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FATF

FATF REPORT

Financial flows linked to the production and trafficking of Afghan opiates

June 2014





FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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CONTENTS

ACRONYMS	2
KEY FINDINGS	3
Observations	3
Considerations	4
CHAPTER 1 INTRODUCTION	5
1.1 Background information	5
1.2 The origins of the project	6
1.3 Objectives.....	7
1.4 Methodology and Framework.....	7
CHAPTER 2 GLOBAL FINANCIAL FLOWS	10
2.1 Categories of individuals involved in opiate trafficking and their financial profiles.....	12
2.2 Financial flows to Afghanistan	13
2.3 Abuse of financial centres.....	19
CHAPTER 3 PAYMENT AND ML TECHNIQUES: TRADITIONAL METHODS AND EMERGING TRENDS	28
3.1 Drug sale: traditional methods and emerging trends.....	28
3.2 Drug proceeds - Instruments/services and ML techniques used.....	31
CHAPTER 4 INTERRELATIONSHIP BETWEEN DRUG TRAFFICKING AND TERRORIST FINANCING	42
4.1 Drug trafficking as a source for terrorist financing in Afghanistan	42
4.2 Other terrorist or criminal groups profiting from the Afghan opiate trade	48
CHAPTER 5 OBSERVATIONS AND POTENTIAL POLICY IMPLICATIONS	50
ANNEX A MAPS AND DIAGRAMS	55
ANNEX B BIBLIOGRAPHY	58
ANNEX C ADDITIONAL CASE STUDIES	60
ANNEX D DETAILED QUESTIONNAIRE	67
ANNEX E RED FLAG INDICATORS	74

ACRONYMS

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
BNIs	Bearer Negotiable Instruments
CSTO	Collective Security Treaty Organization
FATF	Financial Action Task Force
FIU	Financial intelligence units
MENAFATF	Middle East and North Africa Financial Action Task Force (MENAFATF)
ML/TF	Money laundering / terrorist financing
MSBs	Money Service Businesses
MVTS	Money or value transfer services
LEA	Law Enforcement Agency
PKK	The Kurdistan Workers' Party
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution

KEY FINDINGS

OBSERVATIONS

1. Drug trafficking is a business, but our understanding of this enterprise and response to it remain limited - less than 0.5% of the total laundered funds are seized.¹
2. In 2011, the annual volume of the global opiate market was estimated at USD 68 billion (with around USD 60 billion from Afghan opiates).² However, no widely agreed method or framework currently exists to map “the business model”. Although a number of business modelling methodologies appear to have been created by academics, multilateral bodies and private organisations, the survey responses suggest that it remains unclear if these methodologies have been practically incorporated into law enforcement and FIU’s intelligence collection plans and disruption strategies.
3. Terrorists profit from and are engaged in opiate trafficking - over half the Afghan Taliban Senior Leadership listed under United Nations Security Council Resolution (UNSCR) 1988 are involved in drug trafficking³.
4. The UN Al Qaida and Taliban Monitoring Team assesses that opiate-financing will imminently be the leading source of income for the Afghan Taliban and thus enable a major threat to the national security of Afghanistan and wider regional stability.
5. International opiate traffickers rely on the services of financial professionals, either unwitting or complicit, to manage their assets but no global system exists to alert countries or the private sector of these individuals and entities, or to freeze the assets of opiate traffickers.
6. At most stages in the enterprise, opiates and associated financial flows do not follow the same routes.
7. The Afghan opiate business is believed to be a mixture of both cartels and multiple markets. There appears to be no single or small group of cartels that control the global opiate trade; but some groups control significant portions of the trade along various routes. However, detailed and reliable information regarding this issue remains limited and this can be considered a key information gap.
8. Between 50-90% of all financial transactions in Afghanistan are conducted via money or value transfer services (MVTs). Illicit use of MVTs appears to be a critical capability for opiate trafficking networks, not only in Afghanistan but also internationally.
9. The majority of illicit funds are likely moved through, and possibly stored in, financial centres. As the region’s leading financial centre, the United Arab Emirates’ (UAE) financial system

¹ UNODC (2011a).

² UNODC (2011c), p. 45.

³ United Nations Security Council Committee established pursuant to resolution 1988 (2011) www.un.org/sc/committees/1988/narrative/shtml

appears to be particularly vulnerable to abuse by opiate traffickers, regionally and internationally.

10. Cash, commodity-transfer and MVTS appear to be the leading value transfer instruments at the cultivation and manufacture stages of the enterprise; the formal financial system, MVTS and high-value commodities appear to facilitate international distribution of opiates.
11. Apart from cash, new payment methods (including virtual currencies) are used at consumer and international distribution stages of the Afghan opiate enterprise, albeit less than the above methods but may pose significant challenges to regulators, financial intelligence units (FIUs) and law enforcement agencies.
12. Many similarities exist between financing methodologies of different illicit drugs. Opiate-specific and more generic red flag indicators have been identified and collated.
13. This project was conducted in parallel with the Paris Pact (UNODC) Illicit Financial Flows analysis. The ML/TF threats from illicit groups, vulnerabilities in AML/CFT systems and opportunities identified herein are being used for immediate technical assistance delivery within the framework of the UNODC's current activities.

CONSIDERATIONS

1. Enhanced international cooperation aimed at the exchange of information could be considered to warn states and the private sector of specific narcotics traffickers, their assets and criminally-associated financial professionals, also to further the freezing or seizing of those assets. This may also facilitate global risk assessment of drug money flows.
2. Financial centres, particularly UAE, are the critical partners in safeguarding the legitimate economy from opiate financing and disrupting the opiate business model – positive engagement and sustained support are essential.
3. A new methodology and framework may be developed to map “business models” of illicit enterprises – this may highlight immediate, cost-effective and sustainable opportunities to reduce critical risks.
4. Similar typology studies with a focus on “business-modelling” may be conducted for other illegal drugs, such as cocaine, particularly where the enterprise significantly magnifies the threat of terrorism, corruption and damage to the legitimate economy.
5. This project has benefitted significantly from the participation and co-chairing of UNODC. Such participation by technical assistance providers could be considered for future FATF typology studies as well.

CHAPTER 1 INTRODUCTION

1.1 BACKGROUND INFORMATION

Afghanistan is the world leader in the production and trafficking of opiates: according to UNODC estimates in 2011, 83% of the global opiate share came from Afghanistan and generated a US 61 billion market. Today's estimates run as high as USD 70 billion, with the value of the Russian opiate market estimated at USD 16-18 billion, the European (Western and Central Europe) – USD 13 billion, Eastern and South-East Asian – USD 9.4 billion, Australian – USD 3.5 billion, African with the increasing significance of the Southern heroin trafficking route - USD 3.2 billion⁴.

Despite international efforts, opium poppy cultivation in Afghanistan continues unabated, at least in the southern provinces, and in 2013 it reached a record high. According to the 2013 Afghanistan Opium Survey, cultivation amounted to some 209 000 hectares, surpassing the earlier record of 193 000 hectares in 2007, and representing a 36% increase over 2012⁵.

Heroin trafficking routes out of Afghanistan are shifting, the situation is becoming more complex and criminal groups are diversifying efforts and becoming increasingly sophisticated.

International authorities and counter-drug control agencies have made some progress in the fight against opiates trafficking. However, in most cases, precise information on the location and movement of funds by organised criminal groups involved in the trafficking of opiates originating in Afghanistan remains an intelligence gap.

The net volume of globally intercepted drugs is 10-15%. However, only 0.5% of drug related funds and other assets are confiscated. This means that almost all drug profits are integrated into the world's legitimate financial system. According to the UNODC 2011 research report on illicit financial flows resulting from drug trafficking and other transnational organised crime, "dirty money" has easy access to the legal financial system. The illicit drug trade accounts for half of all proceeds of transnational organised crime and for a fifth of all criminal proceeds.

Financial flows linked to opiates can circulate in the formal financial sector and/or money or value transfer services (MVTs)⁶, be held in cash, or be invested in the non-financial sector (legal and illegal businesses) in the region or elsewhere.

Due to huge scales of opium and heroin production in Afghanistan and the wide dissemination of drugs as well as the proceeds from drug business over all continents, there is a clear need for integrated efforts to study the financial infrastructure related to the production and trafficking of Afghan opiates and its associated ML/TF activities.

The *Vienna Declaration* adopted on 16 February 2012 during the *Third Ministerial Conference of the Paris Pact Partners on Combating Illicit Traffic in Opiates Originating in Afghanistan* stressed that

⁴ UNODC (2011b).

⁵ UNODC and Islamic Republic of Afghanistan Ministry of Counter Narcotics (2013).

⁶ In accordance with the FATF Glossary, www.fatf-gafi.org/pages/glossary/j-m/

detecting and blocking of financial flows linked to illicit traffic in opiates would be crucial to undermine organised crime networks. One of the necessary measures according to point 5, part 2 of the Declaration is ‘encouraging studies by relevant international and regional organisations and mechanism in cooperating with UNODC to determine the most effective ways and means to detect and block financial flows linked to illicit traffic in opiates.’

1.2 THE ORIGINS OF THE PROJECT

At the FATF Plenary and Working Groups meetings of June 2012 in Rome and October 2012 in Paris, the Russian Federation put forward the initiative of a new typological study on this issue as a part of Strategic Surveillance Initiative and Strategic Discussion. This proposal was supported by a number of countries (including China, Canada, India, Italy, Norway, South Africa, Switzerland, the United Kingdom and the United States), FSRBs (the APG, the EAG and MONEYVAL) and international organisations (IMF and the World Bank).

The active phase of the project was started in June, 2013. Chaired by the Russian Federation and the UNODC Global Programme against Money Laundering, the project team was made up of representatives from Afghanistan, APG Secretariat, China, Europol, Germany, India, the IMF, Pakistan, the United States and the World Bank. During the project team meetings and the Joint FATF/MENEFATF Expert’s meeting on typologies held in Doha, Qatar in December 2013, representatives from Australia, Canada, CFATF, EAG, GIABA, the Gulf Cooperation Council, Turkey, Oman, Qatar, and the UN Al Qaeda & Taliban Monitoring Team participated.

It is important to note that the UNODC representative co-chairing this typology project also acts as the Coordinator for the Paris Pact analysis on “*Detecting and blocking financial flows linked to the illicit traffic in opiates*”. The difference between these two projects is the following: the FATF typology focuses on how the global opiate trade is financed, while the Paris Pact analysis focuses on how Partners currently develop understanding of this enterprise, what they are doing about it and how their understanding and disruption activities could be enhanced. Having a UNODC representative as co-chair has allowed both projects to be aligned and mutually complimentary, particularly where there has been crossover.

There are also two FATF typology studies that should be read in conjunction with this report: *Hawala and other similar service providers*⁷ and *Physical Transportation of Cash*⁸. To prevent duplication in providing typological schemes and red flag indicators, this report focuses mostly on the formal financial system.

⁷ FATF (2013a).

⁸ At the time of publication of this report, this is still an ongoing project. The project is expected to be completed in February 2015.

1.3 OBJECTIVES

The key objectives of this report are the following:

- To identify how and where ML/TF from Afghan drug production and trafficking is occurring on the basis of case studies, existing literature and other data;
- To identify possible “red flag” indicators that could assist financial and non-financial institutions in developing mechanisms to detect and report financial transactions, financial flows and ML/TF activities resulting from Afghan drug production and trafficking;
- To assist jurisdictions and FSRBs in knowledge-building and recognition of the negative impact and effects to the integrity of the world financial system associated with the illicit production and trafficking in opiates
- Provide a basis for a discussion of possible counter-measures;
- To exchange experience in detection and suppression of financial flows and ML/TF activities linked to the Afghan drug production and trafficking;
- To enhance FATF efforts in tackling illicit financial flows and prevention of ML/TF activities resulting from Afghan drug production and trafficking.

1.4 METHODOLOGY AND FRAMEWORK

The project team developed two questionnaires:

- a short initial questionnaire designed to identify those countries that have relevant information and the desire to contribute such information for the research
- a more comprehensive and detailed questionnaire (see Annex D).

Responses provided by 26 jurisdictions allowed the Project Team to collect relevant data and case studies to address most of the objectives outlined in the concept note.

During the Joint FATF/MENAFATF Expert’s Meeting on Typologies in Doha in December 2013, a Workshop on Financial flows linked to Afghan opiates trafficking was held with nine presentations and several discussion sections which allowed us to cover five complex issues:

- Drug trafficking problem as a part of a national ML/TF risk assessment.
- Financial flows linked to Afghan drug trafficking on international level: the general scheme of the drug business, financial centres involved and the relationship between drug trafficking and terrorism financing.
- Detection and analysis of financial transactions linked to drug trafficking and ML methods.
- Role of hawala / MVTs in the illicit opiate economy.

- International and inter-agency cooperation issues: current practices and problems.

UNODC provided a valuable contribution by sharing key issues from the “Tashkent Questionnaire” used in the Paris Pact process, as well as material gained from the UNODC missions to the West and Central Asia region, such as the pivotal role of MVTs, FIU-LEA integration and modelling the Afghan opiate enterprise. UNODC has also shared key contacts with this project which resulted in new material, highlighting the opiate-terrorism nexus, being obtained during the workshop in Doha.

In preparing this report, the project team utilised literature and analytical reports from the following sources:

- Typologies research previously undertaken by FATF, EAG and MENAFATF
- Reports produced by the UNODC, the World Bank, Europol, etc.
- Analytical studies conducted by academia.

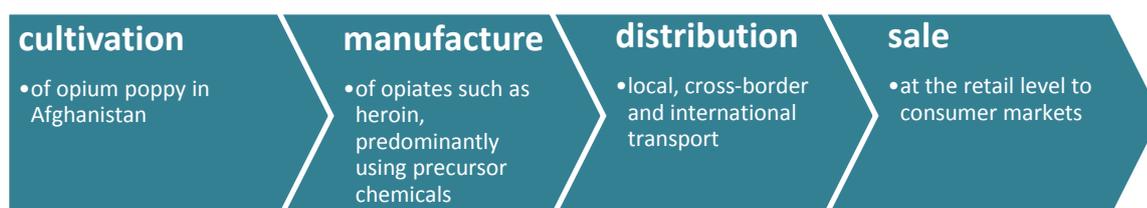
It is important to note that key findings in parts of the report are based on intensive investigative fieldwork that was conducted through formal and informal discussions with a wide variety of sources in Afghanistan, Pakistan, and the UAE. These included formal and informal money service providers, NGO workers, opium producers and traffickers, business traders, accountants, and Afghan politicians. These sources have been referenced where their information has been used.

THE CHALLENGE

The project team collated a wide range of typologies and expert opinions on the activities of the Afghan opiate trade. At an advanced stage in the typology work, it became evident that ordering and systematizing this wide range of source material was a significant challenge. The project team is unaware of any current FATF methodology or framework which can be used to meet this challenge, but it did highlight one potential methodology, endorsed by UNODC during the Paris Pact Initiative, which may assist readers to order and understand the wide range of source material. This methodology may also provide the basis of developing similar frameworks for future typologies studies, where appropriate.

DEVELOPING A FRAMEWORK

The global opiate trade is a business. Each stage is motivated primarily by profit and together, all these stages can be thought of as a system which is comprised of a number of functions and resources. The UNODC terminology for “drug trafficking” breaks down the whole business enterprise into stages:



Each of these stages requires a set of functions and resources to operate – the financial “function” is an essential element to each of these stages. This financial function may be broken down in a similar way into simple concepts such as how do drug traffickers RAISE, MOVE, USE and STORE their funds and other assets. Within the report, specific sections have been categorised according to their role in the system and finance function. One of the key “resources” is people, and specifically financial professionals – these are also discussed below.

This set of categories is intended to both order and clarify the typologies below and also to start the development of such a business modelling framework which can be applied to future typologies. Firstly, this will allow analysts to identify key information gaps which will prioritise future information collection and, secondly, this will allow analysts to conduct risk analysis which will inform strategic and operational decision-making to reduce these risks. It is considered that significant further work for members and observers remains to be completed on this issue.

1.5 ADDITIONAL INFORMATION IN ANNEXES

This typology focuses mainly on financial activities associated with Afghan drug production and trafficking, but here is a significant existing experience, such as in UNODC reports, in understanding drug transportation routes, the range of the organised criminal groups involved and their *modus operandi*. Annex A contain a number of useful maps and diagrams referring to opiate trafficking itself, such as: a map of *Heroin trafficking flows, overview of the beneficiaries of Afghan opiate trafficking, organised crime groups benefitting from the Afghan opiate trade and Opium cultivation in Afghanistan, 2013 (at province level)*.

CHAPTER 2 GLOBAL FINANCIAL FLOWS

Caveat

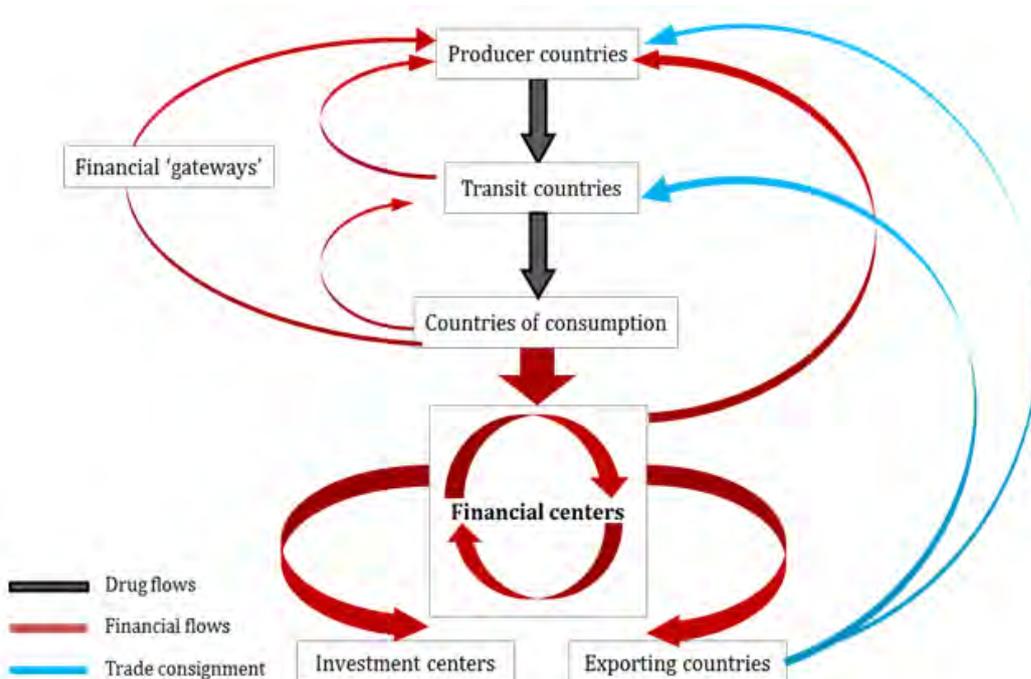
This report categorises countries involved in the drug trade as ‘producing country’, ‘transit country’, ‘country of consumption’, ‘financial centre’, ‘investment centre’, etc. The classification of a country under one of these categories is based on the assumption that its territory, market, transportation system, infrastructure or financial system is being abused by the organised criminal groups for the trafficking of drugs or the facilitation of the movement of their proceeds.

This terminology in no way suggests state level involvement in the illicit activity.

BUSINESS SCHEME

Based on material gathered during this Project, the circulation of drug money can be broadly visualised in the following way:

Figure 1 **Circulation of drug money**



Source: survey responses and analysis

MARKETS AND/OR CARTELS

In general, the drug trafficking process moves from the producers through the transit countries (which may also consume a portion of the drugs) to the countries of consumption. There are two different ways this may happen:

- **Multiple markets:** Drugs are supplied to a consumer through a chain of independent intermediary markets. In this case 'profit margins' are being generated locally and transferred between the markets at the various stages of the process. In this case there is no direct payment from consumer to cultivator;
- **Cartels:** Members of one criminal group control the supply of drugs to a consumer, often from near to the point of cultivation. In this case, generation of drug proceeds starts in the country of consumption and may be traced within the same network as far back as the point of cultivation.

The difference between cartels and other criminal groups is their control of a wider range of parts the whole enterprise and across a range of jurisdictions.

