

Why is money laundering a critical issue in natural resource corruption?

Louise Shelley, Nancy and Omer Hirst Chair, Schar School of Policy and Government, George Mason University

Key takeaways

- » Following the illicit financial flows from natural resources is key to stemming corrupt and criminal activity.
- » Illicit financial flows often enter the United States (U.S.) and other developed economies and can be prosecuted through the U.S. and other judicial systems where rule of law is stronger.
- » Countries known for long-term corruption, under the right circumstances, can help bring greater accountability to the natural resource sector, with international support.

The challenge

The profits from illicit natural resource trade in fish, timber and wildlife are [estimated to be between USD 62.5 billion and 316.4 billion annually](#).¹ These funds are usually transferred through banks, corporations and other accounts in the international financial system. “Following the money,” confiscating it and arresting the money launderers, however, has received less attention than arresting the individuals most closely associated with illegal shipments, poached animals or undocumented catch. Yet this next step helps reveal the networks that finance, facilitate and grow rich from environmental crimes, and it is key to preventing these crimes and related corruption because the illicit gains have minimal value if they can’t be used in the international financial system. By following the money flows, it is possible to target the perpetrators and their facilitating networks ([Haenlein and Keatinge 2017](#); [Rose 2014](#)) and ensure that crime does not pay.

¹ Illegal, unreported, and unregulated (IUU) fishing is estimated at USD 15.5 to 36.4 billion, illegal logging at USD 52 to 157 billion and illegal wildlife trade at USD 5 to 23 billion. These figures suggest a lower limit of USD 62.5 billion to a high of 316.4 billion.

Money laundering – the basics

The processes by which criminally-derived property may be laundered are many, but they typically involve [three stages](#) (see **Figure 1**):

- » **Placement**, in which criminally derived funds are introduced in the financial system;
- » **Layering**, in which the property is ‘washed,’ and its ownership and source is disguised; and
- » **Integration**, in which the ‘laundered’ property is re-introduced into the legitimate economy.

Movement of money can occur in the simplest form of cash, or it can range to complex schemes through banks, real estate, [trade-based money laundering](#) and even crypto-currencies. Examples related to natural resources include the following:

- » The [deforestation of Gambia](#) generated an estimated USD 356 million over twenty years. The country’s president Yahya Jammeh moved profits **through cash and well-recognized international banks**.

Important terms

Money laundering: The process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source.

Illicit financial flows: Movement of funds from illicit sources, including corruption and illegal natural resource trade, into and through the financial system.

Follow the money techniques: Method used by investigators to track the financial flows among actors suspected of crime or corruption.

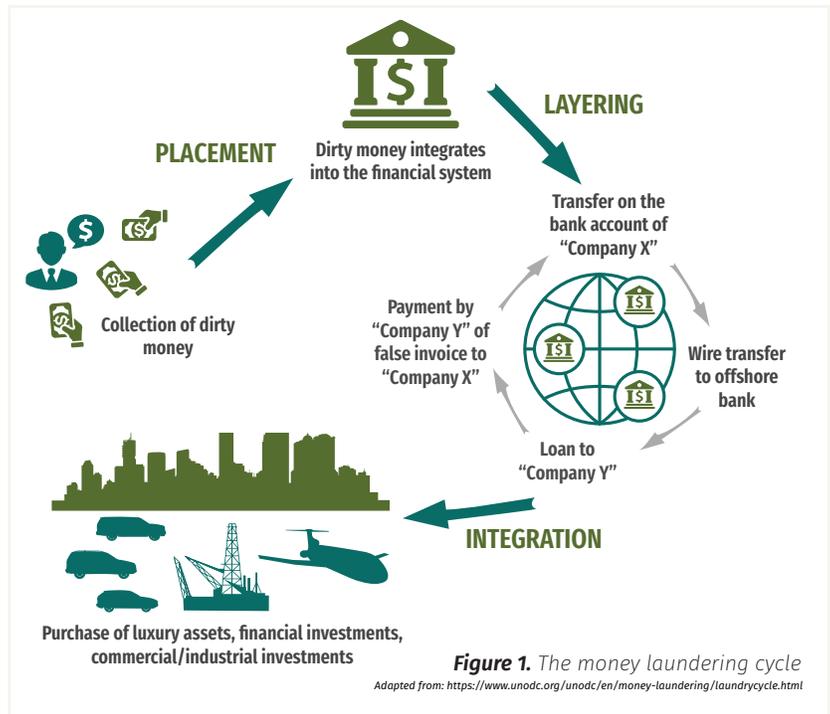


Figure 1. The money laundering cycle
Adapted from: <https://www.unodc.org/unodc/en/money-laundering/laundrycycle.html>

