



## Money Laundering Country Risk Index *Afghanistan- Czech Republic*

### **Afghanistan**

#### *Major drug producer*

Prior to the removal of the Taliban, Afghanistan was one of the largest producers of opium in the world (major production regions are Helmand, Kandahor, Uruzgan and Nangarhar provinces). This provided a substantial source of revenue and influence to the producers. However, because the banking system had effectively been destroyed by political upheaval the country was not used by domestic (or international) money launderers. Regrettably the situation in the post-Taliban era remains very much unchanged: the opium harvest in 2002 is estimated as being between 3,500 and 4,000 tons, which is close to the record crop of 4,500 tons in 1999. This production then causes substantial problems in neighbouring countries that are used as transit routes to Western markets. The military action to remove Al-Qaida has obviously been a success in Afghanistan itself, but as a result has scattered the terrorists and forced them to revert to their cell-like structure in numerous other countries across the world.

### **Albania**

#### *Major organized crime problems*

Money laundering is a widespread problem as anti-money laundering measures are not enforced by banks. Remember also that this is the country that was nearly destroyed by a series of fraudulent pyramid schemes. Apart from ruthless domestic organized crime groups that specialize in human trafficking between Albania and Italy, the country also plays hosts to criminals from Macedonia, Italy, Greece and Turkey. Governmental enforcement is weak in relevant areas. Albania is also a major exporter of organized crime problems to Western Europe (see Chapter 1). The 2002 US Department of State report on human trafficking rates Albania at Tier 2 (a country not in compliance with minimum standards for elimination of trafficking but making significant efforts). The report states that Albania is both a source and transit country for women and girls trafficked for sexual exploitation to Italy, Greece, Belgium, France and the Netherlands. Young boys are also apparently trafficked from Albania to work as beggars in Italy and Greece. Ranked 81st equal out of 102 (where 102 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 2002.

## **Andorra**

As at April 2002 Andorra was classified as being an 'uncooperative tax haven' by the OECD because of its lack of commitment to the specified concepts of transparency and effective exchange of information.

## **Anguilla**

### *Possible up-and-coming money laundering centre*

The money laundering risks appear to be small at present but because of development of offshore facilities this location has the potential to pose major problems in the future. This prediction, however, must be balanced against the island's position as a United Kingdom overseas territory. This status carries with it increasing pressure from the British Government for such territories to clean up their acts. International Business Companies are available that can be incorporated within minutes: all you need is a minimum of one director (can be a nominee); no taxes; bearer shares; no exchange control; beneficial owners not disclosed to the authorities.

## **Antigua**

Is possibly one of the most enticing Caribbean locations for money launderers – subject to various official warnings, particularly as a result of the failure of the European Union Bank in 1997. IBCs are available and there is no disclosure of beneficial ownership. Until fairly recently there was no anti-money laundering legislation, but because of international pressure the situation appears to be improving. A US financial advisory warning on doing business with Antigua was lifted in 2001.

## **Argentina**

As it is an important financial centre with a mature banking system, Argentina increasingly risks becoming involved in the flow of funds from Colombia and other similar South American countries. Estimates put the figure laundered each year at \$6 billion. The situation has been exacerbated by the financial crisis of 2002. Ranked 70th out of 102 (where 102 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 2002. Member of the FATF.

## **Armenia**

### *Major organized crime problems*

Armed organized crime has a heavy presence; the grey economy is massive; public corruption is widespread. The situation is made worse by high unemployment, low salaries and a large underground economy. However, as Armenia is not a major international financial centre, the problems are predominantly domestic ones. Ranked 80th equal out of 99 (where 99 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 1999 but not surveyed in the 2002 report.

