

FATF Private Sector Consultative Forum: “Importance of AML/CFT in the Context of Combating Corruption”

Ladies and Gentleman, good morning.

To President Marshall Billingslea and to the FATF Secretariat, I thank you for the invitation to speak today at this important event. The work of the FATF is critical to the fight against corruption and illicit finance, and I am excited to be with you all today to discuss how we work together to combat this global challenge.

Today I want share with you how my organization, The Sentry, uses our investigations and engagement with financial institutions, governments, and international organizations like FATF, to combat corruption, kleptocracy, and violence in east and central Africa. This region – fabulously wealthy in natural resources – has the highest rate of death and displacement due to conflict in the entire world. It has some of the highest rates of mass rape, child soldier recruitment, and other mass atrocities. And we believe the major drivers of this unparalleled violence are the kleptocratic states whose institutions have been hijacked by small groups of military and civilian officials, aided and abetted by their commercial collaborators inside and outside the continent. The incentive structures are stacked in favor of extreme repression, authoritarianism, conflict, and state looting, with few consequences for those benefiting from human misery.

The Sentry is an investigative team co-founded by George Clooney and John Prendergast that follows the dirty money and builds cases focusing on the war criminals most responsible for Africa’s deadliest conflicts and the corrupt transnational networks that profit from them. The Sentry’s team is composed of financial forensic investigators, international human rights lawyers, regional experts, and former law enforcement agents, intelligence officers, policymakers, investigative journalists, and banking professionals.

The Sentry currently focuses its work on South Sudan, Sudan, the Democratic Republic of Congo, and the Central African Republic. The Sentry aims to create significant financial consequences for kleptocrats, war criminals, and their international collaborators through network sanctions, anti-money laundering measures, prosecutions, compliance action by banks, and other tools of financial pressure. These measures aim to disrupt the profit incentives for mass atrocities and oppression, and create new leverage in support of peace and human rights. The Sentry and its partner the Enough Project undertake high-level advocacy with policymakers around the world as well as wide-reaching education campaigns by mobilizing students, faith-based groups, celebrities, and others.

Since its launch in 2016, The Sentry has created hard-hitting reports and converted extensive investigative research into a large volume of dossiers on individuals and entities connected to grand corruption, violence, or serious human rights abuses. The investigative team has turned those dossiers over to government regulatory and law enforcement agencies in the U.S. and around the world, as well as to officials at the world’s largest banks through which so much of the dirty money flows.

A kleptocratic system could not exist without the money laundering schemes corrupt leaders employ to conceal the origins of wealth. Kleptocrats use the same obfuscation techniques to launder their money as criminals and terrorists, and are often technically savvy and skilled at exploiting financial systems. The networks used by kleptocratic regimes are proficient money launderers with experience conducting sanctions evasion, disguising beneficial ownership, diverting state assets, committing security sector fraud, and utilizing offshore centers to move and hide assets. These networks remain largely untouched by law enforcement, regulation, or international sanctions.

With that in reality in mind, The Sentry has created hard-hitting reports and converted extensive investigative research into a large volume of dossiers on individuals and entities connected to these kleptocratic networks. The Sentry has tracked illicit financial dealings in which government and opposition officials and militia warlords collude with arms dealers, gold and diamond smugglers, mineral traders, oil companies, construction companies, and wildlife traffickers. The Sentry is finding evidence of money laundering through global real estate transactions, the use of shell and front companies, and other sophisticated financial transactions involving international banks and businesses. The investigative team has turned those dossiers over to government regulatory and law enforcement agencies in the U.S. and around the world, as well as to banking officials. Through cooperation and information sharing, we are working to stop corrupt actors from profiting from violence and human rights abuses.

Engagement with Banks

Access to the dollar, euro, and pound are critically important to kleptocrats in east and central Africa and their facilitators looking to move and store the proceeds of their corruption. There are reasons for this: western currencies are usually insulated, especially when compared to local currencies, from wild valuation swings. Also, western currencies are widely accepted around the world, making it easier for corrupt actors to move funds internationally.

There are reasons most large international banks do not seek to do business in countries like Sudan, South Sudan, the DRC, and Central African Republic. These reasons usually include low profit margins and higher financial crime risks. There are several jurisdictions in Africa where only one or maybe two western banks are operational. For example, in DRC, only two western banks clear transactions from the Congolese Franc into U.S. dollars on behalf of only two Congolese banks.