- » Funds generated by illegal deforestation in Sarawak were **laundered into real estate** in the United States that was [later occupied](#) by the U.S. Federal Bureau of Investigation.
- » Profits from [illegal export of rock lobster from South Africa to the U.S.](#), amounting to tens of millions of dollars, were **hidden in an offshore account** in Jersey, making them untouchable by law enforcement.
- » In a [2015 case](#) involving the U.S. company Lumber Liquidators, illegally-cut timber was laundered into the legitimate supply chain through **trade-based money laundering**. This was the [largest financial penalty for timber trafficking under the U.S. Lacey Act](#) which bans trafficking in illegal wildlife, plants and plant products.
- » The newest tendency is to **launder money through cryptocurrencies**, which can be traded with great anonymity. These are being increasingly used for online purchases allowing for the illicit trade of natural resources.

An Indonesian success story?

The Indonesian Corruption Eradication Commission ([Komisi Pemberantasan Korupsi, KPK](#)) has gained a significant reputation for [investigating](#) high-level corruption since its founding in 2003. It has investigated and tried high-level targets and has a high conviction rate.

Unlike other anti-corruption bodies, the KPK has focused on natural resource investigations, especially the [corruption associated with the timber sector](#). In the early 2000s, a parliament member was sentenced to eight years imprisonment for accepting bribes to allow the conversion of protected forest zones into land where trees could be cut. Subsequently, in 2007, two government officials and an executive of a logging company were sentenced for illegal logging. The following year, an eleven-year sentence was handed down to a government regent for his role in illegal logging.

By 2014, one third of regents (heads of district governments) were under [investigation for corruption](#), primarily for issuing logging permits in violation of regulations, [mainly to allow expansion of oil palm plantations](#). The [KPK investigations](#) suggest that Indonesia may have lost as much as USD 9 billion in revenues from 2003 to 2014 due to companies under-reporting timber production. Fees and royalties were collected only on approximately 19-23 percent of total timber production.

The KPK for many years sustained efforts to investigate systemic domestic corruption in the natural resource sector and had positive results. Following the money and examining permitting agreements helped bring high-level officials to trial and held them accountable. Significant [constraints on the KPK's powers and independence](#) imposed in late 2019 reveals the difficulty in maintain long-term efforts against corruption in the face of powerful interests.

Is it possible to follow the money in a highly corrupt environment?

Following the money has been used to pursue corrupt actors even in highly corrupt environments. Investigations of corrupt leaders and their financing have provided insights on the networks, assets, and sometimes even personal movements. This process has been used against corrupt officials who have moved their money to the U.S., France, the United Kingdom, Switzerland, and other countries. For example:

- » The Sovereign wealth fund of Malaysia (1MDB) whose resources were invested in the U.S. by corrupt officials ([Wright and Hope 2018](#)).
- » France [charged the daughter of the president of the Congo](#) with money laundering.
- » Switzerland is now [returning laundered funds](#) stolen by former Nigerian President Sani Abacha.

While less has been done in countries of the Global South to counter money laundering related to corruption, there are some noted exceptions from

Latin America and Asia that reveal the impact of carefully executed investigations even in highly corrupt environments.

- » In Brazil, a [major investigation of corruption in construction and oil sectors](#), among others, have led to the payment of USD 2.6 billion in fines in the U.S. and Switzerland and have implicated the top leadership of Brazil and other Latin American countries. At present every former president of Peru is [now under investigation](#) as a result of the Brazilian judicial investigations.
- » The United Nations (UN)-sponsored [International Commission against Impunity in Corruption \(CICIG\)](#) in Guatemala made enormous strides in tackling corruption and following illicit financial flows until high-level officials blocked its efforts.

Corruption investigations in Africa reveal the role of officials, particularly the police, but little has been done by African authorities to follow the money, ([OECD 2018](#)).

Lessons and recommendations

Partner with civil society groups: Many of the investigations noted above were initiated or supported by investigative journalism and engaged non-governmental organizations (NGOs). Efforts to galvanize civil society more broadly against different forms of corruption and illicit trade may also have a positive impact on environmental outcomes, as illegal natural resource activities often converge with other forms of illegal activity. At the same time, programmatic support for civil society and investigative journalism should also take into account the very real risks to environmental defenders and those investigating corruption. [Thirteen environmental journalists](#) have been killed and there are 16 more suspicious deaths in the last decade.

