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FOLLOW THE MONEY:
connecting anti-money laundering
systems to disrupt environmental
crime in the amazon

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EXECUTIVE SUMMARY

In 2018, environmental crime became the world's third most lucrative illicit economy after drug trafficking and smuggling,² with estimates of \$110 to \$281 billion in annual profits. The impact of these illegalities on the triple planetary crisis of climate change, pollution, and biodiversity loss³ heightens the need for effective strategies to disrupt environmental crime. This involves deepening the understanding of the dynamics, scale, and scope of the nexus between illicit financial flows and environmental crime, especially in the Amazon Basin.

Traditionally, anti-money laundering approaches emerged in conjunction with the so-called “War on Drugs”. These roots have overshadowed the development of anti-money laundering standards, conventions, legal frameworks, risk assessments, and governance capacity for other predicate offenses. This framework has given limited attention to money laundering tied to environmental crimes beyond illegal gold mining.

In 2018, the Financial Action Task Force of Latin America (GAFILAT) – the primary anti-money laundering body in the region – found that only 7 of 18 member states⁴ recognized “the illicit exploitation of natural resources as a money laundering threat”. In the Amazon countries,⁵ 6.3% of GAFILAT money laundering reported cases from 2017 to 2020 were related to environmental crime, mainly illegal gold mining, illegal logging, and deforestation.

Strengthening the strategic nexus between illicit financial flows and environmental crime constitutes a fundamental challenge to disrupting the illicit economies in the Amazon Basin fueling the tipping point of the climate crisis. Amazon countries must work together to shift from reactive to preventive measures, from awareness of the challenge to greater understanding, and ultimately from understanding to effective regional action.

Amazon countries should also recalibrate their anti-money laundering strategies by issuing sectoral risk assessments that make environmental crime a priority and define it as a predicate crime. A concrete step in this direction would be to develop a Money Laundering Risks Assessment related to Environmental Crime in the Amazon Basin.

Countries face clear challenges in combating illicit economies that perpetuate Amazon deforestation. This strategic paper⁶ is the first in a series of studies that aims to address the underexplored question of the players that profit from illicit economies and launder money as they finance the destruction of the Amazon Basin. To this end, this study investigates the relationship between anti-money laundering systems and environmental crime in the Amazon countries of Brazil, Colombia, and Peru, and makes strategic recommendations for action by key stakeholders.

METHODOLOGY

The descriptive analysis employed in this study is based on a bibliographical desk review and remote interviews with key stakeholders in the Amazon countries of Brazil, Colombia, and Peru. Although money laundering frameworks typically involve a focus on financing terrorism, we have intentionally omitted this area in order to focus on the ways in which these frameworks address environmental crime.

The desk review examined both general and specialized research published between 2016 and 2022 that discussed money laundering and those interlinked with environmental crime. Global sources include reports from the Financial Action Task Force (FATF), the Organisation for Economic Co-operation and Development (OECD), the World Bank, the UN Office for Drugs and Crime (UNODC), Global Initiative Against Transnational Organized Crime (GITOC), INTERPOL with the UN Environment Program (UNEP), as well as civil society organizations such as Transparency International.

Hemispheric and regional sources included political and technical surveys, assessments, and agreements from organizations and think tanks such as the Organization of American States (OAS), Financial Action Task Force for Latin America (GAFILAT), Amazon Treaty Cooperation Organization (ATCO), and Global Financial Integrity (GFI). The Igarapé Institute's research on the ecosystem of environmental crime in the Amazon Basin also provided a critical baseline for analyzing this complex web of illicit activities.

Finally, it takes a deep dive into specialized reports of Brazil, Colombia, and Peru. Official information on mutual evaluations, sectoral risk assessments, typologies, warning signs, anti-money laundering plans and policies, and regulatory frameworks were additionally completed by interviews with stakeholders.

To this end, virtual workshops and remote interviews were conducted with leading regional anti-money laundering bodies. This included financial crimes enforcement agencies; Financial Intelligence Units (FIUs) operational officers and analysts; environmental crimes prosecutors; and anti-money laundering experts from Brazil, Colombia, and Peru.

INTRODUCTION

Understanding illicit financial flows is key to disrupting illicit economies that fuel an ecosystem of environmental crime in the Amazon Basin.

Criminal networks often view environmental crime as “low risk/high reward” and therefore seek to launder ill-gotten gains from relevant illicit economies in order to conceal or disguise their origin, integrate them into the financial system, and transform them into other assets.

Environmental authorities, financial intelligence task forces, criminal investigation officers, anti-money laundering, and environmental specialized prosecutors all face considerable challenges in tracking this “dirty money” and the players involved in illegal activities.

This paper explores the connection between money laundering and environmental crime in the Amazon Basin, with the aim of contributing to the regional dialogue about the dynamics and risks arising from illicit financial flows that fuel the destruction of the Amazon rainforest.

The study begins by highlighting the insufficient awareness of the connections between money laundering and environmental crime frameworks. In addition to an overview of illicit global markets sustained by environmental crime, it discusses approaches to combating money laundering adopted by key global and regional anti-money laundering agencies and introduces key definitions based on GAFILAT money laundering typologies related to environmental crime.

Finally, the study reviews challenges and opportunities to strengthen collective action in the Amazon Basin and makes a series of strategic recommendations for enhanced coordination between money laundering and environmental crime frameworks.

