



Money Laundering Country Risk Index *Madagascar – Switzerland*

Madagascar

Possible up-and-coming money laundering centre

Whilst little information is available, what there is suggests that organized crime groups already operate here and thus money laundering is a risk (particularly because the economy is conducted on an informal basis). Madagascar has been implicated in laundering by Al-Qaida using Pakistani rice. Came very near the bottom of the survey by Transparency International in 2002: rated 98th out of 102 (where 102 is the worst) of countries where corruption is perceived as a key problem.

Maldives

No significant money laundering problems

Possibly an offshore financial centre of the future, but no problems at present.

Malta

No significant money laundering problems

Currently an offshore centre but, somewhat bucking the trend, the island's Government has announced that it intends to phase out all offshore operations by 2004.

Marshall Islands

Named by FATF as 'non-cooperative' in June 2000; removed in October 2002

In June 2000 the FATF blacklisted the Marshall Islands as they had no basic anti-money laundering regulations. The situation was exacerbated by the registration of approximately 3,000 IBCs – which had grown to 5,200 by early 2002. Additionally it has been suspected that such anonymous vehicles have been utilized by Russian criminals. On 31 October 2000, the Banking (Amendment) Act of 2000 was passed, which criminalized money laundering and established customer identification procedures for accounts and the reporting of suspicious transactions. Removed from the FATF blacklist in October 2002 due to progress made but as at April 2002 was classified as being an 'uncooperative tax haven' by the OECD because of a lack of commitment to the specified concepts of transparency and effective exchange of information.

Mexico

After Colombia, probably the most important country in the South American drug world, particularly bearing in mind its borders with the United States. The drug trade is dominated by three cartels: the Tijuana cartel, which mainly smuggles heroin and marijuana; the Gulf cartel; the Juarez cartel. Not only is Mexico producing and supplying drugs to the United States but there is also a growing domestic market. Drug related violence and almost open warfare are rising dramatically. Corruption is a key issue and concerns have been raised about the links that exist between the drug cartels and politicians to the extent that it has been suggested that one may control the other – and it may just be, contrary perhaps to expectation, that politicians control the drug cartels and not vice versa. Member of the FATF.

Moldova

Major organized crime problems

Moldova has severe organized crime problems caused by domestic groups that also launder funds through the primitive banking system. At the moment there is very little international money laundering taking place. However, the situation is exacerbated by a high level of official corruption. Moldova was rated 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 (no entry in 2002 survey).

Monaco

An attractive tax haven, described famously by Somerset Maugham as ‘a sunny place for shady people’, which has been traditionally used by the Italian Mafias. The Russian mafia also came here, laundering through the purchase of property and the casinos. However, the common perception is that the Russians have now moved on as things are tighter than they were. In June 2000, a French parliamentary report once more drew attention to Monaco’s role in money laundering. The report concluded that the principality lacked the will and means to cooperate in global efforts to fight money laundering. The report also commented that Monaco ‘risks destabilizing markets through a lack of surveillance of its banking and financial sectors’. This French view has been supported by tales such as that of an Israeli gentleman arriving at a bank with \$5 million dollars in cash (although admittedly, if one believes the tale, he was arrested). Additionally, as at April 2002 Monaco was classified as being an ‘uncooperative tax haven’ by the OECD because of the principality’s lack of commitment to the specified concepts of transparency and effective exchange of information.

Mongolia

Major organized crime problems

Whilst details are sketchy there is some intelligence that suggests Russian organized crime groups are making use of the country's banking system.

