

Trade-Based Money Laundering and Natural Resource Corruption

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Key takeaways

- » TBML is a form of money laundering commonly used to hide proceeds of environmental crime and related corruption.
- » Natural resource crime is rarely committed in a vacuum – it is nearly always facilitated by corruption and combined with other types of criminality.
- » Reducing opportunities for laundering the proceeds of environmental crimes helps reduce the overall appeal of these crimes.
- » Partnerships with government, law enforcement, and private entities focused on financial crimes and illicit financial flows can help natural resource management and conservation practitioners create and implement programming that is more resistant to corruption and money laundering vulnerabilities.

This introduction is meant for anyone working in the natural resource and conservation sectors who is not familiar with the financial crime of trade-based money laundering (TBML), which is often associated with environmental crime and corruption. It complements [other TNRC resources](#) on financial crime and money laundering, to help orient practitioners to corruption risks and responses they may not be familiar with.

Why is money laundering a concern for natural resource management (NRM)?

The process of moving ill-gotten gains into the formal financial system and disguising the roots of those profits is called [money laundering](#). If a person makes money illegally or illicitly, it is difficult to use that money without revealing its origins. This is why money laundering goes hand in hand with natural resource crime. At the same time, once money is in the international financial system, it leaves a paper trail, making the crime of money laundering often easier to identify and document than the initial (predicate) crime. “Follow the Money” has long been a popular strategy in combatting illicit trade and corruption, even if prosecution is based on a financial crime rather than the criminal act that generated the funds. Some governments have had success finally securing conviction of notorious criminals once they incorporate anti-

money laundering strategies and prosecute crimes like money laundering, tax evasion, etc.

Two well-known methods for laundering large sums of money are Trade-Based Money Laundering (TBML) and Money Laundering into Real Estate (MLRE). This introduction discusses TBML, the role it plays in corruption in the natural resource sector, how to identify it, and how to find resources to combat it. An additional TNRC resource will focus on MLRE (forthcoming).

What is trade based money laundering (TBML)?

TBML is the process of laundering money through the use of trade transactions. While the trade itself can involve licit goods, illicit goods, or some combination of the two, the main goals of TBML are to disguise criminal origins of funds, integrate them into the international financial system, and transfer value to a different actor or location. TBML schemes vary widely, from simple to complex, and almost always involve a form of corruption, such as bribery or other abuses of entrusted power for private gain. These corrupt actions to facilitate TBML help make environmental crime even more profitable.

A common, simple method to launder money through trade is misinvoicing. To misinvoice is to falsify

information about a shipment, like the value, contents, or volume or quantity. Misinvoicing serves other illicit purposes, like moving money to avoid taxes or fees, that are beyond the scope of this paper. Misinvoicing as part of TBML allows the transfer of value from the sender to the receiver, or vice-versa. In Figure 1, the sender is transferring value to the receiver and creating a paper trail that makes the proceeds of that transfer look legitimate. In the case of natural resources, this might be done by misinvoicing the value, as shown below, but is also commonly done by misinvoicing the product itself – for example, invoicing a shipment of rosewood as another type of wood, or combining pangolin scales and tea leaves in a single shipment and invoicing only for the tea. In all of these cases, legitimacy is gained by having official-looking documentation, or safe passage is secured by avoiding inspection – both of which are acquired through corruption.

Sometimes misinvoicing alone will not move enough money and still keep its roots obscured. TBML can also involve complex, global schemes that move multiple types of goods through many locations, with the cooperation of numerous legitimate or illegitimate companies. Uncovering these structures requires deep investigation and can be difficult to understand and dismantle. For a good example, see [box 5 on page 19 of this report](#) from the Financial Action Task Force (FATF).

