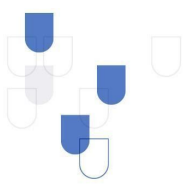


Implementada por



SECOND UPDATE TO THE MONEY LAUNDERING REGIONAL THREAT REPORT

2017 y 2018



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INTRODUCTION

In December 2015, the Financial Action Task Force of Latin America (GAFILAT) published the first “Money Laundering Regional Threat Analysis” report (hereinafter referred to as the Threat Report), in order to contribute to national efforts to identify threats from a regional perspective.

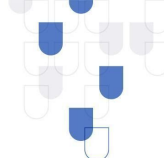
The XXXIV GAFILAT Plenary Meeting approved the first update to the Threat Report, recognizing the need to deepen the knowledge of the criminal phenomenon. This report was prepared by experts from Chile’s Financial Analysis Unit (UAF), in collaboration with experts from Guatemala’s Special Verification Agency (IVE) and with the Brazilian Financial Activities Control Council (COAF), with support from the Executive Secretariat. This first update focused on the period between 2015 and 2016, with a regional characterisation based on the study of typologies identified by the Financial Intelligence Units, the analysis of final convictions for money laundering, and information from the ML/TF National Risk Assessments of GAFILAT member countries. This update was approved by the XXXV GAFILAT Plenary of Representatives.

In order to identify the evolution that the ML phenomenon has had in the last years in the region, the XXXIX GAFILAT Plenary of Representatives approved the drafting of the second update to the “Money Laundering Regional Threat Analysis.” Two years after the above-mentioned diagnosis was carried out, it was important to update it in order to know the current threats so that the countries could take the corresponding preventive actions that would allow them to implement policies, mechanisms, and tools to face this crime in a timely and effective manner.

On this occasion, the report was produced with the technical assistance of the German Cooperation Agency GIZ, and with the support of the Executive Secretariat of GAFILAT.

EXECUTIVE SUMMARY

1. From the analysis of the typologies presented, it emerges that the countries' choices concerned cases whose predicate offenses were tax crimes, corruption and bribery, illicit trafficking in narcotic drugs and psychotropic substances, participation in an organised criminal group, smuggling (including taxes and customs fees), and illicit cross-border transportation of money, in that order.
2. According to the analysis carried out, in general terms for the region, the cases are mostly related to the unexplained increase of wealth by individuals, the use of front men, and money laundering through the diversion of funds, bidding processes, and other corrupt acts, and –to a lesser extent –the use of foreign trade operations and smuggling.
3. The most commonly detected typologies as mechanisms for laundering the proceeds of crime are, in the first place, the use of front men, in the second place, the creation and use of legal persons and arrangements and, in the third place, the use of money or securities transfer services.
4. The products used by criminals and criminal organisations to launder assets in the region remain the same as those detected in the previous report. In the region, cash continues to be the predominant product detected for laundering the proceeds of crime, followed by the use of bank accounts and international money transfers.
5. The banking sector remains the most vulnerable sector for money laundering in the region, followed by the public institutions sector, the automotive sector, and—in fourth place –the real estate sector.
6. At the regional level, in their NRAs, countries continue to identify the illicit trafficking in narcotic drugs and psychotropic substances as the main threat. Smuggling (including taxes and customs fees) has increased and moved up from the third to the second place. Trafficking in persons and smuggling of migrants is now the third predicate offense, whereas it was previously the fourth. Corruption and bribery have declined—previously the second most common predicate offenses—are now in the third place, along with trafficking in persons and smuggling of migrants. As far as participation in an organised criminal group is concerned, it has moved from the fourth to the fifth place it occupies now. In the sixth place are environmental crimes and extortion. Previously, extortion showed a higher number of cases. Results at the subregional level vary depending on the region.
7. From the analysis of the convictions presented, it emerges that the main predicate offenses for ML convictions are the illicit cross-border transportation of money, the illicit



trafficking in narcotics and psychotropic substances, participation in an organised criminal group, followed by corruption and bribery and swindling with the same percentages.

8. The trend already identified in the previous threat report, where an analysis of ML convictions had determined that illicit trafficking in narcotic drugs and psychotropic substances is the most frequent predicate offense in the region as a source of illicit assets, is maintained.

9. The convictions are mainly related to unexplained increase in wealth by individuals and the use of front men; secondly, the use of formal and informal remittance and foreign exchange services, and physical transfer of cash; and thirdly, the use of foreign trade transactions, and smuggling.

10. From an analysis of ML convictions in the region, it emerges that the most commonly used typology for laundering proceeds of crime is the use of front men followed by the use of legal persons and arrangements. In the previous threat report, it was the exact opposite.

11. The most used products, according to the analysis of the convictions are the use of cash, of bank accounts, and of domestic and international money transfers.

12. When analysing these sectors, banks, notaries, public institutions, and the automotive sector are identified as the most widely used sectors for ML in the region.

13. In the cases with explicit predicate offenses on which informal international cooperation through the RRAG platform was based, it appears that the requests for information were mainly related to cases where the predicate offenses were the following: Corruption and bribery, swindling, illicit trafficking in narcotic drugs and psychotropic substances, fraud, smuggling (including taxes and customs fees), tax crimes (direct and indirect taxes), and participation in an organised criminal group.

14. From the application of the ML Threat Index in Latin America, it becomes clear that the main threats in the region are: Illegal trafficking in narcotics and psychotropic substances, illicit cross-border transportation of money, corruption and bribery, participation in organised criminal groups, and tax crimes (direct and indirect taxes), swindling and smuggling (including taxes and customs fees). Smuggling of migrants and human beings, especially trafficking in persons, and environmental crimes are identified as emerging threats.

15. It should be noted that—with regard to emerging threats—in their NRAs, countries have indicated that trafficking in persons and smuggling of migrants and human beings are associated with the crime of trafficking in persons for sexual exploitation purposes and/or procuring. More and more countries identify it as a threat in their NRAs, but it still has low or no presence in the detection and sanctioning phases.



16. Currently, in relation to environmental crimes, seven countries in the region mentioned the criminal exploitation of natural resources as a ML threat. It should be noted that, in general, Andean Zone countries refer to environmental crimes associated with illegal mining and illegal logging as the predominant forms of such crime. In the Southern Cone, however, one country has considered natural resource extraction, such as the extraction of metals and stones, as one of the ML threats, and in the Mexico, Central America and Caribbean subregion, reference is made to illegal trafficking in wildlife (flora and fauna), and theft of hydrocarbons and minerals as a ML threat.

17. Out of a total of 186 convictions, 46 reported the participation of a criminal organisation, in most cases of a national origin.

A. METHODOLOGY

1. For the preparation of this report, a descriptive and exploratory research methodology was used to identify money laundering threats affecting the Latin American region, using both quantitative and qualitative data. Since this is an update and the last analysis covered the period up to 2016, studies, data, reports and statistics were considered mainly for the years 2017 and 2018.
2. The methodology enabled the integration of information adjusted to the characteristics and physiognomy of the region and, at the same time, keeping the analysis by subregions,¹ since this allows the grouping of countries that share not only a geographical area, but also similar contextual and risk situations, allowing for the identification, evaluation, and assessment of ML regional threats.
3. Given that, in the context of ML, the definition of threat includes criminal organisations,² the proposal was made to incorporate into the analysis the identification of those criminal groups that operate in the region. To this end, the different international studies that analyse the presence of criminal organisations in the region, as well as ML convictions in GAFILAT member countries were consulted and considered.
4. This report was prepared in three phases: The first consisted in reviewing different existing sources of information; the second involved gathering information from GAFILAT member countries; and the third involved the drafting of this report, and its validation by the countries.

I. REVIEW OF THE DIFFERENT EXISTING SOURCES OF INFORMATION FOR THE ELABORATION OF THE REPORT:

- a) Reports from the Fourth Round of Mutual Evaluations prepared by GAFILAT, and follow-up reports of GAFILAT member countries.
- b) National Risk Assessments of countries in the region and their updates.
- c) International studies.
- d) 2017 and 2018 Regional Typologies Study.
- e) Information from RRAG statistics.

II. GATHERING OF INFORMATION FROM GAFILAT MEMBER COUNTRIES:

¹ Mexico, Central America, and the Caribbean Subregion: Costa Rica, Cuba, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Dominican Republic; Southern Cone Subregion: Argentina, Brazil, Paraguay, and Uruguay; Andean Subregion: Bolivia, Colombia, Chile, Ecuador, and Peru.

² Refer to Analysis of Money Laundering Regional Threats. GAFILAT (2015).

- a) Regional Workshop on National Risk Assessment: From the presentations of the countries in this workshop, information was identified on sources, e.g. which countries made recent updates to the NRA, etc., and then this input was considered in the subregional and regional analyses.
- b) Information request to countries on ML convictions during the 2017-2018 period according to a pre-established template for the purposes of consolidation and systematisation.

III. DRAFTING, VALIDATION, AND AMENDMENT OF THE PRELIMINARY REPORT IN ORDER TO PRODUCE ITS FINAL VERSION.

5. Based on the sources consulted and the information gathered, crimes, persons, groups of persons, purposes, or activities with enough potential to cause harm to each subregion and to the region itself were determined.
6. As in previous reports, threats affecting one of the three subregions (Andean, Southern Cone, or Mexico, Central America, and the Caribbean) were referred to as subregional threats. Cross-cutting threats, i.e. those affecting more than one subregion, were considered as regional threats since they affect—to a greater or lesser extent—all GAFILAT member countries in their capacity as members of the same geographical region.³
7. In the case of regional situations, criminal trends, or threats with potential negative consequences for the AML/CFT system which, without yet representing a significant occurrence in terms of numbers of criminal cases, have recently emerged in the region, were called emerging threats, as has been done previously
8. In the 2017-2018 period, the information on the 186 ML convictions provided by the countries was consolidated in accordance with the pre-established template, which provided for the identification—in the convictions of typology cases—of information on the predicate offenses, vulnerable economic sectors, typologies identified, and financial products used, among other data.
9. Of the total number of convictions, 172 determined the predicate. In the case of typologies, it should be noted that one typology may include more than one predicate offense, which is why the maximum is 62, which corresponds to the total number of predicate offenses identified.
10. Data transformation was carried out using the “min-max” method, applying the “ML Threats in Latin America and the Caribbean”⁴ index developed in the previous threat report

³ GAFILAT, refer to Analysis of Money Laundering Regional Threats, (2015).

⁴ For more details, refer to Annex II.

