

## **International Narcotics Control Strategy Report -2005**

Released by the Bureau for International Narcotics and Law Enforcement Affairs  
March 2005

### **Introduction**

Following the money as a way of combating crime and terrorism continues to require nimble action by authorities to keep pace with the alternative methods of operations criminals and terrorists seek to employ to acquire and move their funds. The closer we looked at banks, the faster the money seemed to shift to non-traditional money movers—gem and jewelry dealers, real estate, charities, and attorneys or other intermediaries. As these entities were brought under the purview of anti-money laundering laws and regulations, the money moved further underground—to alternative remittance systems such as hawala, trade or commodity based systems, or to cash couriers. In 2004, we came to more fully understand the workings of those methods and to realize that we must concentrate increasingly on the workings of these hard-to-detect systems. The challenges presented by the use of these methods are influencing the responses of authorities worldwide with regard to setting of standards, training, institution building, data collection, and investigations.

The use of these underground systems reflects the strides the international community has made since 9/11 in intensifying its efforts to develop coordinated, targeted actions to thwart money laundering and terrorist financing. By the end of 2004, important gains had been made across all fronts. Stronger international anti-money laundering and counterterrorist financing standards focused on banks and financial intermediaries were in effect in more countries. The countries most vulnerable to terrorist financing were well on their way to receiving technical assistance packages to develop comprehensive anti-money laundering regimes to eliminate vulnerabilities. Twenty-six additional countries criminalized terrorist financing in 2004, bringing the total number of countries that have criminalized terrorist financing to 113. As of December 2004, there were 94 financial intelligence units in the Egmont Group, an increase of ten new members in the past year. Intelligence led to the identification and subsequent investigation of key criminals and terrorists or terrorist supporters. And scarce assistance assets also were used more efficiently; burden sharing among our allies in the donor community expanded and reliance on regionally focused training programs grew.

Because criminals or terrorists cannot now move or acquire funds through formal channels as easily as they did before, they are seeking alternative laundering and financing methods to undermine international efforts and overcome the law enforcement and regulatory obstacles placed in their paths. Evidence of this search can be seen as investigation after investigation reveals the increasingly important role of "alternative remittance systems"—hawalas, the black market peso exchange, various charitable organizations, and trade-based money laundering—in facilitating transnational crime and terrorism. Charities are typically not subject to adequate oversight or regulation and have been cited in several transnational terrorist financing investigations as the intermediaries through which funds are moved. Trade-based money laundering, often based simply on the alteration of shipping documents or invoices, is frequently undetected unless jurisdictions work together to share information and compare documentation. Couriers are devising new ways to conceal currency and easily transportable high-value items such as gems to carry them across borders. Our efforts in the next few years must be geared toward fully understanding these mechanisms and developing tools to prevent their use.

The Financial Action Task Force (FATF) continued to provide critical guidance on the development of comprehensive regimes to attack the full range of financial crime. The FATF added a ninth Special Recommendation on Terrorist Financing, addressing the problem of cash couriers. It also continued its efforts to clarify and refine these Special Recommendations by publishing interpretive notes and best practices guidelines to help regulators, enforcers, financial institutions and others better understand and implement the most technical Recommendations. The FATF also continued to work closely with the IMF and World Bank to develop a common methodology to incorporate FATF's Recommendations into the financial sector reviews all three entities undertake. The FATF-style regional bodies worked throughout the year to adopt the Recommendations in line with their particular regional requirements. The FATF welcomed two new FATF-style regional bodies in 2004, the Eurasian Group, with six members including Russia and China, and the Middle Eastern North African Group, with 14 members. The addition of these two new groups brings the total number of countries participating in the FATF-initiated process to more than 150.



The FATF sustained the behavior-changing pressure of its Non-cooperative Countries and Territories (NCCT) process. Of the 23 jurisdictions the FATF has designated as NCCTs over the past six years, only six remained on the list as of the end of 2004. The threat of countermeasures has motivated countries to improve their compliance, and the provision of assistance from major donors has helped countries pass legislation and establish anti-money laundering and counterterrorist financing regimes that meet international standards.

The United States remains particularly concerned about terrorist financing activity in a core set of approximately two- dozen countries around the world. Accordingly, the bulk of U.S. anti-money laundering technical assistance is focused on making these countries less vulnerable to the terrorist financing threat. The U.S. State Department is funding most of this interagency effort and is coordinating and leading the undertaking of technical assistance. So far, the Department has led comprehensive vulnerability and needs assessments of, and produced training and technical assistance implementation plans for, the most vulnerable of countries. Assistance is being provided to 22 of these priority countries. The program takes a systemic and comprehensive approach, with assistance delivered in both sequential and parallel stages to help countries do the following: put in place anti-money laundering/counterterrorist financing laws that include measures to block and freeze assets and comply with the FATF's Special Recommendations; establish a regulatory scheme to oversee the financial sector; provide law enforcement agencies, prosecutors and judges with the training and skills to successfully investigate and prosecute financial crime; and create a Financial Intelligence Unit (FIU) capable of collecting, analyzing and disseminating reports of suspicious transactions and other intelligence to both help develop cases domestically and share information internationally through FIUs in other countries as part of transnational investigations.