This niche market of Western banks that are willing to provide global financial connectivity to East and Central Africa presents a tremendous opportunity for us to employ a targeted approach to cutting off kleptocrats' access to the international financial system. With the support of The Sentry's investigative findings and expertise in the typologies of illicit finance in the region, many banks have begun to: strengthen their scrutiny of transactions involving politically exposed persons originating from these countries, bolster their monitoring of accounts associated with politically exposed persons for suspicious activity, and terminate relationships with individuals and entities in the immediate networks of those exposed by The Sentry's work.

Access to the global financial system through these international banks is difficult to regain once lost. What does this mean for the kleptocrats? They must resort to complicated evasion tactics that can be difficult and more expensive to execute in order to hide their financial dealings. They may have to rely on the use of cash. Western currencies in cash are much more difficult to obtain in large quantities, keep physically secure, move across borders, and re-integrate into the financial system.

The current situation in Sudan is a particularly interesting example of the unique role banks can play in combating money laundering. Sudan is one of the most corrupt countries in the world, and past reports from The Sentry and by the Enough Project have detailed how Sudanese governing institutions have been coopted by a corrupt network engaged in personal enrichment. Sudan's systemic corruption and well-established kleptocracy are the reasons the Bashir government has not implemented an effective anti-money laundering regime, leaving Sudanese banks to be poorly supervised, and manipulated by the regime's notorious security services. Western financial institutions maintaining correspondent relationships with Sudanese banks should apply enhanced due diligence to these relationships, ensuring their counterparts are following FATF recommendations, are monitoring for terrorist financing, and are not laundering money from corruption. Now that the

regime has stumbled and is riven by infighting, the absence of a system to thwart illicit finance poses another problem: asset flight. Western banks should be on high alert for suspicious transactions out of Sudan. FinCEN and other FIUs around the world should issue guidance to banks and money service businesses warning them of the money laundering risks posed by capital flight of illicitly-obtained assets, and to share information with regulators about suspicious transactions with the goal of helping governments to identify and seize the proceeds of corruption.

East Africa Illicit Finance Risks

Our investigations have uncovered complicity across borders in Africa. Through illicit finance investigations in both South Sudan and DRC, for example, The Sentry has shown that the kleptocratic networks expand well beyond the national borders and rely on complicit actors in neighboring countries and global financial hubs to carry out their money laundering. In the DRC case, The Sentry uncovered a conflict gold smuggling network involving Congolese gold, a Belgian national, a refinery located in Uganda, Dubai gold traders, and connection to dozens of international companies. It is illegal, according to Congolese law, to export gold from non-certified artisanal mines in Congo. With an estimated 96 percent of artisanal gold mines in Congo not currently certified, it is likely that the network is exporting illegally-mined gold and then moving it through the supply chain to electronics and other companies based in North America and Europe. The activities of the network appear to be noncompliant with both international supply chain due diligence guidance and international anti-money laundering safeguards as the network's companies buy, refine, and then sell the gold. Illicit gold from Congo, Uganda, and Rwanda presents a significant risk to financial institutions. We shared our findings in a public report and urged governments to issue advisories on the high-risk gold trade, building upon the FATF typology report on gold and money laundering published in 2015.

(note: Since the Golden Laundromat report was published, we have briefed a number of government officials, bankers, and others involved in the gold trade on our findings and have seen an increase in attention to the topic.)

In South Sudan, our investigation uncovered rampant abuse of the banking sector by politically-exposed persons. More than half of the 26 banks operating in South Sudan are part-owned or controlled by a PEP, and many of these banks are connected to the East African financial system and thus the international financial system through correspondent banking relationships. Many of the powerful political elites who are driving the war in South Sudan rely on correspondent banks in the region and in banking capitals around the world to move money, including U.S. dollars. Other investigations have revealed South Sudan's elite purchasing luxury real estate in Uganda and Kenya and investing in companies throughout east and southern Africa, as well as UN-sanctioned individuals regularly traveling to neighboring countries despite travel bans.

One illustrative money laundering scheme uncovered by The Sentry took place in Australia, where the family of a South Sudanese military general paid over \$1 million for a home in a beautiful suburb of Melbourne. A subsequent Australian Federal Police investigation found that the general's son, who was 22 years old and attending university, had received wire transfers through a company in his name in order to purchase the house. The transfers touched banks in Dubai, Kenya, and Uganda. The son's company had never reported income and was likely a vehicle for money laundering.

In 2017, the U.S. Treasury Department's Financial Crimes Enforcement Network, under the direction of Under Secretary Sigal Mandelker, issued an advisory on the risks of money laundering when conducting business in South Sudan or with South Sudanese officials and their families, even when such activity takes place outside of the country. This move significantly raised the profile of South Sudanese corruption and money laundering.

