trafficking remains the main source of illicit income

and other elements that exist in some areas of the sub-region (existence in the sub-region of financial centers characterized by confidentiality and opacity, difficulties in border control, possible perception by segments of the population that ML is not risky, etc.), makes it possible for the sub region to become a magnet for ML.

134. Moreover, we must not obviate that the sub-region is traditionally linked to the exit routes of drugs from producer countries to consumer markets (mainly Europe), as will be seen later. This reality is likely to affect different aspects, as outlined below:

- Possible establishment of organized crime in certain countries of the sub-region initially dedicated to the control of the movement of drugs, increasing the possibility that some of the illicit income is laundered in those countries.
- Using of established networks to transport drugs to other equally illegal (e.g. trafficking of weapons or people) movements.
- Carrying out of production activities and/or processing of drugs, which are then marketed through existing routes, in certain countries of the sub-region.

135. We will now proceed to describe in more detail some of these factors, focusing on those which, based on the information gathered, would have a greater impact on the possibility of ML occurring in the sub-region.

### **Geographical position at the exit routes of the drug.**

136. The sub region is one of the natural outlets for drugs from producing countries, located in the Andean sub-region, to consumer markets (United States and, to a greater extent, Europe, and to Africa and Middle East) and even to the countries that integrate it. The illicit goods that are moved through these routes are mainly cocaine, although movement of other substances that are produced in the area, and to which we will refer to later, is also carried out. Considering the amounts that have been seized, there are transit routes of movement of drugs that have an important role in the transfer of such goods in the sub-region.

137. Drug trafficking that is carried out through the jurisdictional scope of the countries of the sub-region is being carried out, by all indications, by transnational networks and supported by local crime groups. This reality seems to have led, according to the Mutual Evaluations, to the presence in

certain areas of the sub-region of cartels that control, along with local territorial groups, drug trafficking in the area and that would be the cause of the high levels of violence that have been detected in specific points of the sub-region. However, the illegal activities carried out by organized crime groups, beyond these clearly identified areas, do not seem to be a serious threat to the whole sub-region, except as it affects the activity of smuggling, to which later reference will be made.

**Points of production of illicit substances.**

138. The transit of this kind of goods through the region translates in an increase in the possibilities of production and processing of drugs, as well as in an increase in the likelihood of consumption (mainly because it could be proceeding to the payment for services provided by local offenders to transnational trafficking networks by delivering drugs).
139. Regarding production, one of the countries of the sub-region is listed as a place of origin of precursor chemicals, especially methamphetamine. Through the process of transforming, the result is a product that, besides being able to be consumed in the sub-region, is capable of being distributed through the channels passing through it.
140. Another illegal substance that is grown in the area is marijuana, with a specific area that has been set-up as the one with the highest production of such drug in South America being located in the sub-region. The destination of this drug is both consumption in neighboring countries and its transportation to consumption points located outside the sub-region.
141. This production activity running in the sub-region necessarily implies the presence and establishment of organized groups that are responsible for cultivation and/or processing, providing security to this activity and transporting it to consumer endpoints. This is likely to increase the chances of organized crime settling in the area, as well as the existence of illegal profits that need to be laundered.

***PREEMINENT CRIMES IN THE SUB-REGION; SPECIAL REFERENCE TO SMUGGLING OF VARIOUS PRODUCTS AND COUNTERFEIT GOODS.***

142. The diverse information consulted points to a number of offenses as the ones that impact the most in the area and, as such, are likely to generate illicit income that could be object of laundering in the sub-region. Although, as noted above, unlike other sub-regions covered by this report, there isn't a high presence of organized crime groups that result in high levels of

criminality, while it is true that crimes are committed in the sub region, among which the following stand out for their relevance:

- Drug traffic.
- Tax evasion and other frauds (evasion of funds and other tax offenses).
- Illicit trafficking of human beings.
- Smuggling of weapons, vehicles, endangered animal and plant species and other goods (counterfeit products).
- Public corruption.

143. All of these threats have been addressed in the general part of this Study; nonetheless, a brief reference to their impact on the sub-region will be made, to then describe the special features presented by smuggling in this geographical area.