Most experts believe that the Afghan opiate business is a mixture of both cartels and multiple markets. There appears to be no single or small group of cartels that controls the global Afghan opiate trade; but some groups control significant portions of the trade along various routes. However, detailed and reliable information regarding this issue remains limited and this can be considered a key information gap.

FLOWS FROM CONSUMER TO CULTIVATION

Most of the proceeds from drug trafficking accumulate in the countries of consumption, mainly in the form of cash. In these countries, funds and the drugs are largely in the same place, **whereas further along the "business model", in many cases the funds and drugs are separated and flow through different countries.**

Drug traffickers incur expenses in the producing country for maintenance and expansion of drug cultivation and manufacture. However, analysis has shown that money generally doesn't flow from the drug-consuming countries to Afghanistan directly. **There are intermediate countries which act as 'gateways' to move money to and/or from Afghanistan.** The transfer of funds between consumer and 'intermediate' countries varies significantly with drug traffickers using the full range of money transfer techniques such as via the banking system, MVTs, high value commodity and cash couriers. However, funds moving between 'intermediate' countries and Afghanistan seem to make particular use of cash couriers and MVTs.

Financing is also required for the local, cross border and international transport of opiates at the distribution stage of the business model. "Transit countries" which incur these expenses, move and use funds via banks, money service businesses and MVTs, as well as by physical transportation by cash couriers and vehicles.

STAGES OF MONEY LAUNDERING

In some cases, all three stages of the drug proceeds laundering – placement, layering and integration - take place within the drug consumer country.

The majority of Project Team members provided evidence and expert opinion that **the bulk of drug proceeds generated in the country of consumption are being transferred to 'financial**

centres'. In these financial centres, accounts of companies, financial institutions, as well as resident individuals and financial services professionals are being used to accumulate and redistribute the financial flows.

Companies and financial institutions established in the 'financial centres' as well as individuals/ financial services professionals residing there may be involved:

- the layering stage only
Money continues its way via the financial system of other countries where the integration stage is being accomplished.
- in both the layering and integration stages

In the second case, the integration of drug proceeds accumulated in financial centre may be by investment in real estate, securities and corporate stock purchase.

From these jurisdictions, money is also being forwarded to the drug producing and trafficking countries via MVTs and cash couriers.

Drug proceeds may also be laundered through payments made under export contracts to supply goods to producing and trafficking countries.

2.1 CATEGORIES OF INDIVIDUALS INVOLVED IN OPIATE TRAFFICKING AND THEIR FINANCIAL PROFILES

As highlighted above, people are one of the critical "resources" in the opiate business model. The review of case studies and other information indicates that individuals involved in illegal opiates trafficking at different stages of the "business model" may be classified into the following categories in accordance with how they fulfil the finance function.

Small salesmen involved in retail of drugs (for instance, batches of up to 5 grams). They spend their proceeds on personal consumption, rent and other services. They may carry out foreign exchange transactions and money transfers through various money transfer systems (Western Union and others). Some of them have a legal source of revenue in addition to proceeds from drug trafficking.

Couriers and small drug dealers who deliver small drug batches (*e.g.*, heroin batches of up to 20 grams) or purchase them from other salesmen. This category presumably includes mostly drug consumers who, depending on the situation, either act as intermediaries or independently buy small drug batches for resale. They earn their money from the difference between the purchase and resale prices of drugs. These people often do not have another source of revenue and spend their proceeds on buying a new batch of drugs, paying for transportation services and personal consumption.

Middle-sized salesmen, who sell drugs obtained from criminal organisations (*e.g.*, batches of up to 1 kilogram of heroin), predominantly as their sole source of income, however, they may engage in legal business activities. Proceeds from drug trade are spent on personal consumption or may be partially spent on their own legal business activities, purchases of currency, real estate and provide for luxurious lifestyle.

Individuals involved in drug transportation. They are employed to transport drug batches (up to several tens of kilograms) within certain periods (*e.g.*, once a month). Such people have other sources of revenue that are mostly related to transportation. They are not directly involved in drug sales but are only engaged in the shipment of drugs. In addition to personal consumption, they spend their proceeds on developing their own businesses, as well as on informal involvement in their acquaintances' businesses, and providing loans. In addition, they acquire real estate, personal property and jewellery.

Individuals involved in processing opium into heroin in Afghanistan and border areas. There appears to be an information gap regarding this category of individuals, however there are indications that these opium processing units are financed through the international financial centres, where key figures involved in the international distribution stages may be located.

Members of criminal organisations or associations who run regular supplies of large drug batches to a particular country. Such individuals may be top executives and/or founders of companies involved in various illegal activities. One of the schemes used by them is the delivery of cargoes to companies and organisations based in various countries using vehicles equipped with a cache for drug shipments. Some of the proceeds from drug trafficking are transferred through proxies and front men to company or personal offshore accounts, while the remaining proceeds may be returned in the form of export revenue to the accounts of original suppliers. They may also use companies set up for channelling funds abroad. Additionally, they spend proceeds from drug trafficking on acquiring chemical substances for drug precursor production, personal consumption, creating and developing businesses, bribing officials and for other purposes.

Members of criminal organisations and associations who are not directly involved in drug sales (they manage the storage and packing of drugs etc.). They spend their proceeds on personal consumption, rent, acquiring personal and real property and for other purposes. These people may or may not have other sources of revenue.

Financial facilitators - people who are employed by a criminal organisation to carry out financial transactions related to proceeds from opiate trafficking. These individuals may span the whole spectrum of criminal complicity - ranging from fully awareness, indifference, negligence and incompetence with regards implementing AML measures. These individuals may be professionals working for financial institutions or DNFBPs, un-licenced money service providers or non-professional financial facilitators.

Supervisors - people who are responsible for the financial and business development aspects of drug trafficking and supervise the amounts of product, deliveries and revenues.

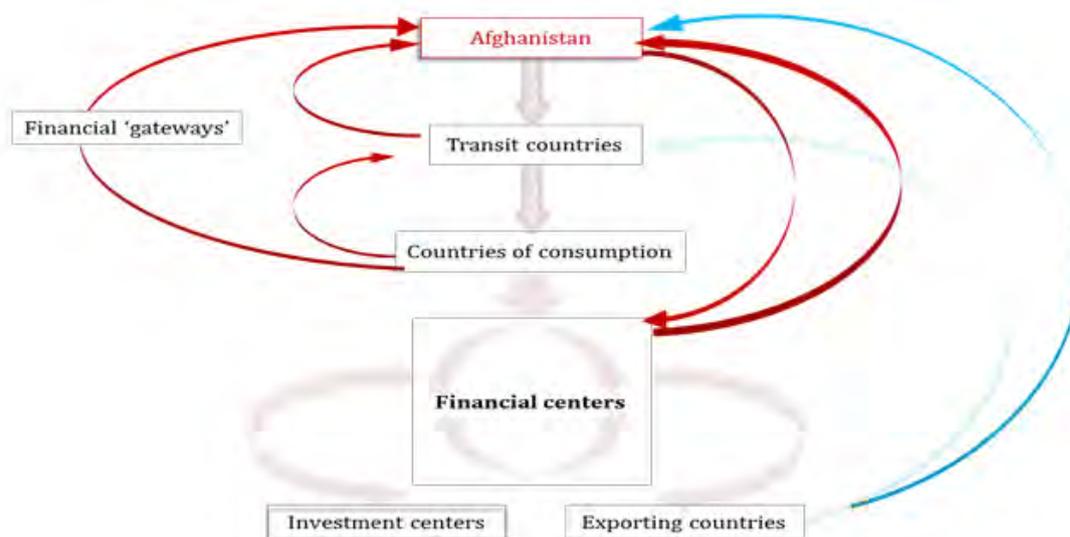
2.2 FINANCIAL FLOWS TO AFGHANISTAN

Caveat

Along with the responses to survey and the Paris Pact analysis, this section significantly relies on conclusions made in joint UNODC and World Bank report on Afghanistan's Drug Industry: structure, functioning, dynamics and implications for counter-narcotics policy (November 2006), in particular, Chapter 6 - 'The Nexus of Drug Trafficking and Hawala in Afghanistan' by Edwina A. Thompson.

FINANCIAL FLOWS TO AFGHANISTAN

Figure 2 Financial flows to Afghanistan



Source: survey responses and analysis

Apart from buying the commodity itself (heroin /opium), funds sent to Afghanistan are most likely used to maintain and expand drug production, for example granting loans to farmers, purchasing or leasing agricultural land. Payments of a lower volume and frequency are likely made for other purposes such as bribing, family support, development of local infrastructure (for example, roads and irrigation).

Generally, most payment originators that transfer money to Afghanistan via the formal financial system are represented by:

- Individuals of Afghan ethnicity remitting money for family support;
- Nongovernmental organisations (NGOs);
- Construction and development companies;
- Import/Export companies⁹.

As highlighted above, it is likely that global opiate trafficking activity is split into a staged process whereby opiates are sold onwards between different networks before entering consumer markets such as those in Europe and Russia. Therefore, funds are likely to be transferred between each stage of the supply chain and so, for example, Russian or European consumer markets would not transfer funds to Afghanistan for bulk opiates, but rather a country on the intermediary stages of the supply chain such as Turkey or Kyrgyzstan. Individual financial transactions are likely to be made between these networks and, based on the preferences of the particular network, these transactions may pass via different systems such as MVTs, formal bank transfers and cash couriers. This

⁹ According to the responses to the survey

decentralised, market-based system does not rule out the possibility of some advanced networks (*i.e.*, local “cartels”) operating in Afghanistan and having direct reach to international consumer markets. However, this may be more typical for Afghanistan’s neighbours, particularly those with access to direct international freight routes, such as Pakistan (Karachi), Iran (Bandar Abbas) and Tajikistan (road and rail freight).

IMPORTANCE OF MVTS

MVTS and cash couriers should be a key consideration when assessing how funds are sent to Afghanistan. According to different estimates (including the ones by the FIU of Afghanistan – ‘FINTRACA’ and the U.S. Drug Enforcement Administration), **50-90% of all transactions inside Afghanistan and across its borders are being conducted via MVTS.**

Afghans have been moving money through MVTS since the eighth century and the system is well established and used in all parts of the country. Its low cost, speed, convenience and accessibility¹⁰ are all factors that ensure that MVTS will continue to be popular, even in urban areas where there are banks. Although the volume of transactions that pass through the MVTS system in Afghanistan is significant, FINTRACA was only able to begin registering MVTS operators in 2007. By March 2012, the FINTRACA had registered and licensed over 640 MVTS operators that account for about 40% of the total volume of business¹¹. As of April 2014, over 1,000 MVTS operators were registered (compared to around 800 operators in the beginning of 2013)¹².

The majority of countries identified as consumer markets, indicate that drug-related money is being transferred to Afghanistan not directly but via intermediate countries, primarily: Pakistan, Iran, UAE and China. Funds are transferred **via the banking system to an intermediate country or countries, which act as ‘gateways’ for money flows. Another service (mostly MVTS and cash couriers) then facilitates payment into Afghanistan.** There are also indications that from Afghanistan, Pakistan and Iran, the majority of funds moves to Dubai, which acts as the region’s financial centre for most of the legitimate trade.

A research on Afghanistan drug industry conducted in 2006 by the UNODC and the World Bank (in particular, Chapter 6 - ‘The Nexus of Drug Trafficking and Hawala in Afghanistan’ by Thompson, Edwina A.) also confirms the role of Pakistan and the United Arab Emirates as the main transaction centres for the Afghanistan MVTS markets. For example, payments for drug orders from London “are often routed to Afghan partners in UAE and Pakistan, where the money is reinvested or used to settle other transactions”¹³ (please, refer to the case study below). It should be also noted that the foreign currency used for drug transfers in the region gives some insight into the origin of

¹⁰ FATF (2013a)

¹¹ Government of the Islamic Republic of Afghanistan at the Paris Pact Expert Working Group Meeting, Vienna, April 2014

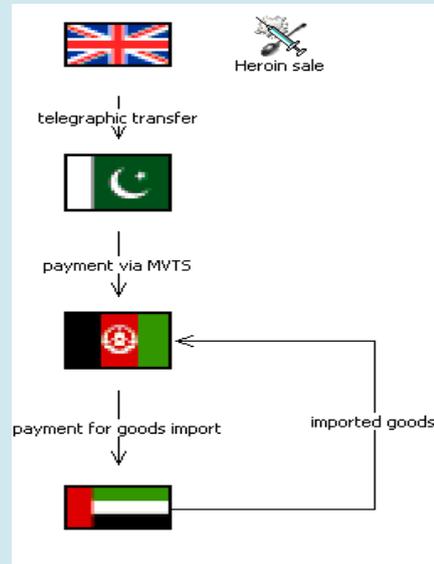
¹² Fourth report of the Analytical Support and Sanctions Monitoring Team submitted pursuant to resolution 2082 (2012) concerning the Taliban and other associated individuals and entities constituting a threat to the peace, stability and security in Afghanistan

¹³ Thompson, Edwina A. (2006)

payments: for example, MVTs operators in Afghanistan (especially, in Helmand and Kandahar) primarily operate with Pakistani Rupees.

Case study 1 ‘Triangular’ opiate-related financial flows between MVTs operators

- A drug payment arrives in Peshawar, Pakistan, by telegraphic transfer from the United Kingdom.
- The payment is fragmented, and part of it is transferred to a MVTs operator in Helmand province.
- The profits are then used to finance unrelated imports from Dubai through Herat.
- The settlement process could take several weeks to complete.



Drug business enterprise stages: **cultivation | manufacture | distribution | sale**

Financial functions: **move | use**

Direction of transfers:

the United Kingdom ⇌ Pakistan ⇌ Afghanistan ⇌ the UAE

Source: The Nexus of Drug Trafficking and Hawala in Afghanistan

SIMILARITIES WITH SOMALIA

Interestingly, the same scheme was mentioned in the recent typology project *The role of hawala and other similar service providers in ML/TF* with regards Somalia. That report described the financial pathway from European countries and the US to Somalia in the following way:

“A transaction may be commenced by regulated entities, such as through the banking system at the ‘first mile,’ but may be paid out by unregulated entities. This is typically seen with remittances from European countries and the United States to Somalia, which are generally initiated with a licensed or registered money transmitter receiving customer funds and remitting them via the banking system to associated companies in the UAE. After this, the UAE-based companies, which are connected to the international clearing-house operations of the money transmitters, use the funds to purchase goods for export into Somalia, with the ultimate settlement of the transaction being made from the proceeds of the sale of the goods in Somalia¹⁴.”

¹⁴ FATF (2013a)

EXPANSION OF ILLICIT USE OF MVTs

A number of countries highlighted the illicit activities of import/export companies registered in China that transfer funds into Afghanistan, probably as part of trade-based money laundering (TBML) schemes. Many MVTs operators in Afghanistan also control import/export companies and transfer money to recipients in China. Transactions frequently reference the purchase of goods. Certain Afghanistan - China transactions show under or over-invoicing in order to avoid customs duty in both countries. Other transactions use totally fictitious invoices, which would lower suspicions regarding transfers involving Afghanistan, a high ML/TF risk country. These illicit payments may be directly for opiates or may be used by MVTs operators to balance debts with other MVTs operators internationally. In such cases, these illicit networks are a key capability to threat of narcotics financing and, importantly for China and similar financial centres, tax evasion and fraud.

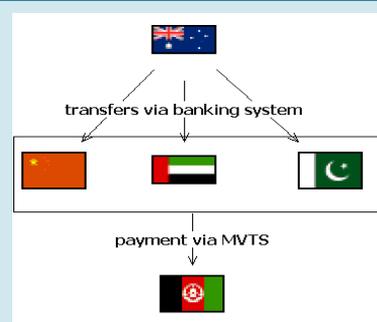
The above-mentioned study by the UNODC and the World Bank provides the results of discussions with a number of MVTs operators in Afghanistan which articulated the importance of China to their activities. This report states that there is “a further indication of the intermingling of the trade and money transfer businesses and an important shift in the illicit use of the MVTs beyond the immediate region¹⁵”. This conclusion was also confirmed with responses to the survey (for example, the case study below)

Case study 2 A multinational MVTs operation vulnerable to abuse by heroin traffickers

The following typology highlights a business and financing operation which could provide an effective means of laundering funds from heroin trafficking between South Asia and Australia.

A long term established business in Australia, which duals as a supermarket and carpet trader, has been identified as transacting via the banking system significant amounts of money (> AUD 37 million since 2005) to up to 30 countries, principally China, followed by Pakistan and the UAE. It has not transacted funds to Afghanistan via the banking system. It is has however since 2005, reported facilitating as a remitter, in the vicinity of AUD 18 million worth of transactions to Afghanistan, Pakistan and Iran.

Whilst speculative, it is possible this business is facilitating international money payments to Afghanistan using the MVTs (*i.e.*, outside of the banking system), or remitting to a transit country via the banking system and then using a second service to facilitate payment into Afghanistan. Further investigative inquiries are required to further determine the nature of how this established remitter is facilitating payments into Afghanistan.



Drug business enterprise stages: **sale**

Financial function: **move**

Source: Australia

¹⁵ Thompson, Edwina A. (2006)

IMPORTANCE OF CASH / BNIS / HIGH VALUE COMMODITIES

Regarding the physical transportation of funds to Afghanistan, it is likely that cash/Bearer Negotiable Instruments (BNIs) are couriered from consumer and distant transit countries to neighbouring countries (Pakistan, Iran, Tajikistan) in order to pay for Afghan opiates. For example, Turkish organised crime groups may pay cash to Iran-based drug traffickers for bulk quantities of opiates. The Turkish FIU have assessed that **cash or high value commodities such as gold or oil** are the preferred method of paying for bulk heroin, as opposed to bank transfers, Trade Based Money Laundering or MVTs.

UAE law enforcement authorities have intercepted couriers arriving at Dubai international airport from Afghanistan with millions of dollars in suitcases¹⁶. However, between Afghanistan, Pakistan, Iran and the UAE, information sharing on for example the identities of known cash couriers, is limited. As a result, investigators do not have access sufficient information to lawfully seize and, where appropriate, confiscate cash or BNIs.

KEY FINANCIAL CENTRES INSIDE AFGHANISTAN

The above-mentioned research by the UNODC and the World Bank provides estimated percentages of drug-related funds as a percentage of the total funds transferred through provincial hawala markets: Badakhshan – 100%, Kandahar and Helmand – 80-90%, Balkh – 60%, Herat – 30%. Although today the figures may be subject to revision, they raise the importance of considering **MVTs as a key method of funding the initial cross border stages of the opiate enterprise**.

These provinces play a significant role in the laundering of drug proceeds, particularly in the layering and integration stages. In these provinces, MVTs operators and other entities also provide credit to farmers and owners of both drug-laboratories and transportation vehicles.

It is important to note that in Badakhshan, Helmand, Herat and Kandahar MVTs markets, where the essential liquidity is derived from drug sales, MVTs operators “**tend to balance their books mainly through the purchase of commodities and capital flight**”¹⁷. For example, Herat, being a gateway for the opium trade from other provinces, is also a major channel for the imports of legitimate goods (such as cars, building materials, glass) destined for other provinces. In Badakhshan, there is also a lucrative market for luxury cars (predominantly stolen), gemstones, weaponry and food supply.

The following examples show the continuum of engagement between the drug trafficking and legitimate trade in Afghanistan.