Some initiatives conducting financial investigations related to natural resource management:

[Environmental Investigation Agency](#) investigates illegal activity related to forests, fisheries and wildlife.

[The Gecko Project](#) is an investigative journalism initiative focusing on corruption driving land grabs and destruction of tropical rainforests.

[Liberty Asia](#) has studied labor trafficking in the fishing sector.

[Organized Crime and Corruption Reporting Project](#) (OCCRP) investigates the abuse of power and corruption by government officials. Its environmental investigative work includes illicit trade in timber in Gambia and it covers environmental crime and investigations.

Develop knowledge and capacity: Providing training both domestically and internationally to individuals in leadership roles in combating transnational crime may be useful. Donors, NGOs, and international organizations can provide invaluable assistance. The Organization for Economic Cooperation and Development (OECD) holds fora on anti-corruption, and multi-national bodies such as the Organization of American States and the United Nations Office on Drugs and Crime (UNODC) provide advice on enhancing anti-corruption capacity. American organizations also have resources that can be used to advance these efforts. For example, USAID missions can recommend leaders on protection of environmental resources to International Visitor Leadership Program (supported by the U.S. Department of State) on transnational crime, anti-corruption and illicit financial flows. Individuals working in government ministries on natural resource issues can be recommended for Humphrey programs to develop capacity that will be used by the individual on return home to apply techniques learned in the U.S. on mechanisms to protect natural resources.

Consider international options: Several countries and international entities now have laws that facilitate investigation and prosecution of illegal actions through financial investigations. The Foreign Corrupt Practices Act (FCPA) in the United States has been used extensively to target corruption related to the oil sector in many Latin American countries. Large scale multi-national investigations in Brazil started with the Odebrecht case but [major investigations concerning bribery](#) have been initiated in Argentina, Ecuador, and Colombia. [An indictment in Florida in 2018](#) addressed money laundering in the U.S. and illicit financial flows from Latin America resulting from illegal gold mining.

Learn More

- » Cathy Haenlein and Thomas Keatinge, “Follow the Money: Using Financial Investigation to Target Wildlife Crime,” RUSI Occasional Paper, 2017. https://rusi.org/sites/default/files/201709_rusi_follow_the_money_haenlein.keatinge.pdf
- » Global Financial Integrity, “Illicit Financial Flows and the Illegal Trade in Apes,” Washington, DC, October 2018. <https://gfiintegrity.org/report/illicit-financial-flows-and-the-illegal-trade-in-great-apes/>
- » OECD, “Strengthening Governance and Reducing Corruption Risks to Tackle Illegal Wildlife Trade: Lessons from East and Southern Africa,” Paris, 2018. <https://www.oecd.org/gov/risk/strengthening-governance-and-reducing-corruption-risks-to-tackle-illegal-wildlife-trade-9789264306509-en.htm>

References

Haenlein, C and T. Keatinge. 2017. “Follow the Money: Using Financial Investigation to Target Wildlife Crime.” RUSI Occasional Paper.

https://rusi.org/sites/default/files/201709_rusi_follow_the_money_haenlein.keatinge.pdf

OECD. 2018. “Strengthening Governance and Reducing Corruption Risks to Tackle Illegal Wildlife Trade: Lessons from East and Southern Africa.”

<https://www.oecd.org/gov/risk/strengthening-governance-and-reducing-corruption-risks-to-tackle-illegal-wildlife-trade-9789264306509-en.htm>

Rose, G., ed. 2014. *Following the Proceeds of Environmental Crime: Forests, Fish and Filthy Lucre*. Routledge.

<https://www.routledge.com/Following-the-Proceeds-of-Environmental-Crime-Fish-Forests-and-Filthy/Rose/p/book/9780415532396>

Wright, T. and Hope, B. 2018. *Billion Dollar Whale: The Man who Fooled Wall Street, Hollywood and the World*. Hachette.

<https://www.hachettebooks.com/titles/tom-wright/billion-dollar-whale/9780316436502/>

About Targeting Natural Resource Corruption

The Targeting Natural Resource Corruption (TNRC) project is working to improve biodiversity outcomes by helping practitioners to address the threats posed by corruption to wildlife, fisheries and forests. TNRC harnesses existing knowledge, generates new evidence, and supports innovative policy and practice for more effective anti-corruption programming. Learn more at tnrcproject.org.

Disclaimer

This publication is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of the Targeting Natural Resource Corruption (TNRC) project and do not necessarily reflect the views of USAID, the United States Government, or individual TNRC consortium members.

