

How Fraud and Corruption in Latin America impacts business in South Florida

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- The [Basel Institute on Governance](#) (Instituto de Gobernanza de Basilea) deals with corruption , money laundering and promotion of good governance ranked 162 countries based on the degree of vulnerability , juridicial and institutional infrastructure in the face of illicit financial activity.
- Only two Latin American countries are among the best 20 protected countries against money laundering: Chile and Peru.
- Furthermore, in terms of Banks. Among the 10 countries with more money laundering through bank channels, six among them are Latin American countries. Argentina (6,86), Colombia (6,57), Haití (6,43), Paraguay (6,43), Nicaragua (6,29) & Bolivia (6).

- The best country is Chile (3), which is 67 among 80 countries.
- When we talk about money laundering through non-bank channels. Seven out of the 10 most vulnerable countries are Latin American: Colombia (8), Haiti (7, 86), Argentina (7, 29), Paraguay (7, 29), Nicaragua (7, 14), Guatemala (7, 14) & Bolivia (7). Again, Chile has the best place and then followed by Uruguay with (5, 14).
- In Latin America there are three main crimes that precede money laundering. They are drug trafficking; corruption of public authorities and tax evasion.

- The main reason why money laundering is a problem is because the drug production generates a strong illegal chain throughout the region.
- The way they operate is by having their operations in countries that have secrecy. The money disappears and then it is invested back in business like tourism, real estate, hotels, casinos, financial institutions, and false statements about income generated abroad, pension funds, import of raw materials and machinery and use of non-profit organizations.

WHAT ARE THE POLITICAL AND
SOCIAL CONDITIONS THAT ENABLE
DRUG TRAFFICKING AND OF
CRIMINALITY?

Three Categories of Countries

1. Those where somehow the rule of law exist and make the effort to tackle the problem
2. Those that promote criminal activities (narco-states, Mafia states)
3. Those weak countries whose history and circumstances have made governance very difficult and have fallen into a state of anarchy

Countries with Rule of Law

- Brazil, Chile, Uruguay- Democracies with either developed or developing rule of law.
- In Chile the rule of law has been in existence even since pre-democratic times.
- Money laundering in Chile is a growing issue that is primarily narcotics-related. Chile criminalized money laundering under an Anti-Money Laundering (AML) Law in 1995, and later updated the Law in 2003 to expand upon predicate offenses.

- Officials in Chile have reported a 33 percent increase in suspicious financial transactions for the first half of 2013, suggesting organized crime groups are using Chile as a base for [money laundering](#) operations. The Public Ministry has reported 67 [money laundering](#) convictions since 2007, with 89 percent of those cases linked to drug trafficking.
- The government also seized approximately \$6 million and 43 properties from people linked to [money laundering](#) between 2007 and 2011.
- The ease with which companies are created in Chile facilitates [money laundering](#), with 30,620 new businesses registered in the first five months of the year -- a 40 percent increase on the same period in 2012.

- Money laundering in Brazil is a widespread problem. The Government of Brazil (GOB) has a comprehensive Anti-Money Laundering (AML) regulatory system in place and new laws criminalizing money laundering related to drug trafficking,
- The law also establishes crimes against foreign governments as predicate offenses, requires the Central Bank to create and maintain a registry of information on all bank account holders.
- There are laws that require financial institutions to train their employees on how to recognize suspicious activity that may be tied to money laundering or terrorist financing activities.

- Brazil has had some successes. A criminal network accused of evading foreign exchange tariffs and laundering more than \$800m has been broken up.
- Eleven people were detained in raids in three states, including Allan Simoes Toledo, a former vice president of the state-owned Bank of Brazil
- Brazil also tracked illegal withdrawal of hard currency from Venezuela through bogus imports from Brazilian companies. Value of the goods was inflated by up to 5,000% so that hard currency transfers from Venezuela, which has strict currency controls, could be by-passed. Major arrests have taken place.

- Petrobras executive Nestor Cervero was sentenced in Brazil to five years in prison for money laundering. Cervero was the second Petrobras executive to be convicted amid an ongoing investigation. More than 100 people have been indicted and 50 politicians are under investigation for taking bribes.
- Paulo Roberto Costa, former Petrobras director of refining and supply, was sentenced to seven and a half years in April.
- Massive corruption scheme at Petrobras saw billions being paid in bribes through inflated contracts and kickbacks to politicians, entrepreneurs and Petrobras executives. The Petrobras scandal involves more than 20 big companies and more than 50 politicians, most of them from the ruling coalition led by the Workers Party (PT).

- Petrobras executives are suspected of accepting bribes from Odebrecht, a construction company, paid via the Swiss accounts, in exchange for charging inflated prices for contracts. The contract payments were then skimmed, with the cream going to Brazilian politicians.
- The Swiss Federal Prosecutor's Office in Bern has been working with Brazilian authorities since March to investigate Petrobras in response to allegations of bribery and money laundering. The case is thought to be one of the largest corruption scandals in Brazil's history.
- Odebrecht overcharged state-run oil firm Petrobras and bribed executives and politicians, many whom are in President Dilma Rousseff's coalition government.