Box 1 Engagement between the drug trafficking and legitimate trade in Afghanistan

Several MVTs operators broker a deal between a trafficker in Afghanistan wishing to export opium and a businessman in the UAE wishing to purchase it. The trafficker prefers to receive commodities (e.g., vehicles) in return for the drugs, increasing the potential for profit. In this case, the MVTs operator would facilitate the exchange of goods through his various trading partnerships in the UAE,

¹⁶ The Paris Pact Analysis

¹⁷ Thompson, Edwina A. (2006)

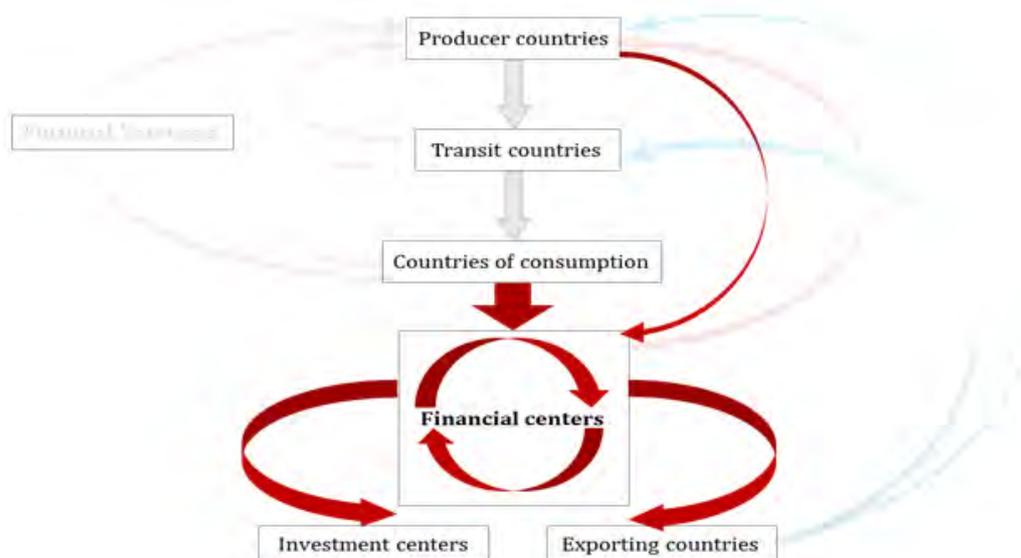
Iran, and Afghanistan. When the drugs are delivered to the buyer's representative in Iran or at the Turkish border, the payment is either provided in cash to the MVTs operator's partner shop in Iran or Dubai, or transferred electronically to the hawaladar's bank account. It is, then, the MVTs operator's responsibility to facilitate the purchase and the import of vehicles to complete the deal. In this instance, legitimate and illicit trade are directly connected with the knowledge of both clients, but the MVTs operator may not be aware of the criminal origin of the investment.

When a drug trafficker in Afghanistan wants to spend some of his profits (and his money is kept in Dubai, for example), he contacts an MVTs operator to assist him in importing goods into Afghanistan. Alternatively, when he wants to transfer money into the country for investment, the MVTs operator conducts the transaction for him. Again, it is possible that in facilitating the transfer, the MVTs operator is unaware of his role in the laundering of drug proceeds. By the time the goods or money arrive in Afghanistan, it is often impossible to link them to their illicit origin

Source: The Nexus of Drug Trafficking and Hawala in Afghanistan

2.3 ABUSE OF FINANCIAL CENTRES

Figure 3 Accumulating and redistributing proceeds of drug trafficking



Source: survey responses and analysis

The analysis of geographical data from the survey reveals that while regional financial hubs may act as gateways for money flows into and out of Afghanistan, the financial systems of some countries (including International Financial Centres) are being used to **accumulate** and **redistribute** proceeds of drug trafficking.

It is important to note that financial institutions and companies established in these financial centres are being abused in two ways:

- the layering stage only
Money continues its way via the financial system of other countries where the integration stage is being accomplished.
- in both the layering and integration stages

In some cases integration occurs through the purchase of real estate, securities, and stocks in high value foreign companies in these financial centres.

UAE FACES THE HIGHEST RISK

Among the destination points in the global picture, the UAE appears to hold the first place by attracting most of the drug-related cross-border flows. According to both the survey results and available analytical studies, Dubai seems uniquely important for the Afghan opiates trade. It is not only a place to make deals, arrange shipments and establish criminal contacts but also a global financial centre for cash movements, MVTs transactions, the accumulation of criminal proceeds in bank accounts and the investment of criminal assets. The map below shows the illicit financial flows into UAE from examples provided in the survey.

Figure 4 **Illicit financial flows into the United Arab Emirates**



Source: survey responses and analysis

OTHER FINANCIAL CENTRES AT RISK

There are indications that drug proceeds from consuming countries are also being transferred to/through financial systems of such jurisdictions as China, Democratic Republic of Congo, Iran, Kenya, Lebanon, Malaysia, Pakistan and United Kingdom.

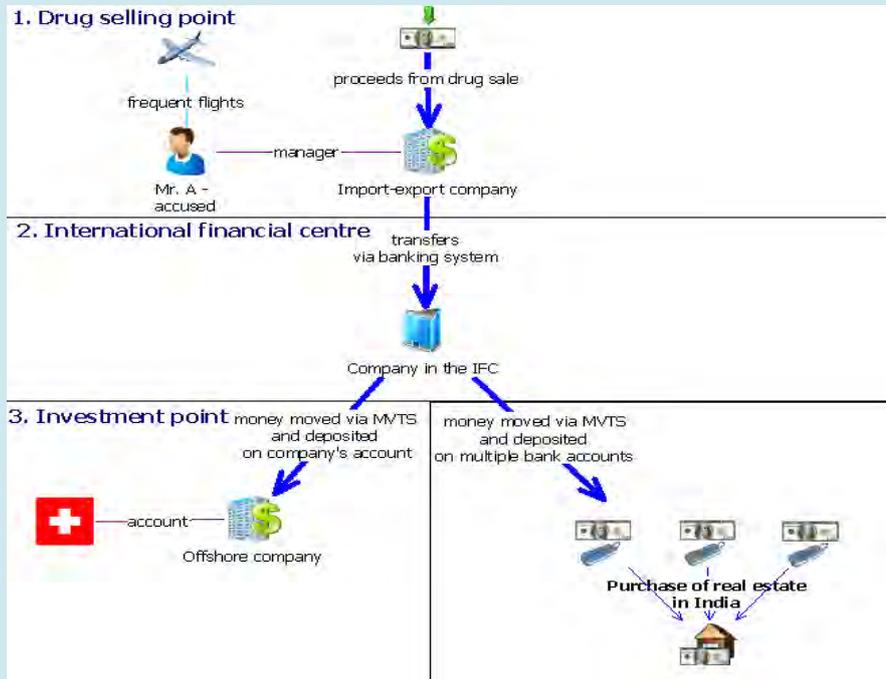
- The results of a statistical case review conducted by Europol confirm information provided in the survey responses. The statistical case review and survey responses indicate that huge amounts of heroin-related cash are transported by cash couriers from Europe to the Gulf States and Pakistan, while cash in sea and air freight containers is being sent to Africa.
- Australia indicates that much of the crime-related money that is being sent from Australia to South and North East Asia is initially electronically transferred to bank accounts, from where the money is thought to be then physically couriered to serious and organised crime groups.
- The case review conducted by Canada indicates that certain countries are common recipients of drug-related money transfers (Dubai, Democratic Republic of Congo, Kenya and the United Kingdom). The majority of these transactions are initiated by Canadian residents through MSBs. Canada noticed that in general, the methods used to transfer the proceeds of drug businesses vary between organisations. Most commonly, there is presence of cash couriers and a combination of international bank wires to accounts in Iran, Malaysia and Middle Eastern countries. There is also indication that money services business and MVTs are used.
- Nigeria indicates that Malaysia, Pakistan and the UAE are the most common recipients of drug-related money transfers (from Afghan heroin and other drugs).
- India indicates that the common transaction chain consists of two links: first, the drug proceeds are transferred to the international financial centre and only then does money go to its destination point. A case review conducted by India shows that the main destination points are in Europe (please refer to the case study 3).
- Germany indicates that drug-related funds either in the form of cash or goods are sent to the Middle East region (the most important seizure of drug-related cash in Germany were EUR 8.5 million seized on a flight to Lebanon).

Case study 3 **One heroin trafficking network - multiple laundering methods, jurisdictions**

The law enforcement authorities found and seized drugs of Afghan origin in the premises of *Mr. A*.

Mr. A was running an export-import business as a front to divert attention from the main source of income (sale of opiates), showing that the income was from legitimate business. It also allowed him to justify his frequent travel abroad.

From the final selling point, the drug proceeds



were moved to the international financial centre (IFC). Then the accused used channels of MVTs operators based in IFC to move the proceeds of crime in two directions: to the accounts of the offshore company held in Swiss bank and to multiple bank accounts held by the accused in India.

The proceeds received in India were placed in multiple bank accounts and were used to purchase real estate.

Drug business enterprise stages: **distribution | sale**

Financial functions: **raise | move | store**

Indicators:

- cash deposits to the account of an import-export company with further transfer to the international financial centre
- purchase of real estate property with money received from the 'financial centres'.

Direction of transfers:

Country of consumption ⇒ International financial centre ⇒ Offshore company ⇒ India

Categories of individuals:

Members of criminal organisation who runs regular supplies of drugs.

Source: India

The case study below demonstrates how the financial activity of a particular drug trafficking network may cover a wide spectrum of countries including Afghanistan, China, Germany,

Kazakhstan, Kyrgyzstan, Lithuania, the Netherlands, the Russian Federation, Tajikistan, the UAE, the USA and Uzbekistan. It also gives a good example of effective international cooperation which led to seizures of 250 kg of heroin, conviction for laundering of approximately USD 10 million worth of drug proceeds and to the extradition of a drug trafficking kingpin located in the UAE.

Case study 4 **Working together and following the illicit financial trail.**

The Russian FIU (Rosfinmonitoring) identified that members of a criminal group had organised large-scale smuggling of Afghan heroin to the Russian Federation.

The ruble cash proceeds were exchanged for foreign currency and partially transferred to other countries, including transfers in favour of the drug trafficking kingpin's relatives. Another part of the cash was transported out of Russia by couriers.

The funds generated by drug trafficking were transferred by the criminal group members and their relatives to the accounts of a "finance manager" residing in the UAE and closely associated with the gang's leader.

Having established the withdrawals of some part of the funds abroad and identified external partners involved therein, the Russian FIU started actively approaching its counterparts. In particular, it cooperated with FIUs of the USA, the UAE, Tajikistan, Kazakhstan, Uzbekistan, Afghanistan, Kyrgyzstan, Germany, Lithuania, China (PRC) and the Netherlands. The interaction with these foreign FIUs, led to valuable information concerning the defendants in the criminal investigation.

As a direct result of FIU-to-FIU interaction an individual was identified, who was previously unknown to the law enforcement bodies and residing on the territory of Kyrgyzstan. This individual was assessed to be the regional coordinator for smuggling of heroin from Afghanistan to Russia through the territory of Kyrgyzstan, Tajikistan, Kazakhstan. He also was believed to control the transportation through the territories, and also redistributes trafficking proceeds to pay criminal network members and buy vehicles with secret compartments to hide heroin.

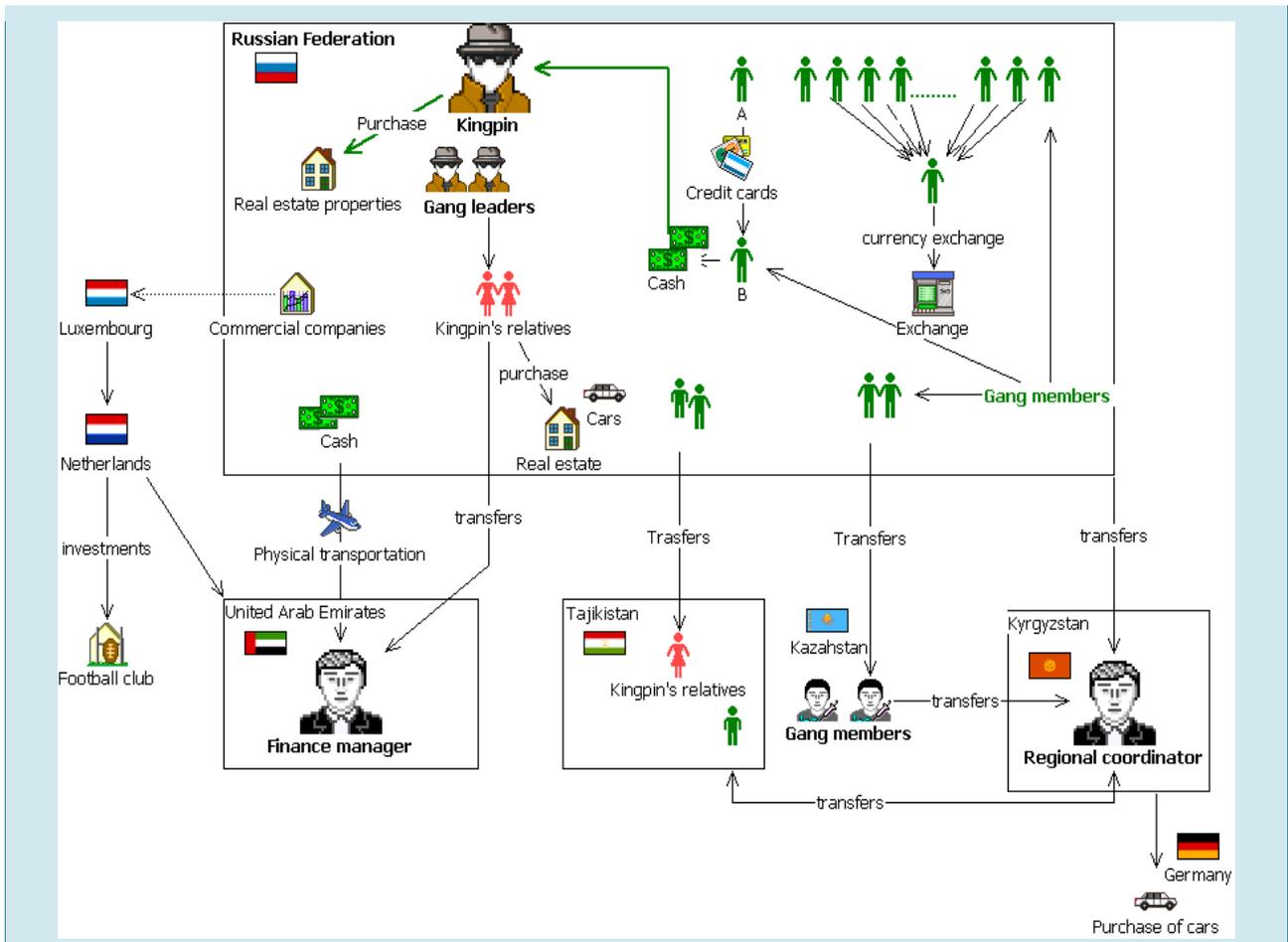
The investigation led to the identification of the individual suspected of profiting from trafficking heroin to Russia on behalf of his criminal leadership, as well as his contacts in UAE and other third countries. Specifically, the investments in professional football clubs, allegedly involved in the process of laundering proceeds of drug trafficking, were detected.

The results of the financial investigation were forwarded to the Federal Drug Control Service of Russia which conducted the criminal investigation.

As a result of this investigation, the drug trafficking kingpin located in the UAE was successfully extradited to the Russian Federation. He was charged with drug trafficking, organisation of a criminal network and money laundering.

To date, the results of the criminal economic assessment have uncovered the laundering of approximately USD 3 million. The criminal economic assessment continues. The total amount of laundered proceeds is estimated to be approximately USD 10 million.

The volume of seized heroin so far has totalled approximately 250 kg.



Drug business enterprise stages: **distribution | sale**

Financial functions: **raise | move**

Direction of transfers:

- Russian Federation ⇔ Tajikistan/ Kazakhstan/ Kyrgyzstan
- Russian Federation ⇔ the United Arab Emirates
- Tajikistan ⇔ Kyrgyzstan
- Kyrgyzstan ⇔ Germany
- Russian Federation ⇔ Luxembourg ⇔ Netherlands ⇔ North America

Categories of individuals:

Members of criminal organisation (Kingpin, gang leaders, gang members), finance manager, regional transportation coordinator, drug transportation facilitators, couriers and small drug dealers.

Source: the Russian Federation

FINANCIAL CENTRES – INFORMATION GATHERING OPPORTUNITIES AND BENEFITS

- **Focus on risk** - For the detection and analysis of financial flows linked to the drug trafficking, it is important to review and adjust the focus of a

country's AML risk assessment. FIUs and financial institutions/DNFBPs¹⁸ should consider focusing on geographical criteria for Suspicious Transaction Reports (STRs) and red flag indicators, not necessarily only on Afghanistan, but also on its 'financial gateways' and financial centres..

- **Prioritise essential relationships** - It is important to engage with key financial centres and Afghanistan's neighbours, which manage direct transfers via the formal banking system and transfers via MVTs operators. The financial centres are critical partners in building an understanding of relevant financial flows in the opiate enterprise.

The proposal for threat-based mapping of information exchange frameworks between countries¹⁹ can further support this activity. This proposal could include details of EGMONT membership, MOUs and Mutual Legal Assistance agreements, and would be of particular value if overlaid with a map of suspected global illicit financial flows. The combined map could show pinch points where crucial information is not being collected or shared and would allow countries to prioritise support for initiatives to resolve these issues.

- **Prioritise key activities** - - One of the major steps in blocking financial flows is to eliminate the risk factors related to the financial centres' vulnerabilities. A list of associated risk factors (as highlighted by the respondents) was compiled in order to understand the reasons why criminal groups exploit the financial systems of certain countries.

VULNERABILITIES OF "FINANCIAL CENTRES"

The following major ML risk factors have been highlighted regarding "financial centres" – these factors follow the FATF definition "risk factors related to vulnerabilities"²⁰, namely, factors which make financial systems of the 'financial centres' attractive, conducive and vulnerable to the accumulation of the proceeds from drugs and other crimes.

General factors:

- A geographical proximity to Afghanistan, which facilitates both licit and illicit relationships with Afghanistan.
- MVTs operators in Afghanistan, which have close links with MVTs operators in the region, particularly in Iran, Pakistan and the UAE.

¹⁸ According to the FATF Glossary, www.fatf-gafi.org/pages/glossary/d-i/

¹⁹ The Paris Pact Analysis

²⁰ FATF (2013b)

Macro-economic factors:

- A large and/or complex economy making it easier for ML/TF operations to go unnoticed. As a consequence, a sophisticated financial sector can facilitate the global movement of illicit funds quickly and effectively.
- The general opacity of the financial system.
- A cash-based economy with a large informal sector where there is a high percentage of cash outside the legitimate banking system.
- Being a major financial or trade hub, where the sheer volume of transfers can hide illicit proceeds and their transfers.
- Economic ties with drug producing jurisdictions.
- A stable economy, relatively unaffected by the global financial crisis.
- A number of robust sectors in which to invest proceeds, *e.g.*, residential and commercial property sector.

LEA factors:

- Limited cash courier control at border points.
- Limited engagement with “neighbouring” jurisdictions along the commodity supply chain or financial flow (*e.g.*, between Afghanistan, Iran and Pakistan, UAE).
- Limited financial investigative capacity.

Regulatory factors:

- Limited regulation of MVTs and as a consequence, inadequate monitoring of MVTs operators by the regulatory body.
- No system of registering or licensing service providers; difficult to take enforcement action and thereby to formalize flows of funds. As a consequence, even registered MVTs operators have close operational nexus with illegal MVTs operators in the producing and transit countries. ²¹
- Existence of correspondent relationships between banks servicing clients in high-risk locations.
- Existence of measures to facilitate fiscal optimisation by non-residents (tax haven).
- Financial operatives maintain large number of bank accounts in various other countries by misusing trust companies for the collection and movement of funds.

²¹ Afghanistan has taken steps to license MVTs operators but many continue to operate without significant government oversight, particularly in Southern Afghanistan.

- Trust companies provide additional cover to the operators to accumulate the drug proceeds and for further transfers
- Simple process for the company registration by non-residents without adequate oversight
- Exchange companies provide anonymity to the sender and recipient of funds.

AML/CFT Policy factors

- AML/CTF not a national priority or seen as a threat to reputation, economy or security.
- Requirements of AML/CFT regime not well understood or implemented by financial institutions and DNFBPs.
- Financial sector not sufficiently concerned or incentivised regarding vulnerability to ML-related reputational and business risks.

CHAPTER 3

PAYMENT AND ML TECHNIQUES: TRADITIONAL METHODS AND EMERGING TRENDS

3.1 DRUG SALE: TRADITIONAL METHODS AND EMERGING TRENDS

A review of the responses to the survey and the case studies indicates that although cash is likely to remain the main instrument used to pay for opiates (both at the wholesale and retail level), other instruments and services are also being used. The spectrum of payment instruments and services used to purchase drugs as highlighted by the majority of jurisdictions includes MVTs, internet-based payment services, prepaid cards, mobile payments, barter, and diamonds and precious metals such as gold.