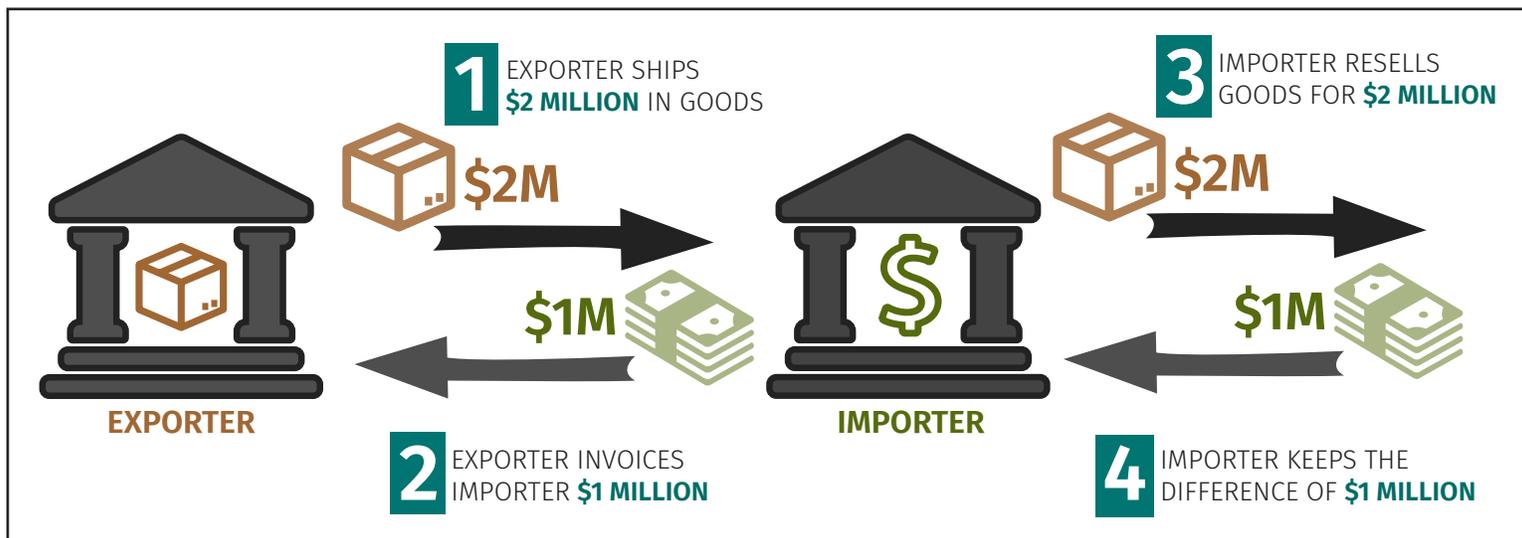


Figure 1: Example of a simple TBML scheme. Source image: [ACAMS](#)

Why is TBML a common method for laundering the proceeds of natural resource corruption?

- » Many types of natural resources are difficult to smuggle and therefore need to be inserted along licit supply chains in order to move them. This could apply to timber that is large and requires road infrastructure, or fish and live animals that require climate control capabilities. At the same time, bulk cash smuggling is difficult due to the size and weight of large sums of money, along with regulations around banking or traveling with large sums. These difficulties make TBML an attractive way to move payments and launder proceeds.
- » Some resources are highly regulated along the supply chain, and at local, national and international levels. This can lead to confusion or complacency and provides many access points to exploit potentially corrupt actors to facilitate illicit trade. Deregulation may be equally problematic – indeed, unsustainable exploitation is usually the reason for regulation. Simple “one-size-fits-all” solutions are rarely appropriate.
- » Natural resource products are easy to co-mingle with other licit and illicit goods.
- » Because many natural resources are legal to buy and sell in certain situations and not in others, it takes specialist expertise to distinguish licit goods from illicit ones.
- » Actors who use TBML tactics often engage in more than one type of illicit activity and will include natural resources in their “portfolio.” This concept is known as “convergence.”

Why is TBML important?

The scale of TBML is hard to assess accurately, but [officials estimate figures in the hundreds of billions USD annually](#). The reasons for this lack of specificity are many, but key among them are 1) the fact that TBML is used to obscure and hide the sources of financial gains, and 2) TBML is often used in the trade of goods for

which there is no fixed market or price, so identifying likely misinvoicing is particularly difficult. Developing countries rich in high-value commodities such as timber, fish and wildlife, are particularly susceptible to TBML. Again, this can be for many reasons, including lacking inspection capacity, corruption that facilitates the creation of falsified documents or inspection avoidance, or weak laws or capacity around financial crimes and tracking.