## **Aruba**

The US Government position is that Aruba is a major drug producing and/or transit country but it has either cooperated fully with the United States or taken its own steps to comply with the 1988 UN Drug Convention. Aruba has a major drug transit problem from South America to Europe due to its good transport links by air and its proximity to Colombia and Venezuela. A free trade zone and offshore industry facilitates money laundering. The offshore industry has up to 20 financial institutions. There are no problems with organized crime internally as such, but obvious risks of outside infiltration by organized crime groups because of offshore status and aspirations. Aruba is part of the Kingdom of the Netherlands and thus a member of the FATF. Although it has a substantial offshore industry Aruba is perceived as being a location where anti-money laundering regulations are being taken and applied seriously.

## **Australia**

One of the countries that has done most work both to control and to measure money laundering activity. Nevertheless because of the country's strong regional presence it has obvious attractions to money launderers. The Bali terrorist outrage in 2002 would suggest that Australia will be particularly vigilant in identifying terrorist funds in the country; however, in November 2002 an Australian bank warned that identity frauds at Sydney banks pointed to the use of those banks as channels for financing terrorism. Member of the FATF. See also Appendix II: Web directory for relevant Web sites.

## **Austria**

Member of the FATF and has significantly reduced the risks of money laundering by the removal of Sparbuch accounts (see Chapter 1). However, the Austrian banking system has been utilized in the past by such groups as the Italian Mafia, the Stasi of East Germany and more recently Eastern European criminals. Certainly there has been a problem with joint venture companies and Eastern European money: so much so that I was told that after the initial flood of funds following the fall of communism many banks would no longer open accounts for Russian clients. Recent cases dealt with by Proximal Consulting suggest that Vienna is still a popular location for fraudsters to use when opening a bank account or incorporating a company, thus laundering the proceeds of crime through the city. Member of the FATF.

## **Azerbaijan**

### *Major organized crime problems*

A strong organized crime presence, weak legal system and endemic corruption are present in Azerbaijan. The country does not have any anti-money laundering legislation but the problems are mostly domestic and specifically related to tax evasion. Ranked 95th out of 102 (where 102 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 2002.

## **Bahamas**

### *Named by FATF as 'non-cooperative' in June 2000; removed in June 2001*

The US Government considers the Bahamas to be a major drug producing and/or transit country but it has either cooperated fully with the United States or taken its own steps to comply with the 1988 UN Drug Convention. Because of its strategic location between Colombia and the United States it is an important drugs transit point. Moreover the Bahamas is the fifth largest offshore centre in the world and thus a target for money launderers. There are very few domestic organized crime problems *per se* but the obvious danger is external organized crime groups making use of the offshore financial centre. There are strong anti-money laundering regulations, which means that although financial institutions are strictly regulated the loophole is International Business Corporations, of which there may be 100,000.

## **Belarus**

A country that already exhibits major factors that give rise to concern. The country has a vast stockpile of former USSR arms and is engaged in illegal arms trading to rogue nations and groups (Tajikistan and then on to Afghanistan, Angola, Algeria and Sudan). Belarus is also a conduit for arms produced by other CIS countries to Iraq. The country is ruled as a virtual dictatorship by Alyaksandr Lukashenka: transparency in politics and business is virtually non-existent partly because of the Soviet legacy of secrecy that still prevails. The 2002 US Department of State report on human trafficking rates Belarus at Tier 3 (a country not in compliance with minimum standards for elimination of trafficking and not making significant efforts). The report states that Belarus is a country of origin and transit for women and girls trafficked for sexual exploitation to a wide variety of end destinations (Russia, Ukraine, Lithuania, Germany, Israel, Poland, Czech Republic, Turkey, Cyprus, Greece, Hungary and former Yugoslavia).

## **Belgium**

Belgium, and more specifically Brussels, is an attractive centre for criminals because of a variety of factors: the city is a strong financial centre; there is an abnormally high number of wealthy individuals because of the strong diplomatic presence; in some areas of financial operations regulations need to be strengthened (reinsurance for instance). There is reliable evidence of penetration by Russian and other Eastern European organized crime groups particularly in systematic theft and illegal exportation of high value automobiles. Every stolen BMW, Mercedes or other prestigious car marque ends up being converted into the cash that pays for drug shipments from Uzbekistan, Afghanistan and Tajikistan. Additional information suggests that Hong Kong/Chinese Triads are active in fraud, drugs and prostitution (including human trafficking). The country is a member of the FATF.