144. The impact that the commission of these crimes has in ML in the sub-region is estimated as notable in the sources of information that have been used to prepare this report. With regard to drug trafficking, its influence and presence in the area has been subject to treatment in the previous section, while smuggling of various goods and counterfeit products is, due to its special relevance in an area of the sub-region, object to specific development.

145. As regards public corruption, these criminal practices have been detected in all countries of the sub-region, which are recently gaining importance worldwide for the impact they have on the activities of legitimation. In some of the cases identified, these practices have affected the highest authorities of the country in which they occurred. The presence of this type of behavior in the area can result in the generation of organized crime for both the execution of these criminal acts and to articulate the subsequent laundering of the profits. This ML, as discussed in the corresponding section, may be carried out in the territory of the sub-region or in other areas outside it. In this group of offenses, tax evasion and other administrative fraud would be included, because of their nature and characteristics, even when in some of the countries of the sub-region tax evasion is not a predicate offense for ML.

146. Moreover, trafficking of human beings has also been identified as a criminal behavior likely to generate illicit income. This type of offense, as in other areas of the region, shares resources and routes with other forms of illicit trafficking, such as weapons. This offense, regardless of the serious social

and human impact involved and the illicit income derived from its commission, means that for its implementation it must have an organized crime network, which, as a general rule, results in an increase in crime in the area where they are located.

**Smuggling of various goods and counterfeits.**

147. Within the sub-region there is a border area that consists of three countries and is considered as a place where smuggling has a strong presence, especially of fake goods. In this sense, it is estimated that a significant portion of the illicit income generated by the high amount of smuggling that occurs in that area is being laundered in the sub-region.
148. According to consulted reports, this smuggling activity not only includes the import and export of commercial products of legal origin through illegal procedures enabling them to avoid paying taxes, but also an important traffic of counterfeit goods (DVD, clothing and accessories, cigarettes, electronic and computer technology, among others). Also, this step is also used to transport illicit goods and human trafficking.
149. Regarding counterfeit goods, it can be concluded that for the most part these are manufactured in Asia and the marketing is done by citizens of Asian and Middle Eastern origin, settled in the countries of the border. According to the data provided, tens of thousands of people cross the border between the three countries daily, which greatly hinders the possibility to control transit, facilitating the possibility to hide unlawful actions behind perfectly legal movements.
150. The information gathered suggests that, despite the efforts by the authorities to eradicate this illicit trafficking, the fact is that it still has significance in the region. This pressure from the authorities in the various countries of the border has resulted in the detention of foreign and local drug traffickers and the dismantling of their transport networks. However, criminal organizations engaged in smuggling do not seem to be affected by this, as they continue to perform their activities.
151. This situation, along with strong implementation in the area of an informal economic model, which makes the circulation and movement of cash that, in other geographic regions, would attract attention usual, suggests that the illegal activity and the circulation of payments in cash increases the chances of laundering.

**MEANS USED FOR ML WITH RELEVANCE IN THE SUB REGION.**

152. This section describes some of the most significant elements of the methods of ML in this sub-region. The purpose of this is not to conduct a thorough explanation of the characteristics of the typologies within the sub-region, since this is not the objective of this Study. The intention is to refer to those methods of ML that, for various reasons, have a particular impact in the sub-region.
153. ML in the sub-region comes, mainly, from crimes that have been committed in its geographical area, to which we must add the one that is carried out with funds from abroad. These illicit incomes from outside the sub-region would be linked to activities of tax fraud, tax evasion and public corruption. These proceedings related to laundering are conditioned by a series of circumstances, which we will proceed to explain.