There are indications that **real estate properties** and other immovable as well as movable assets (*e.g.*, cars, high value commodities) are being used as payment for heroin delivery at the wholesale level. These indications were provided by Australia, Belarus, Lebanon, Tajikistan and Turkey and also confirmed by the United Nations Al-Qaeda and Taliban Sanctions Monitoring Team.

The case study below shows how the same criminal network used both the transfer of real estate and use of exchange offices to pay for heroin.

Case study 5 **Real Estate used as payment for heroin**

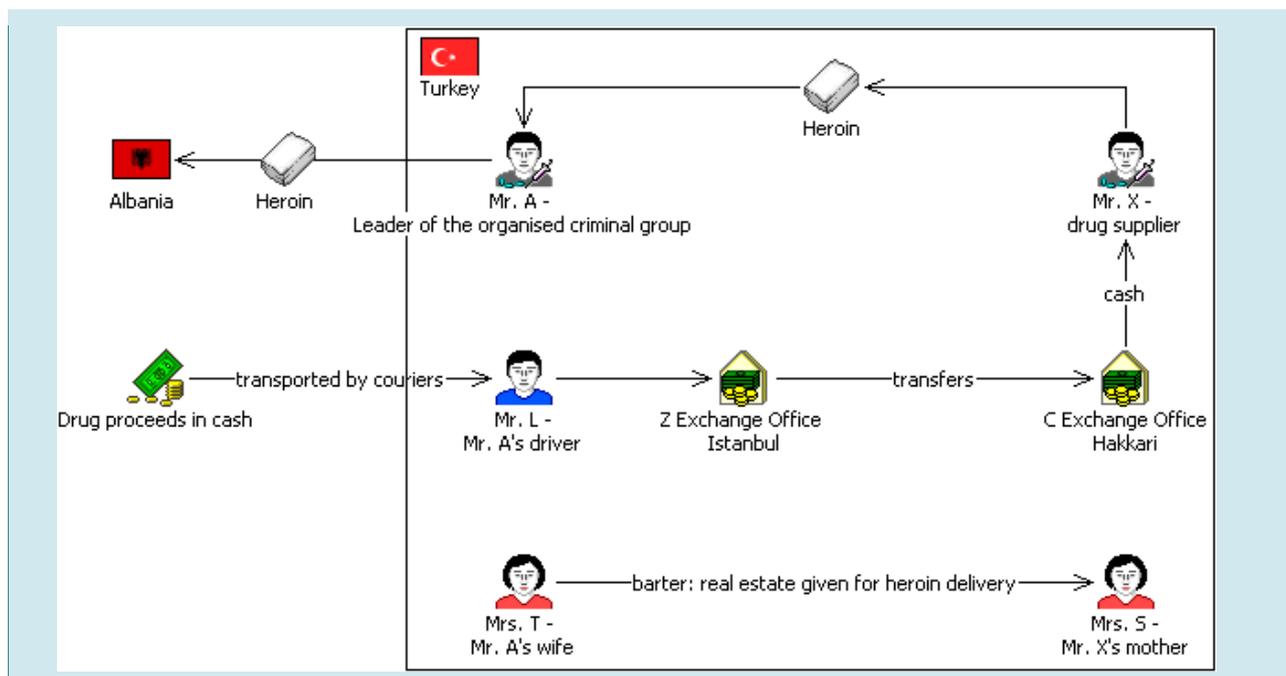
In March 2011, the Turkish National Police carried out an anti-narcotic operation following intelligence provided by an informer. They seized 250 kg of heroin and the Istanbul Public Prosecutor Office initiated a criminal investigation. In the scope of this criminal investigation, police arrested the leader and members of the organised group.

Certain members pleaded guilty and testified that the leader of the organised criminal group, Mr. A, purchased heroin from Mr. X who lives in Hakkari, the city on the border with Iran. From 2009 to 2011, this group consigned heroin from Hakkari to İstanbul and İstanbul to Albania 3 times in heavy goods vehicles.

After the delivery, the proceeds of crime worth of EUR 620 000 were transported to İstanbul and delivered to the Z Exchange Office in İstanbul. According to the testimony, the money was transferred by Z Exchange Office from İstanbul to C Exchange Office in Hakkari.

Further financial investigation by the Turkish FIU (MASAK) identified that approximately EUR 3 million was delivered in 5 trips to the Z exchange office for onward transfer to C Exchange Office.

MASAK also detected that the leader of the crime syndicate, Mr. A and his family members, did not have any business activities. But Mr. A's wife, Mrs. T, sold 7 real estates in 2009 to the Mrs. S, the mother of the supplier of heroin, Mr. X. MASAK estimated that the real estate was given to the supplier for free in return of the heroin delivery. The financial investigation showed that the relatives of Mr. A owned 8 villas and 15 luxurious cars.



Drug business enterprise stages: **distribution | sale**

Financial functions: **move | store**

Indicators:

- Use of exchange offices to transfer funds
- Multiple cash deposits and withdrawals
- Rights for real estate is transferred as a gift while there is no family relations between the parties
- The above-mentioned financial transactions are conducted while it is known that participants do not conduct any business activities

Direction of transfers:

Country of consumption (Albania) ⇒ Transit country (Turkey) ⇒ Laundering within Turkey

Categories of individuals:

Members of criminal organisations who run regular supplies of drugs, financiers.

Source: Turkey

NEW PAYMENT INSTRUMENTS AND SERVICES ENABLING “NON-CONTACT” SALES

Results of the survey indicate that **new payment instruments and services** are widely used to facilitate payments for heroin at the retail and, to a lesser extent, wholesale levels.

When considering new payment instruments and services (such as internet-based payment services, mobile payment and prepaid cards) as means of payment for drugs, it is necessary to start with a partial rearrangement of drug trafficking and traditional *modus operandi* of drug dealers.

Recent developments in web technologies as well as in the new payment instruments and services have enabled the emergence of a new global online market for illegal substances. Anonymous marketplaces such as Silk Road (Silk Road 2.0) and Black Market Reloaded could mark a paradigm shift in how crimes are committed today: these sites offer drugs openly but there is an increased challenge in detecting and disrupting those involved in the criminal activity.

There are three general methods of selling drugs and psychoactive substances on the Internet:

- individuals selling on discussion forums (predominantly, in the Darknet)
- online storefronts, operated by one individual or group of individuals
- online marketplaces, connecting buyers and sellers but not selling anything themselves²².

The drug orders from online marketplaces are typically small in size and delivered through postal or courier services. The sender sometimes packs the drugs in vacuum-sealed bags to distract sniffer dogs, and uses envelopes with company labels to make the shipment less suspicious.

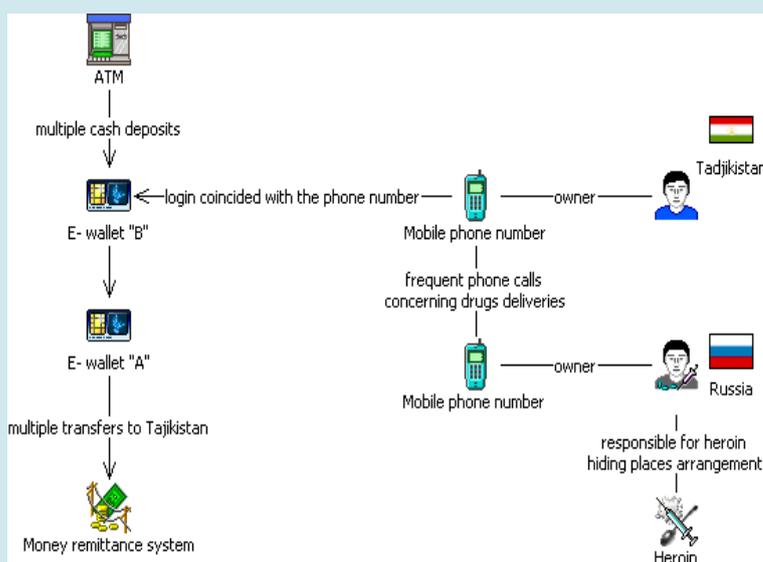
There is also another widely applied “noncontact” way to deliver drugs ordered from online markets: the dealer and the buyer arrange a hiding place (“refuse chute on the third floor”, “under the second tree from the litter-bin”, etc.) and time. The buyer has to make a payment (to the e-wallet, mobile phone, etc.) and then finds the drug package in the pre-determined place.

The following case study demonstrates how sale of heroin via internet-based payment services occurs and specifically how payment for and delivery of heroin can be separated and thus pose additional challenges to financial and counter-narcotics investigators.

Case study 6 E-wallets and methods of covert collection of heroin.

The cash flow analysis of one of the electronic wallets (e-wallet “A”) has revealed that from this wallet 5 – 7 transfers (totalling RUB 15 000) via a money remittance system are performed daily. The e-wallet “B” was used for money transfers to wallet “A”. Moreover, cash amounts comparable to drug prices were credited to the e-wallet “B” via ATM.

Investigations revealed a mobile phone number on which the e-Wallet “B” was registered (login coincided



²² The information was provided by the Cooperation Group to Combat Drug Abuse and Illicit trafficking in Drugs (Pompidou Group and Council of Europe) at the OSCE Conference on “Combating the drug sale in the Internet” (Vienna, July, 2013)

with the mobile phone number) which was immediately subjected to phone tapping. The user of this Russian mobile phone number was discovered in Tajikistan. This phone number was used daily for calls concerning narcotic drugs acquisition. The verification of this phone number also revealed a Tajik mobile phone number, subscribed to a user residing in Russia. The user was identified making several heroin drop-offs. He was subsequently detained and 857 g of heroin was seized.

Drug business enterprise stages: **distribution | sale**

Financial functions: **raise | move | use | store**

Indicators:

- Multiple cash deposits on the e-wallet
- Each sum deposited comes to a price of one/two/three doses of heroin
- Multiple transfers from the e-wallet to the 'transit country' via the money remittance system

Direction of transfers:

Russia ⇔ Tajikistan
within Russia

Categories of individuals:

Middle-sized salesmen, couriers/small drug dealers.

Source: the Russian Federation

3.2 DRUG PROCEEDS - INSTRUMENTS/SERVICES AND ML TECHNIQUES USED

A wide spectrum of instruments and services used to transfer the proceeds of opiate trafficking has been mentioned. They include:

- Cash couriers
- Money remittance services
- MVTs
- Wire transfers
- Exchange companies
- Internet-based payment services
- Mobile payments
- Prepaid cards
- Barter / commodity transfer.

The following techniques used for the layering and integration of proceeds of opiate trafficking are likely to be the most common:

- Intermingling with cash intensive business
- False declaration of goods and services
- Use of third parties
- Movement through multiple accounts/entities
- Movement through multiple jurisdictions
- Use of corporate structures

Most of these techniques are used in conjunction with others to complete the layering and integration phases. For example, a shell company may have multiple accounts at an MVTS operator and/or a bank. This may then transfer money to an overseas bank, which in turn transfers money to another shell company to pay for false goods and services.

THIRD PARTY PAYMENTS & TRADE BASED MONEY LAUNDERING

One of three main methods by which criminals move and legitimize illicit funds, is Trade Based Money Laundering²³. The recent FATF Typology on MVTS highlighted examples of proceeds of crime being used to sustain pools of funds that were used to make third party payments for imported goods – this allows both businesses to evade customs duties and criminals to hide the financial link between the illicit commodity, such as heroin, and its funding trail.

A commonly applied method to layer and integrate the drug proceeds is by payment on export contracts for shipments of goods to Afghanistan or to the ‘transit country’. In many cases, payments are routed via a third party, which is often located in a regional financial centre. The cash-pools that develop under such third-party payment systems may be used to pay for legitimate international trade or finance illicit activities including opiate trafficking. The case study below demonstrates the use of third parties and export contracts in the heroin-proceeds laundering scheme.

Case study 7 **Use of third party payments and export contracts to “producing” and “transit” countries**

Financial investigations detected a scheme of suspicious financial and foreign economic transactions of several individuals and legal entities which was suspected of facilitating opiate trafficking.

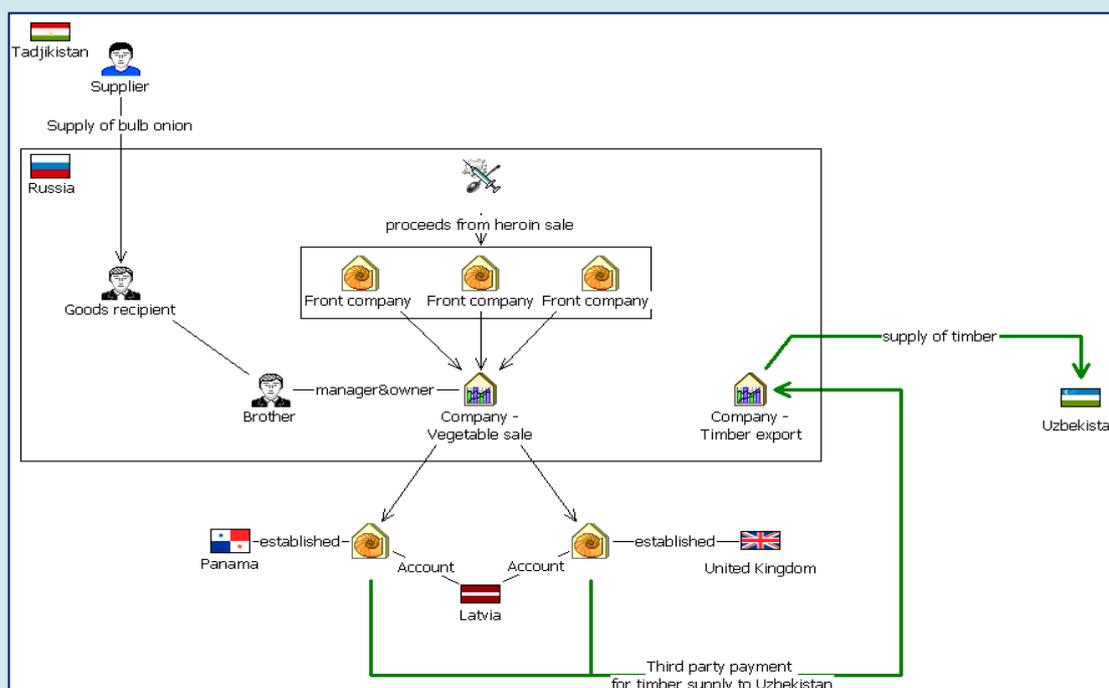
In 2010, large consignments of fruit and vegetable products (onions) were supplied from Tajikistan to an individual entrepreneur **A**. Comparative research on the volumes of supplied goods and received funds, showed the appreciable difference between the import value and the realisation value per one kilogram of onions. The customs value of imported onions accounted for X rubles. The import of fruit and vegetable production at such price is non-value-added. The average value per

²³ The term trade-based money laundering and terrorist financing (TBML/FT) refers to the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origins or finance their activities. Examples of how TBML/FT may be carried out include, but are not limited to: misrepresentation of the price, quantity or quality of imports or exports; and money laundering through fictitious trade activities and/or through front companies (FATF, 2008).

one kilogram of onions accounted for about 5*X rubles and considerably exceeds the average wholesale price for this product on the Russian market. Considering the above, it was suspected that the payment was made not only for the onions but for illicit goods, specifically opiates, due to the involvement of Tajikistan based suspects.

Further investigations were conducted and the account of a company established by a brother of **A**, was seen to begin getting credited with the funds from a series of companies. These companies appeared suspicious as they did not conduct any real economic activity but rather, their accounts were used in order to set apart the funds from their origin. These companies were used in a scheme of mutual settlements for the drugs, transported to the territory of the Russian Federation in the fruit and vegetable consignments, supplied to **A**.

Using accounts opened with Latvian banks, the criminal proceeds, having been mixed up with other credits, were transferred to the accounts of financial platforms established in the United Kingdom and Panama to pay for a separate foreign economic contract for timber supplied by a company in Uzbekistan. This scheme is typological for the legalisation of funds, derived from the drug trafficking.



Drug business enterprise stages: **distribution | sale**

Financial functions: **move**

Indicators:

- The payment for goods is over market value
- A company established in the financial centre or offshore jurisdiction receives money from the country of consumption and pays under international contracts for delivery of goods from the country of consumption to the producing country or to the transit countries. This

company is not a party to the contract

Direction of transfers:

Russia ⇨ the United Kingdom/Panama (account in Latvia) ⇨ Russia ⇨ goods to Uzbekistan

Categories of individuals:

Individuals involved in drug transportation, financiers.

Source: the Russian Federation

PROFESSIONAL MONEY LAUNDERING NETWORKS

Exchange companies/houses are potentially of high risk as they may be used as a conduit for money laundering, while hiding the identities of originators and beneficiaries. Usually, such exchange companies have their accounts opened with banks in different countries, and the wire transfers are routed from/to businesses and individuals in numerous countries. A part of the transactions is remitted by these exchange companies in a manner that appears to be a third party transaction, with individuals and entities not providing explanations of why they are routing money through the country of the exchange company.

In some cases, these entities may be considered as “professional money laundering service providers”, for they are used to transfer funds related to drugs, corruption and terrorism as well as to avoid financial sanctions regimes.

A number of respondents indicated the consistent and increasing use of **professional ML networks** and universal **laundering sites** established for ML purposes solely and not for any legitimate trade. Such companies accumulate the proceeds gained from different types of criminal activities including drug trafficking, fraud, corruption, etc.

Professional ML networks take their origin from the vital role played by “gatekeepers”. Drug traffickers that operate at international level likely generate the most disposable profits. They require the services of financial professionals who provide access to the legitimate economy: the so-called “gatekeepers”. Gatekeepers may include a wide range of professionals including bank relationship managers, MVTs operators, accountants, lawyers, real estate managers, etc. There is a range of complicity in the interactions of the gatekeepers with the drug traffickers: from unwitting, negligent, coerced, to criminally complicit.

The case study provided below gives a clear example of how the proceeds from drug trafficking and embezzlement of public funds were redistributed on the same accounts of the laundering site, and laundered via the timber mill and timber yards. Case study 9 demonstrates how the same ML professionals were managing finances of heroin and cocaine trafficking.

Case study 8 Professional money launderers servicing multiple criminal networks, including opiate traffickers

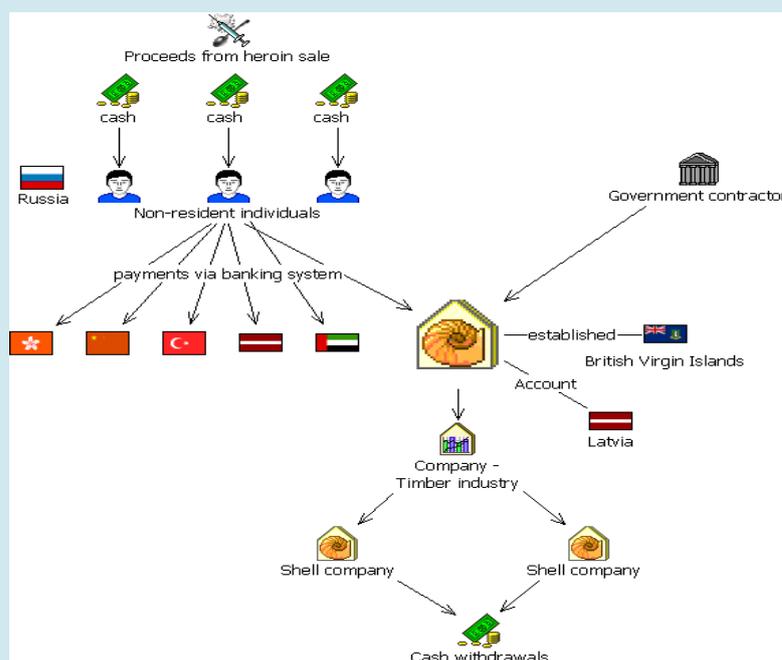
The Russian FIU (Rosfinmonitoring) detected a number of non-resident individuals, ethnically linked to opiate producing and transit countries, making multiple cash deposits on their bank card accounts. The money deposited was immediately transferred to a company **A**, established in the British Virgin Islands, with its accounts held in Latvian banks. The money was also transferred to companies in the UAE; China; Turkey; Hong Kong, China and Latvia.

Financial investigation into the heroin financing activities of the network identified further offences.