## **Belize**

The US Government's position is that Belize is a major drug producing and/or transit country but it has either cooperated fully with the United States or taken its own steps to comply with the 1988 UN Drug Convention. It is a major transit point for drugs entering the United States from Colombia. Whilst a small player in the offshore scene, Belize does offer offshore banking licences. Of great concern is the possible infiltration by global organized crime groups through the offshore sector. The Government have implemented anti-money laundering laws but the obvious high risk area is the offshore sector where International Business Companies are available – approximately 11,000 in existence: can be incorporated within 24 hours; only one director is required who can be a nominee; bearer shares available; no exchange control; no disclosure of beneficial owners. Belize has escaped being termed a FATF non-cooperative territory because the Government took action as a result of the OECD labelling the country a 'tax haven'.

## **Bermuda**

Bermuda is a substantial offshore centre: after London and New York, it has the highest level of insurance premium inflow. Exempt companies are available but these do not have bearer shares, and effectively beneficial owners are known but not in the public domain.

## **Bolivia**

### *Major drug producer*

The US Government position is that Bolivia is a major drug producing and/or transit country but it has either cooperated fully with the United States or taken its own steps to comply with the 1988 UN Drug Convention. The country is the world's third largest producer of coca leaves. Drugs are reckoned to generate \$1 billion – which is critical as the country's GDP is only \$8 billion. Fears are now surfacing about the involvement of the Italian Mafia in Bolivia. Bolivia was ranked 89th equal out of 102 (where 102 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 2002. As the country was rated at 80th in 1999, the situation regarding corruption in the country is perceived as worsening.

## **Brazil**

Drugs and money laundering problems are exacerbated by poverty in the country and proximity to Colombia and other 'problem' South American countries. Money laundering is becoming a larger problem due to inroads made into the banking and business environments by drug gangs from other South American countries. It is also alleged that important transnational crime groups have established footholds in Rio because of the general chaotic state of the country. Amongst those cited as being present are Italian Mafias, Colombians, Russians, Nigerians and Japanese. The Brazilian Government is showing a strong commitment to the problem – presumably as they have the rather dubious model of Colombia to observe as to what happens when there is no resistance to organized crime. In 2000, a 1,600-page report by a congressional commission recommended that charges be brought against 827 people. These include judges, mayors, federal congressmen and state legislators. Between 1992 and 1998, \$60 billion worth of drugs money passed through Brazil from Bolivia, Colombia and Paraguay. The commission discovered not only drugs related money laundering but also arms smuggling, cargo theft and tax evasion. Member of the FATF.

## **Bulgaria**

### *Major organized crime problems*

High level of national organized crime activity – credited with almost bankrupting the economy; money laundering flows from that activity. Corruption is widespread; tax evasion, protection rackets, prostitution, software and CD counterfeiting, VAT related offences, murder and racketeering are almost endemic. Probably the only good thing is that whilst some Bulgarian gangs have ventured outside the country the warfare between gangs is so intense that they probably have more than enough to occupy themselves with inside the country. Conversely of course if softer targets can be found in other countries expect migration of the problems particularly as lax security (and corruption) at Bulgarian airports provides drug groups a gateway into Europe, particularly for cocaine. A report released in November 2001 by the Bulgarian National Service for the Fight against Organized Crime stated that more than 100 armed gangs operate in the country, each with approximately 500 members. The chilling footnote to this estimation is that these figures do not include criminal activity in Sofia. These groups are in contact with other criminals in Europe and South America. Ninety-four per cent of the members of these groups are Bulgarian, but also included are Russians, Turks, Albanians and Arabs.