Nauru

Named by FATF as 'non-cooperative' in June 2000; remained blacklisted as at February 2003 and subject to counter-measures

No anti-money laundering legislation existed before August 2001, and there were some highly attractive offshore and anonymous services available. The US Treasury has stated that 'significant opportunities over time for the laundering of the proceeds of crime' have existed here. Unfortunately for Nauru, it now has something of a stigma attached to it – see Chapter 5 for full details. It is almost certain that substantial money laundering has taken place here by Russians, Asians and South Americans. In early 2001, 11 of the country's 18 MPs signed a petition demanding the recall of parliament and threatened to overthrow the president, Bernard Dowiyogo. The protesters accused the Government of involvement in corruption such as the diversion of US \$970,000 into US bank accounts for the sale of Nauruan passports – claimed to have been sold to Thai and Chinese nationals to create new false identities for criminals. Another key complaint was the licensing of 'banks' by the Government that have subsequently been used for money laundering activities. Remained on the FATF blacklist as at February 2003 and, as at April 2002, Nauru 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.

Nepal

Nepal has no anti-money laundering legislation. It has, however, problems with drugs, currency smuggling and the trafficking of human beings. A high level of corruption is suspected, and commented on by internal governmental reports. The Government also has plans to establish an offshore financial centre in Kathmandu.

Netherlands

The Netherlands has had problems in the past with money laundering, particularly through bureaux de change. It has long been realized that it is inconceivable that organized criminal elements cannot be heavily involved in the drugs and sex industry, particularly taking into account the Dutch liberal attitudes to both. Russian and other Eastern European organized crime groups have colonized various parts of the sex trade in Amsterdam and elsewhere (using human trafficking to ensure an on-going supply of 'willing' girls). Hong Kong/Chinese Triads are active in fraud, drugs and prostitution (including human trafficking). Member of the FATF.

Netherlands Antilles

A growing offshore and gaming sector make this set of islands vulnerable to money laundering.

Nigeria

Major organized crime problems

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

In drugs the prime importance is that of Nigerians acting as drug couriers – taking Asian produced heroin to the United States, and South American generated cocaine to Europe. Official estimates put Nigeria as the third largest heroin smuggling area in the world. Corruption is alleged to be widespread in customs staff, facilitating trafficking. There are substantial internal problems in the country, and the endemic spread of Nigerian organized fraud to all other parts of the world has established Nigeria as the No 2 nation in Transparency International's index of countries perceived as being corrupt (1999). This unenviable accolade was repeated in the 2002 survey, when it was perceived that only Bangladesh was worse in this respect. In other comparable surveys Nigeria has gained a similar position, quite frequently topping the list. The country is the centre of major fraud and money laundering activity. The funds generated by the now infamous 419 letters are still (amazingly) substantial: and that is merely one facet of a global, highly organized fraud effort. All funds achieved by these widespread criminal activities need to be laundered. Particular reference should be made to Nigerian groups operating centres of fraud/money laundering from diverse locations such as the United States, Canada and South Africa. Blacklisted by the FATF but not subject to more severe countermeasures because of progress made (December 2002).

Niue

Named by FATF as 'non-cooperative' in June 2000; removed in October 2002

Everything was readily available in this offshore location to facilitate money laundering (also see Chapter 5). When blacklisted in June 2000 the FATF highlighted lapses in customer identification requirements together with having serious concerns about the regulatory regime that oversaw around 5,000 IBCs and five offshore banks. Significant reforms have followed, which deal with reporting suspicious transactions, the establishment of an FIU, eliminating offshore banks and providing better information on IBCs registered there. Because of this progress, Niue was removed from the blacklist in October 2002.

North Korea

Hard information difficult to obtain

One of the most closed countries in the world – another one to cross off the list for the would-be launderer. One of the three countries named by President Bush as being in the 'axis of evil'.

Norway

No significant money laundering problems

Member of FATF, some domestic problems with money laundering but no international ones – another safe Scandinavian location. Norway came 12th in the 2002 Transparency International survey of perceived corruption.

Oman

No significant money laundering problems

No known problems but country does have a predominantly cash based economy.

Pakistan

The country is a major distribution and refining area of opium (mainly in the Khyber region and Northwest Frontier province). With its formal economy in tatters, various political scandals that contain allegations of money laundering by various former leaders, a costly nuclear programme and a government that has placed the rooting out of corruption at the top of its agenda, Pakistan has more than enough domestic problems to contend with. However, the aftermath of 9/11 brought two other key problems in the country to the surface: moral and financial support for Al-Qaida combined with the use of the country's hawala alternative remittance system for money laundering by both criminals and terrorists. Rated 77th 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 (previously 87th out of 99 in 1999, so things are perceived as improving slightly).