TBML has profound and long-lasting consequences on the natural resource sector because it enables corrupt actors to monetize the financial benefits from natural resource extraction and take them out of the source country, while leaving the social and environmental costs behind. Some of these consequences include:

- » Loss of financial capacity for the country or the project, harming the local economy
- » More corruption at every stage of the process
- » Unregulated deforestation
- » Endangers species and natural resources
- » Perpetuates conflict in resource rich countries
- » Helps fund crime and terrorism
- » May provoke mass human displacement as livelihoods and stable food sources are depleted

Recognizing red flags for TBML

Trade in goods has expanded exponentially in recent decades, so the vast majority of imports and exports are never subjected to physical search. Instead, customs officials, banks, and law enforcement rely on “red flags” to identify suspicious transactions and follow the “paper trail” of the transaction as it goes through the international trading system (see Table 1). Some red flags are unique to particular points along a supply chain, while others may be present throughout. NRM and conservation projects that are concerned with reducing the appeal of environmental crimes by limiting money laundering should try to anticipate this variance to guard against working with bad actors or missing critical risk points where corruption can facilitate TBML and other money laundering.

Financial & Business Red Flags

- » Preference for cash payments
- » Unusual transfers to vendors, for example, multiple payments near but below the amount that would require reporting by financial institutions
- » Payment to a vendor by unrelated third parties, either in cash or by wire transfer
- » Trade in commodities that are difficult to value, like used goods
- » Discrepancy on financial documents such as invoices and bills
- » Imports declared by respective countries that do not match exports received
- » Invoices in even numbers, possibly ending in multiple zeros
- » Ownership or affiliation with companies from multiple sectors, particularly those that seem unrelated

Who Investigates?

- » Banks and Financial Institutions
- » Tax and revenue services or ministries
- » Financial Intelligence Units
- » Professional Organizations like ACAMS (Association of Certified Anti Money Laundering Specialists)
- » Financial Action Task Forces (FATFs)

Trade Red Flags

- » Carousel transactions (the repeated import and export of the same high value commodity)
- » Misinformation between the importers and exporters such as trade misinvoicing
- » Unusual shipping routes, including import into one country and immediate re-export to another
- » Commodities that travel through Free Trade Zones (FTZ) for no apparent reason
- » Presence of other illicit trades or criminality, which indicates presence of convergence
- » Commodities being traded that do not match the business involved, ie. a trader of used cars is now interested in natural resource concessions

Who Investigates?

- » Customs enforcement
- » Trade Transparency Units
- » Investigative journalists
- » NGOs
- » CITES

Table 1: Red flags for TBML

Incorporating understanding of the role of corruption in NRM and considerations of money laundering risks into NRM project design and implementation can be an important safeguard for the success of NRM and conservation work. It is always important to consider the context when thinking about prospective actions when a red flag is identified. In highly corrupt environments, reporting natural resource corruption or crime can put personal safety or the ability to continue a project at risk. Becoming familiar with local policy and a country's participation in international agreements and multinational organizations can provide additional understanding of the risks and mediation approaches available. For example, wildlife trafficking and corruption are predicate offenses for money laundering under US statutes, but not in all countries. Money laundering that involves the US financial system (such as using US dollars) can potentially be prosecuted by US authorities, even if the predicate offense took place elsewhere.

How can we address TBML in natural resource sectors?

While NRM practitioners may not ever directly see TBML in their work, it is important to know that data exists to help identify it (see Box 1) and that experts and organizations exist can see and interpret this data, especially if they know where to look. Sometimes noticing an anomaly or suspicious transaction can be the key to investigating TBML and related corruption in the natural resource sector. Practitioners can draw on resources in government, law enforcement, the private sector, and NGOs to help detect and combat money laundering associated with an NRM project.

