

Committee: United Nations Office on Drugs and Crime

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Topic: The Impact of Money Laundering in Organized Crime Bodies



I. INTRODUCTION

Within the United Nations (UN) there are 6 main bodies, the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council, the International Court of Justice, and the UN Secretariat. The Security Council's first meeting was on January 17th of 1946 and its main purpose is to maintain international peace. The United Nations Office on Drugs and Crime (UNODC) is a United Nations agency that leads the global fight against illicit drugs and international crime. It was established in 1997 and is headquartered in Vienna, Austria.

The organization is responsible for addressing the global threats posed by drugs, organized crime, corruption, and terrorism. The UNODC provides member states with technical assistance, research, and training to prevent and combat these threats; and to promote the rule of law and human rights which is mandatory. The organization focuses on promoting sustainable development and addressing the root causes of drug abuse and crime. UNODC works closely with national governments, civil society organizations, and other international agencies to achieve its goals, and is recognized as a leading authority on drug control and crime prevention. Yearly, the UNODC presents a general report of its work regarding what is mentioned above.

Money laundering is a determining component of operations in criminal organizations, particularly drug cartels, as it allows them to conceal various actions and legitimize the profits emerging from illicit activities. Cartels use a wide range of techniques to launder money, including the use of front companies, shell corporations, and money transfer services. The impact of money laundering contributes to the destabilization of global economies, increases crime rates, and undermines the rule of law. Governments and law

enforcement agencies around the world continue to work against money laundering, but the complex nature of these criminal operations makes it remain a significant challenge.

Money laundering is typically supported by criminal organizations such as drug cartels, human trafficking networks, and terrorist groups, among others. These organizations generate large sums of money through illicit activities like drug trafficking, extortion, fraud, etc, and then use money laundering techniques to conceal the source of their funds and make them appear legitimate.

According to various reports and studies, money laundering has indeed been on the rise in recent years. This increase is due to a combination of factors, including the globalization of financial markets, advances in technology which makes it easier to transfer funds globally, and the growth of the digital economy. The COVID-19 pandemic has also been cited as a contributing factor, as criminals have taken advantage of the disruption caused by the crisis to carry out financial crimes. In addition, many countries have strengthened their anti-money laundering laws and regulations, which has made it more difficult for criminals to launder money through traditional channels. As a result, criminals have sought for new, innovative methods to launder their funds, for example virtual assets like cryptocurrencies, that also pose new challenges for law enforcement and regulators.

Furthermore, the Office works against other criminal activities that fuel instability, insecurity and undermine global health and sustainable development. Through research, legal and technical assistance, preventive and operational activities, capacity-building and outreach, UNODC mobilizes a response to multi-dimensional threats to the rule of law and sustainable development. UNODC's mission is to assist Member States in their struggle against illicit drugs, crime and terrorism so that all people can live in safety and dignity. To achieve this, UNODC works to strengthen legal frameworks, enhance the rule of law, promote efficient criminal justice systems and encourage public education, health and sustainable development. By helping governments build firm foundations for global security, UNODC creates a safer, more secure society for all.

II. HISTORY OF THE CONFLICT

1980: Rise of Drug Cartels - Drug cartels, such as the Medellín Cartel in Colombia led by Pablo Escobar and the Cali Cartel, amass enormous wealth through drug trafficking operations.

1986: Money Laundering Control Act (MLCA) - The United States passes the MLCA, making money laundering a federal crime and enabling authorities to prosecute individuals involved in the process.

1990: Bank of Credit and Commerce International (BCCI) Scandal - The collapse of BCCI reveals its involvement in money laundering for various criminal organizations, including drug cartels. This highlights the global scale and complexity of money laundering operations.

1994: RICO Act Amendments - The U.S. Congress strengthens the Racketeer Influenced and Corrupt Organizations (RICO) Act to include money laundering offenses, enhancing law enforcement's ability to target criminal organizations, including drug cartels.

2000: Formation of Financial Action Task Force (FATF) - FATF, an international body, is established to combat money laundering and terrorist financing by setting global standards and promoting cooperation among countries.

2006: Operation Fast and Furious - The U.S. Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) allows firearms to be sold to suspected straw buyers in an attempt to track them to Mexican drug cartels. The operation raises concerns about cartel money laundering activities and the consequences of illicit drug trade.