Palau

Possible up-and-coming money laundering centre

In the previous edition, I commented: 'Will it or won't it become an offshore centre – or is it already? See also Chapter 5.' Offshore banking licences in Palau now are available via the Internet for as little as \$7,500.

Panama

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

Colombian cartels cultivate coca in the Darien region of the country. Panama has a strong financial sector and a dollar based economy – it is an attractive target for money launderers. The FATF blacklisted Panama in June 2000 because of the country's previous refusal to criminalize money laundering apart from drug trafficking related offences. Panama was removed in June 2001, when the FATF commended the country for the progress it had made over the previous 12 months in tackling the problem and introducing significant new legislation/regulation to control it.

Paraguay

A transit country for cocaine trafficking with widespread official corruption present. Scored 98th 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 (a worse outcome than in 1999 when it was 90th out of 99).

Peru

Peru is the world's largest producer of cocaine; coca is the country's second largest crop – about 60 per cent of the world's coca crop. Domestic money laundering does obviously occur; international laundering probably does not to any significant degree.

Philippines

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

Prior to the FATF blacklisting in June 2000 there existed no effective AML legislation, much political uncertainty and public corruption. The country is also a key trans-shipment route of opium and other drugs from China. Organized crime groups from China, Taiwan and Hong Kong are all active here. There is strict banking secrecy. The US Treasury had already issued an advisory notice recommending enhanced scrutiny for transactions involving the Philippines. Local media coverage has described Manila as 'Asia's money laundering capital', drawing attention to anonymous safe boxes, tight bank secrecy laws and the irony that being awarded such a dubious accolade actually attracts a substantial inflow of funds. On 10 September 2001 the FATF reviewed its list of non-cooperative countries and territories and, in simple terms, concluded that the Philippines had done nothing to implement AML regulations or legislation and thus recommended countermeasures against the country unless it enacted significant legislation by 30 September 2001. With one day to spare, on 29 September 2001 the Philippines enacted the Anti-Money Laundering Act of 2001, which criminalized money laundering, introduced the mandatory reporting of certain transactions, required customer identification and created a legal basis for an FIU. However, problems still exist, such as a conflict in the reporting of suspicious transactions and banking secrecy remaining in respect of deposits made prior to 17 October 2001.

Poland

Major organized crime problems

Poland produces about a fifth of the amphetamines sold in Europe. Drugs and drug related crimes are a serious national problem. The country is an important base for Chinese and Colombian drug/organized crime groups together with Turkish gangs, Albanian mafia groups, Nigerians and domestic criminal groups. There are more than 400 domestic crime groups – but internal feuding between them has allowed foreign groups to muscle in with a vengeance. Polish police estimate that more than 15,000 women (in the 16–20 age group) are illegally imported into Poland for prostitution annually. This racket is now increasingly controlled by criminals from Ukraine or Belarus. There is a substantial black market in cigarettes, particularly from the country into Germany. The local Pruszkow mafia is well versed in car and art theft, money laundering, extortion, prostitution, drug trafficking and illegal arms dealing. The Polish finance ministry has estimated that around \$3 billion is laundered through the country on an annual basis, although in November 2002 the ministry speculated that the actual total could be up to \$8 billion. Although Polish laws are now compliant with FATF standards, enforcement is weak. One key problem is lack of police resources, which is exacerbated by lack of cooperation between financial institutions and investigators.

Romania

Major organized crime problems

A cash based economy, a major trans-shipment point for arms, drugs and humans together with a corrupt police force make this a disturbing location. Apart from domestic criminal gangs, Turkish, Kurdish and French groups are also operating here. In November 2001 the Romanian media reported that Arab businessmen living in the country had donated 'hundreds of millions' of dollars to Islamic terrorist organizations. The money, it is claimed, was laundered through legitimately registered Romanian companies. An Egyptian businessman in the country transferred \$150 million to Egyptian based associates with close terrorist links. The transfer was classified as an 'advance payment' for non-existent goods.