SECTION I - CONCEPTUAL CHARACTERIZATION: MONEY LAUNDERING AND ENVIRONMENTAL CRIME

1. Criminal Proceeds and the Money Laundering Cycle

The concept of illicit financial flows refers to the transboundary movement of ill-gotten money or capital.⁷ Financial crimes, in turn, include basic theft, fraud, deception, corruption, and money laundering committed by individuals or organizations.⁸

Anti-Money laundering approaches emerged in conjunction with the so-called “War on Drugs”. In 1988, the United Nations (UN) Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances defined money laundering as “the conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offenses to evade the legal consequences of his actions”.⁹

In 2000, the UN Convention Against Transnational Organized Crime defined money laundering as “the conversion or disguise of the true nature, source, location, disposition, movement, or ownership with respect to the property, knowing that such property is the proceeds of crime”.¹⁰

Globalization has led to an unprecedented surge in both licit and illicit markets. As of 2019, only 2% of global trade which circulates via sealed shipping containers is inspected.¹¹ The rapid growth of digital commerce, combined with over 5,400 Free Trade Zones (FTZs) worldwide and an opaque global banking system provide ample opportunity for governments, businesses, and criminal networks to hide vast amounts of wealth.

Illicit economies grow by exploiting inequality, and global socioeconomic disparities have widened since the onset of COVID-19 and the 2022 war between Russia and Ukraine. For instance, informal workers have seen their earnings drop by 80% amidst a widening financial gap in commodity-rich regions such as Africa and Latin America.¹² These structural characteristics spur criminal organizations to diversify into new illicit economies –such as environmental crime– that carry a fraction of the risk related to drug trafficking.¹³

International agencies estimate that criminal organizations laundered 2.7% of global GDP in 2020 (around \$2.29 trillion), with an additional \$20-40 billion spent on bribes alone.¹⁴

Criminal activities in Brazil, Colombia, and Peru generate an estimated \$47.8-\$119.5 billion per year, with over 69% potentially laundered (Figure 1).

Figure 1. Estimated annual criminal proceeds and laundered money in Brazil, Colombia, and Peru (2021)¹⁵

Country	Estimated Criminal Proceeds	Estimated Laundered Money
Brazil	\$36.8-92 billion	\$25.8-64.4 billion
Colombia	\$6.5-16.2 billion	\$4.5-11.3 billion
Peru	\$4.5-11.3 billion	\$3.2-7.9 billion

Typically, the money laundering cycle follows three stages to finally release laundered funds into the financial system: placement, layering, and integration.¹⁶ However, five stages are needed to adequately understand the Amazon context: collection of dirty money, informal diversification, formal placement, layering, and integration (Figure 2).

Figure 2. Money Laundering Cycle in the Amazon Region



As mentioned, structural conditions encourage criminals to expand and diversify the collection of dirty money (1) through a vast range of lucrative illicit economies that rely heavily on hard-to-trace media of exchange like cash and gold.¹⁷

However, not all criminal proceeds are directly laundered into the formal financial system. In this line, informal diversification (2) constitutes

the process of moving illicit flows into the informal economy. An estimated 30% of dirty money undergoes the operation expenses of illicit economies.¹⁸ Cash-intensive transactions –divided into small amounts and deposited by “money mules”– are used to finance, for example, precarious hiring workforce, accommodations, food, security, transportation, health services, recreation, or machinery.

In this framework, layering (4) represents the process of transforming and concealing the funds from their original illicit source, often using anonymous shell companies, figureheads, virtual assets¹⁹ like cryptocurrencies, or misinvoicing.

The final process of the money laundering cycle is the integration (5) of illicit financial flows to criminal actors for profiting from a legitimate-looking source through the acquisition of real estate, international trade, or offshore hubs. Over \$7 trillion of private wealth and assets are hidden in tax haven countries and 10% of global GDP may be held offshore.²⁰

Tackling illicit financial flows constitutes a key challenge to disrupting illicit economies. The scenario is more critical when those illicit financial flows fuel an ecosystem of environmental criminality, comprising environmental and non-environmental converging crimes, such as corruption, fraud, tax evasion, and money laundering, among others.²¹

Nevertheless, limited attention has been focused on understanding how dirty money –sourced from illicit economies such as drug trafficking and converging crimes– fuels the destruction of the environment and biodiversity while deepening the tipping point of the climate crisis. Even less attention has been paid to understanding how illicit flows sourced from their own environmental crimes are laundered with insufficient control from anti-money laundering authorities.

Understanding the dynamics of environmental crimes, their estimated illicit financial flows and associated money laundering schemes constitutes a starting point for interconnecting both frameworks. The challenge is more critical when money laundering networks fuel existential threats, such as the climate crises, related to environmental crimes while destroying the Amazon Basin's rainforest and freshwater sources.

CRYPTOCURRENCY AND MONEY LAUNDERING

Cryptocurrencies are electronic keys and codes with their own value.²² While they have no real guarantee of conversion, they are exchanged between individuals who agree on their value and validity²³ as a means of payment or investment.²⁴ They are not exactly money, due to the lack of legal tender,²⁵ and their transactions do not require a bank account. Venezuela, Colombia, Brazil, and Peru lead the Amazon region in terms of cryptocurrency users.²⁶

In their capacity as an asset owned by an individual subject, cryptocurrencies may facilitate money laundering or tax fraud related to environmental crime. In general, there is an urgent need for Amazon countries to mitigate these risks through robust legislative frameworks, improved consumer financial protection, and greater inter-institutional capacity.²⁷

2. Environmental Crime: The world's third most lucrative illicit economy fueling the climate crisis

Estimates of illicit financial flows from environmental crime vary considerably. From 2006 to 2016, environmental crime rose by 5% to 7% per year, a rate considered two or three times faster than global GDP.²⁸ By 2018, environmental crime had become the world's third-most lucrative criminal business, surpassed only by drug trafficking and smuggling.²⁹

In 2022, Financial Action Task Force's estimates –the primary global anti-money laundering standards-setting body– considered environmental crime generates around \$110 to \$281 billion in criminal profits per year (Figure 3).³⁰