- Despite the corruption in Brazil, we are seeing that the law and justice are working.
- The case of the prosecution of high officers and imprisonment of high politicians and entrepreneurs is remarkable.
- Demonstrations in Brazil rallied around a new hero, Sergio Moro, the judge in charge of the investigations.

- Likewise, Colombia is a major illicit drug producer, but the nation has "demonstrate[d] highly effective leadership in countering illegal drug trafficking and transnational crime," calling the country a "strong partner on counternarcotic."
- There are high levels of recent crop eradication and drug seizures.

Argentina-Special Case

- New laws have been approved and passed in countries such as Argentina aimed at controlling and punishing this kind of activities. But the number of indictments and sentences are low.
- Argentina- Lack of special investigative bodies that can deal with this type of crime. Lack of proper training and lack of professional knowledge in the investigations is perpetual problem in Argentina.
- Problems remain unresolved because of professional incompetence (Case of AMIA investigation) but also because of corruption at the level of government and cover up

- For example: Lazaro Baez Case: Lazaro Baez is an entrepreneur that allegedly laundered 55 million Euros through a Swiss bank. He had close contacts with the Kirchner family. His company made a lot of money thanks to public works contracts through preferential bids given to him by then governor Kirchner in the province of Santa Cruz. Later he received contracts from the Argentinean government when Kirchner became president of the country. Baez received many bids from the Kirchner with his construction and oil companies.
- The case does not advance because the president's family benefitted from these transactions.
- In Argentina, the Unity of Financial Information (UIF) has protected businessmen close to the government but also lacks the proper resources.

- In Argentina the judiciary has not achieved a degree of independence. In fact in many cases it is still subjugated by the executive power, although there have been judges rebellions lately.
- Those rebellions happened after the mysterious death of Judge Alberto Nisman that was investigating the president and some cabinet members in relation to secret contacts between Argentina and Iran aimed at absolving Iran in its responsibility for the AMIA bombing.

Narco States/ Mafia States

- In Venezuela there is a revolutionary regime that has aimed at re-founding the state and this includes the rule of law and the democratic tradition of the country (imperfect though still democratic).
- The judiciary has been subjugated to the executive power, weakening judicial independence. Judges are subordinated to the revolution. They are expected to rule according to government dictates. (Afiuni Case; testimonies from Judge Aponte, and prosecutor Nieves).

- In Venezuela oppressive regime destroys legality.
- Venezuela is a government based on violence. It uses criminals to frighten the population. Crime becomes protected and therefore enjoys impunity. Criminality and citizens insecurity is promoted from above

- Drug trafficking is part of an intentional policy aimed at fulfilling the geo-political goals of Hugo Chavez. Drug trafficking causes damage to the U.S considered by Venezuela an archenemy and to Colombia also considered an enemy and an ally of the U.S.
- Venezuela was opening an opportunity to drug trafficking in order to counteract the effects of Plan Colombia. 90% of the drug was distributed from Venezuela. Venezuelan airports and ports are part of an entire infrastructure that helps distribute the drug.
- At the same time produced income for the Bolivarian revolution promoted by Hugo Chavez.

- Drug trafficking and money laundering, involve Hezbollah. Ghazi la Din Venezuelan diplomat in Syria- instrumental in giving passports to Hezbollah.
- Those involved in drug trafficking are: Diosdado Cabello (president of the National Assembly), Adán Chávez (Chavez' brother and governor of the State of Barinas, Rafael Ramírez (president of Pdvsa and Minister of Energy), Tareck el Aissami (minister of Interior), Henry Rangel Silva (minister of Defensa), Hugo Carvajal (chief of military intelligence), Manuel Barroso (president of the Comisión de Administración de Divisas o Cadivi) and Wilmer Flores (director general of scientific and criminal investigations).

- Hugo Chávez and later Nicolás Maduro were fully aware of the drug business.
- Drug trafficking was policy. Venezuela's specific role is to facilitate the shipment of cocaine produced in Colombia in cooperation with the FARC and secure that these shipments reached the Mexican cartels.
- Likewise, part of the cocaine was also cultivated on Venezuelan soil and manufactured in Venezuelan labs. The logistical role of Venezuela in drug trafficking has made the Venezuelan armed forces and the national guards since these institutions controlled all the routes and borders.

The Case of Bolivia

- Most recently behind the scenes the U.S has linked high officers in the Bolivian government to drug trafficking. Among them are Walter Álvarez, an important officer in the Bolivian Air Force Raúl García, who is the father of the current Bolivian vice President Álvaro García Linera and Faustino Giménez, who is very close to the vice-president and Katy Alcoreza, an intelligence officer for Mr. Morales.
- Bolivia follows the same anti-American stand of the Venezuelan government. The White House has named Bolivia an important producer of drugs. It did not follow up on any of its international obligations with regard to combating drug trafficking.
- Also, Rene Sanabria and Oscar Nina, both former top anti-drug officials in the Morales administration, have been [arrested for drug trafficking](#). Nina was arrested this March and Sanabria was arrested in Panama and extradited to the U.S. in 2011; his defenders suspect the arrest was politically motivated.