B. CONCEPTS

11. The following is a definition of the main terms used in the document:
 - I. **Threat:** A person, group of persons, purpose, or activity with enough potential to cause harm to the State, society, economy, or other fundamental elements of life in a country or region. In the context of ML, the definition of threat includes offenses, criminals, criminal organisations, facilitators, and their funds used in their activities.⁵ Similarly, a threat is “one which affects, to a greater or lesser extent, all GAFILAT member countries in their capacity as members of the same geographical region or at least one of the subregions into which it is subdivided.”⁶
 - II. **Emerging threat:** For the purposes of this report, this is the threat that countries identify as such in their NRAs, but which has low or no presence in the detection and sanctioning phases.
 - III. **Cross-cutting threat:** For the purposes of this report, this is the threat identified in all the countries that make up the subregion or region.
 - IV. **Predicate offenses:** Are those offenses from which a product is derived that may become the subject of a ML offense.⁷
 - V. **Typology:** This is the classification and description of the techniques or modalities used to give an appearance of legality to the proceeds of crime, or to finance terrorism.
 - VI. **Informal foreign exchange system:** A typology characterised by foreign exchange transactions, involving money which has an illicit origin, and the purpose of which is the placement of assets in the formal economy.⁸
 - VII. **Fractioning (or “smurfing”):** A ML typology that consists of fractioning or dividing into small amounts apparently isolated transactions, which are carried out in the name of one or several investors in order not to generate suspicion and to avoid controls associated with larger amounts of money.⁹
 - VIII. **Legal persons:** Refers to entities other than natural persons that may establish a permanent customer relationship with a financial institution or otherwise hold property. This may include corporations, corporate bodies, foundations, partnerships or associations, and other similar relevant entities.¹⁰

⁵ FATF, Guidance. National Money Laundering and Terrorist Financing Risk Assessment, (2013).

⁶ GAFILAT, Analysis of Money Laundering Regional Threats, (2015).

⁷ UNDOC, United Nations Convention against Transnational Organised Crime, (2011).

⁸ GAFILAT, Analysis of Money Laundering Regional Threats, (Update of 2017).

⁹ GAFILAT, Analysis of Money Laundering Regional Threats, (Update of 2017).

¹⁰ FATF, Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the AML/CFT Systems, (2013).

- IX. **Legal arrangements:** It refers to express trusts or other similar legal arrangements. Examples of other similar arrangements (for AML/CFT purposes) include *fiducie*, *treuhand* and trust.¹¹
- X. **Money or value transfers service (MVTs):** It refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other means of deposited value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTs provider belongs. Transactions performed by such services may involve one or more intermediaries and a final payment to a third party, and may include any new payment method. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including *hawala*, *hundi*, and *fei-chen*.¹²
- XI. **Mexico, Central America, and the Caribbean Subregion:** Costa Rica, Cuba, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Dominican Republic.
- XII. **Southern Cone Subregion:** Argentina, Brazil, Paraguay, and Uruguay.
- XIII. **Andean Subregion:** Bolivia, Colombia, Chile, Ecuador, and Peru.

¹¹ FATF, Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the AML/CFT Systems, (2013).

¹² FATF, Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the AML/CFT Systems, (2013).

C. GLOSSARY

AML/CFT	ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM
DNFBP	DESIGNATED NON-FINANCIAL BUSINESS AND PROFESSIONS
SEC.	SECTION
ECLAC	ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
NRA	ML/TF NATIONAL RISK ASSESSMENT
FINCEN	FINANCIAL CRIMES ENFORCEMENT NETWORK
FATF	FINANCIAL ACTION TASK FORCE
GAFILAT	FINANCIAL ACTION TASK FORCE OF LATIN AMERICA
MER	MUTUAL EVALUATION REPORT
ML	MONEY LAUNDERING
ML/TF	MONEY LAUNDERING/TERRORIST FINANCING
OAS	ORGANISATION OF AMERICAN STATES
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
UNEP	UNITED NATIONS ENVIRONMENT PROGRAMME
FIU	FINANCIAL INTELLIGENCE UNIT
UNODC	UNITED NATIONS OFFICE ON DRUGS AND CRIME
FTZ	FREE TRADE ZONE

D. REVIEW OF INTERNATIONAL STUDIES

I. SMUGGLING (INCLUDES TAXES AND CUSTOMS FEES)

12. According to the Latin American Anti-Smuggling Alliance¹³ (ALAC),¹⁴ smuggling generates an estimated profit of almost 2% of Latin America's GDP, or some USD 150 billion annually, affecting industries such as steelmaking, metal-mechanics and steel, tobacco, liquor, medicine, cosmetics, plastics, footwear, textiles, and cyber security.

13. Worldwide, international trade continues to be a sector with many vulnerabilities, which are taken advantage of by criminal organisations to achieve the objective of disguising the profits from criminal activities and hence give the appearance of legality to their illicit origin. Vulnerabilities in the supply chain and the lack of effective border controls, due to their size or porosity, continue to be the main variables when countries in the region analyse the smuggling threat.

14. Moreover, this criminal modality supplies markets with smuggled products which lack regulations or controls; many of them are even counterfeit, affecting both consumers and tax authorities, which is why for the FATF this predicate offense includes taxes and customs fees.

15. The most common techniques used in foreign trade¹⁵ for ML are the following:

i. Over- and under-invoicing of goods and services:

16. According to the FATF, ML through these two types of operations is one of the most widely used methods for cross-border laundering. When invoicing a good or service below market value, an exporter can transfer funds to the importer because the payment to the exporter is less than the value the importer receives when the goods are sold at market value. Similarly, when a good or service is invoiced at a price above market value, the exporter transfers the values to the importer because the payment to the exporter is greater than the value received by the importer when the goods or services are sold at market value. These types of transactions generally require the connivance of both parties and can have significant tax consequences, which is why most organisations prefer to create, modify, merge or close paper or shell companies according to their operational needs. In addition, products of a complex nature or those goods that are transported

¹³ ALAC, Fifth Meeting of the Latin American Anti-Smuggling Alliance, ALAC, May 7-8, 2019 in San Jose, Costa Rica, (2019).

¹⁴ The Latin American Anti-Smuggling Alliance is composed of the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Honduras, Mexico, Panama, Costa Rica, Paraguay, Peru, Uruguay, and Venezuela.

¹⁵ CRS Report, Trade-Based Money Laundering: Overview and Policy Issues, (2016).

through a supply chain are more suitable for use in such over- and under-invoicing activities because they hinder the ability of customs officials to determine the true market value of such goods and services.

ii. Multiple invoicing of goods and services:

17. This modality seeks to use multiple invoices to justify the same transaction, in order to account for multiple payments, or to simulate a transaction volume that justifies the flow of assets from abroad. In this way, a company or person related to the foreign trade sector can justify multiple payments for the same goods or services, or justify payments to suppliers or creditors based on this type of documentation. In addition, splitting payments or transfers using different financial institutions to make these multiple payments can increase the level of complexity of the transaction and hinder detection efforts.

iii. Altering the volume of shipments of goods and services:

18. In addition to manipulating the prices of goods and services, the criminal organisation can alter the quantity of goods and services that are exported or imported, increasing, or decreasing it. In addition, this manoeuvre could even include the possibility that the exporter and importer agree not to send any goods, and proceed to complete the documents necessary for the shipment and for customs. Banks and other financial institutions may not be aware that these simulated transactions are taking place.

iv. Adulteration of the description of goods and services:

19. A criminal organisation may also try to simulate the quality or type of good or service being negotiated. Such an erroneous declaration creates a discrepancy between the value of a good indicated on the customs shipment or forms and what is actually being shipped.

20. In May 2014, FinCEN¹⁶ issued an advisory regarding the increased use of funnel accounts as a new method of smuggling, in which, due to restrictions on US currency transactions in certain Latin American countries, an individual or business account is used to receive multiple cash deposits, from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals. FinCEN's analysis provides several specific red flags associated with this transnational organised crime activity.

21. Furthermore, it is worth mentioning that the NRAs of many of the countries coincide with the recent OAS study¹⁷ that determines that most of the countries in the region have developed

¹⁶ FinCEN, Update on U.S. Currency Restrictions in Mexico: Funnel Accounts and TBML, advisory, FIN-2014-A005, May 28, 2014, p. 2.

¹⁷ OAS, Technical Evaluation - Comparative Analysis of Money Laundering and Terrorist Financing Typologies and Patterns in Three Latin American Free Trade Zones, (2018), ISBN 978-0-8270-6651-9.

regimes within specific areas, in which incentives are offered to support foreign trade transactions through duty and tax exemptions, simplified administrative procedures and duty-free imports, among other measures. The report prepared in 2010 by the FATF on ML in free trade zones¹⁸ states that one of the most used methods for terrorist financing in Central and South America is foreign trade-based ML.

22. Consequently, these schemes have detected a reduction in controls on both commercial and financial transactions, resulting in FTZs becoming highly vulnerable to illicit activities (we have three FTZs in the region: Colon located in Panama, Ciudad del Este located in Paraguay and Iquique, located in Chile).

23. Misuse of FTZs affects all jurisdictions, including those countries where no FTZ exists, as goods may originate or be transhipped to multiple destinations through an area that is not subject to controls. Smuggling implies a waste of state resources since it implies the non-payment of the corresponding taxes and customs duties.

24. According to the OECD TF-CIT mapping,¹⁹ for example, a disproportionate value in exports of counterfeits occurs in countries with large FTZs

25. Other correlations exist between the size of the free zone, the number of operators, and the value of exports of counterfeit goods or goods in transit. Furthermore, for each additional free zone a country has, the value of trade in counterfeit goods increases by 5.9 %. Another relevant fact is that for every 1 % more of the value exported from the free zones, there is a 2.8 % increase in the value of the counterfeit products.

26. Moreover, for each additional company in an FTZ, the value of counterfeits for export increases by 2.9 %. The logic behind this data is repeated with every increase: Thus, with every extra employee in the FTZ there is a 2.1 % increase in the value of counterfeit exports.

27. Basically, the larger the free zone, the more people work there, and the more companies operate, the more value is placed on the counterfeit trade.

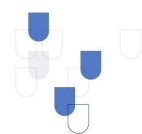
II. ENVIRONMENTAL CRIMES

28. The last decade has shown a rise in environmental crimes of between 5 and 7 per cent per year.²⁰ This means that environmental crimes, which include illegal trade in wildlife, illegal logging in the forest sector, the exploitation and sale of gold and other minerals, illegal fishing, hazardous waste smuggling, and carbon credit fraud, are growing two to three times faster than global GDP.

¹⁸ FATF, Report on Money Laundering Vulnerabilities of Free Trade Zones, (2010).

¹⁹ OECD/EUIPO, Trends in Trade in Counterfeit and Pirated Goods, Illicit Trade, OECD Publishing, Paris, (2019), <https://doi.org/10.1787/g2g9f533-en>.

²⁰ UNEP and INTERPOL, Report prepared by the United Nations Environment Programme, (2016).



This represents an illegal turnover of between 110 and 281 million dollars in 2018. According to estimates by Interpol and the United Nations Environment Programme (UNEP),²¹ environmental crimes have become the third most lucrative crime in the world, second only to drug trafficking and smuggling.

29. According to the recently published PACCTO study,²² organised and environmental crime are intertwined in complex ways, but deforestation is a common element that produces and exacerbates all kinds of harmful effects on other dimensions of the environment and local society.

30. The extraction of natural resources is also linked to drug trafficking, as the latter acts as a decisive factor in the deforestation figures. This is the result of the construction of infrastructure such as clandestine landing runways for small planes and illegal roads or routes.²³

31. Many of the large organised groups operating in the Amazon have their origins in drug trafficking. In recent years, some of these groups have included this area in their territorial expansion and internationalisation efforts.

32. The United Nations Environment Programme and Interpol report states that the Colombian rebel group, the Revolutionary Armed Forces of Colombia (FARC), generates an estimated 12 million dollars a year from extortion of illegal gold miners. In the Amazon region, armed groups impose taxes on gold, coltan and timber to finance their operations.