Figure 3. Estimated annual global criminal proceeds from environmental crime

Description	Value (USD)	Source
Estimated criminal proceeds from environmental crime (2016)	91-259 billion	INTERPOL-UNEP
Estimated criminal proceeds from environmental crime (2022)	110-281 billion	FATF
Estimated criminal proceeds from illegal mining (2018)	12-48 billion	INTERPOL-UNEP-RHIPTO
Estimated criminal proceeds from forestry crimes including illegal logging (2018)	51-152 billion	INTERPOL-UNEP-RHIPTO
Estimated loss in tax revenue from illegal logging (2019)	6-9 billion	World Bank
Estimated criminal proceeds from illegal wildlife trade (2019)	7-23 billion	World Bank
Estimated loss in tax revenue from illegal wildlife trade (2019)	<1 billion	World Bank

In 2018, INTERPOL's World Atlas of illicit flows found that illegal logging accounted for 15% to 30% of the global timber trade, valued at between \$51 and \$152 billion annually (Figure 3). China imports half of all illegal timber, followed by India and Vietnam. The illegal timber industry is responsible for up to 90% of tropical deforestation in African countries such

as the Democratic Republic of the Congo.³¹ The World Bank estimated in 2019 that governments lose out on \$6-9 billion in annual tax revenue from illegal logging.³² Meanwhile, other environmental crimes such as illegal mining –especially gold and diamonds– generate over \$12 to \$48 billion annually in criminal proceeds (Figure 3).

Crime and conflict combine to create a negative feedback loop in which the illicit flows that fuel environmental crime also feed into other criminal activities like drug and firearms trafficking, human trafficking for forced labor, and financing armed conflicts.³³ Environmental offenses constitute the largest income source for non-state armed groups and terrorist organizations, accounting for 38% of funding for conflicts around the world.³⁴

The spotlight falls disproportionately on the Global South, where high levels of unique biodiversity fuel an illicit billion-dollar industry (Figure 3). While the Amazon Basin plays a crucial role in regulating the climate systems, environmental crime threatens these critical ecosystem services by damaging watersheds, depleting biodiversity, and clear-cutting rainforests that release carbon into the atmosphere. The Science Panel of the Amazon warned in 2021 that around 20% of the Amazon rainforest was cleared in the last fifty years, pushing the rainforest closer to a potentially irreversible tipping point.³⁵ During the pandemic alone, and despite confinement measures, over 2.3 million hectares of Amazon rainforest were cleared.³⁶

The Amazon is under siege. Environmental crimes can be comprehended as the pursuit of illicit economic activities related to the use and extraction of natural resources, land, and forest products. This is a deliberately broad definition to include a wide range of profit-driven activities tied to deforestation. Some of these, such as land-grabbing, fall outside traditional, and more restrictive, definitions of crimes against nature or the environment. The illicit or illegal dimension of each activity does vary across forest commodity supply chains.³⁷

Overall, Amazon's deforestation is driven by a set of illicit economic activities that include land grabbing related to agriculture and livestock farming tainted by unlawful practices, as well as illegal logging, and unauthorized mining. Integration into formal markets is not a guarantee of legality, since illicit Amazonian

economies operate through an ecosystem of environmental and non-environmental crime that includes corruption, fraud, money laundering, violent crime, and trafficking.³⁸

Deforestation is the most visible face of environmental crime. Forest clearing increased across the Amazon. In Peru, with the world's fifth-highest deforestation rate, felling hit a record high in 2020, rising nearly 40% from 2019.³⁹ The scenario is worse in Brazil, where 61% of the deforested area in 2020 occurred within the Amazon.⁴⁰ In Colombia, between July and September of 2020, deforestation nationwide climbed another 8% from 2019 to 2020, nationwide compared with 2019; with 60% taking place in the Amazon.⁴¹

Land grabs related to cattle ranching and agriculture tainted by unlawful practices – commonly facilitated by land trafficking⁴² and other converging crimes⁴³ – are the main drivers of deforestation in the Brazilian, Colombian, and Peruvian Amazon. Typically, land grabs consist of the purchase or leasing of large areas by outside entities like governments or corporations, often to boost food production.⁴⁴ While in some cases the activity uses legal loopholes, it is often simply illegal. The activity unfolds in three stages: clearing, occupation, and commercialization. Although these illicit economies carry significant money laundering risks throughout their supply chain, little has been done to understand, prevent, and affect the illicit financial flows related to these specific environmental crimes.

Illegal Logging and Associated Trade (ILAT) is also rampant, with Amazon countries serving not only as sources, transit, and processing points but also as destination markets. In Colombia, illegal logging accounts for 10% of overall deforestation.⁴⁵ However, most of the wood harvested in Peru may be illegally sourced. Indeed, some forestry experts estimate that as much as 80% of Peruvian timber is of illegal origin.⁴⁶ In Brazil in the second half of 2020, 94% of the deforested area in the Amazon and Cerrado was tied to illegal logging.⁴⁷

In the absence of adequate supply chain tracking strategies, illegal timber is “laundered” through a combination of fraudulent environmental permits, legal concessions, timber transport permits, and falsified customs declarations.⁴⁸ The mixing of illegal and legal timber leads criminal organizations to use corporate structures and shell companies in offshore jurisdictions to facilitate the integration of proceeds in the international financial system.⁴⁹ On the demand side, China, India, Japan, the United States, and certain European Union countries are considered the largest consumers of illegal timber,⁵⁰ with China often serving as a processing center.⁵¹

ILAT is often associated with transnational criminal organizations, corruption, tax evasion, forged documents, misused logging permits, falsified customs declarations, and results in illicit proceeds.⁵² Because this illicit trade is commingled with legal trade, it may involve corporate structures, the use of shell companies in offshore jurisdictions, and the movement of proceeds in the international financial system.⁵³