- It is important to point out that when you have a narco-state such as Venezuela, and Bolivia also the financial institutions of this country serve illicit activities.
- The banking system in Venezuela helped Iran avoid international and U.S sanctions.

Anarchical and Ungovernable Countries

- In this category we find Mexico and Central America.
- Cartels bribe everyone, Mayors, legislators and even the smallest policeman. They get bribes that go up to \$100,000 a month.
- But corruption is not just because the amounts of money are irresistible. Corruption is the direct result of a tradition where the law was mocked. Mexico and Central America have a long history of authoritarianism and elite corruption.
- In state where the laws are not strong, what applies is the law of the jungle or the law of the powerful. Thus, the state very often gives access to a selected group of wealthy people. They cook deals behind the scenes, out of the public eye.
- This situation makes the state less legal and more corrupt since they are not subject to control mechanisms.

- Impunity is related to corruption and immunity for criminals.
- Drug trafficking requires not only violent means but also inaction of the police, military and judges. Drug traffickers interact with the political class. Drug cartels look for partners.

- State officers create a system of political and legal protection outside the legal system in order to prevent judicial action and thus impeding the formation of independent judicial powers outside the reins of executive power.
- In Mexico states of the northern border live under conditions where jobs and security are in the hands of illegal actors.

- State of Morelos drug trafficking and government maintain a strong relation.
- Last year 43 students disappeared in the town of Iguala in the State of Guerrero, Mexico. The students were killed and burned by members of the gang, Guerreros Unidos (United Warriors).
- It was the police, themselves, in the town of Iguala who handed over the students to the gang. The Guerreros Unidos are among the major traffickers of poppy and marihuana in Mexico.
- The Mayor of Iguala and his wife instructed the local police to attack the students to prevent disruption of an event organized by the wife. These same students had come to Iguala before to protest the assassination of the leader of the Farmers' Union, presumably at the hands of the Mayor, himself.

- The Federal government has looked the other way in the face of this phenomenon and the army that holds a major military base near Iguala allowed these events to unfold without interference.
- The Iguala case is among a series of violent incidents that have plagued Mexico in recent years. This is a crisis of the Mexican state, as there are key areas in Mexico where state agents join hands with gangs and cartels in the perpetuation of criminal activity. The fact that the Mayor of Iguala was openly connected to the drug gangs without consequences reflects a situation of chaos and dysfunction that reminds us of the Wild West.

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- Central America displays similar features. Organized crime has increasing influence and participation in local government and the very structure of the country, according to a Guatemalan entrepreneur.
- Guatemala is in a state of anarchy.
- The war against drugs in Mexico and the hardening of the financial regulations have made Central America into an important center for money laundering.
- In Guatemala organized crime has developed in such a way that the region has become a sort of service station used by drug traffickers to get supplies and guarantee the shipments to the U.S. Central America also serves to launder the money that results from the revenue that the drug business and other illegal activities.

- In Central America there is a serious problem of penetration of illegal capital in the formal and informal economy. Moreover, there was a general acceptance of this capital since in many cases they created employment and welfare that the states could not provide.
- The capital generated from illegal activities allows even further to corrupt the public administration and public authorities. The final effect is that they have an impact on democracy, governance, and the rule of law.
- Organized crime undermines the normal economic and traditional activities, particularly in the rural areas where violence is rampant. Not to speak about the fact that the population is forced to abandon less profitable economic activities. Drug cartels use poverty and lack of opportunity to offer payment that exceeds any money that they can earn in legal activities.
- Guatemala, Honduras and Nicaragua have among the highest rates of corruption. Guatemala and Honduras have the highest rates of homicides.

- Your job as workers against money laundering is crucial because if there is no violence, this damaging activity goes unnoticed.
- Mexico sends its military to fight the violent cartels but this corrupt activity that provides oxygen to this violence is important to tackle.
- You have an important job to do.

- We need to make sure that sanctions and punitive action against Venezuela increases.
- We need to make sure that we continue to support the rule of law and democracy in Central America because it is the best, although not perfect antidote to fight corruption.
- It is not a coincidence that Chile and Uruguay, the two countries have the best democratic traditions in Latin America, are also best rated in money laundry control. According to transparency international, Argentina is 102 in terms of government corruption; Brazil is number 69 and Chile number 20. (The lowest number is the less corrupt).
- So there is a correlation between democracy and the rule of law.
- Drug trafficking and illegal activity is not a local activity anymore. What happens in Venezuela, Honduras or Brazil is our problem. This is the neighborhood we live in.