33. According to Interpol and UNEP²⁴ estimates, in many areas, illegal mining is controlled by small and medium-sized organisations that are more closely involved in this type of extraction and the activities that tend to accompany it, such as extortion and prostitution. This includes those who extract minerals in an artisanal way, without machinery or using precarious technologies and, outside the scope the regulation of the State, in a condition of informality. From small to large, all categories are involved in the extraction of minerals in prohibited areas—not only gold, but other minerals that are abundant in the region, such as copper, tin, tungsten, etc.

34. In 2017, Latin America and the Caribbean's exports of minerals and metals reached \$170 billion, equivalent to 17 % of its total goods shipment value, and 8 % of world exports of minerals and metals.²⁵

²¹ UNEP and INTERPOL, Report prepared by the United Nations Environment Programme, (2016).

²² PacCTO, "*Los Delitos Ambientales en la Cuenca del Amazonas: el rol del crimen organizado en la minería*," (2019) [Environmental Crimes in the Amazon Basin: The Role of Organised Crime in Mining] ISBN: 978-84-09-11889-2, p. 10.

²³ UNODC Executive Summary of the World Drug Report, (2016), p. 22.

²⁴ UNEP and INTERPOL, Report prepared by the United Nations Environment Programme, (2016), p. 17.

²⁵ ECLAC, International Trade Outlook for Latin America and the Caribbean 2018, (LC/PUB.2018/20-P), Santiago, (2018), p. 91.



35. In the last decade, conditions have been created for illegal armed groups and criminal organisations to generate income from mining and other extractive activities. The rise in the international price of gold and other minerals, and the difficulty of ensuring a steady flow of income from drug production and trafficking have generated incentives for illegal armed groups to seek resources in other industries.²⁶

36. Compared with other illicit activities, such as drug production and smuggling, the illicit exploitation and the smuggling of gold are easily interwoven into the legal economy. This is an attractive feature for criminal networks and for these groups to tend to exploit mining resources illegally.²⁷

37. The FATF, in its report on identifying vulnerabilities associated with gold and ML/TF, has determined that there are two intrinsic characteristics of gold and the gold market that make it attractive to criminal groups.²⁸ The first is the nature and size of the market itself, which is highly dependent on cash as an exchange method, resulting in the untraceability of transactions. The second is the anonymity generated by the ownership of gold, which makes it difficult to determine its origin. These factors make gold extremely attractive to criminal organisations wishing to conceal, move or invest their illicit proceeds

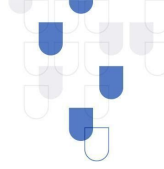
III. SMUGGLING OF MIGRANTS AND HUMAN BEINGS

38. The United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children (Resolution 55/25, Annex II of the General Assembly), hereinafter “the Protocol,” supplementing the United Nations Convention against Transnational Organized Crime (Resolution 55/25, Annex I of the General Assembly) defines “trafficking in persons” in section a) of Article 3 of said Protocol as follows: “Trafficking in persons’ shall mean the recruitment, transportation, transfer, harbouring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labour or services, slavery, or practices similar to slavery, servitude or the removal of organs.” This protocol entered into force on December 25, 2003 and 173 jurisdictions have ratified or adhered to it.

²⁶ OECD, *Due Diligence in the Colombian Gold Supply Chain: Overview*, (2016), p. 17.

²⁷ Global Financial Integrity, *Follow the Money, Financial Flows Linked to Artisanal and Small-Scale Gold Mining*, (2017), p. 31.

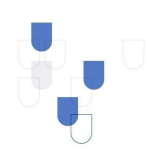
²⁸ FATF, *Money laundering and terrorist financing and vulnerabilities associated with gold*, (2015), p. 6.



39. Trafficking in persons is estimated to be one of the most profitable incomes; the International Organization for Migration (IOM)²⁹ estimates that forced labour generates USD 150.2 billion per year, broken down as follows: 1) Forced sexual exploitation: USD 99 billion, and 2) Forced labour exploitation: USD 51.2 billion.
40. Trafficking in persons is also one of the fastest growing crimes and is one of the fastest growing forms of international crime. Growing displacement and vulnerability of people increase cases of human trafficking.
41. This crime affects all regions of the world, and is listed as the third or fourth largest source of income for organised crime and the fastest growing form of international crime.
42. The UNODC report of 2018 determines that in South America,³⁰ 93 % of the victims of trafficking in persons were detected within the same region. The vast majority of these victims (80 %) are women and girls. Adult women represent more than half of the detected victims (51 %), while girls represent a significant share (31 %). Girls are detected far more frequently than boys.
43. Andean countries report particularly large shares of child trafficking. In Bolivia and Peru, more child victims were detected than adults. In Ecuador, children account for just under half of the detected trafficking victims. In Colombia, women represent the vast majority of detected victims.
44. The majority of detected victims in South America were trafficked for sexual exploitation. In 2016, these victims accounted for around 58 % of the total. Data from eight countries reporting this information in the subregion show that the overwhelming majority (96 %) of victims were females, with more women than girls.
45. The second most commonly reported form was trafficking for the purpose of forced labour. This form affected all groups of victims—women, men, girls, and boys—in similar numbers.
46. With regard to human trafficking flows, the UNODC report highlights that South America is also a destination for cross-border trafficking flows within the subregion. Some traffic flows from South America are also directed to other regions of the world, such as to Western and Southern Europe. These flows are, however, less significant than in past years, since about 2 % of the victims detected in North America come from countries in South America. Additionally, it is reported that victims from South America are also detected in or repatriated from East Asia.

²⁹ FATF, Financial Flows Human Trafficking, (2018).
<http://www.fatf-gafi.org/media/fatf/content/images/Human-Trafficking-2018.pdf>

³⁰ UNODC, Global Report on Trafficking in persons, (2018), p. 76.
https://www.unodc.org/documents/data-and-analysis/glotip/2018/GLOTIP_2018_BOOK_web_small.pdf



47. One exception is the trafficking flows originating from the Caribbean, which are mainly, though not exclusively, directed to the countries of the Southern Cone.

48. In Central America and the Caribbean, most of the detected victims in 2016 were girls. Together with women, they bring the share of females among detected trafficking victims to 80 % in this subregion.³¹

49. In Central America and the Caribbean in 2016, 87 % of the victims were trafficked for sexual exploitation.³² The few detected victims that were trafficked for forced labour were mainly adults, with men and women detected in similar shares. Children are also victims of trafficking for forced begging, for forced criminal activities, and for some forms of illegal adoption.

50. With regard to human trafficking flows, the UNODC report³³ highlights that Central America and the Caribbean are also affected by cross-border trafficking flows. These flows are mainly moved from south to north, from the relatively poorer countries to the relatively richer countries. Victims from northern part of Central America are trafficked to Mexico and the United States. At the same time, victims from the northern parts of South America are trafficked to the southern countries of Central America.

IV. ILLICIT TRAFFICKING IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES.

51. The UNODC World Drug Report 2019³⁴ established that 70 % of the area under coca bush cultivation in 2017 was in Colombia, 20 % in Peru, and 10 % in the Plurinational State of Bolivia. In addition, these three Andean countries reported an increase in coca cultivation and thus in cocaine manufacture. Overall cocaine manufacture in the three countries increased by 25 % over the previous year, while it doubled over the 2013-2017 period.

52. Moreover, the UNODC reported³⁵ that even if the northbound cocaine flows dwindle, criminal groups involved in trafficking are likely to vie for profits from other highly lucrative illicit activities and continue to spread mayhem throughout the region.

53. For the region of Mexico, Central America, and the Caribbean,³⁶ the UNODC has determined that wedged between the suppliers of coca in the south and the consumers of cocaine in the north the region has become a transit corridor. However, the high rates of violence are not always associated with drug trafficking. Rather, it seems that lower demand and increased law enforcement has sparked brutal turf wars between traffickers as they fight over a share in a reduced market.

³¹ Idem p. 70.

³² Idem p. 71.

³³ Idem p. 74.

³⁴ UNODC Executive Summary of the World Drug Report, (2019).

³⁵ <https://www.unodc.org/ropan/es/BorderControl/drug-trafficking.html>

³⁶ <https://www.unodc.org/ropan/es/BorderControl/drug-trafficking.html>



54. Displacement of trafficking routes to the Caribbean also remains a threat in the region. According to studies, contraband flows become concentrated in the countries with the most challenges in dealing with them.

55. The Southern Cone subregion, however, continues to be used as a route for the transport of drugs to Europe.

V. TAX CRIMES (DIRECT AND INDIRECT TAXES)

56. The analysis of this crime as a ML predicate offense, generally involves two types of behaviour, tax evasion and tax avoidance. Evasion is defined as the attempt by individuals, companies, funds, and other entities to evade taxes by illegal means, where taxpayers deliberately hide or manipulate the true status of their income from the tax authorities in order to reduce their tax obligations. Avoidance is characterised by the taxpayer trying to minimise the payment of taxes without resorting to deliberate deception (which would involve tax evasion or tax fraud).

57. The most recent estimates for the region by the Economic Commission for Latin America and the Caribbean (ECLAC)³⁷ determined that income tax and VAT evasion and avoidance in Latin America costed 6.3 % of GDP in 2017, equivalent to USD 335 billion.³⁸

58. Illicit flows resulting from trade misinvoicing reached USD 85 billion in 2016, or 1.5 % of regional GDP.

59. Tax crimes threaten countries' political, strategic, and economic interests. They damage people's confidence in the administration of the State, their willingness to pay taxes, and they deprive countries of the incomes they need for sustainable development.

VI. CORRUPTION

60. According to Transparency International's Corruption Perceptions Index Report (2019), the region continues to make no significant progress in the fight against corruption.

61. More than half of people in 18 countries in Latin America and the Caribbean think that corruption is getting worse in their country and that governments are not doing enough to fight it, according to the largest public opinion survey on corruption conducted by Transparency International.

³⁷ Economic Commission for Latin America and the Caribbean (ECLAC), Fiscal Panorama of Latin America and the Caribbean, 2019 (LC/PUB.2019/8-P), Santiago, 2019, p. 8.

³⁸ Estimates are based on national studies on income tax and value added tax (VAT) non-compliance. The figures are a GDP-weighted average at current prices expressed in US dollars. The countries included in the analysis for income tax are Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, and Uruguay. For VAT, the countries are Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, and Uruguay.



62. According to the Global Corruption Barometer, almost 75 % of people think that if people report corruption, they will suffer reprisals. Despite this, more than 75 % also believe that ordinary people can make a difference in the fight against corruption. Most citizens in Latin America and the Caribbean think that the office of the President/Prime Minister and Members of Parliament are the most corrupt group or institution, and 52 percent of people believe that most or all of the members of these groups are corrupt.

VII. ILLICIT CROSS-BORDER TRANSPORTATION OF MONEY

63. Criminal organisations use the financial system to disguise their activities, through the physical movement of cash through couriers, and take advantage of the complexity of foreign trade and business transactions, the co-mingling of legitimate and illicit funds, and the limited resources available to controls by customs authorities.³⁹

64. In this way, the transport of illicit money makes it possible to eliminate or complicate the tracing of the origin of the money. This makes control actions implemented by the authorities and financial institutions of the destination country more difficult, and in the absence of the necessary coordination channels, the difficulties may increase.⁴⁰

65. In this sense, the objectives of criminals when transporting money illegally across borders are to collect, move, store, and use the cash in the destination countries. These actions or methods are executed independently of the ML motivations or schemes.