## **Burma (Myanmar)**

*Named by FATF as 'non-cooperative' in June 2001; remained blacklisted as at February 2003*

### *Major drug producer*

The country is the world's second largest producer of opium. Money laundering problems are exacerbated by a cash-based economy, and whilst anti-money laundering legislation exists it is not enforced. Details are sketchy but because of the major drug producing levels it must be suspected that domestic money laundering is substantial. Commentary suggests that casinos on the country's borders are used for money laundering, as these establishments are entry points to the international financial system. The Government actively encourages drug groups to invest their profits in legitimate enterprises, and it is rumoured that the Government itself is involved in drug trafficking. There is no problem with international organized crime as such, but domestic groups are obviously present as part of the drug production and distribution culture.

The Burmese Government cease-fire agreements with drug groups in various areas (particularly the Shan State) have in effect legitimized the production of narcotics and the resultant money laundering – in fact the Government have encouraged such groups to launder funds through investments in hotels and construction enterprises. Thus the laundering of drugs cash is a significant factor in the Burmese economy – appearing in major infrastructure projects, banks, airlines and property. In fact some drugs money has been used to supplement government funding of development projects. This environment is further worsened by rumours that government and/or army officials are heavily involved in drug production, or are corruptible to allow others to engage in such businesses without constraint.

## **Cambodia**

Cambodia's law enforcement bodies are chronically under-resourced and lack even basic relevant training. The long history of internal disputes means that the country has endemic corruption problems, which are further exacerbated by low levels of pay for civil servants, a weak judicial system and a perception that justice can be 'bought'. However, such corruption and money laundering are merely two difficulties in a country that is poor, fragile and developing. One of the most difficult issues is that this state of affairs makes the country particularly vulnerable to organized crime groups, especially bearing in mind the country's position as a transit country for heroin from the Golden Triangle.

## **Canada**

Canada has had weak anti-money laundering laws that have led to the country being perceived as a 'soft touch' for organized criminals. Research has suggested that citizens of Canada are exposed to criminal acts each year totalling up to \$30 billion. The Royal Canadian Mounted Police estimate that at least C \$17 million is laundered per annum. Certainly evidence (and court cases) confirms that probably every organized criminal group is active in the country: Russians, Colombians, Chinese, the Italian Mafia, to name but a few. Additionally and most prevalent in Canada are the criminal activities of motorcycle gangs. The good news is that (albeit slightly late) the Canadian authorities are moving against such operations with a vengeance. Member of the FATF.

## **Cayman Islands**

*Named by FATF as 'non-cooperative' in June 2000; removed in June 2001*

Exempt companies allowed that can be formed within three to five days; minimum of one director; bearer shares available; no exchange control; no disclosure of beneficial owners. Featured heavily in the Enron debacle because of the use of offshore corporations registered here.

## **Chile**

*Possible up-and-coming money laundering centre*

Another potential South American flashpoint – the country's inadequate laws have facilitated attempts by Mexican drug cartels to utilize the country as a new laundering base through the banking system or construction projects. The Government appears to be taking the problem seriously.



## **China**

China has a complete range of organized crime groups and escalating crime rates together with increasing domestic drug problems. Official corruption is widespread, but greater effort is being focused on money laundering, one reason being that the Government views such activities as one way of simultaneously tackling corruption.