The same offshore company **A** received money from a large construction company acting as a governmental contractor, presumably with the purpose of embezzlement of public funds and tax evasion.

For its turn, the offshore company transferred the money to accounts of Russian companies related to the timber industry. Following a chain of transactions, the money was withdrawn in cash.

The Federal Drug Control Service confirmed the individuals were receiving the proceeds of opiate trafficking in cash from the dealers.



Drug business enterprise stages: **distribution**

Financial functions: **move | store**

Indicators:

- Multiple cash deposits on plastic cards conducted by individuals ethnically linked to the drug producing and transit countries
- Further transfers to accounts of the companies established in known financial centres or offshore jurisdictions
- Source of funds is unknown
- Money transfers are not related to entrepreneurial, investment activity or real estate purchase.

Direction of transfers:

Russia ⇔ the UAE/ Latvia/China/Turkey/Hong Kong, China/British Virgin Islands (account in Latvia)

British Virgin Islands (account in Latvia) ⇔ Russia

Categories of individuals:

Financiers.

Source: the Russian Federation

Case study 9 Professional money launderers servicing multiple criminal networks, including opiate traffickers

Rosfinmonitoring and FinCEN conducted a joint financial investigation with respect to a group of individuals involved in the trafficking of Afghan heroin, and another group of individuals involved in trafficking South-American cocaine to Russia. The investigation identified that proceeds from both cocaine and heroin sales were intermingled on the bank accounts of companies registered at the same address in the Republic of Panama. This 'financial centre' apparently redistributed proceeds from drug trafficking between different criminal groups from different continents. It is suspected that other Panamanian companies registered at the same address are involved as the money laundering centres in a number of other drug-related cases.

Source: the Russian Federation

INTEGRATION OF OPIATE TRAFFICKING PROCEEDS

In most cases, the **integration stage** is often accomplished through investments in real estate and land, cars, commercial businesses and securities.

- Turkey indicated that the members of criminal networks preferred real estate investments. In some cases, they acquired casinos, hotels as well as luxury cars. Bulgaria and Romania mentioned that acquisition/investments were made both domestically and in foreign jurisdictions.
- The United Kingdom indicated that drug proceeds were being used for asset purchase in the UK itself or in financial hubs;
- Canada indicated that, in one case, the illicit heroin proceeds generated in Canada were laundered through a trade-based money laundering scheme by purchasing second-hand heavy machinery and construction equipment in Canada for resale in a Latin American country (see case study 10).

Case study 10 **Corruption and Under-valuation of imported goods used to launder heroin proceeds.**

The main subject of this case was a member of an organised crime network in Canada who was believed to regularly receive large multi-kilo shipments of heroin originating from Afghanistan for distribution and sale in Canada. As suggested by the case information, the heroin was sent to the main subject, who in turn divided the quantities and placed them with local dealers in a Canadian city.

It is believed that the subject laundered some of the illicit heroin proceeds by purchasing second-hand machinery and construction equipment at auctions in Canada. The equipment was then imported into a Latin American country for resale. Through the manipulation of customs documentation, the value of the equipment was then under-reported, attracting lower duties and taxes than otherwise would be case under legitimate circumstances. Once the equipment was sold (sometimes at a significant profit), the funds were then integrated and legitimised. The funds from the sale were either wired back to Canada or were cash couriered back to Canada by the subject. It is suspected that this trade-based money laundering scheme was facilitated by corrupt officials in a Latin American country.

Drug business enterprise stages: **distribution | sale**

Financial functions: **raise | move | use**

Direction of transfers:

Canada ⇌ Latin America

Categories of individuals:

Members of organised crime networks, finance manager, corrupted officials.

Source: Canada

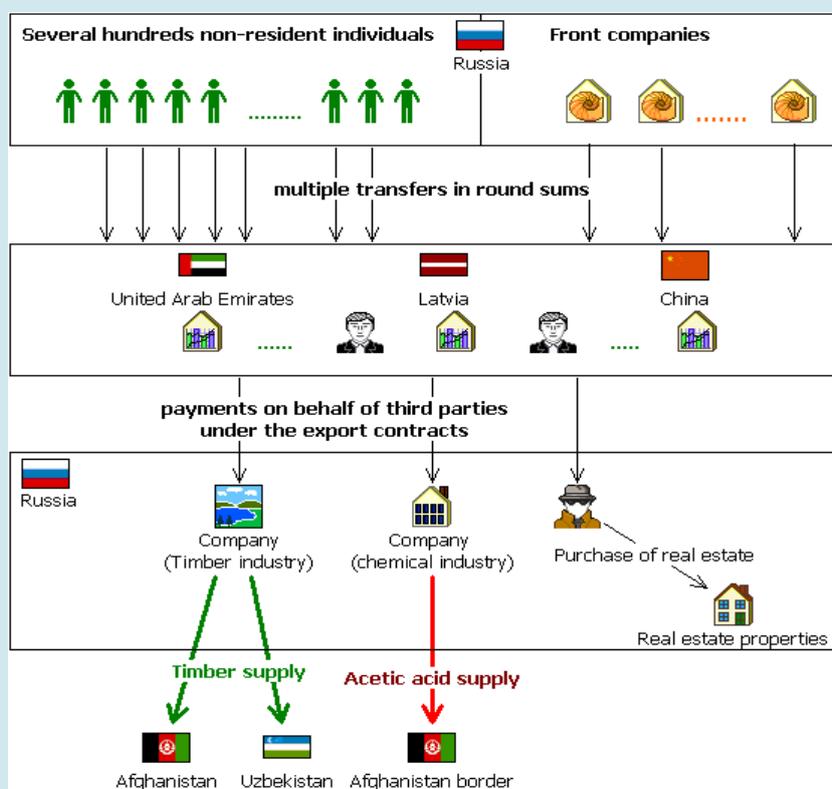
- Smugglers of Afghan opiates in India were thought to be purchasing agricultural land on the profits derived from drug trafficking. There has been involvement of Indian nationals- residents of Canada in drug trafficking and they have been known to gain huge profits due to the significantly high price of drugs in Canada. In one such case, Police apprehended one such a smuggler from Canada with a considerable quantity of Afghan heroin. Reportedly, he has a significant number of real estate properties in prime locations in a major Indian city.
- The US indicated that the most popular investments of the proceeds derived from Afghan opiate business were residential properties and commercial businesses in Pakistan and the UAE, which themselves may have been established with illicit capital.
- The Russian Federation indicated that drug proceeds were being used to purchase luxurious cars and real estate, as well as vehicles to be equipped

with a secret compartment for the delivery of heroin. Investments in professional football clubs were also detected (see case study 4). As already mentioned, the drug proceeds may be used as a payment under the foreign economic contracts of goods supply to drug producing and transit countries. In one case, along with legitimate goods, acetic acid (used to synthesize *acetic anhydride* – a chemical precursor for heroin) was supplied (refer to case study below).

Case study 11 Investigation into non-resident individuals using third party payments & TBML – identifies export of heroin precursor chemicals (acetic acid) and results in seizure of heroin

A group of several hundred non-resident individuals (ethnically related to the area through which the Northern Route of heroin trafficking lies) were conducting numerous money transfers to the bank accounts of companies and individuals in the UAE, Latvia and China. All the transfers were made in round-dollar sums.

The same foreign recipients were credited with the funds from a number of front companies, which did not conduct any real economic activity and whose accounts are used to channel money abroad.



The money transferred to these accounts, were mingled with other credits and transferred back to Russia for use as:

- a payment under the foreign economic contracts of timber supply to Afghanistan and Uzbekistan;
- a payment under the foreign economic contracts for the acetic acid supply to a village on the Afghanistan border;
- a payment for real estate properties purchase.

The results of the financial investigation conducted by the Rosfinmonitoring were forwarded to the Federal Drug Control Service.

The non-resident individuals sending money abroad were used by an organised criminal group (OCG) to conduct these financial transactions and were not personally involved in opiate trafficking. The financial coordinator of the OCG gave them money, account numbers and other instructions.

The acetic acid consigned to Afghanistan was used to synthesize acetic anhydride – a chemical precursor for heroin. As a result of further investigations, 4.9 kg of heroin was seized.

Drug business enterprise stages: **manufacture | distribution | sale**

Financial functions: **raise | move | use | store**

Indicators:

- Money transfers from numerous payers in round amounts;
- The original money source is unknown;
- Individuals purchase the real estate property with money received from known financial centres;
- A company established in the financial centre or offshore jurisdiction receives money from the country of consumption and pays under international contracts for delivery of goods from the country of consumption to the producing country or to the transit countries. This company is not a party to the contract.
- The third parties (companies established in the financial centres), made payments under the export contracts to supply chemical substances out of which drug precursors are synthesised, to the drug producing or transit country.

Direction of transfers:

The Russian Federation ⇒ the UAE/Latvia/China ⇒ the Russian Federation ⇒
Afghanistan/Uzbekistan (goods)

Categories of individuals:

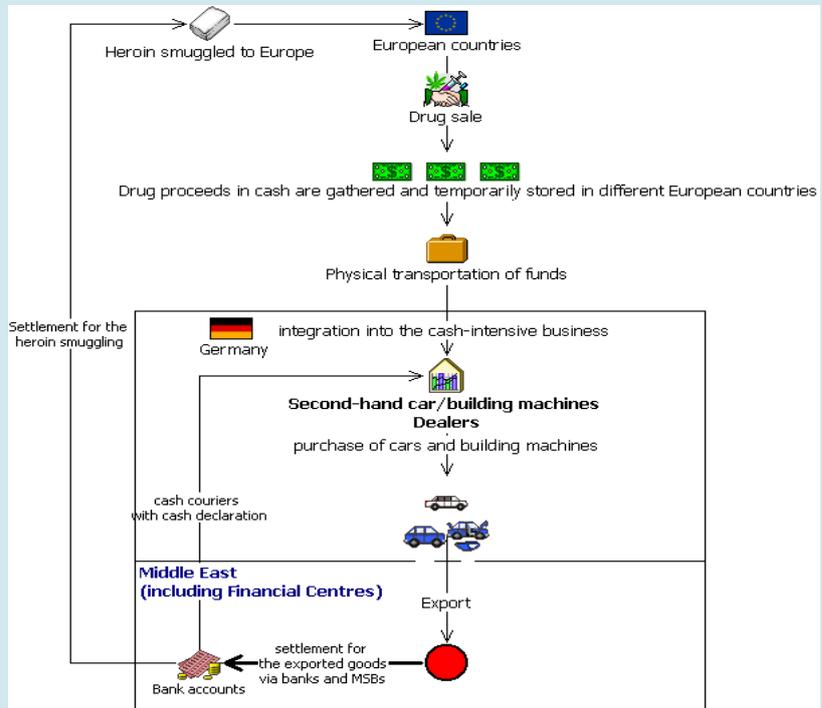
Financiers, financial coordinator of the organised criminal group, individuals involved in processing opium into heroin in Afghanistan and border areas.

Source: the Russian Federation

The case studies provided for this Typology demonstrate the most common methods and techniques used for laundering opiate proceeds. **It is important to note that the comparative analysis of financial schemes related to heroin and those related to other narcotic substances has shown that the techniques are generally similar** (for example, refer to the Case study below).

Case study 12 Financing heroin supply in consumer countries through cash couriers and cash-intensive business – export of second-hand cars and building machinery.

Germany assesses that the organised smuggling of heroin to Europe is being led predominantly by criminals from the Middle East. Funds originating from those organised heroin smuggling operations are gathered and temporarily stored in different European countries. Money laundering groups/organisations are arranging the collection of those funds by cash couriers: the funds are physically transported from one European country to another (e.g., from Spain or the Netherlands to Germany). The transportation of funds is



conducted by car on a weekly basis, the funds are not specially concealed (for example, packed in plastic bags and stored under the front seats). The value of the transported sums varies between EUR 40 000 – 500 000; less frequently it goes up to EUR 1 million Euros. The majority of the detected funds are in small denominations of EUR 10, 20 or 50 notes, which is a clear indicator of drug sales at retail level. When encountering official cash control points, the cash couriers regularly try to explain the transportation of the funds as being intended for buying used cars or building machinery.

Once in Germany, the money is distributed by the cash couriers to different small businesses operating mostly in the second-hand car market. All those companies are run by the cash couriers or other persons with the same ethnic background. Being very cash-intensive, the companies are used as a simple means of legitimation for their legal income in Germany as well as plausible cover up for their ML-activities. There is always an intermingling of legal and illegal businesses (e.g., integration of drug-related money as well as tax evasion: investigation showed that the funds carried by the cash couriers were up to ten times higher than the annual turnover declared to the German Tax Authorities).

The cash is used for purchase of building machinery and cars which are legally exported to the Middle East. The settlement for the exported goods is done over foreign accounts mainly located in the financial centres in the Middle East. If money is needed by the car dealers in Germany, then cash couriers from the Middle East bring some money back. This money is always declared to German customs. These cash declarations could be used as a cover up for further drug money transportation to Germany.

The predicate offences for this typological scheme have been **trafficking of heroin as well as cocaine**.

Drug business enterprise stages: **distribution | sale**

Financial functions: **move | use | store**

Indicators:

- Cash funds are in small denomination of EUR 10, 20 and 50notes;
- Cash-intensive businesses (car dealers) operate with money of an unknown origin
- Car dealers receive funds from the Middle Eastern financial centres

Direction of transfers:

Germany ⇔ Middle East (goods) ⇔ Germany (money)

Source: Germany

CHAPTER 4

INTERRELATIONSHIP BETWEEN DRUG TRAFFICKING AND TERRORIST FINANCING

4.1 DRUG TRAFFICKING AS A SOURCE FOR TERRORIST FINANCING IN AFGHANISTAN

In Afghanistan, almost the entire opium poppy-cultivating area is located in regions characterised by high levels of insecurity. Available information on opiates production and export, demonstrate that Taliban is a driving force behind the poppy-cultivation in Afghanistan, with the largest volumes produced in, and exported from, areas where the terrorist threat levels are the highest (mostly in southern provinces).

4.1.1 GENERAL MECHANISM OF TALIBAN'S FINANCING

According to the information provided by the United Nations Al-Qaeda & Taliban Sanctions Monitoring Team, Taliban revenue is generated from a range of illicit activities, not only the narcotics trade. The Team understands Taliban funding as follows: revenue raised from taxing the local economy serves primarily to support local operations and is only in few cases channelled upwards to the Senior Leadership. Revenue extorted from narcotics producers and traffickers, construction and trucking companies, mobile telephone operators, mining companies and aid and development projects goes to the Taliban Financial Commission which answers to the Taliban Senior Leadership. Donations, which constitute a major source of funding, also go to the Taliban Senior Leadership.

According to the United Nations Al-Qaeda & Taliban Sanctions Monitoring Team's assessments, out of the total 2011-2012 budget of the Taliban of USD 400 million - **one third was raised from the poppy trade.**

To raise money, the Taliban runs a sophisticated protection racket for poppy farmers and drug traffickers, collecting taxes from the farmers and pay-offs from the traffickers for transporting the drugs through insurgent-controlled areas. They also demand large payments to the group's exiled leadership. Generally, the fund-raising mechanism works in the following way:

1. Taliban commanders charge poppy farmers a 10% tax, called an *ushr*, on the product at the farm gate.
2. Taliban fighters augment their pay by working in the poppy fields during harvest.
3. Small traders, who collect opium paste from the farmers, pay the Taliban a tax, and truckers pay them a transit tariff for each kilo of opium paste or heroin smuggled out of the country.
4. The Taliban is paid for protecting the labs where the paste is turned into heroin (Taliban military investments are the highest in areas with laboratories²⁴).

²⁴ Information provided by the United Nations Al-Qaeda and Taliban Monitoring Team

5. Finally, the biggest source of drug money for the Taliban is the regular payment made by large drug trafficking organisations to the *Quetta shura*, the governing body of the Taliban whose leaders allegedly live in Quetta, Pakistan²⁵.

Case study 13 **Local level Taliban – narcotics trafficker relationships**

A criminal syndicate headed by Hajji Fatah Ishaqzay based in Helmand Province may be considered as a good example of donations received by the Taliban members from major traders in narcotics business. It pays both in cash and in kind, and its members have close relatives serving within the Taliban. In addition, a hospital run by this syndicate offers free treatment to Taliban fighters. The syndicate provides most of its support through Akhtar Mohammad Mansour Shah Mohammed (according to the UNSCR 1988 Sanctions List, the Taliban “Governor” of Kandahar, was temporarily-in-charge of the Taliban Supreme Council) and Agha Jan Alizai (according to the UNSCR 1988 Sanctions List, he managed a drug trafficking network in Helmand Province).

Source: United Nations Al-Qaeda and Taliban Monitoring Team

Taliban members are believed to have used the formal banking system to move/laundry the proceeds of narcotics sales but returned to the use of MVTs after the implementation of more stringent Afghan banking rules²⁶. This highlights the need for a holistic understanding of AML/CFT risks which is focused on banks, MVTs, cash couriers, in addition to other possible methodologies.

In rural areas, where there is little use for hard cash, much activity is conducted using opium and other commodities of value. The Taliban maintain opium warehouses across Afghanistan’s southern poppy heartland where Taliban commanders can deposit and later withdraw quantities of the drug as if using an ATM. They also acquire resources in the form of other local commodities, such as motorcycles, sport utility vehicles or pickup trucks, satellite and mobile telephones, top-up cards with talk-time credit, weapons, ammunition, petrol, food, shelter and even medical care for wounded fighters.²⁷

INDIVIDUALS AND ENTITIES DESIGNATED AS OR ASSOCIATED WITH THE TALIBAN (THE “1988 LIST”)

According to the United Nations Security Council Resolution 1988 (2011), the Security Council Committee established pursuant to paragraph 30 of this resolution oversees the implementation by States of the three sanctions’ measures (assets freeze, travel ban and arms embargo) imposed by the Security Council in connection with any individual, group, undertaking and entity designated as, or associated with, the Taliban in constituting a threat to the peace, stability and security in

²⁵ United States Senate (2010)

²⁶ U.S. response to the questionnaire

²⁷ First report of the Analytical Support and Sanctions Implementation Monitoring Team submitted pursuant to resolution 1988 (2011) concerning the Taliban and associated individuals and entities, S/2012/683

Afghanistan. The Committee maintains a list of individuals and entities subject to the sanctions measures²⁸.

The measures to be undertaken by States in connection with individuals and entities designated as or associated with the Taliban are determined in the United Nations Security Council Resolution 2082 (2012).

Box 2 United Nations Security Council Resolution 2082 (2012)

The United Nations Security Council Resolution 2082 (2012) requires all States to:

- freeze without delay the funds and other financial assets or economic resources [assets freeze];
- prevent the entry into or the transit through their territories [travel ban];
- prevent the direct or indirect supply, sale and transfer from their territories or by their nationals outside their territories or using their flag vessels or aircraft, of arms and related material of all types, spare parts, and technical advice, assistance, or training related to military activities, to designated individuals and entities [arms embargo].

Source: the United Nations Security Council

The 1988 Sanctions List consists of two sections:

A. Individuals associated with the Taliban (131 individuals)

B. Entities and other groups and undertakings associated with the Taliban (4 entities)²⁹.

Narrative summaries of reasons for listing some of the individuals and entities, such as for example *Rahat Ltd.*, *Roshan Money Exchange*, *Mohammed Qasim Mir Wali Khudai Rahim*, **contain direct indications of their involvement in drug trafficking.**

Box 3 Individuals and entities designated as or associated with the Taliban & opiates trafficking – narrative summaries

Narrative Summary: RAHAT LTD.

“Taliban senior figures have personally interacted with Rahat Ltd. branch managers, frequented Rahat Ltd. branches and used Rahat Ltd. to receive, store and send funds to support insurgent operations inside Afghanistan. Recently, the Taliban Shadow Provincial Governor for Helmand Province, Afghanistan, Mohammad Naim Barich (T.I.N.13.01), also known as Mullah Naim Barich, provided funds through Rahat Ltd. for subordinate commanders to plan and conduct insurgent operations in southern Afghanistan. These operations directly threaten the peace, stability and security of Afghanistan.

Rahat Ltd. provides financial services to Taliban-affiliated narcotics networks in the

²⁸ United Nations Security Council (2011)

²⁹ www.un.org/sc/committees/1988/list/shtml

Afghanistan/Pakistan border region through its **branch managers' direct involvement in narcotics trafficking** and their close association with senior figures within these narcotics networks."