66. It should be noted that, within the framework of the activities promoted by the Operational Support Working Group (GTAO) of GAFILAT, member countries periodically carry out bilateral or subregional intensified cash and bearer negotiable instruments monitoring exercises, the results of which are presented every six months and discussed by the GTAO. As a corollary of these exercises, unusual trends and patterns in the movement of cash and other instruments in the region are observed, which result in red flags that are considered and shared among the competent authorities and their foreign counterparts, accounting for the significant volumes of money that are physically moved in the region—often involving potentially illicit funds—as well as inconsistencies between the incoming and outgoing currency declared by passengers.

67. In the intensified monitoring exercise of cross-border transportation of cash and securities of the second half of 2018,⁴¹ it was determined that border posts continue to be a vulnerability in the region, since they may be used for illicit purposes such as laundering of money or other assets,

³⁹ Miller, Rosen & Jackson. Trade-Based money laundering: Overview and policy issues. Congressional Research Service, (2016).

⁴⁰ FATF, Money laundering through the physical transportation of cash, (2015).

⁴¹ Refer to GAFILAT 18 II GTAO report 1, Intensified monitoring exercise of cross-border transportation of cash and securities in the second half of 2018, (2018), p. 4.



and that joint work between counterpart institutions could help to prevent or minimise the above-mentioned crime.

E. ANALYSIS OF TIPOLOGIES

68. The following chapter aims to characterise the ML phenomenon in the region based on the descriptive analysis of the typologies identified by GAFILAT member countries in the document “GAFILAT 2017-2018 REGIONAL TYPOLOGIES REPORT” which was prepared by GAFILAT as a product of the “GAFILAT 2018 Regional Typologies Biennial Exercise,” held from February 28 to March 2, 2018 in the city of Quito, Ecuador. The event was carried out jointly by the Executive Secretariat of GAFILAT and the Financial and Economic Analysis Unit (UAFE) of Ecuador, with the technical assistance of the German Cooperation Agency GIZ.

I. ANALYSIS OF ML PREDICATE OFFENSE PRESENT IN THE TYPOLOGIES

69. The document includes a total of 26 cases that were presented by the authorities of the different GAFILAT member countries that participated in the workshop. From the analysis of the cases, the type of ML predicate offense was determined, considering that in each case there may exist more than one predicate offense.

70. From the analysis of the typologies presented, it emerges that the countries’ choices concerned mainly cases whose predicate offenses were tax crimes, corruption and bribery, illicit trafficking in narcotic drugs and psychotropic substances, participation in an organised criminal group, smuggling (including taxes and customs fees) and illicit cross-border transportation of money, in that order.

TABLE NO. 1 - Number of Cases Based on Typologies per Predicate Offense

Crimes	Number of cases	%
Tax crimes (direct and indirect taxes)	11	18
Corruption and bribery	11	18
Illicit trafficking in narcotic drugs and psychotropic substances	10	16
Participation in an organised criminal group	10	16
Smuggling (includes taxes and customs fees)	3	5
Illicit cross-border transportation of money	3	5
Swindling	3	5
Trafficking in persons and smuggling of migrants	2	3

Insider trading	2	3
Robbery or theft	2	3
Counterfeiting and piracy of products	1	<2(*)
Fraud	1	<2(*)
Environmental crimes	1	<2(*)
Murder, grievous bodily injury	1	<2(*)
Terrorism (includes its financing)	1	<2(*)
Grand Total	62	100

(*) THIS INDICATES THAT THE PERCENTAGE OBTAINED IS GREATER THAN 1.5 AND LESS THAN 2.

SOURCE: PREPARED ON THE BASIS OF THE DOCUMENT REGIONAL TYPOLOGIES REPORT 2017-2018, PUBLISHED BY GAFILAT IN 2018.

II. ANALYSIS BY GAFILAT THEMATIC AREAS

71. It should be noted that, unlike previous years, the thematic areas into which the presentations of typologies were divided into were based on the main threats identified in the 2017 GAFILAT Regional Threat Report, and were as follows: Smuggling, tax crimes and physical transfer of money, corruption and bribery, illegal trafficking in drugs and/or weapons, global threats and emerging threats, and fraud and swindling.

72. However, in order to be able to continue with the analysis that had been carried out by GAFILAT in relation to the typology reports of previous years, i.e. the 2009-2010 Regional Typologies Report and the 2015-2016 Regional Typologies Report, they analysed the typologies corresponding to the period 2017 -2018 under the thematic areas stipulated in the previous update on regional threats. This was done in order to be able to analyse the variations that existed in this period.

73. According to the analysis carried out, in general terms for the region, the cases are mostly related to the unexplained increase of wealth by individuals and the use of front men and money laundering through the diversion of funds, bidding processes and other corrupt acts, and to a lesser extent the use of foreign trade operations and smuggling.

74. This differs from the data in the previous ML Regional Threat Report, where the cases corresponded mainly to the use of formal and informal currency exchange and remittance services and cash transfer, together with ML through corporate vehicles and legal company arrangements, and DNFBPs.⁴²

⁴² Reference to GAFILAT Regional Threat Update Report, (2017), p. 22.

TABLE No. 2 - Number of Cases per Thematic Area

Type of thematic area	Number of cases	%
Unexplained increase of wealth by individuals and the use of front men	12	46
Money laundering through diversion of funds, bidding processes and other corrupt acts	7	27
Use of foreign trade transactions and smuggling	3	11
Money laundering through corporate vehicles and legal arrangements	2	8
Use of new payment services and products	1	4
Money laundering through designated non-financial businesses and professions	1	4
Grand Total	26	100

III. ANALYSIS OF TYPOLOGIES

75. The most commonly detected typologies as mechanisms for laundering the proceeds of crime are, in the first place, the use of front men; in the second place, the creation and use of legal persons and arrangements and, in the third place, the use of money or securities transfer services. The use of front men is found in 41 % of the typologies analysed, while 31 % refer to the use of legal persons and arrangements, and 13 % refer to the use of securities or money transfer services.

76. These data show variations in the typologies used by persons and criminal organisations with respect to previous years where the predominant typologies were associated with ML in the region through the creation and use of legal persons and arrangements, the use of front men, and the fractioning of money (or smurfing), respectively.

77. It should be noted that the use of front men appears mostly linked to the thematic area of the inexplicable increase of wealth by individuals and the use of front men. In general, reference is made to the registration of real estate and automobiles in the name of third parties who are not their legitimate owners, but who appear to be so in order to conceal their origin.

78. In cases where criminal conduct is carried out by individuals and not by criminal organisations, relatives or close associates are usually used as front men. In contrast, when more complex organisations are involved, third party bank accounts, notaries, and lawyers are used to conceal the origin of funds for the acquisition of assets.

79. Furthermore, the use of legal persons and arrangements is mostly associated with the thematic area of money laundering through diversion of funds, bidding processes and other corrupt acts. This could be a consequence of the fact that, in these cases, criminals must hide not



only the illicit origin, but also who really controls the legal persons or arrangements, i.e. the beneficial owner.

TABLE No. 3 - Number of Cases per Typology

Typology	Number of cases	%
Front man	19	41
Legal persons and arrangements	14	31
Money or value transfer services	6	13
Fractioning (smurfing)	5	11
Undetermined ⁴³	1	2
Informal foreign trade system	1	2
Grand Total	46	100

SOURCE: PREPARED ON THE BASIS OF THE DOCUMENT REGIONAL TYPOLOGIES REPORT 2017-2018, PUBLISHED BY GAFILAT IN 2018.

IV. ANALYSIS OF PRODUCTS USED

80. The products used by criminals and criminal organizations to launder assets in the region remain the same as those detected in the previous report. That is to say, cash continues to be the predominant product detected for laundering assets of illicit origin (27 %), followed by the use of bank accounts (22 %), and international money transfers (11 %).

81. It is known that the possession of cash has advantages for criminals especially regarding anonymity over origin, possession, and use. Additionally, the traceability of the operations carried out is overly complex. That is why it is still the most widely used product. However, a significant problem with regard to cash is its limited capacity for expenditure and possibility of investment without any information being required from the reporting institutions of the ML prevention system concerning its origin, as well as identification of who is operating and the possibility of reporting transactions and suspicious transactions to the FIU or the investigative authorities.

82. The second product used is bank accounts, which are characterised by security, ease, speed, and a wide variety of movements that can be made from anywhere in the world. It can be seen that the use of this product is linked to the typology of front men, which mainly affects the banking sector.

83. This is reasonable from the point of view of criminal analysis, since, for the purposes of laundering cash, criminals and/or criminal organisations seek to place assets in the financial

⁴³ This was indicated by the country when presenting the typology.

market through front men, and do so through the banking sector, making use of bank accounts for the deposit and subsequent transfer of assets.

84. In addition, cases in which participation in organised criminal groups has been determined to be a ML predicate offense have predominantly used cash.

85. It is also observed that the typologies exposed related to organised crime and tax crimes have a greater diversification of the products used; in both cases bank accounts, checks and international transfers are used.

Table No. 4 - Number of Cases per Products Used

Product type	Number of cases	%
Cash	17	27
Bank accounts	14	22
International money transfers	7	11
Cheques	6	10
Money transfer	5	8
Exchange offices	4	6
Remittances	3	5
Mutual funds	1	<2(*)
Undetermined	1	<2(*)
International leasing	1	<2(*)
Insurance policy	1	<2(*)
Insurance companies	1	<2(*)
Securities deposit	1	<2(*)
Loans	1	<2(*)
Grand Total	63	100

(*) THIS INDICATES THAT THE PERCENTAGE OBTAINED IS GREATER THAN 1.5 AND LESS THAN 2.

SOURCE: PREPARED ON THE BASIS OF THE DOCUMENT REGIONAL TYPOLOGIES REPORT 2017-2018, PUBLISHED BY GAFILAT IN 2018.

V. ANALYSIS OF AFFECTED SECTORS



86. The banking sector remains the most vulnerable sector for money laundering in the region (33%), followed by the public institutions sector (18%), the automotive sector, and in fourth place the real estate sector.

87. The violation of public institutions is mainly related to the predicate offense of corruption and bribery.

88. The automotive sector is used to buy vehicles with illicit funds. In the cases analysed, not only private vehicles were bought, but also transport fleets with a higher value.

89. The real estate sector has been the favourite choice of criminals to hide proceeds of crime. Additionally, there is manipulation in relation to the real purchase prices of real estate. The likelihood that property values will increase over time and the opportunities to conceal real property mean that this remains one of the most vulnerable sectors.

Table No. 5 - Number of Cases per Sector or Economic Activity

Sector involved	Number of cases	%
Banks	15	33
Public entities	8	18
Automobiles	6	13
Real Estate Brokers	4	10
International trade	2	4
Free Zone users	2	4
Insurance companies	2	4
Notaries	2	4
Lawyers	1	2
Non-profit organisations	1	2
Credit cards operators	1	2
Other entities authorised to receive foreign currency	1	2
Undetermined ⁴⁴	1	2
Grand Total	46	100

SOURCE: PREPARED ON THE BASIS OF THE DOCUMENT REGIONAL TYPOLOGIES REPORT 2017-2018, PUBLISHED BY GAFILAT IN 2018.

⁴⁴ This was indicated by the country when presenting the typology.