## **Colombia**

### *Major drug producer/major organized crime problems*

One of the key countries – if not still the key one – that is responsible for the dirty money generated by narco-crime that needs to be washed elsewhere in the world, preferably into clean dollars. Major producer of cocaine, now trying to muscle in on the US heroin market. As with any other successful global business, the drug cartels are attempting dramatically to increase their market share by selling a good product (high purity) and simultaneously undercutting the competition on price. What else can be said about Colombia – apart from that things may be getting ever so slightly better? The governmental position is to introduce strong anti-drug initiatives but the drug cartels are very strong, heavily armed and supremely organized. The United States is pouring money and resources into the country (it gave Colombia more than \$2 billion over the three years prior to 2002 and was intending to pay about another \$500 million in 2002): this position led to fears before 9/11 that the United States was being sucked into a situation it would find difficult to get out of. Somewhat ironically, in late September 2002 almost 80 Colombian police officers including a former high level anti-drug official were arrested and accused of stealing more than US \$2 million of aid provided by the United States to combat the narcotics trade. The aid money was intended to pay for counter-drug operations but was spent on personal expenses. One unfortunate consequence of the sustained action against drug producers in Colombia is that the problems have migrated to nearby countries where enforcement action is currently weaker. Colombia is now also regarded as the source of the world's finest counterfeit currency. This has developed as an offshoot of the cocaine trade, as the demand for fake dollars to buy coca base from easily duped farmers has encouraged the growth of counterfeit workshops. These are particularly prevalent in the agricultural region that surrounds the city of Cali. Colombia was ranked 72nd equal out of 99 (where 99 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 1999, but is not included in the 2002 survey.

## **Cook Islands**

*Named by FATF as 'non-cooperative' in June 2000; remained on blacklist at February 2003*

These South Pacific islands are causing concern because of their offshore industry, which provides banks, insurance companies, trusts and IBCs. Information has surfaced that suggests penetration of the sector by Russian organized crime groups. Additionally services are promoted via the Internet. In June 2000 the FATF concluded that the Government had no relevant information on approximately 1,200 international companies it had registered. More worryingly seven offshore banks were registered that could take deposits from the public but did not identify customers or keep their records. Whilst the Cook Islands have made progress on AML matters, deficiencies still exist.

## **Costa Rica**

A major transit point for drugs entering the United States from Colombia. Money laundering is ever present.

## **Côte d'Ivoire**

*Possible up-and-coming money laundering centre*

Whilst not an offshore financial centre Côte d'Ivoire is an important regional financial centre with money laundering problems. Ranked 75th equal out of 99 (where 99 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 1999 (was not included in the 2002 survey).

## **Cyberspace**

The location that simultaneously brings together all of the terrestrial restrictions detailed here and unequivocally does away with them. Every service and facility imaginable (and some that probably aren't) to facilitate money laundering is available – from anonymous accounts and false identification documents to online gambling. Cuts across all jurisdictions with little (if any) regulation present. All services and facilities can be accessed from any PC anywhere in the world. Funds can be transferred anywhere at the click of a mouse. Know Your Customer guidelines go out the window – even if they are enforced, financial relationships set up in cyberspace never have to be inconvenienced by face to face meetings. You can be anybody you want to be and set up a dazzling portfolio of anonymous vehicles to disguise the source of funds in virtually any way you want. Integrate the awesome possibilities of technology with the anonymity offered by some of the more 'liberal' offshore locations listed here and I doubt you will ever be found out. Invest in stock, gamble, make purchases – you name it, it's all here.

## **Cyprus**

Because of its location and business environment, Cyprus is an ideal location for meetings of drug cartels to discuss business. No International Business Companies; no bearer shares; nominee directors are permitted; but beneficial owners are disclosed.

## **Czech Republic**

The country is a narcotics trans-shipment route from the Balkans, Middle East, South America and South Asia. The freedoms created by the dismantling of communism have unfortunately created a climate where organized crime (and not solely that from other former Eastern Bloc countries) can flourish. Crime groups include Russians, Ukrainians, Chechens and Vietnamese. The Vietnamese criminals were the first to flood in after the fall of communism and are involved in smuggling, human trafficking, money laundering, cigarette smuggling, drugs and extortion. The number of Russians in the country is unofficially estimated as being 20,000. They are centred on Prague and Karlovy Vary (Spa Centre). Rumours abound that hotels and prime property in Karlovy Vary are owned and operated by Russian criminals. Illegal arms dealing by Czech citizens is a further problem, as is corruption of MPs. In October 2002 an EU report expressed serious concerns about corruption and economic crime.