**Movement of cash and remittance transfers.**

154. As noted repeatedly throughout this Study, the transportation of cash that can be lawfully made between different geographic locations can conceal the movement of money obtained from the commission of criminal acts, in order to be laundered. This is particularly intense in certain parts of the sub-region. This situation is particularly important in a sub-region such as the one under analysis, where there are areas with a high level of informal economy, which is characterized by the absence of regulation of economic and commercial activity and the habitual use of cash, implying that such use should not generate suspicion among the population. Additionally, in some of the countries of the sub-region there is a certain distrust of banks, which motivates the search for alternative ways of deposit and increase the volume of cash flow.
155. Another issue to consider is the one related to remittances, which have countries of the sub-region as either origin or destination. Some of the countries in the sub-region have a high percentage of migrant population, which could translate into an increase in the reception of funds in this way. However, this population, despite representing a significant percentage in their countries of origin, is not numerically significant. More important are remittances transferred in different ways, both formal and informal, abroad, and that mostly have their origin in the border formed by three countries, to which reference has been made. Their destination is usually those countries where the goods produced therein are sold or the places of origin of the economic operators performing such trade. The high number of movements of money carried out in this field, together with the illicit-nature of an

important part of commercial traffic that is performed in said area, might suggest that it is a common method for ML.

### **Sectors most commonly used for ML.**

156. According to the information from the consulted reports, the financial sector is the one most identified as a way for ML, through its private banking services and by implementing specific financial transactions involving specific international centers.
157. In this sense, we must draw attention to the existence in one of the countries of the sub-region of financial investment corporate instruments that have great appeal for their possibility to conceal the source of funds and their beneficial ownership. The use of these financial investment structures is made by nationals of other countries in the sub-region or from other territories, and its use may be due to a will to obtain confidentiality and better tax treatment, without necessarily being linked to an illicit origin of funds. However, the information suggests that the use of these instruments is proving very attractive for money laundering from within and outside the sub-region.
158. Regarding the non-bank financial sector, the operators that have been identified as most likely to be used for ML are fund remittance entities and exchange houses.
159. Regarding ML that is done through operations outside the financial sector, which include investments made through acquisition and construction of real estate, import and sale of luxury cars, trading of jewelry and precious stones and agricultural activities. The common feature of all these activities is the fact that they are usually used in operations that involve cash payments, without it being something unusual to the business practice. This could serve as an incentive for money launderers to use these sectors when they need to legitimize their funds.
160. Finally, important role that certain professionals have been reported to play in the laundering process should be noted, serving as an instrument for legitimizing assets. In particular, the information collected establishes that operations designed through lawyers, accountants and notaries are playing an important role in ML. Likewise, the use of complex corporate structures, for whose implementation advanced legal, financial and commercial advice is required, is a reality that is happening in the general panorama of money laundering. To the possible lack of awareness of these professionals about the dangers of providing certain services, we can add the fact that this type



of professional and commercial activities are not considered in all countries of the sub region as entities bound on ML.

**ANNEX III:  
ANDEAN SUB REGION**

GAFILAT member countries comprising the sub-region:

Bolivia, Colombia, Chile, Ecuador and Peru.



Information sources used.

- Mutual Evaluation Report of Bolivia developed by GAFISUD and approved by its Plenary in June 2011.
- Mutual Evaluation Report of Colombia prepared by GAFISUD and approved by its Plenary in December 2008.

- Mutual Evaluation Report of Chile developed by GAFISUD and approved by its Plenary in December 2010.
- Mutual Evaluation Report of Ecuador developed by GAFISUD and approved by its Plenary in December 2011.
- Mutual Evaluation Report of Peru prepared by GAFISUD and approved by its Plenary of July 2008.
- Regional Typologies Report 2012-2014; Operational Support Working Group and Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Report on perception of regional threats; Risk Analysis and Financial Inclusion Working Group; GAFILAT; May 2014.
- Questionnaires for identifying threats completed by Bolivia, Chile, Ecuador and Peru.
- Reports by the Americas Regional Review Group; International Co-operation Review Group; FATF; June 2013, October 2014 and February 2015.

### **THREATS DETECTED IN THE SUB-REGION**

161. In the study prepared by GTARIF in May 2014 on the perception of threats it is noted that the countries of this sub-region identified drug trafficking, corruption and bribery, smuggling and tax crimes and environmental crimes (including illegal mining) as threats of ML. Those aspects of the threats that have not been addressed in the general part of the studies, them being more directly related to the sub-region, will be detailed in this annex.