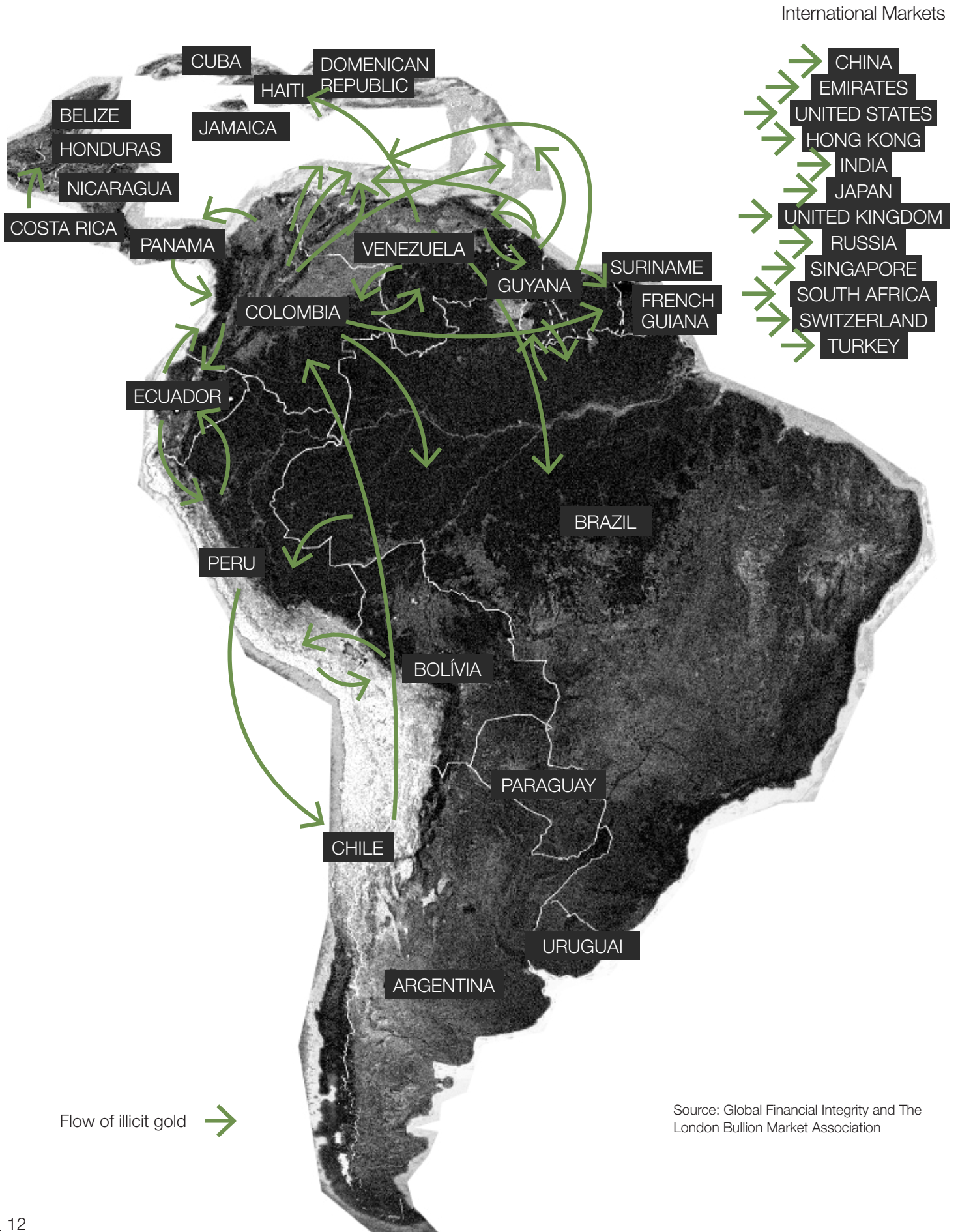
Criminal networks have also incorporated illegal mining into their portfolio of illicit activities, attracted by a 465% increase in global gold prices in the last 20 years.⁵⁴ These organizations coordinate the illegal extraction of various metals, stones, and materials (i.e. gold, silver, iron, coal, diamonds, emeralds, and rare earth, among others), with no regard for permits, land rights, licenses, or environmental safeguards.

Illegalities in the gold supply chain occur at different stages for artisanal, small-scale, and industrial-level mining operations, from clandestine extraction in protected areas or indigenous lands all the way to fraudulent documents that “heat up” the gold prior to sale.⁵⁵ Subsequently, ill-gotten gains can be laundered into corporations or criminal organizations. In the absence of effective oversight, mining companies and garimpeiros that sell gold on the legal market can have their supply chains contaminated with other crimes.

Today, illicit gold is up to three times more profitable than cocaine.⁵⁶ In the Amazon, armed groups such as dissident factions of the former Fuerzas Armadas Revolucionarias de Colombia (FARC), Sendero Luminoso in Peru, and Comando Vermelho (CV) and Primeiro Comando da Capital (PCC)⁵⁷ in Brazil are presumed to fund their operations through extortions related to gold and timber to finance their operations.⁵⁸ As with illegal logging, the Amazon Basin represents a key region for gold extraction and transportation, with ill-gotten minerals destined for large precious metals and gemstone markets (Figure 4). Up to 80% of gold exported from Colombia,⁵⁹ 68% from Peru,⁶⁰ and over 50% from Brazil is considered illegal.⁶¹

The illegal gold business is often intertwined with legal trade and may involve corporate structures, trade misinvoicing, and shell companies in various jurisdictions. It provides illicit actors with both a source of proceeds and a means to launder proceeds from other crimes.⁶² Most of the proceeds from this activity are believed to end up in the financial system. The Federal Bureau of Investigation (FBI) has found that transnational criminal organizations use “often-witting US businesses to exploit US regulations and export illegally extracted gold to the US to launder billions of illicit proceeds from criminal operations in Latin America”.⁶³

Figure 4. Trade Routes for International Illicit Gold sourced in the Amazon Basin



Source: Global Financial Integrity and The London Bullion Market Association

Although considered to be less sophisticated than other environmental crimes, wildlife trafficking contributes to biodiversity loss while also fueling financial crimes. Amazon countries play a critical role in the extraction, transportation/ transformation, and commercialization of numerous species.⁶⁴

Wildlife traffickers use many of the same routes and methods as drug traffickers. Illegal exports of individual animals to multi-ton shipments⁶⁵ go hand in hand with legal trade in the region (especially between Ecuador, Brazil, Colombia, and Chile), as well as internationally (many exotic species are sent to illegal collectors in Japan, China, Kuwait, Indonesia, the US, Switzerland, and Germany, among other countries). As with other environmental crimes, prosecutions of wildlife trafficking arise mainly from investigations into more traditional criminal cases, while money laundering is largely overlooked.