Russia

Named by FATF as 'non-cooperative' in June 2000; removed in October 2002
Russia was blacklisted because:

- It had a lack of comprehensive money laundering laws and regulations.
- The country had no customer identification procedures.
- There were no suspicious transaction reporting procedures.
- There was no central FIU.

After dragging its feet Russia finally introduced significant reforms to its anti-money laundering system, which led to its removal from the FATF blacklist in October 2002. There are various problems that still exist in the country, which are made more confusing by various misconceptions: the country's ever recurring business scandals (which invariably are simultaneously linked with politics) are virtually inexplicable to an outsider; Russian organized criminals are still highly active – for example, in November 2002, 250,000 pirate CDs, DVDs and videos were confiscated at three military bases, which had rented out space to the infringers!; human trafficking of women and girls for sexual exploitation remains a serious unresolved problem. However, there still exists a key confusion between capital flight (still estimated at \$20 billion a year) and 'true' money laundering (even in the Bank of New York money laundering scandal it was never established which was which); moreover, the country has suffered because there has been a tendency in the West mistakenly to refer to all former Eastern Bloc criminals as the 'Russian mafia'. In this respect, there are far worse countries – Ukraine being the prime example. All in all, the situation is improving, particularly as Western facing Russian companies now realize that the only way that they can compete on the global stage is by adopting Western standards and transparency. Rated 71st 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 (previously rated 82nd out of 99 in 1999). See also 'The international groupings of organized criminals' in Chapter 1.

Saudi Arabia

Hard information difficult to obtain

Criminal money laundering possibly is a problem but public information is hard to come by. The highly publicized laws of the kingdom regarding drugs (public execution), the extreme and laborious process of obtaining a visa, and a traditional Islamic banking system are just a few good reasons why, if any problems do exist, they will be localized rather than international. However, the key problem, which in my opinion will be almost impossible to resolve, is the moral and financial support given to Al-Qaida (see also Chapter 7).

Senegal

No significant money laundering problems

There are some domestic money laundering problems that may be exacerbated by lack of anti-money laundering laws, but no international dimensions.

Singapore

Singapore is simultaneously a major financial centre with many shops trading in high value goods and a country that has a strong anti-drug culture. Additionally there exists a persistent underground banking system, which, when allied to the various shops selling high value goods, provides a strong conduit for the washing of Asian heroin dealers' cash. To make this situation worse, there are no controls on currency being brought into or taken out of Singapore. The anti-money laundering laws apply to banks, insurance companies, and bureaux de change and money remittance companies, but are currently only drugs related. The regulations mean that suspicious transactions must be reported and that customers engaged in significant currency transactions should be identified. Member of the FATF.

Slovakia

Major organized crime problems

The country has a predominantly cash based economy and is a drug transit country. Not only are domestic organized crime groups active and laundering here but also Russian, Italian, Chechen and Ukrainian gangs. According to the Slovakian Government in 2000, 29 organized crime groups operated in Slovakia: five in the Bratislava region, 12 in the western Slovak regions, four in central Slovakia and eight in eastern Slovakia. These groups are engaged in extortion, drug dealing, illegal smuggling of immigrants, prostitution, car theft, tax evasion and black market trading. It has now been accepted that between 1994 and 1998 the Government of the country actively discouraged police investigations into organized crime activity. The long term effects of this were not only the proliferation of such gangs but also a lack of police human resources, equipment and properly trained officers.

Slovenia

Major organized crime problems

The country's Office for Money Laundering Prevention comments that Slovenia is 'confronted by serious problems of organized and economic crime... combined with the fact that Slovenia borders on Italy, Austria, Hungary and Croatia, which has had an impact on crime phenomena. In the last few years we have witnessed a trend towards rising serious crime, and money laundering in particular.' A 2002 opinion poll found that more than half of all people questioned acknowledged the probability of corruption by doctors, lawyers and public notaries. There are also large gaps perceived in the ability of law enforcement agencies to fight corruption.

