
ARCTIC OCEAN
Greenland Sea
NORWAY
NORTH
ATLANTIC
OCEAN
SPAIN
MOROCCO
ALGERIA
MAURITANIA
MALI
NIGER
Gulf of Mexico
MEXICO
THE BAHAMAS
BELIZE
HONDURAS
EL SALVADOR
COSTA RICA
VENEZUELA
Georgetown
Paramaribo
COLOMBIA
ECUADOR
Equator
BRAZIL
Lima
BOLIVIA
PARAGUAY
CHILE
Santiago
ARGENTINA
Montevideo
SOUTH
ATLANTIC
OCEAN
TRISTAN DA CUNHA (St. Helena)
Scotia Sea
SOUTHERN OCEAN

The Terror-Crime NEXUS

How international groups of criminals and militants team up to move money around the world

Douglas Farah

Deep in the jungles of Suriname, miners work a primitive sluice to extract flecks of gold from the tons of red clay soil they dig from the ground, using mercury that poisons nearby waterways. The men, who are unprotected by labor laws and often must bribe local officials to work the mines, earn about $50 a week—a paltry sum compared with the $24,000 middlemen will earn from the gold they mine.

In contrast to the labor-intensive methods employed by the miners, the middlemen who move the gold to the world market use communications encrypted with applications like WhatsApp and Signal. Some of the gold is overinvoiced to launder the proceeds of other illegal activities. Some appears as exported from other countries to hide its origin or mask the movement of cocaine and heroin. And some winds up in the Dubai Gold Souk in the United Arab Emirates, where its value can easily be converted to bitcoins, dollars, or euros.

The illicit gold mines of Suriname, a former Dutch colony north of Brazil, show how criminals are marrying age-old methods with digital-era technology that helps them avoid detection as they move cash and commodities around the world. Wielding sophisticated software, they turn gold on one continent into cryptocurrencies on another in multimillion-dollar transactions that leave no trace in the world's formal financial system. The growth and global scope of their activities highlight the need to improve cooperation among the world's regulators and law enforcement agencies.

Logging, mining

Gold is just one source of illicit revenue, which also includes proceeds from the sale of narcotics, illegal logging, and theft of minerals and cultural property. The sums involved are staggering. A 2017 report from Washington, DC-based Global Financial Integrity estimated the turnover of 11 primary illicit markets at $1.6 trillion to $2.2 trillion annually. The drug trade is the most lucrative, earning $426 billion to $652 billion, while illegal mining is estimated to yield $12 billion to $48 billion. The report states that "transnational crime will continue to grow until the paradigm of high profits and low risks is challenged."

While law enforcement authorities have scored some successes in stemming such flows, governments, in a reactive mode, are at best capturing a few frames of the illicit finance movie as it rolls by. As a 2015 World Economic Forum study on illicit economies notes, "Criminal organizations have not only exploited gaps in capacity and policy, they have been ahead of the curve in their use of technology and sophisticated instruments and schemes. . . . Indeed, the very forces that enable globalization and that underpin secure, private trans-national commerce are the same as those that also now make us less secure."

Customs inspections are one major point of vulnerability. Governments typically inspect only about 5 percent of the cargo passing through their ports for fear of disrupting global supply chains. They rely instead on technology, intelligence, and international partnerships to detect illegal shipments.

Transnational criminal groups sometimes form lucrative partnerships with guerilla or terrorist organizations. Over a period of six years, the Revolutionary Armed Forces of Colombia, or FARC, and criminal groups used an array of pawnshops to move 47 tons of illegally mined gold worth $1.4 billion to global refineries, including some in the United States. US law enforcement found that Hezbollah, a Lebanon-based Islamic militant group, was laundering large sums of money through one of the main refineries on the Arabian peninsula that received the gold.

Gold has emerged as the medium of choice because it's both lucrative and can be converted into cash relatively easily. "Cocaine typically takes six months to produce and requires considerable knowledge, while an illegal mining operation in the Colombian jungle can extract two kilograms of gold a week," according to a 2013 Bloomberg story. A kilogram of cocaine sold for the equivalent of about $2,570 in the jungle, while a kilogram of gold could fetch many times that amount.

Intensified efforts

Law enforcement and multinational organizations are stepping up efforts to deal with the growing complexity of illegal money flows. Interpol set up the Illicit Markets sub-crime directorate, and the US Treasury is using its broad powers to punish banks that launder money through the US banking system. The United Nations adopted numerous resolutions related to illicit financing and established the Convention against Transnational Organized Crime in 2003 and the Convention against Corruption in 2005, among others.