Additionally, last year, FinCEN issued a new advisory focusing on the need for financial institutions to investigate and target the actions of corrupt Senior Politically Exposed Persons and their networks of facilitators and enablers around the world. The advisory made the critical connection of the corruption of these networks to grave human rights abuses, including in sub-Saharan Africa.

The Sentry has engaged with local governments, local and regional banks, and the FATF-style regional body for East Africa (ESAAMLG), in an attempt to share relevant information that may assist in money laundering investigations. We have also encouraged the strengthening of AML/CFT controls both in sub-Saharan Africa and in financial hubs where illicit funds are often laundered, such as the need for stronger beneficial ownership legislation and increased due diligence measures in the real estate sector.

Network Sanctions

The Sentry has done a lot of work on sanctions in Africa, and will be publishing a study on sanctions effectiveness in Africa in the coming months. The study has found that while sanctions programs in Africa suffer from poor implementation and enforcement strategies, they have managed to change behaviors in many cases. In other words, the tool works; but the tool's utilization needs improvement. In our engagement with the U.S. government, the EU, and the United Nations Security Council, we have encouraged the use of network sanctions. Sanctions must be levied against entire kleptocratic networks, not just some of the individuals involved in the crimes. Deploying these "network sanctions" has been a strategy used by the United States in the cases of Iran, Russia, and North Korea in order to drive them to the negotiating table. Network sanctions against the groups helping kleptocrats move and hide their money have a dramatic effect in combating corruption and money laundering.

If we don't target the networks as a whole, evading the sanctions becomes that much easier. We've seen evidence of sanctioned war lords using their children's and wives' names on bank accounts and business documents in an attempt to bypass sanctions and hide their stolen wealth. Perhaps the best example of a successful sanctions program against illicit networks is the U.S. Treasury's Kingpin program, or the Foreign Narcotics Kingpin Designation Act. Treasury goes after not just the cartel leaders, but also every entity involved in helping those cartel leaders launder their money, including the accountants and lawyers who filed all the paperwork, the family members whose names are used on accounts, and the businesses involved in setting up front companies and bank accounts used to conceal the ultimate beneficiaries and origins of the funds. This approach is possible in the fight against corruption and kleptocracy. It requires well-developed strategies, coordinated efforts across jurisdictions, improved information sharing, and increased information gathering and investigative support. The Sentry is working to fill that final gap of information and investigations in the hope of bolstering network sanctions programs in Africa.

One such strategy in action is the U.S. Treasury's efforts under the leadership of Under Secretary Mandelker against Kabila's kleptocratic network. The U.S. designated Israeli mining and oil tycoon Dan Gertler, a major facilitator of and profiteer from Kabila's kleptocracy, along with 19 of his companies and one of his business associates, in an effort to escalate pressure on President Kabila. The Gertler designation shows the type of consistent and escalating approach necessary for financial pressures to be effective in combating violent kleptocracy in the region. Treasury added 14 more companies connected to Gertler just six months after the initial designation, demonstrating a clear focus on impacting this network.

In addition to utilizing the "network" approach to sanctions, sanctions must be deployed as a part of a comprehensive strategy that includes diplomatic efforts, public messaging, and support for the institutions responsible for anti-money laundering in the jurisdictions of concern. The FATF-style regional bodies in Africa are working to strengthen the continent

against money laundering, but it's a gargantuan task. Also, when it comes to sanctions, FATF recommendations only include UN Security Council Resolutions 1267 and 1373 that deal with terrorism, terrorism financing, and counterproliferation, and counterproliferation financing. While both sets of sanctions are critical to the AML/CFT work in sub-Saharan Africa, the jurisdictions in the region and around the world should be held accountable to all UN sanctions, including those levied against the kleptocratic networks in South Sudan, DRC, CAR, and Sudan, as well as other crisis-torn states. All UN member states have the responsibility to implement UN sanctions. Today I urge the countries where U.S., EU, and UN-designated actors are taking advantage of your financial institutions to guard your systems against these entities, and go further than what the FATF recommends: issue guidance to your banks, making it clear that these sanctioned entities should not be allowed to do business in your country.

Conclusion

Money laundering is a key pillar of a corrupt regime. We have the tools needed to make it harder, and more expensive, for corrupt actors to launder their ill-gotten gains around the world, but we need to work together to ensure we are going after the right targets, hitting the right networks, and closing in on those that profit the most from these schemes. The Sentry will continue to work with banks, governments, international organizations, the FATF and its affiliates, and civil society groups, in an effort to close down these illicit money laundering networks and hold the kleptocratic leaders accountable for their crimes.

I thank you for your time and the opportunity to speak here today, and I look forward to the discussion on the topics presented today by the Under Secretary.