Wildlife trafficking can occur through a myriad of funding mechanisms such as cash, bank transfers, transfers through informal value transfer systems and money service businesses, transfers conducted using online or mobile payment processors, and transactions using convertible virtual currencies (CVCs).⁶⁶ Traffickers increasingly turn to social media platforms to advertise, sell and otherwise engage in wildlife trafficking. The involvement of other countries, such as the US, United Kingdom, or European Union, includes the use of these countries as a source, transit, destination, and money laundering location.⁶⁷

All in all, illicit economies in the Amazon perpetuate⁶⁸ an increased billion-dollar ecosystem of environmental crime (Figure 3) with untold biodiversity loss.

However, insufficient attention has been paid to understanding and quantifying the connections between illicit financial flows and environmental crime. Whereas financial crimes play a critical role in the ecosystem of illicit markets, environmental crimes are not yet a priority of anti-money laundering regulatory standards and specialized regional and domestic agencies.

SECTION II - SETTING THE STAGE FOR MONEY LAUNDERING FRAMEWORKS RELATED TO ENVIRONMENTAL CRIME

1. Global Anti-Money Laundering Frameworks

Global regulatory frameworks largely focus on safeguarding the formal financial system, with less of an emphasis on illicit international trade and money laundering activities like currency smuggling. Anti-money laundering systems are an effective tool for preventing the use of ill-gotten gains, but the push to combat drug trafficking has left little room to strategize around environmental crime.

The UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) and the UN Convention Against Transnational Organized Crime (2000) established money laundering as a criminal offense but did not mention illicit rainforest economies. Parallel to this, in 1988, the Basel Committee on Banking Supervisors issued a declaration to implement anti-money laundering practices in the banking system, with an emphasis on verifying client identities and cooperating with anti-money laundering authorities but neither did mention illicit rainforest economies.⁶⁹

At a 1989 G7 summit, the Financial Action Task Force (FATF) was established as the international standards-setting body for anti-money laundering. The FATF acts as an influential oversight body, albeit one with no concrete enforcement authority. However, its “40 Recommendations” often referred to as “soft laws” constitute the global anti-money laundering standards. The execution of these recommendations falls to national authorities and the private sector.

FATF standards provide a useful framework to address money laundering linked to environmental crime. Countries are required to implement at least four strategic actions: criminalize money laundering for a range of environmental offenses (Recommendation 3); identify and assess money laundering risks across crimes, and take steps to mitigate these risks (Recommendation 1); ensure that the private sector is aware of money laundering risks and that they introduce preventative measures (Recommendations 9-23); and strengthen law enforcement capacities to investigate, trace and confiscate criminal assets (Recommendations 29-31).⁷⁰

A key FATF coordination body is the Egmont Group. It brings together 167 Financial Intelligence Units (FIUs) –including agencies from Brazil, Colombia, and Peru— while providing a strategic platform for the secure exchange of financial intelligence and expertise.

The FATF has pioneered research on environmental crime and money laundering, with a series of global reports since 2013 on money laundering risks from trading gold,⁷¹ diamonds⁷² and illegal wildlife,⁷³ and on the extractive industry in West Africa.⁷⁴ In 2019, the FATF specified money laundering from environmental crime as a priority area.⁷⁵ Moreover, under the German presidency (2020-2022), the FATF strengthened its understanding of the scale and nature of money laundering from environmental crime and shared best practices for disruption and risk mitigation.

Beyond FATF standards, several conventions have aimed to create guidelines for anti-money laundering efforts (Figure 5). However, no specific framework has emerged to address money laundering associated with environmental crime.

Figure 5. Overview of Anti-Money Laundering Frameworks

<p>Financial Action Task Force - FATF (1989)</p> <p>40 Recommendations</p> <p>Recommendations about Environmental Crime: No.1, No.3, No.9-23, No.29-31</p>	<p>United Nations - UN</p> <p>UN Convention against illicit traffic in narcotic drugs and psychotropic substances (1988)</p> <p>UN Convention against transnational organized crime (2000)</p> <p>The Basel Committee on Banking Supervisors Declaration to implement anti-money laundering practices within the banking system (1988)</p>	
<p>Egmont Group</p> <p>Coalition of 167 Financial Intelligence Units (FIUs)</p>	<p>INTERPOL</p> <p>Environmental and Financial Crimes (Strategic Plan 2017-2020)</p> <p>Communication Protocol I-24/7 INTERPOL</p>	
<p>Organization of American States (OAS)</p> <p>The Inter-American Convention Against Corruption (1996)</p> <p>The Inter-American Convention Against Terrorism (2002)</p>		
<p>US Department of Justice</p> <p>Federal Bureau of Investigation (FBI)</p> <p>Illegal Mining Initiative (2015) targeted the laundering and smuggling of illicit gold in South America</p>	<p>US Treasury Department</p> <p>Financial Crimes Enforcement Network (FinCen)</p> <p>FIN2021-NTCA on the proliferation of environmental crimes (2021)</p>	<p>Financial Action Task Force of Latin America - GAFILAT</p> <p>Implementation of the FATF's 40 Recommendations</p> <p>18 Member States</p> <p>Asset Recovery Network (RRAG)</p> <p>Money Laundering Regional Threats</p> <p>Mutual Evaluation Process</p> <p>National Risk Assessments</p>
<p>Domestic Legislation</p> <p>Investigation and Law Enforcement</p> <p>National Risk Assessments</p> <p>Strategic and Operational Intelligence Plans</p>		

Regulatory Standards

Financial Intelligence

Investigation and Prosecution

Institutions have only recently begun to pay attention to environmental crime and its relevance for money laundering, and just a few have integrated FATF standards and regulatory frameworks to address these interconnected phenomena.