South Africa

South Africa is another of those countries that has a strong national/regional financial industry but it currently suffers a predominantly domestic rather than international money laundering problem. Organized (and petty) crime is prevalent in the country – with hijacking of cars being just one symptom of the malaise. Added to this is widespread corruption, which doesn't encourage a transparent environment. One frightening problem concerns Nigerian drug trafficking and associated criminal activity. Whilst the South African authorities record about 2,000 Nigerians living in the country, it has been estimated that the true figure is anywhere between 45,000 and 100,000.

Spain

Spain is sometimes overlooked, apart from previously being a safe haven for criminals on the run. These coastal areas are now popular with Russian criminals. However, much more important are Spain's historical links with Latin America, which have left a lasting influence in a robust trading relationship between Spain and Latin America together with an efficient air timetable between the two areas. This has all meant that although Spain's anti-money laundering controls are rigorous the country's banking and business systems are an appealing target for groups such as the Colombians. The Observatoire Geopolitique des Drogues in its 1998/99 Annual Report (published in April 2000) is damning about the role of Spain in drugs and money laundering. The country is described as 'a narcotics clearing house' together with claims that Spain is the largest drug money laundering centre in Europe for the Colombians with up to \$12 billion per annum being washed. Member of the FATF.

St Kitts and Nevis

Named by FATF as 'non-cooperative' in June 2000; removed in June 2002

These are actually two competing offshore centres that have posed key money laundering risks. Economic citizenship has been available (in other words, the buying of a new passport) together with International Business Corporations and non-disclosure of beneficial owners. The US Department of State reported in 2000 that there is a sizeable level of drug trafficking on and around the islands. Known traffickers are present on the islands, and some Russian organized crime figures live in St Kitts. The blacklisting by the FATF was due to the following:

- Money laundering was only a criminal offence in relation to narcotics trafficking.
- There was no reporting of suspicious transactions.
- There was little supervision of the offshore sector.

The enactment of significant legislation ensured that these islands were removed from the FATF blacklist in 2002.

St Lucia

A new offshore centre that may be at risk from money laundering in the future, but appears to be keen to establish and maintain an unblemished reputation.

St Vincent and the Grenadines

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

A cocaine trans-shipment point, a growing offshore sector and International Business Corporations that can be incorporated online without disclosure of beneficial owners are just some reasons why money laundering is a sizeable risk. If you want more, then the absence of regulations concerning customer identification or suspicious transactions should be enough. The islands are very popular, we are reliably told, with South American drug barons. All of these factors led to their appearance on the FATF's first blacklist, and they remained there as at October 2002. Significant progress has been made, but the FATF still have concerns about customer identification procedures.

Sudan

No significant money laundering problems

Because of its extreme Islamic Government and own internal problems Sudan will not be appearing on anyone's list of places to launder money for the foreseeable future.

Suriname

Suriname is the main entry point for cocaine into the Netherlands, and there is evidence of money laundering taking place.

Switzerland

Because of the size of the country's banking and financial industry it is inconceivable to consider that money laundering is not a problem. Moreover, the clients that the country draws to its private banking and asset management sectors are almost entirely from an international catchment area. Thus it is very commonplace to see banks with subsidiaries in South America (or Miami for South America), Russia and other hot spots. Switzerland however has responded to previous negative publicity and has installed a robust anti-money laundering system. Nevertheless Russian organized criminal groups are active in the banking system, company structures and by physically trying to move to and reside in Switzerland. Interestingly, though, one of the on-going claims made by Switzerland is that many funds that are subsequently shown to have been laundered actually arrive in the country not from Russia or South America, for example, but in a 'clean' state from other reputable Western financial centres. The country has until recently been the favoured location for the funds of corrupt politicians. Member of the FATF.