F. ANALYSIS OF NATIONAL RISK ASSESSMENTS

90. To carry out this analysis, information presented by the GAFILAT member countries themselves, public information regarding the NRAs and information gathered during the NRA workshop held in Bogota, Colombia in September 2019 have been used. Additionally, the Mutual Evaluation Reports (MERs) of the countries that have been evaluated in the region have been consulted.

91. By 2015-2016, 15 countries had initiated or completed the ML/TF NRA process and two were in progress. For the period 2017-2018, out of the 15 countries, most made updates that were available at the time of the information analysis.

92. Thus, from the analysis of information, 104 different ML threats established by the countries are identified, which for this analysis have been grouped according to the categories of predicate offenses established by the FATF.

I. ANALYSIS AT THE REGIONAL LEVEL

93. At the regional level the main ML predicate offenses that GAFILAT member countries have identified as ML threats through their NRAs are firstly, illicit traffic in narcotic drugs and psychotropic substances (15 %), secondly, smuggling (including taxes and customs fees) (14 %), then thirdly, corruption and bribery together with smuggling of migrants and human beings—most countries refer to trafficking in persons—(both 12 %), fourthly, participation in an organised criminal group (8 %), and fifthly, in equal proportion, extortion and environmental crime (both 7 %). These crimes account for a total of 75 % of all ML predicate offenses.

Table No. 6 - Number of Cases in the Region per Type of Crime

Type of predicate offense	No. of NRAs where it is present	%
Illicit trafficking in narcotic drugs and psychotropic substances	16	15
Smuggling (includes taxes and customs fees)	15	14
Smuggling of migrants and human beings	12	12
Corruption and bribery	12	12
Participation in an organised criminal group	8	8
Environmental crimes	7	7
Extortion	7	7
Other base crimes	5	5
Counterfeiting and piracy of products	5	5

Illegal arms trafficking	4	4
Tax crimes (direct and indirect taxes)	4	4
Insider trading and market manipulation	3	3
Kidnapping, illegal restraint and hostage-taking	3	3
Illicit cross-border transportation of money	2	2
Intellectual Property	1	1
Grand Total	104	100

SOURCE: BASED ON THE ANALYSIS OF THE NRAs OF THE COUNTRIES IN THE REGION.

94. In the analysis conducted in 2017, the main ML predicate offenses that GAFILAT member countries had identified as ML threats through their NRAs were firstly illicit trafficking in narcotic drugs and psychotropic substances, secondly corruption and bribery, thirdly smuggling (including taxes and customs fees), fourthly smuggling of migrants and human beings, and fifthly extortion and participation in an organised criminal group to an equal extent, while the sixth was occupied by environmental crime.

95. That is to say, at the regional level, countries continue to identify the illicit trafficking in narcotic drugs and psychotropic substances as the main threat.

96. Smuggling (including taxes and customs fees) has increased and moved up from the third to the second place.

97. Trafficking in persons and smuggling of migrants is now the third predicate offense, whereas it was previously the fourth.

98. Corruption and bribery have declined—previously the second most common predicate offenses—are now in the third place, along with trafficking in persons and smuggling of migrants.

99. As far as participation in an organised criminal group is concerned, it has moved from the fourth to the fifth place it occupies now.

100. In the fifth place are environmental crimes and extortion. Previously, extortion showed a higher number of cases.

101. According to the analysis carried out, the crime of illicit trafficking in narcotic drugs and psychotropic substances has a regional cross-cutting nature, since all countries identify threats associated with this predicate offense, which accounts for 15 per cent of the frequency of identified threats.



102. Furthermore, the offence of smuggling has been identified by all but one country as a threat in its NRA. In this case, it represents 14 per cent of the frequency of identified threats; however, as it is not present in all countries, it cannot be identified as a cross-cutting threat.

103. The rest of the crimes are of a non-cross-cutting nature because the threats associated with them occur in one or more countries but do not reach all the jurisdictions that make up the region.

II. ANALYSIS OF THE MÉXICO, CENTRAL AMERICA AND CARIBBEAN SUBREGION:

104. From the analysis of ML NRAs in the subregion, it emerges that illicit trafficking in narcotic drugs and psychotropic substances is an identified threat in all nine countries of the subregion. It is followed, in equal share, by the smuggling of migrants and human beings, which is present in eight of the nine countries of the subregion, and thirdly by corruption and bribery, followed by participation in an organised criminal group and extortion.

105. The above six crimes account for 69 per cent of the predicate offenses. The crime of illicit trafficking in narcotic drugs and psychotropic substances has a regional cross-cutting nature, since all countries identify threats associated with this predicate offense, which accounts for 15 per cent of the frequency of identified threats. The rest of the crimes are of a non-cross-cutting nature because the threats associated with them occur in one or more countries but do not reach all the jurisdictions that make up the region. However, it should be noted that, compared with the previous report, the crime of smuggling of migrants and human beings and smuggling is more widely represented in the subregion as a threat identified by the countries themselves.

Table No. 7 - Number of Cases in the Region of Central America and the Caribbean per Type of Crime

Type of predicate offense	No. of NRAs where it is present	%
Illicit trafficking in narcotic drugs and psychotropic substances	9	15
Smuggling of migrants and human beings	8	13
Smuggling (includes taxes and customs fees)	8	13
Corruption and bribery	7	12
Participation in an organised criminal group	5	8
Extortion	5	8
Environmental crimes	3	5
Tax crimes (direct and indirect taxes)	3	5
Other base crimes	3	5
Insider trading and market manipulation	2	3
Illegal arms trafficking	2	3
Counterfeiting and piracy of products	2	3

Kidnapping, illegal restraint and hostage-taking	2	3
Illicit cross-border transportation of money	1	2
Grand Total	60	100

SOURCE: BASED ON THE ANALYSIS OF THE NRAs OF THE COUNTRIES IN THE REGION.

III. ANALYSIS OF THE ANDEAN SUBREGION

106. From the analysis of ML NRAs in the subregion, it emerges that illicit trafficking in narcotic drugs and psychotropic substances and smuggling are identified threats in all four countries of the subregion. It should be noted that, at the time of preparation of this report, Ecuador did not have a ML NRA in place. It is followed, in equal share, by environmental crime and corruption and bribery present in 3 of the 4 countries that make up the subregion, and thirdly by extortion and smuggling of migrants and human beings, in equal frequency. The above six crimes account for 82 % of the predicate offenses.

107. The crimes of illicit trafficking in narcotic drugs and psychotropic substances and smuggling have a regional cross-cutting nature, since all countries identify threats associated with these predicate offenses, which account for 36 % of the frequency of identified threats in the subregion.

108. The rest of the crimes are of a non-cross-cutting nature because the threats associated with them occur in one or more countries but do not reach all the jurisdictions that make up the region.

Table No. 8 - Number of Cases in the Andean Region per Type of Crime

Type of predicate offense	Number of cases	%
Smuggling (includes taxes and customs fees)	4	18
Illicit trafficking in narcotic drugs and psychotropic substances	4	18
Environmental crimes	3	14
Corruption and bribery	3	14
Extortion	2	9
Smuggling of migrants and human beings	2	9
Intellectual Property	1	5
Kidnapping, illegal restraint and hostage-taking	1	5
Other base crimes	1	5
Participation in an organised criminal group	1	5
Grand Total	22	100



SOURCE: BASED ON THE ANALYSIS OF THE NRAs OF THE COUNTRIES IN THE REGION.

IV. ANALYSIS OF THE SOUTHERN CONE SUBREGION

109. From the analysis of ML NRAs in the subregion, it emerges that illicit trafficking in narcotic drugs and psychotropic substances, smuggling, and counterfeiting and piracy of products are identified threats in all three countries of the subregion. It should be noted that, at the time of preparation of this report, Argentina did not have a ML NRA in place. It is followed, in equal shares, by participation in organised criminal groups, arms trafficking, smuggling of migrants and human beings, and corruption and bribery present in 2 of the 3 countries that make up the subregion. The above six crimes account for 78 % of the predicate offenses.

110. Moreover, the crimes of illicit trafficking in narcotic drugs and psychotropic substances, smuggling and counterfeiting and piracy of products have a regional cross-cutting nature, since all countries identify threats associated with these predicate offenses, which account for 42 % of the frequency of identified threats in the subregion.

111. The rest of the crimes are of a non-cross-cutting nature because the threats associated with them occur in one or more countries but do not reach all the jurisdictions that make up the region.

Table No. 9 - Number of Cases in Southern Cone Region per Type of Crime

Type of predicate offense	Number of cases	%
Illicit trafficking in narcotic drugs and psychotropic substances	3	14
Smuggling (includes taxes and customs fees)	3	14
Counterfeiting and piracy of products	3	14
Participation in an organised criminal group	2	9
Illegal arms trafficking	2	9
Smuggling of migrants and human beings	2	9
Corruption and bribery	2	9
Environmental crimes	1	5
Illicit cross-border transportation of money	1	5
Insider trading and market manipulation	1	5
Tax crimes (direct and indirect taxes)	1	5
Other base crimes	1	5
Grand Total	22	100

SOURCE: BASED ON THE ANALYSIS OF THE NRAs OF THE COUNTRIES IN THE REGION.



G. ANALYSIS OF CONVICTIONS

112. In this analysis the information submitted by the various countries of the region⁴⁵ has been used in relation to the convictions of ML formulated by their respective judicial authorities between 2017 and 2018.

113. The purpose of the following chapter is to characterise the phenomenon of money laundering in the region, based on the 186 convictions for money laundering.

I. ANALYSIS OF ML PREDICATE OFFENSES PRESENT IN THE CONVICTIONS

114. From the analysis of the convictions presented, it emerges that the main predicate offenses for ML convictions are the illicit cross-border transportation of money, the illicit trafficking in narcotics and psychotropic substances, participation in an organised criminal group, followed by corruption and bribery and swindling with the same percentage.

115. The trend already identified in the previous threat report, where an analysis of ML convictions had determined that illicit trafficking in narcotic drugs and psychotropic substances is the most frequent predicate offense in the region as a source of illicit assets, is maintained. Meanwhile, the illicit cross-border transportation of money, as well as participation in an organised criminal group, are used as predicate offenses, whose proceeds of crime have subsequently been laundered.

116. In the convictions that established the illicit cross-border transportation of money as a predicate offense, mainly public institutions were affected, and some countries have specifically established the involvement of customs agents.

117. In the convictions that established illicit trafficking in narcotics and psychotropic substances as a predicate offense, mainly banks and notaries, with some involvement of the automotive sector, are affected

118. In the convictions that determined corruption and bribery as a predicate offense, there is a greater diversification of the sectors that were affected (notaries, commerce, casinos, banks, telecommunications, among others).

Table No. 10 - Number of Cases per FATF Predicate Offenses and Others

Type of predicate offense	Number of cases	%
Illicit cross-border transportation of money	46	25

⁴⁵ For more details, refer to Annex III.

Illicit trafficking in narcotic drugs and psychotropic substances	37	20
Other predicate offenses ⁴⁶	22	12
Not possible to determine de PO	14	7
Participation in an organised criminal group	11	6
Swindling	9	5
Corruption and bribery	9	5
Unjustified asset increase	8	4
Smuggling (includes taxes and customs fees)	7	4
Robbery or theft	8	4
Extortion	4	2
Environmental crimes	3	2
Fraud	2	1
Smuggling of migrants and human beings	2	1
Tax crimes (direct and indirect taxes)	2	1
Sexual exploitation (includes minors)	1	<0.5(*)
Illegal arms trafficking	1	<0.5(*)
Grand Total	186	100

(*) THIS INDICATES THAT THE PERCENTAGE OBTAINED IS LESS THAN 0.5.