INTERPOL may be the best example of an international institution tasked with tackling not only environmental crime but also financial crimes such as fraud, corruption, and money laundering. Its 2017-2020 strategic plan prioritized identifying and dismantling criminal networks, including those that threaten the environment, biodiversity, and natural resources. Indeed, a communication protocol known as the I-24/7 INTERPOL facilitates the exchange of information and intelligence for the identification of criminal organizations, particularly those involved in illegal mining.

The UN Office on Drugs and Crime (UNODC) has also partnered with regional and local stakeholders to produce initial data and reports on money laundering in relation to wildlife trafficking, illicit gold mining,⁷⁶ land grabbing,⁷⁷ and illegal crop cultivation⁷⁸ fueling deforestation.

The geographic proximity and close trade connections between Latin America and the Caribbean, and the U.S. favor the cross-border illicit financial flows, giving rise to a regional ecosystem of institutions, channels, and facilitators for ill-gotten gains in the U.S. The mechanism is similar to that revealed by the Panama Papers, in 2016, and the Pandora Papers, in 2021, which exposed how individual and criminal organizations – facilitated by corrupt networks– maneuver to register anonymous companies in the U.S. and acquire illicit assets to launder money.⁷⁹

In this line, the US Federal Bureau of Investigation (FBI) has also stepped up. Since 2015, through its Illegal Mining Initiative, the FBI has worked to disrupt the involvement of transnational criminal organizations in illicit prospecting. Early operations targeted the

laundering and smuggling of illicit gold by transnational criminal organizations in South America.⁸⁰

Additionally, the US Treasury Department through its Financial Crimes Enforcement Network (FinCEN) – the US Financial Intelligence Unit – safeguards the financial system from criminal activity and combats money laundering and related crimes.⁸¹ It also performs a critical and far-reaching role by implementing economic sanctions against foreign threats, identifying and targeting the financial support networks behind specific security threats, and improving the safeguards of US financial systems.⁸²

More recently, in 2021, FinCEN issued a notice⁸³ to all financial institutions that highlighted the strong association of environmental crime with corruption and transnational criminal organizations, the need to enhance reporting and analysis of related illicit financial flows, and the role of environmental crime in the worsening of the climate crisis. The notice provided financial institutions with instructions for filing suspicious activity reports (SARs) and emphasized the likelihood of illicit activity related to environmental crimes such as illegal logging, wildlife trafficking, illegal fishing, illegal mining, and waste and hazardous substances trafficking.

Civil society organizations such as Transparency International, the Environmental Investigation Agency, Global Financial Integrity, the Organized Crime and Corruption Reporting Project⁸⁴, the Natural Resource Governance Institute, and InSight Crime, among others, have also produced data and reports on natural resources (mis)governance, money laundering, and corruption, including the links to environmental crime in Amazon countries.⁸⁵

2. Regional Anti-Money Laundering Frameworks

The Financial Action Task Force of Latin America (GAFILAT) is the primary anti-money laundering institution in the region.⁸⁶ With 18 member states, GAFILAT seeks to “prevent and combat money laundering, the financing of terrorism, and the financing of the proliferation of weapons of mass destruction, through a commitment to the continuous improvement of national policies against these scourges and the strengthening of the various mechanisms of cooperation between countries”.⁸⁷ It participates in the elaboration, review, and modification of regional risk assessments and mutual evaluations while adhering to the FATF recommendations.

In this framework, GAFILAT has developed annual reports to map money laundering typologies related to various illicit economies, including environmental crime. This exercise depends on the reports of the Financial Intelligence Units of the 18 member states and, more specifically, on the member states’ priorities defined in their domestic legislation and national risk assessments.

According to GAFILAT, Money Laundering Typologies are the techniques or modalities used by criminal organizations to give the appearance of legality to the funds of illegal or illicit origin and transfer them from one place to another or between people to finance their activities. When a series of money laundering schemes appear to use the same or similar methods, these can be classified as a typology.⁸⁸

Regional efforts to connect money laundering and environmental crimes have been growing timidly in recent years. In 2018, GAFILAT found that only 7 out of 18 countries in the region listed the “illicit exploitation of natural resources as a money laundering threat”.⁸⁹ Environmental crime was later defined as an emerging threat in 2019, and more recently, in 2022, it was upgraded as a present threat.⁹⁰

Although it is not the single indicator to analyzing the degree of action of member states, it is key to highlight that between 2017 and 2020, only 6.3% of GAFILAT money laundering reported cases pertained specifically to environmental crime.⁹¹ Five of these 11 identified cases were related to the Amazon countries of Brazil, Colombia, Ecuador, and Peru.⁹²

More specifically, reported money laundering cases (Figure 6) were associated with illegal gold mining (3 cases), illegal logging (1 case), and deforestation (1 case). Overall, regional assessments still shed little light on money laundering cases that involve other illicit economies fueling environmental crime in the Amazon – such as land grabbing or land trafficking - which are often associated with unlawful agricultural practices or cattle ranching. A symptom of the lack of priority on domestic risk assessments.