In Government: The main inter-governmental body established to fight money laundering is the [Financial Action Task Force \(FATF\)](#), established in 1989. Members are mainly developed economies, but many more countries are associated with FATF through [geographic](#)

[groupings](#). FATF issued [40 recommendations on identifying and combatting money laundering](#) and keeps a watch list of “[high-risk and other monitored jurisdictions](#)” whose compliance is problematic. This organization is now focusing on TBML, and has recently issued recommendations specific to [money laundering and illicit wildlife trade](#).

Another important inter-governmental actor is [the Egmont Group](#), a network of 164 [Financial Intelligence Units \(FIUs\)](#). These are specialized units, usually located in a country’s treasury ministry, that serve as national centers for the receipt and analysis of suspicious transaction reports and other information relevant to money laundering, associated predicate offences and financing of terrorism. In some cases, NRM and conservation practitioners can make direct contact with the FIU in the country they work in if they are concerned about trade-based money laundering in their sector. [FINCEN](#), a Department of Treasury bureau, is the United States (US) FIU and communicates directly with all the others.

In the Private Sector: Practitioners seeking to reduce opportunities for TBML can get to know the main private sector actors involved in the transport, trade, and financing of the commodities in a given sector, to better understand the supply chain and financial flows in that sector. Such companies might include foreign companies who run the ports, freight forwarders, and other logistical services. Some trade or professional associations, such as Chambers of Commerce, Tourist Associations, or logistics and transport professionals with foreign linkages may have an interest in transparency.

[Conservation organizations have started to work with local chapter of ACAMS](#) (Association of Certified Anti-Money Laundering Specialists) to better understand the financial aspects of environmental crime. Bank staff and bankers’ associations can also be a resource. Any local bank that has a correspondent account with a US bank has some reporting and “know your customer” requirements. Bankers cannot share information about their clients, but they can receive information, and they can provide education on their areas of concern in natural resource sectors. Building relationships with

The international community has developed several indices that can help you understand the risk of TBML in your country, region and sector. These include:

The Basel Anti-Money Laundering (AML) Index is an independent annual ranking that assesses the risk of money laundering and terrorist financing (ML/TF) around the world.

The Global Illicit Trade Environment Index evaluates 84 economies on their structural capability to prevent illicit trade.

The World Bank Logistics Performance Index (LPI) identifies the challenges and opportunities that countries face in their performance on trade logistics.

The Global Financial Integrity Listing (GFI) provides an annual estimation of illicit financial flows to and from 148 developing countries.

Box 1: Data sources on TBML

these private sector actors can be a source of advice about corruption and money laundering risks or drivers of environmental crime and possible ways to respond.

In addition, some non-governmental organizations, donors, and international organizations are interested in transparency, including some that focus specifically on environmental corruption and its impacts. They have access to many commercial and publicly-available trade and shipping databases that can track specific shipments, exports and imports. Examples include:

- » [C4ADS](#) conducts research and analysis via open source tools
- » [The Gecko Project](#) conducts investigative reporting on land deals, corruption, rights, and rainforests
- » [Global Financial Integrity](#) is a think tank focused on illicit financial flows
- » [Environmental Investigation Agency](#) investigates illegal activity related to forests, fisheries, and wildlife

Assess opportunities to partner with law enforcement.

Local law enforcement can make good partners for improving inspections, investigations or prosecutions

of environmental crimes and related financial flows, but assessment of the enabling environment inside and outside enforcement institutions is critical. Law enforcement actors in some cases have been implicated in corruption related to natural resources. While such actions may be driven by low wages or perceived “acceptability” of corruption, other cases may involve officers working to profit from illicit trades in natural resources, or actively

protecting those that commit environmental crimes or money laundering. Providing [training and support to carefully selected law enforcement entities](#), so that they can better understand these issues, follow international standards of investigation and liaise efficiently with potential countries of prosecution can make an important contribution to fighting TBML.

Learn more

- » Louise Shelley, 2020. “[Why is money laundering a critical issue in natural resource corruption?](#)” TNRC Introductory Overview.
- » Global Financial Integrity, 2018. “[Illicit financial flows and the illegal trade in great apes.](#)”
- » Financial Action Task Force, 2020. “[Money laundering and the illegal wildlife trade.](#)” FATF Report.

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.

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