Not all of the assistance is provided bilaterally. The United States supports a number of regional training programs around the world in which officials from neighboring countries are brought together for specialized anti-money laundering and counterterrorist financing training. The global network of International Law Enforcement Academies (ILEAs), funded and managed by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), has enhanced its anti-money laundering curricula, including the incorporation of new segments on terrorist financing. The State Department's Anti-terrorist Assistance (ATA) Program similarly includes terrorist financing segments in the curricula it delivers at various counterterrorism training centers around the world. These and other broad-based training initiatives allowed the U.S. to provide some form of anti-money laundering or counterterrorist financing assistance to over 120 countries in 2004.

International efforts to identify, block, and freeze terrorist assets persisted in 2004; however, the task is growing more challenging as terrorists move away from the formal financial sector and into informal and underground systems to protect their funds. Evidence of this movement is reflected in the U.S. Treasury report that, in 2004, some \$9 million worth of terrorist assets worldwide were blocked. Since the concentrated effort began shortly after September 11, 2001, 45 countries have blocked a total of approximately \$147 million.

A movement away from the formal financial sector is a major factor in the slower pace of asset freezes in 2004. Terrorist organizations appear to be making more use of couriers to carry currency, gems and other easily transportable, high-value items; traditional, ethnic-based alternative remittance systems; and charities. Identifying and tracking funds through these alternative networks—a tough enough assignment even for countries with sophisticated anti-money laundering regimes—is a staggering challenge for many of the key terrorist financing countries who are only now beginning to develop competent anti-money laundering institutions. The FATF has sought to help overcome this challenge by issuing various interpretative notes and best practices guidelines for its Special Recommendations dealing with charities, cash couriers and the blocking and freezing of assets. Indeed, at its 2004 annual typologies exercise, which addressed such issues as money laundering trends and best practices in the areas of law enforcement and regulation, the FATF focused on alternative remittance systems, particularly the challenge of tracking and monitoring funds when they are moved in areas that depend on cash economies and in systems with no formal accounting or record keeping infrastructure.

Important substantive strides were made with regard to international burden sharing. The proliferation of attacks around the world brought the threat of terrorism home to more and more countries and



underscored the fact that no one country has the sole ability or responsibility to meet the entire challenge. U.S. technical experts are particularly stretched because of their frequent need to undertake, nearly simultaneously, assessment, training, and investigative missions. We have worked particularly closely with the United Kingdom, Australia, Japan, the UN Global Programme against Money Laundering, the OAS, the Asia Development Bank, the IMF and the World Bank on regional and country-specific projects as a way of sharing resources. Efforts to identify priorities and coordinate assistance by the major donor countries took a step forward at the June 2003 G-8 Summit with the establishment of the Counter-Terrorism Action Group (CTAG). The CTAG members have demonstrated a willingness and ability to provide counterterrorism assistance. The CTAG has partnered with the FATF, providing that organization with a list of countries to which CTAG members are interested in providing counterterrorist financing assistance, so that the FATF could assess their counterterrorist financing technical assistance needs. The FATF delivered those assessments to the CTAG in 2004, and the donors are now beginning to follow through with coordinated, cost-saving counterterrorism technical assistance programs.

As we look beyond the accomplishments of 2004, we see that our task to combat money laundering and terrorist financing is ongoing. There remain significant challenges in keeping abreast of the new methods and systems criminals and terrorists use to hide and move their money. This will press intelligence collection and criminal investigation skills to their limits as they struggle to be effective in very closed, often hostile foreign environments. One of the means being considered to attack this challenge is the creation of an international network of Trade Transparency Units (TTUs). Patterned after the international network of financial intelligence units that, among other missions, collect, analyze and disseminate information on suspicious transactions, the TTUs would similarly focus on detecting anomalies in trade data—such as deliberate over- and under-invoicing—that can be a powerful predictor of trade-based money laundering. By focusing on commodities that often serve as stores-of-value and are used to settle accounts without involving the formal financial sector, such as gold and precious gems, the TTUs would get to the heart of much of the alternative remittance challenge and help expose criminals, terrorists, and their associates and assets to punitive and deterrent enforcement action. Brazil, Panama and the Philippines have expressed interest in TTUs and are working with the Department of Homeland Security to move this effort forward.