Figure 6. GAFILAT Money Laundering Reported Cases and Typologies associated with Environmental Crime in the Amazon Countries of Ecuador, Brazil, Colombia, and Peru

Year	Country	Location	Cases	Predicate offenses	Environmental crimes	Money laundering typologies	Estimated amount	Vulnerable sector	Regional cooperation
2019-2020	Brazil	North of Brazil	Illegal Gold Mining	Drug trafficking Environmental crime	Illegal Gold mining	Cash transactions Shell companies Electronic transfers Gold as currency of trade and payment Mobil payments Prepaid Gift cards	US\$30.000.000,00	Bank system	Not specified
2019	Ecuador	Not specified	Balsa exports without justification	Fiscal Crime Environmental crime	Illegal logging	Offshore front companies Figureheads Shell companies Trade discrepancies Misinvoicing	US\$15.076.371,58	Bank system	Not specified
2018-2020	Peru	Not specified	Illicit financial flows related to illegal mining	Environmental crime	Illegal Gold mining	Figureheads Cash intensive Shell companies	US\$10.000.000,00	Bank system notary	Not specified
2018-2019	Colombia	Not specified	Money laundering related to deforestation	Environmental crime	Deforestation	Offshore front companies Figureheads Shell companies Trade discrepancies Misinvoicing Cash transactions Transfer postcards Notarial acts	Not specified	Bank system notary	Not specified
2017-2018	Colombia	Not specified	Illicit gold exports through free trade zones	Illicit enrichment Financing of terrorism Bribery Corruption Fiscal crime Environmental crime	Illegal gold mining	Trade-base money laundering Free trade zones	Not specified	Bank system	With other country out of GAFILAT

At the moment, anti-money laundering cases related to environmental crime are mainly focused on illegal gold mining.⁹³ According to a GAFILAT report, gold is especially conducive for money laundering⁹⁴ because the market’s reliance on cash makes transactions hard to trace, and the anonymity surrounding gold ownership more easily masks its origin. In addition, cross-border transportation of cash, the use of gold as a “currency of exchange”, and weak border controls open up more vulnerabilities, especially in the Amazon region. These factors, among a mosaic of

comparative advantages with other related illicit economies, make gold an attractive asset to criminal organizations.

Since 2010, the GAFILAT Asset Recovery Network (RRAG)⁹⁵ acts as a regional platform with the aim of facilitating the identification and location, tending to the recovery of assets, products, or instruments of illicit activities. It is integrated by focal points of GAFILAT’s member states, representing police authorities, prosecutors, financial intelligence units, or other authorities relevant to the matter.

However, less than 1% of regional cooperation recorded on the network was linked to environmental crimes in 2021.⁹⁶

Elsewhere in the region, the Organization of American States (OAS) has adopted two key conventions. The first, the Inter-American Convention Against Corruption (1996), promotes mechanisms to prevent, detect, punish, and eradicate corruption. The second, the Inter-American Convention Against Terrorism (2002), recognizes money laundering as a source of funding for terrorist activities and recommends the implementation of Financial Intelligence Units to collect, analyze and disseminate information with no mention of illicit rainforest economies (Figure 5).

However, the Department Against Transnational Organized Crime (OAS-DTOC) recently began to tackle illicit financial flows from illegal mining. Recent reports on Peru⁹⁷ and Ecuador⁹⁸ tracked illegal gold mining from extraction to laundering, and on through illicit supply chains. In 2019, the DTOC also implemented a project to examine illicit gold in Amazon countries and defined measures to enhance the capacity of Brazil, Colombia, Ecuador, Guyana, and Suriname to detect, investigate and prosecute financial crimes.

Thus multiple regional commitments are in place to disrupt money laundering networks, but there is still no adequate framework to address the connections with environmental crimes in the Amazon Basin. Struggling regional efforts continue to be the norm.

Despite the deleterious effects of environmental crime, the primary anti-money laundering standards for Amazon countries continue to be scattered across domestic legal frameworks, regulations, and strategic planning guidelines.

SECTION III - A BURGEONING REGIONAL AGENDA: SHARED OPPORTUNITIES AND CHALLENGES FOR COLLECTIVE ACTION IN THE AMAZON BASIN

While the Amazon countries act as source, transit, and destination points for ill-gotten environmental commodities for international markets, they also share the imperative to work together to prevent, monitor, detect, and disrupt money laundering networks arising from the commission of environmental crimes.

Nevertheless, this strategic nexus is still weak or nonexistent in the Amazon countries. Priorities and actions need to be reviewed and act urgently on tackling illicit flows related to environmental crimes financing the tipping point of the climate crisis.

To this end, this section provides a brief summary of key challenges and opportunities, as well as initial strategic recommendations for effective regional action by strengthening the relationship between anti-money laundering and environmental crime frameworks.

1. Political Strategic-Level

There is an urgent need to connect money laundering and environmental crime frameworks. Stakeholders need to develop a sufficient understanding of money laundering risks associated with environmental crime in order to improve awareness while prioritizing preventive actions and promoting joint efforts across public, private, financial, and civil society sectors.

Also, it is essential to strengthening dialogue and information sharing between source, transit, and demand countries for

environmental crime supply chains in the Amazon Basin. Cooperation with countries of placement, layering, and integration of money laundering is also critical. Few countries have conducted money laundering risk assessments to situate themselves in illicit supply chains, which makes it difficult to get an accurate idea of the scale of these illicit markets.

Due to the overwhelming hemispheric priority placed on the so-called “War on Drugs”, Amazon countries have limited scope and resources to pursue and mitigate money laundering risks unrelated to drug trafficking. At the regional level, GAFILAT provides a key and, in many ways, a unique forum to engage member states in incorporating strategic priorities to prevent money laundering from the commission of environmental crime into their national and sectoral risk assessments.