SOURCE: BASED ON THE ANALYSIS OF THE CONVICTIONS OF THE COUNTRIES OF THE REGION

II. ANALYSIS BY GAFILAT THEMATIC AREAS

119. The convictions are mainly related to unexplained increases in wealth by individuals and the use of front men; secondly, the use of formal and informal remittance and foreign exchange services and physical transfer of cash; and thirdly, the use of foreign trade transactions and smuggling.

Table No. 11 - Number of Cases per GAFILAT Thematic Area

GAFILAT Thematic Area	Number of cases	%
Undetermined ⁴⁷	78	42
Unexplained increase of wealth by individuals and the use of front men	51	27

⁴⁶ This concept includes cases in which the predicate offense is none of those stipulated in R.3 of the FATF methodology.

⁴⁷ This concept includes those convictions whose facts are not included in any of the assumptions of the thematic lines of GAFILAT.

Use of formal and informal remittance and foreign exchange services and physical transfer of cash	23	13
Use of foreign trade transactions and smuggling	15	8
Money laundering through corporate vehicles and legal arrangements	8	4
Money laundering through diversion of funds, bidding processes and other corrupt acts	6	3
Money laundering through designated non-financial businesses and professions	5	3
Grand Total	186	100

SOURCE: BASED ON THE ANALYSIS OF THE CONVICTIONS OF THE COUNTRIES OF THE REGION

III. ANALYSIS OF TYPOLOGIES

120. From an analysis of ML convictions in the region, it emerges that the most commonly used typology for laundering proceeds of crime is the use of front men followed by the use of legal persons and arrangements. In the previous threat report, it was the exact opposite. In the third place, there is the fractioning of money (or smurfing).

Table No. 12 - Number of Cases per Typology

Typologies	Number of cases	%
Undetermined ⁴⁶	128	59
Front man	38	17
Legal persons and arrangements	33	15
Fractioning (smurfing)	11	5
Hawala	4	2
Gatekeepers ⁴⁷	5	2
Grand Total	219	100

SOURCE: BASED ON THE ANALYSIS OF THE CONVICTIONS OF THE COUNTRIES OF THE REGION

IV. ANALYSIS OF PRODUCTS USED

121. The most used products, according to the analysis of the convictions, are the use of cash (38 %), the use of bank accounts (16 %) and local and international money transfers (5 % both).

Table No. 13 - Number of Cases per Products Used

⁴⁸ This concept includes those convictions whose facts are not included in any of the assumptions of the typologies.

⁴⁹ Professionals who are in a position to detect money laundering situations.

Products used	Number of cases	%
Cash	93	38
Undetermined	49	20
Bank accounts	37	16
International transfer of money	13	5
Money transfer	12	5
Cheques	8	3
Deposit on account	8	3
Automated teller machine	4	2
Savings accounts	3	1
<i>Vales vista</i>	2	1
National and international trade invoices	2	1
Credit	2	1
Buying and selling of shares	2	1
Buying and selling of land	1	<0.5(*)
Buying and selling	1	<0.5(*)
<i>Ticket Casino</i>	1	<0.5(*)
Mortgage loans	1	<0.5(*)
Others	1	<0.5(*)
Insurance policy	1	<0.5(*)
Casino prizes	1	<0.5(*)
Grand Total	242	100

(*) THIS INDICATES THAT THE PERCENTAGE OBTAINED IS LESS THAN 0.5.

SOURCE: BASED ON THE ANALYSIS OF THE CONVICTIONS OF THE COUNTRIES OF THE REGION

V. ANALYSIS OF AFFECTED SECTORS

122. When analysing ML convictions in the region, an average of 1.4 economic sectors were affected by each conviction.

123. When analysing these sectors, banks, notaries, public institutions, and the automotive sector are identified as the most widely used sectors for ML in the region. It should be noted that banks and notaries are in almost the same position, the former with 15 % and the latter with 14 %. This has changed from the previous threat analysis that identified banks, real estate companies, and notaries as the most vulnerable sectors.



124. In addition, in the convictions that established banks as the affected sector, the use of bank accounts was mainly determined.

125. In the convictions that established the public institutions as the affected sector, the use of cash was mainly determined.

126. The use of cheques, bank accounts, cash, and international transfers are associated with the full range of sectors identified.

Table No. 14 - Number of Cases per Economic Sector Affected

Affected economic sectors	Number of cases	%
Undetermined	79	32
Banks	37	15
Notaries	33	14
Public entities	22	9
Automotive	17	7
Securities deposit	12	5
Financial institutions	8	3
Conservadores	7	3
Money transfer companies	5	2
Companies from the real estate sector	5	2
Trade	4	1
Real estate brokers	3	1
Credit cards issuers	2	1
Gaming casinos	2	1
Credit unions	2	1
Telecommunications	1	<0.5(*)
Municipalities	1	<0.5(*)
Exchange houses	1	<0.5(*)
Real estate agents	1	<0.5(*)
Customs agents	1	<0.5(*)
Bidding and auction houses	1	<0.5(*)
Stockbrokers	1	<0.5(*)
Accountants	1	<0.5(*)
Insurance companies	1	<0.5(*)
Grand Total	248	100

(*) THIS INDICATES THAT THE PERCENTAGE OBTAINED IS LESS THAN 0.5.



SOURCE: BASED ON THE ANALYSIS OF THE CONVICTIONS OF THE COUNTRIES OF THE REGION

H. ANALYSIS OF DATA FROM THE GAFILAT ASSET RECOVERY NETWORK (RRAG)

127. Through the GAFILAT Executive Secretariat, statistics have been obtained regarding the use of the GAFILAT Asset Recovery Network (RRAG) platform between 2017 and 2018. This is for the purpose of incorporating into the analysis the number of active informal cooperation requests for this period, by country, biased by investigated predicate offense.

128. The RRAG, is an electronic platform that has the purpose of exchanging information among GAFILAT member countries and some observers regarding natural and legal persons and goods to facilitate the identification, location and recovery of assets, products or instruments of illicit activities, in the ongoing investigations.

129. This analysis made it possible to identify the predicate offenses on which informal active international cooperation was based in the years 2017 and 2018.

130. During 2017, a total of 120 active international cooperation requests were made through the platform, as compared to 159 in 2018.

131. The vast majority of cooperation is based on investigations for ML; the predicate offense is not determined in all cases, and not all countries in the region make use of the platform, so it was decided to use this information for descriptive purposes.

132. In the cases with explicit predicate offenses on which informal international cooperation was based, it appears that the requests for information were mainly related to cases where the predicate offenses were the following: Corruption and bribery, fraud, illicit trafficking in narcotic drugs and psychotropic substances, swindling, smuggling (including taxes and customs fees), tax crimes (direct and indirect taxes), and participation in an organised criminal group.

Table No. 15 - Number of Active International Cooperation

Reported predicate offense	Number of cases
Corruption and bribery	25
Swindling	23
Illicit trafficking in narcotic drugs and psychotropic substances	23
Fraud	13
Smuggling (includes taxes and customs fees)	11
Tax crimes (direct and indirect taxes)	11



Participation in organised group	10
Smuggling of migrants and human beings	6
Extortion	2
Unjustified asset increase	2
Terrorism	2
Illegal arms trafficking	2
Environmental crimes	1
Robbery	1
Grand Total	132

SOURCE: BASED ON THE ANALYSIS OF REQUESTS IN THE RRAG.

I. DETERMINATION OF REGIONAL ML THREATS, APPLICATION OF THE INDEX “ML Threats in Latin America and the Caribbean.”

133. In order to determine what the regional threats are, and to determine the methodology chosen by the countries, the “ML Threats in Latin America and the Caribbean” index,⁵⁰ constructed in the previous threat report, was applied, based on the ML predicate offenses present, both in the ML detection and sanctioning phases in the region.⁵¹ In addition, the frequency of the types of predicate offenses in the convictions as well as in the typologies is considered.

134. It allows for the identification of seven regional threats that have been categorised as existing threats.

135. Additionally, as has been done in the determination of threats in the region, when countries identify a threat in their NRAs and it has low or no presence in the detection and sanctioning phases, it is an emerging threat. Under this concept, two emerging threats were found.

136. Thus, 9 ML threats have been identified in the region, 7 existing threats and 2 emerging threats, as detailed below:

⁵⁰ For more details, refer to Annex II.

⁵¹ It should be clarified that, when referring to the detection process, reference is made to typologies while the sanctioning process is related to convictions.

Table No. 16 – Existing Threats Associated with ML in the Region

ML predicate offenses	Type of threat
Illicit trafficking in narcotic drugs and psychotropic substances	Existing
Illicit cross-border transportation of money	Existing
Corruption and bribery	Existing
Participation in an organised criminal group	Existing
Tax crimes (direct and indirect taxes)	Existing
Swindling	Existing
Smuggling (includes taxes and customs fees)	Existing
Environmental crimes	Emerging
Trafficking in persons and migrant smuggling	Emerging

137. The main threats in the region are illegal trafficking in narcotics and psychotropic substances, illicit cross-border transportation of money, corruption and bribery, participation in organised criminal groups, and tax crimes (direct and indirect taxes), swindling and smuggling (including taxes and customs fees).

138. Smuggling of migrants and human beings, especially trafficking in persons, and environmental crimes are identified as emerging threats.

Existing threats:

I. ILLICIT TRAFFICKING IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES

139. This threat is still present across the region. This predicate offense remains the most frequent offense in both the detection and sanctioning phases of ML, and is the only ML predicate offense that all countries in the region have identified as a threat in their NRAs.

140. The convictions that established illicit trafficking in narcotics and psychotropic substances as a predicate offense have the characteristic that mainly banks and notaries, with some involvement of the automotive sector, are affected. The most used product is cash together with bank accounts.

141. With respect to drug trafficking, the regional analysis shows that the predominant typologies correspond mostly to the use of front men.



142. The countries of the region have detailed, through their ML/TF NRAs, that they continue to be prone to this threat, either as producers of the raw material or because they play a strategic role in the transit, storage, and distribution of substances, both to the United States and Europe.

143. In addition, several countries have determined in their NRAs that criminal groups involved in drug trafficking are likely to vie for profits from other illicit activities and continue to spread mayhem throughout the region.

II. ILLICIT CROSS-BORDER TRANSPORTATION OF MONEY

144. This crime is a determining factor in convictions with greater representativeness than in subsequent years.

145. It is worth mentioning that, in the convictions, there are two situations that give rise to legal proceedings. The first is when an individual is about to travel and has entered or left the country with cash or its equivalent in monetary instruments without having declared them to the customs authority, in most cases exceeding the permitted amount (generally USD 10,000). The second is when a security force identifies one or more individuals with money as part of a routine control procedure and seizes the money. Most of the seizures are in cash and in most cases are not in national but in foreign currency, mostly US dollars.

146. In general, the events are detected at the border or in states, provinces or subregions that border on neighbouring countries. The individuals who hold the sums of money detected do not possess elements or an economic profile that would allow the justification of the legitimate possession of the funds or, during the process, even indicate that they were transporting the money for a third party.