Narrative Summary: MOHAMMED QASIM MIR WALI KHUDAI RAHIM

"Qasim Mir Wali Khudai Rahim is the owner of Rahat Ltd. (TE.R.13.12.), which has branches across Afghanistan, Pakistan and Iran and participates in the financing and facilitation of the Taliban insurgency.

Taliban senior figures have personally met Qasim and Rahat Ltd. branch managers. They have also frequented

Rahat Ltd. branches and used Qasim's services to receive, store and send funds to support both their insurgent operations inside Afghanistan and the **Taliban's narcotics fundraising activities.**

During a meeting with Taliban senior figures in 2011, Qasim demonstrated his witting complicity in handling Taliban funding through Rahat Ltd. branches in Afghanistan and Pakistan. Qasim has been personally associated with Taliban insurgent commanders inside Afghanistan and networks involved in the supply of weapons including improvised explosive devices (IED)."

Narrative Summary:ROSHAN MONEY EXCHANGE

"Roshan Money Exchange (RMX) stores and transfers funds to support Taliban military operations and the Taliban's role in the Afghan narcotics trade. RMX was one of the primary hawalas (informal money remittance services) used by Taliban officials in Helmand Province as of 2011.

The Taliban also uses RMX to facilitate its role in the Afghan narcotics trade. As of 2011, Taliban officials, including the shadow governor of Helmand Province, transferred hundreds of thousands of dollars from an RMX branch in the Afghanistan-Pakistan border region to hawalas in Afghanistan for the purchase of narcotics on behalf of Taliban officials. Also in 2011, a Taliban official directed Taliban commanders in Helmand Province to transfer opium proceeds through RMX. One Taliban district chief transferred thousands of dollars from Marjah, Helmand Province, Afghanistan, to an RMX branch in the Afghanistan-Pakistan border region."

Drug business enterprise stages: **cultivation | manufacture | distribution | sale**

Financial functions: **raise | move | use | store**

Source: United Nations Security Council Committee (2011)

4.1.3 TALIBAN MEMBERS AND ASSOCIATES DESIGNATED AS FOREIGN NARCOTICS KINGPINS

The United States provided two case studies not only demonstrating an overlap between the Taliban and drug trafficking, but as well showing how sanctions listing (namely under The Foreign Narcotics Kingpin Designation Act) may be used to disrupt an opiate trafficking network and undermine its financial infrastructure.

The first example below highlights the case of *Mullah Naim Barich* where the U.S. Department of the Treasury working closely with the Afghanistan Threat Finance Cell (ATFC), a multiagency

organisation with specialists from the Departments of Defense, Justice, and Treasury, designated a senior Taliban official for narcotics trafficking.

The second case below relates to *Haji Kotwal Noorzai* – the head of a drug trafficking network and owner of heroin processing laboratories in Afghanistan as well as drug compounds in Pakistan, Iran and Dubai – and demonstrates how drug traffickers provide logistical and financial support to the Taliban.

Case study 14 Taliban “Shadow Governor” of Helmand province relied on opiate trafficking proceeds for “survival.”

On 15 November 2012, the U.S. Department of the Treasury announced the designation of a senior leader of the Taliban, Mullah Naim Barich, pursuant to the Foreign Narcotics Kingpin designation Act (Kingpin Act).

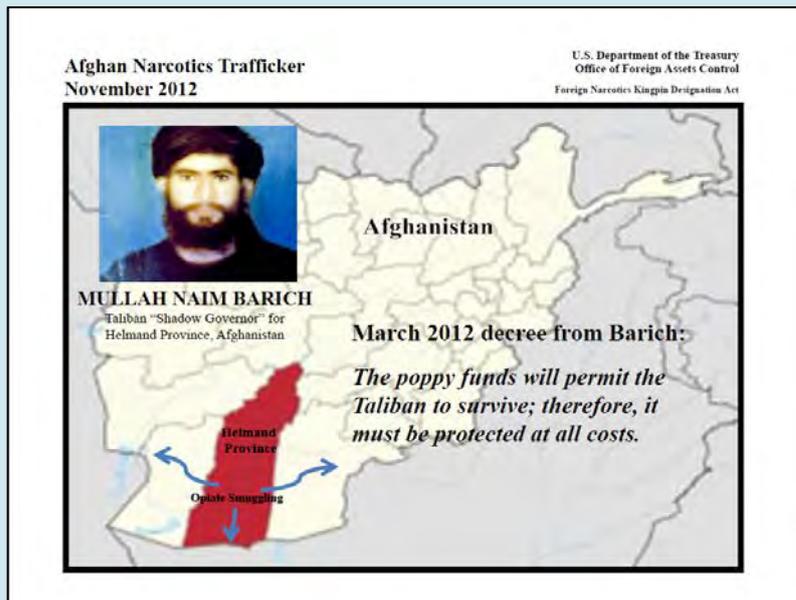
Barich is the “Shadow Governor” of Helmand province, the largest opium-producing province in Afghanistan. Barich appears on the United Nations Security Council Resolution 1988 Sanctions List due to his support for the Taliban.

In January 2012, the Government of the Islamic Republic of Afghanistan (GIROA) Deputy Governor for Helmand province announced plans for government-led eradication of poppy.

In early March 2012, Barich, the Taliban “Shadow Governor” of Helmand province, issued a written decree to subordinate Taliban commanders, detailing procedures to be adopted by Taliban in Helmand province to combat planned government-led eradication operations. This decree stated that all measures, including planting improvised explosive devices (IEDs), engaging in combat with coalition forces, or bribing GIROA officials, were to be taken to protect the poppy harvest. Barich said that **“the funds from the poppy harvest would permit the Taliban to survive, and therefore, it must be protected at all costs.”**

Sanctions investigators from Treasury’s Office of Foreign Asset Control (OFAC) embedded in ATFC assisted in the Foreign Narcotics Kingpin Act sanctions package for Taliban Helmand Province Shadow Governor Mullah Naim Barich, who was the first Taliban senior leader to be designated as a kingpin by Treasury (See *Progress Toward Stability and Security in Afghanistan*, July 2013, see page 151 (US Department of Defense, 2013).

On November 2012, the U.S. Department of the Treasury announced the designation of a senior leader of the Taliban, Mullah Naim Barich, pursuant to the Foreign Narcotics Kingpin Designation



Act. This action prohibits U.S. persons from conducting financial or commercial transactions with Barich and also freezes any assets he may have under U.S. jurisdiction.

Drug business enterprise stages: **cultivation | manufacture | distribution | sale**

Financial functions: **raise | move | use | store**

Source: the United States

Case study 15 **International opiate trafficker used Taliban for security, provided weapons and funds.**

On 31 May 2013, Haji Kotwal Noorzai was designated as a significant foreign narcotics trafficker appropriate for sanctions pursuant to the Foreign Narcotics Kingpin Designation Act.

For several years Haji Kotwal, an Afghan national, has been the head of a drug trafficking network and has owned several heroin processing laboratories in Helmand and Farah Provinces, Afghanistan. He has also owned drug compounds in Pakistan, Iran, and Dubai. Because Haji Kotwal resided in Pakistan, members of his drug trafficking network conducted the day-to-day operations of his narcotics business.

In early 2008, Haji Kotwal was in close contact with elements of the Taliban relating to the provision of logistical and financial support. Kotwal purchased weapons and transported them to Taliban fighters. The weapons were purchased for the Taliban for two objectives: first, the Taliban would allow poppy cultivation; and second, the Taliban would facilitate transport of narcotics through Helmand province to the Pakistani border. Haji Kotwal was appointed by the Taliban's Quetta Shura to collect zakat (charity) from other narcotics traffickers operating in Girdi Jangle. In return, Taliban fighters provided security for Haji Kotwal's drug shipments.

In 2009, the United States created the Afghan Threat Finance Cell to gather intelligence on how the insurgency financed its operations and how to disrupt its funding. Led by the Drug Enforcement Administration (DEA), with Treasury serving as co-deputy, nearly 60 ATFC personnel were embedded with military commands across Afghanistan to improve the targeting of the insurgents' financial structure. Foreign agency and foreign military counterparts, who were also members of the International Security Assistance Force (ISAF) in Afghanistan, partnered with ATFC personnel to share information and intelligence to identify potential targets.

On 19 May 2009, approximately 3 150 kilograms of opium belonging to Haji Kotwal were destroyed in a coalition forces operation in Afghanistan.

Drug business enterprise stage: **cultivation | manufacture | distribution | sale**

Financial functions: **raise | move | use | store**

Source: the United States

The United Nations Al-Qaeda and Taliban Sanctions Monitoring Team further assess that soon, the opiate trafficking will once again become one of the leading source of funding for the Afghan Taliban. With the reduction of international involvement in Afghanistan, there will be less requirement for transport and associated “security” services. These service providers have hitherto been exploited by criminal and terrorist groups and have provided significant funds in the form of extortion, protection and informal taxation. With the likely decline of this source of funding, the Monitoring Team consider that opiate financing will soon become essential to the Afghan Taliban and associated-criminal networks which pose the greatest threats to the national security of Afghanistan and wider regional stability.

4.2 OTHER TERRORIST OR CRIMINAL GROUPS PROFITING FROM THE AFGHAN OPIATE TRADE

Although limited in quantity, a number of case studies demonstrate how terrorist and criminal groups in Turkey and Afghanistan may support their activities by profiting from the Afghan opiate trade.

According to the Turkish Trafficking and Organised Crime Police, the PKK (The Kurdistan Workers’ Party) is involved in heroin trafficking from the Turkey–Iran border to Western and Central Europe, either directly or indirectly by taxing the traffickers. Most drug trafficking routes overlap with areas in Turkey where the PKK has intensified its activities. The PKK is also reported to collect taxes per kilogram of heroin trafficked to Turkey from the Islamic Republic of Iran and Iraq borders, with potential profits reaching USD 200 million annually. More direct involvement in heroin trafficking operations has been reported, such as a 2007 case involving 4 tons of seized heroin that were directly linked to PKK elements. Both Turkish organised crime groups and the PKK benefited from the USD 1 billion heroin trade in 2009.

Investigations revealed that the PKK organisation played a substantial role in the cultivation, production, trafficking and street level distribution of various drugs, as well as imposing taxes in Turkey and European countries on the traffickers’ incomes.

Between 1984 and 2012, 370 investigations of Turkish security agencies revealed engagement of the PKK into drug-related illicit activities. In these operations, 1 214 individuals were arrested. High quantities of drugs were seized in 60 cell houses and shelters of the PKK. A total of 4 253 kg heroin, 33 290 kg cannabis, 5 972 747 cannabis plant, 4 305 kg morphine base, 22 kg opium gum, 710 kg cocaine, 344 135 synthetic drugs, 26190 liters of acidic anhydride and 2 heroin labs were seized in the operations carried out against the PKK organisation.

SUMMARY

The multi-million dollar profits of narcotics trafficking networks have been seen to have leaked into the funds of terrorist networks. In the case of the Afghan Taliban and PKK, drug profits clearly provide a significant increase in their income and this can be directly translated into an increase in their ability to conduct lethal attacks and shadow governance activities. The shared use of gatekeepers may provide investigators from a range of agencies with opportunities to gather information regarding these various networks. This also may provide Law Enforcement Agencies

and Regulators with opportunities to conduct **shared disruptions** against several networks of both terrorist and narcotics traffickers. The cooperation between terrorist and narcotics traffickers may provide added incentive and opportunities for inter-agency and international collaboration to disrupt common threats. The topic of co-existence of terrorist and criminal networks, how they cooperate and in some cases act as “force-multipliers” for each other, **may benefit from further research**. This may assist the development of more accurate National Risk Assessments and consequent action to reduce the threat they pose.

CHAPTER 5

OBSERVATIONS AND POTENTIAL POLICY IMPLICATIONS

The following observations and potential policy implications have been highlighted both in the responses to the surveys and during Project Team meetings.

Close and continuing cooperation between FIUs and Law Enforcement Agencies was identified by all contributors as essential to understanding and disrupting the illicit opiate enterprise. This cooperation might include not only operational work, but may be carried out on a continuing basis, by providing each other with the information on emerging trends (including new payment instruments and services, new transportation routes, etc.), determining the direction of further work, jointly formulating specific red flag indicators, proving their effectiveness in practice. Box 4 below provides an example of how an FIU not only supports operational enquiries but also develops and supports counter-narcotics financing capability within its partner agencies.

Box 4 **CAMLMAC: Example of cooperation with the law enforcement authorities.**

FIU of China (CAMLMAC) and the law enforcement authorities maintain a close and cooperative working relationship, as evidenced by the following:

1. The police shares with CAMLMAC some lists of suspicious names which are connected with drug trafficking; while CAMLMAC provides some relevant suspicious transaction leads to the police and other law enforcement authorities.
2. The public security bureau dispatches some experienced staff to work temporarily in CAMLMAC.
3. CAMLMAC and the law enforcement authorities carry out joint investigations and surveys on drug trafficking in some areas where drug trafficking usually takes place.
4. Experienced analysts deliver lectures concerning criminal cases and anti-money laundering practices related to drug trafficking, including Afghan opiate trafficking.

Source: China

Establishment of **Joint Investigation Teams (JITs)** with the participation of FIUs and Law Enforcement Agencies from a number of countries. In the area of combating drug trafficking and associated financial flows, JITs seem to be strong instruments for international cooperation of judicial and law enforcement authorities with an involvement of FIUs, as well as a useful tool in facilitating mutual assistance in criminal matters between the participating countries.

Participation in **Joint International Inter-agency operations** (such as, for example, the Joint Counter-Narcotics Operation “Channel” conducted under the aegis of the CSTO with engagement of the FIUs) may prove to be useful.

Examples of how such a mechanism might work are the EAG *Working Group on Counteraction of Financing Drug Business, Crime and Terrorism* as well as numerous legal proceedings instituted as a result of the CSTO Operation “Channel”.

Box 5 Countering opiate trafficking together: The CSTO Operation “Channel” and the EAG Working Group on Counteraction of Financing Drug Business, Crime and Terrorism

In 2006 the General Secretary of the Collective Security Treaty Organization (CSTO) and the Chairman of EAG signed the joint appeal to the heads of EAG member states, proposing to national FIUs to take part in operation «Channel» held by the CSTO and which was focussed on Afghan opiates in particular.

In October 2006 the CSTO Secretariat held a meeting with the authorised representatives on the preparation for the implementation of a range of coordinated AML/CFT measures related to monetary funds gained from illicit opiate trafficking. The goal of the range of coordinated measures is to organise practical cooperation between national FIUs, law enforcement and special agencies of the CSTO.

As a result of the conference, the following decisions were made, in particular:

- to start preparing for the stated measures
- to include the EAG representatives into the International headquarters of the counter-narcotics operation «Channel»
- to provide analytical processing of data revealed through operation «Channel» by the EAG FIUs.

The next step to involve the FIUs in operation «Channel» was the signing of a Memorandum of Understanding (MOU) between the EAG and the CSTO. The MOU envisages the creation of a cooperation mechanism of the FIUs of the EAG member states, and the Coordinating council of the heads of the competent authorities on combating drug trafficking of the CSTO countries in order to combat illicit drug trafficking and laundering of proceeds from drugs in the Eurasian region. According to the MOU, the parties came to an agreement on the following issues:

- an authorised EAG representative will be included in the staff of the International coordination headquarters of the anti-drug operation «Channel» to coordinate the cooperation;
- an expert-analyst of the EAG will also be included in the staff of the International coordination headquarters to provide interaction with the EAG FIUs and representatives of the National interagency headquarters;
- representatives of the EAG FIUs will be assigned to the national interagency headquarters;
- if the national interagency headquarters is not created in the EAG FIU, the FIU will develop cooperation with the international coordination headquarters;
- FIUs and other competent authorities of countries which are not members of the CSTO may also be involved in the operation «Channel».

The XVIII EAG Plenary Meeting in Minsk in 2013 adopted Guidelines for the participation of EAG member states and EAG observer states in the CSTO operation «Channel». They describe a mechanism for the FIUs' participation in the operation as well as recommendations about the integration of counter-narcotics activities. FIUs of EAG member-states are now applying these guidelines.

It is worth noting the role of the EAG *Working Group on Counteraction of Financing Drug Business, Crime and Terrorism* (WGCF) under whose *aegis* these recommendations were developed.

The WGCF was established in 2012 at the XVI EAG Plenary Meeting in Moscow. This group keeps its focus on practical and operative issues. Following its working plan, the EAG member-states and observers formed the common list of red flag indicators for suspicious transactions presumably linked to drug trafficking. A practical application of this list brings successful results. The next step included the listing of financial institutions and companies operating with the drug proceeds.

A number of joint financial investigations were conducted. For example, as a result of the interaction between FIUs of Russia, Kyrgyz Republic, Republic of Kazakhstan, Republic of Tajikistan and national law enforcement bodies, an opiate supply route from Afghanistan to Russia was closed. Some of the organizers were arrested and opiate-related money-laundering prosecutions were initiated in Russia and Kyrgyz Republic.

Source: the EAG Member-States

This Typology project has identified the following issues which may inform subsequent policy discussions, specifically on enhanced information sharing and disruption capabilities.

■ **Global mechanism to alert government agencies and the private sector of suspected opiate (and other narcotics) traffickers and to freeze their assets.**

Where national authorities have identified drug traffickers and their assets, there is no global mechanism for this to be communicated to other government authorities internationally or to gatekeepers in the financial sector at an international level so that they could take immediate preventive measures. The only similar system is implemented by US Department of Treasury, Office of Foreign Assets Control (OFAC), based on the Foreign Narcotics Kingpin Designation Act.

Similarly, there is no global mechanism for the immediate freezing of drug trafficking proceeds which have been identified by investigating authorities or financial institutions. Currently, when national authorities identify a drug trafficking network, drug proceeds in multiple jurisdictions are often detected, frozen and confiscated only after a protracted and complex process which is reliant on the delicate status of bilateral relations and available legal mechanisms.

In the Paris Pact Initiative Tashkent Questionnaires, a number of countries highlighted the need to explore the feasibility of an international system of alerts and freezing that would target opiate (and other narcotics) trafficking suspects and their assets. It was suggested during the FATF Typology Project Team meetings that such a mechanism could borrow from existing systems administered by the United Nations and mandated by the United Nations Security

Council Resolutions, which impose a financial freeze, travel ban and other restrictive measures, for example, the UNSCR 1988 Taliban sanctions regime³⁰.

Such a system might provide countries with significant capacity to reduce the profit from international drug trafficking and associated harm caused to security, governance and the legitimate economy. It is also possible that such a system may break the current stalemate in the seizure of narcotics-related assets and further motivate countries' joint efforts in pursuing and seizing the profits from the global opiate and other narcotics trafficking enterprises.

■ **There is no current mechanism for government agencies internationally to share a list of high-risk individuals who are suspected of being members of opiate trafficking networks.**

Such a system might encourage government agencies to communicate these lists to foreign counterparts, monitor those persons and the financial transactions conducted by those persons, exchange the information gathered at the end of the monitoring process with counterparts, review those lists and restart this cycle periodically. Unlike the above mechanism for global alert, this mechanism could work on bilateral basis between countries or across a region, for example EAG countries, which share a common threat such as from opiate trafficking.

Such a mechanism has previously been effectively applied within the framework of the Joint (FinCEN-Rosfinmonitoring) project on Illicit Financial Transactions Related to Drug Trafficking under the U.S.-Russia Bilateral Presidential Commission – Working Group on drug trafficking.

Box 6 Example of joint (FinCEN-Rosfinmonitoring) project on Illicit Financial Transactions Related to Drug Trafficking

The exchange of information between the Rosfinmonitoring and FinCEN started with the joint list of *Indicators to Suspicious Financial Transactions Possibly Related to Illegal Drug Trafficking*. This list of indicators was used to develop the methodology to proactively extract information from the Rosfinmonitoring and FinCEN databases. FinCEN and Rosfinmonitoring searched their databases for suspicious financial transaction possibly related to illegal drugs trafficking, in particular opiate trafficking originating from Afghanistan. During the initial exchanges of information, FinCEN and Rosfinmonitoring identified several subjects of mutual interest within their respective reports. The final report was a summary of common subjects, including financial and commercial database information related to those subjects. Information on these subjects was provided to the national drug enforcement authorities and triggered a number of criminal investigations.