The Paris-based Financial Action Task Force, founded in 1989, sets global standards to fight money laundering and terrorism financing and monitors countries' progress in implementing its recommendations. The IMF and World Bank offer technical assistance and training in setting up necessary laws to combat illicit flows and develop relevant policies and legislation. Over the past 15 years, the IMF has helped shape domestic and international policies to combat money laundering and the financing of terrorism. The organization also analyzes such policies at a global and national level and how they interact with issues such as virtual currencies, Islamic finance, costs of and mitigating strategies for corruption, and the withdrawal of correspondent banking relationships.

Despite these international efforts, money laundering and related activities persist.

The case of the Beirut-based Lebanese Canadian Bank shows how an international criminal network used financial and commercial transactions on five continents to launder billions in drug money. Drugs from South America were shipped to Europe and the Middle East for sale, with proceeds laundered through the Lebanese financial system and via the sale of used cars purchased in the United States and consumer goods bought in Asia, according to a US Treasury Department finding. The use of accounts in Panama, multiple offshore havens, and the United States demonstrated the weakness of regulatory structures in detecting these transactions. According to David Asher, one of the leaders of the investigation, the money ultimately flowed to the Lebanese Canadian Bank, whose main client was Hezbollah.

Bank's collapse

The bank collapsed after US investigators in 2011 designated it a "primary money laundering concern" and a financial vehicle for Hezbollah, according to a Treasury Department press release. But the bank is just one of many similar operations around the world; it took years and extensive resources to identify and close it down, making the operation difficult and costly to replicate elsewhere.

Venezuela became a key staging area for FARC and a primary transit point for drugs and other illicit goods produced in Colombia. Venezuelan activities extended as far as the tiny European principality of Andorra. In March 2015, the US Treasury Department's Financial Crimes Enforcement

Network designated Banca Privada d'Andorra (BPA) a "primary money laundering concern." (The designation was withdrawn in 2016.)

Among the bank's clients was Petróleos de Venezuela, or PDVSA, the state oil company. According to the US Treasury notice, the two firms set up shell companies and "complex financial products to siphon off funds" from PDVSA. "BPA processed approximately $2 billion in the money-laundering scheme" during a two-year period.

At an international security conference at the George C. Marshall Center in Garmisch-Partenkirchen, Germany, in September 2015, General Philip Breedlove, then head of the US European Command, noted that many terrorist financers are not playing the same game as most nation-states. They are not just trying to bend the rules of the game, he said. Rather, they are playing an entirely different game on a separate field, in which the rules we take for granted are no longer binding.

Some nation-states, individually or as a bloc, such as the United States, China, and the European Union, have the resources to take meaningful action against money laundering and terror financing on their own, but measures are most effective when taken regionally and multilaterally.

Innovations such as cryptocurrencies pose another challenge, and nations including Japan, South Korea, and the United States are taking varying regulatory approaches. The use of encrypted communications blinds both law enforcement and intelligence communities and guarantees privacy to law-abiding citizens, which makes building a common global approach difficult at best.

Bearer shares

But some steps may be relatively easy to take, such as doing away with anonymous bearer share corporations and requiring that a person be legally responsible for companies and their corresponding bank accounts. The investigations into PDVSA's financial network and the Lebanese Canadian Bank have run into significant roadblocks because of such corporations.

As the Global Financial Integrity report states, "transparency is a powerful disincentive for illicit activity." International criminals can't rely on hard cash alone to move the huge sums involved in their activities; they must be able to "access the global financial system, and that access in turn relies on their ability to keep their identities and the origins of their goods secret."

A second step would be to develop a minimum consensus on banking transparency and how to track and hold suspected terrorism and organized crime resources. Dozens of offshore bank havens allow billions of dollars in illicit gains to find safe harbor with little risk of exposure. Switzerland is an example of a country that has moved in recent years to loosen bank secrecy laws if there is compelling evidence that the funds were gained through illegal activity.

Finally, states with a common definition of transnational criminal organizations and terrorism must quickly come together to strengthen a joint, multilateral regulatory framework flexible enough to adapt to rapidly changing technologies and financial movements, both licit and illicit. This must be a priority and include the IMF, World Bank, and other multilateral institutions that can span national borders to build consensus and serve as honest brokers among competing national interests.

"Transparency is a powerful disincentive for illicit activity."

Flexibility and agility are the keys to making any framework viable. Criminals and terrorists operate in ecosystems that allow rapid exploitation and anticipation of new communications technologies, financial instruments, and seams in the system. Nation-states exist in a world of incremental change where adaptation is slow and wrestling with new challenges cumbersome and open for debate.

These steps would not completely shut down money laundering and terror financing, which could still be sheltered by complicit governments. But they would at least force criminal groups to work much harder to take advantage of legitimate avenues of commerce and finance. FD

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