Sustained efforts will be essential to realizing further progress against money laundering and terrorist financing. Such progress will continue to require strong and creative leadership from the United States. But we have help. The international community is increasingly willing to cooperate in this fight—to comply with the measures needed to block, deter, and expose money laundering and terrorist financing, and to provide the assistance needed to turn the political will to comply into the operational ability to enforce the laws and regulations that lead to the confiscation of crime and terrorist-related assets and the prosecution and conviction of money launderers and terrorist financiers.

### **Money Laundering and Terrorist Financing—A Global Threat**

International recognition of, and action against, the threat posed by money laundering continue to increase. Money laundering poses international and national security threats through corruption of officials and legal systems, undermines free enterprise by crowding out the private sector, and threatens the financial stability of countries and the international free flow of capital. Undeniably, the revenue produced by some narcotics-trafficking organizations can far exceed the funding available to the law enforcement and security services of some countries.

After the terrorist attacks of September 11, 2001, the United States and its allies launched a global war on terror focused on five fronts: diplomatic, financial, military, intelligence, and law enforcement. The United States and the global community quickly recognized the critical role that combating terrorist financing should play in the overall global effort against terrorism.

### **Money Laundering and Terrorist Financing: Differences and Similarities**

Most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial; rather, terrorist groups usually seek goals such as publicity for their cause and political influence. Ordinarily, criminal activity produces funds and other proceeds that traditional money launderers must disguise by taking large cash deposits and entering them into the financial system



without detection. Funds that support terrorist activity may come from illicit activity but are also generated through means such as fundraising through legal non-profit entities. In fact, a significant portion of terrorists' funding comes from contributors, some who know the intended purpose of their contributions and some who do not. Because terrorist operations require relatively little money (for example, the attacks on the World Trade Center and the Pentagon are estimated to have cost approximately \$500,000), terrorist financiers need to place relatively few funds into the hands of terrorist cells and their members in order to carry out their objectives. This is a significantly easier task than seeking to disguise the large amounts of proceeds generated by criminal and drug kingpins.

## **Funding Sources**

Transnational organized crime groups have long relied on criminal proceeds to fund and expand their operations, and were pioneers in using corporate structures to commingle funds to disguise their origin. It is the terrorists' use of social and religious organizations, and to a lesser extent, state sponsorship, that differentiates their funding sources from those of traditional transnational organized criminal groups. While actual terrorist operations require only comparatively modest funding, international terrorist groups need significant amounts of money to organize, recruit, train and equip new adherents, and otherwise support their activities.

Because of these larger organizational costs, terrorists often finance their terrorism efforts with a portion of the proceeds gained from traditional crimes such as kidnapping for ransom, narcotics trafficking, extortion, credit card fraud, counterfeiting, and smuggling. Indeed, some Foreign Terrorist Organizations (FTOs), such as the Revolutionary Armed Forces of Colombia, (FARC), the United Self Defense Forces of Colombia (AUC) and Sendero Luminoso (Shining Path) in Peru, are so closely linked to the narcotics trade that they are often referred to as "narcoterrorists."

Like narcotics-related money launderers, terrorist groups also utilize front companies; that is, commercial enterprises that engage in legitimate enterprise, but which are also used to commingle illicit revenues with legitimate profits. Front companies are frequently established in offshore financial centers that provide anonymity, thereby insulating the beneficial owners from law enforcement. In addition to commingling the proceeds of crime, terrorist front companies also commingle donations from witting and unwitting sympathizers.

## **Movements of Criminal and Terrorist Funds**

The methods used to move money to support terrorist activities are nearly identical to those used for moving and laundering money for general criminal purposes. In many cases, criminal organizations and terrorists employ the services of the same money professionals (including accountants and lawyers) to help move their funds.

In addition to the continued use of the formal financial sector, terrorists and traffickers alike employ informal methods to move their funds. One common method is smuggling cash, gems or precious metals across borders either in bulk or through the use of couriers. Likewise, both traffickers and terrorists rely on moneychangers. Moneychangers play a major role in transferring funds, especially in countries where currency or exchange rate controls exist and where cash is the traditionally accepted means of settling accounts. These systems are also commonly used by large numbers of expatriates to remit funds to families abroad.

Both terrorists and traffickers have used alternative remittance systems, such as "hawala" or "hundi," and underground banking; these systems use trusted networks that move funds and settle accounts with little or no paper records. Such systems are prevalent throughout Asia and the Middle East as well as within expatriate communities in other regions.

Trade-based money laundering is used by organized crime groups and, increasingly, by terrorist financiers as well. This method involves the use of commodities, false invoicing, and other trade manipulation to move funds. Examples of this method include the Black Market Peso Exchange in the Western Hemisphere, the use of gold in the Middle East, and the use of precious gems in Africa.