2010: Lebanese Canadian Bank Money Laundering - The U.S. Treasury Department designates the Lebanese Canadian Bank as a "primary money laundering concern" due to its involvement in facilitating money laundering for drug cartels, including the Lebanese Hezbollah.

2015: Panama Papers Leak - The Panama Papers leak reveals the extent to which offshore shell companies and tax havens are exploited for money laundering purposes by individuals and criminal organizations worldwide, including drug cartels.

2020: FinCEN Files Investigation - A global investigation by the International Consortium of Investigative Journalists reveals how major banks facilitate money laundering and move illicit funds, including those from drug cartels. The leaked documents expose systemic weaknesses in anti-money laundering efforts.

2022: Strengthened Anti-Money Laundering Measures - Governments and financial institutions worldwide enact stricter regulations and enhanced due diligence procedures to combat money laundering, responding to growing concerns about the scale and impact of cartel-related money laundering activities.

III. CURRENT HAPPENINGS

Governments and regulatory bodies continue to enhance anti-money laundering (AML) regulations and frameworks. Many countries are implementing stricter AML measures to address evolving risks and comply with international standards set by organizations like the Financial Action Task Force (FATF). Authorities worldwide are stepping up their efforts to combat money laundering. Financial institutions face greater scrutiny, and regulators are imposing significant fines and penalties for non-compliance with AML regulations.

High-profile cases and investigations related to money laundering are being reported regularly. Virtual currencies, including cryptocurrencies, have garnered significant attention in the context of money laundering. Governments and regulatory bodies are working to establish regulatory frameworks for cryptocurrencies to address concerns related to their potential misuse for illicit activities. The rise of emerging technologies, such as decentralized finance (DeFi), non-fungible tokens (NFTs), and virtual assets, have introduced new challenges for detecting and preventing money laundering. Regulators and enforcement agencies are closely monitoring these developments to ensure appropriate measures are in place to mitigate associated risks.

FATF sets international standards and recommendations to combat money laundering and terrorist financing. These standards, known as the FATF Recommendations, provide a comprehensive framework of measures that countries should adopt to prevent, detect, and deter money laundering activities. The recommendations cover areas such as customer due

diligence, suspicious transaction reporting, international cooperation, and the freezing and confiscation of proceeds of crime.

IV. KEY POINTS

- **Distortion of economic indicators**

Money laundering skews economic indicators and statistics, making it difficult to obtain an accurate picture of a country's economic health. Illicit funds injected into the economy can artificially inflate asset prices, property markets, and financial markets, leading to distorted economic growth rates and investment patterns. Money laundering also allows individuals and organizations to hide and evade taxes. As a result, governments lose out on potential tax revenues, impacting public finances and the provision of essential services such as healthcare, education, infrastructure, and social welfare programs. This can lead to budget deficits and a strain on the overall economy.

- **The expansion of fentanyl**

Fentanyl is a potent synthetic opioid that has been associated with various illegal activities, including money laundering. Due to the fact that it is a highly profitable illicit drug due to its potency and relatively low production costs, criminal organizations involved in its manufacturing and distribution can generate substantial profits. Money laundering allows them to legitimize these illicit proceeds and integrate them into the legal economy. Fentanyl's illicit profits can be laundered through trade-based money laundering schemes. Criminals may manipulate import-export invoices, overstate or understate values, or engage in false invoicing to disguise the movement of funds across international borders. This technique allows them to transfer money while making it appear as if legitimate trade transactions are taking place, fentanyl pills have generated up to 20 million dollars per kilo.

- **Technological advancements such as virtual currencies**

Money laundering techniques have evolved together with technological advancements. Criminals take advantage of digital platforms, cryptocurrencies, online payment systems, and other digital tools to facilitate illicit financial activities and distract from the real source of funds. Virtual currencies, like Bitcoin, have gained popularity in illicit activities due to their perceived anonymity. While cryptocurrencies offer certain privacy features, law enforcement agencies have developed specialized tools and techniques to trace illicit transactions. Law

enforcement and regulatory bodies need to act accordingly to these technological developments to effectively combat money laundering.