It is interesting to note that the majority of the jointly-identified subjects were financial institutions; specifically money services businesses, that were possibly being used in the laundering of drug proceeds (either complicitly or demonstrating gross negligence in their AML/CFT compliance duties).

Source: the Russian Federation

³⁰ Paris Pact (2013)

■ **Financial investigation and community engagement opportunities may be being missed with regards the precursor chemical industry (for opiates – acetic acid, acetic anhydride).**

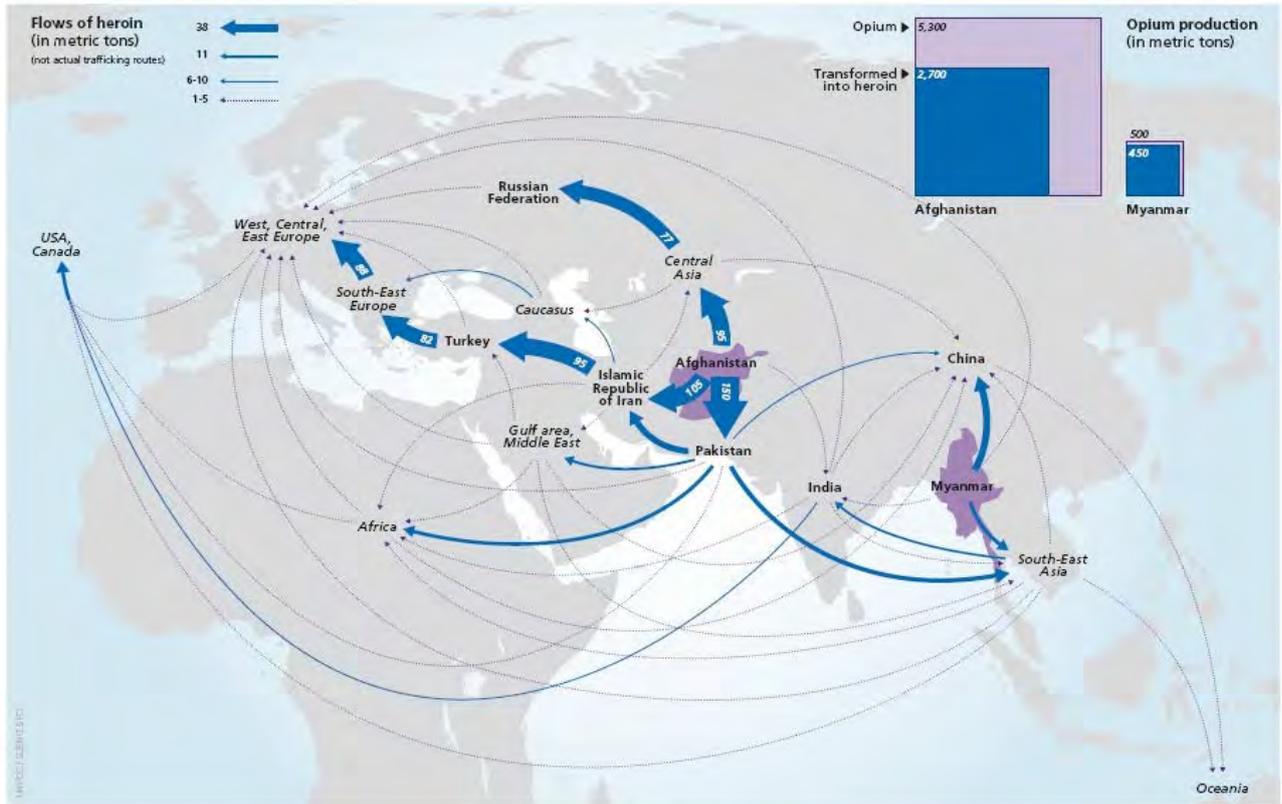
Such opportunities may include engagement with **manufacturers of precursor chemicals** as partners, creating an international watch-list for suspected criminally complicit businesses, establishing suspicious activity reporting mechanisms (including financial transactions) between the industry and public sector, exchanging the information gathered during the monitoring process with counterparts, review and improve this cycle of activity.

To support this activity, forums might be developed to engage with the manufacturers of precursor chemicals in order to:

- Identify existing good practices from counter terrorism initiatives regarding home made explosive precursors and manufacturers;
- Establish an suspicious activity reporting system for producers direct to FIUs;
- Establish information sharing and analysis systems for financial transactions;
- Create and share a watch list of suspicious / criminally complicit producers.

ANNEX A MAPS AND DIAGRAMS

Figure 5 Global heroin flows of Asian origins



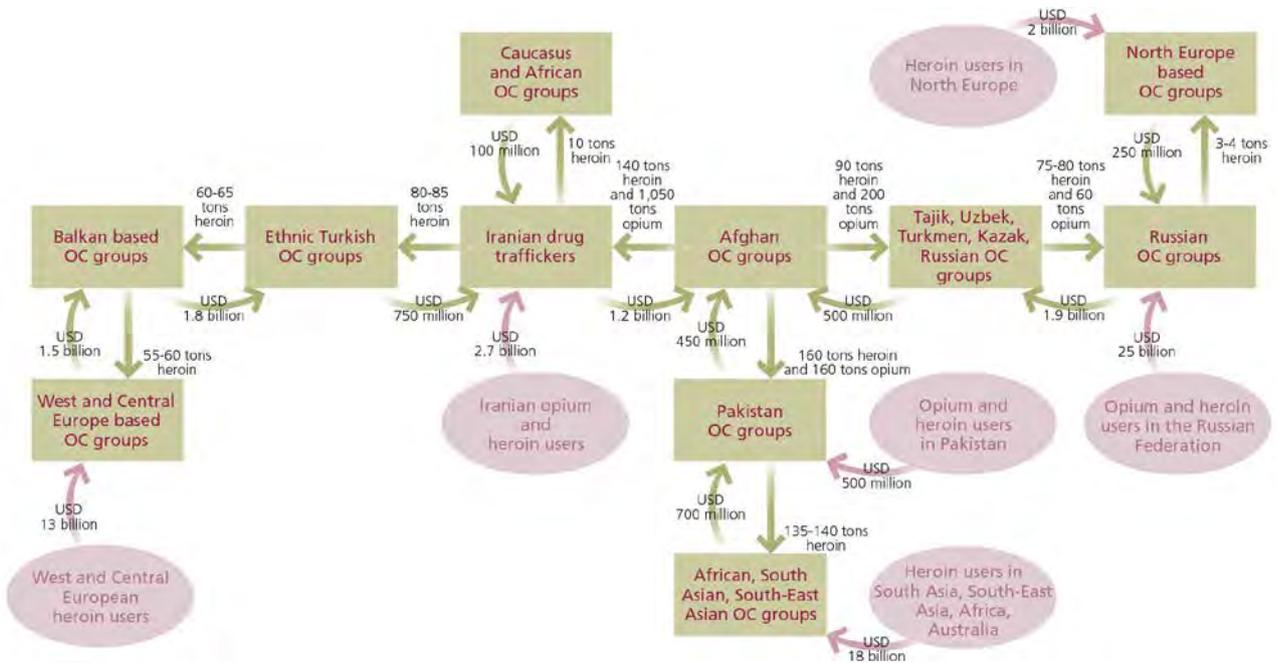
Source: UNODC (2011c)

Figure 6 Overview of the beneficiaries of Afghan opiate trafficking, 2009



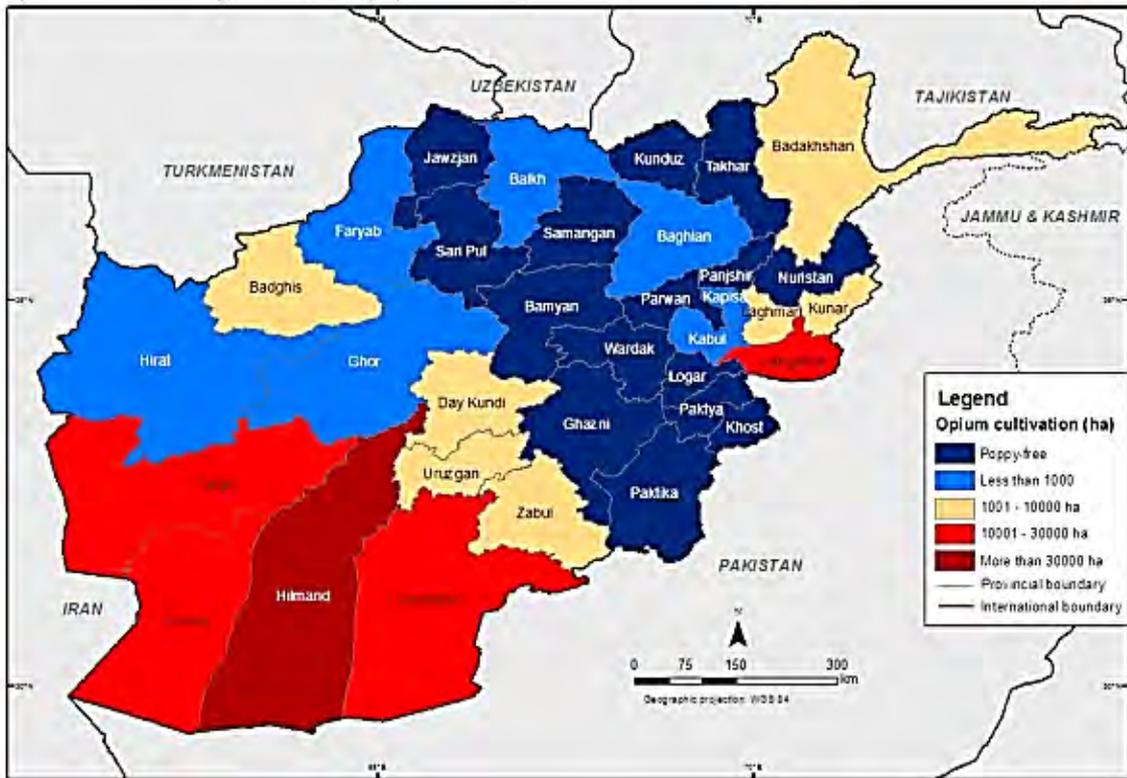
Source: UNODC (2011b)

Figure 7 Organised crime groups benefiting from the Afghan opiate trade, 2009



Source: UNODC (2011b)

Figure 8 Opium cultivation in Afghanistan, 2013 (at province level)



Source: UNODC and Islamic Republic of Afghanistan Ministry of Counter Narcotics (2013)

ANNEX B

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ANNEX C

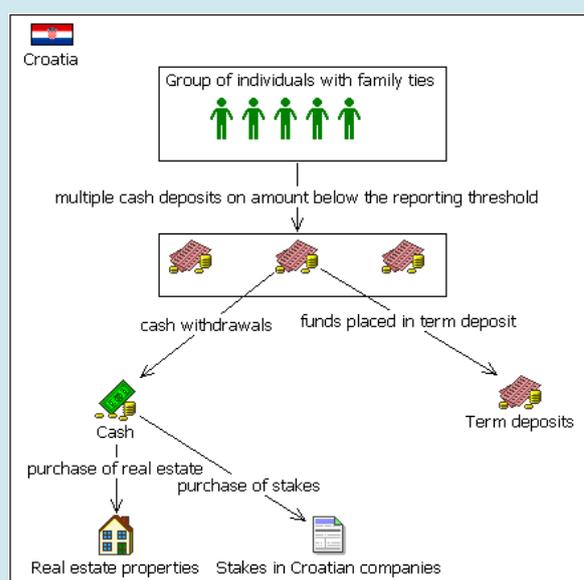
ADDITIONAL CASE STUDIES

The case studies provided below demonstrate different methods and techniques used for laundering drug proceeds. It is important to note that the comparative analysis of financial schemes related to heroin and those ones related to other narcotics substances has shown that the techniques are generally similar. In this regard, a number of cases not necessarily referring to Afghan heroin, might be useful and provide further understanding of the whole spectrum of techniques.

Case study 16 **In-country money laundering**

Several mutually related individuals with family and other ties make cash deposits (in amounts below HRK 200 000 – below the legal mandatory reporting threshold) over a long period of time on their own accounts or the accounts held by other related individuals opened with several Croatian banks. Part of the deposited cash funds are placed in a term deposit and the rest is withdrawn in cash. The cash is later used to purchase real estate and stakes in companies in the Republic of Croatia.

These natural persons are not employed and do not have any declared income. They are suspected of being members of drug-trafficking organised criminal group, and therefore, there is a suspicion that the funds deposited in cash in the Croatia's banking system were the proceeds of drug trafficking.



Drug business enterprise stages: **distribution | sale**

Financial functions: **move | use | store**

Indicators:

- Frequent cash deposits in amounts below the legal mandatory reporting threshold made in short intervals over a longer period of time;
- Use of accounts held by related persons;
- Data on criminal activities of the participants;
- Absence of declared income.

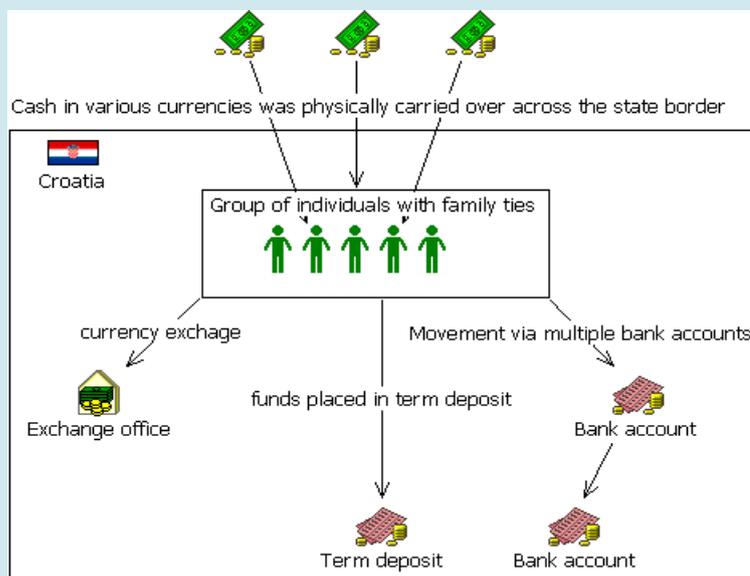
Direction of transfers:

Within Croatia

Source: Croatia

Case study 17 In-country money laundering

A group of individuals with family and other ties make cash deposits in various currencies and denominations in their own accounts or the accounts of other individuals they are related with, opened with several Croatian banks. The cash funds were introduced into the banking system of the Republic of Croatia after having been physically carried across the state border in various currencies across the state border (without declaring such funds to the competent customs authorities). Once they were brought



into the banking system, the funds were placed into term deposits, converted into different currencies and moved from one account to another.

The natural persons in question do not hold a job and do not have any declared earnings. They are suspected of being members of a drug trafficking network. Hence, there is a suspicion that the cash funds deposited into the banking system of the Republic of Croatia are the proceeds of the crime of abuse of narcotic drugs abroad.

Drug business enterprise stages: **distribution | sale**

Financial functions: **move | use | store**

Indicators:

- Frequent cash deposits in large amounts made over a longer period of time;
- Use of accounts held by related natural persons;
- Physical transfer of cash funds without declaration to the customs authorities;
- Data on the participants' criminal activities abroad;
- Absence of declared income.

Direction of transfers:

From abroad ⇒ Croatia

Source: Croatia

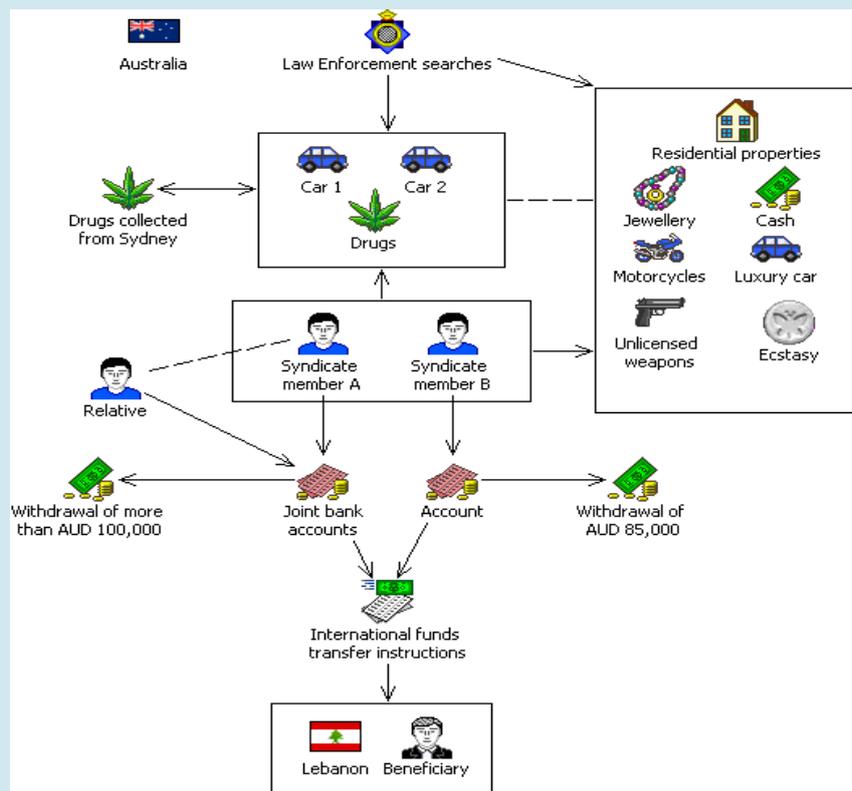
Case study 18 Major interstate syndicate dismantled in \$1.4 million ‘ice’ bust

Authorities dismantled a major interstate drug syndicate and seized AUD 1.4 million worth of crystal methamphetamine hydrochloride (‘ice’) destined for sale to the public.

Law enforcement officers suspected that the criminal syndicate travelled to Sydney to purchase drugs and transported them back to Melbourne by motor vehicle, for distribution and sale. The investigation resulted in the interception of two motor vehicles in transit from Sydney to Melbourne, with drugs located during a search of the vehicles.

Search warrants were executed on residential properties and law enforcement officers confiscated assets including approximately AUD 65 000 cash, a luxury motor vehicle, motorcycles and jewellery. Unlicensed weapons, ammunition and a small quantity of ecstasy tablets were also seized.

AUSTRAC information supported the investigation which established a link between two syndicate members. Analysis of international funds transfer instructions (IFTIs) showed the syndicate members both sent AUD 9 000 on the same day via the same remittance service outlet, to the same beneficiary in Lebanon.



Analysis of AUSTRAC information showed that the financial activity of one syndicate member was closely linked to that of a relative. Both the syndicate member and the relative held joint bank accounts and sent funds to common beneficiaries in Lebanon. An analysis of IFTIs showed that over a six-year period the pair had sent more than AUD 46 000 to Lebanon via a remittance service and a financial institution.

Significant cash transaction reports (SCTRs) revealed the syndicate member and the relative had withdrawn more than AUD 100 000 in cash from bank accounts over a five-year period. One SCTR showed a significant cash withdrawal of more than AUD 37 000.

AUSTRAC information identified that another syndicate member conducted two cash withdrawals of AUD 30 000 and AUD 55 000 within a seven-month period.

Two men were charged with trafficking a large commercial quantity of drugs and conspiracy to traffic a large commercial quantity of a drug of dependence. A third man was charged with conspiracy to traffic a large commercial quantity of a drug of dependence.

Drug business enterprise stages: **distribution | sale**

Financial functions: **raise | move | use | store**

Indicators:

- International funds transfers to a high-risk jurisdiction;
- Large cash withdrawals within a short timeframe;
- Multiple cash withdrawals from accounts;
- Multiple customers conducting international funds transfers to the same overseas beneficiary in one day.

Source: Australia

Case study 19 **Albanian crime syndicate used online betting service to launder drug proceeds**

An Albanian organised crime syndicate operating in Australia used an online betting service and an internet payment system to launder illicit proceeds from the sale of cannabis. The syndicate used the two services together to receive international transfers and move funds offshore.

AUSTRAC identified an increase in international funds transfer instructions (IFTIs) to and from Albania which had originated from the same location in Australia. AUSTRAC analysed the IFTIs and identified a large network of entities.