147. In the convictions that established the illicit cross-border transportation of money as a predicate offense, mainly public institutions were affected, and cash was generally used.

148. In relation to the analysis, this threat is currently frequent, especially in the ML sanctioning phase, and it occurs largely in the region of Mexico, Central America, and the Caribbean. However, few countries have defined it as a threat in their NRAs.

III. CORRUPTION AND BRIBERY

149. Corruption and bribery are more frequent in the ML detection phase than in the sanctioning phase. It should be noted that this was one of the predicate offenses with the greatest presence in the typology analysis.

150. With respect to the previous threat report, it has moved up three positions from sixth to third place. This implies that the countries of the region have incorporated this offense more frequently in the NRAs; 12 countries identify this predicate offense as a threat.

151. With respect to corruption and bribery, the regional analysis shows that the predominant typologies for ML correspond mostly to the use of legal persons and arrangements and the use of front men, who, in most cases, are the relatives of the public officials themselves.

152. In the convictions that determined corruption and bribery as a predicate offense, there is a greater diversification of the sectors that were affected (notaries, commerce, casinos, banks, telecommunications, among others).

IV. PARTICIPATION IN AN ORGANISED CRIMINAL GROUP

153. This threat is present in the same percentage both in the ML detection and sanctioning phases.

154. It is a threat with representativeness mainly in the countries of the subregion of Mexico, Central America, and the Caribbean that face extreme levels of violence, aggravated by transnational organised crime and drug trafficking. Although there are also cases in the Andean and Southern Cone subregions, in which the participation of organised criminal groups is the same, in general, it is in the form of an external threat.

155. Countries agree and have determined in their NRAs that organised criminal groups involved in drug trafficking are likely to vie for profits from other illicit activities and continue to spread mayhem, including extortion, assassinations, illegal mining, and kidnapping.

156. There is therefore no doubt that these transnational problems constitute challenges for the countries of the region and for the international community as a whole. Criminal networks and their activities threaten stability, undermine democratic institutions, and harm the economic activity that is so important to the region.

157. Organised criminal groups in the region attempt to conceal or disguise active illicit flows, particularly through the typology of legal persons and arrangements, and to an equal extent through the use of front men.

158. With regard to the above, it is important to mention that the most vulnerable economic sectors correspond to the banking sector, financial institutions where cash and bank accounts are used as the main means, followed by cheques and money transfers.

V. TAX CRIMES (DIRECT AND INDIRECT TAXES)

159. Tax crimes, which include evasion and/or avoidance of direct and indirect taxes, are frequent in the detection phase. It should be noted that this was one of the predicate offenses with the greatest presence in the typology analysis. However, there are only 2 convictions for this crime



160. With regard to the typologies used to launder the proceeds of this predicate offense, the frequent use of legal persons and arrangements and, to the same extent, the use of front men are noteworthy.

161. With regard to the above, it is important to mention that the most vulnerable economic sectors correspond to the banking sector, financial institutions where cash and bank accounts are used as the main means, followed by cheques and domestic and international money transfers.

VI. SWINDLING

162. According to the analysis, this threat is present both in the ML detection and sanctioning phases, although the number of ML convictions is higher than the number of typologies. However, none of the countries of the region have identified this crime as a ML threat in their NRAs.

163. In general, it is characterised by the crime of money laundering through diversion of funds, bidding processes, and other corrupt acts, the unexplainable increase of wealth by individuals, and the use of front men.

164. In cases involving this predicate offense, preference has been given to front men, and the economic sectors most frequently affected are notaries and the banking sector, in that order.

165. The products used are varied, although the use of cash, cheques, and international money transfers predominates

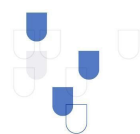
VII. SMUGGLING (INCLUDES TAXES AND CUSTOMS FEES)

166. According to the analysis, this threat is present both in the ML detection and sanctioning phases, although the number of ML convictions is higher than the number of typologies. It is worth mentioning that all but one country in the region identifies smuggling as a threat according to the analysis of the ML/TF NRAs.

167. This predicate offense has been observed in the region as a phenomenon linked to the development of international trade and especially to the FTZs, where the use of cash is higher and is characterised by a high percentage of trade.

168. In general, the characterisation of this crime involves commercial practices such as over-invoicing, under-invoicing, multiple invoicing or false description of goods and services, among others.

169. In cases involving this predicate offense, preference has been given to legal persons and arrangements, followed in equal percentage by the use of front men and hawala.



170. In accordance with the above, the economic sectors most frequently targeted are the banking sector, money transfer companies, and the real estate sector. In this sense, the products or means commonly used are cash, followed by international money transfers.

171. It is important to emphasise that the countries of the Southern Cone region agree in their NRAs that this crime is intricately linked to the crime of counterfeiting and piracy of products.

Emerging threats:

I. TRAFFICKING IN PERSONS AND SMUGGLING OF MIGRANTS AND HUMAN BEINGS

172. It should be noted that, when referring to this crime, countries generally associate it with the crime of trafficking in persons for sexual exploitation purposes and/or procuring.

173. More and more countries identify it as a threat in their NRAs, but it still has low or no presence in the detection and sanctioning phases.

174. Currently, 12 countries in the region mention this crime as a ML threat. In the previous threat report, 8 countries had identified this crime as a ML threat. However, despite this, there are only two typologies presented around this crime and there are only two convictions. Therefore, it is still considered an emerging threat.

II. ENVIRONMENTAL CRIMES

175. Currently, 7 countries in the region mentioned the criminal exploitation of natural resources as a threat in terms of ML. However, it still does not present a significant occurrence in terms of detection and sanction. According to the determinations of GAFILAT countries themselves, it is clear that this threat has recently emerged in the region, although it still has little or no presence in typologies and convictions.

176. It should be noted that, in general, Andean Zone countries refer to environmental crimes associated with illegal mining and illegal logging as the predominant forms of such crime.

177. Furthermore, in the Southern Cone, one country has considered the extraction of natural resources, such as the extraction of metals and stones, as one of the ML threats.

178. In the subregion of Mexico, Central America, and the Caribbean, illegal trafficking in wildlife (flora and fauna) and theft of hydrocarbons and minerals are referred to as ML threats.

179. As it was mentioned before, several countries agree and have determined in their NRAs that organised criminal groups involved in drug trafficking are likely to vie for profits from other

illicit activities, and some implicitly mention illegal mining, indiscriminate logging, and theft of hydrocarbons and minerals.

180. In fact, there are references in the NRAs to the fact that the same routes between countries and continents are used for the trafficking of the proceeds of environmental crimes, whether gold, minerals, wildlife, timber, or for the trafficking in arms, drugs and people.

181. Additionally, environmental crimes are linked to other crimes, which are also ML threats. One of the countries in the region has determined, for example, that one of the ML threats is the smuggling of metals illegally exploited in other jurisdictions.

182. Moreover, this crime is closely related to the crime of corruption, because in general, the ability to obtain the necessary authorisations through corruption maximises the benefits and minimises the costs associated with mining, to the detriment of other companies and individuals, or alternatively bribes must be paid to circumvent customs or law enforcement controls. Of course, it also implies an increase in tax crimes.

J. CRIMINALS ORGANISATIONS

183. Since the definition of threat involves individuals, a group of people, with sufficient potential to cause harm to the State, society, the economy or other elements, an attempt was also made to determine which criminal organisations operate in the region and what their main characteristics are following the analysis of the convictions involving an organised criminal group.

184. Out of a total of 186 convictions, 46 reported the participation of a criminal organisation, in most cases of a national origin.

185. In this regard, it should be noted that the main predicate offense identified in the convictions involving organised criminal groups is illicit trafficking in narcotics and psychotropic substances (17 cases), and to a lesser extent, extortion.

186. The main economic sectors affected, as identified in the convictions in which participation of organised criminal groups was determined, are notaries (21 cases), the banking sector (16 cases), and the automotive sector (12 cases).

187. We can see that the convictions that determine the participation of organised criminal groups present a greater diversity of typologies. The typologies identified in the convictions in which participation of organised criminal groups was determined are front men (23 cases), legal persons and arrangements (16 cases), splitting or smurfing (6 cases), gatekeepers (5 cases) and hawala (3 cases).

188. After consultation and consideration of the mutual evaluation reports, as well as the various international studies that analyse the presence of criminal organisations in the region, three criminal organisations operating in the subregion of Mexico, Central America and the Caribbean were identified, whose actions are of an international nature and whose participants have been convicted of crimes committed in the region during 2017 and 2018. They are:

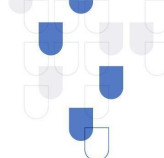
- i. Maras and gangs: *M13* and *M18*,
- ii. Los Zetas,
- iii. Los Caballeros Templarios.

189. It should be noted that the identification of these gangs does not prevent multiple other criminal organisations from operating in the region, or from being investigated by the authorities.

ANNEX I: CATEGORIES OF PREDICATE OFFENSES

Categories of predicate offenses	Source
Participation in an organised criminal group	<p data-bbox="976 709 1403 919">REC. 3 – International standards on the fight against money laundering and terrorist financing and the financing of the proliferation of weapons of mass destruction.</p>
Swindling	
Trafficking in persons and smuggling of migrants	
Sexual exploitation (includes minors)	
Illicit trafficking in narcotic drugs and psychotropic substances	
Illegal arms trafficking	
Illicit trafficking in stolen and other goods	
Corruption and bribery	
Fraud	
Counterfeiting currency	
Counterfeiting and piracy of products	
Environmental crimes	
Murder, grievous bodily injury	
Kidnapping, illegal restraint and hostage-taking	
Robbery or theft	
Smuggling (includes taxes and customs fees)	
Tax crimes (direct and indirect taxes)	
Extortion	
Insider trading	
Market manipulation	
Terrorism (includes its financing)	
Illicit cross-border transportation of money	<p data-bbox="976 1255 1403 1390">It is incorporated as a category because it is identified as a predicate offense⁵² in the analysis of convictions.</p>

⁵² Some countries in the region have classified this crime as a ML predicate offense. In this regard, this classification may generate distortions with respect to other countries in which the undeclared illicit cross-border transportation of money is an administrative fault and not a crime.



ANNEX II: APPLICATION OF THE INDEX

1. In the period between 2017 and 2018, 186 convictions for ML and 26 cases of typologies are systematised containing information on the predicate offenses, the economic sectors targeted, the typologies identified, and the financial products used, among other data.
2. Of the total number of convictions, in 172 the predicate offense was determined. In the case of typologies, it should be noted that one typology may include more than one predicate offense, which is why the maximum is 62, which corresponds to the total number of predicate offenses identified.
3. The transformation of the data is carried out using the “min-max” method, which converts the data value to a range from 0 to 1, which are determined by considering the amplitude in the variation of the values, with 1 being the maximum to be assigned, equivalent to the maximum value of the variable, maintaining the hierarchical order they initially showed.

4. The data are transformed using the following formula:

$$X_i^* = \frac{X_i - X_{min}}{X_{max} - X_{min}}$$

5. Where,

X_i^* : Standardised value.

X_i : Effective value (frequency of the predicate offense i).

X_{min} : Minimum value that the variable can take (less frequent predicate offense).

X_{max} : Maximum value that the variable can take (more frequent predicate offense).