Some terrorist groups may also use Islamic banks to move funds. Islamic banks operate within Islamic law, which prohibits the payment of interest and certain other activities. They have proliferated throughout Africa, Asia, the Middle East, and most recently Europe, since the mid-1970s. Many of these banks are not subject to the anti-money laundering regulations and controls normally imposed on secular commercial banks. While they may voluntarily comply with banking regulations, and in particular, anti-money laundering guidelines, there is often no control mechanism to assure such compliance or the implementation of updated anti-money laundering policies.

### **Combating Money Laundering and Terrorist Financing: An Integrated Approach**

Building the capacity of our coalition partners to combat money laundering and terrorist financing through cooperative efforts, and through training and technical assistance programs, is critical to our national security. While there are some important differences between how money laundering and terrorist financing are conducted, and also some counter efforts that are unique to each activity, there are no appreciable differences in terms of capacity building through training and technical assistance.

The U.S. has developed an "anti-money laundering/counterterrorist financing" (AML/CTF) strategy based on three pillars:

- Development of capacity-building programs aimed at reinforcing the institutions of our foreign allies to combat money laundering and terrorist financing. Capacity building is the linchpin of the strategy because of its forward-looking and preventative approach that focuses on enhancing countries' capabilities to safeguard their financial systems from abuse by criminals and terrorist financiers.
- The use of traditional and non-traditional law enforcement techniques and intelligence operations aimed at identifying criminals and terrorist financiers and their networks in order to disrupt and dismantle their organizations. Such efforts include investigations, diplomatic actions, criminal prosecutions, designations and other actions designed to identify, nullify, and disrupt the flow of terrorist financing and those who make such crimes possible. In order to achieve ultimate results, the intelligence community, law enforcement and the diplomatic corps must assert a concerted proactive approach that develops and exploits investigative leads, employs advanced law enforcement techniques and increases cooperation between financial investigators and prosecutors.
- Participation in global efforts to deter terrorist financing by publicly naming, shaming, and blocking the assets, financial transactions, and property of terrorist groups and their supporters. Under United Nations Security Council Resolutions (UNSCR) 1333 and 1373 all member states have an obligation to identify terrorist assets and freeze them without delay. UNSCR 1267 and related resolutions require blocking actions against the financial resources, travel, and access to arms of specific individuals and entities linked to Usama bin Ladin, Al-Qaida, or the Taliban, as well as measures to deprive terrorists and their supporters of access to the financial system.

### **Integrating Efforts**

The U.S. has found that combining these pillars into an integrated strategy is the most effective approach to tackle the challenges of money laundering and terrorist financing. Only by integrating our AML/CTF efforts in a cooperative way, both domestically and internationally, can we continue our common goal of detecting, deterring, and dismantling global terrorist networks.

While well-established mechanisms of interagency cooperation to fight money laundering have existed for a number of years, in order to more quickly effect this integration within the U.S. Government for terrorist financing, the President established a Policy Coordination Committee (PCC) under the auspices of the National Security Council to ensure the proper coordination of counterterrorist financing activities and information sharing among all agencies. The PCC coordinates and integrates the efforts of the disparate entities and focuses them on collectively pursuing terrorists and their financiers. Other countries have also taken a similar approach at integrating AML/CTF efforts either through a coordinating ministry, national anti-money laundering council, or counterterrorist center.



Many governments have used specialized task forces to integrate successfully domestic operations aimed at combating money laundering and/or terrorist financing. These task forces typically include FIU personnel, financial investigators, central bank employees, and prosecutors. Indeed, the USG, based on its experience in training its counterparts around the world, is increasingly employing cross training (e.g., select financial regulators taking part in financial investigative courses for law enforcement) as a means of encouraging practical integration of AML/CTF efforts.

Internationally, governments are recognizing the need to integrate their efforts more closely in order to implement new international standards designed to counter money laundering activity and the collection and movement of terrorists' funds. Effective integration will increase as members of the Financial Action Task Force (FATF) and FATF-style regional bodies implement the new Special Recommendation on Terrorist Financing, Special Recommendation IX (SR IX), which is intended to ensure that terrorists and other criminals can not finance their activities or launder the proceeds of their crimes through physical cross-border transportation of currency and negotiable bearer instruments. Implementing SR IX on Cash Couriers will require unprecedented cooperation among border, customs, law enforcement, and FIU authorities both domestically and internationally.

International organizations and bodies, as well, are increasing coordination of their AML/CTF efforts. For example, there is now unprecedented cooperation between the FATF and the IMF and World Bank. The FATF and these international financial institutions have adopted a joint methodology to evaluate AML/CTF regimes and are cooperating in their respective on-site assessment programs.

The FATF and the G-8 Counter-Terrorist Action Group (CTAG) are also engaging in a cooperative effort to build CTF capacity by integrating FATF training and technical assistance reports with efforts by CTAG to coordinate donor assistance. Other organizations, such as the United Nations, the Egmont Group of FIUs, the FATF style regional bodies, and regional organizations, such as the Organization of American States, are also increasing their cooperative efforts.

[2005](#)