### *PRESENCE OF DRUG TRAFFICKING IN THE SUB REGION.*

162. As already noted in this Study, the report on the perception of regional threats made by GTARIF in May 2014 describes drug trafficking as "the crime that represents the greatest threat of ML to the region." This sub-region is no stranger to this circumstance, with some of the countries that compose it being listed as major producers of cocaine in the region, and even the world. This implies a number of consequences that are reflected in ML for the sub-region, especially considering that the main source of illicit money that is subject to laundering comes from drug trafficking:

- Existence of geographical areas of the sub-region that, since they are engaged in the production of drugs, are outside the control of the authorities.
- Articulation of transport networks where the production of this drugs finds an outlet.
- Establishment of criminal groups in production areas that control the production and distribution of drugs.

163. These elements affect significantly in ML in the sub-region, which sets this reality as a threat in this geographical area. We will proceed with a more extensive description of the implications of each one of them.

**Consequences of crops: territorial areas with weak institutional control and the establishment of organized crime groups.**

164. As noted, in this sub-region we find the major cocaine-producing areas worldwide. Despite plans that are being carried out by the authorities of different countries to eradicate such crops, the reality is that these practices persist and adversely affect the integrity of the countries hosting them. The location of these zones in areas of difficult access and localization prevent the efforts made by the authorities to provide the expected results.

165. The fact that geographical areas dedicated to this type of crop are located in the sub-region and that the authorities try to eradicate these practices without full success in this endeavor implies there is no full control over them by the government. The result would be that, to some extent, control of these territories would be subtracted from the action of the authorities, which would make them more vulnerable to criminal actions, providing them with greater opportunities for ML. This situation would adversely affect in the sense that, in addition to failing to prevent the commission of these crimes, certain public functions would be borrowed by groups exercising control over them in these areas, which implies a degree of dependence of criminal activities that develop there and of the groups that run them. This could involve the use of certain sectors of the population to commit criminal activities and ML. All these elements significantly affect the possibilities of committing crimes and therefore illegal income generation that would need to be legitimized.

166. Moreover, a consequence of this is the establishment in such areas of organized crime groups who carry out a series of functions that would have their impact on the LA:

- Control and organization of the farming activity
- Organization of transportation networks to consumer markets.
- Reversal of the profits from the drug trade to areas of settlement of criminal groups.

167. Besides the negative consequences of the presence of these criminal groups in parts of the sub-region, a fact that directly affects ML is verification that a portion of the illegal income derived from this activity returns to the area of origin. The information consulted concludes that, in the production areas, drug trafficking starts, by providing goods that are subject to traffic, in addition to planning, being consummated abroad. By contrast, ML starts abroad (once the economic income from the sale of illicit goods were obtained) and is concluded in the areas of origin of the drug, when trying to give the appearance of legality to such resources of illicit origin. This situation mainly affects the areas where drugs are grown and, thus, affects the areas surrounding them.

168. Moreover, this criminality that is based on the sources of production is likely to use its structure and means to pursue the realization of other criminal activities, in addition to ML. Also, the potential increase in violence in those areas, derived from confrontations with the authorities in their efforts to prosecuting these criminal groups and from conflicts that may arise between rival gangs for control of production and the benefits that derive from it, should not be overlooked.

### **Starting area of drug trafficking and transit to points of consumption.**

169. The fact that we find the source of the drug, which subsequently is channeled to consuming countries, in the sub-region means that a part of the goods transits through its territory. These transportation routes pass through countries with production areas as well as through others that are located in natural outlets that would be targeted north of the continent, Europe or elsewhere in the region.

170. This situation, in which illicit goods transit through the countries of the sub-region, is accentuated by the orographic characteristics of very large areas within this geographical space, which prevents proper monitoring of the movement of people and goods. The borders that drugs cross in their way to the consumption points are, in most cases, very large and difficult to access, resulting in the inability to be secured by the police.

171. All this reality configures that a significant part of the territory of the countries of the sub-region serve as places of production, transit and logistical support for drug trafficking. Likewise, also part of the drugs leaving the production areas is sent to other countries in the sub-region for consumption.

