

# International Narcotics Control Strategy Report

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## 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