- **Enforcement of regulatory solutions**

Governments and regulatory bodies worldwide continue to strengthen anti-money laundering regulations. Compliance requirements for financial institutions have become more stringent, with increased scrutiny of customer due diligence, transaction monitoring, and reporting of suspicious activities. Regulatory authorities are actively enforcing these regulations, imposing significant fines and penalties on non-compliant institutions.

- **Emerging risks**

Money laundering risks are continually evolving. Criminals adapt their tactics to exploit new vulnerabilities and emerging industries. The rise of emerging technologies, such as virtual assets, decentralized finance (DeFi), and non-fungible tokens (NFTs), introduces additional challenges for detecting and preventing money laundering. Regulatory bodies and financial institutions must stay vigilant and proactive in identifying and mitigating these emerging risks.

V. UN ACTIONS

The UN raises awareness about the negative impact of money laundering on economic development, stability, and security through campaigns and initiatives. These efforts aim to mobilize governments, businesses, and civil society to take action against money laundering. Additionally, monitors the implementation of AML measures by member states and issues reports highlighting areas of concern and progress. These reports serve as a mechanism to encourage countries to strengthen their AML frameworks and comply with international standards.

The UN collaborates with other international organizations, such as the World Bank, International Monetary Fund (IMF), and Interpol, to strengthen the global response to money laundering. The FATF is an intergovernmental body established by the G7 countries in 1989, but it works closely with the UN and other international organizations. These partnerships promote coordination, information sharing, and capacity building.

The United Nations Convention against Transnational Organized Crime (UNTOC), adopted in 2000, is a global legal framework that aims to prevent and combat transnational organized crime, focusing on different areas which are targeted by three Protocols regarding Human Trafficking, Illicit Manufacturing and more, lastly, it requires member states to criminalize money laundering, establish anti-money laundering (AML) measures, and promote international cooperation.

VI. BLOCK ANALYSIS

North American Group:

North American countries, particularly Mexico and the United States, have faced significant challenges related to drug cartels and transnational criminal organizations. These criminal enterprises generate substantial proceeds from their illegal activities and rely on money laundering to legitimize and conceal their illicit funds. Moreover, it hinders foreign investment as it raises concerns about the transparency and stability of the financial sector, it undermines the integrity of the financial systems in North American countries, which can have a detrimental impact on their economies.

Illicit funds flowing through legitimate channels can distort markets, drive up prices, and create unfair competition. The United States has been particularly vigilant in combating terrorism financing, and effective anti-money laundering measures are crucial for disrupting these illicit funding networks. Illicit funds can provide financial support to terrorist organizations, which is a significant concern for the United States and Canada. Effective anti-money laundering measures are crucial to disrupt the funding networks of terrorist groups and prevent potential attacks.

Latin America and Caribbean Group:

Money laundering undermines the stability and integrity of the financial systems in the LAC region, impacting economic development. The LAC region has faced challenges related to corruption, organized crime, drug trafficking, and other illicit activities. Money laundering plays a critical role in legitimizing the proceeds of such criminal activities, perpetuating

corruption, and contributing to the erosion of governance and the rule of law. Money laundering weakens institutions and contributes to the erosion of public trust.

Corruption and the presence of illicit funds undermine the effectiveness of law enforcement agencies, judicial systems, and regulatory bodies. This hampers the ability of countries in the region to combat organized crime, protect citizens, and ensure fair and transparent governance. Money laundering exacerbates socioeconomic inequality in the LAC region. Illicit funds often flow through offshore financial centers and tax havens, depriving countries of tax revenue that could be used for social programs, infrastructure development, and poverty reduction initiatives. This further widens the gap between the rich and the poor, hindering sustainable development. It introduces risks such as liquidity problems, reputational damage for financial institutions, and potential systemic risks. This can have far-reaching consequences, including banking crises and economic instability.

Western European Group:

Money laundering poses risks to the integrity and reputation of financial institutions, including banks. When financial institutions become unwitting participants in money laundering activities, their credibility is undermined, potentially leading to customer loss and increased regulatory scrutiny. Money laundering exacerbates socioeconomic inequality by allowing the proceeds of illegal activities to be integrated into the legal economy. This leads to an uneven distribution of wealth and hinders efforts to combat poverty and social inequality.

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