*PREEMINENT CRIMES IN THE SUB-REGION.*

172. In the countries of the sub-region, a number of crimes are committed, generating income that can be laundered in its territory, or not, by different ways and means. Similarly, there are other incomes from illegal acts committed outside the sub-region that, for different reasons, are laundered in this geographical area. In this sense, there is an increasing number of cases where the predicate offense could have been committed abroad, especially drug trafficking and public corruption related offenses. Below we show a list of offenses that, according to information handled, have a higher incidence in the ML of the sub-region:

- Drug traffic.
- Public corruption and fraud to the government.
- Kidnappings and extortion.
- Tax Fraud.
- Smuggling.
- Human trafficking.
- Economic offenses (use of insider information, fraudulent procurement of credit, scams, etc.).
- Crimes related illegal exploitation of natural resources (mining, forestry...).

173. Most of these offenses have already been referred to in the general part of this Study, so in this section we will focus on the more specific aspects of the sub-region and in exposing the crime of illegal exploitation of natural resources, which has not been addressed in the aforementioned section.

174. Apart from the drug trafficking, which is the crime that has been identified as the biggest generator of illegal resources in the sub-region, public corruption activities are becoming increasingly important, being one of its most usual variants the perception of kickbacks for obtaining public

procurement contracts or simulating contracts in order to obtain economic benefits. This type of crime can be committed by organized groups or individuals, becoming more usual the participation of the former in this kind of criminal activity. In the same vein, economic and tax crimes and tax fraud are also framed.

175. All other offenses that result in laundering in the sub-region substantially coincide with those identified in different areas of the region, and a connection exists between different types of offenses. In this regard, we should emphasize the use of common systems and means to carry out the criminal act among those linked to the movement of goods or people. This coincidence leads to shared routes, facilities and in most cases, the identity of the groups that commit them.
176. Finally, the illegal exploitation of natural resources (classified as environmental crime) is important in this sub-region due to the presence of mineral deposits and large areas with vegetal resources whose marketing is likely to yield important benefits.
177. The modus operandi is that the extraction of metals or wood is carried out illegally, with it being later sold to companies or mining concessions that have the supporting documentation required by the distributor to further export the product (often these companies are constituted by the distributor). Subsequently, the importer buys the product legally, paying the corresponding price through formal payment systems. The trail is lost from the initial operation of selling metal or wood because the payment is made in cash and fades between illegal extractors. Given this operation, illegal income is generated and laundered within the sub-region.
178. According to data from one of the countries of the sub-region, illegal gold mining accounts for 22% of total exports made from the country, estimating that this illegal activity generates 1,000 million US dollars annually, evading taxes for a total of 305 million US dollars.

### **MEANS USED FOR ML WITH RELEVANCE IN THE SUB REGION.**

179. This section provides a brief reference to the means commonly used in the sub-region for ML without providing an in-depth explanation, because it is not the subject of this Study.
180. ML taking place in the countries of the sub-region uses both financial (banking and non-banking) and non-financial services. Overall, in recent years the proceedings for ML have become increasingly sophisticated, due

to the experience of the organizations or individuals that engage in it and to the pressure of the authorities encouraging offenders to seek more complex ways of laundering, which are more difficult to detect. The participation of experts in the topic and criminal organizations dedicated exclusively to it is becoming more frequent in the functions of ML.

181. Regarding the sectors used, these are the most common:

- Banking sector.
- Stock Exchanges.
- Exchange offices.
- Money remittance entities.
- Real Estate Sector.
- Gambling.
- Legal professions (lawyers and notaries).
- Luxury goods (luxury cars, jewelry...).

182. All of them are substantially coincident with those used in other sub-regions analyzed, thus having common characteristics.

### **ML methods.**

183. In relation to the way in which ML occurs, coincidences with other countries in the region are also considerable. Below is a list of the most frequent ones:

- Fragmentation of cash income in financial institutions.
- Investments in companies with illicit capital.
- Loans with usurious interest.
- Smuggling and currency exchange.
- Using façade companies.
- Transfers that come from abroad, from nonexistent companies.
- Investments in the financial system.
- Transfers through exchange offices.



- Withdrawal of cash through ATMs by an unknown number of people.
- Acquisition of real estate and luxury goods with cash.
- Use of front men (registration of property, especially real estate and personal property, on behalf of third parties).
- Cross-border flow of money.
- Simulated sales through fictitious accounts on accounting records of companies.