6. With respect to weighting, a simple average (or 50/50 weighting) was used, in order not to give greater weight to either input, i.e., the ML detection and sanctioning data are valued with the same importance. Finally, the indicator is obtained by multiplying the standardised values by the respective weighting.

$$I_i = \alpha X_i^* + \beta X_i^{**}$$

7. Where,



I_i : Indicator predicate offense i

X_i^* : Standardised value of the predicate offense i, from convictions

X_i^{**} : Standardised value of the predicate offense i, from typologies reports

α, β : Weights (in this case, the value of both is equal to 0.5)

8. From the application of the index, the following table emerges:

Regional threat Index

Predicate offense	Frequency based on convictions	X^*	Frequency based on typologies	X^{**}	I
Illicit trafficking in narcotic drugs and psychotropic substances	37	0.2151	10	0.1613	0.188
Illicit cross-border transportation of money	46	0.2674	3	0.0484	0.158
Corruption and bribery	9	0.0523	11	0.1774	0.115
Participation in an organised criminal group	11	0.064	10	0.1613	0.113
Tax crimes (direct and indirect taxes)	2	0.0116	11	0.1774	0.095
Other predicate offenses	22	0.1279	0	0	0.064
Swindling	9	0.0523	3	0.0484	0.050
Smuggling (includes taxes and customs fees)	7	0.0407	3	0.0484	0.045
Robbery or theft	8	0.0465	2	0.0323	0.039
Unjustified asset increase	8	0.0465	0	0	0.023
Trafficking in persons and smuggling of migrants and human beings	2	0.0116	2	0.0323	0.022
Environmental crimes	3	0.0174	1	0.0161	0.017
Insider trading	0	0	2	0.0323	0.016
Extortion	4	0.0233	0	0	0.012
Fraud	2	0.0116	1	0.0161	0.014
Counterfeiting and piracy of products	0	0	1	0.0161	0.008

Murder, grievous bodily injury	0	0	1	0.0161	0.008
Terrorism (includes its financing)	0	0	1	0.0161	0.008
Sexual exploitation (includes minors)	1	0.0058	0	0	0.003
Illegal arms trafficking	1	0.0058	0	0	0.003
Minimum possible	0	-	0	-	-
Maximum possible	172	-	62	-	-

ANNEX III: CONVICTIONS SUBMITTED BY COUNTRY

Number of cases per Country	Number of cases	%
Mexico	63	34
Peru	37	20
Guatemala	27	15
Nicaragua	19	10
Chile	19	10
Uruguay	13	7
Honduras	5	2
Cuba	1	1
Ecuador	2	1
Grand Total	186	100

ANNEX IV: CRIMINAL ORGANISATIONS DETECTED IN CONVICTIONS

Name of the Criminal Organisation	Number of cases	%
Undetermined ⁵³	29	64
Maras and gangs	4	10

⁵³ This concept includes criminal organisations without a denomination.

<i>La Gran Familia</i>	2	5
<i>Los Cuicos</i>	2	5
Influential traffic network led by ex-military	1	2
Network of illegal movement of persons	1	2
<i>Zetas</i>	1	2
<i>Aurum Metals Ltda</i>	1	2
<i>La Roca</i>	1	2
<i>López Paredes</i>	1	2
<i>Los Barros</i>	1	2
<i>Los Caballeros Templarios</i>	1	2
<i>Los de Arriba</i>	1	2
Grand Total	46	100

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ANNEX VI: THREATS RELATED TO THE COVID-19 PANDEMIC

INTRODUCTION.

The pandemic caused by the COVID-19 virus led to the reaction of each and every one of GAFILAT member countries. For this reason, GAFILAT took on the task of monitoring such actions among its members and thus be in a position to detect the main threats that emerge with this global situation.

In response to these events, GAFILAT issued a statement addressed to its members and to the global community in which, based on the experience of the different countries, the international community and the work carried out by the Financial Action Task Force (FATF), provides a list of possible emerging risks and makes certain recommendations to keep the systems to prevent and combat ML/TF in place and to ensure their effective implementation in line with the reality that affected the countries of the region.

As the world continues to struggle with the COVID-19 pandemic, news emerged that criminals have taken advantage of this difficult situation. Crime takes advantage of the moment to proliferate its criminal activities, to make undue profits, and to transfer illicit money across borders.

GAFILAT, through its members, conducted a survey on the growing global threats that are reflected in the region and the threats that, according to the experiences of the countries, have increased their relevance and undoubtedly increase the risk of ML/TF if appropriate measures to address and mitigate them are not taken.

These emerging trends associated with COVID-19 should not be understood as a substitute for the threats identified in the Second Update to the Money Laundering Regional Threat Report. On the contrary, this annex should be taken as a complementary instrument to that report, in which possible behaviours are identified that, in the framework of the COVID-19 crisis, impact or deepen its impact without obstructing the criminal patterns developed in the aforementioned text.

PURPOSE

This section aims to share the experiences of the countries in the region and the international community in detecting growing threats due to the global health problem, and the measures that could result in the improvement and adaptability of the systems for preventing and combating ML/TF in the region.

MAIN THREATS DETECTED

Below, a list of elements identified as threats is provided, which could be useful for all relevant authorities and the private sector to take proportionate measures with a risk-based approach to them.

- Rise in corruption-related crimes, such as bribery, overpricing of products, and misappropriation of public funds, due to the growing need and urgency to supply certain products and services derived from the pandemic.
- Increase in financial fraud and scams, trafficking in counterfeit medicines, and the offer of fraudulent investments in the form of Ponzi schemes taking advantage of the economic uncertainty and fears caused by the pandemic.
- Trafficking in persons also finds a favourable situation to grow.
- At the same time, criminals are accommodating their more cost-effective cybercrime tactics to adapt to the situation, as a large number of people are confined to their homes and are using digital media to fulfil their daily tasks. This results in a substantial increase in remote or off-site financial transactions and purchase of products and services by electronic means or online, making cybercrime more likely. The most commonly used methods are:
 - Phishing - Fraudulent emails that direct customers to fake websites that appear to be from the banking institution in order to extract information or steal funds virtually, among other crimes.
 - Vishing - This threat combines a fraudulent phone call with information previously obtained from the Internet for fraud purposes. The offender identifies him/herself as bank personnel and, with particularly alarming messages, tries to get the

customer to reveal the number of his/her SMS password or digital token, which are necessary to authorise transactions.

- Smishing - The use of text or WhatsApp messages where an issuer pretends to be the bank, and informs you that a suspicious purchase has been made with your credit card in order to get hold of your confidential financial information.
- The distribution of counterfeit or low-quality products is a clearly identified threat that leverages the urgency and, in some cases, the lack of controls. The distribution of false home tests clearly concerns countries not only in terms of the illicit money generated, but also in terms of the damage to public health.
- In order to obtain funds and resources to cover basic needs, people may increase the use of pawn shops, moneylenders, as well as informal financing means that, therefore, could be more susceptible to be used in illegal activities, specifically for ML/TF. Situations of usury or abusive practices of various kinds may also emerge.
- Due to the people's economic needs and the lack of formal and informal employment, as a result of the economic inactivity generated by the health crisis, criminal organisations could be increasing the recruitment of people to support them in executing their criminal activities that generate resources susceptible to being laundered.
- There are also large cash movements and a possible rebound of the informal economy.
- Increase in unusual purchases of precious metals and gold ingots; and
- As a result of the indispensable and humanitarian role played by many NPOs in these global crisis scenarios, risks related to misuse and abuse of NPOs could emerge from the proliferation of their activities.

In addition to the above-mentioned threats, there are certain vulnerabilities associated with this crisis which may increase the risks and be exploited by criminal organisations to materialise ML/TF. Among them, the following can be mentioned:

- A substantial reduction in the volume of suspicious transaction reports received has been detected and the possible delay in obtaining additional information required for ongoing analysis or investigations.
- Challenges in the operation of the private sector due to the temporary suspension or reduction of functions that involve the face-to-face activity of its human resources, which could hinder the optimal maintenance of its AML/CFT systems; and
- Due to the temporary or intermittent closure in some of the services and economic activities and financial sectors, new challenges could arise to ensure that the RIs are

complying with their AML/CFT obligations, thus resulting in the need to establish new supervisory strategies.

MAIN MEASURES IMPLEMENTED

In this regard, the authorities of the various countries of the region and the international community have become aware of the challenges faced by them and by the various financial and non-financial reporting institutions in fulfilling their obligations to prevent and combat ML/TF effectively. Despite a temporary suspension of certain regular monitoring activities, they have given RIs instructions, guidance, and directions to be cautious and suggested certain best practices for possible emerging ML/TF risks. This section aims to capture the measures that were taken and recommended to address the situation.

- Keep regular contact with, and accompany regulators, supervisors, financial intelligence units, law enforcement authorities, and other relevant authorities in order to provide guidance and assistance to the private sector on how to apply national AML/CFT rules and regulations during the current crisis.
- Likewise, keep remote communication with RIs in order to identify new trends and risks, and agree on measures to mitigate them strategically and on a risk-based fashion. Issue public statements alerting on the potential threats and abusive practices associated with the exploitation of the COVID-19 crisis.
- When it comes to sending reports, priority should be given to sending Suspicious Transaction Reports (STRs).
- Encourage RIs to consider, evaluate and responsibly implement “innovative approaches” to meet their compliance obligations, to further strengthen the financial system against illicit financial activity.
- Strengthen the application of the risk-based approach to AML/CFT monitoring and supervision.
- Encourage the application of a risk-based approach to simplify measures where fewer risks are identified, and strengthen them where they are not.
- Guarantee, as much as possible, the operation of relevant authorities using technologies to perform remote functions, digital signatures, and establishing guards for essential activities that require the physical presence of officials.

- Promote the responsible use of digital financial and non-financial services, keeping a balance between access to such services and AML/CTF measures.
- Financial institutions are encouraged to be particularly vigilant with regard to information technology systems and non-public data; to have response plans for possible cyber security incidents; and to train and sensitise their staff in this regard.
- Pursue more and better monitoring and transparency in financial transactions, especially wire transfers and international transactions.
- Strengthen international cooperation between competent authorities, particularly through agile and expeditious mechanisms, in order to share good practices applied in the context of this crisis, information on emerging threats and vulnerabilities, and effective measures to mitigate them.
- Encourage the use of digital identity, as appropriate, to assist financial and virtual assets transactions, seeking to implement AML/CFT measures with a risk-based approach.
- Work with or approach relevant NPOs to ensure that donors are assured that their contributions will reach the intended beneficiaries; and
- Ensure the integrity and proper functioning of banks, money transmitters, and other financial sectors through technological measures that ensure risk-based due diligence on their customers and users, as well as on the different products and services they offer.

CONCLUSION

In this pressing global situation generated by the pandemic, the coordinated and harmonious participation of the different relevant actors in the tasks of prevention and fight against ML/TF is of vital importance. In particular, it is important to direct efforts in a strategic manner and with a risk-based approach, remaining vigilant to new methods, trends and threats that may arise so as to be able to mount a common front not only at the national level, but also regionally and globally, to ensure the stability and proper functioning of institutions, the financial system and the real economy. In this way, efforts will be made to prevent crisis circumstances such as the present one from being taken advantage of by criminals and organised crime to strengthen themselves and become a greater threat to the community in our region.