AUSTRAC information revealed the two online services operating from the same physical address. A suspect transaction report (Sustr) submitted to AUSTRAC identified a director of the internet payment system making domestic transfers to the online betting service. This link between the two services raised the possibility that the financial activity was an attempt to conceal the origin of illicit funds.

The network of entities used the internet payment system to:

- transfer value between members via online accounts
- act as a remittance service that used a domestic bank to conduct international funds transfers – since the resultant international funds transfer instruction recorded the ‘remittance service’ as the sending customer, this method camouflaged the identity of the actual ordering customer.

Similarly, the network used the online betting service to:

- store funds and make them accessible to other network members through sharing account passwords
- remit and receive international funds transfers
- create the illusion of paying ‘gaming winnings’ to members of the network and offshore entities, even though no inward transactions were recorded to justify an initial bet – analysis of this activity indicated the funds were not winnings but were for possibly illicit purposes.

Case study 20 'Bankrupt' suspect used casino to launder million dollar drug payments

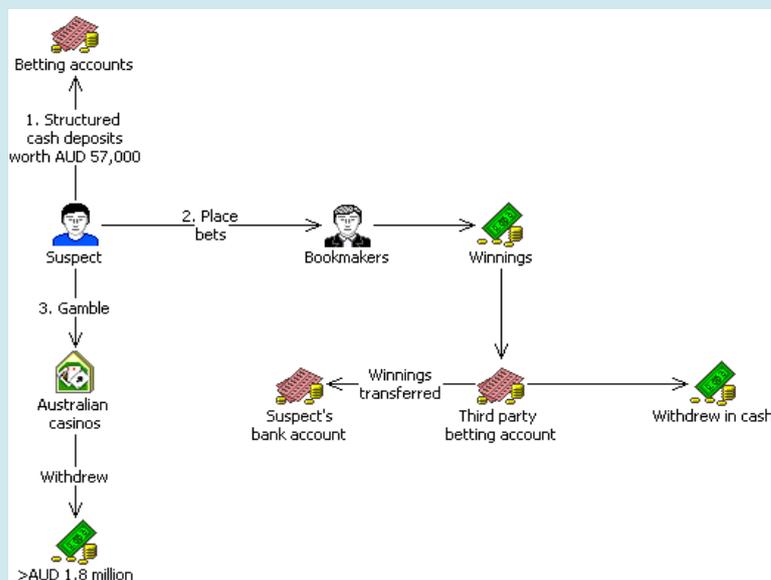
Law enforcement began an investigation into a known criminal identity who was suspected of being involved in numerous large-scale drug importations into Australia. The suspect was connected to criminal groups within Australia, including networks which provided specialised money laundering services. Analysis conducted by law enforcement authorities and AUSTRAC indicated that, despite being declared bankrupt, the suspect had deposited and withdrawn significant amounts of cash at

Australian casinos and via betting accounts. These transactions in excess of AUD 10 000 were reported to AUSTRAC. The suspect was also involved in the purchase and sale of race horses during the period of interest.

In 2007 AUSTRAC proactively disseminated a financial intelligence assessment to law enforcement agencies which detailed the suspect's gambling and betting activity at several casinos around Australia. AUSTRAC information identified:

- the suspect had conducted structured cash deposits worth approximately AUD 57 000 into betting accounts
- minimal significant cash deposits made at Australian casinos, indicating that the suspect may have been structuring cash buy-ins at the casinos
- the suspect had begun using a betting account held in the name of a third party to layer illicit funds and place bets with registered bookmakers. The bookmakers returned any subsequent winnings to the third-party betting account, where the funds were withdrawn or transferred into the suspect's bank account
- suspect transaction reports (SUSTRs) submitted to AUSTRAC also provided further important information about the suspect. The suspect was the subject of an exclusion order prohibiting him from entering or remaining at a specific casino. The exclusion order related to one casino only. AUSTRAC information indicated the suspect withdrew more than AUD 1.8 million in a series of large cash withdrawals at other Australian casinos. All of the withdrawals were gambling chip/token cash outs or payouts from electronic gaming machines.

Given the large amounts of cash the suspect was withdrawing from Australian casinos, authorities believed the suspect was moving illicit funds through Australian casinos in an attempt to disguise the withdrawn funds as legitimate winnings. This matter became subject to a subsequent wider



investigation into a major transnational network of drug trafficking syndicates.

Drug business enterprise stages: **distribution | sale**

Financial flows: **move**

Indicators:

- Customer undertaking transactions which appear to be inconsistent with their profile and/or transaction history;
- Large casino chip cash-outs;
- Large electronic gaming machine payouts;
- Multiple cash deposits below AUD 10 000 (*i.e.*, 'structuring');
- Use of third-party gaming accounts.

Source: Australia

ANNEX D

DETAILED QUESTIONNAIRE

Country or Jurisdiction	
Contact name and organisation / agency	
Contact Email	

SECTION A: GENERAL OVERVIEW	
Q.1	<p>What is the threat rating for the Afghan opiates trafficking in your jurisdiction? Please check the relevant rating.</p> <p> <input type="checkbox"/> Very High <input type="checkbox"/> High <input type="checkbox"/> Medium <input type="checkbox"/> Low <input type="checkbox"/> Very Low <input type="checkbox"/> Others (Please use the space below to specify) </p>
Q.2	<p>What are wholesale and street prices for heroin in your jurisdiction?</p>
Q.3	<p>What are the estimated quantity, modus operandi and ethnic structure of organised criminal groups dealing with heroin in your jurisdiction?</p>
Q.4	<p>What is the citizenship of persons involved into drug business in the territory of your country (at street and wholesale level)?</p>
Q.5	<p>Models used for cross border transportation of the Afghan opiates?</p> <p> <input type="checkbox"/> Carriage on person <input type="checkbox"/> Baggage/ personal belongings <input type="checkbox"/> Post/courier parcels <input type="checkbox"/> Concealment in trade consignments (if yes, please indicate which groups of goods are used more often: fruits, vegetables, textile, etc.) <input type="checkbox"/> Concealment in vehicles <input type="checkbox"/> Maritime transport <input type="checkbox"/> Others (Please use the space below to specify) </p>
Q.6	<p>Please describe characteristics of trade consignments in which the Afghan opiates were concealed (usage of front companies, frequency, economically illogic operations, any specific features of customs declarations, etc.).</p>
SECTION B: CHARACTER OF SUSPICIOUS TRANSACTIONS AND THE ML TECHNIQUES	
Subsection 1: Financial flows to/from the Islamic Republic of Afghanistan (IRA)	

Q.7	Please specify total financial flows to and from the Islamic Republic of Afghanistan (in USD) in last three years (2010, 2011 and 2012)? What currencies are used?	Year	Total inflow	Total outflow	Currencies
		2010			
		2011			
		2012			
Q.8	Categories of payment originators performing money transfers to the Islamic Republic of Afghanistan (individuals or legal persons, type of economic activity, exporter/importer, etc.)?				
Q.9	Please describe suspicious money transfers to the Islamic Republic of Afghanistan (volume and character, purpose, categories of participants, frequency, etc.)?				
Q.10	Categories of persons who are residents or former residents of the IRA and receive money transfers from abroad? Please specify the countries from which such suspicious money transfers originate. Please specify individual or the most characteristic transfer amounts and purposes.				
Q.11	Categories of persons who are residents or former residents of the IRA and make money transfers to recipients abroad? Please specify the countries of destination for such money transfers. Please specify individual or the most characteristic transfer amounts and purposes.				
Subsection 2: Financial centres					
Q.12	Please specify jurisdictions you consider convenient for accumulation and redistribution of the Afghan opiates proceeds – so-called financial centres of the Afghan drug business (list of jurisdictions, total volume of money transfers from your jurisdiction for the last three years).	Jurisdiction considered convenient	2010	2011	2012
Q.13	The volume of suspicious money transfers from your jurisdiction to these financial centres for the last three years. Which criteria were used to identify these suspicious money transfers?	Jurisdiction considered as financial centre	2010	2011	2012
Q.14	Could you please explain why you consider these jurisdictions as being convenient for accumulation of drug proceeds?				

<p>Q.15</p>	<p>Do you have cases showing that the same jurisdictions are used for accumulation and redistributing of the Afghan opiates proceeds as well as proceeds from other drugs? What types of drugs, their origin and which jurisdictions are used. Please provide case studies.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>Q.16</p>	<p>Are there persons, both residents of your country and non-residents, who make regular money transfers to one of these financial centres, or simultaneously to the financial centre and other countries? Please name these countries. Are the recipients individuals or legal persons? Please describe the nature of such financial transactions.</p>	
<p>Q.17</p>	<p>Are there any financial investigations on laundering the proceeds from the Afghan opiates business, which resulted in detection of the beneficiaries and account managers of companies used for accumulation and redistributing of these proceeds? What is the citizenship of the individuals involved? Please provide case studies.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>Q.18</p>	<p>Do you have cases showing that companies use fictitious grounds and contracts in order to channel money abroad with regard to drug proceeds being involved in such schemes? Please specify the countries of destination for such financial flows and provide case studies.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>Q.19</p>	<p>Are there money transfers from other countries to pay for export contracts for shipments of goods to Afghanistan and other Central Asian countries? Are the payment originators a party to such contracts? Were there any links between these transactions and the Afghan drug business and associated ML activities? If yes, please provide some case studies and specify the payment originator's jurisdictions.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>Q.20</p>	<p>What is the main destination for outgoing cash flows from your country? If you have information on couriers transporting cash obtained as a result of drug sale, please, specify their destination countries.</p>	
<p>Subsection 3: Money Laundering Techniques</p>		
<p>Q.21</p>	<p>What methods are commonly used to pay for drugs in your country? Please check all that apply <u>in order of frequency</u>.</p>	<p><input type="checkbox"/> Cash <input type="checkbox"/> Prepaid cards <input type="checkbox"/> Mobile payment services <input type="checkbox"/> Online money transmitters <input type="checkbox"/> Others (Please use the space below to specify)</p>
<p>Q.22</p>	<p>What methods are used for transfer of proceeds of drug business? Please check all that apply <u>in order of frequency</u>.</p>	<p><input type="checkbox"/> Cash couriers <input type="checkbox"/> Hawala or alternative remittance method <input type="checkbox"/> Bank account</p>

		<input type="checkbox"/> Money transfer service <input type="checkbox"/> Automated Teller Machines (prepaid debit cards) <input type="checkbox"/> Mobile payment services <input type="checkbox"/> Online money transmitters <input type="checkbox"/> Others (Please use the space below to specify)
Q.23	What methods are used for layering and integration of proceeds of crime related to Afghan drug business? Please check all that apply <u>in order of frequency</u> .	<input type="checkbox"/> Movement through multiple accounts/entities <input type="checkbox"/> Movement through multiple jurisdictions <input type="checkbox"/> False declaration of goods and services <input type="checkbox"/> Intermingling in cash intensive business <input type="checkbox"/> Use of corporate structures <input type="checkbox"/> Others (Please use the space below to specify)
Q.24	Do you have cases with suspicious property purchases or investments related to profits derived from the Afghan drug production and trafficking? If so, were the properties/investments made in-country or overseas? What is the type of property generally invested in? What were the jurisdictions involved?	
Q.25	Please describe any specific features allowing distinguish financial transactions linked to the Afghan drug production and trafficking and to other types of drugs?	
Q.26	Please provide as many as possible case studies to show use of ML methods and techniques in the Afghan drug production and trafficking (to the form attached).	Please make references to case studies in Annex. Case №.....
SECTION C: TERRORIST FINANCING		
Q.27	Do you have examples when drug proceeds were used for resourcing and financing of terrorism?	
Q.28	Please provide as many as possible case studies to show linkage of the Afghan drug business with resourcing financing of terrorism (to the form attached).	Please make references to case studies in Annex. Case №.....
SECTION D: LINKS WITH OTHER TYPES OF PREDICATE OFFENCES		
Q.29	Do you have examples showing that the Afghan opiates production and trafficking are linked with other predicate offences? Please check all that apply.	<input type="checkbox"/> Participation in an organised criminal group and racketeering <input type="checkbox"/> Terrorism, including terrorist financing <input type="checkbox"/> Trafficking in human beings and migrant smuggling <input type="checkbox"/> Currency counterfeiting <input type="checkbox"/> Illicit arms trafficking <input type="checkbox"/> Smuggling <input type="checkbox"/> Corruption <input type="checkbox"/> Others (Please use the space below to specify)

<p>Q.30</p>	<p>Please provide case studies to show linkage of illicit production and trafficking of the Afghan opiates with other predicate offences.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>SECTION E: FINANCIAL TRANSACTIONS LINKED TO CHEMICAL PRECURSORS</p>		
<p>Q.31</p>	<p>Do you have examples of suspicious financial transactions being linked to purchase of chemical precursors or substances used for their synthesis (for example acetic acid used for acid anhydride synthesis)? If yes, could you please describe them?</p>	
<p>Q.32</p>	<p>Do you have information about heroin being used/bartered as payment for the purchase of the chemical precursors? Please provide case studies.</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>Q.33</p>	<p>Do you have information about money transfers from other countries to pay for export contracts for delivery of such substances to Afghanistan and other central Asian countries? Are the payment originators a party to such contracts?</p> <p>If you have some cases showing linkage of such transactions with Afghan drug production and trafficking could you please provide them?</p>	<p>Please make references to case studies in Annex. Case №.....</p>
<p>SECTION F: DETECTION AND RED FLAG INDICATORS</p>		
<p>Subsection 1: Monitoring system</p>		
<p>Q.34</p>	<p>Do you have examples of initiative financial investigations in the drug enforcement area?</p>	
<p>Q.35</p>	<p>Could you please specify the data sources being used in initiative financial investigations? Which data sources would you recommend to use?</p>	
<p>Q.36</p>	<p>Are there cases of financial investigations led to the detection of persons involved in the Afghan opiates business? Were these financial investigations <u>initiative or on request</u>? Did such financial investigations lead to drug seizures?</p>	
<p>Q.37</p>	<p>What is the role of individuals identified in successful financial investigations?</p>	<p><input type="checkbox"/> small salesmen <input type="checkbox"/> couriers and small drug dealers <input type="checkbox"/> middle-sized salesmen <input type="checkbox"/> individuals involved in drug transportation <input type="checkbox"/> members of criminal organisations or associations <input type="checkbox"/> members of criminal organisations and associations who are not directly involved in drug sales (they manage the storage and packing of drugs etc). <input type="checkbox"/> financiers <input type="checkbox"/> supervisors</p>

Subsection 2: Red flag indicators		
Q.38	<p>What red flag indicators would you recommend for the financial institutions/DNFBCs to detect financial transactions linked to the Afghan opiates production and trafficking and associated ML/TF activities?</p> <p>Please share your best practices with a short explanation of each indicator (why it should be used).</p>	
Q.39	<p>What red flag indicators would you recommend for the FIUs to detect financial transactions and schemes linked to the Afghan opiates production and trafficking and associated ML/TF activities?</p> <p>Please share your best practices with a short explanation of each indicator (why it should be used).</p>	
Q.40	<p>What method would you recommend for identification of financial institutions and financial centres in which the Afghan opiates proceeds are accumulated?</p>	
Q.41	<p>Please indicate what are the red flag indicators that point towards the suspected drug proceeds disguised as a genuine business transaction between your country and the international financial centres in which the Afghan opiates proceeds are accumulated?</p>	
Q.42	<p>What monitoring system would you recommend for selection of suspicious transactions and their participants? Should it be developed on certain IT-system?</p> <p>Is this recommendation based on your positive experience?</p>	
Q.43	<p>Please describe indicators that could be used by customs authorities to detect suspicious consignments (origins, extremely high price and frequency)? Have such indicators led to any detection and seizures of drugs? If so, could you please describe some of these indicators? What were the origins of such consignments?</p>	
SECTION G: EMERGING TRENDS		
Q.44	<p>Please describe, if known, any new methods/tools and new tendencies in the process of payment for drugs and drug proceeds laundering that have appeared in recent years (such as usage of new technologies/payment methods, transfers to countries which were not observed before)? Please explain the reasons and nature of such changes.</p>	
Q.45	<p>In case of new technologies/new payment methods usage please briefly describe how they are regulated in your jurisdiction.</p>	

	Are there any gaps in regulation system that increase the threat of their usage for criminal purposes?	
Q.46	What could you suggest in order to minimise or exclude these threats?	
SECTION H: INTERACTION		
Subsection 1: Law enforcement and investigative authorities		
Q.47	Please describe an effective model of interaction between the FIUs and law enforcement agencies in the field of drug enforcement. Is it based on your positive experience?	
Q.48	Please share best practices of such interaction (successful joint measures) in your jurisdiction.	
Q.49	Please provide case studies to show use of special investigative technique, multi-disciplinary coordination for combating the Afghan opiates production and trafficking.	
Q.50	Please share examples of successful investigations conducted in assistance with foreign FIUs and law enforcement authorities.	
Q.51	<p>What would you suggest or recommend to improve international cooperation in combating the Afghan opiates production and trafficking (including information exchange, international joint operations, etc.)</p> <p>In your experience what are the major impediments encountered in international cooperation against Afghan opiates production and trafficking?</p>	
Q.52	Is there any additional information regarding financial flows linked to the Afghan opiates production and trafficking you would like to provide?	

ANNEX E

RED FLAG INDICATORS

This Annex provides transaction patterns that are often associated with laundering proceeds of Afghan opiate trafficking and are also likely to be relevant to other narcotics types. These ‘elemental’ indicators may be used by financial institutions as well as FIUs in various combinations with each other (as building blocks).

Several of the indicators suggest the relevance of individuals’ ethnicity, place of residence or nationality. These factors alone should not be considered as primary grounds for suspicion. However, in certain instances and jurisdictions, such information may provide supporting intelligence to other indicators of suspicion which may support the identification of individuals involved in criminal activities. **This typology in no way supports the direct discrimination of individuals or communities solely on the grounds of ethnic origin or nationality.**

- Transactions (incl. via non-banking remittance systems) are conducted between persons who belong to communities of the same national origin in different countries. These communities are ethnically related to a drug producing country.
- Funds transfers originate from known financial hubs;
- Amounts of money transfer carried out by natural persons and legal entities are multiples of 100, 1000, 10 000 and sometimes 100 000 USD, EUR or national currency. Payment purposes are put on a random basis: “for cars”, “for current expenses”, “for goods”, “loan”, “material aid”, etc. The transfers usually have no economic sense. Also, the beneficiaries of the transfers don’t send any goods to originators.
- Money source is unknown.

In this case, the originator of transfer is not able to provide documents on the source of the money. For example, individuals (residents and non-residents in a country) purchase USD or EUR for national currency cash and send it abroad but they can’t describe the source of the cash. The money could be transferred from a bank account or through a non-banking system.
- Money transfers are not related to entrepreneurial, investment activity or real estate purchase. Usually originators of such transfers are non-resident individuals.
- Foreign currency exchange transactions are carried out by non-resident individuals over a short period of time, and transfers are effected through non-banking remittance systems.
- Funds received into/sent from Afghanistan but goods not exported/imported.

- Large amounts of funds being received from /sent to Afghanistan as advances for export /import.
- Description of the goods is vague and their value and total quantity not ascertainable at the time of initiation of transaction.
- Suspicious background or link with known drug-traffickers.
- Unusual activity in an account compared to the past transactions.
- Large number of accounts having a common holder.
- Payment for goods with a price that is vulnerable to manipulation.
- Third party payments for exports.
- Financial transactions are made frequently through automatic teller machine.
- Wire transfers from the international financial centre including payments for certain types of exports which are easy to manipulate for the purposes of valuation such as antiquaries, software, fake services, etc.
- Enhanced monitoring of the business or persons providing financial services in the international financial centres.
- Money transfers to/from exchange offices established in financial centres.
- Identification of MVTs operators having linkages with the international financial centre and monitoring their activities.
- Cash deposits to the account of an import-export company with further transfer to the international financial centre.
- Use of exchange offices to transfer funds.
- Multiple cash deposits and withdrawals.
- Multiple cash deposits on the e-wallet.
- Multiple transfers from the e-wallet to the 'transit country' via the money remittance system.
- Multiple cash deposits on plastic cards conducted by individuals ethnically linked to the drug producing and transit countries.