Improve targeted actions through a deeper understanding of the scale and scope of illicit financial flows related to environmental crime in the Amazon Basin. This should include greater clarity on the amounts of criminal proceeds and laundered money derived from environmental crime. Quantifying these challenges is crucial to the planning and execution of targeted strategic actions at the regional and national levels, as well as to systematic improvements of preventive, compliance, and criminal sanction measures.

Amazon countries must see a concerted shift from reactive to preventive measures, and update risk assessments to reorder environmental crime as a priority for anti-

money laundering plans and policies. This includes updating environmental crimes-related reporting entities of suspicious transactions. Instead of doubling down on traditional money laundering typologies from illegal gold mining, risk assessments should adopt a comprehensive approach and identify the larger list of money laundering risks associated with other illicit rainforest economies that are destroying the Amazon.

Increase and enhance public and corporate policy dialogue on the role of anti-money laundering regulatory frameworks in tackling environmental crime. Amazon countries should identify which environmental crime-related money laundering risks they share with relevant private corporations, so as to make countering environmental crime part of a broader financial crime response. To this end, authorities should encourage proactive and constant dialogue between the public and private sectors, as a means to strengthen understanding and promote “Know Your Client” standards, particularly for clients involved in Amazon supply chains. This will enable greater insight into the volume, value, methods, and pathways of illicit financial flows.

Nevertheless, the main challenges go beyond legal reforms. Amazon countries should strengthen inter-agency collaboration –connecting law enforcement with environmental experts– while also tackling corruption by building capacity at different levels and integrating technologies to monitor, detect, prevent, and disrupt money laundering networks related to environmental crime.

2. Regional Cooperation

International and regional initiatives like the Egmont Group and GAFILAT, represent promising mechanisms for cooperation to disrupt money laundering networks. Nevertheless, these agencies have not adequately connected the dots between money laundering and environmental crime, and the lack of a comprehensive and effective regional approach has left Amazon countries largely on their own.

Indeed, only 0.75% of all the regional cooperation registered on GAFILAT's Asset Recovery Network platform was linked to environmental crime in 2021. INTERPOL provides a secured communication channel I-24/7 to exchange information on financial crimes and criminal organizations. To date, however, this platform has focused more narrowly on illegal mining-related police data, skirting the more comprehensive perspective to track money laundering networks from environmental crimes.

While cross-border anti-money laundering cooperation has been still limited, the Amazon countries have been left largely on their own to tackle the complex intersection between money laundering and environmental crime. A lack of a comprehensive and regional effective approach to sharing opportunities and challenges persists.

FATF and GAFILAT should strengthen their regional threats report and give special attention to the links between money laundering and environmental crime in the Amazon, especially given their implications for the climate crisis. In this way, they can support Amazon countries in going beyond traditional approaches to addressing money laundering and engaging member states in updating and mitigating relevant risks.

A concrete step would be to develop a Money Laundering Risk Assessment on Environmental Crime in the Amazon Basin that prioritizes domestic action and regional cooperation. This could set a precedent for dedicated sectoral risk assessments, legal reforms, standardized methods for data collection, and specialized expertise (e.g. creating a regional virtually managed database of specific money laundering typologies related to environmental crimes in the Amazon countries) to propose specific anti-money laundering plans and policies at the domestic level.

While money laundering networks are global in nature with clear cross-border dynamics, regional cooperation should be a priority to protect and conserve the Amazon Basin. Developing a comprehensive picture of this challenge will help dispel two misguided assumptions that currently permeate traditional thinking and anti-money laundering action. Effective regional cooperation would send a message that, just because a country has flawed or weak legal frameworks for environmental crime, that does not exempt it from the responsibility to assess money laundering threats. It would also challenge the perception that environmental crime represents a “lesser risk” compared to other types of organized crime. By challenging these notions, Amazon countries can develop an accurate understanding of the scale and scope of the threats they face, efficiently allocate resources and enhance inter-agency collaboration.

Amazon countries should also implement joint capacity-building initiatives and specialized training programs in order to strengthen coordination between environmental, intelligence, and law enforcement agencies, including regional and international partners. These training programs and exchanges are mutually beneficial and should also include regional and international partners. Such initiatives would boost capacity in jurisdictions

with limited resources, enhance information sharing across jurisdictions on money laundering and environmental crime and engage counterparts in source countries who may be more familiar with these types of crimes.

The OAS and the U.S. have jointly motivated technical assistance to improve financial profiling and expand charges and penalties under existing national legal frameworks. They should also work to increase inter-agency coordination and strengthen Financial Intelligence Units’ capacity and expertise, among other initiatives. Yet, the attention given to environmental crime within these regional efforts is still weak and should be extended further with other regional and local partners through holistic initiatives.

Although international and regional initiatives have improved anti-money laundering capacity-building, technical assistance, and legal frameworks, a lack of effective cooperation between Amazon countries persists. This lacuna hinders efforts to fully understand, monitor, prevent, supervise, and disrupt money laundering networks that extend far beyond illegal gold mining, non-state armed groups, or drug trafficking.

The challenge of crime in the Amazon is clear. Stopping the evolving illicit networks that profit from environmental plunder, corrupt authorities, and greenwashing the proceeds takes a strengthening cross-cutting regional agenda. All nations have an interest in preventing the Amazon from becoming an active crime scene and an outlaw laundromat. No one has more at stake than the nations of the Amazon Basin themselves.

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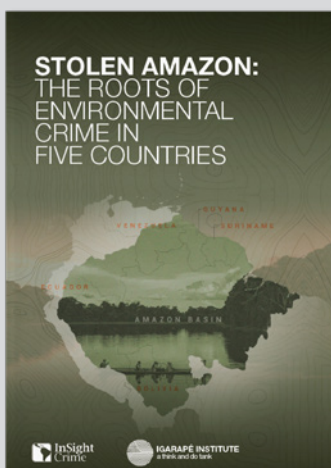
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